
CREDIT NUMBER 6912-UZ

Financing Agreement

(Tax Administration Reform Project)

between

REPUBLIC OF UZBEKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

CREDIT NUMBER 6912-UZ

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between REPUBLIC OF UZBEKISTAN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient a credit, which is deemed as Concessional Financing for purposes of the General Conditions, in the amount of sixty million Dollars (\$60,000,000) (variously, “Credit” and “Financing”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.04. The Service Charge is the greater of: (a) the sum of three-fourths of one percent (3/4 of 1%) per annum plus the Basis Adjustment to the Service Charge; and (b) three-fourths of one percent (3/4 of 1%) per annum; on the Withdrawn Credit Balance.
- 2.05. The Interest Charge is the greater of: (a) the sum of one and a quarter percent (1.25%) per annum plus the Basis Adjustment to the Interest Charge; and (b) zero percent (0%) per annum; on the Withdrawn Credit Balance.

- 2.06. The Payment Dates are April 15 and October 15 in each year.
- 2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.08. The Payment Currency is Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall cause the Project to be carried out by Recipient, through STC, in accordance with the provisions of Article V of the General Conditions and Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following, namely that the STC's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, the ability of the STC to perform any of its obligations under the Agreement.
- 4.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
 - (a) the STC has established a PIU with staff composition, terms of reference and resources acceptable to the Association; and
 - (b) the STC has adopted POM satisfactory to the Association.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is its Minister of Finance.

6.02. For purposes of Section 11.01 of the General Conditions:

(a) the Recipient's address is:

Ministry of Finance
Istiqlol Street 29
Tashkent 100017
Republic of Uzbekistan; and

(b) the Recipient's Electronic Address is:

Telex:	Facsimile:	E-mail
1 6360 IK BOL (998-71) 239-1259	(998-71) 239-1569	invest@mf.uz

6.03. For purposes of Section 11.01 of the General Conditions:

(a) The Association's address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America; and

(b) the Association's Electronic Address is:

Telex:	Facsimile:
248423 (MCI)	1-202-477-6391

AGREED as of the Signature Date.

REPUBLIC OF UZBEKISTAN

By

Timur Ishmetov

Authorized Representative

Name: Timur Ishmetov

Title: Minister of Finance

Date: 18-apr-2022

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Marco Mantovanelli

Authorized Representative

Name: Marco Mantovanelli

Title: Country Manager

Date: 13-Apr-2022

SCHEDULE 1

Project Description

The objective of the Project is to improve the operational efficiency and effectiveness of the STC and increase voluntary compliance.

The Project consists of the following parts:

Part 1. Automation of core tax administration business processes

Enhance the operational efficiency of the STC by (a) simplifying and reengineering core business processes that underpin the STC's core functions and (b) revamping the Information Communication Technology (ICT) strategy and systems through the following:

1.1. Implementing an integrated Tax Management Information System (TMIS) through:

- (i) procurement, development and implementation of a TMIS to provide end-to-end automation of business processes that are aligned to the business process reengineering;
- (ii) implementation of simplified, streamlined, and standardized procedures of the STC supported by the new TMIS, including an audit case management system;
- (iii) (a) building of a conceptual process map to ensure consistency, identify and match needs, and guarantee quality of data; and (b) creation of a dedicated business domain team that will be responsible for developing the specifications for the TMIS; and
- (iv) development of the architectural documentation for the implemented systems.

1.2. Upgrading of hardware and technological infrastructure (Data Center) of STC through:

- (i) creating a data center infrastructure supported by a disaster recovery site that is energy efficient and has an environmentally friendly Power Usage Effectiveness;
- (ii) replacing the outdated servers and disks for the new data center;
- (iii) modernization of the telecommunications infrastructure to support both in-house and remote workers; and

- (iv) acquisition of servers and software to support big data technologies.

1.3. *Improving ICT governance and planning capacity of the STC's Information Technology (IT) department through:*

- (i) development and updating of the ICT strategy and technology plan,;
- (ii) development of a standard bug tracking system universal for all development projects;
- (iii) creation of service level agreements for software support and development;
- (iv) selection of a set of business and performance metrics for the IT department and implementation of an ICT monitoring and evaluation system; and
- (v) improvements in IT systems to make effective use of social media platforms.

1.4. *Improving the STC Disaster Risk and Business Continuity Management (BCM) systems through:*

- (i) the carrying out of a security diagnostic and a security performance review; and
- (ii) the implementation of a BCM program that includes specific mitigation strategies in the context of COVID-19.

Part 2. Reduction of the informal economy

Develop and implement a pragmatic road map to improve operational effectiveness and help reduce the size of the informal economy through the following:

2.1. *Strengthen STC enforcement capabilities through:*

- (i) simplification of the tax system, including *inter alia* review of the legislative framework, procedures, forms, as well as consideration of removing distortionary tax exemptions/incentives and enhancing tax gap analysis, thereby broadening the tax base and improving voluntary compliance;
- (ii) implementation of a risk-based compliance model and risk-based enforcement programs;

- (iii) extension of e-filing and e-payment systems and limiting the use of cash payments;
- (iv) implementation of track and trace control mechanisms for targeted sectors;
- (v) alignment of the tax system with widely accepted international good practices in the areas of, *inter alia*, tax transparency and exchange of information;
- (vi) expansion of the use of international exchange data, third-party data, and big data to identify non-registered taxpayers and unreported transactions; and
- (vii) enhancement of the STC's audit capacity and extending the use of the risk management module and integrating with other data analyses and business intelligence tools to automatically detect high-risk operations.

2.2. *Facilitation of voluntary compliance* through:

- (i) design of incentives to encourage businesses and individuals to comply with their tax obligations;
- (ii) carrying out a review of the legal framework and procedures to facilitate and encourage compliance or strengthen control;
- (iii) delivery and publication of periodic taxpayer satisfaction surveys disaggregated by gender to analyze potential differences in the perception of issues depending on gender and better tailor interventions;
- (iv) delivery of focus group discussions with taxpayer representatives and the business community to analyze survey results and propose rectifying measures; and
- (iv) development and implementation of awareness campaigns to address the informal economy with a focus on women leading micro and small enterprises.

2.3. *Development of cooperative relationship with private sector* through:

- (i) engagement of the private sector in the design of new/simplified policies and procedures to address risks related to the informal economy (registration, filing), including *inter alia*: (a) setting up a joint governance framework with the private sector; (b) undertaking analysis of data and identification of risk areas; (c) conducting consultative working sessions to identify policy changes; (d) designing and delivering awareness and

- enforcement campaigns; and (e) developing a monitoring framework to assess impact of proposed changes;
- (ii) partnering with the private sector to change taxpayers' behavior toward a data-driven relationship, including *inter alia*: (a) setting up a digital platform; (b) developing a communication strategy outlining informal economy risks; and (c) putting in place an informal economy e-complaint mechanism; and
- (iii) engagement of the private sector, including women entrepreneurs, in promoting awareness of enforcement measures, including *inter alia* setting-up of a consultative board comprising women and men entrepreneurs to solicit their input regarding shadow economy risks.

Part 3. Strengthen Human Resources (HR) and institutional capacity for tax administration and delivery

Strengthen the STC's HR institutional capacity to attract, develop, and retain a skilled and knowledgeable workforce and develop the skills of tax officials through the following:

3.1. Improving STC's Human Resource Management through:

- (i) development and implementation of key HR management (HRM) policies, including *inter alia*: (a) merit-based recruitment, selection, and appointment that provide adequate opportunities and incentives to attract women to higher positions in the STC; (b) compensation and incentive strategy with adequate payroll controls linked to performance targets; (c) performance monitoring, measurement, and appraisal that are transparent and results-based and support improved employee productivity; and (d) technology-based HR information management that is credible and accurate for evidence-based planning and decision-making.
- (ii) development and usage of best practice frameworks and guidelines, including HR strategy and policy manuals, competency framework, and code of conduct to strengthen the ethical foundation of tax administration.

3.2. Institutional functions realignment to support achievement of the STC strategic goals and objectives through:

- (i) carrying out an organizational assessment to remove functional and task duplication and fragmentation and preparation of job descriptions with measurable outputs for all critical positions;
- (ii) development of skills and competency inventory and gap analysis;
- (iii) strategic mapping/realignment of personnel to the STC's core functions to improve productivity and job satisfaction for all staff;

- (iv) development of staffing and professional development plans as tools for improving staff capabilities;
- (v) development and usage of function manuals to strengthen the STC's effectiveness in delivery of services; and
- (vi) development of appropriate templates intended to carry out periodic staff opinions surveys on organizational effectiveness and performance disaggregated by gender and function.

3.3. *Capacity Building* through provision of support for the continuous professional development of the STC employees including:

- (i) training needs assessments based on recommendations of the organizational functional analysis, job descriptions, skills and competency analysis, and staff business development plans;
- (ii) development of professional development strategies and plans for improving staff capabilities and continuous learning on-the-job with adequate strategies on enhancing the capabilities of women employees;
- (iii) development of a comprehensive medium-term training plan based on recommendations of the said training needs assessments;
- (iv) development and implementation of an international exchange and learning program to encourage study visits of tax administration professionals to share knowledge and experience with other countries;
- (v) development of a curriculum and training modules for (a) a train-the-trainers program to support operationalization of the planned fiscal institute; (b) a specialized short-term skills and competency upgrading program in leadership and management and in technical taxation disciplines; and (c) long-term professional courses with support for vertical and horizontal career development, including targeting of female staff to enhance their capabilities for promotion, and the creation of professional cadre of tax administrators;
- (vi) facilitation of government plans to establish a fiscal institute through feasibility studies and strategic and operational plans;
- (viii) capacity building on training and research methodologies; and
- (ix) delivery of pilot capacity-building programs and trainings on key thematic areas with a participation rate of fifty percent (50%) women.

Part 4. Supporting Project Management

Provide support for Project implementation, including the Project's monitoring and evaluation, application of environmental and social standards, Project related audits, Training and financing of Incremental Operating Costs.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. The Recipient, through STC shall (i) ensure overall coordination and implementation of the Project and (ii) maintain, throughout the Project implementation, the following institutional arrangements:
 - (a) maintain, throughout the Project implementation, a Project Implementation Unit with a structure, functions, responsibilities and adequate staff, all as further described in the POM and acceptable to the Association, for the purposes of Project management, monitoring, evaluation and supervision;
 - (b) establish, not later than three (3) months from Effective Date, and thereafter maintain throughout the Project implementation, working groups to ensure close coordination and ownership at the operational and technical levels as further described in the POM; and
 - (c) establish, not later than three (3) months from Effective Date, and thereafter maintain throughout the Project implementation an advisory board to facilitate citizen engagement as further described in the POM.
2. The Recipient, through STC, shall: (a) adopt the POM, satisfactory to the Association, and thereafter carry out the Project in accordance with the provisions set out in the POM; and (b) not amend, suspend, abrogate, repeal or waive any provision of said POM without the prior written approval of the Association, provided, however, that in case of any conflict between the provisions set out in the POM and the provisions of this Agreement, the provisions of this Agreement shall prevail.
3. The Recipient, through STC, shall install, not later than two (2) months from the Effective Date, a separate module in the current accounting software for managing the accounting and financial reporting of the Project.

B. Environmental and Social Standards.

1. The Recipient, through STC, shall ensure that the Project is carried out in accordance with the Environmental and Social Standards, in a manner acceptable to the Association.

2. Without limitation upon paragraph 1 above, the Recipient, through STC, shall ensure that the Project is implemented in accordance with the Environmental and Social Commitment Plan (“ESCP”), in a manner acceptable to the Association. To this end, the Recipient, through STC, shall, ensure that:
 - (a) the measures and actions specified in the ESCP are implemented with due diligence and efficiency, as provided in the ESCP;
 - (b) sufficient funds are available to cover the costs of implementing the ESCP;
 - (c) policies and procedures are maintained, and qualified and experienced staff in adequate numbers are retained to implement the ESCP, as provided in the ESCP; and
 - (d) the ESCP, or any provision thereof, is not amended, repealed, suspended or waived, except as the Association shall otherwise agree in writing, as specified in the ESCP, and ensure that the revised ESCP is disclosed promptly thereafter.
3. In case of any inconsistencies between the ESCP and the provisions of this Agreement, the provisions of this Agreement shall prevail.
4. The Recipient, through STC, shall ensure that:
 - (a) all measures necessary are taken to collect, compile, and furnish to the Association through regular reports, with the frequency specified in the ESCP, and promptly in a separate report or reports, if so requested by the Association, information on the status of compliance with the ESCP and the environmental and social instruments referred to therein, all such reports in form and substance acceptable to the Association, setting out, inter alia: (i) the status of implementation of the ESCP; (ii) conditions, if any, which interfere or threaten to interfere with the implementation of the ESCP; and (iii) corrective and preventive measures taken or required to be taken to address such conditions; and
 - (b) the Association is promptly notified of any incident or accident related to or having an impact on the Project which has, or is likely to have, a significant adverse effect on the environment, the affected communities, the public or workers, in accordance with the ESCP, the environmental and social instruments referenced therein and the Environmental and Social Standards.
5. The Recipient, through STC, shall establish, publicize, maintain and operate an accessible grievance mechanism, to receive and facilitate resolution of concerns and grievances of Project-affected people, and take all measures necessary and

appropriate to resolve, or facilitate the resolution of, such concerns and grievances, in a manner acceptable to the Association.

Section II. Project Monitoring, Reporting and Evaluation

The Recipient, through STC, shall furnish to the Association each Project Report not later than one (1) month after the end of each calendar semester, covering the calendar semester.

Section III. Withdrawal of the Proceeds of the Financing

1. General

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Financing to finance Eligible Expenditures in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

Category	Amount of the Financing Allocated (expressed in USD)	Percentage of Expenditures to be Financed (exclusive of Taxes other than Withheld Taxes)
(1) Goods, non-consulting services, consulting services, Training and Incremental Operating Costs for the Project	60,000,000	100%
TOTAL AMOUNT	60,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made for payments made prior to the Signature Date.
2. The Closing Date is June 30, 2026.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each April 15 and October 15:	
commencing October 15, 2026 to and including April 15, 2046	1.65%
commencing October 15, 2046 to and including April 15, 2051	3.40%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.05 (b) of the General Conditions.

APPENDIX

Definitions

1. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.
2. “Basis Adjustment to the Interest Charge” means the Association’s standard basis adjustment to the Interest Charge for credits in the currency of denomination of the Credit, in effect at 12:01 a.m. Washington, D.C. time, on the date on which the Credit is approved by the Executive Directors of the Association, and expressed either as a positive or negative percentage per annum.
3. “Basis Adjustment to the Service Charge” means the Association’s standard basis adjustment to the Service Charge for credits in the currency of denomination of the Credit, in effect at 12:01 a.m. Washington, D.C. time, on the date on which the Credit is approved by the Executive Directors of the Association, and expressed either as a positive or negative percentage per annum.
4. “BCM” means business continuity management.
5. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.
6. “COVID-19” means the coronavirus disease caused by the 2019 novel coronavirus (SARS-CoV-2).
7. “Environmental and Social Commitment Plan” or “ESCP” means the environmental and social commitment plan for the Project, dated May 12, 2021, as the same may be amended from time to time in accordance with the provisions thereof, which sets out the material measures and actions that the Recipient shall carry out or cause to be carried out to address the potential environmental and social risks and impacts of the Project, including the timeframes of the actions and measures, institutional, staffing, training, monitoring and reporting arrangements, and any environmental and social instruments to be prepared thereunder.
8. “Environmental and Social Standards” or “ESSs” means, collectively: (i) “Environmental and Social Standard 1: Assessment and Management of Environmental and Social Risks and Impacts”; (ii) “Environmental and Social Standard 2: Labor and Working Conditions”; (iii) “Environmental and Social Standard 3: Resource Efficiency and Pollution Prevention and Management”; (iv) “Environmental and Social Standard 4: Community Health and Safety”; (v)

“Environmental and Social Standard 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement”; (vi) “Environmental and Social Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources”; (vii) “Environmental and Social Standard 7: Indigenous Peoples/Sub-Saharan Historically Underserved Traditional Local Communities”; (viii) “Environmental and Social Standard 8: Cultural Heritage”; (ix) “Environmental and Social Standard 9: Financial Intermediaries”; (x) “Environmental and Social Standard 10: Stakeholder Engagement and Information Disclosure”; effective on October 1, 2018, as published by the Association.

9. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Investment Project Financing”, dated December 14, 2018 (revised on August 1, 2020, April 1, 2021 and January 1, 2022).
10. “Incremental Operating Costs” means incremental operating expenditures incurred on account of activities related to the management, monitoring, evaluation, coordination and implementation of the Project, including office equipment maintenance and repair, vehicles, local travel, communication, translation and interpretation, bank charges, consulting services, salaries of the PIU staff (excluding salaries of the Recipient’s civil servants) and other costs of similar nature directly associated with the Project, all based on periodic budgets acceptable to the Association.
11. “Procurement Regulations” means, for purposes of paragraph 87 of the Appendix to the General Conditions, the “World Bank Procurement Regulations for IPF Borrowers”, dated November 2020.
12. “Project Implementation Unit” or “PIU” means the unit to be established by STC pursuant to Section 5.01 (a) of this Agreement and further referred to in Section I.A.1 (a) of Schedule 2 to this Agreement and the POM, including *inter alia* Project manager, financial manager, accountant, procurement specialist, environmental and social safeguard specialists, or any other specialist agreed with the Association.
13. “Project Operations Manual” or “POM” means the manual to be adopted by the STC pursuant to Section 5.01 (b) of this Agreement and further referred to in Section I.A.2 in Schedule 2 to this Agreement, setting forth, *inter alia*, the institutional, disbursement, procurement and financial management arrangements for the implementation of the Project.
14. “Power Usage Effectiveness” means the ratio of total amount of energy used by a computer data center facility to the energy delivered to computing equipment.

15. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.
16. “State Tax Committee” or “STC” means the Recipient’s tax committee established pursuant to Recipient’s Decree of the President of the Republic of Uzbekistan No. UP-744 dated January 18, 2994, or any successor thereto acceptable to the Association.
17. “Training” means expenditures for Project related study tours, training courses, seminars, workshops and other training activities not included under goods or service providers’ contracts, including costs of training materials, space and equipment rental, travel, accommodation and *per diem* costs of trainees and trainers and trainers, trainers’ fees, and other training related miscellaneous costs.
18. “Withheld Taxes” means the following taxes withheld at source: taxes for social charges; income taxes for residents and non-residents; and custom registrations duties withheld at the source.