## 2009 Project Fiche 9 Kosovo – IPA centralised programmes

### 1. Basic information

    **1.1 CRIS Number**:         2009/021-145

    **1.2 Title:**               Improvement of IT System in Taxation Administration

    **1.3 ELARG Statistical code:**   02.62

    **1.4 Location:**           Kosovo (UNSCR 1244)

Implementing arrangements:

    **1.5 Contracting Authority (EC):**   European Commission Liaison Office in Kosovo

    **1.6 Implementing Agency:**     N/A

    **1.7 Beneficiary (including details of project manager):**

| Project activity | Beneficiary | Contact point responsible for activity coordination |
|---|---|---|
| IT improvement in the Tax Administration of Kosovo | Tax Administration of Kosovo | Rifat Hyseni, Deputy Director - Information Technology, Tax Administration of Kosovo |

    **Financing:**

    **1.8 Overall cost (VAT excluded)[1]:** EUR5.0 million

    **1.9 EU contribution:**          EUR 5.0 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 through improving the IT system in the Tax Administration in Kosovo in compliance with EU requirements and standards.

    **2.2 Project purpose:**

The purpose of this project is to improve the capacity of the IT system in Tax Administration and advance its transformation into a modern administration through delivering a new IT system which will bring the revenue collection mechanisms closer to EU standards.

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[1] 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)

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

*The 2008 European Partnership* highlights the following points as short term priorities in the field of taxation:

- 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;

- Commit to the principles of the Code of Conduct for business taxation and ensure that new tax measures are in conformity with these principles.

*The 2008 European Partnership* reiterates the general objectives for both tax and customs service in the medium-term priorities;

- Continue 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 2008* recognises that the capacity of the Tax Administration of Kosovo (TAK) remains weak. Its Management Information System is not yet operational and major efforts are needed to improve services to taxpayers. The EC Progress Report identifies that Kosovo's tax legislation is only partially aligned with European standards and further alignment is needed, as well as significant efforts to ensure its effective enforcement. Additionally, progress report points out that tax collection remains extremely weak and the informal economy is widespread, as controls are limited.

However, Progress Report recognises that TAK improved its performance in revenue collection and the overall TAK revenue was some 12% higher in the first seven months of 2008 compared to the same period in 2007, reversing the negative trend of the last few years.

### 2.4 Link with MIPD

The MIPD for Kosovo for 2009-2011 identifies that the financial management at all levels of Kosovo's administration remains weak and the necessary structures of financial control still need improvement. It also highlights that Kosovo's administration has to improve its revenue raising capacities to contribute to the Kosovo consolidated budget, particularly in relation to tax collection.

The project aiming for the improvement of IT system in Taxation Administration responds to the priorities set for Axis 2; Economic criteria;

- 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

In the *Medium Term Expenditure Framework (MTEF) 2009-2010,* under the section of Government Budget Revenue Projections recognises that Kosovo's tax system is characterized by low tax rates and broad tax bases. It also highlights that that the recent IMF

report on tax administration was highly welcomed and the tax administration has already started to prepare the action plan for implementing IMF's recommendations.

### 2.6 Link with national/sectoral investment plans

*Tax Administration Strategic Action Plan 2008-2010* emphasizes the need to communicate the tax laws and obligation to all taxpayers and to ensure that all taxpayers are aware of their fiscal obligations and know how to meet them. The *Strategic Action Plan* highlights the importance of enforcing the tax laws of Kosovo in a firm and fair manner, ensuring that activities are transparent and evenly applied throughout Kosovo.

*Tax Administration Strategic Action Plan 2008-2010* identifies following shortcomings in the current IT system, which need to be addressed;

- Existing network and SIGTAS need to further development or replacement
- Additional system security procedures must be developed and implemented (security concerns with web-based programmes and data backup procedures)
- Current declaration and payment processing do not meet needs of TAK
- Improve management information system
- Develop electronic filing capabilities

### 2.7 IMF report

IMF Fiscal Affair Department mission visited Prishtinë/Priština in May 2008 in response to a request from Minister of Economy and Finance, Mr Ahmet Sala. The mission presented its findings and recommendations in a report called "*Improving Tax policy and tax Administration.*" The key findings of this report list three critical tasks in the Tax Administrations which have not received the attention they deserve. These three areas are accurate registration of taxpayers and the creation of a high integrity taxpayer master file, timely and accurate processing of tax returns and payments and lastly, the development of a comprehensive IT system to provide proper support to the key processing and enforcement functions. The report recognises that the for the moment the inefficiency of these procedures not only reduce revenue collections, but they also compromise the possibility of successfully reforming other aspects of tax administration.

The key recommendations of the report for IT sector of Tax Administration are either fixing the current system or acquiring a new IT system. The report also recognises that secure and stable IT network is needed for Tax Administration. Finally the report states that TAK will need financial support to achieve significant improvements in specific areas and IT development is listed to be one of the areas which require additional funding.

## 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 18 February 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 9 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.

Tax Administration has been largely supported by donor community in their capacity building and development into a modern revenue collecting administrations. However, a few significant issues are still to be tackled, for example, development of essential IT systems, alignment of revenue payment procedures used by the banks and the tax authorities, implementation of efficient taxpayer registration and risk/management systems.

An effective Tax Administration is needed for ensuring a smooth trade and business development, as well as 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 the Tax Administrations. The importance of reforming the IT system of Tax Administration has been signalled repeatedly by different international institutions. It has become apparent that robust and modern IT system is essential for supporting the management and operations of Tax Administration.

Currently, TAK uses the Standard Integrated Government Tax Administration System (SIGTAS) as its core administration system. It is an integrated information system that enables governments to automate the administration of taxes and licences. This software is designed to meet the needs of developing countries who wish to increase their control over state revenue by equipping themselves with computerized systems. Since 1996, SIGTAS has been implemented in 19 countries located in Africa, the Caribbean, the Middle East, Eastern Europe and south-east Asia.

To Tax Administration in Kosovo SIGTAS was installed in 2001 and uses Oracle as its framework. As described above, it is an integrated tax administration system comprising of various modules able to support the different tax administration functions. Most of these modules are presently not being used, either because they were not acquired with the initial procurement or they have been replaced with customized applications or have been simply switched of. As a result, large parts of Tax Administration functions are not supported by the IT system. Although the source code was obtained as part of the system's acquisition, there are no technical manuals and technical detail of subsequent system changes have not been maintained.

In addition to not using full capacity of the current system, the Tax Administration is faced with low capacity of the IT department and its staff. Large turnover of expertise in this department has contributed the low maintenance of the system. Especially, the lack of in-house programming capacity is a significant problem. Also here TAK has no longer the capacity to ensure adequate systems maintenance due to the departure of key staff. The issue of recruiting and keeping the qualified staff needs to be tackled effectively in the future.

Currently, the IT department of headquarter comprises of data entry unit and 4 administrators. Regions offices have all one database administrator responsible for maintenance of e-mail accounts, security etc. The data communication links between the headquarters and regions are weak and need to be developed. The network allows only one-way flow of data. Data is sent only one-way and, from headquarters to regions and information flows from regions to headquarters are performed manually.

To tackle the above described technical shortcomings IMF recommended two options in "Improving Tax Policy and Tax Administration, Kosovo" –report published in May 2008. The

report recommends either to substantially fix the current system by upgrading it or to acquire a completely new IT system.

The ECLO contracted two experts in October 2008 to carry out an IT Needs Assessment in Tax Administration of Kosovo. The results from this mission provide guidelines for deciding what is needed and which option is more advantageous in economical terms; upgrading or acquiring a new system. After considering several different options the experts recommended acquiring a new system in a form of integrated adaptable package. It is also recommended that the Tax Administration should move from the decentralised system to centralise. Centralised system architecture will allow simplified system and database administration, reduced investment on the IT infrastructure and more advanced security. The change to centralised system requires a supply of new servers and network equipment.

In a meanwhile the Tax Administration has already signed a contract with a company called SOGEMA, the original developer of SIGTAS for stabilising the system, carrying out an upgrade and provision of all documentation and training to maintain the system. The contract amounts to EUR 750.000 and is being paid by the Government of Kosovo. However, this upgrade is just to boot the immediate deficiencies and the need for further improvements remains. Before the contract signature the SOGEMA experts have reviewed and analyzed SIGTAS and their report indicate that TAK is using less than 20% of the system capabilities and functionalities have been corrupted and over-ridden by locally-developed processes. Moreover, TAK is unable to repair the system on its own and lack of an efficient system has an adverse impact on TAK ability to develop and improve tax administration.

Reforming the tax system is a key component of Kosovo's fiscal reform agenda. Improvements in Tax Administration are necessary in the context of European integration and in preparing for a gradual switch from border to domestic tax collection in step with increasing domestic production and other business activities, and in improving Kosovo's ability to attract large scale business investments. In order to be able to do this Tax Administration needs an adequate IT system that corresponds with the needs set up for a modern tax administration.

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

The project aims to build the capacity of the Kosovo Tax Administration by delivering a new IT system. The new IT system will enable transformation into a modern tax administration and it will help the Tax service to bring the revenue collection mechanisms closer to EU standards.

Improvement of IT system in Tax Administration will also take into consideration the issues of training and maintenance. Both are essential for ensuring long-term results after the delivery of the IT system.

Continuous support to this key revenue collection institution in its efforts to establish taxation and excise system which is supported by modern IT system will ensure a more secure environment for international commitment and trade, which is essential for building a sustainable economic environment in Kosovo.

### 3.3 Results and measurable indicators

*Expected results*

(a) New IT system installed in TAK;
(b) Increased transparency in Tax Administration;
(c) TAK staff trained in usage of the new system;
(d) TAK IT Department trained on the maintenance of the new system;

*Measurable indicators*

(a) All main modules of the IT system in Tax Administration active and fully functioning;

(b) Decreased rate of fraud case;

(d) Half of the representatives of each department and each regional office of TAK able to use the new system;

(e) System supported through regular maintenance.

### 3.4. Activities

### *Contracting arrangements*

Project activities below for Tax Administration will be implemented through one Supply Contract (Activities 1, 2 & 3) ).

### Tax Administration

### Activity 1: Delivery of the complete IT system

This project activity is to design and deliver a new IT system to Tax Administration which will be compatible with the interconnectivity and interoperability of the DG TAXUD's systems in the taxation area. The IT Needs Assessment recommended acquiring a new application for the core system and to move from decentralised to centralized administration of TAK including RDBMS, servers, LAN/WAN, security and applications. The new application should be acquired as integrated adaptable package (ERP) which allows being fully adapted to the needs of TAK. It includes the newest versions, updates and is fully documented. Additionally, normalized interfaces with other applications can be defined and installed.

This activity will include;

- Design, delivery and installation of the new core system;
- Delivery and installation of servers and network equipments;
- Ensuring the interoperability with other relevant institutions (MTI, Customs Service);
- Basic training and basic manuals provided by the contractor.

### Activity 2: Capacity building and training of Tax Administration personnel in using the new system

This activity would envisage training of personnel in using the new IT system. First, the incentives for TAK personnel to use the system in their daily business must be identified and communicated to all TAK personnel. The advantages of the new system must be stated clearly and consistently in order to make sure that the personnel will start to use the new IT system at adequate level. Second, trainings on how to use the system must be designed and provided to TAK personnel. These trainings must be basic enough in order to ensure that the whole personnel will get a good grasp of the system. Trainings must involve personnel from senior

management levels to all operations and it should provide a level necessary to conduct the daily business activities depending on the function of the person.

This activity will also include training of TAK IT department personnel. As main users of the new system the IT department requires more in-depth training. Additionally, the issue of large turnover in the IT department must be taken into consideration while training the personnel in IT department. Thus this activity will design and deliver training to the IT department tackling simultaneously the issue of how to keep the core IT staff once they have been trained on how to use the system and do the required programming.

All together the trainings should cover following areas: overall infrastructure design and architecture, Knowledge Management and data management, Server architectures, Distributed infrastructure, including centralized storage and print services, Data networks (LANs, WANs, protocols, Internet and intranet systems, Client systems, Storage devices, Storage Area Networks, Data warehousing / Mining, Backup and recovery systems and services, Document storage, handling and management, E-mail, groupware applications, office automation and other desktop applications networking and security.

Additionally, this activity will develop and design training manuals and guidelines for future usage. These manuals and guidelines will facilitate the training of newcomers on how to use the system.

**Activity 3: Ensuring the interoperability and sustainability of the improved IT system**

This project activity has two resulted purposes. Firstly, it must ensure that the interoperability of the system is being communicated to the relevant institutions. These institutions must be well informed, trained and educated concerning the changes and possibilities that the new IT system in TAK will bring. It will increase the ability of diverse systems and organisations to work together in information sharing. Thus, this activity will ensure that the advantages of interoperability are widely recognised and incorporated into the daily businesses of different institutions. Concerning Customs Service the different options how to connect the new system must be considered carefully bearing in mind the possible future needs of the Customs' IT structure in terms of updates or installation of new programmes.

Secondly, this activity will concentrate on providing assistance in preparing the guidelines for maintenance of the new system. It is crucial to take into consideration the issue of maintenance from the very beginning and ensure that there are adequate capacities in personnel and financial terms to take care of the maintenance with in the Tax Administration after the EU funded project ends. An effective and regular maintenance of the IT system is the only way to guarantee sustainable IT support to all activities of Tax Administration.

### 3.5 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. Necessary resources must be provided from the state for adequate staffing of the IT department and for maintenance of the IT system throughout the project and after the project phase out.

2. Allocation of working space and facilities by the beneficiaries for technical assistance before the launch of the tender process.

3. The management level of TAK must be committed and support the implementation of the project by providing input and being willing to follow project activities especially as regards activity 2.

4. Appointing the relevant staff by the beneficiaries to participate in training activities as per work plan. Sufficient time must be reserved for organising trainings for head quarters personnel and for regions offices.

5. Effective co-ordination with other international organisations active in Tax Administration or other relevant Ministries.

### 3.7 Linked activities

1) Tax Administration has been supported together with Customs Services by the *CAFAO* project during period 2006-2008 with the budget of EUR 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 have been 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 EUR 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

4) The Swedish SIDA is also supporting Tax Administration and it has allocated 2.3 million for building property tax administration which started in October 2008. The project is co-financed by MEF (0.45 million) and it will be implemented by the department of Property Tax within the Ministry of Finance. The funds allocated by Sweden will be used for hiring Swedish and local experts and acquiring necessary implementation technology. Today Property Tax Administration is supported very little by the IT and the purpose of SIDA's project is to enhance the property tax collection by developing a software system for property tax collection.

5) The EC has allocated EUR 3.0 million under *IPA 2008* for Customs and Tax Administration together. In Tax Administration this allocation will cover a design of a new Fiscal Blueprint for Tax administration, capacity building of Tax Administration personnel in detection, prevention and investigation of fraud and support the improvement of IT structure in the Tax Administration and assess the compatibility with the EU requirements and standards. In addition, the IPA 2008 programme will also give support to Tax Administration in the establishment of stable and comprehensive legal systems in conformity with EU requirements.

### 3.8 Lessons learned

Tacta, 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.

Tacta and *CAFAO* project consisted more on the short and medium-term technical assistance. The rather high 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 EUR million)**

| | | | | SOURCES OF FUNDING | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | IPA COMMUNITY CONTRIBUTION | | NATIONAL CONTRIBUTION | | | | | PRIVATE CONTRIBUTION | |
| ACTIVITIES | IB (1) | INV (1) | TOTAL EXP.RE 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: | | | 5.0 | 5.0 | *100* | | | | | | | |
| Contract 1 (Supply) | | x | 5.0 | 5.0 | *100* | | | | | | | |
| TOTAL IB | | | 0 | 0 | *100* | | | | | | | |
| TOTAL INV | | | 5.0 | 5.0 | *100* | | | | | | | |
| **TOTAL PROJECT** | | | **5.0** | **5.0** | ***100*** | | | | | | | |

Note:

Amounts net of VAT

(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 |
|---|---|---|---|
| Supply Contract | Q1 2010 | Q4 2010 | Q3 2012 |

**6. Cross cutting issues**

### 6.1 Civil society

The project will ensure that relevant civil society groups' concerns are taken into account in the development agenda and aim to enhance their policy dialogue with the taxation administration.

### 6.2 Environmental considerations

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

### 6.3 Equal opportunities and non discrimination of women, minority and vulnerable groups

Promoting a more diverse (gender and ethic wise) workplace will be a strong element in strengthening the institutional capacity of 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.

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 manuals and guidelines produced by the project.
- Providing equal opportunities for minorities in their access to training and other capacity buildings programs.

### 6.4 Good governance

Good governance will be fostered through the introduction of monitoring, evaluation and control mechanisms. The enhancement of the IT system will bring more transparency to the activities of TAK Administration, contribute to the fight against corruption and to enhance civic responsibility in respect of payment for public services.

**ANNEXES**

**Annex 1**      **Log frame in Standard Format**

**Annex 2:**      **Amounts contracted and Disbursed per Quarter over the full duration of Programme**

**Annex 3:**      **Description of Institutional Framework**

**Annex 4:**      **Reference to laws, regulations and strategic documents:**

**Annex 5:**      **Details per EU funded contract (*) where applicable:**

## ANNEX 1　　Logical Framework Matrix in Standard Format

| LOGFRAME PLANNING MATRIX FOR Project Fiche | Programme name: **Improvement of IT System in Tax Administration** | | |
|---|---|---|---|
| | **Contracting period expires** three years after the date of conclusion 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 : EUR 5 million | IPA budget: EUR 5 million | |
| **Overall objective** | **Objectively verifiable indicators** | **Sources of Verification** | |
| Support the general reform of Tax Administration of Kosovo to ensure clear and efficient revenue collection. | - Effective and well-managed Tax Administration of Kosovo. Increased tax revenue. | - EC Progress reports<br>- Government's progress reports | |
| **Project purpose** | **Objectively verifiable indicators** | **Sources of Verification** | **Assumptions** |
| New IT system delivered to Tax Administration and management and operations of TAK are supported by the new system, which will bring the revenue collection mechanisms closer to EU standards. | - Management and operations using the new IT system in their daily business.<br>- Increased efficiency in TAK.<br>- Decreased rate of fraud case.<br>- Better performance of TAK with respect to the application of law. | - Reports of the company and consultants who will be involved in carrying out the project<br>- IMF reports<br>- TAK reports | TAK is committed to the IT reform and to the maintenance of the system.<br>Staff in TAK is encouraged to use the IT system in daily business. |
| **Results** | **Objectively verifiable indicators** | **Sources of Verification** | **Assumptions** |
| 1. New IT system installed in TAK<br>2. Increased transparency in Tax Administration.<br>3. TAK staff trained in usage of the new system<br>4. TAK IT Department trained on the maintenance of the new system | - All main modules of the system active and fully functioning.<br>- Decreased rate of fraud case.<br>- Better performance of TAK with respect to the application of law.<br>- Half of the representatives of each department and each regional office of TAK able to use the new system.<br>- System supported through regular maintenance. | - Project progress/monitoring reports<br>- Project surveys (Mid-term evaluations)<br>- TAK regular reports; improvements for accomplishing the goals. | Sufficient absorption capacity in TAK to apply the new system.<br>Effective coordination with other donor funded projects directed to TAK.<br>TAK has the financial capacity to staff the IT department. |
| **Activities** | **Means** | **Costs** | **Assumptions** |
| 1.1 Design, install and complete the new IT system and ensure that it is fully licensed.<br>1.2. Install new servers and network equipment<br>1.3 Integrate the new IT system with relevant systems and institutions.<br>2.1 Identify the incentives for TAK staff to use the system and give training on how to use it for TAK staff (including all technical personnel, tax inspectors, desk officers etc.).<br>2.2 Provide in-depth training for TAK IT Department staff.<br>2.3 Develop training manuals and guidelines for future usage and newcomers.<br>3.1 Provide assistance on preparing the guidelines for maintenance of the new system bearing in mind the aspects of human resources and the costs of maintenance. | **Supply contract: EUR 5.0million** | **Cost: 5 million**<br>**Duration: 24 months**<br><br><br>**Supply contract**<br>**EU contribution: EUR 5.0million** | Sufficient number of contractors able to provide the required system and services.<br>Sufficient absorption capacity in the TAK.<br>TAK is committed to maintain the IT system and has the financial and technical means to do it. |

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**Pre-conditions**

- Legal framework in place in regards of applicable tax laws in Kosovo.
- IT Needs Assessment carried out in Tax Administration resulting in comprehensive analysis of current situation and recommendations for future actions.
- TAK is committed to cover the costs resulting from maintenance of the system.
- Secured and fault-tolerant telecommunications between TAK head quarters and regions offices.
- IT Department in TAK fully functioning and properly staffed and beneficiary to appoint the relevant staff to participate in training activities as per work plan.
- Clear co-ordination with other donor funded projects in TAK;
  - SIDA; Improved property tax collection with the help of customised software programme
  - World Bank has also signalled to Tax Administration its interest to support in the IT reform

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

**ANNEX 2: Amounts (in EUR million) Contracted and disbursed by quarter for the project**

| | 2010 | | | | 2011 | | | | 2012 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Contracted** | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Supply Contract | | | | 5.0 | | | | | | | | | | | | |
| **Cumulated Total** | | | | **5.0** | | | | | | | | | | | | |
| **Disbursed** | | | | | | | | | | | | | | | | |
| Supply Contract | | | | 1.0 | | 1.0 | | 1.0 | | 1.0 | | 1.0 | | | | |
| **Cumulated Total** | | | | **1.0** | | **2.0** | | **3.0** | | **4.0** | | **5.0** | | | | |

**ANNEX 3:     Description of Institutional framework**

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 128 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 510 employees.

**ANNEX 4:      Reference to laws, regulations and strategic documents**

Reference list of relevant laws and regulations:

- Law on Tax Administration and Procedures No.2004/48
- Tax Administration Strategic Action Plan 2008-2011

**ANNEX 5: Details per EU funded contract (\*) where applicable**

1. Delivery of a new IT system to Tax Administration and training of Tax Administration personnel in using the new system and addressing issues related to the maintenance through a Supply Contract.

   The contractor will be expected to:

   - To supply and install the IT system to Tax administration;
   - To support the personnel of the IT department in Tax Administration, in form of trainings, manuals and guidelines for manuals;
   - To support IT department Tax Administration in identifying the areas and gaps in the existing systems and possibility of improvements;
   - Identify the incentives to use the system and accordingly, train the personnel in Tax Administration;
   - Produce manuals and guidelines for future usage;
   - Ensure maintainability of the system and provide assistance in creating standard procedures for maintenance;
   - Addressing the issue of high turnover in IT department personnel.