Basic Information
Objective 1 - Administration and Public Institutions

1.1. **CRIS Number** 2003.004-341.01.02
1.2. **Title** Implementation of trader based risk assessment and control
1.3. **Sector** Internal Market and Finance
1.4. **Location** The Customs Department under the Ministry of Finance
   Vilnius, Lithuania

2. Objectives

2.1. **Overall Objective**
The overall objective of this 2.305 MEURO institution building project, of which 0.5 MEURO is national co-financing, is to enhance risk management and control systems of the Lithuanian Customs.

2.2. **Project Purpose**
To assist the Lithuanian Customs Department to further align its practices to the EU customs standards and practices in light of latest EU initiatives:

- To deploy and implement a computerised system capable of automatically performing a risk analysis of all types of customs traders*, engaged in the operation of the whole range of Customs regimes by means of an analysis of their transaction data, in order to:
  - Select traders for audit or investigation; and,
  - Develop selection parameters for the transaction processing systems.

* The term “trader” refers to those legal entities (including commercial companies, public institutions and individuals) having financial transactions (associated with imports and exports) with the Department of Customs

2.3. **Accession Partnership and NPAA Priorities**
Considering the principles, priorities, intermediate objectives and conditions contained in the 2001 Accession Partnership with Lithuania in the section Customs Union:

**In need of particularly urgent action:** accelerate the implementation of the IT strategy of the Lithuanian customs administration. Develop IT systems so as to allow for the exchange of computerised data between the EC and Lithuania.

**In the European Commission's Regular Report 2002** on Lithuania’s progress towards accession it is stressed that in the area of customs union, Lithuania has achieved a good degree of alignment and administrative capacities are partially in place. However, further efforts remain to be made in strengthening inter-agency co-
operation and in enforcing existing provisions on fraud, intellectual property rights and anti-corruption. Particular efforts are necessary to ensure adequate information technology systems so as to allow the exchange of data with the EC and its Member States.

National Programme for the Adoption of the Acquis

With respect to computerisation National Programme for the Adoption of the Acquis for the period of 2001-2003 foresees the medium term Customs priorities and objectives:

3.25-S6 Development of Customs Information System (CIS)

Application of simplified procedures; reinforcement of administrative and operational capacity, including computerisation are in the scope of the activities.

3. Description

3.1. Background and Justification

In order to complete preparations for membership, Lithuanian Customs Administration is focusing on completing the alignment with EC customs legislation, ensuring full interconnection of its national systems with the EC customs information technology systems. Therefore, the first component of this project focuses on continuing the development of IT systems used by the Lithuanian Customs Administration allowing computerised data exchange between the EC and Lithuania and facilitate computerised customs processing.

In 2000, the methodology for the management and profiling of customs risks and the procedure for the selection and application of customs risk factors during customs clearance was approved on the basis of which customs inspection is carried out building on the analysis of risk factors and selection methods.

For the purposes of control, the Lithuanian Customs Administration, in an effort to intensify the battle against smuggling and violation of customs laws, is seeking to introduce up-to-date control technologies founded on the basis of sufficient powers to carry out prevention of violations and to perform investigations, and on risk analysis using modern technical means. This approach requires the introduction of a computerised system to facilitate the introduction of trader based risk assessment and control, over and above those implemented at the transaction level (e.g. declaration processing selection parameters).

3.2. Linked Activities

Lithuanian Customs Administration under a separate contract with the General Contractor “Hewlett-Packard” is developing and implementing the Integrated Customs Information System which comprises of these component projects:

- Enterprise IT Architecture,
- Transit Control System on a basis of the Minimal Common Core - MCC,
- Declaration Processing System based on the ASYCUDA programme,
• Taxes Accounting and Control Information System.

2002 PHARE funds of 4.75 MEUR, of which 1.20 MEUR is national co-financing, is to complete alignment of the Lithuanian Customs Information System with the Acquis. The project purpose is ensure that Integrated Customs Information System (ICIS) and manual procedures surrounding it are compatible with the computerised Customs systems NCTS, EBTI, ETM, ECICS, IPR, AFIS/CIS operating within the European Community.

2002 PHARE funds of this 2.0 MEUR institution building and investment project, of which 0.40 MEUR is provided from national co-financing, is to strengthen the future EU border through improved control capacities to ensure correct and efficient revenue collection and to protect the internal market against illegal trafficking of goods.

The project purposes are both to strengthen the capacity of the Customs Criminal Service by training, advisory services, introducing modern customs control technologies and techniques and to improve the capacity of the Internal Audit Service by introducing modern means for risk evaluation and assessment of the effectiveness of management and improve the capacities of the Lithuanian Customs in order to be ready to develop methodologies for the inspection of enterprises for the effective customs control of economic-commercial activities of enterprises and to fight the corruption.

2001 PHARE funds of 0.15 MEUR is to provide technical assistance for the Lithuanian Customs to be ready to implement the related EU customs information systems and be comprehensively prepared for systems interconnectivity. This contract requires a functional analysis of national requirements for the implementation of the various systems and the production of functional specifications for each system. These functional specifications will provide base documentation for technical design and actual systems development foreseen under the 2002 Phare programme.

2000 PHARE funds of 2.0 MEUR are to be used to review and reorganise the regional Customs administrations, improve the public relations of the Customs Department and further harmonise Customs legislation, at the second and third levels, concerning Customs tariffs and combined nomenclature, Customs procedures with economic impact and simplified procedures and effective selection of economic entities for the proceeding of investigations of their economic and commercial activities. Newly implemented system would facilitate a risk analysis of the collected information regarding economic entities qualitatively and with expedition, to define priorities and fulfil the inspection of the economic entities.

1999 PHARE funds, of 1.5 MEUR are being used to design, develop and construct a computerised version of the Customs Master Tariff Register (CMTR), which will be used to process amendment data from source information and subsequently update all other systems, including ASYCUDA, using tariff information as reference data.

### 3.3. Results

- Necessary legislation developed, working practices, procedures and organisational framework established, enhancing operation of systems in line with EU requirements.
- Audit quality standards within the Customs Department established and implemented to ensure equality before the law for the taxpayers.
• The production/adaptation, testing and delivery of an application software system in order to base customs controls on common risk parameters, timely information on new risks and serve as a basis for the simplification of customs formalities in order to:
  √ fulfil the selection of economic entities for inspection of their activities more expeditiously and qualitatively;
  √ create a new methodology according to the nature of inspection and defined risk and
  √ reduce time expenditure necessary for the proceeding of risk analysis.

• Improved skills and knowledge of the customs officials for conducting new administrative arrangements in compliance with national legislation and EU directives - especially Articles 6,7 and 17 of the EU Regulation No. 1150/2000 of 1st January 2002, in regards to managing of the “A” and “B” accounts, description of frauds and irregularities and providing of annual reports by a series of workshops and simulations.

3.4. Activities

The project will be carried out with the help of one Phare Twinning Arrangement and Service and Supply contracts as necessary.

Twinning

The Twinning inputs will be delivered by two PAA (12 person/months assistance in Risk Management, 12 person/months – in traders audit area) and STAs 12 person/months assistance providing a total of 36 person/months inputs within the period of two years:

• Review necessary national legal acts in risk assessment and management area and redraft as necessary

• Assist in establishment and implementation of audit quality standards within the Customs Department comprising:
  − planning audit focus areas and activities
  − conducting audit according to the plans
  − documenting according to documentation standards

• Review operations of the Customs Department in the area of risk management and preparation of a migration strategy to a computerised environment

• Review operations of the Customs Department in the area of traders audit based on risk management and preparation of a migration strategy to a computerised environment.

• Analyse training needs in Lithuanian Customs Administration in the area of Risk management, develop detailed training scheme, provide training to 10 customs officials regarding Risk management.

• Design of necessary IT systems (preparation of terms of reference and functional and technical specifications for the investment component of the project taking into consideration the results of PHARE 2001 programme “Preparation for
implementation of EU Customs Information Systems” and PHARE 2002 programme “Improving and Strengthening Control and Anti-fraud Capacities and Ensuring Correct and Efficient Revenue Collection by the Lithuanian Customs”).

The Risk management PAA should have the following qualifications:
- to be expert in the area of Risk management,
- to be familiar with the management of systems development and implementation,
- to build a multi-disciplinary team of specialists and experts;
- to identify the necessary short-term advisers required to augment the Project Team,
- to co-ordinate the activities of short-terms experts working in the Risk management system development,
- to design and implement the training programme,
- to report the results to the beneficiary.

The traders Audit PAA should have the following qualifications:
- to be expert in the area of traders audit or/and investigation;
- to be familiar with the management of IT systems development and implementation,
- to build a multi-disciplinary team of specialists and experts;
- to identify the necessary short-term advisers required to augment the Project Team,
- to co-ordinate the activities of short-terms experts working in the traders audit system development,
- to design and implement the training programme,
- to report the results to the beneficiary.

STAs should have specific knowledge and expertise in:
- intermediate level knowledge in traders audit and investigation,
- detailed analysis, functional and technical specification and physical data design,
- module specifications, programme production and system consolidation,
- testing and implementation,
- documentation and training,
- assistance in elaboration of operational plans and quality assurance of the both Risk management and traders Audit projects.

Fluency in English is essential for all experts.

Service Contract
A service contract will cover technical assistance to the Customs Department.

Customs Department will require technical support for the development and implementation of a Risk management system in order to base customs controls on common risk parameters, timely information on new risks and serve as a basis for the simplification of customs formalities in order to ensure fulfilment of the selection of economic entities for inspection of their activities more expeditiously and qualitatively; creation of a new methodology according to the nature of inspection and
defined risk and reducing of time expenditure necessary for the proceeding of risk analysis.

3.5. Lessons learned

No indication of any possible overlap between associated projects has been noted. This project forms a natural sequential and harmonious extension of the activities and results specified in the 2001 PHARE programme “Preparation for implementation of EU Customs Information Systems Twinning Light Project Fiche and 2002 PHARE programme “Improving and Strengthening Control and Anti-fraud Capacities and Ensuring Correct and Efficient Revenue Collection by the Lithuanian Customs”.

4. Institutional Framework

The Project will be implemented within the Lithuanian Customs acting under the Ministry of Finance, that is responsible for the management of the Customs. This is a systems development project, and technical assistance is required to develop legislation, policy, protocols, procedures, and the actual systems design. The Customs Department has undertaken to bear all costs associated with the procurement of any necessary hardware, whilst PHARE will cover the cost of training, analysis and system development through the purchase of intangible supplies and services.

The organisational structure of the department is as follows: the Director General, five Deputy Directors General, the main divisions: Law and Enforcement; Customs Law Harmonisation; Statistical Analysis; Control and Supervision; Tariff; Tax Administration; Personnel and Trainings; Economic Entities Control; Customs Criminal Service; Customs Information Systems Centre. The overall Lithuanian Customs organisation includes the Customs Department as a headquarters, 5 Regional Customs administrations, and 71 Customs posts, the Customs Training Centre and Customs laboratory. The Customs Department will be responsible for this project: owner of TOR part will be Tax Administration Division of the Customs Department and owners of Risk management will be Anti-Fraud, Economic Entities Control Divisions of the Customs Department and the Customs Criminal Service. Customs Information Systems Centre will take responsibility regarding technical part of the project activity.

The project will be controlled by the ICIS Steering Committee. Mr. Rimutis Klevecka, Deputy Director of Customs Department, will be the Project Director and responsible for the implementation of the system (Tel. 370 5 2127785, Fax. 370 5 2124948 E-mail rimutis.klevecka@cust.lt). Responsibility for technical preparation and control will remain with the beneficiary, the Integration and International Relations Division of the Customs Department under the Ministry of Finance of the Republic of Lithuania. On completion of the project all developed systems will be owned by the Customs Department.
5. Detailed Budget (in € million)

<table>
<thead>
<tr>
<th></th>
<th>Phare Support</th>
<th>National Cofinancing</th>
<th>IFI</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment</td>
<td>Institution Building</td>
<td>Total Phare (=I+IB)</td>
<td></td>
</tr>
<tr>
<td>Customs Twinning</td>
<td>0.75</td>
<td>0.75</td>
<td>0.75</td>
<td></td>
</tr>
<tr>
<td>Service TA</td>
<td>1.05</td>
<td>1.055</td>
<td>0.50</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1.05</strong></td>
<td><strong>0.75</strong></td>
<td><strong>1.805</strong></td>
<td><strong>0.50</strong></td>
</tr>
</tbody>
</table>

Note: The Service TA input to the project will be managed using one contract. For details see the table below, providing details of the TA contract.

The PHARE amount is binding as a maximum amount available for the project. The ratio between the PHARE and national co-finance amounts is also binding and has to be applied to the final contract price.

The national co-financing commitment is a tax-excluded net amount.

An amount not exceeding 5% of the total project budget can be used for project supervision activities concerning the investment component of the project.

An amount not exceeding 50 000 Euro can be dedicated for study tours for the project team and Project Manager/Co-ordinator to one or more Member States in order to examine best practices and learn “live” applications, for translations of documentation and interpretation and other unforeseen expenses.

### Indicative breakdown of the Technical Assistance Component of the project

<table>
<thead>
<tr>
<th>Technical Service Component</th>
<th>Indicative PHARE Budget</th>
<th>Indicative National Co-financing</th>
<th>Total Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>project management of Risk management and traders audit and/or investigation system,</td>
<td>205 000</td>
<td>45 000</td>
<td>250 000</td>
</tr>
<tr>
<td>elaboration of operational plans, legal and technical assistance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>the production/adaptation, testing and delivery of a risk management and traders audit</td>
<td>850 000</td>
<td>450 000</td>
<td>1 300 000</td>
</tr>
<tr>
<td>and/or investigation application software system as a basis for simplification of customs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>formalities and more efficient utilisation of control resources.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1 055 000</strong></td>
<td><strong>495 000</strong></td>
<td><strong>1 550 000</strong></td>
</tr>
</tbody>
</table>
6. Implementation Arrangements

6.1. Implementing Agency

**PAO:** Žilvinas Pajarskas  
Director, Central Financing and Contracting Unit (CFCU)  
Telephone: +370-5-2126621  
J. Tumo-Vaizganto 8A/2, room 102, Vilnius  
Fax: +370-5-2125335  
Lithuania  
e-mail: info@cfcu.lt

6.2. Twinning

Customs Department under the Ministry of Finance  
Deputy Director Rimutis Klevecka  
(Tel. 370 5 2127785, Fax. 370 5 2124948 E-mail rimutis.klevecka@cust.lt).

6.3. Non-standard aspects

The Twinning Manual and PRAG will strictly be followed.

6.4. Contracts

1. Twinning:  
Risk management and traders audit and/or investigation 750 000 €

2. Service TA for risk management (two components):

Project management of Risk management and traders audit and/or investigation part –250 000 € (including 45 000 € national co-financing)

Risk management and traders audit and/or investigation – 1 300 000 € (including 450 000 € national co-financing)

7. Implementation Schedule

<table>
<thead>
<tr>
<th>Component</th>
<th>Start Tendering</th>
<th>Start Activity</th>
<th>Project</th>
<th>Project Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>TW</td>
<td>2 Q 2003</td>
<td>1 Q 2004</td>
<td>2 Q 2005</td>
<td></td>
</tr>
<tr>
<td>Service Contracts</td>
<td>3 Q 2003</td>
<td>1 Q 2004</td>
<td>2 Q 2005</td>
<td></td>
</tr>
</tbody>
</table>
8. **Equal Opportunity**

Equal opportunity principles and practices in ensuring equitable gender participation in the Project will be guaranteed.

9. **Environment**

The (services and procurement) components of this Project all relate to Institution Building activities.

10. **Rates of Return**

The (services and procurement) components of this Project all relate to Institution Building activities.

11. **Investment Criteria**

The investment (services and procurement) components of this Project all relate to Institution Building activities.

12. **Conditionality and Sequencing**

In order to complete preparations for membership, Lithuanian Customs Administration is focusing on completing the alignment with EC customs legislation, ensuring full interconnection of its national systems with the EC customs information technology systems. Therefore, the project focuses on continuing the development of IT systems used by the Lithuanian Customs Administration allowing computerised data exchange between the EC and Lithuania and facilitate computerised customs processing. Thus, the project can be implemented under the condition that the development of a risk analysis application may not delay the necessary works in ensuring accession-essential Customs IT-interconnectivity.

**ANNEXES TO PROJECT FICHE**

1. Logical framework matrix in standard format
2. Detailed implementation chart
3. Contracting and disbursement schedule
<table>
<thead>
<tr>
<th>LOGFRAME PLANNING MATRIX</th>
<th>Programme name and number</th>
<th>Contracting period expires: 2Q/2005</th>
<th>Disbursement period expires: 2Q/2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOR Project</td>
<td></td>
<td>Total budget: €2.305 Million</td>
<td>PHARE budget: €1.805 Million</td>
</tr>
<tr>
<td>Implementation of trader based risk assessment and control</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall objective</td>
<td>To enhance risk management and control systems of the Lithuanian Customs.</td>
<td>Objectively verifiable indicators</td>
<td>Sources of Verification</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Risk management and traders audit and/or investigation programme implemented, tested, and successful test results available.</td>
<td>Regular European Commission reports.</td>
</tr>
<tr>
<td>Project Purpose</td>
<td>To assist the Lithuanian Customs Department to further align its practices to the EU customs standards and practices in light of latest EU initiatives.</td>
<td>Objectively verifiable indicators</td>
<td>Sources of Verification</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Risk management and traders audit and/or investigation programme implemented, tested, and successful test results available.</td>
<td>Performance reports of the Customs Department Steering Committee Reports</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Traders opinion and business surveys</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>DG Budget reports</td>
</tr>
</tbody>
</table>
| Results | - Necessary legislation developed, working practices, procedures and organisational framework established, allowing systems to operate in a manner fulfilling EU requirements  
- The production/adaptation, testing and delivery of application software system in order to base customs controls on common risk parameters, timely information on new risks and serve as a basis for simplification of customs formalities in order to fulfil the selection of traders for the inspection of their activity more expeditiously and qualitatively; creation of the new methodology according to the nature of inspection and defined risk and in order to reduce time expenditure necessary for the proceeding of risk analysis. Customs personnel (10 in total) trained in the operational and technical requirements of the systems on the basis of “train trainers” approach  
- Improved skills and knowledge of the customs officials for conducting new administrative arrangements in compliance with | Objectively verifiable indicators | Sources of Verification |
|         |                                                                           | Systems in place and successfully tested  
- Staff understand the procedural and technical aspects of the systems  
- Review of necessary regulations and work orders prepared and recommendations documented | Technical assistance reports.  
- Project documentation.  
- Post training assessment  
- Audit quality standards within the Customs Department established and implemented to ensure equality before the law for the taxpayers. |
|         |                                                                           |                                                                           | Assumptions |
|         |                                                                           |                                                                           | Adequate provision from State budget.  
- Retention of trained staff  
- The appropriate personnel are made available for training |
national legislation and EU directives. Appropriate Customs personnel (8 in total) trained in the operational and technical requirements of the systems

<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Assumptions</th>
<th>Preconditions</th>
</tr>
</thead>
</table>
| • Review necessary legal acts and redraft as necessary  
• Review operations of the Customs Department in the area of risk management,  
• Assist in establishment and implementation of audit quality standards within the Customs Department,  
• Analyse training needs, develop training scheme, provide training  
• Design of necessary IT systems (preparation of terms of reference and technical specifications for the investment component of the project)  
• Create (adopt package solution) and deploy a system capable of automatically processing a risk analysis and/or audit of all types of customs traders | One Twinning Arrangement covering 2 PAA (12 person/months assistance in Risk Management, 12 person/months – in traders audit area) and 12 STAs person/months (total of 36 person/months assistance)  
One Service contract | Sufficient personnel is provided for the implementation.  
Adequate technical skills are available in the marketplace. | National co-financing available |
### Annex 2

#### Detailed Implementation Chart for the Project

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
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<tbody>
<tr>
<td>Month</td>
<td>7 8 9 10 11 12</td>
<td>1 2 3 4 5 6 7 8 9 10 11 12</td>
<td>1 2 3 4 5 6 7 8 9 10 11 12</td>
<td>1 2 3 4 5 6 7 8 9 10 11 12</td>
</tr>
<tr>
<td>Twinning Contract</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service Contract</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Legend:
- Light gray: Design
- Middle gray: Tendering
- Dark gray: Implementation
Annex 3

CUMULATIVE CONTRACTING AND DISBURSEMENT SCHEDULE (Phare Contribution only - € 1.805 Million)

<table>
<thead>
<tr>
<th>Date</th>
<th>Contracting</th>
<th>Disbursement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Twinning Contract</td>
<td>Twinning Contract</td>
</tr>
<tr>
<td></td>
<td>Service Contract</td>
<td>Service Contract</td>
</tr>
<tr>
<td>2003</td>
<td>0.75</td>
<td>0.249 0.35 0.45 0.55 0.65 0.75</td>
</tr>
<tr>
<td>2004</td>
<td></td>
<td>0.317 0.465 0.613 0.761 0.909 1.055</td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td>0.566 0.815 1.063 1.311 1.559 1.805</td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td>1.805</td>
</tr>
</tbody>
</table>