Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 22-Jan-2019 | Report No: PIDISDSA24503
## BASIC INFORMATION

### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serbia</td>
<td>P163673</td>
<td>Serbia: Tax Administration Modernization Project</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Estimated Appraisal Date</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUROPE AND CENTRAL ASIA</td>
<td>23-Jan-2019</td>
<td>21-Mar-2019</td>
<td>Governance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financing Instrument</th>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Project Financing</td>
<td>Republic of Serbia</td>
<td>Serbian Tax Administration</td>
</tr>
</tbody>
</table>

**Proposed Development Objective(s)**

To improve effectiveness of tax collection and lower the compliance burden for taxpayers.

### Components

- Legal Environment
- STA Organization and Operations
- ICT System and Records Management Modernization
- Project Management and Change Management

## PROJECT FINANCING DATA (US$, Millions)

### SUMMARY

<table>
<thead>
<tr>
<th>Total Project Cost</th>
<th>52.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Financing</td>
<td>52.00</td>
</tr>
<tr>
<td>of which IBRD/IDA</td>
<td>52.00</td>
</tr>
<tr>
<td>Financing Gap</td>
<td>0.00</td>
</tr>
</tbody>
</table>

### DETAILS

#### World Bank Group Financing

| International Bank for Reconstruction and Development (IBRD) | 52.00 |

#### Environmental Assessment Category
B-Partial Assessment

Decision
The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. Following years of recession and slow growth, the Serbian economy expanded by 1.8 percent on average over the previous three years (2015-2017), while a stronger growth of 3.5 percent was estimated for 2018. Over the previous three years growth started to recover on the back of higher investment (average annual growth of 8.3 percent annually) and strong growth of exports (up 10.7 percent annually in real terms). Consumption recovered as well, but at a slower pace (at 1 percent annually in real terms). Growth of the industry and services sectors contributed most to the overall growth of the economy over the previous three years, while agriculture had a negative contribution to growth in 2015 and 2017. For 2018, growth was broad-based with all three major sectors growing faster than last year. As a result, the most recent estimate for growth in 2018 is at 3.5 percent, with the chance that the final estimate may be revised upwards. The medium-term growth projections depend crucially on deeper and timelier structural reforms and progress with EU accession.

2. The Government of Serbia (GoS) has implemented a successful fiscal adjustment but economic vulnerabilities remain. In 2014, the GoS adopted an ambitious fiscal consolidation and structural reform program supported by the International Monetary Fund (IMF). In the short term, the program focused on the control of aggregate wage and pension expenditures, improvements in tax administration and reductions in subsidies to SOEs. The implementation of these measures has led to the reduction of budget deficits in 2015-2016 and budget surplus of 1.2 percent of GDP in 2017, underpinned by strong revenue collection and lower than planned public spending ensuing among others from interest payment savings and under-execution of public investment. Revenues were up by 7.1 percent in nominal terms while spending rose only 1.3 percent in nominal terms. As a result of prudent fiscal policies, public debt continues to decline and stood at 61.3 percent of GDP (at end of October 2018), and is expected to continue declining during 2019, albeit at a slower pace. However, the country remains vulnerable to spillovers from regional developments and market volatility and thus ensuring fiscal sustainability and supporting private sector development, growth and formal employment are important for Serbia’s economic performance in the long term.

3. Over this same period, the prospects for accession to the European Union (EU) provided an impetus for a broad spectrum of reforms. In November 2007, Serbia initiated a Stabilization and Association Agreement (SAA) with the EU. In 2012, it was granted an EU candidate status. Since the formal start of the accession negotiations in 2014, progress has evolved largely following its predicted trajectory. As of December 2018, Serbia opened 16 out of 35 chapters of the EU’s acquis communautaire, of which two are provisionally closed.

Sectoral and Institutional Context

4. Sustaining increased tax revenue collection is a priority of the Government of Serbia. After decline in tax and social contribution collection between 2008 and 2013, tax collection has displayed year-
on-year growth reaching about 33-34 percent of GDP in last three years. The GoS has identified tax administration as a priority reform area in its Economic Reform Program for 2017-2019 and the Public Financial Management Reform Program for 2016-2020. Tax administration reform is also highlighted in the European Commission (EC) reports on Serbia’s progress with accession readiness. Tax administration reforms have been a priority agenda for the GoS since 2015, when the Tax Administration Transformation Program (TATP) 2015–2020 was formulated and adopted by the Serbia Tax Administration (STA). The TATP’s three strategic goals are: enhancement of the efficiency and effectiveness of core business processes and increase of tax collection; improvement in the quality of services and reduction of compliance costs; and establishment of modern infrastructure and work environment. The STA has established three management committees for day-to-day operations, transformation efforts and compliance management, to ensure that all key tax administration areas and reforms receive appropriate management. The STA has placed overall responsibility for implementation of the TATP with the Transformation Department.

Table 1. Serbia: Tax and Social Contribution Revenues in nominal values and as share of GDP, 2014-17

<table>
<thead>
<tr>
<th>Revenue source</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RSD billions</td>
<td>Percent GDP</td>
<td>RSD billions</td>
<td>Percent GDP</td>
</tr>
<tr>
<td>Total revenue</td>
<td>1,438</td>
<td>36.8</td>
<td>1,464</td>
<td>36.2</td>
</tr>
<tr>
<td>Profit tax</td>
<td>73</td>
<td>1.9</td>
<td>63</td>
<td>1.5</td>
</tr>
<tr>
<td>Personal income tax</td>
<td>146</td>
<td>3.7</td>
<td>147</td>
<td>3.6</td>
</tr>
<tr>
<td>Social security contributions</td>
<td>509</td>
<td>13</td>
<td>506</td>
<td>12.5</td>
</tr>
<tr>
<td>VAT</td>
<td>410</td>
<td>10.5</td>
<td>416</td>
<td>10.3</td>
</tr>
<tr>
<td>Excise</td>
<td>212</td>
<td>5.4</td>
<td>236</td>
<td>5.8</td>
</tr>
<tr>
<td>Taxes on international trade</td>
<td>31</td>
<td>0.8</td>
<td>33</td>
<td>0.8</td>
</tr>
<tr>
<td>Other taxes</td>
<td>57</td>
<td>1.5</td>
<td>63</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Source: Serbian Ministry of Finance

5. In recent years Serbia has made some reform advances in tax administration. There has been progress in reducing the time to comply with taxes. This decline was brought about by the introduction of on-line filing of declarations for a number of taxes and electronic tax payments as well as the reduction of the number of tax payments. Likewise, STA has made improvements in such areas as compliance management, collection enforcement and tax appeals. The National Assembly approved amendments to the Criminal Code to extend the investigation powers and competences of tax authorities to enable audit of unregistered businesses and strengthen functions of a tax police. The STA risk management unit has become operational, although not fully staffed yet, and implementation of a 2017 Tax Compliance Plan

---

1 However, this strong performance is largely due to measures to suppress the grey economy rather than long-lasting improvements in tax administration.
has yielded results. GoS has established and operationalized a second instance appeal unit at the Ministry of Finance (MoF) to enhance the effectiveness of the review of tax appeals, while maintaining an independent and substantive review function within the STA.

6. However, the TATP and incremental improvements were falling short of delivering fundamental change, and STA adopted an updated Transformation Program Action Plan (TPAP) for 2018-2023 aimed to refocus efforts on the comprehensive reform of the tax administration. According to the Action Plan, the Government intends to transform STA into a highly effective tax administration that “has a strong focus on the assessment and collection of core tax revenues,” supported by a small number of field offices administering core taxes, and “efficiently manages its other competencies under separate organization and management structure.” The Action Plan emphasizes the importance of putting in place a modern integrated ICT system supporting business processes that are aligned with international best practice and managing tax compliance based on risk assessment and with the use of third party information. TAMP will support the implementation of reforms envisaged in the STA’s Action Plan.

7. The World Bank has had an intensive engagement with the STA and the MoF throughout the project preparation process with the objective of facilitating an understanding of tax administration reforms through sharing international best practices and experiences. Taking advantage of the World Bank’s access to global knowledge, an experience-sharing workshop was organized where STA senior staff could exchange ideas with international experts and practitioners from the Netherlands, Bulgaria and Canada on the scope, political economy and pace of tax administration reforms. In addition, the IMF and the World Bank organized a workshop on information technology solutions for tax administration where STA senior management had an opportunity to engage with international experts in tax administration and tax administration ICT systems.

8. The GoS aims for a comprehensive tax administration reform supported through TAMP as Serbia’s tax administration system continues to face significant challenges. Key tax administration issues that hamper tax collection are a high compliance cost for taxpayers, inadequate effectiveness of enforced compliance efforts such as audits, and insufficient focus on facilitation of voluntary compliance and taxpayer service. Major reform efforts are needed to bring about significant improvements. The main areas include: the overall legal and policy environment in which the STA operates; outdated operational processes, human resource support systems and limited taxpayer services; and the need for modernization of an ICT system and tools, including records management. Implementing reforms in these areas is crucial for improving effectiveness in tax revenue collection and reducing compliance burden for taxpayers.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

9. To improve effectiveness of tax collection and lower the compliance burden for taxpayers.

Key Results

10. The following indicators are proposed to evaluate the development outcome of the project:

a. Improve effectiveness of tax collection:
i. VAT gap
ii. Additional net taxes assessed per audit

b. Lower the compliance burden for taxpayers:
   i. Time required to comply with taxes as reported in Doing Business
   ii. Taxpayer services: improvement in satisfaction with STA website and call center

D. Project Description

11. **TAMP is conceived as an institutional reform project focusing on core tax administration functions and comprising four components:** Legal Environment; STA Organization and Operations; ICT System and Records Management Modernization; and Project Management and Change Management. TAMP will finance technical assistance, training and capacity building, investments in ICT systems and data management. These components are aligned with the priority areas identified under the updated TPAP for 2018-2023 and the 2016 TADAT’s diagnostic of the key weaknesses in tax administration.

12. **Component 1: Legal Environment.** The component aims to address the range of constraints in the overall legal and tax administration policy environment in which STA operates, helping to: plug loopholes; align Serbian legislation with EU standards; support a comprehensive approach to risk-based management; and improve tax compliance. The component will finance advisory support to remove impediments in the legal environment to ensure effective functioning of the STA and will focus on tax laws and regulations and information governance and exchange. It will include: an analysis of the national legal framework on recognition of digital documents for judicial purposes and of the legal framework on document retention and records management; a review of the legal framework on information exchange between STA, other government agencies and third parties; and development of procedural framework for automatic exchange of information with EU Member States. The component will also finance a comprehensive review of the legal framework, including revisions to align the existing Serbian laws with EU standards; options to strengthen legislation and administrative practice to counter risks of profit shifting and base erosion for the Serbian tax base; and recommendations for closing loopholes in tax laws and bylaws and improving implementing regulations.

13. **Component 2: STA Organization and Operations.** The component will improve various functional areas identified as weak in the Serbia Tax Administration Diagnostic Assessment (TADAT): taxpayer registration; risk management; voluntary compliance; audit; tax dispute resolution; and the overall operational effectiveness. Given that measurable changes in these areas will take time, “quick wins” are planned which will deliver improvements that will be visible within the first two years of the project. The areas identified for quick wins include: improvement in the STA website and complete automation of tax clearance certificates. Improving the functionality and usability of the STA website will lead to boosting taxpayers' confidence in its informational content, optimizing the information resources and services available to taxpayers, enhancing user-friendly features of the website, and effectively promoting the reputation of the institution. At present, taxpayers spend significant time including multiple visits to a local tax office to obtain tax clearance certificates. Automating the process of issuance of tax clearance certificates and offering it as an online taxpayer service will lead to the reduction of transaction costs for taxpayers in obtaining these certificates.
14. **Sub-component one** will undertake reform of the Human Resource function resulting in streamlining the inefficient human resource support system, and development of the specifications for the enhancement of the existing HR Management Information System (HR-MIS) to evolve it into a fully functioning HRMIS. Sub-component two will support business process reengineering (BPR) that will allow for implementation of the institutional, legal, procedural and other changes in the tax administration to achieve significant efficiency improvements. The STA is undertaking a determination of how they will undertake BPR with the two options under consideration; this exercise is expected to be completed by end-June 2019. The project will accommodate either of the two solutions: (i) acquire a tax administration commercial-off-the-shelf (COTS) software package with minimal customization and adjust office procedures and required legal frameworks to meet the requirements of the software package or (ii) undertake BPR which will generate a gap analysis that the STA will address through an evolution to the “to be” operations supported by either an enhanced ICT system or a new tax administration ICT system (COTS) with minor customization. This sub-component includes assistance to help implement an effective tax compliance management system, deliver high-quality taxpayer services, bring down the compliance burden for taxpayers and estimation of the VAT tax gap. Sub-component three will support modernization of taxpayer services with a view to increasing understanding of revenue laws, procedures, as well as the rights and obligations of taxpayers and thus reduce the compliance burden in addition to providing comprehensive e-services for taxpayers.

15. **Component 3: ICT System and Records Management Modernization**: The component will improve and expand the services provided by the tax administration ICT system and address the STA’s significant records management challenges including dealing with the large backlog of taxpayer paper records. Sub-component one will either: (i) acquire a tax administration COTS software package that will be used to redesign field operations and required legal framework to meet its processing requirements or (ii) use results of the BPR from Component 2 to conduct a gap analysis of the STA’s current ICT system (IIS) to identify what modifications should be made to accommodate the new STA processes or alternatively what the specifications are for a new tax administration ICT system. Depending on the results of that analysis, the project will initiate procurement to either modify and augment the current system or acquire and customize a new “off-the-shelf” system. Additionally, the sub-component will also put in place an e-fiscalization system: acquire an e-cash register software product that will be used to address the “recording gap for cash transactions”, which has been successfully deployed in many other modern tax administrations. This will also include augmented risk analysis for these transactions and specialized training for audit. Third party data security audit will also be financed under this component. Sub-component two will support further development of the STA data warehouse by strengthening capacity of the STA staff to mine data effectively for risk assessment and other needs; include evaluation of needs for upgrade of the STA’s ICT infrastructure; and development of a taxpayer register enabling interface with other systems, e-registration for VAT and e-payments. Sub-component three will include developing solutions to build records management capacity, clear paper records backlogs, and provide systematic solutions for future records management through an information governance model. The sub-component will be led by a working group consisting of key stakeholders in the MoF, STA, and the National Archives.

16. **Component 4: Project Management and Change Management.** Modernization of the Serbian Tax Administration requires a mix of business process and performance improvements and ICT solutions. In addition to a Project Implementation Unit (PIU), clear, flexible and targeted interventions are needed to ensure that coordination, implementation and learning challenges are addressed in a timely manner. This component will provide cross-cutting support to activities in components 1-3 in three forms: establishment of a functional PIU; internal and external stakeholder communication; and change
management support to implementation teams. External stakeholders include citizens and government agencies as well as an Advisory Committee. Internal targets include STA’s PIU and its implementation teams. The component will finance: national and international consultants to support procurement, financial management, and technical implementation; international advisers on change management, project management and ICT project implementation; change management capacity building; and operating costs associated with the project implementation including the functioning of the Steering Committee and Advisory Committee.

E. Implementation

Institutional and Implementation Arrangements

17. **The Serbian Tax Administration will be responsible for the day-to-day management and implementation of the project.** Implementation arrangements are designed to ensure cross-departmental coordination internally within STA and externally with the MoF and other stakeholders covering high level policy and strategic direction, external coordination and accountability, project management functions, and the management of specific project activities. The project will support ongoing transformation of the STA and will require close coordination with other projects, both donor and state funded, in this area. The MoF will need to ensure strategic alignment of the project with other government priorities and initiatives.

18. **A Project Steering Committee will ensure alignment with strategic direction and inter-agency coordination, resolve implementation challenges and monitor the overall project implementation progress.** The Committee will comprise high level representatives of the key government stakeholders, including the MoF, STA (STA Director, Assistant Directors and Heads of Departments), representatives of the President’s Office and the Prime Minister’s Office. The Steering Committee will be chaired by the Minister of Finance and managed by the Secretariat led by the STA Director. Apart from these Committee members that will review progress and provide strategic guidance to the project team, the Project Steering Committee will have possibility to invite representatives from other governmental and non-governmental institutions (such as Customs, Ministry of Economy, Chamber of Commerce and others) and from development partners to contribute in the capacity of observers.

19. **The STA Director or Assistant Director will serve as a Project Coordinator.** The Project Coordinator will oversee work of the Project Implementation Unit which will be housed in the STA. The Project coordinator will serve as a focal point for the communication with the World Bank team on project related issues and will endorse progress reports to be submitted to the World Bank.

20. **The existing STA Management Committee which is led by the STA Director and contains the senior management team will, as with other STA coordinating activities, ensure that activities are coordinated across functions and are not implemented in a fragmented manner.** Working groups will carry out day-to-day implementation of project activities of each component and subcomponent with the support of the PIU. The working groups will develop the terms of reference (ToR), technical specifications, participate in evaluating the bids, and supervise the execution of consulting services in their respective areas. Four Working Groups will be established to ensure the day-to-day implementation of the respective components. Working groups may comprise officials of the respective STA department and regional officials concerned with the specific activities.
21. **The Project Coordinator will be supported by a Project Manager who will head PIU operations.** The PIU will assist STA with coordination of the implementation of project activities, contract management, monitoring and evaluation and reporting functions under the project. In addition to the Project Manager, the PIU will be staffed with an assistant who will be responsible for administrative and interpretation services. The PIU will also include two safeguards experts to support compliance with the World Bank safeguards requirements, as well as technical experts (change management adviser, project management adviser, ICT adviser and other experts) on a part-time basis. The Bank will provide additional training to ensure sufficient capacities to manage and implement the project, including change management and the World Bank safeguards requirements. The PIU will coordinate procurement, financial management and disbursement with Centralized Fiduciary Unit (CFU) within the Ministry of Finance. The CFU will carry out fiduciary functions (financial management and procurement) for the project. The MoF’s CFU was established in November 2017 and its key financial management and procurement personnel will perform these tasks. The Bank will provide additional training to ensure adequate capacities to comply with the new World Bank procurement framework. The project will be implemented based on a Project Operational Manual (POM) which will be adopted by the STA before the project approval by the World Bank Board. The POM will lay out the project’s overall operating, fiduciary and decision-making procedures and its results monitoring arrangements.

22. **An important element of Component 4 is the effective engagement of citizens, private sector and a wider stakeholder group through the establishment of the Advisory Committee.** This Committee will include Serbian business and individual taxpayers associations and other relevant civil society organizations and private sector stakeholders. The Advisory Committee will be convened as the need for consultation arises, but no less than twice per year. It will focus on both tax administration reform agenda as well as issues in tax administration more generally. During the meetings the STA will inform members of the Advisory Committee on the actions taken based on outcomes of the previous advisory committee meeting to ensure that taxpayers views are considered.

---

**F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)**

The project will be implemented by the Serbian Tax Administration. The STA has local offices in over 150 municipalities and several offices in Belgrade that serve as headquarters. Thus, the project will cover the whole country. This project will finance activities related to furnishing and installation of ICT equipment in the new STA headquarters building to be constructed by a state-owned enterprise (Construction Directorate) using the state budget. This building will be constructed on land owned by the state-owned enterprise (the Construction Directorate) for which the specific site is yet to be determined.

**G. Environmental and Social Safeguards Specialists on the Team**

Nikola Ille, Environmental Specialist
Harika Masud, Social Specialist
### SAFEGUARD POLICIES THAT MIGHT APPLY

<table>
<thead>
<tr>
<th>Safeguard Policies</th>
<th>Triggered?</th>
<th>Explanation (Optional)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment OP/BP 4.01</td>
<td>Yes</td>
<td>Civil works related to records management (archives) and storage facilities, and installation of ICT equipment will be undertaken in the STA headquarters and field tax offices throughout Serbia. It is not planned to expand the existing footprint of tax offices nor related buildings. Project activities related to new STA headquarters building, to be constructed by the state-owned enterprise (the Construction Directorate) using the state budget, will be limited to provision of furnishing and ICT equipment. The ESMF, including a generic EMP and sample Environmental Checklist, was prepared by the Borrower. It stipulates that site-specific EMPs and Environmental Checklist will be prepared during project implementation for each specific tax office, records storage or other building/facility where civil works are to be undertaken by the project, which will become part of the bidding documents and resulting civil works contracts.</td>
</tr>
<tr>
<td>Performance Standards for Private Sector Activities OP/BP 4.03</td>
<td>No</td>
<td>Not relevant to project activities.</td>
</tr>
<tr>
<td>Natural Habitats OP/BP 4.04</td>
<td>No</td>
<td>Location of tax offices are in municipal centers, in fully urbanized areas, with no impact on natural habitats.</td>
</tr>
<tr>
<td>Forests OP/BP 4.36</td>
<td>No</td>
<td>There will be no works in or near the forests.</td>
</tr>
<tr>
<td>Pest Management OP 4.09</td>
<td>No</td>
<td>Not relevant to project activities.</td>
</tr>
<tr>
<td>Physical Cultural Resources OP/BP 4.11</td>
<td>Yes</td>
<td>The list of tax offices to be included in the project is not finalized at this stage. There is no sufficient information on all tax offices with respect to office locations (i.e. if they are located in parts of buildings or in buildings that are on the list of protected cultural heritage). Where the offices are located in buildings that may enjoy the status of cultural heritage protected buildings, the project will obtain relevant permits from local conservator's offices and implement the</td>
</tr>
</tbody>
</table>
prescribed measures as a part of interventions to be undertaken. This will be confirmed during preparation of site-specific EMPs and Environmental Checklists.

<table>
<thead>
<tr>
<th>Indigenous Peoples OP/BP 4.10</th>
<th>No</th>
</tr>
</thead>
</table>
| This project will finance activities related to furnishing and installation of ICT equipment in the new STA headquarters building to be constructed by the Construction Directorate using the state budget. The construction of the STA headquarters building will be on land that is owned by the state-owned enterprise (the Construction Directorate).

The Construction Directorate will implement a redevelopment project within approximately 6.1ha of land, although the precise location of the new STA headquarters to be built within this 6.1ha site is unclear and yet to be determined. This construction of the STA headquarters will be led by the Construction Directorate (presumably through the procurement of civil works and supervision). Upon completion of construction, the new STA headquarters will be “handed over” to the Government of Serbia together with the ownership rights.

The timing of furnishing and installation of ICT equipment be financed by the project is also yet to be determined and could occur when the building is constructed or when it is transferred to the ownership of the Government of Serbia.

The information currently available is insufficient to confirm whether the STA headquarters to be built with state funding is an associated facility, because details about the construction of the STA headquarters (layout, location and design) are still under development. Due diligence to verify all three criteria that are required to trigger the associated facility clause of OP 4.12 is not yet available. At this stage, only one of the three criteria for triggering OP 4.12 can be verified, i.e. that the construction of the new STA headquarters is necessary to achieve the Project objective.
The remaining two criteria that need to be established include whether the activities associated with the construction and acquisition of the STA headquarters will:
a) be carried out, or are planned to be carried out, contemporaneously with the project;
b) whether they are necessary for the project to be viable and would not have been constructed, expanded or conducted if the project did not exist.

Therefore OP. 4.12 has been triggered as a precautionary measure in this case, and the client has been advised to develop a Resettlement Policy Framework while adopting a two tiered approach for due diligence. First tier due diligence will focus on determining whether the project’s activities meet all three criteria for triggering OP4.12. If it is established that the new STA headquarters is an associated facility, second tier due diligence will be undertaken to establish: i) the nature of the state-owned enterprise, and whether the transfer of the new STA headquarters to the Government of Serbia will be underpinned by a “willing buyer-seller” arrangement or legal acquisition, and related assessment whether any private assets/resources are affected (if so, then a Resettlement Action Plan (RAP) will be prepared and compensation has to be paid in accordance with OP 4.12); ii) whether the project’s activities will result in any other type of non OP 4.12 related adverse social impacts, which would then need to be addressed by the ESMF.

<table>
<thead>
<tr>
<th>Safety of Dams OP/BP 4.37</th>
<th>No</th>
<th>Not relevant to project activities.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projects on International Waterways OP/BP 7.50</td>
<td>No</td>
<td>Not relevant to project activities.</td>
</tr>
<tr>
<td>Projects in Disputed Areas OP/BP 7.60</td>
<td>No</td>
<td>Not relevant to project activities.</td>
</tr>
</tbody>
</table>

### KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

#### A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

   The Serbia Tax Administration’s operating model is complex and outdated, hampering modernization efforts that
would sustain robust tax revenue collection and reduce compliance burden for taxpayers. The STA’s Integrated Information System (IIS) supports daily operations in all tax offices across the country through a web-based locally developed software platform but it has significant limitations affecting its ability to offer modern taxpayer services and it does not cover all core tax administration functions. The STA faces serious problems in paper records management due to the fragmented structure of the STA field offices and lack of governance arrangements for information management. The project will support the implementation of an automated risk-based approach to maximizing revenue collection; promote modern open interaction with taxpayers; and a fair, taxpayer-friendly approach to addressing taxpayer grievances. The project design is focused on a set of transformational reforms: a comprehensive business process re-engineering of the STA operations; revisions to the legal and regulatory framework to support business processes aligned with international best practices and the overall legal environment in which the STA functions; and modernization of the tax administration ICT system.

The project will provide financing to either (i) acquire a tax administration COTS software package that will then require redesign of field operations and reform of regulatory framework to meet its processing requirements; or (ii) use results of the BPR to conduct a gap analysis of the STA’s current ICT system (IIS) to identify what system modifications should be made to accommodate the new STA processes. The project will also finance solutions to build records management capacity, clear paper records backlogs in tax offices, and provide systematic solutions for future records management through an information governance model.

Although most of the activities to be funded under the project are environmentally neutral, some of the project activities will include works within municipal tax office storage facilities, that could have potential negative environmental impacts and include risks related to OHS. Although currently not specified, there is a possiblity for the project to fund minor interior civil works related to installation of ICT equipment in municipal and/or regional tax offices. There are over 150 municipal tax offices, with tax records storage facilities, which are located mostly in the city centers and in all cases in urbanized areas.

The project will fund the activities related to furnishing and ICT equipment installation in the new STA headquarters building, which is to be constructed using the government budget and implemented by a state-owned enterprise (the Construction Directorate). Although the project will not fund activities related to civil works construction of the new STA headquarters building, due to the project-funded activities to be implemented within the building, it is considered associated infrastructure to the project.

The environmental risks and issues related to the project-funded activities are low and may include noise, dust, vibrations, material management, management of small quantities of construction waste during ICT equipment installation and related engineering activities, which could be successfully managed and mitigated by application of good engineering practice. Other risks, related to OHS, although not likely to be encountered on more than a few sites, may include hazardous material/waste, such as asbestos insulation or crude oil waste, rotten mold, fungus or wastewater, which will be dealt by licensed contractors.

The project related activities are not likely to cause any large scale, significant or irreversible impact.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area: In case of application of good engineering practice during the project implementation, there will be no negative impact.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts. None were considered. Application of the good engineering practice during the project implementation is also one of the requirements of the national legislation. There were no alternatives to modernization of STA and related services.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
The Borrower prepared an Environmental and Social Management Framework, as well as a Resettlement Policy Framework to address safeguards policy issues triggered by this project. The STA has no previous experience in implementing World Bank financed projects. The STA has experience in dealing with routine civil works and maintenance of their offices, but has neither experience, nor internal capacity to deal with the environmentally-related issues. In order to successfully implement and monitor the project related activities which may pose the environmental risks and manage their impacts, the STA will retain services of a part-time environmental expert and will include option to engage a part-time social specialist during the project implementation.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

Key stakeholders are the Ministry of Finance, Tax Administration, general population and businesses that will be using their services. Preparation of the ESMF followed the Bank policy on access to information and was subject to consultations in the country.

B. Disclosure Requirements

<table>
<thead>
<tr>
<th>Environmental Assessment/Audit/Management Plan/Other</th>
<th>Date of receipt by the Bank</th>
<th>Date of submission for disclosure</th>
<th>For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>26-Nov-2018</td>
<td>18-Jan-2019</td>
<td></td>
</tr>
</tbody>
</table>

"In country" Disclosure
Serbia
03-Dec-2018

Comments

Note: Draft ESMF approved for disclosure by the Bank on November 26, 2018. Public disclosure took place on December 3, 2018.

Resettlement Action Plan/Framework/Policy Process

<table>
<thead>
<tr>
<th>Date of receipt by the Bank</th>
<th>Date of submission for disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>21-Jan-2019</td>
<td>21-Jan-2019</td>
</tr>
</tbody>
</table>

"In country" Disclosure
Serbia
21-Jan-2019

Comments
C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

**OP/BP/GP 4.01 - Environment Assessment**

Does the project require a stand-alone EA (including EMP) report?
Yes

If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?
Yes

Are the cost and the accountabilities for the EMP incorporated in the credit/loan?
Yes

**OP/BP 4.11 - Physical Cultural Resources**

Does the EA include adequate measures related to cultural property?
Yes

Does the credit/loan incorporate mechanisms to mitigate the potential adverse impacts on cultural property?
Yes

**OP/BP 4.12 - Involuntary Resettlement**

Has a resettlement plan/abbreviated plan/policy framework/process framework (as appropriate) been prepared?
Yes

If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?
Yes

**The World Bank Policy on Disclosure of Information**

Have relevant safeguard policies documents been sent to the World Bank for disclosure?
Yes

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
Yes
All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
Yes

Have costs related to safeguard policy measures been included in the project cost?
Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

CONTACT POINT

World Bank
Nataliya Biletska
Senior Public Sector Specialist
Rajul Awasthi
Senior Public Sector Specialist

Borrower/Client/Recipient
Republic of Serbia

Implementing Agencies
Serbian Tax Administration
Rade Sevic
STA Assistant Director and Head of Transformation Department
rade.sevic@purs.gov.rs

Dragana Markovic
Director General
kabinet@purs.gov.rs