PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED CREDIT
IN THE AMOUNT OF SDR 5.5 MILLION
(US $ 6.76 MILLION EQUIVALENT)
TO THE
FEDERAL REPUBLIC OF YUGOSLAVIA
FOR THE
TRADE AND TRANSPORT FACILITATION IN SOUTHEAST EUROPE PROJECT

May 07, 2002

Infrastructure and Energy Service Department
Southeast Europe Country Unit
Europe and Central Asia Region
CURRENCY EQUIVALENTS
(Exchange Rate Effective January 16, 2002)

Currency Unit = YUM
100 YUM = USS1.50
USS1 = 66.48

FISCAL YEAR
January 1 -- December 31

ABBREVIATIONS AND ACRONYMS

CAS Country Assistance Strategy
CFAA Country Financial Accountability Assessment
CON Consultation
COL Collaboration
EC European Commission
EMP Environmental Management Plan
EU European Union
EU-CARDS EU-Community Assistance for Reconstruction, Development and Stabilisation
FCA Federal Customs Administration
FIATA Federation of International Forwarding Agents
FMF Financial Management Initiative
FMR Financial Monitoring Reports
FMS Financial Management System
FRY Federal Republic of Yugoslavia
GDP Gross Domestic Product
ICR Implementation Completion Report
IDA International Development Association
IRU International Road Transport Union
IS Information Sharing
MCA Montenegrin Customs Administration
MOU Memorandum of Understanding
OECD Organization for Economic Co-operation and Development
PIT Project Implementation Team
RSC Regional Steering Committee
SECI Southeast Europe Cooperative Initiative
SOE Statement of Expenses
TSS Transitional Support Strategy
TTFSE Trade and Transport Facilitation in Southeast Europe Project
UN-ECE United Nations Economic Commission for Europe
UNCTAD United Nations Conference on Trade and Development
YCCI Yugoslav Chamber of Commerce and Industry
YUPRO Yugoslav PRO Committee
WB World Bank
WCO World Customs Organization
WTO World Trade Organization

Vice President: Johannes F. Linn, ECAVP
Country Director: Christiaan J. Poortman, ECC04
Sector Director: Hossein Razavi, ECSIE
Sector Manager: Eva Molnar, ECSIE
Program Team Leader: Michel Audige, ECSIE
Task Team Leader: Gerald Ollivier, ECSIE
**CONTENTS**

A. Project Development Objective

1. Project development objective 4
2. Key performance indicators 4

B. Strategic Context

1. Sector-related Country Assistance Strategy (CAS) goal supported by the project 5
2. Main sector issues and Government strategy 5
3. Sector issues to be addressed by the project and strategic choices 10

C. Project Description Summary

1. Project components 11
2. Key policy and institutional reforms supported by the project 12
3. Benefits and target population 14
4. Institutional and implementation arrangements 14

D. Project Rationale

1. Project alternatives considered and reasons for rejection 18
2. Major related projects financed by the Bank and other development agencies 18
3. Lessons learned and reflected in the project design 19
4. Indications of borrower commitment and ownership 20
5. Value added of Bank support in this project 20

E. Summary Project Analysis

1. Economic 21
2. Financial 21
3. Technical 21
4. Institutional 22
5. Environmental 23
6. Social 23
7. Safeguard Policies 25
F. Sustainability and Risks

1. Sustainability
2. Critical risks
3. Possible controversial aspects

G. Main Credit Conditions

1. Effectiveness Condition
2. Other

H. Readiness for Implementation

I. Compliance with Bank Policies

Annexes

Annex 1: Project Design Summary
Annex 2: Detailed Project Description
Annex 3: Estimated Project Costs
Annex 4: Cost Benefit Analysis Summary
Annex 5: Financial Summary
Annex 6: Procurement and Disbursement Arrangements
Annex 7: Project Processing Schedule
Annex 8: Documents in the Project File
Annex 9: Statement of Loans and Credits
Annex 10: Country at a Glance
Annex 11: FCA Modernization Strategy
Annex 12: MCA Modernization Strategy

MAP(S)
No. IDA 31814 and 31815
**FED. REP. OF YUGOSLAVIA**
**TRADE AND TRANSPORT FACILITATION IN SOUTHEAST EUROPE PROJECT**

**Project Appraisal Document**
Europe and Central Asia Region
ECSIE

**Date:** May 7, 2002  
**Team Leader:** Michel Audige  
**Country Director:** Christiaan J. Poortman  
**Project ID:** P074090  
**Sector Director:** Hossein Razavi  
**Lending Instrument:** Specific Investment Loan (SIL)  
**Sector(s):** TY - Other Transportation  
**Theme(s):** Public Sector  
**Poverty Targeted Intervention:** N

**Project Financing Data**

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**Proposed Terms (IDA):** Standard Credit  
**Grace period (years):** 10  
**Commitment fee:** 0.5% on undisbursed credit balance, beginning 60 days after signing less any waiver  
**Years to maturity:** 20  
**Service charge:** 0.75%

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**Borrower:** FEDERAL REPUBLIC OF YUGOSLAVIA  
**Responsible agency:** FEDERAL CUSTOMS ADMINISTRATION AND MONTENEGRIN CUSTOMS ADM.
Address: 155, Bd Avalnoj-a Str., Belgrade
Contact Person: Dragan Dragovic, Milos Kostic
Tel: 381 11 311 6610  Fax: 38111 143 831  Email: dragovicd@fcs.yu

**Other Agency(ies):**  
CUSTOMS ADMINISTRATION OF THE REPUBLIC OF MONTENEGRO
Address: Bul. Oktobarske Revolucije 128, Podgorica
Contact Person: Olivera Zivkovic
Tel: 381 81 623 322  Fax:  
Email: olivera@mn.yu

**Estimated Disbursements (Bank FY/US$m):**

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**Project implementation period:** 4 year  
**Expected effectiveness date:** 07/15/2002  
**Expected closing date:** 09/30/2006
The TTFSE: Key Design Concepts

Regional character. This TTFSE project is part of a regional program in Southeast Europe. Albania, Bosnia and Herzegovina, Bulgaria, Croatia, F.Y.R Macedonia, and Romania signed a Memorandum of Understanding in February 1999 to strengthen their mutual cooperation to foster trade in Southeast Europe and with its main trading partners, while reducing smuggling and corruption at border crossings, through a set of coordinated and simultaneous measures under the Trade and Transport Facilitation in Southeast Europe (TTFSE) Program. The Federal Republic of Yugoslavia and the Republic of Moldova signed this Memorandum in November 2001 at the fifth meeting of the TTFSE Regional Steering Committee (RSC) and were welcomed to join the Program by the initial six countries. This effort was initiated by the Southeast Europe Cooperative Initiative. The TTFSE Program has reached maturity in terms of geographical coverage, by remaining manageable size-wise while generating strong regional synergies.

The TTFSE Program aims at supporting the efforts of these countries in modernizing border agencies and in particular their Customs Administrations in line with EU practice. The Program builds notably on a number of regional mechanisms: (i) a high-level Regional Steering Committee gathering all countries, meeting twice a year, to facilitate cooperation and experience sharing (five meetings to date); (ii) a regional website presenting all requirements and procedures of border agencies; (iii) public-private working groups interacting quarterly (PRO-Committees); (iv) regional conventional and distance learning programs to harmonize the quality of transport service providers; and (v) paired local project teams gathering all border agencies at pilot border crossing points with interactions across the border. The TTFSE projects are part of the list of Quick-Start projects defined under the Stability Pact.

Modernization combined with the provision of infrastructure. Customs modernization is at the core of the TTFSE Program. Under the present project, the Federal Customs Administration (FCA) and the Montenegrin Customs Administration (MCA) have defined comprehensive strategies (Annex 11 and 12) to modernize their services and align themselves with the European Union, in cooperation with the World Bank. The project will support the implementation of these strategies and focus on integrated solutions at selected pilot sites located on main European corridors. These pilots will increase the productivity of border agencies, enabling shorter processing time at border crossings and inland terminals. They will also contribute to improve the interagency cooperation within the country. The modernization plan, including the pilots, will need to be supported at some border crossings by the upgrading of information technology infrastructure (extended to all border agencies) and of the facilities in place (mostly covered by the European Commission and local funding).

Non-duplicative structure. One of the major challenges of modernization is the coordination of the variety of inputs and support received to implement the Program. Under this project, the FCA has clearly outlined the directions it intends to follow through its strategy, which will facilitate the coordination. The project includes a close advisor to the FCA Director General and a change management team to ensure the smooth implementation of the modernization and the coordination of donor inputs to maximize their impact. In Montenegro, the support will come primarily from the European Commission, while the TTFSE support will be focused on selectivity, targeting and streamlining of procedures at clearance facilities and border crossing points. Most TTFSE technical support will rely on grant funding from the USA.

Participatory approach. The design and implementation of the TTFSE Program is based on
participatory methodology to ensure that the projects belong to the participating countries and are endorsed and owned by the various stakeholders, including the beneficiaries. Ownership is best promoted by participation. Consultations with Customs officials and users have occurred during the design phase and mechanisms are built into the project to obtain regular user input in the monitoring and evaluation process.

Building on previous/on-going initiatives. Several international organizations have recognized the need to help countries in the region improve transit across borders and have provided assistance. The EU was the first in the Balkans to start addressing this issue. Its experience highlights the need for comprehensive reforms and carefully selected upgrading of infrastructure. The European Conference of Ministers of Transport has the removal of obstacles for international road goods transport at border crossings as a priority on its agenda. The Southeast European Cooperative Initiative also promotes economic and environmental cooperation among the countries in the region, with a focus on efficient transit, and combating corruption and smuggling. The Governments of the United States, France, the Netherlands and Austria contributed to the preparation of the TTFSE Program.

1. The initiative includes Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Hungary, Moldova, Romania, Slovenia, FYR Macedonia and Turkey, and was established in December 1996 to promote regional economic and environmental cooperation among the countries in the region. The initiative is being supported by UN-ECE, the US government, and the governments of Italy and Austria.

2. The Stability Pact for South Eastern Europe, adopted in Cologne on June 10, 1999 at a special meeting of Foreign Ministers, representatives of international organizations, institutions and regional initiatives concerned with South East Europe, commits these parties to the adoption of a comprehensive, coordinated and strategic approach to the region, replacing crisis management with preventative diplomacy.
A. Project Development Objective

1. Project development objective: (see Annex 1)

The Project would seek two development objectives:

(i) to reduce non-tariff costs to trade and transport; and
(ii) to reduce smuggling and corruption at border crossings.

The project is proposing to achieve these objectives by: (i) supporting Customs modernization; (ii) improving the Customs information system; (iii) creating a single electronic window for trade at the federal level under the leadership of the Federal Customs Administration (FCA); (iv) strengthening mechanisms of interaction and cooperation among border control agencies and with the trading community; (v) disseminating information and providing training to the trading community (private sector); (vi) providing equipment to improve enforcement; and (vii) implementing, at pilot sites, an integrated set of new Customs procedures, information technology, human resource management techniques, and cooperation mechanisms for border agencies, including shared access to information and intelligence systems, and training for interagency awareness. In Montenegro, the project will also focus on facilitating passenger processing at border crossing points, to improve the quality of services provided to tourists.

Unlike other participants in the TTFSE program, the Federal Republic of Yugoslavia (FRY) and the Republic of Montenegro have received to date only very limited support to implement a modernization program or improve border facilities. The Federal Government adopted the FCA Modernization Strategy in November 2001. The modernization process necessary to change institutional cultures and ingrained behavior is expected to take a substantial time, about 8 to 10 years. The modernization involves simultaneous and sustained actions on: (i) change in the legal framework; (ii) refining of staff profiles, and hiring, training and deployment according to them; (iii) change in administrative and operational procedures; and (iv) upgrading of information technology and regional interconnection. This project will provide support to implement the first phase (three years) of the Customs modernization process. The project would support some specific aspects of the modernization efforts of the Montenegrin Customs Administration (MCA), notably related to processing at border facilities and clearance terminals, as well as selectivity and targeting.

2. Key performance indicators: (see Annex 1)

There are three broad types of performance measurements. The first set will measure the impact of the Regional Program by monitoring the cost and time required for a standard full truck load shipment on three regional itineraries through user surveys as well as occurrences of 'petty' payments for facilitation. The second set will focus on the overall ratios of efficiency and effectiveness of the MCA and the FCA (trade volume per staff, revenue collected by Customs compared to total Customs cost...). The third set will focus on performance of all border agencies at pilot sites and their total impact on users. Indicators at pilot sites will include: (i) number of physical or documentary examinations and their effectiveness; (ii) total processing time; (iii) number of vehicles processed within a standard processing time; and (iv) occurrence of corruption. Indicators on passenger processing are also included for Montenegro. The following pilot sites have been included: for the FCA: Belgrade (inland terminal), Batrovci (HR), Gradina (BG), Horgos (HU), Presevo (MK) (border crossings); for the MCA: Debeli Breg (Montenegro-HR) and Podgorica (inland terminal). The FCA border crossing pilot sites are located on the Pan-European Transport Corridor X and usually face existing pilot sites in neighboring countries. The pilot clearance terminals are the largest terminals in use for clearance respectively in the FCA and the MCA. Monitoring
will use the standard TTFSE methodology to ensure consistency and comparability with other countries in
the region (see http://www.seerecon.org/RegionalInitiatives/TTFSE/TTFSE_Manual.pdf to find out the
exact definition and methodology used for each indicator). Several sets of measurements have taken place
at pilot sites during project preparation to establish the baseline figures and projections.

B. Strategic Context

1. Sector-related Country Assistance Strategy (CAS) goal supported by the project: (see Annex 1)


The Economic Recovery and Transition Program worked out jointly with the Authorities, the World Bank,
the European Commission and other Donors lays out the short and medium term policy reform objectives
and provides a framework to guide donors in developing coordinated assistance strategies. Four major
reforms are underway and planned: (i) restoring macroeconomic stability and external balance; (ii)
stimulating growth and creating a basis for a sustainable supply response; (iii) improving social well-being
of the most vulnerable and building human capital; and (iv) investing in improved governance and effective
institutions.

The proposed TTFSE project was raised in the Transitional Support Strategy as one of the priority
investment projects. The project would have an impact on all four major reforms, through support to the
modernization of the FCA and the MCA. Modernized Customs will collect excise and Customs duties
more accurately and effectively, will facilitate trade, and offer an improved environment for traders and
road transport companies by reducing corruption and increasing transparency. Reliable, efficient and
competitive transport services are essential to move to a market-oriented economy strongly linked to the
European Union. Conventional seminars via the Yugoslav Chamber of Commerce and Industry
(YCCI)/YUPRO Committee and distance learning training in partnership with leading professional
associations will provide opportunities to build human capital to international standards in road transport
and freight forwarding.

2. Main sector issues and Government strategy:

Background

Foreign trade declined drastically during recent years due to the war and sanctions. In 2000, exports
(US$1.7 billion) were just over one-third of their 1991 level and corresponded to a mere 19 percent of
GDP, while imports (US$3.7 billion) were around 60 percent of their 1991 level or 41 percent of GDP.
Over the past ten years, FYR has been running a considerable deficit on the merchandise trade balance, a
slight surplus on the service balance and a very large current account deficit. The European Union is by
far the largest trading partner with about 41 percent of imports and 37 percent of exports respectively.
Trade data are relatively unreliable due to significant under-reporting. In the early nineties, Yugoslavia had
a transit agreement with the EU, recognizing the special significance of Yugoslavia as a transit country.
This agreement did not come into force but successor agreements were concluded between the EU and FYR
of Macedonia and Slovenia. The transit role was reinforced by the designation of the Pan-European
Transport Corridor X across Yugoslavia in 1997.

At the Southeast European level, the share of intra-regional exports has slightly increased (from 9 percent
of exports to 10) over the past three years, while the share of exports targeted to the EU has significantly
increased (representing 59 percent in 2000). The distribution of import shares has been stable since 1997
(EU 54 percent and intra-regional 6 percent).

The previous regime was characterized by an import-substitution strategy implemented through
quantitative controls resulting in massive state patronage and pervasive corruption. There was a dual exchange rate and substantial levies on foreign trade transactions. Significant progress has been made with the reform of the trade policy system in the period since January 2001. A new tariff structure with six rates and a weighted average of about 8 percent has been introduced at federal level. Protectionist barriers like licenses or quantitative restrictions on exports and imports have been abolished.

The Customs function, as per Article 77 of the 1992 FRY Constitution, falls under the jurisdiction of the Federal State. Montenegro has however assumed control over the regulation of Customs and the collection of duties and taxes on its territory. In July 2000, the Republic of Montenegro adopted a Temporary Act on Customs Tariffs, introducing lower tariffs than at the federal level. The MCA operates de facto independently and the FCA primarily covers the Serbian territory. Informal and active cooperation has been maintained, however, between the two administrations, notably regarding the maintenance of the information system in place. The two juxtaposed Customs systems create opportunities and incentives for corruption and smuggling. Checkpoints have been established at the administrative border between the two Republics to address this issue. These checkpoints create an additional bottleneck for internal transit, isolating Montenegro and reducing the competitiveness of transport through the Port of Bar.

An EU-brokered agreement (March 2002) on Principles of Relations between Serbia and Montenegro within the State Union will lead to a discussion of the Constitutional Charter in the Federal and State Parliaments. The current Principles defined under this agreement would call for some revisions of the Constitutional Charter, that could impact the legal definition of the FCA and the MCA. While this would potentially impact the project, it is expected that transitional arrangements will be designed to ensure a smooth transition.

The FCA and the MCA, although isolated for ten years, and despite erratic staff policies, have maintained a fair standard, but adaptation to modern market economy that relies on enhanced regional integration and participation in the global economy requires significant procedural and operational changes to take place as soon as feasible. Current performance ratios (e.g., workload and result indicators) apparently put the FCA in the lower part of the bracket for the region, but this is probably due more to reduced trade than lack of professionalism. Long waiting times at border crossings and inland terminals are caused not only by Customs but also by other border agencies. The FRY's re-implementation in November 2001 of the TIR convention will lead to an increase in trade volume and growth in transit traffic. This would likely result in increased waiting times unless streamlined processing is introduced.

Traders in FRY, like in most of Southeast Europe, face excessive logistical costs for their export, import and transit operations. Long delays and costly procedures increase the logistical costs and force companies to carry excess inventories to ensure timely deliveries. These non-tariff barriers have the same impact as protectionist measures. With the currently depressed trade, road transport operators face delays at border crossings comparable to delays in neighboring countries. In addition to excessive waiting times, the Customs Administration is perceived as one of the most corrupted institutions in FRY with frequent requests for 'petty' payments as shown in recent corruption surveys (http://www.clds.org.yu/html/estu.html). A comprehensive survey at the Serbian level indicated that 84 percent of respondents considered that there was "much" or "very much" Customs corruption and that 75 percent considered that the majority of Customs officials were involved. The corruption survey results also revealed that corruption was often seen as a means to accomplish a goal for a large majority of respondents; some users routinely provide bribes or gifts spontaneously at border crossing points assuming it will accelerate their passage or ensure they receive a favorable treatment, notably when conducting 'suitcase trade'. A third of the respondents were ready to pay a bribe to avoid paying Customs duty for example. One of the misleading factors is embedded in the tendency to label all border staff as Customs officers when denouncing corruption. The new FCA
and MCA management are committed to confront the legacy of the previous regime and to act swiftly to reduce opportunities for corruption and sanction perpetrators-users and border officials.

One of the reasons why Customs officials are often more widely suspected of corrupt practices is that, more than other officials, they have easy and direct access to, and control over, tangible wealth. For this reason, legislation was drafted and procedures established based on a presumption of corruption in Customs (for example, Customs are obliged to inspect every consignment to avoid favoritism). This in turn encouraged officials to multiply bureaucratic steps to protect themselves, and created a non-transparent system which itself generated new opportunities for corruption.

The strategic implications of these impediments are significant. While road transport through Yugoslavia was the normal route from Turkey to Europe ten years ago, an estimated 30 percent of Turkish trucks now completely by-pass the region using Ro-Ro ferries between Turkey and Italy. The Turkish ferry fleet’s rapid expansion may lead to up to 60 percent of Turkish traffic opting for maritime transport within the next two to three years. The growth of an environmentally-friendly maritime leg in European trucking is a positive transport policy development triggered by shortcomings in international transit throughout the Southeast and Central European region. Transit itself if not combined with proper charging policies on the use of infrastructure brings only limited economic gain, particularly when considering environmental and safety externalities. Resumed transit would however contribute to restore confidence in FRY, not only as a transit country, but more importantly as a trading partner by demonstrating its willingness and capability to reintegrate economically with Europe and Southeast Europe.

Issues
The current system is affected by inefficient procedures, overlapping responsibilities and insufficient coordination in terms of border management and inland enforcement, organizational and staffing issues, inadequate infrastructure, insufficient interactions with the private sector and the need for more regional cooperation. Many of the procedures in place do not enable the FCA or the MCA to perform the duties of a modern Customs administration. It directly results in long and inefficient processing of vehicles at border crossing points and clearance terminals. Transit monitoring (internal and international) is inadequate.

The current legislation limits the role of Customs essentially to revenue collection activities, is not flexible enough to allow adaptation to the rapid change in traffic or functions, and, like other laws, define the Customs organization as opposed to its objectives. Legislation applied by Customs is very often drafted in other ministries, with limited consultation. Present penal provisions in the Customs law are often cumbersome and difficult to enforce, do not provide for swift punishment with a deterrent effect and would not consequently be able to support modern selectivity-based procedures.

The human resource management over-emphasizes academic qualifications to the detriment of performance or merit-based promotions. The FCA relies on the “Systematization” template system, which, in spite of its flexibility, constrains the efficient redeployment of staff according to new priorities. Staff are currently recruited in contradiction with usual civil service rules applicable in EU countries. Staff promotions based on merit are practically impossible from one category of personnel to another when officers do not have the required academic qualifications. This may lead to frustration, and can encourage unethical behaviors. The absence of incentive schemes to retain specialist staff or reward performance is not conducive to building a strong administration with a long term vision.

The current computer system in the FCA, introduced in 1995, is based on a mainframe architecture. The system is reliable but costly to maintain (US$1 million annually) due to its dependency on one manufacturer. Only few programmers can modify the software package based on an obsolete language.
(CSP), which makes any update difficult and costly. The database design is not optimized, creating an overload of processing resources during queries. The redefinition of procedures and the need to introduce new functions -Direct Trader Input, Electronic Data Interchange for freight information and Customs declarations, selectivity, risk analysis and electronic payment - call for a complete redefinition of the existing system. Similarly, the MCA has outsourced the development of a modern information system, which will require significantly greater processing power and better communication links than what the present information system offers.

Over the past few years, the existing infrastructure at border crossings on major European corridors enabled the low level of traffic to be processed. With the foreseen increase in transit, tourism and recovery of trade activity, this infrastructure will rapidly become insufficient and lead to significant bottlenecks. Already, the border crossings are overloaded during holiday periods. About ten border crossings are in urgent need of overall upgrading. The first four are located on the main international corridors. In most cases, the upgrading could be staged starting with low cost upgrading (marking, additional lanes) to rapidly improve the operational efficiency, followed by more significant investments once new procedures are in place.

Consultation between government agencies and transport operators was until recently very limited, with no established structure. New laws were introduced with no or very limited consultation, and issues faced by operators were not addressed. The new administration is committed to integrate the opinion of operators in the future. FRY has also seen the emergence in the recent past of a large number of small transport operators and freight forwarding companies (400 companies) since there are no qualitative or quantitative restrictions to market entry. This has brought both cost and quality of services down, as shown by the high level of documents inappropriately filled (around 20 percent). Besides, the lack of proper licensing system in FRY based on qualitative criteria is not in harmony with the practices in the EU and other European countries. This can have a negative impact on the willingness of other countries to improve market access opportunities for FRY trucks through bilateral road transport agreements and through increased allocation of international road permits.

Road transport operators are constrained by the policies of Yugoslav trading partners regarding international road permits, visas and insurance, even though FRY has recently made significant progress on these aspects. Yugoslavia recently renewed its ECMT membership and expects to see some improvements in obtaining ECMT international permits accordingly to supplement bilateral permits. The TIR Carnet system (international road transit system) is now operational and guaranteed by the Yugoslav Chamber of Commerce and Industry on the territory of Serbia. Eighteen road transport operators had applied as of December 15, 2001. The suspension of Yugoslavia from the Green Card system was lifted on November 1, 2001, but truck insurance policies issued in FRY are still not recognized in many countries, creating the need for double insurance.

The proposed program focuses on delays at road border crossings. Delays at rail border crossings are also a cause for concern, particularly regarding long distance freight trains operating across Europe. Similarly to road border crossing improvements, the most promising solutions involve simplifying procedures, shifting inspections and other formalities away from the border through advanced processing of data, using information technology to speed up, process and improve the reliability of document transfer for rail wagons and their content. The program does not directly address rail transport, but rail traffic should benefit from the mechanisms for enhanced cooperation among agencies and among governments.

For a broader analysis, please go to the trade and transport sections of the Economic Recovery and Transition Program at http://www.seerecon.org/FRYugoslavia/ERTP/pdf/ERTP_Vol_2.pdf
Strategy of the Federal Government and of the Republic of Montenegro

The Governments were elected on a mandate of “breaking with the past.” Yugoslav people have expressed a strong desire for a fundamental shift away from the economic, social and institutional legacy. The governments are committed to a market-oriented economy strongly linked to Europe, based on the lessons of transition in neighboring countries. The Yugoslav authorities have elaborated a vision of a society where sustained, broad-based increases in living standards are generated by a dynamic private sector that leads growth; a society that is re-integrated into the international economy, Southeast Europe and the rest of Europe, with good governance and accountable public institutions. Federal trade legislation has been revised to remove most import restrictions. In parallel, work is under way to modernize customs rules, prepare for a Stabilization and Association Agreement with the EU - the first step towards eventual EU accession - and obtain membership in WTO, all of which are essential to stimulate healthy export growth and private sector development.

The Federal Government has endorsed a comprehensive Modernization Strategy for the FCA. This strategy aims at: (a) modernizing customs procedures and operations; (b) coordinating legislation and improving cooperation with other border/governmental agencies; (c) modernizing the approach to organization and staffing; (d) upgrading the information systems and border facilities; (e) improving private-public interactions and the delivery of transport and trade services; and (f) strengthening regional cooperation (see Annex 11). This strategy aims at achieving EU best-practice standards, based on the implementation of the Geneva Convention on the Harmonization of the Frontier Control of Goods. The FCA has prepared a draft Law on Customs to ensure that this strategy can be implemented and has presented it to donors to receive their inputs. The new FCA management already achieved significant progress in revenue collection (+60 percent or US$120 million between 2000 and 2001).

Similarly the MCA has drafted a new Customs Law for Montenegro and prepared a Modernization Strategy. The new law provides for selective examination of goods, vehicles, and travelers, introduces modern concepts such as post-release verifications, and recognizes the necessity for an investigative, enforcement, and preventive, wing within the Customs administration, as is the case in EU countries. The EC will review in details the law and plans to provide extensive support to the MCA in finalizing the law and preparing new sub-legislation.

These strategies include a redefinition of the role of Customs and the introduction of integrated border management. In that perspective, the FCA and MCA would graduate – like other Customs administrations in EU or OECD countries – from an essentially revenue collection activity to a more global responsibility ensuring that all goods crossing the border are compliant with the relevant legislation. This would lead Customs to: (i) exercise a major support – and eventually coordination – role over all controls performed by other border agencies and related to the import, export, and transit of goods, with correlated streamlining of procedures; and (ii) improve compliance through better detection and prosecution of offenses, and an expanded enforcement capacity.

Since the January 2001 change of Government, the Federal Ministry of Transport and Communications has on its side been very active to progressively re-access all major international conventions like the TIR convention, to obtain better transit terms from neighboring countries and to harmonize its rules and regulations with the EU and other countries of Southeast Europe. Yugoslavia joined the Southeast Europe Cooperative Initiative (SECI) Regional Road Transport Committee as of September 2001, by signing the Memorandum of Understanding on Facilitation of International Transport of Goods in the SECI region. This Committee, also supported by the United Nations Economic Commission for Europe (UN-ECE),
plays a major role in the harmonization of road transport related regulations in Southeast Europe. See http://www.unece.org/trans/new_tir/seci/intro.htm. Yugoslavia endorsed the principle of using an international weighing certificate (IWC) for road transport as proposed by the Committee. This coincides with the recognition for Customs purposes of the IWC at the TTFSE Regional Steering Committee in November 2001. The certificate would be introduced in May 2002. The weighing scales to be procured under the project will comply with the norms established to deliver such weighing certificate.

Yugoslavia, like all other participants in SECI, recognizes the importance of coordinated actions to address the above issues and achieve the objectives of the Stability Pact. Yugoslavia confirmed its commitment to regional cooperation, together with Moldova, by acceding to the TTFSE Memorandum of Understanding in November 2001 during the fifth meeting of the TTFSE Regional Steering Committee. This Memorandum had been initiated in February 1999 by the six initial TTFSE countries. The TTFSE project is part of the Quick-Start projects under the Stability Pact. It is also recognized that, to some degree, each country can expect to gain more from actions to be taken by its neighbors than those it could take itself. The support shown by the US Government, the European Commission and the UN-ECE, reflects the importance attached to the development and stabilization of the region.

3. Sector issues to be addressed by the project and strategic choices:

The Project would support the overall modernization program of the FCA and of the MCA by addressing to different degrees the issues described above, apart from the rail issue and the improvement of border crossing facilities, taking into account other external support to avoid overlaps. The project includes technical services critical for the implementation of modernization program considering all its dimensions and renewal of information systems. The program integrates a number of mechanisms to achieve benefits that extend beyond savings achieved at the borders of one country. The regional dimension of the project stems from: (i) the signing of the regional Memorandum of Understanding providing the needed high-level commitment; (ii) the Regional Steering Committee of high-level officials meeting twice a year focusing on border crossing issues; (iii) the regional website harmonizing the provision of information; (iv) joint pilot border crossings to ensure pragmatic improvements; and (v) regional training programs for the private sector to build up communities of professionals with shared knowledge. The fight against corruption and smuggling at border locations, launched by the new Customs management, will take into account both the outcome of performance measurements and user surveys like the detailed survey listed in B.2. Despite the commitment of the new management, this process, which requires deep changes in these administrations, promises to be complex, and as such very targeted technical support has been included in the project to support this transformation.

Successful modernization and automation of systems and procedures, strengthened enforcement and prevention role of Customs, together with improved management of human resources are expected to lead to a reduction in transaction costs, both informal and formal, for traders and shipment in transit, and increase the country competitiveness. Early results of the TTFSE program in neighboring countries show that in countries where the Customs Administration demonstrated a strong commitment to modernization, reduction of waiting time of up to 75 percent at pilot border crossing points and 50 percent at the pilot inland terminal could be achieved in about a year.

Given the interest of Yugoslavia in EU accession and the implementation of EU-compatible standards, and the need to ensure the overall compatibility of the regional program, active relationships with the EC will be maintained. The EC provisional plans include in particular significant support in the implementation of training programs, the building up of investigation and enforcement capacity and the development of sub-regulations.
C. Project Description Summary

1. Project components (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown):

   The proposed project consists of the following components:

   A1. Modernization of the FCA

   Includes: (i) Technical services to coordinate and integrate the various modernization elements and donor contributions, and support to the change process; (ii) technical services to review and revise laws, regulations and guidelines to fulfill Customs functions while facilitating legitimate trade, in cooperation with other agencies; (iii) technical services to support the introduction of a Preventive and Enforcement Service in the FCA; (iv) technical services to prepare and introduce new Customs procedures and documentation, supported by training; (v) technical services to strengthen human resource management; and (vi) equipment to improve the quality and efficiency of checks. This technical support would complement ongoing FRY efforts to implement the FCA modernization strategy.

   In addition to the support from the US Government to fund part of this component from April 2002 onwards, the FCA has requested support from the French and British Governments, who had expressed interest in contributing to the TTFSE project. The European Commission will propose a program to supplement this approach in the first half of 2002.

   A2. Modernization of the MCA

   Includes: (i) Organizational and procedural review and related reforms at border stations and clearance terminals, supported by the necessary legislative and administrative changes; and (ii) introduction of selectivity and targeting in Montenegro. It is expected that the European Commission will provide most of the support for Customs modernization in Montenegro.

   B1. Support to FCA Information System Improvement

   Includes: Consulting services, training and equipment for the information system to establish a fully functional Customs system and the first phase of the Single Electronic Window Initiative. This initiative will enable importers, exporters, brokers, banks, insurance, transport and freight forwarding companies to carry out all trade-related interactions with the Federal or Republic administrations through an integrated electronic interface. The main components will be: (i) technical services for business process re-engineering; (ii) technical services for solution specification, software development and system integration; (iii) technical training; (iv) telecommunication network equipment; and (v) hardware and software to migrate to an open platform and support e-documents implementation. The FCA will give priority to the introduction of selectivity and management of transit.

   B2. Support to MCA Information System Improvement

   Includes computer and telecommunication hardware to equip and connect the various border crossing points and clearance centers and software development to expand the current system and cover selectivity and transit functions. The equipment will be used to implement the software solution developed over the past two years for the MCA at a few pilot sites at first, followed by a rollout to all Customs points at
borders or inland in a second stage, once the software is fully operational.

**C. Trade Facilitation Development**

Includes: (i) provision of short training sessions to road transport operators, forwarders, customs brokers, and traders through the YCCI/YUPRO and local professional associations; (ii) provision of distance learning programs in cooperation with the International Road Transport Union for road transport operators and the international Freight Forwarder Association (FIATA) for freight forwarders; (iii) support to the PRO-Committees in the formulation of proposals to facilitate trade, building on a public-private dialogue; (iv) participation in the regional TTFSE website to ensure full transparency of procedures and requirements of border agencies as well as travel information; (v) exchange programs to stimulate experience-sharing on facilitation and border agency reforms; and (vi) development of a public outreach program and establishment of an Internet-based, multi-national publication to host an analysis of transport policy, procedures and practices in Southeast Europe in order to raise awareness on border crossing issues and solutions.

**D. Project Implementation**

Includes the services required to support the implementation of the project. These will include training for procurement and financial management, procurement advisors, external auditors, support in the establishment of a financial management system, and training for the Project Managers and the Project Implementation Team.

<table>
<thead>
<tr>
<th>Component</th>
<th>Sector</th>
<th>Indicative Costs (US$M)</th>
<th>% of Total</th>
<th>Bank-financing (US$M)</th>
<th>% of Bank-financing</th>
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</thead>
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<tr>
<td>A1. FCA Modernization</td>
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<td>4.0</td>
<td>0.36</td>
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<td>50.6</td>
<td>4.80</td>
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<tr>
<td>System</td>
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<tr>
<td>B2. Support to MCA Information</td>
<td>Other Transportation</td>
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<tr>
<td>C. Trade Facilitation Development</td>
<td>Vocational/Technical Education &amp; Training</td>
<td>0.54</td>
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<td>0.00</td>
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<td>D. Program and Project Implementation</td>
<td>Non-Sector Specific</td>
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<td>5.2</td>
<td>0.38</td>
<td>5.6</td>
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<tr>
<td><strong>Total Project Costs</strong></td>
<td></td>
<td><strong>10.98</strong></td>
<td><strong>100.0</strong></td>
<td><strong>6.76</strong></td>
<td><strong>100.0</strong></td>
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<tr>
<td><strong>Total Financing Required</strong></td>
<td></td>
<td><strong>10.98</strong></td>
<td><strong>100.0</strong></td>
<td><strong>6.76</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

*Figures in the table include taxes and contingencies*

2. **Key policy and institutional reforms supported by the project:**

Stimulating growth and creating a basis for a sustainable supply response are at the core of the Government strategy. The project will support the on-going policy and institutional modernization seeking the following objectives:
a. Modernizing the FCA and the MCA

The capacity building component of the Customs Modernization Strategy addresses in particular the following issues:

- approximation with the European Community legislation and implementation regulations, with reference to the *acquis communautaire* (all treaties, policies and Community legislation in force in the European Union, that must be accepted by all countries wishing to join) and implementation and enforcement of related legislation;
- review of the schedule of penalties to strengthen their deterrent effect on offenders;
- adoption of simplified and standardized Customs and border inspection procedures (compliance measurement and selective inspection based on risk assessment);
- development of analytical expertise to create and maintain targeting and selectivity tools;
- enhanced human resource management to develop Customs/border inspection expertise and raise integrity;
- training to Customs personnel to ensure the uniform application of new legislation, to improve the fulfillment of the Customs mission and to enhance integrity;
- building up of the prevention and enforcement capacity;
- creation of a partnership among border inspection agencies and the trade/industry community to better coordinate working hours, procedures and information exchange;
- progressive introduction of effective post-release controls, audits and account management processing to facilitate trade data exchanges; and
- improved revenue collection as a result of all of the above and of the information system upgrading.

b. Strengthening of Information System

Improvement in information systems in use would have the following impacts:

- elimination of multiple data entry and creation of a single government interface for trade and international transport related transactions;
- creation of databases accessible in real time at all main Customs locations to support selectivity and targeting procedures;
- exchange of information with other government agencies for processing and enforcement purposes;
- support of international Electronic Data Interchange/XML standards to rapidly integrate into the international trading community;
- development of a state-of-the-art information system;
- possibility of electronic payment from users to the Government;
- official acceptance of electronic documents in Customs procedures;
- monitoring of Customs performance, traffic patterns and optimization of processing capacity;
- information exchange with other governments in the region; and
- reduction in corruption opportunities by decreasing and monitoring human intervention.

c. Strengthening Regional Cooperation

The project will lead to greater regional cohesion through several channels affecting both the administrations and the private sector. The Regional Steering Committee gathering all TTFSE countries and observers (Turkey, Greece, Donors) will continue to facilitate cooperation and experience sharing. This forum is instrumental in comparing the standard TTFSE performance indicators across countries,
review the difficulties in introducing approaches new to the region like selective processing, request the preparation of facilitation proposals and make policy decisions at a regional level. During the fifth RSC meeting, the International Weighing Certificate was recognized for Customs purpose for example, removing the need for multiple weighing on a given itinerary. See the minutes of all the RSC meetings at http://www.seerecon.org/RegionalInitiatives/ttfse/ttfse-rsc.htm.

The regional TTFSE website presenting all requirements and procedures of border agencies will offer, from June 2002, advanced information tools for operators in the region and from abroad. The quarterly meetings of public-private working groups (PRO-Committees) have led to the creation of a number of working groups aimed at addressing specific facilitation issues. Regional conventional and distance learning programs in cooperation with the International Road Transport Union (IRU) and the Federation of International Forwarding Agents (FIATA) will enable harmonization of the quality of transport service providers. Paired local project teams gathering all border agencies at pilot border crossing points with frequent interactions across the border of Croatia, Bulgaria and fYR of Macedonia will strengthen regional cooperation at both local and headquarters levels.

3. Benefits and target population:

a. Benefits

The Customs modernization coupled with proper facilities and information technology will lead to transparent Customs procedures, a more reliable business environment, and economic growth as a result of lower prices for imports and more competitive prices/services for exports. The benefits will spill over to government agencies and private companies in other trade partner countries. This would translate into:

- cheaper import goods / inputs for consumers and industries;
- better and more reliable business environment for private sector activities, particularly for the trade activities of SMEs;
- a more predictable and reliable economic setting for foreign companies;
- time savings linked to improved conditions for transit traffic;
- reduction of corruption and smuggling opportunities;
- improved revenue collection by the FCA and MCA; and
- fewer errors, time savings and lower transaction costs resulting from a simplified interface to submit documents to government agencies.

In the longer run, the project will also contribute to the regional integration in Southeast Europe and the approximation with EU standards and procedures in the field of Customs, as part of the European integration process.

b. Target Population

The beneficiaries of the reform would be transport operators, importers, exporters, freight forwarders, other trade industries, foreign investors, and ultimately, consumers and producers inside and outside the region. Cross-border trade in the vicinity of the borders will be made easier for local companies. Travelers and tourism would also benefit. Improved facilities and procedures will shorten their waiting time and improve their travelling conditions.

4. Institutional and implementation arrangements:

a. Implementation Period
The TTFSE FRY project is to be implemented over a four-year period (2002-2006); it would be completed by March 30, 2006 and closed by September 30, 2006. The Customs modernization in its entirety would be implemented in about 8 - 10 years.

b. Executing Agencies

The Federal Republic of Yugoslavia will be the borrower and will negotiate the Credit Agreement. The Customs Services of the Federation and of the Republic of Montenegro will be the executing agencies. A Subsidiary Credit Agreement will be signed between the Federal Ministry of Finance and the Montenegrin Ministry of Finance for the Montenegrin component.

The implementation arrangements will include the following elements: (i) a Federal coordinator and a Montenegrin coordinator; (ii) two project managers (one for FCA, one for MCA) and a joint project implementation team; (iii) a Single Electronic Window coordinator; (iv) a facilitation coordinator; (v) a website coordinator; and (vi) the TTFSE Regional Steering Committee (RSC). These implementation arrangements are extensions of existing institutions and use people already involved in similar functions.

The Director General of the FCA has been designated by the Federal Government as the Federal Coordinator. The Director General of the MCA has been designated by the Montenegrin Government as the Montenegrin Coordinator. These Coordinators will call and chair coordination meetings of the various border control agencies and manage their input when required. They will ensure that a suitable mechanism is established across border agencies to provide all information related to border crossing requirements to the Website Coordinator. The Federal Coordinator shall also ensure that: (a) the FCA Modernization Strategy shall not be amended without prior agreement by the Association; and (b) the Borrower's actions in the area of customs modernization, including activities supported by technical assistance, regardless of the source of funding, are consistent with the Project Appraisal Document and Project objectives. The Federal Coordinator and the Project Implementation Team will review in particular any proposal for support to the FCA and ensure that they are not in conflict with the project components and the FCA Modernization Strategy.

The project will include one Project Manager in the FCA and one Project Manager in the MCA, responsible for the efficient implementation of the project and for the preparation of suitable terms of reference or technical specifications. These Project Managers will use a shared Project Implementation Team (PIT), based in the FCA, to cover procurement, credit management and reporting functions in a manner satisfactory to the Bank. In addition the team will include one member in the FCA and one in the MCA to monitor the implementation of progress at pilot sites. The Single Electronic Window Coordinator will be the Head of the Customs Information System Department in the FCA. He will coordinate the inputs of the members of existing working groups established for that purpose. He will also monitor progress in improving the Customs Information System.

The YCCI/YUPRO Committee has created several working groups to facilitate trade and transport including a specific TTFSE working group. The YUPRO Committee is a public-private committee covering Serbia and Montenegro with the objective of facilitating trade and transport. The YCCI/YUPRO will implement the trade facilitation component of the TTFSE project, including the delivery of
conventional training sessions and the establishment and maintenance of the data related to Yugoslavia in the TTFSE website, and the active delivery of inputs by the established working groups. The YCCI/YUPRO committee has nominated a Facilitation Coordinator and a Website Coordinator to that end.

Similarly to other TTFSE countries, Yugoslavia will participate in the TTFSE Regional Steering Committee, meeting twice yearly at the regional level. Yugoslavia will host the next meeting in June 2002. The RSC will oversee the overall implementation of the regional program. The RSC is constituted of the National/Federal/Republican Coordinators of each participating country and includes donor representatives and Facilitation Coordinators as observers. The RSC provides a forum for exchange of best practice in sector policy and reform decisions. Meetings rotate among the participating countries, with the Project Manager of the host country providing support services to the Committee. See the minutes of the RSC meetings at http://www.seerecon.org/RegionalInitiatives/ttfse/ttfse-rsc.htm.

In order to provide better understanding of border crossing problems, monitoring will take place at five pilot border crossings and two pilot inland terminals. Neighboring countries will progressively treat as pilot stations the facilities on the other side of the border, as part of the program. A set of indicators for project monitoring has been agreed upon (Annex 1). These indicators will be used by each country to examine and allow the evaluation of comparative performance.

This framework provides an assessment tool for identifying problems and tracking the success of the solutions applied in each case, providing an evolving case study. The results will be progressively updated each quarter by the PIT and offered to the RSC for review and comparison. The lessons learned from these case studies will be extended to other specific border crossings in the participating countries and to change management in general. Sharing the case studies, along with other project reports, with the customs services and transport associations in countries not associated with the TTFSE will set quality targets in customs reforms beyond the region.

c. Procurement

Goods and services financed by IDA will be procured in accordance with IDA procurement guidelines. The PIT includes a procurement specialist satisfactory to IDA. The procurement specialist will receive additional training, notably related to procurement of information technology, prior to effectiveness, and will be supported by outside Bank procurement advisors as required. The procurement advisors will be individuals with satisfactory country and World Bank procurement experience, to be funded by the credit proceeds. The project components not financed by the Bank will be procured in accordance with Yugoslav regulations or the procurement regulations of the co-financing institution.

The project elements, their estimated cost and procurement methods are summarized in Table A of Annex 6. A procurement plan detailing the packaging and estimated schedule of the major procurement actions is presented in Table B2 of Annex 6. Thresholds for procurement methods and prior review, the capacity of the implementing agency in procurement, technical assistance requirements and the allocation of credit proceeds are found in Annex 6.

d. Financial Management Accounting, Financial Reporting, Auditing Arrangements and Disbursements

The PIT, established within the FCA, will be in charge of all the financial management aspects of the Project. The PIT includes a Financial Manager and an Accountant. All financial management and
disbursement procedures will be in accordance with the relevant World Bank guidelines. The Government, through the FCA has established and will maintain a project financial management system (FMS) in a format acceptable to the Bank and in accordance with OP/BP 10.02 and the World Bank Financial Management policies and requirements.

Before Board presentation, a World Bank accredited Financial Management Specialist has performed a detailed assessment of the system in accordance with the Bank's OP/BP 10.02 and the World Bank Financial Management requirements. The result of the assessment is that the Project meets the minimum Bank financial management requirements. Additional actions and steps agreed with the borrower to strengthen the system are included in the Financial Management Action Plan.

Financial Accounting and Reporting. The PIT will keep separate Project Accounts, for each financing source and for each project component and activity. The Project Accounts will then be consolidated in the accounting records of the FCA, by the FCA accounting department. The PIT will prepare quarterly Financial Monitoring Reports (FMRs) for the Project in accordance with formats agreed with the Bank during negotiations. The FMRs will be submitted to the Bank no later than 45 days after each quarter's end. The first quarterly FMRs will be submitted after the end of the quarter in which disbursements commence, most likely the third quarter of 2002 and will be due on November 15, 2002, for the quarter ended September 30, to be consistent with the other six TTFSE countries.

Audit arrangements. The project annual financial statements will be audited each fiscal year in accordance with the Bank's guidelines, by independent auditors acceptable to the Bank, based on terms of reference agreed with the Bank. The engagement of selected auditors, satisfactory to the Bank, is a dated covenant (by September 30, 2002) in the Credit Agreement. Copies of the audit reports will be submitted to the Bank within six months after the close of the fiscal year (calendar year). The audit report will cover the Project Financial Statements, Special and Project Accounts' Statements, as well as all the Statement of Expenses (SOEs).

Disbursements. Disbursements from the IDA Credit will be made based on traditional disbursement methods (i.e., from the Special Account with reimbursements made based on Statements of Expenditures (SOEs) and full documentation, and direct payments from the Credit Account). The Government will establish, maintain and operate, under terms and conditions acceptable to the Bank, a separate Special Account denominated in the Credit currency. A Country Financial Accounting Assessment for Yugoslavia is being carried out and will indicate whether any banks in the country can be considered totally reliable and financially sound, or whether the Special Account will be kept at a bank abroad. The PIT will use a local project account for local contributions to the Project.

e. Reporting

The PIT will prepare quarterly progress reports and submit them to IDA and the RSC secretary. These reports will include: the progress of each project component, key performance indicators, and procurement issues (actions dealt with, actions planned, and an update of the procurement implementation). The report will include performance measurements against the implementation schedule and compliance with credit covenants. Overall, project monitoring will be based on the performance targets and indicators listed in Annex 1.

f. Supervision and Evaluation Arrangements

Each October or November during the implementation of the project, IDA together with the PIT and the
other contributors (US, EC) will conduct a review of project execution. The review will assess the status of regional and national implementation and cooperation, progress made at the level of pilot sites compared to targets, development of the information system, implementation of the donor programs, and the productivity of the FCA and MCA. The review will offer refined targets and objectives for the following year and a set of recommendations. The schedule of procurement for the coming year will be agreed at the time of the review, considering the progress to date in the institutional reform.

D. Project Rationale

1. Project alternatives considered and reasons for rejection:

The project forms part of the TTFSE program, for which several alternatives were considered, before it was decided to move forward with a regional investment program. Two major alternatives were considered in the context of Yugoslavia: a project including civil works and a project covering only the Federal Customs Administration.

The inclusion of civil works in the project was rejected for strategic reasons, considering the likely availability of grants from donors in that area and the more urgent need for timely support to the modernization process. The Transitional Support Strategy (TSS) included a TTFSE project focused on the provision of timely technical assistance to the Customs Administration, without the inclusion of border crossing infrastructure. The addition of a new border crossing facility in the project would have delayed project preparation by six months and led to doubling the estimated IDA funds needed for this project, while not being fully consistent with the TSS. Instead the Bank has initiated an active discussion with parties involved in the EU-CARDS integrated border management program to identify well-justified projects, which could attract EC grant funding, in particular for low-cost but effective improvements.

Originally the project covered only the FCA to keep both legal and implementation arrangements simple. Following the requests of the Republic of Montenegro to participate in the project, the Bank reviewed the implications of its potential inclusion and worked out a joint implementation mechanism and a relatively straightforward legal solution to associate the Republic of Montenegro with the project. The participation of the MCA will also strengthen the cooperation between the two administrations, instrumental to both their fight against corruption and facilitation of trade. The inclusion does raise, however, the risk profile of the project.

2. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned).

<table>
<thead>
<tr>
<th>Sector Issue</th>
<th>Project</th>
<th>Latest Supervision (PSR) Ratings</th>
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<tr>
<td></td>
<td></td>
<td>Implementation Progress (IP)</td>
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<tr>
<td>Bank-financed</td>
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<tr>
<td>Customs reform/trade facilitation</td>
<td>TTFSE Albania</td>
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<td>Customs reform/trade facilitation</td>
<td>TTFSE Bulgaria</td>
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</tr>
<tr>
<td>Customs reform/trade facilitation</td>
<td>TTFSE Romania</td>
<td>S</td>
</tr>
</tbody>
</table>
Five of the original TTFSE projects are satisfactory in terms of development objectives and most of them in terms of implementation progress. A couple of them experienced country-specific issues on implementation progress, and one on development objectives. The unsatisfactory rating on implementation progress in FYR of Macedonia is linked to the social unrest in 2001. The unsatisfactory rating of the TTFSE Bulgaria on implementation progress results from frequent changes of Customs Directors and delays in selecting a suitable National Coordinator in 2001, both of which considerably slowed down the implementation of the procurement plan in 2001. These country-specific issues are in the process of being resolved. In Romania, recent changes in legislation prevent significant progress at pilot sites and Customs reform.

3. Lessons learned and reflected in the project design:

The FCA and the MCA want to modernize their services through a comprehensive approach. Experience under other projects emphasizes that the border crossing problem, by its nature, requires coordinated and mutually reinforcing actions in many areas.

The FYR of Macedonia Transit Facilitation Project completed in 1998 (ICR# 19408) highlighted the need to: (i) tailor the complexity of the project design to what can be achieved under a single loan; (ii) ensure the capability of implementing agencies; (iii) address issues perceived as real priorities by the borrower; and (iv) maintain flexibility to ease implementation.

EU PHARE’s experience shows that to lessen transaction costs at border crossings, investment in border crossing facilities need to be supplemented by: (i) reliable traffic data; (ii) accurate information on waiting times; (iii) adequate remedial actions on both sides of a border crossing; (iv) attention to multi-agency needs; (v) linkage to national transport policies; (vi) reliable telecommunication infrastructure and equipment; (vii) communication with users; and (viii) coordination and simplification of customs procedures and removal of state controls on international trade. While this project will not provide funding for facilities, it will prepare for it by addressing items (ii) to (viii).

The first year of implementation of the TTFSE program underlined a number of factors of success and risks, as well as a number of reasons for delays that could be prevented. The successful implementation of Customs modernization requires full ownership by the country, its Government, and its Customs management. In particular, stable upper management (Director General and his team) for the Customs Administration, a clear governmental mandate, the nomination of an active national coordinator willing to frequently interact with all border agencies, and empowerment of local project teams in proposing improved procedures have proven critical to succeed. The modernization of Customs calls for very different relationships with other border agencies and deep behavioral changes at all levels within the administration. As such, this change effort needs to be constantly managed. For example, all current TTFSE countries have experienced difficulties in introducing selectivity and targeting due to legal obstacles and the introduction of deep changes in practices. The recent availability of performance indicators at pilot sites has been useful in justifying this need, but the introduction of such an approach will require constant efforts of education and awareness raising. The TTFSE program was also slowed down by the relatively slow mobilization of consultants and the multiplicity of donor contributions calling for active coordination. Last, given the multiplicity of parties involved in trade and transport facilitation, coordination and cooperation with Chambers of Commerce and PRO-committees has proven to provide a good momentum, although it did require the formalization of a partnership with these parties.
This TTFSE project has benefitted from the experience acquired under the six on-going TTFSE projects. Strategies have been approved by the Federal and Montenegrin Government respectively for the Modernization of the FCA and MCA, and both the Government and the Customs management are strongly committed to change. A National Coordinator and Republican Coordinator have been nominated. The FCA and the MCA have already set up performance measurement mechanisms and the FCA has collected information for six months. Local Project Teams have been established at the pilot sites. New Customs codes for the FCA and the MCA are in an advanced stage of preparation and include selectivity and targeting. An amendment to the current Federal Customs law - made in December 2001 - already authorizes the FCA to do selective processing. The project will provide a special advisor to the FCA Director to coordinate all donor inputs and a change management team to support the modernization efforts within the administration and with outside parties in particular in case of delays in inputs by other donors, whenever necessary. Agreement has been reached for cooperation with the Chamber of Commerce and Industry/YUPRO Committee.

The project was tailored to respond to stakeholders’ concerns following active consultations. Customs users will receive training to enhance their professional skills and will get access to distance learning training with certification created under the program. They will be encouraged to voice their concerns and priorities through the regional TTFSE website and the YUPRO committee and will receive accurate and timely information on existing procedures.

4. Indications of borrower commitment and ownership:

The commitment of Yugoslavia to break away from its recent past is one of the strongest in the region. The commitment to reform and modernization is deeply anchored in the strategy of the Federal and Montenegrin Governments to restore growth, notably through trade expansion and liberalization. All parties met in the Government and in the trading community considered the time was ripe for a TTFSE FRY project. The FCA and MCA demonstrated its strong commitment through extensive discussions on customs modernization with the Bank prior to finalizing its strategy and while preparing its draft law. The new FCA management managed to increase revenue collections by 60 percent (or US$120 million) in 2001 compared to 2000, showing the effectiveness of its approach. A further sign of commitment is the scheduled organization by Yugoslavia of the next RSC meeting in June 2002.

5. Value added of Bank support in this project:

The regional dimension of the TTFSE program is achieved in full with the inclusion of Yugoslavia. From the time the new Government came into place in Yugoslavia, the authorities requested the Bank to support them in their Customs modernization and in particular their new Customs management, using an approach similar to the one successfully developed in the six neighboring countries. This inclusion allows a complete coverage of Southeast Europe, all the more significant because of Yugoslavia's central location for transit as shown on the maps. Yugoslavia is expected to become a vigorous champion in the regional efforts to modernize Customs and border agencies. This will translate into fruitful regional exchanges about Customs modernization, regional cooperation and simplification, or information system compatibility. Performance measurements using the TTFSE methodology will allow comparisons across countries. The partnership between the TTFSE program and Chambers of Commerce/PRO-committees will also ensure a permanent link to the business community with rapid feedback on their needs. Furthermore, the Bank, through its broader lending and country assistance strategies, is well placed to help promote cooperation and coordination of policies.
E. Summary Project Analysis (Detailed assessments are in the project file, see Annex 8)

1. Economic (see Annex 4):
   - Cost benefit: NPV = US$9.6 million; ERR = >50% (see Annex 4)
   - Cost effectiveness
   - Other (specify)

The project is expected to have a high rate of return. The project would have an impact spreading over Yugoslavia since the main investments include procedure improvements and related information systems. Two benefits have been quantified: (i) lower transport costs due to the reduction of waiting times at border crossings and inland terminals; and (ii) economic benefits of trade expansion resulting from the project. The following additional benefits will be monitored over the project life, but were not quantified for the purpose of this evaluation: (i) time savings to passenger traffic at the border crossings and impact on tourism; (ii) increased quality of services provided by the border agencies to the private sector (and potential impact on foreign direct investments); (iii) availability of a state-of-the-art single electronic window with a potentially high commercial value; (iv) increased market share of transport service providers through their education; (v) reduced maintenance cost of the information system; and (vi) increased revenue collections (although not per se an economic benefit). The time savings are based on meeting the performance targets agreed upon (Annex 1) compared to the foreseen performance without the project. The analysis indicates that the project would have a significant economic impact even if the modernization objectives were only partially accelerated through the project, as indicated by the switching values. The reduction in costs to trade and the increased reliability of delivery times are expected to lead, in the medium run, to a significant increase in trade volumes, which would make use of the existing excess production capacity.

2. Financial (see Annex 4 and Annex 5):
   - NPV = US$ million; FRR = % (see Annex 4)

   The introduction of a WTO-consistent standard processing fee per declaration destined to fund the maintenance of the FCA computer system will ensure the sustainability of the information system, one of the major components funded by the project.

   Fiscal Impact:

   The fiscal impact of the project is expected to be highly positive. Even by regional standards, the collection of duties and taxes by the FCA is low. The real volume of trade is probably higher than shown by official records, considering under-reporting and under-valuation. Improvement in overall performance, enhanced integrity, more selective approach to controls and stronger enforcement capacity will enable Customs to both expand the official volume of trade and avoid frequent mis-classifications, under-reporting and undervaluation, thereby generating additional customs duties and taxes. The Government counterpart contribution would be limited to applicable taxes and duties.

3. Technical:

   The creation of a comprehensive Customs information system requires highly skilled professionals, with strong and clear leadership. The FCA and the MCA submitted realistic implementation plans for the creation of their respective systems. The FCA, where most software development will take place, has a staff of fifty specialists, recently recruited and being trained, to create the system. The FCA will receive
technical support throughout the project to ensure that the right elements of project management and quality control are in place. Special efforts will be paid by supervision missions to follow closely implementation progress of the information system.

4. Institutional:

4.1 Executing agencies:
The FCA and the MCA will be the two executing agencies.

4.2 Project management:
Implementation will be overseen by two Project Managers (one in the FCA and one in the MCA) and a joint Project Implementation Team (PIT), based in the FCA. The Federal and Montenegrin Coordinators will assist the PIT in obtaining inputs from the other agencies involved. The Federal Coordinator, supported by the PIT, will ensure that all technical support provided to the FCA, regardless of the source of funding, is consistent with the FCA Modernization Strategy and does not overlap or is not in conflict with the TTFSE project components. The Regional Steering Committee (RSC) meets twice a year and will oversee the coordination and implementation of the Program. The RSC is constituted of high level officials of the participating countries empowered to decide on and implement necessary sector policy and reform decisions.

4.3 Procurement issues:
Goods and services financed by IDA will be procured in accordance with IDA procurement guidelines. A procurement specialist satisfactory to the Bank has been appointed. This specialist will receive training specifically in procurement of information systems and will be supported by outside procurement advisors as required. The procurement advisors will be individuals with satisfactory World Bank procurement experience to be funded by the credit. The project components not financed by IDA will be procured in accordance with the procurement regulations of the co-financing institutions.

4.4 Financial management issues:
The TTFSE Project will be one of the first IDA credits received by Yugoslavia after the embargo period. The evaluation of the framework for financial arrangements for all projects in Yugoslavia is currently being carried out and expected to be ready in early 2002. When finalized, the Country Financial Accountability Assessment (CFAA) will present in detail the financial management risks for the country and the implications for World Bank operations. The local banking system is risky, although it is perceived that, by opening the Special Account at a major foreign bank, in Yugoslavia or abroad, the banking risk can be kept at an acceptable level. The macroeconomic and currency risks are still relatively significant. Yugoslavia has a weak public sector financial management, with a lack of accountability in the Federal Government's overall accounting and reporting functions and no independent audit of accounts.

From the financial management perspective, the Project is considered a high-risk operation, although the risks, described in Annex 6, are considered manageable due to the various risk mitigation measures proposed. The separate Financial Management Assessment presents in detail a full description of the risks and the corresponding mitigation measures.

Significant protection measures must be taken to protect the Project assets against fraud, waste and abuse. The risk that the Credit funds will not be used as intended for financing the defined investment program is judged acceptable by introducing several measures, in principal the 'ring-fencing' of the project through the
establishment of the project implementation team, with a comprehensive staff structure and the creation of the specialized teams within the executing agencies, segregation of duties within the unit, requiring representatives of the FCA and MCA to certify the goods delivered and services rendered before payments are made to the suppliers, proper supervision from the IDA team and an independent yearly audit of project funds by a reputable audit firm, acceptable to IDA.

5. Environmental: Environmental Category: C (Not Required)
5.1 Summarize the steps undertaken for environmental assessment and EMP preparation (including consultation and disclosure) and the significant issues and their treatment emerging from this analysis.

There are no environmental issue in the project.

5.2 What are the main features of the EMP and are they adequate?
Not applicable.

5.3 For Category A and B projects, timeline and status of EA:
   Date of receipt of final draft: NA

5.4 How have stakeholders been consulted at the stage of (a) environmental screening and (b) draft EA report on the environmental impacts and proposed environment management plan? Describe mechanisms of consultation that were used and which groups were consulted?
Not applicable.

5.5 What mechanisms have been established to monitor and evaluate the impact of the project on the environment? Do the indicators reflect the objectives and results of the EMP?

The project will enable Customs officials to better enforce the terms of international conventions and agreements relating to the environment. Especially relevant will be the regulations included in such agreements as: (i) the European Agreement Concerning the International Carriage of Dangerous Goods by Road (ADR) of September 1957 with its Protocol of October 1993; (ii) the Convention on the International Trade in Endangered Species (CITES); (iii) the Convention on the International Carriage of Perishable Foodstuffs and on the Special Equipment to be Used for Such Carriage (ATP), of September 1970; and the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, of May 1992.

6. Social:
6.1 Summarize key social issues relevant to the project objectives, and specify the project's social development outcomes.

Companies in Yugoslavia and in particular traders are seriously impacted by delays, regularly caused by improper knowledge of current border requirements. Regularly changing procedures affect all companies, but in particular SMEs with limited resources to follow up on changes. Large companies usually dedicate a team to monitor changes in procedures. The regional TTSE website will allow access to all the procedures and requirements of border agencies regarding trade and international transport, improving transparency to a large extent, thereby reducing opportunities for illegal payments. The access to the site will be promoted by the Chamber of Commerce and the road transport operators' association. While not all companies use the internet, a system of automated notification will inform by email registered users of new changes. The provision under the project of both conventional and paper-based distance learning training to service providers will also improve access to knowledge related to trade, transport and logistics. The partnership with the local professional association will increase the availability of training materials. The electronic forum under the website will empower the business community in the region and outside by enabling it to voice its opinion on the quality of the border services received and to propose corresponding
recommendations to facilitate trade and transport activities.

The project will have an indirect impact on the poor by reducing corruption and waiting time at border crossing points. Faster and smoother border crossing both for trucks and passenger transport will remove some of the constraints affecting people commuting frequently through the border or visiting their family in neighboring countries. It will proportionally have a larger impact on short distance trips. It will also reduce the routine, yet often unsolicited, payments that currently take place at border crossing points. Like for other TTFSE projects, interactions with other organizations dealing with smuggling and trafficking (in particular human trafficking) problems, like the Crime Center in Bucharest, will be maintained.

The reduction in border crossing delays will reduce trade and transport costs and, in turn, the cost of imported goods, leading to benefits to consumers and lower cost of inputs required for local manufacturing, with corresponding creation of new jobs. The import effect, however, will be partly offset by losses incurred by local producers when new imports replace local products.

6.2 Participatory Approach: How are key stakeholders participating in the project?

The program design reflects views expressed by principal stakeholders including such Customs users as truckers and freight forwarders. Bank staff have conducted extensive interviews to identify trade impediments and their remedial actions during the preparation of the Economic Recovery and Transition Program. Another detailed analysis of traders, transport and forwarding companies, using the methodology developed under the TTFSE program will be available during the summer 2002. This analysis includes in particular a detailed review of the issues related to clearance of goods and border crossing. In addition, activities planned under the Trade Facilitation Development component will foster opportunities for closer, more frequent and transparent contact and feedback between Customs and the trading community through YUPRO. Principal stakeholders, for example truckers and forwarders, are members of YUPRO and will therefore be actively involved in monitoring border delays and corruption. A change management team hired as consultant will support the FCA in ensuring the participation of external and internal stakeholders.

6.3 How does the project involve consultations or collaboration with NGOs or other civil society organizations?

The project has been prepared in collaboration (COL), consultation (CON), information sharing (IS) with the following:

a. **Primary Beneficiaries and Other Affected Groups**

- Exporters, importers, producers and consumers (CON)
- Road transport operators and their association (CON)
- Freight forwarders/shippers (CON)
- Yugoslav Chamber of Commerce and Industry and YUPRO (COL)
- Foreign investors (IS)
- Ministries of Finance, FCA and MCA (COL)
- Ministry of Interior and border police (COL)

b. **Other Key Stakeholders**

- The US Government, the European Commission, and other development partners (COL)
- IRU and FIATA - (Federation of International Freight Forwarding Agents) (COL)
- WCO (CON)
- UN-ECE, UNCTAD (COL)
6.4 What institutional arrangements have been provided to ensure the project achieves its social development outcomes?

The partnership with the YUPRO Committee, which gathers representatives of the main stakeholders will enable monitoring of the impact on users.

6.5 How will the project monitor performance in terms of social development outcomes?

The Trade Facilitation Component will provide, at a regional level, specific performance indicators on reduction of corruption, access to training and access to border agency requirements. A regular review of major social development outcome is embedded in the annual survey of users.

7. Safeguard Policies:

7.1 Do any of the following safeguard policies apply to the project?

<table>
<thead>
<tr>
<th>Policy</th>
<th>Applicability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment (OP 4.01, BP 4.01, GP 4.01)</td>
<td>Yes</td>
</tr>
<tr>
<td>Natural Habitats (OP 4.04, BP 4.04, GP 4.04)</td>
<td>No</td>
</tr>
<tr>
<td>Forestry (OP 4.36, GP 4.36)</td>
<td>Yes</td>
</tr>
<tr>
<td>Pest Management (OP 4.09)</td>
<td>No</td>
</tr>
<tr>
<td>Cultural Property (OPN 11.03)</td>
<td>No</td>
</tr>
<tr>
<td>Indigenous Peoples (OD 4.20)</td>
<td>No</td>
</tr>
<tr>
<td>Involuntary Resettlement (OP/BP 4.12)</td>
<td>No</td>
</tr>
<tr>
<td>Safety of Dams (OP 4.37, BP 4.37)</td>
<td>No</td>
</tr>
<tr>
<td>Projects in International Waters (OP 7.50, BP 7.50, GP 7.50)</td>
<td>No</td>
</tr>
<tr>
<td>Projects in Disputed Areas (OP 7.60, BP 7.60, GP 7.60)*</td>
<td>No</td>
</tr>
</tbody>
</table>

7.2 Describe provisions made by the project to ensure compliance with applicable safeguard policies.

F. Sustainability and Risks

1. Sustainability:

The project will support concepts and techniques that are critical to fulfilling Yugoslavia's long-term objective of achieving sustainable growth and joining in the EU. Once the Customs administrations are modernized, the transparency in customs operations, regular cooperation among border agencies including those of other countries, and the gains captured by all parties involved in legitimate trade will become the main driver of sustainability. Continuous upgrading of Customs services, procedures, management, and equipment based on a suitable budget will enable the Customs to cope with trade and traffic growth, technological advancement, and continued compatibility with the EU. Systematic peer comparison using similar indicators will also create some stimulus for sustainable improvements.

2. Critical Risks (reflecting the failure of critical assumptions found in the fourth column of Annex 1):

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk Rating</th>
<th>Risk Mitigation Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor cooperation among border agencies creates inertia and strong resistance.</td>
<td>S</td>
<td>The selected Federal/Montenegrin Coordinators are entitled to request meetings of the various border agencies.</td>
</tr>
<tr>
<td>Political commitment is not adequate to</td>
<td>M</td>
<td>A broad-based support is generated by the</td>
</tr>
<tr>
<td>Risk</td>
<td>Description</td>
<td>Probability</td>
</tr>
<tr>
<td>------</td>
<td>-------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Resist pressure groups (public and private) and to ensure the success of the institutional program.</td>
<td>Coordination by the RSC is not effective.</td>
<td>M</td>
</tr>
<tr>
<td>Regional cooperation issues prevent the achievement of regional goals.</td>
<td>Cooperation between the MCA and the FCA deteriorates.</td>
<td>S</td>
</tr>
</tbody>
</table>

**From Components to Outputs**

<table>
<thead>
<tr>
<th>Risk</th>
<th>Description</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>The targeting and selectivity techniques are not effectively implemented at an operational level.</td>
<td>High turnover of staff slows down implementation.</td>
<td>S</td>
</tr>
<tr>
<td>The Constitution may be amended, making implementation more difficult.</td>
<td>Political changes lead to a change in the management of the FCA or MCA</td>
<td>H</td>
</tr>
<tr>
<td>The PIT experiences difficulties in managing project funds according to IDA requirements.</td>
<td>The PIT experiences difficulties in following IDA procurement rules.</td>
<td>H</td>
</tr>
<tr>
<td>Donor funding fails to materialize.</td>
<td></td>
<td>H</td>
</tr>
</tbody>
</table>

**Overall Risk Rating**

<table>
<thead>
<tr>
<th>Risk</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>This is a substantial risk, good-return project with a potential high return</td>
<td>S</td>
</tr>
</tbody>
</table>
3. Possible Controversial Aspects:

The facilitation of trade and fight against corruption require substantial efforts acting on multiple fronts. The International Convention on the Harmonization of the Frontier Controls of Goods (Geneva 1982) (Http://www.unece.org/trans/conventn/harmone.pdf) calls for a coordinating role by the Customs to ensure the efficient processing of vehicles. In Yugoslavia, this will require a repositioning of the Customs Administrations toward other border agencies. The strategies adopted confirm that this approach is suitable.

G. Main Credit Conditions

1. Effectiveness Condition

(a) The Coordinators of the Borrower and the Republic of Montenegro and all border agencies have entered into a memorandum of understanding providing the Website Coordinator with up-to-date and publicly available information on waiting time and opening hours at border crossings, bylaws, and procedures of border agencies;

(b) The FCA has introduced selective processing of vehicles and goods at its pilot locations, and has introduced a WTO-consistent standard declaration processing fee sufficient to fund the maintenance of the FCA computer systems; and


2. Other [classify according to covenant types used in the Legal Agreements.]

(a) By November 15 of each year, the Borrower and IDA will review progress achieved under the project including results at pilot sites based on agreed performance indicators, and will confirm the implementation program (including procurement packaging) and performance targets for the following year.

(b) The Borrower shall maintain its participation in the RSC, participate in the preparation of its agenda and organize a meeting of the RSC in turn.

(c) Except as IDA may otherwise agree, the Borrower shall take all necessary measures to achieve the following targets:

(i) the total number of customs declarations, which result in a physical inspection by the FCA at its pilot inland terminal does not exceed, on a monthly basis: (a) 75% by September 30, 2002; (b) 30% by September 30, 2003; and (c) 10% by September 30, 2004.

(ii) the number of trucks completing import clearance in less than 15 minutes at its pilot inland terminal exceeds, on a monthly basis: (a) 2% by September 2002; (b) 10% by September 30, 2003; and (c) 20% by September 30, 2004.

(iii) the number of incoming trucks opened at its pilot border crossings does not exceed, on a monthly basis: (a) 60% by September 30, 2002; (b) 30% by September 30, 2003 and (c) 20% by September 30, 2004.

(d) Except as IDA may otherwise agree, the Republic of Montenegro shall take all necessary measures to
achieve the following targets:

(i) the total number of customs declarations, which result in a physical inspection by the MCA at its pilot inland terminal does not exceed, on a monthly basis: (a) 80% by September 30, 2002; (b) 50% by September 2003 and (c) 30% by September 2004.
(ii) the number of trucks completing import clearance in less than 15 minutes at its pilot inland terminal exceeds, on a monthly basis: (a) 10% by September 30, 2002; (b) 12% by September 30, 2003 and (c) 15% by September 30, 2004.
(iii) the number of incoming trucks opened at its pilot border crossings does not exceed, on a monthly basis: (a) 70% by September 30, 2002; (b) 50% by September 30, 2003 and (c) 35% by September 30, 2004.

e. Condition of Disbursement. No withdrawal shall be made in respect of components A2 and B2 unless (i) the Component Implementation Agreement has been executed by the Federal Government of the Borrower and the Government of the Republic of Montenegro, and all conditions to the effectiveness of such agreement have been fulfilled; and (ii) the Republic of Montenegro border agencies have entered into a memorandum of understanding providing for and ensuring continuous processing of passengers during working hours by all such agencies at the pilot border crossing point of Debeli Breg.

H. Readiness for Implementation

☐ 1. a) The engineering design documents for the first year's activities are complete and ready for the start of project implementation.
☒ 1. b) Not applicable.

☐ 2. The procurement documents for the first year's activities are complete and ready for the start of project implementation.
☒ 3. The Project Implementation Plan has been appraised and found to be realistic and of satisfactory quality.
☐ 4. The following items are lacking and are discussed under loan conditions (Section G):

The major terms of reference and technical specifications for contracts funded by the Bank under the first year of implementation are ready.

I. Compliance with Bank Policies

☒ 1. This project complies with all applicable Bank policies.
☐ 2. The following exceptions to Bank policies are recommended for approval. The project complies with all other applicable Bank policies.

Michel Audige
Team Leader

Hossein Razavi
Sector Director

Christiaan J. Poortman
Country Director
Annex 1: Project Design Summary

FED. REP. OF YUGOSLAVIA: TRADE AND TRANSPORT FACILITATION IN SOUTHEAST EUROPE PROJECT

<table>
<thead>
<tr>
<th>Hierarchy of Objectives</th>
<th>Key Performance Indicators</th>
<th>Data Collection Strategy</th>
<th>Critical Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector-related CAS Goal: Restoring macroeconomic stability and external balance</td>
<td>Sector Indicators: Customs collected revenues increasing from US$200 million in 2000 to US$350 in 2004 Imports of goods increasing from US$3.7 B in 2000 to US$5.7 B in 2004 Exports increasing from US$1.9 B in 2000 to US$2.9 B in 2004 Quality of customs services gradually improving - Trade volume/number of staff increasing from $1.6M to $2.5M in 2004 - Annual number of declarations/customs staff increasing from 132 in 2000 to 400 in 2004 - FCA cost/revenue collected decreasing from 3.1% to 2.1% - FCA salaries/revenue collected decreasing from 2.2% to 1.1% - Revenue collected/customs staff increasing from US$63,000 in 2000 to US$250,000 in 2004</td>
<td>Sector/country reports: FCA annual report User surveys and official statistics</td>
<td>(from Goal to Bank Mission) Wealth is distributed appropriately to alleviate poverty.</td>
</tr>
<tr>
<td>Stimulating near-term growth and creating the basis for a sustainable supply response</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Development Objective: Reduce non-tariff costs to trade and transport</td>
<td>Outcome / Impact Indicators: (see Table 1 and 2 for values) - Transport cost to/from the three main trading partners decreasing annually by 2 percent on average from year 2002 (in US$) - Import clearance time down at pilot inland terminal - Clearance in less than 15 ' up - Average entry/exit time down - (for MCA) processing time for passenger vehicles down</td>
<td>Project reports: Annual survey via Chamber of Commerce and Industry using TTFSE methodology and performance measurements at pilot sites</td>
<td>(from Objective to Goal) Business environment (competitive market, post-privatization corporate governance and judicial and regulatory systems) will be improved Reform in the banking/insurance sector will reinforce trade activities</td>
</tr>
<tr>
<td>Reduce smuggling and corruption at border crossings</td>
<td>during peak periods. -Occurrence of corruption cases up initially and then down -Petty payment frequency and value decreasing</td>
<td>FCA/MCA records</td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------------</td>
<td>--------------------------------------------------------------------------------</td>
<td>-----------------</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Annual survey of business/truckers in the region</td>
<td></td>
</tr>
</tbody>
</table>

- 30 -
<table>
<thead>
<tr>
<th>Hierarchy of Objectives</th>
<th>Key Performance Indicators</th>
<th>Data Collection Strategy</th>
<th>Critical Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output from each Component:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Modernized Customs Administration and Procedures; and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Improved Information Systems</td>
<td>Output Indicators: (see Table 1 and 2 for values) At the pilot terminals: -Physical inspection down -Irregularities/number of examinations down in the FCA and up in the MCA At pilot border crossing points -Truck examination (%) down -Irregularities/number of inspections up -Surveyed occurrence of corruption up initially and then down -Risk assessment and selectivity effective by the end of 2002 -Number of hits by mobile enforcement units</td>
<td>Project reports: FCA/MCA and Annual review/supervision missions TTFSE Website</td>
<td>(from Outputs to Objective) Cooperation among border agencies will be effective. Border agencies will be allowed to introduce new procedures at pilot sites. Political commitment will be adequate to resist pressure groups (public and private) and to ensure the success of the institutional program. Regional cooperation through the RSC and other mechanisms will accelerate the achievement of regional goals. The Customs management team will remain in position at least until the modernization process is well advanced.</td>
</tr>
<tr>
<td>3. Good access to border agency requirements, active dialogue with service providers, enhanced skills among road transport operators and forwarders</td>
<td>-Provision of all border/trade agency requirements on the TTFSE website - Two distance learning programs available online on the TTFSE site, approved by IRU and FIATA -Professional management of project and performance measurements</td>
<td>TTFSE Website</td>
<td></td>
</tr>
<tr>
<td>4. Project and program implementation support</td>
<td></td>
<td>WB Annual review</td>
<td></td>
</tr>
<tr>
<td>Hierarchy of Objectives</td>
<td>Key Performance Indicators</td>
<td>Data Collection Strategy</td>
<td>Critical Assumptions</td>
</tr>
<tr>
<td>-------------------------</td>
<td>---------------------------</td>
<td>--------------------------</td>
<td>----------------------</td>
</tr>
<tr>
<td>Project Components / Sub-components: (mm=man-month)</td>
<td>Inputs: (budget for each component) Amounts in US$ with tax and contingencies</td>
<td>Project reports:</td>
<td>The FCA/MCA will implement their modernization programs using the consultants' inputs and other agencies will actively participate in the pilot sites</td>
</tr>
<tr>
<td>1. Customs Administration Modernization</td>
<td>Federal: 129 mm, equipment</td>
<td>3,011,000</td>
<td>Quarterly progress reports, supervision reports, annual reports and project evaluation</td>
</tr>
<tr>
<td></td>
<td>Montenegro: 15 mm</td>
<td>442,000</td>
<td></td>
</tr>
<tr>
<td>2. Information System Component</td>
<td>FCA: 48mm, 58 servers, WAN for 70 locations</td>
<td>5,556,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>MCA: 8mm, 7 servers, 160 workstations</td>
<td>861,000</td>
<td></td>
</tr>
<tr>
<td>3. Trade Facilitation Component</td>
<td>website, 24 seminar units</td>
<td>544,000</td>
<td></td>
</tr>
<tr>
<td>4. Program and Project Implementation</td>
<td>training, consulting services</td>
<td>569,000</td>
<td></td>
</tr>
</tbody>
</table>

Indicator values after 2004 will be established during the mid term review.

Federal Customs Administration-Agreed Performance Targets

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2000</th>
<th>Sep 2001</th>
<th>Sep 2002</th>
<th>Sep 2003</th>
<th>Sep 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Performance of Customs (FCA)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pilot Inland Terminal of Belgrade</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Import Clearance Time (min.)</td>
<td>Actual</td>
<td>Actual</td>
<td>Target</td>
<td>Target</td>
<td>Target</td>
</tr>
<tr>
<td>Physical Examination (%)</td>
<td>100</td>
<td>75</td>
<td>30</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Trucks cleared in less than 15 min. (%)</td>
<td>0</td>
<td>2</td>
<td>10</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Irregularities/ No. of examinations (%)</td>
<td>35</td>
<td>35</td>
<td>5-12</td>
<td>5-12</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>----</td>
<td>----</td>
<td>------</td>
<td>------</td>
<td></td>
</tr>
<tr>
<td><strong>Pilot Border Crossings</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Truck Examination (%)</td>
<td>85</td>
<td>60</td>
<td>30</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Irregularities/ No. of Examinations (%)</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5-12</td>
<td></td>
</tr>
<tr>
<td>Average Border Exit Time (min.)</td>
<td>30</td>
<td>28</td>
<td>25</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Average Border Entry Time (min.)</td>
<td>180</td>
<td>100</td>
<td>50</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Surveyed Occurrence of Corruption</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue collected/customs staff (US$ 000)</td>
<td>63</td>
<td>100</td>
<td>140</td>
<td>200</td>
</tr>
<tr>
<td>Total FCA Cost/Revenue collected (%)</td>
<td>3.1</td>
<td>2.9</td>
<td>2.5</td>
<td>2.2</td>
</tr>
<tr>
<td>Salaries/Revenue collected (%)</td>
<td>2.2</td>
<td>2.0</td>
<td>1.7</td>
<td>1.5</td>
</tr>
<tr>
<td>Trade Volume/ Number of staff (US$ million)</td>
<td>1.6</td>
<td>1.8</td>
<td>2.0</td>
<td>2.2</td>
</tr>
<tr>
<td>Annual Number of Declarations/ Custom Staff</td>
<td>132</td>
<td>148</td>
<td>200</td>
<td>300</td>
</tr>
<tr>
<td>Transport Cost for the main export commodity traded with the three main trading partners (US$- base 100 in 2001)</td>
<td>100</td>
<td>98</td>
<td>96</td>
<td>94</td>
</tr>
<tr>
<td>Value of Recorded Imports for Yugoslavia (US$ mil.)</td>
<td>3,711</td>
<td>4,506</td>
<td>4,944</td>
<td>5,315</td>
</tr>
<tr>
<td>Value of Recorded Exports for Yugoslavia (US$ mil.)</td>
<td>1,923</td>
<td>1,989</td>
<td>2,234</td>
<td>2,598</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Source of actual values</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total FCA Revenue Collected (US$ mil.)</td>
<td>200</td>
</tr>
<tr>
<td>Total FCA Cost (US$ million)</td>
<td>6.14</td>
</tr>
<tr>
<td>Total Number of FCA Staff</td>
<td>3,151</td>
</tr>
<tr>
<td>Total FCA Salaries (US$ million)</td>
<td>4.46</td>
</tr>
<tr>
<td>Annual Number of Declarations</td>
<td>417,137</td>
</tr>
<tr>
<td>Trade Volume for Serbia (US$ million)</td>
<td>5,077</td>
</tr>
</tbody>
</table>

Indicator values after 2004 will be established during the mid term review.

**Montenegrin Customs Administration-Agreed Performance Targets**

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2000</th>
<th>Sep 2001</th>
<th>Sep 2002</th>
<th>Sep 2003</th>
<th>Sep 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Performance of Customs (MCA)</strong></td>
<td>Actual</td>
<td>Target</td>
<td>Target</td>
<td>Target</td>
<td>Target</td>
</tr>
<tr>
<td>Pilot Inland Terminal of Podgorica</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Import Clearance Time (min.)</td>
<td>326</td>
<td>250</td>
<td>150</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>Physical Examination (%)</td>
<td>100</td>
<td>80</td>
<td>50</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Trucks cleared in less than 15 min. (%)</td>
<td>0</td>
<td>10</td>
<td>20</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Irregularities/ No. of examinations (%)</td>
<td>0</td>
<td>5-12</td>
<td>5-12</td>
<td>5-12</td>
<td></td>
</tr>
<tr>
<td>Pilot Border Crossings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Truck Examination (%)</td>
<td>100</td>
<td>70</td>
<td>50</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Irregularities/ No. of Examinations (%)</td>
<td>0</td>
<td>5-12</td>
<td>5-12</td>
<td>5-12</td>
<td></td>
</tr>
<tr>
<td>Average Border Exit Time (min.)</td>
<td>16</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Average Border Entry Time (min.)</td>
<td>65</td>
<td>50</td>
<td>40</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Surveyed Occurrence of Corruption</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>
### Development Objective Achievements

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue collected/customs staff (US$000)</td>
<td>283</td>
<td>293</td>
<td>300</td>
<td>330</td>
</tr>
<tr>
<td>Total MCA Cost/Revenue collected (%)</td>
<td>2.12</td>
<td>2.07</td>
<td>2.05</td>
<td>2.0</td>
</tr>
<tr>
<td>Salaries/Revenue collected (%)</td>
<td>1.38</td>
<td>1.25</td>
<td>1.2</td>
<td>1.1</td>
</tr>
<tr>
<td>Trade Volume/ Number of staff (US$ 000)</td>
<td>2.06</td>
<td>2.12</td>
<td>2.30</td>
<td>2.50</td>
</tr>
<tr>
<td>Annual Number of Declarations/ Custom Staff</td>
<td>127</td>
<td>138</td>
<td>170</td>
<td>250</td>
</tr>
<tr>
<td>Transport Cost for the main export commodity traded with the three main trading partners (US$ base 100 in 2001)</td>
<td>100</td>
<td>98</td>
<td>96</td>
<td>94</td>
</tr>
</tbody>
</table>

Presupposes assistance from other donors outside the TTFSE project

### Source of actual values

<table>
<thead>
<tr>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total MCA Revenue Collected (US$ mil.)</td>
</tr>
<tr>
<td>Total MCA Cost (US$ million)</td>
</tr>
<tr>
<td>Total Number of MCA Staff</td>
</tr>
<tr>
<td>Total MCA Salaries (US$ million)</td>
</tr>
<tr>
<td>Annual Number of Declarations</td>
</tr>
<tr>
<td>Trade Volume (US$ million)</td>
</tr>
</tbody>
</table>

Indicator values from 2004 onward will be established during the mid-term review.

### Regional Performance Indicators

<table>
<thead>
<tr>
<th>Itinerary</th>
<th>Avg Time (hours)</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2003 as % of 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Istanbul-Bucharest</td>
<td>Avg Time (hours)</td>
<td>80</td>
<td>78</td>
<td>75</td>
<td>71</td>
<td>89</td>
</tr>
<tr>
<td>Average Cost (DEM)</td>
<td>2,030</td>
<td>2,000</td>
<td>1,950</td>
<td>1,880</td>
<td>93</td>
<td></td>
</tr>
<tr>
<td>II. Istanbul-Tirana</td>
<td>Avg Time (hours)</td>
<td>192</td>
<td>189</td>
<td>182</td>
<td>172</td>
<td>90</td>
</tr>
<tr>
<td>Average Cost (DEM)</td>
<td>5,600</td>
<td>5,520</td>
<td>5,380</td>
<td>5,200</td>
<td>93</td>
<td></td>
</tr>
<tr>
<td>III. Sarajevo-Ljubljana</td>
<td>Avg Time (hours)</td>
<td>40</td>
<td>40</td>
<td>39</td>
<td>38</td>
<td>95</td>
</tr>
<tr>
<td>Average Cost (DEM)</td>
<td>1,500</td>
<td>1,480</td>
<td>1,460</td>
<td>1,440</td>
<td>96</td>
<td></td>
</tr>
<tr>
<td>IV. Istanbul-Zagreb</td>
<td>Avg Time (hours)</td>
<td>1,500</td>
<td>1,480</td>
<td>1,460</td>
<td>1,440</td>
<td>90</td>
</tr>
<tr>
<td>Average Cost (DEM)</td>
<td>1,800</td>
<td>1,750</td>
<td>1,675</td>
<td>93</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Base-year values are estimates by Bank staff for a single 20-ton truck-load, based on a survey of freight forwarders in the Southeast Europe region.
Annex 2: Detailed Project Description

**FED. REP. OF YUGOSLAVIA: TRADE AND TRANSPORT FACILITATION IN SOUTHEAST EUROPE PROJECT**

Costs in the table are base costs (without taxes and contingencies) while costs in the header include taxes and contingencies.

By Component:

**Project Component 1 - US$3.01 million**

A-1. Modernization of the FCA

<table>
<thead>
<tr>
<th>Component</th>
<th>Sub Component</th>
<th>Investment (US$)</th>
<th>Detail</th>
</tr>
</thead>
</table>
| 1. Integration of project components (TA) | 1.1 Harmonization of inputs | 600,000<br>30 m/m (US funding) | • Provide support in coordinating the different inputs to the modernization program and phases of the project, and advise the FCA on the planning/implementation of the modernization process.  
• Facilitate the inputs from all border agencies to prepare a streamlined processing scheme for all cross-border transactions and clearance activities.  
• Assist in preparing legislation and regulations to accompany the modernization process, and support their implementation  
• Organize seminars, training and study tours for relevant officials. |
| | 1.2 Assistance to the change management process | 260,000<br>13 m/m | • Identify, cooperate with, and assist, all the key players (border control agencies and other government officials) involved in (i) drafting, (ii) managing, (iii) coordinating legislation and regulations related to cross-border issues, and (iv) introducing a selective approach to the processing of goods.  
• Provide support in systematically monitoring progress/obstacles on the various dimensions of the modernization plan.  
• Provide support in ensuring effective public relations efforts for the modernization plan.  
• Define and support the implementation of a strategy to address the change/human aspects of modernization and generate momentum at all levels. |
| | 1.3. Establishment of pilot sites | 360,000<br>18 m/m (US funding) | • Establish programs to implement new border processing procedures and practices on a test basis, with a view to expanding the use of successful ideas nationwide. Areas to be addressed include procedures, staffing, automation and cooperation among agencies.  
• Assist in preparing automated procedures to collect management data, in particular performance indicators. |
| | 1.4. Training programming | 40,000<br>2 m/m (US funding) | • Elaborate a training program to provide staff with the knowledge, skills and attitudes required to handle the new procedures and techniques. |
| 2. Introduction of new procedures (TA) | 2.1. Support to the implementation of EU-aligned procedures and standards | 80,000 4 m/m (US funding) | • Review organization and current practices.  
• Assist in drafting regulations and guidelines for new procedures, including post-release control/audit.  
• Participate in the reorganization process, including the use of IT systems, notably for selectivity and targeting. |
| --- | --- | --- | --- |
| 2.2. Technical training | 240,000 12 m/m (US funding) | • Specialist courses in Customs techniques and organization.  
• Training of trainers. |
| 2.3. Foreign training | 40,000 (US funding) | • Training seminars and visits abroad for selected trainers. |
| 2.4. Selectivity | 120,000 6 m/m (UK funding) | Support the FCA in introducing selectivity through required technical assistance, institutional building and training. Apply selectivity and targeting in particular to the various pilot sites.  
• Provide initial training to trainers.  
• Establish a national risk profile management unit  
• Design a mechanism for building, updating, and disseminating risk profiles.  
• Ensure feedback.  
• Support IT developments. |
| 2.5. Targeting | 120,000 6 m/m (UK funding) | Establish an integrated border management concept destined to identify suspicious individuals, vehicles, and consignments, while enabling legitimate traffic to proceed rapidly.  
• Provide initial training to trainers and design training modules.  
• Work on an integrated approach (in liaison with the pilot site / local project team – LPT – of the TTFSE), and review organization and procedures.  
• Establish the necessary linkages to sources of intelligence and data.  
• In liaison with component 2.6. below, prepare a staffing and organization plan. |
| 2.6. Combat smuggling, illegal immigration, and organized crime | 120,000 6 m/m (UK funding) | As a complement to 1.1. and 1.2. above:  
• Provide training and recommend the appropriate organization and inter-agency linkages to optimize the role of Customs in combating smuggling, illegal immigration and organized crime.  
• Establish a cross-designation system for border officials.  
• Establish coordination with investigation services. |
| 3. Support to the introduction of a Preventive and Enforcement Unit | 3.1. Preparation of a detailed strategy adapted to Customs processing and anti-smuggling | 120,000 6 m/m (French funding) | Balance, through targeting, selectivity methods, and improved enforcement techniques, the relaxing of the current comprehensive and overlapping checks carried out on imported goods, and at the borders on individuals and vehicles |
| in the FCA (TA) activities | sought) | • Prepare and seek the approval of the authorities for an action plan covering (i) identification, re-deployment, and allocation of existing staff, (ii) organization of the P&E service, (iii) training, and (iv) exposure to best practice standards.  
• Initiate a training plan  
• Establish several pilot mobile units. |
|---------------------------|---------|--------------------------------------------------|
| 3.2. Develop the Preventive and Enforcement service | 120,000 6 m/m (French funding sought) | Identify all areas, including those that are not revenue-related, where Customs can provide a service to the community including illegal immigration, organized crime, intellectual property, and environment issues.  
• Identify areas and prepare a work methodology.  
• Conduct initial training.  
• Establish operational agreements with other agencies.  
• Prepare cross-training of all law enforcement officers. |
| 3.3. Legislative and institutional support | 80,000 4 m/m (French funding sought) | This task will provide the legislative and organizational framework.  
• Review existing legislation, prepare operational guidelines, and introduce MoUs between relevant agencies.  
• Assist in promoting inter-agency cooperation  
• Establish international contacts. |
| 3.4. Organization | 120,000 6 m/m (French funding sought) | The purpose of this activity is to design a modern job process destined to (i) support the P&E service, (ii) facilitate its integration in the Yugoslav environment, and (iii) optimize its outputs.  
• Prepare HR management systems and assist in the phased introduction of the P&E service through (i) staffing, (ii) regulations, (iii) exchange of information and use of IT solutions, and (iv) management of checks by objective.  
• Integrate the P&E service in the overall Customs process, in particular in support of post release audits and investigations.  
• Organize seminars and training for judges, prosecutors, other officials. |
| 3.4. Foreign training | 80,000 (UK funding sought) | • Orientation and training visits for selected officials.  
• Local visits by international staff. |
| 4. Management of human resources (TA) 4.1. Introduction of an anti-corruption strategy | 40,000 2 m/m (US funding) | • Identify procedures and situations leading to unethical practices.  
• Assist in introducing initial measures and defining a long-term plan.  
• Contribute to the measurement of progress and use of feedback from users. |
| 4.2. Staff management | 40,000 2 m/m (US funding) | • Prepare staff rewards and incentive schemes.  
• Participate in drafting legislation, regulations, and guidelines to support these schemes, and identify |
corresponding resources.

- Elaborate a flexible and output-oriented HR management system.

| 5. Search equipment | 5.1 Equipment to improve verifications and expedite clearance of legitimate traffic | 50,000 | Fiber optic scopes, busters, and other portable search and detection equipment. 
- Accessories or accompanying equipment for checking vehicles. 
- Equipment for unloading and checking trucks. |
|----------------------|--------------------------------------------------------------------------------|--------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5.2 Vehicles for clearance checks | 100,000 | Fiber optic scopes, busters, and other portable search and detection equipment. 
- Accessories or accompanying equipment for checking vehicles. 
- Equipment for unloading and checking trucks. |
| 5.3. Vehicles to accompany and verify transit traffic | 20,000 | Fiber optic scopes, busters, and other portable search and detection equipment. 
- Accessories or accompanying equipment for checking vehicles. 
- Equipment for unloading and checking trucks. |
| 6. Verification equipment | 6.1. Mobile weighing devices | 30,000 | Five mobile weighing devices to be rotated among border stations and selected inland locations to allow selective weighing of trucks. 
- This activity will serve both Customs enforcement purposes and enforcement of maximum load regulations under the highway code, subject to the necessary legislative amendments. |
| Total without tax and contingencies | | 2,780,000 | US$2,780,000 out of which donor funding sought US$2,320,000 : US$1,440,000 (US); US$440,000 (France); US$440,000 (UK). |

**Project Component 2 - US$0.44 million**

A-2. Modernization of the MCA

<table>
<thead>
<tr>
<th>Component</th>
<th>Sub Component</th>
<th>Investment (US$)</th>
<th>Detail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procedure Modernization (TA)</td>
<td>1. Streamlining at border stations</td>
<td>150,000</td>
<td>Organizational and procedural review at border stations, inland terminals, supported by the necessary legislative and administrative changes.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7.5 m/m</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. Valuation and post-release audit</td>
<td>150,000</td>
<td>Reinforcement of the valuation and post-release audit capacity of the MCA, in connection with the introduction of selectivity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7.5 m/m</td>
<td></td>
</tr>
<tr>
<td>Total without tax and contingencies</td>
<td></td>
<td>300,000</td>
<td></td>
</tr>
</tbody>
</table>

- 38 -
**Project Component 3 - US$ 5.56 million**

**B-1. Support to FCA Information System Improvement**

<table>
<thead>
<tr>
<th>Component</th>
<th>Sub Component</th>
<th>Investment (US$)</th>
<th>Detail</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Consulting services</td>
<td>1.1. Business re-engineering</td>
<td>60,000</td>
<td>• Support in simplifying and standardizing customs procedures, with the introduction of EDI, selectivity and risk assessment, electronic payments. The process would lead to the definition of fully automated procedures with minimal human intervention.</td>
</tr>
<tr>
<td>1.2. Solution specification</td>
<td></td>
<td>40,000</td>
<td>• Support in defining technical solutions to implement the simplified procedures and create a platform for the Single Window Initiative, built on the use of Customs e-documents as the exchange method between all institutions/parties involved in Customs operations.</td>
</tr>
<tr>
<td>1.3. Software development</td>
<td></td>
<td>200,000</td>
<td>• Development of specific parts of the solutions defined during Task 1.2 including: (i) definition of e-documents and data format standards to be used for the information interchange with the other entities involved in the Customs operations; (ii) implementation of the interface with other border agencies; (iii) document management and workflow system; and (iv) accounting system.</td>
</tr>
<tr>
<td>1.4. Specific software acquisition</td>
<td></td>
<td>100,000</td>
<td>• Purchase of EU proprietary technology for international information exchange.</td>
</tr>
<tr>
<td>1.5. International e-document standards</td>
<td></td>
<td>60,000</td>
<td>• Specification of international e-document standards and related implementation.</td>
</tr>
<tr>
<td>1.6. Specific technical training</td>
<td></td>
<td>90,000</td>
<td>• Training for members of the IT department in: (i) managing and implementing e-documents; (ii) Web base system security and transactions.</td>
</tr>
<tr>
<td>1.7. Project management assistance</td>
<td></td>
<td>200,000 (US funding sought )</td>
<td>• Direct support to the FCA in project management, quality control, introduction of software development tools, methods and training. It comes in addition to an existing USTDA grant.</td>
</tr>
<tr>
<td>1.8. Specialized technical assistance</td>
<td></td>
<td>200,000</td>
<td>• Technical assistance to address unforeseen difficulties in the development of the system (several small contracts).</td>
</tr>
<tr>
<td>2. Hardware</td>
<td>2.1. Processing Infrastructure</td>
<td>2,530,000</td>
<td>• Field servers: 50 servers to be located in the Customs offices not linked by high-speed lines to the center.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Central servers: 8 servers located at central level: (a) 1 Customs operations data processing, (b) 1 data storage and statistics processing, (c) 2 for development and testing, (d) 2 for transaction monitoring and data</td>
</tr>
</tbody>
</table>
interchange. (a) and (b) will be duplicated for mirroring purpose. Software licenses as required.

- Uninterruptible power supply at 50 locations.
- Workstations: PCs and printers to upgrade existing work stations at Customs Offices, and security access devices such as smart cards.
- Technical training for rolling out the Processing Infrastructure.
- Air conditioning equipment for Customs office servers (50 locations).

<table>
<thead>
<tr>
<th>2.2. Communication infrastructure</th>
<th>800,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>• WAN: Upgrades and purchase of telecommunication hardware. It would include upgrading 70 routers to support digital lines, and wireless devices for the connection of Customs locations not connected in the current Wide Area Network, or connected through unreliable lines.</td>
<td></td>
</tr>
<tr>
<td>• LAN: TCP/IP LAN switches and hubs for 80 Customs Offices.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2.3 Communication installation and assistance</th>
<th>90,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Outsourced support to install, configure and test the system.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total without tax and contingencies</th>
<th>4,370,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Includes US$200,000 of US funding sought.</td>
<td></td>
</tr>
</tbody>
</table>

### Project Component 4 - US$0.86 million

#### B-2. Support to MCA Information System Improvement

<table>
<thead>
<tr>
<th>Component</th>
<th>Sub Component</th>
<th>Investment (US$)</th>
<th>Detail</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Hardware</td>
<td>1.1. Communications and Processing Infrastructure</td>
<td>425,000</td>
<td>• Servers: seven servers to be located at a central level. Workstations: about 160 workstations for border crossing points and clearance terminals. Wide Area Network equipment necessary to link the various Customs points in Montenegro.</td>
</tr>
<tr>
<td></td>
<td>1.2. Local Area Network Equipment</td>
<td>30,000</td>
<td>• TCP/IP switches and hubs for Customs Offices in Montenegro.</td>
</tr>
<tr>
<td>2. Software</td>
<td>2.1 Extensions of Main Application Software</td>
<td>150,000</td>
<td>• Support to add new functionalities to the Customs information system.</td>
</tr>
<tr>
<td>Total without tax and contingencies</td>
<td>605,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Project Component 5 - US$0.54 million

#### C. Trade Facilitation Development (US Grant Funding Sought for this Component)

<table>
<thead>
<tr>
<th>Component</th>
<th>Sub Component</th>
<th>Investment (US$)</th>
<th>Detail</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Strengthening of Private-Public Partnership</td>
<td>1.1. Establish and maintain FRY's input to the regional TTFSE website and strengthen trade facilitation interactions</td>
<td>60,000</td>
<td>- Participate in implementing the TTFSE regional website for road transport operators and forwarders and maintain suitable mechanisms to provide up-to-date information related to FRY. The website will enable transparency on policies, legal and regulatory framework and cooperation at a local, national and regional level among private and public parties. It will offer comprehensive information on border crossings and inland terminals, and on procedures of all border agencies in the region, supporting implementation of the TTFSE Program. All training materials developed under the Trade Facilitation Development will be made available on the site.</td>
</tr>
<tr>
<td></td>
<td>1.2 Support to YUPRO</td>
<td>110,000</td>
<td>- Provide direct support to YUPRO working groups, its public outreach program and its annual survey of business climate for road transport operators. Facilitate the participation of YUPRO members in exchange programs related to information technology and change management.</td>
</tr>
<tr>
<td>2. Improvement of the performance of trade facilitation agents</td>
<td>2.1. Expert services and training</td>
<td>330,000</td>
<td>- Develop and implement a series of conventional and distance-learning programs in trade, transport, and logistics focused on facilitating trade. Seminars would be offered through YUPRO and YCCI in Serbia and Montenegro. The distance learning programs to be launched through IRU and FIATA respectively will consist of: (i) a study guide; (ii) study sessions; (iii) reference readings; (iv) frequently asked questions; (v) exams; and (vi) certification by lead professional associations. Materials will be available either electronically on the website or in the form of paper copies printed out at YCCI.</td>
</tr>
<tr>
<td>Total (US$) without contingencies</td>
<td></td>
<td>500,000</td>
<td></td>
</tr>
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</table>

- 41 -
## Project Component 6 - US$0.57 million

### D. Program and Project Implementation

<table>
<thead>
<tr>
<th>Component</th>
<th>Sub Component</th>
<th>Investment (US$)</th>
<th>Detail</th>
</tr>
</thead>
<tbody>
<tr>
<td>PIT</td>
<td>Staff costs (FCA)</td>
<td>42,500</td>
<td>○ Non Bank financed.</td>
</tr>
<tr>
<td>PIT</td>
<td>Staff costs (MCA)</td>
<td>7,500</td>
<td>○ Non Bank financed.</td>
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<tr>
<td>PIT</td>
<td>Operating costs (FCA)</td>
<td>80,000</td>
<td>○ Operating costs (travel, translations 80% Bank financed)</td>
</tr>
<tr>
<td>PIT</td>
<td>Operating costs (MCA)</td>
<td>20,000</td>
<td>○ Operating costs (travel, translations 80% Bank financed)</td>
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<tr>
<td>PIT</td>
<td>PIT support</td>
<td>150,000</td>
<td>○ Procurement support, financial management system, translation, training for the PIT and accountant (FCA US$130,000/ MCA US$20,000).</td>
</tr>
<tr>
<td>Auditors</td>
<td>Consultant services</td>
<td>100,000</td>
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</tr>
<tr>
<td>Total (US$m) without taxes or contingencies</td>
<td></td>
<td>400,000</td>
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</table>
Annex 3: Estimated Project Costs

FED. REP. OF YUGOSLAVIA: TRADE AND TRANSPORT FACILITATION IN SOUTHEAST EUROPE PROJECT

Federal Republic of Yugoslavia
Trade and Transport Facilitation in Southeast Europe

Components Project Cost Summary

<table>
<thead>
<tr>
<th>Components</th>
<th>(US$ '000)</th>
<th>Local</th>
<th>Foreign</th>
<th>Total</th>
<th>Exchange</th>
<th>Costs</th>
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<tbody>
<tr>
<td>A. FCA Modernization</td>
<td></td>
<td></td>
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<tr>
<td>Integration (IDA)</td>
<td>117</td>
<td>208</td>
<td>325</td>
<td>64</td>
<td>3</td>
<td></td>
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<tr>
<td>Integration (US)</td>
<td>-</td>
<td>1,000</td>
<td>1,000</td>
<td>100</td>
<td>10</td>
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<tr>
<td>Introduction of New Procedures</td>
<td>-</td>
<td>1,320</td>
<td>1,320</td>
<td>100</td>
<td>13</td>
<td></td>
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<tr>
<td>Search and Verification Equipment</td>
<td>11</td>
<td>200</td>
<td>211</td>
<td>95</td>
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<td>Subtotal FCA Modernization</td>
<td>128</td>
<td>2,728</td>
<td>2,856</td>
<td>96</td>
<td>29</td>
<td></td>
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<tr>
<td>B. MCA Modernization</td>
<td></td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Procedure Modernization</td>
<td>126</td>
<td>243</td>
<td>369</td>
<td>66</td>
<td>4</td>
<td></td>
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<tr>
<td>Subtotal MCA Modernization</td>
<td>126</td>
<td>243</td>
<td>369</td>
<td>66</td>
<td>4</td>
<td></td>
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<tr>
<td>C. Support to FCA Information System Improvement</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>ISCS Development and Integration</td>
<td>461</td>
<td>852</td>
<td>1,313</td>
<td>65</td>
<td>13</td>
<td></td>
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<tr>
<td>Hardware/Network</td>
<td>176</td>
<td>3,330</td>
<td>3,506</td>
<td>95</td>
<td>36</td>
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<tr>
<td>Subtotal Support to FCA Information System Improvement</td>
<td>637</td>
<td>4,182</td>
<td>4,819</td>
<td>87</td>
<td>49</td>
<td></td>
</tr>
<tr>
<td>D. Support to MCA Information System Improvement</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hardware/Network</td>
<td>114</td>
<td>455</td>
<td>569</td>
<td>80</td>
<td>6</td>
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<tr>
<td>Software</td>
<td>38</td>
<td>150</td>
<td>188</td>
<td>80</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Subtotal Support to MCA Information System Improvement</td>
<td>151</td>
<td>605</td>
<td>756</td>
<td>80</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>E. Trade Facilitation Development</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developing Public Private Partnership</td>
<td>51</td>
<td>119</td>
<td>170</td>
<td>70</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Training and Seminars</td>
<td>99</td>
<td>231</td>
<td>330</td>
<td>70</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Subtotal Trade Facilitation Development</td>
<td>150</td>
<td>350</td>
<td>500</td>
<td>70</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>F. Program and Project Implementation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PIT Operating Cost</td>
<td>170</td>
<td>200</td>
<td>370</td>
<td>54</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Auditors</td>
<td>22</td>
<td>100</td>
<td>122</td>
<td>82</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Subtotal Program and Project Implementation</td>
<td>192</td>
<td>300</td>
<td>492</td>
<td>61</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Total BASELINE COSTS</td>
<td>1,384</td>
<td>8,408</td>
<td>9,792</td>
<td>86</td>
<td>100</td>
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<tr>
<td>Physical Contingencies</td>
<td>116</td>
<td>546</td>
<td>662</td>
<td>82</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Price Contingencies</td>
<td>209</td>
<td>320</td>
<td>529</td>
<td>60</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Total PROJECT COSTS</td>
<td>1,710</td>
<td>9,274</td>
<td>10,983</td>
<td>84</td>
<td>112</td>
<td></td>
</tr>
</tbody>
</table>
Annex 4: Cost Benefit Analysis Summary

**FED. REP. OF YUGOSLAVIA: TRADE AND TRANSPORT FACILITATION IN SOUTHEAST EUROPE PROJECT**

**The Principles of the Economic Evaluation:**

The proposed modernization of the FCA and the MCA will impact both border crossing processing and clearance at terminals on the full territory of Yugoslavia. While the costs are relatively straightforwardly identified, the marginal benefits linked to the project are subject to a wide margin of uncertainty, especially as regards the causal link between technical assistance inputs and their impact on behavior. However, specialist estimates and switching values indicate both high expected return and only a small probability of failure, even in case of substantial delays in the implementation.

The *economic cost-benefit analysis* compares the economic costs and benefits of the project over the implementation period and over an assumed 5-year economic life. Detailed calculations on costs and benefits are shown in Table 4.1. All costs and benefits are expressed in constant 2001 prices. All investment costs are net of import duties and of either taxes or subsidies.

**Table 4.1**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>1.36</td>
<td>1.28</td>
<td>-0.07</td>
</tr>
<tr>
<td>2003</td>
<td>4.17</td>
<td>5.24</td>
<td>1.08</td>
</tr>
<tr>
<td>2004</td>
<td>3.93</td>
<td>5.61</td>
<td>1.67</td>
</tr>
<tr>
<td>2005</td>
<td>0.06</td>
<td>4.45</td>
<td>4.39</td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td>2.91</td>
<td>2.91</td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td>2.59</td>
<td>2.59</td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td>2.22</td>
<td>2.22</td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td>2.08</td>
<td>2.08</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9.52</strong></td>
<td><strong>26.39</strong></td>
<td><strong>16.87</strong></td>
</tr>
</tbody>
</table>

**Summary of Benefits and Costs:**

**Costs**

The project cost considered for the economic evaluation amounts to US$9.5 million excluding taxes and including physical contingencies. It includes the following components: (i) technical assistance to the FCA and the MCA; (ii) information equipment for the FCA and the MCA; (iii) trade facilitation development
measures; and (iv) the cost of the program and project implementation.

Benefits

Two benefits have been quantified: (i) lower transport costs due to the diminution of waiting times at border crossings and clearance terminals; and (ii) economic benefits of trade expansion resulting from the project. The following additional benefits will be monitored over the project life, but were not quantified for the purpose of this evaluation: (i) time savings to passenger traffic at the border crossings and impact on tourism; (ii) increased quality of services provided by border agencies to the private sector (and potential impact on foreign direct investments); (iii) development of a state-of-the-art single electronic window with a potential high commercial value; (iv) increased market share of transport service providers through their education; (v) reduced maintenance cost of the information system; and (vi) increased revenue collections (although only a transfer payment to the Government, not a net benefit to the FRY economy per se).

Trade and Transport Costs Reduction. The annual savings on transport costs at border crossings and inland terminals under the project would progressively reach about US$5.6 million at the end of 2005, compared to a slower modernization without the project. Delays at border crossings and inland terminals are symptomatic of a number of issues associated with deficiencies in trade related services: procedural complexity, lack of interagency cooperation, cumbersome documentation requirements, systematic checks, slow customs clearance steps, absence of standard service times and inadequate infrastructure.

Wider Economic Impact of Increased Trade. In practice, the likely impacts on trade under the project comes from: (i) economies of scales in downstream markets; and (ii) increased reliability in the delivery of goods. Both will facilitate industrial and logistic service restructuring and facilitate the integration of local companies into international production chains. In the medium run (from 2003) these two elements should enable a significant increase in trade volumes. Such trade gains are obtained by combining trade creation and trade-substitution effects. The trade creation effect is the increased demand in the importing country for a commodity from an exporting country, resulting from the price decrease associated with the elimination or reduction of distortions. Trade substitution accounts for the tendency of importers to substitute goods from one source to another in response to a change in the import price of supplies from one source. Imports would be the most affected initially, since the border inefficiencies bear mostly on imports. However the regional nature of the project would simultaneously impact exports. Increased import volumes would benefit local consumers (inclusive of local companies relying on foreign inputs for their production) by increasing their consumer surplus and would create a loss for some local manufacturers, whose products become replaced by new imports. Increased export volume would benefit local producers by opening new market opportunities and would reduce local consumer surplus by reducing the quantity available on the local market at the initial price.

The broad economic impact of cheaper and better trade services on existing market failure is complex to analyze even in countries with valid statistical data and requires general equilibrium models taking into account the monetary/foreign exchange impacts of new trade patterns. Given the current level and quality of data available on Yugoslavia, such a detailed evaluation would not be realistic. Various studies, notably “The welfare implications of transport improvements in the presence of market failure”, Anthony Venables, London School of Economics and Michael Gasiorek, School of European Studies, describe this phenomenon and show additional benefits ranging between 20 and 30 percent over the transport savings generated. For the purpose of this evaluation, 20 percent was considered as the most appropriate. Variation within a likely range would not lead to a different conclusion on the viability of the project.
Main Assumptions:

The project would accelerate the pace of modernization and as a result increase the time savings expected from the modernization. The waiting time reduction with the project compared to the current performance is based on the agreed performance indicators in the project scenario. The progressive reduction of border crossing entry time (from entering the border area in one country to exiting the border area in the next country) to forty minutes for incoming traffic, in line with the performance targets, has been used as the basis to calculate the transport cost savings with the project. Even without the project some reduction in waiting time is expected. This waiting time reduction without the project compared to the current performance is based on estimates of modernization progress without the project using regional experience in border agency reform. Processing time without the project was estimated to be reduced: (i) by 5 percent annually from year 2004 to year 2006 at border crossing facilities; and (ii) by 10 percent, annually from year 2004 to year 2008 at border crossing facilities; and (iii) by 40 minutes from 2002 onwards due to the introduction of the TIR carnet system. The absence of needed telecommunication infrastructure to support the single electronic window without the project would impose a limit to the efficiency that could be achieved (in terms of selective processing and pre-clearance). The current average waiting time for trucks is based on repeated surveys using the TTFSE methodology carried out since August 2001.

The average value of time for trucks was obtained through interviews (US$350/day), and is conservative compared to other studies carried out in Yugoslavia (see project files). Traffic recovery will be impacted by several broad parameters: (i) the recovery of the Croatian, Yugoslav and Bosnian economies and increase in regional trade; (ii) the resurgence of transit traffic; (iii) the intensification of local cross-border movements; and (v) the increase in Yugoslav exports and imports. Overall traffic growth was assumed at 6 percent for the period under study compared to current traffic.

Sensitivity analysis / Switching values of critical items:

The internal rate-of-return would remain above 30 percent even in the case of a drop in traffic by 20 percent combined with an increase in investment cost by 20 percent. The project is robust as shown by the highly achievable switching values. If the impact of the project was delayed by two years the economic rate of return would still be above 30 percent.

<table>
<thead>
<tr>
<th>Table 4.2. Switching Values (to reach 12%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily Truck Value (US$/day)</td>
</tr>
<tr>
<td>Trade-related Benefit Coeff.</td>
</tr>
<tr>
<td>Traffic volume/existing traffic</td>
</tr>
<tr>
<td>Minimum Time Savings at BCP Pilot Sites (in minutes)</td>
</tr>
</tbody>
</table>
Annex 5: Financial Summary

FED. REP. OF YUGOSLAVIA: TRADE AND TRANSPORT FACILITATION IN SOUTHEAST EUROPE PROJECT

Years Ending
US$' 000

<table>
<thead>
<tr>
<th>IMPLEMENTATION PERIOD</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Financing</td>
<td>1565.0</td>
<td>3724.0</td>
<td>3555.0</td>
<td>2139.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Required Project Costs</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment Costs</td>
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<td>3537.0</td>
<td>3386.0</td>
<td>2109.0</td>
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<tr>
<td>Recurrent Costs</td>
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<td>187.0</td>
<td>169.0</td>
<td>30.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Total Project Costs</td>
<td>1565.0</td>
<td>3724.0</td>
<td>3555.0</td>
<td>2139.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Total Financing</td>
<td>1565.0</td>
<td>3724.0</td>
<td>3555.0</td>
<td>2139.0</td>
<td>0.0</td>
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<td>Financing</td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>IBRD/IDA</td>
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<td>2200.0</td>
<td>2260.0</td>
<td>2000.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Government</td>
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<td>374.0</td>
<td>480.0</td>
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<td>Central</td>
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<td>284.0</td>
<td>350.0</td>
<td>112.0</td>
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<td>0.0</td>
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<tr>
<td>Provincial</td>
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<td>130.0</td>
<td>26.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Co-financiers</td>
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<td>815.0</td>
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<td>0.0</td>
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<tr>
<td>User Fees/Beneficiaries</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Other</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total Project Financing</td>
<td>1565.0</td>
<td>3724.0</td>
<td>3555.0</td>
<td>2139.0</td>
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</tr>
<tr>
<td>Other</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Main assumptions:
The project recurrent costs are the costs of auditors and of the Project Implementation Team. The upgrade of the existing information system is expected to reduce the annual recurrent cost of the system and as such does not lead to an increase in recurrent costs in the post-project period.
Annex 6: Procurement and Disbursement Arrangements

FED. REP. OF YUGOSLAVIA: TRADE AND TRANSPORT FACILITATION IN SOUTHEAST EUROPE PROJECT

Procurement

Procurement - General


Procurement Responsibility

All procurement will be carried out by the Federal Customs Administration (FCA) with the participation of the Montenegrin Customs Administration (MCA) for the contracts which are to be signed and implemented by the MCA. A full-time technical staff member from the FCA has been assigned to carry out the procurement activities within the existing FCA structure. The responsibilities of the procurement specialist would include inter alia: (i) preparing and submitting to the Bank all procurement documents which require the Bank's prior review; (ii) carrying out any procurement action; (iii) updating and submitting to the Bank the procurement schedule; (iv) updating the General Procurement Notice and prepare Special Procurement Notices; and (v) ensuring that the procurement process is conducted based on principles of efficiency, economy and transparency.

Procurement Capacity Assessment of the PIT

During project preparation, an assessment of the FCA capacity to conduct procurement was carried out. At that time the Country Procurement Assessment Review had not yet been finalized. During the assessment it was determined that FCA had no previous experience in Bank procurement, while public procurement experience in general was quite limited. This was mainly due to the last 10 years of isolation from the international community, during which the enforcement of public procurement legislation was very weak. Based on these considerations, this PIT was rated high risk. An action plan to enhance the PIT capacity to conduct procurement was prepared. This action plan stipulates that the FCA will: (i) appoint one full-time technical expert as procurement officer for the project; (ii) build up the capacity of the procurement staff; (iii) prepare a procedural manual defining the composition of the tendering committee, procedures, flows of documents, signatory powers, and ethical requirements for the procurement staff; (iv) use Bank standard and sample bidding documents; and (v) secure international technical assistance in procurement during project implementation.

Training

During project preparation, procurement training was conducted for the benefit of the procurement team in the FCA. It included a presentation of the Bank Guidelines (Goods and Consultants) and of the Bank Standard Documents. The procurement team was also trained in how to use the procurement database on the Bank website. Hands-on training was provided for the preparation of the first contract to be procured. In addition, the mission organized an informal IT/IS procurement seminar for both FCA and MCA to ensure that the overall logic of the procurement documents and processes be understood. Further training will be provided according to the Action Plan.
Notification of Business Opportunities

A General Procurement Notice will be published by end of January 2002 to announce the bidding opportunities under the project and invite interested eligible suppliers and consultants to express interest and request any additional information from the FCA. The General Procurement Notice will continue to be updated annually. Specific Procurement Notices will be published for the IT procurement packages in UN Development Business and relevant technical journals and at least one newspaper of national circulation.

Procurement Methods

(i) Goods

International Competitive Bidding (ICB): would be used to procure goods for contracts estimated to cost US$100,000 or more each.

International Shopping (IS): would be used to procure goods for contracts estimated to cost less than US$100,000 each, up to an aggregate amount of US$ 100,000. The Borrower shall obtain quotations from at least three suppliers from at least two different countries, which may include the Borrower's. To minimize the risk of getting only one or two quotations, clients are advised to initially request more than three quotations. The Borrower may also at the time of the request, verify whether those being invited will make an offer or not. Quotation for foreign goods located in the Borrower country and offered by a firm located in the Borrower country, are considered as quoted from abroad for purposes of satisfying the "two different countries" rule. This is applicable, for example, to items such as computers, vehicles, etc., that are normally imported by dealers of the foreign manufacturers who are also able to provide after-sales service.

National Shopping (NS): would be used to procure goods and technical services for contracts estimated to cost less than US$50,000 up to an aggregate amount of US$100,000.

Direct Contracting (DC): will be used to procure software of a proprietary nature such as cross border/international information exchange software, i.e. proprietary technologies required to interface with the IBM/Oracle MT-SERIS system of the European Taxation and Customs Union (TAXUD) - up to an aggregate amount of US$150,000.

Prior and post review by the Association of goods contracts: all contracts for the supply of goods estimated to cost the equivalent of US$ 100,000 or more will be subject to prior review as well as all contracts awarded without competition. All other contracts will be subject to post review.

(ii) Consulting Services

Quality and Cost Based Selection (QCBS): would be used to hire consulting firms to provide technical assistance and training under contracts estimated to cost more than US$100,000.

Selection under a fixed budget (SFB): would be used for specialized technology training services.

Least Cost Selection (LCS): would be used for the contract for audit services.

Consultants' Qualifications (CQ) would be used for contracts amounting to less than US$100,000, including technical assistance for software customization.

Individuals: would be hired to provide technical assistance in accordance to Section V of the Guidelines.

Prior and post review by the Association of the Consulting Contracts: all contracts estimated to cost the equivalent of US$ 100,000 or more per contract with firms and US$ 50,000 with individuals will be subject to prior review. All other contracts will be subject to post review except for the first contract under
the CQ selection method, and all Terms of Reference which will be subject to prior review.

(iii) PIT Incremental Operating Costs

Items for operation of the PIT (US$150,000) will be procured in accordance with an agreed budget and schedule.

Procurement Implementation Schedule and Advance Procurement Actions:

The agreed procurement plan (Table 6 B 2) will be used as a basis for procurement monitoring. The following major advance procurement actions have been identified: preparation of tender package for: (i) FCA and MCA communication infrastructure; (ii) FCA technical assistance in the change management process; and (iii) MCA technical assistance for selectivity.

Procurement methods (Table A)

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>ICB</th>
<th>NCB</th>
<th>Other</th>
<th>N.B.F.</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Works</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
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<tr>
<td>2. Goods</td>
<td>4.94</td>
<td>0.00</td>
<td>0.32</td>
<td>0.00</td>
<td>5.26</td>
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<tr>
<td>3. Services</td>
<td>0.00</td>
<td>0.00</td>
<td>2.35</td>
<td>3.14</td>
<td>5.49</td>
</tr>
<tr>
<td>Training</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(1.82)</td>
<td>(0.00)</td>
<td>(1.82)</td>
</tr>
<tr>
<td>4. Operational expenses</td>
<td>0.00</td>
<td>0.00</td>
<td>0.15</td>
<td>0.08</td>
<td>0.23</td>
</tr>
<tr>
<td>Total</td>
<td>4.94</td>
<td>0.00</td>
<td>2.82</td>
<td>3.22</td>
<td>10.98</td>
</tr>
</tbody>
</table>

*Figures in parenthesis are the amounts to be financed by the IDA Credit. All costs include contingencies.

1 Includes goods to be procured through national shopping, consulting services, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs related to managing the project.
Table A1: Consultant Selection Arrangements (optional)
(US$ million equivalent)

<table>
<thead>
<tr>
<th>Consultant Services Expenditure Category</th>
<th>QCBS</th>
<th>QBS</th>
<th>SFB</th>
<th>LCS</th>
<th>CQ</th>
<th>Other</th>
<th>N.B.F.</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Firms</td>
<td>1.17</td>
<td>0.00</td>
<td>0.13</td>
<td>0.14</td>
<td>0.51</td>
<td>0.00</td>
<td>3.14</td>
<td>5.09</td>
</tr>
<tr>
<td></td>
<td>(0.94)</td>
<td>(0.00)</td>
<td>(0.10)</td>
<td>(0.11)</td>
<td>(0.41)</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.94)</td>
</tr>
<tr>
<td>B. Individuals</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.40</td>
<td>0.00</td>
<td>0.40</td>
</tr>
<tr>
<td></td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.26)</td>
<td>(0.00)</td>
<td>(0.26)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1.17</td>
<td>0.00</td>
<td>0.13</td>
<td>0.14</td>
<td>0.51</td>
<td>0.40</td>
<td>3.14</td>
<td>5.49</td>
</tr>
<tr>
<td></td>
<td>(0.94)</td>
<td>(0.00)</td>
<td>(0.10)</td>
<td>(0.11)</td>
<td>(0.41)</td>
<td>(0.26)</td>
<td>(0.00)</td>
<td>(1.82)</td>
</tr>
</tbody>
</table>

1\ Including contingencies

Note: QCBS = Quality- and Cost-Based Selection
QBS = Quality-based Selection
SFB = Selection under a Fixed Budget
LCS = Least-Cost Selection
CQ = Selection Based on Consultants' Qualifications
Other = Selection of individual consultants (per Section V of Consultants Guidelines), Commercial Practices, etc.
N.B.F. = Not Bank-financed
Figures in parenthesis are the amounts to be financed by the Bank Credit.
### Table B: Thresholds for Procurement Methods and Prior Review

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Contract Value Threshold (US$ thous.)</th>
<th>Procurement Method</th>
<th>Contracts Subject to Prior Review (US$ thous.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Works</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2. Goods</td>
<td>&gt;US$100</td>
<td>ICB</td>
<td>4,942 (100%)</td>
</tr>
<tr>
<td></td>
<td>US$50-100</td>
<td>DC (aggregate: 150)</td>
<td>150 (100%)</td>
</tr>
<tr>
<td></td>
<td>&lt;US$50</td>
<td>IS (aggregate:100)</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td></td>
<td>NS (aggregate: 100)</td>
<td>N/A</td>
</tr>
<tr>
<td>3. Services</td>
<td>Firms</td>
<td>QCBS</td>
<td>1,167 (100%)</td>
</tr>
<tr>
<td></td>
<td>&gt;100</td>
<td>SFB (aggregate: 133)</td>
<td>133 (100%)</td>
</tr>
<tr>
<td></td>
<td>Audit</td>
<td>LCS (aggregate: 138)</td>
<td>35 (25%)-first year contract</td>
</tr>
<tr>
<td></td>
<td>&lt;100</td>
<td>CQ (aggregate 507)</td>
<td>50 (10%)-first contract</td>
</tr>
<tr>
<td></td>
<td>Individuals</td>
<td>Section V (aggregate 406)</td>
<td>203 (50%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>prior review &gt;USD 50</td>
<td></td>
</tr>
<tr>
<td>TOTAL contracts</td>
<td>7,616</td>
<td></td>
<td>6680 (88%)</td>
</tr>
</tbody>
</table>

**Total value of contracts subject to prior review:**

**Overall Procurement Risk Assessment**

High

**Frequency of procurement supervision missions proposed:** One every 6 months (includes special procurement supervision for post-review/audits)

Special attention should be given to IT procurement supervision. Given the high risk rating, post review will cover at least 20 percent of contracts. The intensity may decrease in the subsequent years depending on the progress of the project.
<table>
<thead>
<tr>
<th>Package No</th>
<th>Description of Package</th>
<th>No. of Lots</th>
<th>Type of Procurement</th>
<th>Procurement Method</th>
<th>Estimated Cost (US$ thousand with contingencies)</th>
<th>Prequalification</th>
<th>Preparation of Tender Documents and Bank no objection</th>
<th>Bid/Proposal Submission</th>
<th>1. Invitation Signing</th>
<th>2. Bid/Proposal Submission</th>
<th>3. Evaluation Award</th>
<th>Contract Signing</th>
<th>Contract Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1 –</td>
<td>Modernization of FCA Technical Services and Equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. Integration of project components</td>
<td></td>
<td>CS</td>
<td>NBF US funding</td>
<td>1,032</td>
<td>N/A</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6. Introduction of new procedures</td>
<td></td>
<td>CS</td>
<td>NBF US/UK funding</td>
<td>744</td>
<td>N/A</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>7. Support to the introduction of a Prevention and Enforcement Service</td>
<td></td>
<td>CS</td>
<td>NBF UK/French Funding</td>
<td>534</td>
<td>N/A</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8. Management of Human Resources</td>
<td></td>
<td>CS</td>
<td>NBF US funding</td>
<td>80</td>
<td>N/A</td>
<td></td>
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<tr>
<td>A2 –</td>
<td>Modernization of MCA Technical Services</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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<tr>
<td></td>
<td>TA for: (a) Streamlining of border station procedures and organization; (b) Strengthening valuation and post-release audit procedures</td>
<td></td>
<td>CS</td>
<td>QCBS</td>
<td>442</td>
<td>N/A</td>
<td>December 2001-January 2002</td>
<td>February-June 2002</td>
<td>July 2002</td>
<td>June 2003</td>
<td></td>
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</tr>
<tr>
<td>Package No</td>
<td>Description of Package</td>
<td>No. of Lots</td>
<td>Type of Procurement</td>
<td>Procurement Method</td>
<td>Estimated Cost US$ thousand (with contingencies)</td>
<td>Prequalification</td>
<td>Preparation of Tender Documents and Bank no objection</td>
<td>Bid/Proposals</td>
<td>Contract Signing</td>
<td>Contract Completion</td>
<td></td>
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</tr>
<tr>
<td>12.</td>
<td>Software development tools, methods, training, quality assurance, sub-project management</td>
<td>CS</td>
<td>NBF US funding</td>
<td>205</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Dec. 2001</td>
<td>Dec. 2004</td>
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<tr>
<td>Package No</td>
<td>Description of Package</td>
<td>No.</td>
<td>Type of Procurement</td>
<td>Procurement Method</td>
<td>Estimated Cost (US$ thousand) (with contingencies)</td>
<td>Prequalification</td>
<td>Preparation of Tender Documents and Bank no objection</td>
<td>Bid/Proposals</td>
<td>Contract Signing</td>
<td>Contract Completion</td>
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<td></td>
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</tr>
<tr>
<td>17.</td>
<td>Specialized technical assistance (up to 5 contracts of 2 months)</td>
<td>5</td>
<td>CS</td>
<td>CQ</td>
<td>287</td>
<td>N/A</td>
<td>July 2002 -March 2003</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>B1 – FCA Information System Improvement: Processing Infrastructure Sub-project</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td><strong>B1 – FCA Information System Improvement: Communications Infrastructure Sub-project</strong></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>B2 – MCA Information System Improvement</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>Package No</td>
<td>Description of Package</td>
<td>No. Lots</td>
<td>Type of Procurement</td>
<td>Procurement Method</td>
<td>Estimated Cost USS thousand (with contingencies)</td>
<td>Prequalification</td>
<td>Preparation of Tender Documents and Bank no objection</td>
<td>Bid/Proposals</td>
<td>Contract Signing</td>
<td>Contract Completion</td>
<td></td>
<td></td>
<td></td>
</tr>
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<td>------------</td>
<td>------------------------</td>
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<td>--------------</td>
<td>----------------</td>
<td>------------------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23.</td>
<td>LAN Technologies (10 sites)</td>
<td>1</td>
<td>G</td>
<td>NS</td>
<td>43</td>
<td>N/A</td>
<td>October-November 2002</td>
<td>1. Invitation</td>
<td>December 2002</td>
<td>January 2003</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24.</td>
<td>Communications and Processing Infrastructure - two lots (a) WAN Technologies and technical training, (b) Servers, workstations, printers, standard software, DBMS, and technical training</td>
<td>2</td>
<td>G</td>
<td>ICB</td>
<td>605</td>
<td>N/A</td>
<td>December-January 2002</td>
<td>2. Bid/Proposal submission</td>
<td>Feb-July 2002</td>
<td>August 2002</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**D - Trade Facilitation Development**

<table>
<thead>
<tr>
<th>Package No</th>
<th>Description of Package</th>
<th>No. Lots</th>
<th>Type of Procurement</th>
<th>Procurement Method</th>
<th>Estimated Cost USS thousand (with contingencies)</th>
<th>Prequalification</th>
<th>Preparation of Tender Documents and Bank no objection</th>
<th>Bid/Proposals</th>
<th>Contract Signing</th>
<th>Contract Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>25.</td>
<td>FRY contribution to TTFSE web site</td>
<td>CS</td>
<td>NBF</td>
<td></td>
<td>65</td>
<td>N/A</td>
<td>N/A</td>
<td>3. Evaluation</td>
<td>April 2002</td>
<td>April 2004</td>
</tr>
<tr>
<td>26.</td>
<td>Support to YUPKO working groups</td>
<td>CS</td>
<td>NBF</td>
<td></td>
<td>120</td>
<td>N/A</td>
<td>N/A</td>
<td>4. Award</td>
<td>April 2002</td>
<td>April 2004</td>
</tr>
<tr>
<td>27.</td>
<td>Support to distance learning mechanisms for private sector trade participants</td>
<td>CS</td>
<td>NBF</td>
<td></td>
<td>360</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td>April 2002</td>
<td>April 2004</td>
</tr>
</tbody>
</table>

**E - Program and Project Implementation Support**

<table>
<thead>
<tr>
<th>Package No</th>
<th>Description of Package</th>
<th>No. Lots</th>
<th>Type of Procurement</th>
<th>Procurement Method</th>
<th>Estimated Cost USS thousand (with contingencies)</th>
<th>Prequalification</th>
<th>Preparation of Tender Documents and Bank no objection</th>
<th>Bid/Proposals</th>
<th>Contract Signing</th>
<th>Contract Completion</th>
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</thead>
<tbody>
<tr>
<td>28.</td>
<td>PIT Staff Cost</td>
<td></td>
<td>Operational costs</td>
<td>NBF</td>
<td>80</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>29.</td>
<td>PIT operating costs</td>
<td></td>
<td></td>
<td>Own funds</td>
<td>145</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>30.</td>
<td>Specialized training and support to PIT, FMS</td>
<td>CS</td>
<td>Individual consultants</td>
<td></td>
<td>241</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31.</td>
<td>Auditors</td>
<td>CS</td>
<td>LCS</td>
<td></td>
<td>138</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td>January 2002</td>
<td>April 2002 (renewable)</td>
</tr>
</tbody>
</table>

*These contracts will be awarded during the project implementation as needs for support or training arise and will include procurement support.*
Capacity of the Implementing Agency in Procurement and Technical Assistance Requirements

Brief Statement
A capacity assessment of the Borrower was conducted during project preparation. The Borrower has no previous experience with Bank or other IFI procurement and the national procurement legislation is now under review to be aligned to internationally acceptable principles for public procurement. Therefore, an action plan was prepared to enable the Borrower to conduct procurement under the project in accordance with Bank procurement procedures.

Country Procurement Assessment Report: is currently under preparation by the Bank.

| Are the bidding documents for the procurement actions for the first year ready by negotiations: |
| Tender documents for the following contracts will be in an advanced stage of preparation: FCA and MCA communication infrastructure, FCA consulting services for the change management process; MCA consulting services for selectivity. |

TRAINING INFORMATION AND DEVELOPMENT ON PROCUREMENT

<table>
<thead>
<tr>
<th>Estimated Date of Project Launch</th>
<th>Date of publication of General Procurement Notice:</th>
<th>Indicate if there is procurement subject to mandatory SPN in Development Business:</th>
<th>Domestic Preference for Goods:</th>
<th>Domestic Preference for Works, if applicable:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 2002</td>
<td>Jan. 2002</td>
<td>Yes, for specialized contracts.</td>
<td>No.</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Retroactive Financing: No Explain:
Advance Procurement: Yes.

Explain briefly the Procurement Monitoring System:
Procurement information will be collected and recorded by the Borrower and submitted to the Bank as part of semi-annual progress reports prepared by the PIU. This information will include (ii) revised cost estimates for individual contracts; (b) revised timing of procurement actions including advertising, bidding, contract award and completion time for individual contracts; and (c) compliance with aggregate limits on specific methods of procurement; (d) actual data for contracts already procured, indicating the contracts subject to prior and post review.

Cofinancing: Explain briefly the Procurement arrangements under co-financing: N/A

SECTION 4: PROCUREMENT STAFFING

Indicate name of Procurement Staff or Bank's staff part of Task Team responsible for the procurement in the Project: Name: Irina Luca  Extension: 87092

Explain briefly the expected role of the Field Office in Procurement: To be determined
Procurement Action Plan

As part of the pre-appraisal mission an assessment of the capacity of the Federal Customs Administration (the FCA) to implement procurement was carried out. The FCA has no previous experience in Bank procurement while its experience in public procurement is limited. In order to address some of the weaknesses identified and develop the capacity of the FCA to conduct procurement according to World Bank procedures, the following Action Plan is recommended:

<table>
<thead>
<tr>
<th>ACTION</th>
<th>DUE DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>The FCA to designate one staff member with English language abilities to work full time in the project as procurement specialist. The specialist will be particularly trained in IT procurement.</td>
<td>Appointment by pre-appraisal (November 2001). IT training by May 2001.</td>
</tr>
<tr>
<td>The capacity of the FCA's procurement department will be built in order to ensure the institutional support of project procurement. In house and regional training to be provided.</td>
<td>By Effectiveness.</td>
</tr>
<tr>
<td>The FCA will formulate operational procedures related to procurement (participants, roles, signatory powers). The role of the Montenegro Customs representatives to be defined. Requirements of ethical behavior by the procurement staff to be included.</td>
<td>By the end of January 2002</td>
</tr>
<tr>
<td>Technical assistance in procurement during project implementation by international consultants with experience in World Bank procurement procedures and practices.</td>
<td>During project implementation as needed.</td>
</tr>
<tr>
<td>The latest version of the IDA standard/sample bidding documents shall be used:</td>
<td>Latest version to be downloaded from the web. The web address is:</td>
</tr>
<tr>
<td>For hiring Consultants:</td>
<td>Electronic copies were provided during appraisal.</td>
</tr>
<tr>
<td>Standard Request for Proposals, Selection of Consultants, July 1997, revised April 1998 and July 1999; Sample form of evaluation report for Selection of Consultants of October 1999</td>
<td></td>
</tr>
<tr>
<td>Recommended sample documents to be provided by the Bank for International and National Shopping., selection based on Consultant Qualifications and individual consultants.</td>
<td></td>
</tr>
<tr>
<td>IDA to organize a project-launching workshop.</td>
<td>July 2002</td>
</tr>
<tr>
<td>IDA assistance and advice in procurement.</td>
<td>During project preparation/implementation</td>
</tr>
</tbody>
</table>

1 Thresholds generally differ by country and project. Consult OD 11.04 "Review of Procurement Documentation" and contact the Regional Procurement Adviser for guidance.
Disbursement

**Allocation of credit proceeds (Table C)**

**Disbursement.** Disbursements against the categories described in Table 6.C would be made upon receipt by IDA of fully documented applications, except for contracts valued at less than US$100,000 for consulting firms with the exception of the first contract, US$50,000 for individual consultants, goods under contracts costing less than US$100,000 each and for incremental operating costs, which would be made against certified statements of expenditures (SOE). Supporting documentation for SOEs would be retained by the Borrower and made available to IDA during supervision. The minimum size of application for direct withdrawals and issuance of commitments from the IDA Credit account would be 20 percent of the amount of the Authorized Allocation to the Special Account.

**Special Account.** To facilitate project implementation, the Borrower would establish a Special Account in one of the major foreign commercial banks on terms and conditions satisfactory to IDA -based on the ongoing Country Financial Accountability Assessment- to cover the share of expenditures by IDA. The Authorized Allocation for this special account would be US$0.3 million, representing about four months of average expenditures made through the Special Account. During the early stage of the project, the initial allocation to the Special Account would be limited to US$150,000. However, when the disbursements under the Credit have reached the level of SDR0.5 million, the initial allocation may be increased up to the Authorized Allocation of US$0.3 million by submitting the relevant Application for withdrawal. Applications for replenishment of the Special Account would be submitted monthly or when one-third of the amount has been withdrawn, whichever occurs earlier. Documentation requirements for replenishment would follow standard Bank procedures as described in Disbursement Handbook, Chapter 6. Monthly bank statements of the Special Account, which have been reconciled by the Borrower, would accompany all replenishment requests.

**Table C: Allocation of Credit Proceeds**

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Amount in US$million</th>
<th>Financing Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. (a) Equipment, Goods and Materials FCA</td>
<td>3.70</td>
<td>100% of local expenditures, 95% of foreign expenditures</td>
</tr>
<tr>
<td>1. (b) Equipment, Goods and Materials - Montenegro</td>
<td>0.60</td>
<td>83% of local expenditures, 80% of foreign expenditures</td>
</tr>
<tr>
<td>2. (a) Consulting Services, incl. auditing and training - FCA</td>
<td>1.50</td>
<td>70% of services by individuals, 80% for services by firms</td>
</tr>
<tr>
<td>2. (b) Consulting Services, incl. auditing and training - MCA</td>
<td>0.30</td>
<td>75% for services by foreign individuals, 68% for services by local individuals, 81% for services by firms</td>
</tr>
<tr>
<td>3. (a) Incremental Operating Costs-FCA</td>
<td>0.10</td>
<td>83% of expenditures incurred until December 31, 2003, 60% of expenditures afterwards</td>
</tr>
<tr>
<td>3. (b) Incremental Operating Cost-MCA</td>
<td>0.02</td>
<td>83% of expenditures incurred until December 31, 2003, 60% of expenditures afterwards</td>
</tr>
<tr>
<td>4. Unallocated</td>
<td>0.54</td>
<td></td>
</tr>
<tr>
<td>Total Project Costs</td>
<td>6.76</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>6.76</td>
<td></td>
</tr>
</tbody>
</table>
Financial Assessment

1. Executive summary and Conclusion

Yugoslavia is currently in its first year after the long embargo period. The country has a weak public sector financial management and the perceived levels of corruption are high. The Project is to be implemented by the PIT established within the FCA.

Prior to Board presentation, a World Bank accredited Financial Management Specialist has performed a detailed assessment of the system in accordance with the Bank’s OP/BP 10.02 and the World Bank Financial Management requirements. The result of the assessment is that the Project satisfies the minimum World Bank financial management requirements. A financial management action plan was developed and agreed with the Borrower to further strengthen the financial management arrangements of the Project.

A summary of the financial management assessment and conclusions are as follows:

<table>
<thead>
<tr>
<th>Financial Management Assessment</th>
<th>Rating</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Implementing Entity</td>
<td>Satisfactory</td>
<td>Newly created PIT within FCA, must become fully familiar with WB rules</td>
</tr>
<tr>
<td>2. Flow of Funds</td>
<td>Satisfactory</td>
<td>Simple flow of funds envisaged</td>
</tr>
<tr>
<td>3. Staffing</td>
<td>Satisfactory</td>
<td>Financial Manager and Accountant</td>
</tr>
<tr>
<td>4. Accounting Policies and Procedures</td>
<td>Satisfactory</td>
<td>An operational manual was developed to document internal control policies</td>
</tr>
<tr>
<td>5. Internal Audit</td>
<td>N/A</td>
<td>No reliance placed on internal audit</td>
</tr>
<tr>
<td>6. External Audit</td>
<td>Satisfactory</td>
<td>The project will be audited annually. Appointment of acceptable auditors will be a dated covenant.</td>
</tr>
<tr>
<td>7. Reporting and Monitoring</td>
<td>Satisfactory</td>
<td>Quarterly FMRs are prepared</td>
</tr>
<tr>
<td>8. Information Systems</td>
<td>Satisfactory</td>
<td>Customized software system</td>
</tr>
<tr>
<td>Overall Financial Management Rating</td>
<td>Satisfactory</td>
<td></td>
</tr>
</tbody>
</table>

2. Country Financial Management Issues

A Country Financial Accountability Assessment is currently being carried out by the Bank. A back-to-office report and a summary of the main results and findings of the CFM Assessment mission were issued at the end of the year 2001. The documents identify issues of extremely weak public sector financial management, including public sector budgeting, accounting, reporting and auditing and also an environment of pervasive corruption.

A summary of key country financial management issues in FRY is given below:

- There have been no reforms in the out-dated public sector financial management of the Federal Republic of Yugoslavia (FRY). The federal government continues to operate under existing legislation – Law on Public Revenue and Law on Public Expenditure.
- The federal budgets are not very realistic and not well managed (both in terms of revenue forecasts and expenditure management), and there would be significant variances between actual and budgeted revenues and expenditure for the year ending December 31, 2001.
- The Federal MOF does not apply the IMF Government Financial Statistics (GFS) economic and
functional classifications for its budget preparation and reporting, and the 2002 budget will continue to be based on the old chart of accounts.

- Not all budget users (especially extra budgetary funds, donor funds, and debt) are included in the annual consolidated budget.
- There is no parliamentary finance committee to provide independent review of the budget proposals and also budget execution reports.
- There is lack of accountability in the Federal government’s overall accounting and reporting functions. No single institution, in fact, is responsible of the complete budget accounting and reporting. One the one hand, the Federal Mutual Services Agency administers the accounts and other bookkeeping and administrative services of all direct budget holders (Ministries and Agencies), except some key institutions (such ministry of Defense, which accounts for over 70 percent of federal expenditure), but it does not prepare consolidated budget execution reports. On the other hand, the ZOP (part of national Bank of Yugoslavia) prepares annual and half-yearly consolidated budget execution reports for the parliament, based on the returns received. At the same time, the ZOP also performs “quasi-audit” functions of the reports received by spending units, which poses a problem of conflict of interest. Finally there is no ownership of the consolidated budget execution reports because the ZOP only responsible for the consolidated budget execution reports and not for the overall budget process.
- The central control of budget execution is essentially one of control of the cash flows. There is a lack of commitment control and there are no plans to develop a treasury system.
- There is currently no Internal Audit (IA) function in the Western sense operating in FRY. The Budget Inspectorate prepares the compliance audit work to check whether internal control procedures are being properly followed, but it lacks appropriate staff and resources. However, it is understood that the Budget Inspectorate is not independent, as it reports to the Federal MOF but has never carried out inspections of the Federal MOF.
- There is currently no Supreme Audit Institution in FRY and no independent external audit is carried out on Federal Government accounts. There is, therefore, very limited transparency and financial accountability over the use of public finances.

3. Financial Management System Assessment

3.1 Project Management and Coordination

The PIT established in the FCA includes all key staff agreed upon (Manager, financial manager, accountant, procurement specialist). The PIT will draw upon the experience and expertise of the FCA staff (a number of technical experts will provide technical assistance in developing the technical specifications for procurement, mainly in IT areas).

The Government, through the FCA, has established and will maintain a project financial management system (FMS) in a format acceptable to the Bank and in accordance with OP/BP 10.02 and World Bank Financial Management requirements.

The PIT will be responsible for the project’s overall financial management system. All procurement, financial management and disbursement procedures for the Project will be centralized in the PIT and be in accordance with the relevant Bank guidelines.

The PIT has prepared a complete outline of responsibilities for the various members. The Procurement Specialist, Finance Manager and Accountant will provide their services to both the FCA and the MCA. The PIT will closely interact with the General Director of the FCA, the General Director of the MCA and the FCA Deputy Director for Information Technology. The Montenegrin MOF and the MCA confirmed their...
agreement with these implementation arrangements. In addition to this core team, other employees from the Customs Administrations (notably from the Legal Department) will get involved when required. In Montenegro, the Secretariat for Development will provide support to the MCA in developing technical specifications for information technology equipment.

3.2 Staffing of the Accounting / Finance Function

The accountant will handle all financial accounting records, ensure that accounting records are kept up to date within the accounting software and will be in charge of the petty cash arrangements. The finance manager will supervise the accountant and will be responsible for the planning, budgeting, auditing and reporting aspects, reporting to the PIT Manager. The finance manager will also establish permanent contacts with the beneficiaries, the accounting department of the FCA, auditors and the MOF.

Training for the finance manager and the accountant will be needed, mainly on the World Bank’s financial management and disbursement procedures. It is recommended that specialized training courses are considered. It is advisable that training is offered in the very early stage of the project (either before and/or shortly after effectiveness).

3.3 Accounting and Internal Controls

The PIT will maintain the project accounts in accordance with the cash basis of accounting and will integrate the project accounts within the FCA accounts, reporting to the World Bank and to the Government.

The PIT will maintain all documentation related to project expenditures and keep financial records in accordance with sound accounting practices. The PIT will be responsible for keeping the full accounting records of the Project, in charge of all payments, operating the accounting software, handling the Special Account (SA) and the Project Account (Government contributions), prepare all bidding documents, reporting both to the Bank and the Government, planning, budgeting, disbursement and auditing.

All the original project documents, contracts, payment orders, bank statements and all other relevant accounting documents will be kept by the PIT, filed on a timely basis and organized in a manner to ensure the full audit trail with the accounting software records.

The PIT staff will be responsible for: preparing the bidding documents; receive the offers and evaluate them in accordance with the Bank’s regulations; submit the evaluations to the Bank for no objection; sign contracts in an acceptable format; supervise the works performed by the contractors; certify (jointly with the beneficiaries’ representatives) the acceptance of the goods, works and services provided in accordance with the terms of reference, contracts and the relevant technical specifications. The payment documents will be prepared by the PIT only after the fulfillment of the above steps. No project funds may be passed over to beneficiaries or any other parties. The PIT is the only entity authorized to make payments to suppliers.

PIT staff are responsible for developing detailed financial statements, reporting formats and methods, internal control procedures, disbursement and flow of funds arrangements, assigned staff responsibilities in order to ensure a complete segregation of duties.

Detailed accounts will be kept for each project component and its sub-components. The accounts also reflect: the status of payment against each contract; utilization of the Special Account (SA) and
replenishments made by the Bank; utilization of the Government contribution and uses of the funds. The PIT will prepare reports showing detailed budgeted and actual expenditures, uses of funds by source, summary of withdrawals and forecasts, statements of progress achieved to date and the objectives for the forthcoming quarter and semester. The PIT will submit the quarterly Financial Monitoring Reports (FMRs) to the Bank starting with the period ended September 30, 2002 and quarterly thereafter, no later than 45 days after the relevant quarter's end.

3.4 Computerized Accounting System

The existing accounting software in use at the FCA was developed about 10 years ago by SDC Ltd., a Serbian–Canadian software company. The system – “Mozaikus”, operates under the AS 400 operating system, and is relatively limited and slow. The report writer used is under Cobol programming language, thus with limited report writing capabilities. The system is only available in Serbian language. The export capacity is very limited, as only text and ASCII files can be used (i.e. not Excel, Word, etc). The existing system has an unfriendly text (TUI) interface (i.e. not the modern user friendly graphic (GUI) interface of modern financial management software systems).

A new accounting software system for the TTFSE Project was developed, customized and installed by the financial management consultant selected by the Borrower (Blue Soft Ltd.) in order to respond to the Terms of Reference agreed between the Bank and the FCA and to overcome the above mentioned shortcomings of the existing system. The system was designed to fully respond to the specifics of the Project. The system features a customized chart of accounts (based on the statutory one), detailed financial statements, reporting formats and methods, etc. The new system is able to produce reports for expenditures by project components, sub-components and activities, by categories and procurement methods.

The system can produce a trial balance, balance sheet, a statement of sources and uses of funds, income and expenditure statement, special and project account statements.

Usual journals and ledgers are also produced by the system, such as separate journals for goods, consulting and training, and operating costs. The system also features the bank accounts ledger, the accounts receivable and accounts payable ledgers, the general ledger and a fixed assets register. FCA and MCA will become responsible for recording in their own registers the fixed assets purchased under the project and ensure their safe custody.

The consultant, together with the PIT key staff and the Bank's FMS involvement has developed, customized and installed the draft version of the system. The accountant and the finance manager will be the primary operators of the software with the PIT Manager responsible for authorizing all payments (in combination with the MCA Project Manager for MCA contracts). The procurement specialist will have the right to access the software only on procurement-related aspects. The initial training in the use of the system was provided to the PIT staff.

The software system is able to produce the quarterly Financial Monitoring Reports as requested by the Bank's Financial Management requirements. The format of the FMRs was agreed with the PIT and the FM consultant.

3.5 Audit arrangements

The project annual financial statements will be audited each fiscal year in accordance with Bank guidelines, by independent auditors acceptable to the Bank, in accordance with International Standards on Auditing.
Conclusion of a contract with selected auditors, satisfactory to the Bank, is a dated covenant in the Credit Agreement.

Copies of the audit reports will be submitted to the Bank within six months of the close of the fiscal year (calendar year). The audit report will cover the Project financial Statements, Special and Project Accounts' Statements, as well as all the Statement of Expenses (SOEs).

3.6 Planning and Budgeting

The PIT will prepare reports showing detailed budgeted and actual expenditures, uses of funds by source, summary of withdrawals and forecasts, statements of progress achieved and the objectives for the forthcoming quarter and semester.

Detailed accounts will be kept for each project component and its sub-components. The accounts also reflect: the status of payment against each contract; utilization of the Special Account (SA) and replenishments made by the Bank; utilization of the Government contribution and uses of the funds. The PIT will submit the quarterly Financial Monitoring Reports (FMRs) to the Bank starting with the period in which disbursements will commence, most likely the quarter ending on September 30, 2002 and quarterly thereafter, no later than 45 days after the relevant quarter's end.

The budgeting and financial forecasting are an integral part in the process of preparing the FMRs. These activities will involve the PIT Manager, the finance manager, the accountant and the procurement specialist.

3.7 Financial and Accounting Procedures Manual

The PIT will adhere to sound internal control procedures and practices, to ensure that the Project funds are used with economy and efficiency and only for the purposes intended. The PIT will report to the FCA Director and relevant Ministers and will inform in a timely manner about project implementation and progress.

All PIT staff must become familiar with the Bank's regulations (legal, disbursement, procurement, financial management, etc) applicable to their relevant area. A Financial and Accounting Procedures Manual was developed by the PIT staff members, documenting all the various types of financial transactions, approval and authorization steps, the flow of documents within the PIT and between the PIT and the beneficiaries, the accounting department of the FCA, to the MOF, PIT's staff responsibilities and measures to ensure a complete segregation of duties, as well as other internal control procedures. The manual also documents the day-to-day internal procedures for each type of activity (such as correspondence handling, contracting and payment procedures, operation of all bank accounts, petty cash, authorization mechanism, reporting, budgeting, planning, filing, etc.).

3.8 Conclusion

It is concluded that the financial management arrangements of the Project satisfy the minimum WB financial management requirements because:
➢ The PIT has implemented an acceptable computerized accounting system for the Project;
➢ The PIT has developed a detailed financial, accounting and internal control manual describing the accounting policies and procedures, internal controls, delegation of responsibilities and authorities, transaction flows, reporting, planning and budgeting;
3. Flow of Funds

The Credit Agreement will be signed between the World Bank (IDA) and the Federal Government of Yugoslavia. The Government will authorize the FCA, through the PIT to handle the credit amounts through the Special Account (SA). There will be a single SA, without sub-accounts, for the project implementation, since each expenditure will directly be attributed to a Federal or to a Montenegrin component.

The PIT established within the FCA will be in fully in charge of operating the SA. The SA is to be opened at a commercial bank, acceptable to the Bank, either in Yugoslavia or abroad, in accordance with the Bank’s requirements.

Government contribution will be received in a separate project sub-account of the main budgetary account of the FCA and of the MCA respectively, that will just be used specifically for the Government contribution to the project. Government contributions will be received monthly, directly from the MoF, as part of the annual budgetary process. These contributions will be reflected as a separate line in the budget of FCA and MCA.

The PIT will have the full rights to operate both the special and the project accounts. All documentation pertaining to the project (relating to Credit funds, to the Government contributions and other donors as applicable) will be kept at the PIT.

As agreed between the FRY, IDA and the US Government, the funds outlined in the Project as being financed by the US Government would not be managed directly by the PIT, but would be directly managed by the US Government, using the US Customs Administration and other mechanisms.

5. Financial Monitoring Reports

The PIT will maintain accounts of the Project and will ensure appropriate accounting of the funds provided. The format of appropriate financial monitoring reports (FMRs) was finalized and agreed with the Borrower. The PIT will prepare the FMRs on a quarterly basis. The FMRs include:

- Project Sources and Uses of Funds
- Uses of Funds by Project Activity
- Special Account Statement Plus Local Bank Account Statement
- Physical Progress Reports
- Procurement Monitoring Reports

6. Financial Risk Analysis

From a financial management perspective, the proposed Project is considered a high-risk project. A summary of the consolidated risk assessment for the project is as follows:

<table>
<thead>
<tr>
<th>Risk</th>
<th>Rating</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Inherent Risk

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Risk Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Country Financial Management Risk</td>
<td>High</td>
<td>Based on the CFAA work, there is generally low financial management capacity and accountability in the public sector.</td>
</tr>
<tr>
<td>2. Project Financial Management Issues</td>
<td>Moderate</td>
<td>Timely counterpart funding could be an issue.</td>
</tr>
<tr>
<td>3. Banking Sector</td>
<td>High</td>
<td>High liquidity and credit risks in a weak banking sector.</td>
</tr>
<tr>
<td>4. Perceived Corruption</td>
<td>High</td>
<td>CFAA work notes pervasive corruption at all levels of the economy.</td>
</tr>
<tr>
<td><strong>Overall Inherent Risk</strong></td>
<td><strong>High</strong></td>
<td></td>
</tr>
</tbody>
</table>

Control Risk

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Risk Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Implementing Entity</td>
<td>Substantial</td>
<td>Newly established PIT within FCA.</td>
</tr>
<tr>
<td>2. Funds Flow</td>
<td>Moderate</td>
<td>Simple arrangements envisaged.</td>
</tr>
<tr>
<td>3. Staffing</td>
<td>Moderate</td>
<td>Staffing completed, training required.</td>
</tr>
<tr>
<td>5. Internal Audit</td>
<td>N/A</td>
<td>No reliance placed on internal audit.</td>
</tr>
<tr>
<td>6. External Audit</td>
<td>Moderate</td>
<td>Appointment of auditors will be a dated covenant.</td>
</tr>
<tr>
<td>7. Reporting and Monitoring</td>
<td>Moderate</td>
<td>Enhanced capacity for the project.</td>
</tr>
<tr>
<td>8. Information Systems</td>
<td>Moderate</td>
<td>New software system put in place for the Project.</td>
</tr>
<tr>
<td><strong>Overall Control Risk</strong></td>
<td><strong>Moderate</strong></td>
<td></td>
</tr>
</tbody>
</table>

A description of the main financial management risks of the Project is presented below:

**Country generic risks**

The first Country Financial Accountability Assessment (CFAA) for Yugoslavia is currently being carried out and will be finalized in early 2002. Until that date, the Project team is keeping a close contact with the financial management specialists working on the CFAA. A summary of the main country generic risks is given below.

After the long period of embargo the banking system in Yugoslavia is perceived as risky, as about a quarter of the local banks have liquidity problems or are in the process of liquidation. A few major foreign banks, such as Société Générale, Raiffeisen, HVB - Bank Austria, have entered the Yugoslavian banking sector by establishing their own subsidiaries. It is perceived that by opening the SA at a major foreign bank, in Yugoslavia or abroad, the banking risk is kept at an acceptable level.

The Yugoslavian currency (denar) is linked to the German mark. The exchange rate established during 2001 (1 DM = 30 +/- 0.5 denars) is still applicable. Following this measure, yearly inflation was cut drastically from 3 and 4 digit figures (in 2000 and before) to about 30-40% year-on-year in the period 2000 - 2001. In addition, the overall macroeconomic situation in Yugoslavia has improved in the last year, following the elections and the formation of the new democratic Government. While inflation is decreasing, the current levels are still high and may build significant pressures on the exchange rate. It is thus perceived that the macroeconomic risks are still relatively high.

Yugoslavia has a weak public sector financial management, as no reforms have been carried out in the out-dated public sector of FRY. There is lack of accountability in the Federal Government’s overall accounting and reporting functions. There is currently no SAI in FRY and no independent external audit is carried out on the Federal Government accounts. The internal audit function in the Western sense is practically non-existent. All these aspects lead to a high risk in respect of the public sector financial management.
management.

As this is one of the first Bank Projects in Yugoslavia, after the embargo period, significant protection measures must be taken to protect the Project’s assets against fraud, waste and abuse. The risk that the Bank’s funds will not be used as intended for financing the defined investment program is judged as acceptable by introducing several measures, in principal the ‘ring-fencing’ of the project through the establishment of the project implementation team, with a comprehensive staff structure and the creation of the specialized teams within the beneficiaries’ entities, segregation of duties within the unit, requiring beneficiaries’ representatives to certify the goods delivered and services rendered before payments are made to the suppliers, proper supervision from the World Bank’s team and an independent yearly audit of project funds by a reputable audit firm, acceptable to the Bank.

Project specific risks

One risk is the PIT assuming the authority and responsibility for every aspect of the project, thereby exposing it to possible risks of collusion and corruption. To address this risk: (i) all payment orders will be signed jointly by the PIT Manager and finance manager and a high official (such as the Director of the FCA/MCA respectively) and (ii) the beneficiaries’ representatives will certify the acceptance of the works done, goods delivered and services rendered before the payments are made by the PIT. In addition, these representatives will be involved in the development of the technical specifications. Moreover, the complete segregation of duties amongst PIT staff members will have to be achieved, i.e. the functions of implementing and overseeing will not reside with the same PIT staff member. In addition, the project financial statements, will be audited by an external auditor, acceptable to the Bank.

The second risk is that the project is exposed to delays in payments to suppliers: (i) due to the signatures required on both Bank Credit funds and Government contribution and (ii) inadequate counterpart funds in the Government project account. The PIT will have full rights to operate the above accounts and since it is located within the FCA, all the signatures required will be obtained in a timely manner.

The amounts to be used as Government contribution to the project for the year 2002 will have to be included in the 2002 FCA budget. The amounts for the year 2002 (first year of the Project implementation) will be limited, as the project will most likely become effective on or about June 30, 2002. The borrower stated that the amounts for 2002 will not constitute a issue, as sufficient amounts are already included in the draft budget of the FCA and the 2002 Government contributions to the project are relatively limited in size. Then, the Government annual contributions for 2003 and thereafter will be requested and allocated in advance, as a separate budgetary line, within the FCA budget, by the time when the yearly state budget is prepared and submitted. The risk of ‘lower than requested’ Government contribution still remains significant, as it is understood that this is an annual occurrence.

The third risk relates to the fact that the PIT was just recently established and the TTFSE Project is among the first WB Projects after many years of embargo, so the experience with the World Bank procedures is very limited. By having selected as key PIT staff qualified individuals, with experience in project management and financing, customs procedures, budgetary statutory requirements, trade and commercial accounting skills, auditing, etc., it is perceived that this risk can be kept at a relative moderate level.

This risk can be further reduced to a lower level by training the PIT staff to become fully familiar with the Bank’s procedures. To this end it is recommended that the relevant financial management, procurement and disbursement training is provided.
Overall, the above mentioned risks are considered as manageable due to the various risk mitigations measures proposed.

7. Costs and financial performance

The project's financing plan, which includes the IDA Credit, and the project's planned expenditures, have been realistically estimated. In order to facilitate the implementation, the project's cost tables include an appropriate cost matrix, which adequately shows the relationship between the credit agreement categories and project components.

8. Auditing Arrangements

For Bank reporting purposes, the annual financial statements of the project will be prepared in accordance with cash accounting, which is a basis of accounting other than International Accounting Standards (IAS) and audited by independent auditors, acceptable to the Bank, in accordance with the International Standards on Auditing (ISA) and the Bank guidelines on auditing and financial reporting such as the World Bank Financial Accounting Reporting and Auditing Handbook and the World Bank Project Financial Management Manual. The cost of the audits are to be financed from the Credit.

The PIT has already started the procurement activities related to the selection of independent auditors in accordance with the World Bank guidelines. A Request for Proposals is currently being prepared by the PIT and will be sent to the World Bank for no objection in accordance with the Financial management action plan (attached).

As part of the CFAA work on Yugoslavia, an assessment of the 'big-five' audit firms present in Yugoslavia is being performed, to assess whether these firms can respond to the auditing requirements of the WB. Subject to the results of this assessment, the auditors shortlist will be finalized and the RFP will be sent to the audit firms short listed.

Appointment of independent auditors acceptable to the World Bank is a dated covenant (by September 30th, 2002) specified in the Credit Agreement.

9. Disbursements

Disbursements from the IDA Credit will be made based on traditional disbursement methods (i.e., from the Special Account with reimbursements made based on Statements of Expenditures (SOEs) and full documentation, and direct payments from the Credit Account).

Disbursements would be made upon receipt by IDA of fully documented applications, except for contracts valued at less US$100,000 for consulting firms, US$50,000 for individual consultants, goods under contracts costing less than US$100,000 each and for incremental operating costs, which would be made against certified statements of expenditures (SOE). Supporting documentation for SOEs would be retained by the Borrower and made available to IDA during supervision.

The minimum size of application for direct withdrawals and issuance of commitments from the IDA Credit account would be 20 percent of the amount of the Authorized Allocation to the Special Account.

To facilitate project implementation, the Borrower would establish a Special Account in one of the major foreign commercial banks, either in Yugoslavia or abroad on terms and conditions satisfactory to IDA.
based on the ongoing Country Financial Accountability Assessment- to cover the share of expenditures by IDA.

The Authorized Allocation for this special account would be US$0.3 million, representing about four months of average expenditures made through the Special Account. During the early stage of the project, the initial allocation to the Special Account would be limited to US$150,000. However, when the disbursements under the Credit have reached the level of SDR0.5 million, the initial allocation may be increased up to the Authorized Allocation of US$0.3 million by submitting the relevant Application for withdrawal.

Applications for replenishment of the Special Account would be submitted monthly or when one-third of the amount has been withdrawn, whichever occurs earlier. Documentation requirements for replenishment would follow standard Bank procedures as described in Disbursement Handbook, Chapter 6. Monthly bank statements of the Special Account, which have been reconciled by the Borrower, would accompany all replenishment requests.

10. Special Account

A Special Account will be opened at a commercial bank, either abroad or within Yugoslavia, acceptable to the WB. As the CFAA for Yugoslavia is under preparation, the selection of such a Bank will have to adhere to the recommendations that will be included in the final CFAA. The result may lead to the SA being opened at a reputable major foreign bank, either among the few ones already present in Yugoslavia or at a commercial bank abroad.

11. Financial Management Action Plan

<table>
<thead>
<tr>
<th>Action</th>
<th>Responsibility</th>
<th>Due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment of financial management system</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Prepare a TOR acceptable to the Bank for the project’s accounting and reporting software system</td>
<td>PIT / Bank</td>
<td>Completed</td>
</tr>
<tr>
<td>• Select accounting software system</td>
<td>PIT / Bank</td>
<td>Completed</td>
</tr>
<tr>
<td>• Actual start of activity on the development and customization of the accounting software system</td>
<td>PIT / Bank / FM consultant</td>
<td>Completed</td>
</tr>
<tr>
<td>• Installation and testing of the customized accounting software system and provision of initial training</td>
<td>PIT/FM consultant</td>
<td>Completed</td>
</tr>
<tr>
<td>• Final draft accounting manual documenting the project’s accounting and internal controls procedures</td>
<td>PIT</td>
<td>Completed</td>
</tr>
<tr>
<td>• Final accounting manual documenting the project’s accounting and internal controls procedures</td>
<td>PIT</td>
<td>Completed</td>
</tr>
<tr>
<td>• Completion of training to PIT staff</td>
<td>FM consultant</td>
<td>Completed</td>
</tr>
<tr>
<td>Financial Manager and Accountant</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Appointment and actual start of activity</td>
<td>PIT</td>
<td>Completed</td>
</tr>
<tr>
<td>Audit arrangements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Send audit Request for Proposals (RFP) and shortlist of auditors for no-objection to the Bank</td>
<td>PIT</td>
<td>4/4/2002</td>
</tr>
<tr>
<td>• Confirm no-objection to audit RFP and shortlist</td>
<td>Bank</td>
<td>4/14/2002</td>
</tr>
<tr>
<td>• Send RFP to shortlisted auditors</td>
<td>PIT</td>
<td>4/15/2002</td>
</tr>
</tbody>
</table>
12. Impact of procurement arrangements

The PIT is staffed with a procurement specialist that will be in charge with the procurement aspects of the Project on behalf of both FCA and MCA, and will draw upon the existing expertise of FCA and MCA specialists in their area of competence.

The internal control manual also details the procurement procedures in a separate section of the manual and establishes the links between procurement and financial management / disbursements procedures.

13. Credit Agreement covenants

The following are the covenants relating to financial management matters:

- The Government will complete the agreed financial action plan for strengthening the project financial management systems by June 30, 2002.
- Not later than September 30 of each year, the Government will furnish IDA the annual project implementation work programs for the FCA for the next year, including procurement and financing plans, and will review these plans with IDA before implementing them.
- The Government will submit to IDA, commencing upon Credit effectiveness, quarterly Financial Monitoring Reports, not later that 45 days after the end of each quarter outlining progress made in the implementation of each project component, as well as the problems encountered and how they are being addressed.
- The Government will cause the FCA to have the TTFSE Project financial statements audited each year, by independent auditors acceptable to the WB, commencing with the accounts for the year ending December 31, 2002.
- The engagement of auditors, satisfactory to IDA, by September 30th, 2002.
- The standard condition of effectiveness (set forth in the General Conditions) will be the approval and ratification of the Credit Agreement by the appropriate authorities in the FRY and receipt by IDA of the related legal opinion.

14. Supervision Plan

The development for further strengthening the financial management system will be monitored of procedures and staff development before effectiveness, during the first supervision missions and throughout project implementation.

The reports of the progress of the project implementation will be monitored in detail during supervision missions. FMRs will be reviewed on a regular basis by the field-based FMS and the results or issues followed up during the supervision missions. Financial audit reports of the project will be reviewed and
issues identified and followed up. The field based FMS would monitor the agreed action plan to ensure appropriate actions have been implemented by the FCA.
Annex 7: Project Processing Schedule

FED. REP. OF YUGOSLAVIA: TRADE AND TRANSPORT FACILITATION IN SOUTHEAST EUROPE PROJECT

<table>
<thead>
<tr>
<th>Project Schedule</th>
<th>Planned</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time taken to prepare the project (months)</td>
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<td>7</td>
</tr>
<tr>
<td>First Bank mission (identification)</td>
<td>07/01/2001</td>
<td>07/01/2001</td>
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<tr>
<td>Appraisal mission departure</td>
<td>12/16/2001</td>
<td>01/31/2002</td>
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<tr>
<td>Negotiations</td>
<td>01/31/2002</td>
<td>02/06/2002</td>
</tr>
<tr>
<td>Planned Date of Effectiveness</td>
<td>07/15/2002</td>
<td></td>
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Prepared by:
Ministries of Finance, Federal Customs Administration, Montenegrin Customs Administration, and Bank Team

Preparation assistance:
Marie Laygo, Irina Turea

Bank staff who worked on the project included:

<table>
<thead>
<tr>
<th>Name</th>
<th>Speciality</th>
</tr>
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<tbody>
<tr>
<td>Michel Audige</td>
<td>Program Team Leader</td>
</tr>
<tr>
<td>Gerald Ollivier</td>
<td>Task Team Leader-Transport Specialist</td>
</tr>
<tr>
<td>Michel Zarnowiecki</td>
<td>Senior Customs Specialist</td>
</tr>
<tr>
<td>Graham Smith</td>
<td>Lead Transport Specialist</td>
</tr>
<tr>
<td>Irina Luca</td>
<td>Procurement Accredited Specialist</td>
</tr>
<tr>
<td>Craig Neal</td>
<td>IT Procurement Specialist</td>
</tr>
<tr>
<td>Bogdan Constantinescu</td>
<td>Financial Management Specialist</td>
</tr>
<tr>
<td>Joseph Paul Formoso</td>
<td>Sr. Disbursement Officer</td>
</tr>
<tr>
<td>Gennady Pilch</td>
<td>Legal Counsel</td>
</tr>
<tr>
<td>Kenneth Gwilliam</td>
<td>Peer Reviewer</td>
</tr>
<tr>
<td>James Walsh</td>
<td>Peer Reviewer (IMF)</td>
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</table>
Annex 8: Documents in the Project File*

FED. REP. OF YUGOSLAVIA: TRADE AND TRANSPORT FACILITATION IN SOUTHEAST EUROPE PROJECT

A. Project Implementation Plan
   - Project Implementation Manual
   - Montenegro Customs Information System Project: Design, Development and Implementation
   - Performance Indicator Manual
   - Trade Facilitation Component: Role and Responsibilities

B. Bank Staff Assessments
   - Customs Institutional Review (Aide-Memoires)
   - Economic Recovery and Transition Paper (Transport and Trade Facilitation Assessment)
   - Financial Management System Assessment
   - Procurement Capacity Assessment

C. Other
   - Federal Customs Administration Strategy for the Modernization
   - Montenegrin Customs Administration - Customs Service Development Strategy
   - "Gap Analysis for Technical Assistance in Customs and Taxation Services", European Commission
   - TTFSE Program Website - www.seerecon.org/TTFSE
   - "Building Peace in South East Europe: Macroeconomic Policies and Structural Reforms since the Kosovo Conflict"
   - "Corruption in Serbia" Center for Liberal-Democratic Studies
   - "The welfare implications of transport improvements in the presence of market failure" by Anthony Venables and Michael Gariorek.

*Including electronic files
Annex 9: Statement of Loans and Credits

YUGOSLAVIA, FED. REP. OF: TRADE AND TRANSPORT FACILITATION IN SOUTHEAST EUROPE

PROJECT

03-Jan-2002

<table>
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<tr>
<th>Project ID</th>
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<th>Purpose</th>
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<th>IDA</th>
<th>SF</th>
<th>Cancel</th>
<th>Undisb</th>
<th>Orig</th>
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<td>1.90</td>
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<td>5.96</td>
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<td>17.86</td>
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YUGOSLAVIA, FED. REP. OF
STATEMENT OF IFC's
Held and Disbursed Portfolio
OCT-2001
In Millions US Dollars

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<tr>
<th>FY Approval</th>
<th>Company</th>
<th>Committed</th>
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<th>Disbursed</th>
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<tr>
<td></td>
<td></td>
<td>IFC Loan</td>
<td>Equity</td>
<td>Quasi</td>
<td>IFC Loan</td>
<td>Equity</td>
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<tr>
<td>1982/87</td>
<td>Igalo</td>
<td>2.49</td>
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<td>2.00</td>
<td>0.00</td>
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<tr>
<td>1980</td>
<td>Radoje</td>
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<td>0.00</td>
<td>1.17</td>
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<tr>
<td>1980</td>
<td>SMSIE Yugo</td>
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<td>1.08</td>
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<tr>
<td>1987/89</td>
<td>VB</td>
<td>20.03</td>
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<td>0.00</td>
<td>20.03</td>
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<td></td>
<td><strong>Total</strong></td>
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<td><strong>6.63</strong></td>
<td><strong>30.69</strong></td>
<td><strong>0.00</strong></td>
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<table>
<thead>
<tr>
<th>FY Approval</th>
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<th>Approvals Pending Commitment</th>
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<tbody>
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<td></td>
<td></td>
<td>IFC Loan</td>
<td>Equity</td>
<td>Quasi</td>
</tr>
<tr>
<td>2002</td>
<td>MFB Yugoslavia</td>
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<td>2002</td>
<td>MFI MEB Kosovo</td>
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<td>2002</td>
<td>Raiffeisen I Yug</td>
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<td></td>
<td><strong>Total Pending Commitment</strong></td>
<td><strong>3.65</strong></td>
<td><strong>0.00</strong></td>
<td><strong>3.12</strong></td>
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- 75 -
Annex 10: Country at a Glance

FED. REP. OF YUGOSLAVIA: TRADE AND TRANSPORT FACILITATION IN SOUTHEAST EUROPE PROJECT

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>2000</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population, mid-year (millions)</td>
<td>10.6</td>
<td>475</td>
<td>2,046</td>
</tr>
<tr>
<td>GNI per capita (Atlas method, US$ 1/)</td>
<td>9,900</td>
<td>2,010</td>
<td>1,140</td>
</tr>
<tr>
<td>GNI (Atlas method, US$ billions) 1/)</td>
<td>10.5</td>
<td>956</td>
<td>2,327</td>
</tr>
<tr>
<td><strong>Average annual growth, 1994-00</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Population (%)</td>
<td>0.2</td>
<td>0.1</td>
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</tr>
<tr>
<td>Labor force (%)</td>
<td>0.5</td>
<td>0.6</td>
<td>1.3</td>
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</table>

**Most recent estimate (latest year available, 1994-00)**

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<thead>
<tr>
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<tbody>
<tr>
<td>Poverty (% of population below national poverty line)</td>
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</tr>
<tr>
<td>Urban population (% of total population)</td>
<td>52</td>
<td>67</td>
<td>42</td>
</tr>
<tr>
<td>Life expectancy at birth (years)</td>
<td>72</td>
<td>69</td>
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<tr>
<td>Infant mortality (per 1,000 live births)</td>
<td>13</td>
<td>21</td>
<td>32</td>
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<tr>
<td>Child malnutrition (% of children under 5)</td>
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<td>11</td>
<td>11</td>
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<tr>
<td>Access to an improved water source (% of population)</td>
<td>90</td>
<td>80</td>
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</tr>
<tr>
<td>Illiteracy (% of population age 15+)</td>
<td>3</td>
<td>15</td>
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<tr>
<td>Gross primary enrollment (% of school-age population)</td>
<td>69</td>
<td>100</td>
<td>114</td>
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</tbody>
</table>

**KEY ECONOMIC RATIOS and LONG-TERM TRENDS**

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<tbody>
<tr>
<td>GDP (US$ billions)</td>
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<td></td>
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</tr>
<tr>
<td>Gross domestic investment/GDP</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports of goods and services/GDP</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Gross domestic savings/GDP</td>
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<tr>
<td>Gross national savings/GDP</td>
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<tr>
<td>Current account balance/GDP</td>
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<tr>
<td>Interest payments/GDP</td>
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<tr>
<td>Total debt/GDP</td>
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<td>Total debt service/exports</td>
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<td>Present value of debt/GDP</td>
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<td>(average annual growth)</td>
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**STRUCTURE of the ECONOMY**

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<tr>
<td>(% of GDP)</td>
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<tr>
<td>Agriculture</td>
<td>16.2</td>
<td>26.5</td>
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<tr>
<td>Industry</td>
<td>42.5</td>
<td>36.8</td>
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<td>Manufacturing</td>
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<td>Services</td>
<td>39.3</td>
<td>37.7</td>
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<tr>
<td>Private consumption</td>
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<td>75.3</td>
<td>77.2</td>
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<td>General government consumption</td>
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<td>27.1</td>
<td>25.3</td>
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<tr>
<td>Imports of goods and services</td>
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<td>34.2</td>
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<td>(average annual growth)</td>
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**Note:** 2000 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.
### PRICES and GOVERNMENT FINANCE

#### Domestic prices (% change)
- Consumer prices (e.o.p.)
  - 1990: 49.9
  - 1999: 113.5
- Implicit GDP deflator
  - 1990: 55.6
  - 1999: 77.8

#### Government finance (% of GDP, includes current grants)
- Current revenue
  - 1990: 38.8
- Current budget balance
  - 1990: 2.5
- Overall surplus/deficit
  - 1990: 0.1

### TRADE

#### (US$ millions)
- Total exports (fob)
  - 1990: 1,677
- Food
  - 1990: 352.4
- Fuel and energy
  - 1990: 396
- Manufactures
  - 1990: 453
- Total imports (fob)
  - 1990: 3,296
- Food
  - 1990: 330
- Fuel and energy
  - 1990: 396
- Capital goods
  - 1990: 725

### BALANCE of PAYMENTS

#### (US$ millions)
- Exports of goods and services
  - 1990: 2,148
- Imports of goods and services
  - 1990: 3,539
- Resource balance
  - 1990: -1,391
- Net Income
  - 1990: -41
- Net current transfers
  - 1990: 668
- Financing items (net)
  - 1990: 653
- Changes in net reserves
  - 1990: 111

#### Memo:
- Reserves including gold (US$ millions)
  - 2000: 505
- Conversion rate (DEC, local/USS)
  - 2000: 11.3

### EXTERNAL DEBT and RESOURCE FLOWS

#### (US$ millions)
- Total debt outstanding and disbursed
  - 1990: 12,267
- IBRD
  - 1990: 1,096
- IDA
  - 1990: 0
- Total debt service
  - 1990: 56
- IBRD
  - 1990: 0
- IDA
  - 1990: 0

#### Composition of net resource flows
- Official grants
  - 1990: 271
- Official creditors
  - 1990: 213
- Private creditors
  - 1990: 16
- Foreign direct investment
  - 1990: 25
- Portfolio equity
  - 1990: 0

#### World Bank program
- Commitments
  - 1990: 271
- Disbursements
  - 1990: 213
- Principal repayments
  - 1990: 16
- Net flows
  - 1990: 25
- Interest payments
  - 1990: 0
- Net transfers
  - 1990: 0
CUSTOMS SERVICE DEVELOPMENT STRATEGY

(approved by the Cabinet of Ministers on November 30, 2001 (493-42/2001))

CURRENT STATE OF CUSTOMS SERVICE

Customs services in Federal Republic of Yugoslavia became less efficient, less competent and less professional in the past ten years. Late in the eighties it used to be one of the most appreciated in Europe, today it is hardly an average one with all defects typical for Customs in this part of the world. It happened for a number of reasons, but the most important are:

- Law regulations used by Customs authorities (foreign trade, Customs and tax regulation) are not appropriate for the time we live in because of a ten-year break in relation with the rest of the world, and inherited red-tape regulations of SFRY where the Customs service had above all fiscal matter responsibilities.

- For the last ten years, the legal system has been totally devastated, partly due to absence of competence, partly because of a criminalized society.

- Bureaucratic organisation of the Customs service is obsolete and it has not been changed for the past sixty years, bringing complete ineffectiveness. The selection of staff was unprofessional, and mainly guided by political reasons.

- The Customs service was budgetary financed or partly self-financed (for the last six years), breaking the law constantly. There were neither well-defined cost estimate of Customs activities, nor clear-cut indicators of their efficiency.

- The Customs service equipment is inadequate, and the very bad financial situation affects staff that are hardly motivated, there is little progress in technology or in modernization of the computer center and anti-smuggling campaign services. The work of all expert services thus became more difficult, let alone advanced training.

This situation has led to lack of uniformity of technical equipment at Customs posts, because even equipment was a political matter not dependant on real necessities.

- Corruption as an everyday phenomenon is one of the biggest problems in Customs activities. This phenomenon has spread to the whole society and Customs are part of it.
NEW STRATEGY OF CUSTOMS SERVICE DEVELOPMENT

To eliminate the above negative effects, to accomplish indispensable progress, and draw closer to EU countries as well as other developed countries, it is necessary to define clearly the role of the Customs service and to apply the knowledge that comes from international experience corresponding with our economic and legal system. To define clearly the role of the Customs service and to enable it to function properly, it is necessary to achieve the main following goals:

- to provide for traffic flowing smoothly at border crossings as well as a reduction in non-clearance charges;
- to fight smuggling and corruption and to authorize the Customs service to exercise control over all the Customs territory;
- to collect import duty in an efficient and timely manner;
- to cooperate with other government agencies;

Proceeding from international experiences and government needs, the above goals should be reached as follows:

1. **Development of a New Customs System**

   A new Customs system must operate in coordination with economic and government needs. A whole set of legal decisions will provide for smoothflow of traffic at border crossings and make less complicated the Customs clearance outside custom posts. A new Customs system addresses non clearance-charges as well (forwarding charges, wasted time of transporters who are waiting for customs formalities or government regulations, unloading and reloading etc.) In particular, Customs procedures which will be aligned to the World Customs Organization’s Kyoto Convention, will provide for (i) clearance of goods with limited and risk-based upfront physical examinations, supported by (ii) greater reliance than at present on post release audits and verifications.

**Direct Computer Link between Participants in Customs Procedure and Customs Authorities**

To reach such an objective some essential changes have to be made in Customs procedures. The first is to oblige forwarding agents or importers to feed data necessary for the Customs procedure into computer without regard to location. In this way we would save time compared to current practice i.e., the Customs declaration already filled by the forwarding agent is re-registered in the Customs computer system at the Customs post. Besides unnecessary data copying, the Customs procedure is also prolonged.

2. **Preliminary Declaration**

   The **preliminary declaration** will be adopted for the first time as well as the **elimination of Customs supervisory documents**, which would reduce the number of steps in Customs procedures, and speed up the turnover of goods. Using modern means of communication (fax, Internet etc.) the importers are in possession of commercial and transport documents before the arrival of goods and means of transport. Submitting the preliminary declaration by e-mail will enable Customs and state authorities at border crossings to make necessary preparations for Customs proceedings. At the arrival of vehicles the whole procedure would be completed in no time, while respecting all current regulations.

For all that, a declaration on paper still remains but it will be printed at a border crossing along with
commercial and transport documents.

3. Cooperation and Coordination of State Authorities at Border Crossings

In order to make the work of state authorities on border crossings more efficient, there is a need for coordination among these authorities (border control, inspection authorities, and Customs service). The Customs service is supposed to provide initial information on goods and transport (using its own IT system). The inspection authorities will use these data for their control functions.

Considering that Customs authorities at border crossings are those who start the procedure (doing what is necessary for the import of goods and border crossing) the Customs service should co-ordinate the work of inspection services as described, not interfering in their field of activity or regulations use.

4. Providing and Distribution of Data by Single Electronic Window System

To achieve this goal and to speed up the Customs procedure at border crossings a particular system for data providing and its distribution among state authorities called Single Electronic Window will be adopted.

This way of data providing presumes developed information technology and an advanced computer system. When a forwarding agent or importer enters the information on goods in his/her computer, these data will be distributed by electronic post through computer net within the Customs service information system to all relevant authorities at border crossings so that they will be able to prepare everything for the clearing process for goods that would arrive. And vice versa: there will be a sort of feedback mechanism starting from inspection services to Customs authorities who will go on with the procedure and other state authorities who will deal with imported goods control, Customs investigation and proper functioning of Republic Revenue Service (regular sales tax collection).

5. Standardization of Documents and Data in Customs Procedure

Customs documents and data will be standardized in accordance with UNCTAD, UNTDED, and WCO, standards, while particular standards are to be adopted for particular national instruments. In some cases of Customs procedure, commercial documents already standardized according to international experiences of developed countries, will be used.

6. Targeting and Selectivity

We are preparing two new operations: targeting and selectivity applied already in EU countries and some countries in our neighborhood. Targeting is a Customs control measure consisting in choosing certain vehicles if there is a founded suspicion based on certain information and adopted criteria that the good being transported need to be particularly examined (drugs, weapons etc.) Selectivity represents the choice of goods and vehicles that will become subject to detailed Customs examination, either at border crossings, clearance facilities, or outside Custom posts, in accordance with economic, security, medical, fiscal and other standards to be adopted and stored in a computer in order to eliminate Customs officers' subjective judgment in Customs procedure.

It means that a Customs officer will get information from computer regarding a vehicle or consignment to examine in particular. The vehicles not particularly examined would be directed inside the country or released from Customs inspection applying other legal steps within the competence of Customs services.
7. Electronic Control of Bonded Warehouses and Other Area(s) under Customs Custody

There is a completely different control of bonded warehouses to be adopted, the computerized and physical one. Customs officers will provide physical security to bonded warehouses while on the other hand an “electronic control” will be adopted which means that the Customs service will have very accurate official figures by Customs declaration about quality, type, tariff schedule and value of non-cleared goods. In this way very accurate information on goods and their location necessary for the Federal Government and Federal Ministries' competence in an area will be provided.

In this way the goods can be transferred from one bonded warehouse to another under the efficient control of the Customs service.

It is also possible to release goods from Customs control only in part being paid for and not the whole quantity cleared according to the declaration.

8. Efficient Collection of Import Duty

There are new instruments being prepared in order to ensure efficient collection of duties and other taxes in due time.

An “electronic reservation” would be done in the first stage through the Accounting and Payment Agency (ZOP) and in the second stage through commercial banks which are obliged to fulfill all requests made by the National Bank of Yugoslavia and it represents the amount of duties that an importer or forwarding agent has to pay for cleared goods according to the actual declaration. The Customs service is the one who makes electronic reservation of certain amount to be paid in time. If payment is in arrears, the owing amount will be automatically removed from the bank account on the basis of payments arrangements made with the bank.

9. Rule Infringements Prevention

Using the best experiences of Customs service in EU as well as suggestions by certain international institutions considering a new organization of the Customs service and in order to protect the local market and to be efficient in collection of payments and proper application of relevant regulations, there is a plan for completely different role of Customs service in prevention of rule infringements and handling customs investigations.

In order to prevent rule infringements and to ensure its application in a consistent manner the special customs service will make goods and vehicles control as a preventive measure, during the Customs procedure and later. To achieve this goal it is necessary to authorize the Customs service to control goods and vehicles and to implement certain procedures in Customs border-area as it does at border crossings, on main roads or in enterprises; such a procedure includes control of commercial, financial and legal documentation before the procedure is concluded, search of person or premises because of suspected black marketeering and other illegal activities (founded on court decisions and filed criminal charges).

All these activities will be realized with maximum respect of human and civil rights of United Nations Charter and other international instruments so there will be no violation of civil rights or legal entity rights.
Because of the above-mentioned needs, it is indispensable to organize services for smuggling prevention and Customs investigations at border crossings along with reduction of personnel now dealing with Customs control and other activities within the Customs procedure. They should be organized as mobile teams within the country with the aim to control goods and vehicles after the Customs procedure at border crossings as well as highly qualified teams aimed at Customs investigation in enterprises and stores. This also implies a modern procedure for dealing swiftly and fairly with minor Customs violations, based on a well managed and controlled transactional arrangement scheme.

10. **State Authority Cooperation with Authorities in Charge for Collection and Control of Budgetary Revenue Collection.**

An extremely important segment of the new strategy of the Customs service is the different type of cooperation with the Republic Agency for Public Revenue in the first place, and with other state authorities authorized for local market protection and budgetary revenue collection. This cooperation implies exchange of information obtained in check, and coordination of targets and methods of control. In this way the Republic Agency for Public Revenue will obtain information on imported goods, on their value established after clearance necessary to avoid non payment of the value-added tax. The Customs service will obtain information from this agency on market prices of imported goods in order to control the previously declared duty base.

11. **Transit Passage of Goods**

Bearing in mind the fact that FR Yugoslavia is a transit country and that considerable revenue for the country is expected from it, the transit passage of goods, as a very important aspect of the Customs procedure, will be the subject of special regulations and implementations in the manner stipulated by EU countries. Thereby, the transit passage of goods will be implemented on the basis of the TIR carnet and on the basis of T documents, in case that corresponding international treaties or conventions with the said countries and other interested countries are signed. This implies standardization of documents and data in the manner stipulated by legislation of EU countries, strict implementation of the already signed treaty with IRU on electronic data exchange and strong support by the Customs information system.

12. **Developing a New Information System and New Information Technologies**

The analysis of procedures and processes conducted by Customs authorities can be classified into four types of activities to be supported by a new information system of the Customs service:

- stages of Customs procedure and Customs system (customs control before clearance, clearance, collection of customs duties, regulations, information processing for other services within the scope of Customs etc.)
- informing legal and physical persons (advising, giving information of interest for their business activities etc.)
- cooperation and provision of data and information needed for work of other Federal and Republic authorities (Ministries, Inspection authorities, Federal and Republic Institutes for Statistics, Central Bank of Yugoslavia, Ministry of Internal Affairs etc.)
- cooperation and information exchange with international organizations (European Union, World Customs Organization, IRU, Customs Administrations of Europe and the World).

On the basis of three-decades experience in the domain of Customs procedure automation, a need for
complete updating of the information system of the Customs service was observed, for the purpose of meeting the state and economic needs of the country, since an accelerated economic growth is expected, which enables the increase of the volume of import and export, as well as carrying out of Customs procedures.

For the purpose of approaching the latest technological achievements in this field, a multi-layered architecture for building the new information system will be prepared. It means that all functions will be available through Internet and Intranet, both to internal and external users, respecting all parameters from the environment that have an impact on the final look of the information system of the customs service (ISCS), such as telecom infrastructure and other.

The basic criteria to be met by the future ISCSs are the following:

1. IS functions must be built in a form of a service
2. Flexibility of data processing
3. Flexibility of program packages
4. Flexibility of software architecture
5. Multilingual support
6. Open standards support
7. “Smart” tariff
8. Standardized e-documents and definition (description)
9. Flexibility of installation, use and maintenance
10. Flexibility of selectivity algorithms

On the occasion of building a new system, a browser will be included as a tool and assistance to a faster procedure, and all services in the framework of ISCS will be designed in web environment (application for clearance, advice of arrival of goods, storage of goods, Customs tariff, data on value, regulations, collecting revenue etc.)

Database that will be used in ISCS is the model proposed by the group G-7, which was adopted, with minor modifications, by the World Customs organization (WCO) and all of its members, among which the European Union.

Although world trends were working in favor of decentralization of computer systems, the appearance of Internet has made its re-centralization a topical issue, so bearing in mind the said trends, the programs have to be designed in the manner to be able to work in the conditions ranging from completely decentralized to a fully centralized system.

Applications that will be made in the scope of ISCS must be adaptable to the data they are processing, and start from the clearly defined structure of Customs service, so that each Customs officer can have clearly defined work activities that he should perform within the framework of his job. In accordance with it, those activities will be subject to different applications of special purpose.

Apart from two alphabets, in the scope of the new ISCS different languages will be at the users’ disposal, which will facilitate the inclusion into world economy both of the Customs service and corporate subjects.

In accordance with the aforesaid, the new ISCS and new information technologies will contain the following wholes:
- Inspection
- Declarations processing (import, export, procedures in different kinds of traffic, regulations etc.)
- Customs clearance
- Warehousing
- Data necessary for fighting smuggling and for Customs investigation
- Passenger traffic
- Statistic reports
- Collection of revenues
- Management of information systems
- Administrative procedure

Being aware of the need and importance of exchange of information between Customs organizational units and Customs service, as well as other state bodies, one comes to the inevitable conclusion that costs of maintenance and administration of such a system should be decreased. By designing the system in the above manner, the period of duration of necessary operations is decreased and the transparency of the whole procedure increased. In this way, the direct contact of Customs officers is reduced, as well as their influence on the course of the whole procedure, thus drastically increasing the control, both of state officers and users, during the whole procedure, and eventually gaining the control of all procedures defined by the Law.

Regarding coordination of communications, in order to enable linkage of information system, the starting point will be the solution based on open standards, which increases the possibility of the future growth and extension of the system, decreasing the dependency on enterprises that had offered designing services, whose solutions were applied.

The communication infrastructure will be based on the existing network of the Public Post, Telephone and Telegraph of Serbia, which will be optimally used.

13. **Customs Service Rules**

For the purpose of more effective fighting of corruption in the Customs service, which has resulted from the happenings in the past ten years, and bearing in mind similar institutes in Customs administrations in other countries, the neighbouring countries in the first place, designing and passing of the Ethic Codex of the Customs Service — the Customs service rules — is being prepared. This will contain the provisions that will stipulate the manner of wearing Customs uniforms; the manner of carrying and using weapons, for those Customs officers who carry them; the manner of communication with other participants in the Customs procedure; the obligation of professional and efficient performance of one’s duty; measures of remunerations and promotions for success achieved at work, regardless of educational qualification; disciplinary and penal measures for executing duty in unprofessional and irresponsible manner; dismissal in case of corruption, theft, abuse of authority and unauthorized use of weapons. This Codex will also regulate the transfers of Customs officers, not only for the needs of service, but also as an award or punishment.

The objective of this Codex, that will be designed on the model of the Service Rules of the Yugoslav Army (that is why it will be titled “Customs Service Rules”) is not only to prevent corruption, but also to contribute to building the moral profile of a Customs officer, to influence his professional attitude towards his work and his colleagues, shipping agents, importers and other participants in the Customs procedure, and to implement as much as possible the principle of equity, meaning that professional and efficient work
will be followed by award, and irresponsible one by punishment.

Without going deep into the Law on Employment of the Republic of Serbia, Law on Customs Service and other legal regulations from this domain, these Service Rules, that should be prescribed by the Director of the Federal Customs Administration, are supposed to round up this matter and to raise this part the Yugoslav Customs Service to the level of Customs administrations in developed countries.

14. Organization of Customs Service

The present manner of organizing the Customs service has not changed since the end of World War II, except that some organizational units were added, such as customhouses, Customs posts, sectors or departments in the Federal Customs Administration.

Organizational structures of Customs administrations in the EU countries and in other developed countries have recently changed to a great extent, for the sake of their rationalization and improvement of work efficiency.

In order to achieve the new work strategy, the Yugoslav Customs service has to be organized in a different way, as well, including the precursory rationalization. i.e. reduction of number of employees. The following criteria set by the International Monetary Fund, European Union Commission and other subjects relevant for determining the number of Customs officers in the Customs service are here specially kept in mind:

- Annual number of declarations per Customs officer,
- Annual amount of Customs duties collected per officer
- Annual expenses per Customs officer

Different models of possible organization of the Federal Customs Administration were prepared, bearing in mind the importance of this matter, particularly new functions, such as introduction of selectivity, procedure of Customs authorities before courts and other competent bodies, giving different authority to services for fighting smuggling, new information technologies and functions of the new ISCS. These models will be forwarded to a certain number of Customs organizations for making suggestions and remarks, after which criteria will be set for the purpose of passing corresponding Acts by the Director of the Federal Customs Administration.

15. Professional Training of Customs Officers

The expertise of Customs officers has been substantially reduced in the past ten years, and training of Customs officers during the last six years have been reduced to a mere formality. In such circumstances more and more mistakes are being made in the Customs procedure, both of formal and material nature, affecting the participants in the Customs procedure, i.e. exercising their rights, as well as the correct implementation of provisions and accurate and timely collection of duties.

After having studied the world experiences in this field, the conclusion was made that the training of Customs officers has to be updated in compliance with updating of the Customs system and their working environment, thus in the future the basic and specialist trainings will exist within the service itself. All the newly employed workers that will deal with Customs activities will have to pass the basic training, in the scope of which are envisaged, apart from the classical Customs subjects, studying of a foreign language
and computer training related to the platform in use, with the knowledge of elements of information technologies.

After completion of the basic training and practical work in custom-houses, Customs officers would be sent to a special training, necessary for carrying out their activities, such as those of Customs inspectors, fighting smuggling, doing revisions etc.

Customs officers would also attend special courses for revealing and fighting narcotics smuggling, revealing explosives, work with certain software products etc.

Regardless of their positions, all Customs officers will be regularly and periodically subject to knowledge tests and capability tests for work on certain positions, which will have an impact on their assignment and advancement in the service.

16. Support of International Organizations to the New Strategy of Development of Customs Service

Representatives of international organizations, first of all experts of the World Bank, in the scope of implementation of TTFSE Project, have been acquainted with the concept of Customs service updating.

During several visits of the World Bank experts between June – November 2001, all aspects of updating were considered, as well as its components; with their help and suggestions were carried out regulation drafts, new working technologies, designing of new information technologies and new computing system; new functions of Customs service were considered and world standards accepted, and the positive side of experience was studied.

After preparations have been carried out, as well as the necessary activities, all aspects of the new Customs system and procedure in the scope of the new strategy will be realized and implemented by means of the credit granted by the World Bank.
CUSTOMS SERVICE DEVELOPMENT STRATEGY

By the Decree on the Amendment to the Decree on the Organization and Manner of Work of State Administration ("Official Gazette of the Republic of Montenegro", 31/99), administrative matters in the field of customs system have been conferred on the Montenegro Customs Administration.

In accordance with the policy of the Customs Service of the Republic of Montenegro in terms of coming closer to EU countries as well as other developed countries, it is necessary to define clearly the role of the Customs Service applying the knowledge acquired from international practice.

Having in mind that strategic objectives of the Republic of Montenegro are development of tourism and of tourist economy, it is necessary to achieve fast implementation of new customs legal concepts of targeting and selectivity, as well as introduction of integrated customs information system, for the purpose of facilitating and speeding up the traffic at the border crossings.

1. Building New Customs System

The Republic of Montenegro is in the phase of adjusting its legal framework to new needs and standards relating to customs, foreign trade and tax systems. The Parliament of the Republic of Montenegro has passed the Law on Value Added Tax that comes into effect on July 1, 2002, and the Government of the Republic of Montenegro has verified the Draft Customs Code and submitted it to the Parliament of the Republic of Montenegro to be passed and come into effect on the same day as Law on VAT. By the new Customs Code, legal concepts and procedures in compliance with regulations of the European Union shall be introduced.

Montenegro Customs Administration has, in cooperation with foreign experts, drafted the Customs Code and Customs Service Act (Customs Administration Act). Both Laws were adopted by the Parliament of the Republic of Montenegro at its session on January 29 this year, whereby the Customs Service Act is expected to be applied in February, and the application of Customs Code has been envisaged to start on July 1, 2002.

Model for drafting the Customs Code is the EU Customs Code, which means that the new Customs Code of the Republic of Montenegro comprises modern customs legal concepts and customs procedures that comply with the standards of the World Customs Organization and the World Trade Organization (WCO and WTO).
Customs procedures that are in compliance with the standards of the World Customs Organization and Kyoto Convention provide for the clearance of goods with limited and risk analysis-based physical examinations, relying more on the customs inspection and verification after the goods have been released than it has been the case so far. In order that the Customs Service can play its role in stimulating legal trade and improving the collection of revenues based on higher compliance with regulations, it is necessary to prevent illegal trade flows and improve cooperation among state authorities.

The new Customs Code regulates the customs territory of the Republic of Montenegro, customs/border crossings, powers of customs officers in customs procedures and other issues of importance for conduct of clearance procedure, customs supervision and sanctioning of customs violations, as well as the rights and liabilities of persons and powers of customs authorities relating to goods and persons crossing the customs line. This Code is in compliance with international regulations, whereby it qualifies as a general legal document governing this field, which implies regulating this subject matter in more detail through the Implementing Provisions as this is an EU trend.

The Customs Service Act (Customs Administration Act) has been drafted on the premise that the Customs Service is an authority with powers precisely defined. By this Law, the Customs Service becomes competent and authorized for imported, exported and goods in transit on the whole territory of the Republic, whereby it performs its fiscal, protective and securing function in the manner that this has been resolved in modern European countries. This Law also provides for the special training of customs employees, the obligation of taking professional exam, professional improvement imposed by new standards, as well as the possibility of subsequent testing of the knowledge acquired.

In order that the Customs Service could achieve progress and come closer to customs services of EU and other developed countries, it is necessary to clearly define its role for the purpose of performing basic functions of each customs service: collection of revenues and fight against smuggling and corruption. Therefore, objectives of development of the Customs Service of Montenegro are as follows:

- facilitating and speeding up the traffic at border crossings and decreasing non-customs expenses;
- fight against smuggling and corruption exercising powers of control over the whole customs territory;
- risk analysis, selectivity and targeting;
- timely and efficient collection of import duties;
- cooperation with other state authorities;
- cooperation with customs services of other countries.

According to international practice, as well as the needs of the Republic of Montenegro, these objectives should be achieved in the following manner:

a) Facilitation and speeding up of the traffic at border crossings implies provision of conditions for speeding up the clearance procedure and release of goods after they have been cleared. This implies selective examination of consignments (at the present time, the percentage of examined consignments is 100%), that is, the ability of Montenegro Customs Administration (MCA) to, based on successful assessment (targeting), choose a customs declaration requiring further check and physical examination (selectivity). The above mentioned shall become feasible through:

- computer support by building integrated information system;
- defining customs procedures in terms of intensifying control after border crossings have been passed through, as well as strengthening control over procedures of valuation of goods;
- preparation of data on customs violations based on intelligence and processing of information collected;
- forming a specialized organizational unit in charge of selectivity;
- bringing customs documentation and data in line with standards;
- establishing computer connections with other participants in customs procedure.

b) Having in mind the unique position of the Republic of Montenegro in terms of trade and transport, and for the purpose of preventing violation of regulations and fighting against smuggling and corruption (organized crime, illegal immigration), Customs Service shall carry out control of goods and means of transport during the customs procedure, with the view of prevention, as well as subsequently.

In that sense, units for fighting against smuggling and for conducting customs investigations will be organized at border crossings, whereas the number of employees now performing operations of customs supervision will be decreased. Those units will work inland, as mobile teams, on the control of goods and means of transport after the procedure at a border crossing has been completed, and as units specially trained for conducting customs investigations in enterprises, and so on.

With the view of achieving the above mentioned goals, the new Customs Code provides for adequate powers of Customs Service as well as for rights, liabilities and coordination of different state authorities at the border, avoiding the overlapping and doubling of duties. This also implies establishing of department for prevention and department for prosecution, as well as development of investigation and intelligence departments within MCA.

For the purpose of highly efficient fighting against corruption within Customs Service, which is the consequence of the events that have been taking place in the last ten years, and having in mind similar legal concepts applying to customs administrations of other countries and our neighbouring countries, the Customs Service Act, apart from the above mentioned, also regulates: the manner of wearing Customs uniform; the manner of communication with other participants in the customs procedure; the manner of carrying and using arms; the obligation of professional and efficient carrying out of duties; measures of rewarding and promotions for achievements in work, disciplinary measures and sanctioning of carrying out of duties in an unprofessional and irresponsible manner; firing from work in the case of corruption as well as in the cases of abuse of authorizations and of unauthorized using of arms.

The new Customs Service Act will serve as the basis for establishing adequate organization and systematization of jobs on the model of modern customs services of European countries that are similar to Montenegro in respect of their size.

c) For the purpose of timely collection of customs duties and other taxes that are collected in the customs procedure, new legal concepts will be prepared for the purpose of timely and efficient securing of collection of duties electronically, with a reliable system of bank guarantees.

Based on the adoption of the Law on Value Added Tax that comes into effect on July 1, 2002, Customs Service will have a significant role in the application of this Law as well as intensive cooperation and exchange of information with the Department of Public Revenues.

Successful cooperation with the state authorities competent for control of trade on domestic market and collection of the budget revenues implies exchange of data, agreements on common objectives and methods of control as well as exchange of information after the control has been carried out. In that manner, DPR will possess authentic data on imported goods, especially on the value of those goods determined after the clearance for the purpose of preventing evasion of paying the taxes, VAT and excise. By collecting VAT on the import of goods, Customs Service shall participate in the application of the Law on Value Added Tax. On the other hand, MCA will obtain the Register of Taxpayers from DPR.
d) For the purpose of increasing the efficiency of work of all state authorities at border crossings, it is necessary to establish coordination of work among the following state authorities: border police, different inspections (sanitary, veterinary...) and the Customs Service, avoiding the overlapping and doubling of duties. Since it is the Customs Service that practically starts customs procedures at border crossings, or, in other words, since the Service is the one that performs operations necessary for import of goods and means of transport crossing the customs line, it is logical that the Customs Service should coordinate the work of the authorities present at border crossings, with the clearly defined scope of work of each authority separately. In that sense, Montenegro Customs Administration will strive for the application of the Geneva Convention on Border Controls standards and the recommended EU approach of Integrated Border Management. This implies adjustment of the legislation to the new role of Customs Service, establishing of respective liabilities and duties of authorities participating in the state border management.

Considering its position in the region and the fact that Montenegro is a transit country, and having in mind that transit of foreign means of transport is expected to generate considerable amount of revenues to the country, internal transit procedure, as a significant legal concept related to the customs procedure, shall be specially regulated and conducted in the manner provided for in the countries of the European Union.

The internal transit procedure shall be carried out on basis of TIR carnet and T documents when the relevant international treaties or conventions have been signed. This implies standardization of documents and data in the manner envisaged by the legislation of the EU countries, strong support of the customs information system and electronic exchange of data.

Two new legal concepts are envisaged to be introduced: **targeting and selectivity**, that have already been applied in the EU countries and in some of our neighbouring countries. **Targeting** is a measure of customs control that represents a manner of choosing particular means of transport where there is a reasonable doubt based on certain information and previously adopted criteria that the goods transported must be subject to special examination (drugs, arms, etc.). **Selectivity** represents choosing goods and means of transport that shall be subject to detailed customs inspection, either at a border crossing or inland, according to economic, safety, health, fiscal and other criteria that shall be determined and subsequently incorporated into the information system. This means that the computer will give the information to the customs officer relating to the vehicle that needs to be subject to detailed inspection, in which manner the subjective judgement of the involved customs officer will be avoided. Vehicles that should not be placed under special examination shall be permitted to go straight inland or shall be released from customs supervision with subsequent application of other legal measures deriving from the competence of the Customs Service.

In the manner described above, commercial consignments shall be cleared and released for circulation promptly, both at the border and inland. MCA will, for that purpose, introduce target groups (individuals and means crossing the border) and selectivity.

As on clearance of commercial consignments, data on passengers must be processed quickly, whereas prospective suspects or vehicles should be identified and extracted from the routine work for the purpose of further investigation. MCA shall also seek for the implementation of standards prepared on basis of the Geneva Convention on Border Crossings and EU has recommended the approach of integrated border management system. The Customs must be capable of intercepting the transport of goods that evaded control at the border, by using mobile customs squads in the interior. Customs Service must provide that prohibited goods or those subject to customs duties may not enter the country at some points on the border other than those designated for that purpose, which imposes the need for border squads.
2. **New Customs Information System**

New customs information system must support the legal and legislative framework in accordance with the needs of the republic of Montenegro.

Procedures and processes carried out by the customs authorities may be classified in four groups of operations that will be supported by the new customs information system:

- all phases of the customs procedure and customs system (customs control before clearance, clearance, collection of customs duties, legal framework, processing of data for other departments operating within the Customs, etc.);
- issuing information to legal and natural persons (notifying, giving information of importance for their business operations, etc.);
- cooperation and provision of data and information required for work of other state authorities (ministries, inspections, statistics, the Central Bank of Montenegro, etc.);
- cooperation and exchange of information with international organizations (European Union, World Customs Organization, IRU, customs administrations in Europe and worldwide).

For the purpose of coming closer to the latest technological achievements in this area, building of the customs information system will be based on architecture with multiple layers. This means that all the functions will be available through the Internet and the Intranet, both to internal and external users, in accordance with all the surrounding parameters that influence the final design of the customs information system (CIS), such as the infrastructure of Telecom, etc.

Taking into consideration the trends throughout the world, as well as the geographical position and infrastructure of Montenegro, the customs information system will carry out centralized data processing.

The application will be able to adjust itself to the data it processes, based on the clearly defined structure of the Customs Service, so that each customs officer will have clearly defined personal tasks and duties, which will, if the need arises, be subject to the applications for different purposes.

In accordance with the above mentioned, new CIS and new information technologies shall comprise the following sections:

- supervision;
- processing of declarations (import, export, procedures depending on different types of traffic, legal framework, etc.);
- clearance;
- data required for fighting against smuggling and for customs investigations;
- passenger traffic;
- statistical reports;
- collection of revenues;
- information system management;
- administrative procedure.

New customs information system with its new technology will enable direct computer connection with other
participants in the customs procedure (forwarding agents, importers, etc.). In that manner, forwarding
agents and importers will be enabled to enter themselves the data necessary for the customs procedure to be
carried out in their own computers, regardless of the geographical location. Thus, the time needed for that
purpose will be shortened in comparison to the current practice, i.e. customs declaration will be entered by
the forwarding agent and registered within the customs information system without the need for its being
re-entered by the customs officer.

By further development and by establishing computer connection among the participants in the customs
procedure, the previous declaration will be accepted whereas the customs supervisory documents will be
eliminated, in which manner the number of documents required in the customs procedure will be reduced
and the flow of goods will be quickened. By using contemporary means of communication (fax machine,
the Internet, etc.), importers have at their disposal commercial and transport documents before the arrival
of goods and means of transport. Submitting of the preliminary declaration by e-mail shall enable the
customs and other state authorities at border crossings to do the necessary preparation for conduct of the
customs procedure.

The customs declaration in paper shall continue to exist, but will be printed at the very border crossing,
accompanied by commercial and transport documents.

Customs documents and data shall be brought in line with UNCTAD, UNTDED and WCO standards,
while the standards for the data necessary for specific national instruments shall be specially regulated. For
certain phases of the customs procedure, commercial documents already standardized at the international
level shall be used, as they are used by customs services of developed countries.

In order to support the implementation of this plan, MCA should promote its working standards through:

- training;
- recruitment and staff policy;
- measures for fighting against corruption;
- flexible organization and the possibility of efficient deployment of available resources where the need
  arises.

3. Support of the International Organizations to the New Customs Service Development
Strategy

The concept of modernization of the Customs Service has been presented to the representatives of
international organizations, primarily to the World Bank experts within the implementation of the TTFSE
Project.

During a couple of visits of the World Bank experts in the period of September-December 2001, all aspects
of modernization were assessed, as well as its components; on basis of their support and suggestions, the
new working technology, i.e. new computer system was under consideration; new functions of the Customs
Service and standards accepted worldwide were deliberated upon; positive experience of foreign countries
was studied.

After the preparations and necessary activities have been carried out, supported by the credit from the
World Bank intended for the modernization of the Customs Service within the TTFSE Project, all aspects
of the new customs system and procedure shall be implemented within the new strategy.
At the same time, representatives of the European Commission from Brussels are preparing the assessment of the necessary support and help to the Customs Service of Montenegro, which will be reflected in technical assistance to the implementation of new regulations and supply of the equipment required for fighting against smuggling (apart from computer equipment).

DIRECTOR,

Miodrag Radusinovic