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Report No: PAD2857

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF EUR 45.3 MILLION
(US$52 MILLION EQUIVALENT)

TO THE

REPUBLIC OF SERBIA

FOR A

TAX ADMINISTRATION MODERNIZATION PROJECT

April 3, 2019

Governance Global Practice
Europe and Central Asia Region

This document is being made publicly available prior to Board consideration. This does not imply a presumed outcome. This document may be updated following Board consideration and the updated document will be made publicly available in accordance with the Bank's policy on Access to Information.

CURRENCY EQUIVALENTS

(Exchange Rate Effective January 31, 2019)

Currency Unit	=	Euros (EUR)
EUR 0.870	=	US$1
US$1.149	=	EUR 1

FISCAL YEAR

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

BPR	Business Process Reengineering
CFU	Central Fiduciary Unit
COTS	Commercial-off-the-Shelf
CROSO	Central Registry for Mandatory Social Insurance
DA	Designated Account
DPO	Development Policy Operation
EC	European Commission
EU	European Union
EMP	Environmental Management Plan
ESMF	Environmental Social Management Framework
GBV	Gender-based Violence
GDP	Gross Domestic Product
GIZ	German Agency for International Cooperation (*Deutsche Gesellschaft für Internationale Zusammenarbeit*)
GoS	Government of Serbia
GRS	Grievance Redress Service
HRM	Human Resource Management
HRMIS	Human Resources Management Information System
ICR	Implementation Completion and Results Report
ICT	Information and Communication Technology
IFR	Interim Financial Report
IIS	Integrated Information System
IMF	International Monetary Fund
ISR	Implementation Status and Results Report
LCP	Law on Criminal Procedure
LTO	Large Taxpayer Office
LTPTA	Law on Tax Procedure and Tax Administration
M&E	Monitoring and Evaluation
MoF	Ministry of Finance
NBS	National Bank of Serbia
NDC	Nationally Determined Contribution
NPV	Net Present Value
OECD	Organization for Economic Co-operation and Development
OHS	Occupational Health and Safety
PIU	Project Implementation Unit
POM	Project Operations Manual
RAP	Resettlement Action Plan
RPF	Resettlement Policy Framework
SOE	Statement of Expenditures
STA	Serbian Tax Administration
TA	Technical Assistance
TADAT	Tax Administration Diagnostic Assessment
TAMP	Tax Administration Modernization Project
TATP	Tax Administration Transformation Program
ToR	Terms of Reference
TPAP	Transformation Program Action Plan
TTL	Task Team Leader
VAT	Value Added Tax

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TABLE OF CONTENTS

DATASHEET ..... Error! Bookmark not defined.

I. STRATEGIC CONTEXT **6**

A. Country Context 6

B. Sectoral and Institutional Context 6

C. Relevance to Higher Level Objectives 12

II. PROJECT DESCRIPTION **13**

A. Project Development Objective 13

B. Project Components 14

C. Project Beneficiaries 17

D. Results Chain 18

E. Rationale for Bank Involvement and Role of Partners 19

F. Lessons Learned and Reflected in the Project Design 19

III. IMPLEMENTATION ARRANGEMENTS **20**

A. Institutional and Implementation Arrangements 20

B. Results Monitoring and Evaluation Arrangements 21

C. Sustainability 22

IV. PROJECT APPRAISAL SUMMARY **23**

A. Technical, Economic and Financial Analysis (if applicable) 23

B. Fiduciary 24

C. Safeguards 26

V. KEY RISKS **28**

VI. RESULTS FRAMEWORK AND MONITORING **30**

ANNEX 1: Implementation Arrangements and Support Plan **37**

ANNEX 2: Detailed Project Description **47**

DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Serbia	Tax Administration Modernization Project	
Project ID	**Financing Instrument**	**Environmental Assessment Category**
P163673	Investment Project Financing	B-Partial Assessment

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[ ] Fragile State(s)
[ ] Disbursement-linked Indicators (DLIs)	[ ] Small State(s)
[ ] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
24-Apr-2019	31-Oct-2024

Bank/IFC Collaboration

No

Proposed Development Objective(s)

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

Components

Component Name	Cost (US$, millions)

Legal Environment	0.81
STA Organization and Operations	8.20
ICT System and Records Management Modernization	40.67
Project Management and Change Management	2.32

Organizations

Borrower:	Republic of Serbia
Implementing Agency:	Serbian Tax Administration

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	52.00
Total Financing	52.00
of which IBRD/IDA	52.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	52.00

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2019	2020	2021	2022	2023	2024
Annual	0.00	4.74	15.88	12.01	15.61	3.76
Cumulative	0.00	4.74	20.62	32.63	48.24	52.00

INSTITUTIONAL DATA

Practice Area (Lead) **Contributing Practice Areas**

Governance

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?	
a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF	No
b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment	Yes
c. Include Indicators in results framework to monitor outcomes from actions identified in (b)	Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Low
8. Stakeholders	Low
9. Other	Low
10. Overall	Substantial

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	✓	
Performance Standards for Private Sector Activities OP/BP 4.03		✓
Natural Habitats OP/BP 4.04		✓
Forests OP/BP 4.36		✓
Pest Management OP 4.09		✓
Physical Cultural Resources OP/BP 4.11	✓	
Indigenous Peoples OP/BP 4.10		✓
Involuntary Resettlement OP/BP 4.12	✓	
Safety of Dams OP/BP 4.37		✓
Projects on International Waterways OP/BP 7.50		✓
Projects in Disputed Areas OP/BP 7.60		✓

Legal Covenants

Sections and Description

Schedule 2 of the Loan Agreement. Section I. Part A.2. Unless otherwise agreed with the Bank, not later than one (1) month after the Effective Date, the Borrower shall establish and thereafter maintain throughout Project implementation: (i) a Project Steering Committee; and (ii) an Advisory Committee; all with responsibilities, composition and functions as set forth in the Project Operations Manual.

Sections and Description

Schedule 2 of the Loan Agreement. Section I. Part A.3. Unless otherwise agreed with the Bank, not later than October 31, 2019, the Borrower, through STA, shall inform the Bank which technical modality has been selected for the carrying out of the modernization ofthe STA's tax administration ICT system.

Sections and Description

Schedule 2 of the Loan Agreement. Section 1. Part A.4. Unless otherwise agreed with the Bank, not later than November 30, 2019, the Borrower shall hire the following additional staff for the CFU: (i) a procurement Specialist; and (ii) a financial management specialist, all with terms of reference and qualifications acceptable to the Bank.

Sections and Description

Schedule 2 of the Loan Agreement. Section 1. Part C. Safeguards. Borrower, through STA, to ensure project implementation in accordance with the Project's Safeguard Instruments.

Sections and Description

Article 4.01 of the Loan Agreement. The Additional Event of Suspension consists of the following, namely that the Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed, or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project.

Conditions

Type	Description
Disbursement	Retroactive Financing. Schedule 2. Section III. Part B. No withdrawal shall be made for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed Euro 500,000 may be made for payments made on or after February 7, 2019 for Eligible Expenditures.

I. STRATEGIC CONTEXT

A. 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 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 in the 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 European Union (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 state owned enterprises. The implementation of these measures has led to the reduction of budget deficits in 2015–2016 and budget surplus of 1.2 percent of gross domestic product (GDP) in 2017, underpinned by strong revenue collection and lower-than-planned public spending ensuing among others from interest payment savings and underexecution of public investment. Revenues were up by 7.1 percent in nominal terms while spending rose by 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 the 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 prospect of accession to the EU provided an impetus for a broad spectrum of reforms.** In November 2007, Serbia initiated a Stabilization and Association Agreement with the EU. In 2012, it was granted 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 had opened 16 out of 35 chapters of the EU's *acquis communautaire,* of which two are provisionally closed. Among other steps, Serbia will need to enhance tax administration to align with the EU's *acquis communautaire* under Chapter 16 on taxation.

B. Sectoral and Institutional Context

4. **Sustaining increased tax revenue collection is a priority of the GoS.** After a 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 the last three years.[1] 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 GoS. 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 the establishment of modern infrastructure and work environment. The Serbian Tax Administration (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, 2014–2017

Revenue Source	2014		2015		2016		2017	
	RSD, billions	Percentage of GDP	RSD, billions	Percentage of GDP	RSD, billions	Percentage of GDP	RSD, billions	Percentage of GDP
Total revenue	**1,438**	**36.8**	**1,464**	**36.2**	**1,585**	**37.2**	**1,718**	**38.5**
Profit tax	73	1.9	63	1.5	80	1.9	112	2.5
Personal income tax	146	3.7	147	3.6	155	3.6	168	3.8
Social security contributions	509	13	506	12.5	527	12.4	567	12.7
Value added tax (VAT)	410	10.5	416	10.3	454	10.6	479	10.7
Excise	212	5.4	236	5.8	266	6.2	280	6.3
Taxes on international trade	31	0.8	33	0.8	36	0.9	40	0.9
Other taxes	57	1.5	63	1.6	67	1.6	72	1.6

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 online filing of declarations for taxes and electronic tax payments, as well as the reduction of the number of tax payments. Likewise, the 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 to strengthen the functions of the tax police. The STA risk management unit has become operational, although not fully staffed yet, and implementation of a 2017 Tax Compliance Plan has yielded results. The GoS has established and operationalized a second instance appeal unit at the

[1] However, this strong performance is largely due to measures to suppress the gray economy rather than long-lasting improvements in tax administration.

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 the GoS adopted a Transformation Program Action Plan (referred hereafter as TPAP or Action Plan) for 2018–2023 aimed to refocus efforts on comprehensive reform of the tax administration.** According to the Action Plan, the Government intends to transform the 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 information and communication technology (ICT) system supporting business processes that are aligned with international best practices and managing tax compliance based on risk assessment and with the use of third-party information. The Tax Administration Modernization Project (TAMP) will support the implementation of reforms envisaged in the Government'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 experience.** 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 ICT systems for tax administration.

8. **Serbia's tax administration system continues to face significant challenges.** Key tax administration issues that hamper tax collection are high compliance cost for taxpayers and inadequate effectiveness of enforced compliance efforts such as audits and taxpayer services. Major reform efforts are needed to bring about significant improvements. The main areas in need of reform 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 outdated ICT system and tools. Implementing reforms in these areas is crucial for improving effectiveness in tax revenue collection and reducing the compliance burden for taxpayers. Thus, the GoS aims for a comprehensive tax administration reform supported through the TAMP.

Legal Environment Challenges

9. **The STA faces a number of limitations in the overall legal and tax administration policy environment that hinder tax administration transformation and modernization.** These include loopholes and ambiguities in the existing laws and regulations, an inadequate legal framework for information governance and exchange and for document management and retention. As Serbia moves closer to EU accession, there is growing need to align its legal framework for tax administration. The Government has committed to harmonize Serbian legislation with the *acquis communautaire.* This requires plugging loopholes, strengthening revenue mobilization, and revising the legal framework according to EU standards. In addition, the STA lacks relevant tools to protect its corporate tax revenue base, including

the information required to counter base erosion and profit shifting and audit skills in complex tax issues, such as financial sector operations, hard-to-tax taxpayer groups, international tax evasion, and illicit financial flows. There is also a need to build capacity of STA staff in several areas of legal analysis in order to support a comprehensive approach to risk-based management in tax administration and improve tax compliance.

Tax Administration Organizational and Operational Challenges

10. **The STA's operating model and administrative support systems are outdated and hinder modernization efforts that would sustain robust tax revenue collection.** They limit the STA's ability to implement an effective tax compliance management and impact the quality of taxpayer services. The STA is responsible for collecting all national taxes as well as administering 15 non-fiscal and para-fiscal laws. The STA has experienced difficulties in gaining effective control of the main elements of the tax system because the STA's core and noncore functions are organizationally intermingled and widely dispersed. The STA noncore activities account for less than 5 percent of national revenues but consume over 40 percent of the STA's resources. The field organizational structure has been recently consolidated from 178 to 78 local tax offices including about 250 locations, which still results in fragmentation and a lack of uniform administrative practices. The IMF report[2] notes that the STA's mixed mandate and skewed resource deployment to low-value functions are a major obstacle to modernization. Separating core and noncore tax administration functions in two organizationally separate work streams within the STA and consolidating core functions in fewer locations has the potential for increasing the administration's efficiency and revenue collection.

11. **The human resource management (HRM) policy environment in which the STA operates falls short of supporting the needs of a modern tax administration.** Human resources and HRM policies fall under the civil service structure that is highly prescriptive and inflexible, regulates staff location and transfers, and mandates rigid adherence to job descriptions. This has severely restrained the STA's operational flexibility and is a major constraint to the STA responding to shifts in the way taxpayers are operating, resulting in increased noncompliance with the tax acts. The STA lacks skilled auditors and other specialized tax administration skills. A sizeable share of STA auditors (7–8 percent) will retire in the next three to seven years. The restrictive HRM framework and outdated work and job designs make it difficult to bring and nurture high-value skills in the STA. Deployment of auditors is not driven by operational needs. The Large Taxpayer Office (LTO) has just 18 field auditors for taxpayers contributing over 40 percent of revenues. The ratio of auditor to taxpayers significantly differs across field tax offices which leads to disparities in audit results. Legal certainty and consistent application of laws and regulations seems to be one of the main issues for the private sector. As stated by the 2017 Foreign Investors Council[3] White Book "the existing regulatory framework [in Serbia] governing tax procedure still does not provide sufficient protection to taxpayers against the discretionary decisions of tax authorities. More often than not, tax inspectors do not apply the substance over form principle in good faith. This fact regularly leads to highly unfavorable decisions for taxpayers, which are practically impossible to change."[4]

[2] IMF. 2017. "Serbia: Way Forward to Achieve Real Tax Administration Transformation."
[3] Foreign Investors Council is a nonprofit business association of foreign investors in Serbia and its members include over 120 companies.
[4] Foreign Investors Council White Book, 2017, page 205: http://www.fic.org.rs/sw4i/download/files/box/_id_11301/e-WB_2017.pdf.

12. **Ineffective tax administration operations also hamper the STA's efforts in tackling the Serbian informal economy, estimated at between 15.4 percent[5] (informal activities of registered businesses) to 30.1 percent[6] (informal activities of all businesses).** The 2016 Tax Administration Diagnostic Assessment (TADAT), carried out by the IMF, reports significant weaknesses in Serbia's tax administration, including inter alia 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. The taxpayer registration database does not record a taxpayer's filing and payment obligations for all core taxes. Key data fields in the taxpayer register are inaccurate, and the law does not empower the STA to correct the records. The STA's identification of tax compliance risks is mostly limited to internal data sources. There is no standardized and structured approach to risk analysis for the STA's core functions. Information matching for risk profiling of taxpayers largely continues to be manual due to a lack of automated access to third-party information. The STA does not have an institutional risk register nor a formal plan for continuity of operations in case of force majeure circumstances. Serbia has large and growing tax arrears, 61 percent of total core tax revenue collection in 2017 compared to 44.9 percent in 2014. While the STA has adequate collection enforcement powers, the lack of a fully automated ICT system, rapidly escalating interest charges, and restrictive write-off authority contribute to poor performance. A considerable share of the STA audits is focused on compliance with procedural obligations rather than being revenue audits. The selection of comprehensive audits remains partially decentralized. There is no systemic evaluation of the audit program on taxpayer compliance. The time taken to finalize tax appeals under the administrative review is much longer than international good practices. The ongoing gradual implementation of the STA ICT system (called Integrated Information System or IIS) has not been underpinned by the redesign of operational functions and processes aligned with international best practices.

13. **While the STA has improved some aspects of the interface with taxpayers, its predominantly outdated business processes continue to create an excessive compliance burden for taxpayers.** According to the 2018 Doing Business report, tax compliance costs have remained high: the number of tax payments at 33 are almost twice the Europe and Central Asia Region average and three times the Organization for Economic Co-operation and Development (OECD) average; it takes 225.5 hours to complete tax requirements as compared with the Europe and Central Asia Region average of 218.4 hours and the OECD average of 160.7 hours. There is considerable scope for further enhancing taxpayer services and increasing voluntary compliance in Serbia to catch up with regional benchmarks with respect to ease of paying taxes. Expanding the use of electronic services and reducing the need for face-to-face contact would lower transaction costs for taxpayers and improve transparency of STA operations. The STA has identified the improvement of taxpayer services as one of the key features of the TPAP. It intends to create a taxpayer-friendly image by improving the quality of taxpayer services by making it easier for taxpayers to obtain information from the STA and tailoring taxpayer education programs and services to facilitate voluntary compliance.

[5] Krstic, G., and B. Radulovic. 2017. "Grey Economy in Serbia."
[6] Krstic G., and F. Schneider. 2015. "Formalizing the Shadow Economy in Serbia, 2015."
FREN-USAID. 2013. "The Shadow Economy in Serbia."

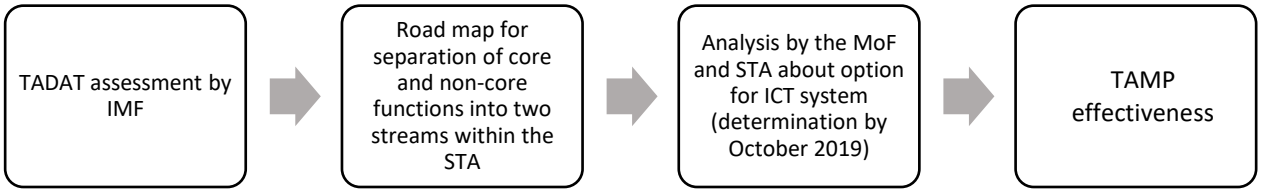
ICT System and Records Management Challenges

14. **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 the IIS has significant limitations further restricting the STA's ability to offer modern taxpayer services and apply risk-based tax compliance management.** As noted earlier, the IIS has not involved modernization of business processes and it does not cover all core tax administration 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 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), and the Business Registration Authority. Data exchange needs further development to expand access to other government agencies (notably Central Registry for Mandatory Social Insurance or CROSO) and to ensure better access of the STA to third-party information (other government agencies, commercial banks, and other key private sector institutions). The STA needs to build skills in effective mining of data from the data warehouse for risk assessment. In addition, the STA's workflow management system requires enhancement as it offers limited functionality and has not reduced backlogs of paper documents in tax offices.

15. **The STA faces serious problems in records management due to the fragmented structure of the STA field offices and lack of governance arrangements for information management.** According to STA estimates, nearly 500,000,000 paper records and documents have accumulated throughout tax offices, including all its branches. The existing retention schedule for taxpayer paper records significantly exceeds time frames prevailing in international good practices and thus results in an undue burden for the STA in maintaining such high volumes of paper records. The lack of uniform classification standards across field tax offices further inhibits effective records management and culling of taxpayer records that have passed their retention requirement. The STA needs to find solutions to clear the backlog of paper records and to provide robust end-to-end electronic solutions for future records management and archives.

16. **Recognizing the complexity of the challenges in tax administration and the need to accelerate reforms, the STA, with support from the MoF, has initiated preparation activities to facilitate rapid implementation of the TAMP.** These activities include: an analysis and development of a roadmap for separation of the STA's core and non-core functions; an analysis to determine how it will carry out business-process reengineering (BPR) and to determine an appropriate option for modernizing the tax administration ICT system of the STA; and hiring a Project Manager and Assistant to Project Manager. The sequencing of steps undertaken prior to project effectiveness is provided below. Decisions on the roadmap to implement the separation of core and non-core functions, and the determination of the option for the tax administration ICT system (between commercial-off-the-shelf (COTS) solution or enhancement of the existing system) are expected to be made by the MoF and STA by October 2019.

Figure 1. Reform Activities Prior to TAMP



Reform Coordination and Change Management Challenges

17. **STA senior officials are aware that the implementation of their updated TPAP 2018–2023 requires coordination among internal and external actors and may face resistance to change.** The implementation of the ambitious reform program envisaged in the TPAP depends on an effective reform team within the STA supported by mechanisms for efficient coordination across the STA's functions and with internal and external stakeholders. Moreover, this transformation process will require transforming operational culture and bureaucratic rules and practices—moving from a process-dominated to a service-oriented approach. International experience suggests that the resistance to change is usually part of such reforms as they involve changes in organizational functions, structures, and incentives in addition to the need to educate taxpayers in the use of new taxpayer services. The STA recognizes the need to strengthen its capacity for project coordination, change management, and citizen engagement. This project will support change management through training and capacity building and the placement of a change management consultant in the Project Implementation Unit (PIU) to assist the STA in its transformation.

C. Relevance to Higher Level Objectives

18. **The TAMP is aligned with the World Bank Group's Country Partnership Framework (CPF) for Serbia for FY2016–2020,[7] which seeks to support Serbia in creating a competitive and inclusive economy and achieving integration with EU.** The TAMP will primarily support improvements in the first focus area of the CPF, economic governance, and the role of state, by increasing effectiveness of tax collection and by lowering the compliance burden for taxpayers. Also, the project will contribute to improvements in the second CPF focus area, private sector development, and economic inclusion, and to the overall economic growth and jobs initiative. Improvements in tax administration will be aligned with the EU *acquis communautaire* under Chapter 16 on taxation.

19. **The TAMP is closely aligned with the World Bank Group's twin goals of shared prosperity and poverty reduction.** Implementation of the envisaged tax reforms will reduce the tax compliance burden for businesses and small businesses in particular. Improvements in transparency and accountability of the tax administration will contribute to improvements in the overall governance environment. TAMP will contribute to the goal of reduced poverty, including for the bottom 40 percent, by supporting the modernization of tax administration and thereby ensuring sustainable revenues to meet the social obligations of the state to the most vulnerable groups.

20. **The project contributes to the achievement of the STA's future vision** to become an organization characterized by paperless operations, a taxpayer-friendly administration providing world-class services,

[7] Report No. 94687-YF and discussed by the Board of Executive Directors in June 2015.

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.

21. **The TAMP complements broader World Bank engagement on public sector governance as well as on strengthening the private sector and enabling growth and job creation in Serbia**. Existing World Bank support includes a Program-for-Results on Modernization and Optimization of the Public Administration (P155172, closing in February 2020), a project on Enabling Digital Government (P164824, under preparation), and a range of trust-funded technical assistance. The latter includes efforts to strengthen public investment management, corporate financial reporting, and judicial sector improvements. Improvements in the business environment are furthermore supported through lending operations, such as Competitiveness and Jobs Project (P152104) and a new Public Sector Efficiency and Growth Development Policy Operation (DPO, P164575) which is at the early stages of preparation. As noted earlier, the GoS has identified tax reforms, including tax administration and policy, as a priority for the country. The TAMP will support comprehensive tax administration modernization and the new Public Sector Efficiency and Growth DPO will likely include tax policy reforms. Close coordination between these World Bank-financed operations will be ensured. Working on different aspects of the public sector and private sector interface, these programs, projects, and technical assistance activities are aimed at enabling stronger growth and at helping Serbia to develop a more efficient, effective and service-oriented public sector. The TAMP's contribution to this agenda includes improving the effectiveness of tax administration and lowering the compliance burden for business and individual taxpayers and thus facilitating growth and formal employment.

II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

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

PDO Level Indicators

23. 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

B. Project Components

24. **The 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 TPAP for 2018–2023 and the 2016 TADAT's diagnostic of the key weaknesses in tax administration. A detailed project description is provided in Annex 2.

25. **Component 1: Legal Environment.** The component aims to address the range of constraints in the overall legal and tax administration policy environment in which the STA operates, support a comprehensive approach to risk-based management and improve tax compliance. It is linked to Component 2, as it will support legal reforms needed to actualize business process reengineering. The component will contribute to the achievement of lowering the compliance burden for taxpayers by helping reduce time to comply with taxes.

26. The component will finance the provision of support to remove impediments in Serbia's legal framework to ensure effective functioning of the STA focusing on tax laws and regulations and information governance and exchange, including, among others, the following:

(a) The carrying out of an analysis of the national legal framework on (i) recognition of digital documents for judicial purposes; (ii) document retention and records management; and (iii) information exchange between STA, other government agencies, and third parties;

(b) The development of a procedural framework for automatic exchange of information with EU member states; and

(c) The review of Serbia's legal framework to (i) align the existing laws with EU standards; (ii) develop options to strengthen legislation and administrative practice to counter risks of profit shifting and base erosion for Serbia's tax base; and (iii) provide recommendations for closing loopholes in tax laws and bylaws and improving implementing regulations.

27. **Component 2: STA Organization and Operations.** This component will improve various functional areas identified as weak in the Serbia TADAT, including taxpayer registration, risk management, voluntary compliance, audit, tax dispute resolution, and 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. This component is at the heart of tax administration reforms. The activities in this component will support

several key results the project aims to achieve: reduction in the VAT gap, increase in net taxes assessed per audit, reduction in time to comply with taxes, improved taxpayer services, increase in on-time filing rates, decrease in tax arrears, and improvement in processing of tax appeals.

28. Subcomponent 2.1 will finance provision of support for: (a) the reform of STA's human resource function to streamline its inefficient human resource support system and (b) the development and implementation of specifications for the enhancement of the existing human resources management information system (HRMIS) to make it fully functioning, in line with international standards. Subcomponent 2.2 will include provision of support for: (a) carrying out the BPR to enable institutional, legal, and procedural improvements in the country's tax administration and (b) providing technical assistance for the implementation of an effective tax compliance management system, including the development of methodologies and strengthening the tax administration capacity in functional areas, including, among other things, tax return and payment processing, enforcement and compliance, tax audit, risk analysis, appeals process, internal control and audit, tax gap, and revenue estimation. These activities will help achieve significant efficiency gains and better quality of services, which will reduce compliance burden for taxpayers. The STA is determining how they will undertake the BPR with the two options under consideration; the decision is expected to be concluded by October 2019. TAMP will accommodate either of the two solutions under consideration: (a) acquire a tax administration COTS solution with minimal customization and adjust business processes and legal frameworks to align with the requirements of the software package or (b) undertake the BPR which will generate a gap analysis with regard to the current IIS, after which the STA will decide to either enhance the current ICT system to address the gaps or adopt a new ICT system (COTS) with minor customization. Subcomponent 2.3 will finance provision of support for the modernization of taxpayer services to increase the taxpayers' understanding of revenue laws and procedures, taxpayers' rights and obligations, including the provision of comprehensive e-services for taxpayers.

29. **Component 3: ICT System and Records Management Modernization.** The component will improve and expand the services provided by the ICT system and address the STA's significant records management challenges, including dealing with the large backlog of taxpayer paper records. The ICT system will form the backbone of the modern STA and will help achieve most of the key operational improvement indicators in the project. Records management will serve to put in place information governance and help achieve the indicator relating to the number of offices with duly cleared paper records.

30. Subcomponent 3.1 will finance modernization of the ICT system and infrastructure, including: (a) provision of support for the modernization of a tax administration ICT system; (b) implementation of an e-fiscalization system, including the acquisition of an e-cash register software product and carrying out of training to address the recording gap for cash transactions; (c) upgrade of the STA's ICT infrastructure and provision of other software; and (d) the carrying out of third-party data security audit. The modernization of the tax administration ICT system will involve either (a) acquiring a tax administration COTS software package that will be used to guide the redesign of business processes and required legal framework to meet its processing requirements or (b) using results of the BPR from Component 2 to conduct a gap analysis of the STA's current ICT system (IIS) to identify the modifications needed to accommodate the new STA processes or alternatively identify the specifications for a new tax administration ICT system to replace the IIS. Depending on the results of that analysis, the project will initiate procurement to either modify and augment the current STA's ICT system or acquire and customize a new tax administration

COTS software product. The upgrade of the STA's ICT infrastructure will involve putting ICT equipment in tax offices. The TAMP also plans to bring ICT equipment in a new STA headquarters building, which is planned to be constructed using the government budget. Subcomponent 3.2 will finance improvements of the STA's data warehouse: (a) provision of support for the development of STA's data warehouse, including the establishment of protocols for data exchange between the STA, other government bodies, and third parties; (b) strengthening of the capacity of STA staff to mine data effectively from the data warehouse for risk assessment and other needs; and (c) development of a taxpayer register enabling interface with other systems. Subcomponent 3.3 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 subcomponent will be led by a working group consisting of key stakeholders in the MoF, STA, and the National Archives.

31. **Component 4: Project Management and Change Management.** This component will finance the provision of cross-cutting support to activities in Components 1 to 3 of the project, including (a) the establishment of a PIU and strengthening of the Central Fiduciary Unit's (CFU) capacity, (b) the carrying out of internal and external stakeholder communication, and (c) the provision of change management support to implementation teams within the STA. External stakeholders include citizens and government agencies as well as an Advisory Committee. Internal targets include the 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; and operating costs associated with project implementation including the functioning of the Steering Committee and Advisory Committee.

32. **Climate co-benefits.** The project will generate climate co-benefits by moving the STA to on-line operations and away from keeping voluminous taxpayer records for prolonged periods of time and thus saving energy due to decreased printing and copying of documents by the STA. In addition, the project will significantly reduce the amount of paper used and the amount of physical storage required. Using the STA's data, the estimates indicate that shifting to on-line operations could reduce the STA's electricity bill by US$ 117,209 annually. Furthermore, it could reduce the STA's use of paper by 13.7 million pages (27,319 reams) per year. Based on estimates that each ream of paper requires 6 percent of a tree, 150 liters of water, and 28 kilowatt hours of energy to produce, the estimated reduction in the use of paper translates into savings of 1,639 trees, 4.1 million liters of water, and 764,932 kilowatt hours of energy annually. Thus, the TAMP is aligned with the GoS commitment to addressing climate change as part of its Nationally Determined Contribution (NDC) that includes energy efficiency. In particular, the GoS has committed to decrease its greenhouse gas emissions by 9.8 percent by 2030 compared to 1990 emissions.[8] Climate change is an integral part of the GoS agenda due to expected climate change impact in Serbia associated with more frequent droughts, extreme precipitation and extreme temperatures. The TAMP will make contribution to the climate change agenda by supporting the STA's move to on-line operations.

33. **Citizen engagement and gender.** Periodic taxpayer surveys that the project will finance will facilitate citizen engagement by enabling independent feedback from a wide range of taxpayer segments on the experience of taxpayer services, including the STA website and the call center, and the tax appeals

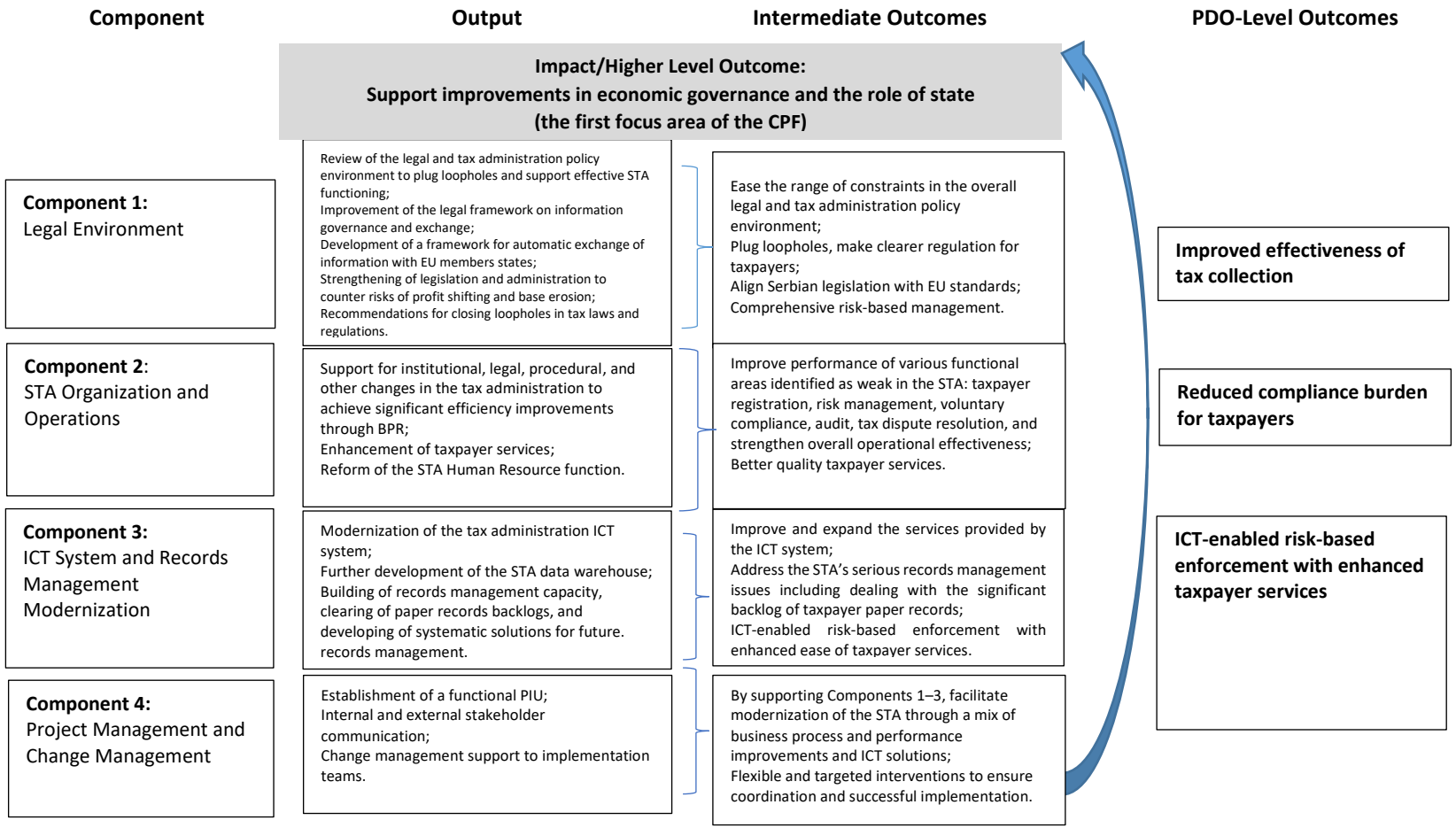
[8] Republic of Serbia: Nationally Determined Contribution, 2015:
https://www4.unfccc.int/sites/submissions/INDC/Published%20Documents/Serbia/1/Republic_of_Serbia.pdf

process. The results of the taxpayer surveys will also help inform the STA about potential adjustments to improve taxpayer services. In addition, the Advisory Committee, which will be established with the project's support, will focus on the tax administration reform agenda and include taxpayers' associations and private sector stakeholders. The taxpayer surveys will include taxpayer responses disaggregated by gender to allow the analysis of any potential differences in perception of tax administration issues depending on gender. If results of the taxpayer surveys identify any gender issues, the project will explore avenues to address those gender issues. In addition, the project will complement the ongoing work on gender equality led by the Office of the Deputy Prime Minister by financing training of tax officials in gender sensitization. Thus, the project is gender informed.

C. Project Beneficiaries

34. **The project's ultimate beneficiaries are the Serbian taxpayers and citizens.** Both the business community and individual taxpayers will benefit directly from lower tax compliance costs, improved taxpayer services, and improved business processes within the STA. Serbian businesses and citizens will also benefit indirectly through sustained revenue collection to finance social and infrastructure expenditure priorities. In terms of direct beneficiaries, the GoS will benefit from improved effectiveness of tax administration while the STA, in particular, will benefit from an improved working environment based on modernized businesses processes and working methodologies, extensive training, and learning from international best practices facilitated by the project.

D. Results Chain



E. Rationale for Bank Involvement and Role of Partners

35. **The World Bank has global knowledge and experience in implementing tax administration modernization reforms.** Transformational reforms in tax administration require not only significant investments in an ICT system but also in the modernization of business process and back-office functions to improve effectiveness and efficiency of tax administration operations, deliver high quality taxpayer services, and reduce the compliance burden for taxpayers. More importantly, World Bank experience with tax administration modernization projects has shown that successful implementation of transformation reforms in tax administration depends on extensive support to change management and project management. All these elements are essential part of the design of World Bank interventions supporting tax administration reforms. The World Bank successfully implemented tax administration modernization projects in Bulgaria, Colombia, Russian Federation, and other countries.

36. **The TAMP is aligned with technical assistance provided by the IMF and EC to support risk analysis and management in tax administration and with technical assistance provided by the German Agency for International Cooperation (*Deutsche Gesellschaft für Internationale Zusammenarbeit,* GIZ) in conducting periodic taxpayer surveys.** STA's core versus noncore activities are to be separated in line with Government priorities agreed with the IMF. The engagement of other development partners such as the EC, GIZ, and IMF will help strengthen the push for reforms and promote sustainability of project results. The EC, GIZ, and IMF have ongoing technical assistance and capacity development engagements; the IMF undertakes regular technical assistance missions on tax administration. The project preparation has been characterized by continuous coordination with the IMF, which will continue through implementation.

F. Lessons Learned and Reflected in the Project Design

37. **The design of the TAMP has considered several lessons learned from experience with previous tax administration modernization projects.** These include the following:

(a) Clear evidence of sustained political ownership and support for the reform plans by anchoring the project objectives, scope, and activities firmly in Government's reform plans. In this case, the project is aligned with the Government's TPAP.

(b) Engagement with key stakeholders, including private sector and taxpayers, in project preparation and monitoring to ensure the project meets its development objectives. An Advisory Committee consisting of these external stakeholders will focus on both the tax administration reform agenda as well as issues in tax administration generally. Taxpayer surveys will provide valuable feedback on the effectiveness and perception of the modernization activities.

(c) Starting with good diagnostics of the organizational structure, operations and functions of the tax administration, and using these diagnostics to inform project design. The project preparation has been informed by the TADAT report prepared by the IMF and several components and subcomponents have been influenced by the results of that diagnostic.

(d) Provision of change management consulting services to ensure that reform processes are more likely to lead to desired targets throughout the project cycle. Change management is viewed as critical to the success of this project. Apart from engaging with stakeholders during preparation for the establishment of a working group, the project will support the establishment of the Steering Committee and the Advisory Committee as well as interventions for improved coordination during project implementation.

(e) Assuring that the World Bank implementation support team includes locally based staff and personnel with substantial hands-on experience in managing national or enterprise-wide tax administration reforms, who can anticipate the potential risks and threats during implementation. In the case of this project, locally based staff and the experience and expertise of the Global Tax Team of the World Bank are taken on board.

(f) Alignment of World Bank investment and resources of other development partners. The project is aligned with the support provided by other development partners including the IMF. The World Bank team will ensure regular coordination, particularly during implementation support missions, with the IMF and all relevant development partners to ensure that there is a coherent and well-coordinated donor support for tax administration reform.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

38. **The STA 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 the 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.

39. **A Project Steering Committee will ensure alignment with strategic direction and interagency coordination.** It 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 who will provide strategic guidance to the project team, the Project Steering Committee will have the possibility to invite representatives from other governmental and nongovernmental institutions (such as Customs, Ministry of Economy, Chamber of Commerce, and others) and from development partners as observers.

40. **The STA Assistant Director will serve as the Project Coordinator.** The Project Coordinator will oversee work of the PIU 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 review and

endorse progress reports which will then be approved by the STA Director for submission to the World Bank.

41. **The existing STA Management Committee that is led by the STA Director and includes the MoF officials and the STA senior management team will ensure that activities are coordinated across functions and are not implemented in a fragmented manner.** The STA uses Task Teams (working groups) comprising relevant STA staff from functional departments and regional offices concerned with specific activities and managers to champion and manage initiatives. Existing Task Teams along with new teams, as required, will carry out the day-to-day implementation of project activities of each component and subcomponent with the support of the PIU. The Task Teams will develop the terms of references (ToRs) and technical specifications, participate in the evaluation of bids, and supervise the execution of consulting services in their respective areas. Four Task Teams will support the implementation of the respective project components.

42. **The Project Coordinator will be supported by a Project Manager who will head PIU operations**. The PIU will assist the STA in coordinating the implementation of project activities, contract management, monitoring and evaluation (M&E), 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 and technical experts (change management adviser, project management adviser, ICT adviser, and other experts) on a part-time basis. The World 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 the CFU within the MoF. 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 World Bank will provide additional training to ensure adequate capacities to comply with the World Bank's new Procurement Framework. The project will be implemented based on a Project Operations Manual (POM), which was adopted by the STA in February 2019. The POM lays out the project's overall operating, fiduciary, and decision-making procedures and its results monitoring arrangements.

43. **An Advisory Committee will be established and include Serbian stakeholders, such as business and individual taxpayers associations and other relevant civil society organizations and private sector stakeholders**. It will focus on both the tax administration reform agenda as well as issues in tax administration generally. The Advisory Committee will be convened as the need for consultation arises, but no less than twice per year. During the meetings, the STA will inform members of the Advisory Committee on the actions taken based on outcomes of the previous advisory panel meeting to validate that taxpayers' views are considered.

B. Results Monitoring and Evaluation Arrangements

44. **A Results Framework with project-specific indicators and actionable monitoring arrangements has been agreed with key counterparts.** This will support progress monitoring and result-oriented project implementation (Annex 1). The STA will develop a robust system for M&E of the target outcomes and outputs. The M&E system will support the successful implementation of the project by maintaining records on implementation and generating the following performance reports: project reports covering a

calendar semester are due one month after each calendar semester, focusing on results-based accountability and accomplishments against performance expectations. The surveys supported by the project to assess STA's performance and taxpayer services will provide gender-disaggregated data (in the case of individual taxpayers) and also monitor any gender differences in the feedback provided. Progress reports will be prepared by the PIU, endorsed by the Project Coordinator, approved by the STA Director, and forwarded to the World Bank and MoF before implementation support missions to guide the discussion of key issues affecting project implementation.

45. **The project will be subject to regular implementation support missions conducted by the World Bank.** The progress assessed during these missions will be reported by the World Bank team to its management through Implementation Status and Results Reports (ISRs), which will include a review of key implementation issues and performance indicators. In the third year of project implementation, a detailed midterm review will be conducted. Given the comprehensive nature of these reforms, there are many areas that the project will likely tackle but which cannot be predicted in advance. The Results Framework could be revisited and updated during the midterm review. At the completion of the project, an Implementation Completion and Results Report (ICR) will be prepared.

C. Sustainability

46. **The GoS, MoF, and STA are aligned in their support to modernize tax administration, strengthen capacity of the STA, and improve tax revenue collection.** The authorities have indicated the need for modernizing the STA and their support for the planned direction of the reform through the updated TPAP approved by the Government. The Parliament will approve the loan for this project. Finally, the MoF has clearly stated their view that a modern tax administration is a means to improve tax revenue collection and reduce costs for both the government and taxpayers.

47. **The STA has demonstrated a high level of commitment to tax administration reforms by undertaking reforms financed through their own budget.** The confirmation of the STA Director along with other senior staff has provided high-level commitment to reform. The introduction of e-filing facilities and increased outreach by taxpayer services are important steps on the path to modernization. In addition, recent staffing actions have increased the number of new staff in the audit and ICT areas. The ICT team is proceeding with stabilizing the existing ICT systems to increase the reliability of data and recent audit plans recognize the need to incorporate modern techniques into their operations.

48. **The STA has also showed commitment to this project by actively participating in its preparation.** Project preparation missions benefited significantly from informative discussions with STA management. Top management of the STA has provided active support in establishing the Working Group for Tax Administration Reform and has been engaged in all aspects of project preparation. Other STA managers have also been actively engaged in discussions on project design and demonstrated deep understanding of the need for the planned reforms. The STA and the World Bank team have made sure that the project design is responsive to advice received from key donors including the IMF. All of these are strong indications of the STA's commitment to achieving sustainable project impact.

49. **Change management strategies and implementation arrangements supported by the project are expected to deepen ownership of the reforms within and across institutions.** Change management approaches including communications, consultations, and stakeholder workshops seek to build

commitment of all staff involved in the change process. Implementation arrangements envisaged by the project include participation from all stakeholders, including key government institutions responsible for overseeing tax administration, associations of taxpayers and other relevant civil society organizations and private sector stakeholders, further deepening ownership of reforms being undertaken by the project.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis (if applicable)

50. **Technical.** The STA's operating model is complex and outdated, hampering modernization efforts that would sustain robust tax revenue collection and reduce compliance burden for taxpayers. The project will support the implementation of an automated risk-based approach to maximizing tax revenue collection; promote modern open interaction with taxpayers; and promote a fair, taxpayer-friendly approach to addressing taxpayer grievances. While the burden of compliance for compliant taxpayers is expected to drop significantly, the compliance costs of tax evaders are likely to increase significantly. The project will provide the STA with tools and training to better focus on noncompliant taxpayers, including businesses that avoid paying taxes.

51. The project design has drawn on World Bank global experience in supporting modernization of tax administrations and is focused on a set of transformational reforms: a comprehensive BPR 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 ICT system.

52. The project will provide financing to either (a) acquire a tax administration COTS software package that will be used to guide the redesign of business processes and the required legal framework to meet its processing requirements or (b) use results of the BPR from Component 2 to conduct a gap analysis of the STA's current ICT system (IIS) to identify the modifications required to accommodate the new STA processes or alternatively identify the specifications for a new tax administration ICT system to replace the IIS. The project will also finance solutions to build records management capacity, clear paper records backlogs, and provide systematic solutions for future records management through an information governance model. It will also first seek to improve the legal and policy environment as it relates to records management and develop a strategic plan for tackling legacy records and then plan for fully electronic records management in the medium term.

53. The project encompasses a complex set of activities that cover the critical aspects of the STA operations. Managing these activities will be a substantial challenge for the STA's management. It will be important to pay close attention to the sequencing and interdependencies of project activities to support achievement of the expected project outcomes. The project incorporates a significant project management component to manage this responsibility, including technical and change management support and capacity building.

54. **Economic and financial analysis.** An economic analysis of the project provides a quantitative assessment of direct benefits and costs associated with changes in economic welfare arising from it. The project will generate significant economic benefits to both taxpayers and the government. Taxpayers will

benefit from the modernization and simplification of business processes and streamlined compliance procedures, which will reduce compliance costs for individuals and businesses. This will result from the simplification of filing and additional options for payment of taxes and social contributions, reduced number of tax inspections, and less time dealing with tax officials. Taxpayers will also benefit from improved taxpayer services and access to better information from the STA. Honest taxpayers will benefit directly due to more accurate and comprehensive information in the STA enabled by the upgraded tax administration ICT system, from avoiding unnecessary contact with the administration because of risk-based auditing activities, and from taxpayer-friendly tax offices with modern facilities. Economic benefits will also involve STA efficiency gains as a result of business process optimization and modernization of the tax administration ICT system. The STA will rely on the improved tax information from third parties, including government agencies and key institutions in the private sector, to use a comprehensive risk-based approach in compliance management. The STA will also benefit from more efficient, paperless operations that will prevent the accumulation of document backlogs in the future. The economic analysis considers direct costs, such as the project investment, STA staff time devoted to project implementation, and the operation and maintenance costs of the modernized tax administration ICT system. The estimated economic net present value (NPV) is US$ 132.6 million and economic rate of return is 175.7 percent.

55. From the financial point of view, the project will generate benefits in the form of improved tax collection in addition to the STA efficiency gains. Improved tax collection is measured as reduced tax arrears due to better arrears management and increased VAT collection resulting from the implementation of e-fiscalization. Financial costs are the same as economic costs. Financial analysis estimates NPV of US$146.5 million and an internal rate of return of 64.1 percent.

B. Fiduciary

(i) Financial Management

56. **The project will follow traditional financial management arrangements.** CFU within the MoF will be in charge of fiduciary responsibilities for the project, while the PIU within the STA will be responsible for technical and operational aspects of project implementation. The POM will detail implementation arrangements, including the division of responsibilities between the STA and the CFU. The CFU will provide procurement and financial management support and service to the STA, the primary implementing entity.

57. **The Borrower will provide annual audited project financial statements to the World Bank within six months of the end of each financial year and also at the closing of the project.** The audit will be conducted by a private audit firm acceptable to the World Bank and in line with agreed ToRs. The ToRs were agreed between the GoS and the World Bank and attached to the minutes of negotiations and the POM.

58. **The Borrower will submit a full set of unaudited interim financial reports (IFRs) consolidated for all components for each calendar quarter throughout the life of the project, which will be due 45 days after the end of each quarter.** The format of the IFRs was agreed between the GoS and the World Bank and attached to the minutes of negotiations and the POM. Acceptable accounting software will be used for project accounting and reporting, including quarterly IFRs and annual project financial statements.

59. **Internal controls and procedures to be used by the project are described in the POM.** From a financial management aspect, the POM should detail procedures and processes about planning and budgeting, accounting, financial reporting, internal controls, flow of funds, and external audit for the project. It should also describe roles and responsibilities and communication channels and modes between the STA and the CFU. This will minimize risk of an error, safeguard project assets, and ensure the use of funds for intended purposes. Application of the controls and procedures will be verified by the World Bank's supervision.

60. **The Designated Account (DA) in foreign currency for administering the project funds will be opened in the NBS and will be managed by the STA, while the CFU will process payments within the scope of their fiduciary role.** The control environment in the NBS is considered to be acceptable. SOE-based disbursement will be applied, with advances being the primary disbursement method, but direct payments and reimbursement are also allowed.

61. **Specified project preparation activities that the STA will undertake will be subject to retroactive financing.** These activities are hiring (a) PIU staff that is housed in the STA including a Project Manager and an Assistant to Project Manager, (b) consulting services to conduct an analysis of records management and archiving; (c) consulting services for an analysis of e-fiscalization options. Retroactive financing of up to EUR 500,000 for eligible expenditures incurred on or after February 7, 2019 will be provided under the Project.

(ii) Procurement

62. **Procurement under the project will be subject to the World Bank's Procurement Framework.** All procurement will be conducted through the procedures specified in the World Bank's Procurement Regulations for IPF Borrowers - Procurement in Investment Project Financing Goods, Works, Non-Consulting and Consulting Services, July 2016 (revised November 2017 and August 2018) (Procurement Regulations). The project will also be subject to the World Bank's Anti-Corruption Guidelines, dated July 1, 2016.

63. **The project will utilize the services of the CFU within the MoF for procurement and financial management and will be complemented by technical staff in the STA, who will assist in the technical aspects of project implementation.** The STA will be overseeing and executing all project activities. The project implementation by the STA will rely on the PIU as well as additional consultants that will be recruited under the components of the project. The implementation arrangements will place an emphasis on strengthening the STA's capacity to oversee the TAMP and other aspects of the Government's strategy.

64. **Currently, the CFU is responsible for financial management and procurement for two investment projects.** These include the Inclusive Early Childhood Education and Care Project, State Owned Financial Institutions Reform Project, and a donor-funded project: Serbia Technical Assistance for Reform of Corporate Financial Reporting. Meanwhile, there are three projects under preparation which are planned to be supported by the CFU: the TAMP, the Western Balkans Trade and Transport Facilitation Project, and the Enabling Digital Governance Project. This situation warrants selection of additional staff, such as a procurement specialist and a financial management specialist. Selection of additional CFU staff should be done soon after project effectiveness to avoid bottlenecks during project implementation. Due to this capacity constraint at the CFU, the limited experience and exposure of the STA in implementing

World Bank-financed projects, and the potential coordination challenges between the CFU and the STA, the procurement risk rating is 'Substantial'.

C. Safeguards

(i) Environmental Safeguards

65. **The project is rated environmental category B according to Operational Policy OP/BP 4.01.** 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 occupational health and safety (OHS). Although currently not specified, there is a possibility 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. No works will be undertaken in nature protected areas. Where the offices are in buildings that may enjoy the status of cultural heritage protected buildings, the project will obtain relevant permits from the local conservator's office and implement the prescribed measures as a part of the interventions to be undertaken.

66. **The project plans to fund ICT equipment and its installation in the new STA headquarters building, which is planned to be constructed using the government budget.** Although the project will not fund activities related to civil works construction of the new STA headquarters building, due to the project activities to be implemented within the building, it is considered associated infrastructure to the project. No category A type subprojects nor category A type activities will be implemented within the project.

67. **The environmental risks and issues related to the project-funded activities are low.** They 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 practices. 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 with by licensed contractors. Specific issues that will also be taken care of relate to management of the sites (as the municipal buildings and tax offices need to continue operating during the works execution) and general health and safety of population that uses these buildings/offices.

68. **The STA has no experience in implementing World Bank-funded 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 environmental issues. To successfully implement and monitor project activities which pose environmental risks and manage their impacts, the STA will, during project implementation, engage a part-time on-call environmental expert, whose duties will include among others the following: (a) completion of Environmental Checklists and preparation of generic and site-specific Environmental Management Plans (EMPs) as relevant; (b) incorporation of final EMPs, after the World Bank's approval, into respective tender documents; (c) monitoring and reporting on compliance with site-specific EMPs; and (d) semiannual reporting on compliance with EMPs and the Environmental and Social Management Framework (ESMF) to the World Bank.

69. **The ESMF, including a generic EMP and sample Environmental Checklist, was prepared by the Borrower.** It stipulates that site-specific EMPs and Environmental Checklists will be prepared during project implementation for each specific facility where civil works are to be undertaken by the project and will become part of the bidding documents and resulting civil works contracts. It was consulted with relevant stakeholders, including potential beneficiary institutions, municipalities, municipal infrastructure companies, regional culture, and nature protection institutes as well as the general public. The ESMF was disclosed and public consultations took place on December 12, 2018.

(ii) Social Safeguards

70. **In addition to the environmental aspects, due diligence on social aspects will be conducted during implementation.** The project plans to furnish and install ICT equipment in the new STA headquarters which is planned to be built by, and on the land that belongs to, the Construction Directorate (a state-owned enterprise), using the state budget. The Construction Directorate plans to build the STA headquarters as part of the Government's program to redevelop about 6.1 ha area inside Belgrade. While the conceptual plan of this redevelopment program has been developed and its implementation started where designs are ready, where the STA's new headquarters building will be built in this 6.1 ha area and whether or not it may affect any preexisting informal land use, and if the new STA's headquarters building may actually be built elsewhere, potentially affecting private lands, can only be determined during implementation. Also, the exact terms of asset transfer from the Construction Directorate to the STA have not been defined yet. OP 4.12 is triggered and a Resettlement Policy Framework (RPF) was prepared by the Borrower to guide the due diligence to be conducted during implementation in case resettlement would be required. The RPF was disclosed and public consultations took place on January 25, 2019. When sufficient details are available about the planned construction of the new STA headquarters building, the scope and scale of impact will be assessed and it will be determined whether a Resettlement Action Plan (RAP) will need to be developed to mitigate the impact in line with OP 4.12. The STA will engage a part-time on call social expert who will carry out the due diligence mentioned earlier, assist with monitoring and compliance with site-specific EMPs concerning social issues, and assist the STA in overall social risk management including the monitoring and addressing of grievances.

71. **Findings of the gender-based violence (GBV) risk assessment for the project interventions indicate that the GBV risk associated with the project interventions is low.** Still, to ensure adequate due diligence in identifying and addressing GBV-related risks, the project will outline expectations in the bid documents, including provisions on the suitable Code of Conduct.

(iii) Other Safeguards

72. **Operational Policy on Physical Cultural Resources (OP/BP 4.11) is triggered.** It is currently not known, but it is expected that few buildings may be under a cultural heritage protection regime. For these structures, an opinion or permit will be obtained from the responsible institutions and respective measures will be included in site-specific EMPs.

(iv) Grievance Redress Mechanisms

73. **Communities and individuals who believe that they are adversely affected by a World Bank supported project may submit complaints to existing project-level grievance redress mechanisms or the**

World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB noncompliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

V. KEY RISKS

74. **The overall risk rating for the proposed project is Substantial.** This is due to political and governance, technical, institutional capacity, and fiduciary risks.

75. **Political and governance.** Despite the political stability and continuity over the last few years following the 2016 and 2017 elections, there were changes at the level of ministers and other decision makers that affected public policy decisions. Potential changes in the Government may result in shifts in priorities and affect decision-making processes and thus there remains a risk to implementation of the planned tax administration reforms. The political and governance risk is therefore Substantial. Although the project design tries to minimize this risk as much as possible, it is important to note that this remains despite these measures. Close coordination with the IMF and other development partners during the TAMP implementation will help mitigate this risk. A new 30-month macroeconomic and structural reform program supported by the IMF's nonfinancial Policy Coordination Instrument was approved in July 2018 and will ensure commitment to the reform program supported by the TAMP.

76. **Technical.** The technical risks are related to the modernization of the STA's IIS which requires significant technical capacity for defining business process requirements for upgrading or replacing it as well as implementing the new business process requirements. As noted earlier, the STA has implemented a homegrown system with limited business process redesign. Modernization of the STA's business processes and the tax administration ICT system will be a complex undertaking. The STA has been carrying out the project preparation activities to address and mitigate these technical risks. Using their own resources, the STA has engaged international technical expertise to conduct an analysis to determine an option for the upgrade of the tax ICT system and to define business process requirements for the revised or new tax ICT system. The STA will also involve external technical expertise to prepare an analysis on records management and develop a road map for improving STA's records management and clearing the backlog of taxpayer paper records as well as an analysis of e-fiscalization options that are to be supported by the project under retroactive financing.

77. **Institutional capacity.** The risks related to institutional capacity include STA's technical and managerial staff capacity to support implementation of a comprehensive tax reform and organizational culture within the STA. Senior management within the MoF and STA share a view that tax administration in Serbia faces formidable challenges, including inadequate progress in modernizing tax administration business processes and implementing a tax administration ICT system, aging STA staff who lack skills in

dealing with increasingly complex business transactions and the need to tackle the informal economy. The STA has recently established their Transformation Department whose capacity in project and change management is limited. Therefore, the STA requires a strong PIU which will support the project implementation. Component 4 allocates resources for project and change management capacity building and will finance national and international consultants to support project management, implementation planning, training, and change management activities. Resistance to organizational change poses a more significant challenge. At a senior level, there is a high degree of ownership and commitment for a comprehensive tax reform that would help the STA adopt international best practices in tax administration. This commitment may not be shared at lower levels of the administration as tax officials will lose their discretion in a more automated and transparent operating environment and may be required to move as a result of organizational consolidation. The STA will gather feedback on the change management process through regular staff surveys. Component 4 also includes change management activities to address this risk. This will entail support for targeted communications with internal and external stakeholders (including citizen engagement) that will explain the rationale for reforms and address resistance to reforms.

78. **Fiduciary.** Procurement of ICT may pose significant fiduciary risks to the project. The World Bank will work closely with the STA to ensure a transparent competitive process for procurement of the ICT system and tools. The MoF's CFU will support the STA in conducting procurement. In addition, the STA will contract an experienced management consultant to take on the responsibilities of the Project Manager. The STA will also hire a consultant with experience in implementing ICT systems to support the procurement process and contract management during implementation. Component 4 will allocate resources for capacity building and will finance international advisers for project management, ICT project implementation, and change management and will contribute to financing the CFU as the fiduciary service provider for the project.

79. **Other risks related to criminal justice activities.** The project involves limited support to tax police under Subcomponent 2.2. Accordingly, a risk assessment in consideration of the 2012 World Bank Staff Guidance Note for Criminal Justice Activities was conducted. The risk assessment concluded that risk is low. The tax police activities to be financed by the project involve the provision of analytical support and institutional capacity building to tackle tax compliance issues from different aspects, including interventions aimed at increasing voluntary compliance through reduction of tax compliance cost for taxpayers. The proposed activities do not include support to any specific tax crime case or audit and they are limited in scope. More details on tax police activities financed by the project are provided in Annex 2.

VI. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Serbia

Tax Administration Modernization Project

Project Development Objectives(s)

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

Project Development Objective Indicators

Indicator Name	DLI	Baseline	End Target
Improve effectiveness of tax collection			
Reduction of VAT gap (Percentage)		10.20	8.00
Increase in additional net taxes assessed per audit (Text)		RSD882,823	Increase by 10%
Lower the compliance burden for taxpayers			
Time required to comply with taxes - WB Doing Business Paying Taxes subindicator (Hours)		225.50	202.90
Percentage of taxpayers reporting that the experience of taxpayer services: i) STA website; ii) STA call center, has improved (Text)		Website: 48; call center: 41	Website: 57; call center: 49; survey results are posted on the STA website and an Action Plan in response to survey results is developed and implemented.

Intermediate Results Indicators by Components

Indicator Name	DLI	Baseline	End Target
Component 2: STA Organization and Operations			
Separation of core and non-core tax administration activities (Text)		Identification of core and non-core tax administration activities completed	Separate work streams for core and non-core tax administration activities within STA established and operational
Increase in on-time e-filing rate for PAYE witholding tax (Percentage)		86.94	95.60
Decrease in tax arrears (Percentage)		61.00	40.00
Decrease in uncollectable tax arrears (Percentage)		31.00	27.00
Improvement in taxpayer satisfaction with the appeals process in terms of impartiality and efficiency (Text)		Not available. Taxpayer survey to be conducted in the first year of the project implementation to provide baseline.	Improvement by 10%
Percentage of taxpayers reporting satisfaction with their interaction with the tax administration (Text)		79 (survey results are disaggregated by gender and not published on the STA website)	85 (survey results are disaggregated by gender and published on the STA website)
Component 3: ICT Tools System Modernization			
Increase in number of STA staff trained in National Archives processes (Number)		0.00	75.00
Increase in on-time e-filing rate for PAYE withholding tax (Percentage)		86.94	95.60
Increase in the number of offices with duly cleared paper records (Number)		0.00	18.00
Improved case management process for enforcement and tax collections (Text)		The new automated case management system is used to direct actions in enforcement and collections.	The majority of routine enforcement activities are conducted using the case management system.

Monitoring & Evaluation Plan: PDO Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Reduction of VAT gap	The indicator measures improvement in the effectiveness of tax collection. The reduction of the VAT gap would serve as an indicator of improved tax compliance through higher effectiveness of tax administration as a result of modernization of the STA. The baseline has been calculated in January 2019 using latest reliable national accounts statistics (for the year 2015).	Baseline; at mid-term review; in last year of project	STA data on VAT collection; National Accounts data	Data obtained from STA and National Statistical Office	World Bank, STA and National Statistical Office
Increase in additional net taxes assessed per audit	The indicator measures improvement in the effectiveness of tax collection. Increased additional net taxes assessed as a result of audit will measure improved effectiveness of audit planning process and quality of audit. The indicator will measure additional net tax assessed per audit calculated by adjusting	Annual	STA	Data will be obtained from STA	STA

	additional tax assessed for the amount of the reduction of assessed tax due to administrative or court appeals.				
Time required to comply with taxes - WB Doing Business Paying Taxes subindicator	The indicator measures lowering of compliance burden for taxpayers. As improved business processes and taxpayer services would lead to less time required to prepare, file and pay (or withhold) CIT, VAT, labor taxes, including payroll taxes and social contributions (in hours per year).	Annual	Doing Business reports	Data will be obtained from Doing Business reports	World Bank
Percentage of taxpayers reporting that the experience of taxpayer services: i) STA website; ii) STA call center, has improved	Survey of small and medium sized companies to be carried out annually during implementation of the project to provide data on taxpayer satisfaction with the experience of taxpayer services (the STA website and call center).	Annual	Taxpayer survey	Data will be gathered through taxpayer surveys	STA

Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Separation of core and non-core tax administration activities	The indicator will measure implementation of a crucial organizational change within the STA which will be supported by the project.	At project mid-term; in last year of project	STA management reports	Data will be obtained from STA	STA and World Bank
Increase in on-time e-filing rate for PAYE witholding tax	The indicator will measure increase in on-time e-filing rate of PAYE withholding tax by employers.	Annual	STA IT System	Data will be obtained from STA	STA
Decrease in tax arrears	Share of tax arrears at the end of the year in tax revenues collected during the year.	Annual	STA IT System	Data will be obtained from STA	STA
Decrease in uncollectable tax arrears	Share of uncollectable tax arrears in total tax revenue.	Annual	STA IT system	Data will be obtained from STA	STA
Improvement in taxpayer satisfaction with the appeals process in terms of impartiality and efficiency	Survey of small and medium sized companies to be carried out annually during implementation of the project to provide data on to provide data on taxpayer satisfaction with the impartiality and efficiency of the appeals process.	Annual from the first year of the project implement ation.	Taxpayer survey	Data will be gathered through taxpayer surveys	STA
Percentage of taxpayers reporting satisfaction with their interaction with the tax administration	Survey of small and medium sized companies to be carried out annually during	Annual	Taxpayer survey	Data will be gathered through taxpayer surveys	STA

	implementation of the project to provide data on satisfaction of taxpayers (businesses) with their interaction with the STA.				
Increase in number of STA staff trained in National Archives processes	The indicator measures number of STA staff that will be trained in National Archives processes.	Annual	STA management reports	Data will be obtained from STA	STA
Increase in on-time e-filing rate for PAYE withholding tax	The indicator measures an increase in on-time e-filing rate of PAYE withholding tax by employers.	Annual	STA IT System	Data will be obtained from STA	STA
Increase in the number of offices with duly cleared paper records	The indicator will measure number of offices with paper records either destroyed or transferred to the National Archives under an officially approved retention schedule.	Annual	STA management reports	Data will be obtained from STA	STA
Improved case management process for enforcement and tax collections	This indicator measures the establishment of a comprehensive case management process for enforcement and tax collections.	At project mid-term review; in last year of project	STA management reports	Data will be obtained from STA	STA

ANNEX 1: Implementation Arrangements and Support Plan

COUNTRY: Serbia
Serbia: Tax Administration Modernization Project

Project Institutional and Implementation Arrangements

1. Project implementation arrangements have been designed to ensure the highest possible degree of political ownership, unified structure of management of governance reform and project implementation, and agency-level ownership and direction of project activities and results.

2. The STA 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 the 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.

3. The Project Steering Committee will ensure alignment with strategic direction and interagency coordination. It 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 who will endorse progress reports and provide strategic guidance to the project team, the Project Steering Committee will have the possibility to invite representatives from other governmental and nongovernmental institutions (such as Customs, Ministry of Economy, Chamber of Commerce, and others) and from development partners in the capacity of observers. The Steering Committee will draw on the existing Government's Working Group on Tax Administration Reform and will be established no later than one month from effectiveness.

4. An Assistant Director within the STA will serve as the Project Coordinator. The Project Coordinator will oversee work of the PIU which will be housed in the STA. The Project Coordinator will serve as a focal point for communication with the World Bank team on project related issues and will review and endorse progress reports which will then be approved by the STA Director for submission to the World Bank.

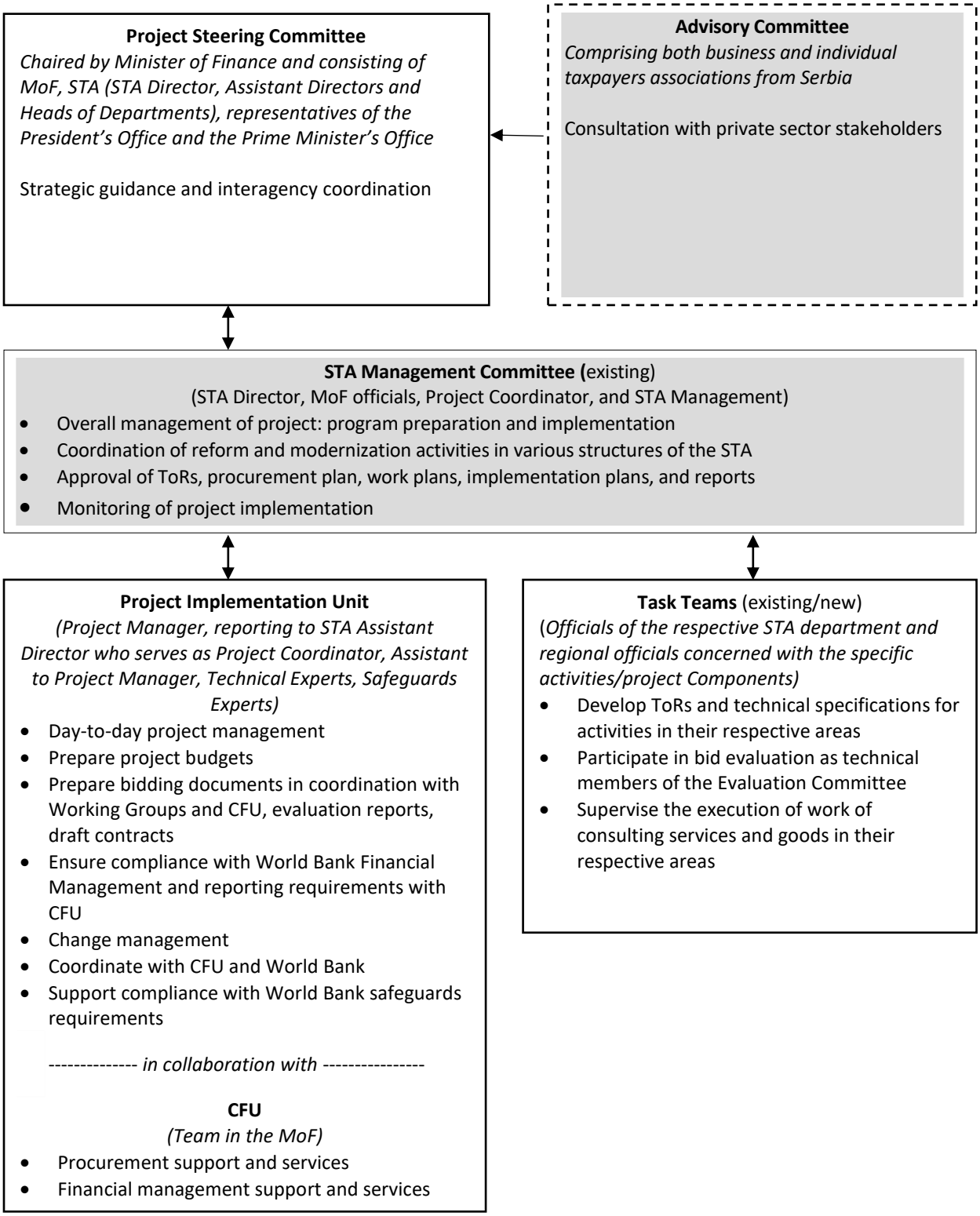
5. The Project Coordinator will be supported by a Project Manager who will head PIU operations. The PIU will assist the STA in coordinating the implementation of project activities, contract management, M&E, and reporting functions under the project. In addition to the Project Manager, the PIU will be 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 and technical experts (change management adviser, project management adviser, ICT adviser, and other experts) on a part-time basis. The World Bank will provide additional training to ensure sufficient capacities to manage and implement the project, including change management and the World Bank safeguards requirements.

6. The PIU will coordinate procurement, financial management, and disbursement with the CFU within the MoF. 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 World Bank will provide additional training to ensure adequate capacities to comply with the new World Bank's Procurement Framework. The project will be implemented based on a POM, which was adopted by the STA in February 2019. The POM lays out the project's overall operating, fiduciary, and decision-making procedures and its results monitoring arrangements.

7. The existing STA Management Committee that is led by the STA Director and includes the MoF officials and the STA 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. The STA uses Task Teams (that is, working groups) containing appropriate STA experts (that is, officials of the respective STA department and regional officials concerned with the specific activities) and managers to champion and manage initiatives. Existing Task Teams along with new teams, as required, will carry out day-to-day implementation of project activities of each component and subcomponent with the support of the PIU. The Task Teams will develop the ToRs and technical specifications, participate in evaluating the bids, and supervise the execution of consulting services in their respective areas. Four Task Teams will be utilized to ensure the day-to-day implementation of the respective components.

8. An Advisory Committee will be established and include Serbian stakeholders, such as business and individual taxpayers associations and other relevant civil society organizations and private sector stakeholders. It will focus on both the tax administration reform agenda as well as issues in tax administration more generally. The Advisory Committee will be convened as the need for consultation arises, but no less than twice per year. During the meetings, the STA will inform members of the Advisory Committee on the actions taken based on outcomes of the previous advisory panel meeting to validate that taxpayers' views are considered. The Advisory Committee will be established no later than one month from effectiveness.

Figure 1.1. Project Implementation Arrangements



Financial Management

9. The project will follow traditional financial management arrangements. The CFU within the MoF will be in charge of fiduciary responsibilities for the project, while the PIU within the STA will be responsible for technical and operational aspects of the project implementation. The POM will detail implementation arrangements, including the division of responsibilities between the STA and the CFU. The CFU acts as a procurement and financial management unit in overall implementation arrangements and provides support and service to the STA as the primary implementing entity.

10. The Borrower will provide annual audited project financial statements to the World Bank within six months of the end of each financial year and also at the closing of the project. The audit will be conducted by a private audit firm acceptable to the World Bank and in line with agreed ToRs. The ToRs were agreed between the GoS and the World Bank and attached to the minutes of negotiations and the POM.

11. The Borrower will submit a full set of unaudited IFRs consolidated for all components for each calendar quarter throughout the life of the project, which will be due 45 days after the end of each quarter. The format of the IFRs was agreed between the GoS and the World Bank and attached to the minutes of negotiations and the POM. Acceptable accounting software will be used for project accounting and reporting, including quarterly IFRs and annual project financial statements.

12. Internal controls and procedures to be used by the project are described in the POM. From a financial management aspect, the POM should detail procedures and processes about planning and budgeting, accounting, financial reporting, internal controls, flow of funds, and external audit for the project. It will also describe roles and responsibilities and communication channels and modes between the STA and the CFU. This will minimize risk of an error, safeguard project assets, and ensure the use of funds for intended purposes. Application of the controls and procedures will be verified by the World Bank's supervision.

Disbursements

13. The DA in foreign currency for administering the project funds will be opened in the NBS and will be managed by the STA, while the CFU will process payments within the scope of their fiduciary role. The control environment in the NBS is considered to be acceptable. SOE-based disbursement will be applied, with advances being the primary disbursement method, but direct payments and reimbursement are also allowed.

14. Specified project preparation activities that the STA will undertake will be subject to retroactive financing. These activities are hiring (a) PIU staff that is housed in the STA including a Project Manager and an Assistant to Project Manager, (b) consulting services to conduct an analysis of records management and archiving; (c) consulting services for an analysis of e-fiscalization options.

Procurement

15. Procurement under the project will be subject to the World Bank's Procurement Framework. All procurement will be conducted through the procedures specified in the World Bank's Procurement Regulations for IPF Borrowers - Procurement in Investment Project Financing Goods, Works, Non-Consulting and Consulting Services, July 2016 (revised November 2017 and August 2018) (Procurement Regulations). The project will also be subject to the World Bank's Anti-Corruption Guidelines, dated July 1, 2016.

16. The project will utilize the services of the CFU within the MoF for procurement and financial management and will be complemented by technical staff in the STA, who will assist in the technical aspects of the project implementation. The STA will be overseeing and executing all project activities. The project implementation by the STA will rely on the PIU as well as additional consultants that will be recruited under the components of the project. The implementation arrangements will place an emphasis on strengthening the STA's capacity to oversee the TAMP and other aspects of the Government's strategy.

17. Currently, the CFU is responsible for financial management and procurement for two investment projects. These include the Inclusive Early Childhood Education and Care Project, State Owned Financial Institutions Reform Project, and a donor-funded project: Serbia Technical Assistance for Reform of Corporate Financial Reporting. Meanwhile, there are three projects under preparation which are planned to be supported by the CFU: the TAMP, the Western Balkans Trade and Transport Facilitation Project, and the Enabling Digital Governance Project. This situation warrants selection of additional staff, such as a procurement specialist and a financial management specialist. Selection of additional CFU staff should be done soon after project effectiveness to avoid bottlenecks during the project implementation. Due to this capacity constraint at the CFU, the limited experience and exposure of the STA in implementing World Bank-financed projects, and the potential coordination challenges between the CFU and the STA, the procurement risk rating is 'Substantial'.

Environmental and Social (including safeguards)

18. The project triggers World Bank safeguards policies OP 4.01 and 4.11. The project is rated environmental category B as per Operational Policy OP/BP 4.01.

19. 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 possibility 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. No works will be undertaken in nature protected areas. Where the offices are in buildings that may enjoy status of cultural heritage protected buildings, the project will obtain relevant permits from the local conservator's office and implement the prescribed measures as a part of the interventions to be undertaken.

20. The project will fund ICT equipment and its installation in the new STA headquarters building, which is planned to be constructed using the government budget. Although the project will not fund

activities related to civil works construction of the new STA headquarters building, due to the project activities to be implemented within the building, it is considered associated infrastructure to the project. No category A type subprojects nor category A type activities will be implemented within the project.

21. The environmental risks and issues related to the project-funded activities are low. They 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 practices. 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 with by licensed contractors. Specific issues that will also be taken care of relate to management of the sites (as the municipal buildings and tax offices need to continue operating during the works execution) and general health and safety of population that uses these buildings/offices.

22. The ESMF, including a generic Environmental Mitigation Plan and sample Environmental Checklist, was prepared by the Borrower.[9] This document is an overall guiding document to be used for the implementation of all project-related activities that may have environmental risks. Among others, the ESMF stipulates that site-specific EMPs and Environmental Checklists will be prepared during project implementation for each specific facility where civil works are to be undertaken by the project and will become part of the bidding documents and resulting civil works contracts. Public consultation on the ESMF took place on December 12, 2018. Relevant stakeholders, including potential beneficiary institutions, municipalities, municipal infrastructure companies, regional culture and nature protection institutes as well as the general public were consulted.

23. The STA has no experience in implementing World Bank-funded 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 environmental issues. To successfully implement and monitor project activities which pose environmental risks and manage their impacts, the STA will, during the project implementation, engage a part-time on-call environmental expert, whose duties will include among others the following: (a) completion of Environmental Checklists and preparation of generic and site-specific EMPs as relevant; (b) incorporation of final EMPs, after the World Bank's approval, into respective tender documents; (c) monitoring and reporting on compliance with site-specific EMPs; and (d) semiannual reporting on compliance with EMPs and the ESMF to the World Bank. Monitoring and reporting on contractor's compliance with site-specific EMPs will be undertaken monthly by the STA supervising engineer and reports sent to the PIU. Reporting from the STA to the World Bank will be undertaken at least twice per calendar year and more frequently in case of any systematic or specific problems. Review of the environmental compliance reports and actual site visits of a few sites determined on a sample basis will be undertaken by the World Bank's safeguards specialist at least once per year during the regular implementation support missions.

24. **In addition to the environmental aspects, due diligence on social aspects will be conducted during implementation.** The project plans to furnish and install ICT equipment in the new STA headquarters which is planned to be built by, and on the land that belongs to, the Construction Directorate

[9] ESMF is available at http://documents.worldbank.org/curated/en/402941548185624881/Environmental-and-Social-Management-Framework

(a state-owned enterprise), using the state budget. The Construction Directorate plans to build the STA headquarters as part of the Government's program to redevelop about 6.1 ha area inside Belgrade. While the conceptual plan of this redevelopment program has been developed and its implementation started where designs are ready, where the STA's new headquarters building will be built in this 6.1 ha area and whether or not it may affect any preexisting informal land use, and if the new STA's headquarters building may actually be built elsewhere, potentially affecting private lands, can only be determined during implementation. Also, the exact terms of asset transfer from the Construction Directorate to the STA have not been defined yet. OP 4.12 is triggered and an RPF[10] was prepared by the Borrower to guide the due diligence to be conducted during implementation in case resettlement would be required**.** The RPF was disclosed and public consultations took place on January 25, 2019. When sufficient details are available about the planned construction of the new STA headquarters building, the scope and scale of impact will be assessed and it will be determined whether a RAP will need to be developed to mitigate the impact in line with OP 4.12. The STA will engage a part-time on call social expert who will carry out the due diligence mentioned earlier, assist with monitoring and compliance with site-specific EMPs concerning social issues, and assist the STA in overall social risk management including the monitoring and addressing of grievances.

25. Findings of the GBV risk assessment for the project interventions indicate that the GBV risk associated with the project interventions is low**.** Still, to ensure adequate due diligence in identifying and addressing GBV-related risks, the project will outline expectations in the bid documents, including provisions on the suitable Code of Conduct.

Monitoring and Evaluation

26. A Results Framework with project-specific indicators and actionable monitoring arrangements has been agreed with key counterparts. This will support progress monitoring and result-oriented project implementation (this Annex). The STA will develop a robust system for M&E of the target outcomes and outputs. The M&E system will support the successful implementation of the project by maintaining records on implementation and generating the following performance reports: project reports covering a calendar semester are due one month after each calendar semester, focusing on results-based accountability and accomplishments against performance expectations. The surveys supported by the project to assess STA's performance and taxpayer services will provide gender-disaggregated data (in the case of individual taxpayers) and also monitor any gender differences in the feedback provided. Progress reports will be prepared by the PIU, endorsed by the Project Coordinator, approved by the STA Director, and forwarded to the World Bank and MoF before implementation support missions to guide the discussion of key issues affecting project implementation.

27. The project will be subject to regular implementation support missions conducted by the World Bank. The progress assessed during these missions will be reported by the World Bank team to its management through ISRs, which will include a review of key implementation issues and performance indicators. In the third year of project implementation, a detailed midterm review will be conducted. Given the comprehensive nature of these reforms, there are many areas that the project will likely tackle

[10] RPF is available at http://documents.worldbank.org/curated/en/901491548185810589/Resettlement-Policy-Framework

but which cannot be predicted in advance. The Results Framework could be revisited and updated during the midterm review. At the completion of the project, an ICR will be prepared.

Role of Partners (if applicable)

28. The TAMP is aligned with technical assistance provided by the IMF and EC to support risk analysis and management in tax administration and with technical assistance provided by GIZ in conducting periodic taxpayer surveys. STA's core versus noncore activities are to be separated in line with Government priorities agreed with the IMF. The engagement of other development partners such as the EC, GIZ, and IMF will help strengthen push for reforms and promote sustainability of project results. The EC, GIZ, and IMF have ongoing technical assistance and capacity development engagements; the IMF undertakes regular technical assistance missions on tax administration. The project preparation has been characterized by continuous coordination with the IMF, which will continue through implementation.

Implementation Support Plans

29. The strategy for project implementation support has been designed to mitigate specific project implementation risks considering the political economy context as well as the risks and challenges identified in lessons learned. The key features of the implementation strategy are addressed in the following paragraphs.

30. **Policy dialogue.** The project addresses the central issues in the STA reform agenda. Some of these issues will be addressed in dialogue in the context of the project. The CMU will be closely involved in the policy dialogue and follow up on key issues. The project implementation support team will work closely with the team preparing any future DPO to ensure consistency in approach.

31. **Technical and change management support.** The World Bank team has provided the STA and MoF with technical advice on specific design elements and the overall approach to change management. The World Bank team will provide regular support on change management, including advice on communications, stakeholder consultations, and the sequencing of the reforms. The World Bank team will liaise closely with the project's PIU to ensure change management issues are in the forefront. The STA recognizes the need to strengthen its capacity for change management; the project will support change management through training and capacity building and the services of a change management consultant who will be within the PIU.

32. **Result monitoring.** Regular implementation support missions will assist the STA and MoF in tracking progress toward the achievement of the intended project results and will advise on adjustments in project design and the reform strategy required to support the achievement of the project objectives. This will ensure that outputs translate into real outcomes in terms of a more efficient and effective tax administration.

33. **Procurement**. During project implementation, the World Bank's procurement specialist will provide regular supervision, in line with the World Bank's Procurement Framework. Procurement implementation support by the World Bank will include providing training to the CFU and PIU staff; providing detailed guidance on the World Bank's Procurement Regulations, reviewing procurement documents and providing timely feedback, and monitoring procurement progress against the

Procurement Plan. In addition, post reviews will be carried out on selected contracts subject to post review. Contract deliverables will be physically inspected—as appropriate and feasible.

34. **Financial management**. The World Bank will conduct a financial management implementation support mission within a year of the project effectiveness and then at appropriate intervals. In addition, the regular IFRs and annual project audit reports will be reviewed by the World Bank. As required, a World Bank-accredited financial management specialist will assist in the implementation support and supervision process.

35. The World Bank team will maintain continuity and a regular dialogue with Government counterparts on all relevant operational, technical, and policy issues. There will be at least two formal implementation support missions per year. A country-based staff is part of the World Bank team to ensure implementation support on the ground at all times relative to the risks identified.

Implementation Support Plan and Resource Requirements

Time	Focus	Skills Needed	Resource Estimate (US$/year)	Partner Role
First 12 months	Selection of key consultancies on (a) legal environment reform, (b) modernizing operations and organization, and (c) records management and IT modernization	Task Team Leader (TTL), procurement specialist, financial management specialist; IT expert; public sector specialist in country; local consultant; safeguards specialists	150,000	Participation in implementation support missions
12–55 months	Implementation of technical assistance packages for (a) legal environment reform, (b) modernizing operations and organization, (c) records management and IT modernization, and (d) change management	TTL, procurement specialist, financial management specialist; public sector specialist in country; IT expert; local consultant; safeguards specialists	150,000	Participation in implementation support missions
56–60 months	Change management. Completion of project activities. Data collection and preparation for the ICR.	TTL, procurement specialist, Financial Management specialist, tax specialist, public sector specialist in country, IT expert, local consultant, safeguards specialists	120,000	Participation in implementation support missions

Skills Mix Required			
Skills Needed	**Number of Staff Weeks**	**Number of Trips**	**Comments**
TTL project management and support (including TTL and co-TTL	16	2 missions per year	—
Procurement specialist	10	2 missions per year	—
Financial management specialist	8	None	—
Senior public sector specialist in country	8	On call, on the ground	—
Senior environmental specialist	5	None	—
Social specialist	4	2 missions per year	—
IT expert	5	2 missions per year	—
Local consultant	10	—	—

Partners		
Name	**Institution/Country**	**Role**
EC	EC delegation to Serbia	Support to the MoF on risk management through the technical assistance program
GIZ	GIZ/Germany	Support through the technical assistance program
IMF	Fiscal Affairs Department	Advisory services on technical dimensions of tax administration reforms

ANNEX 2: Detailed Project Description

COUNTRY : Serbia
Tax Administration Modernization Project

Component 1. Legal Environment

1. This component strengthens the legal and regulatory framework to facilitate effective and efficient tax administration and to align with EU standards. This component is linked to Component 2, as it will support legal reforms needed to actualize the BPR. The component will contribute to the achievement of lowering the compliance burden for taxpayers by helping reduce time to comply with taxes.

1.1 Legal Environment Reform

2. Advisory support on removing impediments in the legal environment to ensure effective functioning of the STA will focus on information governance and exchange as well as tax laws and regulations. This subcomponent will include the following:

(a) Analysis of the national legal framework on recognition of digital documents in procedures before judicial bodies and of the legal framework on document management and retention.

(b) Analysis of legislation and tax administrative practice, with the aim of providing recommendations on legal reform and changes to administrative procedures, to enable the STA to counter risks of profit shifting and tax base erosion and to align the tax environment in Serbia with the OECD Inclusive Framework on Base Erosion and Profit Shifting.

(c) Review of tax laws and bylaws (regulations) to identify legal loopholes and ambiguities and provide recommendations for their removal.

(d) Provision of recommendations for the improvement of legislation and regulations defined in Component 2, which hinder the tax administration from becoming a more flexible and adaptive tax administration.

(e) Development or enhancement of the legal framework for information exchange between the STA, other government agencies, and third parties.

(f) Provision of recommendations with the aim of developing a procedural framework for automatic exchange of information with EU member countries for preparing the STA for undertaking further measures and activities necessary for building administrative capacities to fulfil obligations in the Republic of Serbia's EU accession process, relating to the requirements defined under Chapter 16 - Taxation.

Component 2. STA Organization and Operations

3. This component focuses on strengthening the STA's operational efficiency and effectiveness by modernizing all tax collection operational functions, administrative support systems such as HRM, and taxpayer services. Component activities will involve the BPR and capacity building of STA staff.

4. Component 2 is at the heart of tax administration reforms. The activities in this component will support several key results the project aims to achieve: reduction in the VAT gap, increase in net taxes assessed per audit, reduction in time to comply with taxes, improved taxpayer services, increase in on-time filing rates, decrease in tax arrears, and improvement of tax appeals.

2.1 Human Resource Environment and Capacity Building

5. This subcomponent will finance the following activities, among others:

(a) Development of a comprehensive human resource strategy, including suggested options for increasing the flexibility in efficient staff deployment in the STA.

(b) Review of human resource policies and practices will be conducted to identify gaps between the human resource strategy and existing operations, together with practical recommendations on ways of removing or managing those gaps. Special attention will be paid to the employment process in the STA (recruitment, selection, and induction) and the way in which performance management practices could be developed to ensure the implementation of appropriate policies for employee recognition (including remuneration) and their retention. In addition, the consultant will provide training of tax officials in gender sensitization.

(c) Evaluation of various options for an organizational structure (for example, a semiautonomous tax agency).

(d) Development of specifications for the enhancement of the existing HRMIS to evolve it into a full functioning HRMIS; this includes the effort to code the new functionality into the HRMIS.

(e) Training needs assessment and development of a training strategy and associated changes to the curriculum for tax administration. This will incorporate the training curriculums developed under Component 2 to provide ongoing training and capacity building of STA staff.

(f) Refresh of the end-of-life equipment in the four current STA's regional training centers (for example, procuring equipment including distance learning equipment and video conferencing).

(g) Funding of staff feedback surveys to track perception of managers and staff regarding the level of professional skills in selected functional areas and provide recommendations for improvement and an assessment of STA human resources.

2.2 Tax Operations

6. This subcomponent will involve the BPR to introduce international best practices into the STA operational functions to support new streamlined business processes and better quality of services which will help reduce compliance costs for taxpayers. The STA will determine whether they prefer to undertake the BPR by having their processes changed to accommodate the requirements of a new tax administration COTS software product with minimal customization or to undertake the BPR to identify the 'to be' processes which they will evolve to with the help of a new tax administration software package, which may be a COTS solution or the enhancement of their current ICT system (IIS).

7. The activities under this subcomponent are listed in the following paragraphs.

2.2.1 Registration Processing

(a) Revision of current procedures for taxpayers' registration (legal and physical persons) to simplify the process where appropriate, including within the regional offices; definition of ownership in the registry and streamlining citizen ID and tax identification numbers. Alignment of procedures to reflect best practices including those of the EU.

(b) Recommendation of improvements to the management reporting requirements for registration, non-active taxpayer, and collection statistics.

(c) Development of business requirements for registration processes to be included in the revised tax administration ICT system or required to support the new COTS software.

2.2.2 Tax Return and Payment Processing

(a) Promotion of electronic filing of tax returns, e-payments, and other communications with taxpayers (for example, taxpayer portal and the STA website) using 2D bar coding on turnaround documents where warranted to limit input errors by taxpayers.

(b) Improvement of procedures for payment processing, matching, and attribution to taxpayer tax obligation subaccounts (for example, VAT, profit tax, and other taxes which are all subaccounts of a taxpayers' account).

(c) Review of legal authorities for processing and requiring electronic returns and verification that appropriate legal authority exists to issue notices (notifications) from the current ICT system.

(d) Proposal of an expanded interface to provide taxpayers with multi-channel electronic notification, for example, by e-mail and SMS and to include enhanced e-payment options through alternative channels, such as the mobile phone payment applications (for example, SMS and apps).

(e) Review of arrangements for data interchange with other government bodies and contribution to national coordination efforts.

(f) Development of business requirements for return and payment processing processes to be included in the revised tax administration ICT system or required to support the new COTS software.

(g) Analysis of the training needs of the returns and payment processing units, development of a permanent training program for the staff, and delivery of initial training in processing, including training of the unit's trainers and study tour of modern tax administration operations.

2.2.3 Enforcement and Compliance

(a) Review of operating procedures for enforcement and compliance activities to incorporate international best practices including the review of current regulations, rules, and procedures for the management of arrears and enforced collection. Preparation of recommendations to improve the effectiveness of enforcement and compliance operations, including the adoption of risk management techniques associated with risk profiling and identification processes. Development of manuals for enforcement and compliance activities.

(b) Review requirements for determining when debt is uncollectable and should be written-off; this includes recommending required legislation and regulation changes to allow the debt to be effectively managed.

(c) Analysis of training needs of the enforcement and collections units, development of a permanent training program for staff, and delivery of initial training in recovery of arrears and arrears management along with enforced return filing, including training of the unit's trainers.

(d) Development of business requirements for the enforcement and compliance processes to be included in the revised tax administration ICT's risk management system or required to support the new COTS software.

2.2.4 Tax Audit

(a) Preparation of recommendations to promote a high level of uniformity in the application of the legal framework by the STA inspectors based on operational needs and international good practices.

(b) Enhancement to annual audit planning. Review of field audit procedures and strategy to fully coordinate with the annual audit plan.

(c) Preparation of recommendations for the establishment of an International Tax Audit Unit.

(d) Training of the audit staff assigned to the International Tax Audit Unit in audit techniques related to transfer pricing, treaty abuse, and so on.

(e) Development and/or updating of manuals for industry-specific audits in coordination with the relevant authorities with interest in the economic sector and in relevant topics such as transfer pricing and e-commerce. Procuring of access to transfer pricing databases to be used in determining the correctness of taxpayers' transfer pricing activities.

(f) Development of a permanent training program for auditors (and inspectors) and delivery of extensive training including (i) developing curriculum and training materials to take full advantage of the audit software and (ii) training in audit techniques covering general audit, forensic audit, specialized economic sectors, and specialized audit techniques (for example, cash registers and transfer pricing) including ongoing training in the law and regulations that affect audits.

(g) Acquisition of software and hardware (for example, encrypted laptops and portable printers) to assist auditors in undertaking their audits and acquiring and analyzing of information from taxpayers' financial software (for example, SAP, Oracle Financials, and others). Ensuring the software products are compatible with and complement the e-inspector software of the Ministry of Public Administration and local government where required to be.

(h) Acquisition of licenses for transfer pricing reference databases (Orbis) including training in its use.

(i) Development of business requirements for the tax audit processes to be included in the revised tax administration ICT system or required to support the new COTS software.

2.2.5 Risk Analysis

(a) Preparation of algorithms for ranking risk of noncompliance and enforcement priority (for example, potential size of revenue at risk, probability of failure to comply or follow up on commitments to pay outstanding amounts).

(b) Provision of expert support for the implementation of the risk-based selection of taxpayers for all taxpayer types and economic sectors for audit selection.

(c) Preparation of algorithms for the detection of noncompliance trends (segmented: large-, medium-, and small-size legal taxpayers; wealthy individuals; and other taxpayers) to be used within the current IT risk engine used for audit case selection.

(d) Development of a statistical methodology for quality assurance of the risk-based audit selection. The objective of this methodology would be to ensure that the risk management parameters within the risk engine are selecting proper taxpayers for audit and calibrating the risk selection algorithms to deliver better selection of cases.

(e) Support to implementation of a risk-based VAT refund audit approach using a quality assurance feedback process based on assessing the quality of the decisions made by the refund audit selection algorithms.

(f) Training in the use of risk analytics tools and in the skill to recognize trends that indicate noncompliance activity by taxpayers or groups of taxpayers along with translating those observations into algorithms that the risk engine will process in determining a taxpayers' risk profile.

(g) Development of business requirements for the risk analytics processes (executed by the risk engine) to be included in the revised tax administration ICT system or required to support the new COTS software.

2.2.6 Tax Police[11]

(a) Review of the organizational framework for the implementation of the compliance strategy including optimizing the distribution of responsibilities between the units responsible for noncompliant economic activity resulting in undeclared activities of registered or unregistered taxpayers, and the allocation of the assignment of responsibilities for documentary control and automated audit.

(b) Review and proposal of improvements to the functioning of tax police investigations, including the legal framework for the processes and operational procedures that govern their execution.

(c) Analysis of training needs of the tax police staff, development of a permanent training program for their inspectors, and delivery of initial anti-fraud, forensic audit, and criminal investigations training, including training of trainers. Development of training in the use of the ICT system and the i2 software, particularly the results from the risk analysis of taxpayers and information from third-party matching, for anti-fraud and criminal investigation teams. Development of training for prosecutors and the judiciary in tax law.

(d) Acquisition of necessary equipment to support the tax police operations (including the intelligence unit)—desktop and laptops to support the additional licenses for 'IBM i2 Analysts Notebook' software.

(e) Development of business requirements for the tax police processes to be included in the revised tax administration ICT system or required to support the new COTS software.

[11] Serbian tax police is established by the Law on Tax Procedure and Tax Administration (LTPTA) as a separate unit within the STA. Its mandate is to discover and report tax-related crimes and perpetrators. The Tax Police is headed by an Inspector General who is appointed by the GoS at the proposal of the Minister of Finance. The tax police has similar powers as the regular police in preinvestigation proceedings, but their powers are limited when it comes to restriction of movement. Their authority includes the right to search and seize and bring a suspect for interrogation by force. The LTPTA requires the tax police to exercise its authority in accordance with the Law on Criminal Procedure (LCP). In line with the LCP, the tax police may seek necessary information from citizens; perform necessary inspection of vehicles, passengers, and luggage; undertake necessary measures in connection with the establishment of the identity of persons and objects; post a wanted circular for a person and objects being searched for; in the presence of a responsible person, inspect certain facilities and premises of public authorities, enterprises, shops, and other legal persons and inspect their documentation and if needed seize it; and undertake other necessary measures and actions.

2.2.7 Appeals (Objections) Process (second-level appeals are handled by the MoF and are included in these activities):

(a) Review of current regulations, rules, and appropriate procedures for the management of appeals and objections and preparation of recommendations to ensure unified application of appeals/objections operations. Preparation of recommendations about the roles of the STA and MoF in the appeals and objections process. Development of a manual for appeals/objections activities.

(b) Revision of operating procedures to incorporate best practices and develop requirements for computer-based assistance to the management of the entire appeals process. Revision of procedures to ensure that both the STA and taxpayers are well informed of the appeals process through electronic access.

(c) Analysis of the training needs of the appeals and objections units, development of a permanent training program for the staff, and delivery of initial training in the use of the tools available through the current ICT system, including training of the unit's trainers.

(d) Development of business requirements for the appeals (objections) process to be included in the revised tax administration ICT system or required to support the new COTS software.

2.2.8 Internal Audit

(a) Assistance in training internal audit staff with the practical application of global internal audit standards and best practices to ensure greater efficiency and effectiveness of this function.

(b) Acquisition of software and hardware (for example, encrypted laptops and portable printers and access to e-audit software) to assist internal auditors in undertaking their audits.

(c) Development of business requirements for the internal audit processes to be included in the revised tax administration ICT system or required to support the new COTS software.

2.2.9 Internal Control

(a) Undertaking of the BPR of the internal control functions within the STA and identification of gaps relative to international best practices in this area.

(b) Provision of training in internal control best practices, investigation procedures (for example, same training as tax police) and training in the use of transfer pricing tools.

(c) Acquisition of software and hardware (for example, encrypted laptops and portable printers including access to the e-audit software) to assist internal control staff in undertaking their duties.

(d) Development of business requirements for the internal control processes to be included in the revised tax administration ICT system or required to support the new COTS software.

2.2.10 Large Taxpayer Office

(a) Undertaking of a survey of large taxpayers to assess the quality of the LTO's services and development of recommendations for any changes to business processes.

(b) Organizing of a study tour to visit a well-developed revenue authority (in the EU) to examine risk assessment methods used there to manage their large taxpayers.

2.2.11 Tax Gap

8. This is an important tool to help the STA understand if its compliance and enforcement actions are having the right effect**.**

(a) Review of methodology to do this calculation will be documented and STA staff will be trained to calculate the VAT gap every year.

(b) Review of methodologies used by other tax administrations to estimate other tax gaps (for example, personal, corporate, excise) and make a recommendation about their suitability for use in Serbia.

2.2.12 Revenue Estimation

9. Continued work in enhancing the STA's skills in revenue estimation will assist in planning specific initiatives to increase taxpayer compliance and in keeping existing taxpayers compliant. Included in this activity is establishing the protocol to be used to estimate the effect of tax expenditures (for example, revenue forgone due to tax incentives) on the tax revenue.

(a) Revenue estimation and related capacity building, training, and study tours. This included training and exposure to best practices of other countries to help increase accuracy of this activity.

(b) Calculation of tax expenditures (revenue foregone due to tax incentives)

2.3 Taxpayer Services and Compliance

10. This subcomponent will support modernization of taxpayer services with a view to increasing understanding of revenue laws, procedures, and the rights and obligations of taxpayers and thus reducing the compliance burden for taxpayers. This subcomponent will finance the following activities:

(a) Review of the current taxpayer services offered by the STA including all forms and publications and the use of existing delivery channels (for example, counter service, call center, website, and written inquiries). Preparation of recommendations to improve the effectiveness of taxpayer services and the adoption of new services and delivery channels based on international good practices. Specific attention will be provided to the introduction of fully automated online applications for tax certificates and of the relationship between the STA headquarters and regional tax offices to strengthen the delivery of taxpayer services.

(b) Development of a segmented approach to taxpayer services programs to meet the different needs of taxpayers, including new services on mobile platforms for use by taxpayers with simple reporting requirements including identifying enhancements to the public facing website to supply taxpayers and potential taxpayers with information they need to be compliant with. Recommendation of enhancements to the taxpayer portal facility to meet the needs for taxpayer information on the status of their tax returns and obligations.

(c) Proposal of measures to allow management to oversee and improve service delivery. Implementation, monitoring, and publication of performance standards.

(d) Identification of staffing needs and development of staffing profiles including development of curricula and training materials for taxpayer services staff covering the tax legal framework, procedures, and interpersonal communication skills; delivery of training to taxpayer services staff.

(e) Design and rollout of public communication campaigns to maintain awareness and promotion of taxpayer services including website design, introduction of other 'channels' for information to taxpayers, and effect on taxpayers for core/noncore service.

(f) Conduct of periodic surveys to obtain taxpayer feedback on the STA performance (including LTO performance), compliance, and other areas such as procedures, information provided, access to the STA, treatment by STA personnel, professionalism of STA staff, use of information about revenues collected, and transparency and integrity issues.

(g) Equipment refresh of select regional tax offices housing taxpayer service centers including queuing management equipment.

(h) Upgrade of facilities and hardware to meet the demand for taxpayer services and new communication methods (for example, online chat, SMS, social media). This includes upgrade of the call center software and hardware to provide access to the new communication channels.

(i) Study tours to taxpayer services in other tax administrations; to acquaint STA staff with international best practices.

(j) Development of business requirements for the taxpayer services processes to be included in the revised tax administration ICT system or required to support the new COTS software.

Component 3. ICT System and Records Management Modernization

11. The component supports modernization of the tax administration ICT system and enhancement of e-services for taxpayers that are needed to support the operational reforms in tax administration outlined in Component 2, development of automated data exchange and data warehouse, and improvements in records management, including clearing the backlog of taxpayer paper records and providing robust end-to-end electronic solutions for future records management. The ICT system will form the backbone of the modern STA and will help achieve most of the key operational improvement

indicators in the project. Records management will serve to put in place information governance and help achieve the indicator relating to the number of offices with duly cleared paper records.

3.1 Improving Information Systems

12. This subcomponent includes activities to strengthen the ICT operating environment and safeguard it from external and internal threats in addition to providing for failover to a disaster recovery site. Based on the decision by the STA to undertake the BPR through the implementation of a new tax administration COTS system or to enhance or replace the existing IIS to fill the gaps identified by the BPR, this subcomponent will also involve the following activities, among others:

(a) Development of an ICT strategy and architecture. This includes undertaking a review of the existing ICT environment that new IT initiatives will operate within, that is, operating system, development languages, database management system, messaging between components, and review of existing IT applications to determine if, from a technology and maintainability perspective, they can be used for further development based on the new business requirements.

(b) If the STA does not decide to undertake the BPR through the acquisition of a tax administration COTS software package and adjust their processes to meet the software requirement, the results of the BPR in Component 2 will be used to conduct a gap analysis of the STA's current ICT system (IIS) to identify the modifications required to accommodate the new STA processes or alternatively identify specifications for a new tax ICT system.

(c) Depending on the results of that analysis, the project will initiate procurement to either modify/augment the current tax administration ICT system or acquire and localize a new COTS system.

(d) Implementation of a risk management system either as part of a new tax administration ICT system or as a new subcomponent of the IIS. Significant training in trend recognition and programming the algorithms used to evaluate those risks will be required for both the risk team and the ICT team.

(e) Evaluation of needs for upgrade of the STA's ICT infrastructure; provision of software, hardware, and other ICT-related equipment for STA's primary data center and the fit-up of the disaster recovery center, and ICT equipment upgrades in field offices.

(f) Revision of disaster recovery and contingency plans to reflect new technologies and threats.

(g) Provision of consulting support to supplement the ICT team in meeting their day-to-day operational needs until new civil servant staff are recruited and trained to take on the operational and development duties over the term of the project.

(h) Acquisition of a highly automated monitoring facility for the STA's overall ICT systems to facilitate monitoring of the system's operations and automated intervention to repair

malfunctions to include network, bandwidth, server, application, database, storage, log analysis, and so on.

(i) Acquisition of an e-cash register (or e-fiscalization) software product that records and secures the sales data immediately as the transaction occurs and stores it in a way that is tamper proof or if tampering has occurred is detectable and traceable.[12] As part of the software acquisition, the STA will receive significant training in trend recognition and programming the algorithms used to evaluate compliance risks for both the risk management team and the ICT team along with specialized training for auditors.

(j) Training for ICT staff in the suite of software and hardware used within the ICT systems of the STA.

3.2 Automated Data Exchange and Data Warehouse

13. The subcomponent will support further development of the protocols and agreements to enable sharing of information between the STA and other government bodies and third parties. In addition, the skills needed by STA staff to effectively mine data for risk assessment will be developed. This subcomponent will finance the following activities:

(a) Provision of advisory support to develop necessary protocols for data exchange between the STA and other agencies (for example, statistical bodies, courts, chambers, and ministries) and development of an integration model and protocols for automated data exchange between the STA and other government as well as private sector institutions.

(b) Establishment of an interface (web service) with the CROSO system for controlling payment of compulsory social security contributions and automation of filing tax returns ex officio and for taxpayer submitted returns on withholding tax which require real-time validation before the submission.

(c) Training in effective mining of data from the data warehouse for risk assessment and other needs.

(d) Study tours to tax administrations that implemented data warehouse including in EU countries.

3.3 Records Management and Archiving

14. This subcomponent 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. This subcomponent will be led by a working group consisting of key

[12] The GoS plans to adopt the practice of other modern tax administrations who have implemented systems that ensure any cash transaction is recorded with the right amount of tax identified and remitted to the government by expanding the use of secured and encrypted Point of Sales devices. The data are stored securely and preserved even if there is loss of power to a cash register. These e-cash registers will send data automatically to the STA (real time preferred but end of day is also used) and provide the STA with the opportunity to access the data remotely for compliance and audit purposes.

stakeholders in the MoF, STA, and the National Archives. The working group should first seek to improve the legal and policy environment as it relates to records management and develop a strategic plan for tackling legacy records and then plan for fully electronic records management in the medium term.

3.3.1 Information Governance

(a) Benchmarking exercise of STA's records management with ARMA International's Generally Accepted Recordkeeping Principles.

(b) Revision of the STA retention schedule for documents based on recommendation of the legal review and revision of the STA classification scheme for documents to align them with regional, EU, and international standards.

(c) Empowering of the potential future MoF Chief Information Officer function to be accountable for the governance of structured and unstructured records in all formats.

3.3.2 Records Management Capacity and Paper Backlogs

(a) Records survey of a sample of circa four offices in the STA office network to determine where and what records are created, how or if they are classified, stored, and arranged, and their condition.

(b) Pilots in sample field tax offices to arrange, classify, weed, destroy, or transfer paper records to the National Archives using the revised retention schedule. The working group should consider lessons learned from this.

(c) Training and capacity building for STA field offices in records management.

(d) Scaling up arrangement, classification, weeding, destruction, or transfer of STA paper records to the National Archives based on lessons from the pilots, possibly with additional short-term staffing and then separately sending inactive records less than 30 years old to a centralized or outsourced records center from where access could be managed.

(e) Improvement of capacity of field tax offices to manage scanning-intensive workflows in the medium term including equipment and training.

(f) Revisiting of existing arrangement with Captiva that charges per page for scanning, and planning for future costs for the inevitable greater use of Documentum.

3.3.3 Electronic Records Management Systems

(a) Enhanced capacity for records management, both in terms of licenses, storage, bandwidth, and functionality, and in terms of ease of capture, possible autoclassification, and automatically managed retention.

(b) Planning for at least 30 years of digital continuity for taxpayer files.

(c) Appraisal of digital legacy records as part of surveys.

(d) Development of a cross-repository search engine to prevent systems from becoming separate records silos and to enable authorized users to get a full picture of taxpayers records.

Component 4. Project Management and Change Management

15. This component will support the establishment of the PIU within the STA and change management activities, as well as strengthening of the CFU's capacity. The PIU will carry out the day-to-day project management and help the STA coordinate project activities. The change management activities will comprise design and rollout 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 the STA operates.

16. The component will finance the following:

(a) National and international consultants to support procurement and technical implementation including change management.

(b) International advisers for ICT project management and change management.

(c) Just-in-time training and change management support for improved internal and external stakeholder engagement and coordination.

(d) Operating costs associated with project implementation including CFU billing.

(e) Environmental and social safeguards specialists for ongoing monitoring.

(f) Production of the RAP and EMP.