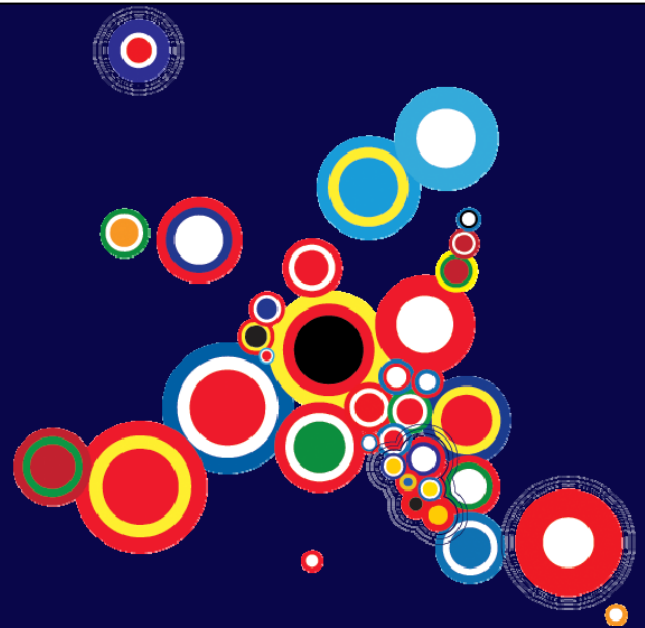




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

BOSNIA AND HERZEGOVINA

Improving capacity of the Indirect Taxation Authority



Action summary

The Action will support the Indirect Taxation Authority of Bosnia and Herzegovina in further alignment of indirect taxation legislation and practices with EU *Acquis* and will further support capacity building of the Indirect Taxation Authority.

The specific objective of the project is to further strengthen the administrative and coordination capacity of the Indirect Taxation Authority.

The Action will have five results: the National Transit Application will be developed and fully compatible with the EU New Computerised Transit System, the introduction of the New Computerised Transit System will be supported, legislation, procedures and working methods will be further aligned with the EU *Acquis* and best practices in the field of customs and taxation will be introduced. Finally, Customs laboratory equipment will be delivered and made operational.

Action Identification	
Action Programme Title	Country Action Programme for Bosnia and Herzegovina for the year 2014
Action Title	Improving Capacity of the Indirect Taxation Authority (ITA)
Action Reference	IPA 2014/ 037-662. 1/Bosnia and Herzegovina/ Improving Capacity of the Indirect Taxation Authority
Sector Information	
IPA II Sector(s)	Democracy and Governance
DAC Sector	15111 - Public finance management
Budget	
Total cost	EUR 3.1 million
EU contribution	EUR 3.1 million
Management and Implementation	
Method of implementation	Direct management
	Delegation of the European Union to Bosnia and Herzegovina
Location	
Zone benefiting from the action	Bosnia and Herzegovina
Timeline	
Deadline for conclusion of the Financing Agreement	at the latest by 31 December 2015
Contracting deadline	3 years following the date of conclusion of the Financing Agreement, with the exception of the cases listed under Article 189(2) Financial Regulation
End of operational implementation period	6 years following the date of conclusion of the Financing Agreement.

1. RATIONALE

PROBLEM AND STAKEHOLDER ANALYSIS

On December 29th, 2003 the Parliament of Bosnia and Herzegovina adopted the Law on Indirect Taxation System¹ and thus ensured the legal basis for establishing the Indirect Taxation Authority (ITA), the biggest state level institution with over 2 400 employees all together. The Indirect Taxation Authority is an autonomous administrative organisation responsible for its activities, through its Governing Board, to the Council of Ministers of Bosnia and Herzegovina. Its jurisdiction is in the field of indirect taxes (customs, value-added tax, road tolls, and excises).

The support to further alignment of customs and taxation legislation, procedures and standards with the EU *Acquis* is necessary in order to create better conditions for more effective legislation thus contributing to more efficient functioning of the ITA, particularly in the area of fighting customs and fiscal frauds, as well as other negative impacts of revenue collection.

It is necessary to continue with the activities resulting in the continuous alignment of Bosnia and Herzegovina's legislation in the field of indirect taxes with EU legislation and the most recent Directives in the field of value-added tax (VAT). In addition, the procedures and practices applied in the EU indirect tax and customs administrations should be presented to the ITA and applied taking into consideration the legislative frame and IT capabilities of Bosnia and Herzegovina.

As regards excise duty and road toll, the Law on Excise Duty has been adopted and applied since July 1, 2009. The Law is in line with the EU Directive 92/12/EC, which represents the starting framework for this field. However, efforts on further approximation are required.

It is necessary to continue with the activities on introducing operational implementation of the New Computerised Transit System (NCTS) in line with the Common Transit Convention (CTC), as well as on operational introduction of entry and exit summary declaration and centralised customs clearance, including appropriate information technology support. The Action should support the ITA's endeavours to introduce NCTS. The NCTS introduction is a long and continuous process demanding legislative reform and information system upgrading to be carried out. The introduction of NCTS is a time-consuming, staff- and resource-demanding process that will take four years. Significant financial resources for implementation of the NCTS are needed.

Furthermore, support is necessary for strengthening the post-clearance audit (PCA) system and risk analysis mechanisms. The performance of the customs laboratory is weak and a small number of analyses are performed. Inappropriate working conditions and old equipment are the main obstacles toward improvements of the laboratory's analyses. Therefore procurement of equipment for the customs laboratory will be necessary.

Preventing tax avoidance, evasion and combating corruption need to be improved. Strengthening cooperation between the ITA in Bosnia and Herzegovina, institutions, agencies in Bosnia and Herzegovina, and international organisations is an important issue. A unit for strategic planning and analysis has been established within the ITA.

It is necessary to implement the Business Change Management Plan and Action Plans of different sectors in ITA and to coordinate the activities. The ITA information technology (IT) system should provide adequate support to all procedures introduced.

¹ Official Gazette of BiH", No 44/03 & 52/04

RELEVANCE WITH THE IPA II INDICATIVE STRATEGY PAPER (OR MULTI-COUNTRY STRATEGY PAPER) AND OTHER KEY REFERENCES

The **Country Strategy Paper (CSP)** underlines that governance and public administration reform are key priorities in the Enlargement Strategy. Bosnia and Herzegovina's public administration and in particular its economic governance have to improve to prepare the country for the adaptation of the challenges of EU integration and the economic coordination mechanisms in the EU and to ensure a more efficient, effective and accountable delivery of services to citizens.

The CSP identifies remaining gaps in Bosnia and Herzegovina in the development of timely, informed and effective fiscal policies, the implementation and follow-up of external audits and the implementation of indirect taxation reform.

Bosnia and Herzegovina's authorities need to improve the timeliness of adopting the relevant budgets, as well as the effectiveness and transparency of revenue collection and spending. The revenue management side should improve and systematic follow-ups to external audits, prepared by an independent audit institution, should be a rule. An efficient coordination system between the competent bodies should ensure the free movement of goods.

The Action will improve the capacity of the Indirect Taxation Authority of Bosnia and Herzegovina and thereby the implementation of indirect taxation reform will be continued.

The **2013 Progress Report** states that substantial efforts are required to align legislation with the *Acquis* to ensure proper implementation of the Interim Agreement, and to provide services for businesses and taxpayers.

The operational capacity of customs to apply simplified procedures and security measures needs to be improved with a focus on audit principles, risk analyses and by introducing the concept of Authorised Economic Operator (AEO). A unit for risk analysis of ITA has yet to become operational. The lack of a fully-developed risk analysis results in frequent and poorly targeted and therefore inefficient customs controls. The capacity of the customs laboratory needs to be strengthened.

In the area of indirect taxation, the Law on value added tax and Law on Excise and legislation on free zones have yet to be aligned with the *Acquis*.

The exchange of tax information between the Entities has improved. Rules and procedures on direct taxation should be further harmonised. The enforcement of legislation at all levels remains a priority. There is at present no cross-checking of data between tax institutions, nor joint audits.

Regarding the ITA's operational and administrative capacity, its Governing Board adopted a new rulebook on the authority's internal organisation. The rulebook needs to be amended to address the re-design of jobs. In the tax administration, operational jobs should be replaced by enforcement, audit and service jobs.

Overall, progress has been made in the area of customs and taxation. There are positive developments in implementing simplified procedures, modernising IT systems and enhancing the legislative framework for the collection of direct taxes. Substantial efforts are required to align legislation with the *Acquis* to ensure proper implementation of the Interim Agreement, to re-design jobs and to provide services for businesses and taxpayers.

The Action will further build the capacity of the Indirect Taxation Authority of Bosnia and Herzegovina regarding aligning legislation with the *Acquis*. Also the operational capacity of ITA will be improved through the activities proposed in this Action.

SECTOR APPROACH ASSESSMENT

Bosnia and Herzegovina is implementing the Public Administration Reform (PAR) strategy from 2006 and the associated action plan from 2011. The strategy is however not budgeted; its funding depends on the PAR fund, which Denmark, Sweden and Norway sustain with donations. The monitoring and coordination of implementation of the strategy is done on a central level by PAR Coordinator Office (PARCO). The entities adopted and follow the strategy and RAP 1 implementation. There are on-going discussions and initial activities to prepare an Operational programme that should de facto ensure the continuity of the current reform efforts and the updating of the key objectives beyond 2014.

LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE

Implementation of some results of the previous projects supporting the Indirect Taxation Authority is pending due to the complex administrative and legal set up of the Country (for example initiating an adoption procedure for the Customs Policy law which has been drafted in the frame of a twinning project).

The experience of the previous projects showed that better results are achieved with intensive activities in a few targeted sectors, rather than targeting many sectors with a limited number of activities.

In October 2013 a Result Oriented Monitoring (ROM) report was prepared for the project “Further harmonisation to EU practices and *Acquis* on customs and taxation”. The project received in general a positive assessment by the external monitors. At the time of the monitoring visit, the project was in its 8th month of implementation and it was considered to have a significant impact on the modernisation of ITA, the legal framework, internal procedures, the practices of personnel, and the IT systems which support the ITA operational environment. But change is and will be the responsibility of ITA and it requires leadership and strong commitment towards internal reforms and modernisation.

In addition, a key lesson learned from the programming and implementation of the IPA 2007-2013 assistance, concluded in the Second Country Interim Programme evaluation of IPA assistance in Bosnia and Herzegovina is that systematically devoting efforts in securing not only the consent but also the ownership and commitment of all stakeholders is an imperative before the actions start in the complex governmental and administrative framework of Bosnia and Herzegovina. This and other relevant lessons learned from the evaluations were taken into account while the current Action was designed².

² http://ec.europa.eu/enlargement/pdf/financial_assistance/phare/evaluation/2013/23914_rep_bih.pdf

2. INTERVENTION LOGIC

LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	
To further align with EU <i>Acquis</i> and to effectively implement legislation, practices and Interim Agreement in the field of indirect taxation.	Progress made on alignment with the EU <i>Acquis</i> and EU standards and best practices in Indirect Taxation	DG Elarg Progress Report (qualitative assessment)	
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
To further strengthen the administrative and coordination capacity of ITA.	Increase in revenue collected by the ITA	ITA Annual Report	Long-term commitment of the ITA to modernisation of the customs and tax system Sustainable human and financial resources assigned to those reforms
RESULTS	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
Result 1: National Transit Application developed and fully compatible with EU-NCTS	Speed of movement of goods at the Bosnia and Herzegovina borders with EU and other countries, waiting time at the border	ITA Annual Report Project Final Report	ITA has staff for the project implementation
Result 2: NCTS introduction supported	National instructions/procedures completed for NCTS	ITA Annual Report Project Final Report	Necessary laws and by laws implemented –e.g. electronic signature
Result 3: The legislation, procedures and working methods further aligned with <i>Acquis</i> and with best practices in field of customs and taxation	Legal acts drafted on customs, VAT, excise legislation	ITA Annual Report Project Final Report	More efficient cooperation between the Tax and Law enforcement Sector
Result 4: Improved cooperation/exchange of information (internal/external)	Transit information in Real Time	ITA Annual Report Project Final Report	
Result 5: Customs laboratory equipment delivered and equipment operational	Increase in performed customs laboratory analysis	ITA Annual Report Project Final Report	Preparations (legal and technical) finalised for NCTS introduction
ACTIVITIES	MEANS	OVERALL COST	ASSUMPTIONS

<p>1.1. Functional and Technical Assistance support for development of National Transit Application fully compatible with EU NCTS</p> <p>1.2. Technical assistance for the upgrade of national NCTS to the NCTS at the level of Common Transit Convention and integration of NCTS to a new system for processing of customs declarations Asycuda World</p>	<p>Twinning Procurement contracts: Services and Supplies</p>	<p>EUR 3.1 million</p>	<p>Full commitment of involved parties</p>
<p>2.1. Implementation of the Strategy of IT Sector with incorporated NCTS and Action Plan from the legislative, IT and procedural point of view</p> <p>2.2. Assistance in the implementation of legal provisions and in the practical implementation of NCTS at national level and Common Transit Convention CTC level</p> <p>2.3. Adjusting the National system for managing guarantees with EU system for managing guarantees</p> <p>2.4. Provision of management support for NCTS</p>			<p>New Asycuda World capable to support the integration of NCTS</p> <p>Premises for customs laboratory made in accordance with international standards (ceiling, floor, ventilation, security)</p>
<p>3.1. Drafting Book of Rules on the implementation of new VAT Law, Instruction for controls, instruction for managing refunds/repayments, amendments to Excise Law, Book of Rules on the implementation of the Excise Law, ensuring high level of transparency</p> <p>3.2. IT support to further implementation of electronic submission of VAT returns, electronic exchange of Books of Incoming Invoices and Books of Outgoing Invoices with persons liable to indirect taxes and their processing</p> <p>3.3. Assistance in practical implementation of new customs legislation, preparation of operational instructions in order to adapt them to new adopted laws and practices</p> <p>3.4. Assistance to newly-established units in the ITA</p> <p>3.5. Improvement of working methods in the field of origin, customs tariff and value, prohibitions and restrictions, and operational methods in the field of Post-clearance Audit PCA, risk analysis, tax audits and other fields in the scope of work of the ITA</p>			
<p>4.1. Drafting necessary amendments to the Law on ITA related to verification and audit activities coming within the competences of the ITA vis-a-vis Preventing tax avoidance or evasion and combating corruption</p> <p>4.2. Improving cooperation with the customs and tax administrations from other countries</p>			
<p>5.1. Delivery, installation and testing of Customs Laboratory equipment</p> <p>5.2. Training of staff on the use of supplied equipment</p>			

ADDITIONAL DESCRIPTION

The project will assist Bosnia and Herzegovina authorities in the sector of Indirect Taxation in making progress in aligning legislation with EU *Acquis* and effectively implementing *Acquis* aligned legislation and practices. The project is a Capacity Building project, aimed at increasing the capacity of Indirect Taxation Authority of Bosnia and Herzegovina.

The project is planned to achieve five results listed in the logframe matrix and further detailed hereinafter:

- Result 1 is aimed at developing a National Transit Application fully compatible with the EU New Computerised Transit System (EU-NCTS) and upgrading of national the New Computerised Transit System (NCTS) to the NCTS at the level of Common Transit Convention.
- Results 2, 3 and 4 aim at capacity building of the Indirect Taxation Authority. The Activities under these Results will focus on practical implementation of the NCTS at national level and at Common Transit Convention level and providing management support for NCTS. The activities will also focus on legal harmonisation, assistance in implementing new legislation and improvement on working methods in the Indirect Taxation Authority. Activities will also be implemented in order to improve cooperation with customs and tax administrations from other countries.
- Result 5 is aimed at modernising the Customs Laboratory. New equipment for the Customs Laboratory will be procured and staff will be trained on using the supplied equipment.

3. IMPLEMENTATION ARRANGEMENTS

ROLES AND RESPONSIBILITIES

The main Beneficiary of the Action is the Indirect Taxation Authority of Bosnia and Herzegovina.

A Senior Programme Officer will be appointed. A Steering Committee will be set up to guide and supervise the implementation of the Action.

IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING

The Action will be managed under Direct Management by the EU Delegation to Bosnia and Herzegovina. The Action will be implemented through three contracts: service contract, twinning, and supply contract.

4. PERFORMANCE MEASUREMENT

METHODOLOGY FOR MONITORING (AND EVALUATION)

Monitoring: a Senior Programme Officer will be appointed in line with the practice set in Bosnia and Herzegovina for IPA projects. A Steering Committee will be set to monitor the implementation of the Action. The composition of the Steering Committee and its rules of procedures will be determined upon start of the Action.

The National IPA Coordinator (NIPAC) has set a sub-unit in charge of Monitoring and Evaluation. In accordance with the current practice, this sub-unit ensures with inputs from the Senior Programme Officer the preparation of reports and analysis required for monitoring EU funded projects and programmes by the IPA Monitoring Committee (IPA MC). The NIPAC services organises the IPA

MC meetings. It also interacts with the Council of Ministers and the Parliament to address questions on the implementation of the EU funded projects.

In line with the Framework agreement to be signed between Bosnia and Herzegovina and the European Commission³, an IPA MC and relevant Sectoral Monitoring Committees (SMC) will be set and will adopt their respective rules of procedures. The IPA MC will meet at least once a year and the SMC at least twice a year. The NIPAC services will implement the procedures applicable for the preparation of implementation reports covering the technical and financial execution of the Action and to be examined by the SMC and IPA MC. The implementation reports will allow the SMC to measure progress in relation to achieving the objectives of the Action and expected outputs, results and impact by means of the indicators related to the baseline situation. The IPA MC will review “the overall effectiveness, efficiency, quality, coherence, coordination and compliance of the implementation of all actions towards meeting the objectives set out in the Financing Agreements and the country strategy papers” and will base itself on the information to be provided by the SMC.

In addition, the Action may be subject to Result orientated Monitoring (ROM). The NIPAC Services ensures that ROM reports are transmitted to the Senior Programme Officer(s) and other relevant stakeholders and follow-up the implementation of the related recommendations, including – when relevant - at the level of the IPA MC.

Evaluation: the Action will be subject to interim and ex-post evaluation in line with the General principles of evaluation of IPA II Assistance. The results of evaluations will be taken into account by the IPA MC and SMC under the aegis of the NIPAC Services.

Moreover, the performance of the action may be subject of the sector specific evaluation of public financial management by DG Enlargement.

³ Framework agreement between Bosnia and Herzegovina and the EC on the arrangements for implementation of union financial assistance to Bosnia and Herzegovina under the instrument for pre-accession assistance (IPA II)

INDICATOR MEASUREMENT

Indicator	Description	Baseline (2010)	Last available (2013)	Milestone 2017	Target 2020	Source of information
Overall objective	CSP indicator(s) (outcome/impact)					
Progress made on alignment with the EU <i>Acquis</i> and EU standards and best practices in Indirect Taxation	Assessment of the progress made in the perspective of alignment with the EU <i>Acquis</i> as assessed in Progress reports (qualitative assessment)	<p>Year: 2010</p> <p>Status: preparations in the areas of customs and taxation not very advanced. Substantial efforts required to further align with the <i>Acquis</i> and ensure effective implementation of the Interim Agreement. ITA's administrative capacity needs to be reinforced.</p>	<p>Year: 2013</p> <p>Status: some progress made in the area of customs and taxation. Positive developments regarding implementing simplified procedures, modernising IT systems and enhancing the legislative framework; and adoption of ITA's new rulebook on internal organisation. Preparations to align legislation with the <i>Acquis</i> to ensure proper implementation of the Interim Agreement, to re-design jobs and to provide services for businesses and taxpayers are still at an early stage.</p>	Alignment with the EU <i>Acquis</i> partially achieved	Alignment with the EU <i>Acquis</i> totally achieved	DG Enlargement Progress Report
Specific objective	Outcome indicator(s)					
Increase in revenue collected by the ITA	Percentage of increase in revenue collected by the ITA	44 million BAM collected revenue by the ITA	48 million BAM collected revenue by the ITA	Increase by 3%	Not applicable	ITA Annual Report
Result 1	Immediate results indicator					
Speed of movement of goods at the Bosnia and Herzegovina	Trend in the speed of movement of goods on the border	Significant waiting time on the border (depending on the	Significant waiting time on the border (depending on the traffic)	Faster movement of goods,	Not applicable	ITA Annual Report Project Final

Indicator	Description	Baseline (2010)	Last available (2013)	Milestone 2017	Target 2020	Source of information
borders with EU and other countries, waiting time at the border		traffic)		No waiting time at the border		Report
Result 2	Immediate results indicator					
National instructions/procedures completed for NCTS	Number of national instructions/procedures prepared	Not applicable	Not applicable	4 legal acts	Not applicable	ITA Annual Report Project Final Report
Result 3	Immediate results indicator					
Legal acts drafted on customs, VAT, excise legislation	Number of amendments, by-laws, instructions and procedures drafted	Not applicable	Draft of Customs Policy Law finalised Regular alignment of excise provisions in line with SAA	10 legal acts	Not applicable	ITA Annual Report Project Final Report
Result 4	Immediate results indicator					
Transit information in Real Time	Coverage of transit information in Real Time (%)	Not applicable	Not applicable	100%	Not applicable	ITA Annual Report Project Final Report
Result 5	Immediate results indicator					
Increase in performed customs laboratory analysis	Share of cases (percentage) subject to customs laboratory analysis	20 %	25%	90 %	Not applicable	ITA Annual Report Project Final Report

5. CROSS-CUTTING ISSUES

ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)

N/A

ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER NON-STATE STAKEHOLDERS)

The IPA II Programming process included a consultation meeting with Civil Society. The Action Documents have been submitted for consultation to Civil Society Organisations. The Civil Society Organisations are not expected to have a special role in implementing the current Action.

EQUAL OPPORTUNITIES AND GENDER MAINSTREAMING

The Action is a capacity building action, aiming at strengthening the administrative and coordination capacity of the Indirect Taxation Authority of Bosnia and Herzegovina. Equal opportunities and gender mainstreaming will be thoroughly considered in implementing all activities (e.g. selecting participants to the trainings). Equal opportunities and gender mainstreaming will be ensured throughout implementation of the Action.

MINORITIES AND VULNERABLE GROUPS

Participation in capacity building activities anticipated in the Action will be guaranteed on the basis of equal access regardless of racial or ethnic origin, religion or belief, disability, sex or sexual orientation. Minorities and vulnerable groups will be thoroughly considered in implementing all activities (e.g. selecting participants to training). Access and participation of minorities and vulnerable groups will be ensured throughout the implementation of the Action.

6. SUSTAINABILITY

The sustainability of results will be dependent on the commitment of the Beneficiary institution. The prospects for sustainability are good, as the introduction of a computer system, legal acts aligned with EU legislation, trained staff and new equipment for the Customs Laboratory are likely to have sustainable effects. As this is capacity building Action, the key issue is maintaining in the Indirect Taxation Authority of Bosnia and Herzegovina the staff gaining know-how through the Action activities.

7. COMMUNICATION AND VISIBILITY

Communication and visibility will be given high importance during the implementation of the Action.

Implementation of communication activities shall be the responsibility of the Beneficiary, and shall be funded from the amounts allocated to the Action.

All necessary measures will be taken to publicise the fact that Action has received funding from the EU in line with the Communication and Visibility Manual for EU External Actions.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives and the accession process. Actions shall be aimed at strengthening general public awareness and support of interventions financed and the objectives pursued. The actions shall aim at highlighting to the relevant target audiences the added value and impact of EU's interventions. Visibility actions should also promote transparency and accountability on the use of funds.

It is the responsibility of the Beneficiary to keep the EU Delegation fully informed of the planning and implementation of the specific visibility and communication activities.

The Beneficiary shall report on its visibility and communication actions in the report submitted to the IPA Monitoring Committee and the Sectoral Monitoring Committees.