

**Republic of Tajikistan**

**PROGRAM-FOR-RESULTS**

**Tajikistan Tax Reform**

**(P171892)**

**Draft Environmental and Social Systems Assessment**

**(ESSA)**

World Bank

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## EXECUTIVE SUMMARY

### Introduction

1. Tajikistan’s National Development Strategy (NDS) sets a target of increasing domestic incomes by up to 3.5 times and reducing poverty by half by 2030. Domestic revenue mobilization is one of the top policy priorities to facilitate the required fiscal consolidation in a context of an already high level of debt. The Government declared its intention to continue reforming its tax administration after the five-year Tax Administration Reform Project (TARP) with support of the World Bank was completed. Consequently it adopted a program “Tax Administration Development Program for Tajikistan 2020-2025” which will be supported by the World Bank.
2. **The Bank will support a hybrid program financed through a Result-Based Component (US\$37.50 million) and Investment Project Financing (IPF) component (US\$12.50 million).** The result-based financing component (Program for Results) will cover the Government Program Action Plan activities. Selected ICT expertise, hardware and software procurement, where Bank’s advice in preparation of bidding documents and international bidding is critical, will be procured under the IPF component. The IPF component will also finance the Project Implementation Unit (PIU). This document covers the Program for Results.
3. Since the Tax Reform Program in Tajikistan PforR relies on the borrower’s fiduciary, procurement, and environmental and social systems, World Bank teams carried out assessments of those systems and developed a program action plan (PAP). This plan will bring those systems into compliance with World Bank policies and performance standards, as well as with the **six core environmental and social principles** for environmental and social systems.
4. The current document presents **the Environmental and Social Systems Assessment (ESSA)** report that has been prepared by the World Bank for the proposed PforR – Tajikistan Tax Reform. The ESSA includes the following information: an introduction of the PforR; a summary of environmental and social risks and benefits associated with activities for achieving the Program Development Objective (PDO) and the Disbursement Linked Indicators (DLIs) for each Results Area of the PforR; an assessment of the borrower’s environment and social management systems which apply to these activities; an evaluation of the borrower’s performance and track record in implementing its environment and social management systems; an assessment of the extent to which the borrower’s environment and social management systems are consistent with **the six core environment and social principles** of the World Bank Policy; and recommendations and actions the borrower has agreed to undertake to improve the implementation of applicable systems.

### Program Description

5. **The Program Development Objective** is to simplify the tax system, enhance quality of taxpayer services, and improve voluntary compliance.
6. The selected activities of the Government program are supported by the PforR and organized under three Results Areas - **Results Area 1: Simplified Tax System; Results Area 2: Improved Quality of Taxpayer Services;** and **Results Area 3: Improved Voluntary Compliance.** There are six DLIs for the achievement of the PDO:
  - **DLI1 - Tax incentives eliminated.** The achievement of DLI 1 will require elimination of five preferential tax regimes, which comprise 33 tax concessions, by Parliamentary approval of amendments to the Tax Code.

- **DLI2 - Regulatory foundations for improved tax system established.** A new Tax Code is expected to be developed, consulted and approved by the Parliament in spring 2021. The achievement of DLI2 will require development of critical secondary legislation to allow implementation of the new Tax Code.
- **DLI3 - Improved transparency of tax expenditure.** The achievement of DLI3 will require the submission and publication, with the annual draft national budget, of detailed information on tax expenditure with the estimate of the revenue foregone as a result of tax exemptions and concessions, disaggregated by tax instrument, and cost-benefit analysis of selected tax incentives.
- **DLI 4 - Reduced burden of tax audit.** The achievement of DLI4 will require that a Compliance Risk Management Unit be established and staffed; risk criteria and indicators for risk assessment and selection of cases for annual audit planning developed; and a risk management system that includes mass desk automated audits and a structured risk assessment process for comprehensive audits be established and be functioning. It will also require that the vast majority of tax auditors are trained in risk-based audit and by the end of the Project at least 90% of field large taxpayer audits in the last 12 months are conducted for cases selected by the risk-based selection tool and monitored by Compliance Risk Management Unit.
- **DLI 5 – Increased percent of VAT refunds that are processed using risk-based verification or fast track procedures.** The achievement of DLI5 will require the implementation of an automated system for VAT refund to diplomatic entities and international organizations by 2023; and the fully automated processing of VAT refunds for all relevant taxpayers as well as processing of 95% of VAT refunds using risk-based verification and fast track procedures by the end of the project.
- **DLI 6 - Taxpayer service standards are enhanced and based on taxpayer feedback.** The achievement of DLI6 will require that advisory services for taxpayers are available in the Taxpayer Contact Center, a taxpayer feedback mechanism is established and functional in the Taxpayer Contact Center and taxpayer Contact Center service standards are revised based on taxpayer feedback.

## Environmental and Social Risks and Benefits of the Proposed Program

7. In preparing the ESSA the team identified that the environmental risks are low, and the social risks are moderate, which contribute to the overall Environmental and Social Risk being 'Moderate'. In summary, the potential risks associated with the Program can be mitigated through a series of measures that are included in the Program Action Plan (PAP).
8. The results of the environmental screening suggest that the majority of activities, which will be supported under the PforR, will have limited environmental impacts. Some minor works related to the upgrade of the information and communication technology (ICT) infrastructure of the tax offices (central, regional and local) to be supported under Result Area 2 could result in the generation of electronic waste. If this waste is not recycled and disposed of in an environmentally sound and safe manner, it may cause impacts on human health and the environment. These risks can be mitigated within the current system/procedures with the development and adoption of electronic waste management procedures. The environmental risks are rated 'Low'.
9. The assessment of potential social risks from the Results areas and DLIs identified under the program are expected to have positive effects in the tax policy analysis and tax administration systems. The PforR will contribute to improved transparency, accountability of the Tax Committee and fiscal discipline among a diverse range of taxpayers. Also, it should ease taxpayers' access to the improved quality of tax administration services due to renovated ICT infrastructure. It is particularly important during a crisis like the COVID-19 pandemic when in person contacts should be limited. However, some social gaps identified in the system relate to limited citizen engagement and poorly maintained two-way communications with

taxpayers, as their opinions and perceptions have been surveyed, but rarely substantively considered by the policy- and decision-makers in the country. In this regard, the social risks may arise from broader public behavioral response to new tax procedures and Tax Code amendments being introduced and the potential resistance from the private sector to the fiscal discipline measures. These risks are to be mitigated by sizeable communications and taxpayer outreach and education activities, which are described in the PAP and budgeted for in the program expenditure framework. The social risk of the PforR is rated 'Moderate'.

### Assessment of Borrowers Systems

10. In preparing the ESSA, an assessment of the legal and regulatory framework, as well as the capacity of potential implementing and associated agencies to manage the potential environmental and social effects of the PforR was carried out. The assessment of the environmental and social management systems found that the existing legal and regulatory framework addresses the identified direct, indirect, induced, and cumulative social and environmental effects for the planned PforR; however, capacity for enforcing those regulations among respective agencies is mixed and will require strengthening as part of the PforR Action Plan. In addition to mitigating the risks identified, the Program Action Plan will address shortcomings by strengthening the capacity of the implementing agencies and their linkages with the regional and local branches. Hence, the Program Action Plan includes environmental and social management capacity strengthening of the relevant institutions. This includes not only technical knowledge but also environmental and social risk management, and financial capacity to operate the system as designed.

### Adequacy of the Legislative Framework and Borrower's Capacity on Environmental and Social Aspects

11. **Adequacy of the Legislative Framework on Environmental Aspects.** The Government of the Republic of Tajikistan has enacted a range of laws, regulations, and procedures relevant to the management of environmental and social effects of the proposed PforR. The legal and regulatory framework is sufficient to guide the system and procedures for managing environmental risks that were identified during PforR preparation. The existing laws, regulations, norms, and procedures govern the procedure for environmental monitoring of activities, including electronic waste collection, reuse and recycling.

12. **Adequacy of the Legislative Framework on Social Aspects.** The legal and regulatory framework at the national and local levels provides an adequate and appropriate enabling framework for implementing the key activities to be supported under the Program. Responsiveness to taxpayer and complainants' inquiries/questions and public accountability are adequately covered by the legal framework at different levels. The legislation highlights the importance of the state's commitment to serving and ensuring citizen protection, in general, and to the taxpayers and people to be affected by the project in particular. The laws on personal data protection, consumer rights; grievance redress; and ethics codes in place stipulate rules governing fair taxpayer services; and the tax system reforms to be implemented during the program implementation conform to these laws and codes.

### The PforR Environmental and Social Systems Analysis

13. The Program environmental systems analysis led to the following conclusions that the Borrower's system has the following Strengths: (1) adequate environmental legislation and regulations at the national level for conducting environmental impact assessments relevant to the PforR, (2) an adequate network for environmental protection offices at the district level; (3) a disposal procedure for the state owned equipment that contain precious metals, which is also adopted by Tax Committee (TC); (4) experience of the TC in implementation of a World Bank (WB) project. However, some gaps were identified as well: weak environmental management capacity at TC central, regional and local offices. There is neither

policy/legal frameworks nor procedures/management system identified to deal with electronic wastes from an environmental safeguards point of view.

14. The Republic of Tajikistan has well defined legal and regulatory framework at the national and local levels that provides an adequate and appropriate enabling framework for implementing the key activities to be supported under the Program. Responsiveness to taxpayer and complainants’ inquiries/questions, and public accountability are adequately covered by the legal framework at different levels. There is a commitment by the implementing agency (TC) to strengthen the existing GRM at all levels. The legislation highlights the importance of the state’s commitment to serving and ensuring citizen protection, in general, and the taxpayers and people to be affected by the project in particular. A Targeted Social Assistance Program and Program of Social Benefits are implemented nation-wide. The laws on personal data protection, consumer rights, labor rights, grievance redress, and ethics codes in place stipulate rules governing fair taxpayer services, and will apply to the tax system reforms to be implemented during program implementation. Despite the existing system strengths on social aspects discussed above, some gaps were identified, and the gaps are mostly attributed to governance/institutional responsibilities, capacity and communication outreach issues.
15. The Table below summarizes the potential mitigation measures identified for environmental and social gaps and risks for the Program.

<b>Results Areas</b>	<b>Environmental and Social Gaps and Risks</b>	<b>Potential Mitigation Measures</b>
<b>Result Area 1: Simplified Tax System.</b>	<p>Gaps in unharmonized tax and financial accounting reporting systems that negatively affect the taxpayers;</p> <p>Gaps in governance, internal control and utilization of taxpayer data, ICT systems, and related databases</p> <p>Gap in the capacity to manage e-wastes;</p> <p>Gaps in the capacity building of ICT staff and ICT skills of tax administrators;</p> <p>Gap in the capacity to implement continuous training and improving employee knowledge;</p> <p>Gap in electronic data exchange and integration of information systems with all departments and government agencies;</p> <p>Gap in weak monitoring and evaluation system;</p> <p>Risk of negligible environmental impact due to improper management of e-wastes;</p> <p>Risk of non-compatible information systems with other government agencies, which increases the time and cost for tax compliance for taxpayers;</p> <p>Risk of resistance to ICT changes and reforms on behalf of tax administrators</p>	<p>Capacity building for taxpayers on the revised taxation requirements and reporting system changes is to be included in the Program;</p> <p>The new governance model/internal control system will be institutionalized at the TC;</p> <p>ESMP with e-waste management procedures will be developed and implemented;</p> <p>A comprehensive ICT capacity building action plan for tax staff will be developed and implemented;</p> <p>A system of continuous in-service training and on-job mentorship should be developed, annual staff training plans and on-job-training will be implemented to improve the qualifications of employees.</p> <p>Interagency information system compatibility assessment will be conducted to fill in the gaps to reduce time costs of taxpayers.</p> <p>A robust M&amp;E system is designed, introduced and implemented at the TC</p>

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<b>Results Areas</b>	<b>Environmental and Social Gaps and Risks</b>	<b>Potential Mitigation Measures</b>
<b>Area 2: Improved quality of taxpayer services</b>	<p>Gaps in public outreach and securing public access to tax expenditure plans as part of the draft annual republican budget disclosure;</p> <p>Gaps in taxpayer education and feedback mechanisms;</p> <p>Gap in interaction of taxpayers with tax authorities in electronic form;</p> <p>Gap in poor knowledge of taxpayer rights and obligations;</p> <p>Gap in taxpayer feedback mechanism given only one-way communication</p> <p>Risk of social tensions in response to non-participatory proceedings on enforcement of new tax regulations and lack of tax expenditure reporting;</p> <p>Risk that quality and accessibility of tax services in remote areas is not adequate;</p> <p>Risk of limited coverage of taxpayers by educational and outreach activities.</p>	<p>Taxpayer Communication Plan is developed, implemented and institutionalized;</p> <p>Taxpayer feedback mechanism is institutionalized at the Call Center and its staff capacity is built;</p> <p>Tax service centers will be established in nearly all local tax authorities, especially in rural areas where taxpayers have no access to internet;</p> <p>Annual taxpayer education and communication plans are developed and implemented in all tax authorities;</p> <p>Effective grievance redress mechanism is established and maintained in tax offices of different levels;</p> <p>Effective methods for taxpayer education and awareness are developed and applied.</p>
<b>Area 3: Improved Voluntary Compliance</b>	<p>Gaps in capacity to conduct a consolidated, systematic and focused analysis of compliance risks and to systematically analyze trends and performance indicators for different taxpayer segments, industries and tax obligations.</p> <p>Risk of frequent time- and resource-intensive tax inspections of taxpayers to be continued.</p>	<p>Capacity building activities for professional staff in compliance risk management and tax audit functions in risk management, risk-based audit and trend analysis will be implemented;</p> <p>Tax audit schedule and compliance requirements will be publicized.</p>

16. The Stakeholder Engagement Plan (SEP) will be prepared by the TC, which covers the whole program to make it inclusive. It details the stakeholders relevant for both the Program and IPF Component and the project’s arrangements to be engaged with them during preparation as well as during implementation. The institutional capacity of the Implementing Agency to interact with stakeholders can be further strengthened to effectively manage social effects in accordance with the Core Principles.

### Stakeholder Consultation

17. Stakeholder consultations were an integral part of the ESSA process and were carried out in line with principles and objectives of similar Bank operations. The consultations with key implementing agencies were completed during the period between September and November 2020. The consultations with agencies responsible for implementing DLIs, more specifically the staff who are responsible for administering the program and managing social and environmental regulations, grievance management systems and field staff implementing the laws and regulation were presented at the discussions. Due to the outbreak of COVID-19, most consultations were carried out virtually.

18. The Bank team during its virtual missions made a presentation on the content of the PforR and provided opportunity for environmental and social specialists to describe ESSA requirements and process, including World Bank Core Principles. The participants of the consultation noted that the PforR aims to achieve a set of results – DLIs on tax services - with improved environmental and social aspects.

## Recommendations and Proposed Actions

19. The specific actions with the timeline and responsible agency are recommended by the ESSA Action Plan. It proposes six mitigation actions across three main areas: governance; training & capacity building; and communications, outreach & feedback mechanisms. Those actions are as follows:

- Governance:
  - A1. Hire an E&S Specialist responsible for (1) communication and outreach, (2) outreach to taxpayers to ensure compliance, and (3) environmental and social risks mitigation, monitoring, and reporting by the PIU.<sup>1</sup>
  - A2. Develop and implement the ESMP with e-waste management procedures;
  - A3. Establish tax service centers in nearly all local tax offices, especially in rural areas where taxpayers have no access to the internet; and
  - A4. Design, introduce and implement a robust M&E system at the TC.
- Training and Capacity Building:
  - A5. Modernize, strengthen and implement the system of continuous in-service training and on-job mentorship to improve the qualifications of employees, including development and implementation of an action plan for tax staff ICT capacity building;
- Communications, Outreach and Feedback Mechanisms:
  - A6. Prepare and implement Taxpayer Communication Plan with strengthened taxpayer feedback and grievance redress mechanisms (GRM) at the Call Center and local tax offices.

20. The following actions are particularly important and included in the Program Action Plan:

- Appointment of environmental and social specialist in PIU to ensure fulfillment of the environmental and social risk management responsibilities relevant to the DLIs;
- Preparation and implementation of Environmental and Social Management Plan with e-waste management requirements;
- Signing an agreement with the existing e-waste licensed collection facility in Tajikistan, where e-waste is sorted and compacted before selling to recycling/processing facilities abroad;
- Preparation and implementation of Taxpayer Communication Plan with strengthened the taxpayer feedback mechanism and grievance redress mechanisms (GRM) at the Call Center and local tax offices.

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<sup>1</sup> PIU should be staffed with adequate professional, fiduciary, environmental and social risk management, administrative and technical personnel, with qualifications, experience and terms of employment acceptable to the Bank, as described in the Program Operations Manual.