**BASIC INFORMATION**

### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Parent Project ID (if any)</th>
<th>Project Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serbia</td>
<td>P163673</td>
<td></td>
<td>Serbia: Tax Administration Modernization Project (P163673)</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>
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</thead>
<tbody>
<tr>
<td>EUROPE AND CENTRAL ASIA</td>
<td>Jan 21, 2019</td>
<td>Mar 21, 2019</td>
<td>Governance</td>
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</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>Serbian Tax Administration</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.

### PROJECT FINANCING DATA (US$, Millions)

#### SUMMARY

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Project Cost</strong></td>
<td>50.00</td>
</tr>
<tr>
<td><strong>Total Financing</strong></td>
<td>50.00</td>
</tr>
<tr>
<td>of which IBRD/IDA</td>
<td>50.00</td>
</tr>
<tr>
<td><strong>Financing Gap</strong></td>
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</table>

#### DETAILS

**World Bank Group Financing**

<table>
<thead>
<tr>
<th>Borrower(s)</th>
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</tr>
</thead>
<tbody>
<tr>
<td>International Bank for Reconstruction and Development (IBRD)</td>
<td></td>
</tr>
</tbody>
</table>

**Environmental Assessment Category**

B - Partial Assessment

**Concept Review Decision**

Track II-The review did authorize the preparation to continue
B. Introduction and Context

Country Context

1. Serbia was hit hard by the international economic crisis of 2008 which subsequently triggered three recessions. After an average annual growth of 5.9 percent during the decade before the 2008 global financial crisis, economic growth stalled, reversing some of the progress made in earlier years. Average real gross domestic product (GDP) growth dropped to close to zero, as the economy experienced three recessions from 2009 to 2014. Poverty peaked at 15.1 percent in 2010. Public debt doubled to 76 percent of GDP between 2009 and 2015. At the same time, the stock of public guarantees, mainly to state owned enterprises (SOEs), rose from below 3 percent of GDP in 2008 to 7.2 percent by the end of 2015. Subsidies, high levels of public sector employment, inefficient human resource management and weaknesses in public financial management contributed to Serbia’s fiscal challenges.

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 has 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 general government deficit to 3.7 percent of GDP in 2015 and 1.3 percent of GDP in 2016. In 2017, Serbian budget was in surplus of 1.2 percent of GDP. Economic performance has made a significant turnaround as GDP growth rebounded to estimated 2.8 and 1.9 percent in 2016 and 2017, respectively, and poverty rate declined to 11.1 percent in 2017, aided by employment growth albeit in a low paying informal sector. Nowadays, Serbia is an upper middle-income country with a gross national income (GNI) per capita\(^1\) of US$6,408 in 2018. 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.

Sectoral and Institutional Context


5. The Serbia Tax Administration (STA) is responsible for collecting all national taxes except for VAT and excises on imports and custom duties which are collected by the Serbia Customs. STA also administers a wide range of non-fiscal and para-fiscal laws. STA’s reforms are guided by the Tax Administration Transformation Program (TATP) 2015–2020 with three strategic goals: 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. 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

\(^1\) Total population is around 7 million (2018).
appropriate management. STA has placed overall responsibility for implementation of the TATP with the Transformation Department.

6. STA has made some progress in reforms. 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. STA’s risk management unit has become operational and implementation of a 2017 Tax Compliance Plan is under way. 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 STA. Several reform initiatives supported by the IMF technical assistance are ongoing which will help STA to consolidate its core activities into a smaller network of tax offices and transfer or separately manage its non-core activities. Reforms have contributed to improvements in tax revenue collection. After decline in tax and social contribution collection between 2008 and 2013, tax collection has displayed year-on-year growth reaching about 33 percent of GDP in last three years. However, this strong performance is largely due to measures to suppress the grey economy rather than long-lasting improvements in tax administration.

7. The 2016 Tax Administration Diagnostic Assessment (TADAT) carried out by the IMF reports significant weaknesses in Serbia’s tax administration: the lack of full automation of core business functions; unstructured approach to compliance and institutional risk management; limited accuracy of key data in the taxpayer registration database; insufficiently risk-focused audit; high stock of tax arrears; and outdated tax and business registration procedure laws. Serbia has large and growing tax arrears, 61 percent of total core tax revenue collection in 2015 compared to 47.9 percent in 2013. According to the 2017 Doing Business report, tax compliance costs have remained high: the number of tax payments at 33 are almost twice the ECA Region average and three times the OECD average; it takes 225.5 hours to complete tax requirements as compared with the ECA Region average of 221.5 hours and the OECD average of 163.4 hours. Annex 1 includes a graphic distribution of the TADAT assessment scores.

8. GoS has requested the World Bank’s assistance to support TATP implementation, focusing on concrete commitments such as enhancing the STA physical and ICT infrastructure, introducing risk management across all core tax administration functions, boosting tax audit and investigative capacity and improving taxpayer services.

Relationship to CPF

9. The proposed Tax Administration Modernization Project (TAMP) is aligned with the Country Partnership Framework (CPF) 2016-2020 which seeks to support Serbia in creating a competitive and inclusive economy and achieving the integration with the European Union. TAMP will support improvements in the first focus area of the CPF, economic governance and the role of state, by increasing efficiency and effectiveness of tax collection and by lowering compliance burden for taxpayers. Improvements in tax administration will be aligned with the EU acquis communautaire under the Chapter 16 on taxation and with the IMF technical assistance to the Serbian Tax Administration.

C. Proposed Development Objective(s)

10. The development objective of the project is to improve effectiveness of tax collection and lower the compliance burden for taxpayers in the Republic of Serbia.

11. The project contributes to the achievement of STA’s future vision: to become an organization characterized by paperless operations, a taxpayer-friendly administration providing world-class services, equipped with sharp, ICT-enabled risk-based enforcement allowing the STA to effectively use its limited resources to optimize revenue mobilization for the Republic of Serbia.
D. Concept Description

12. TAMP is conceived as an institutional reform project with four components: Legal Environment; STA Organization and Operations; ICT Tools and System Modernization; and Project Management and Change Management. TAMP will finance technical assistance, training and capacity building, investments in IT systems and data management and the refurbishment of STA offices. These components are aligned with the priority areas identified under the TATP and the 2016 TADAT’s diagnostic of the key weaknesses in tax administration. TAMP complements activities financed by other development partners, in particular IMF support for STA organizational restructuring and establishment of an institutional framework for risk analysis.

Component 1. Legal Environment

13. The STA faces a range of constraints in the overall legal and tax policy environment in which it operates. Legal reform needs are driven by the need to plug loopholes, strengthen revenue mobilization and align Serbian legislation with the acquis communautaire and EU standards. There is also a need to build capacity of the STA and MoF staff in several areas of tax policy analysis and development in order to support a comprehensive approach to risk-based management in tax administration and improve tax compliance.

14. Legal Environment Reform. The sub-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.

Component 2. STA Organization and Operations

15. STA’s organizational structure, operational processes and human resource support systems are inefficient and hinder improvements in revenue administration. They limit the STA’s ability to implement an effective tax compliance management, impact the quality of taxpayer services and result in excessive compliance burden for taxpayers. TAMP will support institutional, legal, procedural and other changes in the tax administration to achieve significant efficiency improvements.

16. Human Resource Environment and Capacity Building. Human resources and human resource management policies fall under the civil service structure which is highly prescriptive and inflexible, regulates staff location and transfers and mandates rigid adherence to job description contents. This has severely restrained the STA operational flexibility and is a major constraint to the STA responding to shifts in the way taxpayers are operating resulting in increased non-compliance with the tax acts. The project aims to support the STA reform program in this area.

17. Tax Operations. Complex and outdated core business processes inhibit STA from moving forward with modernization. The ongoing gradual implementation of the STA ICT system (Integrated Information System or IIS) has not been underpinned by redesign of operational functions and processes aligned with international best practices and supported by improvements in the physical infrastructure. As a result, the STA automation efforts have yielded limited efficiency gains and improvements in the quality of taxpayer services. The TADAT report and discussions with STA have highlighted priority areas requiring business process reengineering, including tax registration, tax returns processing and payment, enforcement and compliance, tax audit, role of tax police, administrative appeals processing. This component will support new streamlined business processes and increased operational efficiency and effectiveness of STA, better quality of services which will help reduce compliance costs for taxpayers.

18. Taxpayer Services and Compliance. STA has identified the improvement of taxpayer services as one of the key TATP priorities. STA seeks to create a taxpayer-friendly image by upgrading the physical infrastructure in branch office service centers and the quality of taxpayer services. STA wants to make it easier for taxpayers to obtain information from
STA and to focus on tailored taxpayer education programs and services to facilitate voluntary compliance. This sub-component 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 for taxpayers. Identification of staffing needs and profiles along with facilities and hardware to meet the demand for taxpayer services;

**Component 3. ICT Tools and System Modernization**

19. STA has made limited progress in implementing its home-grown Integrated Information System. The IIS supports daily operations in all tax offices across the country through a web-based locally developed software platform but, as noted earlier, it has not involved BPR and does not cover all tax functions. The web portal provides access to electronic services for taxpayers and their representatives with a digital signature since 2013 but e-filing is not available for all taxes and e-payment options are limited. The STA data warehouse capabilities (based on Oracle 12c) are in the process of being developed, with the first phase launched in 2016 for producing standard (predefined) reports, and supporting performance monitoring and web publishing. Some data exchange has been automated between the IIS and a few government agencies, including Treasury Administration, the National Bank of Serbia (NBS), the Business Registration Authority (BRA). Data exchange needs further development to expand access to other government agencies (notably Customs and Central Registry for Mandatory Social Insurance CROSO) and to ensure better access of STA to third party information (other government agencies, commercial banks and other key private sector institutions). The STA’s workflow management system offers limited functionality and has not reduced backlogs of paper documents in tax offices. The project will support ICT solutions and training to strengthen STA capacity for enforcement and compliance and enhance e-services for taxpayers.

20. **Records Management and Archiving.** STA faces serious problems in records management, with around 500,000,000 paper records and documents accumulated throughout the tax offices. STA needs to find solutions to clear this backlog of paper and to provide robust end-to-end electronic solutions for future records management and archives. In parallel with the required business process analysis, ICT systems and capacity should also be improved, both to support the transition to an integrated and cross-searchable system of records and to prevent the re-accumulation of paper. This sub-component will finance 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.

21. **Improving Information Systems.** This sub-component will use results of the BPR 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 ICT system. Depending on the results of that analysis, the project will initiate procurement to either modify/ augment the current system or acquire and localize a new “off-the-shelf” system.

22. **Data Warehouse and Automated Data Exchange.** The sub-component 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 (this could be a MoF-wide unit) and potentially providing opportunities to learn about the experiences of other institutions that implemented data warehouse.

**Component 4. Project Management and Change Management**

23. This component will support a Project Implementation Unit (PIU) within STA and change management activities. The PIU will carry out the day-to-day project management and help the STA to coordinate project activities. The change management activities will comprise: design and roll out of public communication campaigns and preparation of a paper- and web-based information strategy for dissemination and for internal communications to support the STA modernization and improvements in legal and tax policy environment in which STA operates.
SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The Project will, among other, undertake physical reconstruction and rehabilitation activities at various municipal tax offices which are located throughout Serbia. These will include small and limited civil works. The existing tax offices are located in variety of buildings, almost by the rule in the municipal centers, in urbanized areas. Currently, it is not envisioned that any works will be carried out to expand the footprint of existing buildings housing the tax offices. The Project Component associated with human resources management will support the introduction of the HRM IT system and streamlining of HR policy. Therefore, this Project activity is not associated with the risk of staff downsizing.

B. Borrower’s Institutional Capacity for Safeguard Policies

The Tax Administration has neither prior experience nor internal capacity to undertake, review and supervise environmental safeguards related works according to World Bank Operational Policies. During preparation, the team will assess measures to strengthen the capacity, including hiring of a part-time specialist to manage environmental safeguards related risks.

C. Environmental and Social Safeguards Specialists on the Team

Nikola Ille, Environmental Specialist
Harika Masud, Social Specialist

D. 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 will be undertaken in several tax offices throughout Serbia. It is not planned to expand the existing footprint of tax office related buildings. Complexity of works may vary from minor interior interventions related to electricity, doors and windows, to works on complete interior refurbishment and upgrade, including weather-proofing, moisture insulation, interior remodeling etc. An Environmental and Social Management Framework including a generic EMP and environmental checklist will be prepared. The draft ESMF will be prepared and disclosed in country according to the timeline agreed with the Tax Administration.</td>
</tr>
<tr>
<td>Performance Standards for Private Sector Activities OP/BP 4.03</td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>
### Natural Habitats OP/BP 4.04

**No**

Location of tax offices are in municipal centers, in fully urbanized areas, with no impact on national habitats.

### Forests OP/BP 4.36

**No**

No impact of the project-related activities on forests.

### Pest Management OP 4.09

**No**

Not relevant.

### Physical Cultural Resources OP/BP 4.11

**Yes**

There are no sufficient information on all tax offices in respect to use of offices, parts of the buildings or buildings that are on the list of protected cultural heritage. This will be confirmed during preparation of EA/EMF.

### Indigenous Peoples OP/BP 4.10

**No**

The Project may support civil works which will be undertaken in several dozens of tax offices throughout Serbia. The project does not plan to expand the existing footprint of tax office buildings. It is planned to carry out the refurbishing and IT equipment installation works within the existing buildings which are in the ownership of local municipalities or the state. Therefore, the civil works will not require acquisition of the privately owned land.

### Involuntary Resettlement OP/BP 4.12

**No**

Not relevant.

### Safety of Dams OP/BP 4.37

**No**

Not relevant to project activities.

### Projects on International Waterways OP/BP 7.50

**No**

Not relevant to project activities.

### Projects in Disputed Areas OP/BP 7.60

**No**

Not relevant to project.

### E. Safeguard Preparation Plan

**Tentative target date for preparing the Appraisal Stage PID/ISDS**

**Mar 15, 2018**

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

Development of an Environmental and Social Management Framework and generic EMP or Environmental Checklist will be undertaken during Project preparation.

### CONTACT POINT

**World Bank**

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Senior Public Sector Specialist
Borrower/Client/Recipient

Serbian Tax Administration

Implementing Agencies

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STA Assistant Director and Head of Transformation Department
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Dragana Markovic
Director General
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APPROVAL

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Approved By

Practice Manager/Manager: May Olalia
Country Director: Stephen N. Ndegwa

17-Jan-2019
18-Jan-2019