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Report No: PAD3908

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED CREDIT

IN THE AMOUNT OF US$60 MILLION

TO THE

REPUBLIC OF UZBEKISTAN

FOR A

TAX ADMINISTRATION REFORM PROJECT

May 25, 2021

Governance Global Practice
Europe and Central Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective April 30, 2021)

Currency Unit	=	Uzbekistan Som (UZS)
UZS 10,522.99	=	US$1
US$1.44	=	SDR 1

FISCAL YEAR

January 1 – December 31

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ABBREVIATIONS AND ACRONYMS

BCM	Business Continuity Management
COTS	Commercial Off-the-shelf
CPF	Country Partnership Framework
DA	Designated Account
DIAMOND	Development of Implementation and Monitoring Directives
DRM	Domestic Revenue Mobilization
ESF	Environmental and Social Framework
FAQ	Frequently Asked Question
FM	Financial Management
GDP	Gross Domestic Product
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
HR	Human Resources
HRM	Human Resource Management
ICT	Information and Communication Technology
ICR	Implementation Completion and Results Report
IFR	Interim Financial Report
IPSAS	International Public Sector Accounting Standards
ISR	Implementation Support and Results Report
IT	Information Technology
IMF	International Monetary Fund
IRR	Internal Rate of Return
LTO	Large Taxpayer Office
M&E	Monitoring and Evaluation
MOF	Ministry of Finance
NDC	Nationally Determined Contribution
NPV	Net Present Value
PDO	Project Development Objective
PIU	Project Implementation Unit
PIT	Personal Income Tax
PMS	Performance Management and Appraisal System
POM	Project Operations Manual
PPL	Public Procurement Law
PPSD	Project Procurement Strategy for Development
PRAMS	Procurement Risk Assessment and Management System
SCC	State Customs Committee
SOE	State-owned Enterprise
STC	State Tax Committee
TA	Technical Assistance
TNA	Training Needs Assessment
TMIS	Tax Management Information System
VAT	Value Added Tax

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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Uzbekistan	Tax Administration Reform Project in Uzbekistan	
Project ID	Financing Instrument	Environmental and Social Risk Classification
P173001	Investment Project Financing	Moderate

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[ ] Fragile State(s)
[ ] Performance-Based Conditions (PBCs)	[ ] Small State(s)
[ ] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	[ ] Hands-on Enhanced Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
16-Jun-2021	30-Jun-2026

Bank/IFC Collaboration
No

Proposed Development Objective(s)

The development objective is to improve the operational efficiency and effectiveness of the State Tax Committee (STC) and increase voluntary compliance.

Components

Component Name	Cost (US$, millions)

Automation of core tax administration business processes	45.00
Reduction of the informal economy	9.00
Strengthening HR and institutional capacity for tax administration and delivery	4.00
Supporting Project Management	2.00

Organizations

Borrower: Republic of Uzbekistan

Implementing Agency: State Tax Committee

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	60.00
Total Financing	60.00
of which IBRD/IDA	60.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	60.00
IDA Credit	60.00

IDA Resources (in US$, Millions)

	Credit Amount	Grant Amount	Guarantee Amount	Total Amount
Uzbekistan	60.00	0.00	0.00	60.00
National PBA	60.00	0.00	0.00	60.00
Total	**60.00**	**0.00**	**0.00**	**60.00**

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2021	2022	2023	2024	2025	2026
Annual	0.00	6.00	15.00	24.00	12.00	3.00
Cumulative	0.00	6.00	21.00	45.00	57.00	60.00

INSTITUTIONAL DATA

Practice Area (Lead)
Governance

Contributing Practice Areas
Macroeconomics, Trade and Investment

Climate Change and Disaster Screening
This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	High
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	Moderate
10. Overall	Substantial

COMPLIANCE

Policy
Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Not Currently Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Not Currently Relevant
Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description
Schedule 2, Section I, A.1.(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 day-to-day Project management, monitoring, evaluation and supervision

Sections and Description
Schedule 2, Section I, A.1.(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

Sections and Description
Schedule 2, Section I, A.1.(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

Sections and Description
Schedule 2, Section I, A.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.

Conditions

Type	Financing source	Description
Effectiveness	IBRD/IDA	Article V of the Financing Agreement, Section 5.01 (a) the STC has established a PIU with staff composition, terms of refence and resources acceptable to the Association.
Effectiveness	IBRD/IDA	Article V of the Financing Agreement, Section 5.01 (b) the STC has adopted POM satisfactory to the Association.

I. STRATEGIC CONTEXT

A. Country Context

1. **Uzbekistan is a lower-middle-income, mineral-rich, double-landlocked country with the largest population in Central Asia—34 million as of June 2020.**[1] Over the past decade, Uzbekistan has maintained high and stable economic growth rates and has gradually diversified its economy, while official poverty estimates have declined from 27.5 percent in 2001 to 11.4 percent in 2018.[2] This decline has been accompanied by equity gains, with the incomes of those in the bottom 40 percent of the national income distribution growing faster than those of the upper 60 percent between 2008 and 2013. Similarly, Uzbekistan's per capita gross domestic income rose from US$457 in 2001 to US$1,726 in 2019.[3] These gains, however, have relied largely on an economic model driven by the state's dominance in major sectors (for example, natural gas, oil, gold, copper, uranium, ferrous metallurgy, chemicals and petrochemicals, cotton, wheat, and air and railway transport) and a small and medium business sector (for example, horticulture, textile, food processing industry, tourism, and nonbanking financial services). The state's surplus was accumulated mainly through commodity exports, such as natural gas, gold, copper, and cotton, sold by the state in international markets and obtained domestically mostly from state-owned enterprises (SOEs) at controlled (low) prices. State support included protection from competition, priority access to financing and foreign exchange, and large tax and customs preferences to SOEs. While such a policy to support public investment for certain industries as part of a larger package of industrial policies has ensured high growth rates in supported sectors and greater diversification of the economy, it has not delivered enough jobs for the fast-growing population and has limited the opportunities for similar growth in other sectors where Uzbekistan has competitive advantages and high potential.

2. **Since 2017, the Government has launched reforms to radically open and transform Uzbekistan's economy following 26 years of a closed and state-driven model.** Economic policy has been reoriented to forge a competitive, market-led, private sector economy. Simultaneously, a series of social and political reforms have focused on transforming the public sector to be responsive, citizen-centric, and on delivering high-quality public services for all citizens. The authorities have since enacted structural changes, including unification of black market and official exchange rates in September 2017, liberalization of many administered market prices (for example, bread and utilities), liberalization of the tourism and visa regimes, relaxation of some trading restrictions and regulations, and changes to the tax system aimed at reducing direct tax rates and reforming tax administration.

3. **The COVID-19 pandemic has slowed economic growth in 2020 impacting poverty and unemployment.** Real GDP grew by just 1.6 percent in 2020, compared to growth of 5.6 percent in 2019. The reduction in GDP was the result of COVID-19 related declines in exports, border closures, and weaker demand due to restrictions on mobility and economic activity. Poverty and unemployment have increased sharply—the first reversal after two decades of continuous economic growth and poverty reduction. The poverty rate is likely to increase to between 8.7 and 9.8 percent in 2020, compared with pre-crisis

[1] The annual average population growth was 1.8 percent in the recent five years.
[2] World Bank data suggest that the poverty rate at the lower-middle-income country line was 9.6 percent in 2018.
[3] In current US dollars.

projections of 7.4 percent. As a result, up to 900,000 more people were estimated to have slipped into poverty, with many more remaining at risk of facing considerable hardship.

4. **The COVID-19 crisis has delivered a sharp blow to an economy that was expanding vigorously from wide-ranging structural reforms**. Real gross domestic product (GDP) growth rose substantially in 2019 and was broad-based, sustaining the reduction in poverty – the result of several reforms enacted since 2017. Unification of the multiple exchange rates and trade liberalization created much needed stability in the foreign exchange market and enabled firms to boost investment with imported machinery and equipment. Ambitious reforms of the tax system and the business regulatory environment reduced costs and the burden of compliance for the private sector, leading to more business dynamism and buoyant manufacturing and construction activity. Trade liberalization – including restarting of the negotiations for WTO accession – the removal of horticultural export barriers, large increases in farmgate procurement prices of cotton and wheat, and improved reliability of energy supplies and other intermediate inputs led to a surge in trade and transport links with neighbors and was a boon for horticultural exports. A revamp of the visa process contributed to record tourist arrivals. Private consumption picked up through the release of pent-up demand after years of restrictions, supported by substantial increases in wages, a boost to rural incomes from agricultural reforms, and credit expansion. The COVID-19 crisis has extinguished economic growth in 2020, hitting new and promising sectors of opportunity, such as tourism, especially hard.

5. **The government has provided rapid and sizeable anti-crisis support to save lives and protect the vulnerable.** Heeding early warnings about the COVID-19 pandemic, the government established an Anti-Crisis Commission at the end of January 2020, seven weeks before the first coronavirus case was detected in Uzbekistan. The Commission has spearheaded the government's policy response, with its priorities focused on saving lives, preserving livelihoods, and sustaining the reform momentum. These priorities mirror the four pillars of the World Bank's COVID-19 Crisis Response approach paper. The authorities provided substantial but temporary tax relief to firms and households, ramped up health spending, expanded social protection, and extended sizable support to small- and medium-size businesses. Specific tax measures included temporary suspensions of social contributions for individual entrepreneurs; postponed surcharges on tourism, property tax, and land tax; extended the moratorium on tax audits; and delayed tax declarations for 2019 income taxes to support businesses' cash flows**.** These measures played an important role in sustaining economic activity and supporting Uzbekistan's positive growth in 2020.

B. Sectoral and Institutional Context

6. **Mobilizing domestic revenues is critical to increase fiscal space, finance required public investments, and sustain economic growth.** While tax receipts have increased in 2018, collection stagnated, underlining structural challenges, which may be attributed to narrow tax bases and a large informal economy. Tax revenues increased from 15.2 percent of GDP in 2017 (total revenues as percent of GDP was at 24.7%) to 17.4 percent in 2018 and 19.1 percent in 2019. While this ratio is relatively high compared to regional benchmarks, it is almost equal to the ratio registered in the early 2000s.

7. **The COVID-19 pandemic and the cost of anti-crisis measures have substantially worsened the budget deficit.** Total revenues were 1.5 percentage points of GDP lower in 2020 compared to 2019.

Surprisingly, tax revenues increased by 0.3 percentage points of GDP in 2020 compared to 2019. The decline in overall revenues was largely the result of anti-crisis suspensions of social security contributions, which amounted to about 0.9 percent of GDP. The remainder of the revenue loss was from lower SOE dividends-a result of the slowdown in SOE production due to the pandemic. Anti-crisis measures led to substantial increases in spending for health care, transfers to low-income households, financial support to enterprises, and an expansion of public works. Despite this spending increase, slower capital investment spending helped buffer the increase in total expenditures, which rose by 1.6 percentage pints of GDP in 2020 compared to 2019. Overall, the budget deficit widened to 3.3 percent of GDP in 2020 compared to the 2019 budget deficit of 0.3 percent.

8. **The tax system in Uzbekistan is complex and is characterized by nonuniform effective tax rates and lack of equity.** This is despite the positive changes brought about by the new tax code, effective in January 2020. The tax code lays out the key features for personal income tax (PIT) and the VAT, but other taxes and rates are still set by the Government in the annual budget resolutions.[4] The tax legislation grants numerous discretionary tax exemptions tailored for individual companies and products. All these raise compliance costs for small- and medium-size firms and create a disincentive to promote voluntary compliance and formalization. A disproportionately high tax burden and opaqueness of the tax system have contributed to the creation of a large informal sector, which is estimated at 45–50 percent of the economy.[5] Tax reform in Uzbekistan stands to play a key role not only in improving the investment climate but also in building trust between citizens and the Government. Taxation is also about 'good governance' with tax systems working as vehicles to ensure state building and accountability of the Government to its citizens.

9. **Since 2019, the Government has launched a tax reform agenda that has been supported by a World Bank technical assistance (TA) program with the State Tax Committee (STC)[6].** The Government agenda focused on simplifying taxes, reducing taxes on labor, and broadening the VAT, but further tax reform remains a priority to improve the attractiveness of Uzbekistan for investment. For instance, while efforts to reduce distortions are ongoing, including defining the threshold of small businesses in terms of turnover rather than number of employees, the design of tax systems is still providing strong incentives for firms to stay small, downsize, or artificially split to avoid migrating into the standard tax regime, which also has negative implications on job creation and firm productivity. The TA program has delivered important analyses (see box 1) which set the basis for the design of this project. It contributed to the development of a new tax code, which laid the groundwork for further improvements, including the analysis of business processes, enhanced audit, and a road map to increase automation. The TA supported enhancing the risk management framework, building the capacity of staff, and improving the (Value Added Tax) VAT refund

[4] For example, the 2019 budget resolution is 138 pages long, four-fifths of which is dedicated to setting various tax rates.
[5] World Bank staff estimates using a micro-simulation model and a study carried out by the Association of Chartered Certified Accountants.
[6] The STC is the Republic of Uzbekistan's tax committee established pursuant to the Decree of the President of the Republic of Uzbekistan No. UP-744 dated January 18, 1994 and is the single state body carrying out the implementation, administration and control over tax policy and state revenues, as well as ensuring the tax compliance, enforcement, and protection of economic interests and property rights of the state in the related area.

mechanism, among other things. The TA also conducted five comprehensive and substantive assessments using the Development of Implementation and Monitoring Directives (DIAMOND[7]).

Box 1. Uzbekistan Tax Reform TA Program: Achievements to Date

The Uzbekistan Tax Reform Support TA program (P168210, TF0A8528 financed under the Multi-Donor[8] Trust Fund for the Global Tax Program) was approved in November 2018 to assist the Ministry of Finance (MOF) and the State Tax Committee (STC) to improve tax policy reforms in line with international good practices and help implement the new regime through more effective tax administration. Achievements to date include:

1. Supported the Design and Implementation of Tax Administration Reform Agenda. Following the DIAMOND methodology, the World Bank delivered five comprehensive and substantive reports that covered tax administration, business process mapping, ICT assessment, automation, and ICT needs assessment. The five 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 accounted for by the client in the drafting of their tax reform strategy. The World Bank provided further support to the formulation of the tax reform strategy and the associated action plan. It supported the development of a risk management audit framework and development of a fast and long track VAT refund mechanism,
2. Supported the design of a new tax code. The World Bank advised on the design of a new tax code that became effective in January 2020. The in-depth support provided advice on topics such as VAT, land and property tax, international tax, PIT, corporate income tax (CIT), audit and penalties.
3. Supported Capacity Building. The World Bank conducted various diagnostics and workshops to build capacity in the tax administration. These include support to broaden the tax base, VAT implementation, and capacity building for local officers through the advisory control visits program, which included training and on-the-job support with real audit cases. The primary goal is to transfer tax control skills to the STC officers through a real-time 'learning-by-doing' approach. The expected outcome is to strengthen institutional capacity of the STC and help the organization address typical challenges that arise with a large-scale implementation of VAT. Other diagnostics work included: analysis of negative returns, readiness to initiate e-invoicing, taxpayer segmentation and profiling, markup/mirror analysis.
4. Provided COVID-19 related analysis and others. In mid-2020, the World Bank shared knowledge to help counterparts deal with the outbreak of COVID-19. Work also focused on supporting Customs and the MOF. An assessment of Customs was carried out in June 2020 and a proposed strategy on the shadow economy was delivered in August 2020. A workshop on Post-Clearance Audit was also delivered in October 2020.

10. **The assessment[9] conducted under the TA highlighted five strategic takeaways.** The takeaways include (a) the need to think strategically about the evolution of the organization in alignment with technological change and the needs of the modern economy, (b) the need for full automation and timely

[7] DIAMOND is a comprehensive model consisting of a suite of tools aimed at accompanying implementation and monitoring of tax reforms. It provides a set of operational tools to determine a country's tax and customs administrations' strengths and weaknesses, undertake in-depth assessment of performance gaps, and make recommendations for improvement in each area. DIAMOND produces objective assessments by encoding international good practices in a series of indicators for several areas; documenting how the organization measures up to these good practices in their operations; validating these indicators with the corresponding evidence; and organizing these measurements in a way that quickly and intuitively highlights core limitations. DIAMOND allows revenue administrations to identify areas for successful reform where it had previously remained elusive. It is modular, flexible, and scalable, with the choice of which modules to apply depending on country needs and demand.

[8] The donor countries are Switzerland, Australia, Luxembourg, Norway, Japan, Netherlands, UK, Denmark, and France

[9] Between February and May 2019, the World Bank team conducted a series of institutional and functional assessments of the STC—using the DIAMOND methodology—focusing on administration, IT, business processes, and the overall institutional framework.

access to data, (c) the need to analyze technological readiness of the STC and its ability to absorb disruptive technologies, (d) a realization of how vital it is to build capacity of the STC staff and put in place efficient and modern human resources (HR) policies, and (e) the importance of factoring in nontechnical drivers of tax reform including enhancement of risk management functions and the impact of the informal economy.

11. **The assessment findings, which outlined the efficiency and effectiveness challenges facing the STC underpinned by low capacities, fed into the development of a transformation agenda that provided the broad contours of this operation.** The transformation agenda (see table 1), included six sub-agendas, two of which—tax policy and institutional restructuring—are supported primarily by the International Monetary Fund (IMF), while the other four provided the basis of this operation. The 'ICT' and 'Core Functions' sub-agendas aim to address the inefficiencies, enhance the technological readiness of STC, as well as strengthen its enforcement capacities. Any agenda to modernize a tax administration warrants an 'HR agenda' to address capacity gaps, promote career development for all staff, and align the HR infrastructure with reform plans. And broadening the tax net and combating shadow economy warrant 'nontechnical' measures that include an overarching strategy. This is all in-line with lessons learned derived from domestic resource mobilization (DRM) engagements, particularly ones with an IT component (see box 2).

Table 1. STC Transformation Agenda Overview

Tax Policy Agenda	Institutional Agenda	HR Agenda	Core Functions Operations Agenda	ICT Agenda	Non-technical drivers Agenda
• Use a combination of tax compliance gap, revenue targets, and KPIs to assess performance • Strengthen analytical capacities • Conduct various analysis (e.g., cost-benefits analysis of incentives, revenue forecasting)	• Develop a plan to restructure the STC in line with the outcomes of the transformation agenda • Automation of workflows • Prepare a performance-based budget	• Conduct strategic staffing and workload analysis of key functions (HR assessment) • Revise HR functional and organization manual • Prepare HR strategy • Strengthen policies, systems, and procedures • Build tax auditors capacities (e.g., audit techniques, sectoral expertise)	• Business process reengineering • One-stop shop for taxpayer registry • Strengthen taxpayer services • Develop a voluntary compliance program • Develop a risk-based audit framework model • Improve the analysis and reporting of tax arrears, revenue, collection, etc.	• Develop an ICT strategy and develop a technology plan • Define a formal ICT human resource development plan • Develop a plan to replace the IT system • Develop a business and system integration plan	• Develop a comprehensive anti-corruption strategy • Explore solutions to address access to information • Develop a comprehensive multi-faceted strategy to address the informal economy challenges • Enhance internal and external communication plans

Source: World Bank. Report on Assessment of STC. May 2019.

Box 2. Key Lessons Learned from DRM engagements: A snapshot

- First, tax reform agendas should be viewed as an ongoing process that is aligned with a more comprehensive national program and/or integrated within a public finance management reform program.
- Second, a holistic approach is needed. This is critical as most modernization agendas include an IT component and the latter should not be addressed in isolation. A comprehensive and integrated approach is needed that includes, among other things, the institutional and HR frameworks. Failures are often attributed to a silos' approach or situations where the IT agenda is driving the overall modernization agenda instead of the business users within the administration.
- Third, frontloading technical assistance - to assess IT needs, ramping-up local capacities, and securing bottom-up

understanding of the gaps - is important as most clients lack the required expertise or often embark with large investments without securing the buy-in of their operational staff.

- Fourth, a big bang approach is not often the right route to take. Clients may be easily tempted to go for state-of-the-art solutions or a complete A-Z platform where in reality they may only need – for example - the customization of a particular IT module or a smaller data warehouse. Again, technical assistance can help to inform the client about the available options, the most appropriate approach, the associated costs, and the required investments across all levels including HR.
- Fifth, political support and client buy-in is critical to the smooth implementation – and sustainability - of reforms. This may be best attained through working with middle management and operational staff while maintaining a constant dialogue with senior management. Securing the buy-in of operational staff helps embeds the reforms while also mitigating the risks associated with turnover in top leadership positions. Along the same line, it is equally important to understand the political economy drivers of tax reforms.
- Sixth, data quality is another key element to consider. Cleansing, compiling, and using good data is a pre-requisite to improving planning, enhancing operational effectiveness, and garnering public and political support. Inaccurate reporting (e.g., inflated registration database, access to e-services, revenue collection per region, etc.), misleads decision-makers and may lead to a mismatch between the investment made and the actual need of users.
- Seventh, communication and consultation, internally and externally, is important to reduce resistance and leverage potential synergies. This includes engaging staff within the organization and having close collaboration with other institutions – be it multilateral such as the IMF or bilateral bodies.

Efficiency Challenges

12. **A low level of automation and the dominance of cumbersome and paper-based processes largely impose limitations for an efficient and effective tax administration and enhanced voluntary compliance.** The STC has basic automation for business processes, but such processes are implemented on outdated systems that have little support for advanced tax administration functions. The STC has developed a custom in-house system with the support of service providers. However, the existing system[10] provides little support for advanced tax administration functions such as workflow management, business intelligence, reporting, advanced services, or business analytics. Given that the existing systems have not been kept up-to-date, upgrades to such systems would be difficult and a new system is needed. Options include the IT department building this new system from scratch or procuring a new one that can support standard international good practices.

13. **The capacity to develop or acquire adequate systems is hampered by the lack of a strategic vision and a weak governance structure of the IT department**. Currently, there is no formal ICT strategy[11], technology plan, or business and performance metrics. The IT department does not implement standard governance tools or service level agreements between the STC and service providers for software support and development. It does not maintain architectural documentation for the systems implemented, and requirements do not have the technical details to prevent mistakes during the development processes. A stronger governance structure is needed to guide the development and maintenance of IT applications and their associated hardware (for example, networking, security, development, maintenance, and configuration) to ensure that they are sustainable and meet the expectations of the users in the organization.

14. **The existing ICT systems also provide limited functionalities and support for performing data analytics and business intelligence that are critical to measure the STC's performance and perform core**

[10] Built in 2010 as a collection of more than 40 loosely integrated applications
[11] An update to the equipment and data center facilities need to be part of the comprehensive ICT strategy

tax functions. Most of the infrastructure of the data center (for example, server and networking equipment) is outdated, insufficient, and reaching the end of its projected life. A modern integrated technological landscape requires investments in servers and software for big data technologies so that the STC can effectively manage and analyze the large volumes of data that are expected to be generated by the advanced tax services proposed. Data and technology are increasingly instrumental to have an adequate registration database, administer filing and payment, manage tax arrears, and implement a risk management framework.

15. **Better alignment of the ICT systems and the business processes are also needed for improving efficiency and compliance, including reflecting recent changes in the new tax code and other improvements in different STC areas.** Currently, the IT department does not maintain a process map that identifies what business processes have been implemented, partially implemented, and need to be implemented from a purely business perspective. A replacement of the IT systems needs to be supported by a dedicated business domain team that maintains a comprehensive process map designed to promote consistency in the application of processes, ensure quality in the collection and processing of data, and provide the information required for business decision-making. Although the IT systems are built by specialized programmers, the functions of the IT systems need to be defined by the business side of the organization. The IT department needs to create a specialized business domain team who have field experience to develop the necessary specifications that are used by the IT team during the development or purchase processes.[12]

16. **The COVID-19 crisis further exposed these technological deficiencies, including a considerable limitation in the number of STC officials who can effectively work remotely.** To be effective, the ICT infrastructure and systems implemented at the STC must be able to support an increase in remote work and manage any additional needs (present and future) to client facing or service delivery technology. The current networking and telecommunications infrastructure for the STC must be able to support thousands of remote workers, and the technological requirements needed to support work-at-home for majority of the employees include hardware and telecommunications equipment that can support the shift of large amounts of data to the virtual network. For this to happen, a modernization of the telecommunications infrastructure to support both in-house and remote workers is needed.

17. **Another important limitation that has been identified during the pandemic is the lack of specialized resources and personnel to effectively manage social media platforms,[13] which have been proven essential to communicate during times when most employees and taxpayers operate remotely.** Improvements in ICT systems should not be limited to automation but also to make effective use of social media platforms—integrated into the taxpayer services systems—to coordinate between employees, taxpayers, and trade partners. This can include, among others, implementing chatbots that provide information about the crisis and provide answers to frequently asked questions (FAQs) as well as creating IT FAQs and web and training resources for employees and taxpayers moving online. It is important to ensure that the organization has sufficient resources to utilize interpersonal communication tools—such

[12] New mapping was initially drafted under the World Bank TA program, but they reflect the state of play of tax operations as of late 2019 and not the latest ongoing improvements in different areas at the STC such as the new tax code, restructuring plans, and automation advancements. A detailed review and remapping of the registration and filing processes were carried out in February 2020. Other processes (for example, audit and refunds) warrant a similar mapping and rollout to enhance operations. The revamp of core processes constitutes the central piece of the STC modernization program and calls for high levels of design and implementation efficiency, led and controlled exclusively by the business domain team.
[13] The STC has online services. The main area of improvement is social media management.

as meetings, training sessions, and workshops—using videoconferencing technologies over virtual private networks (VPNs), and so on.

18. **Disaster Recovery and Business Continuity Plans could help mitigate the abovementioned (and future) limitations and are essential to ensure that the organization can maintain the ICT assets so that they can return to normal or near-normal performance.** To ensure the provision of 100 percent electronic services to taxpayers and effective work-at-home programs, the development and implementation of effective Disaster Recovery and Business Continuity Plans are essential and a priority for the STC.

Effectiveness and Informal Economy Challenges

19. **In addition to simplification and improvement to taxpayer services, efforts to promote voluntary compliance need to be reinforced.** A good compliance strategy is built on proper and fair enforcement, which ultimately helps build trust and thereby supports broadening the tax net. The STC has initiated reforms in this direction, including some improvements to implement risk-based audits (for example, a computerized risk grid for audit case selection) and the creation of a large taxpayer unit. The shift to a risk-based approach falls in line with the business-friendly environment approach that the STC is implementing by concentrating audit efforts on risky taxpayers. While the recently formed Large Taxpayer Office (LTO) also exhibits a good working structure for the audit department, there is a need to restructure the audit departments in other regions to move toward a more functional structure that allows to optimize results. However, the moratorium on audit since early 2018 affected the standard operating procedures for the audit function and, more importantly, the STC lacks a compliance improvement program, a strategy that guides the audit function within a structured work program. A compliance program should consider, for example, the implementation of a case management system to manage and oversee the audit function. Moreover, a systematic quality assurance mechanism is needed, including implementing an organized indexed audit structure with clear cross-referenced working papers and indexed supporting documents. Such control is required, first, to ensure the quality of the work conducted and, second, to ensure that the taxpayers trust the administration.

20. **A disproportionately high tax burden and the complexity and reduced transparency of the tax system have contributed to the creation of a large informal sector in Uzbekistan, estimated around 50 percent[14] of the GDP**. The discretionary tax exemptions tailored for individual companies and products raise inequalities, create barriers to business growth, and reduce incentives to formalization (in particular for micro and small firms that may be led by women). The existence of a simplified tax regime did not allow the STC to generate information on thousands of taxpayers,[15] keeping them in a de facto shadow state. Previously, the STC had little or no data on these taxpayers. In 2019, all VAT taxpayers, regardless of their eligibility to be part of the simplified tax regime, were required to adhere to the standard regime and more than 30,000 taxpayers joined the system. However, this did not apply to income tax. Therefore, additional but limited new information was collected. The existence of a 'simplified tax payment' system, which is usually a transition scheme, may have also led to abuse where taxpayers either incorrectly

[14] The approximate figure is based on a study carried out by the Association of Chartered Certified Accountants, which concurs with the initial estimates produced by a United Nations Development Programme report (2020) and the World Bank team as part of the ongoing TA program.
[15] The simplified tax regime required minimum information on taxpayers and if eligible were subjected to a flat tax. While taxpayers were identified, little data were required—and provided—and hence the STC could not detect cases of potential abuse.

classified themselves or intentionally split their businesses to bring themselves below the UZS 1 billion threshold, thereby making themselves eligible to be included in the simplified tax regime.

21. **The Government of Uzbekistan recently passed a Presidential Resolution (ID 23047) to address risks presented by the shadow economy.** The Resolution takes into consideration several recommendations previously made by the World Bank. The Resolution outlines a strategy to deal with the shadow economy within the interaction between different ministries and agencies by focusing on specific sectors. The Resolution is a step in the right direction but there are further areas of improvements at the implementation and strategic levels.

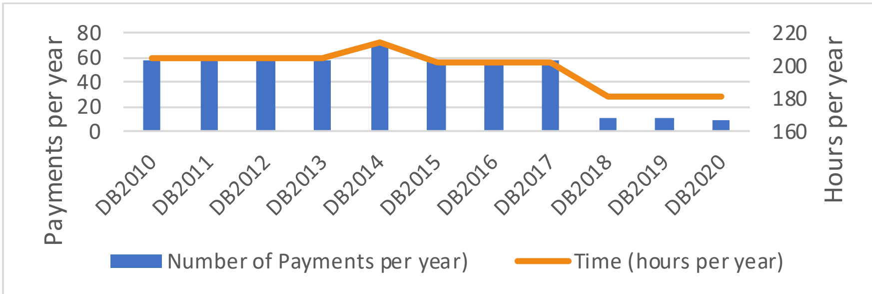
22. **The STC compliance strategy needs to include a comprehensive and multipronged approach to combat the shadow/informal economy**.[16] This includes improving tax enforcement to better detect and effectively punish tax evaders (including e-invoicing, a sectoral approach, intensive use of 'big data', a risk-based audit approach, and strong coordination with financial intelligence units and anti-money laundering laws and agencies) and introducing nontax incentives to formalization of business activities (including incentives to move toward a cashless economy or measures to reduce the complexity of the tax regime). It is also important to develop collaborative relationships with private sector institutions, particularly in hard-to-tax sectors (for example, transport), and cooperation with payment services providers (for example, PayPal, Amazon Pay, and Apple Pay). Work is also needed to enhance the internal and external communication strategies and explore ways to incorporate the outcomes of stakeholders' consultations into the strategies and business plans of the STC. Technology improvements have also proven to be effective in reducing informality by enhancing enforcement and reducing tax compliance costs.

23. **A high tax compliance burden also constitutes a barrier for doing business in Uzbekistan.** Important improvements in the country business climate have been registered according to the Doing Business 2020 report; however, high compliance burdens, including delayed refunds and time-consuming filing processes, are still identified as major concerns. The average time to pay taxes in Uzbekistan is 181 hours per year (see figure 1). This is 32 hours less than that of the Europe and Central Asia regional average (213 hours), but the country still trails behind some neighboring economies such as Azerbaijan, Belarus, Latvia, Kosovo, and the Europe and Central Asia top performer Estonia (50 hours). In addition, the low level of automation and paper-based processes are contributing to this compliance cost.

24. **Creating a good business environment that fosters investment requires, among other things, broadening the tax net and the tax base.** VAT exemptions breach neutrality and distort production and consumption decisions. Moreover, these exemptions also increase the complexity of the tax system and, therefore, raise compliance and administrative costs. Tax morale is also undermined as exemptions create an uneven playing field. The introduction of IT and a modern VAT system could facilitate VAT compliance, including for small businesses.

[16] The terms of shadow economy and informal economy are used interchangeably

Figure 1. Paying Taxes in Uzbekistan



Source: World Bank Doing Business, 2020 Report

Capacity-building Challenges

25. **The efficiency and effectiveness of the STC is also limited by the absence of institutional HR policies and skills development programs, which is restricting operational capacity.** The STC aims to strengthen its HR and institutional capacity to attract, develop, and retain qualified staff. The STC suffers from a fairly high staff turnover rate (at 14.6 percent as of 2018). However, the STC's capacity to achieve these objectives is restricted by the lack of policies for recruitment, compensation, and performance evaluation, along with the lack of job descriptions, staff development plans, skills inventories, and training programs. A clear HR policy and a competency model for matching staff capabilities to respective jobs is needed. In addition, IT support to the HR department is limited. These constraints are contributing to the suboptimal performance of the STC, including the delivery of taxpayer services.

26. **An HR strategy and a continuous capacity-building program are also missing to support career development, namely of women, and help retain staff.** Currently, the STC lacks a regular training program aimed at building capacities on techniques and practices and enhancing the effectiveness of operations. Thematic training for specific economic sectors is needed to increase the capacity of the LTO in particular. The Government plans to establish a Fiscal Institute to offer professional support for tax officials and carry out relevant research to support the STC operations. The institute will need to assess learning and skill development requirements, identify skills gaps, and develop a strategy for capacity building. According to the 2018 Listening to the Citizens of Uzbekistan baseline survey[17] and the World Bank Uzbekistan Systematic Country Diagnostic analysis, the employment rate for women is much lower than for men across all age groups and the share of female adults who are outside the labor force is higher for the bottom 40 percent of the income distribution compared to the top 60 percent (51 percent versus 18 percent). On average, only 20 percent of Uzbekistani women participate in the labor market, compared with 46 percent of men. Across Uzbekistan, only 24 percent of children aged 3 to 6 attend preschool, and poor access to preschools, especially in rural areas, is a primary constraint preventing women from entering the labor force.[18] The majority of males opt for education programs in the transport and communications sectors, industry, and construction, as well as law, which generates higher income, while women mostly choose disciplines in the education and health care professions which pay less. Looking at the STC workforce (table 2), about 89 percent of staff—at the headquarters and territorial offices—are male. The gender gap within STC may be attributed to cultural factors. The gender gap is larger for

[17] Conducted by the Poverty and Equity Global Practice.

[18] Uzbekistan: Supporting a transparent and inclusive market transition development policy operation (December 2020)

managerial positions at the regional local offices, where only 1.4 percent of managerial positions are occupied by women.

Table 2. STC Staff Distribution by Gender as of September 2020 (percentage)

	Female	Male
Managerial, professional - top management in regional and local offices	1.4	98.6
Non-managerial, professional staff in regional and local offices	10.7	89.3
All staff headquarters and regions	10.8	89.2

Source: STC, September 2020.

C. Relevance to Higher Level Objectives

27. **The proposed project responds to the Government Program of Action and the '2019–2021 Reform Road Map' adopted in 2015 and 2019, respectively.** Improving the tax administration and the preparation of a World Bank project were identified by the authorities as a specific task—number 12—in the road map. Also, in 2015, the Government identified seven objectives, and these include increasing competitiveness, supporting the creation of new jobs, and promoting private sector development. Tax reforms 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. Processes simplification and automation reduce the cost of taxpayers' compliance and the administrative cost, benefiting both taxpayers and the STC. In addition to reducing compliance and administrative costs, 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.

28. **The project is aligned with the World Bank Country Partnership Framework (CPF) for Uzbekistan FY2016-2020 (report no. 105771-UZ). The CPF was discussed at the Board on June 14, 2016 and revised following the Program Learning Review (PLR) in June 2018 (report no. 126078-UZ) that extended the CPF engagement period through FY2021**. The project aims to enhance the operational efficiency and effectiveness of the STC and promote voluntary compliance, 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 administration reduces the compliance burden and helps improve the business environment. Proper tax policies and tax administrative reforms support the broadening of the tax base and also promote a fair tax system that will lead to reducing the informal sector, creating jobs, and enhancing service delivery. The project is also aligned with the revised focus areas as adjusted in the FY18 PLR namely, reforming of state institutions and citizen engagement (area 2) and investments in people (area 3).

29. **The project is fully aligned with the World Bank Group COVID-19 Crisis Response Approach Paper "Saving Lives, Scaling-up Impact and Getting Back on Track."** The project directly supports the Approach Paper pillar on Strengthening Policies, Institutions and Investments for Rebuilding Better, by supporting the development of an efficient and effective STC that is modern, technology-ready, taxpayer-centered, and equitable (annex 3 shows how the CPF has been adjusted to align with the Approach Paper). The reforms supported by the project will promote voluntary compliance and mobilize domestic revenues, hence increasing the fiscal space and allowing the Government to finance much-needed investments post-Covid-19. The project will also contribute to preserving jobs and ensure more sustainable business growth

by rendering the tax administration more efficient and the tax system more equitable thereby reducing the compliance cost on businesses and incentivizing compliant taxpayers to expand and grow.

II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

30. The Project Development Objective is to improve the operational efficiency and effectiveness of the State Tax Committee (STC) and increase voluntary compliance.

PDO Level Indicators

(a) Reduction of cost of collection ratio of STC
(b) Reduction in VAT compliance gap
(c) Number of additional assessment cases resulting from tax audits to LTO taxpayers, as percentage of total LTO audit cases selected using the risk management framework.

B. Project Components

31. **The project has three technical components and a project management component.** Component 1 will focus on optimizing and automating core tax administration business processes at the STC, Component 2 will aim to reduce the informal economy,[19] and Component 3 will aim to strengthen STC's institutional capabilities. In addition, there is a project management component. The project total estimated cost is US$60 million (table 3).

[19] This component touches on the operations of the STC, MOF, and others.

Table 3. Project Components and Estimated Cost

Components	Approx. (US$, millions)
1. Automation of core tax administration business processes	**45**
1.a. Integrated Tax Management Information System	15*
1.b. Upgrade of Hardware and Technological Infrastructure (Data Center)	25
1.c. ICT Governance and Planning Capacity	1
1.d. Disaster Risk and Business Continuity Management	4
2. Reduction of the informal economy	**9**
2.a. Strengthen STC Enforcement Capabilities	3
2.b. Facilitation of Voluntary Compliance	4.5
2.c. Development of Cooperative Relationship with Private Sector	1.5
3. Strengthen HR and institutional capacity for tax administration and delivery	**4**
3.a. Human Resource Management	2
3.b. Institutional Functions Realignment	1
3.c. Capacity Building	1
4. Supporting Project Management	**2**
Total	**60**

*Fees and costs associated with developers' services, basic equipment, software licenses, and the services of international advisors

Component 1: Automation of Core Tax Administration Business Processes (US$45 million)

32. **The objective of Component 1 is to enhance the operational efficiency of the STC.** This objective will be achieved by (a) simplifying and reengineering core business processes that underpin the STC's core functions and (b) revamping the ICT strategy and systems. Component 1 (see figure 2) 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 STC's technological readiness. It is expected that achieving full automation will enhance the quality and operational efficiency of the tax system, thereby helping improve the business climate and minimize tax compliance costs (see box 3). Expenditures for this component are expected to be largely for consulting services and the procurement of goods (e.g., servers, storage area networks, etc.)

Box 3 – ICT: Key Recommendations

In addition to what has been mentioned above, the DIAMOND assessment made the following recommendations.

New systems, that are aligned with business processes, are needed to improve efficiency, increase compliance, and ensure the provision of advances services with effective operational support. 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. Current systems are unable to provide coherent advanced services, and as new functionalities are added, the performance and reliability of the overall system continue to degrade. To provide operational support these applications would need to be rebuilt from scratch or replaced by a Commercial Off the Shelf (COTS) solution that implements standard international good practices.

Moreover, important measures have been taken in recent years but without an overarching guiding strategy. One recurrent conclusion that came out from the assessments was that many steps taken were in reaction to policy changes or directions and these were often not integrated well with one another. Promising technologies such as blockchain or machine learning are challenging tax administrations to transform their business and to look at whether their products, services and business model are sufficiently aligned to support tax administration. This underscores the need for strategic planning to help transition STC into a fully automated intelligent-led tax administration.

Finally, simplifying, integrating and automating business processes should not be limited to IT considerations alone, but ought to take into account the institutional and HR infrastructure. IT-centric reforms need to reflect business needs while addressing in parallel institutional and human resource gaps. Sophisticated computer applications or resilient data centers are not enough to transform organizations. Most countries engaged in tax reforms are characterized by human capacities limitations that are often complicated by institutional arrangements.

33. Specifically, the project will support the following:

a. *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.

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

(i) creating a data center[20] infrastructure supported by a disaster recovery site[21] that is energy efficient[22] and has an environmentally friendly Power Usage Effectiveness[23];
(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.

c. *Improving ICT governance and planning capacity of the STC's IT department* through:

(i) development and updating of the ICT Strategy and technology plan[24];
(ii) development of a standard bug tracking system universal for all development projects;
(iii) creation of service level agreements for software support and development;

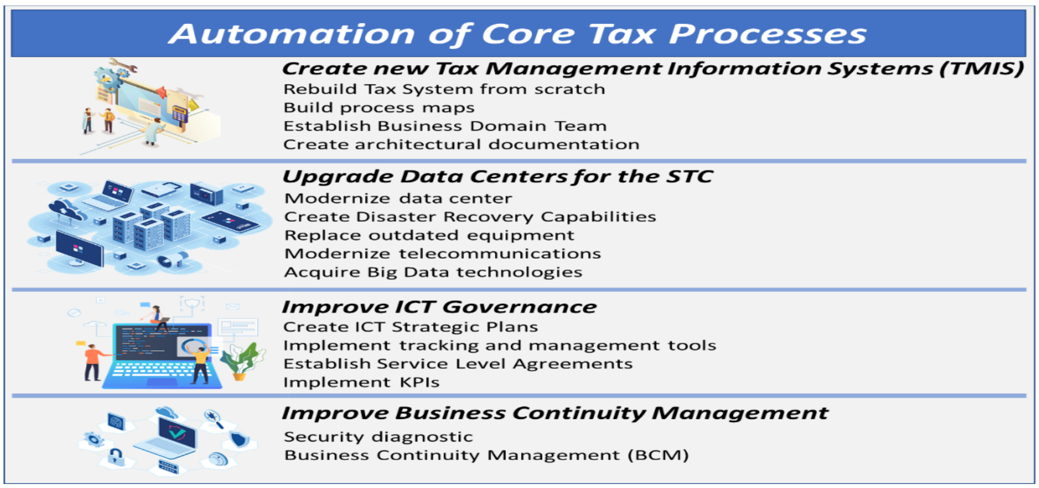
[20] The data center needs to be physically protected and resilient to disasters including climate-related events.
[21] Disaster recovery sites are intended to mitigate shocks (e.g., loss of data, disruption in services) that stand to negatively affect the work of tax administrations and impact taxpayers' s data. These shocks can be attributed to climate-related disasters, wars, hacking, power outages, internet failures, etc. In other words, the objective of these sites is to protect data, operations, and ensure business continuity of the tax administration in case of a disaster.
[22] The design of the data center should utilize energy-efficient technologies to increase its Carbon Usage Effectiveness (CUE[22]) such as low-power servers, fresh air cooling, reusing waste heat, using power on demand, and hot and cold aisle containment. The procurement terms of reference will ensure that resilient and energy-efficient equipment will be purchased.
[23] See https://www.thegreengrid.org – PUE is the ratio of total amount of energy used by a computer data center facility to the energy delivered to computing equipment
[24] A technology plan includes among other hardware and software requirements to implement the overall strategic plan

(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.

d. 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[25] in the context of COVID-19.

Figure 2 – Snapshot of Component 1



Note: the ICT monitoring and evaluation system is also referred to as "KPI"

Component 2: Reduction of the informal Economy (US$9 million)

34. **The objective of Component 2 is to develop and implement a pragmatic road map to improve operational effectiveness and 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. This includes (a) improving the enforcement-related capabilities of the STC (for example, audit, intelligence gathering, and risk management) to detect and discourage tax evasion; (b) encouraging businesses to stay out of the shadows (including nontax incentives); and (c) developing cooperative relationships with the private sector including when designing new/simplified policies/procedures and building partnerships to change behavior. This comprehensive compliance strategy, part of a new STC Compliance Improvement Program, will be tailored to taxpayers' segments—large, medium, and small—and economic sectors. Expenditures for this component are expected to include consulting and non-consulting services (e.g., business intelligence tool, computer assisted audit techniques software), and training.

Specifically, the project will support the following:

[25] Strategies and BCM programs intend to install plans and practices into daily operations with the aim of mitigating risks and protecting the work of tax administrations and taxpayers' s data

a. 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;[26]
(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.

b. 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.

c. 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

[26] The gap analysis will be carried out by the TA program. However, the alignment with international practices (i.e., implementation) will be carried out by the operation.

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.

Component 3: Strengthen HR and Institutional Capacity for Tax Administration and Delivery (US$4 million)

35. **The objectives of Component 3 are to strengthen the STC's HR institutional capacity to attract, develop, and retain a skilled and knowledgeable workforce, and develop the skills of tax officials**. Addressing human capacity limitations and institutional gaps are key to the roll out of tax reforms and help overcome internal and external resistance to change.[27] Special focus will be given to women. Component 3 will support the following subcomponents: (a) human resource management, (b) institutional functional realignment, and (c) capacity building. Expenditures for this component are expected to include consulting services, training, and the procurement of goods (e.g., hardware and software for the HRMIS).

36. Specifically, the project will support the following:

a. 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.

b. *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;[28]

(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;

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[27] Jens Kromann Kristensen. 2008. *Tax Administration Reform Projects: A Comparison*, Draft Paper, World Bank.

[28] This activity will strengthen the STC departments and implement best practice mechanisms for coordination, consultation, and decision-making.

(v) development of staffing and professional development plans as tools for improving staff capabilities;
(vi) 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.

c. 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;
(v) 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;
(vi) development of a curriculum and training modules for (a) a train-the-trainers program[29] 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;
(vii) facilitation of government plans to establish a fiscal institute through feasibility studies and strategic and operational plans;[30]
(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 50% women.

Component 4. Supporting Project Management (US$2 million)

37. The objective of this component is to 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. A Project Implementation Unit (PIU) will be

[29] If implemented effectively, the train-the-trainers approach offers many advantages. First, it allows the organization to learn how to transfer knowledge downstream. Second, it allows to overcome language, culture, and organizational barriers. Third, it supports the continuity and sustainability of specialized training efforts (if combined with an effective HR retention policy). Finally, it allows training activities to accomplish results at a lower cost in a shorter time.
[30] An optional but important activity to ensure the proper kickoff 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.

established to coordinate implementation, including fiduciary aspects, knowledge management/communication, grievance redress mechanism (GRM), citizen engagement; and monitoring the implementation of Environmental and Safeguard Framework (ESF)-related issues. A specialized procurement expert with knowledge in IT procurement will be hired to support implementation.

38. **Climate co-benefits.** Uzbekistan is vulnerable to climate change. Increasing climate resilience through the efficient use of water, land, and energy resources is among the development priorities of the Government. The country's international climate change commitments (Nationally Determined Contribution [NDC]) under the Paris Climate Agreement elaborates mitigation pledges and adaptation priorities in detail and indicates measures to achieve them. Uzbekistan's NDC foresees mitigation measures to increase energy efficiency in various sectors of the economy, including increases in renewable energy and decreases in losses in gas and electricity systems, the development of financial support schemes from the Government for mitigation action, and educational and training activities.

39. The project has the potential to generate climate co-benefits. Modernizing tax administration—while it requires the procurement of equipment and hardware—will lead to automation, streamlined procedures, and the utilization of electronic services, among other changes. The modernization will reduce the use of paper, decrease the country's carbon footprint, and reduce time spent on tax-related activities by both the taxpayer and the administration (that is, less energy use and more time allocated to other productive tasks). Upgrading the infrastructure by investing in the establishment of a resilient data recovery center and backup sites will help also minimize the impact of disaster-induced (for example, floods and earthquakes) interruptions and data losses.

40. **Citizen engagement.** The project has been designed to support mechanisms for citizen engagement. It will finance periodic taxpayer satisfaction surveys to facilitate independent feedback from a wide range of taxpayer segments on their experience with the STC's services. The surveys will gauge the satisfaction level of taxpayers to services received from STC, the quality of taxpayer-tax official interaction, and challenges faced by taxpayers and will accordingly revise, or fine-tune interventions financed by the project. Surveys will be published, and subsequent focus group discussions are envisioned. An online feedback mechanism will also function as a Grievance Redress Mechanism (GRM), allowing data users to provide comments or lodge complaints. Other activities include enhancing the STC website and taxpayer services. The project will also finance activities to help roll out a communication strategy, which, among other things, will promote and embed formal and regular consultation with taxpayers, civil society, and other stakeholders. Moreover, regular engagement with a wide range of stakeholders will be required as part of the planned taxpayer outreach and education activities. Finally, the envisioned activities include institutionalizing the use of surveys to collect staff opinions. The collected information will be used to implement targeted and timely interventions that address staff concerns while helping improve taxpayer information and services. Indicators, baselines, and targets to measure citizen engagement processes and progress of user satisfaction are included in the Results Framework.

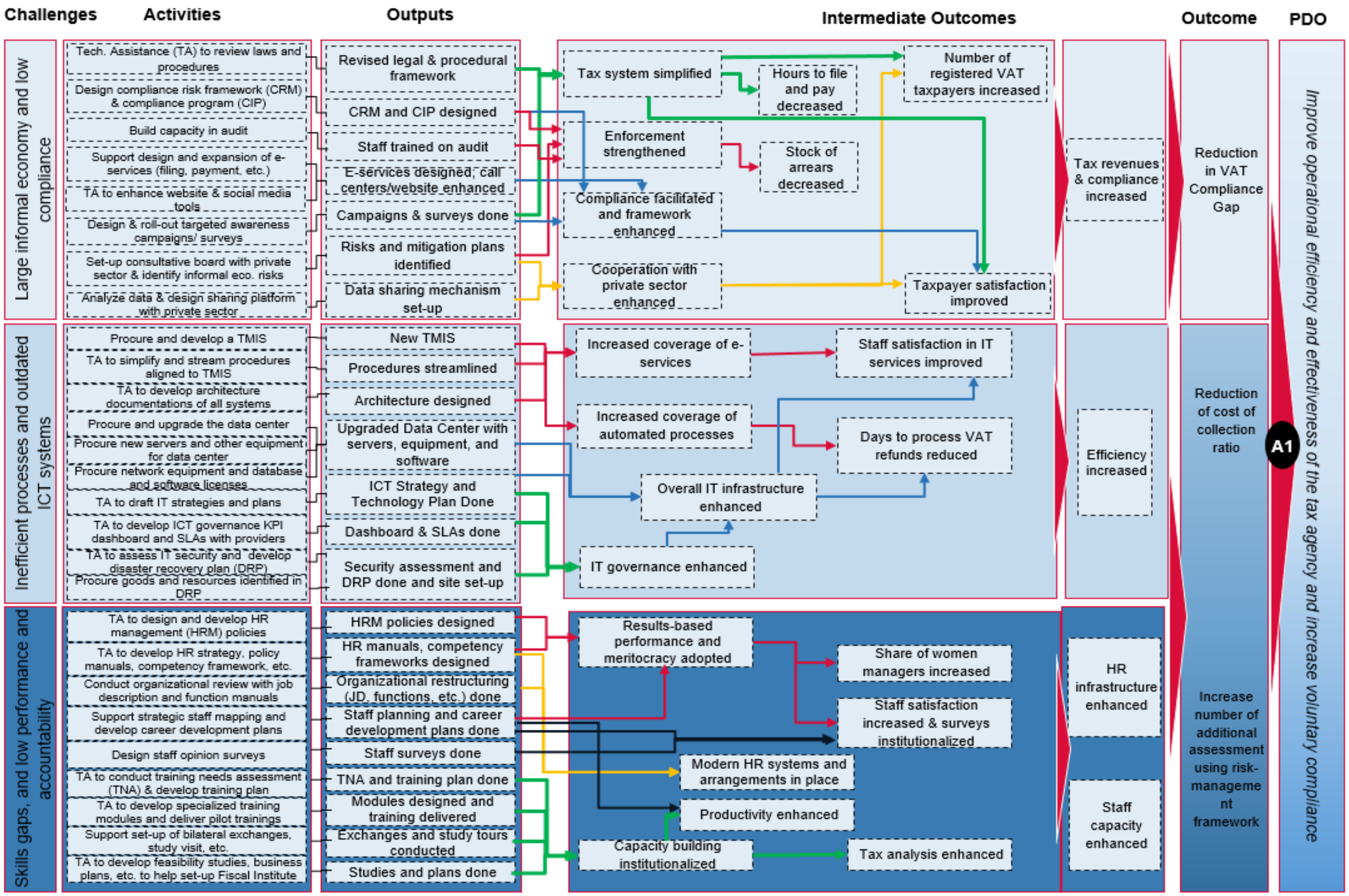
C. Project Beneficiaries

41. **The direct beneficiaries of this project will be the MOF and STC.** The authorities will benefit from building their enabling infrastructure and strengthening their capacities to administer taxes in an efficient and effective way. Business processes will be simplified and reengineered rendering operations more cost-effective thereby reducing administrative cost. Under component 2, the informal economy issues will also be addressed benefiting MoF and the economy at large, thereby broadening the tax net.

42. **The second group of beneficiaries will be taxpayers – including women - and the business community.** The group will gain from an enhanced, more transparent, and simplified tax system. The STC will be transformed to become taxpayer-centric rather than a pure enforcement agency. Tax compliance costs will be reduced by simplifying legislation/regulations and procedures and providing more and better electronic services. Modernizing and simplifying the process will yield benefits to micro and small enterprises that are possibly led by women and operating in the informal economy. A risk-based framework will identify risky taxpayers and help promote fairness and voluntary compliance. Enhancing automation will reduce compliance cost and minimize the risk of corruption, helping restore trust in the tax system and its administration.

D. Results Chain

Table 4. Theory of Change



Note:

Critical assumptions: Political commitment remains stable and continued STC leadership and ownership of reforms.

Risk: A1: There is no major economic crisis.

E. Rationale for Bank Involvement and Role of Partners

43. **The project builds on an ongoing World Bank TA Program engagement.** The World Bank's involvement in tax reforms was initiated in 2018, providing a wide array of TA to both the STC and MOF while acting as a strategic partner. The World Bank adopted a comprehensive and incremental approach that aimed to render the tax system—policy and administration—more neutral, business-friendly, and more equitable. The TA initially focused on laying the foundations for tax reform with advisory work on legislative and policy reforms and strategic planning, coupled with in-depth assessments of the STC. The assessments covered operations, business processes, IT systems, and infrastructure, as well as automation. The findings charted a transformation agenda. However, there are implementation limitations to any TA. A World Bank financing operation is needed to roll out this agenda, which called for investments in IT, the reengineering and automation of processes, and the measures to strengthen HR and institutional capacities to accompany the reforms.

44. **The World Bank is also accompanying the STC during the COVID-19 pandemic solidifying the working relationship.** The TA program has been extended, which will serve as the platform for COVID-19-related just-in-time support. Furthermore, the World Bank will deliver TA to accompany the early implementation of the project in a number of areas including audit and the implementation of the new tax code.

45. **The World Bank involvement in DRM reforms in Uzbekistan and the region well positions the World Bank to accompany this reform.** The World Bank's hand-holding approach for TA in Uzbekistan has allowed the World Bank to get exposed—firsthand—to the underlying challenges facing the tax administration and the MOF on matters related to both tax policy and administration. In addition, the World Bank and its global tax team are heavily engaged in DRM projects across the region, with a strong presence in Tajikistan, Azerbaijan, Georgia, Kazakhstan, Belarus, Moldova, Serbia, and the Kyrgyz Republic. The proposed project will greatly benefit from this regional experience.

F. Lessons Learned and Reflected in the Project Design

46. **The benefits of frontloading TA during project preparation is an important lesson learned from other World Bank projects.** The technical analysis under the trust-funded TA has allowed to speed up project preparation and improve the project design, as both parties—the World Bank and the client—are now better informed of the DRM challenges and potential areas of intervention that could benefit from the World Bank's support.

47. **Securing the buy-in of top and middle management is key for project sustainability.** The TA project delivered important outputs (for example, risk assessment, tax analysis, audit, and so on) that helped forge a strong relationship and unleash a reform momentum. This, in turn, played a role in securing the buy-in of top management and the political leadership, which paved the way for the new lending operation.

48. **The strong presence in the field and the flexible modality of delivery are key to ensure fast response to clients' changing needs.** The World Bank has a multidisciplinary team that is based in Uzbekistan—including the task team leader and co-task team leader—complemented by a wider team

that visits the country on a frequent basis.[31] In-field presence is important to the client and helps address day-to-day challenges. In addition, the team has adopted a flexible delivery model, including remote support. Such flexibility has shown its merits with the outbreak of COVID-19.

49. **The project benefited from a strong collaboration between the World Bank and the IMF, at both management and operation levels.** The World Bank and the IMF delineated their respective areas of intervention (for example, the IMF to focus on tax policy and LTO setup) to enable delivery of comprehensive support to Uzbekistan.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

50. **Implementation arrangements are designed to ensure cross-departmental coordination internally within the STC and externally with the MOF and other stakeholders.** Coordination will cover high-level policy and strategic management among major stakeholders, external coordination and accountability, project management functions, and the management of specific project activities.

51. **The STC will be the implementing agency, and the STC chairman—assisted by the deputy chairman—will serve as the project coordinator.** The project coordinator will strategically oversee project implementation, monitor progress, and ensure overall project alignment with stated objectives and results. The project coordinator will act as focal point for communication with the World Bank team on project-related issues.

52. **The project coordinator will be supported by a project manager who will oversee the PIU.** The project manager will head the PIU, which will be established before project effectiveness. The manager and the PIU staff will be competitively selected. The PIU will help the STC undertake various tasks including procurement, financial management (FM), contract management, M&E, and reporting. The PIU will be staffed by a team covering procurement, FM, as well as a communications/relationship officer that is entrusted with activities[32] related to taxpayers and the business community. This would allow to mitigate capacity risks of the project. A parallel 'reform unit' may also be established by the STC to accompany and embed reforms. The project will be implemented based on a Project Operations Manual (POM). The POM will lay out the project's overall operating, fiduciary, and decision-making procedures and its results monitoring arrangements.

53. **Working groups will be established no later than three months from project effectiveness to ensure close coordination and ownership at the operational and technical levels.** More than one working group can be set-up by area or theme, and they will be comprised of technical staff across the relevant functions including IT. These working groups will serve as a platform to ensure the business needs are properly reflected in the reform measures.

54. **The PIU will facilitate citizen engagement through the creation of an advisory board to be established no later than three months from project effectiveness.** The board may comprise taxpayers,

[31] The frequency of missions was high before the COVID-19 outbreak. Missions have been halted since March 2020 and have been replaced with virtual missions, workshops, and bilateral meetings.
[32] For example, taxpayer surveys, focus group meetings, etc.

business associations, and men and women representatives of small and medium enterprises. The board will meet regularly (on a quarterly or a semiannual basis depending on project needs) to ensure, among other things, that the views and positions of taxpayers outlined in surveys and focus group meetings are heard and addressed. The STC, through the PIU, will consult with the board on matters related to tax administration reforms, brief them on latest actions, and solicit their views on future envisioned reforms. The purpose is to strengthen public consultations and secure the buy-in of stakeholders to ensure smooth and proper implementation of reforms.

B. Results Monitoring and Evaluation Arrangements

55. **The STC, through the PIU, will be responsible for monitoring and reporting on implementation progress and results.** The PIU will report—on a biannual basis—on implementation progress, results achieved, and issues that impede progress. [33]

56. **The M&E function will use the project's Results Framework (section VII) and progress will be made public on the World Bank's external website.** In addition to the outcomes identified in the Results Framework, project progress will also be validated against external indicators, where applicable, such as DIAMOND indicators, Doing Business, and so on. The project will be subject to regular implementation support missions conducted by the World Bank. The progress assessed during these missions will be reported by the World Bank team to its management through Implementation Support and Results Reports (ISRs), which will include a review of key implementation issues and performance indicators. The results will be disclosed through the ISR on the World Bank's external website for the project. The STC is encouraged to publish the project status on their website. In the third year of project implementation, a midterm review will be conducted. The Results Framework may be revisited and updated during the midterm review or as and when necessary to ensure continued relevance and achievement of desired outcomes. At the completion of the project, an Implementation Completion and Results Report (ICR) will be prepared.

C. Sustainability

57. **Institutional ownership—particularly at middle management—is high despite recent changes in senior government positions.** The World Bank has and will continue to work closely with all levels of management to mitigate the impact of potential turnover in senior leadership and help sustain business continuity. The World Bank will also continue closely working and coordinating with other partners, namely the IMF.

58. **The MOF and STC are aligned and committed to the modernization of the tax administration and have taken several initiatives in this direction.** This includes the adoption of a new tax code as well as the ongoing important reforms, including in the areas of risk analysis, large taxpayer services, tax analysis, and VAT. On the ICT front, draft decrees were issued to set up a data center and measures are being taken by the Government to enhance their ICT infrastructure in line with the findings of the World Bank ICT DIAMOND assessment.

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[33] 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.

59. **The Uzbek authorities have also participated actively in the preparation of this project.** Initial discussions at the concept stage included high-level management of both the ministry and the STC. The deputy minister and both the STC chairman and deputy chairman participated in the discussions and provided guidance throughout the process. In particular, the proposed scope and Results Framework were discussed and scrutinized by the client providing important feedback.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis (if applicable)

Technical Analysis

60. **The STC operating model is outdated, ineffective, hampering voluntary compliance and limiting revenue mobilization.** The IT infrastructure is outdated, automation is low, and systems are not aligned with business processes, and operations are not guided by an ICT strategy and lack a stronger governance structure. The informal economy is sizeable, enforcement is weak, and STC operational capacity is restricted due to the absence of institutional HR policies and skills development programs.

61. **The project was designed based on international good practice observed in modern tax administrations.** Advanced administrations require a resilient and energy-efficient data center supported by a disaster recovery site that safeguards operations and protects taxpayers' data. IT systems and infrastructure are critical and good practice entail that they are guided by a proper governance framework that put in place needed strategies and plans. Moreover, to effectively administer tax policies, good practice is to adopt risk management frameworks supported by risk-based compliance models and programs. Tax administrations need to optimally allocate their resources targeting high-risk taxpayers to deter non-compliant taxpayers while building trust with compliant taxpayers. Tax administrations are also increasingly rolling-out e-services and education and awareness campaigns to promote voluntary compliance and present themselves as taxpayer-centric authorities. Finally, tax administrative or policy reforms warrant accompanying measures to address human capacity limitations and institutional gaps hence unlocking any resistance and ensuring smooth implementation.

62. **The design of the project draws as well on lessons learned from other DRM engagements.** Tax reform agenda is a process and a holistic approach is needed. Most recent tax engagements include an IT component, but the latter should not be addressed in isolation. A comprehensive and integrated approach – which is adopted in this project - is needed that includes, among other things, the institutional and HR frameworks. Failures are often attributed to a silos' approach or situations where the IT agenda is driving the overall modernization agenda instead of the business users within the administration. Another lesson learned from previous engagements is the importance of frontloading technical assistance. This allows to better needs and capacity gaps while securing the needed buy-in of operational staff. Equally, a successful TA program that delivers allows to secure the support of senior management, which is needed for implementation and the sustainability of reforms. The activities to be financed by this project have been outlined and identified by in-depth assessments and analysis carried out by the World Bank TA Program supporting the STC.

Fiscal and Economic Analysis

63. **The costs and benefits of the project are evaluated from the perspective of the Government, the direct beneficiary, and society as a whole.** A number of assumptions underpin both analyses. Overall, the results show that under a (conservative) set of assumptions, the project is both fiscally and economically desirable. The fiscal analysis assesses the impact of the project on government revenues, while the economic analysis takes a broader perspective. To do this, both analyses compare the costs of the investments made under the project with their fiscal and economic benefits. The cost-benefit analyses assume that all costs and benefits can be monetized. For various reasons, such as data scarcity or quality, this can often be challenging. As a consequence, the analyses presented here have to rely on a number of assumptions. The evolution of macroeconomic indicators had to be predicted. Where possible figures were taken from the IMF's World Economic Outlook. When this was not possible, past trends were extrapolated linearly to the future, such as in the case of the exchange rate. In addition, the revenue benefits of the project are assumed to materialize linearly throughout the project's five-year implementation period[34]..

Fiscal Analysis

64. **According to the fiscal analysis, the project will result in a benefit-to-cost ratio of 24.1 and an associated internal rate of return (IRR) of 207 percent for the Government.** The analysis, presented in table 5, estimates the impact of the project on the Government's finances. Revenue is expected to increase following improvements in both the STC's operational effectiveness and its efficiency, measured by the VAT compliance gap and the collection ratio, respectively. The expected benefits—assuming 25 percent of the extra revenue is attributed to the project—are about US$81.6 million in 2022, with the cumulative benefit reaching US$1.2 billion by 2026 in its NPV. Total investment costs over the project equals US$60 million. The NPV of the net benefits is US$1.17 billion, or 24.1 times the total investments in NPV.

65. **The transformation road map of the STC is expected to improve compliance.** VAT compliance gap is projected to decrease from approximately 45 percent of the total revenue potential to approximately 25 percent by 2026. Forecasting VAT collection, using its historical elasticity with respect to GDP growth,[35] and assuming the relative VAT gap remains the same in the baseline scenario, the revenue increase is estimated to be US$326.5 million in 2022. By 2026, additional revenue from increasing VAT compliance could yield another US$1.8 billion annually compared to the baseline. For this analysis, it can be conservatively assumed that about a fourth of this can be directly attributed to the project.

66. **The project is also expected to improve the STC's operational efficiency, which will result in administrative cost-savings.** In 2019, the STC spent US$1.54 for each US$100 it collected. The project aims to bring this down by nearly 50 percent to US$0.80 by 2026. If the target is achieved, the cost of collection in 2026 will be US$71 million lower than under the baseline scenario in which there is no intervention. The cumulative savings brought on by improvements in the STC's operational efficiency amount to US$196 million over five years.

[34] A discount rate is used to estimate the net present value of future income and cost streams. Given an average per capita real growth of 3.15% over the period 2021-2026, the standard Ramsey formula linking discount rates to growth rates suggests a 6.31% discount rate (OPSQ 2016).

[35] Between 2002 and 2019, the average elasticity of the tax revenue with respect to GDP growth was estimated at 0.99.

Economic Analysis

67. **The costs and benefits of the project for society may differ from the fiscal ones.** Taxation represents a transfer of resources from businesses and households to the Government, and as such cannot be considered a cost or a benefit at the level of the economy. However, according to economic theory, this transfer – taxation – does generate costs to society. The distortionary effects of taxation, for example, generate inefficiencies which cause a deadweight loss. On the other hand, if put to good use, the economic value of a dollar spent by the public sector may offset these costs. Thus, to properly assess the economic impact of taxation, its social costs need to be compared to its social benefits.[36]

68. **Assessing the economic costs and benefits of taxation is a complex exercise.** The results of such an analysis are influenced by many factors and therefore need to be approached with care. This economic analysis is no different. Nevertheless, we believe the results to be indicative. The analysis compares the direct economic costs with the direct benefits of the project, such as a reduction in compliance costs. However, it also attempts to go one step further and quantify the indirect social costs and benefits linked to the project by comparing the estimated return on the public investment associated with increased tax revenue with estimates of the social costs of taxation. By doing this, the analysis recognizes that taxation brings with it a cost for society, but it also recognizes that ultimately its value is determined by the use tax revenue is put to. These indirect effects are more difficult to quantify and require a number of assumptions, which are further discussed below. In addition, it is important to highlight that there may well be effects beyond the ones captured in this analysis, both on the cost and on the benefit side. Not only is this analysis focused on the short term, but it is also largely limited to first-order effects.

69. **According to the economic analysis, the project's economic benefits are likely to outweigh its economic costs.** Given plausible assumptions – based in empirical studies – the overall short-term benefit-to-cost ratio of the project is estimated at 1.20 and its associated IRR at 12.02 percent, as shown in table 6. The NPV of the social benefits exceeds the NPV of the social costs by US$47.7 million over the five-year period. The next paragraphs discuss each of the identified costs and benefits in more detail.

70. **Improvements in revenue administration will lead to cost-savings.** While revenue raising is not an economic benefit, the reduction in administrative costs needed to collect revenue is. The cumulative savings brought on by improvements in the STC's operational efficiency amount to US$196 million.

71. **The project will also create an economic dividend for taxpayers by lowering compliance costs.** The project targets 159 hours per year to prepare, file, and pay taxes against a baseline of 181 hours in 2019. While the benefits of this intervention are likely to affect a broad range of taxpayers, the economic analysis only assesses the impact on VAT-registered firms because of data limitations. The savings are calculated by multiplying the time savings by the average hourly wage in the financial and insurance sector,[37] assuming this sector best captures wages paid to accountants. Future growth in the number of VAT-registered firms was forecast by extrapolating increases in the number of large VAT payers. By 2026, the intervention is expected to result in an annual cost-saving of US$17.5 million. Although reductions in compliance cost may have additional benefits such as boosting investment, these benefits could not be quantified.

[36] Slemrod, J., and S. Yitzhaki. 2001. "Integrating Expenditure and Tax Decisions: The Marginal Cost of Funds and the Marginal Benefit of Projects." *National Tax Journal* 54 (2): 189–189.
[37] Data obtained from the State Statistics Committee.

72. **The extra revenue raised will allow the Government to increase public investment.** To adequately compare the social costs of taxation to its benefits, it is important to evaluate the use to which tax revenue is put. According to Uzbekistan's Public Expenditure Review, roughly 41 percent out of every US$1 raised in tax revenue goes to a combination of public capital investment or human capital expenditure, that is, government spending on health and education.[38] Although the economic value of public investment can be hard to pin down and is highly country specific, a recent World Bank study finds that, on average, a permanent 1 percent point GDP increase in public investment boosts economic growth by around 0.18 percent points in the short term, with additional but diminishing effects in the medium term.[39] Applying these parameters to the additional revenue raised that can be attributed to the project, the short-term economic impact of the project is estimated at US$127 million across the project period. The longer-term impact as well as the dynamic effect of this increase on the future tax base is not considered.

73. **Finally, the social costs of taxation in Uzbekistan is sizeable.** Taxation imposes a cost on society because it creates certain distortions in the economy. Academic literature has been devoted to this topic, but precise estimates about the size of these costs for specific taxes in specific countries remain hard to find. The available estimates for Uzbekistan suggest that the marginal cost of raising an additional US$1 in tax revenue in 2014 was around US$1.18.[40] Using this parameter and considering the project cost, the total economic cost of the project is estimated at US$241.3 million in NPV terms between 2022 and 2026.

Table 5. Fiscal Analysis (US$, millions)

	Baseline 2019	FY22	FY23	FY24	FY25	FY26
BENEFITS						
REDUCTION IN THE COMPLIANCE GAP						
VAT compliance gap without project (% of potential) [41]	45.0	45.0	45.0	45.0	45.0	45.0
VAT compliance gap with project (% of potential)		41.0	37.0	33.0	29.0	25.0
Increased revenue		326.5	676.7	1,040.4	1,424.0	1,838.6
Attributable to the project (25%)		81.6	169.2	260.1	356.0	459.6
REDUCTION IN ADMINISTRATIVE COST						
Collection cost without interventions (% of revenue)	1.54	1.54	1.54	1.54	1.54	1.54
Collection cost with interventions (% of revenue)		1.39	1.24	1.10	0.95	0.80
Savings		10.9	23.5	37.5	53.1	71.0
TOTAL BENEFIT						
Total, NPV		87.1	170.5	247.7	320.3	390.8
Total, cumulative, NPV		87.1	257.6	505.2	825.5	1,216.3
COSTS						
PROJECT COST						
Total, NPV		5.6	13.3	20.0	9.4	2.2
Total, cumulative, NPV		5.6	18.9	38.9	48.3	50.5
FISCAL RESULT						
Benefits - Costs, NPV, cumulative	1,165.8					
Benefit / Cost, NPV, cumulative	24.1					

[38] World Bank. 2019. *Uzbekistan Public Expenditure Review*. Washington, DC: World Bank.
[39] Devadas, S., and S. Pennings. 2018. "Assessing the Effect of Public Capital on Growth: An Extension of the World Bank Long-Term Growth Model." Policy Research Working Paper 8604, World Bank, Washington, DC.
[40] Auriol, Emmanuelle, and Michael Warlters. 2012. "The Marginal Cost of Public Funds and Tax Reform in Africa." *Journal of Development Economics* 97 (1): 58–72; Ensor, W. 2016. "Global Tax Structures and the Marginal Cost of Funds." *Manuscript.* Clemson University.
[41] Baseline taken for tax gap is 2018

IRR (%)	207%					
MEMORANDUM ITEMS						
GDP, nominal	57,070	64,055	66,073	67,465	69,001	71,013
Exchange rate (SOMS/US$)	8,939	12,258	13,531	14,805	16,079	17,353

Table 6. Economic Analysis (US$, millions)

	Baseline 2019	FY22	FY23	FY24	FY25	FY26
BENEFITS						
REDUCTION IN ADMINISTRATIVE COST						
Collection cost without interventions (% of revenue)	1.54	1.54	1.54	1.54	1.54	1.54
Collection cost with interventions (% of revenue)		1.39	1.24	1.10	0.95	0.80
Savings		10.9	23.5	37.5	53.1	71.0
REDUCTION IN COMPLIANCE COST						
Hours to prepare, file and pay without intervention	181	181	181	181	181	181
Hours to prepare, file and pay with intervention		177	172	168	163	159
Savings		2.0	4.6	7.9	12.2	17.5
RETURN ON PULBIC INVESTMENT						
Public investment, financed by project tax revenue		34.1	70.7	108.7	148.8	192.1
Increase in real growth rate (percentage points)			0.01	0.02	0.03	0.04
Increase in GDP			6.2	18.5	37.7	64.7
TOTAL BENEFIT						
Total, NPV		12.1	30.3	53.2	80.6	112.8
Total, cumulative, NPV		12.1	42.4	95.6	176.2	289.0
COSTS						
PROJECT COST						
Investment		6.0	15.0	24.0	12.0	3.0
SOCIAL COST OF TAXATION						
Tax revenue attributable to project		81.6	169.2	260.1	356.0	459.6
Social cost of revenue collection		14.7	30.5	46.8	64.1	82.7
TOTAL COST						
Total, NPV		19.5	40.2	58.9	59.6	63.1
Total, cumulative, NPV		19.5	59.7	118.6	178.2	241.3
ECONOMIC RESULT						
Benefits - Costs, NPV, cumulative	47.7					
Benefit / Cost, NPV, cumulative	1.20					
IRR (%)	12.02%					
MEMORANDUM ITEMS						
GDP, nominal (US$ million)	57,070	64,055	66,073	67,465	69,001	71,013
Number of VAT taxpayers	81,112	114,930	129,088	144,989	162,849	182,909
Hourly wage financial sector (US$)	2.97	3.87	4.02	4.15	4.25	4.34
Exchange rate (SOMS/US$)	8,939	12,258	13,531	14,805	16,079	17,353

(*) The social cost of taxation is based on estimates of the marginal cost of funds (MCF) which captures the change in social welfare associated with raising an additional unit of tax revenue. The estimates presented here are based in the empirical literature on the topic. However, that literature is very thin. Therefore, the estimates should be approached with care.

B. Fiduciary

(i) Financial Management

74. **The assessment of the FM arrangements at the STC are found to be generally acceptable for implementation of the project.** The residual FM risk for project implementation is assessed to be Moderate provided the FM risk mitigation actions are addressed by the Implementing Agency. These actions are due to the fact that this is the first time the STC will be implementing a World Bank project.

75. **The project accounting will be conducted according to International Public Sector Accounting Standards (IPSAS) (cash basis) and the accounting records will provide necessary details on each transaction made from the project funds.** The PIU will submit a quarterly unaudited interim financial report (IFR) to the World Bank. The independent external audit of the project financial statements will be carried out for each financial year and at the closing of the project by an eligible audit firm, in accordance with the terms of reference, agreed with the World Bank. The audit will be financed from the credit proceeds, and the project audit report will be publicly disclosed by the PIU and the World Bank on their respective websites.

76. **The disbursements will be carried out in accordance with the World Bank Disbursement Guidelines for IPF (Dated May 2017) using the four disbursement methods: direct payments, advances to the Designated Account (DA), reimbursements, and special commitments.** The minimum application size and the DA ceiling will be specified in the Disbursement and Financial Information Letter (DFIL). The PIU will open a DA (in US dollars) in a financial institution acceptable to the World Bank and a transit account in Uzbek Som, as may be necessary. Both accounts will be used only for the inflow of the project funds and payment of eligible expenditures. The PIU will be in charge of fiduciary responsibility (for example, procurement, FM, disbursements, and contracting).

Table 7. Actions to be Addressed by the STC

Action Description	Responsible Entity	Due Date
Establish and sustain a PIU with terms and references acceptable to the World Bank	STC	Effectiveness condition
Adopt the POM acceptable to the World Bank, which shall include a chapter on the project's FM arrangements	STC	Effectiveness condition
Install a fully functional accounting software and the needed accounting and financial controls based on the accounting software	STC	Legal covenant – 2 months from effectiveness

(ii) Procurement

77. **Procurement procedures**. The recipient, through the PIU, will carry out procurement in accordance with the "World Bank's Procurement Regulations for IPF Borrowers", dated November 2020; the 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', dated July 1, 2016; and other provisions stipulated in the Financing Agreements. The POM will include procurement arrangements and responsibilities of the recipient and PIU. Procurement capacity-building programs to follow the POM will be organized in Year 1 of implementation and on demand in the later years.

78. **Project Procurement Strategy for Development (PPSD) summary.** A PPSD was prepared and accepted by the Bank.

79. **Procurement Risk Assessment and Management System (PRAMS).** As part of the project preparation process, an assessment of procurement capacity of the implementing entity has been conducted and completed at appraisal using PRAMS, and accordingly risk mitigation measures have been proposed.

80. **Procurement risk.** The overall procurement risk associated with the project in view of the project's risk profile and the lack of experience of the STC with World Bank-financed projects is proposed as 'Substantial', considering the mitigation measures to be taken. Procurement of IT-related services, systems, and goods, the complexity of procurement processes, weak technical expertise in preparing of the TORs and the technical specifications for equipment, and lack of knowledge of the World Bank's Procurement Regulations need to be considered and mitigated accordingly.

81. **Oversight and monitoring by the World Bank.** All contracts not covered under prior review by the World Bank will be subject to post review during implementation support missions, including missions by consultants hired by the World Bank or through supreme audit institutions as part of the financial audit. The World Bank may, at any time, conduct independent procurement reviews of all the contracts financed under the credit.

C. Legal Operational Policies

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

D. Environmental and Social

82. Overall Environmental and Social Risk rating is "Moderate", cumulative of social risks being rated "Moderate" and environmental risks being rated "Low". The project recognizes the following standards as relevant: Environmental and Social Standard (ESS) 1; ESS 2; ESS 3; and ESS 10.

83. The environmental risk rating is Low. Subcomponent 1.2 will focus on software procurement for STC's new generation Data Centers, with elements of hardware "revamping and integration" which means IT-centric works, such as adjusting server infrastructure or data consolidation or other. No serious environmental impacts are foreseen from this activity. The project will not finance any kinds of civil works and at this stage, STC is also not aware of possible civil works related to the project. Looking forward two years, there may be upgrade of facilities or possibly new construction for Data Centers at which time the risk assessment will be revisited. At present, it is impossible to identify any "Associated Facilities" nor foresee environmental impacts or management instruments for them. Component 3 will focus on the operationalization of a newly established Fiscal Institute by financing the development of curriculums, training plans and strategic management plans. The Fiscal Institute will be established before the start of the project. The project will not finance any civil works for the Fiscal Institute.

84. The main social risk associated with the proposed project include broad public behavioral response to new tax procedures and amendment of the legal framework. This will be manifested through resistance for the transition from informal to formal business model and keep practicing tax evasion. The taxpayers' opinion and perception will be carefully studied and consulted on during the design stage of new tax administration business processes and measures to improve compliance (including incentives to encourage voluntary compliance). The consultations will be supplemented with effective information disclosure, communication, and awareness-raising campaign, as well as the establishment of effective feedback mechanisms for the taxpayers to voice their concerns. These stakeholder engagement and public outreach activities are outlined in the Stakeholder Engagement Plan (SEP), which sets out mechanisms to identify and engage with stakeholders to allay diverse groups of taxpayers' concerns on an on-going basis.

85. Towards addressing the environmental and social risks and ensuring implementation in compliance with the relevant ESSes, the following documents have been prepared: 1. Environmental and Social Commitment Plan (ESCP); 2. SEP; 3. Labor Management Procedures (LMP) and 4. E-waste management checklist. In compliance with the World Bank's Environmental and Social Management Framework, draft ESCP and SEP were publicly disclosed on both the STC's official website on November 17, 2020 and disclosed on the World Bank's website on December 3, 2020.

V. GRIEVANCE REDRESS SERVICES

86. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VI. KEY RISKS

87. **The overall risk for the operation is Substantial.** This is due to substantial to high risks for institutional capacity, and fiduciary risks that may be exacerbated by the COVID-19 pandemic. Political, macro-economic, and technical design risks are deemed moderate.[42]

[42] The ongoing TA Program and the presence of the team has helped forge a strong working relationship with the senior leadership at the MOF and STC, which is expected to solidify the needed political support. The project also envisions a stakeholder analysis and a change management plan. Moreover, the design of the project benefited from an ongoing TA Program. This has allowed for a frontloading of some of the required analysis, identification of gaps, and a better understanding of the challenges and needs of the client.

88. **Institutional capacity for implementation and sustainability.** The risk associated with institutional capacity is High. The client is not familiar with World Bank projects and staff capacity to implement the project is low. Implementation and sustainability may also be undermined by staff turnover. The World Bank will leverage the TA Program to mitigate this risk by providing support to the PIU and building local capacities. Senior leadership at the STC was recently changed and the TA Program succeeded in serving as a bridge to maintain the dialogue and ensure continuity. The TA Program is set to close in June 2024 which will allow for intensified implementation support during the initial years of the project. Working groups will be established within STC to ensure coordination at the technical level and more importantly that the implementation of IT reforms reflect the business needs of the users across the STC. The task team leader and the co-task team leader, both based in Tashkent, will facilitate close communication and implementation support as needed.

89. **Fiduciary.** Fiduciary risks are rated Substantial primarily due to procurement risks. Specifically, procurement of IT systems and hardware is expected to pose high fiduciary risks before mitigation. These risks - as outlined in Section IV.B. Procurement - include complexity of procurement processes, weak technical expertise in preparing the specifications for IT equipment, low procurement capacity, and lack of knowledge of the World Bank's Procurement Regulations. To mitigate the procurement risks, a seasoned procurement expert knowledgeable in IT procurement will be hired by the PIU, at least for the first two years of the operation. The World Bank will also leverage its TA Program to accompany STC during the procurement phase as well as the implementation phase. The TA Program will help build local capacities, support the preparation of technical documents, while ensuring that IT enhancements are aligned with the overall tax reform agenda. It is important to note that the STC is the beneficiary and also the agency entrusted to lead the IT national agenda. The design of the operation (i.e., integrating business needs, HR aspects, alignment with processes) will also help mitigate the challenges in the implementation phase. With these measures, the residual fiduciary risk is deemed substantial.

90. **Other risks.** Other risks envisage the potential impact of COVID-19 on implementation. The STC has switched to remote collaboration and this was successfully tested and observed in the recent TA Program activities (for example, assessments, trainings, and virtual missions). STC is now in a better position to deal with Covid-19 repercussions. Procurement procedures shall consider the COVID-19 emergency conditions duly. The procurement documents shall be adjusted considering the COVID limitations and risks accordingly. For example, electronic bids submission and online bids opening could be applied.

VII.RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY: Uzbekistan
Tax Administration Reform Project in Uzbekistan

Project Development Objectives(s)

The development objective is to improve the operational efficiency and effectiveness of the State Tax Committee (STC) and increase voluntary compliance.

Project Development Objective Indicators

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Improved Operational Efficiency							
Reduction of cost-of-collection ratio of STC (Percentage)		1.53	0.00	0.00	0.00	0.00	0.80
Improved Operational Effectiveness							
Reduction in VAT compliance gap (Percentage)		0.45	0.00	0.00	0.00	0.00	0.25
Increased Voluntary Compliance							
Number of additional assessment cases resulting from tax audits to LTO taxpayers, as a percent of total LTO audit cases selected using the risk management framework (Percentage)		0.00	0.00	50.00	60.00	75.00	80.00

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Automation of Core Tax Administration Business Processes							
IT infrastructure enhanced (Text)		n/a	ICT Strategy and Master Plan Adopted including Covid-related measures	Comprehensive software architecture designed Audit case management module procured	Data Center upgraded IT Governance revised and planning capacity enhanced	Information and Cyber Security Protocols implemented	Manuals for all modules of tax system developed
Coverage of electronic tax services (% total) (Percentage)		60.00	65.00	70.00	75.00	85.00	90.00
Coverage of automated business processes (% total) (Percentage)		50.00	55.00	60.00	70.00	80.00	90.00
ICT customers (i.e., STC staff satisfaction rate) (Percentage)		0.00	50.00	60.00	70.00	80.00	90.00
Reduction in time to process VAT refunds (Days)		60.00	60.00	66.00	45.00	35.00	30.00
Address Tax Barriers to Reduce the Informal Economy							
Total stock of arrears as percentage of domestic tax revenues collected (Percentage)		4.00	8.00	10.00	8.00	6.00	5.00
Increase number of cases selected for audit using the risk-assessment framework (as a % of total audits/inspections) (Percentage)		0.00	0.00	0.65	0.75	0.85	0.95
Reduction in hours to prepare,		181.00	181.00	175.00	170.00	165.00	159.00

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
file and pay tax - paying taxes indicator - doing business (Hours)							
Voluntary Compliance Enhanced (Text)		n/a	Voluntary strategy adopted including communication plan and Covid-related business continuity and recovery phase measures.	Taxpayer complaint mechanism introduced.	Website functionalities expanded. Support services to small entrepreneurs and women introduced.	Call centers rolled-out and mobile applications developed.	Multi-channel service delivery in full operation.
Number of registered and active VAT taxpayers (o/w large taxpayers) (Number)		81,112.00	82,735.00	85,250.00	87,750.00	92,250.00	97,335.00
Overall taxpayers satisfaction with STC services, operations, and engagement (focusing on satisfaction rate on engagement) (Percentage)		0.00	50.00	55.00	60.00	70.00	80.00
Increase in tax revenues collected by STC (cummulative, bn som) (Number)		83,354.00	0.00	0.00	83,354.00	91,689.00	100,858.00
Strengthen HR and Institutional Capacity and Delivery							
HR infrastructure enhanced (Text)		n/a	Strategic staffing and workforce planning conducted (that accounts for Covid impact.	HR strategic plan aligned with transformation agenda done (includes flexible and innovative arrangements).	Detailed HRM, administrative and function manuals developed.	Staff surveys institutionalized.	Staff performance evaluation framework adopted.
Share of women in managerial positions at STC in headquarters and the regional offices (% total managerial positions) (Percentage)		1.40					7.00
Capacity building program institutionalized (Text)		n/a	Training needs assessment conducted.	Medium term training plan developed that	Course curriculum and modules for key tax	Capacity on training and research methodology of	Capacity building program piloted.

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
				includes on-site and remote modalities.	functions developed.	delivered.	
Staff just-in-time trained on tax functions (e.g., audit, arrear management, registration) and disaster risk management and business continuity - cummulative, 50% of which are female (Number)		0.00	30.00	40.00	60.00	90.00	120.00
50% of which are female staff just-in-time trained on tax functions (Number)		0.00	15.00	20.00	30.00	45.00	60.00
Tax Analysis Enhanced (Text)		n/a	Tax gap (VAT, CIT) analysis conducted.	Tax expenditures analysis conducted to quantify revenue forgone as per list of incentives.	Cost-benefit analysis of tax incentives conducted.	Tax analysis methodologies and models instituted in operations (future Fiscal Institute).	Core team – composed of men and women - trained and entrusted permanently with tax analysis.

Monitoring & Evaluation Plan: PDO Indicators					
Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Reduction of cost-of-collection ratio of STC	The ratio = total recurrent expenditure of STC (as a proxy of administrative cost) divided by total tax revenue collected by STC. This indicator measures the	Annual	STC budget and MOF	Standard costing (ie efficiency ratio) methodology	STC

	operational efficiency of the tax administration. Baseline = 2019. In 2019, total STC budget (minus capital expenditures) was ~ 1,283bn and revenues collected by STC was ~ 83,354bn, rendering the baseline collection ratio 1.53%.				
Reduction in VAT compliance gap	This indicator measures the difference between the total observed VAT revenue collected (net of refunds) with total potential VAT revenues (net of refunds). This indicator does not include the policy gap that is related to change in tax policy (e.g., remove an incentive). Baseline = 2018. The baseline was calculated using the assumption of 75% compliance rate (average rate for LAC). The model using 2018 data estimated the VAT potential at ~ Soums 50,690bn. Collected VAT was ~27,875bn. Hence baseline is 45% or 0.45	Annual	MOF, STC	Tax gap analysis (micro-simulation models)	STC, MOF
Number of additional assessment cases resulting from tax audits to LTO	This indicator measures the effectiveness of the risk	Annual	LTO (STC)	LTO (STC) database of audit operations (e.g.,	STC

taxpayers, as a percent of total LTO audit cases selected using the risk management framework	management framework used to select cases for audit in the LTO. This indicator will measure the number of additional assessment cases that resulted from tax audits to large taxpayers as a percent of total audit performed in the year by the LTO			annual reports)	

Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
IT infrastructure enhanced	This indicator includes measures to enhance the IT infrastructure at STC starting with an overarching ICT strategic plan and include upgrading data center, introducing cyber secutiry protocols, an audit case management module, etc. Measures should account for Covid-19 to ensure business continuity.	Annual	STC	Progress reprorts	STC
Coverage of electronic tax services (% total)	This indicator measures the percentage of services (e.g., registration, filing, VAT refunds) provided by STC in electronic form - already	Annual	STC	Progress reports	STC

	implemented - as percentage of total services. The ICT assessments carried out in 2019 helped to provide a best guess on the baseline coverage estimated at 60%. Currently, the system offers many e-services to taxpayers. Taxpayers can access a variety of information through the on-line portal http://my.soliq.uz and can interact with STC to complete various on-line requests, including filing tax declarations, submitting refund requests, requesting information and tracking replies. However, there is little support for peripheral services, such as complaints, arrears, audits, legal, etc.				
Coverage of automated business processes (% total)	This indicator measures the percentage of business processes that are automated under the new ICT system. Currently, there are no process maps to identify the percentage that are automated. ICT assessments\showed that	Annual	STC	Progress reports	STC

	audit process was partially automated, the legal process is not automated. STC has limited business intelligence support and refund management is done partially on paper. The systems provide little support for Workflow Management, the taxpayer registry is incomplete, and there is little support for risk management. These facts can be translated into a baseline of 50% (at most) of processes that are automated.				
ICT customers (i.e., STC staff satisfaction rate)	This indicator is a proxy of the quality of the service provided by the new ICT system. It is calculated as the satisfaction rate (%) of the STC employees – the users of the ICT system. It will be measured via surveys.	Annual	STC	Progress reports & survey results	STC
Reduction in time to process VAT refunds	Number of days to process a complete VAT refund request – from claim submission to disbursement/rejection. STC does not have a case management system to	Annual	STC	STC (VAT database)	STC

	derive the data and compute the average time to process a refund. However, the Decree #489 (August 2020) stipulates that VAT refunds must be processed in 60 days (Accelerated cases need to be processed in 7 days). Prior to this decree, only exporters were allowed to submit a VAT refund claim. The baseline is assumed to be 60 days or the maximum amount permitted by law. This is a plausible assumption since it will take time for STC to process the expected surge in claims. All claims, including the ones that go to audit, are included in the calculations. The target is set at 30, which is in-line with best practice observed in OECD.				
Total stock of arrears as percentage of domestic tax revenues collected	This indicator measures the ratio of arrears (i.e., outstanding taxes generated from PIT, CIT, VAT) as a percent of tax revenues collected on domestic transactions (i.e., revenues from PIT, CIT, and VAT, but	Annual	STC	Progress reports and STC database reports	STC

	excluding custom duties). The total stock is calcuclated at the end of calendar year (baseline is December 31, 2019). If data is provided by taxpayer segment, the same ratio can be monitored for large and non-large taxpayers. Until audit operations are resumed (moratorium lifted), it is difficult to assess the true stock of arrears. In 2019, STC data showed a total stock of arrears as percent of domestic revenues at 4% (it was 12.3% in 2017). This is a low ratio and better than most OECD countries. Once audit is resumed, it is expected that the stock of arrears to increase. The target thus is for this indicator not to exceed 5%.				
Increase number of cases selected for audit using the risk-assessment framework (as a % of total audits/inspections)	This indicator measures the percentage of audits that use a risk-based approach in the case selection over the total number of audits. It will be monitored from Year 2 when the risk-based audit approach is expected to be fully implemented. There is	Annual	STC	Progress reports & STC case management data	STC

	no baseline since as of September 2020, audit is not being carried out due to the moratorium. The final target is 95% as tax administrations need to allocate some cases to be randomly selected for audit (i.e., outside the automated tool). There could be also potential inaccuracy in the selection algorithm that warrant manual intervention and correction. This explains not setting the target at 100% .				
Reduction in hours to prepare, file and pay tax - paying taxes indicator - doing business	This indicator reflects the “time to comply” sub-indicator in the Paying Taxes Doing Business Indicator of the WB annual publication. Baseline = 2019	Annual	World Bank DB report	World Bank Doing Business Report	World Bank
Voluntary Compliance Enhanced	This indicator covers measures to enhance voluntary compliance and broadening the tax base. Measures include an overarching strategy, an anti-corruption strategy, as well as mechanisms and tools to attract new taxpayers. The strategy ought to include measures	Annual	STC	Progress reports	STC

	that aim to contain initial loss due to Covid as well as plans to ensure business continuity and recovery.				
Number of registered and active VAT taxpayers (o/w large taxpayers)	This indicator measure new taxpayers that are registered with VAT (i.e., have a tax ID). Active is defined as a taxpayer who has filed at least once in the current fiscal year. Baseline = 2019. The The target is an increase of 20% for total and large taxpayers that are registered and active.	Annual	STC	STC database	STC
Overall taxpayers satisfaction with STC services, operations, and engagement (focusing on satisfaction rate on engagement)	This indicator measures the taxpayers' satisfaction with STC's services, operations, and engagement. The services may include the call center, the website, e-services, complaint desk, etc. The survey will include questions that will gauge the satisfaction of taxpayers particular focus on the level of engagement. Questions may include the views of taxpayers and citizens solicited, and taking into account in the design of policies or services.	Annual	STC, MoF	Progress report and survey results	STC

Increase in tax revenues collected by STC (cummulative, bn som)	This indicator reflects actual tax revenue collected by STC. Baseline = 2019. The objective is to monitor compliance with the aim of containing revenue loss and restoring pre-covid collections level by year 3.	Annual	STC	STC database	STC
HR infrastructure enhanced	This indicator entails measures taken to revise the HR infrastructure at STC by conducting a strategic plans, introducing staff satisdaction surveys and a new performance management framework. The new plans ought to include flexible and innovative work arrangement in light of Covid.	Annual	STC	Progress reports	STC
Share of women in managerial positions at STC in headquarters and the regional offices (% total managerial positions)	This indicator measures the reduction of the gender gap of staff in management positions at STC. As of September 2020, there were 3 women (or 1.4%) in top management positions. For non-mangerial positions, the share of women was 10.7%	Annual	STC	Progress reports & STC Staff count	STC
Capacity building program institutionalized	This indicator entails to take stock of measures to	Annual	STC	Progress reports	STC

	institutionalize training of staff (training needs, courses developed, etc.) with the aim of supporting the future set-up of the Fiscal Institute by STC. Flexible and differentiated training modalities ought to be considered.				
Staff just-in-time trained on tax functions (e.g., audit, arrear management, registration) and disaster risk management and business continuity - cummulative, 50% of which are female	This indicator measures capacity building tasks carried out under the project. It will be expressed in cumulative numbers and will target a 50% female participation.	Annual	STC	Progress reports	STC
50% of which are female staff just-in-time trained on tax functions	This indicator measures capacity building tasks carried out under the project. It will be expressed in cumulative numbers and will target a 50% female participation.	Annual	STC	Progress reports	STC
Tax Analysis Enhanced	This indicator covers measures taken to enhance the analytical capacity to measure tax gap and tax expenditures. The ultimate objective is to have a core team – later to be part of the fiscal institute - entrusted with this function.	Annual	STC, MoF	Progress report	STC, MoF

ANNEX 1: Implementation Arrangements and Support Plan

COUNTRY: Uzbekistan
Tax Administration Reform Project in Uzbekistan

1. **Implementation arrangements are designed to ensure cross-departmental coordination internally within the STC and externally with the MOF and other stakeholders**. Coordination will cover high-level policy and strategic management among major stakeholders, external coordination and accountability, project management functions, and the management of specific project activities.

2. **The STC will be the implementing agency for the project, and the STC Chairman will serve as the project coordinator.** The project coordinator will oversee strategic milestones and implementation of the project, monitor progress, and ensure timely completion of the project activities. The project coordinator will act as a focal point for communication with the World Bank team on project-related issues

3. **The project coordinator will be supported by a project manager who will oversee a PIU.** The project manager will head the PIU. The project manager and the PIU staff will be competitively selected. The PIU will help the STC undertake various tasks including procurement, FM, contract management, M&E, and reporting. The PIU will be staffed by a team of consultant(s) in FM, procurement expert(s) with knowledge in IT procurement and other specialists to support implementation, as well as a communication relationship officer that is entrusted with activities related to taxpayers and the business community. This would allow, among other things, to mitigate capacity risks of the project. The project will be implemented based on a POM, which will be adopted by the STC before project effectiveness and is an effectiveness condition. The POM will lay out the project's overall operating, fiduciary, the decision-making procedures, and its results monitoring arrangements.

4. **The PIU will facilitate citizen engagement through the creation of an advisory board.**[43] The board to be established no later than three months from project effectiveness, may comprise taxpayers, business associations, and men and women representatives of small and medium enterprises. The board will meet on a regular basis (quarterly or semiannual) to ensure, among other things, that the views and positions of taxpayers outlined in surveys and focus group meetings are heard and addressed. The STC, through the PIU, will consult with the board on matters related to tax administration reforms, brief them on latest actions, and solicit their views on future envisioned reforms. The purpose is to strengthen public consultations and secure the buy-in of stakeholders to ensure smooth and proper implementation of reforms.

5. **Working groups will be established no later than three months from project effectiveness to ensure close coordination and ownership at the operational and technical levels.** More than one working group can be set-up by area or theme, and they will be comprised of technical staff across the relevant functions including IT. These working groups will serve, among others, as a platform to ensure the business needs are properly reflected.

6. **The PIU will be responsible for monitoring and reporting on implementation progress and results.** The PIU will report—on a biannual basis—on implementation progress, results achieved, and

[43] This may include private sector representatives.

issues that impede progress. The M&E function will use the project's Results Framework and progress will be made public on the World Bank's external website. In addition to the outcomes identified in the Results Framework, project progress will also be validated against external indicators. The project will be subject to regular implementation support missions conducted by the World Bank. The progress assessed during these missions will be reported by the World Bank team to its management through the ISRs, which will include a review of key implementation issues and performance indicators. The results will be disclosed through the ISR on the World Bank's external website for the project. In the third year of project implementation, a midterm review will be conducted. The Results Framework may be revisited and updated during the midterm review or as and when necessary to ensure continued relevance and achievement of desired outcomes. At the completion of the project, an ICR will be prepared.

Financial Management

7. **The FM arrangements of the STC capacity to implement the proposed project were found to be generally acceptable provided risk mitigation measures are duly addressed.** The overall FM risk for implementation of the project was assessed to be Moderate at this stage due to the following: (a) this is the first World Bank project for the STC and (b) the STC lacks the related experience in managing international finance institution projects.

8. **Considering that this will be the first World Bank project for the STC, there will be two FM supervisions per year carried out once the project becomes effective.** The STC has no experience in implementing projects funded by international finance institutions, including the World Bank. Therefore, the technical, managerial, and fiduciary capacity will need to be strengthened for the STC to play the role of the project implementing agency. With this purpose, the PIU will be set up with a required level of resources and functions. The PIU and related policies and procedures will be established from scratch. The activity related to the development and adoption of the POM will be financed by the project preparation advance. The adoption of the POM with contents acceptable to the World Bank will be an *effectiveness condition.*

9. The PIU will be composed of the required level of experts to run the project (the exact number is to be authorized by the STC): a PIU manager, an FM specialist(s), procurement specialist(s), M&E specialists, technical specialists, and so on. In addition to the stated experts, the PIU shall hire as many individual short-term consultants, as needed, to help with the implementation of specific project activities during project implementation. The FM staff will participate in the World Bank organized clinics and/or workshops (upon availability).

10. **The PIU will prepare the annual budget, based on the Procurement Plan, operating expenses estimations, and so on, and will submit those to the STC and MOF for approval.** The PIU will also manage the preparation of the required feasibility study(ies) for the issuance of the government resolution to enable project implementation according to local legislation requirements. The PIU's manager and the FM specialist will be responsible for the project budget preparation, planning, and execution procedures. These will include monthly planning and preparation of annual budgets. The budget will form the basis for allocating the funds according to project activities and project periods. Based on the agreed budget, the PIU will be entitled to use funds from the PIU DA. The funds flow at the regional level will be managed through the regional PIU, which will be adequately resourced and staffed.

11. **The PIU, under the STC, will be in charge of keeping accounts for this project and it will maintain and keep the accounting records in the accounting system, which would be acquired and installed by the project effectiveness.** The project accounting records will be maintained in accordance with the IPSAS (cash basis). At the same time, the PIU will apply accrual basis accounting to reporting with respect to state agencies (MOF, STC, Statistics Committee, and so on). This system would allow fully automated accounting and reporting, including automatic generation of statements of expenditure, IFRs, and other reports required by national legislation. The system will have in-built controls to ensure data security, integrity, and reliability. The accounting records will be maintained in the currency of payment, as well as in the US dollar equivalent, applying the actual exchange rate used at currency conversion. The accounting records will need to include the necessary details, including all individual payments under each contract, balances and transactions from the DA/transit account, and so on.

12. **The PIU will prepare IFRs starting with the quarter in which the first disbursement occurs.** The IFRs will be submitted to the World Bank on a quarterly basis within 45 days after the end of each calendar quarter and will include information on the sources and uses of funds, detailed use of funds by each activity and the budget category, as well as movements and balances in the DA and transit account. The format of IFRs will be agreed upon and will include (a) project sources and uses of funds, (b) uses of funds by project activities, (c) project balance sheet, (d) DA reconciliation statement, and (e) statement of expenditure withdrawal schedule. The IFRs will be automatically generated by the project accounting software.

13. **The PIU will establish an internal control system capable of providing reliable and adequate controls over FM and disbursement processes and procedures.** These include controls for safeguarding of assets, due and balanced segregation of duties, authorization of transactions, review and approval of invoices, and contract management, among others. The internal control system to be implemented and maintained by the PIU, including the budgeting, planning, financial reporting and accounting, and auditing requirements, will be thoroughly specified in the POM, which will be adopted by the STC in the form and substance acceptable to the World Bank.

14. **The STC, with the PIU's help, will be responsible for arranging the independent annual audit of the project's financial statements.** The audit of the project's financial statements will be conducted (a) by an independent private auditor firm acceptable to the World Bank, on terms of reference acceptable to the World Bank, and (b) according to the International Standards on Auditing issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. The project audit will include (a) audit of financial statements and (b) review of the internal controls of the PIU with special attention to the compliance with requirements established in the Financing Agreement and World Bank guidelines and procedures and also the local legislation requirements. No entity audit will be required. The audited project financial statements will be disclosed to the public in a manner acceptable to the World Bank. Following the World Bank's formal receipt of the audited financial statements from the recipient[44] , the World Bank will make them available to the public in accordance with the World Bank Policy on Access to Information. The audit of project's financial statements will be financed from credit proceeds.

15. **The PIU would be in charge of planning, managing, and controlling the project disbursements and payments, as well as preparing and submitting withdrawal applications to the World Bank.** For this

[44] In lieu of the word "borrower"

purpose, the PIU shall have access to the World Bank's Client Connection platform. The project would use standard disbursement methods for IPF operations (advances, direct payments, reimbursements, and special commitments). The project funds will be disbursed to the Designated Account at a financial institution acceptable to the World Bank. The detailed guidance on the DA maintenance and ceilings will be specified in the Disbursement and Financial Information Letter.

16. **All the payments from the DAs will be executed by the PIU and the payments will be made for the eligible expenditures and will not be pooled with other funds not related to the project**. Eligible project expenditures, consisting of regular goods, consulting services, non-consulting services, and training and operating costs, would be documented to the World Bank using statements of expenditure and or detailed records. For all expenditures disbursed on the basis of statements of expenditures, detailed records in support of the statements of expenditures will be retained in the PIU, according to local regulation requirements, but for not less than five years after the project's closing date. This information will be available for review by World Bank implementation support missions and during the project audits.

Procurement

17. **Applicable procurement framework.** The PIU would be in charge of planning, managing, and conducting the project procurement activities in line with the PPSD and approved Procurement Plans. All procurement of activities shall be conducted through the procedures as specified in the "World Bank's Procurement Regulations for IPF Borrowers", dated November 2020. The procurement and contract management processes will be tracked through the Systematic Tracking of Exchange in Procurement (STEP) system, as approved in the Procurement Plan.

18. **Procurement risks assessment.** Procurement capacity assessment would be performed by the World Bank using the PRAMS. The key risks concerning procurement for implementation of the project include systemic weaknesses in the following areas : (a) procurement capacity at the national level; (b) accountability of procurement decision-making in the STC; (c) technical expertise in preparing the specifications for equipment; and (d) potential risk of delays in the implementation of the project due to the complexity of procurement processes and decision-making, which involves a large number of government officials. Preliminary risk mitigation measures are (a) providing technical specifications for preparation of capacity building at the STC; (b) providing training for new and current staff on the World Bank Procurement Regulations; (c) updating the POM with a detailed chapter on procurement, including description of decision-making processes and accountability for procurement decisions; and (d) putting in place an efficient contract management mechanism.

19. **Summary of the PPSD and Procurement Plan.** The PPSD was developed, based on which the Procurement Plan for the first 18 months of project implementation were prepared. The PPSD includes a detailed procurement risk analysis and actions to mitigate the risks. If followed properly, and the risks are mitigated, a lower risk rating might be upgraded during project implementation. Market analysis for large-value packages shall be conducted to confirm that the market is competitive enough with a large number of manufacturers, suppliers, and so on. Examples of large-value packages are

(a) Modernization of STC communication devices and information security systems;
(b) Procurement of servers and software for big data technologies implementation that enable the management and analysis of large volumes of data and staff training; and

(c) Development of a single platform for complex information systems of the STC to ensure the competitive market.

20. The project does not include civil work contracts. The Procurement Plan will be updated at least annually, or as required, to reflect the actual project implementation needs and improvements in institutional capacity.

21. **Use of national procurement procedures.** All contracts for goods, works, and consultancy services following national market approach shall use the procedures set out in the Public Procurement Law (PPL), dated April 2018 as allowed under Section V of the World Bank Procurement Regulations for IPF Borrowers, dated November 2020. Specifically, the provisions of the PPL are generally consistent with the sub-section on National Procurement Procedures of Section V (i.e., paragraphs 5.3 – 5.6). The National Procurement Procedures are subject to a few conditions specified in the PPSD. To promote transparency, efficiency, and value for money under the new country public procurement system, the PPL provides for a gradual introduction of an e-procurement system. The new e-procurement system will be assessed by the World Bank's procurement team. If found acceptable, the project may use it for procurement of simple goods and small works.

22. **Procurement supervision and ex post review.** Routine procurement reviews and supervisions will be provided by the procurement specialist based in the country office. In addition, two supervision missions are expected to take place per year, during which ex post reviews will be conducted for the contracts that are not subject to the World Bank's prior review on a sample basis (20 percent with regard to the number of contracts). One ex post review report will be prepared per fiscal year, including findings of physical inspections for not less than 10 percent of the contracts awarded during the review period.

Procurement Risk Management Plan

23. The PPSD addresses how procurement activities will support the PDO and deliver best value for money under a risk-based approach. Based on the procurement risk analysis, which is part of the PPSD, the risk management plan (table 1.1) was prepared to inform a procurement approach that considers the ability of the recipient to manage identified risks

Table 1.1. Risk Management Plan

Identified Risk	Risk Description	Description of Proposed Mitigation through Procurement Process	Risk Owner	Procurement Process Stage
Technical specifications are inadequate	Limited expertise of the recipient to develop technical specifications	• Qualified consultants will be hired to support the recipient in preparation of technical specifications including IT procurement • Conducting market survey before preparation of technical specifications	Recipient	Preparation of procurement documents
Implementation risks	Less experience on the new World Bank Procurement Regulations as well	• Providing intensive trainings, seminars, and pre-bidding conferences on the procurement process for	Recipient	Preparation of procurement documents

Identified Risk	Risk Description	Description of Proposed Mitigation through Procurement Process	Risk Owner	Procurement Process Stage
	local supplier's low performance during bid preparation, submitting bank guarantees, and quality assurance process	the staff of STC, PIU/RSPIU, and bidders		
Contract management risks	At the contract management stage, more attention to timely implementation of contract duties, suppliers provide performance security on proper time and form	• Implement timely implementation contract progress monitoring, carefully check the duration of the performance guarantee and applicable form	Recipient	Contract management
Procurement and implementation delays	There is a risk of procurement and implementation delay, which is manageable by implementing the appropriate mitigation measures	• Implement timely project progress monitoring and evaluation tools • Clear roles and responsibilities of concerned parties and stakeholders • Hire an international IT procurement consultant	Recipient	Preparation of procurement documents, bid evaluation, and contract management
Disruption in upstream supply chain	Transportation of goods and services from source to final destination has limited options. Uzbekistan is landlocked with limited regional connectivity	• Undertake market engagement with potential bidders/suppliers to understand how supply chain operates in the market or in the region	Recipient	Contract management
Limited management capacity of the PIU	The STC is implementing the WB project for the first time.	• Staffing the PIU with qualified project implementation experts • Hiring a project management consultant (independent firm) • Development of detailed POM	Recipient	Project implementation
Staff turnover	High level of staff turnover affects the capacity of the project implementing team	• Introducing financial and social incentives to retain trained and qualified staff throughout the project period	Recipient	Project implementation

Implementation Support Plan (ISP)

A. Strategy and Approach for Implementation Support

24. **Given the overall substantial risk of the operation, the high risk related to implementation capacity and substantial risk related to fiduciary, the project would require intensive implementation support.** Previous World Bank experience in similar projects, particularly in Uzbekistan and other transition countries, indicates the need for intensive implementation support and handholding from the Bank team to ensure smooth implementation and project success. Higher than normal supervision, field presence and support are required from the World Bank team.

25. **Implementation support will be provided by the World Bank team, consisting of staff with relevant competencies in DRM, public finance, IT operations, procurement, and finance management.** Other Bank specialists would also be deployed as necessary (e.g., economists, risk management experts, tax auditors). Fiduciary support will be provided from the field that will allow for intensive and close support to the PIU. Oversight missions covering M&E of project implementation, assessment of outcomes and results will be deployed at the minimum every six months and supplemented by regular virtual meetings with the PIU. A Mid-Term Review (MTR) will be carried out at the end of the second year of project implementation.

26. **Intensive support to ensure the smooth functioning of the PIU is expected in the first year with potentially almost day-to-day coordination with Bank fiduciary staff and task team leaders.** In this regard, a launch workshop with all key stakeholders and PIU will be conducted before effectiveness to ensure: (i) clarity on the roles and responsibilities of each party in the implementation arrangement; (ii) the proper sequencing of activities; (iii) the proper characterization of the Terms of Reference for technical advisory to facilitate successful implementation; and (iv) expectations on results and their sustainability.

27. **Since the operation is supported by an on-going TA Program, the Bank team will ensure close exchanges of information and coordination with the team delivering the TA Program to ensure the delivery of high quality and timely technical support.** Coordination will also be ensured with other donors including the IMF and other bilateral agencies.

B. Implementation Support Plan and Resource Requirements

28. **The following ISP reflects the preliminary estimates of the skill requirements, timing, and resource requirements over the life of the project.** Given the need to maintain flexibility over project activities from year to year, the ISP will be reviewed annually to ensure that it continues to meet the implementation support needs of the project.

29. Tables 1.2 and 1.3 indicate the level of inputs that will be needed from the World Bank to provide implementation support for the proposed project and skills mix required.

Table 1.2 Implementation Support Plan

Time	Focus	Skills Needed
First 12 months	Provide support to establish a strong project management that includes: • Successful project launch • Establishment of the M&E system • Required FM and Procurement system in place • Set-up of thematic working groups,	All skills
Year 2 to 5	• Ensure adequate implementation support • Monitor implementation of project activities (including at minimum 2 missions per year) • MTR at the end of Year 2 • Provide support to final evaluation and ICT of the client	All skills

Table 1.3. Skills Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips	Comment
Task Team Leader	40	-	Based in Tashkent
Co- Task Team Leader (also Sr. FM Specialist)	40	-	Based in Tashkent
Technical Leads/Operational Staff	30		Combination of internationally, regionally, and Tashkent-based staff
Financial Management Specialist	5	-	Based in Tashkent
Procurement Specialist	10	-	Based in Tashkent

ANNEX 2: Detailed Description of the Project

COUNTRY: Uzbekistan
Tax Administration Reform Project in Uzbekistan

Component 1: Automation of Core Tax administration business processes (Component 1)

1. **From April 2019 to January 2020, the World Bank performed several ICT assessments and evaluations in the STC,** including an ICT Assessment Report for the Uzbekistan STC; a Tax Automation Assessment for the Uzbekistan STC; an STC Data Center and Software in the Scope of the Tax Administration Reform Project; an ICT Security System Implementation Road Map for the Uzbekistan STC; and an Incremental Road Map for Sizing and Implementing Data Center for the STC.

2. **Based on these analyses, the STC and the World Bank jointly agreed on a series of action plans designed to improve the overall quality of the ICT services, which are grouped under four streams or subcomponents.** These actions were tailored to improve the quality of the ICT services provided, minimize cumbersome paper-based processes, and improve the capacity of the organization to analyze the information being collected by the organization.

Subcomponent 1.1: Integrated Tax Management Information System

3. **Subcomponent 1.1 will focus on the implementation of a new Integrated TMIS.** Current systems are unable to provide coherent advanced services that are good practices in more developed tax administrations.[45] To provide advanced services and effective operational support these applications need to be rebuilt or replaced by a COTS solution that implements international good practices as recommended by the DIAMOND assessment.

4. **The following activities have been prioritized to address the identified gaps as part of an ICT improvement program:**

- **Procure, develop and implement a TMIS.** New systems are needed to provide end-to-end automation of business processes that are aligned to the business process reengineering thereby ensuring the provision of advances services and effective operational support. The current systems are unable to provide coherent advanced services, and as new functionalities are added the performance and reliability of the overall system is expected to continue to degrade. To provide advanced services and effective operational support, these applications would need to be rebuilt or replaced by a COTS solution that implements

[45] The STC has basic automation for business processes, but it is implemented on outdated systems that have little support for advanced tax administration functions. As evidenced in the ICT and Automation Assessments performed, the STC has developed a custom in-house system, built in 2010 as a collection of about 40 loosely integrated applications, that partially provides support for its tax administration functions. This suite of applications partly automate the tax processes, implement a comprehensive financial ledger that is completely integrated with all of the modules, include a comprehensive taxpayer profile that is available to all tax officials, offer intuitive e-services to taxpayers, and are integrated with relevant external sources. However, the applications were developed over several years without a documented architecture or technical documentation for their maintenance, extension, and/or configuration.

standard international good practices. If the STC decides to purchase a new system, an international bidding process must be considered.

- **Implement simplified, streamlined, and standardized procedures.** The procedures used by STC need to be simplified and standardized and fully supported by the new TMIS, which will include, inter alia, an audit case management system.

- **Build a conceptual process map and create a dedicated business domain team.** A conceptual process map is needed to ensure consistency, identify and match needs, and guarantee quality of data. The ICT department needs to build a conceptual process map that identifies what steps in the process should be automated, what information is needed by tax officials at every step, and what information flows from process to process. This process map promotes consistency in the application of processes, ensures that solutions respond to business needs, ensures quality in the collection and processing of data, and provides information required for selecting processes to automate. Moreover, the replacement for the ICT systems needs to be accompanied by a dedicated business domain team. Although the ICT systems are built by specialized programmers, the functions of these systems need to be defined by the business side of the organization. Hence, the ICT department needs to work with each department to create a specialized business domain team, led by senior domain experts who have substantial field experience, to develop the specifications that best respond to these needs.

- **Develop the architectural documentation for all the systems implemented.** Systems architecture is the abstract set of principles and properties of the system elements and their dependences that details the way the designers planned and created the system, with images, diagrams, or descriptions. This documentation transfers information concerning the designed solutions and enables standardizing the way of thinking of the created system among team members. The documentation is essential to ensure that the systems evolve coherently and need to be developed by the IT team, regardless of whether it is built locally or purchased as a COTS solution.

Subcomponent 1.2: Upgrade of the Hardware and Technological Infrastructure

5. **Subcomponent 1.2 will focus on upgrading the hardware and technological infrastructure (data center) for the STC.** The current infrastructure used to operate the IT systems is outdated and needs to be replaced. The results of the ICT assessments showed that the current infrastructure used to operate the IT systems is outdated and is running at 85 to 90 percent of the installed capacity in terms of data storage, RAM, and processing power. Most of the servers and networking equipment in the STC are at the end of their life cycle and need to be renewed, and most of the data center infrastructure is not reusable. The ICT department needs to ensure that the hardware and facilities used to house the IT equipment are continuously upgraded and sufficient to satisfy the needs for the organization.

6. **The following activities have been prioritized to address the identified gaps:**

- **Create a modern and resilient data center solution (active-passive or active-active) supported by a disaster recovery site that is energy efficiency and has an environmentally**

friendly Power Usage Effectiveness (PUE[46]). In January 2020, the World Bank presented recommendations on an approximate sizing of the resources needed to renew the data center infrastructure and a strategy to incrementally renew said infrastructure, including a modern and resilient (active-passive or active-active) data center supported by a disaster recovery site. The term active-active refers to the use of at least two data centers where both can service the tax administration applications at any time, so each operates as an active application site. Active-active applications give tax administration the ability to perform maintenance on applications without disrupting service to tax administration or taxpayers and ensures that a complete outage of one data center does not disrupt the ability to deliver an 'always-on and always-available' application service. 'Continuously available' or 'active-active' applications require tax administrations to build two independent and functional equivalent data centers, where each is capable of providing tax services at close to maximum load. When one active data center goes down or is lost, the other needs to take over the full load until the failed data center is brought back online. A disaster recovery site needs to be available to ensure that, in the unlikely but possible scenario that both data centers fail, a recent backup of the application is available to provide minimal emergency services until one data center is brought online. The design of the data center should utilize energy-efficient technologies to increase its Carbon Usage Effectiveness (CUE[47]) such as low-power servers, fresh air cooling, reusing waste heat, using power on demand, and hot and cold aisle containment.

- **Replace outdated servers and disks for the new data center.** Because most of the equipment in use at the current data center is outdated and out of warranty, the STC needs to replace the servers and disks for the new data center. Based on the ICT assessment, the World Bank team estimated that the total number of servers in the active-active solution should be approximately 140 (50 servers for the first active site, 50 servers for the second active site, and 40 servers for the disaster recovery site).

- **Modernize the telecommunications infrastructure to support both in-house and remote workers.** In the context of the existing COVID-19 pandemic, the organization's infrastructure is not able to adequately support large numbers of remote workers effectively. To be effective, the ICT infrastructure and systems implemented at the STC must be able to support an increase in remote work and manage any added load to client-facing or service delivery technology that may occur. The current networking and telecommunications infrastructure must be able to support thousands of remote workers, and the technological requirements needed to support work-from-home for majority of the employees warrant hardware and telecommunications equipment that can support the shift of large amounts of data to the edge of the virtual network. Hence, the STC must invest in modernizing the telecommunications infrastructure to support both in-house and remote workers.

- **Acquire servers and software to support big data technologies.** Existing systems in the STC provide limited facilities and support for performing data analytics and business intelligence

[46] See https://www.thegreengrid.org – PUE is the ratio of total amount of energy used by a computer data center facility to the energy delivered to computing equipment.
[47] Carbon usage effectiveness (CUE) is a metric used to measure energy usage and sustainability in data centers. It is calculated with the following formula: Total CO2 Emissions Caused / IT Equipment Power

required to assess the performance of tax administration and perform effective audit case selection, taxpayer fraud detection, and effective risk management, as well as identify trends and predict taxpayer behavior. A modern integrated technological landscape requires the STC to invest in servers and software for big data technologies so that the organization can effectively manage and analyze the large volumes of data that are expected to be generated.

7. **To benefit from economies of scale, the STC and the State Customs Committee (SCC) may consider creating a single data center that uses virtualization to provide data services to both the STC and SCC.** Data centers are complex, expensive, and difficult to install and manage. At least two physical locations are required interconnected through redundant fiber optic channels, and these physical locations require special redundant physical infrastructure.[48] In addition, the data center must be environmentally friendly[49] and must be managed to comply with a number of international standards.[50] A large proportion of the investment required is generic and can be used transparently by multiple organizations using virtualization technology to provide data services to both the STC and SCC with characteristics that are similar to those of cloud service providers,[51] especially considering that the utilization profiles for equipment in both organizations are different. A common data center can cost share most physical and management infrastructure, supported by a layer of visualization to provide data services that are effective, dynamic, and sustainable.

Subcomponent 1.3: ICT Governance and Planning Capacity

8. **Subcomponent 1.3 will focus improving the ICT governance and planning capacity of the IT department of the STC.** Strengthening governance within the IT department will improve the IT department's capacity and ensure that all subsequent investments in ICT software, whether developed in-house or purchased, will be sustainable and will meet the expectations of the users in the organization. Whether the STC builds a new system internally, or purchases a COTS solution, the IT department needs to ensure that it implements necessary tools and management structures to ensure that the new system will support tax organization and implement the functionality that is desired from a business perspective. The capacity to develop or acquire adequate systems is hampered by the lack of a strategic vision and a weak governance structure of the IT department, including the lack of documentation required to ensure that the systems in the organization accompany its strategic vision.

9. **The following activities have been prioritized in this subcomponent to address identified gaps:**

- **Develop and updating of the ICT strategy, and a technology plan.** These documents constitute the strategic vision of the ICT department and ensure that development efforts are always congruent to the strategic vision of the organization.

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[48] Including physical security, specialized power supply connections, special generators, specialized cooling and monitoring equipment, raised floors, key card access with secondary biometric authentication, and so on. Most equipment must be fully redundant so that a single component failure will not disrupt service.

[49] The data center must use renewable energies, special air containment design, LED lighting, insulation, and other technologies to reduce its carbon footprint.

[50] Uptime Institute's Tier Standard (Operational Sustainability); ANSI/BICSI 002-2014 (Data Center Design and Implementation Best Practices); ANSI/TIA 942-A 2014 (Telecommunication Infrastructure Standard for Data Centers); EN 50600 (international series of data center); ISO 9000 (Quality System); ISO 14000 (Environmental Management System); ISO 27001 (Information Security); AMS-IX (Amsterdam Internet Exchange - Data Centre Business Continuity Standard).

[51] Services such as Amazon web services or Microsoft's Azure are prime examples.

- **The ICT strategy** contains measurable objectives and provides vision for all operations in the IT department of STC. The Plan provides a clear path for any decision that any personnel within the department would take. It must be formally defined and carefully communicated to guarantee that all personnel comply with this vision and should be revised on a yearly basis so that it always looks at least three to four years into the future.

- **The technology plan** is part of the ICT strategic plan and describes in detail why the current technologies are used and what future technologies are to be used in the STC and why. When approved, this plan serves as input for the HR development plan as it is easy to foresee what capabilities need to be included in future trainings. This document should also be revised on a yearly basis so that it is always looking at least three to four years into the future.

- **Develop a standard bug tracking system, universal for all development projects.** Having tools that allow formal and systematic tracking of defects of the systems in the organization is fundamental to ensure that software systems satisfy users' expectations. The IT department needs to install a system that ensures that all defects are recorded, prioritized, and considered and their corrections are reported to end users.

- **Create service level agreements for software support and development.** A service level agreement is a contract between a service provider and the client that defines the level of service expected from the service provider. Their purpose is specifically to define what the customer (the STC) will receive and not how the service will be delivered.[52]

- **Select a set of business and performance metrics for the IT department and implement an ICT monitoring and evaluation system.** ICT governance must be enhanced to use performance indicators, and the IT department must select a set of ICT business and performance metrics and implement an ICT monitoring and evaluation system.

- **Improving the IT systems to make effective use of social media platforms.** In the context of COVID-19, the STC does not have specialized resources and personnel to effectively

[52] The metrics that define levels of service for the supplier of software should specify minimally the following:
(a) A description of the service being provided
(b) Reliability—the amount of time that the service should be available and the number of outages that can be tolerated
(c) Procedures for reporting problems—who can be contacted, how problems will be reported, procedures for escalation, and what other steps can be taken to resolve problems
(d) Technical support—what types of support will be provided, how many instances of each type are allowed, how requests are performed, and minimum times for responding for each instance type
(e) Ownership—who owns the software and if the software can be sold to other tax organizations
(f) Security—the security provisions that need to be in place to ensure the security of the systems and the data, including physical access to the servers, access to the databases, encryption requirements, types of logs that must be kept for the systems and databases, as well as the reporting mechanisms and periodicities
(g) Monitoring and reporting service level—who will monitor performance, what data will be collected, and how often the data need to be reported
(h) Consequences for not meeting service obligations—credits or reimbursements to the organization and when the organization can terminate the relationship
(i) Escape clauses—under what conditions the agreement can be cancelled and the obligations of each party for the dissolution of the relationship.

manage social media platforms, which are needed to communicate during times when most employees and taxpayers operate remotely. Improvements in the ICT systems should not be limited to automation but should also include making effective use of social media platforms—integrated into the taxpayer services systems—coordinating between employees, taxpayers, and trade partners; implementing chatbots that provide information about the crisis and provide answers to FAQs; creating IT FAQs and web and training resources for employees and taxpayers moving online; ensuring that the organization has sufficient resources to utilize interpersonal communication tools—such as meetings, training sessions, and workshops—using videoconferencing technologies over VPNs; etc.

Subcomponent 1.4: Disaster risk and Business Continuity Management

10. **Subcomponent 1.4 will focus on improving the STC's capabilities in the creation of business continuity strategies to recover and continue critical processes in the event of an interruption or disaster.** The objective of a BCM program is to create a 'Disaster Recovery Plan' (also called a 'Continuity Plan') that provides strategies and procedures to allow operations to return to an acceptable level of performance as quickly as possible after a disruptive event, such as COVID-19. Currently, the STC does not implement basic Disaster Recovery and Business Continuity Plans and, in the context of the current COVID-19 situation, such plans are essential to ensure that the organization can maintain the ICT assets so that the STC can return to normal or near-normal performance. Disaster Recovery and Business Continuity Plans are also important given the current outdated ICT infrastructure and facilities, which limit the degree to which the organization can transition to the provision of 100 percent e-services to taxpayers and effective work-from-home programs.

11. **The following activities have been prioritized to address the identified gaps:**

- **carrying out a security diagnostic and a security performance review.** The ICT Assessment Report highlights that the lowest scores obtained were in the areas related to security with an average security score of 39 percent. The implementation of an effective tax administration security program typically requires the execution of three individual phases: diagnostic, implementation, and periodic performance review. The STC needs to implement a security diagnostic to evaluate the current security landscape to determine gaps in security controls and policies and prepare an implementation phase that creates the necessary policies, processes, controls and practices

- **Implement a BCM program that includes specific mitigation strategies in the context of COVID-19.** A BCM program ensures that all critical processes are available to tax officials, taxpayers, and other entities that must access them. It supports the organization to create continuity strategies to recover and continue critical processes in the event of an interruption or disaster. The objective of a BCM program is to create a 'Disaster Recovery Plan' that provides strategies and procedures to allow operations to return to an acceptable level of performance as quickly as possible after a disruptive event, such as the COVID-19 situation. The speed with which the STC's assets can return to normal or near-normal performance will affect the time it takes for the organization to return to business as usual. The BCM process begins with the identification of critical operational areas and ends with the definition of a Disaster Recovery Plan. Business impact analysis is the process used to identify the most important business areas and the resources necessary. Risk analysis examines internal and external threats, as well as vulnerabilities that may negatively affect them in the most important business areas. An effective BCM needs to be backed up with the appropriate renewal of physical resources and a sufficient budget given the significant investment required. The STC should include specific mitigation strategies to enhance their capability to rapidly coordinate responses adapting to unpredictable changes.

Table 2.1. Automation of Core Tax Processes (Component 1): Milestones and Proposed Timeline

Milestones	Year 1		Year 2		Year 3		Year 4		Year 5	
	1st Half	2nd Half	1st Half	2nd Half	1st Half	2nd Half	1st Half	2nd Half	1st Half	2nd Half
1.1: Implementation of a new Integrated Tax Management Information System										
System Functionality Specified (TORS)	■	■								
System Architecture Defined	■	■								
Procurement of Core Components	■	■	■							
Basic System Operational (Core Modules)	■	■	■	■	■					
Complete System Operational (All Modules)	■	■	■	■	■	■	■	■	■	■
Basic Technical Training	■	■	■	■						
Complete Technical Training	■	■	■	■	■	■	■			
Basic Process Reingineering	■	■								
Basic Process Map Implemented	■	■	■							
Sustainable Process Map Implemented	■	■	■	■	■	■				
Business Domain Team Created	■									
1.2: Upgrade the hardware and technological infrastructure (Data Center) for the STC										
Data Center Specification Complete (TORS) (Primary / DR)	■									
Data Center Physical Infrastructure Complete (Primary / DR)	■	■	■							
Data Center Components Purchased (power, racks, cooling, security, cabling, etc.)	■	■	■							
Data Center Integrated (physical, security, power, cooling, network, etc.)	■	■	■	■	■					
Server Specification Requirements Complete (TORS)	■									
Data Store Specification Requirements Complete (TORS)	■									
Virtualization Technology Specified (TORS)	■									
Virtualization Technology Acquired	■	■	■							
Data Store (SAN) and Backup Systems Acquired (Primary / DR)	■	■	■	■						
Servers Acquired (33%)	■	■	■							
Servers Acquired (66%)	■	■	■	■	■	■				
Servers Acquired (100%)	■	■	■	■	■	■	■	■	■	
Network Perimeter Equipment Specification Complete (TORS)	■									
Network Perimeter Equipment Acquired (Procurement)	■	■	■							
Network Infrastructure Implemented	■	■	■	■	■					
Network Operation Center (NOC) Technologies Selected (TORS)	■	■								
Network Operation Center (NOC) Equipment Acquired	■	■	■							
Network Operation Center (NOC) Operational	■	■	■	■	■					
Data Warehouse Architecture Designed	■									
Big Data Equipment Specified (TORS)	■	■								
Big Data Equipment Acquired (Procured)	■	■	■	■						
Data Analytics Implemented	■	■	■	■	■	■	■			
Develop the architectural documentation for all the systems implemented	■	■	■	■	■	■				
1.3: Improve the ICT Governance and planning capacity of the IT department of the STC										
Strategic Plan Defined	■									
Strategic Plan Approved by Board	■	■								
Strategic Plan Updated					■			■		
Technology Plan Defined	■	■								
Technology Plan Updated				■			■			■
Application Development Roadmap Defined	■	■	■							
Application Development Roadmap Updated					■		■		■	
Standard bug-tracking system implemented	■	■								
Service Level Agreements (SLAs) between STC and RDC Defined	■									
Business and Performance Metrics for the IT Department Defined	■	■								
KPI Dashboard for the IT Department Implemented	■	■	■	■						
Social Media Use Strategy Defined	■									
Integrated Chatbots Implemented	■	■	■							
Video Conferencing Technologies Implemented Across the STC	■	■	■	■						
IT Systems Integrated Into Social Media	■	■	■							
1.4: Improve the Disaster risk and Business Continuity Management Systems at the STC										
Security Diagnostic Implemented	■									
Security Remediation Plan Defined	■	■								
Security Systems Fully Implemented	■	■	■	■						
Disaster Recovery Plan (Business Continuity Plan) Defined	■	■								
Disaster Recovery System Implemented (Including Budget and Resources)	■	■	■	■						
Disaster Recovery System Reviewed and Upgraded						■		■		■

Component 2: Reduction of the informal economy

12. **The Government of Uzbekistan recently passed a Presidential Resolution (ID 23047) to address risks presented by the shadow[53] economy.** The Resolution takes into consideration several recommendations previously made by the World Bank. The Resolution outlines a strategy to deal with the shadow economy within the interaction between different ministries and agencies by focusing on specific sectors – deemed most susceptible for operate informally – namely trade, public catering, road transport, housing construction and repair, and the provision of residential services. Special and territorial commissions will also be set-up to oversee implementation.

13. **The Resolution is a step in the right direction but there are further areas of improvements at the implementation and strategic levels**. First, timely and effective implementation of the Resolution will be a challenge. This is underpinned by having many representatives in various commissions that risk leading to divergence in opinions and delays. Second, the risks related to the informal economy need to be considered within an overall compliance improvement program. More importantly, an overarching and comprehensive strategy is warranted.

14. **A comprehensive and multipronged strategy is needed to combat the informal economy.** This strategy should pivot around two key pillars: sharpen tax administration tools to detect and punish tax evaders (for example, e-invoicing, a sectoral approach, intensive use of 'big data', risk-based audit) and create conditions that encourage business to stay out of the shadows. It is also important to develop cooperative relationships with private sector institutions.

15. **The following principles based on good practices should be considered when designing a revenue administration compliance strategy to address risks related to the informal economy:**

- **An overarching strategy.** The compliance strategy will need to be tailored to taxpayer segments and economic sectors.

- **A multiphase approach to address risks.** A carefully planned implementation strategy will need to be developed to progressively address the three main pillars.

- **Strong governance arrangements.** To strengthen its governance arrangements to monitor risks related to the informal economy, an STC Compliance Risk Management Committee/Council should take the lead in identification, assessment, and development of mitigation actions.

- **Executive overview** to address associated risks will need to be done.

16. **The objective of Component 2 is to develop and implement a pragmatic road map to improve operational effectiveness and help reduce the size of the informal economy in Uzbekistan.** It will focus on applying this three-pronged approach to combat tax evasion and reduce the informal economy: (a) improving the enforcement-related capabilities of the STC (for example, audit, investigation and intelligence gathering, and risk management) to detect and discourage tax evasion; (b) encouraging businesses to stay out of the shadows (including nontax incentives and enhanced sector-specific

[53] The terms shadow economy and informal economy are used interchangeably.

communication and awareness campaigns); and (c) developing cooperative relationships with the private sector including when designing new/simplified policies/procedures and building partnerships to change behavior. This overarching compliance strategy, part of a new STC Compliance Improvement Program, will be tailored to taxpayers' segments—large, medium, and small—and economic sectors.

Subcomponent 2.1: Strengthen STC Enforcement Capabilities

17. **Subcomponent 2.1 will finance activities to help strengthen the STC's enforcement capabilities**. This will ensure better control of tax obligations, including those addressed to strengthen the monitoring of risks related to the informal economy. 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 subcomponent will include

- 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 with the aim of broadening the tax base and improving voluntary compliance;
- Implementation of a risk-based compliance model and risk-based enforcement programs;
- Extension of e-filing and e-payment systems and limiting the use of cash payments;
- Implementation of track and trace control mechanisms for targeted sectors;
- Alignment of the tax system with widely accepted international good practices in the areas of, *inter alia*, tax transparency and exchange of information;
- Expansion of use of international exchange data, third-party data, and big data to identify non-registered taxpayers and unreported transactions; and
- Enhancement of the STC's audit capacity as well as extending the use of the risk management module and integrating with other data analyses and intelligence tools to automatically detect high-risk operations.[54]

Subcomponent 2.2: Facilitation of Voluntary Compliance

18. **Subcomponent 2.2 will focus on promoting voluntary compliance** and encouraging businesses to stay out of the shadow economy. Activities under this subcomponent may include

- Design of incentives to encourage businesses and individuals to comply with their tax obligations (register, file, and pay), for example, tax invoice lottery to reward business for doing the right thing;
- Revision of the legal framework and procedures to facilitate and encourage compliance or strengthen control
- 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;
- Delivery of focus group discussions with taxpayer representatives and the business community to analyze survey results and propose rectifying measures; and

[54] Ibid.

- Development and implementation of awareness campaigns to address the informal economy with a focus on women leading micro and small enterprises.

Subcomponent 2.3: Development of Cooperative Relationship with Private Sector

19. **Subcomponent 2.3** will support activities to develop cooperative relationships with the private sector. These include

- Engagement of the private sector in the design of new/simplified policies and procedures to address risks related to the informal economy (registration, filing, and payment) 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;
- Partnership 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 shadow economy risks; and (c) putting in place a shadow economy e-complaint mechanism; and
- 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.

Component 3: Strengthen HR and institutional capacity for tax administration and delivery

20. The STC currently faces institutional and HR challenges that continue to limit its operational capacity. Critical HRM policies, procedures, and systems are inadequate and performance management and incentive policies are not adequate to motivate staff and improve productivity. This has led to increased staff turnover. The HR data management policy is weak, and this limits the STC's institutional ability to make evidence-based decisions on managing its most important resource. The organizational structure, including configuration of departments and functions, is not adequately aligned to modern design principles with respect to performance orientation, vertical and horizontal span of control, and clarity of functions and responsibilities. The current policy base for capacity development is also weak with limited opportunities for continuous training and upgrading of skills and competencies of all categories of staff.

21. **The objective of Component 3 is therefore to strengthen the STC's HR by strengthening its institutional capacity to attract, develop, and retain a skilled and knowledgeable workforce and developing the skills of tax officials**. Special focus will be given to women. The component will support the following subcomponents: (a) human resource management (b) institutional functional realignment, and (c) capacity building.

Subcomponent 3.1: Human Resource Management

22. **Subcomponent 3.1 will improve the institutional capacity of the STC to manage its HR more effectively**. The planned activities include developing and implementing key HRM policies as well as

developing and using best practice frameworks and guidelines. The HRM policies include merit-based recruitment, selection, and appointment that ensure transparent and competitive hiring of capable employees and the provision of adequate opportunities and incentives to increase female participation rate and attract women to higher positions. Deliberate policies to attract women to higher positions will be developed and their implementation will be monitored. The policies also include career development and management, training and mentoring (that enables continuous upgrading of skills), compensation and incentive strategy and systems with adequate payroll controls that are linked to higher achievement of performance targets, and performance monitoring that is transparent and results based. The STC will be supported to develop and use best practice frameworks and guidelines including HR strategy and policy manuals, competency frameworks, and best practice employee codes of conduct.

23. The STC will implement strategic HRM by adopting systematic assessment of current and future staffing requirements in terms of numbers and levels of skills and competencies with much emphasis on ICT skills in the formulation and implementation of business policies and programs. This approach will ensure that the STC will benefit from adequate skills sets and highly efficient, motivated, and productive employees. Strategic HR planning at the STC will further enhance strategic analysis centered around its vision at a much higher institutional level and ensure adequate investment in capacity building. It will provide the basis for strong competition in hiring staff after appropriate job analysis and needs identification have been done. The ultimate outcome of such a competitive hiring process will generate skilled professionals to improve processes, drive innovation, and achieve results.

24. HRM policies of the STC will strengthen joint responsibility between managers and staff for identifying and meeting training needs and will adopt a variety of training and development methods. The policies will further embrace the comprehensive cycle of HRM to position the tax agency at the level of international standards regarding the quality and capabilities of its workforce. The key elements of the HRM cycle include employee engagement,[55] employee maintenance and development,[56] and disengagement.[57]

25. A good performance management and appraisal system (PMS) is central to ensuring systematic improvement in achieving objectives and setting targets of the STC. The project will support the design and implementation of a modern PMS with clear performance objectives and standards; monitoring and evaluation systems; performance appraisal processes; procedures for managing underperformance, including determining performance improvement zones and implementing performance improvement plans; discipline, remuneration, and rewards system; plans for learning and development; and strong link of organizational design to performance improvement.

26. The STC will be supported to use performance measurement to effect improvement in organizational culture, set realistic targets, prioritize and allocate resources prudently, and produce high-quality results in an efficient and accountable manner. The following principles will guide the design of a modern performance management, monitoring, appraisal, and measurement system: accountability, transparency, equity, ownership, result orientation, effective two-way communication, building trust in the performance evaluation system, and building capacity.

[55] Recruitment, appointment, onboarding, and so on.
[56] Induction, training, talent management, performance management, and so on.
[57] Retirement, resignation, redundancy, and so on.

27. The STC will further be supported to apply fully the design steps of a performance management cycle and build capacity of staff, supervisors, and managers to understand and participate at each stage of the PMS. Communication will particularly be improved among the stakeholders in the areas of continuous performance measurement and evaluation and preparation of personal development plans.

28. The STC will pursue a technology-based HR data management system that is credible and accurate for evidence-based planning and decision-making. The subcomponent will design and implement an HRM information system for the STC. It will further strengthen the department with responsibility for research and statistics and enhance the skills for data collection, analysis, dissemination and use for planning, and decision-making.

29. Finally, the STC will be supported to develop and use 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.

Subcomponent 3.2: Institutional Functions Realignment

30. **Subcomponent 3.2 will focus on realigning the organizational functions to support achievement of the STC's strategic goals and objectives.** A key activity is conducting an organizational assessment to remove functional and task duplication and fragmentation, determining functions that may possibly be outsourced, and preparing job descriptions with measurable outputs for all critical positions. This activity will strengthen the STC departments and implement best practice mechanisms for coordination, consultation, and decision-making.[58] The use of functional review tools to inform the design of organizational structures will be based on key design principles including vertical and horizontal span of control, clarity of functions, clarity of responsibilities, cost-effectiveness of the structure, and the performance orientation of departmental substructures. The tool will also be used to ensure that the STC's organizational structure adequately supports the organization's strategic objectives; enhances collaboration, teamwork, and use of consultative approaches; and is responsive to the STC's planning and budgeting cycles. The STC will build adequate capacity to implement organizational functional review in the future including redistribution of functions to

- Strengthen classification of functions and provide additional management attention to create more logical groupings of activities to promote potential synergies, rebalancing of workloads, and management of vacancies;
- Strengthen internal coordination processes and exchange of information through appropriate mechanisms;
- Streamline core and non-core functions including merging or hiving off some non-core functions to ensure that resources needed to implement the STC's core business are not diverted from management attention; and
- Develop methodologies and adequate capabilities for conducting functional reviews.

31. A second activity is conducting skills and competency inventory and gap analysis. The activity will consider skills requirements of the planned automation of business processes and undertake strategic mapping and realignment of personnel to the STC's core and new functions. The project will support the

[58] 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.

STC to identify skills that may be displaced by automation, facilitate development of staffing plans and deployment and redeployment strategies based on the outcome of the automation, and ensure strategic mapping of personnel to functions and jobs.

32. A third activity is developing and using organization and function manuals to strengthen the STC's effectiveness in delivery of tax administration services and develop appropriate templates for conducting periodic surveys disaggregated by gender and function to collect staff opinions across departments at the headquarters and branches on organizational effectiveness and performance.

33. Other planned activities include the development of staffing and professional development plans as tools for improving staff capabilities - including women - and the development of appropriate templates intended to carry out periodic staff opinions surveys on organizational effectiveness and performance that are disaggregated by gender and function.

Subcomponent 3.3: Capacity Building

34. **Subcomponent 3.3 will focus on continuous professional development of the STC employees**. The subcomponent will finance the design of a professional development strategy that includes a continuing training system for tax professionals. It will aim at providing requisite training and mentoring support to staff based on individual professional development plans, which are aligned to the strategic tax policies and modernization priorities of the STC. Training of women employees at all levels will receive added attention and will be mainstreamed into the training strategies of both the STC and MOF. It will further facilitate the establishment and operationalization of a Fiscal Institute to provide continuous in-country training to the STC employees and other public sector staff with responsibility for fiscal policy management and the capacity-building aspects directly related to the project. It will also support the delivery of training, sensitization, and change management activities to support project implementation.

35. The following activities will be financed under this subcomponent:

- Conducting TNA for the STC and MOF on tax policy and administration based on recommendations of the organizational functional review, job descriptions, skills and competency analysis, and staff business development plans including skills for new automated business processes.
- Developing 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. The STC and MOF professional development strategies will include continuing education and participating in professional organizations with emphasis on modern tax administration and tax policy. Continuing education will provide opportunities for courses and allow staff to pursue certificates and accreditations offered by local training institutions. Participation in professional organizations will provide opportunities to attend local, national, and international conferences. The strategy will also include job performance improvement measures to enable upgrading of employee skills and keeping up with new technology systems including new automated tax administration and business processes.
- Developing a comprehensive medium-term training plan based on recommendations of the TNA in the areas of leadership; managerial, technical, and operational skills; and competencies' requirements including in critical disciplines of tax policy, tax administration,

risk management and ICT, and so on. A deliberate plan to improve leadership and management competencies of women employees will be developed.

- Developing and implementing an international exchange and learning program to encourage study visits of tax administration professionals to share knowledge and experience with other countries. The STC will invest in implementing customized professional exchange programs in which skilled professionals will be able to acquire new skills and practical competencies. The program will be designed as two-dimensional enabling experienced tax professionals of other countries to be invited by the STC to impart skills and practical experience to officials of the STC.
- Developing a curriculum and training modules[59] for (a) a train-the-trainers program[60] to support operationalization of the planned Fiscal Institute, (b) a specialized short-term skills and competency upgrading program in leadership, management, and technical tax disciplines; and (c) long-term professional courses, including support for vertical and horizontal career development, and the creation of professional cadre of tax administrators.
- Facilitating plans to establish a Fiscal Institute (for example, finance feasibility studies and/or strategic plans).[61] Building the STC's capacity in training research methodologies and supporting the piloting of capacity-building programs to upgrade skills, knowledge, and competencies in selected disciplines.[62]
- Capacity building on training and research methodologies; and
- Delivery of pilot capacity-building programs and trainings on key thematic areas with a participation rate of 50% women.

36. Overall, the outcome of the STC's training and professional development is to increase staff performance and achieve set business goals and objectives. The STC will be required to assess learning results using quantifiable metrics that reflect cost reduction in operations, improved quality of services, time reduction and improved access to taxpayer information, higher compliance levels, and increased taxpayer satisfaction.

[59] Requires the procurement of specialized services.
[60] If implemented effectively, the train-the-trainers approach offers many advantages. First, it allows the organization to learn how to transfer knowledge downstream (it needs a robust process to select the trainers). Second, it allows to overcome language, culture, and organizational barriers. Third, it supports the continuity and sustainability of specialized training efforts. Finally, it allows training activities to accomplish results at a lower cost in a shorter time.
[61] An optional but important activity to ensure the proper kickoff of the Fiscal Institute, which will include tax policy analysis and revenue forecasting, modern audit techniques and risk analysis, and artificial intelligence, domain-driven design, and other emerging areas of tax IT and new technologies.
[62] Ibid.

ANNEX 3: Uzbekistan – Country Program Adjustment in Response to COVID-19

The World Bank Group's engagement in Uzbekistan is guided by the Program Learning Review (PLR) which has adjusted the 2017-21 Country Partnership Framework (CPF) to rapid transformation of the Uzbekistan's economy. Adjustments to the CPF were made via the PLR in mid-2018 after an unexpected move by the Government to begin transforming the previously closed post-Soviet economy. The PLR focus areas remain relevant, supporting: (i) a sustainable transformation towards a market economy; (ii) reform of state institutions and citizen engagement; and (iii) investments in people. A new Systematic Country Diagnostic (SCD) and CPF are under preparation. Both will have a strong emphasis on supporting a sustainable post-COVID recovery and inclusive economic transition.

Economic growth dramatically slowed in 2020 after years of robust expansion, while both poverty and unemployment spiked during the COVID-19 pandemic. Real GDP growth fell to 1.6 percent in 2020, a substantial slowdown compared with 5.5 percent average growth in 2018 and 2019. The poverty rate rose during the crisis after falling consistently over the last two decades. Using the World Bank's poverty line for lower-middle-income countries ($3.2 or less per person per day in PPP 2011 adjusted), the poverty rate climbed to about 9 percent in 2020, compared to pre-crisis projections of 7.4 percent. According to data from the World Bank Listening to Citizens of Uzbekistan Survey, the share of households with at least one working member fell by more than 40 pp in April 2020 – equivalent to almost 2.8 million households – before rebounding by 33 pp by June 2020. But employment did not fully recover at any point in 2020 according to Listening to Citizens of Uzbekistan (L2CU), and the official unemployment rate rose from 9 percent in 2019 to 11.1 percent during the crisis. A high share of people were unable to afford basic needs following the outbreak and sought government assistance. The share of people reporting lower food consumption rose sharply to 26 percent in April 2020, and remained elevated through most of the year, only falling to typical levels by December 2020. Households also reported fragile finances: more than half said they did not have any financial savings during the crisis, and in May 2020 about 40 percent reported that they could not currently pay an emergency expense of 100,000 Som ($9.4), falling to 27 percent by the end of the year after lockdowns were lifted and employment began to recover.

Growth is expected to pick up in 2021, but there is a high level of uncertainty, and the recovery will likely depend on the rollout of vaccines both domestically and globally. GDP growth is projected to recover to 4.8 percent in 2021. However, this forecast is subject to uncertainty surrounding the global recovery and the potential pace of the country's COVID-19 vaccination campaign. A gradual resumption of trade and investment flows, a bountiful agricultural harvest, a recovery of remittances, and vaccine distribution will support the recovery and spur further reductions in poverty and unemployment. Stronger GDP growth of 5.5 percent is projected in 2022 as vaccination efforts accelerate and global disruptions ease further. The current account deficit is projected to widen to 5.5 percent of GDP in 2021 as capital imports for large investment projects recover. Although foreign direct investment is expected to partially recover from its decline in 2020, public and private borrowing are expected to continue financing most of the deficit. Lower budget revenues, vaccine purchases, expanding social support, and increased policy lending are expected to contribute to a wider overall fiscal deficit of 5.4 percent of GDP in 2021. Uzbekistan's public debt is projected to reach 42 percent of GDP in 2021 and stabilize at about 45 percent over the medium term. As conditions for households and firms improve, a gradual withdrawal of anti-crisis measures will reduce the deficit over the medium term.

Since late-January 2020, the authorities have systematically implemented strong anti-crisis measures to slow COVID transmission, protect livelihoods, and sustain the reform momentum. Two major lockdowns had a significant impact in slowing community transmission. The Government announced a $1.5 bn anti-crisis fund to achieve three short-term outcomes: (a) saving lives; (b) safeguarding the economy; and (c) sustaining the structural reforms. The Government has significantly boosted health spending, expanded safety nets, and provided time-limited and targeted tax, debt, and cash flow relief to the most affected businesses and sectors of the economy. The authorities have also adjusted their reform plans: measures with a positive social and poverty impact have been accelerated, while those potentially amplifying suffering for the poor have been deferred. Structural reforms without immediate poverty impacts – such as financial sector and SOE reforms – continue to be implemented with assistance from the Bank.

The Government's deficit financing strategy will continue to rely on a mix of development partner and private sector support in 2021. The overall fiscal deficit in 2020 was about 4.4 percent of GDP, only 0.5 percent higher than 2019. In addition to the Bank support through two DPOs ($700 mln), the ADB has disbursed $700 mln in budget support, as has the IMF ($375 mln Rapid Credit Facility (RCF)/Rapid Financing Instrument (RFI). Further support was provided by the Government of France ($174 mln). With access to external markets and a healthy external financial position, the Government raised $750 mln in foreign and local currency Eurobonds. To maximize net private inflows, increase external financing flexibility, and benefit from the market signaling linked with IFI support to its strong reform achievements, Uzbekistan has opted not to participate in the Debt Service Suspension Initiative (DSSI).

The Bank's priority in FY21-22 is to sustain Uzbekistan's ambitious reforms in the context of a new post-COVID normal. The Bank's current pipeline supports the emergency response and strengthens the economy post-COVID. FY21 pipeline includes eleven operations for $1.3 bn (IBRD and IDA). All of them have been prepared or adjusted during the preparation to strengthen resilience and improve recovery prospects and provide support in macroeconomic reforms, urban and rural development, digital transformation, improvement of innovation system, modernization of energy sector, tax administration, financial sector, and statistics. Under IDA19, up to $670 mln are expected to be front-loaded in FY21 to directly support the anti-crisis response. On IBRD, new lending is focusing on the post-COVID "new normal" with an effective withdrawal of the state from its control and ownership of the economy, while supporting the growth of an inclusive, sustainable, and private sector-led market economy. Areas of support include energy, banking sector liberalization, labor market reforms, privatization of state enterprises, and rural job growth from the agricultural transformation. Most of the ten ASAs to be delivered in FY21 are high priority tasks focused on supporting the GOU in shaping relevant policies in the post COVID period, including a comprehensive poverty reduction strategy.

New and existing operations are being aligned to the priorities of the Approach Paper, *"Saving Lives, Scaling-up Impact, and Getting Back on Track"*. The engagement on the new poverty strategy and the forthcoming SCD and CPF will provide opportunities to further refine the pipeline in response to the impact of COVID-19.

***To save lives and protect the poor and vulnerable*,** the Bank approved (in April 2020) a $95 mln IDA *Emergency COVID Response Project* (P173827, augmented with a $4.3 mln Pandemic Emergency Facility grant) to shore up health and safety net systems, and a $200 mln *Supplementary DPO* (P173948) to overcome a short-term cash crunch following unprecedented health and social expenditure demands. These operations supported essential COVID health procurement, expanded low-income family allowances, and streamlined unemployment benefits. Adjustments to the *Emergency Medical Services Project* (P159544) also supported additional emergency medical equipment procurement. The *Strengthening the Social Protection System Project* (P166447), approved in FY20, is also supporting implementation of COVID-19 social measures.

To save livelihoods, preserve jobs, and ensure more sustainable business growth and job creation, the Bank is working with the government to accelerate implementation of the new *Agriculture Modernization* (P158372) and *Ferghana Valley Enterprise Development* (P166305) projects and preparation of *the Rural Enterprise Development Project (P176017),* as these offer immediate opportunities to expand rural access to credit and financing amidst COVID-19 financial disruptions. $7.6 mln of EU grants under the *Horticultural Development Project* (P164226) are being repurposed to target farmers affected by the crisis. $92 mln in the *Regional Roads*

Project (P146334) will be used to boost temporary jobs for unemployed workers, and adjustments to the *Modernizing Higher Education Project* (P128516) supported emergency purchases of distance learning modules to maintain tertiary instructional delivery. The IFC is working on boosting working capital finance for Ipak Yuli Bank (up to $20 mln; under review).

To strengthen policies, institutions and investments for resilient, inclusive, and sustainable growth, the Bank prepared and approved a $500 mln IDA/IBRD standalone DPO (P171751) in December 2020 to support ambitious reforms that remove factor market constraints, reform and privatize SOEs, and accelerate measures to transform agriculture. The DPO also focused on "building back better" through reforms to the social safety net system and measures to build a cleaner and greener economy. The Bank team is also preparing the *Uzbekistan Resilient Landscapes Restoration Project* ($150 mln IDA/PROGREEN TF) to increase adoption of landscape restoration practices by rural communities in selected provinces and promote collaboration with other Central Asia countries on transboundary landscape restoration.The Bank will also deliver an electricity transmission and modernization project ($380 mln), rural enterprise development operation ($200 mln), additional financing to medium-size cities and urban development IPF ($100 mln), and three projects to transform financial sector ($15 mln), tax ($60 mln), and statistical ($50 mln) institutions. The IFC is also working on investments and advisory services in renewable energy generation, chemicals and fertilizers, agrifinance, cotton production, and banking.

Regional Engagement is key for Central Asia – and especially Uzbekistan given the complete double landlockedness of the country. After an initial phase of nation/identity building at the end of the Soviet Union period, the demand by Uzbekistan and other Central Asia countries for the Bank to support regional coordination/cooperation – if not yet integration is increasing rapidly. The Bank's Regional Engagement Framework for Central Asia (REFCA) and the REFCA Secretariat have enabled the Bank to react quickly in the areas of connectivity (transport/energy/digital), environment, health, education, migration. Development Partners (EU, USAID, Swiss) and IFIs (ADB, AIIB, EUDB) have been and are eager to join these efforts.

The Bank also continues to play a strong donor coordinating role to support the economic policy response to the lingering impact of COVID-19. To respond to the COVID-19 crisis and sustain the reform momentum, and to fill the domestic financing gap, a socio-economic task force, led by the World Bank and UNDP, was created at the request of the government to coordinate partner assistance in shoring up the government's health, social, and economic policy response to the crisis. Through this and other coordination platforms, the Bank ensured that the FY21 pipeline remains focused on reform areas of strong government demand for Bank's knowledge and high relevance for economic recovery and transition. In addition, and despite turbulent global financial sector conditions, Uzbekistan remains an area of active interest to private sector investors. This is especially the case in the energy sector, where the World Bank Group plays a leading role along with ADB and EBRD in supporting increased private sector participation through demonstrative projects such as *Navoi Scaling Solar Independent Power Producer Project* ($5 mln IBRD Guarantee, P170598).