Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 07-Apr-2020 | Report No: PIDC28317
**BASIC INFORMATION**

### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Parent Project ID (if any)</th>
<th>Project Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uzbekistan</td>
<td>P173001</td>
<td></td>
<td>Tax Administration Reform Project in Uzbekistan (P173001)</td>
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<table>
<thead>
<tr>
<th>Region</th>
<th>Estimated Appraisal Date</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
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</thead>
<tbody>
<tr>
<td>EUROPE AND CENTRAL ASIA</td>
<td>Sep 01, 2020</td>
<td>Dec 18, 2020</td>
<td>Governance</td>
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</table>

<table>
<thead>
<tr>
<th>Financing Instrument</th>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
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</thead>
<tbody>
<tr>
<td>Investment Project Financing</td>
<td>Ministry of Finance</td>
<td>State Tax Committee</td>
</tr>
</tbody>
</table>

**Proposed Development Objective(s)**

The development objective is to improve the operational efficiency and effectiveness of the tax agency and broaden the tax base.

PDO level indicators:

(i) Improved operational efficiency (e.g., reduction in administrative cost of tax administration relative to total taxes collected)

(ii) Improved operational effectiveness (reduction in VAT gross compliance gap, hours to prepare, file and pay/withhold CIT and GST measured by paying taxes indicator in Doing Business)

(iii) Broader tax base (e.g., number of active taxpayers (demand side); reduction distortionary tax incentives (supply side))

**PROJECT FINANCING DATA (US$, Millions)**

**SUMMARY**

<table>
<thead>
<tr>
<th>Total Project Cost</th>
<th>60.00</th>
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<tbody>
<tr>
<td>Total Financing</td>
<td>60.00</td>
</tr>
<tr>
<td>of which IBRD/IDA</td>
<td>60.00</td>
</tr>
</tbody>
</table>

**Financing Gap**

| Financing Gap | 0.00 |

**DETAILS**

**World Bank Group Financing**

| International Development Association (IDA) | 60.00 |
B. Introduction and Context

Country Context

1. **Over the past decade, Uzbekistan has experienced significant economic growth, but a relative slowdown was observed for 2018-19.** Between 2013 and 2016, in the face of external shocks, the Government of Uzbekistan activated counter-cyclical fiscal and monetary policies which contributed to GDP growth of 8.1% in 2014. The Government increased public investment, made further cuts in business and personal income taxes, increased the wages of civil servants and employees of SOEs, and paid down the entire domestic public debt in full in 2012–14. As a result, economic growth was maintained at around 7% until 2016, but the fiscal balance had eroded, as can be expected with an increased reliance on buffers. The last two years saw Uzbekistan’s growth rate decelerating to 4.5% in 2017 and 5.4% in 2018. Real GDP growth for 2019 is estimated at 5.6%. The slight pick-up in 2019 is attributed to a 34% (year-on-year) increase in investment and a more robust agriculture growth.

2. **Inflation is projected to remain comparably high and in the double digits.** High inflation is expected during the early phase of liberalization of a hitherto controlled economy. Consumer price inflation has picked up in early 2018, mainly reflecting the pass-through effects of foreign exchange and price liberalization to prices. Notwithstanding the assumption of tighter fiscal, credit, and monetary policies during 2018-19, inflation is expected to decline only gradually over the next two years. In fact, in December 2019, annual inflation remained high at 15.2% in December 2019, but lower than the 17.5% registered a year earlier.

3. **The current account surplus was projected to decline in 2019 and the fiscal deficit to worsen.** The current account was expected to shift from surplus to a small deficit of 4.2% by 2019 driven strong export growth and increase in remittances. Exports were showing an increase at a healthy pace as well as imports were expected to expand, reflecting statistical capturing of previously unreported imports, more cross-border trade, the end of fuel rationing, and higher imports of machinery and intermediate inputs.

4. **The COVID-19 outbreak is expected to sharply reduce growth to 1.6% in 2020.** The nose-dive will be driven by lower exports, a sharp fall in labor income, a reduction in private consumption, as well as domestic disruptions. Annual inflation will reverse trend and increase to approximately 15.7% in 2020 as a result of disruption in supply and current account deficit is foreseen to widen to 6.4% in GDP.
5. To mitigate the negative implications of COVID-19, the government is expected to introduce counter-cyclical measures driving spending up. The outbreak is also expected to lower government revenues. The end result is an estimated 5.9% fiscal deficit in 2020. The anti-crisis package will increase health, social protection and public investment spending. Measures may include an easement of lending and tax policies for businesses. Additional spending to offset COVID-19 risks is likely to increase fiscal deficit to 5.9% of GDP in 2020 and 4% of GDP in 2021. The outbreak of Covid-19 is also expected to lower government revenues. The pandemic and related economic slowdown are expected to lower government revenues. Revenues are expected to decline faster than GDP. The resulting decline in the revenue-to-GDP ratio reflects: (1) the tendency of some tax bases to decline faster than GDP in the face of an economic downturn (profits, capital gains, excises, and imports tend to decline faster than GDP during a recession); (2) a decline in commodity prices and related revenues; and (3) possible discretionary changes in tax policy in response to the crisis, such as lowering of tax rates or scaling up of increasing tax allowances deductions. In the present circumstances, revenues performance may be further harmed by the increased risk of worsened taxpayers’ compliance, and the inability of tax administrations to maintain business continuity.

<table>
<thead>
<tr>
<th>Table 1 - Select Macroeconomic Indicators</th>
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<tr>
<td></td>
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<tr>
<td>2015</td>
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<tr>
<td>------------------------------------------</td>
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<tr>
<td>Real GDP</td>
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<tr>
<td>- percent growth</td>
</tr>
<tr>
<td>7.9</td>
</tr>
<tr>
<td>CPI (end of year)</td>
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<tr>
<td>- percent of GDP</td>
</tr>
<tr>
<td>8.4</td>
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<tr>
<td>Fiscal Deficit</td>
</tr>
<tr>
<td>- percent of GDP</td>
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<tr>
<td>-0.5</td>
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</tbody>
</table>

*: forecast (post Covid-19)

6. In 2015-2017, the budget revenues relative to GDP has been declining due to a weaker financial situation of enterprises and the spread of tax exemptions. The total revenue as a share of GDP declined1 from 33% in 2015 to 29% in 2017, mainly due to a weaker financial situation of enterprises in the period leading up to the formal announcement of convertibility in September 2017 as Uzbekistan delayed exchange rate adjustment in 2016-17. As for tax revenues, as percent of GDP, the ratio dropped from 24.8% to 20.9% in 2017. Indirect taxes remained larger than the direct tax – as percent of GDP – with an average ratio of 15% versus 9% respectively over the 2015-2017 timeframe.

7. Tax receipts have increased in 2018 but, considering the pattern over the last 15-20 years, collection has stagnated underlining structural challenges that may be attributed to the informal economy. Tax revenues increased from 20.9% of GDP in 2017 to 24.1% in 2018, but this was almost equal to the ratio registered in the early 2000s. This constant level of tax revenues over the long term is not sufficient to attain fiscal stability and finance the public investments and other spending needs that are needed in a relatively new country. This inertia reflects structural challenges that can be attributed to a narrow tax base and a large informal economy.

8. Tax and non-tax revenues are expected to drop in 2020 as a direct result of Covid-19, and the immediate attention should be to contain the impact and ensure business continuity. Revenues are expected to decline faster than GDP pushing the tax-GDP ratio further down. The associated economic slowdown will negatively impact profits, capital gains, and labor income. Trade activity will fall as well. Assuming no change in the taxpayer compliance, revenues collected from VAT, personal and corporate

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1 IMF, GFS Tables, 2001 onwards
income taxes, as well as excise tax will decline. However, in periods of uncertainty, job insecurity, and weaker enforcement, taxpayer compliance is expected to drop. The tax administration – STC - working at below capacity may offer flexible payment arrangements and/or extend filing and payment deadlines. Furthermore, the government may opt to provide counter-cyclical measures to support firms, namely small businesses, in the form of tax incentives and deductions.

9. In sum, the revenue outlook is negative, but the challenge is to minimize the implications and contain the situation from derailing. The containment phase, that will precede the recovery phase, ought to focus on avoiding the introduction of excessive measures (e.g., widespread tax incentives, major tax rate reductions, open-ended delays of tax payments, etc.) that will derail tax reform efforts. Instead, the work should focus on time-bound measures that offer flexibility without compromising the integrity of the tax system. Examples include speeding-up VAT refunds, relaxing e-payment and e-filing requirements, limiting audit to high-risk/large taxpayers, to name a few. In parallel, the immediate focus should also be placed on ensuring business continuity. In the case of Uzbekistan, the on-going technical assistance program stands to play a key role in this respect. The TA could provide much needed strategic and just-in-time advice to the STC and the MoF while providing capacity building support, albeit remotely for the coming weeks.

10. The aforementioned TA program has delivered important analysis and provided operational support to the tax administration. The Bank conducted five comprehensive and substantive assessments using the DIAMOND methodology covering the tax administration, business process mapping, ICT infrastructure, automation, and ICT needs. The reports outlined the performance gap areas, and jointly led to the development of a tax administration transformation agenda. This agenda included a set of short- and long-term recommendations that were adopted by the client and accounted for in the design of the proposed project. The TA also contributed to a new tax code – effective in January 2020, which laid the groundwork for the work on business processes, audit, automation, and the like. The Bank supported in enhancing the risk management framework, build the capacity of the staff, support on the VAT refund mechanism, among other things.

11. Despite the development brought about by the new tax code and support provided by the Bank, the tax system is complex. The Tax Code lays out the key tax bases and the rates for the personal income tax and the VAT, while other tax rates are set by the government in the annual budget resolutions. The tax legislation grants numerous discretionary tax exemptions tailored for individual companies and products. This raises compliance costs for small and medium-sized firms and creates a disincentive for formalization. The 2019 tax reform appropriately focused on simplifying taxes, reducing taxes on labor, and broadened the VAT, but further tax reform remains a priority to improve the attractiveness of Uzbekistan for investment. For instance, the threshold between small and large enterprises was changed from the number of employees to annual turnover; still, small firms have strong incentives to stay small, downsize, or split to avoid migrating into the standard tax regime, with implications on job creation.

12. Uzbekistan’s business climate has improved but there is potential for further enhancements. Important improvements have been registered according to the Doing Business 2020 report. Still, taxpayers face high compliance burdens, including delayed refunds and time-consuming filing processes. The average time to pay taxes in Uzbekistan is 181 hours per year, which is 32 hours less that ECA regional average (213.1 hours) but 132 hours more than the best regulatory performance of 49 hours. The tax administration (the State Tax Committee - STC) suffers from a low level of automation and cumbersome and paper-based processes. Management and operational staff are poorly equipped to support the envisaged fiscal reforms and the STC’s transformation agenda.

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2 For example, the 2019 budget resolution is 138 pages long, four-fifths of which is dedicated to setting various tax rates.
13. Creating a good business environment that fosters investment requires, among other things, broadening the tax base, namely the VAT base. VAT exemptions breach neutrality and distort production decisions. Moreover, compliance costs increase when firms are taxed on some outputs and exempt on others. Tax morale is also undermined as exemptions create an uneven playing field. And the sectors exempt due to what is known as “difficult-to-tax sectors” should no longer be out of the VAT pool with the introduction of IT and modern VAT systems that now allow the accurate assessment of tax liability of firms in insurance, fee-based services, gambling, and the like.

<table>
<thead>
<tr>
<th>Table 2 – Revenues 2012-2018 (in % of GDP)</th>
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<tbody>
<tr>
<td></td>
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<tr>
<td><strong>Total Revenue</strong></td>
</tr>
<tr>
<td>2012</td>
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<tr>
<td>Total Revenue</td>
</tr>
<tr>
<td>Tax Revenues</td>
</tr>
<tr>
<td>Direct Taxes</td>
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<tr>
<td>Corporate Income Tax</td>
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<tr>
<td>Personal Income Tax</td>
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<tr>
<td>Property Tax</td>
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<tr>
<td>Indirect Tax</td>
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<tr>
<td>Value added tax (VAT)</td>
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<tr>
<td>Excises</td>
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<tr>
<td>Taxes on international trade</td>
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<tr>
<td>Non-Tax Revenues</td>
</tr>
<tr>
<td>Social security (pension and employment funds)</td>
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</table>

14. **Important progress has been registered in the domestic revenue mobilization (DRM) front, but challenges remain. The Government of Uzbekistan is positioning tax reform as a priority requesting a long-term engagement.** As mentioned, tax revenue as percent of GDP is relatively large, but has not increased in over the past two decades. There is potential to collect more. The business environment has improved but taxpayers still face high compliance burdens, including delayed refunds and time-consuming filing processes. A new tax code was recently adopted, but the tax system remains complex and substantial work remains to translate the new tax code into new simplified business processes, a fair and empowered tax audit function, an effective arrears management process, to name a few areas of improvement. As such, the Ministry of Finance (MoF) and the STC have welcomed existing tax reforms and requested from the World Bank an extension of the on-going Technical Assistance (TA) program as well as a more comprehensive and long-term engagement to embed and sustain the proposed reforms.

15. **The proposed project falls within the overall context of the 2016 country partnership framework.** The project aims to enhance the operational efficiency and effectiveness of the tax administration in Uzbekistan and broaden the tax base (to include, among other economic actors, the informal sector), which is in-line with enhancing public sector delivery and promoting private sector growth - two of the three focus areas identified in the CPF. An efficient tax administration reduces the compliance burden and helps improve the overall business environment. A proper tax policy and tax administrative reforms support the broadening of the tax base but also promote a fair and transparent tax system that will lead to reducing the informal sector, creating new jobs, and enhancing service delivery.

16. **Moreover, the proposed project responds to the Government Program of Action and the Roadmap adopted respectively in 2015 and 2019.** Improving the tax administration and the preparation of a Bank project were identified as a specific task – number 12 - in the Roadmap. Also, in 2015, the Government identified seven objectives, and these include increasing the competitiveness of the economy, supporting the creation of new jobs, and promoting private sector development. Tax reforms, be it on the policy or administrative level, feed into these objectives. For instance, revising and reducing tax expenditures not only generates additional revenues but also removes economic distortions and evens the playing field for the private sector. Simplifying processes and automating them reduces the compliance and administrative cost of managing taxes, benefiting taxpayers and the tax administration. Also, reforming the VAT refund mechanism and the tax audit function goes a long way in building trust between the government and the private sector in addition to helping exporters and businesses that are registered to pay VAT.

### C. Proposed Development Objective(s)

17. The development objective is to improve the operational efficiency and effectiveness of the tax agency and broaden the tax base.

18. **PDO level indicators:**
   
   i. **Improved operational efficiency** (e.g., reduction in administrative cost of tax administration relative to total taxes collected)
   
   ii. **Improved operational effectiveness** (reduction in VAT gross compliance gap, hours to prepare, file and pay/withhold CIT and GST measured by *paying taxes* indicator in *Doing Business*)
   
   iii. **Broader tax base** (e.g., number of active taxpayers (demand side); reduction in distortionary tax incentives (supply side))
Key Results (From PCN)

19. The envisaged tax project is expected to support the Government in mobilizing domestic resources. The project would enhance the quality of the tax system touching on both tax policy and tax administration. This will be achieved by improving the operational efficiency and effectiveness of the tax administration as well as broadening the tax base. The proposed project entails streamlining and automating business processes, addressing the informal economy and strengthening core operations, and delivering and institutionalizing capacity building.

D. Concept Description

20. The proposed project is a five-year Investment Project Financing (IPF) operation. The project will have three key components. Component 1 will focus on optimizing and automating core tax administration business processes, Component 2 will aim to reduce the informal economy, and Component 3 will aim to strengthen STC’s institutional capabilities to ensure sustainability. The proposed budget is $60 million, out of which $5 million is allocated as a contingency.

21. Component 1: Automation of core tax administration business processes ($40 million): The objective of this component is to enhance the operational efficiency of STC. This will be done by simplifying and re-engineering core business processes that underpin STC’s tax collection and control functions. The component will finance software development to automate the business processes where feasible. In addition, key hardware components and data platforms will be revamped and integrated to increase the administration’s technological readiness. It is expected that achieving full automation will enhance the quality and operational efficiency of the tax system, thereby laying a foundation to improve business climate and minimize tax compliance costs in Uzbekistan.

22. Status and challenges. Tax administration in Uzbekistan is inefficient due largely to a low level of automation and the dominance of cumbersome, paper-based processes. STC developed over 40 independent and loosely integrated applications to provide tax
services to businesses and taxpayers in 2010. Since then, upgrading of the systems have not kept pace with emerging technologies. Consequently, available applications, servers, databases and other essential IT components are outdated and need replacement. While some applications could be somewhat improved to support the continued execution of basic tax administration functions, most IT systems are very limited in the extent to which they can support the operational enhancements or delivery of the advanced taxpayer services envisaged by the proposed project. A single, modern and integrated technological platform is needed. This may lead to another challenge in the form of procuring new systems given the technical and potential corruption-related risks. An international bidding process ought to be considered. From a broader governance perspective, there are no governance or operating policies/procedures in place to guide development and maintenance of the IT applications and their associated hardware (e.g. networking, security, development, etc.). Also, STC’s IT department does not have a documented architecture for its information systems, or technical documentation for their maintenance, extension or configuration.

23. **Planned activities:** Component 1 may finance the following sub-components and related activities:

24. **Sub-component 1.1** will finance activities that enhance the operational efficiency of STC. These may include:

   - Implementing simplified, streamlined, standardized tax administration procedures;³
   - Procuring/developing an integrated tax management information system (TMIS) to provide end-to-end automation of business processes;
   - Procuring/developing an Audit Case Management System/module

25. **Sub-component 1.2** will upgrade STC’s technological infrastructure and integrate ICT platforms. Supported activities may include:

   - Implementing an ICT Strategy and Master Plan (including a change management program);⁴
   - Designing a comprehensive software architecture that ensures integration of tax functions;
   - Upgrading primary and secondary data center sites and infrastructure;⁵
   - Procuring hardware and software equipment for regional and local offices;⁶
   - Developing and implementing information and cyber security protocols;
   - Creating system administration manuals for all modules of the tax system detailing how they should be configured and managed;
   - Improving STC’s IT governance and planning capacity, including its ability to manage Service Level Agreements to ensure consistent, timely and reliable service/performance of information systems;⁷ and
   - Developing an integrated set of good practices to improve performance and key capabilities to acquire IT components, goods and services from providers.

26. **Component 2: Address tax barriers to reduce the informal economy ($10 million):** The objective of this component is to develop and implement a pragmatic roadmap to help reduce the size of the informal economy in Uzbekistan. It will focus on applying a three-pronged approach to combat tax evasion and reduce the informal economy. Specifically, Sub-component 2.1 will focus on enhancing the “quality” of the tax system by introducing a balanced and more easily administered tax mix (between direct and indirect taxes) that broadens the tax base. Sub-component 2.2 will promote voluntary compliance by strengthening external partnerships and enhancing the delivery of citizen and business centric taxpayer services. Finally, Sub-component 2.3 will improve

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³ Design may be done under the on-going technical assistance (TA) Program
⁴ ibid
⁵ This may include procuring modern communication networks, cable management systems, racks, air conditioning units, generators, firewalls and security systems, switches, router cards, etc.
⁶ This may include desktop computers for tax offices, laptops for auditors, and software licenses, among other things
⁷ Activity may be delivered under the TA program
the enforcement-related capabilities of STC (including functions such as audit, investigation and intelligence gathering, and risk management). The expected results of this component include an expanded taxpayers’ base and improved compliance environment through (i) delivery of low-cost high-quality taxpayer services that promote voluntary compliance, and (ii) enhanced capability of the STC to detect and discourage tax evasion.

27. **Planned activities.** Component 2 may finance the following sub-components and related activities:

28. **Sub-component 2.1** will finance activities that promote good quality tax policy analysis, forecasting and policy formulation. Activities to be supported may include consultancy services and require the procurement of software to:
   - Carrying out tax policy reviews and comprehensive analyses of the tax system to inform removal of distortionary taxes and incentives;
   - Developing and institutionalizing use of robust methodologies for tax policy analysis, impact analysis, forecasting and modeling.\(^8\)

29. **Sub-component 2.2** will focus on the facilitation of voluntary compliance. Activities to be supported under this sub-component may include:
   - Implementing a comprehensive voluntary compliance strategy;\(^9\)
   - Implementing a communication strategy to improve relations with both internal and external stakeholders;\(^10\)
   - Expanding the functionalities of STC’s external website;
   - Implementing tax support mechanisms for entrepreneurs and small business owners (including a particular focus on the needs of women entrepreneurs);
   - Establishing service delivery standards;
   - Strengthening the STC’s anti-corruption strategy;
   - Establishing a taxpayer complaint workflow control system for tax officials; and
   - Adopting a multi-channel service delivery model, including the extended use of call centers and taxpayer outreach, establishment of a “virtual office”, expanded use of mobile cash machines, and development of mobile applications to increase convenience for individual taxpayers and lower costs for small businesses.

30. **Sub-component 2.3** will strengthen STC’s operations to ensure better control of tax obligations. Specifically, support will be provided to implement a Compliance Improvement Program focused on the detection, deterrence, and addressing of noncompliance based on the use of information and risk management approaches. Activities to be supported under this sub-component may include:
   - Implementing a Compliance Improvement Program;\(^11\)
   - Implementing a risk-based compliance model and risk-based enforcement programs;\(^12\)
   - Extending e-filing and e-payment systems;\(^13\)
   - Implementing track and trace control mechanisms for targeted sectors;\(^14\)
   - Aligning the tax system with internationally agreed-upon standards on tax transparency and exchange-of-information;\(^15\)

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\(^8\) These tools will enable the government to better estimate revenue potential of main taxes to establish realistic revenue targets, analyze technical and non-technical drivers of tax reform, and conduct sectoral analyses to better understand tax fraud patterns.

\(^9\) Design may be done under the technical assistance (TA) Program

\(^10\) This may include establishing mechanisms to conduct formal and regular consultations with taxpayers and civil society. Design may be done under the TA Program

\(^11\) Design may be done under the TA Program

\(^12\) May require the procurement of software (e.g., Computer assisted audit techniques, risk-based selection tools)

\(^13\) May require the procurement of software/hardware

\(^14\) Ibid

\(^15\) May be delivered under the TA program
- Expanding use of third-party data to generate and validate pre-populated tax returns;\(^{16}\) and
- Enhancing the audit capacity of STC as well as extending use of the risk management module and integrating with other data analyses and business intelligence tools to automatically detect high-risk operations.\(^{17}\)

31. **Component 3: Delivery and institutionalization of capacity building ($5 million):** The objective of this component is to strengthen STC’s human resources and its institutional capacity to attract, develop and retain qualified staff.

32. **Status and challenges:** The absence of institutional policies for recruitment, compensation, and performance evaluation, along with the lack of job descriptions, staff development plans, skills inventories, IT support, and training programs is restricting the operational capacity of STC and has contributed to the sub-optimal delivery of taxpayer services. The organization also suffers from a fairly high staff turnover rate (at 14.6% as of 2018). The Government seeks to offer training and professional support for fiscal officials in a systematic and structured manner that is sustainable and of high quality. As such, the Government plans to establish a modern Fiscal Institute and make it a focal point for developing and delivering all future training for tax and other government officials. The Fiscal Institute would also carry out relevant research to support STC operations. As a new institution, the Fiscal Institute will need to assess learning and skill development requirements, identify skills gap, and develop a strategy for its capacity building interventions.

33. **Planned activities:** Capacity building is embedded in the project and is aimed at not only ensuring successful implementation of reform activities, but also at developing institutional capacity to sustain a skilled and knowledgeable workforce. This activity will also ensure women are targeted beneficiaries. The component will finance the following sub-components and related activities:

34. **Sub-component 3.1:** This sub-component will strengthen the institutional capacity of the STC to manage its human resources more effectively. Planned activities may include:
   - Conducting a strategic staffing/workforce planning exercise
   - Developing a strategic plan for HR operations aligned with STC transformational agenda
   - Developing detailed organization and function manuals based on HR policies, including aligning HR skills\(^{18}\) with identified end-to-end automation needs;
   - Implementing performance evaluation and HR management automated systems;\(^{19}\) and
   - Institutionalizing the routine use of surveys to collect staff opinions.

35. **Sub-component 3.2:** This sub-component will finance building the capacity of a core team at STC on fiscal issues and topics, paving the way for the establishment of a Fiscal Institute in a subsequent phase.\(^{20}\) Key activities may include:
   - Conducting a training needs assessment for tax policy and administration staff, including by analyzing staffing capacity and knowledge requirements;\(^{21}\)
   - Developing a medium-term training plan based on needs assessment to build capacity and specialization skills for staff (managerial, technical, operational) for core tax policy/administration functions (risk management, ICT, policy analysis, etc.);
   - Developing course curriculum and tax policy/administration learning modules, including e-learning modules, for key core tax administration functions;\(^{22}\)

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\(^{16}\) May require the procurement of software/hardware  
\(^{17}\) ibid  
\(^{18}\) A functional review may be also included  
\(^{19}\) Design may be conducted under the TA Program  
\(^{20}\) The establishment of the institute is beyond the scope of the project  
\(^{21}\) This will complement the work of the TA Program that is focusing on international tax. The whole activity may be financed by the TA if budget allows.  
\(^{22}\) Requires the procurement of specialized services
• Building capacity on training and research methodologies; and
• Piloting the delivery of capacity building programs and trainings for key thematic areas.23

36. **Sub-component 3.3**: This sub-component will focus on the capacity building aspects that are directly related to the project. It may include the delivery of training, sensitization and change management activities to support implementation of all project components and sub-components.

37. **Sub-component 3.4**: This sub-component will provide support to carry out project management and monitoring and evaluation activities. Supported activities may include the carrying out of project audits, provision of technical support (on procurement, safeguards and financial management requirements), and the financing of operating costs.

<table>
<thead>
<tr>
<th>Legal Operational Policies</th>
<th>Triggered?</th>
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<tbody>
<tr>
<td>Projects on International Waterways OP 7.50</td>
<td>No</td>
</tr>
<tr>
<td>Projects in Disputed Areas OP 7.60</td>
<td>No</td>
</tr>
</tbody>
</table>

**Summary of Screening of Environmental and Social Risks and Impacts**

Both environmental and social risks are rated ‘Moderate’. The project recognizes the following standards as relevant: ESS 1; ESS 2; ESS 3; ESS 5 and ESS 10. Potential environmental risks may be generated under Component 3 which envisions some refurbishment works to establish a Fiscal University under State Tax Committee. The scale and location of these works will be determined during preparation stage. In this case, a simple environmental management plan needs to be prepared prior commencement of works to avoid and mitigate potential environmental impacts. Other project components are not expected to generate environmental impacts and there is no need for additional environmental instruments. Social risk management issues related to 1) avoidance/ mitigation of potential adverse impacts on vulnerable and disadvantaged groups and 2) involuntary resettlement and land acquisition. The project’s social impact is overall positive, as the project is expected to reduce the informal economy and improve the operational efficiency of STC.

Direct project beneficiaries/affected people are (i) staff of STC who will be targeted through institutional and capacity building activities and (ii) all taxpayers (citizen and business owners). The staff of STC will undergo training in new efficiency mechanisms. High school graduates are also direct beneficiaries as they are potential students who will benefit from established Fiscal University. The planned installation of technological infrastructure will not require any new land. However, under Component 3 it is proposed to establish a modern Fiscal University. At the moment it is not known whether a new institution will need to acquire existing facilities or construct a new building. Interventions under Component 2 may disproportionately impact vulnerable and disadvantaged groups during the transition from informal to a formal business model. Vulnerable and disadvantaged groups need to be identified and adequately consulted. The Borrower will be required to carry out a Social Assessment along with tax policy analysis under Component 2. A Social Assessment will inform the enhancement of the tax system and the roadmap design to avoid adverse impacts, create equitable opportunities and ensure that the project interventions are accessible to the vulnerable and disadvantaged groups. The public will be informed through external communication with relevant stakeholders, including taxpayer outreach activities. Information campaigns will need to be implemented which explains the necessity to reform and proposed key changes. Key changes in tax policy and

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23 Optional but important activity to ensure the proper kick-off of the Fiscal Institute. Areas to include tax policy analysis and revenue forecasting, modern audit techniques and risk analysis, data mining and artificial intelligence, domain driven design and other emerging areas of tax IT and new technologies.
administration affecting taxpayers will be published and consulted through the national web portal for discussion of proposed laws and regulations and announced on the website of STC and television. A Stakeholder Engagement Plan will be developed by STC, disclosed publicly as early as possible (but not later project appraisal) and begin implementation during the project preparation itself. Both environmental and social risks rating may be reassessed once the details of the project Components will be available.

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**APPROVAL**

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