

2010 Annual Programme — Project Fiche 5
Public Finance

1. Basic information

- 1.1 CRIS Number: 2010/022-452
 1.2 Title: Public finance
 1.3 ELARG Statistical code: 02.29
 1.4 Location: Kosovo*

Implementing arrangements:

- 1.5 Contracting Authority (EC): European Commission Liaison Office to Kosovo
 1.6 Implementing Agency: n/a
 1.7 Beneficiary:

Project Component	Beneficiary	Contact point
Integrating Supply Chain Security Management into the Customs Declaration Processing System	Kosovo Customs	Project manager: Vahidin Qerimi, Kosovo Customs; IT Department — Databases & Applications Email: vahidin.qerimi@dogana-ks.org Tel: + 377 44 167 715
Further support for the Privatisation Agency of Kosovo	Privatisation Agency of Kosovo (PAK)	Shkelzen Lluka, Acting Deputy Managing Director Tel: +381 38 500 400 ext: 1260

Financing:

- 1.8 Overall cost (VAT excluded): EUR 2.15 million
 1.9 EU contribution: EUR 1.5 million
 1.10 Final date for contracting: 2 years after the signature of the financing agreement
 1.11 Final date for execution of contracts: 2 years after the final date for contracting
 1.12 Final date for disbursements: 1 year after the final date for the execution of contracts

2. Overall Objective and Project Purpose

2.1 Overall objective:

The overall objective of the programme is to support economic growth in Kosovo and create an environment conducive to private sector development

Component 1 - Integrating Supply Chain Security Management into CDPS

The overall objective of the project is to help the Kosovo Customs operate more effectively through a better IT system, thus helping align the customs service with the Kosovo Government strategy for eGovernment and with EU regulations for eCustoms.

* Under UNSCR 1244/1999.

Component 2 - Further support to the Privatisation Agency of Kosovo

To create an environment in which the private sector can more easily develop, thus creating jobs for all communities in Kosovo.

2.2 Project purpose:

Component 1 - Integrating Supply Chain Security Management into CDPS

The purpose of this project is to improve the IT infrastructure of Kosovo Customs (KC), integrate supply chain security management into the Customs Declaration Processing System (CDPS) and further align Kosovo legislation and procedures with the EU *acquis*.

Component 2 - Further support to the Privatisation Agency of Kosovo

The purpose is to help the Privatisation Agency of Kosovo (PAK) complete the on-going privatisation and liquidation of socially-owned enterprises.

2.3 Link with European Partnership/Stabilisation and Association Process Dialogue/Progress Reports

Component 1 - Integrating Supply Chain Security Management into CDPS

Under the *2008 European Partnership*, short-term priority is to be given to bringing Kosovo's customs legislation more closely into line with EU law and practice (the EU *acquis*) and to helping the customs authorities combat corruption, counterfeiting and cross-border crime. In particular, the capacity of the criminal investigation unit needs to be enhanced.

For the medium term, the *2008 European Partnership* reiterates the general objectives of continuing to bring tax and customs legislation into line with the EU *acquis* and enabling the tax and customs authorities to better enforce this legislation and to combat corruption, cross-border crime and tax evasion.

The European Commission Progress Report for 2009 recognises that there has been some progress in the area of Customs. Revenue collected by the Customs in January - September 2009 was 4.5% higher than revenue collected for the same period in 2008. However, there is still work to be done in several areas, one of them being the security of the supply chain.

Component 2 - Further support to the Privatisation Agency of Kosovo

The project directly responds to a number of specific priorities identified in the *European Partnership* including:

- Create the right conditions for investment, trade and economic growth.
- Finalise the privatisation process in accordance with the Kosovo Trust Agency schedule.
- Complete the incorporation of publicly-owned enterprises, namely the electricity utility, railways, district heating and water and waste services. Implement further restructuring steps to improve their governance, efficiency and financial sustainability. Further strengthen the regulatory framework for public utilities and enhance the administrative capacity of the independent regulators.

The *Commission's 2009 progress report on Kosovo* found that "the government's privatisation agenda concerning public-owned enterprises continued to accumulate delays. Overall, delays in privatisation contributed to a rigid business structure". This project aims to tackle those issues.

2.4 Link with the Multiannual Indicative Planning Document (MIPD)

Component 1 - Integrating Supply Chain Security Management into CDPS

The Multi-Annual Indicative Planning Document (MIPD) for Kosovo for 2009-2011 identifies the economic priorities for this period. One of these is improving budgetary and fiscal policy-making and management. It includes enhancing the ability of the tax and customs authorities to carry out inspections and to collect taxes and duties. This contributes to prudent fiscal policies, including making sure that Kosovo has the necessary budgetary resources to bring its economy into line with EU requirements.

Component 2 - Further support to the Privatisation Agency of Kosovo

The MIPD states that EU assistance should enhance Kosovo's socio-economic development, including regional development, in a sustainable way. The document also stresses that Kosovo must seize the *opportunities* provided by assets such as its natural resources (which have the potential to attract domestic and foreign direct investment) and its young population. Kosovo should also take advantage of the willingness of the European Union and the international donor community to provide financial assistance as well as facilitating regional and cross-border cooperation in the context of its European perspective and full access to the European market.

Under the MIPD, one of the socio-economic priorities is to improve the climate for investment in Kosovo and to support small and medium-sized enterprises by continuing to implement the European Charter for Small Enterprises, creating a favourable legislative and policy framework, enhancing corporate governance and providing access to specialised support and services, including investment and import/export promotion. The project aims to tackle this particular priority.

2.5 Link with National Development Plan

Component 1 - Integrating Supply Chain Security Management into CDPS

No National Development Plan is currently available

Component 2 - Further support to the Privatisation Agency of Kosovo

The project is in line with the Medium-Term Expenditure Framework 2010-2012, whereby creation of an environment conducive to investments and growth is set as a priority.

2.6 Link with national/ sectoral investment plans

Component 1 - Integrating Supply Chain Security Management into CDPS

The project is in line with the Strategic operating framework (SOF) 2009-2011 aiming to develop the Customs Service to meet the challenges of the business environment and benchmarking progress against the requirements of the EU Customs Blueprint and the Standards for Kosovo. No specific sectoral investment plan is currently available.

Component 2 - Further support to the Privatisation Agency of Kosovo

The project is in line with the Business Plan of PAK on privatisation and liquidations; however there is no specific sectoral plan. It is also outlined in the MTEF that the Government's role will focus on completing the privatization process and the liquidation of SOEs. The plan of the government is to continue preserving the trust fund for privatization proceeds by placing these funds only in investment-grade instruments. This will guarantee that these funds can compensate the legally determined owners, thus eliminating the risk of contingent claims on the Government that would result if these funds were lost

3. Description of project

3.1 Background and justification:

Component 1 - Integrating Supply Chain Security Management into CDPS

A supply chain is a system of resources, organisations, people, technologies, activities and information involved in the act of transporting goods from producer to consumer/user.

In 2005, the World Customs Organisation (WCO) published its 'Framework of Standards to Secure and Facilitate Global Trade'. To date, 156 WCO Members have signed a letter of intent to implement the Framework and it is likely that this Framework of Standards will shape most future national supply chain security programmes. In addition, the European Commission has adopted Regulation 1875/2006 aiming at increased security for shipments entering or leaving the EU. These measures should produce faster and better-targeted customs checks that facilitate legitimate trade but tighten minimum security and safety requirements.

Most supply chain security initiatives also aim to facilitate trade. The twin ambitions of enhanced security and easier trade are thus not necessarily in conflict with each other, but can rather be mutually supportive. The project would therefore emphasise that trade facilitation can indeed be integrated into the security initiatives

Despite the overall consensus on the need to improve the security of supply chains, there is no single path to achieve supply chain security world wide. Technology-based solutions must remain proportionate, well thought-out, affordable and sustainable in all types of scenarios to avoid further marginalising the Kosovo Customs (KC) project, since the customs authorities could not afford high capital and running costs. In addition, Kosovo Customs must ensure that endorsed technological solutions are mutually compatible and comply with EU and WCO (World Customs Organisation) technical and operational standards.

The main benefits to be derived from the supply chain security modules are:

- The early detection of threats through the timely acquisition, analysis and validation of cargo information not only by Customs but also by other relevant Government Border Agencies, through the advance dissemination of cargo information and a consistent system of risk management.
- Only legitimate, *bona fide* entities or individuals with an adequate security awareness and self-discipline actively participate in the supply chain, since all actors in the supply chain must be certified or have their credentials checked. Ideally, this implies that mechanisms are in place for Governments to recognize one another's certification programmes.
- Facilitation of flows of legitimate trade thanks to appropriate and sustainable technology which enables enforcement agencies to timely and speedily screen or examine a larger portion of the trade flows.
- Improved cargo and container integrity during the whole transport cycle, centred on seals, track and trace, positioning and scanning technologies.

In addition, if supply chain security modules are well integrated into the CDPS, this will greatly assist operations departments and management decision makers at all levels, particularly at tactical level but increasingly also at strategic level.

Component 2 - Further support to the Privatisation Agency of Kosovo

The Privatisation Agency of Kosovo (PAK) was established as the successor to the Kosovo Trust Agency (KTA). The PAK was set up under the Law on the Privatisation Agency of

Kosovo (Law No 03/L-067) which came into force on 15 June 2008. This Law implements relevant provisions of the Comprehensive Proposal for the Kosovo Status Settlement.

The PAK is an independent public body that carries out its functions and responsibilities with full autonomy. The Agency's current role is to privatise Socially Owned Enterprises (SOEs), and over 599 businesses in Kosovo have been identified as potentially being SOEs.

Most of Kosovo's industrial assets, prime agricultural land, forests, urban commercial land and commercial properties used to be owned by SOEs. Privatisation of these assets and the attraction of local, regional, diaspora and international investors to the privatisation programme are expected to have a profound and positive impact on the economy and on job creation.

By 20 December 2009, the PAK had launched 11 waves of privatisation by creating 118 new companies. However, there were no cases of liquidation closures due to factors outside PAK's control.

UNMIK Regulation 2002/13 of 13 June 2002 established the Special Chamber of the Supreme Court of Kosovo on matters relating to the Kosovo Trust Agency. The Special Chamber is a special court with three judges, in which EULEX also participates. It is the last resort to justice for claims against the former KTA, now the PAK.

PAK is a Kosovo agency and, as such, not recognised by EULEX. This is the source of the 'PAK recognition problem'. Another aspect of this problem is that the legal department of UNMIK regards the KTA as still in existence.

The present project proposal is a second phase of the current EU-financed 'Privatisation and Liquidation' project, of which the PAK is the beneficiary.

The proposed project will continue the activities of the current project, continuing and completing the privatisation and liquidation process.

3.2 Assessment of project impact, catalytic effect, sustainability and cross-border impact

Component 1 - Integrating Supply Chain Security Management into CDPS

This project is designed to enable the Customs Administration to modernise and develop its operational capacity and to increase the overall security of the supply chain. It is expected to result in an improved information system, more effective inspections and other measures to prevent customs fraud, and closer cooperation with the EU and neighbouring countries. The impact assessment will be guided by the overall performance of the Customs Administration.

The proposed project will help turn the Customs Administration into a small but efficient institution, significantly increasing its revenue collection rate and thus increasing the government's revenue. A more efficient and transparent Customs Administration aligned with EU standards will therefore have a catalytic effect on the economy by helping create the stable environment necessary to attract foreign and domestic investors. By becoming a lean and efficient organisation, and significantly increasing the security and volume of customs duties it collects, the Customs Administration should assure its sustainability.

Overall border security will be increased and goods will be able to move across the borders efficiently and in line with international security standards. This will benefit not only Kosovo but also the EU member states.

Component 2 - Further support to the Privatisation Agency of Kosovo

This project is expected to deliver a positive economic impact, particularly in the form of foreign direct investment and job creation. The project aims to build an improved enabling economic environment that promotes higher levels of foreign direct investment and exports by building the PAK's capacities. Viable privatised socially owned enterprises (SOEs) are expected to obtain fresh investment and hire staff thanks to the privatisation process supported by this project. Support for the liquidation of SOEs will put in place an appropriate and sustainable mechanism for redistributing the assets of bankrupt enterprises to more productive purposes.

3.3 Results and measurable indicators:

Component 1 - Integrating Supply Chain Security Management into CDPS

Results:

1. Web-based supply chain security management solution integrated into the Customs Declaration Processing System.
2. Improvement of the IT system, Customs helped to use the system and external users familiarised with the supply chain concept and its benefits.

Measurable indicators:

- Improved computerised information systems delivered and operational;
- Increased use of verified vendor technologies and computerised tools in the information reporting, analysis and monitoring processes;
- Upgrades and technical support provided for one year after the project is implemented;
- Training provided for at least five IT staff and at least 15 operations staff;
- Awareness campaign conducted and awareness material produced and distributed;
- Increased use of open source technologies in the Customs Administration.

Component 2 - Further support to the Privatisation Agency of Kosovo

Results:

1. PAK able to finalise privatisation and complete liquidation of the remaining socially owned enterprises.
2. New liquidations prepared and launched.
3. Workers lists prepared and published.
4. PAK assisted in dealing with the Special Chamber.

Measurable indicators:

- At least 250 SOEs privatised or liquidated; liquidation proceeds ring-fenced in a 'Trust Fund' and amounts distributed;
- 30 privatisations launched;
- 30 liquidations recommended for closure;
- 50 new liquidations launched;
- 50 workers lists published.

3.4 Activities:

Component 1 - Integrating Supply Chain Security Management into CDPS

Activities leading to result 1

This project activity is to design, deliver, install and integrate new supply chain security modules into the Customs Declaration Processing System after analysing the existing IT structure of Kosovo Customs. The selected solution needs to be provided with an open source code, which means its source code may be analyzed, changed and enhanced independently from the project beneficiary. The main supply chain security (SCS) elements to be integrated into CDPS are:

- Advance (electronic) Cargo Information (ACI)
- Risk Management
- Non-Intrusive Inspection (NII)
- Operators' Certification (Authorised Economic Operator — AEO)

Activities leading to result 2

This activity will provide assistance in improving the linked modules and in building a team of experts. It will also provide training and knowledge transfer for IT maintenance and for further developing updates and upgrades. In addition, this activity will include awareness raising among the users of the system in the form of workshops, seminars and publicity materials.

Contracting arrangements: the activities under component 1 will be implemented through a supply contract (for result 1) and a service contract (for result 2).

Component 2 - Further support to the Privatisation Agency of Kosovo

Activities leading to result 1:

1. Continue building capacity by providing training for PAK Management and staff on strategies and procedures for privatisation and liquidation.
2. Assess and prepare SOEs for privatisation and/or liquidation.
3. Sell SOEs through open bidding; unbundle and liquidate SOEs.

Activities leading to result 2:

1. Help the PAK to prepare and launch new liquidations
2. Help the PAK to introduce best liquidation practices.
3. Provide the PAK with assistance on legal matters concerning property titles, ownership claims, compensation claims from employees and problems relating to the sale of the liquidation assets.

Activities leading to result 3:

1. Help the PAK to prepare and launch employees' lists immediately following privatisation.

Activities leading to result 4:

1. Help the PAK on all issues dealing with the Special Chamber.
2. Continue effective governance practices.
3. Adjudicate on creditor and ownership claims.

Contracting arrangements: the activities under component 2 will be implemented through a service contract.

3.5 Conditionality and sequencing:

The projects include the following conditionality:

- Appointment of suitably qualified staff before the project launch;
- This commitment extends to the allocation of working space and facilities for the project team before the project launch;
- Organisation, selection and appointment of members of working groups, steering and coordination committees; seminars as per work plan of the project;
- Assigning the relevant staff to take part in training activities as per work plan;
- ASYCUDA World New Customs Declaration Processing System in place and functional
- A resolution of the PAK's legal recognition problem
- Sufficient and continuous involvement in and support for the project from PAK staff.
- The PAK's operation remains smooth throughout the project implementation period.

3.6 Linked activities

Component 1 - Integrating Supply Chain Security Management into CDPS

CAFAO (EUR 8 million)	2006-2008	Customs Services and Tax Administration have been supported by the CAFAO project during period with. This project has provided support to Customs and Tax Administration in form of technical assistance in many areas, such as investigation and detection of fraud, support to designing and implementing new legislations, support to the IT structures in both administrations, etc.
Technical Assistance to Customs and Tax Administration TACTA (EUR 2 million.)	January 2008-August 2009	Tax and Customs administrations were supported mainly in the following areas: Customs laboratory, Customs Investigation and enforcement, Integrated border management, Post clearance procedures, Tax legislation and procedures, Customs and Tax – IT support, Strengthening the governance and internal control mechanisms – Tax, Enforced collection – and VAT control
Support to Customs and Tax Administration	September 2009-September 2009	The project is to establish an effective, efficient, fair and transparent system of revenue collection, by supporting the reform and development process undertaken by CSK and TAK, whilst approximating EU standards laid down in the Customs & Fiscal Blueprints.

The European Union's Rule of law Mission (EULEX) has provided monitoring, mentoring, advice and support to the Customs since September 2008. The main purpose of this EULEX assistance is to help Kosovo Customs and each of its Directorates improve their strategic planning, and to support the drafting of national strategies for Integrated Border Management, and for fighting organised crime, drug trafficking, terrorism and money laundering.

In addition, the US Office in Kosovo has supported various Customs activities and provided equipment to support law enforcement (a mobile scanner, equipment for car searches, etc.).

Component 2 - Further support to the Privatisation Agency of Kosovo

Name of project (in EUR million)	Start End	Activities/Results
Support for the Kosovo Trust Agency (EUR 3.6 million)	Nov 2005 July 2007	Specialised technical assistance to KTA for the transformation, privatisation and liquidation of Socially Owned Enterprises.
Institutional	June	To help the PAK move ahead with privatising and liquidating the

Support to the Privatisation Agency of Kosovo (EUR 3 million)	2008-June 2009	remaining socially-owned enterprises in Kosovo.
Institutional Support to the Privatisation Agency of Kosovo (EUR 6 million)	June 2009-June 2011	To help the PAK finalise privatisation and complete liquidation of the remaining socially-owned enterprises in Kosovo.
Privatisation and liquidation (EUR 4.5 million)	January 2009-January 2011	Economic development of Kosovo through the privatisation and liquidation processes, and through increased investment in the productive manufacturing and services sectors in Kosovo.
Insolvency Capacity Building (EUR 1 million)	January 2009-July 2010	Technical assistance and effective support to SCAAK to help it fulfil its mandate in relation to insolvency practitioners and to bring liquidation and bankruptcy procedures and regulations in Kosovo into line with EU standards.

3.7 Lessons learned

Although the overall impact of the previous assistance is satisfactory, a number of challenges remain:

- *Enforcement:* There has been considerable focus on establishing the legal frameworks in Kosovo. Capacity to enforce the law, however, has received insufficient attention. While legal reform has advanced, law enforcement and implementation has not followed. This creates a widening gap between the formal legal situation and practice ‘on the ground’.
- *Conditionalities:* Project implementation is often hampered either by insufficient staff and resources allocated to (newly established) institutions or because the government lacks sufficient operational funds to properly implement the mandate of the department concerned.
- *Coordination within the government:* Further improvements — in line with the spirit of EU accession — could be achieved if the government provided stronger leadership in coordinating the efforts of different ministries and departments and focused more clearly on coordinating its operations and harmonising its policies.
- Previous IT projects in Customs have proven the importance of ensuring that Customs Administrations become the owner of the source code after the project has been implemented. This enables Customs to carry out all future changes without help from the system provider, unless this is needed for other reasons. This could be achieved if the system’s creators actively involved local staff in implementing the project and offered effective assistance, training and knowledge transfer with the aim of giving full independence to the beneficiary party.

4. Indicative Budget (amounts in EUR million)

			TOTAL EXP.	SOURCES OF FUNDING								
				IPA EU CONTRIBUTION		BENEFICIARY CONTRIBUTION					PRIVATE CONTRIBUTION	
ACTIVITIES	IB (1)	INV (1)	EUR (a)=(b)+(c)+(d)	EUR (b)	%(2)	Total EUR (c)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/ Local EUR (y)	IFIs EUR (z)	EUR (d)	% (2)
Activity 1: Improve IT of KC			0.65			0.65	100	0.65				
Contract 1.1 Supply		X	0.5			0.5	100	0.5				
Contract 1.2 Service	X		0.15			0.15	100	0.15				
Activity 2: Support to the PAK			1.5	1.5	100							
Contract 2.1 Service	X		1.5	1.5	100							–
TOTAL IB			1.65	1.5	91	0.15	9	0.15				
TOTAL INV			0.5			0.5	100	0.5				
TOTAL PROJECT			2.15	1.5	70	0.65	30	0.65				

NOTE: Amounts net of VAT

(1) In the Activities column use 'X' to identify whether institution building (IB) or investment (INV).

(2) Expressed in % of the **total** expenditure (EXP) (column (a))

5. Indicative Implementation Schedule (periods broken down per quarter)

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 2.1	Q4 2010	Q2 2011	Q4 2011

6. Cross-cutting issues

6.1 Equal Opportunity

Promoting a more diverse workplace (gender-wise and ethnically) will do a lot to strengthen the capacity of the target institution. The project will ensure that gender and ethnic minority issues are mainstreamed both within the target institutions and in their outputs (the services they provide). To achieve this, the project will:

- address the barriers in the workplace that prevent the achievement of gender equality and ethnic diversity; create a workplace culture supportive of gender equality and ethnic diversity to improve gender/ethnic balance within the organisation. Opening up new possibilities for minorities as well as opportunities for women to work in non-traditional areas will, in turn, help to change the policy, business and customer focus of these institutions;
- introduce concepts of equality and diversity in strategic planning and management, including the business case for equality and diversity so as to make the workforce more representative of and responsive to the Kosovo customer base. Data must be produced, and must be systematically disaggregated by sex and ethnicity, to establish the baseline and measure progress. The project will promote the participation of women in all activities.

6.2 Environment

When so required by the legislation in force in Kosovo and by EU Directives and standards, the support provided by this project will include measures on controlling pollution and enhancing environmental protection. The Environmental Impact Assessment of the proposed activity and investment will be taken into consideration, along with a scrutiny of issues relating to health and safety at work.

6.3 Minorities

This project will help establish multi-ethnic representation in the institutions it benefits, and will address ethnic minorities and other marginalised groups fairly and equitably under the law.

ANNEXES

- Annex I- Log frame in standard format
- Annex II- Amounts contracted and disbursed per quarter over the full duration of the programme
- Annex III- Description of institutional framework
- Annex IV - Reference to laws, regulations and strategic documents
- Annex V- Details per EU-funded contract

ANNEX I: Logical framework matrix in standard format

Project Title: Support for Public Finance		Programme name and number: 2010/022-452	
Sector: Public Finance		Contracting period expires: Ref to section 1.10	Disbursement period expires: Ref to section 1.12
		Total budget: EUR 2.15 million	IPA budget: EUR 1.5 million
Overall objective	Objectively verifiable indicators	Sources of Verification	
To create an environment in which the private sector can easily develop and create jobs for all communities in Kosovo.	<ul style="list-style-type: none"> • Kosovo Customs would become the owner of the solution with all intellectual property rights. • Legislation aligned with EU & WCO standards • Customs Procedures conforming with EU & WCO standards • IT systems support the required reforms • Improved image as the business community publicly expresses satisfaction with the Customs Administration • Levels of FDI in Kosovo invested in the private sector including agriculture • Annual increase in exports by value 	<p>Internal evaluations of the Customs Administration interim report</p> <p>EULEX monthly monitoring reports.</p> <p>European Commission progress reports</p> <p>Reports from Statistics Office of Kosovo;</p> <p>IMF reports</p> <p>World Bank Reports</p>	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
<p>Component 1 - Integrating Supply Chain Security Management into CDPS</p> <p>Improvement of the IT infrastructure of KC, integration of supply chain security management into the CDPS and further alignment of Kosovo legislation and procedures with the EU <i>acquis</i>.</p>	<ul style="list-style-type: none"> • Overall objectives met in relation to IT, EU and WCO requirements • Increased efficiency in faster customs procedures for processing goods at the border. • X-Ray Scanner technology (installed by Albanian Customs in Durrës Port) integrated with the Kosovo Customs Declaration Processing System • Ability to handle increased flow of traffic from Shëngjin Port (as promised to the Kosovo business community by the Albanian Government) • Fewer cases of fraud and smuggling. • Pre-arrival information from licensed companies facilitating the allocation of human resources to meet increased traffic 	<ul style="list-style-type: none"> • Quantifiable changes in areas of IT operations • European Commission progress reports • Customs yearly reports • EULEX monthly monitoring reports • Kosovo Customs Strategic Operational Plan 	<ul style="list-style-type: none"> - Commitment of KC management to support and oversee reforms and the IT plans. - Commitment of KC to accomplish reforms Sustained allocation of human and financial resources to such reforms - Retention of and upgrading of investments (i.e. trained staff and IT systems) <p>No serious political and/or legal obstacles to continued privatisation and liquidation</p>

<p>Component 2 - Further support to the Privatisation Agency of Kosovo Completion of the on-going privatisation and liquidation of Socially Owned Enterprises through assistance to the Privatisation Agency of Kosovo (PAK)</p>	<p>processing requirements</p> <ul style="list-style-type: none"> • Trade facilitation for licensed companies which meet predefined conditions • Supply Chain Security Management will facilitate more secure trade and the freer and faster processing of consignments in the light of any potential security threats • Investment in the private sector in Kosovo • Foreign Direct Investment (FDI) • Exports from Kosovo • Regional economic development initiatives 	<p>Statistics Office of Kosovo Central Bank of Kosovo Investment promotion Agency statistics Chamber of Commerce statistics</p>	<p>Economic policy favourable to private sector development and investment</p>
<p>Results</p>	<p>Objectively verifiable indicators</p>	<p>Sources of Verification</p>	<p>Assumptions</p>
<p>Component 1 - Integrating Supply Chain Security Management into CDPS 1. Web-based solution integrated into the Customs Declaration Processing System</p> <p>2. Improvement of the IT system, Customs supported in using the system and external users familiarised with the supply chain concept and its benefits</p>	<ul style="list-style-type: none"> • Improved computerised information systems delivered and operational • Increased usage of verified vendor technologies and computerised tools in the information reporting, analysis and monitoring processes • Integrated modules for supply chain security management • Increased communication and interaction between KC and other border agencies in accordance with the Kosovo Government's Integrated Border Management Strategy (IBM) • Increased communication and interaction between KC departments and through the intranet and internet. • Upgrades and technical support provided for one year after the project is implemented • Customs campaigns developed and executed • Brochures, manuals and customs guides written and published • Workshops and seminars planned and carried out • Approximately 5 – 10 IT staff and 10 – 20 operations staff trained during the project • Increased use of open source technologies in the Customs 	<ul style="list-style-type: none"> • European Commission progress reports • Customs yearly reports • EULEX monthly monitoring reports • Kosovo Customs Strategic Operational Plan • Auditor General and Internal Audit reports <p>Statistics from PAK</p>	<p>Commitment of KC to follow through reforms</p> <p>Commitment of KC to follow through reforms</p>

<p>Component 2 - Further support to the Privatisation Agency of Kosovo</p> <p>1. PAK able to finalise privatisation and complete liquidation of the remaining socially owned enterprises.</p> <p>2. New liquidations prepared and launched.</p> <p>3. Workers lists prepared and published.</p> <p>4. PAK helped to deal with the Special Chamber</p>	<p>Administration.</p> <ul style="list-style-type: none"> • At least 250 SOEs privatised or liquidated; liquidation proceeds ring-fenced in a ‘Trust Fund’ and amounts distributed. • 30 privatisations launched • 30 liquidations recommended for closure • 50 new liquidations launched • 50 workers lists published 	<p>PAK Annual report to Parliament</p> <p>Reports from projects & project statistics</p>	<p>A resolution of PAK’s legal recognition problem before the SCSC.</p> <p>ICO appointees actually taking part in liquidation committees</p>
<p>Activities</p>	<p>Means</p>	<p>Costs</p>	<p>Assumptions</p>
<p>Integrating supply chain security management into Customs Declaration Processing System</p> <p>Further support for the Privatisation Agency of Kosovo</p>	<p>Supply Services</p> <p>The project will be organised through one service contract</p>	<p>EUR 0.5 million co-financing EUR 0.15 million co-financing</p> <p>EUR 1.5 million EU</p>	<p>Commitment of KC to follow through reforms</p> <p>Absorption capacity of the IT unit in KC</p> <p>Commitment of KC to follow through reforms and to ensure retention of trained IT staff</p> <p>Absorption capacity of the IT unit in KC</p> <p>PAK adequately staffed to continue with the privatisation and liquidation process</p> <p>ICO international staff appointed and operational</p>

Preconditions:

- A resolution of PAK’s legal recognition problem
- PAK staff sufficiently and continuously involved in and supportive of the project
- PAK’s operation remains smooth throughout the project implementation period.

ANNEX II: Amounts (in EUR million) contracted and disbursed by quarter for the projects

Contracted	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1
Contract 2.1 Service	1.5	-	-	-	-	-	-	-
Cumulated	1.5	-	-	-	-	-	-	-
Disbursed								
Contract 2.1 Service	0.3		0.35		0.35		0.35	0.15
Cumulated	0.3	0.3	0.65	0.65	1.0	1.0	1.35	1.5

ANNEX III: Description of the Institutional Framework

Component 1 - Integrating Supply Chain Security Management into CDPS

The Customs Service of Kosovo (CSK) was established in 1999, as part of UNMIK, and was particularly supported by the EU, which helped it build its capacity in order to become a modern Customs administration. In December 2008 the CSK was transferred from UNMIK reserved powers to Kosovo Customs under the Ministry of Economy and Finance. From April 2007, a new organisational structure has been in place with a management team consisting of the Director General and four directorates: Revenue Operation, Finance and Systems, Legal and Law Enforcement. Customs revenue in 2008 was EUR 604 868.613.63, rising in 2009 to EUR 635.038.300.34. This continues the upward trend set in previous years (EUR 435 738 464 in 2005, EUR 459 606 880 in 2006, and EUR 526 962 919 in 2007). Kosovo Customs currently has 584 employees.

Component 2 - Further support to the Privatisation Agency of Kosovo

Organisational Structure

Socially owned enterprises (SOEs) were established in Yugoslavia during its communist era. The post-conflict privatisation of SOEs is considered a vital part of building up the Kosovo economy. To this end, the Kosovo Trust Agency (KTA) was established as an independent body responsible, in cooperation with the Provisional Institutions of Self-Government, for the administration of public and socially-owned enterprises. It was set up under UNMIK Regulation 2002/12 of 13 June 2002 (commonly known as the KTA Regulation). This Regulation was amended on 22 April 2005 by the promulgation of UNMIK Regulation 2005/18. The mandate of the KTA is to preserve and enhance the value, viability and corporate governance of both Publicly Owned Enterprises (POEs) and Socially Owned Enterprises (SOEs).

The KTA was reorganised through the adoption of a new law establishing the Privatisation Agency of Kosovo (PAK)¹ on 21 May 2008. Under this law, the administration of socially-owned enterprises (SOEs) continues under the mandate of the PAK.

When UNMIK Pillar IV closed on 30 June 2008, the administration of publicly owned enterprises (POEs) was transferred to the Kosovo institutions. Thereafter a locally-managed PAK, established as an independent public body, has continued the process of privatising and liquidating SOEs.

In addition, according to the status settlement, the International Civilian Office (ICO) must also provide international staff to the PAK. The role outlined for these experts includes monitoring in particular, compliance with the principles of the European Convention for the Protection of Human Rights and Fundamental Freedoms (ECHR) and with applicable legislation on the privatisation and liquidation of SOEs. The following positions have been proposed:

- a. Three (3) members of the Board of Directors of the PAK;
- b. The Director of the Executive Secretariat of the Board of Directors of the PAK;
- c. One (1) member in each liquidation committees;
- d. One (1) member, who shall also be the chair, in each of the Review Committees.

¹ Law no.03 /L-067 on the Privatisation Agency of Kosovo.

Management and Staff of the Agency

The Privatisation Agency of Kosovo (PAK) will be taking over the duties of the SOE Division of the former Kosovo Trust Agency (KTA) and also the supervisory role of the Department of Regional Coordination and Control. The KTA had a Managing Director (MD) and the two Deputy Managing Directors (DMDs) — one for SOEs and one for POEs — appointed by its Board of Directors. This practice is continued for the PAK, as is also stipulated in the Law. However, since the POEs are dealt with in a separate Law, the titles of the DMDs have been revised. The proposed new titles are Corporate Governance (CG) and Asset Realisation (AR). The PAK's organisational structure can thus be divided into separate functional areas: the Asset Realisation Division under the management of one Deputy Managing Director, the Corporate Governance Division under the management of the other Deputy Managing Director, and the Executive Branch under the direct management of the Managing Director. (This last post is to be filled at a later stage).

The Asset Realisation Division consists of the Sales Department and Liquidation Department.

The Corporate Governance Division consists of the Control and Supervisory Unit, the Monitoring Unit, the Direct Administration Unit and the Trepça Unit.

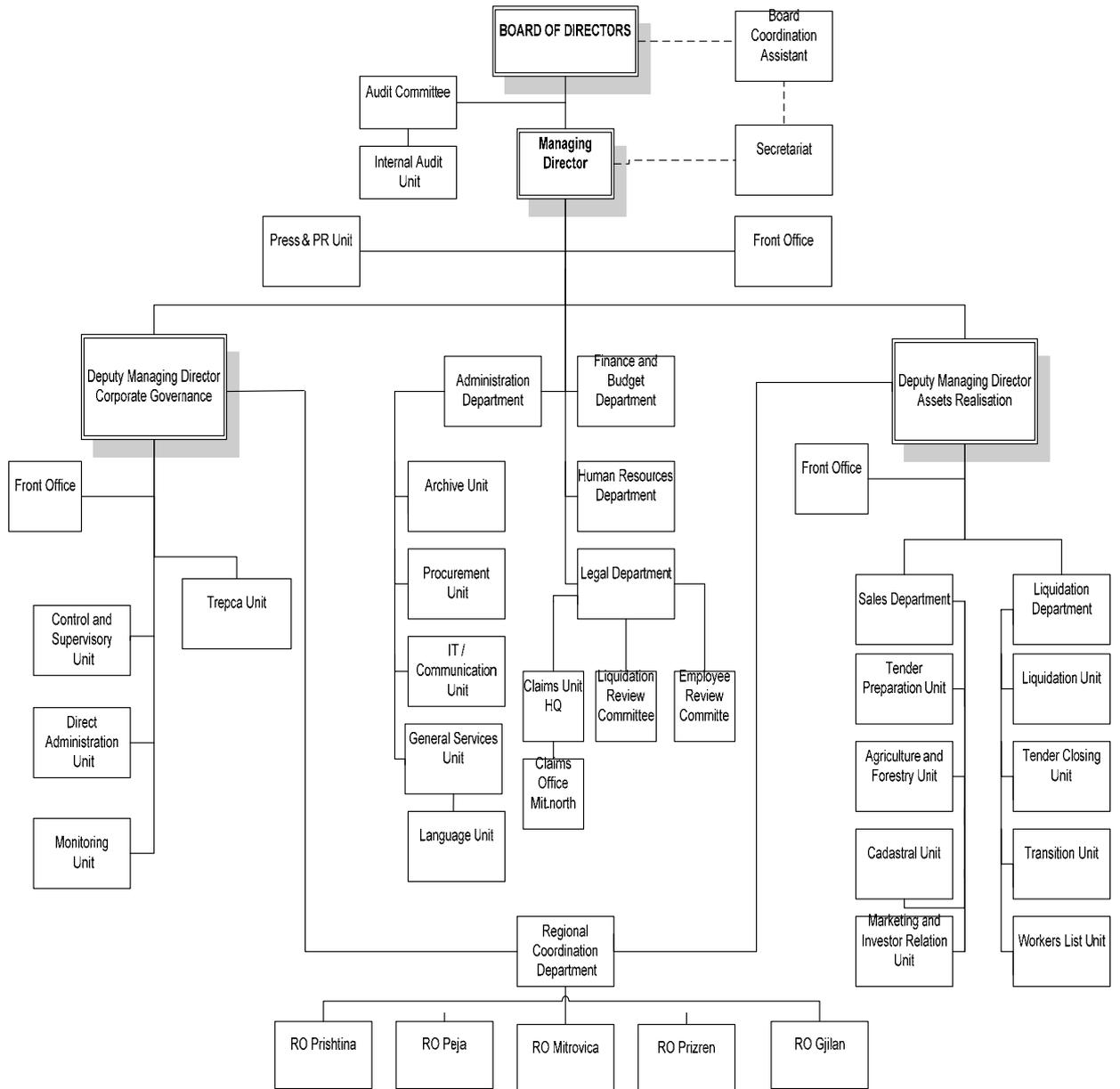
The Internal Audit Department reports directly to the Board of Directors.

The Executive Branch, Finance and Budget Department, Administration Department and Human Resources Department will continue to perform their tasks in accordance with the PAK Organisation Chart in order to help the Agency carry out its duties under the applicable Law.

The Legal Department will provide significant input into all the activities including privatisation, liquidation, procurement and specific cases such as Trepca.

The Regional Coordination Department, through its five Regional Offices and three satellite offices, will continue to serve as the public face of the Agency and as a primary department for privatising and liquidating SOEs.

Privatisation Agency of Kosovo — ORGANISATION CHART



ANNEX IV: Reference to laws, regulations and strategic documents:

Reference list of relevant laws and regulations

Regulation 1875/2006;

Progress Report 2009;

Customs Blue Print.

UNMIK Regulation 2001/6 on business organisations

UNMIK Regulation 2002/12 on 13 June 2002 on the establishment of Kosovo Trust Agency

UNMIK Regulation 2002/13 on 13 June 2002 on the establishment of a Special Chamber of the Supreme Court of Kosovo on Kosovo Trust Agency related matters

UNMIK Regulation 2003/13 on the transformation of the right of use to socially owned immovable property

UNMIK Regulation 2004/45 amending UNMIK Regulation No. 2003/13 on the Transformation of the Right of Use to Socially-owned Immovable Property

UNMIK Regulation 2005/3 on mines and minerals in Kosovo

UNMIK Regulation 2005/18 amending UNMIK Regulation 2002/12

UNMIK Regulation 2005/48 on the Reorganisation and Liquidation of Enterprises and their Assets under the Administrative Authority of the Kosovo Trust Agency.

Law No 03/L-067 On The Privatisation Agency of Kosovo dated 21 June 2008

Operational Policies of the Privatisation Agency of Kosovo as amended

Charter of the Privatisation Agency of Kosovo

By-laws of the Board of Directors of the Privatisation Agency of Kosovo

Administrative Directions, Operational Policies and Procedures

➤ *Reference to AP /NPAA / EP / SAA*

Please see chapter 2.3 Link with AP/NPAA / EP/ SAA above

➤ *Reference to MIPD*

Please see Chapter 2.4 Link with MIPD above,

➤ *Reference to National Development Plan*

Component 1 - Integrating Supply Chain Security Management into CDPS

No National Development Plan is currently available.

Component 2 - Further support to the Privatisation Agency of Kosovo

The project is in line with the Medium-Term Expenditure Framework 2010-2012, which sets as a priority the creation of an environment conducive to investments and growth.

ANNEX V: Details per EU funded contract

Component 1 - Integrating Supply Chain Security Management into CDPS

1. Delivery of the supply chain security modules to Kosovo Customs through a Supply Contract.

The contractor is expected to:

- Design, install and integrate the new modules;
- Ensure that the modules are fully operational and licensed.

2. Providing technical support to Kosovo Customs and organising awareness-raising events through a Service Contract

The contractor is expected to:

- Deliver upgrades and Technical Support
- Design and carry out a general customs campaign and campaigns for special targeted groups of users, including the preparation of brochures, pamphlets and customs guides
- Train the KC IT staff
- Plan and carry out workshops, seminars, media campaigns, etc.

Component 2 - Further support to the Privatisation Agency of Kosovo

Providing technical support to the Privatisation Agency of Kosovo through a Service Contract.

The contractor is expected to undertake tasks relate to the execution of privatisation and liquidation of SOEs as follows:

- - Assessment and preparation of SOEs for privatisation and/or liquidation
- - Selling of SOE to open bidding
- - Unbundling of SOE
- - Liquidating a SOE
- - Resolution of corporate governance issues
- - Adjudication on creditor and ownership claims
- - Realisation of SOE assets
- - Distribution of realization to creditors and owners
- - Dealings with the Special Chamber