



The World Bank

Kazakhstan - Tax Administration Reform Project (P116696)

REPORT NO.: RES30686

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RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
KAZAKHSTAN - TAX ADMINISTRATION REFORM PROJECT
APPROVED ON FEBRUARY 16, 2010
TO
REPUBLIC OF KAZAKHSTAN

GOVERNANCE

EUROPE AND CENTRAL ASIA

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I. BASIC DATA

Product Information

Project ID P116696	Financing Instrument Investment Project Financing
Original EA Category	Current EA Category
Approval Date 16-Feb-2010	Current Closing Date 31-Dec-2018

Organizations

Borrower REPUBLIC OF KAZAKHSTAN	Responsible Agency State Revenue Committee
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Project Development Objective (PDO)

Original PDO

The development objective of the proposed project is to reform and strengthen the tax administration in order to improve the level of voluntary compliance, enhance effectiveness to fight tax evasion, increase administrative efficiency, and reduce the potential for corruption. The project would have a positive impact on the business climate by improving client services, strengthening institutional and human capacity in the tax administration, and reducing the burden of taxpayer compliance.

Summary Status of Financing

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net		
					Commitment	Disbursed	Undisbursed
IBRD-78350	16-Feb-2010	12-Jul-2010	17-Feb-2011	31-Dec-2018	13.50	5.35	8.15

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No



II. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES

1. This restructuring seeks a two-year extension to the closing date of the project, from December 31, 2018 to December 31, 2020, following the request of the Ministry of Finance (MoF) dated December 15, 2017. This would be the third extension beyond the original closing date for a cumulative total of six years. It will allow the project to complete critical IT procurements that are necessary to achieve the project development objective, namely: to reform and strengthen the tax administration in order to improve the level of voluntary compliance, enhance effectiveness to fight tax evasion, increase administrative efficiency, and reduce the potential for corruption.
2. The project is aligned with the Government's development priorities. Improved tax compliance and more effective enforcement are key priorities in the face of low oil prices and high non-oil fiscal deficit. The Government's "100 Steps Program" calls for the upgrade of IT systems, improvement of institutional capabilities, and development of policies so that the State Revenue Committee (SRC) can effectively expand Kazakhstan's tax base, increase budget revenues, and promote a transparent tax paying culture. The 2017 Systematic Country Diagnostic views tax administration reform as a means of improving the enabling environment for businesses as well as a vehicle to combat corruption that undermines economic development outcomes. In addition, the Bank's recent Public Finance Review sees enhanced revenue mobilization as a critical element of fiscal consolidation.
3. While overall project implementation has been slow, Components 1 and 2, related to institutional and operational strengthening, have shown good results. The SRC has successfully prepared its strategic plan to upgrade institutional performance. Audit functions have been transferred from district to oblast level and the use of electronic auditing has been initiated to reduce central control. Regulations on improving tax administration have been developed and adopted including revisions to the individual income declaration forms, the introduction of electronic invoices, and the reduction of budget classification codes, among others.
4. Implementation of the Component 3 "IT development" started in June 2016 after several delays. Since May 2015 there was uncertainty concerning a possible move from the value-added tax regime to sales tax. Once it was clear that no such change would be made, the SRC management progressed with the technical specifications. Finalization of technical specifications under this component was possible only after the approval of a new tax code concept and regulations by the legislature in early 2017. Experience with other tax administration projects in the ECA region indicates that capacity development should lead IT investments, but with a gap of about a year or more, so that consensus on design and functionality could be achieved among the various stakeholders.
5. The IT Component has shown encouraging progress over the last year. Three out of five key IT contracts for the total amount of US\$6 million have been signed for the launch of electronic invoices and the design and testing of risk management tools. The status of the remaining two high value contracts of ICT software is outlined below. With the successful implementation of these contracts, multiple databases and systems will be replaced with an Integrated Tax Management System (ITMS), supported by an Integrated Database (IDB), that can help improve SRC performance, achieve higher revenue collection targets and strengthen oversight and controls. The combined estimated cost of these two contracts is about US\$12 million. Each contract has an implementation period of three years until the last quarter of 2020.
6. The client requested a two-year extension of the project by the MoF letters dated August 15, 2017 and December 15, 2017. After the receipt of the first request, it was communicated to the client that the successful completion of the ITMS and IDB procurement processes would be the main trigger for the Bank's decision to extend the closing date. Bid Evaluation Reports (BER) for both procurements were submitted to the Bank on November 7,



2017. The Bank team has provided its no objection to the BER for the IDB, and the contract was signed by January 12, 2018, as evidenced by the SRC’s formal confirmation. As regards the ITMS, following the Bank’s concerns regarding the post-qualification of the proposed winner, the SRC informed the Bank of a decision to re-bid the ITMS. The team provided its no objection on the condition that the technical specifications are revised to ensure that all activities are completed before December 31, 2020. Any activities that go beyond December 31, 2020 will need to be financed from the SRC’s own resources. In the meantime, the team considers the signing of four out of five key IT contracts as a satisfactory condition for the project extension. Since the national legislation does not allow for signing contracts with the end date beyond the loan closing date, the MoF requested for the project extension till December 31, 2020 in its letter dated December 15, 2017.

7. The Project is rated as “Moderately Satisfactory”. Successful implementation of the operational and institutional components led to a good progress on key project results indicators: average time taken by taxpayers to comply with tax obligations fell from 271 hours to 178 hours; percentage of electronic filing reached 90 percent compared to 61 percent in 2010; adjustments made as a result of tax audit are steadily increasing. The recent progress on key IT procurements allowed the team to upgrade the Implementation Progress rating to “Moderately Satisfactory”.

8. Project audit, financial management arrangements, procurement, and disbursement arrangements of the project are in compliance with Bank standards and requirements. The IFRs and audits have been submitted timely and reviewed and considered satisfactory. The SRC has prepared the procurement plan for the extension period and has submitted it to the Bank for its approval. The team considers the plan technically viable. The MoF has requested the partial cancellation of the uncommitted US\$3.5 million by its letter dated July 20, 2017, to adjust for the significant exchange rate depreciation in 2015. The cancellation was processed on September 7, 2017, and the disbursement (US\$5.35 million) reached 40 percent of the loan amount (US\$13.5 million). The successful contracting and implementation of ICB-01 “ITMS” and ICB-03 “IDB” will increase the disbursement rate to 55 percent by July 1, 2018. There are no current or recent INT or Inspection Panel investigations in Kazakhstan in the sector related to this project.

9. Decision. In view of the above, the team requests a two-year extension of the Loan Closing Date to December 31, 2020. This should give sufficient time for design, testing, and implementation of the ITMS and the Database. This will enable the project to meet its development objectives.

III. DETAILED CHANGES

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IBRD-78350	Effective	31-Dec-2014	31-Dec-2016, 31-Dec-2018	31-Dec-2020	30-Apr-2021



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