Initial Project Information Document (PID)

Operation Information Summary (OIS) Stage | Date Prepared/Updated: 14-Sep-2026 | Report No: PIDDC01776

BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Operation ID	Operation Name	
Montenegro	P519148	SMART Tax - Project for Innovation in the Tax Administration	
Region	Estimated One Review Date	Estimated Approval Date	Practice Area (Lead)
EUROPE AND CENTRAL ASIA	11-Nov-2026	28-Jan-2027	Governance
Financing Instrument	Borrower(s)	Implementing Agency	
Investment Project Financing (IPF)	Ministry of Finance	Montenegro Tax Administration	
Is this an Urgent Need / Capacity Constraint situation?		No	

Rationale for Choice of Financing Instrument:

The proposed Smart Tax Project builds on the successful modernization of the Montenegro Tax Administration (MTA) under the Revenue Administration Reform Project (RARP), which established key digital foundations through the Integrated Revenue Management System (IRMS) and the electronic fiscalization platform. This project will help realize the full benefits of these investments by supporting the next phase of institutional and operational transformation. By leveraging and expanding earlier investments, the project will improve compliance, data-driven decision making, service delivery, and operational resilience. Following consultations with the Ministry of Finance (MoF) and the MTA, Investment Project Financing (IPF) was selected as the most suitable instrument to support this agenda.

Proposed Development Objective(s)

To improve efficiency of the Montenegro Tax Administration, increase tax revenue collection, and reduce the compliance burden on taxpayers.

Sector & institutional context / problem statement

Montenegro has modernized its tax administration through RARP, including e-filing, electronic fiscal invoicing, value-added tax (VAT) gap analysis, improved VAT refund processing, and rollout of the IRMS. However, the MTA still faces constraints in business processes, information and communication technology (ICT) infrastructure, data governance, compliance risk management (CRM), human resources (HR) capacity, and European Union (EU)-aligned data exchange systems. The project addresses these gaps by investments in upgrading ICT infrastructure, strengthening CRM and risk-based operations, improving taxpayer services, and building the legal, institutional, and HR foundations needed for a fully digital, efficient, and EU-aligned tax administration.

Summary Description

The proposed Smart Tax Project will support the modernization of the MTA by strengthening its digital infrastructure, CRM capabilities, and institutional foundations. Building on the achievements of the RARP, the proposed project aims to help the MTA move toward a fully digitalized, taxpayer-centered, and risk-based administration. The project will finance upgrades to core ICT systems and infrastructure, including data governance, business intelligence, electronic archiving, VAT information exchange system (VIES), and secure hardware and network capacity. The project will also invest in core operations, including the design of a centralized risk analysis framework starting with a centralized risk register, strengthening audit, collection, and large taxpayer operations, as well as taxpayer services. The proposed project will also support and invest in the enabling environment (legal, institutional, and HR) that supports the ambitious reform and digitalization agenda. In addition to developing the strategic framework, plans, and reform roadmap, the project is expected to finance capacity building, rolling out digital solutions to better serve the taxpayer, and integrating new technologies into core MTA operations.
The operation is expected to enhance the efficiency, effectiveness, and resilience of tax administration, leading to improved revenue performance and a lower compliance burden for taxpayers. By improving the predictability, transparency, and efficiency of tax administration, the operation will contribute to a more conducive business environment, enabling firms to reduce compliance costs and devote more resources to productive investment and growth. At the same time, stronger revenue mobilization will help create fiscal space for priority public investments. As such, the project is closely aligned with the WBG Jobs Agenda by supporting private sector development, enhancing productivity, improving the business climate, and enabling the public investments needed to create more and better jobs. The project is also aligned with the Montenegro Country Partnership Framework (CPF) 2024-2026.
To respond to the MTA's immediate operational and EU accession priorities, the project is supporting advance procurement of the VIES, a key requirement for closing Chapter 16 of the EU acquis. The procurement process is already underway, with contract signature expected in October. This approach will accelerate implementation of a critical reform while enhancing project disbursement readiness and reducing the time between effectiveness and delivery of results. During project preparation, the Bank team will continue to work closely with the MTA and MoF to identify additional priority procurement packages that can be prepared, launched, and where feasible completed prior to project effectiveness, thereby ensuring a strong implementation pipeline from the outset and accelerating disbursements and achievement of development objectives.

COMPONENTS

Component Name	Explanation
Component 1: Digital Ready Infrastructure	Addresses key technology constraints that limit the MTA’s operational efficiency and overall administrative performance, to enable a more integrated and secured digital infrastructure, and supporting transformation to a data-driven MTA.
Component 2: Enhanced Compliance Risk Management Operations	Is designed to modernize and strengthen MTA’s core CRM operations with the primary aim of increasing tax revenues

	collected. The component focuses on improving enforcement effectiveness, and promoting voluntary compliance, and includes VIES and electronic fiscal invoicing (EFI) upgrades.
Component 3: Enabling Environment and Taxpayers Facilitation	Focuses on ensuring an adequate enabling legal and institutional environment necessary to sustain, accompany, and deepen the MTA’s modernization reforms, resulting in better taxpayers services and reduced tax compliance burden.
Component 4: Project Management	Will finance the operational and management arrangements required to ensure effective implementation, coordination, fiduciary compliance, monitoring, and reporting of project activities.

PROJECT FINANCING DATA (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? No

Is this project Private Capital Enabling (PCE)? No

SUMMARY

Total Operation Cost	**24.00**
Total Financing	**24.00**
of which IBRD/IDA	**24.00**
Financing Gap	**0.00**

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	24.00

Legal Operational Policies

Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

Environmental & Social

Environmental and Social Risk Classification

Moderate

Summary of Screening of Environmental and Social Risks and Impacts

The SMART Tax Project is preliminarily classified as Moderate for overall risk, with Low environmental risk and Moderate social risk. The nationwide Project will modernize the MTA through digital, institutional, and organizational reforms implemented mainly through national systems and existing premises. No land acquisition, physical or economic displacement, associated facilities, major civil works, labor influx, impacts on biodiversity or natural habitats, or retrenchment are anticipated. Environmental risks are Low and relate mainly to minor OHS impacts, packaging waste, energy use, and e-waste from ICT installation and replacement. These localized, temporary, and reversible impacts will be managed through national requirements, GIIP, WBG EHSGs, energy-efficient procurement, and authorized e-waste channels. Social risks arise principally from the sensitivity and political economy of tax administration reforms and from the introduction or strengthening of systems affecting compliance risk profiling, audits, arrears, VAT refunds, dispute resolution, and taxpayer interaction with the MTA. Modernization of the sector may affect taxpayers and stakeholders unevenly. Persistent informality and non-compliance in sectors such as tourism, hospitality, and trade remain a contextual challenge, and combined with areas where enforcement capacity and integrity safeguards are still being strengthened, may generate resistance and require careful stakeholder management. Given the complexity of the reform and the range of affected interests, proactive engagement will be important to maintain trust, credibility, and sustainability of project outcomes. Older persons, rural and disabled taxpayers, digitally excluded users, and small or informal businesses may face access barriers unless assisted and non-digital channels are maintained. ESS10 is therefore central to managing social risk. The SEP will provide transparent and differentiated engagement, accessible disclosure, and a project-level grievance mechanism, with particular attention to affected businesses, intermediaries, MTA staff, civil society, and underserved users. Additional risks concern data privacy and confidentiality, cybersecurity, data quality, and the transparency and fairness of risk profiling and automated or AI-supported decisions, including taxpayers' ability to understand and challenge consequential outcomes. Mitigation measures will be identified and refined during preparation and are expected to include inclusive system design, human oversight of consequential automated outputs, appropriate notification and explanation mechanisms, data quality controls, targeted communication and user support, continued non-digital channels, and accessible grievance and appeal arrangements consistent with national law. Automation and organizational restructuring may affect staff functions and skills requirements; these changes will be managed through consultation, fair treatment, and redeployment and retraining under Component 3supported by a workers' grievance mechanism. SEA/SH risk is assessed as Low. The Project will reduce paper use and travel, improve taxpayer services, lower compliance burdens, strengthen transparency and formalization, and build MTA capacity.ESS1, ESS2, ESS3 and ESS10 are relevant, with ESS10 central management of the principal social risks. ESS4 is not currently considered relevant as the Project does not involve activities presenting material community health and safety risks; ESS5–ESS9 are also not relevant. The risk classification will be reviewed and confirmed as project preparation advances. Borrower's capacity remains an important consideration. The MTA have experience implementing World Bank-financed operations, but their capacity to apply the ESF — particularly in relation to stakeholder engagement, grievance and digital inclusion, e-waste, and risks associated with automated systems — requires strengthening. The PIU will therefore assign clear environmental and social responsibilities, engage qualified social expertise, and receive targeted training. By Appraisal, the Borrower will prepare, consult upon, and disclose a proportionate ESCP and SEP with a project-level grievance mechanism. No standalone LMP is required; applicable ESS2 provisions will be incorporated into the ESCP and POM. The POM will also include procedures for environmental and social screening, occupational health and safety, e-waste management, incident reporting, digital inclusion and accessibility, data governance, information management, and grievance handling. Any activity-specific measures identified through screening will be prepared and implemented before the relevant activity begins. Select elements of Montenegro's legal and institutional framework may be relied upon where assessed as materially consistent with the applicable ESSs and supplemented through the ESCP, SEP, and POM.

CONTACT POINT

World Bank

Joey R. Ghaleb
Senior Public Sector Specialist

Srdjan Svircev
Senior Public Sector Specialist

Borrower/Client/Recipient

Ministry of Finance

Implementing Agencies

Montenegro Tax Administration

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Srdjan Svircev, Joey R. Ghaleb

Approved By

Country/Division Director:		