



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 26-Jun-2019 | Report No: PIDISDSC23050

**BASIC INFORMATION****A. Basic Project Data**

Country Kyrgyz Republic	Project ID P163711	Parent Project ID (if any)	Project Name Tax Administration and Statistical System Modernization Project (P163711)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date Oct 14, 2019	Estimated Board Date Dec 09, 2019	Practice Area (Lead) Governance
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency State Tax Service, National Statistical Committee	

Proposed Development Objective(s)

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

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

Total Project Cost	48.50
Total Financing	48.50
of which IBRD/IDA	48.50
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Development Association (IDA)	48.50
IDA Credit	48.50

Environmental and Social Risk Classification

Concept Review Decision



Low

Track II-The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. The Kyrgyz Republic is a land-locked country, with a gross national income (GNI) per capita at US\$ 1,130 and a population of 6,2 million in 2017. The country has considerable economic potential based on its natural resource endowments, including mineral reserves and possibilities for development of hydropower, agricultural production and tourism. The Kyrgyz Republic is significantly more market-oriented and economically liberal than its Central Asian neighbors. Its geographic location coupled with the accession to the World Trade Organizations (WTO) and Eurasian Economic Union (EEU) could attract significant investments from the immediate region. Despite this potential, headcount poverty is still high. Currently, around 20 percent of the country's population live under the national poverty line, with a larger group in danger of dipping below that line.
2. The Kyrgyz economy has experienced robust growth between 2000-2017 but with significant year-over-year volatility and suboptimal fiscal performance. Gross Domestic Product (GDP) growth has reached an average rate of 4.5 percent during this period. However, the country's economic growth is largely dependent on gold prices and remittances inflow. The Kyrgyz Republic's remittances are among the highest in the world, nearly 35 percent of GNI in 2017. Macro-fiscal policies have not facilitated increase in private investment. Following fiscal consolidation in 2001-2008, the government pursued fiscal expansion from 2009 to mitigate the social impact of external and internal shocks. This has prompted widening of fiscal deficits to 6.3 percent of GDP in 2016. Recent cuts in capital spending, coupled with increased revenue, has reduced government fiscal deficit to less than 2 percent of GDP. In similar vein, public debt sharply increased to 67.3 percent of GDP by 2015 and then declined to 59-60 percent of GDP over the past three years, as the government delayed some foreign-financed investment projects. However, the economic situation of the Kyrgyz Republic remains vulnerable and fiscally unsustainable.
3. The Government of Kyrgyz Republic (GoKR) recognizes the importance of improving tax administration and the national statistical system in addressing economic and fiscal challenges. It views strengthening domestic resource mobilization as an integral part of its efforts to finance public expenditure priorities in infrastructure, education, health and social protection and support sustainability of public finances. The GoKR is also cognizant that in order to increase efficiency of public spending, it needs reliable and timely statistical information on service delivery in sectors. Furthermore, the GoKR considers tax administration reform and enhancing capacity of the national statistical system as essential elements in boosting investment climate to support economic growth and private sector development. Lowering compliance cost for individual and business taxpayers, removing anti-export bias in the tax system, increasing equity in tax collections, as well as improving transparency and quality of statistical information can facilitate private investment decisions and support business conditions conducive for economic growth and job creation.

Sectoral and Institutional Context

4. The Kyrgyz Republic National Development Strategy for 2018-2040 (Vision 2040) identifies tax administration reform as a priority reform area and emphasizes the need for timely and reliable data in advancing the country's economic wellbeing, social welfare, governance and sustainability. 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 (MTDP), which



operationalizes 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. Since data lies at the core of the evidence-based policymaking and digitalization concept, the national statistical system faces a challenge of adapting to the digital transformation in governance and public service delivery. The MTDP sets the basis for data-exchange among national statistical system actors as digital transformation rolls out. The Vision 2040, furthermore, emphasizes the increased need for the quality statistical data and analysis in several policy areas, ranging from healthcare to forest, biodiversity, and agriculture. Thus, the GoKR has demonstrated a strong commitment to reforming tax administration and national statistical systems by putting these reforms at the center of its reform agenda. Modernization of the tax administration and national statistical systems are at the center of the Government's digitalization agenda aimed to expand the range and improve the quality of online services for citizens and businesses and improve efficiency and effectiveness of operations of government agencies.

Tax Administration

5. The State Tax Service (STS) developed and the GoKR endorsed a Strategy for Tax Administration Reform for 2019-2022. The Strategy is aligned with the GoKR's Vision 2040 and the MTDP for 2018-2022 and aims to implement reforms that will improve the STS effectiveness and efficiency and reduce compliance burden for taxpayers.

6. The STS is responsible for administering and collecting direct and indirect taxes at the national level and the local level, as well as Value Added Tax (VAT) on goods and services traded within the EEU. The core taxes in the Kyrgyz Republic accounted for 11.5 percent of GDP in 2017 and include VAT, Corporate Income Tax (CIT) and Personal Income Tax (PIT). In addition, from 2019 the GoKR transferred collection of contributions to the Social Fund to the STS. Tax reforms in the past yielded substantial gains in revenue collection. Total tax revenue, excluding social security contributions, increased from 16 percent of GDP in 2005 to 20.6 percent in 2014. However, total tax revenue as a share of GDP has slightly declined and stagnated in the recent years.

7. The 2016 Tax Administration Diagnostic Assessment (TADAT) carried out by the World Bank reports significant weaknesses in the Kyrgyz Republic's tax administration system: outdated tax administration business processes coupled with a lack of full automation of core tax administration processes; unstructured approach to compliance and institutional risk management; limited accuracy of key data in the taxpayer registration database; and limited rollout of e-filing. Risk management is limited to audits and does not prioritize risks by taxes, compliance obligations and taxpayer segments. The STS lacks risk management across key tax administration functions and proactive measures to ensure accurate reporting. The STS does not apply any methods to estimate revenue losses from inaccurate reporting, such as estimation of a VAT gap, and there is no risk-based verification system in place for VAT refunds. The STS' limited risk management practices lead to an inadequate focus on large taxpayers while significant resources are assigned to the assessment of small taxpayers and minor compliance matters. In addition, the assessment revealed that the STS lacks strategic focus, skills and tools to monitor tax compliance as well as performance and accountability of tax administration.

8. Ineffective tax administration operations also 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, in turn incentivizing informality. 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. According to the 2019 Doing Business report, tax compliance costs have remained high: the number of tax payments at 51 is high in comparison to the ECA Region average of 16.6 and the OECD average of 11.2. Furthermore, it takes on average 225.5 hours to complete tax requirements in the Kyrgyz Republic, compared with the ECA Region average of 214 hours and the OECD average of 159 hours. Finally, the post-filing index gauging how long it takes to obtain refunds and deal with audits, stands at 36.9, whereas the ECA



average is 64.41, and the OECD average is 84.41. This indicates that tax administration system in the Kyrgyz Republic significantly lags behind in processing refunds and handling audits.

9. Complex and outdated core business processes inhibit the STS from moving forward with modernization. As a result, the STS automation efforts have yielded limited efficiency gains and improvements in tax administration processes and the quality of taxpayer services.

National Statistical System

10. The National Statistical Committee (NSC) Development Strategy (NSDS) for 2020-2024¹ is aligned with the GoKR's Vision 2040 and envisions significant steps toward digitalization, greater utilization of administrative data, including data on tax revenues, based on the government systems interoperability, streamlining of the National Statistical System (NSS) institutional relations and settings, and improvements in statistical education.

11. The Kyrgyz NSS has made important steps to become a fully-fledged system which collects, processes and disseminates data based on international standards, capturing social and economic processes in a developing market economy. Development of the NSS is a continuous process, and at each stage of development, the system faces new challenges. With changes in the data ecosystems and introduction of new requirements, the data revolution process takes place, initiating new challenges in data processing, transmission, and dissemination in an open, user-friendly manner. New players, such as private sector "big data" generators, come into picture and modify the boundaries of official statistics. The need to measure progress towards the Sustainable Development Goals (SDGs) places new requirements on the NSS in data collection, processing and calculation of new indicators, adding to the challenges the Kyrgyz statistical system is facing.

12. The GoKR's Vision 2040 promotes the evidence-based policy making as a prerequisite to achievement of the country's economic and social development priorities. This requires improvement in economic and social policy making, which in turn depends on the evidence. The NSS is not fully equipped to deliver the needed information in a timely manner to policy and decision makers. It also fails to release data of high granularity due to inefficient surveys and an outdated administrative data collection system. A lack of the needed data does not allow to calculate a multidimensional poverty index and use data for targeting the most vulnerable segments of population. In addition, insufficiently granular data does not allow supporting implementation of SDGs and ensuring that its principle—"no one left behind"—is followed. The restructuring and streamlining of the NSC at the center and in the regions are needed to support smoother and uninterrupted statistical operations. The NSC lacks contemporary methods of data collection and application of current standards and methodologies and needs to revamp the data transmission, processing and dissemination system by introducing new data IT systems for data transmission, storage, processing, and dissemination. These systems will also support higher granulation of data necessary for development of evidence-based policies at subnational and municipal levels.

13. The GoKR has requested the World Bank's financing to support modernization of the tax administration and the national statistical system. It requested to support the STS reform program, focusing on concrete commitments, such as modernizing tax administration businesses processes, enhancing the IT infrastructure, and improving taxpayer services. The GoKR also asked to support the NSC reform program that includes enhancement of processes and requirements in the national statistical system, modernization of the data collection, processing, dissemination, and application to policy making, and improvement of the capacity of cadre of the statistical system. The project contributes to the Government's vision to improve effectiveness of tax collection and reduce the compliance burden for taxpayers as well as inform policy making based on evidence relying on high quality and timely statistical data.

¹ The strategy is being drafted by the NSC.



Relationship to CPF

14. The proposed Tax Administration and Statistical System Modernization Project (TASSMP) is aligned with the Country Partnership Framework (CPF) for FY2019-2022 which seeks to support the Kyrgyz republic in strengthening foundations for inclusive, private sector-led growth. The TASSMP will support improvements in the first, second and fifth focus areas of the CPF, namely, strengthening institutions for improved macro management, enhancing conditions for private investment and diversification and promoting digitalization and development of e-economy. The tax administration components of the project will support and strengthen institutions for better fiscal management and improve effectiveness of tax collection. It will also lower the compliance burden for taxpayers, through modernization and digitalization of tax administration, and thus contribute to better investment climate and private sector development. The statistical components of the project will enhance the national statistical system enabling calculation of the multidimensional poverty index. It will also enable the government to use better data for evidence-based policy-making, efficient allocation of public spending, and targeting the most vulnerable segments of population. At the same time, the improved quality and timeliness of the national statistical data will facilitate private investment decisions.

C. Proposed Development Objective(s)

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

Key Results (From PCN)

15. Drawing on results of the TADAT diagnostic and international ranking of the Kyrgyz republic in paying taxes, the proposed key results indicators for improving effectiveness of tax collection are:

- Reduced VAT gap
- Reduced time required to comply with taxes as reported in Doing Business

16. Drawing on the identified weaknesses in the national statistical system, the proposed key results indicators for the national statistical system components of the project include:

- Measurements of economic and social development are conducted through a comprehensive data collection mechanism - socio-economic surveys, censuses and administrative data (including municipal statistics) - conducted at regular basis and released in a timely manner
- Improved openness of official statistics
- Improved efficiency

D. Concept Description

Component 1. STS Institutional Development

17. The component will support (i) enhancing the strategic focus and performance of STS management (including attention to integrity, change management, and taxpayer services), (ii) improving human resource management and staff capacity, and (iii) revising the legal framework necessary to support a modern tax administration that is aligned with international good practices. It will support institutional and organizational development aimed at strengthening executive, managerial and technical capacity and will involve introduction of an enhanced monitoring system to assist in the management of STS performance. It also supports initiatives to reduce the compliance burden for taxpayers and with process changes that will limit the requirement for face-to-face meetings with STS staff and allow them to communicate



with the STS through a variety of channels. The component will support strengthening of the STS internal control and integrity function to improve accountability of the STS. The component will enhance the skills of the STS management in managing the significant change as the organization transitions to a modern tax administration.

Component 2. STS Operational Development

18. The activities within this component will support modernization of the STS operational functions by implementing new streamlined business processes within the STS and the enhanced tax administration IT system. This component builds upon the World Bank Technical Assistance (TA) that is being provided to the STS by involving a comprehensive, deeper and systematic Business Process Reengineering (BPR) beyond the “quick wins” supported by the TA and which will require significant changes to the way STS operates to align with international good practice. The modernized business processes will reduce the need for face-to-face interaction between tax inspectors and taxpayers and thus will reduce opportunities for corruption. The enhancement of the tax administration IT system will increase its compliance and responsiveness to the information needs of the STS and taxpayers. This component will also include revamping and scaling up the use of e-cash registers which is part of the GoKR’s broader e-fiscalization program aimed to combat the shadow economy. The component will also finance modernization of the IT infrastructure of the STS. Activities in this component will enable lowering compliance costs for taxpayers and increasing operational effectiveness of the STS.

Component 3. NSC Institutional Development

19. The component will support strengthening of the legal environment for the national statistical system and institutional structure of the NSC. It will support revisions to a number of regulations guiding activities of the national statistical system to be in line with the new Law on Official Statistics². Further digitalization in data collection will require reforming the NSC organizational structure. Consequently, the component will strengthen the top level of the system where the main methodological work predominantly takes place, survey mechanisms are developed, and macro and sectoral indicators are calculated. Imminent digitalization and rapidly advancing statistical methodologies require significant investment in and continuous upgrade of the statistics cadre. The component will include a broad range of activities in this area: developing contemporary curricula to meeting needs of the NSC and other agencies in new skills; creating a stream of young professional statisticians; enabling continuous training to all levels of NSC staff and statisticians from line ministries and agencies who work at the rayon level and the national level. Special attention will be paid to the training needs of staff of Ayil Okmotus (local self-governments).

Component 4. NSC Data Development

20. The NSC recognizes the need for improvement of statistical infrastructure that will enable management of large data warehouses, collection of data via electronic means and secure transmission and storage of the data, and dissemination of the data in open data formats. This component of the project will support improvements in data collection and dissemination; enhancement in the statistical infrastructure, databases and methodologies, and modernization of relevant business processes; and enhancement of the NSC infrastructure. The component will involve, among others, the following: analyses and changes in the data collection process to reduce the respondent burden; introduction of indicators for Sustainable Development Goals (SDGs) into statistical practice; support to greater reliance on administrative data and modern approaches to data collection; conduct of regular censuses; update of statistical registers; and improvement in the statistical databases and computation methodologies in the main areas of statistics. The component will support improvements in relevant business processes in the NSC and the national statistical system by introducing a Generic Statistical Business Process Model (GSBPM), enhancements in municipal statistics, and

² The Law on Official Statistics was approved by the Parliament on May 29, 2019.



development of a single data warehouse in the NSC with inclusion of administrative data where possible. The component will also involve Improving data dissemination in an open and user-friendly format as well as building capacity in the NSC to analyze data and present to users with metadata, basic manipulation tools, and explanations is another goal of the project in data development. In addition, the component will include enhancement of the technical capacity and physical infrastructure of the NSC to collect, process and store statistical reporting, survey and census data by procuring new equipment, data transmission means, and statistical software.

Component 5. Project Management

21. This component will finance costs associated with project management, including monitoring and evaluation and results assessment. It is expected that the project will have two Project Management Units (PMUs)—at the STS and at the NSC, with some coordination required in areas such as project progress and financial reporting, and preparation of disbursement applications. The details of the project institutional arrangements will be developed during next missions.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

The Project is a technical assistance project that will provide gains in efficiency within the government tax administration systems. There are no civil works envisaged and the Project includes training of staff but does not anticipate any loss of employment. Therefore, no negative environmental or social impacts are expected and the corresponding risks are rated Low.

Note To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document.

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