

## Standard Summary Project Fiche – IPA centralised programmes

### 1. Basic information

- 1.1 CRIS Number:** 2007/018-830  
**1.2 Title:** Customs and Fiscal Assistance Office programme (CAFAO)  
**1.3 Sector:** Transition Assistance and Institution Building (06.62)  
**1.4 Location:** Albania, Bosnia i Herzegovina, the former Yugoslav Republic of Macedonia, Montenegro, and Serbia including Kosovo<sup>1</sup>

### Implementing arrangements:

- 1.5 Contracting Authority:** The European Community represented by the Commission of the European Communities for and on behalf of the beneficiary countries.  
**1.6 Implementing Agency:** The European Community represented by the Commission of the European Communities for and on behalf of the beneficiary countries.  
**1.7 Beneficiary:** Multi-Beneficiary (see 1.4 above)  
**1.8 Overall cost:** €1,420,000  
**1.9 EU contribution (IPA):** €6,120,000  
**1.10 Final date for contracting** 30.06.2007  
**1.11 Final date for execution of contract** 29.02.2008  
**1.12 Final date for disbursements** 28.02.2009

### 2. Overall Objective and Project Purpose

#### 2.1 Overall Objective:

The overall objective of this project is to continue to give assistance to the customs and taxation authorities in the Western Balkan countries in the context of their preparation for future EU membership, and to facilitate their development of harmonised customs and taxation processes and systems in the internal market.

#### 2.2 Project purpose:

It is essential to ensure that technical assistance continue to be given along the priorities defined by the Commission in the European Partnerships, in the Progress Reports as well as in the dialogue with national authorities. In particular, further progress is to be achieved in the following areas:

- continued alignment of customs and direct and indirect tax legislation with the EU *acquis*;
- further increase of the administrative capacity to implement this legislation;
- further progress in the fight against corruption, cross-border crime and fiscal evasion.

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<sup>1</sup> As defined by the United Nations Security Council Resolution 1244 of 10th June 1999.

By way of a second direct agreement with Eurocustoms to run from 1<sup>st</sup> July to 31<sup>st</sup> December 2007, this project will continue the CAFAO programme which has been successful in developing the capacity of the Balkan countries to manage their borders and to draw increased revenues from customs and excise duties. The first direct agreement with Eurocustoms (€23.10 million) has been in existence since March 2006 and will expire on 30<sup>th</sup> June 2007.

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

The Instrument for Pre-Accession Assistance (IPA) exists to help Beneficiary countries face the challenges of European integration, implement reforms to satisfy EU requirements in the Stabilisation and Association Process (SAP) and lay the foundations for fulfilling the Copenhagen criteria for EU membership. The principal policy documents setting out the priorities for programming of assistance under the IPA are the Accession and European Partnerships, the Strategy Paper, which presents the Commission's overall enlargement policy for the candidate and potential candidate countries, as well as the Annual Report on progress made on the road towards the EU, including implementation and enforcement of EU standards.

The CAFAO project is linked to the countries' strategic plans in the areas of both customs and taxation. The project also has a link to the EU Partnerships as the project aims to align customs and taxation legislation with the EU sector *acquis*, European Standards and best practices. It also ensures that customs, tax and public procurement administrations are covered by the appropriate Civil Service Law.

### **2.4 Link with MIPD**

The Multi-Beneficiary MIPD is designed to complement and be consistent with National MIPDs. Areas of intervention are addressed through the Multi-Beneficiary MIPD where there is a clear comparative advantage to be gained, for instance through tackling cross-border problems or in obtaining efficiencies through establishing harmonised approaches, leveraging established instruments or facilitating networks of experts.

See chapter 2.2.4 of the MIPD 2007-2009, CAFAO assistance form part of Priority Area I; Transition Assistance and Institution Building. It is foreseen that the CAFAO programme<sup>2</sup> will be phased out by the end of the decade by which time activities in the area of customs will be transferred to the National programmes. Until then, implementation of activities will continue to be funded from the National budgets and implemented under the Multi-Beneficiary Annual Action Programmes.

### **2.5 Link with National Development Plans**

Not applicable: CAFAO is a regional programme.

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<sup>2</sup> And its successor TACTA (Technical Assistance to Customs and Taxation Administrations)

### 3. Description of project

#### 3.1 Background and justification

The EU launched its CAFAO programme in 1996 to enable the creation of a customs service in Bosnia and Herzegovina (BiH). The CAFAO programme has since developed activities in customs and to a certain extent fiscal administration in Albania, Kosovo, the former Yugoslav Republic of Macedonia (fYRoM), Montenegro and Serbia.

Overall, the countries' customs services along with their respective CAFAO programmes have directed their efforts at creating efficient customs services that not only allow for better management of border-crossing points and customs checks at airports and/or ports for public security, but also increase potential revenue from customs and excise duties on legitimate trade.

The state of existing national infrastructure for both customs administration and indirect taxation has greatly influenced the extent of CAFAO activities in each country. Thus, in *Montenegro*, which started its migration progress from sales tax to an EU-compliant Value Added Tax (VAT) system in 2000, CAFAO has mainly directed its efforts at ensuring that the system remains EU-compliant. In *BiH*, CAFAO was fully involved for some years in preparing the way for the country to migrate to an EU VAT-compliant tax system in 2006.

In March 2006, the Commission signed a contract with Eurocustoms for the provision of technical assistance in the field of customs and taxation in the Western Balkans for a project to run from 1<sup>st</sup> April 2006, and it was prolonged in July 2006 to continue until 30<sup>th</sup> June 2007. This contract has been financed through the remaining funds of the CARDS programmes of previous years. Eurocustoms provides technical assistance to the beneficiary authorities through the implementation of annual work programmes prepared, approved and monitored in close coordination with the beneficiaries and the Commission.

It is not possible to extend this contract further, which has meant that a second contract is being negotiated with Eurocustoms to cover the operational period 1<sup>st</sup> July to 31<sup>st</sup> December 2007, together with a period for winding down activities (e.g. handover of vehicles, equipment etc) until 29<sup>th</sup> February 2008. Apart from Albania, fYRoM (partly) and Serbia, all of which have CARDS funds available, each country/territory is to provide funds from its own IPA 2007 national allocation. The budgets agreed for the second contract with Eurocustoms are as follows:

- Albania: €1.80 million (wholly financed from CARDS 2006)<sup>3</sup>;
- BiH: €3.00 million;
- fYRoM: €1.45 million (€0.95m financed from CARDS 2005 & 2006)<sup>4</sup>;
- Kosovo: €1.50 million;
- Montenegro: €1.12 million;
- Serbia: €2.55 million (wholly financed from CARDS 2005 & 2006)<sup>5</sup>

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<sup>3</sup> Commission Decision C(2006)2057, PE/2006/888.

<sup>4</sup> Commission Decisions C(2005)1039, PE/2005/500; and C(2006)2057, PE/2006/888 respectively.

<sup>5</sup> Commission Decisions C(2005)1037, PE/2005/498; and C(2006)2057, PE/2006/888 respectively.

It is foreseen that the CAFAO/TACTA programme will be phased out altogether by the end of 2009 by which time activities in the area of customs will be transferred to the National programmes. Until then, implementation of activities will continue to be partly funded from the National budgets and implemented under the Multi-Beneficiary Annual Action Programmes. For example, fYRoM will withdraw from the CAFAO programme at the end of 2007, and Montenegro and Serbia are also expected to do so by the end of 2008.

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

Overall, the countries' customs services and their respective CAFAO programmes should direct their efforts at creating efficient customs services that allow not only for better management of border-crossing points and customs checks at airports and/or ports for public security, but also for the increase in the potential revenue from customs and excise duties on legitimate trade.

The introduction of VAT and other customs and fiscal legislation is considered to have been successful. It is expected that there will be a continuous growth in the registration of VAT registrations and collection.

Although it is likely that there will be a significant growth in criminal proceedings relating to fraud and smuggling, the eradication of organised crime in the region is a long-term process for which international assistance may be required for a long period. Institutions in the regions are still fragile and are exposed in many cases to high level political pressures and suffer from a great turnover in staff at all levels. Anti-smuggling, intelligence and investigation units are still at an embryonic stage, which will require continual attention.

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

The overarching results to be *aimed* at by Eurocustoms in all beneficiary countries are:

- to develop the administrative capacity of the beneficiary
- to achieve sustainability, transfer of knowledge, and ownership by the beneficiary
- to prepare for an exit strategy

Results to be *achieved* in all beneficiary countries at the end of the contracting period are as follows:

- Customs legislation and procedures will be further aligned with the EU *acquis* and a full and consistent implementation throughout the whole territory.
- Indirect tax legislation will be further aligned with the EU *acquis*.
- The administrative capacity to implement customs legislation and to fight corruption and cross-border crime will have further strengthened.
- The administrative capacity of the tax administration, including its collection and control capacity will have further strengthened and the fight against corruption and tax fraud will be more efficient.
- Transparency and the exchange of information with EU Member States will have improved in order to facilitate the enforcement of measures preventing the avoidance or evasion of taxes.
- The process of computerising tax and customs administrations will have started and progressed.

### **3.4 Activities**

CAFAO will undertake the following activities:

- provide technical assistance to the customs and taxation authorities of the beneficiary countries in drafting legislation and implementing rules in the areas concerned;
- assist beneficiary countries in establishing efficient administrative structures as well as proper implementation and control procedures for developing, implementing and enforcing legislation;
- transfer appropriate knowledge to the beneficiary authorities by means of training programmes, with particular emphasis on “training the trainers” programmes;
- assist beneficiaries in promoting their cooperation with other national agencies, the competent authorities of EU Member States and neighbouring countries, and in establishing partnerships with appropriate qualified institutions (administrations, services, laboratories, etc) in EU Member States;
- facilitate final ownership by the beneficiaries and prepare them for withdrawal of EU-CAFAO missions and eventually of international assistance.

### **3.5 Conditionality**

- Cooperation of national authorities concerned with Eurocustoms in implementation of the project, in line with SAP.
- Willingness of Member States' administrations to make experts available for mission to Brussels and beneficiary countries

### **3.6 Linked activities**

DG/Enlargement entered into a direct agreement with Eurocustoms in March 2006, value €23.10 million, and the contract ends on 30<sup>th</sup> June 2007. This contract is centrally managed and is financed from participating countries' national CARDS allocations. This project is the direct successor.

After this contract ends in February 2008, the CAFAO Programme, renamed ‘TACTA’, will continue to be financed from the IPA until the end of 2008 with funds from the participating countries' IPA 2007. The following countries are expected to participate: Albania, BiH, Montenegro and Serbia including Kosovo.

### **3.7 Lessons learned**

There are several points for consideration:

- Because the Beneficiary countries' administrations have developed at different speeds, there have been large differences in the rate of collection of Customs and Tax revenues in each country.
- Some Beneficiaries have stated the need for more focused assistance in specific areas rather than general T/A, hence the differences in approach by country. However, as regards Kosovo, the continuation of general T/A is necessary in the light of the impending departure of UNMIK later in 2007.
- CAFAO has lacked a regional cooperation approach, so has not encouraged more regional cooperation between the partner institutions in the Western Balkans.

Whereas each CAFAO Mission has drawn up a country work plan, the regional dimension has been missing.

- A continuation of Customs services on a regional basis is appropriate in the fight against corruption, cross-border crime and fiscal evasion;
- The reorganisation of assistance to go through Eurocustoms has been mixed. On the one hand, there have been improvements in the composition and workings of the Project Steering Committees and to the preparations of the annual country work plans, but on the other hand, another layer of bureaucracy has been seen as a drawback.
- The extended selection process of experts and their timely arrival have complicated the implementation of activities in line with the work plans.
- The use of short-term experts has been useful in certain specific areas, but several weeks may elapse before an individual is able fully to appreciate the situation in a particular country and to be fully operational.
- EU visibility should be increased.

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

Activities	TOTAL COST	SOURCES OF FUNDING										
		IPA CONTRIBUTION				CARDS CONTRIBUTION (p/m)					PRIVATE	
		Total	% *	IB	INV	Total	% *	Central	Regional	IFIs	Total	% *
<b>Activity 1</b>												
Albania	1.80	-	-	-	-	1.80	15.76%	1.80	-	-	-	-
BiH	3.00	3.00	26.27%	3.00	-	-	-	-	-	-	-	-
fYRoM	1.45	0.50	4.38%	0.50	-	0.95	8.32%	0.95	-	-	-	-
Kosovo	1.50	1.50	13.13%	1.50	-	-	-	-	-	-	-	-
Montenegro	1.12	1.12	9.81%	1.12	-	-	-	-	-	-	-	-
Serbia	2.55	-	-	-	-	2.55	22.33%	-	-	-	-	-
<b>TOTAL</b>	<b>11.42</b>	<b>6.12</b>	<b>53.59%</b>	<b>6.12</b>	<b>-</b>	<b>5.30</b>	<b>46.41%</b>	<b>5.30</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

\* expressed as % of the Total Cost

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

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1	n/a	June 2007	February 2008

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

##### 6.1 Equal Opportunity:

The principles and practice of equal opportunity will be guaranteed so as to ensure equitable gender participation in the project.

**6.2 Environment:** Not applicable

**6.3 Minorities:** Not applicable

**6.4 Good Governance:**

The administrative capacity of the tax administration, including its collection and control capacity, will be strengthened and the fight against corruption and tax fraud become more effective. In addition, the administrative capacity to implement customs legislation and to fight corruption and cross-border crime will be strengthened. However, the eradication of organised crime in the region is a long-term process for which international assistance may be required for a long period. The institutions are still fragile, suffer from a great turnover in staff at all levels and may be exposed in many cases to high level political pressures.

## ANNEX 1: Logical framework matrix in standard format

LOGFRAME PLANNING MATRIX FOR Project Fiche	Programme name and number: CAFAO 2007/xxx-xxx	
	Contracting period expires: 31.12.2007	Disbursement period expires: 28.02.2009
	Total budget : <b>€11,420,000</b>	IPA budget: €6,120,000

Overall objective	Objectively verifiable indicators	Sources of Verification	
To continue to give assistance to the customs and taxation authorities in the Western Balkan countries in the context of their preparation for future EU membership.	<ul style="list-style-type: none"> <li>• Respect of SAA and SAP commitments both of candidate and of potential candidate countries.</li> <li>• Adoption of legislation</li> </ul>	<ul style="list-style-type: none"> <li>• Relevant sub-committees of SAA (Albania, FYRoM);</li> <li>• SAA sub-committees for other potential candidate Western Balkan countries</li> <li>• Monitoring Reports regarding commitments</li> </ul>	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
(a) continued alignment of customs and direct and indirect tax legislation with EU <i>acquis</i> ; (b) further increase of administrative capacity to implement this legislation; (c) further progress against corruption, cross-border crime and fiscal evasion.	<ul style="list-style-type: none"> <li>• CAFAO Steering Committees;</li> <li>• Assessment by the relevant Commission Services.</li> <li>• Increase in tax and Customs revenues</li> </ul>	<ul style="list-style-type: none"> <li>• Commission's monitoring and evaluation tools;</li> <li>• Commission documents;</li> <li>• Council documents;</li> <li>• Government documents.</li> </ul>	Beneficiaries make the necessary steps to update their practices according to the programme.



<b>Results</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
<ul style="list-style-type: none"> <li>• Customs legislation and procedures aligned with EU <i>acquis</i>.</li> <li>• Indirect tax legislation aligned with EU <i>acquis</i>.</li> <li>• Strengthening of administrative capacity.</li> <li>• Improved exchange with EU Member States about fiscal information.</li> <li>• Start of computerisation of tax and customs administrations.</li> </ul>	<ul style="list-style-type: none"> <li>• Establishment of efficient, sustainable administrative structures,</li> <li>• Introduction of control procedures to enforce the legislation in conformity with EU <i>acquis</i>;</li> <li>• Establishment of programmes.</li> <li>• Increased collection of VAT and Customs duties;</li> <li>• Increased seizure of illegal goods;</li> <li>• Increased criminal proceedings</li> </ul>	<ul style="list-style-type: none"> <li>• Experts' presentation documents;</li> <li>• Experts', Commission's and Eurocustoms' attendees mission reports;</li> <li>• Advisory visits reports;</li> <li>• Attendees' list;</li> <li>• Reports of Eurocustoms (quarterly activity and financial reports, monthly financial reports);</li> <li>• Minutes of management and planning meetings</li> <li>• Monitoring and evaluation reports</li> </ul>	<ul style="list-style-type: none"> <li>• Cooperation of national authorities concerned with Eurocustoms in the implementation of the project, in line with SAP.</li> <li>• Willingness of Member States' administrations etc to make experts available for mission to Brussels and beneficiary countries.</li> </ul>
<b>Activities</b>	<b>Means</b>	<b>Costs</b>	<b>Assumptions</b>
<ul style="list-style-type: none"> <li>• Design and implementation of work programmes,</li> <li>• Seminars, Conferences, Training courses</li> <li>• Expert visits and Study visits</li> <li>• Assessments, translation of legal documents</li> <li>• Databases, Website and publications</li> </ul>	<ul style="list-style-type: none"> <li>• Eurocustoms;</li> <li>• Commission staff.</li> </ul>	<p>Technical assistance: €1.42 million of which €6.12 million is financed from IPA and €5.30 million from CARDS.</p>	<ul style="list-style-type: none"> <li>• Availability of experts;</li> <li>• Good cooperation between and good participation of Commission, Eurocustoms and beneficiaries</li> </ul>

**ANNEX 2: amounts (in €) contracted and disbursed by quarter for the project**

<b>Contracted</b>	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008
Contract 1	€6.12m	-	-	-	-
<b>Cumulative</b>	<b>€6.12m</b>	<b>€6.12m</b>	<b>€6.12m</b>	<b>€6.12m</b>	<b>€6.12m</b>
<b>Disbursed</b>					
Contract 1	-	€2.00m	€2.00m	€1.50m	€0.62m
<b>Cumulative</b>	-	<b>€2.00m</b>	<b>€4.00m</b>	<b>€5.50m</b>	<b>€6.12m</b>