



## Revenue Administration Reform Project (P149743)

EUROPE AND CENTRAL ASIA | Montenegro | Governance Global Practice |  
IBRD/IDA | Investment Project Financing | FY 2018 | Seq No: 7 | ARCHIVED on 29-Jun-2021 | ISR47058 |

Implementing Agencies: Montenegro, Montenegro Tax Administration

**Key Dates****Key Project Dates**

Bank Approval Date: 31-Jul-2017

Effectiveness Date: 13-Mar-2018

Planned Mid Term Review Date: 29-Sep-2021

Actual Mid-Term Review Date:

Original Closing Date: 31-Mar-2023

Revised Closing Date: 31-Mar-2023

**Project Development Objectives**

Project Development Objective (from Project Appraisal Document)

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.

Has the Project Development Objective been changed since Board Approval of the Project Objective?

No

**Components Table**

Name

Electronic Fiscal Invoicing:(Cost \$5.30 M)

Institutional Development:(Cost \$1.35 M)

Business Processes:(Cost \$13.85 M)

Taxpayer Services:(Cost \$0.23 M)

**Overall Ratings**

Name	Previous Rating	Current Rating
Progress towards achievement of PDO	<input type="checkbox"/> Moderately Satisfactory	<input type="checkbox"/> Moderately Unsatisfactory
Overall Implementation Progress (IP)	<input type="checkbox"/> Moderately Satisfactory	<input type="checkbox"/> Moderately Unsatisfactory
Overall Risk Rating	<input type="checkbox"/> Moderate	<input type="checkbox"/> Moderate

**Implementation Status and Key Decisions**

Since January 2021, the former Montenegro Tax Administration (MTA) was transformed into the new Revenue Administration (RA) that merged three entities: Tax Administration, Game of Chance, and Customs Administration. Following the appointment of the Acting Director in RA, an interim Project Implementation Committee was formed. However, the transition led to further delay in project implementation particularly of the proposed procurement of a Data Warehouse/ Business Intelligence and Integrated Revenue Management Systems solutions. With the Acting



Director in place and expected appointments of some Deputy Directors by the end-July, the project performance is expected to improve significantly.

Notwithstanding the delay, the project continued to successfully launch the Electronic Fiscalization Invoicing (EFI) System on January 1, 2021 per the law on EFI. The successful development and timely launch of the EFI system continue to serve as a best practice example of what can be achieved when proper decision-making and implementation arrangements are in place, even in the context of a COVID-19 pandemic. As of early June, most business sectors have adopted the EFI system efficiently, and currently 52% of taxpayers are registered with the system. As of June 10, more than 16 million invoices have been processed through the system, with consumers actively checking and validating their receipts.

## Risks

### Systematic Operations Risk-rating Tool

Risk Category	Rating at Approval	Previous Rating	Current Rating
Political and Governance	☐ Moderate	☐ Moderate	☐ Moderate
Macroeconomic	☐ Substantial	☐ Moderate	☐ Moderate
Sector Strategies and Policies	☐ Moderate	☐ Moderate	☐ Moderate
Technical Design of Project or Program	☐ Substantial	☐ Moderate	☐ Moderate
Institutional Capacity for Implementation and Sustainability	☐ Substantial	☐ Substantial	☐ Substantial
Fiduciary	☐ Moderate	☐ Moderate	☐ Moderate
Environment and Social	☐ Low	☐ Low	☐ Low
Stakeholders	☐ Moderate	☐ Moderate	☐ Moderate
Other	--	☐ Moderate	☐ Moderate
Overall	☐ Substantial	☐ Moderate	☐ Moderate

## Results

### PDO Indicators by Objectives / Outcomes

Improve effectiveness of operational functions of MTA				
▶ Tax Gap for VAT (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No methodology for Tax Gap for VAT estimation	No change from previous - VAT Gap Methodology approved by MTA, baseline set at 9.81%	-Training was organized for the MTA employees to use the methodology, including	6% reduction in Tax Gap for VAT compared to 2020 value



		using 2017 data. Calculation of 2018 VAT Gap initiated and awaiting finalization and endorsement by MTA and MOF.	tax gaps for 2017 and 2018. -MTA's Internal procedure for calculating the tax gap by type of tax was prepared. - A standardized annual tax gap report has been prepared, using the example of 2018 tax gap report.	
Date	01-Apr-2016	01-Dec-2020	24-Jun-2021	31-Dec-2022
Comments:	VAT Gap Methodology was approved by MTA and baseline value set.			
<b>► Percentage of tax returns filed on time (Text, Custom)</b>				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	VAT: 82; CIT: 89	No change from previous - 82.24 for VAT (CY 2019) and 90.63 for CIT (CY 2018) - no significant project activities yet on the ground - actual values meet target levels of 82% and 90%, respectively, consistent with project implementation timeline.	VAT: 84.12% (CY 2020), 88.01% (first 5 months of CY2021) CIT: 84% (CY 2019) and 83.32% (first 5 months of CY2021) Reduction in CIT is due to COVID-19 and the fact that taxpayers needed to reissue tax certificates in 2020. No significant project activities yet on the ground - actual values are below target levels of 86% and 89% for VAT and CIT, respectively, in CY2020.	VAT: 92; CIT: 96
Date	31-Dec-2016	01-Dec-2020	24-Jun-2021	31-Dec-2022
Comments:	No significant project activities yet to impact value of indicator.			
<b>► Achieved processing of almost 90% of VAT refund claims within 30 days for predominantly exporters and 60 days for the rest of the taxpayers according to domestic law (Text, Custom)</b>				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Exporters: 70%; Rest: 65%	No change from previous  Exporters: 70% (2019); Rest: 74 (2019)	Lower than 2019 and the target values for 2020 due to COVID-19  Exporters: 60% (2020, 80% target) and 68.7% for first 5 months of CY2021 Rest: 70 (2020, 75% target) and 56.4% for first 5 months of CY2021	Exporters: 88%; Rest: 85%



Date	31-Dec-2018	01-Dec-2020	24-Jun-2021	31-Dec-2022
Comments:	Project implementation on the ground has yet to take place. EFI will have a significant impact in 2021.			

Reduce compliance costs for corporate taxpayers				
▶ Time it takes to pay taxes and social contributions (Hours, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	314.00	300.00	300.00	200.00
Date	31-Dec-2015	01-Dec-2020	24-Jun-2021	31-Dec-2022
Comments:	Current value based on Doing Business 2020. No change from 2019 but levels are above target levels. No update to Doing Business publication.			

**Overall Comments**

While there are no project activities yet that have significant impact on the results indicators, the performance trend of the indicators have been impacted by COVID-19 in 2020.

**Intermediate Results Indicators by Components**

Institutional Development				
▶ MTA staff satisfaction with the new skills and ability to apply them, disaggregated by gender (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No baseline	No change from previous - 68% of MTA staff respondents indicate satisfaction (men 71%, women 66%). 2020 survey has yet to be conducted.	No change from previous - 68% of MTA staff respondents indicate satisfaction (men 71%, women 66%). 2020 survey was not conducted due to COVID-19 and institutional changes. The 2021 survey will be launched in July 2021.  While there was no survey in 2020 and 2021 have yet to be launched, the open dialogue launched by the RA with taxpayers during the	Increase by 10% compared to baseline established in 2019



			development of the EFI system since July 2020 and during its ongoing implementation is helping improve the overall EFI system. As a consequence, system functionalities have been updated several times already in response to problems reported and recommendations shared by taxpayers and RA staff. For example, as of April 1, 2021, the EFI fiscal services put into production a sixth version. On the other hand, public application for invoice verification had three versions.	
Date	31-Dec-2016	01-Dec-2020	24-Jun-2021	31-Dec-2022
Comments:	The results of the first satisfaction surveys conducted in the summer of 2019 were presented in October 2019 to MTA management, the Project Steering Committee and Advisory Board, which includes private sector stakeholders. They will need to be considered in the development of the change management and communications plan for the project. Due to COVID-19 and transformation of the MTA into the new Revenue Administration, the contract to conduct the follow-up survey was only signed recently. The survey will be launched starting July 2021.			
► Estimated tax gap is calculated annually and suitable for publication by year 5 (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No	Follow-up exercise initiated to develop reports and training.	Yes. Follow-up exercise initiated to conduct tax gap analysis using 2019 data.	Yes (with publication)
Date	31-Mar-2016	01-Dec-2020	24-Jun-2021	31-Dec-2022
Comments:	<p>Consultancy for establishing methodology extended to inform follow-up exercise, report development and training. Within target and consistent with project timeline.</p> <ul style="list-style-type: none"> <li>-Training was organized for the RA employees to use the methodology, including tax gaps for 2017 and 2018.</li> <li>-RA's Internal procedure for calculating the tax gap by type of tax was prepared.</li> <li>- A standardized annual tax gap report has been prepared, using the example of 2018 tax gap report and will be prepared annually thereafter.</li> </ul>			

Business Processes



► Payment compliance rate for VAT (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	62.00	60.00	75.00	87.00
Date	31-Dec-2016	01-Dec-2020	24-Jun-2021	31-Dec-2022
Comments:	No project activities yet. Below target of 80% due to COVID-19 impact.			
► Payment compliance rate for CIT (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	81.00	80.00	80.00	93.00
Date	31-Dec-2016	01-Dec-2020	24-Jun-2021	31-Dec-2022
Comments:	Same achievement as in 2019. Below target of 86% for 2020 due to COVID-19.			
► Improved selection of taxpayers for audit so that comprehensive audits are centrally selected from the risk analysis system (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	no comprehensive audit centrally selected from risk analysis system	no comprehensive audits centrally selected from risk analysis system - consistent with project timeline no change from baseline expected at this time	20% above the target of 15% for 2020	75% of comprehensive audits selected centrally from risk analysis system
Date	31-Dec-2018	01-Dec-2020	24-Jun-2021	31-Dec-2022
Comments:	Project related activities have yet to be implemented. Achievements are due to IMF Technical Assistance on risk analysis.			

Taxpayer Services				
► Taxpayers satisfaction with MTA's quality of taxpayers services and integrity of MTA staff, disaggregated by gender (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No baseline	Follow-up survey yet to be deployed.	Follow-up survey to be launched in July 2021. That said, while there was no survey conducted since 2019, the success of the timely launched of the EFI is partly due to the open dialogue launched by the RA with taxpayers during the development of the EFI system that started in July 2020	Increase by 10% compared to baseline established in 2019



	and during its ongoing implementation. The open and continuous feedback loop is helping improve the overall system. As a consequence, system functionalities have been updated several times already in response to problems reported and recommendations shared by taxpayers and RA staff. For example, as of April 1, 2021, the EFI fiscal services put into production a sixth version. On the other hand, public application for invoice verification had three versions.			
Date	31-Dec-2016	01-Dec-2020	24-Jun-2021	31-Dec-2022
Comments:	Baseline survey completed. Follow-up survey planned in 2020 could not be deployed due to COVID-19. The 2021 survey will be launched in July 2021.			
<b>► Increased e-filing for VAT (Percentage, Custom)</b>				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	75.00	77.37	90.24	95.00
Date	31-Dec-2018	01-Dec-2020	24-Jun-2021	31-Dec-2022
Comments:	2020 achievement is higher than target of 80%. Critical project activities have yet to be implemented. EFI expected to have a positive contribution to this starting 2021. Accordingly, as of the first 5 months of CY2021, achievement is 99.78% above target of 90% for 2021 and project end-target of 95%.			

<b>Electronic Fiscal Invoicing (EFI)</b>				
<b>► Improved post filing index (Text, Custom)</b>				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	70.49	No change from previous - 70.5 - no follow-up publication issued	No change from previous - 70.5 - no follow-up publication issued	increased by 8% from baseline
Date	31-Dec-2018	01-Dec-2020	24-Jun-2021	31-Dec-2022
Comments:	EFI launched on January 1, 2021. Awaiting new publication for Doing Business.			



► Real-time information for VAT transactions available to MTA (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	no real time EFI system in place	EFI contract under implementation - roll-out to start on January 1, 2021	Achieved - EFI system available 99.5% of the time for all cash transactions	EFI system available 99.5% of the time for all transactions
Date	31-Dec-2018	01-Dec-2020	24-Jun-2021	31-Dec-2022
Comments:	Project end-target achieved with EFI implementation starting in 2021.			

### Performance-Based Conditions

#### Data on Financial Performance

#### Disbursements (by loan)

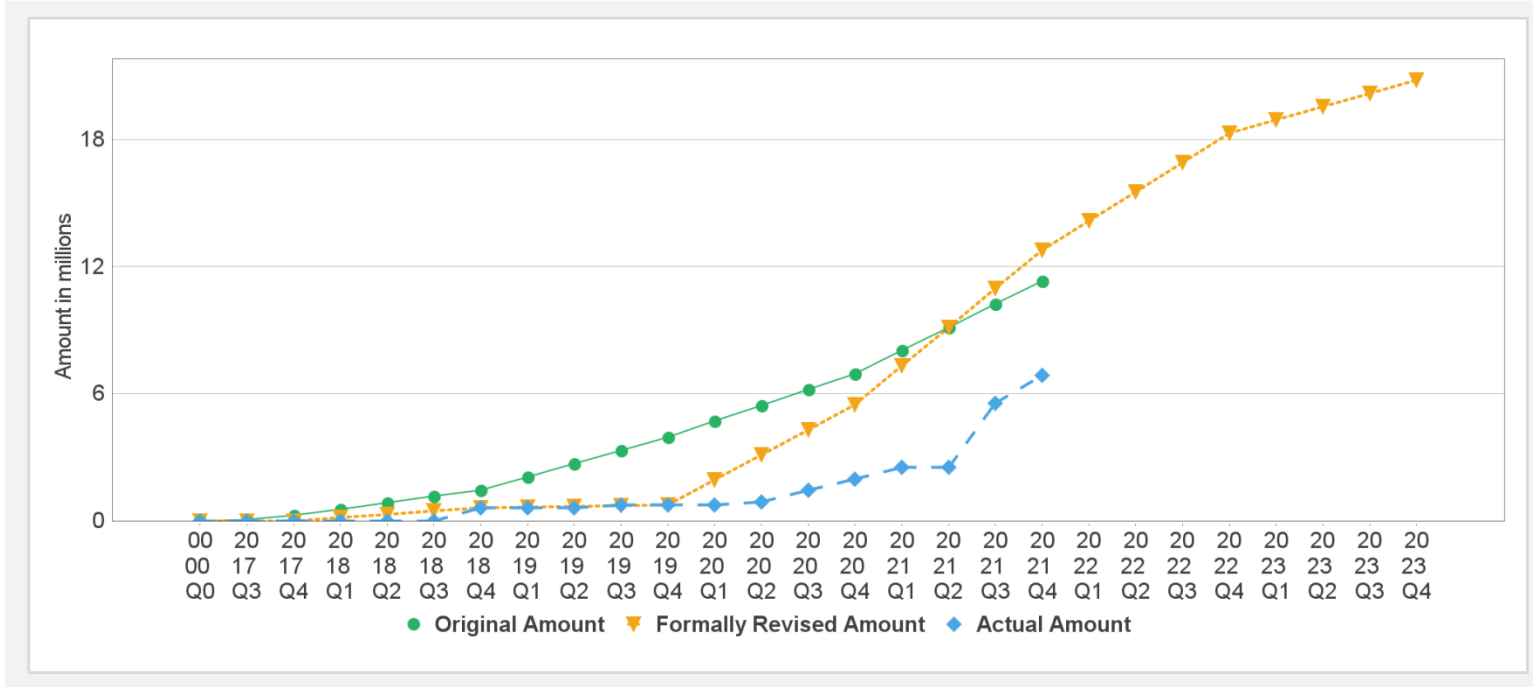
Project	Loan/Credit/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P149743	IBRD-87720	Effective	USD	15.70	15.70	0.00	1.69	14.08	11%
P149743	IBRD-90130	Effective	USD	5.20	5.20	0.00	5.23	0.48	92%

#### Key Dates (by loan)

Project	Loan/Credit/TF	Status	Approval Date	Signing Date	Effectiveness Date	Orig. Closing Date	Rev. Closing Date
P149743	IBRD-87720	Effective	31-Jul-2017	19-Jan-2018	13-Mar-2018	31-Mar-2023	31-Mar-2023
P149743	IBRD-90130	Effective	10-Oct-2019	11-Nov-2019	20-Nov-2019	31-Mar-2023	31-Mar-2023

#### Cumulative Disbursements





**PBC Disbursement**

PBC ID	PBC Type	Description	Coc	PBC Amount	Achievement Status	Disbursed amount in Coc	Disbursement % for PBC
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**Restructuring History**

There has been no restructuring to date.

**Related Project(s)**

P170454-Additional Financing for the Montenegro Revenue Administration Reform Project