Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

Date Prepared/Updated: 09/09/2019 | Report No: ESRSC00679
**BASIC INFORMATION**

**A. Basic Project Data**

<table>
<thead>
<tr>
<th>Country</th>
<th>Region</th>
<th>Project ID</th>
<th>Parent Project ID (if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kyrgyz Republic</td>
<td>EUROPE AND CENTRAL ASIA</td>
<td>P163711</td>
<td></td>
</tr>
</tbody>
</table>

| Project Name                                                                 |
| Tax Administration and Statistical System Modernization Project                |

<table>
<thead>
<tr>
<th>Practice Area (Lead)</th>
<th>Financing Instrument</th>
<th>Estimated Appraisal Date</th>
<th>Estimated Board Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td>Investment Project Financing</td>
<td>10/14/2019</td>
<td>12/9/2019</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Borrower(s)</th>
<th>Implementing Agency(ies)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Finance</td>
<td>State Tax Service, National</td>
</tr>
<tr>
<td></td>
<td>Statistical Committee</td>
</tr>
</tbody>
</table>

**Proposed Development Objective(s)**

To improve effectiveness of tax collection and enable the national statistical system to measure economic and social development.

<table>
<thead>
<tr>
<th>Financing (in USD Million)</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Project Cost</td>
<td>48.50</td>
</tr>
</tbody>
</table>

**B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?**

No

**C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]**

The project contributes to the Government's objectives of improving effectiveness of tax collection and reducing compliance burden for taxpayers as well as informing policy making based on evidence relying on the quality and timely statistical data. Areas of project support on tax administration will involve creating a taxpayer friendly tax administration that provides high quality online services and relying on ICT-enabled risk-based enforcement of tax compliance, enabling the STS to improve effectiveness of tax collection. Areas of support on statistics will focus on the national statistical system’s progress toward digitalization, greater utilization of administrative data based on the government systems interoperability, streamlining of the system’s institutional relations and settings, and improvements in statistical education.
D. Environmental and Social Overview

D.1. Project location(s) and salient characteristics relevant to the ES assessment [geographic, environmental, social]

As part of the Vision 2040, the GoKR aims to reduce the share of a shadow economy and improve domestic resource mobilization to finance social and economic priorities. To achieve this objective, the GoKR’s Medium-Term Development Program “Unity, Trust, Creation” for 2018-2022, underpinning the Vision 2040, seeks to comprehensively reform the country’s tax administration with a view to increasing the effectiveness of tax collection and lowering the compliance burden for taxpayers. Similarly, the Vision 2040 emphasizes the pivotal role of digital transformation in the reform processes and sets out the compulsory inclusion of a digital agenda in all conceptual and strategic frameworks.

Ineffective tax administration operations hamper the STS’ efforts in tackling the informal economy. The estimates of the country’s shadow economy are in range of 24.5 - 39 percent of GDP. Due to weak tax administration, the burden of taxation rests disproportionately on a small number of formal firms, while also creating disincentives for small firms and producers to formalize their businesses and constraining their growth potential. While the STS has improved some aspects of the interface with taxpayers, its predominantly outdated business processes continue to create excessive compliance burden for individual and business taxpayers.

Since the project aims to support an institutional reform to improve tax administration and compliance issues, it will not have changes in existing physical footprints of infrastructure or new construction.

D. 2. Borrower’s Institutional Capacity

The Project aims to improve Borrower institutional capacity for tax administration and compliance through capacity building and improved data development and management. The implementation agency does not have prior experience in the Bank’s environmental and social safeguards policies. Since the project environmental and social risks are generally low, the Bank’s environmental and social specialists will guide the PIU in assessing potential environmental and social risks and impacts.

II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC)  

Environmental Risk Rating  

Low

The Project supports improvements in tax management and compliance through institutional strengthening and capacity building. It does not involve any physical infrastructure works of any kind therefore, the environment risk rating is Low.

Social Risk Rating  

Low

This Project focuses on capacity building and efficiency improvements. Although there will be changes in staffing, it is expected that there will be no job losses as there will be training opportunities for staff to remain within current employment. As there is no planned civil works there is no risk of land loss. Those living in poverty are considered among the most vulnerable. There tends to be a rural-urban divide with those living in rural areas are more likely to be among the poorest. Once statistical system is operational, the government will have accurate data that allows for calculating a multidimensional poverty index and use the data for targeting the most vulnerable segment of
population. The data will be disaggregated by gender, age, and territory. This information will inform the government in making policies that are based on evidence and improve the allocation of public spending with can target the most vulnerable. It is expected that improvements in the tax system will promote private investment and lead to increased employment opportunities which can lead to more households moving out of poverty.

B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

**Overview of the relevance of the Standard for the Project:**

Based on the information available at the PCN stage, there are limited negative environmental or social impacts expected from the proposed Project. The project will not finance civil works. The project social impact is overall positive, as the project is expected to reduce informal economy and reduce the excessive compliance burden that currently fall for individual and business taxpayers. While no reductions in staff are anticipated, during preparation, the Borrower will assess and report on any anticipated staff changes in the tax administration agencies. Vulnerable groups in Kyrgyz Republic tend to be those living in poverty, and those living in remote areas. The government currently does not have accurate data by which to address vulnerability or poverty. Policy initiatives, based on collected data, will allow for targeted social programs to assist disadvantaged and poor persons and households.

**Areas where “Use of Borrower Framework” is being considered:**

The use of Borrower Framework for addressing environmental and social issues is not anticipated.

ESS10 Stakeholder Engagement and Information Disclosure

Direct project beneficiaries/affected people are staff of STS and NCS who will undergo training in new efficiency mechanisms. Students and universities are also direct beneficiaries as there will be targeted effort to encourage students to study in the fields of statistics with development of statistical programs of study. The public will be informed through external communication with relevant stakeholders, including taxpayer outreach activities. Key changes in tax administration affecting taxpayers are announced on the website of the State Tax Service and also on TV. With collection accurate statistics are collected, the government will be able to accurately identify vulnerable regions and persons. Once vulnerable groups are known, the Government will be able to establish effective communication strategies to best assist with effective social programs. Socio-economic surveys, censuses, and administrative data will be collected on a regular basis. This will include opportunities for citizens to inform government and provide feedback. Changes in the data collection process will reduce the burden on respondents leading to increased participation. The data indicators will focus on Sustainable Development Goals and be conducted at the municipal level which will provide information about the lowest levels of territorial organization. The project will continue work with the Rural Household Register and improve the capacity of municipal civil servants responsible for collecting statistical data.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.
ESS2 Labor and Working Conditions
The project will have two Project Management Units (PMUs)—at the STS and at the NSC. It is expected that some of the staff in charge of project implementation are civil servants, but others are employed by STS and NCS without civil servant status. Labor Management Procedure (LMP) will be prepared during project preparation including grievance redress mechanism available to them. Although the project will be improving efficiency, it is expected that current staff will remain, and be trained as needed to improve employment skills. World Bank Group Environmental Health and Safety Guidelines are applicable for Project Staff. There is no planned civil works and therefore no influx of labor. Project activities will be expected to follow all WB guidelines including Labor, Environmental Health, and Safety. It is hoped that the improved system will lead to business investments which will increase employment opportunities. It is expected that new businesses would hire local persons.

ESS3 Resource Efficiency and Pollution Prevention and Management
Based on the screening against ESS 3, this ESS is not considered relevant to the project.

ESS4 Community Health and Safety
Not Currently Relevant:

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement
As this is focused on institutional capacity building and improvements in systems, there is no need for civil works requiring land acquisition or that will restrict land use. As there are no land acquisition needs, there will be no resettlement. Additionally, there will be no civil works financed by the project.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources
Based on the screening against ESS 6, this ESS is not considered relevant to the project.

ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities
Based on the screening against ESS 7, this ESS is not considered relevant to the project.

ESS8 Cultural Heritage
Based on the screening against ESS 8, this ESS is not considered relevant to the project.

ESS9 Financial Intermediaries
Based on the screening against ESS 9, this ESS is not considered relevant to the project.
B.3 Other Relevant Project Risks

No other environmental or social risks are noted.

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways

No

OP 7.60 Projects in Disputed Areas

No

III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

A. Is a common approach being considered?

No

Financing Partners

There are no expected co-financiers.

B. Proposed Measures, Actions and Timing (Borrower’s commitments)

Actions to be completed prior to Bank Board Approval:

Preparation documents will assess the anticipated staff changes in the Tax Agencies due to the Project. Changes will be monitored, and reported by the Borrower, throughout project implementation.

The Project will also prepare Labor Management Procedures (LMP) and a Stakeholder Engagement Plan (SEP), as required.

Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):

The LMP and SEP should be prepared prior to appraisal.

The ESCP will state that the project will not finance any activity that involves involuntary land acquisition, limit land use, or cause involuntary resettlement.

C. Timing

Tentative target date for preparing the Appraisal Stage ESRS

01-Oct-2019

IV. CONTACT POINTS

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Implementing Agency(ies)
Implementing Agency: State Tax Service
Implementing Agency: National Statistical Committee

V. FOR MORE INFORMATION CONTACT
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VI. APPROVAL
Task Team Leader(s): Saida Ismailakhunova, Nataliya Biletska
Safeguards Advisor ESSA Nina Chee (SAESSA) Cleared on 30-Sep-2019 at 15:35:53 EDT