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Quarterly Report



ECONOMIC REFORMS TO ENHANCE COMPETITIVENESS

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Significant issues affecting implementation:

- Political and social environment in Kyrgyzstan is far from being stable and secure. Security reports state that the situation will remain unstable until elections in October 2010. Nevertheless, EREC Project staff keeps focusing on planning and implementing the project tasks and deliverables.
- United Nations Development Program is planning to launch a capacity building facility for local governments and seeking EREC Project input into potential areas of assistance. EREC Project and UNDP Democratic Governance Programme discussed EREC Project recommendations for strengthening the local governments' role and funding with use of property tax.
- EREC Project and the MoF agreed that EREC's ongoing technical support for public sector accounting reforms would continue to be performed through the use on contracted local consultants but would be oversighted by an international expert, to ensure that the accounting policies and procedures, the format of consolidated financial statements and the presentation of the accounting information is in line with IPSAS Cash standards.

Significant meetings with counterparts & donors:

- Mr. Bahtiyar Fattakhov, Acting Director of the National Agency for Local Government (NAMSU).
- Mr. Geoffrey Minott, Director of USAID Office of Economic Growth
- Ms. Svetlana Golovatskaya, USAID Office of Economic Growth, COTR
- Mr. Erkin Kasybekov, Programme Manager of the UNDP Democratic Governance Programme
- Ms. Ainura Kaparova, National Coordinator of the UNDP Democratic Governance Programme
- Mr. Temir Sariyev, Vice Chairman of Interim Government, Acting Minister of Finance
- Mr. Chorobek Imashev, Minister of Finance
- Ms. Guljan Egimbaeva, Acting Auditor of the KR Accounts Chamber
- Mr. Muratbek Orozov, Head of Expert and Analytical Unit
- Ms. Gulmira Jailoobaeva, Senior Expert Analyst
- Ms. Svetlana Han, Head of Statistics and Information Unit
- Ms. Elnura Turgunbekova, Lead Trainer/WB Project Coordinator
- Ms. Cholpon Saparbaeva, Head of Financial Reporting and Internal Audit Methodology Department of the MoF
- Mr. Adylbek Kasymaliev, Acting Chairman of the State Tax Service (STS)
- Ms. Aidaraliev R., Head of the Taxpayer Service of STS
- Ms. Karimova B., Head of the Property Tax Department of STS
- Mr. Mamanov N., Head of the Local Taxes and Methodology Unit of STS
- Mr. Osmonaliev Ch., Head of the Unit for Creation of the Property Tax Database
- Mr. Sultankulov R., Deputy Head of Audit Department of the STS
- Ms. Tumenbayeva E., Head of STS Training Unit

- Mr. Turdubayev S., Head of IT Department of STS
- Ms. Davletova J., IT Consultant at GosRegister
- Mr. Abylgaziev N., IT Consultant at GosRegister
- Mr. Emirov K., IT Consultant at GosRegister
- Mr. Junusov B., Head of the Property Registration Department of the GosRegister
- Mr. Tokochev R., IT specialist of the Central Treasury
- Ms. Shadieva, State Secretary of the Ministry of Finance (MOF)
- Ms. Ormonova G., Deputy Head of the Pervomaiski tax office
- Mr. Shamkanov K.K. State Secretary of GosRegister
- Mr. Bereziuk A.Ya., Deputy Head of the Movable Property Unit of GosRegister
- Mr. Carey Gordon, USAID Acting Country Director, to discuss progress of EREC Project activities
- Mr. Vsevolod Payevskiy, Country Manager, IFC Business Enabling Environment Project (BEE)
- Mr. Emil Abdykalykov, Project Tax Consultant

A. Public Accounting & Audit

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

- EREC Project discussed the comments on the draft introductory section to financial audit manual with the Accounts Chamber (AC), WB Project and Ministry of Finance (MoF) representatives. As a result of these discussions it was agreed that the AC and MoF will strengthen cooperation in the area of public sector accounting reform.
- EREC Project supported the MoF initiative to conduct in-house training courses on Accounting Regulation in Bishkek and throughout the northern regions of Kyrgyzstan. 4000 copies of training materials were printed for implementation of these training courses.
- EREC Project supported the certified accounting practitioner training (CAP) for a staff member of the Financial Reporting and Internal Audit Methodology Department of the MoF.
- As part of the EREC Project's support to public sector accounting reforms local consultants finalized the accounting regulation that enables the MoF to gather financial information from budgetary institutions. Following the development of the regulation, MoF trainers who had been trained by the EREC Project conducted training sessions in the northern regions of Kyrgyzstan on the application of the accounting regulation. The next step is the development of procedures for the preparation of the Government's consolidated financial statements.
- EREC commenced drafting procedures for preparing consolidated financial statements, corresponding notes, forms for consolidating financial statements based on IPSAS Cash standards.
- EREC Project reviewed a number of documents, including:
 - an annual report on budget execution for 2009 prepared by the MoF of the Kyrgyz Republic;
 - available 2008 IPSAS Cash Standard and updated 2010 Cash Standard;
 - main requirements of the manual on the government finance statistics 2001;

- regulations on preparation of the budget execution report by the Treasury regional divisions.

1. Future activities & events

- EREC Project will continue working on procedures for preparing consolidated financial statements, notes to them, preparing forms for consolidating financial statements and making notes based on IPSAS Cash standards.
- EREC Project received from the MoF the list of activities in the accounting area implementation in which the MoF would like to obtain future EREC Project assistance. EREC Project will identify the items that are feasible given the project duration and discuss this further with the MoF.

B. Revenue Analysis

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

- EREC Project made an assessment of economic entities that had tax arrears for 2009, prepared forecasts until 2012 and prepared recommendations to the Minister of Finance on amendments that need to be made to the law on 2010 Republican Budget.
- EREC Project had a meeting with the newly appointed Finance Minister to discuss the project activities and provide information and suggestions on the issue of the MoF's resort Dostuk nationalization.
- EREC Project provided consultations to the MoF officers on various legal issues related to revenue analysis.

2. Future activities & events

- EREC Project will continue working on the Local Revenue Forecasting Methodology.

C. Tax Administration

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

- EREC Project continued working with the Methodology Commission under the Ministry of Economic Development for improvement of the Tax Code and Social Security Legislation. The Commission held 24 meetings to reconcile the amendments proposed to the Tax Code and address them to Coordination Committee of the Government.
- EREC Project met with the IFC Business Enabling Environment Project (BEE) Country Manager, and Project Tax Consultant to discuss simplification of VAT report. EREC provided IFC BEE with a design of simplified VAT return that was recommended to the previous STS Chairman. EREC and BEE agreed that the main problem was not the reporting but additional burdens requiring detailed supplements to the reports along with copies of sales invoices. These additional requirements are not consistent with the self-assessed tax. The agreed approach was to press for eliminating the requirement for supplements and at the moment not to focus on the requirement to furnish copy

invoices. As a follow up to the meetings EREC Country Manager will provide comments and recommendations to the IFC BEE report on VAT reporting simplification and participate in the round table on VAT reporting simplification to be organized by IFC BEE Project on October 1, 2010.

- EREC Project had a discussion with the IFC BEE Project on tax patents. While it was agreed that many significant taxpayers avoid normal taxation by sheltering under the patent system, at the moment EREC project does not see any great advantage of tackling the politically sensitive issue of patents. The real problem is that the current tax system provides a mechanism for a large number of businesses to minimize their overall tax burden by (1) using weight-based customs charges at import and (2) avoiding the self-policing mechanism of VAT charge at import and requirement for VAT registration for VAT offset or refund. Unless these more important issues are resolved, any changes to the patent system will not be sufficient. Also, given the current political instability in the country, a more fundamental and, at the same time, subtle approach is required. The latest effort to rationalize the patent system failed and resulted in increased overall number of patents. The recommended approach is to phase out the payment of weight-based charges at customs thus forcing and legitimizing larger volumes of trade.
- EREC Country Manager had a meeting with the Country Director of Business Environment Improvement Project (BEI) and highlighted the importance of simplifying VAT reporting, seeking support from the business community. The current patents regime can be maintained pro tem until the more significant issues of weight based customs charges and lack of VAT revenue are resolved.
- EREC Project prepared a presentation on improvement of the Kyrgyz tobacco excise taxation.
- EREC Project provided on-demand tax law consultations to the MOF, MER and State Tax Service staff.
- EREC Project completed installation of the Work Measurement System (WMS) in the pilot audit department at the STS HQ and provided training to the auditors and the operator. The auditors filled out their weekly timesheets manually and submitted them to the operator. The timesheets then were entered into the WMS database. EREC is monitoring the process. EREC also held meetings with the Deputy Head of the Audit Department and audit analyst responsible for data entry. The relevant changes were made to the system to address the problems that arose during testing (new codes were added; the list of auditors had to be updated in the system due to frequent staff changes). Also, EREC Project had a meeting with the STS Chairman and agreed to expand the WMS to other functional tax departments. The STS HQ will select an appropriate field tax office where the WMS will be installed.
- EREC Project provided assistance with administration and maintenance of the STS corporate network, systems security and backup procedures.
- EREC Project attended a 3-day round table which addressed the issues of simplification of income tax for SMEs, improved desk audit, unification of tax reporting requirements for consideration of tax disputes in courts and other tax policy issues.
- EREC Project prepared a set of proposals on improvement of tax administration/tax computation system and drafted laws on Simplified Computation of Profits Tax for

Small and Medium Business; Application of Tax Contract Regime; Individual Income Tax and Social Contributions exemptions verification.

2. Future activities & events

- Continue working in the Methodology Commission and the Working Group for making amendments and additions to the Tax Code and Social Security Legislation and their harmonization.
- Continue monitoring WMS operation and its application in the pilot tax office.

D. KPTS development

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

- EREC Project finalized the accounting procedure for the Kyrgyz Property Tax System (KPTS). EREC IT team commenced programming of the accounting module.
- EREC Project examined problems of the double entry based Accounting Module. EREC also developed the Module for Data Storage based on the double entry principle and implemented the classes such as entry; abstract posting; debit and credit; transaction item; chart, chart type and chart category. The Chart of Accounts was imported to the KPTS.
- EREC Project completed drawing up charts of accounts and operations for individual taxpayer accounting. EREC held meetings with the Treasury IT team on electronic transfer of property tax payment details to the KPTS.
- EREC Project continued refining the KPTS object-based model and designing classes of model and business rules; installed new hardware for backup of the current KPTS build; continued studying Seam WEB Development; held meetings with the GosRegister and Treasury IT specialists.
- EREC Project met with the STS Property Tax and Property Tax Database Creation units heads to discuss transfers of property tax data from the GosRegister to the STS. In accordance with the Agreement on Property Data Transfer to the Tax Service (in either paper and/or electronic form), a formal letter requesting property data provision was prepared and sent to the GosRegister. Later EREC Project met with the STS Chairman regarding electronic transfers of property data from GosRegister and taxpayers' registration data to KPTS. Two Excel files on property data (property groups 1 and 2) were obtained for Leninskiy rayon of Bishkek and were imported to the KPTS. Also, EREC Project and the Property Tax Methodology Unit Head met with the GosRegister experts. Currently 38 regional registration bodies applying the Automated Property Registration System have transferred their property data (in Excel format) to rayon tax offices.
- EREC Project prepared a set of proposals on improvement of property tax administration/tax computation system. Developed the concept for the automated transmission of tax payment data from the Clearing Center of the National Bank to the State Tax Service. Prepared comments on the double entry property tax accounting system. Reviewed the set of draft testing questions developed by the Tax Inspection.

- EREC Project designed screens for KPTS IT Administrator, coefficients section, data import from GosRegister and Treasury and data setting, allowances section.
- EREC Project completed IT 'administrator' screens at the central level and developed administrative tools such as template screen, data import from Gosregister and Treasury, management of coefficients, users and groups, allowances, locations, my profiles.
- EREC Project met with the STS Software Installation Unit Head to discuss KITIS data related issues. In June 2010 the STS interim property tax system module was completed and transferred to rayon tax offices. Collection and entry of Bishkek citizens' informational sheets to KITIS is expected to be completed by the end of September 2010.
- EREC Project continued working on KPTS reports with the MOF and STS experts. EREC held a series of meetings with the Central Treasury officers regarding revenue account numbers of local self-governments, received a list of Treasury accounts of local self-governments for the entire country and checked them with the regional Treasury departments. EREC also developed KPTS screens to account for unallocated payments.
- EREC Project continued working on procedures for automated transmission of the tax payment data from the National Bank Clearing Center to the State Tax Service. EREC continued developing the concept for the process of collecting information on tax payment details directly from the NBKR Clearing Center. A number of meetings were held with the Treasury officers to discuss the ways of collecting tax payment details from the State Treasury.
- EREC Project experts completed the KPTS assessment and identified key strengths and challenges. Based on review of the KPTS security architecture and procedures, system planning, requirements documentation and meetings with KPTS software developers, EREC prepared recommendations for expediting the system completion and improving quality of the final product.
- EREC Project developed the user management module and implemented the classes such as User, Debit and Credit, Password Bean and Password Manager. Also solved the problem of transferring information in Cyrillic alphabet through GET and POST.
- EREC Project had a meeting with the Central Treasury experts to discuss electronic connection between KPTS and the Treasury system and format of data transfer between these two systems.
- EREC Project designed web pages and database tables for 10 Republic references of the KPTS and entered data into the tables; designed main tables of the KPTS database for the property registration data entry and designed the Property Registration page. EREC resolved some bottlenecks of KPTS Java programming and determined preliminary hardware requirements for KPTS configuration (connection, traffic etc.).
- EREC Project wrote instructions to the Property Tax registration forms proposed by EREC and had a meeting with the STS Chairman to present the forms and explain their advantages comparing to the old forms. The Chairman instructed the relevant departments to provide their expert opinion and work with EREC specialists on the matter.

- In order to get access to the Treasury database, EREC Project drafted a letter to the STS local tax department for further submission to the State Treasury. Access to the Treasury system will allow testing connection between the Treasury and KPTS. EREC sent a request for Bishkek districts individual accounts to the Central Treasury IT specialist.
- EREC Project developed the property management module (adding, removing and changing a user) and implemented the classes of Property and Property Attribute. EREC also prepared a module for importing data from the state register and started developing the property tax calculation module. The option of language choice was added.
- EREC Project installed and tested additional memory for the KPTS server; designed classes for regional coefficients; designed CRUD UI for regional coefficients including ability to track their changes and CRUD UI for exemption percentage for property groups 1 and 2 (including ability to track changes).
- EREC Project reviewed “Local Office User” screens and updated the sections “Find property”, “Payments” and “Allowances”.
- EREC Project developed “Central Tax Office User” screens comprising the following sections: Find Property, Property list, Allowances, Coefficients, Debts, Account adjustments, Reports.
- EREC Project developed web-screens for “Local office user”: “Property list”, “Appeals”, “Account adjustments”.

2. Future activities & events

- Continue the development of the KPTS including:
 - implementation of the double entry accounting module for the KPTS;
 - development of the accounting system for collecting tax payment details coming from the National Bank Clearing Center;
 - arrange data import from the GosRegister’s database and complete the tax accrual module;
 - design the XML scheme for data import from the GosRegister. Continue studying Seam WEB Development;
 - complete the tax calculation module;
 - start testing and entering bulk data into the KPTS registration module; and
 - continue enhancing the KPTS object-based model and user interface.

E. Public Education & Outreach

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

- EREC Project organized the 1st meeting of the Joint Council of the State Tax Service. The meeting was attended by 18 members representing the largest associations and unions of Kyrgyzstan. The members resolved some organizational issues, such as deputy chairman election, meetings schedule (it was decided to hold regular meetings every 2 months) and other. The Council members considered the issues of risk-based audit, electronic tax filing, sales tax calculation and administration of social and

property deductions. The Chairman in his speech pointed out that the Joint Council was established upon the EREC Project initiative in order to improve relationships between the tax administration and entrepreneurs, enhance public outreach on tax issues and improve service delivery to taxpayers.

- EREC Project attended the STS' 20th anniversary ceremony chaired by the Vice Chairman of Interim Government Mr. Sariev. In their speeches, the Vice Chairman and STS Chairman highlighted significant contribution made by international organizations and USAID Projects in particular, which supported tax administration development and improvement.
- EREC Project assisted the STS with writing and printing a series of tax leaflets for distribution among taxpayers. The issued leaflets include: a) 300 leaflets on excise tax calculation for excise tax payers; b) 300 leaflets on excise stamps use for excise product producers; c) 2,500 leaflets on tax sanctions for entrepreneurs and field tax officers.
- EREC Project designed and placed the property tax advertising banner on one of the popular Kyrgyz websites www.akipress.kg. The banner informs the public of the property tax due dates and refers to the property tax calculator designed by EREC.
- EREC Project published 1000 copies of the leaflet on VAT registration and deregistration procedures. The leaflets were distributed among the taxpayers throughout the country.
- EREC Project printed 150 copies of informative poster on taxpayer and tax officer actions in case of loss or theft of VAT invoices. The posters were placed in all tax offices throughout the country.
- EREC Project drafted a booklet on land tax and submitted it to the STS management for review. The booklet will be published in Russian and Kyrgyz languages and distributed in all regions.
- EREC Project participated in the workshop on USAID policy/requirements on press releases and public awareness campaign organized by USAID Project Management Specialist and Senior Congressional Affairs Officer, USAID/LPA. USAID is launching a Public Awareness Campaign to publicize USAID activities and their impact in Kyrgyzstan. A set of materials on EREC's achievements is currently being prepared for Project's participation in the forthcoming campaign.

2. Future activities & events

- Monitor Work Measurement System operation and its application in the pilot tax office.
- Coordinate with the Joint Council members and organize the second meeting of the Joint Council scheduled for mid-October.
- Publish a tax booklet on land tax and start writing a Citizen's Guide to KPTS operation.