



REPUBLIC OF TAJIKISTAN

2024 ***Component: Revenue***

June ***Modules: RM I – Tax Policy***

RM II – Revenue Administration

TAJIKISTAN

PROJECT SUMMARY	
COUNTRY:	Tajikistan
LEAD DEPARTMENT:	FAD
REGION:	MCD
PROGRAM ID:	[To be filled out by Secretariat]
PLANNED DATES:	FY25 - FY29
FUNDING PROGRAM TITLE:	[to be added by Secretariat]
PROJECT MANAGERS:	
RM I – TAX POLICY:	Andualem Mengistu (FADT1)
RM II - REVENUE ADMINISTRATION:	Stoyan Markov (FADR1- lead)
ESTIMATED BUDGET	\$5,427,279
BUDGET FOR ENDORSEMENT:	\$620,885

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*TAJIKISTAN***ACRONYMS**

CCAMTAC	IMF's Caucasus, Central Asia and Mongolia Regional Technical Assistance Center
CD	Capacity development
DRM	Domestic revenue mobilization
FAD	IMF's Fiscal Affairs Department
LTX	Long-term expert
MTRS	Medium-term revenue strategy
MTSRP	Medium-Term State Revenue Program
PCI	IMF's Policy Coordination Instrument
STX	Short-term expert
TADAT	Tax Administration Diagnostic Assessment Tool
TC	Tax Committee

*TAJIKISTAN***I. PROJECT PURPOSE**

The country's authorities have expressed interest in a new capacity development (CD) project to continue the IMF's Fiscal Affairs Department (FAD) supported reforms to mobilize tax revenue and modernize revenue administration. The request made during the recent FAD staff visit in March 2024 was repeated during an FAD meeting with the delegation of Tajikistan at the IMF-World Bank 2024 Spring Meetings. The authorities plan to implement a fiscal consolidation program to ensure debt sustainability and limit debt distress, while creating fiscal space to invest in growth enhancing capital projects, such as the Rogun hydroelectric dam. Revenue mobilization is key to achieving the expected results. Under the recently approved (December 30, 2023) medium-term revenue strategy (MTRS), the country plans to increase state budget revenue (inclusive of non-tax revenues) to above 26 percent of GDP by 2026 and to above 29 percent of GDP by 2029. The approved MTRS is called the Medium-term State Revenue Program (MTSRP).

This new CD project will focus on supporting the implementation of the MTSRP as the centerpiece of the reforms. In the area of tax policy, the CD project will help identify inefficient tax exemptions, and improve the technical capacity of officials, including estimating revenue potential, tax gap analysis, and revenue forecasting. The revenue administration component will help strengthen revenue administration management, governance, and reform arrangements, and improve selected core tax and customs administration functions.

The estimated budget for this three-year project is \$5,427,279, but endorsement is requested for \$620,885 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

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II. BACKGROUND

Macro-fiscal situation

The economy of Tajikistan has shown resilience in the face of challenges like the pandemic and geopolitical unrest. This stability is partly due to an increase in remittances and significant public investments, which have supported a solid recovery after the pandemic. As a result, the economy has seen an average growth rate of 7 percent over the last five years. Nevertheless, there are concerns about the sustainability of this growth, as remittances level off and geopolitical tensions continue to be unpredictable. The steady economic growth has also led to consistent revenue performance, with tax revenue averaging 19.6 percent of GDP over the last three years.¹

Growth-friendly fiscal consolidation is key to preserve debt sustainability and limit debt distress while financing significant public investments. The requirement for substantial expenditure on capital initiatives, particularly the investment in the Rogun Hydropower Project, necessitates an increase in spending. Creating the fiscal space that enables financing such extensive investments, while avoiding major cuts in other essential expenditures, maintaining debt sustainability, and preventing debt distress, calls for an increase in revenue mobilization. The country has requested a Policy Coordination Instrument (PCI) to help anchor macroeconomic policies and advance structural reforms, which was approved by IMF Board on February 15, 2024.² Strengthening the fiscal resilience of the country, with domestic revenue mobilization as one of the key program components, is the major goal of the PCI program. Under the program, tax reform will be re-enforced by base broadening and further improvements in tax administration.

Country engagement and alignment to reform priorities

The IMF has provided CD on domestic resource mobilization (DRM) for the past two years. This included a tax policy diagnostic mission that identified inefficient tax exemptions and other limitations of the Value Added Tax, Personal Income Tax, Corporate Income Tax, and Excise Systems of the country. Tax administration diagnostic missions helped the authorities to identify high-level tax administration reforms and options for revenue generating as an input to the formulation of the MTSRP. In addition, FAD provided support on the preparation of the MTSRP, which included awareness building training to the ministry of finance and Tax Committee (TC) on the components of, and the steps needed to formulate a MTSRP.³

This new CD project will build on previous support on DRM, focusing on supporting the implementation of the MTSRP. A notable aspect of the approved first MTSRP is its phased delivery approach. An action plan outlining activities for the initial three years (covering 2024 to 2026) has been approved. The first phase focuses on analysis, data collection, and citizen outreach, leveraging opportunities provided by international organizations and development partners. Phase two will involve the execution of key activities identified in the first phase, with the associated action plan to be developed subsequently. The MTSRP outlines well-sequenced tax policy and revenue administration objectives and measures aimed at increasing state budget revenue (inclusive of non-tax revenues) to 26 percent of GDP by 2026 and 29 percent of GDP by 2029. These measures include:

- Strengthening the tax policy, legal framework, and administrative components of the revenue framework to create a more efficient, streamlined, and effective tax system.
- Rationalizing tax expenditures.

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- Improving the analytical capacity to forecast revenue, and to identify tax expenditures, estimate their fiscal cost, and distributional impact.
- Substantially improving compliance by strengthening citizen outreach, promoting voluntary compliance, and reducing the shadow economy.
- Reducing the cost of tax compliance by improving tax services, setting up electronic data exchange with external institutions.
- Expanding cashless payments in the country, ensuring transparency of financial transactions, enriching the state budget, preventing corruption, and reducing the impact of the human factor.
- Increasing transparency and quality of customs services.
- Bringing selected operations of the customs authorities into compliance with the standards established by the World Customs Organization.
- Building the capacity and improving the performance of ministry of finance and revenue administrations' staff.

The MTSRP implementation shall result in higher state budget revenue with timely and proper execution of the revenue side of the state budget, better tax and customs administration; and strengthened process of forecasting of state budget revenue and digitalization of the state revenue framework of the Republic of Tajikistan.

III. PROJECT MODULES - DESCRIPTION

This proposal will provide CD support to Tajikistan in the areas of tax policy and revenue administration. FAD CD will support improvements within the strategic objectives presented in Table 1 below:

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM I / Tax Policy	• Strengthen Policy Monitoring, Evaluation, and Institutions - TPM
	RM II / Revenue Administration	• Strengthened revenue administration management and governance arrangements (SDG 17.1) – RAM • Improved customs administration functions (SDG 17.1) - CAD • Strengthened core tax administration functions (SDG 17.1) - TAD

A. RM I – Tax Policy

Scope

The focus of the CD activities is enhancing the technical capacity of the authorities to conduct ex-ante analysis of the revenue and distributional implications of potential tax policy changes, and post-hoc evaluation and monitoring of tax policy measures.

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Program Objectives

The objective of the program is to help the authorities implement the MTSRP. In particular, CD activities will focus on: (i) building institutional capacity for analyzing, evaluating and monitoring tax policy measures (in terms of efficiency and equity, as well as fiscal cost); (ii) development of appropriate models and training to estimate tax expenditures and conduct tax gap analysis, as well as to conduct improved revenue forecasts.

Expected Results (outcomes)

The project's expected outcomes include: (i) Streamlining ineffective tax exemptions by reducing VAT exemptions and zero ratings, as well as eliminating unproductive tax exemptions and incentives within the CIT; and (ii) Improved capacity of the authorities to evaluate the revenue implications, efficiency, and fairness of proposed policy adjustments, along with an improved capability for revenue forecasting.

B. RM II - Revenue Administration

Scope

The program scope envisages CD support to help the authorities implement the MTSRP initiatives in the tax and customs administrations. The main activities in will focus on (i) enhancing reform management and organizational arrangements, (ii) improvement of risk-based compliance management, (iii) strengthening taxpayer services, and (iv) improvement of anti-smuggling programs and customs control. A proposed tax administration assessment using the Tax Administration Diagnostic Assessment Tool (TADAT) methodology in the first phase of the MTSRP will help to measure the progress in tax administration since the previous TADAT assessment (December 2019), set up new base line, and inform the reform priorities for the second phase of the MTSRP implementation.

Program Objectives

The CD activities will help achieving following objectives: (i) Strengthen revenue administration management, governance and reform arrangements, (ii) Strengthen core tax administration functions, and (iii) Streamline customs processes and operations to promote trade voluntary compliance.

Expected Results (outcomes)

To achieve these objectives the project's expected outcomes, include:

- Enhanced capacity for reform by adopting a clear strategic management framework and operational plans securing achieving of the strategic goals. This includes building capacity for updating of the reform strategies, development of annual reform implementation plans with related KPIs, and establishment of reform governance and management arrangements.
- Better managed corporate priorities through effective risk management. It will be achieved through adoption of the Compliance Risk Management (CRM) framework across TC operations, with initial focus on large taxpayers.
- Improved organizational arrangements and support functions to enable more effective delivery of strategy and reforms. This includes improved organizational design and management of the large taxpayers as well as improved HR management policies.

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- To strengthen core tax administration, the CD will focus on securing that taxpayers meet their payment obligations as required by law. In particular, this will be achieved through development of strategies and measures for improved tax arrears management. In addition, CD activities will help authorities to strengthen the taxpayer services thought improving the scope and accessibility of information for taxpayers to support voluntary compliance.
- Improved customs processes and streamlined procedures, increased transparency and predictability for trade, and enhanced risk-based customs controls at clearance and pre- and post-clearance.

IV. ORGANIZATIONAL ARRANGEMENTS

A. Country Engagement

Tajikistan has benefited from a tax policy CD project under the Revenue Mobilization Thematic Fund (RMTF) in FY23. In revenue administration, the ministry of finance and TC benefited from a range of integrated CD funded by the IMF (IMF01) and the IMF's Caucasus, Central Asia and Mongolia Regional Technical Assistance Center (CCAMTAC). In addition, the Tax Committee is participating in revenue administration regional workshops organized by CCAMTAC. This earlier CD identified reform options on both tax policy and revenue administration and provided guidance on the process of formulating an MTSRP. Building on this support, the authorities have developed an MTSRP document, which was approved on December 30, 2023. An updated version of the document is expected to be finalized by October 2024. During a March 2024 HQ revenue administration mission and at the IMF-World Bank 2024 Spring Meeting in April 2024, the authorities confirmed their interest in establishing this 5-year CD project coinciding with the MTSRP timeline and duration, including engaging a resident revenue administration advisor to support the MTSRP implementation.⁴

B. Delivery Modalities

CD will comprise of a mix of remote and in-person activities. Virtual deliveries will be used to provide efficiencies to in-person support, including pre-engagement meetings and post-follow-up meetings. The following CD activities will be delivered as a package:

- **Headquarters-led (HQ) missions and staff visits** to provide strategic recommendations, conduct regular follow-ups, assess progress, ensure STX work is aligned to plans, coordinate with other CD providers, and adjust reform implementation plans.
- **Short-term expert (STX)** visits to help implement the recommendations delivered by the HQ missions; a limited number of STXs will be assigned to provide specialized assistance in specific areas of revenue administration and public financial management. The project will seek to use Portuguese-speaking experts.
- **Long-term expert (LTX) support.** An in-country resident advisor will guide reform implementation, coordinate technical assistance support, and respond to Authority's needs in real time. The country will benefit from a regional LTX focused on improving digitalization in revenue administration across multiple countries.
- **Workshops**, during the HQ missions, staff visits, or STX visits, to share experiences, provide stakeholders with a view of progress achieved and challenges faced, and discuss with the managers and staff their views on the reforms and particular technical subjects.

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C. Coordination / Cooperation

Coordination			
Partner	Type of coordination	Area of coordination	Frequency
AD country team	Supporting the reform targets set in the IMF's Policy Coordination Instrument (PCI)	Revenue administration	Annual
CCAMTAC	Joint CD support	Revenue administration	Annual
AD country team	Supporting the reform targets set in the PCI	Tax policy	Annual
Cooperation			
Partner	Type of coordination	Area of coordination	Frequency
World bank and Asian Development Bank	Agree on areas to be covered by each donor	Revenue administration	Annual

V. RISK ASSESSMENT AND MITIGATION

General or Module	Description	Risk Assessment	Mitigation Measures
External climate/conditions			
General	Risk that external events (such as geopolitical tensions) create a more challenging environment to implement reforms.	Medium	Ensure sufficient flexibility in program execution across countries and allow for ability to adjust activities in the case of adverse events.
Political Support			
General	Lack of political support for reforms.	Medium	The PCI and the MTRS indicate improving political support for reform. Keep close engagement with IMF area department team on country priorities and developments.
Management and Technical Staff Support and Commitment			
RM I	Low commitment of management to follow-up the CDs and invest in the capacity of the staff.	Medium	Engage with senior management and technical staff pro-actively and explain the importance of reforms for the realization of the objectives that are embedded in the MTRS.
RM II	Management or technical staff might not be fully committed to implementing recommended measures.	High	Discuss recommendations with authorities giving full background, technical details, and benefits (for taxpayers, budget revenue and administration) from implementing recommended measures. At an early stage, secure senior management support, commitment, and ownership to reforms.

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General or Module	Description	Risk Assessment	Mitigation Measures
Resource Adequacy			
RM I	Insufficient technical capacity and human resources necessary to implement reforms, and to use new tools developed as part of the CD.	Medium	Ensure CD plans include sufficient capacity building and training elements and prioritize CD to priority or highest risk areas where resources are limited.
RM II	Technical staff might be busy with the implementation of daily operational tasks leaving limited capacities for modernization reform discussions.	Medium	Strengthen the reform management capacity for reform implementation, including establishing dedicated reform management structure, arrangements, and resources, supported by LTX in-country.
Other risks			
General	Multiple donors are providing technical assistance on DRM and inconsistent advice, gaps, or overlaps may arise as a result.	Medium	Take an active role in engaging with other donors to ensure support is well coordinated.

VI. CD DELIVERY PLAN

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	FY25	FY26	FY27	FY28	FY29	Grand Total
RM I – Tax Policy						
HQ led CD mission	1	2	1	-	-	4
Total	1	2	1	-	-	4
RM II – Revenue Administration						
HQ led CD mission	2	1	1	1	-	5
STX assignments	2	7	6	7	6	28
Staff Visit	0	1	1	1	2	5
Resident Advisor*	0	1	1	1	1	1
Workshops – Interactive Learning	1	2	0	1	0	4
Total	5	11	8	11	8	43

*Resident advisor not tallied in total activities for RA

Note:

- In-person delivery was chosen in most instances because of the need to support a new engagement in a country with recent PCI adopted and because extensive discussions are required with numerous local stakeholders.

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- Remote delivery was chosen in several instances mainly for providing desk support with short duration of the activity that doesn't involve prolonged face-to-face work.
- Collectively the blend of CD delivery proposed over the duration of this project/program reflects the optimal balance of in-person, remote, and hybrid activities needed to achieve the project/program outcomes taking into account the needs of the country and the resources available.

Table 3. First year workplan

Timing	CD Modality	Proposed Topics of CD
RM I -Tax Policy		
Q2/FY25	Field-Based work - FB	Tax expenditures
RM II - Revenue Administration		
FY25 – Q2	HQ (FB)	Diagnostic mission in Customs administration
FY25 – Q3	HQ (FB)	TADAT assessment
FY25 – Q3	HQ (FB)	Pre-assessment training for staff on TADAT methodology
FY25 – Q4	STX (FB)	Tax arrears management
FY25 – Q4	STX (FB)	Performance management – Key Performance Indicators (KPIs) for MTSRP progress measurement
FY25 – Q3	STX (FB)	Priority reform area (tbd)
FY25 – Q4	STX (FB)	Priority reform area (tbd)

VII. PROGRAM FINANCIALS

	FY25	FY26	FY27	FY28	FY29	Total
RM – I Tax Policy	\$115,990	\$206,502	\$88,319	-	-	\$410,811
RM – II Revenue Administration	\$464,276	\$1,167,857	\$873,781	\$1,255,439	\$900,059	\$5,965,999
Subtotal	\$580,266	\$1,374,359	\$962,100	\$1,255,439	\$900,059	\$5,072,223
Trust fund management fee (7%)	\$40,619	\$96,205	\$67,347	\$87,881	\$63,004	\$355,056
Total	\$620,885	\$1,470,564	\$1,029,447	\$1,343,320	\$963,063	\$5,427,279

The estimated budget for this four-year project is \$5,427,279, and endorsement is requested for \$620,885 for FY25.

VIII. TARGETED LOGICAL FRAMEWORK

A. RM I – Tax Policy

Objective	
Strengthen Policy Monitoring, Evaluation, and Institutions - TPM	
Outcome(s)	Indicator(s)
Improved structures (e.g., tax policy units) or capacity (e.g., models and tools) related to tax policy advice and analysis.	Models or tools developed or improved
	Revenue forecasts are implemented or improved.
Improved transparency and outreach	Tax expenditures are published

B. RM II – Revenue Administration

Objective	
Strengthened revenue administration management and governance arrangements (SDG 17.1) – RAM	
Outcome(s)	Indicator(s)
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized	Key performance indicators established, regularly reported and monitored
	Multi-year reform implementation plan, with supporting resource plan, adopted and well communicated
	Reform management capacity strengthened or in place for reform implementation, including dedicated resources
	Strategic and operational plans prepared and adopted
Corporate priorities are better managed through effective risk management	Improved identification, assessment, ranking and quantification of compliance risks (TADAT POA2-3)
	Better mitigation of risks through a compliance improvement program TADAT POA2-4)
	Improved monitoring and evaluation of compliance risk mitigation activities (TADAT POA2-5)
Organizational arrangements enable more effective delivery of strategy and reforms	Clear organizational structure along functional lines and/or taxpayer segments established and operating or strengthened
Support functions enable more effective delivery of strategy and reforms	Improved human resources strategies and practices to support the tax administration (TADAT 2019 POA2-7)

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Objective	
Improved customs administration functions (SDG 17.1) - CAD	
Outcome(s)	Indicator(s)
Audit and anti-smuggling programs more effectively ensure enforcement of customs laws	A larger share of trade controlled progressively through a properly designed post clearance audit program
Customs control during the clearance process more effectively ensures accuracy of declarations	Effective application of procedures based on international standards for valuation, origin and the tariff classification of goods improved
	Rate of physical inspections decreased
Objective	
Strengthened core tax administration functions (SDG 17.1) - TAD	
Outcome(s)	Indicator(s)
A larger proportion of taxpayers meet their payment obligations as required by law	Management of tax arrears improved (TADAT 2015 POA5-15/TADAT 2019 POA5-18)
Taxpayer services initiatives to support voluntary compliance are strengthened	Scope, currency and accessibility of information for taxpayers improved (TADAT 2015 POA3-7/TADAT 2019 POA3-8)