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Quarterly Report



ECONOMIC REFORMS TO ENHANCE COMPETITIVENESS

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Significant issues affecting implementation:

- On October 20, 2009 the President of the Kyrgyz Republic announced the public administration reform in the country and reorganization of the Government structure. This led to the new structure comprising of 14 ministries, 7 agencies, 6 services and 2 funds. The State Tax Committee was reorganized into the State Tax Service (STS). Tax and economic policy were transferred to the Ministry of Economic Regulation and the collection of social fund contributions is being transferred to the STS. This reform will impact the work of EREC project counterparts as they will be involved in structural reforms and changes to their functions.
- The Project is waiting for the State Tax Committee (STC) to provide necessary risk data. The request was finalized jointly by EREC and International Finance Corporation Business Enabling Environment Project (IFC BEE) in a letter to Mr. Ernst Kaldybaev, Deputy Chairman of STC. Inability of STC to provide the required risk data hinders implementation of risk based audit.
- EREC Project is waiting for the decision of the State Tax Committee (STC) on the transfer of KITIS database and application to the Globally Unique Identifier (GUID).
- Due to high level staff changes the Ministry of Finance requested EREC Project's assistance with finalizing the Regulation on Accounting. The Terms of References has been drafted for local consultants, and the work commenced on November 23.
- Parliament passed the law on making amendments to the Property Tax Section in the Tax Code; the law was forwarded to the President for signing.
- Due to the changes made to the Accounting Regulation and reporting forms by the Ministry of Finance of the Kyrgyz Republic (MoF) the local consultants had to delay their assignment with the Accounts Chamber on preparation of the section of the financial audit manual on the public sector accounting reform until February 2010. The upcoming changes significantly impact information about the accounting reform.
- Ms. Erin Cole, USAID, EREC Project Chief of Party, Country Manager and Country Coordinator met with Ms. Dinara Shaidieva, State Secretary of the Ministry of Finance to discuss the status of transitioning to the implementation of International Public Sector Accounting Standards (IPSAS) and areas of potential future assistance over the next four to five years.
- In a meeting with Mr. Taalai Tatkulov, Chairman of the Social Fund, Ms. Erin Cole, USAID, EREC Project Chief of Party, Country Manager, Country Coordinator and Lawyer discussed the introduction of accumulated pensions and the unified collection of contributions. The Social Fund Chairman gave a comprehensive overview of the Fund's activities and the need to smoothly transition to the unified collection of contributions jointly with the State Tax Service.
- Mr. Aziz Aliev, State Secretary of the Ministry of Economy at the meeting with Ms. Erin Cole USAID, EREC Project Chief of Party, Country Manager and Country Coordinator requested EREC Project to provide assistance with revenue forecasting methodology, guidelines and regulatory impact analysis of draft laws and regulations. The work on improving the Tax Code needs to be continued as well as the strengthening of the Ministry's fiscal policy function.
- Mr. Adylbek Kasymaliev, and Mr. Ernst Kaldybaev, Deputy Chairmen of the State Tax Service (STS) expressed their gratitude to Ms. Erin Cole, EREC Project Chief of Party, Country Manager and Country Coordinator for assistance that USAID provides to STS. They highlighted current achievements, progress made under the existing contract and

highlighted the need to establish a sound risk based audit system and effective implementation of the property tax.

- Mr. Arzybek Kojoshev, Deputy Minister of Finance of the Kyrgyz Republic, Mr. Kadyrbek Kalkanov, Head of Intrabudgetary Relations Department and Mr. Bekbolot Aliev, Head of Revenue Department of the Ministry of Finance informed Ms. Erin Cole, USAID/Washington D.C., EREC Project Chief of Party, Country Manager and Country Coordinator about the status of technical assistance and new areas in revenue forecasting and capacity building of staff members of the revenue department.

Significant meetings with counterparts & donors:

- Mr. Chudinov V., Prime Minister of the KR (informal meeting)
- Mr. Keldibekov A.K., Chairman of the State Tax Service (STS)
- Mr. Japarov A.U., Minister of Economic Development and Trade
- Mr. Kasymaliev A., STS Deputy Chairman
- Mr. Kaldybayev E., STS Deputy Chairman
- Mr. Shadiev A., Chairman of the tax and Budget Committee/Parliament
- Ms. Turgunbekova E., Donor Assistance Coordinator at the KR Accounts Chamber
- Mr. Baketayev A.K., Head of the Bishkek Treasury
- Ms. Adigineeva Z.A., Chief Specialist of the MOF Revenue Forecasting Department
- Mr. Aidraliev K., Head of Economic Policy Department of the Ministry of Economic Development and Trade
- Mr. Usabaliev M., Head of Tax Policy Unit at MOF
- Mr. Ajybayev M., Head of STS Taxpayer Service Department
- Ms. Rakombayeva S., Head of STS Public Outreach Unit
- Ms. Tumenbayeva E., Head of STS Training Unit
- Mr. Burtsev P., Head of IT Department of STS
- Mr. Daniel Rosenblum, Deputy Coordinator in the State Department's Office of the Coordinator for U.S. Assistance to Europe and Eurasia EUR/ACE
- Mr. Dean Fisher, Senior Coordinator for Europe and Eurasia in the Office of the Director of U.S. Foreign Assistance
- Mr. John Donnelly, Institutional Reform and E-Regulation Expert, Investment Climate Improvement Program System Support Project of the Kyrgyz Republic
- Mr. Lewis Baurer, Team Leader/ADB Tax Modernization Project
- Mr. Isakov J., Director of the National Agency for Local Government of the Kyrgyz Republic
- Ms. Shaidieva D., Permanent Secretary of the Ministry of Finance (MOF)
- Mr. Mambetakunov A., Head of the Clearing System Unit at the KR National Bank;
- Mr. Abdylidayev M., Vice President of the Objective Numeration Association;
- Mr. Turdubayev S., Head of IT Department of STS
- Dr. Ahmed Eiweida, Senior Urban Management Specialist, Sustainable Development Department, World Bank, Washington
- Mr. Aldayrov M., World Bank, Bishkek Office
- Ms. Ahmetova N., Director of USAID Business Environment Improvement Project (BEI).
- Mr. Christopher Miller, Operations Officer of International Finance Corporation Business Enabling Environment Project (IFC BEE)

- Mr. Djunushev E., Tax Reform Consultant / IFC BEE
- Mr. Aliev A., State Secretary of the Ministry of Economy
- Mr. Tatkulov T., Chairman of the Social Fund
- Mr. Sultanov M., Minister of Finance
- Mr. Kojoshev A., Deputy Minister of Finance
- Mr. Kalkanov K., Head of Intrabudgetary Relations Department/MOF
- Mr. Aliev B., Head of Revenue Department of the MOF
- Mr. Bailo, Member of Parliament
- Mr. Junusov, Head of Accounting and Reporting Unit/Bishkek Treasury
- Ms. Djanybekova R., Head of Local Revenue Forecasting Unit
- Mr. Malabekov Z., Advisor to the STS Chairman

A. Public Accounting & Audit

1. Highlights & accomplished tasks/activities against the work plan

- EREC Country Coordinator and Local Consultants met with Donor Assistance Coordinator at the Accounts Chamber of the Kyrgyz Republic to clarify the goal, objectives and deliverables of the assignment on writing the introductory section of the financial audit manual.
- EREC Project commenced an assignment with the Accounts Chamber on preparation of the financial audit manual in the section devoted to the accounting reform in the public sector.
- EREC Project commenced its work with the Ministry of Finance on finalizing the Accounting Regulation. EREC Project finalized the Accounting Regulation and presented it to the Ministry of Finance for review and comments.

2. Future activities & events

- EREC Project will submit a final report on preparation of the accounting reform in public sector section of the financial audit manual to the International Public Audit Advisor for his review.
- EREC Project will review comments of the Ministry of Finance on the Accounting Regulation.

B. Revenue Analysis

1. Highlights & accomplished tasks/activities against the work plan

- EREC Project continued working with the MOF specialists on Mid-term Local Revenue Planning.
- EREC Project Lawyer participated in the work of the MOF Commission for estimating the Tax Code impact on local produce.
- EREC Project provided consultations to the Fiscal Legislation Unit of the MOF.

- EREC Project, jointly with the MOF experts, made analysis of VAT receipts for 10 months of 2009.
- EREC Project had a meeting with the Finance Minister to discuss property tax amendments proposed by the deputies.
- EREC Project attended the Parliamentary 2010 Budget Hearings.

2. Future activities & events

- EREC Project will continue working on the Local Revenue Forecasting Methodology.
- EREC Project will install BIS on the MOF computers and conduct training for the BIS users.

C. Tax Administration

1. Highlights & accomplished tasks/activities against the work plan

- EREC Project Economist had a meeting with the MOF Revenue Forecasting Department Chief Specialist to discuss the VAT collections. A memo on the VAT revenue issue was prepared.
- EREC Project worked with the Ministry of Economic Development and Trade lawyers on amendments to the Tax Code. A law on making amendments to the property tax section of the Tax Code was drafted.
- EREC Lawyer attended the Parliament hearings related to tax issues and made comments and suggestions to the tax legislation.
- EREC Tax Lawyer participated in a 3-day round table held by the Intergovernmental Committee on Improvement of Social Security Legislation. There were seven meetings with the representatives of the Committee to discuss and draft the laws on social contributions' rates and state social security insurance. A presentation was prepared on key amendments to the Law on Social Contributions' Rates.
- EREC Country Manager and Country Coordinator had an introductory meeting with a newly appointed Director of the National Agency for Local Government of the Kyrgyz Republic. Country Manager outlined the key objectives of the new Kyrgyz Property Tax System (KPTS).
- EREC Country Manager and Country Coordinator, jointly with IFC BEE Project Operations Officer and Tax Reform Consultant, met with the Deputy Chairman of STS on the issue of the risk based audit data necessary to perform risk ranking. It was agreed that IFC BEE Project would make a pilot with risk data for about 10,000 taxpayers.
- Country Manager, Country Coordinator, Business Analyst and Contracted IT Programmer presented to the Chairman of State Tax Service the demo version of the Kyrgyz Property Tax System (KPTS). EREC project will continue developing the demo version for its presentation to the Ministry of Finance, the new State Register and the National Agency for Local Government (NAMSU).

- EREC Project Economist had a series of meetings with the Head of the Clearing System Unit at the National Bank to develop the “Payment Order” design. A draft pre-printed payment order and a cash deposit form were prepared for KPTS generation.
- EREC Project had a meeting with the Advisor to STS Chairman to discuss the current organizational structure of STS and make suggestions on its improvement based on the world best practice. The proposed structure was delivered to the Chairman for consideration.
- EREC Project had a meeting with the Director of USAID BEI Project and Advisor to the Tax Chairman to share the strategic vision regarding several issues related to STS business processes, its organizational structure and effective work measurement tools.
- EREC Project finalized the prototype for a centralized web based Kyrgyz Property Tax System (KPTS). KPTS menu was translated into Russian. EREC commenced preparation for the prototype presentation of the centralized web based Kyrgyz Property Tax System (KPTS). The presentation is scheduled for late January 2010.
- EREC Project continued working on the structure of a unique code for the property tax system and on the current system of bar codes. A list of all local self-governments (aiyl-okmotu) by regions was prepared for inclusion into the KPTS prototype. A letter with the proposed additions to the current format of the Bank Payment Order to reflect property tax payments was sent to the KR National Bank. EREC held a series of meetings with the MOF experts to design preliminary versions of the reports for KPTS. The work is continued on designing the property tax bill for KPTS.
- EREC Project continued working with the Government Commission for improving the Tax Code (TC). The Working Group had 9 meetings with the Government Commission members to reconcile the amendments proposed to the TC. 4 meetings were held at the Ministry of Geology to discuss the new TC provisions on mineral taxation.
- EREC Project held 7 meetings with the representatives of Intergovernmental Committee on Improvement of Social Security Legislation to draft the laws on social security rates and State Social Security Insurance.
- EREC Project had three meetings with the Head of the Parliamentary Tax and Budget Committee to discuss the proposed amendments to Excise Tax section of the Tax Code. Also, one meeting was held with representatives of Ministry of Economy Development regarding the Excise Tax application strategy.
- At the request of STS Methodology Department, EREC Project made review of the Instructions on Property Tax Calculation.
- EREC Project representative was included into the Working Group for Tax Payment Indicator created by Investment Council. Working Group held two meetings to discuss the Action Plan and the ways to expedite modernization in the tax service, particularly, in pilot tax offices of Bishkek city and two rayon offices in Alamedin and Issykata regions.
- EREC Project made an expert assessment of the proposed law on tax amnesty for the Central Agency for Development, Investments and Innovations.

2. Future activities & events

- EREC Project will continue working in the Government Commission and the Working Group for making amendments and additions to the Tax Code during the second round of the proposed Tax Code amendments consideration.
- EREC Project will continue developing the crisis management measures to be included in the Tax Code.
- EREC Project will continue working within the frames of Intergovernmental Committee on Improvement of the Social Security Legislation.
- EREC Project will continue working on the KPTS in collaboration with the Ministry of Finance, Property Registration Agency, National Agency for Local Self-Governance, Bishkek Treasury and the bank serving the local budgets.
- EREC Project will write business process specifications for the KPTS describing all major business processes in the system.
- EREC Project will prepare a Project Implementation Work plan detailing activities to be carried out by EREC project and KPTS stakeholders for the upcoming year and will prepare the technical Systems Requirement Specification (SRS) for KPTS.

D. KITIS software

1. Highlights & accomplished tasks/activities against the work plan

- EREC Project delivered all equipment under the Phase II IT equipment for Kyrgyz Integrated Tax Information System (KITIS), to the STS. It is currently being assembled for transfer to the pilot offices of the STS.
- EREC Project provided the IFC project with the sample data for risk based audit taken from the national KITIS Database.
- EREC Project held meetings with the ADB specialists to discuss the Globally Unique Identifier (GUID) and pilot hardware specifications. The STS hasn't decided yet on the transfer of KITIS database and application to the GUID. The decision is postponed for indefinite period of time.
- EREC Project designed KITIS procedures for processing Movable Property Tax.
- EREC Project started developing application procedure requirements based on clarifications received from STS on business processes for replacement of original tax returns with amended ones.
- EREC Project modified the web-based property tax calculator to reflect the anticipated amendments to the property tax provisions in the Tax Code and according to the STS comments, and placed it on the STS website.
- EREC Project IT Team Leader had a meeting with the STS Deputy Chairman to discuss the transfer of taxpayers' balance data from Application DBs used in rayon pilot tax offices to KITIS DBs. Based on the results of this meeting, a Working Group was formed to work out transfer implementation solutions. The working group had its first meeting at which it preliminarily determined the timeframe and evaluated the

efforts required for a transfer of the taxpayers' balance data from the actual DBs in rayon pilot tax offices to rayon KITIS DBs.

- EREC Project developed processes for updating KITIS DBs at the servers of the rayon pilot tax offices.
- Per the STS IT Department request EREC Project set up a channel for exchanging specific information between STS and Social Fund.
- EREC Project continued collecting recommendations and comments from pilot tax offices to improve KITIS business processes. Continued upgrading and assisting STS in KITIS maintenance in pilot tax offices. Eliminated errors in KITIS application.
- EREC Project continued analysis of the new business rules and its specifications; held meetings with STS specialists; made changes to the reporting forms based on clarification letters received from STS.
- EREC Project continued administration and maintenance of STS corporate network system.
- EREC Project continued modification of KITIS to support changes in the Tax Code.
- EREC Project continued working on the Work Measures System (WMS) database structure. Continued specifying requirements for WMS design and made provisions in WMS, particularly, for management controls.
- EREC Project presented Property Tax Pilot Application to the STS authorities.
- EREC Project added new reports on assessment of new taxes to the KITIS system of optional queries.
- EREC Project developed procedures for updating KITIS DBs at the servers of pilot tax offices.

2. Future activities & events

- EREC Project will continue assisting in training the KITIS users in the pilot tax offices.
- EREC Project will continue analyzing the new business processes for redesigning KITIS and will continue redesigning KITIS based on the changes made to the tax law. EREC will continue collecting recommendations and comments from pilot tax offices to improve KITIS business processes.
- EREC Project will continue assisting the STS in application programming and database administration.
- EREC Project will continue providing advice on technical aspects of KITIS maintenance in all pilot tax offices and upgrading KITIS based on the changes entered.
- EREC Project will continue sampling data for risk evaluation Audit System.
- EREC Project will continue improving the subsystem of nonstandard queries.
- EREC Project will continue programming the data entry procedures for new forms and taxes (tax on non-residents, contract based tax, other taxes).
- EREC Project will start modifying KITIS, particularly its data entry and accounting processes, to comply with the new business rules allowing replacement of original tax

returns with adjusted ones, and will assist STS in designing a form to be attached to the adjusted tax return.

- EREC Project will assist the STS in assembling and tuning the hardware delivered to them under Phase II IT equipment for KITIS.
- EREC Project will update KITIS DBs at the servers of rayon pilot tax offices.
- EREC Project will work on transfer of the taxpayers' balance data from actual DBs in rayon pilot tax offices to rayon KITIS DBs.
- EREC Project will enhance security and backup procedures of STS corporate network based on the hardware delivered for the pilot project. EREC will continue providing technical advice to the IT department on enhancement of its corporate network and assisting STS in its corporate network administration.
- EREC Project will continue providing advice on technical aspects of KITIS maintenance in all pilot tax offices and will continue KITIS upgrade based on the changes entered.
- EREC Project will design the pilot version of Work Measures System (WMS).
- EREC Project will analyze the Property Tax Subsystems and determine requirements for developing Property Tax System.
- EREC Project will modify the web-based property tax calculator based on the property tax law signed by the President.

E. Public Education & Outreach

1. Highlights & accomplished tasks/activities against the work plan

- EREC Project, in cooperation with the USAID Business Environment Improvement (BEI) Project and International Finance Corporation Business Environment Enabling Project (BEE), conducted three regional workshops in Cholpon-Ata, Osh and Jalalabad on the amendments to the Tax Code and property tax. The workshops were attended by over 300 staff members of the State Tax Committee and 400 representatives of business community. The workshops were widely covered in national and local media.
- EREC Project conducted a 3-day media training for STS staff on mass media communication to help improve the quality of the STS public outreach.
- EREC Project finalized the Property Tax Brochure and jointly with IFC and BEI Project published 1000 copies of the brochure for distribution at the property tax workshops in Issul-Kul, Osh and Jalal-Abad oblasts.
- EREC Project, jointly with STS and ADB Modernization Project, continued working on Training of Trainers' (TOT) program; selected the company for conducting the TOT training and selected 20 tax officials for participation in the TOT. The training was held on November 2-4, 2009.
- EREC Project assisted the ADB Project in designing and issuing the STS internal newsletter on the new business processes.
- EREC Project, in cooperation with USAID BEI and IFC BEE Projects, conducted the final workshop for the deputies, entrepreneurs, local self-governments and tax officers

in Bishkek and Chui oblast to explain the new simplified principles of property taxation and Tax Code amendments.

- EREC Project, in collaboration with ADB, finalized the report on tax research held among the tax officers in Bishkek, Osh and Issyk-Kul, and made a presentation to the STS management on the research findings.
- EREC Project had a meeting with STS Chairman to propose a creation of a Tax Joint Council administered by STS and composed of the representatives of the most important business associations and unions in Kyrgyzstan. EREC, jointly with the Head of STS Training Center, prepared the Regulations on the proposed Joint Council and the List of Council members to be submitted to STS management for consideration.
- EREC Project designed and placed the banners at two most popular KG websites to advertise the property tax online calculator developed by EREC. Also, issued a press release on the property tax online calculator.
- EREC Project participated in the opening of a 5-day KITIS training program conducted by STS Training Center for the officers of pilot tax offices. EREC provided assistance in organization of the training; 60 copies of KITIS manual were printed for the trainees. Also, EREC developed a questionnaire form to conduct a survey among the tax officers, who received training and are currently using KITIS. The survey goal was to identify tax officers approach to KITIS, its applicability and impact on STS operations.
- EREC Project drafted the Manual on Use of Work Measurement System for STS.
- EREC Project provided information to STS International Affairs Department and Taxpayer Service Department on EREC's accomplishments and technical assistance provided to STS during the past year. Both departments made presentations on USAID's technical support at STS management weekly meetings.
- EREC Project assisted ADB in writing the second edition of STS newsletter. Also, EREC reviewed the test developed by ADB for LTU officers to assess their knowledge of the new STS business processes and policy.
- EREC Project commissioned the making of a short video on USAID's hardware delivery to STS. Interviews were organized and taped; shooting of all main scenes of equipment delivery was completed. Started writing the script for the video.
- In December, EREC Project was the first in the list of the most covered projects in local media according to the USAID Media Monitoring Report.

2. Future activities & events

- EREC Project will continue working on establishing a Tax Joint Council.
- EREC Project will make changes to the Property Tax Leaflet based on the law passed by the Parliament and will issue the leaflet for mass distribution.
- EREC Project will draft the leaflet on Unified Tax Return for legal entities and individuals.
- EREC Project will conduct the survey among tax officers using KITIS to identify tax officers approach to KITIS, its applicability and impact on STS operations.