### Description

The government approved in January 2007 a tax administration reform strategy to solve the country’s fiscal problems, particularly the high external public debt—69.8% of GDP in 2006. The strategy aimed to reduce the “tax gap” by streamlining the State Tax Service’s (STS) operations and human resources system. ADB approved the Tax Administration Reform and Modernization Project to (i) acquire equipment and software to develop a central database and management information system (MIS) in STS; (ii) develop communication infrastructure to link the central database to tax offices; and (iii) establish modern central facilities for the Large Taxpayers Unit, Bishkek tax office, taxpayer service center, and STS staff development center.

The project was included in the country strategy and program update, 2006–2008. This TA was approved—together with TA 4940–KGZ4—to complement the project. The project was expected to build on and complete the USAID–DFID project to upgrade the software in STS (KITIS—Kyrgyzstan Integrated Tax Information System).

### Expected Impact, Outcome and Outputs

The TA’s expected impact was increased contribution of tax administration to fiscal consolidation and macroeconomic stability. The expected outcome was an effective, modernized, and efficient STS. The expected outputs were (i) STS staff skills upgraded, (ii) STS staff performance objectives regularly set and monitored, and (iii) information and customer services provided to taxpayers to promote voluntary compliance and reduce compliance costs.

The TA objective was relevant throughout implementation and logically complementary to the project. Providing international expertise to build staff members’ skills and to introduce incentives or mechanisms to improve performance, reduce corruption, and promote taxpayers’ voluntary compliance are essential to tax administration reform. But some of the mechanisms developed by the TA require IT systems—which are yet to be implemented under the project—and sustainable STS funding. The TA is rated relevant.

### Delivery of Inputs and Conduct of Activities

The project was declared effective on 20 November 2007. TA implementation started 6 months later (June 2008), or 11 months after TA effectiveness (11 July 2007), because of difficulties in engaging suitable consultants. Because of this delay, the timeline and order of TA activities were significantly revised. Subsequently, the TA was extended for another year to ensure the completion of the TA activities. The TA team leader spent some time overseeing project implementation, while the project manager position remained vacant.

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1 The State Committee for Taxes and Collections was renamed State Tax Service after TA approval. In this report, we use the current designation.
Individual consultants were selected and engaged through a firm in accordance with ADB’s Guidelines on the Use of Consultants and ADB’s procedures for recruiting individual consultants, for a total of 13.5 person-months of international experts—against an originally planned 16 and 18 persons-months of international and national experts. The national consultants’ activities were transferred to TA KGZ-4940. The overall consultants’ performance was highly satisfactory and helped overcome some of these challenges. ADB’s performance was satisfactory in fielding frequent review missions, working closely with the TA experts and STS, and providing guidance. The project management office (PMO) staff members’ insufficient English created some communication problems with international experts in the first year of implementation, but this was corrected with subsequent changes in PMO staff. ADB officers insisted that the new PMO staff members be proficient in English, even though it was not required in the terms of reference. STS’ performance was less than satisfactory, having delayed some of the reforms. STS counterparts were often unavailable because of their normal duties. STS is generally satisfied with ADB’s assistance.

**Evaluation of Outputs and Achievement of Outcome**

The TA is rated **effective**. The three expected outputs were broadly delivered—although some targets were not fully achieved—which increases the likelihood of achieving the outcome. Based on TA-developed training materials, STS staff members were trained in modern tax administration techniques (including audit risk analysis) and successfully completed TA-developed exams. Mechanisms for monitoring performance (goals and indicators) were adopted, and the Official Investigations and Security Unit was established in the Internal Audit Department under the chairman to strengthen monitoring of corruption and misconduct, although these targets were not achieved on time. Efforts were made to improve customer services and voluntary taxpayer compliance: (i) risk-based audit has been institutionalized and implementation started, which helps STS be more effective in fighting tax fraud and evasion; (ii) a widely disseminated awareness campaign took place throughout the TA implementation period; and (iii) consultative meetings with taxpayers and other stakeholders were conducted (although not as regularly as planned in the design and monitoring framework). Lack of STS funding limited the creation of taxpayer service center operations, but 5 one-stop shops (against an expected 15) were opened in 5 raions.

The TA is rated **efficient**. The three expected outputs were broadly delivered within budget (92% of available resources used), although not always within the initial timeline. The TA team leader spent considerable time revising the implementation strategy but his support made the TA and project implementation more effective and efficient.

**Overall Assessment and Rating**

The TA’s contribution to the project’s outcome is **likely** sustainable, if political pressure to improve tax administration continues. Staff skills were upgraded and training courses created. If appropriately funded, the development of the permanent STS training center will help sustain results. Incentives for voluntary compliance will increase as STS continues to improve its capacity to fight tax fraud and evasion and to reduce the tax compliance burden. Setting goals and measuring performance are positive but usually need to be complemented by formal performance evaluation and reward mechanisms (increase in staff compensation and career progression), if incentives for corruption are to be eliminated. The TA is rated **successful**.

**Major Lessons**

Even though it delayed recruitment, readvertising for and recruiting suitable consultants was important for the TA’s success.

**Recommendations and Follow-Up Actions**

To reduce operational costs, all TA outputs that contribute to the same outcome, even if funded by different sources, should be included under the same TA. Since the payment of taxes is a significant determinant of the business environment, policy actions that promote voluntary compliance and reduce incentives for corruption could be pursued under the Investment Climate Improvement Program cluster (e.g., quota system for performance ratings or other reward mechanism in STS).


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