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PROJECT PERFORMANCE ASSESSMENT REPORT

WHAT WORKS

CROATIA

Revenue Administration Modernization Project

Report No. 149797
JUNE 30, 2020

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(IBRD-74710)

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Human Development and Economic Management

Independent Evaluation Group

Abbreviations

CAS	Country Assistance Strategy
CRMS	Compliance Risk Management System
CTA	Croatia Tax Administration
DRBC	Data Recovery Back-Up Center
EU	European Union
FY	fiscal year
GDP	gross domestic product
ICT	information and communication technology
IMF	International Monetary Fund
IT	information technology
LTO	Large Taxpayer Office
TTL	task team leader
VAT	value-added tax

All dollar amounts are US dollars unless otherwise indicated.

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This report was prepared by Lourdes N. Pagaran and Aristomene Varoudakis, who assessed the project in November 2019. The report was peer-reviewed by Richard Stern and panel-reviewed by Clay Wescott. Carla Fabiola Coles and Dung Thi Kim Chu provided administrative support in Washington, DC. Bogdanka Krtinic provided administrative support in Zagreb, Croatia.

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This is a Project Performance Assessment Report (PPAR) by the Independent Evaluation Group (IEG) of the World Bank Group on the Croatia Revenue Administration Modernization Project (P102778). This instrument and the methodology for this evaluation are discussed in appendix C. Following standard IEG procedure, the draft PPAR was shared with relevant government officials for their review and comment. Comments were received from the borrower (see appendix E).

Croatia—Revenue Administration Modernization Project

Basic Data

Country:	Croatia	World Bank financing commitment:	$68 million
Global Practice	Governance	Actual project cost:	$15.59 million
Project name:	Revenue Administration Modernization Project	Actual amount disbursed:	$15.78 million
Project ID:	P102778	Environmental assessment category:	B
Financing instrument:	Specific investment loan	Financing source:	IBRD loan

Note: IBRD = International Bank for Reconstruction and Development.

Dates

Event	Original Date	Revised or Actual Date
Approval		06/28/2007
Effectiveness	12/21/2007	12/21/2007
Restructuring		09/09/2010 06/13/2013
Midterm review		
Closing	06/30/2013	06/30/2015

Key Staff Responsible

Management	Appraisal	Completion
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Summary

The development objective of the Croatia Revenue Administration Modernization Project was to achieve further improvements in tax efficiency, taxpayer services, and tax compliance through capacity building and systems improvement in the Croatia Tax Administration (CTA). For purposes of this review, three sub-objectives are assessed: (i) improvements in efficiency; (ii) improvements in taxpayer services; and (iii) improvements in tax compliance.

The project aimed to strengthen the CTA's performance, aligning its operations with European Union (EU) practices and building capacity for implementing the EU *acquis* on taxation. It was prepared expeditiously in response to the government's urgent request, as part of Croatia's negotiation for EU accession.

Overall, the project achieved limited results in improving tax efficiency and tax compliance, and mixed results in improving taxpayer services (see appendix A). The establishment of the Large Taxpayer Office (LTO) at the national level in 2012 was a key achievement supported by the project. The LTO focuses on taxpayers who account for almost 38 percent of tax revenue collected. Attracting highly qualified tax auditors to the LTO has proven difficult because there are no differences in compensation with other CTA offices. The share of LTO staff in audit functions has thus been declining over time. Despite reorganizations, the CTA continues to operate a large number of offices, which has put pressure on operating costs. The ratio of CTA operating cost to net tax revenue collected has been rising since project completion, suggesting a lack of sustainability in the limited improvements in tax efficiency.

The project's contribution to the improvement of taxpayer services is mixed. The new CTA website provides detailed information on tax legislation and amendments to tax laws, with an explanation of the changes. The upgraded e-filing system, introduced in 2013, helped boost e-filing to nearly 100 percent for value-added tax returns and 97 percent for corporate income tax returns. Despite the increase in the array of taxpayer services and the extensive use of e-filing by legal entities, deficiencies persist in the way taxpayers interact with the tax authorities, and these deficiencies increase the cost of tax compliance. The transactions and administrative steps taxpayers need to take to settle their obligations with the CTA remain numerous, and the time required for tax compliance (206 hours per year) has increased since project inception and remains 20 percent above the EU average. The complexity of tax forms also increases the compliance cost, partially offsetting the benefits from the more widespread use of e-filing.

The project's contribution to improving tax compliance was through the Compliance Risk Management System, which was completed after project closure, with budgetary financing from the government. The system is now fully operational.

What Worked?

The project's objectives were highly relevant in the context of Croatia's drive to join the EU and the government's medium-term reform agenda. The objectives were aligned with the World Bank's country engagement strategies in Croatia, both at the time of appraisal and at closing, which supported the government's growth and reform strategy for a successful accession to the EU and convergence with EU standards. The project was, however, designed with exclusive focus on tax administration, missing an opportunity to address issues relevant to the broader longer-term tax policy agenda.

The project's theory of change was plausible and complemented assistance extended to the CTA by other donors, especially the EU. The World Bank also collaborated effectively with the International Monetary Fund on analytical and diagnostic work, including the preparation of the CTA's modernization strategy and its update, and on the establishment of the LTO through advice to modernize its structure, governance, and business processes.

The World Bank restructured the project twice (in 2010 and 2013) to address shortcomings in the original design. The redesigned project supported the Compliance Risk Management System, which contributed to improving tax compliance, and the Data Recovery Back-Up Center. The World Bank refocused its efforts on institutional reforms and internal CTA processes when it became obvious that a suitable construction site could not be secured for the new CTA headquarters complex. The World Bank was proactive in recalibrating the project and conducted two tax diagnostics of the CTA to identify existing organizational, operational, and policy gaps and to inform the revised design of the project. It also streamlined and added more relevant indicators to the weak results framework.

What Didn't Work?

Project preparation was expedited and was not ready for implementation at approval. As a result, the initial years of implementation were focused on finding a suitable location in Zagreb for the headquarters complex, and the implementation of the institutional reform elements of the project were neglected. In effect, the project was designed without clear knowledge of the CTA modernization strategy, which was not ready during preparation. The project paid little attention to the design of a meaningful results framework to guide implementation. The results indicators were extensive but had only weak connections to the project's objectives, with no baselines or targets. Both restructurings streamlined the intermediate indicators; however, the outcome indicators were maintained, the baselines and targets were only provided during the second restructuring, and the surveys of taxpayers and tax officers—on which three of the four outcome indictors were based—were discontinued before project closing. In sum, the project restructurings were unable to reverse the early design shortcomings, and this affected the project's outcomes.

Implementation of the project and continuity of the dialogue with the government were undermined by a high turnover of task team leaders (TTLs) with no tax administration expertise. Five TTLs managed the project during its life. Although the presence of a local country economist proved useful in maintaining the project's institutional memory, more was needed to keep up with the day-to-day management of the project and maintain dialogue with the government. The World Bank collaborated with a regional International Monetary Fund tax administration adviser based in Slovenia on the establishment of the LTO, but this was not an appropriate remedy for the lack of task team leaders' technical skills in the other areas supported by the World Bank operation. The combination of high task team leader (TTL) turnover on the World Bank side and frequent changes in CTA leadership further complicated efforts to resolve implementation and ownership issues that plagued the project from the outset.

Lessons

This assessment offers the following lessons:

- **Poor quality at entry and lack of readiness for implementation contributed to significant implementation delays and limited results.** Expedited project preparation left critical aspects of the design incomplete, including preparatory work for the civil works component, adoption of the CTA's modernization strategy, and establishment of a sound monitoring and evaluation framework.

- **Given that the main driver of the tax administration reforms was Croatia's bid for membership of the EU, the project could have better secured the government's commitment to reforms up front.** Reforms such as greater administrative and financial autonomy of the CTA, or tax policy reforms to broaden the tax base, would at the same time have enhanced the effectiveness of tax administration.

- **In projects aiming to improve tax revenue administration, the right balance must be struck between institutional reform and hardware needs (buildings and information and communications technologies).** The project's theory of change rightly emphasized synergies of business process reform, training, and organizational consolidation. However, proper sequencing is critical to effectively address issues of technical capacity and ownership. Project implementation initially emphasized civil works and information technology infrastructure, to the detriment of institutional reform, and as a result little progress was achieved in CTA modernization until the project's restructuring, when the civil works were dropped.

- **High TTL turnover could be mitigated by ensuring adequate capacity in the field with the presence of competent local staff.** Had the World Bank secured local expertise to support implementation, the refocusing of the project on institutional gaps might have occurred earlier. More systematic handover of project leadership could have also mitigated the adverse impact of frequent task team leader rotation.

Oscar Calvo-Gonzalez, Director
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1. Project Background, Context, and Design

1.1 Croatia, an upper-middle-income country, joined the European Union (EU) in 2013. In 2018, gross domestic product (GDP) per capita (in purchasing power parity nominal terms) reached $25,264, or 67 percent of the EU-28 average GDP per capita. Real GDP increased by an average of more than 4 percent a year from 1992 to 2008. The global financial crisis in 2008–09 triggered a severe, lengthy recession and temporarily derailed convergence toward EU living standards. The recession lasted six years, reducing annual output by 12 percent from 2009 to 2014. The severity of the Croatian recession and the sluggishness of the recovery contributed to high levels of emigration of young and skilled workers. After reaching a postrecession high of 3.5 percent in 2016, annual growth moderated at below 3 percent (before the coronavirus [COVID-19]). Strong private consumption and tourism were the main drivers of growth. Investment, although slowly recovering, remained subdued. Low public and private investment, and continued emigration, weigh on medium-term growth prospects (IMF 2019; World Bank 2018). Public and private debts have both been declining but remain elevated.

1.2 Croatia's fiscal revenues as a share of GDP are at the level of advanced European economies. Croatia raised in 2019 almost 47 percent of GDP in fiscal revenues (of which 38.7 percent of GDP came from taxes), only slightly below Scandinavian countries (appendix A, table A.13). The country's high fiscal revenues are the result of both historically high tax rates and continuous efforts to improve tax administration (IMF 2017). In 2019, Croatia had the highest indirect tax ratio (on goods and services) among European countries, at 21 percent of GDP. Direct income taxes in 2019 were comparably low, at 5.8 percent of GDP because of large tax exemptions. Tax collection through social contributions remains slightly above the EU average, at almost 12 percent of GDP in 2019.

1.3 The country became the 28th EU member country on July 1, 2013.[1] Throughout the interim period, until accession, Croatia had to demonstrate compliance with the requirements for EU membership set by the Copenhagen European Council in 1993 (the "Copenhagen criteria"). In addition to the requirements of democratic institutions and a functioning market economy, Croatia had to demonstrate capacity to effectively implement the rules, standards, and policies that make up the body of EU law: the "EU *acquis*." This constantly evolving body of legislation comprises 35 chapters, including on taxation (chapter 23). The acquis on taxation extensively covers indirect taxation, namely

[1] Croatia applied for European Union (EU) membership in 2003 and was in negotiations from 2005 until 2011.

value-added tax (VAT) and excise duties. Member states must ensure that the necessary implementing and enforcement capacities, including links to the relevant EU computerized taxation systems, are in place.

1.4 Croatia had to undertake far-reaching reforms to comply with the acquis, including reforms in tax policy and administration. The EU accession agenda relating to the Croatia Tax Administration (CTA) focused on three main areas: (i) achieving legislative harmonization with the acquis on taxation, (ii) building institutional capacity for implementation of the acquis, and (iii) developing information technology (IT) systems and data exchange capabilities. Several tax administration reforms have been undertaken since 2005, including the restructuring of the CTA, an administrative organization established in 1994 within the Ministry of Finance. The CTA enforces tax collections, performs tax audits, keeps tax records, and drafts legislation and regulations in the area of taxes and obligatory contributions.

Context and Project Background

1.5 The Revenue Administration Modernization Project was approved by the World Bank's Executive Board on June 28, 2007, and became effective on December 21, 2007. It was designed as a specific investment loan, now called "investment project financing." The project was aligned with the World Bank Group–supported Country Assistance Strategies (CASs) in Croatia both at appraisal and at closing. It is consistent with the CAS for fiscal years (FY)05–08 and with the FY05–08 CAS Progress Report, both supporting the government's growth and reform strategy for successful EU accession and convergence with EU standards. Although the project was not foreseen at the time of the CAS, it was included in the FY05–08 CAS Progress Report. After the EU accession negotiations in October 2005, Croatia focused on the issues flagged in the 2006 EU accession progress report. The World Bank's priorities during the remaining CAS period were adjusted to better support the government's EU convergence objective. At closing, the project's objectives remained relevant and were aligned with the Bank Group–supported FY09–12 Country Partnership Strategy, which also supported Croatia's accession and convergence objectives.

1.6 The Revenue Administration Modernization Project was envisaged to support a new phase of reforms that the CTA had launched in 2005, including the establishment of the Large Taxpayer Office (LTO). These reforms were intended to strengthen CTA's performance and align its operations with EU practices to build capacity for implementing the acquis on taxation.

1.7 Croatia also received assistance in tax administration from other development partners in parallel with the World Bank. In 2006, the EU helped strengthen the CTA's administrative capacity for the implementation of new regulations for VAT and the introduction of the VAT Information Exchange System. Another EU technical assistance project, implemented in 2006–07, focused on addressing shortcomings in the CTA on the basis of the EU Fiscal Blueprint, the drafting of a business change management plan, and amendments to the CTA's IT strategy. Two EU projects (part of the PHARE program),[2] implemented in 2007–08, provided assistance for the efficient management of the VAT Information Exchange System. According to the project appraisal document, other development partners—the Austrian Tax Administration, the United States Treasury, the United States Agency for International Development, and the Spanish Tax Administration—extended technical assistance to the CTA. The International Monetary Fund (IMF) took the lead in tax policy advice and later, during the life of the project, supported the establishment of the LTO (see appendix A).

Project Objective, Design, and Financing

1.8 The theory of change underpinning the project was that a combination of (i) organizational restructuring of the CTA and consolidation of Zagreb offices into a single office complex, (ii) human resource improvements (upgrading training systems and capacity upgrading of CTA officials), and (iii) technology upgrading of IT infrastructure and business process improvements (including e-services) would contribute to reducing the cost of tax collection and to achieving better taxpayer compliance, thus improving overall tax efficiency. At the same time, training of tax officials and development of IT services, such as e-tax functions, would improve the quality of taxpayer services, further improving tax compliance and tax efficiency. The theory of change was plausible because the components of the project contribute to improving tax efficiency, tax compliance, and taxpayer services.

1.9 The original project development objective was to achieve further improvements in efficiency, taxpayer services, and tax compliance through capacity building and systems improvement in the CTA (World Bank 2007b, schedule 1; World Bank 2007c, vii). In effect, the project objective had three distinct dimensions: (i) improvements in efficiency, (ii) improvements in taxpayer services, and (iii) improvements in tax compliance. The original project development objective remains unchanged at the time of closing.

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[2] The PHARE (Poland and Hungary Assistance for the Restructuring of the Economy) program, initiated in 1989 to provide economic support to Poland and Hungary, is the EU's main financial instrument for accession of the Central and Eastern European countries.

1.10 The project originally had four components.[3]

1.11 **Component 1. Organizational consolidation and functional realignment of tax office, including physical facilities** (*appraisal estimate: $35.36 million; actual at closure: $7.41 million*). This component helped the CTA to (i) restructure the organization of the network of 13 office locations in the city of Zagreb and consolidate them into a new tax office complex (including a CTA Tax Academy and an information and communication technology [ICT] facility) and (ii) improve organizational and staffing arrangements, taxpayer services and enforcement processes, and human resource management policies. This component also aimed to help the CTA strengthen and consolidate the LTO, which had been set up in 2005, through the provision of IT, training, and technical advisory services.[4]

1.12 The first project restructuring removed plans to consolidate the Zagreb tax offices into a single tax office at headquarters, and this component was amended to read: "Support to CTA to restructure the organization of the city of Zagreb network of selected city office locations, including a CTA Tax Academy and an ICT facility, and to improve organizational and staffing arrangements, taxpayer services and enforcement processes, and human resource management policies, through the carrying out of civil works, the acquisition of information technologies, and the provision of training and technical advisory services" (World Bank 2007b, 5).

1.13 **Component 2. Knowledge and professional upgrading of tax officials and stakeholders** (*appraisal estimate: $9.52 million; actual at closure: $0.57 million*). This component aimed to help CTA upgrade its capacity in human resource management and training provision, upgrade its training systems and knowledge sharing programs for tax officials and other stakeholders, and provide equipment to the CTA Tax Academy for distance learning and for seminars in four selected locations.

1.14 **Component 3. Technological upgrading for services, management information systems, and Taxpayer Identification Number implementation support** (*appraisal estimate: $20.40 million; actual at closure: $7.69 million*). This component supported the CTA through the provision of technical advisory services, training, and equipment to (i) facilitate the exchange of tax-related information among borrower agencies through the modernization of business processes, including e-tax functions, and the provision of information solutions for the implementation of such business processes, including

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[3] Per loan agreement project description (World Bank 2007b).

[4] During the period 2005–12, the Large Taxpayer Office in its current formation did not exist, only a local Zagreb large taxpayers office, which functioned as a separate unit within the Zagreb regional office.

acquisition of a new suite of contemporary tax administration application software; (ii) develop software applications and provide the necessary system and data security and business continuity and disaster recovery capacities; and (iii) implement a management information system integrating operational dataflow with resource management information from the Ministry of Finance's human, financial, and material resource management systems. This component would also provide initial support to the CTA and selected borrower agencies to introduce the Taxpayer Identification Number.

1.15 **Component 4. Modernization management and project support** (*appraisal estimate: $2.72 million; actual at closure: $0.10 million*). This component supported development and implementation of the CTA's strategic plan for modernization and project management, procurement, financial management, audits, stakeholder consultation, change management, dissemination of materials, and project monitoring and evaluation through the provision of technical advisory services, training, and equipment.

1.16 The project was financed by an International Bank for Reconstruction and Development loan for $68.0 million. The actual project cost was $15.78 million. The project was restructured twice. The lower project cost at closure resulted from the cancellation of several activities in the project restructurings.

1.17 The first restructuring of the project was approved in September 2010. The civil works for a new CTA building were dropped when it became apparent that a suitable site for the proposed headquarters building could not be found. The restructuring also introduced support for the Data Recovery Back-Up Center (DRBC), which was originally part of the government's infrastructure program. Because the consolidation of the tax offices did not materialize, the approach to training was scaled down and focused on capacity building for distance learning. The infrastructure effort shifted to upgrading existing buildings and resulted in the cancellation of €25 million ($33.5 million), half the original loan amount. The restructuring also streamlined the number of intermediate outcome indicators, while the outcome indicators remained unchanged.

1.18 The second restructuring was approved in June 2013. It canceled an additional $2.22 million and reallocated the loan proceeds to institutional reform components, including the introduction of the Compliance Risk Management System (CRMS). It extended the closing date by two years, to June 30, 2015, to allow the completion of the DRBC and the CRMS. The second restructuring also dropped some indicators that were no longer relevant and added new indicators to reflect new activities (World Bank 2013).

1.19 Activities related to the DRBC and the CRMS could not be completed by the already extended project closure date. In 2015, progress on the DRBC was delayed because Roman antiquities were discovered on the construction site and, in the case of the CRMS, because of procurement delays (see appendix A). The government's request for a further extension beyond 2015 was not granted. According to interviews with World Bank management and staff, the protracted procurement process associated with the CRMS and the prolonged dispute between the CTA and the CRMS provider contributed to the World Bank's decision not to grant a third extension. The government decided to fund the completion of these two activities from its own budget.

2. What Worked, What Didn't Work, and Why?

Results

Tax Efficiency

2.1 The project contributed to limited improvements, falling short of significantly enhancing tax efficiency. It supported the establishment of a national LTO in 2012. The LTO covers 700 large taxpayers, accounting for 37.7 percent of total revenue collected (appendix A, table A.3). By focusing on taxpayers who account for a substantial part of tax revenue collected, while employing only 2.6 percent of CTA staff, the LTO contributed to improving the efficiency of tax administration. According to field interviews, the project contributed to the LTO through the formulation of criteria for its organization; the specification of required skills for its staff and functioning; and the training provided in IT, communications, and tax auditing. According to counterpart and staff interviews conducted, the World Bank collaborated effectively with the IMF, which also supported the establishment of the LTO, through advice to modernize its structure, governance, and business processes. The World Bank and the IMF coordinated their advice regarding the structure and governance of the LTO.

2.2 However, the CTA continues to operate a large number of offices (appendix A, table A.1). Although the number of employees was reduced from 4,066 in 2014 to 3,766 at the end of 2019, the large number of offices hampers further improvements in tax efficiency. The total number of tax offices remained unchanged during the life of the project and was reduced only temporarily from 2015 to 2017. According to the CTA, the consolidation of regional offices created organizational units that were too big, which hampered effective process management, owing to—among other things—an insufficient number of executives. The current structure is based on the number of taxpayers, with the aim of equal workload and specialization of officials, and standardization of work by tax office. The failure to permanently reduce the number of tax offices has continued to put pressure on the CTA's operating costs as a share of net tax revenue collected (appendix A, table A.2). This indicator of tax efficiency increased from 0.72 in 2007 to 0.91 in 2018 but remains at approximately the average of Organisation for Economic Co-operation and Development countries and below the average of new EU members from Eastern Europe. According to the CTA, the increase in the use of e-applications and IT has also contributed to the increase in operating cost, as have the EU requirements for statistics, real-time exchange of information, and tax collection on behalf of EU member countries for EU citizens living in Croatia.

2.3 The information system and governance of financial information is fragmented, which also hampers efficiency. As a result of outsourcing arrangements with APIS, IT governance is weak with too many incompatible applications or inadequate to support new functionalities. These weaknesses are exacerbated by the lack of a comprehensive IT master plan, an e-strategy, and policies governing access to security and risk information.

2.4 The project sought to improve the efficiency of tax audits, as measured by the intermediate indicator of tax assessments from audits per tax auditor. The annual tax assessments from tax audits represented 0.9 percent of total tax revenue in 2019, while those from LTO tax audits represented 0.3 percent of tax revenue collected by the LTO, and these shares have been declining over time (appendix A, table A.5).[5] At the same time, as a result of using new tools such as e-audit, the length of audits decreased from 10.8 days per audit in 2012 to 5.7 days on average over the period 2013–18.

2.5 In parallel, the staff in tax audit functions represented 53.5 percent of total LTO staff in 2019, falling short of the target of 65 percent envisaged by the project. Moreover, the share of LTO staff in audit functions has been declining over time (appendix A, table A.3). According to CTA officials interviewed, attracting highly qualified tax auditors to the LTO has proven difficult because there are no differences in compensation with other CTA offices, yet pay for equally skilled staff in the private sector is significantly higher. The Ministry of Finance failed to push through reforms

[5] Data are based on the tax audit results registered in the tax audit application within the Tax Administration Information System. The amount of the annual tax assessments, which results in newly established liabilities, is not completely reflected in that application, although it represents a significant part of the tax audit findings. With the introduction of the Generalized Audit System application, these findings will be more properly registered.

that would increase the financial autonomy of the CTA and help decouple CTA salaries from the civil service pay grid.[6]

2.6 Evidence of an improvement in efficiency from staff training is not available. Training plans in three areas—accounting programs, IT programs, and English language—for CTA officials were submitted to the World Bank. The contractor also conducted a self-evaluation submitted to the World Bank. The Independent Evaluation Group found no evidence of any formal evaluation of training in terms of learning outcomes. According to the CTA, the system of monitoring work efficiency is still being developed.[7] The project financed the development of 10 e-learning programs for CTA staff, of which 4 are still active. The average number of trainings received per employee (including e-learning) decreased from 22 in 2014 to 17.4 in 2018. Development of additional modules after project completion was financed from the state budget, demonstrating government commitment to enhancing the skills of CTA staff. In parallel with e-learning modules, conventional training courses are provided to staff on subjects such as accounting standards, tax legislation, and ethics.

Taxpayer Services

2.7 The project's contribution to the improvement of taxpayer services is mixed. The surveys conducted in 2010 and 2013 demonstrate that the targeted improvement in taxpayer perceptions was fully achieved; however, the survey was discontinued after project completion. The project contributed to the e-tax services through the modernization of the software and the redesign of the external CTA website. According to interviews conducted, the new CTA website provides detailed information on tax legislation and amendments to tax laws with an explanation about the changes. The e-tax functionality of the website allows e-filing of tax returns and verification of tax accounts and provides other taxpayer-related information. The number of e-tax services

[6] Although a covenant in the loan agreement called for alignment of Croatia Tax Administration (CTA) salaries to the new Act on Basic Wage in Public Service, the act did not give the CTA enough leeway to adjust salaries. A decree introduced in March 2009 stipulated that the basic wage in public services would be decided by special decision of the Croatian government for two years after the act entered into force because of the negative effects of the global economic crisis on Croatia.

[7] According to the CTA, the EU project Establishment of a Connected Human Resources Management System and the technical assistance program Establishment of an Application for Measuring the Work Efficiency of Employees of the Ministry of Finance, Tax Administration for the period 2017–18 created an application for measuring work efficiency. After the completion of the project, the analysis and development of key performance indicators for each job were financed with budget funds. The monitoring of work efficiency will begin in 2021.

has steadily increased, from 31 in 2015 to 62 in 2018 (appendix A, table A.7). The number of website visits has remained high since project completion and was on average three times higher than the number of visits to the old website in 2012. The CTA also established a call center, staffed by five tax officers and open to all taxpayers, to answer taxpayer queries. According to the CTA's information, the call center receives 30–50 queries per day and answers about 55 percent of queries received; unanswered questions are directed to tax specialists. The percentage of answered queries has remained stable over time since project completion. However, there is no training tailored specifically for the call center staff. According to interviews with business sector representatives, the call center only provides rudimentary information, and complex questions normally require the intervention of tax specialists.

2.8 The project contributed to reducing the compliance cost with tax regulations by promoting e-tax services and e-filling. The upgraded e-filing system, introduced in 2013, helped boost e-filing to nearly 100 percent for VAT returns and 97 percent for corporate income tax returns, from 3 percent in 2007. A survey of taxpayer compliance costs, as per the corresponding project development objective indicator, conducted in 2013, showed a reduction of compliance cost by 17.4 percent, compared with the 2010 baseline. However, no follow-up survey was conducted after the project closed.

2.9 Despite the increase in the array of taxpayer services, the simplification of many tax procedures, and the extensive use of e-filing by legal entities, deficiencies persist in the way taxpayers interact with the tax authorities, and these deficiencies increase the cost of tax compliance. The transactions and administrative steps taxpayers need to take to settle their obligations with the CTA remain numerous. The time required to comply with tax obligations for businesses was estimated at 208 hours in 2018, up from 196 hours in 2007. It was also higher than the EU average of 161 hours. In addition to the large number of payments, the complexity of the tax forms increases compliance cost, offsetting the benefits from the more widespread use of e-filing. Because of these remaining complexities, virtually all the small businesses in Croatia still use tax accountants to manage their interactions with the tax administration. The percentage of small and medium taxpayers who have not filed a tax return or who submitted late (stop-filers) has been rising since project completion, failing to provide evidence of lower compliance costs (appendix A, table A.9). The CTA is taking additional steps to address these issues. In 2017, the CTA established a new department in the central office to provide taxpayers with one more place to communicate and more easily interact with tax authorities, in addition to branch offices. The new department is intended to provide timely information and educate taxpayers.

Tax Compliance

2.10 The project contributed to improving tax compliance, as measured by the gap between taxes due and taxes paid on time. The VAT tax gap, estimated using the EU methodology, was used as a outcome indicator to assess the achievement of the objective. The set target was achieved by 2013. According to more recent estimates, the VAT gap in Croatia has continued to narrow since project completion and is now below the average for EU member countries (appendix A, table A.10).

2.11 The major contribution to improved tax compliance was the project's support of the CRMS. However, because of a dispute between the government and the selected contractor concerning the specifications of the Generalized Accounting Software component, the implementation of the CRMS as an integrated system stalled and was completed only after the project's closure, with financing from the government. On the basis of the scoring of risks, taxpayers are clustered into different categories: one for risk-based audits and one (the less risky taxpayers) for automated VAT refunds. All taxpayers covered by the LTO are systematically screened against major identified risks by the CRMS.

Design and Preparation

What Worked?

2.12 The relevance of the project's objectives was high in view of Croatia's drive to join the EU and the government's medium-term reform agenda. The objectives were central to the fiscal reforms of the government's medium-term agenda of structural and institutional modernization. The objectives were also aligned with the World Bank–supported Country Partnership Strategies, both at project inception and at closing.

2.13 The project was underpinned by a comprehensive analytical work on tax administration, including a joint IMF–World Bank diagnostic on CTA reform priorities and implementation tasks (World Bank 2007c, annex 12). It was designed to complement assistance extended to the CTA by other development partners, including the EU. Although the EU provided targeted assistance for enhancing capacity mainly for the administration of the VAT and the VAT Information Exchange System, the project aimed to improve the overall capacity of the CTA to implement the EU acquis on taxation, to support the government's fiscal consolidation effort, and to improve taxpayer services. The project design took into account the contributions of other development partners to avoid duplication and reinforce the impact of the technical assistance received by the CTA. Although the World Bank did not take the lead in development partner coordination, given the importance of the EU accession driver, the counterparts interviewed acknowledged the strategic view conveyed by the World Bank on tax administration reform. The World Bank also collaborated effectively with the IMF, receiving analytical inputs during the preparation of the project (through the joint IMF–World Bank diagnostic on the CTA's reform priorities and implementation tasks) and coordinating in the support extended to the LTO with the regional IMF tax administration adviser based in Ljubljana, Slovenia.

What Didn't Work?

2.14 The expedited preparation of the project allowed little time to undertake stakeholder consultation and to get the project ready for implementation. Instead, several critical preparatory elements were pushed to implementation as effectiveness conditions and dated covenants.[8] These elements included adoption of the strategic plan for CTA modernization and new legislation for civil service salaries. The initial years of project implementation focused on civil works for the new headquarters complex, where the Zagreb tax offices would be consolidated, and on ICT procurement. But the lack of agreement on the location of the new headquarters complex led to a three-year implementation delay and the eventual dropping of the civil works component of the project. At project approval, the CTA had endorsed only a high-level description of the strategic modernization framework; a fully developed strategy with attention to detail was missing.

2.15 Concerns about lack of readiness for implementation were raised by several participants at the internal World Bank decision meeting at which the project design was discussed. The institutional reforms were neglected during the first three years of implementation. Lack of readiness for implementation partly reflected a lack of government commitment, as demonstrated by the government's reluctance to use the Project Preparation Facility for project preparation.[9] As noted in the Implementation Completion and Results Report and the Implementation Completion and Results Report Review, the project could also have been designed as an adaptable program loan to

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[8] Effectiveness conditions are requirements to be met by the borrower for the loan to become effective and for loan funds to be disbursed. Dated covenants are legal conditions that are expected to be met by the borrower at specified dates. See loan agreement, article 5.01(f) and schedule 2, section I, paragraphs 8–10 (World Bank 2007b).

[9] A Project Preparation Facility is a funding mechanism to support the preparation of World Bank–financed operations. Financing is made through a project preparation advance for project design and implementation start-up, institutional strengthening, and incremental operating support. Project preparation advances are refinanced either from the loan for which the advance is being used or from the government's own resources if the loan does not materialize.

allow for a phased approach and to address the long lead time required for ICT procurement, civil works, and business process reengineering.[10] According to the project appraisal document, the possibility of using an adaptable program loan was considered, but the specific investment loan instrument was finally selected on the basis of World Bank experience from other countries (World Bank 2007c).

2.16 The project paid little attention to the design of a meaningful results framework, which could have guided implementation. Some of the indicators had only weak connections to project objectives, such as the results indicator on tax officer perceptions of the employment and working environment. This indicator was not closely linked to the objective of improving tax efficiency. More relevant indicators often used in tax administration assessments—such as the operating costs as a percentage of the tax revenue collected—were not considered. Some intermediate outcome indicators, such as training received by CTA staff, measured outputs with no attempt to assess the impact of training on the efficiency of the tax administration. (The survey of tax officers' perceptions on the terms of employment and working environment ignored opinions about training and work competences, although the project placed significant emphasis on improving staff capabilities.) The 2010 perception survey relied on a sample of 423 respondents, including legal entities, the self-employed, and individual taxpayers, while the 2013 survey relied on 1,362 respondents.

2.17 The structure of the sample was uneven in the two surveys, with the 2013 survey relying on a larger and different sample of legal entities. The sample for the survey on tax officers' perceptions on the terms of employment and the working environment was also uneven; the respondents to the 2010 survey covered about 37 percent of CTA staff, while the 2013 survey relied on only 13 percent of staff, which reduced the comparability of results between the two surveys. More generally, the results framework failed to establish an empirical link between the training inputs provided and the performance of CTA staff. Despite the development of new training modules, the average number of training hours received by CTA staff has been declining since project completion, falling short of the target envisaged by the project.

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[10] The adaptable program loan (APL) is a project lending instrument that provides for a phased approach for long-term development programs. It involves a series of operations, with subsequent phases conditioned on progress under the previous phase and on meeting ex ante triggers. APLs were discontinued when the investment lending instruments were consolidated in 2013 into what is now called "investment project financing." The current equivalent of an APL is the multiphase programmatic approach (World Bank 2017a).

Implementation and Supervision

What Worked?

2.18 The project was restructured in 2010 to refocus it on institutional reforms and internal CTA processes, including the introduction of the CRMS, which was a major missing piece in the original design of the project.[11] The World Bank was proactive in recalibrating the project and swiftly conducted two full diagnostics of the CTA, following the Integrated Assessment Model for Tax Administration methodology, to identify existing institutional, organizational, and policy gaps in the CTA.

2.19 The World Bank collaborated effectively with the IMF during the implementation of the project. The IMF took the lead in macro and fiscal work and tax policy advice and provided support to tax administration reform through a resident adviser in Ljubljana, Slovenia. The World Bank and the IMF worked together for the establishment of the LTO: the World Bank took the lead in providing advice on criteria for selecting large taxpayers and improving the LTO's infrastructure, while the IMF focused on modernizing the processes and governance of the LTO.

What Didn't Work?

2.20 The two project restructurings were not enough to overcome the poor design and preparation at entry. Both restructurings streamlined and retrofitted the weak results framework, but these changes were not enough to make a significant difference at closing. The refocusing on institutional capacity with the introduction of the CRMS and the DRBC was in the right direction, but it did not anticipate the CTA's weak institutional capacity, which resulted in protracted delays in procurement and in completing tasks before project closing.

2.21 During the early stages of project implementation, the attention of CTA management was focused almost exclusively on the civil works component of the project at the expense of more fundamental institutional reforms needed for the agency's modernization and the implementation of the acquis on taxation. This led to delays in project implementation. It took a long time (from 2007 to 2010) to realize that a construction site for the CTA headquarters building was not available, and the CTA seems to have been focused too narrowly on a single option. The World Bank and the authorities explored no alternative sites, nor did they consider the possibility of

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[11] The project appraisal document called for a risk-based collection enforcement system to be implemented, a case management system to be developed, and a business intelligence and data warehouse to be created (World Bank 2007c, 9). The specific design features of the Compliance Risk Management System were identified by the tax diagnostics conducted in 2012.

consolidating the Zagreb tax offices in a renovated existing building instead of a newly constructed headquarters building.

2.22 Because of frequent changes in government, the management of the CTA also changed frequently; the directors-general often lacked a background in tax administration. Frequent management rotation resulted in lack of ownership and thus lack of momentum in the institutional reform process necessary for CTA modernization. After 2013, the CTA discontinued the three periodic surveys associated with the key outcome indicators—an indication of limited ownership but also of the inherent flaws in the monitoring framework.

3. Lessons

- **Poor quality at entry and lack of readiness for implementation contributed to significant implementation delays and limited results.** This occurred despite concerns voiced during the World Bank's internal review process about the adequacy of preparation before the project was sent the Executive Board for consideration. Expedited project preparation left critical aspects of design to the implementation stage, and these were not significantly reversed during implementation.
- **Given that the main driver of the tax administration reforms was Croatia's bid for membership of the EU, the project could have better secured the government's commitment to reforms up front.** Reforms such as greater administrative and financial autonomy of the CTA, or tax policy reforms to broaden the tax base, would have enhanced the effectiveness of tax administration.
- **In projects to improve tax revenue administration, the right balance must be struck between institutional reform and the hardware component (buildings and ICT).** The project's theory of change rightly emphasized synergies of business process reform, training, and organizational consolidation. However, proper sequencing is critical to effectively address issues of technical capacity and ownership. Project implementation initially emphasized civil works and IT infrastructure, to the detriment of institutional reform, and as a result little progress was achieved in CTA modernization until the project's restructuring, when the civil works were dropped.
- **High task team leader turnover could be mitigated by ensuring adequate capacity in the field with the presence of competent local staff.** Had the World Bank secured local expertise to support implementation, the refocusing of the

project on institutional gaps might have occurred earlier. More systematic handover of project leadership could have also mitigated the adverse impact of frequent rotation of task team leaders.

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Appendix A. Project Ratings

Croatia Revenue Administration Modernization Project

Indicator	ICR	ICR Review	PPAR
Outcome	Moderately unsatisfactory	Moderately unsatisfactory	Moderately unsatisfactory (see table A.11)
Risk to development outcome	Negligible	Negligible	Negligible
Bank performance	Moderately unsatisfactory	Moderately unsatisfactory	Moderately unsatisfactory
Borrower performance	Moderately unsatisfactory	Moderately unsatisfactory	Moderately unsatisfactory

Note: The Implementation Completion and Results Report (ICR) is a self-evaluation by the responsible Global Practice. The ICR Review is an intermediate Independent Evaluation Group product that seeks to independently validate the findings of the ICR. PPAR = Project Performance Assessment Report.

1. Relevance of Objectives and Design

Relevance of the Objectives

The project's objectives were highly relevant to Croatia's drive to join the European Union (EU) and to the government's medium-term reform agenda. The objectives were central to the fiscal reforms of the government's medium-term agenda of structural and institutional modernization. Improving the efficiency of the Croatia Tax Administration (CTA) was meant to enhance Croatia's capacity to implement the EU *acquis* on taxation and thus contribute to the objective of EU accession.

The objectives were aligned with the World Bank–supported Country Partnership Strategies, which also focused on EU accession and economic convergence with the EU. They were consistent with the objectives of the fiscal year (FY)05–08 Country Assistance Strategy and with the FY09–12 Country Partnership Strategy, which supported the completion of Croatia's EU accession. They contributed to two of the four pillars of the Country Partnership Strategy: sustaining macroeconomic stability and strengthening private sector–led growth and accelerating convergence with the EU.

On balance, the relevance of objectives is rated **substantial.**

Relevance of the Design

The project objectives were clearly articulated, and the theory of change was plausible; however, the original design paid little attention to a meaningful results framework and its weaknesses were not reversed during implementation. The project's design did not take into account issues related to the CTA's institutional and financial autonomy and their effect on implementation of the tax modernization strategy. The CTA remains a department of the Ministry of Finance, with high management turnover, which disrupts the continuity of the reform effort.

The project was designed to complement assistance extended to the CTA by other donors, especially the EU. The EU provided targeted assistance for enhancing capacity, mainly for the administration of the value-added tax (VAT) and the VAT Information Exchange System (see the Context and Project Background section in chapter 1). The World Bank's project aimed to improve the overall capacity of the CTA to implement the EU acquis on taxation, to support the government's fiscal consolidation effort, and to improve taxpayer services.

On balance, the relevance of design is rated **modest.**

2. Efficacy

Project development objective (PDO) indicators and their achievement are shown in table A.12. The achievement of intermediate outcome indicators and of additional performance indicators selected for the Project Performance Assessment Report is presented in tables A.1–A.10.

Objective 1: Improving Efficiency of Tax Administration

The project sought to improve tax efficiency by (i) reducing the operating costs of the CTA and (ii) increasing tax revenue collections. Interventions to reduce operating costs included consolidation of the Zagreb offices into a single headquarters complex, rationalization of the large network of regional offices, and development of e-applications for effective and streamlined data processing. To improve tax collections, the project supported the restructuring of the Large Taxpayer Office (LTO), training of tax officers through the development of e-learning modules, and strengthening of tax audits through development of an e-audit tool and reassignment of CTA staff from administrative to audit functions.

The PDO indicator for measuring the improvement of efficiency was the "perception of tax officers regarding the terms of employment and working environment, as measured by periodic surveys," and five intermediate outcome indicators (World Bank 2015, v). The PDO indicator was not closely linked to the achievement of this objective.

The consolidation of the Zagreb offices and the expected reduction in operating costs did not materialize because the construction of the headquarters complex was dropped. At the same time, the number of CTA staff has declined, from 4,086 at the end of 2014 to 3,811 at the end of 2019, contributing to cost savings. However, the CTA continues to operate a large total number of offices (table A.1). The total number of tax offices remained unchanged during the life of the project and was reduced only temporarily from 2015 to 2017 further to a cost-cutting reorganization. The number of regional and local offices increased again in 2017 despite the increasing use of e-tax services and e-filing.

Table A.1. Croatia Tax Administration Offices, by Location (number)

Location	2007	2014–09/01/2015	As of 09/01/2015	As of 09/20/2017
Headquarters and large taxpayer offices	1	2	2	2
Regional offices	20	20	5	21
Local offices	122	124	57	96

Source: Croatia Tax Administration.

The ratio of CTA operating cost to net tax revenue collected rose after project completion, failing to corroborate expectations of an improvement in tax efficiency (table A.2). According to the CTA, the increase in operating cost reflects mostly the increase in the use of e-applications and information technology. It also reflects the EU requirements for statistics, real-time exchange of information, and tax collection on behalf of EU member countries for EU citizens living in Croatia.

Table A.2. Croatia Tax Administration Operating Cost (percent of tax revenue collected)

2014	2015	2016	2017	2018
0.77	0.77	0.81	0.93	0.91

Source: Croatia Tax Administration.

The LTO focuses on taxpayers who account for almost 38 percent of tax revenue collected while employing only 2.6 percent of CTA staff. The establishment of the LTO therefore contributed to improving the efficiency of tax administration. The project contributed to the LTO through the formulation of criteria for its organization and structure; the knowledge and skills required for its setup and functioning; and the training in information technology, communications, and tax auditing.

The LTO included 99 filled staff positions in 2019, corresponding to 2.6 percent of the total CTA staff—a share that has remained constant since 2014. There were 29 unfilled job positions in the LTO, most of them (24) in tax audit functions. The staff in tax audit functions represented 53.5 percent of total LTO staff in 2019, falling short of the target of 65 percent envisaged by the relevant intermediate indicator of the project. Moreover, the share of LTO staff in audit functions has been declining over time (table A.3). Attracting highly qualified tax auditors to the LTO has proven difficult, because there are no differences in compensation with other CTA offices, and pay for equally skilled staff in the private sector is significantly higher.

Table A.3. Share of Large Taxpayer Office Staff in Tax Audit Functions (Intermediate Outcome Indicator 2)
(percent)

2014	2015	2016	2017	2018	2019
57.9	56.6	54.4	54.9	48.5	53.5

Source: Croatia Tax Administration.

According to the taxpayer classification criteria adopted by the CTA, in 2018 the LTO covered 700 large taxpayers, representing 0.51 percent of total taxpayers in Croatia. They accounted, however, for 37.7 percent of total revenue collected, a ratio that has remained approximately constant since 2014 (table A.4). Moreover, LTO revenue collections from the VAT and social security contributions (the two major sources of tax revenue in Croatia, covering 78 percent) represented respectively 50 percent and 27.2 percent of total in 2018 (table A.4). These ratios have also been stable since the completion of the project.

Table A.4. Share of Large Taxpayer Office Tax Revenue Collections
(percent)

Revenue Source	2014	2015	2016	2017	2018
Total tax revenue	36.6	37.8	39.0	38.7	37.7
VAT revenue	48.2	50.9	52.3	50.6	50.0
Social security contributions	28.3	27.5	28.4	28.2	27.2

Source: Croatia Tax Administration.
Note: This table focuses selectively on the shares of total tax revenue, VAT, and social security contributions collected by the Large Taxpayer Office. VAT = value-added tax.

The project also sought to improve the efficiency of tax audits by supporting the introduction of e-audits through the development of manuals, the procurement of Audit Command Language software, and related staff training. The total number of auditors represents 20.5 percent of CTA staff; this ratio has remained stable since project completion. The annual tax assessments from tax audits represented 0.9 percent of total tax revenue in 2019, while those from LTO tax audits represented a mere 0.3 percent of tax revenue collected by the LTO. Both have been declining since project completion (table A.5). Similarly, tax assessments per tax auditor have declined over time, failing to meet the target of the relevant intermediate indicator of the project.

Table A.5. Share of Tax Assessments from Audits in Tax Revenue Collections and per Tax Auditor (Intermediate Outcome Indicator 6)

Indicator	2014	2015	2016	2017	2018	2019
Share in total tax revenue *(%)*	1.54	1.34	1.48	1.29	0.95	0.91
Share in LTO tax revenue *(%)*	0.93	1.16	0.15	0.14	0.27	0.28
Per tax auditor *(HRK, thousands)*	1,855	1,652	1,920	1,759	1,434	1,403

Source: Croatia Tax Administration.
Note: Please refer to endnote 6 in main text. LTO = Large Taxpayer Office.

The project aimed to improve the efficiency of the CTA by supporting the development of e-learning modules for CTA staff (intermediate outcome indicator 4). These modules became operational in 2013. Overall, 22 e-learning programs have been developed; 16 of these are currently active, and 2 more are under development. At project completion, 10 modules were active. The project financed the development of 10 e-learning programs, of which 4 are still active.[1] The other modules were financed from the state budget. In parallel, conventional training courses are provided to staff (accounting standards, tax legislation, ethics, and so on). Despite the development of new training modules, the average number of training hours received by CTA staff has been declining since project completion, falling short of the target envisaged by the project (18.75 hours); see table A.6. It is difficult to establish a link between the training inputs provided and the performance of staff. So far, the CTA has not attempted to trace the impact of training on performance. According to counterparts interviewed, there was no evaluation of training in terms of learning outcomes. According to private sector stakeholders interviewed, there are still important gaps in tax inspectors' competences in accounting, especially in International Financial Reporting Standards, and there are often differences in interpretation of regulations among central and local tax offices.

Table A.6. Training per CTA Staff: Intermediate Outcome Indicator 3 (hours)

2014	2015	2016	2017	2018
21.97	14.64	11.67	10.19	17.44

Source: Croatia Tax Administration.

The project also supported the operationalization of a set of strategies developed by the CTA: Strategy of the Tax Administration 2011–15, Strategy for Human Resource

[1] E-Tax; Value-Added Tax (VAT); Low-Value Purchase; Information Security; Safety at Work and Fire Protection; Forced Collection and Foreclosure; Anticorruption; Effective Leadership Strategies; Specification of Unconnected Payments; and Reorganization of the Tax Administration. The modules on anticorruption, effective leadership strategies, specification of unconnected payments, and safety at work and fire protection are still active.

Management in Tax Administration for 2010–15, and the Training Strategy of the Tax Administration for 2012–15 (World Bank 2015). The project also contributed to the reengineering of CTA business processes in cooperation with the Austrian Development Agency (Teched 2012). On the basis of these strategies, the CTA realigned the organizational and staffing arrangements for its network. World Bank diagnostics conducted in 2016 found that despite reorganization efforts, the way the CTA is organized does not correspond to the principles of modern tax administrations. There are still too many field offices (table A.1), and they rely heavily on manual procedures and frequent contact with taxpayers, especially at the local level. Consequently, staff are prevented from performing more complex tasks, such as audits and collection enforcement. Moreover, the CTA headquarters has too few staff to adequately direct the large number of local offices, which operate with considerable autonomy and minimal effective oversight.

Overall, on the basis of the results achieved and their sustainability since project completion, the contribution of the project to the objective of improving the efficiency of tax administration is rated **modest.**

Objective 2: Improving Taxpayer Services

The project contributed to this objective by supporting the development of an internal and external communications strategy and forms as well as the redesign of the CTA website. Progress toward the achievement of this objective was to be monitored by PDO indicator 3: "Perception of taxpayers regarding the quality of service provided by CTA, as measured by periodic surveys"(World Bank 2015, v). Two surveys were carried out, in 2010 and 2013, and the targeted improvement in perceptions, compared with the 2010 baseline, was found to have been achieved (World Bank 2015). The survey was discontinued thereafter.

The new CTA website provides detailed information on tax legislation and amendments to tax laws, with an explanation about the changes. The e-tax functionality of the website allows e-filing of tax returns and verification of tax accounts and other taxpayer-related information.

The World Bank's project contributed to the e-tax services through the modernization of software and the redesign of the external CTA website. The number of e-tax services available electronically has steadily increased, from 31 in 2015 to 62 in 2018 (table A.7). The number of website visits has remained high since project completion. The number of visits in 2016 was exceptionally high because of a substantial change in tax legislation that took place at that time.

The website also includes functionality for users to request tax-related information from the CTA, although information is not readily available regarding the use of this feature.

The CTA also established a call center, staffed by five tax officers and open to all taxpayers, to answer taxpayer queries. The call center receives 30–50 queries per day and answers about 55 percent of queries received; unanswered questions are directed to tax specialists.

Table A.7. CTA Services Provided to Taxpayers

Service	2014	2015	2016	2017	2018
E-tax services *(number)*	25	31	28	55	62
Website visits *(thousands)*	8,717	3,683	11,982	9,481	8,514
Call center queries answered *(percent)*	58	53	55	65	55

Source: Croatia Tax Administration.

On the basis of the results achieved and the improvements sustained since project completion, the contribution to the objective of improving taxpayer services is rated **substantial.**

Objective 3: Improving Taxpayer Compliance

The project contributed to the objective of improving tax compliance by supporting the implementation of a taxpayer identification number, the implementation of an upgraded e-filing system, and—further to the restructuring in 2010—the implementation of the Compliance Risk Management System (CRMS). Improving taxpayer compliance was meant to (i) reduce the compliance cost with tax regulations and (ii) reduce the gap between taxes due and taxes paid on time.

The taxpayer identification number was introduced in January 2011. It enabled tracking of cash transactions and helped combat tax evasion and the gray economy. The upgraded e-filing system, introduced in 2013, helped boost e-filing to nearly 100 percent for VAT returns and 97 percent for corporate income tax returns. The target for the related intermediate outcome indicator (90 percent) was thus achieved and sustained after project completion (table A.8).

Table A.8. Declarations by Legal Entities Filed Electronically: Intermediate Outcome Indicator 7
(percent of total)

Tax Type	2012	2013	2014	2015	2016	2017	2018
Value-added tax	51.9	93.9	98.2	98.7	99.1	99.2	99.4
Corporate income tax	76.8	88.2	91.6	93.9	95.3	96.3	97.0

Source: Croatia Tax Administration.

A metric of taxpayer compliance costs, measured on an annual basis for legal entities and based on a taxpayer survey, was used as an indicator for achieving this objective (PDO 2). The survey conducted in 2013 showed a reduction of 17.4 percent in compliance cost compared with the 2010 survey used as a baseline, exceeding the 10 percent reduction envisaged (World Bank 2015). However, despite the increase in the array of taxpayer services and the extensive use of e-filing by legal entities, deficiencies remain in the way taxpayers interact with the tax authorities, and these deficiencies increase the cost of tax compliance. The number of transactions and administrative steps taxpayers need to accomplish to settle their obligations with the CTA remains high. According to the World Bank's Cost of Doing Business Surveys, the time required for businesses to comply with tax obligations increased from 196 hours per year in 2007 to 208 hours in 2018. Aside from the large number of payments, the complexity of the tax forms increases compliance cost, offsetting the benefits from the more widespread use of e-filing. Difficulties for taxpayers arise from the large number of codes used in "JOPPD" forms and from the large amount of data required in VAT return forms.[2]

Virtually all the small businesses in Croatia still use tax accountants to manage their interactions with the tax administration. The intermediate outcome indicator measuring the percentage of small and medium taxpayers who have not filed a tax return or who submitted late (stop-filers) corroborates the evidence of still-high compliance costs. The percentage of stop-filers had declined to 2.8 percent in 2015, falling still short of the 2 percent target envisaged (World Bank 2015). After project closure this percentage increased further, reaching 5.8 percent in 2018 (table A.9).

Table A.9. Stop-Filers among Small and Medium Taxpayers: Intermediate Outcome Indicator 5
(percent)

2014	2015	2016	2017	2018
3.6	2.8	4.2	5.2	5.8

Source: Croatia Tax Administration.

The project's major contribution to improved tax compliance, after its restructuring in 2010, was meant to come from the implementation of the CRMS, a powerful tool for combating tax fraud and strengthening taxpayer trust in tax administration.[3] The

[2] The JOPPD form is the tax report each employer in Croatia paying any kind of income (taxed or untaxed) to their employees and external contractors is obliged to submit to the Croatia Tax Administration. There are more than 20 fields in the Croatian VAT form compared with, for example, only 6 to 7 fields in the United Kingdom's VAT form (AmCham 2019). According to the Croatia Tax Administration, the fields do not represent a large administrative burden for taxpayers to settle their obligations, as the forms are submitted electronically.

[3] The Compliance Risk Management System is an integrated system consisting of (i) a data warehouse that collects and stores information on taxpayers from different sources and

implementation of the CRMS proceeded slowly; the tender for the procurement of the integrated system concluded only in 2013. This made necessary a two-year extension of the project. Owing, however, to a dispute between the government and the selected contractor, the implementation of the CRMS as an integrated system stalled. The issue was resolved, with much delay, in early 2015. As the project was not extended beyond the closing date of June 2015, the implementation of the CRMS was funded by the government budget.

The data warehouse and the risk management modules of the CRMS were completed in June 2017, and a risk analysis department was established in September 2017. Information from more than 45 sources is being collected, and more than 500 types of risk will be analyzed. On the basis of the scoring of risks, taxpayers are clustered into four categories, which serve as the basis for risk-based audits and for automated VAT refunds for less risky taxpayers. All taxpayers covered by the LTO are systematically screened against major identified risks by the CRMS. The Generalized Accounting Software (GAS) component of the CRMS was completed in 2018. According to the CTA, it is well integrated into the CRMS. The government has a contract with APIS to maintain the system and its enhancements. As a result of the implementation of the CRMS, the share of risk-based audits has significantly increased, from 24 percent in 2016 to 59 percent in 2019. A feedback loop transferring results from audits, through GAS, to the data warehouse will be functional as of 2020.

The VAT tax gap, estimated using the EU methodology, was defined as a second indicator to assess improvements in tax compliance (PDO indicator 1).[4] The target set was a reduction in the VAT gap of 5 percent compared with the 2008 baseline. This target was achieved by 2013, but no additional data were available at project closure (World Bank 2015). Comparable estimates have recently become available for all EU member countries in a study commissioned by the EU Commission (CASE 2019). The estimates for Croatia indicate a slight increase of the VAT gap in 2015 and a continuous decrease thereafter, up to 0.6 percent of gross domestic product in 2018 from 1.2 percent

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institutions (banks, social security, insurance, and so on); (ii) a risk management module that selects taxpayers for audit according to their score for noncompliance risk; and, (iii) a Generalized Audit Software (GAS) application, which is designed to examine financial information for quality, completeness, and consistency using maximum information instead of random sampling as in standard audits. The GAS results provide feedback input to the data warehouse.

[4] The VAT gap is defined as the difference between the amount of VAT collected and the VAT total tax liability according to tax law. The VAT gap is usually expressed in relative terms, as a percentage of the VAT total tax liability or the gross domestic product. It represents the impact of fraud, tax evasion, and VAT lost due to, for example, insolvencies, bankruptcies, and administrative errors.

in 2014 (table A.10). According to these estimates the VAT gap in Croatia is below the average of the EU member countries.

Table A.10. VAT Gap Estimated Using EU Methodology: Project Development Objective Indicator 1

Gap Type	2014	2015	2016	2017	2018
In percent of total VAT liability	8.4	10.1	7.7	6.6	4.4
In percent of GDP	1.2	1.4	1.1	0.9	0.6

Source: CASE 2019.
Note: GDP = gross domestic product; VAT = value-added tax.

Although tax compliance (measured by the VAT gap) improved over time, the cost of tax compliance has not been significantly reduced. The project's contribution to the objective of improving tax compliance is thus rated **modest.**

3. Efficiency

Economic efficiency: The economic analysis in the project appraisal document and the Implementation Completion and Results Report indicated that the project's economic efficiency was considerable. The project appraisal document estimated an internal rate of return of 124 percent (World Bank 2007). The Implementation Completion and Results Report estimated an extraordinarily high internal rate of return of 259 percent (World Bank 2015). The estimated economic benefits from project resources stem from lower compliance costs for taxpayers and the CTA's improved operational efficiency. These estimates seem unrealistic because they are not justified by the results achieved by the project.

Administrative efficiency: Several other factors related to implementation affected the efficiency ("value for money") associated with the project. The main driver of administrative inefficiency relates to delays in project implementation in three main areas. The first and most important area concerned the attempted investment in a new headquarters building in Zagreb. This was ill prepared and did not materialize, putting the implementation of the project off track until its first restructuring and leading to the cancellation of half of the original project amount. The second area where delays affected the efficient use of project resources was the implementation of the CRMS, because of the dispute between the government and the contractor concerning the GAS component of the CRMS. The third area of inefficient use of resources was related to the construction of the facility for the Data Recovery Back-Up Center, which also stalled and was completed on a smaller scale after project closure.

On the basis of these considerations, the efficiency of the project is rated **modest.**

4. Outcome

The overall outcome is assessed as **moderately unsatisfactory** on the basis of the indicators presented in table A.11.

Table A.11. Outcome Assessment Indicators

Relevance		Efficacy				
Objectives	**Design**	**PDO 1**	**PDO 2**	**PDO 3**	**Efficiency**	**Outcome**
Substantial	Modest	Modest	Substantial	Modest	Modest	Moderately unsatisfactory

Note: PDO = project development objective.

5. Risk to Development Outcome

The limited results achieved are likely to be sustainable. First, the government has proven its commitment to the improvement in the CTA's systems by committing substantial budgetary resources to the e-tax applications, the development of new e-learning modules for CTA staff, and the completion of the CRMS. Second, the CTA envisages the CRMS as a constantly evolving system and has plans to enhance its use as a tool for prediction and prevention concurrently with its use as a key antifraud instrument. Third, the government has taken initiatives, after the project's completion, to enable all citizens to interact electronically with the tax administration; these initiatives include user mailbox, taxpayer profile, and e-requests. The CTA's strategy is intended to achieve paperless tax administration in the near future, which will trigger a continuous push for reforms and improvements in information technology systems and business processes. Fourth, development partners continue to support capacity building of the CTA. In 2018, the EU started five projects to support capacity building on issues such as transfer pricing, e-auditing, VAT trader fraud, and data protection and is planning to support the redesign of the CTA's information technology strategy. Capacity building for e-auditing is further extending the e-audit activities supported by the Revenue Administration Modernization Project (RAMP), while capacity building for VAT trader fraud detection is predicated on the CRMS being established with the project's support. On balance, risk to development outcome is rated **negligible.**

6. Bank Performance

Quality at Entry

The project was prepared with sufficiently solid diagnostic work. During preparation there was technical collaboration with the International Monetary Fund through joint analytical and diagnostic work.

However, the accelerated schedule left little room for stakeholder consultation outside of the CTA and the Ministry of Finance. Moreover, the CTA modernization strategy and a fully agreed phased program of implementation with a clear financing plan involving other development partners were pushed to the implementation stage and were set as conditions for project effectiveness. The project's results framework had weak links to the project's interventions and objectives and had no baselines or targets. Overall, the accelerated preparation affected the quality of design.

Quality at entry is rated **moderately unsatisfactory.**

Quality of Supervision

The project was regularly supervised, but in the early phase of its implementation it was unrealistically rated as moderately satisfactory despite the very slow progress and the low disbursements. It took a long time (from 2007 to 2010) to realize that a suitable construction site for the CTA's new headquarters complex was not available, and the CTA seems to have been focused too narrowly on a single option. The World Bank and the authorities explored no alternative sites, nor did they explore the possibility of consolidating the Zagreb tax offices in a renovated existing building instead of a newly constructed headquarters building.

In the 2010 restructuring, the World Bank was proactive and adjusted the project to include much-needed institutional reforms. The World Bank conducted two full diagnostics of the CTA, following the Integrated Assessment Model for Tax Administration methodology, to identify existing gaps (World Bank 2012, 2013). The results framework of the project was revised on the basis of these assessments. The World Bank, in the first restructuring, also explored governance reforms, and the diagnostics conducted pointed to the need to grant the CTA more flexibility and autonomy (World Bank 2012). However, there was limited ownership for a reform in this direction and the effort focused on the internal reorganization of the CTA, which became paramount because of the planned introduction of the CRMS.

In the stalemate between the government and the CRMS vendor regarding the GAS component, the World Bank adopted a hands-off approach. The implementation of the CRMS was protracted, and the government's request for an extension of the project beyond 2015 was rejected because of implementation uncertainty but also to streamline the portfolio after Croatia's accession to the EU.

A high turnover of task team leaders (none of whom were experts in tax administration or tax policy) hindered the implementation of the project and the continuity of the dialogue with the government. The World Bank was lacking the solid presence in the field of a local public sector specialist who could have ensured the continuity of the relationship despite the high turnover of task team leaders.

Quality of supervision is rated **moderately unsatisfactory.**

7. Borrower Performance

Government Performance

The Ministry of Finance successfully carried out the legislative reforms required for the implementation of the taxpayer identification number but failed to push through reforms that would increase the financial autonomy of the CTA and decouple CTA salaries from the civil service pay grid. As a result, the CTA faces challenges in attracting and retaining the highly qualified staff needed for its operations, as evidenced by the numerous unfilled auditor positions in the LTO and by the perception among some of a lack of expertise in some complex areas such as corporate accounting and International Financial Reporting Standards. CTA management had not been sufficiently engaged by the World Bank or by the Ministry of Finance and did not show a strong commitment to the project and its institutional development objectives. According to the Implementation Completion and Results Report, failure to activate the Project Preparation Facility advance during preparation was an early signal of weak ownership (World Bank 2015). Following changes in government, the management of the CTA changed frequently, with the director-general often lacking a background in tax administration.

Government performance is rated **moderately unsatisfactory.**

Implementing Agency Performance

As noted, CTA management attention was initially focused on the civil works component of the project, with fundamental institutional reforms neglected, causing delays in project implementation. In later stages, the directors-general often lacked full engagement in the institutional reforms supported by the project. The CTA was also reluctant to comply with the World Bank's procurement rules in the case of the tender for the award of the CRMS contract. As a result, initiation of the contract took time and the CTA did not fully collaborate with the selected vendor; a year was spent to reach agreement through adjudication.

Implementing agency performance is rated **unsatisfactory.**

8. Quality of Monitoring and Evaluation

Design

Little attention was paid to the design of a meaningful monitoring and evaluation framework. Some of the indicators had weak connections to the project objectives. Some intermediate outcome indicators, such as the training by CTA staff, were measuring outputs, and there was no attempt to assess the impact of training on the efficiency of tax administration. More relevant indicators—such as the operating cost of the CTA as a percentage of revenue collected, the amount of tax assessments from audits as a percentage of revenue collected, the average duration of audits, and the level of tax arrears—could have been used.

The surveys on taxpayer compliance costs (PDO indicator 2) and the survey on the perceptions of taxpayers regarding the quality of CTA services had methodological shortcomings, with samples of different composition and different size, creating the possibility of bias.[5]

A broader concern was the use of perception surveys as the basis for tracking progress on three of the four PDOs. Any peer-reviewed research relying on surveys would include a detailed methodological discussion of sampling methods and the use of open-ended or closed-ended questions. The project appraisal document says nothing about how such methodological concerns were addressed. The Implementation Completion and Results Report notes that the CTA had not carried out surveys before. As a result, there were no baselines, and no technical support was provided to the authorities by the World Bank.

Implementation

There were important delays in the formulation of a results framework. Only after the first restructuring in 2010 was a set of streamlined intermediate outcome indicators agreed between the World Bank and the CTA.

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[5] Both surveys on taxpayer compliance costs were conducted by Deloitte (2010a, 2013a). The 2010 survey relied on a sample of 423 respondents, including legal entities, the self-employed, and individual taxpayers, while the 2013 survey relied on 1,362 respondents. The structure of the sample was uneven in the two surveys, with the 2013 survey relying on a comparatively larger number of legal entities. The survey on tax officers' perceptions of the terms of employment and the working environment was also conducted by Deloitte (2010b, 2013b). The sample was also uneven; the respondents to the 2010 survey covered about 37 percent of CTA staff, while the 2013 survey relied on only 13 percent of staff.

Use

There is little evidence that the results framework was used as a tool for the implementation of the project. After 2013, the CTA discontinued the periodic surveys on taxpayer compliance costs, taxpayer perception of the quality of CTA services, and the perception of tax officers regarding the terms of employment in the agency—an indication of limited ownership of the project's monitoring framework.

Table A.12. Project Development Objective Indicators

Results/PDO Indicators	Baseline	Original Target	Actual at ICR	Achievement per ICR	Achievement at PPAR	Comments
1. Increase in taxpayer compliance rates, based on internationally accepted method for estimating the VAT tax gap, as percentage of GDP	2.4 (2008)	2.28 At least a 5% improvement	2.05 (2011) 1.81 (2012) 1.52 (2013)	Fully achieved. Progress was on track by 2013.	0.6 (2018)[a]	2018 estimate based on CASE 2019 study. Comparable estimate for 2014 is 1.2% of GDP.
2. Decrease in taxpayer compliance costs, as assessed by taxpayer surveys	HRK 14,495 (2010)	HRK 13,045 At least a 10% improvement	HRK 11,977 (2012)	Fully achieved. Progress was on track by 2012, but there has not been another survey since then.	—	Survey discontinued after 2013.
3. Perception of taxpayers regarding the quality of service provided by the CTA, as measured by periodic surveys[b]	2.66 (2010)	2.79 At least a 5% improvement	3.19 (2013)	Fully achieved. Progress was on track by 2013, but there has not been another survey since then.	—	Survey discontinued after 2013.
4. Perception of tax officers regarding the terms of employment and working environment, as measured by periodic surveys[b]	3.05 (2010)	3.35 At least a 10% improvement	3.14 (2013)	Not fully achieved. Progress was on track by 2013, but there has not been another survey since then.	—	Survey discontinued after 2013.

Source: Croatia Tax Administration; World Bank 2015, 2018.
Note: — = not available; CASE = Center for Social and Economic Research; CTA = Croatia Tax Administration; GDP = gross domestic product; ICR = Implementation Completion and Results Report; PDO = project development objective; PPAR = Project Performance Assessment Report; VAT = value-added tax.
a. CASE 2019.
b. Scored out of 5, with 5 being the highest.

Table A.13. Fiscal Revenue in Croatia 2012–19 (percentage of GDP)

Revenue Source	2012	2013	2014	2015	2016	2017	2018[a]	2019[a]
Total revenue	41.8	43.0	43.1	44.4	46.1	46.7	47.6	46.9
Income tax	5.7	5.9	5.7	5.5	5.6	5.8	5.9	5.8
VAT	12.3	12.7	12.5	12.8	13.0	13.3	13.8	13.3
Excise taxes	3.4	3.8	4.1	4.3	4.5	4.7	4.7	4.6
Other taxes	3.0	2.9	2.6	2.6	2.9	3.2	3.2	3.2
Social contributions	11.5	11.3	11.8	11.7	11.6	11.7	12.0	11.7
Other revenues[b]	5.9	6.5	6.4	7.5	8.6	8.1	8.1	8.2

Source: IMF 2017, 2019.
Note: GDP = gross domestic product; VAT = value-added tax.
a. Projection.
b. Grants, property income, and sales of goods and services.

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Appendix B. Fiduciary, Environmental, and Social Aspects

Financial Management

The Independent Evaluation Group concurs with the assessment in the Implementation Completion and Results Report concerning the quality of financial management reports, which were delivered on time and deemed satisfactory by the World Bank. Given the small amount of disbursement that took place compared with initial estimates, it appears that there was little pressure on the financial management function.

Procurement

Procurement performance was rated as moderately unsatisfactory in consecutive Implementation Status Reports. The project anticipated a full-time procurement manager, but this position was not always filled, contributing to delays in procurement, especially in the early years. A new full-time procurement specialist was hired in January 2012; the pace of procurement accelerated, leading to an upgraded rating. Hiring a senior information technology consultant also helped the procurement manager prepare and launch the bidding documents required for the Compliance Risk Management System implementation, but once the consultant left, the Croatia Tax Administration lacked the technical expertise to deal effectively with the contract management issues that arose during implementation (World Bank 2015). Procurement became more problematic as a result of the stalemate over the implementation of the Generalized Accounting Software component of the Compliance Risk Management System, which finally led to a new, separate tender for this component. The Europe and Central Asia procurement chief, based in Washington, DC, was responsible for ensuring adherence to the World Bank's procurement procedures. The Independent Evaluation Group did not find any evidence of a negative integrity finding concerning this operation, nor any evidence of impropriety based on the Integrated Assessment Model for Tax Administration diagnostics that were conducted.

Environmental and Social Safeguards

The environmental assessment for this environmental category B project as per Operational Policy / Bank Procedure 4.01 was **satisfactory,** as was overall safeguards compliance. The safeguards were less relevant after the building component was dropped. When the project discovered ancient ruins at the site of the Data Recovery Back-Up Center, all the correct national safeguards and procedures were followed, allowing the Croatia Tax Administration to protect this ancient heritage. An amendment to the contract was developed in accordance with Ministry of Culture requirements. There were no deviations or waivers from the World Bank's safeguards policy procedures (World Bank 2015).

Reference

World Bank. 2015. "Croatia—Revenue Administration Modernization Project." Implementation Completion and Results Report ICR3606, World Bank, Washington, DC.

Appendix C. Methods and Evidence

This report is a Project Performance Assessment Report (PPAR). This instrument and its methodology are described at https://ieg.worldbankgroup.org/methodology/PPAR.

The PPAR reviewed relevant project documents (project appraisal document, Implementation Status and Results Reports, Implementation Completion and Results Report, Implementation Completion and Results Report Review, aide-mémoire, and external documents, including documents from development partners and the private sector; see the Bibliography in the main text). Semistructured interviews were conducted in Washington, DC, and in Croatia during a field mission from November 25 to December 6, 2019, that involved World Bank management staff, government officials in the Croatia Tax Administration, development partners, and private sector representatives (appendix D).

The main evaluation questions addressed by the PPAR include the following:

What Factors Contributed to the Operation's Design at Entry?

- Was the analytical work sufficiently robust to underpin the design, implementation capacity, and ownership of the project?
- Were the design elements of the project appropriate? Were the project components aligned with the outcome indicators and objectives?
- Did the project build on lessons from previous and similar operations in the World Bank?
- Was the project consistent with the World Bank Group strategy and comparative advantage? Was there a critical development issue that needed to be addressed? Was there another origin of this project other than its link to the European Union accession agenda? Was this a supply-driven project? If so, what internal World Bank incentives led to its approval and restructuring?
- Given the need to expedite the project approval in line with the European Union accession requirements, what could have been done differently to meet the European Union requirements yet get the project ready for implementation and sustain support during implementation?
- The project included activities in training, although the European Union and bilateral tax administration office collaboration provided significant assistance in this area. How relevant was the inclusion of training in the project?

What Were the Drivers of Success (or Lack Thereof) in the Project's Implementation? What Worked and Did Not Work?

- What were the challenges in implementing an operation that had to address institutional reform objectives, and how did ownership, capacity, and high leadership turnover both at the Croatia Tax Administration and the World Bank affect results? Was there enough World Bank proactivity and management support during project implementation?

- How and to what extent did the World Bank and the government (the Ministry of Finance and the Croatia Tax Administration) address these implementation challenges?

- How and to what extent did other development partners contribute to the achievements of this operation and influence tax administration reforms in the country?

How and to What Extent Were Results Achieved under This Operation Maintained and Sustained?

- How and to what extent were the objectives achieved? Are data available and of good quality? Are there proxy indicators to complement and support the reported results? What would have happened with the observed outcomes in the absence of the project?

- Was the institutional capacity of key stakeholders, built under the project, sustained after project completion?

Appendix D. List of Persons Interviewed

World Bank

Elisabetta Capannelli, Country Manager

Waleed Haider Malik, Senior Public Sector Specialist

Craig R. Neal, Consultant (former task team leader)

K. Miagara De Silva, Senior Economist

Edgardo Mosqueira Medina, former task team leader

Alberto Leyton, Lead Public Sector Specialist

Ismail Radwan, Lead Public Sector Specialist

Nataliya Biletska, Senior Public Sector Specialist

Adrian Fozzard, Practice Manager

Ronald E. Myers, Consultant (former Sector Manager)

Pedro Arizti, Senior Public Specialist

Josip Funda, Senior Economist

Sanja Madzarevic, Senior Economist

Carlos Pinerua, Country Manager

Raul Felix Junquera-Varela, Lead Public Sector Specialist

Ana Simundza, Operation Officer

Antonia Viyachka, Procurement Specialist

Government Counterparts

Mr. Zvonko Sedmak, Croatia Tax Administration (CTA)

Mr. Danijel Cajkovac, Assistant Director-General, CTA

Mr. Slavisa Penana, Head of Service, Strategy and Information Department, CTA

Mr. Bozidar Kutlesa, Assistant Minister and Director of Tax Administration, CTA

Ms. Marijana Vuraić Kudeljan, Deputy Director, CTA

Ms. Gordana Maric, Assistant Director, Application Solution Development and Information System, CTA

Ms. Snjezana Matijasec, Assistant Director, Finance and Human Resources Management Sector, CTA

Ms. Mila Vukoja, Assistant Director, Head of Office, Large Taxpayer Office, CTA

Development Partners

Mr. Norman Gillanders, International Monetary Fund and Tax Administration Expert

Mr. Frank Van Driessche, Resident Representative Country Coordinator for Croatia, Structural Reform Support Service Adviser, European Commission

Ms. Judita Cuculic Zupa, European Semester Officer, European Commission

Private Sector/Consultants

Ms. Andrea Doko Jelušić, Executive Director, American Chamber of Commerce (AmCham)

Ms. Svjetlana Momcilovic, Policy Manager, AmCham

Mr. Drazen Malbasic, Policy Manager, AmCham

Ms. Sanja Želinski Matunec, Adviser to the President, Croatian Chamber of Trades and Crafts

Ms. Sanja Martinovsky, Head of Economy and Consulting Department, Croatian Chamber of Trades and Crafts

Ms. Duretica Mostartcic, Croatian Chamber of Trades and Crafts

Mr. Krešimir Mudrovčić, Member of the Board, CROZ

Mr. Tomislav Majdančić, Tax Adviser, CROZ

Mr. Mladen Milavić, Executive Director, Public Sector, IN2

Mr. Marko Sever, IN2

Mr. Stjepan Bobinac, INFODOM Zagreb

Mr. Hrvoje Sagrak, Public Sector, INFODOM Zagreb

Mr. Sasa Bilic, President of the Management Board, APIS IT d.o.o.

Mr. Vlado Brkanic, Tax Adviser and Publisher, RRIF (Accounting, Auditing and Finances [publishing and consulting firm])

Dr. Durdica Juric, RRIF

Mr. Dražen Nimčević, Partner and Head of Tax Consulting Department, Deloitte

Mr. Neven Bratranek, Teched Consulting Services

Mr. Damjan Radicevic, Teched Consulting Services

Mr. Ivan Filipovic, Teched Consulting Services

Mr. Tomislav Majerić, Global Business Services Sales Leader, IBM Croatia

Mr. Tomislav Balun, Key Accounts Manager, IBM Croatia

Mr. Danijel Šimić, Head of Compliance Risk Management System Project, IBM Croatia

Appendix E. Borrower's Comments

Chapter 1.11. on page 3—our comment is:

Current LargeTaxpayers office was established in December 2012 (as a Regional office). During the period 2005-2012 Large Taxpayers Office in current formation did not exist, but only (local) Zagreb large taxpayers office (which functioned as a separate unit within the Zagreb Regional office).

Chapter 2.2. on page 6—our comment is

Regarding the allegation that the Tax Administration has a large number of offices that hinder further improvement of tax efficiency, we point out that in 2016 an analysis of the tax system was conducted which indicated the need to improve business processes and attitudes of Tax Administration officials toward taxpayers. Tax procedures were assessed as highly administered procedures, and the cause of such problems was identified as unsatisfactory functional and territorial structure, unequal workload of employees, lack of direct hierarchical line of management and despite the reorganization, still inadequate establishment of line work. An analysis of the efficiency of treatment and the even workload of Tax Administration officials was performed.

The consolidation of regional offices with the 2014 structure created too big organizational units, which resulted in too few executives for effective process management, regional offices and local offices were dislocated, managers were not located in the same place as the officials they were directly superior to. Also, not enough attention was paid to local offices, it was necessary to establish a legal service that would provide assistance to officials of the regional office and local offices in cases of supervision and enforcement. The structure of the Tax Administration did not follow the territorial structure of other state administration bodies, which hindered the operations of the Tax Administration.

The new structure is based on the actual criteria of the number of taxpayers with the aim of equal workload and specialization of officials, which was achieved by introducing the rules of organizational structure, that is, standardization of business.

A control system has been established in such a way that each official has a specific area of work as well as a system of objectivity that each taxpayer is accompanied by 2 or 3 officials.

All tasks performed in the lowest organizational units of the Tax Administration are coordinated and directed from the central office to maintain acceptable standards of operational activities.

In view of all the above, in the Ministry of Finance, the Tax Administration, based on the Tax Administration Act, in 2017 a reorganization was carried out which, in addition to the central office, established 22 regional offices by category and 96 local offices of the Tax Administration also by category."

Chapter 2.4. on page 7—our comment is:

"Stated data are based on the tax audit results which had been registered in the tax audit application within the Tax Administration Information System. The amount of the transferred tax loss reduction as well as the amount of the tax returns corrections which result in newly established liabilities after the audit had been completed, are not entered in that application. These findings represent a significant part of the tax audit findings, but as previously stated, are not registered in the system. With the introduction of the GAS application, these findings will be registered as a result of a tax audit."

Chapter 2.5. on page 7—our comment is:

"Regarding the allegation that attracting highly qualified tax auditors, ie tax inspectors to the Office for Large Taxpayers is difficult because there is no difference in salary / compensation with other offices of the Tax Administration, we point out that the Regulation on job titles and job complexity coefficients working conditions and the criteria and the maximum possible amount of the allowance for above-average results in work for employees of the Tax Administration, which Regulation was published in the Official Gazette No. 78/17 of 9 August 2017 and entered into force on 1 September 2017, prescribed by Article 4, that employees of the Office for Large Taxpayers are entitled to an allowance for special working conditions from 5% to 15%.

Article 4 of the Regulation reads as follows: Jobs with an allowance for special working conditions are jobs and jobs - positions in the regional office - the Office for Large Taxpayers, where taxes and contributions are determined, for which a supplement of 5% to the basic salary is determined, except the position of administrative clerk.

Jobs with an allowance for special working conditions are jobs - positions in the regional office - Office for Large Taxpayers where tax supervision and risk analysis, collection and enforcement and jobs of a senior inspector - specialist, for which the allowance is determined in the amount of 10% on the basic salary.

Jobs with an allowance for special working conditions are jobs in the regional office - the Office for Large Taxpayers, where tax supervision and risk analysis, collection and enforcement are performed, except for jobs - positions, positions of senior inspector - specialists and jobs administrative clerk, for which a supplement of 15% to the basic salary is determined.

Officials who perform tax supervision, enforcement, collection, bankruptcies and liquidation and suppression of tax fraud in other regional offices, except for jobs - positions, receive an allowance for special working conditions of 10%."

Chapter 2.6. on page 7—our comment is:

The training plan for Tax Administration officials was submitted to the World Bank for 3 areas of education: Accounting programs, IT programs and English language. In accordance with the request of the World Bank, a list of participants who will participate in each program was submitted. Upon completion of the project, the contractors who implemented these programs submitted reports on the implemented programs, in accordance with the contract, which shows how many programs were implemented in relation to the planned number and the actual number of participants in relation to the planned number. Also, in accordance with the contract, the contractor conducted an evaluation of the program he performed. These plans and reports were submitted to World Bank representatives in Croatia. The Independent Evaluation Group that conducted the project evaluation during the interviews conducted in December 2019 did not request the mentioned plans and reports on the conducted training. The relationship between the trainings held and the possible increase in the efficiency of officials has not been evaluated, since the system of monitoring the work efficiency in the Tax Administration is still being developed. Namely, the EU Project "Establishment of a connected human resources management system," Technical Assistance program "Establishment of an application for measuring the work efficiency of employees of the Ministry of Finance, Tax Administration" from 2017 to 2018 created an application for measuring work efficiency. After the completion of the project, the analysis and development of key performance indicators for each job were financed with budget funds, and the monitoring of work efficiency will begin only in 2021.

We would like to point out that the Tax Administration participates in the project of the Ministry of Administration "Preparation of the Strategy of Professional Development in Public Administration 2019 to 2023" in making of training needs analysis for CTA as a whole including personal training plans for the same period for each officer individually.

Regarding the decrease in the number of hours of training per employee from 22 hours in 2014 to 17.4 hours in 2018, we note that the number of hours in 2014 was extremely high. Namely, in 2014, in addition to trainings financed from the World Bank (Accounting programs, IT programs and English language), a large number of trainings were held as part of several projects financed from EU preaccession funds, which resulted in an exceptional increase in training hours: inspectors within the project IPA 2009 "Strengthening the administrative capacity of the Croatian Tax Administration in the field of supervision" and training within the project IPA 2010 "Strengthening the administrative and institutional capacity of the Tax Administration of the Republic of Croatia in the field of VAT in the EU common market.

Chapter 2.9. on page 8—our comment is:

From 2016 until 2020 CTA had four rounds of tax reform. The goals were to simplify the system, expand the tax base and tax relief for citizens and entrepreneurs. The tax reform seeks to distribute the tax burden more evenly to all groups of taxpayers and to make the tax system simpler, more stable and fairer, and the overall tax burden lower. Special emphasis was placed on simplifying the tax system to increase tax security but also to keep the tax system stable. To achieve administrative relief and efficient treatment of employees, the obligation to submit statements in the payment of nontaxable receipts has been abolished and payers are provided with an insight into the realized nontaxable receipts of employees. Furthermore, it is possible to see the tax card and the used amount of personal deduction of the former employee no later than the due date of the salary so that the employee can use the right to unused personal deduction in the month of payment, and not according to the annual calculation. Bookkeeping documents that are made on paper, such accounts may be in tax matters to take into account and converted into an electronic record- Archive. The tax on road motor vehicles is now determined annually during the mandatory annual registration procedure. Instead of a special tax on the acquisition of used motor vehicles, it is prescribed to pay an administrative fee when registering a vehicle in the name of the acquirer of the vehicle, and everything is done in one place (Technical Inspection Station) with a financial relief of about 50%.

The obligation to report the occurrence of tax liability when buying real estate has been abolished. Reporting via the OPZ-STAT form is now once a year instead of four times a year. The possibility of filing an appeal electronically is prescribed. The range of facts relevant to taxation has been reduced. It is also possible to submit an annual tax return for self-employment income (named form DOH) and application for the determined joint income from self-employment (named form DOH-Z) via the ePorezna portal. The obligation to keep records of paid advance payments and the possibility of disclosing loans and/or credits in the total amount has been abolished. Also the obligation to keep records of monthly amounts of paid receipts from self-employment, contributions and taxes (named form IP), and the obligation to fill in certain data when compiling and submitting the annual income tax return (named PD form) has been abolished.

Furthermore, during the new organizational structure of CTA in 2017, in the central office we established a new Department were taxpayers have one more place to communicate with CTA (except branch offices). CTA through that new Department timely and thematic for particular areas inform and educate taxpayers through leaflets, brochures, and so on. Taxpayers can easier interact with the tax authorities and get information related to their own business.

Table A4 on page 20—our comment is:

The table does not contain data on excise duties, concessions, import VAT and customs duties for which the TA does not keep official records, and they are significantly represented in such population of taxpayers.

Table A5 on page 20—our comment is:

Same as comment on Chapter 2.4.

Chapter Table A.8: Declarations by legal entities filed electronically (in % of total): Intermediate Outcome Indicator No 7 on page 23

Difficulties for taxpayers arise from the large number of codes used in "JOPPD" forms, as well as from the large amount of data required in VAT returns forms.

Our comment is:

JOPPD form data on the amount of receipts, total income of taxpayers and data on contributions for compulsory insurance enable more efficient use of data for state institutions related to decision-making on rights and obligations, as well as more precise data on amounts of contributions for compulsory insurance for pension and social system sustainability. All data entered in the JOPPD form and VAT return form taxpayers already have in their accounting systems. Also, the forms are submitted electronically and our opinion is that they do not represent a large administrative step that taxpayers need to accomplish to settle their obligations.

Regarding the World Bank report, the Supervision Department of CTA notes that the report lacks an "e-Audit Implementation" project No. RAMP/C/03-04 FBS v—Loan no. 7471, within the RAMP program—and was held from May 10 2012 to April 26 2013.

The mentioned project was successfully completed.

The following activities were carried out within the project:

- Acquisition of 30 licenses of the e-monitoring tool ACL. Also, 22 licenses were subsequently procured during the project, which was financed from the budget

- ACL tool operation display
- Development of fiscal tests for data checks during supervision
- Training for 52 employees in working with ACL
- Performing trial supervision at one taxpayer

Attached is a summary from the final report of the consortium for the implementation of activities (PWC, Logen. Infodom), and only the final report in English, as well as a statement of confirmation of the final report by the Tax Administration.