



Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

Date Prepared/Updated: 04/22/2020 | Report No: ESRSC01343



BASIC INFORMATION

A. Basic Project Data

Country	Region	Project ID	Parent Project ID (if any)
Uzbekistan	EUROPE AND CENTRAL ASIA	P173001	
Project Name	Tax Administration Reform Project in Uzbekistan		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Governance	Investment Project Financing	9/1/2020	12/18/2020
Borrower(s)	Implementing Agency(ies)		
Ministry of Finance	State Tax Committee		

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))

Financing (in USD Million)	Amount
Total Project Cost	60.00

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]

Public Disclosure



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 broadening the tax base (to include among other 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 help 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.

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.

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.

Component 2: Reduction of the informal economy (\$10 million): The objective of this component is to develop and implement a pragmatic roadmap to 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 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.

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.

D. Environmental and Social Overview

D.1. Project location(s) and salient characteristics relevant to the ES assessment [geographic, environmental, social]
Since independence in 1991, Uzbekistan remained a closed and centrally-planned economy with weak private sector involvement. Since 2016-2017, Uzbekistan embarked on the path of reforms and has already taken a series of steps towards the implementation of the ambitious economic modernization program. The Government of Uzbekistan (GoU) issued its 2017-2021 National Development Strategy which intends to build a private-sector-led market



economy. It is a market-oriented reform program with five priority policy areas: enhance state and public institutions, secure the rule of law and reform the judicial system, promote economic development, foster social development, and ensure personal and public security. Also, in 2018 GoU has introduced a country-wide program – "Each family is an entrepreneur". This program is aimed to create conditions for households to engage in entrepreneurial activities and to secure a sustainable source of income. However, the complexity of the tax system may undermine the efforts of ongoing reforms. Introduced changes to the tax system in January 2019 triggered a nation-wide debate by involving experts, entrepreneurs, and business owners. Mainly, the debate was around changes in the VAT regime. The proposed project scope is country-wide and supports the major tax administration reform program of the GoU. The project will be implemented at and by the State Tax Committee (STC), through its central (Tashkent) and regional branches. In addition to institutional reforms, planned reform includes developing and institutionalizing the use of robust methodologies for tax policy analysis, impact analysis, forecasting and modeling, systems, and technological upgrades, improvements in taxpayer transparency and appeals processes, and improvements in the audit regime.

D. 2. Borrower’s Institutional Capacity

The implementation agency, State Tax Committee (STC) does not have prior experience in the Bank’s environmental and social safeguards policies. Although the project environmental risk rating is low and social risk is moderate, the Bank’s environmental and social development specialists will guide the Project Coordination Unit (PCU) in assessing potential environmental and social risks and impacts. The institutional capacity to perform environmental and social due diligence activities of the STC at this stage of project development is not known, - this will be assessed during the project design and capacity building activities to be supported under the project. The Borrower will also be supported during the preparation of required instruments relevant to Environmental and Social Standards.

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

A. Environmental and Social Risk Classification (ESRC)

Moderate

Environmental Risk Rating

Low

The environmental risk rating is low. No adverse environmental risks are foreseen as physical works under Component 1 and Component 3 are focused mainly on software procurement, with elements of hardware "revamping and integration" which means IT-centric works, such as adjusting server infrastructure or data consolidation or other. The project will not finance civil works.

Social Risk Rating

Moderate

This Project focuses on operational efficiency improvements and the reduction of the informal economy. The operational efficiency will be improved mainly through enhanced tax administration procedures, upgraded technological infrastructure, and strengthened institutional capacity. It is expected there will be no job losses but there will be the development of an institutional capacity to sustain a skilled and knowledgeable workforce. Upgrading of technological infrastructure will focus on Information Communication Technology (ICT) solutions including installation of hardware and software for branch offices. The planned installation works will not require any new land.

During the Project preparation, the Bank team will discuss the potential sensitivity of small/micro businesses to the proposed Component 2 on the Reduction of the informal economy. Component 2 may disproportionately impact on vulnerable and disadvantaged groups during the transition from informal to a formal business model. The social risk rating will be reassessed once the details of the project components will be available.

Public Disclosure



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:

The project recognizes the following standards as relevant: ESS 1; ESS 2; ESS 3; and ESS 10.

All project components are expected to take place at urban locations, on STC premises. Component 1 "Automation of core tax administration business processes" will finance mostly software procurement and include hardware, IT-centric installation works which will have negligible environmental impacts. Establishment of fiscal institute/unit under Component 3 "Delivery and institutionalization of capacity building" will also mean software and hardware procurement. However, for any obsolete telecommunications and data storage equipment dismantlement and disposal, it will be important to make sure that these are properly disposed of or recycled by licensed operators available in the country. Additionally, common safety principles need to be followed to ensure workers safety during installation and operation works. To this end, a simple E-waste management plan and Operational Safety checklist will be prepared and endorsed to ensure proper planning and execution for these activities. To house the software and hardware, State Tax Committee (STC) intends to reuse current physical locations in main complex and the Research Center. The project will not finance civil works, such as refurbishment, reconstruction or new construction. Project Operations Manual (POM) will also include a section on E&S risk management with the list of precautionary measures (incl. E-waste management checklist) to avoid threats to the health and safety of people during software and hardware installation at STC premises and offices. Environmental and social review of work designs will also be required to ensure that the safety of office operation (and of the people using the equipment) is built into the designs, including the safety of the power supply and adequacy of the fire suppression system. PCU will apply due diligence by following procedures to be spelled out in the POM.

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. Social risk management issues related to avoidance/mitigation of potential adverse impacts on vulnerable and disadvantaged groups. The issue is related to the project intervention to design and implement a roadmap to reduce the size of the informal economy. Vulnerable groups need to be identified and adequately consulted. The Borrower will be required to carry out a Social Assessment (SA) along with tax policy analysis under Component 2. It is expected that an SA 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. These groups would include poor/low-income households, small/micro businesses, employers with a disability workforce and others. Further stakeholder identification, targeting, and analysis will be undertaken as a part of the proposed SA. The Environmental and Social Commitment Plan will state that the SA will be required during the implementation of Component 2. Cumulatively, the following instruments will be prepared prior appraisal to meet the requirements of the World Bank Environmental and Social Framework (ESF): 1. Stakeholder Engagement Plan (SEP); and 2. Labor Management Procedures (LMP) and 3. E-waste management checklist. Documentation and information available and reviewed as part of Environmental and Social screening are as follows: 1). World Bank (2019) Uzbekistan Public Expenditure Review. 2). World Bank (2019) Program Document for the Sustaining Market Reforms in Uzbekistan Development Policy Operation.

Areas where "Use of Borrower Framework" is being considered:



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

ESS10 Stakeholder Engagement and Information Disclosure

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. 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 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 (SEP) will be developed by STC, disclosed publicly as early as possible (but not later project appraisal) and begin implementation during the project preparation itself. A SEP is a living document and will be updated as preparation and implementation advances. STC will also develop and put in place a Grievance Redressal Mechanism (GRM) to enable stakeholders to air their concerns/ comments/ suggestions if any. A SEP should ensure that stakeholders will have opportunities to get engaged and provide feedback. A stakeholder mapping can identify vulnerable groups that may encounter disproportionate adverse impacts and restricted to access the project benefits.

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

According to preliminary discussions, the main implementing agency will be STC with the Ministry of Finance (MoF) as a beneficiary. The PCU will be located within STC and will hold administrative, fiduciary, monitoring, environmental and social standards responsibilities. MoF will be responsible for tax policy and revenue forecasting and monitoring IPF progress. Therefore, for this project, the following two categories of workers are expected: Direct workers and Contracted workers. The former would include: government civil servants as well as those employed as specialists by the PCU. While government civil servants will be governed by a set of civil services codes, PCU workers will function as per a mutually agreed contract without civil servant status. Contracted workers would include consultants, contractors, and other intermediaries, details of which will be known during the project preparation. There are no planned infrastructure civil works and therefore no influx of labor. STC will review its labor policy to ensure alignment with ESS 2 and discuss gap-filling measures where needed. STC will prepare a Labor Management Procedure (LMP) that incorporates ESS 2 requirements and the World Bank Group Environmental Health and Safety Guidelines, and that including a code of conduct, to which all contracted parties have to adhere.

ESS3 Resource Efficiency and Pollution Prevention and Management

ESS 3 is relevant under this project. Under data center related works, dismantled obsolete telecommunications and data storage equipment and materials generated during the upgrading of technology infrastructure may cause risks to human health and the environment if not transported and disposed of in an environmentally sound and safe manner. Where obsolete equipment and materials cannot be reused, they should be safely transported to recycling or designated disposal sites by appropriate transport means of licensed contractors. These details will be reflected in



a simple E-waste management plan to be prepared by the Client, prior to appraisal. This procedure will also be described in POM.

ESS4 Community Health and Safety

ESS 4 is not considered relevant to the project at this stage.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

Based on the screening against ESS 5, this ESS is not considered relevant to the project.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

This standard is not relevant to the project. The software and hardware will be installed within the existing footprint of facilities. Therefore, project-supported activities cannot affect biodiversity and living natural resources.

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.

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.

Public Disclosure



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

Actions to be completed prior to Bank Board Approval:

1. Prepare, disclose and implement a Stakeholder Engagement Plan ;
2. Prepare a draft Labor-Management Procedures for direct and contracted workers before Appraisal;
3. Establish a Grievance Redress Mechanism at Project level and Grievance Mechanism for all direct and contracted workers.
4. Prepare templates of the E-waste Management Plan and Operational Safety checklist.
4. Prepare an Environmental and Social Commitment Plan (ESCP).

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

1. STC prepares a Project Operations Manual (POM) acceptable to the Bank that includes measures to address all the environmental and social risks identified. Conduct an environmental and social review of work designs and E&S risk management following procedures spelled out in the POM;
2. STC will hire a qualified environmental and social specialist or consultant to support the Project Implementation Unit throughout implementation;
3. STC implements the Stakeholder Engagement Plan;
4. STC implements Labor-Management Procedures;
5. STC conducts a Social Assessment under Component 2;
6. Expected monitoring and reporting by STC to the Bank on implementation of ESF related instruments including SEP, LMP, etc. as well as issues raised through the GRMs.

C. Timing

Tentative target date for preparing the Appraisal Stage ESRS

21-Aug-2020

IV. CONTACT POINTS

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Borrower/Client/Recipient

Borrower: Ministry of Finance

Implementing Agency(ies)

Implementing Agency: State Tax Committee

V. FOR MORE INFORMATION CONTACT

Public Disclosure



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VI. APPROVAL

Task Team Leader(s):	Raul Felix Junquera-Varela
Practice Manager (ENR/Social)	Satoshi Ishihara Recommended on 17-Apr-2020 at 09:20:28 EDT
Safeguards Advisor ESSA	Nina Chee (SAESSA) Cleared on 22-Apr-2020 at 14:19:57 EDT