

## 2008 Project Fiche Kosovo– IPA centralised programmes

### 1. Basic information

**1.1 CRIS Number:**

**1.2 Title:** Support to Customs and Taxation Administrations

**1.3 ELARG Statistical code:** 03.62

**1.4 Location:** Kosovo

Implementing arrangements:

**1.5 Contracting Authority:** European Commission Liaison Office to Kosovo

**1.6 Implementing Agency:** European Commission Liaison office to Kosovo

**1.7 Beneficiary Institutions:**

Project activity	Beneficiary	Contact point responsible for activity coordination
Technical assistance in the field of customs and taxation	<ul style="list-style-type: none"><li>• Kosovo Customs Services</li><li>• Tax Administration of Kosovo</li></ul>	Naim Huruglica – Director General Customs Service Ekrem Hysenaj & Rifat Hyseni, Deputy Directors, Tax Administration of Kosovo

**Financing:**

**1.8 Overall cost (VAT excluded)<sup>1</sup>:** Euro 3.0 million

**1.9 EU contribution:** Euro 3.0 million

**1.10 Final date for contracting:**

Three years after the signature of the financing agreement between the European Commission and the Kosovo authorities

**1.11 Final date for execution of contracts:**

Two years after the final date for contracting

**1.12 Final date for disbursements:**

One year after the final date for the execution of contracts

### 2. Overall Objective and Project Purpose

**2.1 Overall Objective:**

Creating a business friendly environment in Kosovo, clear and efficient revenue collection and administration, through continuous and sustainable development of Customs and Tax Administration in compliance with EU requirements and standards.

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<sup>1</sup> The total cost of the project should be net of VAT and/or other taxes. Should this not be the case, the amount of VAT and the reasons why it should be considered eligible should be clearly indicated (see Section 7.6)

## **2.2 Project purpose:**

The purpose of this project is to improve the capacity of the Customs and Tax Administration and its transformation into a modern administration, serving the society, enjoying public confidence and meeting the EU requirements and standards.

## **2.3 Link with AP/NPAA / EP/ SAA**

The 2007 European Partnership highlights the following points as short term priorities in the field of customs and taxation:

- Further approximate customs legislation with the acquis and continue the efforts to enhance the capacity of the customs administration to combat corruption, counterfeiting and cross-border crime. Enhance the capacity of the criminal investigation unit
- Continue approximation of tax legislation to the EU acquis and strengthen the administrative capacity of the tax administration. Reinforce the collection capacity of the tax administration and increase tax revenue.

And it reiterates the general objective for both administrations in the medium-term priorities:

- Continue the approximation of tax and customs legislation to the EU acquis. Further increase the administrative capacity of tax and customs services to enforce legislation and to combat corruption, cross-border crime and tax evasion

*EC Progress Report for 2007* recognises that Tax Administration of Kosovo is weak. Collection of domestic taxes accounts for only 25% of the total tax revenues with the rest being collected at the border. Further, in the Progress report it is recognised that the trend of the collection of domestic taxes is negative, as the Tax Administration in Kosovo collected 10.4% less tax in the first half of 2007 than in the first six months of the previous year.

*EC Progress Report for 2007* highlights the need of establishment of necessary conditions to ensure registration of businesses in Kosovo and increase tax payer's compliance.

*EC Progress report for 2007* emphasises that the strategic Action Plan of the Tax Administration in Kosovo for 2007-2010 has been adopted in February 2007 and is well on track. However the elaboration of Management Information System has been deferred for later stages (2008) owing to a lack of key IT skills.

## **2.4 Link with MIPD**

In the Socio-economic requirements of the MIPD for Kosovo for 2007-2009 it is emphasised that EC assistance will support revenue raising capacities of relevant institutions to contribute to the Kosovo consolidated budget, particularly in relation to tax collection.

The project also responds to the following MIPD Socio-Economic priority:

- **Improving budget and fiscal policy-making and management**, enhancing control and collection capacity of the tax and customs administration and contribute to prudent fiscal policies, including addressing the budgetary and resource implications of EU approximation measures to the budget.

## **2.5 Link with National Development Plan (where applicable)**

In the *Medium Term Expenditure Framework (MTEF) 2008-2010*, under the sector of Sound Macroeconomic and Fiscal Management, objective 1.2.1 emphasises the "adequate tax system facilitating private sector growth and attracting foreign direct investments". It is envisaged that by 2008, the Government will complete the review of tax policy and for the overall medium term period there will be regional competitive tax system established. This objective also emphasises the importance of the VAT refund system and its functioning, with a final output to "improve VAT refund performance".

## **2.6 Link with national/ sectoral investment plans (where applicable)**

*Customs Service Strategic Operating Framework (SOF) 2007-2009*

Aim 1: To administer fairly and efficiently the system established by law of customs and tax control for goods imported into and exported from Kosovo and any other matters that may be assigned from time to time.

Aim 3: To develop the Services to meet the challenges of the business environment and benchmarking progress against the requirements of the EU customs Blueprint and the Standards from Kosovo.

Aim 5: Respond and participate in the development of procedures, administrative capacity, security and trade facilitation within South East Europe through active participation in expert working groups established through the European Commission and implementation of agreed recommendations.

The same document sets out few objectives, as following:

Objective 3: Develop further capacity within the service to foster integrity, develop human resource, policies, legal framework, achieve more transparency, and install best practice.

Objective 6: To further develop law enforcement capabilities to:

- (a) Prevent and detect revenue fraud, smuggling of commercial goods, illegal drugs and other prohibited and restricted goods; and
- (b) Investigate and prosecute offences under the direction of the public prosecutor.

*Tax Administration Strategic Action Plan 2007-2010* highlights that the mission of the tax administration is to maximise voluntary compliance, giving full regard to tax legislation and regulations; provide professional, transparent and effective service to the taxpayer community in order for them to understand their tax paying obligations, and ensure fair and uniform application and enforcement of tax laws in order to collect revenues for the government budget in an efficient and cost-effective manner.

The same strategic document sets out few objectives for 2009 and 2010 and some are as follows:

- Improve Taxpayers communications;
- Increase the occurrences of Voluntary filing;
- Improve identification of non-filers and stop filers;
- Implement the performance management system;
- Provide necessary training/capacity building for all staff;
- Increase of currently applied Information System capacities; and
- Develop electronic filing capabilities.

### **3. Description of project**

#### **3.1 Background and justification:**

Tax Administration of Kosovo is an administrative organisation within the Ministry of Finance and Economy. As such it was established on February 18, 2003 when the authority for Tax Administration was transferred from UNMIK reserved powers to the Ministry of Finance and Economy. The Tax Administration of Kosovo has approximately 650 employees. Central Office is responsible for execution of tax policy, determination of standards and organisation of the implementation of regulations on taxes and overall revenue collection. There are 8 regional Offices of Tax Administration which are responsible for organising immediate implementation of the determination, monitoring and collection of taxes. Local Tax Units are also responsible for immediate implementation of determination, monitoring and collection of taxes.

The Customs Service was established in 1999 as part of UNMIK and remains as a reserved power of UNMIK/SRSG. The SRSG appoints the Director General who has statutory responsibility for exercising the main functions and powers of UNMIK Customs that are derived from UNMIK Regulation 2004/1 (Customs Code). It is a budget organisation for the purposes of Kosovo budget and entirely funded by Kosovo Consolidated Budget. Customs Service had a total of 563 staff.

Both administrations were supported by donor community in their capacity building and development into a modern revenue collecting administrations. However, work remains to be done if some remaining and significant issues are to be resolved: development of essential IT systems (customs and tax); alignment of revenue payment procedures used by the banks and the customs/tax authorities (customs and tax); implementation of efficient taxpayer registration and risk/management systems.

An effective customs and tax administration is necessary to ensure a smooth trade and business development, as well as to ensure secure environment for international commitments. As Kosovo Consolidated Budget revenue highly depends on the border tax collection (over 70%) and around 20% on the implementation of domestic taxes, it is of crucial importance to strengthen and ensure sustainable development of these two administrations.

Last Fiscal Blueprint has been conducted in 2005, with results published in the beginning of 2006, concerning Tax Administration of Kosovo and its progress towards compliance to EU standards. This Blueprint provided benchmarks against shortfalls in operational capacity as well as areas that need improvements. As a result, Tax Administration undertook a series of actions and procedures to meet the requirements and standards set clearly in the Blueprint. After more than three years, there is a great need expressed both by Tax Administration of Kosovo and the supporting donors, for new Fiscal Blueprint which will provide the overall framework and necessary benchmarks to assess each technical and organisational area of this Administration. An important part of this exercise shall be determining the degree of compliance of currently used Financial Systems in the Tax Administration with EU standardised Taxation Information System and what future actions need to be undertaken in order for these system to be harmonised as per EU requirements.

The new EU Customs Blueprint has been finalised and new areas introduced in the Blueprint and their implementation will be discussed. This Blueprint served as a guide in planning the

activities and measures necessary for Kosovo Customs Service in order to achieve its goals towards closer compliance with EU standards. A Customs Blueprint exercise for Kosovo Customs Services is planned under this project to assess the operational capacity of the Services and their progress towards meeting the EU requirements and standards.

### **3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact (where applicable)**

The project aims to build the capacity of Kosovo Customs Service and Tax Administration to further develop and implement their services and to monitor their compliance with EU standards. This project also aims to strengthen and improve the economic environment conducive to higher level of international trade, business boosting and tax collection, through building the capacity of these two administrations.

Continuous support to this key revenue collection institutions in their efforts to establish taxation and excise system that would ensure a more secure environment for international commitment and trade, but also increase the level of voluntary tax and profit declarations by domestic business community, is essential in building a sustainable economic environment in Kosovo.

### **3.3 Results and measurable indicators**

#### *Expected results*

- (a) Import/export procedures and customs formalities simplified;
- (b) Reduced smuggling and organised crime in borders by applying new detection and investigation methodologies, procedures and equipment.
- (c) Improved domestic revenue collection by simplifying tax declaration and payment procedures and applying latest methods in fraud detection and investigation;

#### *Measurable Indicators*

- (a) Reduced border delays by 30%;
- (b) A total of 50 Customs Service staff trained in latest methods in anti-corruption, smuggling and fight against organised crime;
- (c) A total of 50 Tax Administration staff trained in latest methods of detection, prevention and fraud investigation, including: Tax Administration central level staff and management level staff of all nine (9) Tax Administration Regional Offices;
- (d) Tax Administration Strategic Action Plan for 2010-2014 developed based on the results and indicators of the Fiscal Blueprint

### **3.4. Activities**

#### *Contracting arrangements*

Project activities below (except Activity 1 for Customs Services and Activity 1 for Tax Administration) for Customs Services and Tax Administration will be implemented through a Service Contract (Contract 1).

For Customs AND Fiscal Blueprint exercise (Activity 1 for Customs Services and Activity 1 for Tax Administration), a Framework Contract (Contract 2) is envisaged.

## **I. Customs Services**

### **Activity 1: Customs Blueprint**

A Customs Blueprint is envisaged to be conducted as a first activity for this project. It will be implemented through a Framework contract and it will assess the progress and shortfalls of the Kosovo Customs Services and its operational capacity in comparison with EU standards and best practises. This exercise will also serve as a needs analysis for the Customs Services to be able to design strategy and action plans in order to meet the EU requirements and standard in the customs area.

### **Activity 2: Customs Cross Border Cooperation and Trade Facilitation**

In order to facilitate good neighbourly relations with surrounding countries and enable full participation in cross-border cooperation, Customs Service needs to develop and simplify import/export procedures with other Balkan countries, with which it shares customs borders. Customs Services also need to review the currently applied customs legislation and its compliance with the requirements of the EU Common Agricultural Policy and whether current customs legislation provides adequate powers of questioning, examination and search in respect to CAP goods, means of transport, documents and commercial goods.

This can be achieved through:

- Developing training programs for customs staff, provide administration with guidance and instructions and provide education to targeted trade organisations;
- Reducing border delays and simplifying Customs formalities by introducing joint export/import declaration system for both border control points and setting up a cooperation mechanism for intelligence and data exchange.
- Review currently applicable customs legislation and legal basis available for introducing the Authorised Economic Operator Programme (AEO);
- Design and establish legal basis for customs and trade partnership programmes for authorised economic operators, such as: an authority for granting authorisations, application process, requirements and criteria for economic operators.

### **Activity 3: Customs Investigation and Enforcement**

The Strategic Operating Framework (SOF) 2007-2009 of Customs Service sets out, as one of the key objectives, further development of law enforcement capabilities of customs services, in order to:

- (i) Prevent and detect revenue fraud, smuggling of commercial goods, illegal drugs and other prohibited and restricted goods; and
- (ii) Investigate and prosecute offences under the direction of the public prosecutor.

Three specialised units in the Customs Service, Customs Investigation, Intel Teams and Professional Standards Unit have been continuously supported in the areas of corruption, organised crime and smuggling. This support will continue in 2009, through:

- Management and personnel training provided and coordinated with other law enforcement agencies in Kosovo;

- Development of a comprehensive intelligence and information system in support of investigation and enforcement staff and sharing of intelligence with other law enforcement agencies in Kosovo;
- Trainings developed and implemented to customs staff on: counter-terrorism issues, risk management, use of non-intrusive inspection equipment, radiation detection;
- Actively involving Kosovo Customs in bilateral and international activities that promote mutual recognition and reciprocity of security controls and standards and also promote business partnership programs.

#### **Activity 4: Customs IT enabling and support**

The principle driver for the key elements of Information and Communication Technology (ICT) strategy in Customs Service is the Customs Services Strategic Plan, with its vision of excellent further development of all activities of departments within a Service and specially activities taking place in Customs Border and Boundary Points. Considering the strategic objectives of the Customs Service and analysing the latest development in the Customs Administrations in region, this activity will be implementing through following actions:

3.1. *Establish a “Single Window” facility* that enables parties involved in trade and transport to lodge standardized information and documents with a single entry point. This facility can enhance the availability and handling of information, simplify information flows, greater harmonisation and sharing of the relevant data between trade and government, co-ordination of the controls and inspection of the various governmental authorities, fasten clearance procedures, better control of tax collection, fasten movement of goods and passengers in border crossing points etc.

“Single Window” requires a feasibility study and the need for analysis to determine potential scope, the level and nature of demand, data and other information requirements, legal issues, options for implementations (possible phases of implementation), the cost of implementation, other resources required (human, technical etc.), potential benefits and risks, time frame, implementation and management strategy.

3.2. *Review of Customs procedures in Finance, Personnel, Procurement, IT and Logistics* and defining of functional specifications for development of integrated software. Customs departments use different software which are not integrated and cannot communicate with each other to share the information. Integrated application will establish a standardized system that enables faster and easier coordination and control of the work flow between different departments within Customs Service.

## **II. Tax Administration**

### **Activity 1: Fiscal Blueprint for Tax Administration of Kosovo**

Last EU Fiscal Blueprint that included Kosovo Tax Administration was implemented in 2005 and published early in 2006. Based on the results of this exercise, Tax Administration of Kosovo has designed its strategy and action plan 2007-2010.

The new Fiscal Blueprint exercise will be implemented through a Framework Contract and will be used as basis for development of strategy and action plan of the Tax Administration for

the future period. It will also serve as an efficient guide for the Tax Administration in identifying its strengths and weaknesses and improving their capacities to effectively come close to EU standards concerning taxation. The produced report will be used as a "benchmark" against which to measure shortfalls in the Tax Administration's operational capacity, as well as subsequent improvements.

**Activity 2: Capacity building of Tax Administration personnel in detection, prevention and investigation of fraud.**

This activity would envisage training of personnel in latest methods of target risk assessment, which will contribute to safeguarding the revenue and protecting the society. This activity will also include:

- Development of Investigation strategies;
- Delivery of training for relevant Tax Administration staff to the level necessary to conduct in depth audit and investigations, particularly financial investigations; and
- Design of written guidance and procedures that are to be respected and followed during detection and investigations.

**Activity 3: Support the improvement of IT structure in the Tax Administration and assess the compatibility with the EU requirements and standards.**

This project activity includes a needs assessment of the currently used IT system in the tax Administration and support to the IT Unit of the Tax Administration in the area of file management, sharing and protection.

- *Needs Assessment:* Tax Administration is currently using SIGTAS system to manage with taxation and business registry related data. This system is not integrated with the system used by Customs for the revenue collection purposes. There is no integrated connection or data sharing with systems used by the banks or by other relevant institutions, activities of which are of crucial importance for the Tax Administration. Therefore a thorough needs assessment is necessary for the Tax Administration in order to determine the possibilities of the integration of SIGTAS with other relevant systems.

This needs assessment will also look at the possibilities of currently used SIGTAS to be upgraded integrated into an IT system that will meet the EU requirements.

- *File management:* This part of the project activity will include the review of the IT system to manage correspondence and files in the Tax Administration which meet open government and security standards. It will involve using currently available structure in order to establish a more transparent and easily manageable filing system, training IT Unit and other relevant staff on the usage of the newly established system.

**Activity 4: Support to Tax Administration in the establishment of stable and comprehensive legal systems, in conformity with EU requirements.**

Tax Administration has drafted a new VAT law, which is to be promulgated this year (2008). Promulgation of this will be followed by a number of administrative regulations and procedures that would enable the implementation of the new VAT law. This project activity will concentrate on supporting the Tax Administration during the implementation of new VAT legislation, including drafting of new secondary legislation;



This project activity also includes providing assistance, as required, to Tax Administration in revising direct taxation legislation or administrative regulations and associated procedures in order to facilitate domestic and international investments;

### **35. Project management and administration**

The European Commission Liaison Office in Kosovo will manage the procurement, implementation, quality control, reporting and coordination with the other donors of the development assistance and of the financial and technical cooperation related to actions described in this project fiche.

The Contractors and Team Leaders engaged through the contracts for this project will have authority to implement the project activities on day-to-day basis, under the supervision of the Commission Task Manager. A detailed description of the duties of the team leader and key experts will be elaborated in Terms of Reference, in line with this project fiche.

Monitoring will be performed centrally by the Commission. The project may be evaluated at the interim or ex-post stages under the supervision of Commission's Evaluation Unit. The project may be audited by Court of Auditors – in line with the standard European Commission procedures.

### **3.6 Conditionality and sequencing:**

The project includes the following conditional ties:

1. Allocation of working space and facilities by the beneficiaries for technical assistance before the launch of the tender process;
2. Appointing the relevant staff by the beneficiaries to participate in training activities as per work plan.
3. Appropriate co-ordination with other international organisations active in Kosovo
4. Adequate participation of the competent authorities of Kosovo and stakeholders
5. It is essential that the beneficiaries have delivered the outputs from the 2008 work programme as a condition of implementation of this particular project.

### **3.7 Linked activities**

1) Customs Services and Tax Administration have been supported by the *CAFAO* project during period 2006-2008 with the budget of €8 million. 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.

2) Following *CAFAO* project, in 2008 both administrations will be supported by *TACTA* project for 12 month period, mainly in 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 – Tax
- VAT control

The total budget amount for the TACTA project is Euro 2 million.

3) Tax Administration is also supported by *USAID / Bearing Point* assistance, through full time consultants/experts located in the Tax Administration. This support and assistance through the Bearing Point in the Tax Administration started in 2000. Following are the areas where the Bearing Point mission concentrates its support:

- Capacity building and training
- Management support
- Review of currently applied legislation
- Structural Organisation of the Tax Administration of Kosovo

Therefore, close co-operation with the *USAID* and the Tax administration is required to avoid overlaps and duplications as well as unnecessary gaps in the coverage of technical assistance.

4) The EC has allocated under *IPA 2007* Euro 0.7 million for equipment of the border police and another Euro 3 million have been earmarked under *IPA 2008* to establish greater security specially at green borders and boundaries in order to diminish cross-border crime and illegal transit migration. This will include funds for setting up an IT system to replace the current system used by the Border and Boundary Police (BBP) which is not in line with the Schengen acquis. This project will also include a needs assessment /feasibility study for effective database system as well as communication equipment.

5) Coordination should be continuously ensured with *EULEX* mission, specifically in providing Technical Assistance to Customs and Tax Administration in Kosovo. Duplicating or overlapping of the assistance should be avoided in order to provide more effective support to the beneficiaries.

### **3.8 Lessons learned**

CAFAO and US Bearing Point have proven to provide necessary support to both Customs and Tax administration in a satisfactory manner. The two technical assistance programs differed mainly in the length of program of the technical assistance provided to both Customs and Tax Administration.

*US Bearing Point* had an approach providing the Tax Administration with long-term experts situated full time in the offices of Tax Administration and supporting these institutions in their daily activities as well in the crucial, policy level areas as necessary.

*CAFAO* project consisted more on the short and medium-term technical assistance. The often turnover of the international experts created minor gaps in the process of the technical assistance and the support to these two institutions.

Longer term technical assistance has been proven to have a more sustainable impact with the beneficiary, ensuring continuity and resulting in a stronger capacity and ability to achieve progress during the project.

#### 4. Indicative Budget (amounts in €million)

			SOURCES OF FUNDING									
			TOTAL EXP.RE	IPA COMMUNITY 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: Support to Customs and Taxation	X		3.0	3.0	100							
Contract 1 (service)			2.830	2.830	100							
Contract 2 (framework)			0.170	0.170	100							
TOTAL IB			3.0	3.0	100							
TOTAL INV			0	0								
<b>TOTAL PROJECT</b>			<b>3.0</b>	<b>3.0</b>	<b>100</b>							

Note:

- (1) In the Activity row "X" is used 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	Project Completion
Service Contract	Q4 2008	Q2 2009	Q2 2011
Framework Contract	Q4 2008	Q1 2009	Q2 2009

#### 6. Cross cutting issues (where applicable)

##### 6.1 Equal Opportunity

Promoting a more diverse (gender and ethnic wise) workplace will be a strong element in strengthening the institutional capacity of both Customs Service and Tax Administration of Kosovo. This project will ensure to address the barriers that prevent equal opportunities and achievement for women and ethnic minorities in their workplace. As equal opportunity is concerned main focus will be in making less traditional work-areas accessible to women and increasing the participation of ethnic minorities in relevant institutions.

##### 6.2 Environment

This project is expected to have a neutral impact on the environment.

### **6.3 Minorities**

The equitable treatment of Minorities has formed a fundamental element in the implementation of the UN standards and is reflected in the Kosovo Civil Service Law and Anti Discrimination Law and is a key priority for European Partnership.

The equal opportunities will be addressed in following manners:

- The appropriate use of the minority languages in Kosovo Authorities official documentation and legislation
- Providing equal opportunities for minorities in their access to training and other capacity buildings programs

## ANNEX 1: Logical framework matrix in standard format

<b>Title: Support to Customs and Taxation Administrations</b>	Programme name and number Support to Customs and Tax Administration	
<b>Sector:</b> Customs and Taxation	Contracting period  Three years after the signature of the financing agreement between the European Commission and the Kosovo authorities	Disbursement period expires :  One year after the final date for the execution of contracts
		Total budget : <b>€3.0M</b>
		IPA budget: €3.0M

Overall objective	Objectively verifiable indicators	Sources of Verification	
Creating a business friendly environment in Kosovo, clear and efficient revenue collection and administration, through continuous and sustainable development of Customs and Tax Administration in compliance with EU requirements and standards	- Improved revenue collection  - Perception of businesses regarding the barriers to their development	Project implementation reports, indicators	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
Improve the capacity of the Customs and Tax Administration and its transformation into a modern administration, serving the society, enjoying public confidence and meeting the EU requirements and standards.	-Increased level of revenue collection	Project implementation reports/ indicators	- Commitment of the Customs and Tax administration in the improvement process in line with EU requirements and in
Results	Objectively verifiable indicators	Sources of Verification	Assumptions
(a) Customs Services facilitating simpler import/export procedures and customs formalities; (b) Reduce smuggling and organised crime in borders by applying new detection and investigation methodologies, procedures and equipment.  (c) Increased domestic revenue collection by simplifying tax declaration and payment procedures and applying latest methods in fraud detection and investigation;	(a) Reduced border delays by 30%; (b) A total of 50 Customs Service staff trained in latest methods in anti-corruption, smuggling and fight against organised crime;  (c) A total of 50 Tax Administration staff trained in latest methods of detection, prevention and fraud investigation, including: Tax Administration central local staff and management level staff of all nine (9) Tax Administration Regional Offices; (d) Tax Administration Strategic Action Plan for 2010-2014 developed based on the results and indicators of the Fiscal Blueprint	- Project implementation reports - Tax Administration reports - Customs services reports	- Office space and working equipment made available by Customs and Tax Administration throughout the project cycle - Linkages with other involved stakeholders: US Baring Point, ESDP mission is set on the basis of responsibility division and cooperation - Revised VAT law promulgated by the Parliament during 2008
Activities	Means	Costs	Assumptions
<i>Customs Services</i> 1. Customs Blueprint for Kosovo Customs Services 2. Customs Cross Border Cooperation and Trade Facilitation 3. Customs Investigation and Enforcement 4. Customs IT enabling and support  <i>Tax Administration</i> 1. Fiscal Blueprint for Tax Administration of Kosovo 2. Capacity building of Tax Administration personnel in detection, prevention and investigation of fraud. 3. Support of improvement of IT structure in the Tax Administration and assess the compatibility with the EU requirements and standards. 4. Support to Tax Administration in the establishment of stable and comprehensive legal systems, in conformity with EU requirements.	In order to implement the above-listed activities, and in line with the Financial Regulation, the following contract arrangements will be implemented:  For support to Customs Service and Tax Administration in the form of Technical Assistance, a Service contract is envisaged.  Customs and Fiscal Blueprint will be implemented through Framework Contract.	EC 3.0 M	- Timely and adequate resources available - Sufficient absorption capacity of Customs and Tax administration staff

**Pre-conditions**

- Allocation of working space and facilities by the beneficiaries for technical assistance before the launch of the tender process;
- Appointing the relevant staff by the beneficiaries to participate in training activities as per workplan
- Appropriate co-ordination with other international organisations active in Kosovo
- Adequate participation of the competent authorities of Kosovo and stakeholders

In the event that conditionalities are not met, suspension or cancellation of the project or specific activities will be considered.

**ANNEX II: amounts (in €million) Contracted and disbursed by quarter for the project**

	2008				2009				2010				2011			
<b>Contracted</b>	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Service Contract						2.83										
Framework Contract					0.17											
<b>Cumulated Total</b>					<b>0.17</b>	<b>3.0</b>										
<b>Disbursed</b>																
Service Contract							0.566		0.566		0.566		0.566		0.566	
Framework Contract					0.17											
<b>Cumulated Total</b>					<b>0.17</b>		<b>0.736</b>		<b>1.302</b>		<b>1.868</b>		<b>2.434</b>		<b>3.0</b>	

### **ANNEX III Description of Institutional framework**

The Customs Service was established in 1999 as a part of UNMIK and is reserved to the SRSG. The SRSG appoints the Director General who has statutory responsibility for exercising the main function powers of UNMIK Customs that are described from UNMIK Regulation 2004/1 (Customs Code). It is a budget organisation for the purposes of the Kosovo Consolidated Budget, which means fully funded by the Kosovo Consolidated budget. Customs Service is an institution with a total of 563 staff, with 18% of this staff consists by minority groups and 24% of women.

From 01 April 2007 the new organisational structure of Customs Service was put in place, with a management team consisted by Director General and four directorates: Revenue Operation, Finance and Systems, Legal and Enforcement and Compliance.

Tax Administration was established in January 17, 2000 under the guidance and administration of UNMIK. In February 18, 2003 the authority of Tax Administration was transferred from UNMIK to the Ministry of Finance and Economy. To implement its responsibilities, Tax Administration of Kosovo is organised in two main entities: Headquarters and Regions/Local Tax Units. In headquarters, following departments are established and functioning: Compliance, IT, Field Delivery, Corporate Services, Gambling, Appeals, Internal Audit, Legal and Human Resources. A total of 119 staff operates in this level. Regional Tax Administrations comprise by these departments: Taxpayer Education Unit, IT, Collection Unit, Control Unit and pensions. Local Tax Units have similar organisational structure. Both regional and local tax administrations employ a total of 526 employees.



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

Reference list of relevant laws and regulations:

- UNMIK Regulation 2004/1 (Customs Code)
- Law on Tax Administration and Procedures No.2004/48
- Customs Service Strategic Operating Framework (SOF) 2007-2009
- Tax Administration Strategic Action Plan 2007-2010

### **Reference to AP/ NPAA / EP / SAA**

#### European Partnership 2006

- Further approximate customs legislation with the acquis and continue the efforts to enhance the capacity of the customs administration to combat corruption, counterfeiting and cross-border crime. Enhance the capacity of the criminal investigation unit.

- Continue approximation of tax legislation to the EU acquis and strengthen the administrative capacity of the tax administration. Reinforce the collection capacity of the tax administration and increase tax revenue.

#### Kosovo Action Plan for the Implementation of the European Partnership

Under priority 103: Continued approximation of tax and customs legislation to the EU acquis and further increase the administrative capacity to enforce legislation and to fight against corruption, cross-border crime and fiscal evasion, the following actions are included:

- Tax Administration of Kosovo and UNMIK Customs operate in accordance with EU Standards.
- Tax Administration functions as a multiethnic, professional, free from political influence, especially in terms of recruiting and competencies.
- Customs Service Staff carry out duties in accordance with Rule of Law and Code of Conduct, including disciplinary procedures and anti-corruption measures.

### **Reference to MIPD**

Socio-Economic priority:

*Improving budget and fiscal policy-making and management*, enhancing control and collection capacity of the tax and customs administration and contribute to prudent fiscal policies, including addressing the budgetary and resource implications of EU approximation measures to the budget.

### **Reference to National Development Plan**

*In the Medium Term Expenditure Framework* for 2008-2010, under the sector 1.2.1., Tax policy, the objective is to establish adequate tax system facilitating private sector growth and attracting Foreign Direct Investment.

## **ANNEX V: Details per EU funded contract (\*) where applicable**

### 1. Technical assistance to Customs and Tax Administration through a Service Contract.

The contractor will be expected to:

- Assist the Customs and Tax administration in implementation of primary and secondary legislation;
- Support professional staff of Customs and Tax Administration, in form of trainings, in the field of detection, investigation and prevention of fraud and smuggling;
- Support IT departments of Customs and Tax Administration in identifying the areas and gaps in the existing systems and possibility of improvements;

### 2. Framework Contract for Customs and Fiscal Blueprint

The contractor will be expected to:

- Conduct a Customs and Fiscal Blueprint exercise with the Kosovo Customs Services and Tax Administration.