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The Role of International Organizations in Improving The Vat Mechanism in The Republic of Uzbekistan

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Abstract: The article examines the role of international organizations - the International Monetary Fund (IMF), the World Bank (WB), the Organisation for Economic Co-operation and Development (OECD), and the World Trade Organization (WTO) - in improving the value-added tax (VAT) mechanism in the Republic of Uzbekistan. It demonstrates that the recommendations and projects of these institutions have significantly influenced the modernization of the tax system, including the digitalization of administration, improvement of VAT refund procedures, expansion of the tax base, and implementation of risk-based control. Based on an analysis of the chronology of Uzbekistan's interaction with international organizations, key trends and challenges have been identified, and priority areas for further reforms have been determined.

Keywords: VAT, tax policy, international organizations, IMF, World Bank, OECD, WTO, tax administration, VAT refund, tax reforms, Uzbekistan.

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1. Introduction

In the context of globalization and the integration of national economies into the global economy, improving the tax system, particularly the value-added tax (VAT) mechanism, is of special relevance. VAT is one of the most universal and stable sources of budget revenue, applied in more than 170 countries worldwide [1].

For the Republic of Uzbekistan, where the share of VAT in state budget formation has been around 20-25% in recent years, improving its effectiveness, transparency, and fairness is of paramount importance. At the same time, there is a trend towards a decrease in the proportion of VAT: while in 2016-2018 the indicator reached 30-36%, by 2024 it decreased to 21.6%. This is attributed to the reduction of the tax rate (from 20% to 12%), the expansion of tax benefits, as well as the increase in the share of direct taxes [2], [3].

International organizations - the International Monetary Fund (IMF), the World Bank (WB), the Organization for Economic Cooperation and Development (OECD), and the World Trade Organization (WTO) - play a significant role in developing methodological approaches, recommendations, and practical tools that contribute to reforming the VAT mechanism in Uzbekistan [4], [5].

The purpose of this article is to identify and analyze the contribution of international organizations to improving the VAT mechanism in the Republic of Uzbekistan, to determine the main directions for implementing international standards, and to assess the prospects for further development.

2. Materials and Methods

The methodological basis of the study comprised:

1. a comparative legal method that allowed for the analysis of the IMF, World Bank, OECD, and WTO approaches to VAT administration and their adaptation in Uzbekistan;
2. a historical-chronological method used to construct tables of Uzbekistan's interaction with international organizations in the tax sphere;
3. statistical analysis applied to assess the dynamics of tax burden, VAT refunds, and VAT gap;
4. a systematic approach that provided a comprehensive examination of VAT as a tool of fiscal and economic policy.

Literature review

International Monetary Fund (IMF): The fundamental work "The Modern VAT", as well as annual Article IV Consultation Reports, which analyze tax reforms in Uzbekistan and issues with VAT revenues.

World Bank: Public Expenditure Review reports (2020, 2022), materials from the Tax Administration Reform Project in Uzbekistan (P173001), publications on the VAT Revenue Ratio (VRR).

OECD: International VAT/GST Guidelines, Eurasian Tax Dialogue reports, recommendations on taxation of digital services.

WTO: working documents on Uzbekistan's accession, working group reports (2019-2024), recommendations for VAT refunds to exporters and elimination of hidden tax barriers.

National sources: Tax Code of the Republic of Uzbekistan (editions 2020, 2022, 2023), Decrees and Resolutions of the President of the Republic of Uzbekistan and Resolutions of the Cabinet of Ministers of the Republic of Uzbekistan, materials from the State Tax Committee.

3. Results and Discussion

Theoretical and methodological foundation

In global practice, VAT is considered a key indirect tax characterized by high stability and universality. It enables the formation of a significant portion of the budget while exerting minimal distorting influence on economic processes.

1. In its fundamental work "The Modern VAT" the IMF identifies four principles of successful VAT: broad tax coverage, minimization of exemptions, tax neutrality, and effective administration [6].
2. The World Bank has developed a VAT Revenue Ratio (VRR) indicator that allows for the evaluation of VAT efficiency.
3. The OECD, in its International VAT/GST Guidelines, emphasizes the digital economy, cross-border transactions, and the need to apply the "destination principle."
4. The WTO considers VAT in the context of export-import operations: tax refunds for exporters are a mandatory condition, see Figure 1.

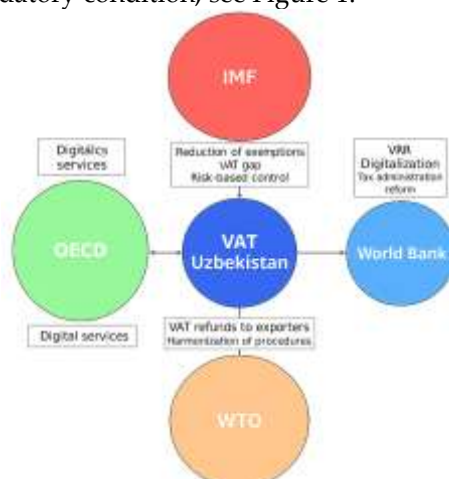


Figure 1. Uzbekistan's interaction with international organizations**The role of international organizations in improving VAT in Uzbekistan****1. International Monetary Fund (IMF)**

The International Monetary Fund plays a key role in shaping tax policy guidelines in Uzbekistan. Membership in the IMF since 1992 has provided the country with access to Article IV consultations, credit programs, and technical assistance. Gradually, the focus shifted from stabilization support to recommendations for improving tax administration efficiency and optimizing VAT [7]. In recent years, the IMF has consistently emphasized the need to reduce tax exemptions, broaden the tax base, strengthen digitalization, monitor the VAT gap, and implement risk-based control approaches, see Table 1.

Table 1. Timeline of Uzbekistan's interaction with the IMF in the field of tax policy (VAT)

Year	Event	Impact on VAT / tax policy
1992	Uzbekistan's accession to the IMF (September 21)	Beginning of participation in Article IV Consultations, first stabilization credit lines
1993-1996	Stand-by arrangements	Budget support in a transitional economy; indirect impact on the tax system, including VAT
2000s	Limited cooperation (Article IV)	The IMF noted the weakness of the tax base, including the low efficiency of VAT
2010s	Increased interaction after currency liberalization (2017)	The IMF supported the course of reforms, noting the need to modernize VAT
2020	Article IV Consultation	Tax Code reforms, digitalization and the role of VAT
2022-2023	Article IV Consultations	Reduction of tax burden and increase in VAT refunds
2024	IMF Mission	Weak VAT revenues recognized as a challenge
2025	Article IV Consultation	VAT refunds recognized as a budget risk; recommendations for reducing benefits and broadening the tax base

2. World Bank (WB)

Uzbekistan has been a member of the World Bank Group since September 21, 1992. The World Bank is Uzbekistan's long-standing partner in tax reform. Special attention is given to issues of tax administration, fiscal sustainability, and VAT efficiency. The World Bank actively uses the VAT Revenue Ratio (VRR) indicator to assess the country's tax potential [8], [9]. Since 2021, a Tax Administration Reform Project (P173001) has been implemented, which covers the introduction of electronic tools, integration with customs authorities, and reduction of the VAT compliance gap. These initiatives contribute to strengthening the tax base and align with the IMF's recommendations, see Table 2.

Table 2. Timeline of Uzbekistan's interaction with the World Bank in the field of tax policy (VAT)

Year	Event / project	Connection with VAT / tax policy
1992	Uzbekistan became a member of the World Bank (IBRD / IDA)	Beginning of cooperation, including tax reforms
2020	Public Expenditure Review (PER)	Analysis of tax policy and benefits, including VAT

2021	Tax Administration Reform Project (P173001)	Tax administration reform, key indicator - VAT gap
2022	Start of implementation of the P173001 project	Implementation of an electronic VAT administration system
2022	Public Expenditure Review (December)	Analysis of tax and fiscal sustainability
2023-2024	Implementation of the P173001 project	Measuring the VAT gap (~40.5%), implementing electronic invoices, and accelerating VAT refunds
2025	P173001 Project Objectives	Reducing the VAT gap to ~25%, implementing IT solutions

3. Organization for Economic Cooperation and Development (OECD)

Cooperation with the OECD is primarily methodological in nature and is related to Uzbekistan's participation in regional initiatives.

The OECD sets international standards for indirect taxes:

1. VAT Guidelines: destination principle, neutrality, combating double taxation;
2. Digital VAT Toolkit: registration of non-residents, platform models for VAT collection;
3. Tax Administration Series (2017-2024): benchmarks for refunds, VAT gap, digitalization;
4. Revenue Statistics Asia-Pacific (2021-2025): shows that the share of VAT in Uzbekistan's revenue is lower than in most countries in the region;
5. Compliance Risk Management: implementation of risk-based administration.

The OECD emphasizes the taxation of digital services, the "destination country" principle, and the harmonization of tax procedures in cross-border trade [10]. For Uzbekistan, this is particularly important given the growth of e-commerce and the development of services through digital platforms, see Table 3.

Table 3. Timeline of Uzbekistan's interaction with the OECD in the field of tax policy (VAT)

Year	Event / project	Impact on VAT / tax policy
2016	Joining the Tax Inspectors Without Borders initiative	Issues of indirect taxation and VAT administration
2019-2020	Participation in the OECD Dialogue on Tax Policy in Eurasia	Taxation of digital services was discussed
2021-2022	Consultations within the framework of the Eurasian Tax Dialogue	Recommendation of the "destination country" principle for digital services
2023-2024	OECD Reports on Countries in the Region	The Need to Harmonize Cross-Border Trade Rules and VAT Refunds

4. World Trade Organization (WTO)

WTO accession is a strategic goal for Uzbekistan, and VAT plays a key role here. Joining the WTO means:

1. adhering to national treatment in applying VAT to imported goods;
2. legitimacy of VAT refunds for exports, but inadmissibility of overcompensation;
3. unification of taxation rules to eliminate hidden subsidies;
4. the need for transparency and predictability in tax procedures, see Table .

Table 4. Timeline of Uzbekistan's Interaction with the WTO in the Field of Tax Policy (VAT)

Year	Event / Project	Impact on VAT / Tax Policy
1994	Application for WTO accession	Start of negotiations on bringing the VAT system in line with international standards
2005	Suspension of negotiations	

2017	Resumption of negotiations	Focus on transparency of tax procedures and VAT refunds to exporters
2019-2023	Working Group Meetings	Discussions on VAT refunds and elimination of tax barriers
2024	WTO Recommendations	The need to harmonize VAT refunds with international practice

For reference, Uzbekistan is currently in the final stage of the accession process. In December 2024, it was announced that Uzbekistan aims to complete the WTO accession process by 2026 - by the 14th Ministerial Conference.

Current State of the VAT Mechanism in Uzbekistan

In recent years, the Republic of Uzbekistan has implemented a comprehensive set of reforms aimed at modernizing the value-added tax system. These changes have become part of a broad tax reform and largely align with the recommendations of the IMF, World Bank, OECD, and WTO.

The main directions of the implemented reforms:

1. Reduction of the tax rate: from 20% (2019) to 15% (2020), and from 2023 - to 12%.
2. Implementation of a taxpayer rating system.
3. Introduction of electronic administration: since 2020, the electronic invoice system has been implemented [11], [12].
4. Improvement of VAT refund procedures: changes in 2020-2022, expedited refunds (2023-2024).
5. Risk-oriented control: launch of the "Xavfni tahlil qilish" (Risk Analysis) system from 2025.
6. Expansion of the taxpayer base.

Thus, the current state of the VAT mechanism in Uzbekistan is characterized by progress in digitalization, simplification of refund procedures, and expansion of the tax base. At the same time, challenges remain: a high level of tax benefits, delays in refunds, and low coverage of the B2C sector [13], [14].

Main challenges

Despite the implemented reforms (introduction of electronic invoices, simplification of refunds, launch of risk analysis), the following problems persist:

1. High VAT gap: around 30-35%, which is higher than the average for OECD countries.
2. Low VRR: below 0.5 (according to IMF estimates)
3. VAT refunds: delays continue [15].
4. B2C Digitalization: Currently, there is no full implementation in the retail segment.

4. Conclusion

Taking into account international experience, the following areas can be identified:

IMF:

1. limit the number of tax benefits, expand the tax base;
2. Implement regular VAT gap monitoring;
3. Publish KPIs for VAT refunds.

World Bank:

1. Integrate tax and customs databases;
2. Use VRR as a key indicator of VAT efficiency.

OECD:

1. Taxation of digital services based on the "destination country" principle;
2. Harmonization of cross-border trade rules.

WTO:

1. Ensure transparent and prompt VAT refunds to exporters;
2. Eliminate hidden barriers in tax procedures.
- 3.

Conclusion

International organizations have a significant influence on improving the VAT mechanism in Uzbekistan. The implementation of their recommendations will:

1. Improve the efficiency of tax administration,
2. Reduce the tax gap,
3. Expand the tax base,
4. Strengthen the trust of businesses and investors.

In the future, further cooperation with the IMF, the World Bank, the OECD, and the WTO will enable Uzbekistan to harmonize its VAT system with international standards, increase its fiscal sustainability, and stimulate the country's integration into the global economy.

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