



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

Appraisal Stage | Date Prepared/Updated: 08-Aug-2019 | Report No: PIDISDSA27237



BASIC INFORMATION

A. Basic Project Data

Country Montenegro	Project ID P170454	Project Name Additional Financing for the Montenegro Revenue Administration Reform Project	Parent Project ID (if any) P149743
Parent Project Name Revenue Administration Reform Project	Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 19-Aug-2019	Estimated Board Date 03-Oct-2019
Practice Area (Lead) Governance	Financing Instrument Investment Project Financing	Borrower(s) Montenegro	Implementing Agency Montenegro Tax Administration

Proposed Development Objective(s) Parent

The development objective of the project is to improve the effectiveness of operational functions of Montenegro’s tax administration and to reduce the compliance costs for corporate taxpayers.

The project supports Montenegro’s long-term vision of a revenue administration that operates with streamlined risk-based business processes that contribute to the efficient collection of taxes and social contributions from all sources of economic activity. Increased compliance will generate a more robust revenue stream to provide essential services to citizens. Improvements in revenue administration capacity will also support the country's goal for EU accession and economic integration with EU member states.

Components

- Electronic Fiscalization Invoicing
- Institutional Development
- Business Processes
- Taxpayer Services

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	5.44
Total Financing	5.44
of which IBRD/IDA	5.44
Financing Gap	0.00



DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	5.44
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Environmental Assessment Category

C-Not Required

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. Several years after the global financial crisis, Montenegro remains challenged on the fiscal front. Fiscal vulnerabilities primarily come from large publicly financed infrastructure investments that contribute to economic growth while increasing government debt.¹ Improving and stabilizing revenue collection has therefore become a priority. During the preparation of the parent project, several organizational, human resource, and information technology (IT) challenges that undermine effective performance of the tax administration were identified. Accordingly, the Revenue Administration Reform Project (RARP) was designed to support investments required to acquire a modern revenue management IT system and equip the staff with new tools for improving tax registration, collection, audit, enforcement and taxpayer services. Specifically, the RARP was to improve the operational effectiveness of the Montenegro Tax Administration (MTA) and reduce the compliance burden of corporate taxpayers. This approach was consistent with Montenegro’s Fiscal Strategy for 2017-2020, its Program of Accession to the European Union 2014-2018 and the MTA’s business strategy for 2014-2019. The support provided under the RARP is also aligned with the Bank Group’s Country Partnership Framework (CPF) for the period FY2016-2020 and contributes to the CPF’s first focus area of enhancing macroeconomic and financial resilience.²

¹ IMF Article IV Consultation. Country Report No. 18/121. (May 2018)

² Report Number 105039-ME. Country Partnership Framework for Montenegro for the period FY2016-2020 (May 16, 2016).



2. In early 2018, the Government of Montenegro decided to advance additional tax revenue measures including the introduction of electronic fiscalization invoicing (EFI). The EFI initiative aims to record electronically all business cash and non-cash transactions to reduce undeclared turnover and income. A flagship initiative of the Prime Minister and the Ministry of Finance (MOF), its high-level objectives are increasing revenue and reducing the informal economy in the country as well as tax evasion. EFI would contribute to the goal of macroeconomic and fiscal sustainability articulated in the Montenegro Development Directions 2018-2021 (MDD). It is also identified as a critical action in the MTA's Corporate Strategy for 2019-2022 with a vision of a robust, modern and efficient tax administration. Its introduction was contemplated in the First Policy-Based Guarantee (PBG) Operation on Fiscal and Financial Sector Resilience (P166205) to be part of the second PBG. It would target especially increased revenue collection from tourism and catering services, as well as reduce the compliance costs with the Value-Added Tax (VAT). In this regard, the enactment of the "Law on Fiscalization for Transaction in Goods and Services" ("EFI Law") is a prior action under the second PBG operation (P167665).

Sectoral and Institutional Context

3. Montenegro has an existing model of fiscal invoicing that was introduced in 2001 using electronic fiscal printers/electronic tax registers (otherwise known as fiscal cash registers) to monitor VAT payments on cash transactions. These registers have a tamper-proof fiscal memory and are certified but are not electronically connected to the MTA.³ The current model is considered complex, outdated, limited to cash transactions, and does not fully support quality monitoring, reporting and risk analysis. In addition, the large size of the gray economy remains a concern. According to the latest available Survey on the Conditions for Doing Business for Companies and Entrepreneurs in Montenegro that was conducted in late 2014, 38.4% of Montenegrin economic operators were engaged in gray economy activities.⁴ Moreover, MTA identified that avoiding tax obligations (through use of cash and not reporting of sales revenues and fraudulent invoicing), observed in both retail sales (B2C) and wholesale transactions (B2B), is due to unavailability of detailed transaction and turnover information necessary to control and prevent such practices. This undermines operational effectiveness of tax administration and efforts to reduce compliance costs of taxpayers as well as reduces public trust in the revenue collection system.

4. With the enactment of the EFI Law on July 31, 2019, and to facilitate the launch of EFI system in January 2020, the MOF requested World Bank assistance to implement an EFI system as a new component under the RARP through a restructuring and additional financing currently estimated at Euro 4.8 million (US\$ 5.44 million equivalent, excluding front-end fee).

5. With the new EFI component, the Project remains aligned with and relevant to the Government's Fiscal Strategy, Program of Accession to the EU, updated corporate strategy of the MTA (2019-2022) and the CPF as discussed above. Moreover, the Project now directly complements the PBG's on Fiscal and Financial Resilience by helping to ensure the implementation of a prior action.

C. Proposed Development Objective(s)

Original PDO

³ Data on transactions is transmitted at the end of the working day and there is no 24/7 connection with the MTA.

⁴ Montenegro Electronic Fiscal Invoices Implementation Feasibility Study (2018).



The development objective of the project is to improve the effectiveness of operational functions of Montenegro's tax administration and to reduce the compliance costs for corporate taxpayers.

The project supports Montenegro's long-term vision of a revenue administration that operates with streamlined risk-based business processes that contribute to the efficient collection of taxes and social contributions from all sources of economic activity. Increased compliance will generate a more robust revenue stream to provide essential services to citizens. Improvements in revenue administration capacity will also support the country's goal for EU accession and economic integration with EU member states.

Current PDO

6. The original PDO will not be revised with the additional financing.

Key Results

7. The implementation of the EFI solution will allow the Montenegro Tax Administration (MTA) to generate more secure real time business transaction information. This would be a critical input to a comprehensive compliance control framework and therefore improve MTA's operational effectiveness and in parallel reduce the compliance costs of taxpayers, with focus on corporate taxpayers.

D. Project Description

8. The EFI solution that is under consideration is "a set of measures carried out by persons liable of fiscalization by submitting data on transactions in goods and services in real time, electronically to the administration authority competent for public revenues collection affairs". (Article 2. Version of the EFI Law approved by the Government). It requires the taxpayer to issue an invoice/receipt to a customer after MTA has recorded and verified the correctness of the receipt electronically and in the real time. This will allow MTA to track both cash and non-cash transactions in real time and thus enable it to take corrective action as necessary. It includes the following features:⁵

- a. service for exchanging messages in electronic fiscal invoicing of cash and non-cash payments;
- b. public mobile and web application for verification of whether a receipt has been filed with the MTA;
- c. web application for tax officials allowing them to verify fiscal invoicing in real time;
- d. register of fiscalization obligors;
- e. register of taxpayers' business premises;
- f. web application for registered certified invoice books for MTA officials;
- g. reporting system; and
- h. portal for e-oversight, risk analysis, audit and management.

9. Under the additional financing, the new EFI component is proposed to support the requirements of the MTA in developing and implementing an EFI system which will include software, hardware,

⁵ Montenegro Ministry of Finance. Draft Technical Specifications for EFI (April 2019).



consultancy services, and training/workshops. This new component will finance specifically the following activities:

- a. customization of a commercial-off-the-shelf (COTS) solution for an EFI system and its implementation;
- b. procurement of hardware and complementary software/licenses necessary for the implementation of the EFI system;
- c. integration of the EFI system with other MTA systems including the IRMS;
- d. consultancy services to support the MTA in monitoring and quality compliance required for the implementation of the EFI; and
- e. training of MTA staff to implement the EFI system.

10. In addition, the parent Project will be restructured to revise the results framework, components and costs, technical and economic analysis, and risks discussions. Likewise, the procurement arrangements will be updated to provide that the new EFI component will be implemented following the new the Procurement Regulations for Investment Project Financing (IPF) Borrowers of July 2016, revised in November 2017 and August 2018; while the Consultant and Procurement Guidelines⁶ will continue to apply to procurement under the parent Project.

E. Implementation

Institutional and Implementation Arrangements

11. The additional financing will be implemented under the existing institutional arrangements with the PMU at the MTA for overall project implementation and TSU at the MOF providing fiduciary services. Consistent with the existing implementation arrangements, wherein working groups have been established in MTA for each specific activity, a new working group within the MTA will be established for the EFI component. This working group that will be led by MTA will be composed of staff from MTA, MOF, Ministry of Public Administration and other critical stakeholders building on the existing working group established by MOF to facilitate EFI implementation. In addition, to support the MTA program manager who will be supervising the EFI contract, the Project will finance an advisor who will support monitoring and quality compliance of the EFI implementation. This additional working group will be reflected in the updated Project Operational Manual (POM).

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

Country-wide but investments will primarily be in Podgorica.

⁶ Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers dated January 2011 (revised July 2014) and Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers dated January 2011 (revised July 2014).



G. Environmental and Social Safeguards Specialists on the Team

Roxanne Hakim, Social Specialist
Nikola Ille, Environmental Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

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

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

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

No safeguard issues have been identified with additional financing for the project and there are no changes to the environmental assessment category.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

There are no potential indirect or long term impacts due to anticipated project activities in the project area under the additional financing.



3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

None of the project activities could have adverse impact on the project area.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

The project's EA category rating remains C with no safeguard issues identified.

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

Not applicable

B. Disclosure Requirements (N.B. The sections below appear only if corresponding safeguard policy is triggered)

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting) (N.B. The sections below appear only if corresponding safeguard policy is triggered)

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APPROVAL

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