

IPN REQUEST RQ 10/02

January 19, 2010

NOTICE OF REGISTRATION

Re: Request for Inspection

ISLAMIC REPUBLIC OF PAKISTAN: Tax Administration Reform Project (IBRD Loan No. 72640-PAK ; IDA Credit No. 4007-PAK)

On December 22, 2009, the Inspection Panel (the "Panel") received a Request for Inspection (the "Request") related to the Pakistan: Tax Administration Reform Project (the "Project"). The Request was submitted by members of the Officers of Customs and Excise Group Association (OCEGA). The Requesters state that they have suffered, and are likely to suffer, harm from the Project. The Requesters have asked that their identities be kept confidential.

The Project

According to the Credit Agreement, the Project objectives are "*(a) to improve the effectiveness, responsiveness, efficiency, integrity and fairness of tax administration; (b) to promote compliance with tax laws and broaden the tax base; and (c) to promote trade facilitation.*"¹

In this regard, the Project has six components, namely: *(Part A) CBR Management and Institutional Development*, which includes carrying out a re-organization of the Central Board of Revenue (CBR), development and implementation of a human resource management strategy, a staff training program, a code of conduct and ethics, establishment of an internal audit function, an internal affairs and vigilance function, and development of a change management strategy; *(Part B) CBR Revenue Operations Improvement*, which involves a re-engineering of the Direct Tax, Sales Tax and Central Excise and Customs departments; *(Part C) CBR Revenue Services Strengthening*, which is focused on establishing separate functions at the national level for tax audit, collection and enforcement, appeals and dispute resolution, intelligence gathering and risk management, and tax and customs fraud investigation and prosecution; *(Part D) CBR Tax Compliant Culture Creation Activities*, which includes the development and implementation of information technology systems; *(Part E) CBR Information Technology Systems Upgrading*, which involves upgrading information technology systems; and *(Part F) CBR Infrastructure Upgradation and Development*, which is a program of up-grading, developing and/or acquiring new infrastructure and facilities.²

¹ Development Credit Agreement (Tax Administration Reform Project) between Islamic Republic of Pakistan and International Development Association, Dated March 9, 2005, Schedule 2.

² Development Credit Agreement, Schedule 2.

The Project is financed by an IDA Credit in an amount of Fifty-three million five hundred thousand Special Drawing Rights (SDR 53,500,000), currently equivalent to about US\$ 83.4 million, and an IBRD Loan of Twenty-four million four hundred thousand United States Dollars (\$24,400,000). The Project is also financed by a US\$23 million grant by the United Kingdom Department for International Development (DFID).

The loan and credit were approved by the World Bank Board of Executive Directors on December 7, 2004 and the original project closing date of December 31, 2009 has been extended to March 31, 2010.

The Request

According to the Request, the Project was launched in 2004 to “*fundamentally reform the Central Board of Revenue (CBR), which is now known as the Federal Board of Revenue (FBR), and to create a more efficient and effective revenue administration system*”. The Request states that the Project has led to the creation of the Inland Revenue Service (IRS) as a new occupational service group under the Central Superior Services (CSS) of Pakistan with the objective of collecting and administering all federal taxes in order to bring about the “*functional integration*” of all domestic taxes.

The Request explains that the Customs and Excise Group and the Income Tax Group are amongst the twelve occupational groups under the federal civil service system known as the Central Superior Services, and the only two that fall under the administrative authority of the Federal Board of Revenue. The CEG is “*responsible for collecting and administering three out of four federal levies, namely customs duties, federal excise duties and the general sales tax which are all indirect taxes, whereas the Income Tax Group collects and administers direct taxes*”. Each service group “*maintains a separate seniority of its officers which is based on the merit determined at the time of entry in any given occupational group*” and that the “*CEG has remained amongst the top three choices/options of the candidates qualifying the Central Superior Services exam, while Income Tax Group is usually 5th or 6th choice*”.

The Requesters state that “*under immense pressure from the World Bank staff, Federal Board of Revenue through its Office Order No. 9(3)/2009-M.I dated 12.09.2009 and Government of Pakistan through the Establishment Division’s Office Memorandum No.F.6/2/2009-CP.II dated 12.09.2009 have created Inland Revenue Service and have asked, inter alia, the officers of the existing Customs and Excise Group (CEG) and Income Tax Group (ITG) to submit irrevocable options for inclusion or otherwise in the IRS.... Those officers of the existing Customs and Excise Group who would not join IRS would become part of a truncated Pakistan Customs Service which will be responsible to collect and administer customs duties only*”.

The Requesters maintain that while the Project sought the “*functional integration of domestic taxes*” from the very beginning, it did not envisage the “*administrative merger of the Customs and Excise Group and the Income Tax Group into one cadre and creation of a brand new service group in total disregard of the Constitution of Pakistan and all laws and statutes that deal with service matters*”. They note that the “*creation of the IRS at the behest of the World Bank has unduly penalized*” them as a group and that they are being disproportionately disadvantaged as the proposed new service structure will cause the Officers of the CEG to “*lose their operational*

latitude, promotion, and career prospects and it will jeopardize the terms and conditions of their service which are otherwise safeguarded by the Constitution, as well as the rules governing the services of the Federation of Pakistan". They believe they are "aggrieved by certain aspects of this Project" which in their view will also cause harm to the economy of Pakistan.

The Requesters maintain that they *"are not against tax reforms as long as they stay focused on achieving their stated and original objectives of making the tax system more transparent, vibrant, and taxpayer friendly"*. They state they are *"ready"* for the *"original plan"* of merging all domestic tax functions under one *"hierarchy"* but are concerned about the changes brought about in the Project which are a *"deviation from the original action plan of TARP"*.

The Requesters also assert that the Project has been *"mishandled in the recent past"* and that the *"advice given to Government of Pakistan by people working for the World Bank has caused violation of the law of the land"*. Furthermore, the Requesters state that the *"misguided policies of the World Bank staff have resulted in a situation where an entire work force is highly disgruntled, demoralized and uncertain"* and that this *"does not augur well for the continuity and sustainability of the reforms once TARP is over"*.

The Request notes that the *"voices and concerns of the Customs and Excise Group"*, an important stakeholder in the reforms process, were not taken into account which is a *"violation of para 10 of World bank's Operational Manual-BP 13.05- Project Supervision"*.

The Requesters note that they sent several emails to communicate their *"legitimate concerns"* to World Bank staff but did not receive any response and that *"several attempts made by the Association to arrange a meeting with the visiting World Bank Task Team to apprise them of our concerns"* were also not responded to. The Request includes correspondence to demonstrate efforts made to contact World Bank staff and several other relevant attachments.

The Requesters also point out that a lawsuit filed by the *"Officers of the Customs and Excise Group"* before the Lahore High Court has resulted in an *"order of restraint"* which prevents further implementation of the Project until the legality of the creation of the Inland Revenue Service is decided.

The Requesters ask the Inspection Panel to recommend to the Board of Executive Directors that an investigation into the matters described in the Request for Inspection be carried out.

The above claims may constitute, *inter alia*, non-compliance by the Bank with various provisions of the following Operational Policies and Procedures:

OP/BP 13.05	Project Supervision
Op/BP 10.00	Investment Lending
OMS 2.20	Project Appraisal

In accordance with paragraph 17 of the Panel's Operating Procedures (the "Operating Procedures"), I am notifying you that I have, on January 19, 2010, which is also the date of the dispatch of this notice, registered this Request in the Inspection Panel Register.

Please note that the Panel's registration is an administrative procedure and it implies no judgment whatsoever concerning the merits of the Request for Inspection.

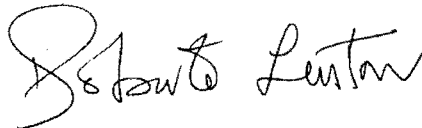
Until further notice, all communications with the Requesters in connection with the Request will be sent to a representative of the Requesters who also requests confidentiality.

As provided in paragraph 18 of the Resolution that established the Panel ('Resolution'), paragraphs 2 and 8 of the "*Conclusions of the Board's Second Review of the Inspection Panel*" (the "1999 Clarifications"), and paragraph 18(d) of the Operating Procedures, Bank Management must provide the Panel, no later than February 18, 2010 with written evidence that it has complied, or intends to comply, with the Bank's relevant policies and procedures in relation to the above-referenced Project. The subject matter that Management must deal with in a response to the Request is set out in paragraphs 3 and 4 of the 1999 Clarifications.

After receiving the Management response, the Panel will, as outlined in the 1999 Clarifications and as provided by paragraph 19 of the Resolution, "*determine whether the Request meets the eligibility criteria set out in paragraphs 12 to 14 [of the Resolution] and shall make a recommendation to the Executive Directors as to whether the matter should be investigated.*"

The Request has been assigned IPN Request Number RQ 10/02.

Yours sincerely,



Roberto Lenton
Chairperson

Mr. Robert B. Zoellick
President
International Bank for Reconstruction and Development
International Development Association

The Executive Directors and Alternates