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Report No: 74927-RO

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF EURO **70** MILLION

(USD 91.8 MILLION EQUIVALENT)

TO

ROMANIA

FOR A

REVENUE ADMINISTRATION MODERNIZATION PROJECT

{March 19, 2013}
(Final Date: CD approval of Final Board package)

Poverty Reduction and Economic Management Unit
Europe and Central Asia Region

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of January 24, 2013)

Currency Unit	=	Euro (EUR)
US$ 1	=	0.75 EUR
EUR 1	=	1.33 US$

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ACL	Audit Command Language
BPR	Business Process Reengineering
CFAA	Country Financial Management Accountability Assessment
CIT	Corporate Income Tax
CMT	Change Management Team
CNP	National Forecasting Commission
COTS	Customized-off-the-shelf
CPS - PR	Country Partnership Strategy Progress Report
CQS	Selection Based on Consultants' Qualification
DC	Direct Contracting
DPL - DDO	Deferred Drawdown Option – Development Policy Loan
ECDL	European Computer Driving License
EDP	Excessive Deficit Procedure
EU	European Union
FBS	Fixed Budget Selection
FM	Financial Management
GDP	Gross Domestic Product
GOR	Government of Romania
HR	Human Resource
HRM	Human Resource Management
IBRD	International Bank for Reconstruction and Development
IC	Individual Consultant selection procedure
ICB	International Competitive Biddings
ICB	International Competitive Bidding

...Con't

Vice President	:	Philippe H. Le Houerou
Country Director	:	Mamta Murthi
Country Manager	:	Francois Rantrua
Sector Director	:	Yvonne Tsikata
Sector Manager	:	William E. Dorotinsky/Roumeen Islam
Task Team Leaders	:	C. Bernard Myers

ICR	Implementation Completion Report
ICT	Information & Communication Technology
IDA	International Development Association
IFR	Interim Financial Report
IMF	International Monetary Fund
IRMS	Integrated Revenue Management System
IRR	Internal Rate of Return
IS	Information System
ISR	Implementation Status Report
LCS	Least Cost Selection
LTD	Large Taxpayer Department
M&E	Monitoring & Evaluation
MIS	Management Information System
MOPF	Ministry of Public Finance
NA	Not Applicable
NAFA	National Agency for Fiscal Administration
NBR	National Bank of Romania
NCB	National Competitive Bidding
NPV	Net Present Value
OBI	Open Budget Index
OECD	Organization for Economic Co-operation and Development
PAT	Project Administration Team
PDO	Project Development Objective
PFM	Public Financial Management
PFS	Project Financial Statement
PIC	Project Implementation Committee
PIP	Project Implementation Plan
PIT	Personal Income Tax
PMU	Project Management Unit
POM	Project Operational Manual
PP	Procurement Plan
PPIBL	Public Sector Institution Building Loan
QBS	Quality Based Selection
QCBS	Quality and Cost Based Selection
RAMP	Revenue Administration Modernization Project
RARP	Revenue Administration Reform Project
RMS	Revenue Management System
SBD	Standard Bidding Documents
SC	Social Contribution
SDP	Strategic Development Plan
SIL	Specific Investment Loan
SOE	Statement Of Expenses
SSS	Single (or Sole) Source Selection
TA	Technical Assistance
TTL	Task Team Leader
VAT	Value Added Tax

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ROMANIA
Romania Revenue Administration Modernization Project (P130202)

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PAD DATA SHEET

Romania

Revenue Administration Modernization Project (P130202)

PROJECT APPRAISAL DOCUMENT

EUROPE AND CENTRAL ASIA

ECSP4

Report No.: PAD270

Basic Information			
Project ID	Lending Instrument	EA Category	Team Leader
P130202	Specific Investment Loan	C - Not Required	C. Bernard Myers
Project Implementation Start Date		Project Implementation End Date	
07 May 2013		30-September-2018	
Expected Effectiveness Date		Expected Closing Date	
01-Oct-2013		31-March-2019	
Joint IFC			
No			
Sector Manager	Sector Director	Country Director	Regional Vice President
Roumeen Islam	Yvonne M. Tsikata	Mamta Murthi	Philippe H. Le Houerou

Borrower: Romania			
Responsible Agency: National Agency for Fiscal Administration (NAFA)			
Contact:	Octavian Deaconu	Title:	General Secretary
Telephone No.:	+40-21-319-9720	Email:	octavian.deaconu@mfinante.ro

Project Financing Data(US$M)					
[X]	Loan	[ ]	Grant	[ ]	Other
[ ]	Credit	[ ]	Guarantee		

For Loans/Credits/Others	
Total Project Cost (US$M):	92.05
Total Bank Financing (US$M):	91.83

Financing Source	Amount(US$M)
Borrower	0.22
International Bank for Reconstruction and Development	91.83
Total	92.05

Expected Disbursements (in USD Million)

Fiscal Year	2014	2015	2016	2017	2018	2019	0000	0000	0000
Annual	6.91	12.85	21.62	24.91	26.80	0.00	0.00	0.00	0.00
Cumulative	6.91	19.76	41.38	66.29	93.09	93.09	0.00	0.00	0.00

Project Development Objective(s)

The development objectives of the project are (i) to increase effectiveness and efficiency in collection of taxes and social contributions; (ii) to increase tax compliance; and (iii) to reduce the burden on taxpayers to comply.

Components

Component Name	Cost (USD Millions)
Institutional Development	9.13
Increasing Operational Effectiveness and Efficiency	76.74
Taxpayer Services and Corporate Communications	3.88
Project Coordination and Management	3.35

Compliance

Policy

Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [X]
Does the project require any waivers of Bank policies?	Yes [ ]	No [X]
Have these been approved by Bank management?	Yes [ ]	No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No [ ]

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		X
Natural Habitats OP/BP 4.04		X
Forests OP/BP 4.36		X
Pest Management OP 4.09		X

Physical Cultural Resources OP/BP 4.11		X
Indigenous Peoples OP/BP 4.10		X
Involuntary Resettlement OP/BP 4.12		X
Safety of Dams OP/BP 4.37		X
Projects on International Waterways OP/BP 7.50		X
Projects in Disputed Areas OP/BP 7.60		X

Legal Covenants

Name	Recurrent	Due Date	Frequency
- Implementation of a PIP and POM - Submission of Progress reports - Mid term review - Maintenance of Coordination Council, Consultative Technical Panel, PIC, PMU and Implementation Teams			

Description of Covenant

Conditions

Name	Type

Description of Condition

Team Composition

Bank Staff

Name	Title	Specialization	Unit
Stella Ilieva	Senior Economist	Senior Economist	ECSP2
Virginia S. Yates	Program Assistant	Program Assistant	ECSP4
Bogdan Constantin Constantinescu	Sr Financial Management Specialist	Sr Financial Management Specialist	ECSO3
C. Bernard Myers	Sr Public Sector Mgmt. Spec.	Team Lead	ECSP4
Valeria Nikolaeva	Procurement Specialist	Procurement Analyst	ECSO2
Yoko Kagawa	Operations Officer	Operations Officer	ECSP4
Andreea Silvia Florescu	Temporary	Temporary	ECSPE

Non Bank Staff

Name	Title	Office Phone	City
Carlos Ferreira	Tax Administration Consultant	202-966-7426	Washington, D.C.
William Hebb	IT Consultant	770-485-0878	Woodstock, GA
Maureen Kidd	Taxpayers Services Consultant	613-859-5108	Ottawa, Canada

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments

Institutional Data

Sector Board

Public Sector Governance

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Public Administration, Law, and Justice	Central government administration	100		
Total		100		

☑ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%
Public sector governance	Tax policy and administration	70
Public sector governance	Public expenditure, financial management and procurement	30
Total		100

I. STRATEGIC CONTEXT

A. Country Context

1. **Romania per capita income improved but the country is still facing significant challenges in further enhancing its level**. Romania implemented a broad reform agenda over the last decade aimed at improving incomes and living standards and anchored on EU accession. In January 2007 the country joined the European Union. Structural reforms and increased investor interest in the country supported acceleration of economic growth and improvements in living standards. Per capita incomes (measured in purchasing power parity) improved from 26 percent of the EU average in 2000 to 47 percent in 2008. Nevertheless, there are still significant challenges to enhancing productivity, particularly with respect to institutional capacity building. There is broad agreement within the international community that investments in key government institutions (including but not limited to revenue administration) are an important pre-condition for Romania to continue convergence to EU income levels.

2. **The country was affected by the global financial crisis.** Convergence slowed and the crisis forced changes in Romania's growth and reform strategy. Although GDP growth was 2.5 percent in 2011, it is estimated to have been flat last year, and the outlook for this year is only slightly better. The fiscal deficit widened to 7.3 percent of GDP in 2009, especially due to the effect of the global economic and financial crisis, but the authorities implemented a strong fiscal consolidation program that brought the fiscal deficit back under control so that by 2011 it had been reduced to 4.1 percent of GDP. In 2012 the fiscal deficit continued to fall and is estimated to have been close to 2.4 percent of GDP. It is noteworthy that tax revenues were maintained at about 27 percent of GDP during the crisis (28 percent of GDP in 2012). Of course, the fiscal consolidation program included tax revenue measures, such as a sharp increase in the VAT rate to 24 percent for most goods and services. The revenue authority also took over the collection of social security contributions from the social fund in 2012. But the adjustment was done via expenditure cuts, particularly cuts in recurrent spending via a freeze on public sector wages (concomitant with a freeze on hiring) and pensions.

3. **Modernization of revenue administration is an important component of the Government's economic reform program.** Despite recent external and fiscal adjustment efforts, the external environment in Europe and weak growth in Romania will continue to pose a risk to macroeconomic stability. Fiscal policy is therefore expected to continue to play an important role in anchoring overall investor expectations and providing a foundation for future growth. Given the limited headroom for new spending (other than that which can be financed via EU structural funds), there is a strong interest in improving the efficiency and effectiveness of revenue collection. An important component of this is reducing the overall burden of government procedures on tax compliance. The government has therefore committed to further modernizing of its revenue administration in its precautionary financial assistance agreements

with the IMF and EU (for an amount of EUR2.7 billion) and the complementary Deferred Drawdown Option Development Policy Loan (DPL-DDO) it has received from the World Bank (for an amount of EUR 1 billion). It has also approved a prudent budget for 2013, which envisages maintaining the tax revenue share of GDP, while prioritizing capital expenditures financed from EU funds over those that require State budget financing.

4. Political support for revenue administration modernization is broad based and spans different political parties and governments. This is significant because past efforts to pursue comprehensive reform stumbled due to a lack of political consensus. In 2005-2006, the Bank responded to a request from the Prime Minister to prepare a multi-year modernization project (Revenue Administration Reform Project - RARP). The primary motivation for revenue administration reform at that time was EU accession. The negotiations of the project documents (PAD and Loan Agreement) took place until June 2006, but the finalization of negotiations was not successful due to lack of agreement among the main Romanian stakeholders on the project conditions. Although some improvements in revenue administration have continued since 2006, the National Agency for Fiscal Administration (NAFA) requested in late 2011 that the Bank prepare an updated project. The government places importance on having an effective tax administration that can encourage voluntary compliance and deal with tax evasion in a more professional and technology-aided environment. Preparation of the current project began under a previous government, and is now being strongly supported by the new one.

Table 1: Select Economic Indicators

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Output and Prices				Annual percentage change						
GDP growth	7.9%	5.0%	7.5%	6.6%	6.6%	-5.7%	-1.8%	2.5%	0.2%	1.6%
Consumer price index(HCPI)	12.0%	9.1%	6.6%	4.9%	8.0%	5.6%	6.1%	5.8%	4.6%	3.2%
Registered unemployment rate	6.1%	5.7%	5.0%	4.0%	4.3%	6.9%	7.2%	7.5%	7.1%	7.0%
General Government				In percent of GDP						
Revenue	28.5%	28.9%	30.8%	31.0%	30.6%	31.1%	32.3%	31.4%	33.0%	33.6%
Tax and social security contributions	27.0%	27.3%	28.1%	27.8%	28.0%	27.2%	26.5%	26.9%	28.3%	28.3%
o/w: Tax revenues	17.9%	17.8%	18.5%	18.4%	18.5%	17.6%	17.8%	18.2%	19.4%	19.6%
o/w Payroll taxes	9.1%	9.5%	9.6%	9.5%	9.5%	9.6%	8.7%	8.8%	8.8%	8.7%
Expenditure	29.7%	29.7%	32.2%	34.3%	35.2%	38.4%	38.7%	35.5%	35.5%	31.5%
Fiscal balance	-1.2%	-0.8%	-1.5%	-3.3%	-4.6%	-7.3%	-6.4%	-4.1%	-2.5%	-2.1%
Balance of payments										
Current account balance	-8.4%	-8.6%	-10.5%	-13.5%	-11.7%	-4.2%	-4.4%	-4.4%	-3.6%	-3.8%
Merchandise trade balance	-9.1%	-10.2%	-12.0%	-14.1%	-13.7%	-5.8%	-6.1%	-5.5%	-5.2%	-5.3%
FDI				5.7%	6.7%	3.0%	1.8%	1.4%	1.9%	1.2%

Source: MOPF.

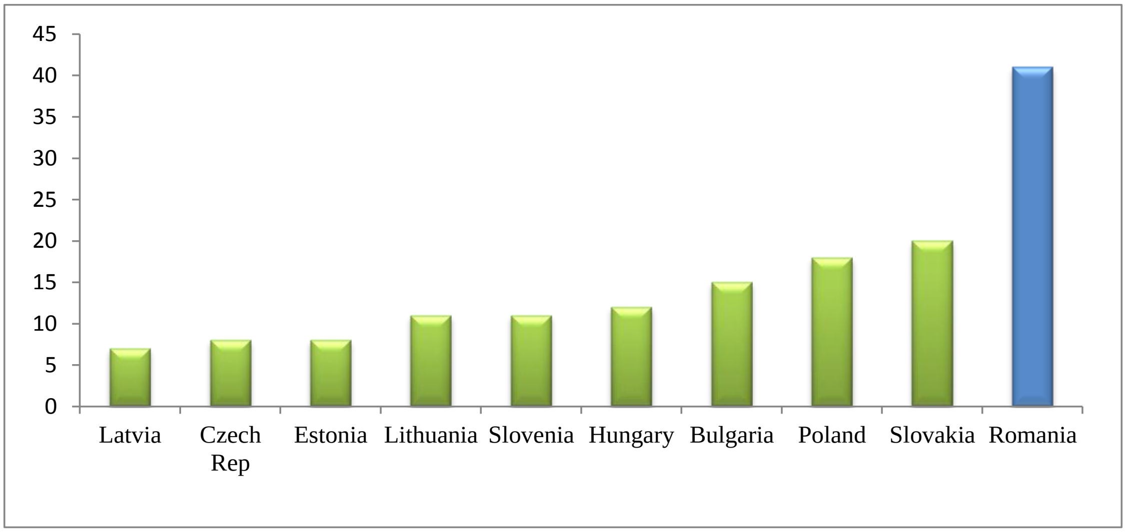
Note: Figures for 2013 are from the approved budget.

B. Sectoral and Institutional Context

5. **Romania's tax compliance burden is relatively high**. The World Bank Doing Business Report 2013 shows that in Romania there is still much to be done in order to improve the

performances in terms of the ease of paying taxes due to the large number tax payments[1] in Romania. Despite substantial improvements compared to last year, the number of tax payments in Romania (41), remains the largest in the EU. Figure 1 depicts Romania's results in this regard when compared to other countries in the region. Moreover, in the 2009 Enterprise Survey[2] 48 percent of male-managed firms and 51 percent of female-managed firms reported tax administration to be a major constraint.

Figure 1: Compliance Burden: Number of Tax Payments, 2012



Source: Doing Business 2013, the World Bank.

6. **Meanwhile, tax compliance is relatively weak despite recent progress**. The overall level of tax filing compliance increased to 90.39 percent in 2012, compared to 87.27 percent in 2011 and 84.6 percent in 2010 while payment compliance improved—from 77.9 percent in 2011 to 79.75 percent in 2012. Romania has a large number of small taxpayers facing a complex tax regime—their management requires the dedication of NAFA staff resources that is disproportionate to the revenue contribution made by this segment of taxpayers. Limited analysis of taxpayer compliance, especially disaggregated by male and female, is known.

7. **There is ample scope for Romania to increase its revenue collection through improvements in tax policy and tax administration.** Revenue performance gains during the boom years of 2004-07 were modest with the revenue/GDP ratio rising from 27.2 to 29.0

[1] The Tax payments indicator reflects the total number of taxes and contributions paid, the method of payment, the frequency of payment, the frequency of filing and the number of agencies. Where full electronic filing and payment is allowed and used by the majority of medium-sized businesses, the tax is counted as paid once a year even if filings and payments are more frequent.

[2] The Enterprise Surveys implemented in Eastern Europe and Central Asian countries are also known as Business Environment and Enterprise Performance Surveys (BEEPS) and are jointly conducted by the World Bank and the European Bank for Reconstruction and Development.

percent; while revenue losses during the recession were severe with tax/GDP ratio dropping back to 27.2 percent in 2010 (see table 1). Table 2 shows the legal and implicit tax rates for VAT and social contributions in Romania and several other EU countries. It shows that Romania's tax efficiency index is one of the lowest in the group at 54% and 61% for VAT and social contributions respectively.

Table 2: Legal and Implicit Tax Rates for VAT and Social Contributions, 2011

Country	VAT			Social Contribution (SC)		
	Standard VAT rate (%)	Implicit tax rate*)	Taxation efficiency index	Legal rate for SC (%)	Implicit tax rate*)	Taxation efficiency index
Bulgaria	20.0	14.2	0.71	30.2	23.2	0.77
Czech Republic	20.0	13.7	0.69	45.3	49.0	1.08
Estonia	20.0	16.5	0.82	37.2	34.9	0.94
Latvia	22.0	10.9	0.49	35.1	24.7	0.70
Lithuania	21.0	12.3	0.59	39.8	31.8	0.80
Hungary	25.0	16.0	0.64	44.5	36.7	0.82
Poland	23.0	12.7	0.55	37.6	NA	NA
Romania	24.0	13.1	0.54	44.4	27.3	0.61
Slovenia	20.0	14.4	0.72	38.2	33.4	0.87
Slovakia	20.0	11.6	0.58	48.6	42.0	0.86

Source: Romanian Fiscal Council, European Commission, Eurostat.
Note: For SCs, employer plus employee contributions. Where standard rates have been modified during the year, a weighted average of the standard rates was reported.
* For VAT, calculated as a ratio between "VAT revenues" (ESA code D211R) and "Households and NPISH Final Consumption Expenditure" (ESA code P31_S14_S15 ESA). For SCs, computed as the ratio between "actual social contributions" (code ESA D.611) and "gross wages and salaries" (code ESA D11). Tax efficiency was computed as a ratio between the implicit and legal tax rate.

8. **EU accession triggered improvements in Romania's approach to revenue administration.** The need to align with EU benchmarks and best practice prompted a tax reform in 2004 that included the creation of a unified revenue administration—the NAFA—and the enactment of a new tax procedures code. In 2005, the customs administration and Financial Guard were merged into NAFA and the organization assumed responsibility for the collection of taxes and a major part of social contributions. By 2006, Romania had met all tax-related requirements for EU accession.

9. **Further operational reforms were implemented.** NAFA assumed responsibility for collection of social contributions for firms in 2004, and in 2011 a single declaration and payment for taxes and social contributions was introduced, thus reducing reporting requirements. In addition, the base for calculating taxes and social contributions was partially harmonized and single filing was introduced for firms operating in multiple locations. Modern risk management and e-filing tools were introduced, enhancements were brought to VAT refund processing and

dispatch of tax documents was centralized in a NAFA fast printing unit. The strategic focus of NAFA was strengthened with strategic plans updated regularly since 2007. Several studies aimed at analyzing potential improvements in administrative capacity in some areas (ECDL, public information, e-commerce, unified declaration) were also conducted using EU funds and NAFA's own budget.

10. **NAFA's organization structure was adjusted in keeping with international practice.** NAFA headquarters was reorganized along functional lines and the monitoring of field office operations was strengthened. To support the management of major taxpayers, a special Large Taxpayer Department (LTD) was established with responsibility for close to 2,000 taxpayers. Special arrangements to administer medium-sized businesses are also in place. In 2011, NAFA consolidated the number of Tax Administration Units from 404 to 263 and reduced the number of staff positions by 4,927. Currently NAFA consists of a Head Office, 42 County General Directorates at judet level, 42 Medium-size Taxpayer Units, 221 territorial units, and a Large Taxpayer Directorate. Total staff of NAFA is 26,769 (including Customs and the Financial Guard).

11. **Despite these and other reforms, still more remains to be done.** NAFA has laid solid groundwork for the next generation of revenue administration reforms that will cover the next five years. NAFA has decided that the next reforms will focus on: (i) improving voluntary compliance (i.e., fighting tax evasion); (ii) reducing the administrative burden on taxpayers; and (iii) increasing collection efficiency.

12. **Further organizational and staff realignment is needed.** The headquarters functions need to be fully developed and assume responsibility for program design and monitoring of operations. The extensive office network needs further reduction to increase efficiency and effectiveness while reducing costs. Modern tax administrations seek to minimize direct contact with the taxpayer and taxpayer service is provided through use of a robust website, through an accessible call center and other means available. Reduced physical contact also minimizes opportunities for corrupt behavior. The existing model does not include a dedicated taxpayer services function and this issue needs to be addressed. Staff are not properly distributed across the organization. Close to half of NAFA staff are in support or clerical roles, less than 15 percent of all staff are assigned to the management of large and medium taxpayers, insufficient staff is assigned to key areas such as audit and debt collection.

13. **NAFA's diagnosis of needed operational reforms has been informed by recent IMF technical assistance missions.** NAFA has identified the need to simplify procedures, to improve service, and to deal with non-compliance in both filing and payment. The following box summarizes recent operational advice provided by the IMF in 2011 and is indicative of the type of operational reforms that lie ahead for NAFA.

Box 1: 2011 IMF Report − Maintaining Reform Momentum

Registration

- Establish registration enforcement units to identify and register businesses that are outside the tax system.

Tax evasion and arrears

- Increase audit coverage systematically over the next three years (large taxpayers - 30 percent, medium taxpayers - 5 percent, and small taxpayers - 2 percent).
- Increase audit staff over the next three years to at least 20 percent of tax administration staff resources.
- Introduce a formal desk audit program.
- Expand use of installment arrangements and review the conditions attached to their availability.
- Complete an analysis of the debt stock and the most appropriate debt collection methodologies, policies and office structures for collection enforcement and consider technical assistance for this project.

Prosecution

- Ensure screening of prosecution referrals and train auditors and audit managers on fraud audit techniques and evidentiary requirements to ensure successful later prosecutions.

14. **The current project design focuses on the main areas remaining for improvement.** Development of the project design has been informed by past work, a recent World Bank functional review of the Ministry of Public Finance (MOPF), IMF diagnostic reports as noted above as well as various EU studies and reports. The restructuring of NAFA and the reengineering of business processes is vital to the MOPF's objective to increase revenue as a share of GDP. Despite intense pressures to increase revenue in the short-term, MOPF officials realize that the investments needed to modernize NAFA require a medium-term horizon and approach. The Government of Romania approved on April 18, 2012, a formal Memorandum that lays out a roadmap for NAFA's reform through 2016. The consolidation of local offices and the increase in electronic filing are integral milestones in the roadmap. The table below shows the expected impact that the reform will have on overall revenue collection, lower compliance costs and improved taxpayer satisfaction.

Measure in %	2011	2016	% change
Voluntary filing compliance	87.3	92.0	5.4
Voluntary payment compliance	78.0	85.0	8.9
Tax to GDP	27.2	30.5	12.0

C. Higher Level Objectives to Which the Project Contributes

15. **The proposed project is fully aligned with the Country Partnership Strategy Progress Report (CPS-PR) for Romania for the period 2009-2013.** The main objectives of the CPS-PR are to broaden and deepen the reform program for improved public sector management, economic growth and competitiveness, and social and spatial cohesion. The project is expected to contribute to the first two objectives by: (i) improving revenue performance and stability; (ii) reducing the burden of tax compliance to firms and individuals; (iii) improving the efficiency of tax collection; and (iv) curtailing tax evasion.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

16. The development objectives of the project are (i) to increase effectiveness and efficiency in collection of taxes and social contributions; (ii) to increase tax compliance; and (iii) to reduce the burden on taxpayers to comply.

17. **The longer term vision is to improve the business environment and enhance Romania's attractiveness to private sector investment.** In the future revenue administration in Romania should rely more heavily upon self-assessment and less on achieving compliance through control mechanisms. Self-assessment would be supported by the implementation of the revenue management information system and the risk-based compliance management, strong reliance on electronic communication with taxpayers, and skilled and professional staff, all contributing to an efficient but taxpayer-centric, client-oriented environment characterized by fairness, honesty, and transparency.

B. Project Beneficiaries

18. **The immediate beneficiaries are the Government of Romania and its public finance institutions, while the ultimate beneficiaries are the Romanian taxpayers and citizens.** Public sector beneficiaries include the MOPF, NAFA and its partner institutions - the National House for Public Pension, Health Insurance National House, and National Agency for Employment. Romanian taxpayers—business community and individuals—would benefit directly from lower compliance costs and indirectly through more revenues collected to finance important social and infrastructure expenditures. NAFA employees will also benefit from an improved working environment based on streamlined operations and working methodologies as well as extensive training and access to international best practice provided by the project.

19. The project will attempt to promote attitudinal changes in the tax administration, assisting in improving the relationship between the taxpayers and the tax administration, and thus creating a more transparent, accountable, fair, and service-oriented institution, which would maximize the

taxpayers' confidence in the system. A fair and equitable appeals system would provide taxpayers with an efficient mechanism to mitigate potential excess in fiscal pressure.

20. **Honest taxpayers will benefit from this attitudinal change at NAFA.** The organization will be more taxpayer-centric. More internet and mobile-based access to more accurate personalized information will make compliance with tax obligations easier while targeted risk-based auditing will reduce unnecessary contact between taxpayers and auditors. Concentrating constrained audit capacity on cases of potential non-compliance will achieve better revenue results and help curb tax fraud and evasion, thus improving the fairness and equitability of the tax system and effectively broadening the tax base. A modernized NAFA, which would be perceived to be fair, service-oriented, and effective in dealing with tax evaders, would reduce the incentive to evade, and on the other, increase the likelihood of tax evasion being detected.

21. **Not all stakeholders will view the changes in a positive light.** In particular, allegedly some high net-worth individuals and some companies have benefited from the current system and may attempt to use their influence to discourage changes. Likewise, some NAFA employees may be uncomfortable with the changes taking place and may initially resist adapting to the new business model. For this reason the project anticipates substantial support for change management, including internal and external communication campaigns. On the whole, however, the reforms will benefit a wide range of taxpayers and enhance the professionalism of NAFA as an institution.

C. PDO Level Results Indicators

22. **The following indicators have been agreed with NAFA, to evaluate the development impact of the project:**

(a) Effectiveness in Revenue Collection – measured as the rate of tax arrears.

(b) Effectiveness in revenue collection as measured by the productivity rate of VAT and CIT.

(c) Efficiency in Revenue Collection – measured as the revenue collected per NAFA staff.

(d) Compliance as measured by the tax gap for VAT, CIT, and PIT.

(e) Compliance Cost – measured as the average time for preparation of tax returns of Large, Medium, and Small Corporate Taxpayers.

In addition to these indicators that are monitored as part of the project, the Government of Romania's own goal is to increase tax revenues as a share of GDP. The Government Memorandum of April 18, 2012, established the goal of increasing the revenue/GDP by approximately 3.2 percent of GDP over five years. The government sees the reform of tax administration through the project activities and complementary actions that the government would be pursuing outside of the project as important elements in achieving this objective.

III. PROJECT DESCRIPTION

A. Project Components

23. **There are four main project components: (1) institutional development; (2) increasing operational effectiveness and efficiency; (3) taxpayer services and corporate communication; and (4) project coordination and management**. The project would seek to improve the institutional arrangements and management systems to take fully leverage of highly automated, low-discretion, risk-based revenue administration. The project will entail an investment over a period of five years and would include the related organizational restructuring and development, management, and infrastructure changes necessary for optimal deployment of an integrated automation system. The project would include financial and technical support for revenue collection methodologies and procedures; information technology and other technological infrastructure; training, and technical assistance to support NAFA's management decisions on organization structure and management, and operational systems refinements. These refinements will help to ensure that the economy reaps the full benefits of the investment. Measurement of intermediate outcomes will be integrated into the project to provide relevant and timely feedback as to the progress of the project. The four components are:

(a) **Component 1: Institutional Development. (EUR 6.0 million[3])** The component would support the development of a modern organization and management structure, instill a strategic focus, emphasize the importance of integrity, rationalize the organization structure to increase NAFA's effectiveness, and strengthen human resource management through targeted professional training and technical assistance. This component would also improve the analytical capacity required to support strategic management of NAFA and would support an improved legal framework and appeals process, and review all business procedures in these areas and reengineer the operational business processes to institute a modern revenue administration at par with best practice in the EU.

(b) **Component 2: Increasing Operational Effectiveness and Efficiency (EUR 50.0 million).** This component would streamline business processes and work-flows, and invest in the modernization of core IT systems to take full advantage of the possibilities offered by automation in NAFA's back office operations, as well as in the interaction with taxpayers and contributors. The component would also strengthen the effectiveness of audit and enforcement functions, including the collection of arrears. This will be achieved by: (i) modernizing tax audit functions, intelligence and preventive functions; (ii) upgrading IT management function within NAFA to manage all NAFA IT resources,

[3] Base cost excluding contingencies.

including staff, countrywide following office consolidation; (iii) implementing electronic document management and archiving; (iv) developing and implementing integrated revenue management system (IRMS); and (v) upgrading NAFA's information and communications technology (ICT) infrastructure, including developing a centralized data processing center, data warehouse and a business continuity center capable of sustaining all NAFA operations with no data loss in case of a disaster.

(c) **Component 3: Taxpayer Services and Corporate Communication (EUR 2.5 million).** This component will finance activities aimed at modernizing taxpayer services; implementing mechanisms for transparency and accountability, such as consultative technical panel and community surveys, to ensure fair community input; modernizing service delivery channels to provide advanced services to taxpayers; promoting community understanding of revenue laws, procedures and rights and obligations of taxpayers; promoting taxpayer efficiency through simplification and provision of electronic services; and strengthening external and internal communication.

(d) **Component 4: Project Coordination and Management (EUR 2.2 million).** The Project would have a Project Management Unit (PMU) well-integrated into NAFA's headquarters management structure, which is responsible for day-to-day implementation of the project. The PMU includes a Project Administration Team responsible for the administrative and fiduciary processes related to project management, procurement, financial management, and project reporting. The PMU also includes a Change Management Team (CMT), which would assist management in the process of change, providing substantive direction and leadership. The CMT would be responsible for supporting the management in the change process necessary to implement each component and related activities and coordinate institutional change promoted by project components and sub-components.

24. The following Table 3 summarizes the project components and sub-components and provides high-level activities.

Table 3: Project Matrix

Project Component 1: Institutional Development				
SC1: Organizational Development	**SC2: Internal Control & Public Audit**	**SC3: Human Resources & Training**	**SC4: Legal Framework & Appeals**	**SC5: Business Process Re-engineering**
-Improve management systems - Improve Analysis and Strategy processes	- Internal control and integrity function - Internal Public Audit function	- HR policy & strategy development - Training policy & strategy development	- Improvements to institutional legal framework - Improvements to the interpretation of the legal framework - Institute an improved appeals process - Strengthen the capacity of the Legal and Appeals functions	- Re-engineer NAFA's key business processes - Adapt business processes to new COTS (customized off the shelf) Revenue Management System

Project Component 2: Increasing Operational Effectiveness and Efficiency		
SC1: Operational functions	**SC2: Application software**	**SC3: IT infrastructure & implementation**
- Tax audit - Documentary control - Anti-fraud - Business intelligence - Enforcement - Registration, declaration & payment processing - High volume processing	- Situation evaluation & requirements definition - Improve/implement core revenue management system - Data Warehouse - Backup, security and data recovery - Management software - Train the trainer for new applications	- Implement information technology platforms needed to support efficient revenue administration

Project Component 3: Taxpayer Services and Corporate Communication	
SC1: Taxpayer Services	**SC2: Corporate Communication**
- Taxpayer services organization - Developing NAFA's taxpayer services program - Establishing mechanisms for transparency & accountability - Review the charter of taxpayer rights	- Strengthen the PR unit in NAFA - Prepare and implement an external communication plan - Strengthen internal communication

Project Component 4: Project Coordination and Management	
SC1: Project Management Unit	**SC2: Change Management**
- Prepare project plans and related budgets - Execute bidding processes and manage contracts - Ensure compliance with loan agreement - Prepare project reporting	- Assist management in the process of change, providing substantive direction and leadership - Support the management of change processes - Coordinate change promoted by project components and sub-components

B. Project Financing

1. Lending Instrument

25. **The lending instrument proposed for the project is a Specific Investment Loan (SIL).** Selection of the lending instrument followed careful considerations of the technical needs of NAFA in managing a comprehensive institutional reform. NAFA expects substantial advice and independent assessments of implementation progress from supervision missions. NAFA also expects to receive routine advice from the Bank on the most economical way to procure international best practice in terms of highly specialized consultancy assignments, business processes, and information systems. The loan type is expected to be a EURO denominated fixed-spread (FSL).[4] Immediate financing of project activities would take place through the national budget with the MOPF managing withdrawals as a result of the execution of project activities.

2. Project Cost and Financing

26. **Project cost estimates indicate that the total amount of the project would be Euro 70 million**. These estimates are coherent with the 2010 and 2011 IMF TA Reports, a previously designed Bank Revenue Administration Reform investment project and the December 2010 World Bank identification mission. Detailed cost tables have been prepared for each component and discussed with the designated component leaders, with much of their feedback reflected in the current versions. The bulk of the cost will be on IT and operations modernization which will be underpinned by the reforms in organizational management and tax processes and operations.

Table 4: Project Cost and Financing
(in million Euros)

Project Components	Project Cost	IBRD Financing	% Financing
1.Institutional Development	5.99	5.99	100.00
2.Increasing Operational Effectiveness and Efficiency	50.01	50.01	100.00
3.Taxpayer Services & Corporate Communications	2.54	2.54	100.00
4. Project Coordination & Management	2.22	2.22	100.00
Total Baseline Costs	**60.76**	**60.76**	100.00
Physical contingencies	6.08	6.08	100.00
Price contingencies	3.16	3.16	100.00
Total Project Costs	70.00	70.00	100.00
Front-End Fees	0.17	0.00	0.00
Total Financing Required	**70.17**	**70.00**	99.75

[4] To be confirmed during negotiations.

Table 5: Categories of Eligible Expenditures

Category	Amount of the Loan Allocated (million Euros)	Percentage of Expenditures to be financed (inclusive of Taxes)
1. Goods, non-consulting services, consultants' services, Training and Operating Costs of the Project 2. Unallocated] 3. Interest Rate Cap or Interest Rate Collar premium		**100%**
TOTAL AMOUNT	**70.00**	**100%**

C. Lessons Learned and Reflected in the Project Design

27. A number of the factors listed below have been shown internationally to contribute to successful tax administration reform projects and have been taken into account in the design of this project:

- Clear evidence of sustained political ownership and support for the reform plans; anchoring the project objectives, scope and activities firmly in Government's reform plans;
- Involving the key stakeholders, including private sector and taxpayers, in project monitoring to ensure the project meets its development objectives;
- Starting with good diagnostics of the organizational structure, operations and functions of the NAFA based on the functional review of the MOPF;
- Aligning all three substantive components of the project to reducing contact between tax officials and taxpayers and reducing the avenues for corruption.
- Emphasizing strategic management and analytical capacity to augment better monitoring of results and facilitate informed decision making;
- Adoption of proven business processes embedded in the off-the-shelf revenue management system so that the project focuses primarily on change management rather than IT systems development;
- Provision of change management consulting services to strengthen change management throughout the project cycle;
- Development of a realistic disbursement schedule that reflects the required preparation time and lumpiness of ICT procurements;
- A sequenced implementation plan that includes timely preparation of bidding documents for priority procurement; all first year bidding documents are to be draft by project effectiveness to avoid delays in project implementation.
- Including assessment of the sufficiency of the underlying IT infrastructure so that the beneficiary can afford the recurring costs of communications networks implied by the new system.
- Recognizing the challenge of attracting and retaining high skilled IT professionals in the public sector, and proposes a technological platform that would facilitate access to university graduates on an ongoing basis.
- Recognizing the risk that ICT governance skills will not keep pace with the complexity of project implementation and compensates by putting significant funding for continual training in all aspects of the new technologies, and especially ICT governance, architecture and interoperability management.
- Assuring that the Bank project team is staffed with persons with substantial hands-on experience in managing large scale national or enterprise-wide IT projects, who can anticipate the potential risks and threats to implementation. .

- Recognition of the limitations of national data sources for project monitoring, e.g., compliance indicators used in some countries, such as number of active taxpayers, may not be suitable due to the limited influence of NAFA on registration of taxpayers and due to the strong policy rationale to actually reduce the number of active VAT taxpayers.

28. The project design was considerate of EU requirements and views expressed in the EU Blueprints for Taxation Reform and Modernization Programs prepared as part of the EU accession program. It also reflects the experience gained by the Bank in similar reforms in Hungary, Croatia, Czech Republic, Slovak Republic, and especially Bulgaria. Lessons from Bank projects in Romania have also been taken into account, including the integration of MOPF into project planning and the importance of bridging of functional divides within NAFA so that the institutional needs for IT and business are both reflected. Based on past experience the project also foresees robust implementation support provided by the Bank as reflected in Annex 5.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

29. **NAFA will be the responsible implementing agency for the project.** Implementation arrangements are designed to ensure cross-departmental coordination internally within the NAFA and externally with the MOPF and other stakeholders. Implementation arrangements comprise multiple layers to cover (i) high level policy and strategic management among major stakeholders (ii) external coordination and accountability, (iii) project management functions, and (iv) operational or functions associated with specific project activities.

30. **A Coordination Council** will be established to make key strategic decision, ensure inter-agency coordination, and provide overall project monitoring. It will comprise high level representatives of the key government stakeholders, including MOPF, NAFA, Social Houses and invited national and international organizations and will be chaired by the Minister of Public Finance. The Council will be established no later than 120 days following project effectiveness.

31. **A Consultative Technical Panel** will be established as a key part of the overall change management strategy for the project. The Panel will be established for technical discussion with stakeholders heavily affected by the project to reflect their views on the institutional changes to be made by the project. Their views are especially important as relates to the impact of activities supported under component three (taxpayer services), and as well as those under the legal and appeals part of component two. The Panel will include representatives of associations of taxpayers, trade and industry, tax accountants and lawyers, local authorities, and specialized

government agencies. The Panel will be established no later than 120 days following project effectiveness and be convened as the need for consultation arises, but no less than twice per year.

32. **A Project Implementation Committee (PIC)** will be established comprising the head of each project component and subcomponent and be led by the Project Coordinator, all to be appointed by NAFA management. The PIC will be responsible for monitoring project implementation activities and to assure that activities are well-coordinated across functions and are not implemented in a fragmented manner. Assisted by the Project Management Unit, including the Change Management Team, the PIC will also oversee the project with consideration of the impact of significant changes on project scope and implementation timing. The PIC approves progress reports prepared by the PMU.

33. **Implementation Teams** will carry out day-to-day implementation of project activities of each component and subcomponent with the support of the PMU. The number and structure of teams may vary at any given time as needed to support the specific activities that are underway.

34. **A Project Management Unit (PMU)** will ensure the overall project management and the communication with the World Bank on project related issues. The PMU was established prior to negotiations and will ensure compliance with the World Bank fiduciary requirements. The PMU will include two complementary teams:

- **A Project Administration Team (PAT)** will be responsible for project management, procurement, financial management, project reporting and administrative aspects of the project to ensure timely completion of relevant milestones included in the implementation plans. The PMU is also responsible for updating the project results framework, ensuring that all reporting requirements are submitted to the World Bank on time.

- **A Change Management Team (CMT)** will assist in the project's implementation, ensuring coordination of changes across the project's components and subcomponents. The CMT will be included in the PMU. The CMT will also coordinate the changes brought by all the projects, including those financed by other development partners and the government, so as to harmonize the effects of changes on tax administration reform.

35. **A Project Manager will lead the PMU** and report to the Project Coordinator. The Project Manager is responsible for the administrative aspects of project implementation.

B. Results Monitoring and Evaluation

36. **A results framework with project specific indicators and actionable monitoring arrangements has been agreed with key counterparts.** This will support progress monitoring

and result-oriented project implementation (Annex 1). NAFA will develop a robust system for monitoring and evaluation (M&E) of the target outcomes and outputs.[5] The M&E system will support the successful implementation of the project by maintaining records on implementation and generating the following performance reports: (i) mid-year project progress reports; and (ii) annual reports prepared within four months of the end of the financial year, focusing on results-based accountability and accomplishments against performance expectations. Surveys supported by the project to assess NAFA's taxpayer services will provide sex-disaggregated data (where feasible as in the case of individual taxpayers) and also monitor any gender differences in the feedback provided. Progress reports will be prepared by the PMU, approved by the Project Coordinator and the PIC, presented to the President of NAFA, and forwarded to Bank and MOPF immediately before supervision missions to guide the discussion of key issues impacting project implementation.

37. The project will be subject to regular supervision missions conducted by the World Bank. The progress assessed during supervision missions will be reported by the World Bank team to its management through implementation status report (ISRs), a mid-term review, and at the completion of the project, an implementation completion report (ICR). During such missions the World Bank team will review progress against a selected number of implementation benchmarks, which are important to the overall timeliness of the project. These benchmarks are listed in below, while the timing for each is reflected in the Project Implementation Plan.

1	Change Management Strategy is approved by NAFA President and submitted to Coordination Council
2	Bank receives the fully prepared bidding documents for procurement of the RMS for no-objection.
3	Contract signed for customization and implementation of the RMS.
4	Bank receives fully prepared bidding document for procurement of the hardware necessary to support full implementation of the RMS for no-objection

C. Sustainability

38. **NAFA, MOPF, and the Romanian Government are well-aligned in their support of modernization of tax administration to improve revenue collection.** At all three levels, Government authorities have frequently and publically indicated the need for modernizing

[5] In practice NAFA's M&E system will generate data that far exceeds the needs of the project, but is important to assist senior management in taking strategic decisions and gauging the impact of various administrative reforms.

NAFA and their support for the planned direction of the reform. MOPF sees better administration as the only means available to promote a culture of voluntary compliance in the country thus improving revenue collection and reducing costs for both the government and taxpayers.

39. **NAFA has repeatedly demonstrated a high level of commitment to tax administration reforms.** On its own and with the assistance of the donor community, NAFA has attempted to implement some of the activities planned in the earlier Bank-supported reforms that did not progress. NAFA now realizes there is a need for an integrated effort to fully achieve the planned results. NAFA has made a significant effort to develop the current project and to gain the political and financial backing for the reforms. NAFA has made sure project design is responsive to advice received from key donors including the IMF and EU. All signs are present of strong internal commitment at all levels of the agency to achieving sustainable project impact.

40. **Implementation activities have already started.** NAFA has started on its own and with assistance of the EU and other development partners to deal with a number of difficult activities which are key to achieving the project development outcomes, such as: (a) consolidation of territorial offices; (b) significant investments in electronic filing; (c) completing the absorption of the responsibilities for collection of all revenues; and (d) re-engineering of some main business processes.

41. **Clear participation of NAFA management is in the project design.** Project preparation missions benefited significantly from meaningful discussions with the top and middle-level NAFA managers, who were well-engaged, demonstrated deep understanding of the need for the planned reforms, and were engaged proactively in all aspects of project preparation. As a result, it can be expected that the implementation of the project will be resilient to political change.

42. **Reforms will rely on modern technology as an enabler of change of organizational, management and operational processes.** The project plans to implement a state-of-the-art revenue management system and upgrade the technology facilities used by NAFA toward open systems. This will reduce dependency on specific equipment suppliers and create a more sustainable technology environment. The implementation of advanced information technology and telecommunication systems for data processing centers, call centers and document management will promote streamlined operations, simplify business procedures, increase transparency, strengthen internal controls and minimize opportunities for discretion. Once embedded in the institution, such changes would be difficult to reverse.

43. **There are two related sets of results targeted.** The project design attempts to achieve concomitantly two important results: (a) implement a more stable and improved administration that can promote increased taxpayer compliance and therefore sustain a higher level of revenue collection for the MOPF and Social Houses; and (b) provide honest taxpayers with a more

efficient self-assessment framework that can reduce substantially their tax compliance burden. As a result, it is expected that the project will receive significant backing from both public sector and private sector stakeholders. Development objective performance indicators will track progress toward achieving both objectives and ensure that slippage in project progress and impact can be identified and remedied.

44. **Key change management activities to support project implementation.** Project design calls for a highly interlinked matrix of activities to modernize NAFA's management of its revenue collection activities. The project was designed to present these activities at three basic levels: (a) Institutional Development, which deals with the legal framework of operations, NAFA's organizational arrangements and NAFA's management systems; (b) Improvement in Operations, which deals with improving NAFA's operational business processes, automation systems, and economic information towards increasing taxpayer compliance and revenue; and (c) Taxpayer Services and Corporate Communication that focus on increasing voluntary compliance, reducing compliance costs, and maintaining taxpayers and tax officers informed of the changes being contemplated and fostering their participation in the process of change. It is expected that the Bank will have to provide significant guidance to NAFA to avoid pitfalls and keep implementation on schedule. The table below presents the main areas of focus over the life of the project. The procurement of goods and services for the implementation of the activities below are detailed in Annex 7 - Procurement Plan. It is only illustrative, as the exact sequencing of activities and the procurements that support them will be influenced by many factors.

Time	Institutional Development	Increasing Operational Effectiveness	Taxpayer Services and Corporate Communication
First year	• Start Coordination Council activities. • Develop and implement Change Management strategy. • Improve analytical capacity to support strategic management. • Develop models for compliance measurement. • Improve internal audit and control processes and generate requirements for automation of these processes.	• Improve Anti-Fraud and Business Intelligence processes. • Improve audit selection and audit planning. • Enhance electronic based field audit activities. • Deliver Training on selected audit techniques. • Improve control over High-Wealth Individuals. • Start reviewing High Volume Revenue Processing Operations • Contract ICT Integrator. • Procure open systems environment for development, testing and education.	• Start Technical Consultative Panel activities. • Develop taxpayer survey methodology and execute first survey. • Develop internal communications strategy and start activities. • Develop taxpayer campaign strategy and start activities.
Second year	• Start organization development activities. • Develop human resources policy and strategy; provide training;	• Finalize technical and functional requirements for the new RMS (Revenue Management System). • Improve Enforcement Activities.	• Execute internal and external surveys. • Develop new taxpayer service concept and organization.

	organize study visits. • Develop and implement enhanced appeals and legal processes; provide training. • Develop and implement case management systems for appeals, internal audit, internal control and legal functions. • Continue business process re-engineering.		
Third year	• Evaluate the centralization and integration efforts and refine effort as needed. • Implement a strategic management approach at all levels of the new organization. • Develop Management Information System • Develop strategy for testing and deployment of the new RMS.	• Procure hardware and software to support early implementation of RMS. • Contract new RMS and start customization effort. • Start data migration effort with emphasis on historical data.	• Execute internal and external surveys. • Implement new taxpayer service concept and organization. • Execute taxpayer campaigns to promote new taxpayer services.
Fourth year	• Evaluate the centralization and integration efforts and refine effort as needed. • Support RMS acceptance test efforts.	• Implement new Management Information System. • Document and refine RMS-based business procedures and prepare training programs for all operational areas. • Implement RMS in test environments. • Connect RMS to third-party data suppliers.	• Execute internal and external surveys. • Implement RMS-based taxpayer service to support clients in test environment. • Execute taxpayer campaigns to promote new RMS services.
Fifth year	• Complete implementation of new RMS environment • Complete change of operational business processes to new RMS based BP's. • Develop strategy to ensure long-term sustainability of the project achievements. • Prepare project completion reports.	• Complete implementation of hardware and software to support implementation of RMS. • Complete migration of all data to the RMS environment. • Complete connection of RMS to all third party data suppliers.	• Execute final internal and external surveys. • Switch to RMS-based taxpayer service countrywide. • Execute taxpayer campaigns to promote new RMS services.

V. KEY RISKS AND MITIGATION MEASURES

A. Risk Ratings Summary Table

Risk	**Rating**
Stakeholder Risk	**Substantial**
Implementing Agency Risk	
- Capacity	**High**

- Governance	**Moderate**
Project Risk	
- Design	**Moderate**
- Social and Environmental	**Low**
- Program and Donor	**Moderate**
- Delivery Monitoring and Sustainability	**Moderate**
- Information Technology Investment	**High**
- Other (Optional)	
Overall Implementation Risk	**High**

B. Overall Risk Rating Explanation

45. **Economic environment:** The macro-economic environment remains uncertain. Worsened external environment in the Euro area threatens to delay the nascent recovery of Romania's economy from the crisis in 2009. The fiscal adjustment remained on track and achieved the three percent target for 2012, but revenue performance will continue to be under pressure in 2013. Achieving the anticipated gains in revenue performance in a difficult economic environment will be faced with substantial risks.

46. **Political environment:** Slow economic recovery in 2013 may keep pressure on the Government. However, parliamentary elections held in November 2012 resulted in a large majority for the governing coalition that may provide a measure of political stability. The President and Prime Minister continue to firmly support key structural reforms, including in revenue administration and the authorities have managed to push through important reform measures, although the reform agenda continues to be focused on short term measures.

47. **Project implementation capacity:** While NAFA has expanded its project management capabilities through the implementation of a number of EU financed projects over the past years (first under PHARE, now under structural funds), implementing a project of the proposed scope and size will require further strengthening and devotion of dedicated resources, in particular in project oversight, procurement and financial management. Therefore, the project includes building a project and change management capacity as a key component of the reform with initial procurement and financial management training provided to NAFA staff prior to project effectiveness. Given the level of potential disruption to NAFA staff, there is some risk that staff may resist change—this will need to be carefully managed. Finally, the project is extensive and ideally, the strongest managers and officers should be assigned to project efforts. It will be critical to ensure that any risk to daily NAFA operations is closely managed.

48. **Synchronization of funding sources:** The utilization of EU structural funds for eligible project expenditures is considered suitable by the Romanian authorities and the Bank. However, while this would have been a financially prudent and opportune approach, it would have entailed significant operational risks in case complementary components funded by EU funds would be

delayed jeopardizing other investments made under the project. Hence the project costs included in the PIP are fully funded by the loan. Nevertheless, coordination with EU-funded activities complementing the Project will be sought at each stage of project implementation.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analyses

49. The economic analysis of the project provides a quantitative evaluation of the effects of the project on the economy as a whole and for which there are multiple dimensions. Quantifying many of these dimensions ultimately depends on availability and quality of data. This economic analysis will focus on:

- The reduction of compliance costs for corporations due to: (1) simplified preparation and filing procedures of tax declarations; and (2) decreased number of tax inspections, reduction of time physically spent by taxpayers in tax bodies due to reduction in waiting time.
- Other benefits, such as increased transparency and accountability, reduced avenues for corruption, and improved the trust in the tax administration are difficult to measure, though their economic effect could be significant.

50. The economic analysis suggests that the project is economically feasible, with a net present value (NPV) of Euro 44 million and an IRR of 90% (Table 5). A more detailed discussion of the economic analysis (including sensitivity analysis), as well as financial analysis are found in Annex 6.

Table 6: RAMP Economic Benefits
(in million Euros)

	2013	2014	2015	2016	2017	Total
World Bank financing	5	10	16	19	20	70
Total Cost[6]	5	10	16	19	20	70
Economic benefit from the reduction of costs for legal entities connected with reduction of time necessary to file tax returns	0	0	24	48	71	143
Net economic profit	**-5**	**-10**	**8**	**29**	**51**	**73**
NPV						**44**
IRR, %						**90%**

B. Technical

51. **Key tax administration issues are a relatively high compliance burden for taxpayers, low tax compliance and a significant shadow economy, collection inefficiency due to an inherited large office network, and an outdated model of taxpayer services.** NAFA collects the country's taxes and social contributions. Since its creation in 2004, when it inherited the tax administration activities of the MOPF and later, the collection of social contributions of Social Houses, NAFA has realized the need to implement a significant modernization program to address well- identified systemic weaknesses. NAFA's effectiveness and efficiency are hampered by cumbersome business processes and IT systems, which were developed to address specific needs of the day, but are not well integrated and do not always reflect good European practice. The project will attempt to deploy a highly automated risk-based approach to maximizing revenue collection, promote modern open interaction and collaboration for efficient interaction with compliant taxpayers, and a fair, taxpayer-friendly approach to addressing taxpayer grievances. While the taxpayer compliance burden of compliant taxpayers is expected to drop significantly, the compliance costs of tax evaders may increase significantly. The project will provide NAFA with tools and training to better focus on non-compliant economic actors including businesses that are outside the tax system.

52. **Another significant contribution to NAFA's relatively high collection costs are NAFA's field office structure and general approach to management.** NAFA is well aware of these deficiencies and is working hard to address them. In 2011, NAFA consolidated the number of Tax Administration Units from 404 to 263 and reduced the number of staff positions by 4,927. Current plans call for a further significant reduction of the office network towards a concept of

[6] Many steps planned to be taken as part of the NAFA own investment plans will contribute to the benefits but might not be captured in the costs.

NAFA having a headquarters, a Large Taxpayer Unit, Regional office and regional Medium Taxpayer Units, and local Tax Administration units for every judet. The IT systems to be deployed under the project would promote the adoption and support the functioning of such a streamlined office network. The office network will be managed by a fully developed headquarters able to assume full responsibility for program design and monitoring of operations. The project will support changing NAFA's management approach towards strategic management. A modern Management Information System (MIS) would be implemented and significant management training provided to anchor the change.

53. **The project proposes a comprehensive and therefore complex set of activities covering most significant aspects of NAFA operations.** Managing such a complex matrix of interventions will be a substantial challenge to NAFA management. For the expected project outcomes to fully materialize, it will be critical that attention is focused on the sequencing and interdependence of project activities. Moreover, crucial project activities such as business process re-engineering and the implementation of new Informatics platforms are heavily dependent on parallel activities financed by the GOR or through EU structural funds. To manage this responsibility the project will employ a significant project management structure that includes substantive change management capacity.

54. **The impact and sustainability of the tax administration reforms, supported under the project, would be enhanced if improvements in tax policy were implemented.** NAFA alone may not be able to implement all the changes needed in the tax administration environment. Improvements on responsiveness to taxpayer needs for efficient rulings and resolution of disputes, for example, may require changes in the tax policy framework. Similarly, some of the simplification of operational procedures, to improve service, and to deal with non-compliance in both filing and payment may require refinements of the tax laws and an improved collaboration with the Treasury.

55. **The MOPF and NAFA are deeply committed to project outcomes**. Rapid preparation of the project was only possible because of the deep and open commitment of the Government to achieving project objectives. MOPF requested support for a comprehensive NAFA modernization program to improve efficiency and effectiveness and to facilitate voluntary compliance. Project outcomes have been openly and publicly discussed in the media achieving significant support from the business community.

C. Financial Management

56. NAFA has in place a satisfactory financial management system for the project. The agreed remaining financial management (FM) actions that will further strengthen the FM arrangements have been completed prior to negotiations. The overall financial management risk of the project is substantial before mitigation measures and moderate after the mitigation measures, and details are presented in Annex 3. There are no significant weaknesses in the

project's financial management system, and fund flows are streamlined within NAFA's existing structure. NAFA would use the pre-financing from the State Budget funds and then MOPF would disburse funds from the loan using the reimbursement method for eligible payments. Project funds would be separately accounted for within NAFA's accounting system. These funds will be used for the purposes specified in Romanian legislation on public debt. An independent audit of the use of project funds will be conducted on an annual basis, by independent auditors and based on audit terms of reference, both acceptable to the Bank.

D. Procurement

57. All procurement activities under the project will be implemented by NAFA in accordance with the World Bank's "*Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers*" dated January 2011; and "*Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers*" dated January 2011, and the provisions stipulated in the Legal Agreement. An assessment of NAFA's procurement capacity was undertaken in May 2012 and updated during the pre-appraisal mission. Taking into account the complexity and the scope of the project and the agency's unfamiliarity with the World Bank's procurement procedures the procurement capacity of the agency to implement the project was assessed to be insufficient. The procurement risk for the proposed project is rated high**.** To mitigate the procurement risks NAFA will implement measures agreed with the Bank which would include: (i) recruitment of qualified procurement consultants; (ii) undertaking intensive training on procurement; and (iii) preparation and adoption of the Project Implementation Plan (PIP) and Project Operational Manual (POM) with a well-structured procurement section. More detailed findings of the assessment, the proposed procurement arrangements, and measures to address the identified risks are presented in Annex 3. The Procurement Plan covering the first 18 months of the project implementation, available as a separate project document, was prepared by the PMU and finalized at the negotiations.

E. Social (including, Safeguards)

58. **The Project does not include activities which might cause social risks or negatively affect the general population.** The Project would benefit Romanian citizens by promoting taxpayer compliance culture that is expected to result in a direct benefit in higher revenues for the Social Houses of Pension, Health Insurance and Employment, with resulting improvement in the quality of benefits they are able to provide to the population. Citizens would also benefit indirectly from increased tax compliance through a more efficient flow of revenues into the Treasury to support government programs, including those for education, health, and social assistance.

59. **The project supports a consolidation of NAFA offices and consequent reduction in staffing levels that may impact some staff.** Although NAFA plans to use primarily attrition to manage staff reduction, some staff may be unwilling or unable to relocate within the NAFA structure, and therefore need to find alternative employment. In order to mitigate the risks for heavy departures from the tax administration as a result of the restructuring and in order to retain the qualified staff, NAFA will implement a set of measures which will include, but will not be limited to:

- creating a substantial number of new positions at regional level or in other departments across the agency in order to offer opportunities for redeployment of staff (eventually, based on a *concours*, if several candidates chose simultaneously to occupy the same position)
- creating a robust re-training program for those who opt for a new job inside the agency
- maintaining on a temporary basis, small taxpayer services units/compartments with a reduced number of staff in those towns where the tax offices are dismantled
- implementing an internal communication campaign in order to ensure predictability for employees over the restructuring measures
- anticipating a calendar of 2-3 years for completing the migration of staff between the local and county locations or between the county and regional locations. (This measure takes into account the physical infrastructure that must be expanded/upgraded in the new county/regional centers.)
- covering on a temporary basis, the costs of transportation for those who will be detached between different structures of the agency.

F. Environment (including Safeguards)

60. **The Project does not anticipate any safeguards policy to be triggered and has been rated as Category « C » for environmental purposes.** None of the envisaged activities will require any special permission on environmental issues or Environmental Impact Assessment procedures or require any permission relating to environmental protection aspect.

G. Other Safeguards Policies Triggered

61. N.A.

Annex 1: Results Framework and Monitoring

Results Framework

Project Development Objective (PDO):												
PDO Level Results Indicators*	**Core**	**Unit of Measure**	**Baseline**	**Cumulative Target Values****					**Frequency**	**Data Source/ Methodology**	**Responsibility for Data Collection**	**Description (indicator definition etc.)**
				2014	**2015**	**2016**	**2017**	**2018**				
Effectiveness												
Effectiveness in revenue collection measured as the rate of tax arrears		Percentage	40% (2012)	42	43	45	48	50	Annual	NAFA's Performance Indicators	NAFA Revenue Estimation and Analysis Unit (REAU)	Tax arrears recovered during the year/Total tax arrears at the beginning of the year
Effectiveness in revenue collection as measured by the productivity rate of VAT CIT		Percentage	(2012) 35.8% 11.9%	 37% 15%	 38% 16%	 39% 17%	 43% 20%	 46% 21%	Annual	NAFA's Performance Indicators	NAFA REAU	Rate of each type of revenue in GDP/Tax rate
Efficiency												
Efficiency in revenue collection measured as the revenue collected per NAFA staff	☐	Amount (RON thousands)	6,991.3 (2012)	7,000	7,200	8,200	8,900	9,656	Annual	NAFA's Efficiency Indicators	NAFA REAU	NAFA revenue to NAFA staff, excluding Customs and Financial Guard
Compliance rate												
Tax Gap for VAT CIT PIT	☐	Percentage Change	(2014)					Decrease in Percentage point for VAT: by 10 CIT: by 5 PIT: by 5	Annual	Institute of National Statistics and NAFA's statistics	NAFA REAU	Methodology and baseline to be developed during the first year of the project
Compliance burden												
Compliance cost as the average time for preparation of		Hours/year (all taxpayers)	222 (2012)	222	222	222	200	176	Annual	Doing Business survey	NAFA REAU	Doing Business

Project Development Objective (PDO):												
PDO Level Results Indicators*	**Core**	**Unit of Measure**	**Baseline**	**Cumulative Target Values****					**Frequency**	**Data Source/ Methodology**	**Responsibility for Data Collection**	**Description (indicator definition etc.)**
				2014	**2015**	**2016**	**2017**	**2018**				
tax returns for corporate taxpayers												
INTERMEDIATE RESULTS												
Component One: Institutional Development												
Estimated tax gap is calculated annually and suitable for publication by year 5.			No (2015)	No	yes	yes	yes	Yes (with publication)			NAFA PMU	The internal procedure will be developed by the new Revenue Estimation and Analysis Unit
Case management tools implemented for managing legal and appeals processes			No (2016)	No	no	yes	yes	yes			NAFA PMU	The case management tools will be developed during the second year of the project
NAFA staff's level of satisfaction with new skills and ability to apply them for better performance	☐	Percentage	No (2014)					Increase by 10%	Annual	Annual staff survey	NAFA PMU	Survey to be developed during 2014
Component Two: Increasing Operational Effectiveness and Efficiency												
Yield per audit of Firms and High-wealth individuals	☐	Amount (RON thousand)	2,372 :Firms (2012) HWI : to be determined in 2013	2,700	3,200	3,400	3,500	3,600: Firms 50% increase over the baseline: High-wealth individuals: 25% increase over baseline	Annual	NAFA's Performance Indicators (for legal persons)	NAFA REAU	Baseline to be established in 2013 for High-wealth individuals
Payment compliance rate for	☐	Percentage	VAT: 78.5%	78.5	78.7	81.0	82.0	Increase to VAT:83.5%	Annual	NAFA's Performance	NAFA REAU	

Project Development Objective (PDO):

PDO Level Results Indicators*	Core	Unit of Measure	Baseline	Cumulative Target Values** 2014	2015	2016	2017	2018	Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
VAT PIT Social Contributions			PIT:81.5 % SC:76.5% (2012)	81.5 76.5	81.7 76.7	81.0 78.5	83.0 80.5	PIT:86.0% SC:82.5%		Indicators		
Average time required to settle dispute resolution		Days	61 days (2012)	61	60	55	50	45 days	Annual		NAFA REAU	
Cost of revenue collection		Percentage	1.1% (2012)	1.1%	1.1%	1.1%	1.0%	0.9%	Annual	NAFA's Efficiency Indicators	NAFA REAU	NAFA expenditures excluding capital expenditures/ total revenue collected by NAFA
Component Three: Taxpayer Services and Corporate Communication												
Ratio of NAFA staff in Taxpayer Services		Percent	3% (2012)	3%	4%	6%	8%	10%		NAFA's Efficiency Indicators	NAFA PMU	Ratio of Taxpayer Service Staff to total NAFA staff
Electronic filing rate by large and medium size firms (legal persons)		Percentage	95% (2012)	96.0%	96.5%	97.0%	97.5%	98.0%	Annual		NAFA REAU	
Taxpayers' satisfaction with NAFA's integrity		Percentage	(2014)					Increase by 15%	Annual	Annual survey	NAFA PMU	Baseline to be established in 2014
Taxpayers' satisfaction with NAFA's quality of taxpayers services		Percentage	(2014)					Increase by 15%	Annual	Annual survey	NAFA PMU	Baseline to be established in 2014
Taxpayer perception of the time required to comply with tax procedures		Percentage	(2014)					Decrease by 20%	Annual	Annual survey	NAFA PMU	Baseline to be established in 2014

Annex 2: Detailed Project Description

The project description below concentrates primarily on the description of objectives for each project component and the set of activities necessary to achieve these objectives. It is expected that these activities will be carried out either by NAFA staff or by consultants and contractors retained under project financing. For the purpose of estimating the costs of the project, assumptions have been made to define the inputs necessary to be financed under the loan. It is expected that adjustments to the distribution of work between NAFA and consultant and contractor staff will be refined at the time the terms of reference are prepared for bidding on the project assignments, giving full consideration to NAFA's ability to provide human resources and to manage the consultants.

Project Component 1: Institutional Development. The component would support the development of a modern organization and management structure, instill a strategic focus to management, increase attention to integrity, rationalize the regional structure to increase NAFA's effectiveness, and strengthen human resource management through targeted professional training and technical assistance. This component would also improve the analytical capacity required to support strategic management of NAFA. It would strengthen the capacity of the legal and appeals functions, and reengineer the operational business processes to institute a modern revenue administration at par with best practice in the EU. This component consists of five subcomponents: (i) organizational development; (ii) internal control and internal public audit[7]; (iii) human resources and training; (iv) legal framework and appeals; and (v) business process re-engineering.

Subcomponent 1: Organizational Development. This subcomponent will concentrate on institutional and organizational development and build strategic focus and planning capacity, enhance the management structure, strengthen executive, managerial, technical, and operational capacity, and develop related management information systems including customization.

A. Improve Management Systems

(a) Strengthen the management system for NAFA covering all levels of the agency, including accountability, monitoring, internal control, corruption management, security/security management, etc.

(b) Review and update of NAFA strategic and operational plans coherent with the framework currently under implementation within the MOPF and with the objectives of the Project.

[7] The internal control and integrity functions are responsible for the execution of anticorruption strategies and internal investigations, though they do not have prosecution powers.

(c) Design of customized MIS to support efficient strategic management of NAFA.

(d) Implement the MIS at all management levels.

(e) Prepare an executive training program to strengthen NAFA's management capacity to execute strategic management. The program should be delivered to current NAFA managers and become available for NAFA to deliver to future managers as well. The management training program should cover at a minimum the following subjects: (i) principles of general strategic management; (ii) strategic planning techniques; (iii) accountability system; (iv) quality assurance and quality control; and (v) internal control systems.

B. Improve Analytical Processes

The objective of this activity is to strengthen internal NAFA capacity to analyze its activities and estimate taxpayer voluntary and enforced compliance with the tax laws, i.e., the tax gap for main taxes collected by NAFA. The Revenue Estimation and Analysis Unit is expected to produce key elements of information for strategic management of NAFA.

(a) Review organizational placement, roles and responsibilities; define information needs and flows to ensure automated collection of data needed to carry out policy analysis and compliance and distribution studies; prepare departmental plan.

(b) Define strategic targets for the duration of the project.

(c) Procure and/or update software tools to support statistical analysis and modeling activities.

(d) Build the modeling capacity to estimate revenues and the tax gap by type of tax and social contribution.

(e) Execute a training program covering at a minimum modeling and statistical analysis.

(f) Execute annual taxpayer surveys to obtain the data necessary for estimation of revenues and the tax gap.

Subcomponent 2: Internal Control and Internal Public Audit. This subcomponent will provide the strategic focus on internal control, internal public audit, and on strengthening NAFA's integrity. The subcomponent will support the development of the managerial and operational capacity, in line with the objectives of the National Anticorruption Strategy already under implementation within NAFA.

A. Internal Control and Integrity Function

NAFA has already established an Internal Control and integrity function based on a national legal framework. The activities under this subcomponent seek to improve the effectiveness of the control activities for achieving the strategic objectives of the Agency. The following activities are planned to enhance the function:

(a) Analyze the existing requirements of the internal control function and its capacity to manage integrity. Prepare recommendations to improve the capacity of the internal control function to proactively detect corruption in NAFA and develop a program to further strengthen NAFA's integrity. Develop a plan for reform. This program should complement and further the objectives of the National Anti-corruption Strategy approved on March 20, 2012.

(b) Develop the methodology specific to the internal control activities, according to the international and EU best practices in order to improve the activity of the Agency.

(c) Elaborate internal control manuals necessary to implement the proposed reform.

(d) Elaborate internal control procedures for the Agency's activities.

(e) Develop risk analysis criteria and information systems to support internal investigations and internal control activities.

(f) Provide the internal control function with information systems and appropriate tools for computerized control.

(g) Equip field audit teams with portable computer equipment and provide remote access of the NAFA database to facilitate the internal control activities.

(h) Ensure implementation and monitoring of audit trails and other control and corruption detection mechanisms.

(i) Develop a continuous training program for the internal control and integrity staff, including: (i) elaborate training materials, and (ii) training on internal control and investigation techniques, according to the Agency needs.

(j) Study visits to understand better the "Organization and operation of the internal control systems in selected EU revenue agencies".

B. Internal Public Audit Function

The General Directorate for Internal Public Audit ensures the evaluation of the Agency's activities. The following activities are planned to enhance the function:

(a) Develop a multi-year internal public audit plan that effectively and proactively audits NAFA's key business processes and compliance with quality requirements.

(b) Provide the internal audit function with the information systems and tools to assist in the management and execution of its processes, and build capacity to audit computerized processes.

(c) Deliver training in the use of the information systems.

Subcomponent 3: Human Resources and Training. The HR and Training subcomponent provides the basis for modern Human Resource Management (HRM) and training systems in NAFA. Areas to be strengthened include recruitment, selection and hiring procedures, performance incentive systems, workforce strategic planning, management development, curriculum project, short- and long-term needs, and provide training infrastructure. NAFA HRM policies and procedures manuals will be developed. Employee retention in key and critical areas will be analyzed and strengthened by the development of career streams and pay bands to meet the operational and technical needs of NAFA.

A. Human Resources Policy and Strategy Development[8]

(a) Enhance human resource management by: (i) developing policies and planning for recruitment, selection, hiring, promotion, career development, and termination; (ii) ensuring an increased level of legal protection for NAFA's staff corresponding to their work based on EU-wide common practice.

(b) Enhance and update position descriptions for NAFA workforce requirements in the context of career streams and structure for each category of staff as the new organizational requirements and related staff competencies are identified.

(c) Enhance the employment rationalization program for NAFA based on office consolidation and new staffing requirement as a result of the project, in the context of overall workforce planning.

[8] This activity would need to be fully coordinated with the HR strategy and management project the MOPF is implementing with assistance from Structural Funds. NAFA is participant in the project.

B. NAFA Training Policy and Strategy Development[9]

(a) Enhance the NAFA's Training Unit with regard to meeting the additional managerial, operational, and technical needs of the agency that will be generated by this project.

(b) Review and improve NAFA's training strategy including assessment of needed capacity development—staffing, equipment, location—and requirements for developing an on-going program of training to meet new competencies to match current and future needs of NAFA.

(c) Develop annual training plans to support the implementation of the project as well as NAFA's ongoing needs.

(d) Assess the training effectiveness for management in NAFA and prepare a permanent training program for top and middle managers based on the materials developed under the project.

(e) Evaluate the capacity of the Department of Tax Training to prepare and disseminate training materials needed for the full implementation of NAFA, as well as longer-term training requirements, including the use of different training delivery systems, e.g., distance learning and related technologies and recommend improvements.

(f) Deliver train-the-trainers program on human resources management to build capacity of the Department.

(g) Deliver train-the-trainers program on the Code of Ethics development and implementation.

(h) Prepare curricula and deliver training to meet the needs of all components over the life of the project, including training materials, study visits, seminars, and case studies for the project (see individual components).

C. Review of NAFA Integration Experience.

Subcomponent 4: Legal Framework and Appeals. The objective of this subcomponent is to assist the MOPF structures charged with the legislative responsibility to establish a comprehensive legal framework for the operation of NAFA that will promote compliance with taxation and social contribution legislation while recognizing the taxpayers'/contributors' rights and obligations. The component will develop NAFA's capacity to improve the legal framework through activities to review existing legislation, identify gaps in primary and secondary legislation, and propose recommendations and corrections to improve the legal, regulatory and institutional framework and operational capacity of NAFA to properly administer tax and social

[9] This set of activities requires coordination with the MOPF School of Public Finance and Customs to avoid institutional overlap.

contribution legislation. It would also promote uniformity in the application of tax laws and review and provide recommendations to improve NAFA's ability to issue legally binding rulings. This subcomponent would also review and provide recommendations to institute an improved administrative appeals process.

A. Review and Propose Improvements to Institutional Legal Framework of NAFA's Activity

(a) Review the Fiscal Procedure Code and propose improvements to guarantee consistency with NAFA operational needs and international good practice[10]. This review would take into consideration that the responsibility for the Fiscal Procedure Code rests with the MOPF and will attempt to create a reliable and transparent feedback mechanism for continuous improvement of the Code in response to government and taxpayer requirements. It will also consider the implications of the current operational departments' practice of providing direct feedback to the MOPF with minimal coordination with the Legal Department.

(b) Review regulations to ensure internal consistency as well as consistency with primary legislation and identify gaps and ambiguities.

(c) Review and improve the process of drafting regulations.

B. Review and Propose Improvements to the Interpretation of the Legal Framework

(a) Prepare, based on operational needs and international good practice, a set of recommendations to promote a high level of uniformity in the application of the legal framework by NAFA inspectors. Review the possibility to make same or similar materials and information available to taxpayers.

(b) Review the process of providing legal rulings to taxpayers, including division of responsibilities between NAFA and the MOPF, appropriate staffing levels to enable changed processes, and provide recommendations to improve the quality and timeliness of such rulings. Develop service standards considerate of requirements established by law.

(c) Implement a customized Case Management tool and applications to provide computer-based assistance to the Legal Department in the management of internal and external legal cases under review in the Legal Department. The system must provide Legal management with information to manage its service standards.

[10] NAFA needs a more proactive approach to continuously modernize the Fiscal Procedures Code, a responsibility of the MOPF.

C. Institute an Improved Appeals Process

(a) Considering the possibilities created by the reorganization of NAFA and institution of regional offices, review the appeals process with the objective of improving fairness, impartiality, timeliness, and taxpayer acceptability of the administrative appeals process. Consider measures to prevent taxpayer use of the appeals system as a tactic to defer payment of tax liabilities. Develop service standards considerate of requirements established by law.

(b) Design and implement a customized Case Management tool and applications to provide computer-based assistance to the management of appeals cradle-to-grave. The appeals management system must be capable of keeping both NAFA and taxpayers well informed of the appeals process through electronic access. The system must provide Appeals management with information to manage its service standards.

D. Strengthening the Capacity of the Legal and Appeals Function

(a) Develop and deliver a training program for current Legal staff covering at a minimum, training on NAFA's business processes and computer systems for Legal Department, Civil Code, Penal Code, and Fiscal Procedure Code.

(b) Deliver legal training courses using a train-the-trainers approach.

(c) Develop and deliver a training program for current appeals staff and establish the basis for permanent appeals training covering, at a minimum, training on NAFA's business processes and computer systems for Appeals, Civil Code, Penal Code, and the Fiscal Procedural Code.

Subcomponent 5: Business Process Re-Engineering. The objective of this subcomponent is to continue and further the business process re-engineering effort being started in 2012 with EU financing. The project views the EU BPR effort, and the follow on BPR effort funded under the project as developing a knowledge base of BPR best practice and as a continuing re-educational effort over the life of the project. Furthermore both the BPR consulting effort, and the BPR continual training budgeted under the project will assist the NAFA in better comprehending best practice extant in the COTS package and applying best practice during the period of customization and implementation of the COTS package. The new ICT architecture will be based on the BPR developed under the project. It is expected that the following activities would be undertaken:

(a) Continue to develop the Enterprise Architecture to document business vision and strategy and translate them formally into the key business processes and IT capabilities being implemented under the project to ensure integration and standardization of requirements.

(b) Continue to document and re-engineer the existing operational procedures and related business processes ensuring that they take full advantage of the functionality of the COTS solution for revenue management.

(c) Review and confirm that quality assurance and quality control standards are adopted to ensure management that the services delivered by NAFA are consistent throughout the organization and delivered at the expected level of quality. An ISO 9000 approach, or equivalent, would be considered. Procure or develop software to support quality assurance and quality control policies and procedures.

(d) If necessary, institute process for quality assurance of newly re-engineered business procedures.

(e) Expand in NAFA the Balanced Score Card system designed by the MOPF.

(f) Prepare training curriculum and materials for implementing the re-engineered business processes.

(g) Implement re-engineered business processes countrywide.

Project Component 2: Increasing Operational Effectiveness and Efficiency. This component aims at promoting NAFA's operational efficiency by modernizing all routine tax collection operational functions: registration, declaration, payment, audit and enforcement. Component activities would introduce streamlined business processes, and upgrade current information and communications technology. This component should put in place the conditions for increased operational effectiveness, implement the definition of the business requirements to achieve it, the design and implementation of new information systems to support the new integrated business functions, and eventually drive the acquisition and installation of information technology and systems needed to support NAFA's business. The component consists of three sub-components (i) operational functions; (ii) application software; and (iii) information technology infrastructure and implementation.

Sub-component 1: NAFA's Operational Functions. The objective of this subcomponent is to use the established international best practices and business process reengineering embedded in the COTS revenue management system to drive best practices and business process reengineering within NAFA; supported by the awareness of these best practices by NAFA as a result of the EU-funded project for BPR and from the project-funded BPR and BPR training. It will promote the adoption of the integrated business processes that will support the redesigned business operations of NAFA through the development of revenue administration techniques, providing systems, equipment, manuals and training as needed to improve the effectiveness of the business processes.

A. Tax Audit

(a) Provide the necessary audit expertise to enhance the computerized risk analysis Revenue Management System (RMS)[11] software modules for automated selection of taxpayers for audit supporting all taxpayer types and economic sectors. It is expected this would be a case selection module covering both legal and individual taxpayers based on the analysis of existing procedures, internal and external information, and identified risk factors.

(b) Develop statistical methodology for quality assurance of the risk-based selection. The main objective of this methodology would be to ensure that the risk management parameters are actually selecting properly taxpayers for audit and provide information for enhancement of the risk selection algorithms based on actual results. The methodology should also identify NAFA's risks as a result of using a risk-based process to select taxpayers for audit. Provide expert support for the implementation of an automated system to implement the methodology.

(c) Prepare algorithms for the detection of non-compliance trends (segmented: large-, medium- and small-size legal taxpayers, wealthy individuals, and other taxpayers). Use the results of the detection algorithms to refine the risk-based selection algorithms of the RMS.

(d) Enhance the preparation of the annual audit planning to take full advantages of the capabilities available from the RMS. Review field audit procedures and strategy to fully coordinate with the annual audit plan and consider the benefits and capabilities of the RMS modules indicated above. Review and enhance the computerized RMS field audit module.

(e) Equip field audit teams with portable computer equipment for field audits. Provide field auditors with remote access to NAFA systems and to the data warehouse to facilitate audit activities.

(f) Review the attribution to the audit function in NAFA of audit responsibilities to ensure that a minimum of 50 percent of auditors are dedicated to executing the annual audit plan. Consider creating a separate audit unit, with its own audit staff, to execute audit of VAT refunds. Consider relieving NAFA from the task to conduct audits not directly related to revenue collection or the annual audit plan.

(g) Develop and/or update manuals for industry-specific audits in coordination with the relevant authorities with interest in the economic sector.

(h) Enhance systems to manage high wealth individual taxpayers. Review quality and sufficiency of information available, review risk profiles, review audit selection criteria, and provide necessary analytical tools.

[11] The new COTS integrated Revenue Management System being implemented under the project.

(i) Develop a permanent training program for auditors and deliver extensive training to tax auditors including: (i) develop curriculum and training materials for auditors to take full advantage of the ACL tool used in NAFA; and (ii) training in audit techniques covering general audit and specialized economic sectors.

B. ***Documentary Control***

(a) Provide the necessary audit expertise to the development and implementation of an RMS software module automated for analysis of information received from taxpayers on a declarative basis to operationalize automated desk checking (automated desk audit) as already supported by the procedural code.

(b) Implement the procedure of documentary control.

C. ***Anti-Fraud to Ensure Fiscal Presence***

(a) Review the organizational framework for the implementation of the compliance strategy including optimizing the distribution of responsibilities between Audit, Anti-Fraud, and Business Intelligence, and the allocation of the assignment of responsibilities for documentary control and automated audit.

(b) Review the function of the anti-fraud unit in NAFA, including the legal framework for the operation of the unit and its procedures. Develop a proposal for the coordination of the work of the anti-fraud unit with tax fraud related work carried out by other organizational units, in particular the Financial Guard and the audit function in Customs. Interchange of risk information within NAFA.

(c) Review and propose improvements to the function of anti-fraud unit in NAFA, including the legal framework for the operation of the unit and its processes and operational procedures;

(d) Provide the necessary anti-fraud expertise to the development and implementation of an RMS module to support the operations of the anti-fraud unit.

(e) Analyze training needs of the anti-fraud unit, develop a permanent training program for their auditors and deliver initial anti-fraud training, including training of the unit's trainers.

D. Business Fiscal Intelligence

(a) Review the current business intelligence activities of NAFA and recommend enhancements for the Business Intelligence Unit. The unit is responsible for the identification of non-compliant economic activities and taxpayers. The unit deals mainly with undeclared activities of registered taxpayers and potential taxpayers not registered for tax purposes.

(b) Develop methodologies to evaluate risk of non-compliance by taxpayers and potential taxpayers to be used to maintain the risk analysis systems employed by NAFA and in particular the risk-based audit selection module of the RMS.

(c) Provide recommendations for a suitable business intelligence platform, information systems and related requirements to enable the unit to perform its functions following EU standards. Explain how the business intelligence platform would be integrated in the RMS.

(d) Implement a program to analyze taxpayer information towards recognizing possible illegal activities. Review and recommend improvement to programs to improve fiscal presence.

(e) Strengthen the strategy and systems for information collection from third parties and internal dissemination and use of the data collected towards creating a central data warehouse that can support all NAFA operational activities in assessing the quality of self-assessment executed by the taxpayer and revenue risks.

(f) Identify methods, including software development and database integration, to improve the quality and effectiveness of risk information provided to other NAFA departments, especially to the tax audit, but also to the registration, declaration and payment processing, and arrears collection functions;

(g) Analyze the training needs of the business intelligence unit, develop a permanent training program for its staff and deliver initial training in investigative techniques, including training of the unit's trainers.

E. Enforcement

(a) Provide the necessary enforcement expertise to the customization of the RMS software module for arrears management and enforced collection of receivables.

(b) Review current regulations, rules, and procedures for the management of arrears and enforced collection and prepare recommendations to improve the effectiveness of enforcement operations. Ensure that the RMS module case assignment and follow up on arrears are based on improved collection criteria and rules. Develop a manual for enforcement activities.

(c) Analyze the training needs of the enforcement unit, develop a permanent training program for its staff and deliver initial training in recovery of arrears and arrears management module of the RMS, including training of the unit's trainers.

F. Registration, Declaration and Payment Processing

(a) Revise current procedures for taxpayers' registration (legal and physical persons).

(b) Carry out a census of taxpayers to improve the quality of information in the taxpayer registry.

(c) Improve the declarations and payment procedures considering NAFA's primary interest in promoting electronic transactions for these activities. Ensure massive data processing centers have the necessary legal authority to execute efficient interaction with taxpayers. Ensure that improved procedures take full advantage of the new RMS.

(d) Improve management reporting requirements for registration, inactive taxpayer, and collection statistics.

(e) Enhance the existing risk-based VAT refund audit approach through the use of a quality assurance feedback process based on assessing the quality of the decisions made by the audit selection algorithms.

G. High Volume Revenue Processing (Tax Return Processing, Payment Processing, Notification Printing and Mailings, etc.)

(a) Review procedures for high-efficiency massive processing of tax returns with a view to promote efficiency and compliance through electronic filing of tax returns and other communication with taxpayers.

(b) Review arrangements for metadata and data interchange with other government bodies and ensure contribution to national coordination efforts.

(c) Improve procedures for high-efficiency payment processing, matching, and attribution to taxpayer sub-accounts to eliminate manual processing.

(d) Review definition, procedures, and massive processing center's legal authority to issue notices and other mailing.

(e) Ensure that the massive processing center has legal authority to provide taxpayers with electronic notification.

(f) Develop and implement an interface to provide taxpayers with multi-channel electronic notification including at a minimum electronic mail and SMS services.

Sub-component 2: Application Software. The objective of this subcomponent is to support the modernization and enhancement of businesses processes and workflows through the purchase, development and implementation of appropriate revenue management systems. Based upon recent successful World Bank revenue management system projects in Bulgaria, Ukraine and Russia it is evident in the Romanian environment that the most appropriate project design methodology is to employ a COTS based solution as the principle driver and enabler of best practice and enhanced business process reengineering. The project will procure the COTS, in order to absorb the extant best practice BPR already embodied in mature tax software. The project views the year one EU funded BPR effort, and the follow on BPR effort funded under the project as developing a knowledge base of BPR best practice within NAFA and as a continuing re-educational effort over the life of the project. Furthermore both the BPR consulting effort and the BPR continual training budgeted under the project will assist NAFA in better comprehending best practice extant in the COTS package and applying best practice during the period of customization and implementation of the COTS package in a concerted effort to minimize wherever possible, any customization that might detract from established best practice. The period of time it would take to generate procurement software requirements for a COTS system is significantly less than a traditional full development effort enhancing an earlier roll out, and is expected to dovetail appropriately with the EU BPR project. Even if the EU BPR project is somehow delayed, it should have no significant negative effect on the project, as the project funded BPR and BPR training will compensate. The project based BPR is a continuous effort, NAFA BPR will continue to evolve with the client throughout the project and thereafter, and in support the project provides consulting help and management training in BPR. The project will further provide for the procurement of new centralized server system hardware, new separate data warehouse server system, and secondary fall back server system hardware to support the new and existing tax administration software, as well as sufficient hardware and software upgrades to the existing centralized server system to permit both operational and application continuity during the NAFA consolidation and transition to the new COTS system and support of those existing, planned and near term applications best suited specifically to the existing architecture. Open source operating system, database management system and supporting software and non-vendor specific hardware architectures will be considered in all procurements.

A. Evaluation of Situation and Requirements Definition

(a) Carry out inventory of existing and planned IT assets, applications, communications and networking infrastructure, and physical facilities.

(b) Provide expert advice and participate in the development of an effective comprehensive long term Information Systems and Communication Technology Architecture and Strategy for NAFA that will support and enhance the project. It is expected that the IS and ICT architecture would be developed based on the high level business process re-engineering project being executed in parallel with this project under Government financing.

(c) Develop hardware and software requirements for the purchase and implementation of a comprehensive COTS Revenue Management software, a new centralized database and application server system, a new distinct, enhanced data warehouse server system and a new secondary backup database system. The COTS system at a minimum will include online self-service, registration, return processing, taxpayer accounting, collection, revenue accounting, case management, MIS, security and user and management training.

(d) Develop hardware and software requirements for the purchase of upgrades to the existing centralized server systems sufficient to permit fulfillment of on-going and near term tasks related to the NAFA consolidation effort and to enable the existing system to support those current and near term processes and applications most suitable to the existing specific hardware and software configuration.

(e) Develop hardware and software requirements for the purchase of comprehensive identity management systems to support intranet, extranet and internet access and security under the new COTS RMS and related components.

(f) Develop hardware and software requirements for the purchase of enhancements and upgrades to the current hardware and software management systems (currently Tivoli) to permit nationwide management of hardware and software from the centralized system during the consolidation of the offices.

B. Improvement and Implementation of Core Revenue Management System

(a) Support the continued centralization of tax administration and third party databases within NAFA.

(b) Train NAFA management and staff to contribute to the development of the new core system and supporting modules, assume full ownership during the project, and enable consistent and meaningful improvement to the system after the finalization of the project.

(c) Convert and migrate data from existing applications to the new system.

(d) Convert and migrate relevant existing application modules to the new system.

(e) Prepare and implement a nationwide deployment plan for the new system.

(f) Conduct alpha, beta and where appropriate, parallel testing of the system with live data while in beta phase.

(g) Conduct module by module migration of data and applications to the new system where appropriate and in a least risk scenario.

(h) Support and improve interoperability with relevant central and local administrations.

(i) Improve access and exchange of information with third parties.

C. Data Warehouse

(a) Strengthen business and business intelligence capabilities, enhance data architecture to provide seamless compatibility with the data sources and structures of the new core tax administration software, maintain data and operational compatibility with existing systems during the transition to the new COTS, COTS relevant internal and third party software modules and enable the importation, maintenance, and internal and external accessibility of additional third party data sources in the Data Warehouse.

D. Backup, Security and Disaster Recovery

(a) Develop hardware and software requirements for the purchase and implementation of hardware and software for the new secondary centralized data center sufficient to seamlessly support NAFA internal processes and taxpayers providing business continuity in the event of a systemic failure at the primary centralized data center as well as to provide real time hard backup of all centralized data at the primary data center.

(b) Further develop data security policies and procedures; security and access software requirements, including after new business requirements are implemented.

(c) Acquire identity management and security software and hardware to support the COTS RMS and related systems. Implement it nationwide for staff working in NAFA premises or externally, third parties, and taxpayers.

(d) Refresh Business Continuity, Disaster Recovery and Contingency Plans to reflect new technologies and threats. Continually refine the results during the redesign of business processes with a preference toward the achievement of business continuity for all processes.

(e) Train-the-Trainer training on backup and security policies, procedures, and tools.

E. Management Software

(a) Internal accounting that will support consolidation of current disparate accounting systems.

(b) Software, database, and operating system development and management.

(c) Content management software for internal and external websites.

(d) Data exchange middleware for public administration and third party databases.

(e) e-Learning presentation and management software for use by NAFA.

F. Provide Train-the-Trainers Training on the New Software Applications

(a) Expand substantially the usage of e-Learning to (i) increase the knowledge base of the tax administration in existing and new business processes and workflows, new hardware and new core software and supporting modules; and (ii) be the primary tool to maintain tax inspector knowledge up-to-date.

Sub-component 3: Information Technology Infrastructure and Implementation

The subcomponent includes the development of technical specifications, procurement and installation of computer and systems software (including business software and development tools) as follows:

(a) Inventory of the existing plans for investment gaps.

(b) Develop the new ICT architecture.

(c) Plan and prepare technology requirements for the new ICT architecture.

(d) Preparation of technology procurement and implementation.

(e) Implement the hardware architecture preparatory to the software implementations.

(f) Develop and implement the business software and development environment.

(g) Implement the identity management, security and access enhancements to the centralized databases and applications at the internal, external and internet levels.

(h) Implement the centralized hardware and software systems management.

(i) Implement an updated e-Learning hardware and software environment.

Project Component 3: Taxpayer Services and Corporate Communication. This component will develop a new taxpayer services organization, modernize taxpayer services, develop taxpayer services programs and initiatives targeted to taxpayer needs, and develop mechanisms for transparency and accountability such as consultative panels and feedback surveys to ensure that taxpayer needs are being met (sex-disaggregated where possible). It will also: develop modern service delivery channels to improve services to taxpayers; promote community understanding of revenue laws in general and self-assessment responsibilities in particular, procedures, rights and obligations of taxpayers. This component will promote simplification and provision of electronic services, and strengthen external and internal communication channels—all with a view to reducing the compliance burden for NAFA taxpayers. Progress in this project component is contingent on timely decisions in both the re-organization of NAFA and its field network and the implementation of the Revenue Management System. The Taxpayer Services and Corporate Communication Component consist of two sub-components.

Sub-component 1: Taxpayer Services

This subcomponent aims to provide assistance to taxpayers and contributors to fulfill their legal obligations and increase the transparency and accountability of NAFA by:

A. Taxpayer Services Organization

(a) Develop a modern comprehensive organization structure for taxpayer services--both at NAFA headquarters and field offices - that re-aligns current fragmented responsibility for taxpayer service.

(b) Determine organization structure options for taxpayer services at regional and local level for all types of offices.

(c) Develop a mission statement, position descriptions, staffing requirements (number of staff and levels), determine responsibilities, and prepare first strategic plan.

(d) Identify staff to be transferred into Taxpayer Services, both in HQ and regional and local offices, and/or hired externally.

(e) Review the relationship between HQ and tax office on regards to the delivery of taxpayer services to strengthen functional direction from HQ to field offices.

(f) Develop curricula and training materials for Taxpayer Services staff covering inter alia training in tax legal framework, procedures, and inter-personal communication skills.

B. Developing NAFA's Taxpayer Services Program

(a) Review the inventory current taxpayer services offered by NAFA, including all forms and publications that have been prepared by taxpayer assistance staff, as well as the use of existing delivery channels (e.g. counter service, call center, website, written inquiries. etc.).

(b) Determine gaps in core content /delivery mechanisms.

(c) Develop taxpayer services programs – segmented to meet the different needs of large, medium and small taxpayers.

(d) Fully develop all delivery channels—with specific attention to the feasibility of a NAFA call center—and design strategies to encourage taxpayers to channels that represent least cost to NAFA (e.g. website).

(e) Propose measures to allow management to oversee and correct delivery issues.

(f) Monitor by subject area interaction with taxpayers to assess new areas where information/educational material is lacking.

(g) Develop training and seek technical assistance to support taxpayer services delivery e.g. web development and e-services.

(h) Develop monitoring tools to ensure efficacy of taxpayer services program e.g. telephone surveys, questionnaire and interview based sociological surveys, focus-groups, panels, disaggregated by male and female.

(i) Develop mechanisms for dissemination of annual reports on revenue performance, compliance, and quality of taxpayer services to the public.

(j) Prepare a study on the security and authentication of remote modification of taxpayer information by telephone or internet.

C. Establishing Mechanisms for Transparency and Accountability

(a) Develop an overarching strategy that sets out NAFA's approach to consultation with key stakeholders and civil society.

(b) Create a consultative technical panel that would include significant taxpayer representation to provide an external accountability and Strengthen consultative arrangements with key professional associations e.g. chamber of commerce, accountants, tax professionals, etc.

(d) Conduct periodic forums for ongoing external consultation and feedback, representing other agencies, taxpayer associations and professional and community groups.

(e) Develop a management and quality control system and develop a permanent taxpayer time and cost monitoring system by type of taxpayer and type of fiscal obligation.

(f) Analyze existing administrative complaint resolution procedures, design and develop an automated complaints and suggestions monitoring system.

D. Review the Charter of Taxpayers' Rights

(a) Review current best practice in OECD and EU countries.

(b) Determine potential for inclusion of performance standards in select number of operations.

(c) Plan full implementation in the new offices structure.

Sub-component 2: Corporate Communication. This subcomponent would disseminate information on the tax system, laws, administrative procedures, and rights and obligations of the clients through a comprehensive public relations program of taxpayer/contributor education. It would also be responsible for internal communication.

A. Strengthen the Public Relations Unit in NAFA

(a) Review the mission statement, position descriptions, staffing requirements, determine responsibilities and define performance indicators for public relations services and management information requirements for monitoring the indicators.

(b) Implement the "open data" concept in line with the Open Government Partnership[12].

(c) Carry out internal and public communication campaigns to maintain awareness and promote the objectives of the project.

B. Prepare and Implement an External Communication Plan

(a) Develop a plan to provide relevant information through several media channels, including at a minimum internet, television and radio channels.

(b) Support the preparation of web-based information, including NAFA's annual action plans, goals, achievements of the last year, and effectiveness and efficiency indicators.

(c) Disseminate paper-based material, such as guides and information pamphlets.

(d) Prepare and implement a strategy for feedback using the internet and other means, using existing feedback mechanism as a starting point.

(e) Design and conduct periodic surveys to measure community feedback on NAFA performance, compliance, and other areas such as:

[12] The Romanian Government joined the Open Government Partnership in April 2012 through an official statement and plan of action (Brasilia meeting).

- procedures,
- information provided,
- access to NAFA,
- treatment by NAFA personnel,
- professionalism of NAFA staff,
- use of information about revenues collected, and
- transparency, corruption, and equity issues.

(f) Deliver training in the development, monitoring and evaluation of surveys and other feedback mechanisms, contracting, monitoring and quality control of survey execution.

(g) Measure effectiveness of information dissemination and education campaigns and feedback.

C. Strengthen Internal Communication

(a) Review the communication strategy on issues of interest of NAFA staff and management.

(b) Prepare paper- and web-based information for dissemination.

(c) Define the responsibilities of NAFA's central and local offices, including public relations services in the development and delivery of the internal communication strategy.

(d) Conduct NAFA Staff Feedback Surveys to track perception of managers and staff regarding the level of professional skills in selected functional areas.

Project Component 4: Project Coordination and Management. The Project Management Component consists of two subcomponents:

Subcomponent 1: Project Management Unit. NAFA will put in place a Project Management Unit (PMU) with the objective of carrying out the administration of project investments. The PMU will include two core teams: (i) PAT and (ii) CMT. The PMU will be led a Project Manager and staff who will ensure that financial and procurement management meet the quality and integrity requirements set forth in the World Bank's guidelines, and international standards of accountability and transparency. Progress reports and interim financial reports will be elaborated by PMU. Project audits will also be managed by this subcomponent. This PMU office will be provisioned and training provided to staff in the critical skills of project management, financial management, and procurement. Most of staff strength is expected to be provided by NAFA and to be used to manage not only this project but also other projects related to the modernization of NAFA that are financed by NAFA's budget or EU funds. The project will provide also expertise in areas that either are expected to have a peak in staffing requirements because of the project or need specialized expertise on World Bank guidelines**.**

A. Technical Assistance

(a) Procurement advisor, or a mix of an advisor and procurement experts, during the life of the project to ensure procurement is carried out according to World Bank requirements and in a timely and reliable manner.

(b) IT Procurement Expert to support all IT procurement under the Project.

(c) Project auditing to ensure auditing of Project accounts are conducted in a timely way by independent and qualified auditing firms.

B. Office Infrastructure

(a) Workstations for PMU staff and advisors.

(b) Office equipment for PMU staff and advisors.

(c) Financial and procurement management systems that meet World Bank requirements.

C. Training

(a) Project management training to provide the necessary tools and methods to ensure a successful management of Project implementation as designed.

(b) Procurement training and participation in seminars on World Bank guidelines, policies and procedures.

E. Office Supplies and Operational Expenditures

(a) Office supply consumables required by the PMU to execute its responsibilities;

(b) Internet service, postage, courier, and similar services as required.

F. PMU Staff. NAFA PMU staff will be financed by NAFA’s budget and the following consultants will be financed by the Project:

(a) Procurement advisor to ensure procurement is carried out in in accordance with World Bank requirements.

(b) IT procurement expert to support all IT procurement executed under the project.

Subcomponent 2: Change Management. The Change Management subcomponent is intended to ensure that all changes that take place in NAFA are based on common understanding of the purposes of the changes. Moreover, the changes will be carried out using established change management approaches that seek to build commitment of all staff in the change process. This will facilitate the institutional development of NAFA. The Change Management Team will be assisted by a change planning expert who will help establish the Team, and a change management specialist who is experienced in the field. They will collaborate for developing the Change Management Strategy in the first year of the project and will further manage and integrate the changes brought by the Project within NAFA based on this Strategy approved by the NAFA President. The Change Management Team is subordinated to the Project Manager.

A. Advisory Services

(a) Change Planning expert, who will establish the change management office and provide guidelines for its operation; and

(b) Change Management expert who is a senior level change management practitioner.

B. Training

Change management training to provide the necessary tools and methods to ensure a successful management of Project implementation as designed.

Annex 3: Implementation Arrangements

I. Project Institutional and Implementation Arrangements

1. The proposed institutional changes will touch on every aspect of NAFA's operations, its interaction with taxpayers, NAFA staff and other stakeholders. This institutional change is possible with the support of the Government, Parliament, Social Houses and Romanian citizens and firms. The project implementation arrangements seek to manage and sequence this change process so that there is buy-in from all stakeholders.

2. To ensure that the project development objectives are met the following institutional and implementation arrangements will be put in place (see Figures 2 & 3 below):

3. **A Coordination Council** (**Council**) will be established to make key strategic decisions and ensure inter-agency coordination. It will comprise high level representatives of the key government stakeholders, including MOPF, NAFA, Social Houses and invited national and international organizations and will be chaired by the Minister of Public Finances. The Council will meet at least once a year or more frequently as requested by the Chair. The Chair may invite international representatives in an effort to promote adoption of good and proven international practices, particularly those of European Union. The Council will be established no later than 120 days following project effectiveness.

4. **A Consultative Technical Panel** will be established as a key part of the overall change management strategy for the project. The Panel will be established for technical discussion with stakeholders heavily affected by the project to reflect their views on the institutional changes to be made by the project. They include representatives of associations of taxpayers, trade and industry, tax accountants and lawyers, local governments, and specialized government agencies. The Panel will be established no later than 120 days following project effectiveness and be convened as the need for consultation arises but no less than twice per year.

5. **A Project Coordinator** will be appointed by NAFA management. The Project Coordinator will monitor overall project implementation and achievement of project objectives, will lead and coordinate the work of the PIC, oversee the Project Management Unit (both described below), and will ensure proper change management is in place and in alignment with overall reforms. The Project Coordinator will be entitled to sign contracts and documents for project payments.

6. **A Project Implementation Committee (PIC)** will be established comprising the head of each project component and subcomponent and be led by the Project Coordinator. The PIC will be responsible for monitoring project implementation activities. Assisted by the Project Management Unit, including the Change Management Team, the Committee will also oversee the project with consideration of the impact of significant changes on project scope and

implementation timing. The PIC was established before negotiations and will be convened every month during the life of the project.

7. **Implementation Teams** will carry out day-to-day implementation of project activities of each component and subcomponent with the support of the PMU. Actual substantive implementation activities will be carried out by the Implementation Teams with sub-teams defined where and if needed. These Teams should be lean and consist of a mix of team members with the highest level of expertise and charged with decision making authority. According to the complexity theory, putting a large number of people into a single team creates more interplay than progress and should be avoided at all costs. Ordinarily, ICT and Legal representation should be involved based on the need for their expertise given the issues under consideration.

8. **A Project Management Unit (PMU)** will ensure the overall project management and the communication with the World Bank on project related issues. The PMU was established before negotiations and will ensure compliance with World Bank fiduciary requirements. PMU will include:

a. **A Project Administration Team (PAT)** will be responsible for procurement, financial management, preparation of project reporting and administrative aspects of the project to ensure timely completion of relevant benchmarks included in the implementation plans. The PAT will also carry out the financial management (FM) functions of the project to the extent required by the MOPF to request loan disbursements. This will include flow of funds, planning and budgeting, accounting, financial reporting, internal controls according to the World Bank rules and procedures respectively (see the sections below on the specific financial management and procurement arrangements). The PAT is also responsible for updating the project results framework, ensuring that all reporting requirements will be submitted to the World Bank on time.

b. **A Change Management Team (CMT)** will assist in the project's implementation, ensuring coordination of changes across the project's components and subcomponents. The CMT, who are trained in the dynamics of change, —i.e., able to manage and assuage change with understanding of matrix management change so as to achieve the greatest efficiency, least friction, and optimal cooperation-- will be assigned to each Implementation Team. The CMT will be included in the PMU. The CMT will also coordinate the changes brought by all the projects, including those financed by other development partners and the government, so as to harmonize the effects of changes on tax administration reform. The CMT will include at least four two staff with a high level of understanding of NAFA organization and functions.

9. **A Project Manager will lead the PMU** and report to the Project Coordinator. The Project Manager is responsible for the administrative aspects of project implementation.

II. Project Administration Mechanisms

10. Because of the high complexity level of the project and the recognition that the project will most likely alter extensively organizational structures, management and operational processes, the project administration mechanisms attempt to involve all NAFA key managers in the process of transformation. NAFA headquarters management will play a central role in shaping and planning the implementation of the reform. Figure 2 depicts the proposed project administration mechanisms and indicates the main contributions expected from each level of the structure.

11. It is important to recognize that for this type of project, the structure and the relative relevance of individual teams may have to evolve as the project is implemented. Early phases of the project are expected to concentrate on defining terms of reference for consulting assignments and technical specifications for the procurement of goods under the project. The middle phase of the project will most likely concentrate on contract management and testing and acceptance procedures to ensure that the actual deliverables respond to expectation. The later phase of the project will concentrate on deployment activities, particularly training of staff on new business procedures and in the use of the new Revenue Management System. Therefore, the intensity of contribution of the many actors will change from phase to phase although all will be involved until implementation is completed and the formal NAFA organization can take over all implemented activities. It is expected that by the end of the project most of the project administration arrangements will be disbanded. NAFA management may consider absorbing into the formal organization some key know-how obtained in managing large projects.

12. An Annual Report of project implementation will be prepared by PMU - PAT, approved by the Project Coordinator and the PIC, presented to the President of NAFA, and forwarded to the Bank and MOPF.

13. The Project Operational Manual describes these administration mechanisms in more detail and specificity.

Figure 2: Institutional and Implementation Arrangements

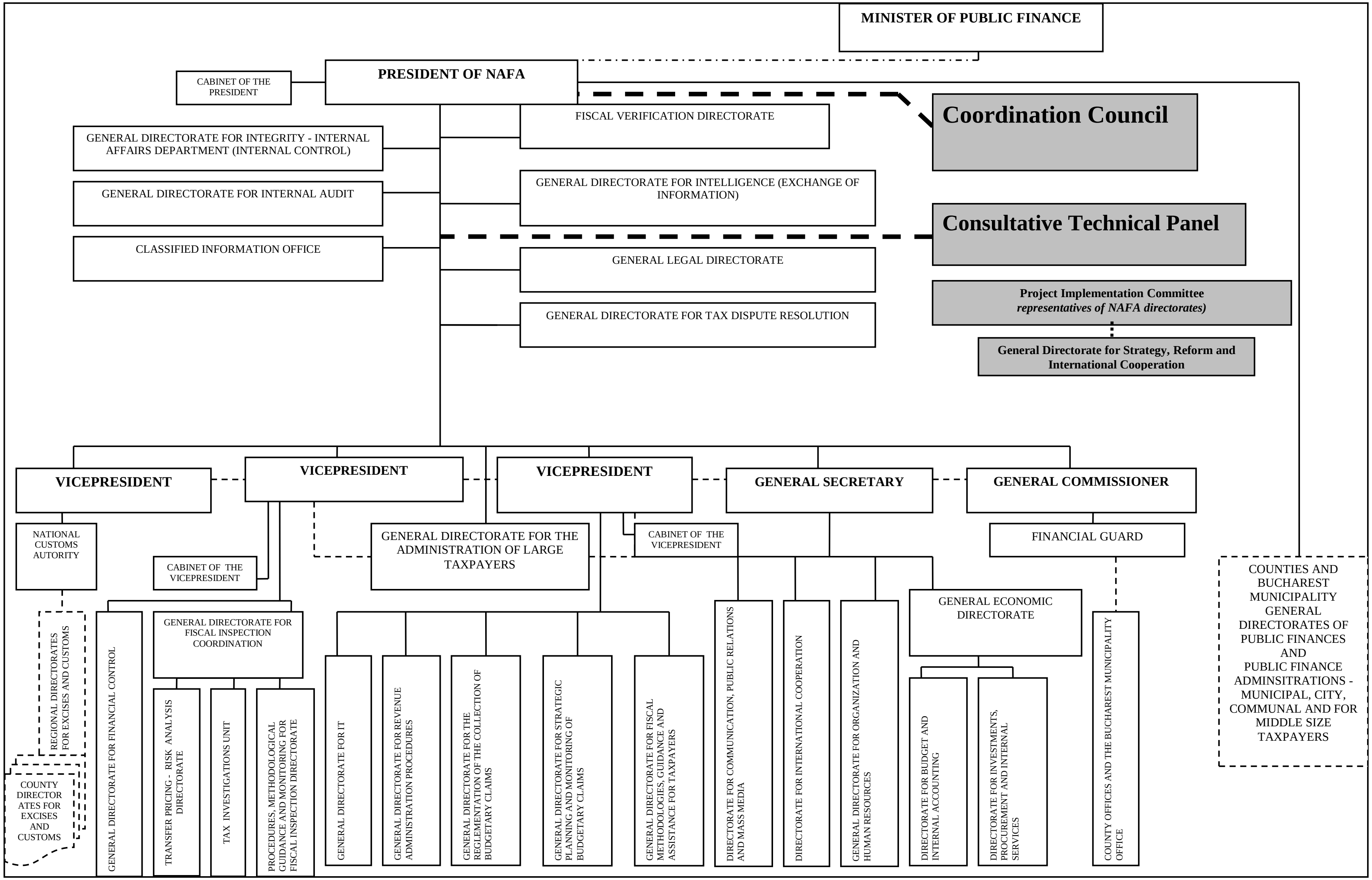
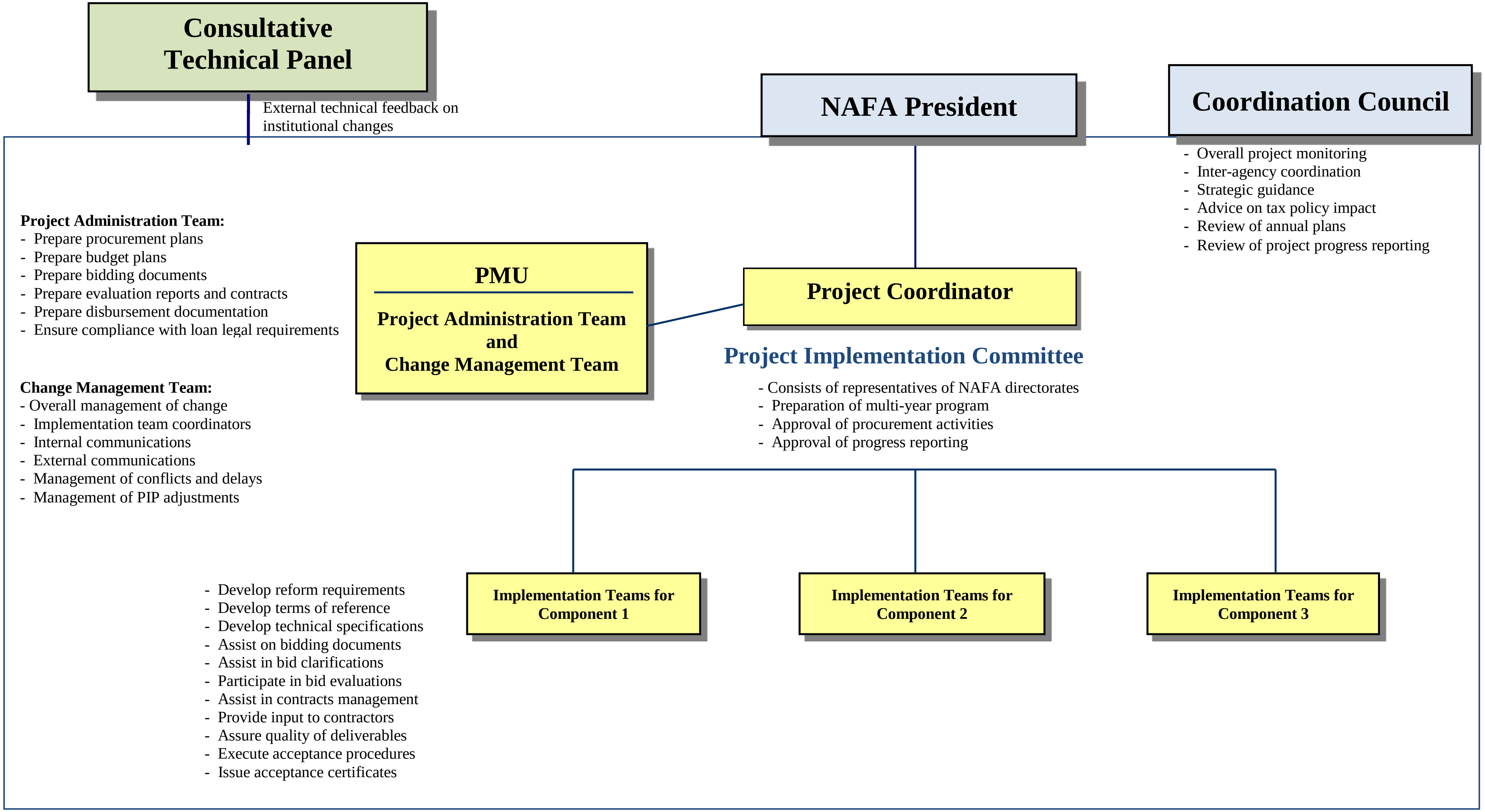


Figure 3: Project Administration Mechanisms



III Financial Management, Disbursements and Procurement

1.3.1 Financial Management

Country Issues

13. **The World Bank has extensive knowledge of Romania's public financial management (PFM) system.** A Country Financial Management Accountability Assessment (CFAA) was prepared in 2003. The CFAA deemed the overall fiduciary risk associated with the PFM system as ***moderate***, and highlighted several strong PFM dimensions, including: the progress on program budgeting, the reliable cash management and distribution facilities provided by the Treasury system, and the Court of Accounts (Supreme Audit Institution) capacity.

14. **Romania has continued to make considerable progress in the further development of its PFM systems and institutions.** The Government has taken action to improve coordination and management of PFM reform and strengthen internal control, financial reporting and internal auditing systems. An Inter-Ministerial Committee, headed by a State Secretary of MOPF endorsed a PFM Strategic Development Plan (SDP) in 2005 and has since monitored its implementation. A large number of the CFAA recommendations have been addressed by the Government, including in the areas of treasury management, harmonization of accounting standards and practices, decentralization and rationalization of ex-ante financial control and strengthening internal audit functions. The organization and effectiveness of the Court of Accounts has further improved. Overall, steady progress has been made in the development of PFM systems and institutions. As a result of these efforts, the quality of financial control and oversight in the country has improved substantially.

15. **Romania has made progress in government budget transparency** as measured by the recent 2010 Open Budget Index assessment (OBI)**.** According to OBI, the remaining budget issues are the absence of pre-budget statements, of a citizens' budget and of a mid-year review; whereas only partial information is available for areas such as Executive's budget proposal, in-year reports and audit reports. However, corruption continues to remain significant as measured by the latest 2010 Transparency International. In fact, the perceived corruption has increased over the past 2-3 years.

Financial Management Risk Assessment and Mitigation Measures

16. **The financial management arrangements for the proposed Project are acceptable to the Bank**. The Project would rely on Romania's public financial management (including budget, accounting and treasury), monitoring and reporting systems.

17. **The overall residual financial management risk for the proposed Project is rated as *moderate*.** The country's public financial management (PFM) systems and institutions are advanced, are based on and utilizing modern legal and operational frameworks (including reporting, audit and oversight), and are performing well. The result is that the country's own fiduciary framework (including regulations and reporting requirements, internal audit and internal control, performance of the Supreme Audit Institution) provides sufficient inherent mitigation measures to support the financial management arrangements for this operation.

Strengths and Weaknesses

18. **There are no significant weaknesses of the financial management system.** The strengths that provide a basis for reliance on the financial management system include the well developed country PFM systems, processes and practices, simple flow of funds design and robust reporting framework (observed in practice as well).

Implementing Entity

19. **Financial management arrangements will be the responsibility of NAFA**.

As this operation relies heavily on the country's PFM systems, the financial management arrangements of the proposed Project are within the overall responsibility of the NAFA, which would work closely with the MOPF to manage the loan disbursements. The MOPF would provide monthly budget transfers related to the project activities, as part of the overall budgetary mechanism in place, through the existing channels and procedures. NAFA will report monthly to MOPF on the expenditures already incurred out of the state budget allocations and will provide the necessary supporting documents based on which MOPF will request the disbursement out of the loan proceeds in order to be reimbursed. These funds will be used for the purposes specified in Romanian legislation on public debt.

Budgeting and Planning

20. **As noted above, the operation will rely heavily on country public financial management systems.** The financial management dimensions (including budgeting and planning) would be the overall responsibility of the NAFA and MOPF, and the operation would rely heavily on the existing country public financial management systems. NAFA project budgets would continue to follow the existing procedures for approval, reporting (on budget execution) and monitoring. The approved project's annual budgets would be entered into the accounting system and used for periodic comparison with actual results as part of the interim reporting. The process of compiling budget data and approval would continue in the same manner, with project's budget data available by month and quarter.

Accounting Staffing

21. **The accounting staff within NAFA complies with the statutory requirements on qualifications and experience.** The accounting team includes about 10 people and the Bank team observed a high level of compliance by the officials with national budget management and reporting requirements. While the MOPF staff are familiar with Bank disbursement requirements, additional training may be needed by the NAFA staff and would be provided during project implementation.

Accounting Policies and Procedures

22. **The proposed operation would utilize the existing Romanian budgetary accounting policies, procedures and systems.** The program's accounting and budgetary transactions/records would continue to be maintained on an accrual basis and denominated in Romanian Lei (RON). The operation would rely upon the existing accounting procedures and internal control framework to ensure that all procedures and controls are adequately documented, contract monitoring and invoice payment procedures are consistently adhered to and documented. The controls in place are robust and closely monitored by NAFA's management. The main accounting and transaction controls relate to the existing standard checklists which have to be filed for each budget engagement, transfer and payment and approved by the relevant financial controller.

Information Systems

23. **NAFA is responsible to keep detailed accounting records,** including distinct records for each of projects it manages. Accounting records and reporting are supported by the existing accounting software, based on Oracle. Additional software procedures are in place for the timely archiving of the monthly files and weekly information back up.

Internal Financial Controls and Internal Audit

24. **Full reliance would be placed on the existing public sector internal financial control framework.** This framework includes the use of checklists to ensure that required procedures are performed and data established during the processing of the invoices, including: checking mathematical accuracy of the invoice, matching legal conformity of the invoice, matching the invoice to the relevant contract, agreeing invoice to goods received notes or other evidence of completion of work, account numbers, etc.

25. **NAFA has established an internal audit department,** managed by its general director and including a large number of internal auditors. In practice, though internal audit work complies with Romanian legislation, it is still dominated to a large extent by ad-hoc compliance-

focused audit engagements missions and is not yet fully based on a longer term risk-based planning method of internal auditing. The project would also finance a sub-component on increasing the effectiveness of the internal audit department.

Funds Flow and Disbursement Procedures

26. **NAFA would use the pre-financing from the State Budget funds and then MOPF would disburse funds from the loan using the reimbursement method for project eligible payments.** NAFA's President, as a budget holder, is overall responsible for sector budget planning and for submitting reports to the MOPF. The Treasury makes the monthly budgetary openings as requested, and the project would receive its allocations in the title 65.

27. **IBRD loan funds flow would reimburse the project eligible expenses pre-financed from the State Budget funds.** The Borrower (MOPF) would submit withdrawal applications for the eligible expenditures. These funds will be used for the purposes specified in Romanian legislation on public debt. The supporting documentation for disbursements would include summary sheets and statement of expenditures. No designated account would be used.

Reporting and Monitoring

28. **Quarterly unaudited Interim Financial Reports (IFRs) would be used for monitoring and supervision of the project.** The quarterly IFR reports would include the funds received from the State Budget pre-financing and used for project expenditures, showing separately the eligible amounts, based on the agreed format to be attached to the minutes of negotiations.

External Audit

29. **The project financial statements would be audited annually by independent auditors acceptable to the Bank.** Currently, Romania is in compliance with the audit covenants of all existing Bank-financed projects. The format of the terms of reference for the audit would be agreed between the Bank and the NAFA and attached to the minutes of negotiations. The project audit's scope will include the project's books and records as maintained by the NAFA. The audited project financial statements together with the auditor's opinion thereon will be provided to the Bank within six months after the closure of the reporting period that ends on December 31. The costs of the audits will be financed from the proceeds of the loan. The audited financial statements and audit reports would be publicly disclosed in a manner acceptable to the Bank. The following table identifies the audit reports required to be submitted together with the due date:

Audit Report	Due Date
Project financial statements (PFS). The PFS include sources and uses of funds by category, by components and by financing source; SOE statements; and notes to financial statements	Within six months after the closure of the fiscal year which is at the end of December each year; and also upon the closure of the project.

1.3.2 Disbursements

30. ***The entire project budget will be included in a specific line in the NAFA's budget***. Each month, MOPF will ensure transfers to NAFA's budget of specific amounts requested, with the state budget pre-financing the project eligible expenditures. Each month, NAFA will report to MOPF in Euro and Lei on eligible expenditures incurred and periodically will provide MOPF summary sheets, statement of expenditures, contracts, invoices, and any other relevant documents necessary to prove the amounts already spend for the purposes of the project. Based on the documents received, MOPF will request regular reimbursement from the loan, sending to the bank application for withdrawals. Disbursed funds would flow to the MOPF Euro account open with the National Bank of Romania (NBR), as reimbursement for spending on the project eligible expenditures. These funds will be used for the purposes specified in Romanian legislation on public debt.

1.3.3 Procurement

General

31. Procurement for the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011; and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011and the provisions stipulated in the Legal Agreement. The various procurement actions under different expenditure categories are described below. For each contract to be financed by the Loan, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank project team in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Procurement Capacity and Risk Assessment

32. A Procurement Capacity and Risk Assessment of the project's implementing agency was undertaken in May 2012 and updated during the pre-appraisal mission. For its procurement function the PMU is staffed by a team of five experts, three in charge of goods, non-consulting services and consultants' services procurement and two in IT procurement. While all members of the procurement team have experience in public procurement under the national public procurement law and one has previous experience in World Bank financed projects.

33. The key issues and risks concerning procurement for implementation of the project have been identified and include: (i) inadequate for the scope and the complexity of the project procurement capacity of the implementing agency; (ii) unfamiliarity of the implementing agency with the Bank's procurement policies and procedures; (ii) potential risk of delays in the implementation of the ICT procurements, especially the complex procurement of the large value COTS solution system.

34. Given the findings of the assessment as presented above the procurement risk for the proposed project is rated high.

35. To mitigate the identified procurement-related risks, the following mitigation actions were agreed between the Bank and the client during project preparation.

	Actions	**Deadline**
1	Training of staff involved in the project procurement activities in the Bank's guidelines and SBDs through training sessions and course attendance as available in the region and beyond. (*)	Ongoing
2	Prepare a Project Implementation Plan (PIP) and Project Operational Manual (POM) including a detailed chapter on Procurement	Negotiations
3	Prepare a detailed procurement plan for the first 18 months of the implementation of the project	Negotiations
4	Recruit procurement consultants (Procurement Advisor and IT Procurement Expert) with adequate qualifications and experience acceptable to the Bank	45 days after effectiveness
5	Start preparation of the bidding/proposal documents for the first year of project implementation well in advance to facilitate the initiation of the procurement/selection procedures as per the agreed Procurement Plan	Negotiations
6	Regular procurement support during project implementation by Bank procurement staff.	Ongoing

* Training in procurement and IT procurement has been provided to NAFA's staff by World Bank team during project's preparation.

36. It is expected that, after the above measures have been taken, the risk would be reduced to substantial.

Procurement Implementation and Arrangements

37. **Procurement of Works.** No procurement of works is foreseen in the Bank-funded components of the project.

38. **Procurement of Goods and Non-consulting services.** The most complex and large value procurement under the project is the purchase of the COTS Revenue Management System core software and related supporting modules. The project will further provide for procurement of new centralized server system hardware, new separate data warehouse server system, and secondary fall back server system hardware to support the new and existing Tax Administration Software, as well as hardware and software upgrades to the existing centralized server system, technical services for development of MIS, data migration, development of systems for internal control and internal audit. The Bank's most recent version of the Standard Bidding Documents (SBD) for goods or SBD for Supply and Installation of Information Systems (single and two stage where relevant) shall be used for all International Competitive Biddings (ICBs). The National Competitive Bidding method as outlined in the Procurement Guidelines, may be used

for procurement of goods and non-consulting services contracts estimated to cost less than Euro 800 000 each. To be acceptable to the Bank the competitive bidding procedure normally used for public procurement in the country should be modified as necessary to assure economy, efficiency, transparency, and broad consistency with the provisions included in Section I of the Procurement Guidelines. The Bank's most recent version of the sample regional bidding documents may be used for all National Competitive Biddings (NCBs).

39. **Selection of Consultants.** The consultant services under the project will include business processes reengineering, organizational development, development of internal control function, HR and training policy and strategy development, instituting improved appeals process, review of legislation and rulings development, modeling consultants and office development consultant for the Revenue Estimation and Analysis Office, audit development, audit techniques improvement program, operational assistance for management of high wealth individuals, anti-fraud and business intelligence, enforcement development, review of high volume revenue processing operations, procurement adviser, open systems expert, IT advisor, develop ICT architecture, communication strategy design, development of new taxpayer service concept, surveys, studies, project audit, change management. Short lists of consultants for services estimated to cost less than $200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

40. **Training.** The institutions for training, conducting seminars, and for study tours will be selected on the basis of analysis of the most suitable program for training offered by the institutions, availability of services, period of training and reasonableness of cost. Training will be financed according to a program acceptable to the Bank.

41. **Technical issues as part of procurement decisions.** Technical specifications and terms of reference will be prepared by NAFA's respective technical departments with support from specialized consultants as needed.

42. **Procurement thresholds.** Procurement under the project will include the following categories: Goods and Non-Consulting and Consulting Services and the thresholds for procurement methods and Bank prior review applied for procurement are presented below. The procurement thresholds may be adjusted during the project implementation to reflect the increased capacity of the implementing agency.

Thresholds for Procurement Methods and Bank Prior Review

Expenditure Category	Contract Value (Euro)	Procurement Method	Bank Prior Review
Goods	>=800 000	ICB	All the ICB contracts
	<800,000	NCB	First 2 contracts and all contracts >= Euro 400 000
	<80 000	Shopping	First contract
	NA	DC	All DC contracts
Non-consulting services	>=800 000	ICB	All the ICB contracts
	<800 000	NCB	First 2 contracts and all contracts >= Euro 400 000
	<80 000	Shopping	First contract
	NA	DC	All DC contracts
Consultant Services	>=200,000	QCBS, QBS, FBS, LCS	All contracts >= Euro 80 000 for firms; all contracts >= Euro 40 000 for individuals; and all SSS contracts.
	<200,000	QCBS, QBS, FBS, LCS and CQS	
	NA	SSS	
	NA	IC	

Notes:
ICB – International Competitive Bidding
NCB – National Competitive Bidding
DC – Direct Contracting
QCBS – Quality and Cost Based Selection
QBS – Quality Based Selection
FBS – Fixed Budget Selection
LCS – Least Cost Selection
CQS – Selection Based on Consultants' Qualification
SSS – Single (or Sole) Source Selection
IC – Individual Consultant selection procedure
NA – Not Applicable

43. **Advance Contracting and Retroactive Financing.** Retroactive financing of up to 20 percent of the Bank loan will be allowed for eligible expenditures incurred after project Appraisal but within 12 months of signing of the Loan Agreement. All advance procurement and advance contracting contracts are subject to Bank's prior review. Payments will be made only for contracts procured in accordance with applicable Bank procurement procedures.

44. **Procurement Plan (PP).** The draft Procurement Plan for the first 18 months of implementation, available as a separate project document, has been prepared by the PMU and

was approved by NAFA before negotiations. The Procurement Plan will be updated annually or as needed by the PMU to: (a) reflect project implementation; (b) accommodate changes that should be made; and (c) add new packages necessary for the project. Each update will be subject to Bank's prior review. The Procurement Plan will be published in the World Bank website. Procurement under the project will be carried out in accordance with the agreed PP and as updated.

45. **Post-review by the Bank.** Contracts not subject to prior-review will be subject to post-review as per procedures set forth in Paragraph 5 of Appendix 1 of the Procurement Guidelines and Consultant Guidelines. The Bank will carry out procurement post review on annual basis with a sampling rate of initially twenty (20) percent. This rate will be adjusted periodically during project implementation based on the performance of the project implementing agency.

Environmental and Social (including, Safeguards)

The Project does not comprise activities which could cause any social risks or negatively affect Romania's population. The Project would generate social benefits **by** reducing the compliance burden for tax payers and improving revenue collection, increasing the fiscal space for social and economic investments. There are no discernible gender differentiated impacts and/or risks, associated with the Project.

1.3.4 Monitoring & Evaluation

46. The NAFA will develop a robust system for monitoring and evaluation (M&E) of the target outcomes and outputs. The Revenue Estimation and Analysis Office within the General Directorate for Strategy, Reform, and International Cooperation will support the PMU in results monitoring. The Revenue Estimation and Analysis Office will work with and provide the PMU with the information needed to track project results and assist the PMU as needed to understand the effects of project activities. The project will invest in developing internal NAFA capacity to implement a more robust system for monitoring and evaluation (M&E) of the target outcomes and outputs. This fundamental investment will be carried out in the first year of the project. For example, the Revenue Estimation and Analysis Office will need to develop annual targets to complement and provide for assurance that mid-term and end-project targets are achieved, monitor these indicators and help explain deviations.

47. **The PMU will maintain records on implementation.** The following performance reports will be generated: (i) mid-year project Progress Reports; and (ii) annual reports prepared within four months of the end of the financial year, focusing on results-based accountability and accomplishments against performance expectations. Progress Reports will be prepared by the PMU, approved by the Project Coordinator and the PIC, presented to the President of NAFA,

and forwarded to the Bank and MOPF immediately before supervision missions to guide the discussion of key issues impacting project implementation.

1.3.5 Role of Partners

48. **Efforts will be made to coordinate support from other development partners**. Regular World Bank supervision missions would coordinate their activities with other development partners of NAFA, particularly the IMF and EU. IMF is providing continuous technical advice to NAFA focusing on overall institutional development and high-wealth individuals. The EU has financed a number of projects with pre-accession funds with the objective of improving the strategic focus of NAFA, enhancing legal framework and the IT system. Since Romania's accession to EU in 2007, EU support continued in the areas of taxpayer services, human resources, and business process re-engineering (BPR). The BPR Project started in 2012 and will carry out the analysis of NAFA's business processes and the re-engineering of four major business processes. After the completion of this stage, estimated for September 2013, the re-engineering of the remaining business processes will be financed by the Bank-financed Project. The business process re-engineering effort would be coordinated with and reflect to the extent it is feasible the functionality of the COTS solution for revenue management. The consistency with the COTS would provide an efficient method to bring good EU and international practice into NAFA.

ANNEX 4: OPERATIONAL RISK ASSESSMENT FRAMEWORK (ORAF)

Romania: Revenue Administration Modernization Project (P130202)

<table>
<tr><th colspan="7">Project Stakeholder Risks</th></tr>
<tr><td>Stakeholder Risk</td><td>Rating</td><td colspan="5">Substantial</td></tr>
<tr><td rowspan="6">Description:

For successful implementation of the project NAFA will require sufficient flexibility to manage its key resources: financial, human and IT resources. Therefore, MOPF support for ensuring such flexibility will be critical, especially in modernizing NAFA's regional office which are co-mingled with Treasury operations. NAFA will also need the collaboration of the Social Houses for the collection of social contributions.

The private sector (large, medium and small taxpayers) has expressed frustration with the current administrative procedures and high cost of voluntary compliance and are supportive of NAFA's modernization. However, this support could erode if they are not adequately consulted during project implementation.

Municipality objection to local office closure may arise. NAFA staff may be concerned about the impact of tax office consolidation.</td><td colspan="6">Risk Management:

MOPF commits to providing sufficient financial and administrative resources to NAFA. The Loan Agreement will incorporate covenants to ensure that NAFA is able to manage its financial, human, and IT resources effectively. Improving the effectiveness of NAFA to collect revenues was one of the key components of the EC/IMF precautionary program for Romania, as well as the recently approved Bank DPL operation. The EC and the IMF could provide more overt support for the reform. Treasury has decided to pursue modernization of its IT systems through the State budget instead of through the project, and so alignment of goals has increased.</td></tr>
<tr><td>Resp:</td><td>Status:</td><td>Stage:</td><td>Recurrent:</td><td>Due Date:</td><td>Frequency:</td></tr>
<tr><td>Both</td><td>In Progress</td><td>Both</td><td>☐</td><td></td><td></td></tr>
<tr><td colspan="6">Risk Management:

NAFA will establish Coordination Council to ensure that all key stakeholders are consulted on and assisted in the development of the vision and activities of the Project. The Council will be chaired by the Minister of Public Finance and will include representatives of NAFA and the Social Houses. NAFA will also constitute a Consultative Technical Panel consisting of representatives of taxpayers, local governments, and specialized government agencies. The Panel will ensure external accountability and provide feedback on the performance of the NAFA. To help with the dislocation of staff that may occur when offices are closed, NAFA is planning to offer retraining for those who can assume other roles, as well as supporting the cost of transportation on a temporary basis for those who must travel farther.</td></tr>
<tr><td>Resp:</td><td>Status:</td><td>Stage:</td><td>Recurrent:</td><td>Due Date:</td><td>Frequency:</td></tr>
</table>

<table>
<tr><td></td><td>Client</td><td>Not Yet Due</td><td>Both</td><td>☐</td><td></td><td></td></tr>
<tr><td colspan="7">Implementing Agency (IA) Risks (including Fiduciary Risks)</td></tr>
<tr><td>Capacity</td><td>Rating</td><td colspan="5">High</td></tr>
<tr><td rowspan="7">Description:

While NAFA has expanded its project management capabilities through the implementation of a number of EU financed projects over the past years (first under PHARE, now under structural funds), implementing a project of the proposed scope and size will require further strengthening of dedicated resources, in particular in the project oversight, procurement and financial management.

Project success is dependent on a substantial amount of education and training being provided to three key sets of staff – Legal, Audit and IT. Current government restrictions in the HRM area create a risk that NAFA may not be able to retain trained staff and hence benefit from the investment in providing high skills to its staff.

The project involves complex procurement of IT system which might experience delays in every stage of procurement and thus delay project implementation and achievement of project objectives. NAFA has an experienced IT department, but it has legacy systems that it is struggling to maintain with current staffing and it must manage the transition to a new system without jeopardizing revenue collection.</td><td colspan="6">Risk Management:

The project will have a dedicated Project Management Unit within NAFA with the objective of ensuring the timely and efficient allocation of resources, carrying out project procurement, financial management, and audit activities, and interacting with all local and international entities involved in project execution. NAFA will nominate project team and staff for procurement and financial management training prior to project effectiveness. In addition, a Change Management Team will ensure coordination of changes across the project components and subcomponents. Moreover, changes will be carried out using a well-established change management strategy that seeks to build commitment of all staff in the change process to facilitate overall institutional development of NAFA.</td></tr>
<tr><td>Resp:</td><td>Status:</td><td>Stage:</td><td>Recurrent:</td><td>Due Date:</td><td>Frequency:</td></tr>
<tr><td>Both</td><td>Not Yet Due</td><td>Both</td><td>☐</td><td></td><td></td></tr>
<tr><td colspan="6">Risk Management:

A modern HRM strategy is being developed by the Bank through separate reimbursable advisory services which may help to protect investments in staff skill development and ensure sustainability of project outcomes.</td></tr>
<tr><td>Resp:</td><td>Status:</td><td>Stage:</td><td>Recurrent:</td><td>Due Date:</td><td>Frequency:</td></tr>
<tr><td>Both</td><td>Not Yet Due</td><td>Both</td><td>☐</td><td></td><td></td></tr>
<tr><td colspan="6">Risk Management:

A detailed strategy is being developed for how to proceed with the IT investments. Special attention is given to how NAFA will sustain and improve the current legacy systems, while at the same time preparing for new procedures under a new modern IT system. The Bank has provided technical assistance to support and review the effort. Most of the technical documents and bidding documents related to IT procurement for the first year are already drafted.</td></tr>
</table>

<table>
<tr><td></td><td>Resp:
Both</td><td>Status:
In Progress</td><td>Stage:
Preparation</td><td>Recurrent:
☐</td><td>Due Date:</td><td>Frequency:</td></tr>
<tr><td>Governance</td><td>Rating</td><td colspan="5">Moderate</td></tr>
<tr><td rowspan="4">Description:

High level political support is needed to manage the political and operational risks involved in institution building project. Strategic planning and policy coordination in the Center of Government still need to be further developed, to avoid making decisions in an ad hoc manner without sufficient analysis. Sometimes new laws are adopted by Government, but without sufficient follow-up to assure their implementation.</td><td colspan="6">Risk Management:

NAFA benefits from highly experienced senior management and staff, who are familiar with the revenue administration reforms in other countries (e.g., Bulgaria, Spain, France, and Hungary) and are well-informed of the political and operational risks.
As part of the DPL/DDO operation the Government approved a restructuring plan for NAFA that outlines the main objectives of the modernization program and some of its key measures. Through this DPL program NAFA gained the political support it needed to finalize project preparation and to secure some of the operational resources in the 2013 budget to help early implementation. In addition, through the EC and IMF balance of payments program there will continue to be dialogue with the government about the importance of NAFA's reform.</td></tr>
<tr><td>Resp:
Client</td><td>Status:
Not Yet Due</td><td>Stage:
Both</td><td>Recurrent:
☐</td><td>Due Date:</td><td>Frequency:</td></tr>
<tr><td colspan="6">Risk Management:

In the design of the project special attention was paid to the design of anti-corruption efforts. The focus was both on reducing the opportunities and motives for corruption by: (a) reducing the level of contact between the taxpayer and NAFA officials; (b) reengineering the work processes to further reduce discretion and opportunity for rent-seeking; (c) simplifying forms and increasing taxpayer understanding of their rights and obligations: (d) targeting audits on firms and individuals whose tax profile appears suspicious; (e) facilitating the creation of taxpayer associations; and (f) strengthening internal control systems.</td></tr>
<tr><td>Resp:
Both</td><td>Status:
Not Yet Due</td><td>Stage:
Both</td><td>Recurrent:
☐</td><td>Due Date:</td><td>Frequency:</td></tr>
<tr><td colspan="7">Project Risks</td></tr>
<tr><td>Design</td><td>Rating</td><td colspan="5">Moderate</td></tr>
</table>

<table>
<tr><td rowspan="6">Description:

Increased skills level and professionalism of staff will be needed to underpin the reform, and not all of NAFA's present staff will be able to be retrained to assume the new roles. NAFA will need to improve the institutional arrangements, management systems, and take full advantage of a highly-automated, low-discretion, risk-based approach to its operations. Modernization of information systems will enable better deployment of audit resources and new procedures must be designed that facilitate taxpayer compliance, even as the access to local tax offices decreases.

Significant IT investments (historically in the region, have experienced difficulty in execution) without commensurate improvements in: (i) business process redesign, (ii) legal framework; and (iii) professional skill development; could reduce expected efficiency and effectiveness gains.</td>
<td colspan="6">Risk Management:
The project seeks a comprehensive institutional reform. Project activity sequencing is planned to mitigate design risks, including strengthening of human resources, organizational redesign, and change management. NAFA realizes it may require 4-5 years before new IT system and business procedures are in place and can deliver the expected project outcomes. In addition the project will include investments to sustain the current revenue collection system so as to mitigate any risk of loss of revenue. Business process re-engineering is starting under an EU funded project and will be continued under the project as information systems evolve.</td></tr>
<tr><td>Resp:
Bank</td><td>Status:
In Progress</td><td>Stage:
Both</td><td>Recurrent:
☐</td><td>Due Date:</td><td>Frequency:</td></tr>
<tr><td colspan="6">Risk Management:
Changes to the legal framework and appeals system as well as delivery of training to improve business skills in NAFA operations will be delivered in the first years of the project to prepare staff to take full advantage of the investments in technology.</td></tr>
<tr><td>Resp:
Both</td><td>Status:
In Progress</td><td>Stage:
Both</td><td>Recurrent:
☐</td><td>Due Date:</td><td>Frequency:</td></tr>
<tr><td colspan="6">Risk Management:
To expedite procurement for IT investments: i) preparation for TORs, technical specifications, and procurement package for the first year of the project have been drafted ;ii)lessons and good practices from Bank's IFMIS study and other tax projects have been incorporated in the project design and will be taken into account during project execution. First year TORs include the major ICT consulting services (including change management), as well as smaller procurements for taxpayer services and communication, taxpayer surveys, tax audit, internal control, high net-worth individuals, anti-fraud and business intelligence, high-volume processing, and analytical capacity.</td></tr>
<tr><td>Resp:
Both</td><td>Status:
Not Yet Due</td><td>Stage:
Both</td><td>Recurrent:
☐</td><td>Due Date:</td><td>Frequency:</td></tr>
<tr><td>Social and Environmental</td><td>Rating</td><td colspan="5">Low</td></tr>
<tr><td>Description:</td><td colspan="6">Risk Management:</td></tr>
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<table>
<tr><td rowspan="3">The project does not anticipate any social risks and safeguards policy to be triggered. Although some staff may be unwilling or unable to relocate within the NAFA structure, and therefore need to find alternative employment, this would be offset by the increase in training and career development for those who remain and the lower compliance costs for all taxpayers across the country. More effective revenue administration and the resulting increased revenue can be used to expand support for education, health, and social assistance. The Environmental category for the project is "C" as no major civil works involved.</td><td colspan="6">NAFA has designed a set of measures to mitigate the risks from reallocation/redeployment of staff, including: (i) offering staff to move to another location/position; (ii) providing a retraining program for those willing to stay with NAFA; (iii) covering travel costs of staff at the initial stage of office reallocation; (iv) internal communication campaign; and (v) keeping small offices in some regions dealing with taxpayer services only.</td></tr>
<tr><td>Resp:</td><td>Status:</td><td>Stage:</td><td>Recurrent:</td><td>Due Date:</td><td>Frequency:</td></tr>
<tr><td>Client</td><td>Not Yet Due</td><td>Both</td><td>☐</td><td></td><td></td></tr>
<tr><td>Program and Donor</td><td>Rating</td><td colspan="5">Moderate</td></tr>
<tr><td rowspan="3">Description:

Tax administration reforms are being supported by IMF and EC and, as a result, some duplication and misalignment of IFI activities might occur.</td><td colspan="6">Risk Management:

The Bank team has coordinated its activities with the IMF and EC in the course of preparation of the precautionary DPL/DDO and with the FAD technical assistance mission on tax. NAFA and MOPF have also expressed interest in ensuring close coordination of activities implemented with EU funds and advice provided by the IMF FAD. Therefore the Bank team and NAFA will seek coordination with EU funded activities at each stage of project preparation and implementation. The coordination at NAFA is being done by the International Cooperation Directorate that is involved in all stages of preparation and implementation of activities supported by the EC, IMF, and the World Bank. The Change Management Team is also expected to coordinate project activities with those supported by other development partners during project implementation.</td></tr>
<tr><td>Resp:</td><td>Status:</td><td>Stage:</td><td>Recurrent:</td><td>Due Date:</td><td>Frequency:</td></tr>
<tr><td>Both</td><td>Not Yet Due</td><td>Both</td><td>☐</td><td></td><td></td></tr>
<tr><td>Delivery Monitoring and Sustainability</td><td>Rating</td><td colspan="5">Moderate</td></tr>
<tr><td>Description:

NAFA is responsible for providing the data for most outcome indicators. Lack of sufficient data collection and</td><td colspan="6">Risk Management:

Reporting on service levels and other performance indicators is included as a project subcomponent and are planned to be implemented in the first year of the project. Terms of reference for these activities have been already drafted. Demand for indicators will</td></tr>
</table>

<table>
<tr><td rowspan="4">analytical capacity of the NAFA may impair reliability and timeliness of data to be provided.</td><td colspan="6">come from MOPF as well as the EC and IMF. A methodology for compliance indicators has already been developed and will be further improved. Support for M&E at the center of government is being financed by the Bank through an IDF grant.</td></tr>
<tr><td>Resp:
Bank</td><td>Status:
Not Yet Due</td><td>Stage:
Both</td><td>Recurrent:
☐</td><td>Due Date:</td><td>Frequency:</td></tr>
<tr><td colspan="6">Risk Management:
The advancement towards the project development objectives will be periodically monitored through the life of the project by the Bank with analytical capacity of NAFA strengthened as part of the project. The task team will pay close attention to the methodology of data collection and analysis. Introduction of new IT modules (particularly Data Warehouse) will make statistical data more readily available to both NAFA and MOPF.</td></tr>
<tr><td>Resp:
Both</td><td>Status:
Not Yet Due</td><td>Stage:
Both</td><td>Recurrent:
☐</td><td>Due Date:</td><td>Frequency:</td></tr>
<tr><td>Other (Optional)</td><td>Rating</td><td colspan="5"></td></tr>
<tr><td rowspan="2">Description:</td><td colspan="6">Risk Management:</td></tr>
<tr><td>Resp:</td><td>Status:</td><td>Stage:</td><td>Recurrent:
☐</td><td>Due Date:</td><td>Frequency:</td></tr>
<tr><td>Other (Optional)</td><td>Rating</td><td colspan="5"></td></tr>
<tr><td rowspan="2">Description:</td><td colspan="6">Risk Management:</td></tr>
<tr><td>Resp:</td><td>Status:</td><td>Stage:</td><td>Recurrent:
☐</td><td>Due Date:</td><td>Frequency:</td></tr>
<tr><td colspan="7">Overall Risk</td></tr>
<tr><td colspan="2">Implementation Risk Rating:</td><td colspan="5">High</td></tr>
<tr><td colspan="7">Comments:</td></tr>
</table>

Project management capacity within NAFA is limited and therefore a strong PMU, effective Coordination Council and Consultative Technical Panel, as well as sound supervision will be needed. Bank supervision of the project must be adequately resourced to assure that the right technical skills are available to assess progress in IT. To sustain implementation support, some interim revenue measures have been introduced to enable early success to be seen on revenue collection and compliance levels.

Annex 5: Implementation Support Plan

A. Strategy and Approach for Implementation Support

1. The Government of Romania requested Bank support to implement a comprehensive revenue administration modernization program. The program agreed with NAFA requires significant changes to current organization, management, administration and operations arrangements. Accordingly, the Borrower expects that the World Bank would provide not only financial resources for the reform, but bring to the fore its substantial experience from similar reforms, particularly reforms in EU countries. Furthermore, NAFA expects that the Bank will assist its implementation team to achieve the target development objectives, including through providing technical assistance for project preparation and implementation. As it is the case for all investment lending operation, NAFA expects that the Bank will perform close supervision of project implementation and provide continuous guidance so that NAFA achieves the intended project results.

2. Accordingly, the Implementation Support Plan has been designed to address the specific needs of NAFA and to help mitigate the identified risks during project implementation, particularly:

a. **Political economy risks.** It is a significant challenge to change a culture of non-compliance in which dishonest taxpayers and tax officials share the illicit gains from artificially low tax payments. Changing this culture will require not only significant investments, but substantial information campaigns and management determination to overcome resistance from inside NAFA and from taxpayers who may have a lot to lose if a high compliance regime is implemented in the country.

b. **Resistance to change in the relationship between NAFA and MOPF.** For the project to succeed there is a need for further adjustments in the relationship between the MOPF and NAFA. For example, consolidation of NAFA offices will affect Treasury operations, which are still somewhat comingled with tax administration operations for some administrative services. Improvements in taxpayer services may require better coordination in the issuance of rulings. Improvements in audit and enforcement may require NAFA to have a more proactive role in updating the Procedural Code. In addition, for successful implementation of the project NAFA will require sufficient flexibility to manage its key resources: financial, human and ICT resources.

c. **Resistance to modernize NAFA operations.** NAFA needed to improve the institutional arrangements, management systems, and take full advantage of a highly-automated, low-discretion, risk-based approach to its operations. Modernization of information systems and other technological infrastructure is needed to enable better deployment of audit resources and new procedures must be designed that facilitate taxpayer compliance, even as the access to local tax offices decreases. Increased skills level and professionalism of staff will be needed to underpin the reform, and not all of NAFA's present staff will be able to be retrained to assume the new roles.

d. **Resistance to balance interests of the Government and taxpayers.** In a self-assessment regime, such as the one adopted in Romania, NAFA has the difficult task of balancing the needs of taxpayers who carry out the assessment and payment of their liabilities, and the pressure for revenue emanating from the MOPF and the Social Houses. NAFA recognizes that voluntary compliance yields the most efficient revenue collection. That said, the project seeks to balance the two approaches to revenue collection, respectively the increase of fiscal pressure and use audit and enforcement as key tools of collection while encouraging the voluntary compliance.

e. **Heavy focus on ICT investments.** The project is dependent on significant ICT investments, which historically have experienced difficulty in procurement and contract execution.

f. **Lack of experience in the implementation of comprehensive projects.** NAFA lacks experience in managing concomitantly a large number of change activities. NAFA is also new to change management methodologies and designing and procuring complex, large scale technical assistance and ICT systems. As a result, the Project could be expected to experience implementation delays particularly during the first two years of implementation while the PMU and CMU gain experience.

3. **To counter the high risks identified the Implementation Support Plan combines policy, technical and operational support.** Project development and implementation are planned in full coordination with country office economic activities to support the Government of Romania. The country economic team will ensure continued policy dialogue on revenue administration and revenue policy. Moreover, due to its close relationship with the MOPF and NAFA the country economic team is in a unique position to provide technical support for implementation of reform measures, facilitation of change management, and monitoring of Project results. Country office resources are also aligned to provide project implementation support in procurement, financial management and project management. The following strategic approach will be adopted to support NAFA's project implementation efforts:

a. *Policy Dialogue:* The Project design promotes significant improvements in NAFA's ability to manage revenue collection in Romania. However, the design is tax administration centric and the impact of administrative measures would be significantly enhanced if broader sector issues, including tax policy and legislation (particularly the procedural code) are tackled to support the administrative reforms. The country economic team is engaged with the Government on these broader sector policy issues, and is committed to promote improvements in the efficiency and effectiveness of revenue collection in the country, including through appropriate policy measures supported under the programmatic DPL series. Supervision missions will attempt to identify policy development issues and, as appropriate, solicit policy actions needed for the Government's consideration.

b. *Technical Support:* Most technical assistance planned to promote enhanced revenue administration practices will be provided by project consultants selected by NAFA and financed by the loan. EU Structural Funds finance certain reforms including the re-engineering of main business processes. The IMF is supportive of the reform and provides continuous advice to the Government of Romania regarding revenue collection policy and administration. In addition, the Bank team will advise NAFA on the sequencing of reform measures as government priorities evolve, provide regular review and quality assurance for the technical design and specifications of major procurement packages. Of particular importance, the Bank will support NAFA on the strategy, procurement, and implementation of the significant ICT investments planned under the project.

c. *Result Monitoring:* Project supervision will be results oriented and heavily dependent on the tracking of project indicators and discussion of additional indicators planned for strategic management of NAFA which, altogether, would provide a substantive representation of improvements in NAFA operations. This will ensure project outputs translate into outcome impact in terms of a more efficient and effective revenue administration.

d. *Procurement:* During project implementation, the designated procurement specialist will provide regular Bank supervision, in line with procurement guidelines. Procurement implementation support by the Bank will include: (i) training PMU staff; (ii) providing guidance to the PMU staff on the Bank's Procurement Guidelines; (iii) reviewing procurement documents and providing timely feedback; and (iv) monitoring procurement progress against the Procurement Plan. In addition, to prior review supervision to be carried out by the Bank team, post reviews to be carried on selected contracts subject to post review. Contract deliverables will be physically inspected – as appropriate and when feasible.

e. *Financial Management:* An accredited Financial Management Specialist would participate in the project team to provide technical assistance and implementation support for the proposed operation. The World Bank would conduct risk-based financial management supervisions, at appropriate intervals, with an increased frequency in the first years of the project, and increased focus on the higher risks areas, such as FM staffing, training for the FM staff, internal audit, etc. During project implementation, the World Bank would supervise the financial management arrangements for the proposed operation in the following ways: (a) review the program's quarterly interim financial reports as well as the annual audited financial statements and auditor's report and remedial actions recommended in the auditor's management letters; and (b) during the World Bank's on-site supervision missions, review the following key areas: project accounting and internal control systems; budgeting and financial planning arrangements; and disbursement management and financial flows, as applicable. In addition, as part of the regular financial management implementation support, the World Bank financial management specialist would review a sample of project transactions.

f. *Joint Supervision with Development Partners:* The Bank will coordinate project supervision with other development partners, including the IMF during supervision and implementation support to ensure close coordination.

B. Implementation Support Plan

4. The objective of the supervision team is to maintain a continuous dialogue with Government counterparts on all operational, technical, policy issues relevant to revenue collection in Romania and, particularly, in ensuring the Project achieves its development objectives. The plan calls for two formal supervision and implementation support missions per year. Continuous support by the Bucharest-based country economic team would provide ongoing support to project implementation and create opportunity for adjustment to formal supervision schedule as necessary to ensure timely project implementation.

5. **Adaptive implementation support.** The team plans to adapt implementation support to different phases of the project. It is anticipated that the first two years of the project will concentrated primarily on arriving at creating the right conditions for implementation and arriving at strategic decisions on how the future NAFA would operate to achieve project objectives. In this first phase there will be increased attention in the development of procurement packages, terms of reference for consultancy assignments, and technical specifications for the procurement of the complex ICT packages. The second phase of the project will entail heavy contract management activities and the inter-relationship among the many parallel activities planned under the project. The last phase of the project would be of implementation of the proposed and designed changes and achieving development objectives. Accordingly, the supervision team will change and adapt to the different phases of implementation.

6. **Managing complex information system and technology investments.** Project design calls for a substantial investment in information system and technology investments. NAFA requires a new Revenue Management System to support its modernization program. International experience shows that implementation of such systems take 18 to 36 months and a substantial investment of NAFA ICT resources. Project design also calls for NAFA to change its ICT hardware architecture to open systems so as to take advantage of the economies of a vendor neutral ICT environment. Related procurement is complex and subject to unpredictable delays due to complaints by bidders. While the responsibility for the procurement will rest on NAFA, the Bank will to the extent possible provide guidance to NAFA on Bank procurement processes and guidelines.

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First year	• Finalize and issue bidding documents for first year procurements. • Prepare Revenue Management System bidding document	ICT and Tax Administration Experts Procurement and Information System Procurement Specialists	4 weeks 4 weeks	N/A
	• Agree on program for quick revenue gains by mid-term	TTL, Tax Administration Specialist, Country Economist	5 weeks	N/A
	• FM and Procurement Training and Supervision	FM and Procurement Specialist	3 weeks	N/A
Second and Third year	• Develop and test new RMS environment, test and accept RMS	Information Systems and Tax Administration Specialist	12 weeks	N/A
	• Procure and deploy new ICT open systems environment	ICT Specialist	6 weeks	N/A
	FM and Procurement Supervision	FM Procurement Specialist	10 weeks	N/A
	Dialogue with Client on operational, technical, and policy issues	TTL, Tax Administration Specialist, Public Sector Specialist, Country Economist	24 weeks	N/A
Fourth and Fifth	• Implement new RMS environment	Information Systems and Tax Administration Specialist	6 weeks	N/A
	• Implement revised business	Tax Administration Specialist	8 weeks	N/A

Time	Focus	Skills Needed	Resource Estimate	Partner Role
year	processes using new RMS			
	FM and Procurement Supervision	FM Procurement Specialist	4 weeks	N/A
	Dialogue with Client on operational, technical, and policy issues	TTL, Tax Administration Specialist, Public Sector Specialist, Country Economist	24 weeks	N/A

7. **Skills Mix Requirements.** To cover all operational, technical and policy issues related to the implementation of the Project, a multi-sectoral task team is required. The team will include information systems and information technology experts, tax administration experts, country economist, public sector management specialists, and procurement and FM specialists. Beside technical expertise, it is important to ensure the task team retains adequate understanding of the Romanian political economy context and European Union requirements for revenue administration. The table below defines the identified skills required for project supervision.

Skills Needed	Number of Staff Weeks	Number of Trips
Task Team Leader	4 weeks per year	Field Based
Revenue Administration Specialist	6 weeks per year	2 per year
IS and ICT Specialists	8 weeks per year	2 per year
Public Sector Specialist	10 weeks per year	Field Based
Procurement Specialist	4 weeks per year	Field Based
FM Specialist	2 weeks per year	Field Based
Country Economist	3 weeks per year	Field Based
Team Assistant	6 weeks per year	Field Based

8. **Key Partners**

Name	Institution/Country	Role
Mr. Daniel Chitoiu	Ministry of Public Finance	Deputy Prime-Minister Minister of Public Finance
Mr. Serban Pop	National Agency for Fiscal Administration (NAFA)	NAFA’s President

Annex 6: Economic and Financial Analysis

A. Economic Analysis

Methodology and data sources

1. The economic analysis of the project provides a quantitative evaluation of the effects of the project on the economy as a whole and for which there are multiple dimensions. Quantifying many of these dimensions ultimately depends on availability and quality of data. This economic analysis will focus on:

- The reduction of compliance costs for corporations due to: (1) simplified filing and payment of taxes and social contributions; and (2) decreased number of tax inspections, reduction of time dealing with tax officials.
- Other benefits, such as increased transparency and accountability, reduced avenues for corruption and improved trust in the tax administration are difficult to measure, though their economic effect could be significant.

2. Our analysis of the economic benefits might under estimate the actual benefits to the extent that some dimensions might not be included (i.e., those not mentioned above), and because the data used for the dimension we focus on is likely to underestimate costs. In particular, Romania is among the most cumbersome countries among EU10 countries in terms of the cost of tax compliance –as documented, for instance, in the *Doing Business 2013*. Also, the economic analysis does not cover individual taxpayers, although the RAMP is expected to reduce compliance costs of individual taxpayers as well – thus enhancing the economic feasibility of the project.

3. Baseline data for the analysis were mainly obtained from NAFA and PricewaterhouseCoopers. Number of taxpayers-- CIT payers and microenterprises, and large and medium taxpayer—have been obtained from NAFA. The number of SMEs has been computed as the difference between the total CIT payers and the other categories of taxpayers. The average time for the preparation of tax returns was based on the *Doing Business 2013* report for the medium-sized companies (216 hours/year) and the PwC assessments for the large (248 hours/year), and small (194 hours/year) companies. For microenterprises the average time for the preparation of tax returns was estimated at 97 hours/year. The average remuneration of an accountant, based on PwC's *PayWell Romania 2011 Salary & Benefits Survey,* was estimated at 3,500 Lei/month (or around 804 Euro/month).

Key Assumptions

- ✓ The number of taxpayers as of June 30, 2012 will not change significantly in the medium term. (In the case where economic growth accelerates, starting with 2013, as broadly forecasted, the number of taxpayers is expected to gradually increase over time.);
- ✓ Improvements in the tax compliance rates are expected as a result of the project implementation: VAT by 10%; profit tax by 5%; and payroll taxes by 5%.
- ✓ The main driver of compliance costs for taxpayers is the time spent by firms and their accountants in dealing with tax matters.
- ✓ The time necessary for the preparation of tax returns will start shrinking from the third year of the project, and the target indicator (reduction by 23% for large and medium companies, 20% for SMEs and 15% for microenterprises[13]) will be achieved in the fifth project year.
- ✓ The discount rate used for our analysis is 10%.

Table 1: Calculation of Compliance Costs for Corporate Taxpayers Before and After RAMP
(in Euros, unless otherwise indicated)

Compliance Time before RAMP	Unit	Large	Medium	Small	Micro	Total
Number of Taxpayers		2,000	22,692	571,899	68,107	
Average Time for Preparation of Tax Returns	Days per year	31	27	24	12	
Total Time for Preparation of Tax Returns	Days per year	62,100	612,684	13,940,038	830,054	
Average Remuneration of Accountant	Euro/day	50	38	31	29	
Compliance Costs	Euro mln.	3	23	427	24	**478**
Preparation Time after RAMP						
Average Time for Preparation of Tax Returns	Days per year	24	21	20	10	
Total Time for Preparation of Tax Returns	Days per year	47,817	471,767	11,152,031	705,546	
RAMP Time Savings	Days per year	7	6	5	2	
Compliance Costs	Euro mln.	2	18	342	20	**383**
Estimated Annual Economic Effect	Euro mln.	1	5	85	4	**95**

[13] According to NAFA officials.

Table 2: RAMP Economic Benefits
(in million Euros)

	2013	2014	2015	2016	2017	Total
World Bank financing	5	10	16	19	20	70
Total Cost[14]	5	10	16	19	20	70
Economic benefit from the reduction of costs for legal entities connected with reduction of time necessary to file tax returns	0	0	24	48	71	143
Net economic profit	**-5**	**-10**	**8**	**29**	**51**	**73**
NPV						**44**
IRR, %						**90%**

4. The economic analysis suggests that the RAMP is economically feasible, with a NPV of Euro 44 million and an IRR of 90% (table 2).

B. Financial Analysis

5. The financial analysis shows whether the project accumulates tax revenues in volumes exceeding the capitalized cost of the project.

6. The financial analysis considers actual revenues (growth of revenues) and expenditures (project costs) and is based on the increase of tax revenues as a result of improvement in tax administration as well as reduction of tax arrears.

Key Assumptions

- ✓ Improved tax administration will facilitate the growth of tax revenues as measured in percent of GDP, from 28.7% in 2012 to 30.8% in 2017, consistent with the experience of implementation of similar reforms in other countries.
- ✓ Improvements in the tax compliance rates are expected as a result of the project implementation: VAT by 10%; profit tax by 5%; and payroll taxes by 5%. (The experience of Bulgaria with the implementation of a similar project[15] shows substantial improvements in compliance rates.)

[14] Many steps planned to be taken as part of the NAFA own investment plans will contribute to the benefits but might not be captured in the costs.
[15] Revenue Administration Reform Project, P073427, World Bank. During the implementation of the project, the compliance rate for VAT, for example, went up from 77% in 2002 to 92% in 2008.

- ✓ Nominal GDP growth is forecasted by the National Forecasting Commission (CNP) for 2013-2016 and assumes the same real growth and deflator for 2017 as in 2016 (3.2% and 2.4%, respectively).
- ✓ The discount rate used for our analysis is 10%.
- ✓ The annual inflation rate for the project period is estimated to average 3%.

Table 3: Calculation of Additional Fiscal Benefits from Project Implementation
(in million Euros)

Tax revenues before RAMP	**2013**	**2014**	**2015**	**2016**	**2017**
Tax and social contribution revenues collected by NAFA	43,247	44,929	46,512	48,043	49,624
Tax and social contribution revenues collected by NAFA to GDP,%	29.0	29.2	29.4	29.6	29.8
Tax revenues after RAMP					
Tax and social contribution revenues collected by NAFA to GDP,%	29,0	29.2	29.6	30.1	30.8
Tax revenues collected by NAFA	43,247	44,929	46,829	48,854	51,289
Benefits as compared to baseline	**0**	**0**	**316**	**812**	**1,665**
Memo: GDP	*149,126*	*158,483*	*167,839*	*177,356*	*187,424*

Note: Baseline (2013) revenue to GDP figures are from NAFA and methodology may vary slightly from other sources.

Table 4: RAMP Additional Fiscal Benefits
(in million Euros)

	2013	**2014**	**2015**	**2016**	**2017**	**Total**
Total Cost	5	10	16	19	20	70
Benefits from improved collection	0	0	316	812	1,665	2,793
RAMP Net Fiscal Benefit	-5	-10	300	793	1,645	2,723
NPV						**1,776**
IRR (%)						**713%**

7. The results presented in table 5 show that the RAMP will bring important fiscal benefits to the budget. The NPV of the base scenario will amount to approximately Euros 1.8 billion (at the exchange rate of 4.35 Lei/Euro), and the IRR is equal to 713%.

8. Although the new revenue management system will not be implemented until years 3-5 of the project, numerous activities will be occurring before then that will contribute to enhance revenue and that are assumed in the modeling. This include:

- Improvement and centralization of the ***current*** revenue management system,
- improved control of high-wealth individuals including detection and prosecution of high level PIT evasion
- improved field audit techniques and ACL usage
- enhanced anti-fraud and business intelligence functions
- enhanced integration and consolidation of offices, including Customs and Financial Guard
- implementation of case management tools to support the legal and appeals processes
- improved taxpayer services.

Annex 7: Draft Procurement Plan

Ref. No.	Contract (Description)	Procurement Method	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Expected Bid-Opening Date
RAMP/1	HW, SW and training for PDC, SDC and DW Working posts endowment	ICB	no	Prior	27-May-14
RAMP/2	HW, SW and training for PDC, SDC and DW	ICB	no	Prior	26-Apr-17
RAMP/3	IT Infrastructure Technical Services	ICB	n/a	Prior	19-Mar-14
RAMP/4	Consolidation Support - Network Improvements	ICB	no	Prior	20-Mar-14
RAMP/5	COTS Revenue Management Software (Two stage ICB)	ICB	no	Prior	1-Apr-15 25-Sep-15
RAMP/6	Data migration	ICB	n/a	Prior	16-Nov-15
RAMP/7	Modeling SW Licenses	S	n/a	Post	22-Jan-15
RAMP/8	E-Audit Licenses	ICB	no	Prior	11-Nov-14
RAMP/9	Project Management Licenses	S	n/a	Prior	14-Feb-14
RAMP/10	Development of MIS (Management Information System)	NCB	n/a	Post	6-Apr-16
RAMP/11	Development of System for Internal Audit and of System for Internal Control	NCB	n/a	Prior	13-Nov-15
RAMP/12	Customization of Case Management Tool for Legal and for Appeals	ICB	no	Prior	11-Nov-14
RAMP/13	Logistics for Training Year 2014	NCB	n/a	Prior	28-Nov-14
RAMP/14	Logistics for Training Year 2015	NCB	n/a	Prior	30-Nov-15
RAMP/15	Logistics for Training Year 2016	NCB	n/a	Post	30-Nov-16
RAMP/16	Procurement Training	DC	n/a		
RAMP/17	Video cameras and miscellaneous	S	n/a	Post	17-Mar-15

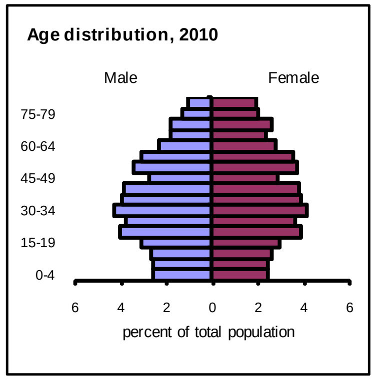
Ref. No.	Contract (Description)	Procurement Method	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Expected Bid-Opening Date
RAMP/18	Operating costs				
RAMP/19	Equipment for PMU	S	n/a	Prior	20-Jun-13

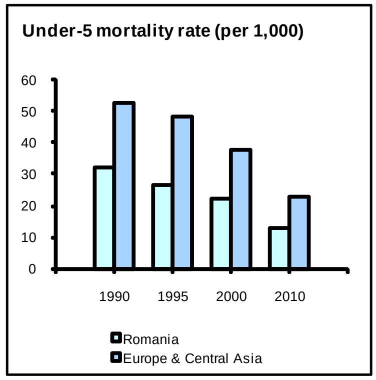
Ref. No.	Description of Assignment	Selection Method	Review by Bank (Prior / Post)	Expected Technical Proposal Opening Date
RAMP/CS/1	Project definition, integration and implementation	QCBS	Prior	10-Mar-14
RAMP/CS/2	Modeling Consultants for Analysis and Strategy Development and for Analytic Office Development	QCBS	Prior	10-Apr-14
RAMP/CS/3	Organization and management development	QCBS	Prior	17-Nov-14
RAMP/CS/4	Development of internal control functions	QCBS	Prior	30-May-14
RAMP/CS/5	Policy and Strategy development for HR	QCBS	Prior	15-Dec-14
RAMP/CS/6	Instituting an improved Appeals Process Review of Legislation and Rulings Development	QCBS	Prior	11-Nov-14
RAMP/CS/7	Trainers for Fiscal Procedural Code	CQS	Post	15-Jan-16
RAMP/CS/8	Trainers for Penal Code	CQS	Post	22-Dec-15
RAMP/CS/9	Trainers for Civil Code	CQS	Post	22-Dec-15

Ref. No.	Description of Assignment	Selection Method	Review by Bank (Prior / Post)	Expected Technical Proposal Opening Date
RAMP/CS/10	Audit development and Audit techniques improvement	QCBS	Prior	10-Apr-14
RAMP/CS/11	Operational assistance for Management of High Wealth Individuals	QCBS	Prior	10-Apr-14
RAMP/CS/12	Anti Fraud and BI Development	QCBS	Prior	15-Apr-14
RAMP/CS/13	Enforcement Development	QCBS	Prior	19-Oct-14
RAMP/CS/14	Review of High Volume Revenue Processing Operations	QCBS	Prior	20-May-14
RAMP/CS/15	Develop and implement New Taxpayer Service Concept	QCBS	Prior	25-Jun-14
RAMP/CS/16	Design Communication Strategy and Develop Public Relations Skills	QCBS	Prior	30-May-14
RAMP/CS/17	Annual Surveys (Taxpayers and Internal Staff), for Analysis and Strategy Department, Focus Groups, Training in Survey Analysis	QCBS	Prior	11-Apr-14
RAMP/CS/18	Taxpayer Campaigns (Registration Update and to be defined)	QCBS	Prior	20-Dec-14
RAMP/CS/19	Internal Campaigns to accompany the RMS implementation	CQS	Post	1-Aug-14
RAMP/CS/20	Procurement Adviser	IC	Prior	
RAMP/CS/21	IT Procurement Expert	IC	Prior	
RAMP/CS/22	Translation Services	CQS	Prior	17-Dec-13
RAMP/CS/23	External Audit	LCS	Prior	11-Jul-14

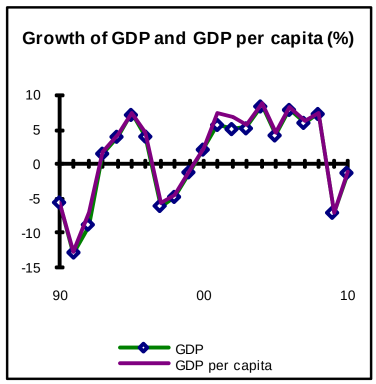
Annex 8: Romania At-A-Glance

Key Development Indicators	Romania	Europe & Central Asia	Upper middle income
(2010)			
Population, mid-year (millions)	20.0	405	994
Surface area (thousand sq. km)	*238*	23,549	48,659
Population growth (%)	-0.2	0.6	0.9
Urban population (% of total population)	54	64	76
GNI (Atlas method, US$ billions)	158.0	2,945	7,403
GNI per capita (Atlas method, US$)	7,901	7,269	7,423
GNI per capita (PPP, international $)	13,910	13,302	12,802
GDP growth (%)	-1.3	5.6	4.1
GDP per capita growth (%)	-1.2	5.0	3.2
(most recent estimate, 2005–2010)			
Poverty headcount ratio at $1.25 a day (PPP, %)	<2	4	<2
Poverty headcount ratio at $2.00 a day (PPP, %)	4	9	<2
Life expectancy at birth (years)	73	69	71
Infant mortality (per 1,000 live births)	10	20	20
Child malnutrition (% of children under 5)	0	..	0
Adult literacy, male (% of ages 15 and older)	98	99	95
Adult literacy, female (% of ages 15 and older)	97	97	92
Gross primary enrollment, male (% of age group)	100	100	111
Gross primary enrollment, female (% of age group)	99	98	110
Access to an improved water source (% of population)	..	95	95
Access to improved sanitation facilities (% of population)	72	89	84





Net Aid Flows	**1980**	**1990**	**2000**	**2010** [a]
(US$ millions)				
Net ODA and official aid	..	243	431	*920*
Top 3 donors (in 2007):				
n.a.	..	..	..	..
n.a.	..	..	..	..
n.a.	..	..	..	..
Aid (% of GNI)	..	0.6	1.2	*1.2*
Aid per capita (US$)	..	10	19	*42*



Long-Term Economic Trends	1980	1990	2000	2010	1980–90	1990–2000	2000–10
					(average annual growth %)		
Consumer prices (annual % change)	..	..	..	*6.1*			
GDP implicit deflator (annual % change)	*12.1*	13.6	44.3	4.2			
Exchange rate (annual average, local per US$)	..	0.0	2.2	3.2			
Terms of trade index (2000 = 100)	..	*83*	100	93			
Population, mid-year (millions)	22.2	23.2	22.4	20.0	0.4	-0.3	-0.5
GDP (US$ millions)	..	38,299	37,053	162,019	1.3	-0.6	5.5
		(% of GDP)					
Agriculture	*16.4*	23.7	12.5	6.0	1.9	-1.9	7.2
Industry	*56.6*	49.9	36.4	26.4	-1.0	-1.2	5.9
Manufacturing	..	*33.8*	14.5	21.9	..	..	*5.6*
Services and constructions	*27.0*	26.3	51.1	56.5	..	0.9	5.1
Household final consumption expenditure	53.7	65.9	78.5	61.2	..	1.3	6.2
General gov't final consumption expenditure	12.3	13.3	7.2	7.2	..	0.8	4.2
Gross capital formation	36.3	30.2	19.5	30.5	..	-5.1	11.4
Exports of goods and services	..	16.7	32.7	26.5	..	8.1	9.5
Imports of goods and services	..	26.2	37.9	41.2	..	6.0	13.5
Gross savings	..	20.7	15.8	35.8			

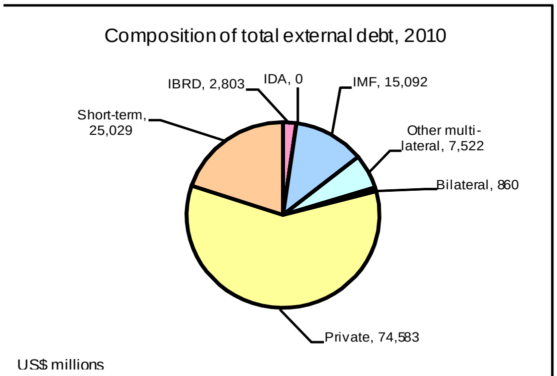
Note: Figures in italics are for years other than those specified. 2009 data are preliminary. .. indicates data are not available.
a. Aid data are for 2008.

Development Economics, Development Data Group (DECDG).

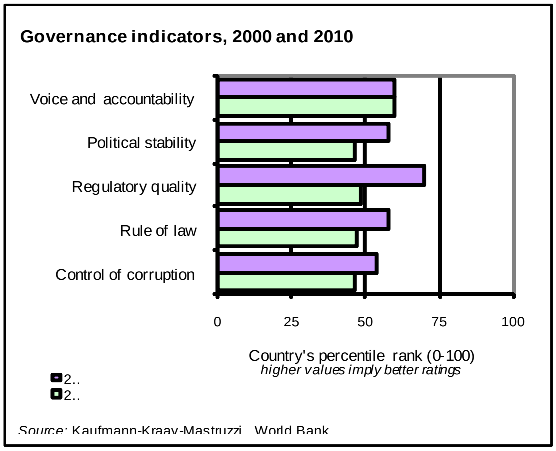
Balance of Payments and Trade	**2000**	**2010**
(US$ millions)		
Total merchandise exports (fob)	10,366	49,381
Total merchandise imports (cif)	13,054	57,192
Net trade in goods and services	-1,930	-7,943
Current account balance	-1,355	-8,101
as a % of GDP	-3.7	-5.0
Workers' remittances and compensation of employees (receipts)	96	3,171
Reserves, including gold	3,396	50,308

Central Government Finance		
(% of GDP)		
Current revenue (including grants)	31.1	31.3
Tax revenue	29.2	28.0
Current expenditure	31.8	33.7
Overall surplus/deficit	-4.0	-2.7
Highest marginal tax rate (%)		
Individual	..	16
Corporate	*25*	16

External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	11,160	125,889
Total debt service	2,500	17,624
Debt relief (HIPC, MDRI)	–	–
Total debt (% of GDP)	30.1	77.7
Total debt service (% of exports)	20.1	23.2
Foreign direct investment (net inflows)	1,037	3,839
Portfolio equity (net inflows)	58	0



Private Sector Development	**2000**	**2010**
Time required to start a business (days)	–	14
Cost to start a business (% of GNI per capita)	–	3.0
Time required to register property (days)	–	26
Ranked as a major constraint to business	**2000**	**2010**
(% of managers surveyed who agreed)		
Tax administration	..	*35.6*
Tax rates	..	*34.1*
Stock market capitalization (% of GDP)	2.9	22.1
Bank capital to asset ratio (%)	8.6	*8.0*



Technology and Infrastructure	**2000**	**2010**
Paved roads (% of total)	49.5	*30.3*
Fixed line and mobile phone subscribers (per 100 people)	29	147
High technology exports (% of manufactured exports)	5.5	7.5

Environment		
Agricultural land (% of land area)	65	*58*
Forest area (% of land area)	27.7	*27.7*
Terrestrial protected areas (% of surface area)	..	10.7
Freshwater resources per capita (cu. meters)	*1,940*	1,971
Freshwater withdrawal (billion cubic meters)	23.2	23.5
CO2 emissions per capita (mt)	3.9	*4.2*
GDP per unit of energy use (2005 PPP $ per kg of oil equivalent)	4.2	*5.8*
Energy use per capita (kg of oil equivalent)	1,612	*1,799*

World Bank Group portfolio	**2000**	**2010**
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	1,898	2,830
Disbursements	384	187
Principal repayments	91	262
Interest payments	104	51
IDA		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Total debt service	0	0
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	284	656
of which IFC own account	112	..
Disbursements for IFC own account	17	..
Portfolio sales, prepayments and repayments for IFC own account	5	..
MIGA		
Gross exposure	20	..
New guarantees	0	..

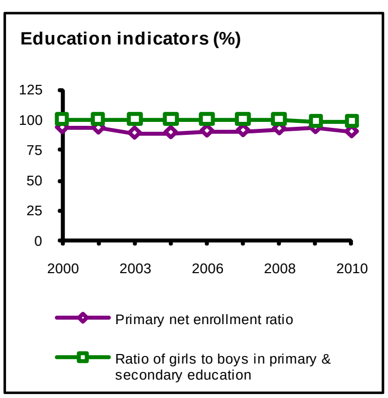
Note: Figures in italics are for years other than those specified. 2009 data are preliminary. 10/25/11
.. indicates data are not available. – indicates observation is not applicable.

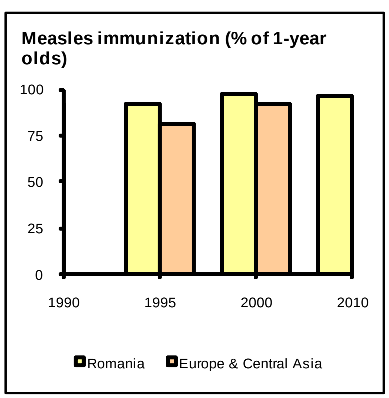
Development Economics, Development Data Group (DECDG).

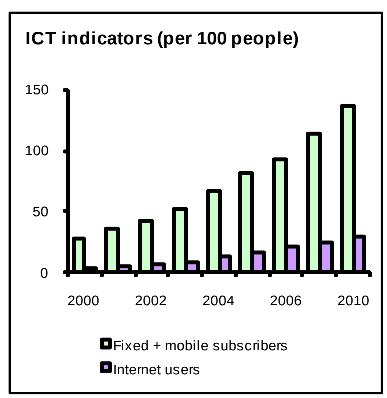
With selected targets to achieve between 1990 and 2015

(estimate closest to date shown, +/- 2 years)

	Romania			
Goal 1: halve the rates for extreme poverty and malnutrition	**1990**	**1995**	**2000**	**2010**
Poverty headcount ratio at $1.25 a day (PPP, % of population)	*<2*	*5.0*	3.7	*<2*
Poverty headcount ratio at national poverty line (% of population)	..	25.4	*28.9*	15.9
Share of income or consumption to the poorest qunitile (%)	*10.0*	*8.9*	8.2	*8.0*
Prevalence of malnutrition (% of children under 5)	..	..	3.7	3.5
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	..	87	94	90
Primary completion rate (% of relevant age group)	96	86	102	96
Secondary school enrollment (gross, %)	102	77	81	91
Youth literacy rate (% of people ages 15-24)	..	..	*98*	96
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	98	101	100	99
Women employed in the nonagricultural sector (% of nonagricultural employment)	42	42	46	*46*
Proportion of seats held by women in national parliament (%)	34	*7*	7	9
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	32	27	22	13
Infant mortality rate (per 1,000 live births)	25	22	19	11
Measles immunization (proportion of one-year olds immunized, %)	92	93	98	97
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	170	72	52	27
Births attended by skilled health staff (% of total)	..	*99*	*98*	99
Contraceptive prevalence (% of women ages 15-49)	..	*57*	*64*	*70*
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	0.1	0.1	*0.1*
Incidence of tuberculosis (per 100,000 people)	140	140	170	130
Tuberculosis case detection rate (%, all forms)	49	72	74	76
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	..	..	..	..
Access to improved sanitation facilities (% of population)	71	72	72	72
Forest area (% of total land area)	27.8	27.8	27.7	*27.7*
Terrestrial protected areas (% of surface area)	..	..	..	10.7
CO2 emissions (metric tons per capita)	6.8	5.7	3.9	*4.4*
GDP per unit of energy use (constant 2005 PPP $ per kg of oil equivalent)	2.9	3.5	4.2	*6.0*
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	10.2	13.1	17.4	23.4
Mobile phone subscribers (per 100 people)	0.0	0.0	11.1	113.7
Internet users (per 100 people)	0.0	0.1	3.6	28.8
Personal computers (per 100 people)	0.2	1.3	3.2	*19.2*

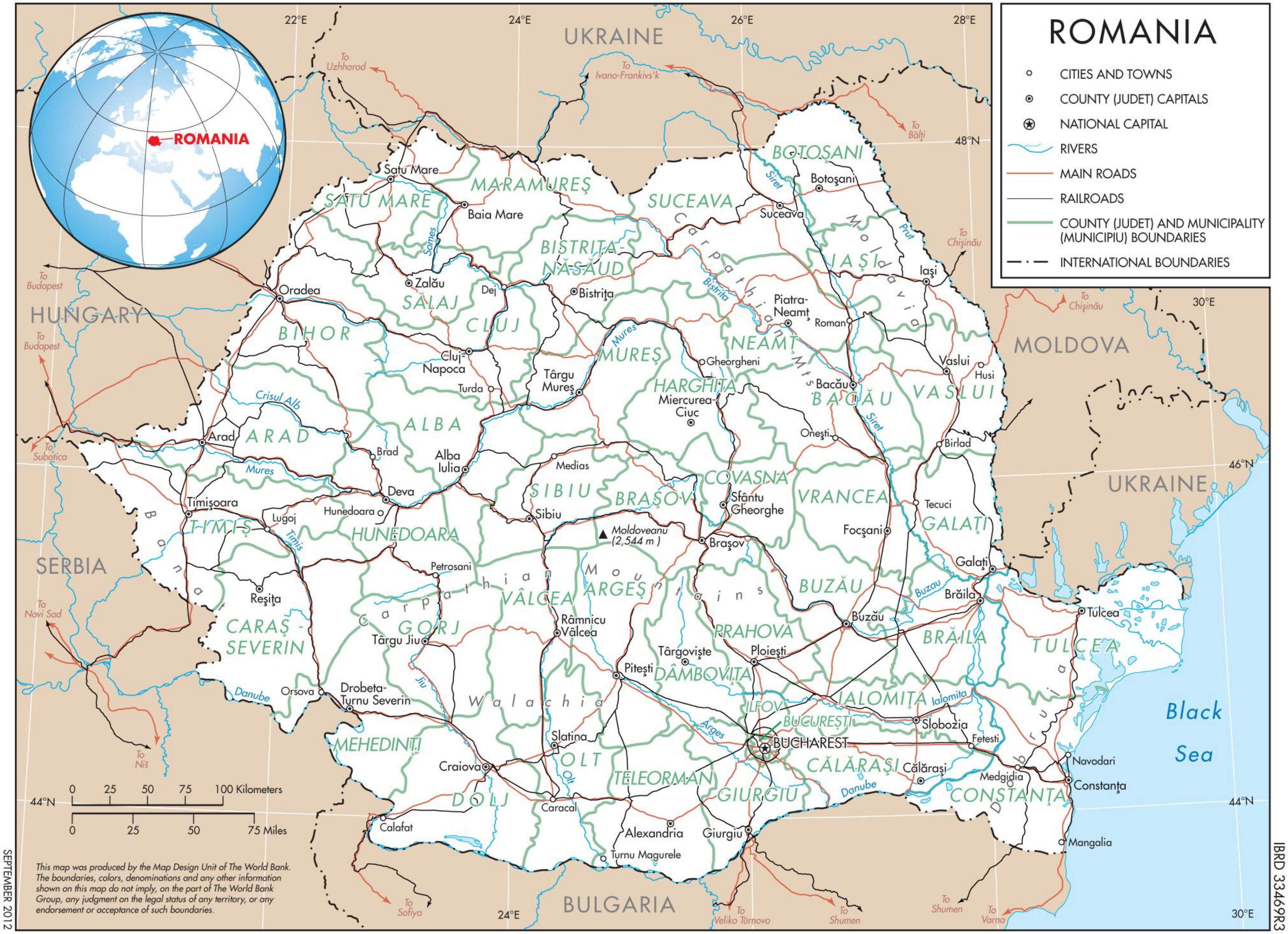






Note: Figures in italics are for years other than those specified. .. indicates data are not available. 10/25/11

Development Economics, Development Data Group (DECDG).



ROMANIA
CITIES AND TOWNS
COUNTY (JUDET) CAPITALS
NATIONAL CAPITAL
RIVERS
MAIN ROADS
RAILROADS
COUNTY (JUDET) AND MUNICIPALITY (MUNICIPIU) BOUNDARIES
INTERNATIONAL BOUNDARIES
UKRAINE
HUNGARY
SERBIA
BULGARIA
MOLDOVA
UKRAINE
Black Sea
MARAMUREŞ
SATU MARE
SUCEAVA
BOTOŞANI
BISTRIŢA-NĂSĂUD
SĂLAJ
CLUJ
BIHOR
IAŞI
NEAMŢ
MUREŞ
HARGHITA
BACĂU
VASLUI
ARAD
ALBA
COVASNA
VRANCEA
SIBIU
BRAŞOV
TIMIŞ
HUNEDOARA
GALAŢI
VÂLCEA
ARGEŞ
BUZĂU
CARAŞ-SEVERIN
GORJ
PRAHOVA
BRĂILA
TULCEA
DÂMBOVIŢA
IALOMIŢA
ILFOV
BUCUREŞTI
MEHEDINŢI
OLT
TELEORMAN
CĂLĂRAŞI
CONSTANŢA
DOLJ
GIURGIU
Satu Mare
Baia Mare
Botoşani
Suceava
Iaşi
Oradea
Zalău
Dej
Bistriţa
Piatra-Neamţ
Roman
Cluj-Napoca
Turda
Târgu Mureş
Gheorgheni
Vaslui
Husi
Bacău
Miercurea-Ciuc
Oneşti
Arad
Brad
Alba Iulia
Medias
Birlad
Deva
Timişoara
Lugoj
Hunedoara
Sibiu
Sfântu Gheorghe
Tecuci
Focşani
Braşov
Moldoveanu (2,544 m)
Petrosani
Galaţi
Reşiţa
Brăila
Tulcea
Buzău
Râmnicu Vâlcea
Târgu Jiu
Târgovişte
Ploieşti
Piteşti
Drobeta-Turnu Severin
Orsova
Slobozia
Slatina
BUCHAREST
Fetesti
Craiova
Navodari
Călăraşi
Medgidia
Constanţa
Caracal
Calafat
Alexandria
Giurgiu
Turnu Magurele
Mangalia
Carpathian Mountains
Walachia
Banat
Moldavia
Dobruja
Somes
Siret
Prut
Bistrita
Mures
Crisul Alb
Timis
Jiu
Olt
Arges
Danube
Buzau
Ialomita
To Uzhhorod
To Ivano-Frankivs'k
To Bălţi
To Chişinău
To Budapest
To Subotica
To Novi Sad
To Niš
To Sofiya
To Veliko Tŭrnovo
To Shumen
To Varna
22°E
24°E
26°E
28°E
30°E
48°N
46°N
44°N
0 25 50 75 100 Kilometers
0 25 50 75 Miles
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