

IPA National Programme 2010 - Bosnia and Herzegovina
Fiche 12 “Customs”

1. Basic information

- 1.1 CRIS Number:** 2010/022-259
- 1.2 Title:** Strengthening the customs sector within the Indirect Taxation Authority
- 1.3 ELARG Statistical code:** 03.62 Ability to assume the obligations of membership / Customs and taxation
- 1.4 Location:** Bosnia and Herzegovina

Implementing arrangements

- 1.5 Contracting Authority:** The European Union represented by the European Commission for and on behalf of the beneficiary country.

- 1.6 Implementing Agency:** NA

1.7 Beneficiary:

Indirect Taxation Authority of Bosnia and Herzegovina (ITA)

Senior Programme Officer:

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Financing:

- 1.8 Overall cost (VAT excluded):** EUR 2 750 000

- 1.9 EU contribution:** EUR 2 250 000

- 1.10 Final date for contracting:** Two years following the date of the conclusion of the Financing Agreement

- 1.11 Final date for execution of contracts:** Two years following the end date of contracting

- 1.12 Final date for disbursement:** One year following the end date for the execution of contract

2. Overall Objective and Project Purpose

2.1 Overall Objective

To further develop the customs and taxation sector in Bosnia and Herzegovina, in line with the provisions of the Stabilisation and Association Agreement to improve trade relations with the EU.

2.2 Project purpose

To improve the performance of ITA leading towards further alignment with the EU customs systems

2.3 Link with AP/NPAA/EP/SAA

European Partnership 2008:

In the Council Decision of 18 February 2008 on the principles, priorities and conditions contained in the European Partnership with B&H and repealing Decision 2006/55/EC, OJ L80 of 19 March 2008, page 23, chapter Priorities, European standards, Customs and Taxation, it is written that:

“Further approximate customs and tax legislation and procedures with the *acquis* and ensure that the Bosnia and Herzegovina tariff is timely updated on the basis of the most recent Combined Nomenclatures; to ensure that the legal framework for the free zones is compatible with EU standards and guarantees adequate supervision of the free zones; to ensure proper implementation of rules of origin including diagonal cumulation; to implement customs valuation rules in accordance with international standards and practices; to dismantle taxes with an effect equivalent to a customs duty (customs fees for the processing of customs declarations)

Further improvement of the administration capacity to implement customs and tax legislation and to fight against corruption, cross-border crime and fiscal evasion and to agree on a permanent formula for allocation of indirect tax revenue between the State, Entities and Brcko District; to ensure continued approximation of customs and taxation legislation to the *acquis*, and further increase administrative capacity to implement this legislation. Improve transparency and exchange of information with the EU in order to facilitate the enforcement of measures preventing the avoidance or evasion of taxes.”¹

The “Action Plan for Realisation of the European Partnership Priorities”², chapter Internal Market, Customs and Taxation areas, page 71-76 states:

”Defined necessity of further approximate customs and tax legislation and procedures with the *acquis* and ensure that Bosnia and Herzegovina tariff is timely updated on the basis of the most recent Combined Nomenclature. Ensure that the legal framework for the fees is compatible with EU standards and guarantees adequate supervision of free zones. Ensure

¹ EP, OJ L80, 19.03.2008, Council Decision on the principles, priorities and conditions contained in the European Partnership with BiH and replacing Decision 2006/55/EC;

² Action Plan for Realisation of the European Partnership Priorities, chapter Internal Market, area Customs and taxation, page 71- 76;

proper implementation of rules of origin, including diagonal cumulation. Implement customs valuation rules in accordance with international standard and practices. Further improve the administrative capacity to implement customs and tax legislation and to fight against corruption, cross borders crime and fiscal evasion. Agree on a permanent formula for allocation of indirect tax revenue between the State, Entities and Brcko district. Ensure continued approximation of customs and taxation legislation to the *acquis* and further increase administrative capacity to implement this legislation and to fight corruption, cross-border crime and fiscal evasion. It is necessary to improve the transparency and exchange of information within the region and with the EU in order to facilitate enforcement of measures preventing avoidance or evasion of taxes.”

Link with SAA:

In the “Stabilisation and Association Agreement between B&H and the European Communities” (SAA), page 98, chapter VIII, article 97 and 98 it is written:

“The Parties shall establish cooperation in this area with a view to guarantee compliance with the provisions to be adopted in the area of trade and to achieve the approximation of the customs system of Bosnia and Herzegovina to that of the Community, thereby helping to pave the way for the liberalisation measures planned under this Agreement and for the gradual approximation of the customs legislation of Bosnia and Herzegovina to the *acquis*. Cooperation shall take due account of priority areas related to the Community *acquis* in the field of customs. The rules on mutual administrative assistance between the Parties in the customs field are laid down in Protocol 5. The parties shall establish cooperation in the field of taxation including measures aiming at the further reform of Bosnia and Herzegovina's fiscal system and the restructuring of tax administration with a view to ensuring effectiveness of tax collection and reinforcing the fight against fiscal fraud. Cooperation shall also be geared to enhancing transparency and fighting corruption, and include exchange of information with the Member States in an effort to facilitate the enforcement of measures preventing tax fraud, evasion or avoidance. Bosnia and Herzegovina shall also complete the network of bilateral Agreements with Member States, along the lines of the latest update of the OECD Model Tax Convention on Income and on Capital as well as on the basis of the OECD Model Agreement on Exchange of Information in Tax Matters, to the extent that the requesting Member State subscribes to these.”³

2.4 Link with MIPD

The Multi-Annual Indicative Planning Document (MIPD) 2009-2011, page 17, chapter 2.3.1.3. Ability to assume the obligations of Membership states:

Objectives and choices:” Support the strengthening of the quality infrastructure institutions, the institutional set-up of key market actors and customs and taxation and the development of a single financial market. ...”

Expected results and indicators: “The approximation to the *acquis* is advanced in Customs and Tax section. The administrative capacity to implement legislation and to fight corruption, cross-border crime and fiscal evasion is increased. Transparency and exchange of information within the region are improved.”⁴

³ SAA, page 98, chapter VIII, article 97, 98;

⁴ MIPD 2009-2011, chapter 2.3.1.3, Page 17;

2.5 Link with National Development Plan:

National development strategy (NDS) has been prepared and presented to the relevant stakeholders and donor community representatives in November of 2009. The list of NDS's relevant priorities and measures to be transformed into the concrete activities is distributed to the relevant Authorities. NDS's future activities assigned to the ITA are covered under the NDS's Strategic goal "Competitiveness", and the priority "Single economic space".

It is expected that the list of concrete activities for accomplishment of this priority will be completed in the first half of 2010. It is also expected that adequate national budgetary resources will be allocated through the activities of the Directorate for Economic Planning using the National Fiscal Council for the whole period of the NDS duration which is until 2013.

3. Description of project

3.1 Background and justification

On December 29, 2003 the Parliament of Bosnia and Herzegovina adopted the Law on Indirect Taxation System (*"Official Gazette of BiH"*, No 44/03 & 52/04) and thus ensured the legal basis for establishing the Indirect Taxation Authority (ITA), the biggest state level institution with over 2,200 employees all together. The Indirect Taxation Authority is an autonomous administrative organisation responsible for its activities, through its Governing Board, to the Council of Ministers of Bosnia and Herzegovina. Its jurisdiction is in the field of customs and all the indirect taxes (VAT, road tolls, excises, etc).

Customs Sector

In the course of 2004, the former customs administrations of the entities and District Brcko were merged and through this act the ITA took over the jurisdiction in the area of customs. The ITA became a member of the World Customs Organisation. Since the entry into force of Central European Free trade agreement – (CEFTA 22 Nov 2007), the ITA is the only authority in BiH empowered to request and carry out verification of EUR1 movement certificates for trade with the EU and CEFTA countries.

Since the date of entry into force of the EU Interim agreement, under the leadership of the ITA, the duties equivalent to customs duties for EU specific industrial products were lifted and the gradual decrease of duties for all products from the EU is currently under way. The customs tariffs of BiH are harmonised with the most recent version of the EU Combined Nomenclature and are upgraded on regular basis.

In the first half of 2009, ITA introduced simplified customs procedures: the "Approved Exporter" and Local (House) Clearance at Export". Further simplification in these areas is required, as well as further alignment with the *acquis*.

In March 2009, ITA and Foreign Trade Chamber of BiH signed the Agreement on guaranty for Transit International Routier (TIR) Carnet and Authorisation for issuance and guaranty of documents for TIR Carnet, and this is functional from October 2009.

The introduction of simplified customs procedures in its substance represents step forward from the regular customs clearance to post-clearance stage. Therefore, ITA introduced procedure of pre-audit and prepared guidelines for controls based on the EU Blueprints in the area of Post-Clearance Control and Audit.

The European Commission expressed its satisfaction with the implementation of obligations and commitments, within the jurisdiction of ITA BiH, under the Stabilisation and Association Agreement.

Taxation Sector

The Indirect Taxation Authority is the only institution in BiH dealing with revenue collection for all indirect taxes and as such it is very significant for budget earnings at all government levels (state, entity, canton municipality). Over 80% of all budgetary revenue is coming from the indirect taxes.

With the establishment of the ITA, the Tax Sector was established for the first time at state level. It was tasked with the collection of indirect taxes, including developing and maintaining a unique value added tax system. As of 2004, the ITA has successfully introduced a new Value Added Tax (VAT), and its collections have exceeded planned revenue immediately in the first year. Figures are showing constant increase of VAT and other indirect taxes collections in the period from 2004 to 2008. In 2008, it was collected about 2,9 billion EUR comprising VAT, customs duties and excise taxes, which is an increase of 11% over 2007 collected amount.

IT system

In order for all EU integration related changes to be introduced, and for all these mechanisms and procedures deriving from these changes to be implemented smoothly, the appropriate IT support system is required.

The current ITA's IT system is used by some 3,500 users. It enables the average daily input of 2,100 customs declarations reflecting the transfer of goods with the value of 2.65 million EUR as well as submission and processing of over 45,000 VAT returns on a monthly basis. It is operational at 92 locations in Bosnia and Herzegovina, including all customs offices, border crossing points, airports, and customs units at post offices in Bosnia and Herzegovina.

To the complexity of the system contributes the organisational structure and territorial distribution of the ITA consisting of headquarters with four regional centres, branch offices, border crossings and tax offices. This complex structure implies sophisticated information system as a support to performance of everyday activities. The complexity of the IT system is reflected in diversity of operative systems and related program packages: UNIX, Windows Server 2003, Windows XP as well as several applications: C++, NET, Pascal, VB NET, etc. The main subsystems of the ITA information system are Customs, Tax and Single Account subsystem. In addition, over ten assistance programs ensure integrity and everyday functioning of the administration in conformity with the legal procedures.

Currently, customs data are processed through ASYCUDA 1.18d system. This is the third version of the system. This version is specific because of its functionality in three languages (Bosnian, Croatian and Serbian) and two alphabets (Latin and Cyrillic). As of 2002 (!) the system has been operational in the inland customs offices and border crossing points. It is

used by internal (ITA officers) as well as external users (freight forwarders, auditing and inspection authorities). It enables the application of the customs procedures in force, customs tariff and other legal provisions needed for application of relevant customs procedures.

More concretely, an introduction of ASYCUDA system in Bosnia and Herzegovina enabled: electronic submission of customs and transit declarations (DTI – Direct Trader Input), use of selectivity in import and export procedures, electronic discharge of transit declarations, automated discharge of customs duties payments, and speed up of customs clearance procedure and passengers movement facilitation.

Given that the technologically outdated customs application designed on the principle of distribution additionally influences the speed of conducting customs and other processes in the ITA, it is clear that the ITA has to undertake modernisation of hardware and the customs application. Furthermore, since ASYCUDA 1.18d operates on an old software and hardware platform, the system is decentralised which makes it difficult to collect, update and process data at one centralised place. In addition, it does not ensure all functionalities recommended by the EU standards. Therefore, it is necessary to modernise subsystem for customs data processing. The maintenance of this decentralised system implies higher costs and higher involvement of human resources.

So far, the ITA has invested a substantial amount in modernisation of the information system as follows:

- rooms for the servers and communication equipment (200 000 EUR);
- servers (750 000 EUR);
- leased lines (35 000 EUR);
- communication-protection equipment (routers, switches, firewalls) (500 000 EUR);
- workstations (500 000 EUR);
- System Software (500 000 EUR);
- Application Software (500 000 EUR).

The total investment amounted to app. 3 000 000 EUR.

The aim of this project is to obtain the most technologically developed and updated software applications for customs, like the ones that already exist in other countries, notably EU Member States, together with the instructions for their use, relevant procedures and training.

The future Customs Declaration Processing System should be designed on the internet-related technologies, where modern achievements and internet environment tools are applied. Several criteria that should be used in the system are as follows:

- Internet environment – access to the customs system through a public network (Internet) and local network (Intranet) as well;
- Independence from the RDBMS database – customs system should not depend on a type of database;
- Independence from hardware platforms – customs system should not be linked to any hardware platform;
- Independence from the operating system – the ability to install customs system, not depending on a type of operating system;

- Flexibility with regard to problems with communication – customs system will include backup solutions for communications.
- Scalability – the ability of custom system to increase resources and capacity (expansion of hardware, database and number of clients...);
- Embedded security requirements – incorporated elements of security policy in accordance with IT Strategy plan.

Utilization of software application should be made based on Java technology. The main features are the utilisation of: Java SDK 1.4, GUI SWING, JDBC, SSL, HTML, XML, PKI, etc., including various technical components and data storage facilities.

The new platform will have to reduce or eliminate the need for maintaining leased links - which is especially important for countries with unreliable telecommunications. The ITA can use a traditional Web access where the telecommunications are more reliable.

The new software platform also needs to exploit the potential of mobile devices for internet access. The application should work with at one of RDBMS-databases (including Oracle, Sybase, DB2, Informix, SQL Server, etc.) and most operating systems (such as Linux, Solaris, HP-UX, AIX and MS/Windows). In addition, a platform for the utilisation of XML (Extensible Mark-up Language) has to be available which will enable the exchange of any document inside and outside the system, between customs administrations and business community and between customs authorities of different countries. The system should be able, without any problems, to download and use data from existing databases ensuring an easy transition to e-customs.

The ITA Management has allocated 500 000 EUR for 2010 that will be used for procurement and modernisation of the necessary hardware and software.

Section 3.5 below outlines activities related to the preparation of the procurement envisaged to be funded by the present project (Twinning, TAIEX, preparation of Technical Specifications) etc. The supply contract will include provisions for installation and user training. The final acceptance of the supply installation will require an intense verification exercise which will be supported through a twinning light, funded through the present project.

3.2. Assessment of project impact, catalytic effect, sustainability

Obtaining of the modern technology information system for the ITA will contribute to better ITA functioning and will improve the quality of services rendered by the ITA to state and entities, as well as citizens of Bosnia and Herzegovina. Since the interoperability and interconnectivity with the EU countries should be ensured through the information system, modernisation is a necessary condition for preparation of the ITA and Bosnia and Herzegovina for the EU accession.

Furthermore, the modernisation of the sub-system for customs data processing should: lead towards compliance with the international standards (ISO, UN, WCO and WTO), ensure trade facilitation, increase operational efficiency, reduce corruption and ensure compliance with the necessary EU standards.

Finally, improvement, i.e. modernisation of the information system would lead towards the improvement of the ITA functioning and creation of conditions for increase in revenues

collected from the indirect taxes. Efficient functioning of an updated IT system will contribute to accomplishing the required standards for EU accession in the fields of customs and taxation and will also improve compliance with International standards (standards of World Trade Organisation – WTO, World Customs Organisation – WCO, EU Customs Blueprints, Convention such as Kyoto Revised, Council Directive 2006/112/EC).

These compliances are critical steps in accession path to the EU and for evolvement of the ITA into a status of a modern Authority responsible for indirect taxation which matches international standards. The planned improvements to the IT will have immediate effect in improving the administrative capacity of the ITA and this will feed through the operational level. Integrity as well, will be improved within the ITA. The outcome will be a proficient and more effective Indirect Taxation Authority. Improved functioning of the ITA system will contribute to promotion of trade which in turn would lead to trade facilitation and increased prosperity and revenue yield. Further inroads will be made to the fight against cross-border crime, organised crime and corruption. The project will bring nearer the goal of EU full membership and compliance with WTO/WCO and Directive 2006/112/EC methodologies. Sustainability will be ensured through training that will be provided to the certain number of users. Preferable approach would a "train the trainer" model in order to ensure transfer of knowledge to all users of software. Also, the sustainability will be ensured through systems every day operation, continuous update and upgrade.

3.3. Results and measurable indicators

The following are the expected results of the customs information system modernisation project:

Result 1: Customs Declaration Processing System modernised and aligned towards interoperability and inter-connectivity with the EU

Indicators:

- 92 locations, including all customs offices, border crossing points, airports in Bosnia and Herzegovina, equipped and upgraded for customs data processing;
- 100% compatible sets of data needed for exchange with other EU, neighboring and CEFTA countries;
- training for 10 ITA IT trainers delivered;
- specialist technical training for 40 ITA IT experts delivered;
- training for approximately 1800 internal and 500 external users delivered.

Result 2: E-customs environment is developed to meet requirements of data exchange at the state level, governments level and business community

Indicators:

- increased exchange of information with the Customs Authorities of other countries by 80%;
- fully established exchange of information with all border agencies within IBM project;
- platform for introduction of NCTS System prepared;
- e-Customs incorporated into e-Government system;
- timely statistics provided through the e-Government portal.

Result 3: Risk analysis and selectivity improved and evaluation of efficiency achieved

Indicators:

- smuggling of high-duty and excise goods decreased by 50%;
- profiling, selectivity and targeting techniques to identify and select high-risk consignments for physical examination improved by 50%;
- ability to tackle customs and tax frauds enhanced by 50%;
- efficiency on prevention of fictitious imports increased by 50%;
- efficiency of customs officers enhanced by 50%;
- faster implementation of selectivity criteria incorporated in modernised Customs Declaration Processing System.

Result 4: Single guaranty system in BiH established

Indicators:

- current 92 guaranty subsystems centralised and unified;
- flow of goods through BiH faster compared to previous period;
- submission of guaranty by business community simplified and more expedient;
- customs clearance procedures (simplified and regular) and releasing goods into free circulation facilitated by 50 %;
- improved evidence of guaranties and possibility of fast blockade of invalid guaranties from one place.

3.4 Activities

Activities related to accomplishment of Result 1:

- procurement, installation, and verification of Customs Declaration Processing System;
- providing support to implementation of customs legislation with flexible configuration by means of EU standards;
- providing support to faster implementation of upgrade of Customs Declaration Processing System without interruptions in daily work;
- obtaining compatible sets of data needed for exchange with other EU countries (files format);
- providing training for 10 IT trainers in the field of programming, maintenance and administering;
- providing specialist training for the relevant IT experts;
- providing training for 1800 internal and 500 external users.

Activities related to accomplishment of Result 2:

- development and implementation of additional regular and simplified customs procedures;
- defining the framework set of data for exchange information from the trade database between Bosnia and Herzegovina and other countries and vice versa;
- defining framework set of data for exchange between the BiH institutions and entities;
- establishing improved exchange of information between the ITA and business community;
- obtaining the appropriate statistics necessary for functioning of state and entity institutions through e-Government portal;
- assuring compatibility with all implemented EU information systems for the purpose of easy exchange of information between them, e.g. single tariff, single transit system, integrated border management, etc.

Activities related to accomplishment of Result 3:

- upgrading customs system to meet the needs for functional risk analysis and its follow up and monitoring;
- establishing permanent authority for defining selectivity criteria.

Activities related to accomplishment of Result 4:

- drafting internal guidelines and instruction on method of submission of single guaranty;
- preparation, organization and delivery of training for declarants.

The result no.1 is the basis for the results 2, 3 and 4.

The activities under the results 1 are estimated to cost 2 000 000 EUR (supply contract for the selected Customs software application including licenses for application and user training) and will be complemented by the Bosnia and Herzegovina contribution in the amount of 500 000 EUR (supply contract) that will cover the costs of purchase of the high speed servers (5), data base and for the improvement of the communication infrastructure that would include renting of communication links with high speed, etc. It is also foreseen that the provider of the software application will provide experts which will provide the training on utilization of the application, in cooperation with ITA and using its capacities.

Activities related to results 2, 3, and 4 are going to be financed through the IPA contribution in the form of the twinning light contract for 250 000 EUR, which includes experts who will verify the supply installation of result area 1, further develop the customs system throughout the country and improve its cross borders information exchange capacities.

3.5 Conditionality and sequencing:

Conditionality

ITA will be directly responsible for co-ordination and management of the project, will assist the project team in organisational and technical matters and appoint a full-term project officer to manage the project. In addition, ITA will provide in-kind contributions in form of office and communication facilities for project experts. BiH will make available sufficient national resources in order to ensure the sustainability of the project's results. User manuals and guidelines together with the trained IT trainers will enable carrying out further training, if needed. This will ensure the continuity of users.

It is essential to follow the project schedule strictly due to a tight timeframe. The Project Team Leader will have direct access to the ITA Programme Officer and Project Leader in order to discuss possible problems. If needed, additional human resources will be allocated wherever it should be possible.

In order to assure smooth implementation of the IPA 2010 project, several project activities will be carried out beforehand:

1. ITA will be assisted by an IPA 2008 funded twinning project, which starts in mid 2010, to develop an overall IT strategy.
2. A TAIEX study tour is being organized in mid 2010 to learn specific lessons for software needs from EU Member States.

3. Because of the complexity of IT needs, an IPA 2008 funded Framework Contract will assist in the development of Technical Specifications for the procurement of supplies envisaged under the present project.

Given the nature of the project which aims to modernise the IT system whose main user is ITA's sectors and units as well as given the fact that ITA has already invested less than 3,000,000 EUR in its modernisation, and having in mind that the ITA has sufficient number of staff to handle ITA affairs, is limiting the risk factors for this project.

Sequencing

The implementation of the project will be carried out in four stages as follows:

1. Selection of Customs Declaration Processing System;
2. Testing phase of the project;
3. Training for system's users;
4. Implementation of modernised Customs Declaration Processing System.

Following the TAIEX funded study visits, the best suitable customs declaration processing system will be identified and technical specification will be drafted with the support of the IPA 2008 funded Framework Contract. A test platform will be designed, which will allow testing of the system's upgrade version. The pilot location will be selected, where the transfer of data from the existing system will be carried out and an overall implementation plan for the complete installation will be prepared and implemented

User requirements will be drafted according to valid legislation and implementation of all legal procedures during the testing phase of the project. With regard to the training for the utilisation of customs information system, available skilled trainers will deliver the training to other system's users and prepare appropriate technical guidelines for the users of the system.

Verification of the installation and the implemented procedures by all participants in the project will follow with support of a twinning light contract mentioned above. Technical instructions and additional guidelines will be presented for internal users (customs officers) on the existing Intranet page, and specific technical guidelines for external users (forwarding agents) and the instructions will be available on the ITA webpage.

3.6 Linked activities:

The EU has supported Bosnia and Herzegovina both from a financial and technical point of view, giving start to a number of programmes (ECHO, PHARE, OBNOVA, etc). One of the key target areas has been public administration reform (including customs and taxation). The European Union launched the Customs and Fiscal Assistance Office Programme (CAFAO) in 1996 in order to support, inter alia, the establishment of a customs service in Bosnia and Herzegovina. The Customs Information System ASYCUDA 1.16f, financed by European Commission, has been implemented in the Entity's Customs Administrations during 2002.

The merger of customs information system has been completed in 2004, by merging Customs Services and establishing the Indirect Taxation Authority. Since October 2006, the upgrade of the existing ASYCUDA 1.16f system to a new version 1.18d has been carried out.

Information system created with modern tools and on the modern software and hardware platform for the support of introduction of VAT in BiH ALICE has been developed by CAFAO European Commission Team during 2005 and implemented and was fully operational as of the 1st of January 2006, when the VAT was introduced in BiH.

The CAFAO Mission was operational in BiH until the end of 2007 and as of 1 January 2008 the technical assistance has continued in the field of indirect taxation for a period of twelve months under the auspices of a new project known as TACTA (Technical Assistance to Customs and Tax Administrations). Expert assistance in customs policy and procedures and VAT Policy within TACTA covered the following areas: Origin of goods, Customs procedures, Post-clearance Audits, Expert-legal assistance to the Legal Department, Governance, Internal Audit, Law Enforcement, Enforced Collection, IT support, VAT policy and procedures and provision of trainings.

The project IPA 2008 Twinning Project: 2008/20-339: Support to further EU Acquis alignment of the Indirect Taxation Authority of BiH is currently being prepared. The purpose of the project is to support the modernisation of the BiH Indirect Tax Authority by further aligning Customs and Tax legislation, procedures and standards with EU *acquis* and to strengthen the administrative capacity in order to implement and support trade and investment policy with the ability to facilitate legitimate trade in a consistent manner, whilst implementing traditional controls in the fight against fraud and in the area of safety and security.

3.7 Lessons learned

Implementation of the project in the Indirect Taxation Authority is faced with insufficient administrative capacity of the beneficiary due to the lack of skilled staff. In order to provide sustainability, the project must provide transfer of skills from the experts employed to the IT staff of the key beneficiaries, other institutions in charge of customs, as well as to the number of personal in the business community.

The projects from the area of information technologies must be defined in detail and secure sufficient time for testing, training and implementation. Operational and technical guidelines are necessary to be prepared before the implementation takes place and they must be made availability to the users. It is necessary to allow participation of the other governmental institutions and determine possibility of their connectivity with the customs information system. It is of significant importance to have a possibility to exchange information with other customs administrations within the Region and EU.

The project must assure that the pre-defined methodology standards should be strictly followed as well as business modeling and testing methodologies.

4. Indicative Budget (amounts in EUR)

			SOURCES OF FUNDING									
			TOTAL EXP.RE	IPA EU CONTRIBUTION		NATIONAL 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		X	2 500 000	2 000 000	80	500 000	20	500 000				
Contract 1.1 (supply contract)	-	-	2 000 000	2 000 000	100							
Contract 1.2 (supply contract)			500 000			500 000	100	500 000				
Activities 2,3,4	X		250 000	250 000	100							
Contract 2.1 (twinning light)	-	-	250 000	250 000	100							
TOTAL IB			250 000	250 000	100							
TOTAL INV			2 500 000	2 000 000	80	500 000	20	500 000				
TOTAL PROJECT			2 750 000	2 250 000	82	500 000	18	500 000				

Amounts net of VAT

- (1) In the Activity row use "X" to identify whether IB or INV
- (2) Expressed in % of the **Total** Expenditure (column (a))

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

Contracts	Start of Tendering	Signature of contract	Contract Completion
Contract 1.1 Supply contract	Q1/2011	Q2/2011	Q2/2012
Contract 2.1 Twinning Light	Q3/2011	Q4/2011	Q4/2012

Note: The results of separate TAIEX study visit as well as on recommendations prepared by a separate FWC contract will result in further details concerning the above mentioned supply contract.

6. Cross cutting issues

6.1 Equal Opportunity

Equal opportunity principles and practices in ensuring equitable gender participation in the project will be guaranteed. The project is not gender specific and serves to assist all ITA personnel involved (from high administration to operational service levels).

6.2 Environment

The project will not have any negative environmental effects.

6.3 Minorities

Participation in the project activities will be guaranteed on the basis of equal access regardless of racial or ethnic origin, religion or belief, disability, sex or sexual orientation.

ANNEXES

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

ANNEX I: Logical framework matrix

LOGFRAME PLANNING MATRIX FOR Project Fiche		Programme name: Strengthening the customs sector within the Indirect Taxation Authority of Bosnia and Herzegovina		
		Contracting period expires: Two years following the date of the conclusion of the Financing Agreement		Disbursement period expires: One year following the end date for the execution of contracts
CRIS Number:		Total budget : EUR 2 750 000	IPA budget: 2 250 000	
Overall objective	Objectively verifiable indicators	Sources of Verification		
To further develop the customs and taxation sector in Bosnia and Herzegovina, in line with the provisions of the Stabilisation and Association Agreement to improve trade relations with the EU	To meet the conditions set in the <i>acquis</i> - full alignment of customs and tax regulations, including harmonisation of information systems with EU standards	- EU country reports on completed monitoring and evaluation,		
Project purpose	Objectively verifiable indicators	Sources of Verification		Assumptions
- To improve the performance of ITA leading towards further alignment with the EU customs systems	- Increased revenue collection by ITA, - Overall border security and cross-border cooperation improved, - Improved protection of revenue collected by ITA.	- European Commission Progress Report on Bosnia and Herzegovina, - Reports on the analysis of the operational instructions alignment with the EU customs and tax regulations and practice, - ITA periodical and annual reports.		<i>Long-term commitment of the ITA to modernisation of the customs and tax system:</i> <i>The selection of adequate system has been completed by ITA BiH and is addressed within ITA BiH IT Strategy that will be prepared by Twinning project commencing spring 2010.</i> o Sustainable human and financial resources assigned to those reforms,

			<ul style="list-style-type: none"> ○ ITA commitment to ensuring proper and unique application of tax regulations and related provisions, ○ Assured national and international cooperation with other law enforcement agencies, ○ ITA's decision on faster pace of development of LE and Customs Sector that shall evolve into a Service that would ensure compliance with national legislation, international legislation and standards of international institutions (WCO, WTO, UN,),
Results	Objectively verifiable indicators	Sources of Verification	Assumptions
<p>Result 1: Customs Declaration Processing System modernised and aligned towards interoperability and inter-connectivity with the EU</p>	<ul style="list-style-type: none"> - 92 locations, including all customs offices, border crossing points, airports in Bosnia and Herzegovina, equipped and upgraded for customs data processing; - 100% compatible sets of data needed for exchange with other EU countries; - training for 10 ITA IT trainers delivered; - specialist technical training for 40 ITA IT experts delivered; 	<ul style="list-style-type: none"> - EU countries reports on BiH, Croatia, Serbia, Montenegro - Cross border trade reports and statistical publications - Reports on the alignment of the information technologies regulations with the EU regulations before and after the project completion. 	<ul style="list-style-type: none"> ○ Full commitment of the involved parties ○ ITA has the staff for the project implementation ○ Cooperation between Customs and IT Sector enhanced. ○ Legislation in customs sector is further aligned toward the Acquis

<p>Result 2: E-customs environment is developed to meet requirements of data exchange at the state level, governments level and business community</p> <p>Result 3: Risk analysis and selectivity improved and evaluation of efficiency achieved</p>	<ul style="list-style-type: none"> - training for approximately 1800 internal and 500 external users delivered. - increased exchange of information with the Customs Authorities of other countries by 80%; - fully established exchange of information with all border agencies within IBM Project; - platform for introduction of NCTS System prepared; - e-Customs incorporated into e-Government system; - timely statistics provided through the e-Government portal - smuggling of high-duty and excise goods decreased by 50%; - profiling, selectivity and targeting techniques to identify and select high-risk consignments for physical examination improved by 50%; - ability to tackle customs and tax frauds enhanced by 50%; - efficiency on prevention of fictitious imports increased by 50%; - efficiency of customs officers enhanced by 50%; 	<ul style="list-style-type: none"> - EU countries reports on BiH, Croatia, Serbia, Montenegro - Cross border trade reports and statistical publications - Reports on the alignment of the information technologies regulations with the EU regulations before and after the project completion. - EU countries reports on BiH, Croatia, Serbia, Montenegro - Cross border trade reports and statistical publications - Reports on the alignment of the information technologies regulations with the EU regulations before and after the project completion. 	<ul style="list-style-type: none"> o Full commitment of the involved parties o ITA has the staff for the project implementation o Cooperation between Customs and IT Sector enhanced. o Legislation in customs sector is further aligned toward the Acquis o Full commitment of the involved parties o ITA has the staff for the project implementation o Cooperation between Customs and IT Sector enhanced. o Legislation in customs sector is further aligned toward the Acquis
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<p>Result 4: Single guaranty system in BiH established</p>	<ul style="list-style-type: none"> - faster implementation of selectivity criteria incorporated in modernised Customs Declaration Processing System. - Permanent authority for defining selectivity criteria established - current 92 guaranty subsystems centralised and unified; - flow of goods through BiH faster compared to previous period; - submission of guaranty by business community simplified and more expedient; - customs clearance procedures (simplified and regular) and releasing goods into free circulation facilitated by 50 %; - improved evidence of guaranties and possibility of fast blockade of invalid guaranties from one place. 	<ul style="list-style-type: none"> - EU countries reports (BiH, Croatia, Serbia, Montenegro, EU) - Cross border trade reports and statistical publications - Reports on the alignment of the information technologies regulations with the EU regulations before and after the project completion. 	<ul style="list-style-type: none"> o Full commitment of the involved parties o ITA has the staff for the project implementation o Cooperation between Customs and IT Sector enhanced. o Legislation in customs sector is further aligned toward the Acquis
Activities	Means	Costs	Assumptions
<p>Activities related to accomplishment of Result 1:</p> <p>1.1 Procurement, installation and verification of Customs Declaration Processing System;</p> <p>1.2 Providing support to</p>	<p>2 Supply Contracts</p>	<p>Contract 1.1 : EUR 2 000 000 EUR (IPA Contribution)</p> <p>Contract 1.2 : 500 000 EUR (National Contribution)</p>	

<p>implementation of customs legislation with flexible configuration by means of EU standards;</p> <p>1.3 Providing support to faster implementation of upgrade of Customs Declaration Processing System without interruptions in daily work;</p> <p>1.4 Obtaining compatible sets of data needed for exchange with other EU countries (files format);</p> <p>1.5 Providing training for 10 IT trainers in the field of programming, maintenance and administering;</p> <p>1.6 Providing specialist training for the relevant IT experts;</p> <p>1.7 Providing training for 1800 internal and 500 external users.</p> <p>Activities related to accomplishment of Result 2:</p> <p>2.1 Development and implementation of additional regular and simplified customs procedures;</p> <p>2.2 Defining the framework set of data for exchange information from the trade database between Bosnia and Herzegovina and other countries and vice versa;</p> <p>2.3 Defining framework set of data for exchange between the BiH institutions and entities;</p> <p>2.4 Establishing improved exchange of information between the ITA and business community;</p>	<p>1 Twinning Light contract</p>	<p>Contract 2.1: 250 000 EUR (IPA Contribution) for verification of installation under result 1, and the activities 2,3 and 4</p>	
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<p>2.5 Obtaining the appropriate statistics necessary for functioning of state and entity institutions through e-Government portal;</p> <p>2.6 Assuring compatibility with all implemented EU information systems for the purpose of easy exchange of information between them, e.g. single tariff, single transit system, integrated border management, etc.</p> <p>Activities related to accomplishment of Result 3:</p> <p>3.1 Upgrading customs system to meet the needs for functional risk analysis and its follow up and monitoring;</p> <p>3.2 Establishing permanent authority for defining selectivity criteria.</p> <p>Activities related to accomplishment of Result 4:</p> <p>4.1 Drafting internal guidelines and instruction on method of submission of single guaranty;</p> <p>4.2 Preparation, organisation and delivery of training for declarants.</p>			
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ANNEX II: Amounts (in EUR) Contracted and disbursed by quarter for the project

Contracted	Q2/2011	Q3/2011	Q4/2011	Q1/2012	Q2/2012	Q3/2012	Q4/2012
Contract 1.1 Supply contract (IPA only)	2 000 000						
Contract 2.1 (Twinning Light)		250 000					
Cumulated	2 000 000	2 250 000					
Disbursed							
Contract 1.1 Supply contract	1 000 000			750 000		250 000	
Contract 2.1 Twinning Light		100 000		100 000			50 000
Cumulated	1 000 000	1 100 000	1 100 000	1 950 000	1 950 000	2 200 000	2 250 000

III. Description of Institutional Framework

The Indirect Taxation Authority (ITA) is a single authority in Bosnia and Herzegovina responsible for enforcement of legal provisions and policy on indirect taxation, as well as for the collection and allocation of indirect taxes revenue. The ITA structure and organization is defined by the Law on Indirect Taxation System of BiH. The Indirect Taxation Authority is responsible for the collection of all indirect taxes in Bosnia and Herzegovina: value added tax, customs duties, excise duties and road taxes. The ITA keeps the Single account, and all indirect tax based revenues are paid to this account, with the allocation and disbursement of indirect tax based revenues defined in the law on allocation and disbursement of the aforementioned revenues. The ITA has branch offices and sub-offices in the entire BiH territory.

Only 18 months after its official establishment, the Indirect Taxation Authority entered the final stage of preparations for the introduction of value added tax and commenced with the registration of VAT taxpayers. According to the data provided by entities' tax administrations 20,000 VAT taxpayers were anticipated, however the Indirect Taxation Authority has currently registered and is maintaining a VAT taxpayers total figure above 37,200 ones. Since its establishment, the Indirect Taxation Authority has posted continuous revenue increases. The ITA priorities are to achieve the high goals set by the process towards future EU integration, such as:

- to accelerate the flow of goods and people across the borders while simultaneously intensifying the controls,
- to enhance the level of security of citizens, to develop cooperation with other national and international institutions aimed at harmonizing the procedures and aligning the legislation with the EU standards,
- Better exchange of information between other institutions and the successful fight against illicit trafficking and all other types of customs or tax frauds.
- The ITA has a Governing Board established under articles 14 – 20 of the Law on Indirect Taxation System in Bosnia and Herzegovina (BiH) with the following responsibilities:
 - Determining policies on indirect taxation for application throughout Bosnia and Herzegovina;
 - Advising the Council of Ministers of Bosnia and Herzegovina, as well as the Governments of the FBiH, RS and the District, on policy and implementation regarding indirect taxes and the resulting implications for public finances, in order to facilitate the preparation of fiscally responsible budgets;
 - Defining the strategic objectives of the Authority and appraising the performance of the Authority against such objectives;
 - Approving the budget proposal of the Authority pursuant to Article 13 of this Law;
 - Approving the annual work plan and Book of Rules on Internal Organization prepared by the Director pursuant to Article 8, paragraph 7 of this Law;
 - Making decisions in disputed cases on distribution of revenues;
 - Any other tasks as provided for by law;
- The Board is responsible for initiating the preparation of legislation and amendments on indirect taxation, including legislation on tax rates and structures, as it deems necessary for the purpose of implementing this Law.
- The Board is responsible for issuing regulations for the implementation of the activities set forth in this Article.
- The Board, on a proposal from the Director, adopts instructions specifying information or documents as official secrets in the operations of the Board and the Authority. In so doing, the

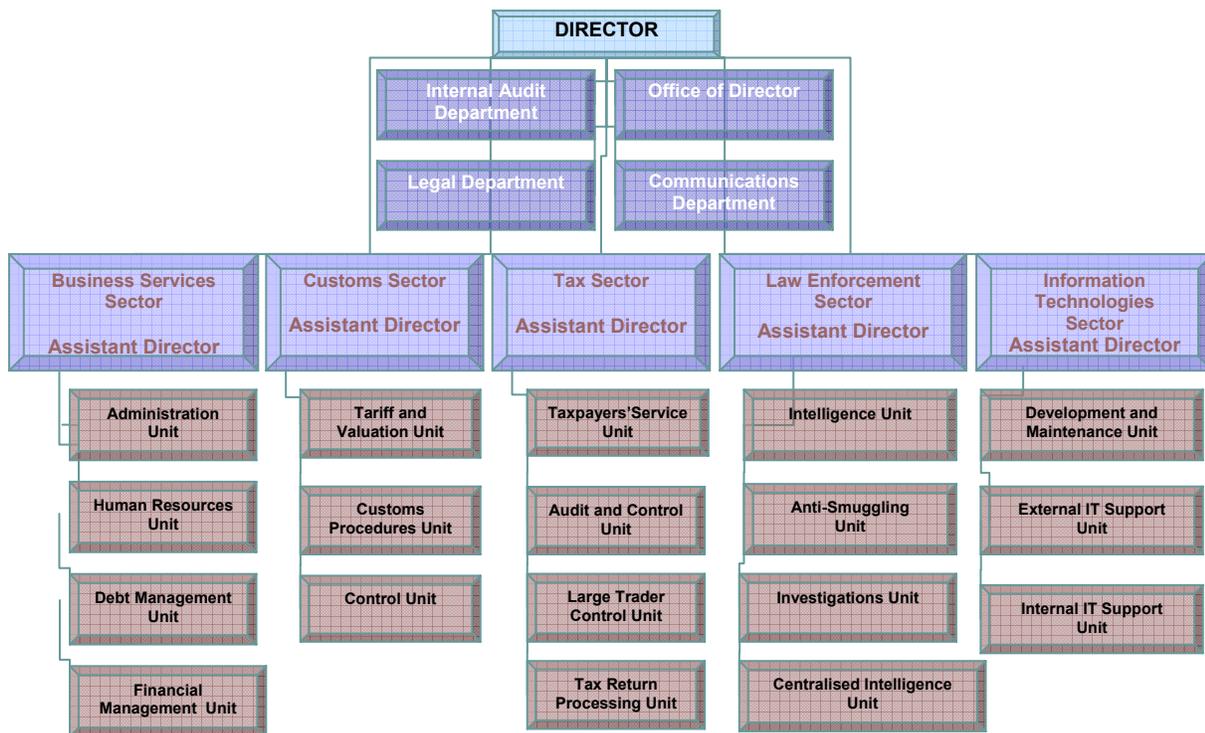
Board shall pay due regard to applicable legislation of Bosnia and Herzegovina, as well as applicable legislation of the FBiH, RS and the District.

- The ITA is represented by the Director who is responsible for management of the ITA,
- The Director appoints and dismisses operational managers of the ITA,

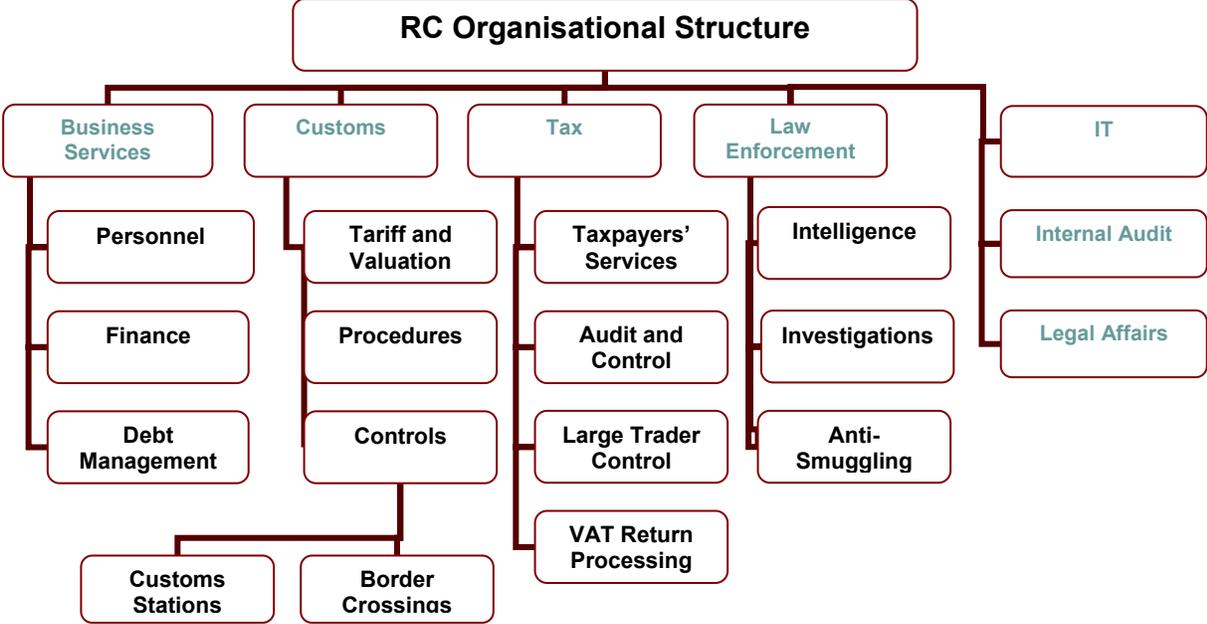
Operational line of responsibility extends throughout the headquarters and all the way to the branch office and sub-office and encompasses taxes, customs, law enforcement, business services and information technology.

The organisational structure of the Indirect Taxation Authority (Head Quarters and Regional Centres) is presented down below as follows:

ITA HQ STRUCTURE ORGANOGRAM



ITA RC STRUCTURE ORGANOGRAM



ANNEX IV. Reference to laws, regulations and strategic documents

Reference list of relevant laws and regulations

-Laws-

- Law on Indirect Taxation System in Bosnia and Herzegovina (“Official Gazette of BiH”, No 44/03 & 52/04);
- Law on Payments into the Single Account and Distribution of Revenues (“Official Gazette of BiH”, No 55/04);
- Law on Indirect Taxation Authority (“Official Gazette of BiH”, No 89/05);
- Law on Indirect Taxation Procedure (“Official Gazette of BiH”, No 89/05);
- Law on Enforced Collection (“Official Gazette of BiH”, No 89/05);
- Law on Custom Policy (“Official Gazette of BiH”, No 57/04);
- Law on Changes and Amendments to the Law on Custom Policy (“Official Gazette of BiH”, No 51/06);
- Law on Customs Offences (“Official Gazette of BiH”, No 88/05);
- Law on Customs Tariff of B&H (“Official Gazette of BiH”, No 58/04 & 11/05);
- Law on Value Added Tax (“Official Gazette of BiH”, No 09/05);
- Law on Changes and Amendments to the Law on Value Added Tax (“Official Gazette of BiH”, No 35/05);
- Law on Amendments to the Law on Value Added Tax (“Official Gazette of BiH”, No 100/08);
- Law on Excise Duties (“Official Gazette of BiH”, No 49/09).

-Regulations-

- Book of Rules on the Implementation of the Law on Value Added Tax ("The Official Gazette of B&H", no. 93/05).
- Book of Rules on Amendments to the Book of Rules on the Implementation of the Law on Value Added Tax ("The Official Gazette of B&H", no. 21/06).
- Book of Rules on Amendments to the Book of Rules on the Implementation of the Law on Value Added Tax ("The Official Gazette of B&H", no. 60/06).
- Book of Rules on Amendments to the Book of Rules on the Implementation of the Law on Value Added Tax ("The Official Gazette of B&H", no. 06/07).
- Book of Rules on Supplements to the Book of Rules on the Implementation of the Law on Value Added Tax ("The Official Gazette of B&H", no. 100/07).
- Book of Rules on Supplements to the Book of Rules on the Implementation of the Law on Value Added Tax ("The Official Gazette of B&H", no. 35/08).
- Book of Rules on Registration and Entry into Single Taxpayers' Registry ("The Official Gazette of B&H", no. 28/07).
- Book of Rules on Indirect Taxes Control ("The Official Gazette of B&H", no. 78/07).
- Decision on Implementing Regulations to the BiH Customs Policy Law ("The Official Gazette of B&H", no. 63a/04).
- Decision on Changes and Amendments to the Decision on Implementing Regulations to the BiH Customs Policy Law ("The Official Gazette of B&H", no. 60/06).
- Book of Rules on Powers and Authorised Officials of the ITA ("The Official Gazette of B&H", no. 98/06).

- Criminal Code of BiH ("The Official Gazette of B&H", no. 03/03).
- Criminal Procedure Code of BiH ("The Official Gazette of B&H", no. 03/03).

ANNEX V. Details per EU funded contract

The project will be comprised of two components:

Component I: Supply of Custom's software application – 1 supply contract (2 000 000 EUR)

Component II: Complementary activities related to implementation of new system –Twinning Light (250 000 EUR)