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## **Ukraine**

# **Delivering the Function-based Single Legal Entity in STS**

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**Technical Report**

**January 2020**

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## GLOSSARY

CD	Capacity Development
EBRD	European Bank for Reconstruction and Development
EC	European Commission
FAD	Fiscal Affairs Department
HQ	Headquarters
IMF	International Monetary Fund
KPI	Key Performance Indicator
MEFP	Memorandum of Economic and Financial Policies
MOF	Ministry of Finance
OTA	Office of Technical Assistance (US Treasury)
RO	Regional Office
RPO	Reform Project Office
RSC	Reform Steering Committee
SLE	Single Legal Entity
SCS	State Customs Service
SFS	State Fiscal Service
STI	State Tax Inspectorate
STS	State Tax Service
VAT	Value-Added Tax

## PREFACE

In response to a request from Ms. Oksana Markarova, Minister of Finance, a mission from the International Monetary Fund's Fiscal Affairs Department (FAD) visited Kiev, Ukraine during the period of October 30 – November 12, 2019 to advise on State Tax Service (STS) reform.

The mission was led by Mr. Enriko Aav (Senior Economist, FAD), and included Mr. John Crotty and Ms. Tiina Tamm (FAD external advisors).

During its visit, the team had productive discussions with Ms. Oksana Markarova, Minister of Finance, Mr. Danilo Hetmantsev, Head of Parliamentary Committee on Finance (Verkhovna Rada), Mr. Pavlo Hodakovskiy, Deputy Minister of Finance, Mr. Sergiy Verlanov, Commissioner of STS, and Mr. Maxim Nefyodov, Commissioner of State Customs Service (SCS).

The mission also had useful meetings with key managers of the STS, representatives of the Ministry of Finance involved in STS reforms, and members of the STS Reform Support Team.

In addition, the mission met with representatives of the international donor community in Ukraine.

The mission would like to express its gratitude for the assistance and collaboration provided by all the officials with whom it met.

This aide-mémoire consists of an Executive Summary and the following sections:

(I) The STS Reform Strategy; (II) Reform Governance Arrangements; (III) Single Legal Entity; (IV) Other Priority Reforms; (V) Reform Implementation; and (VI) Implementation Support.

## EXECUTIVE SUMMARY

**This report responds to the request from the Minister of Finance to support strengthening tax administration in Ukraine.** Tax administration reform has been a priority for the Ukraine government over recent years. A recent separation of the tax and customs administrations from the former unified State Fiscal Service provides an opportunity for a more focused reform effort and comprehensive overhaul of revenue administration operations. Tax administration reform is also outlined by the government among the priority economic reforms in the Memorandum of Economic and Financial Policies (MEFP) presented in the context of a possible future program with the IMF.

**The State Tax Service (STS) has been established, but its structure and organizational framework needs to be urgently reformed in order to deliver a unified function-based single legal entity (SLE).** Achieving this outcome will increase revenues and minimize corruption, improve organizational flexibility, reduce operating costs, and strengthen consistent and transparent treatment of taxpayers. Achieving the SLE is a major undertaking that requires wide-ranging redesign of the tax administration organization, management processes, and operations. Putting these changes in place will be a major effort and cannot be achieved simply by redrafting legal and sublegal acts as is current thinking. To be successful, the STS needs to start immediately with the SLE reform.

**A precondition for successful completion of this reform is the appointment of functional managers in STS headquarters (HQ) who would take ownership of the STS reform agenda.** Those managers should, as a team, define the STS Reform Strategy and the Roadmap for the delivery of STS strategic objectives in the short- to medium-term. Importantly also, they must ensure that resources are focused on priority reform projects.

**Two tasks—the establishment of the reform governance arrangements and the appointment of a senior manager responsible for the reform program—should be completed immediately.** A Reform Steering Committee (RSC) comprising the STS Commissioner, other senior STS staff, and a Ministry of Finance (MOF) representative, must be created to provide oversight of the reform process. One of the Deputy Commissioners should be assigned responsibilities for day-to-day management of the overall reform program and coordination of the work of the Reform Project Office, which is being established. Individual development projects will be the responsibility of experienced staff in the STS functional departments.

**The most important project for the STS is the full implementation of the function-based SLE and this will be its main priority in the coming year.** While proposals for legislation changes have been prepared and sent to the parliament, the STS and MOF must speed up



technical preparations for this project, starting with the formal establishment of a project group for SLE reform and the development of a project implementation plan as outlined in this report.

**The Reform Steering Committee (RSC) will need to make decisions on other priority reforms and their sequencing, paying close regard to the availability of STS resources for that purpose.** The number of other reform projects that can be implemented simultaneously with the SLE project will need to be carefully prioritized, while keeping a strong focus on meeting the Government's revenue collection expectations. The Reform Roadmap can also be used to guide decisions on priority reforms and in what areas assistance from donors and development partners should be sought. Decisions to cease or defer low priority reform projects will need to be made by STS senior management as soon as the Reform Strategy and Roadmap are finalized.

**While this report focuses on proposed reform governance and implementation arrangements for the STS Reform Strategy, a similar approach should be followed in the implementation of the State Customs Service (SCS) Reform Strategy.**

**This report provides advice on how to strengthen reform management in the STS.** Section I provides general guidelines for defining the STS Reform Strategy; Section II provides advice on reform governance arrangements; Section III focuses specifically on the most challenging reform—establishing STS as a function-based SLE tax administration; Section IV discusses two priority operational reform areas—tax audit and disputes resolution; Section V provides advice on reform implementation and the immediate next steps that need to be taken. Finally, Section VI discusses implementation support by capacity development (CD) providers and proposes a tentative plan for IMF support over the next 18 months. The report's appendices include templates of reform planning documents that can provide practical support for STS reform preparations. A tentative plan for delivering the SLE is also attached at Appendix III. The report's recommendations are summarized in Box 1.

## **Box 1. Summary of Recommendations**

### **Section I/Reform Strategy**

- Appoint the STS leadership by end-December 2019.
- Develop the Reform Strategy when the STS leadership team is in place, by end-January 2020.
- Adopt clear reform objectives for the Reform Strategy.
- Prepare the Reform Strategy Roadmap to identify reform priorities and the timing of implementation of those reforms.

### **Section II/Reform Governance**

- Establish the Reform Steering Committee (RSC) and appoint its members by end-January 2020.
- Appoint the Deputy Commissioner who will be responsible for reform implementation.
- Revise the draft Reform Project Office (RPO) Charter and approve the final version defining RPO's role as providing support to the RSC and reform program.
- Establish Reform Project Teams, starting with establishing the Single Legal Entity (SLE) project team in January 2019.

### **Section III/Single Legal Entity**

- Adopt the draft three-phased Action Plan for SLE implementation and related milestones ensuring that:
  - the new STS model for distribution of decision-making authority is developed by end-May 2020.
  - The STS performance management system is approved by end-May 2020.
  - The piloting of the SLE model starts by end-June 2020.
  - Full SLE rollout starts by end-September 2020.

### **Section IV/Other Priority Reforms**

- Undertake a fundamental review of STS audit operations in order to deliver a fully risk-based case selection system, strengthened case management, greater automation of audit procedures and processes, and improved audit assessment quality and consistency by end-September 2020.
- Develop legislative changes necessary to support effective modern audit operations by end-June 2020.
- Review, with the support of international experts, current STS dispute resolution procedures and processes in order to develop a modern independent and credible disputes resolution system by end-December 2020.

### **Section V/Reform Implementation**

- Implement immediate activities for reform governance, Reform Strategy development, and establishment of the SLE as set out in Table 1.

# INTRODUCTION

**1. Major changes to Ukraine's tax administration are underway.** While authorities are implementing FAD's earlier advice by separating tax and customs administrations, the current State Tax Service (STS) and State Customs Service (SCS) institutional setups of multiple regional semi-autonomous legal entities serve as an obstacle for effective and uniform implementation of modernized operational processes in revenue administration. Moreover, the high level of operational discretion across all tax and customs administration functions in the current legal entities at the regional level have created high risks for institutionalized corruption, which are difficult to address from the headquarters (HQ). A new law to establish a single legal entity (SLE) operational framework for tax and customs administrations will present a unique opportunity to: i) improve revenue collections, ii) strengthen function-based operations at both headquarters and regional levels, iii) introduce new business processes and related organizational changes, and iv) rationalize many current operations with attendant resource savings.

**2. Senior personnel changes in STS HQ and at the regional level will provide an opportunity for cultural change in Ukraine's tax administration.** A new HQ management team is currently being recruited and a new cohort of regional heads is also being selected. New people recruited to all of these key positions can bring about a transformation of the culture of Ukraine's tax administration where, over many years, ineffective and corrupt practices have had a significant detrimental impact on Ukraine's revenue collections.

**3. The Customs Administration faces comparable challenges and should follow the similar approach for developing an implementing SCS Reform Strategy.** The mission met the SCS Commissioner and discussed the SCS reform progress. While some challenges in customs reform may differ comparing to tax administration, the major tasks – achieving a functionally organized SLE for Customs Administration and overhauling its operations – are the same as to the STS. Therefore, it is advisable for the SCS to follow the similar approach as recommended to the STS in this report.

## I. THE STS REFORM STRATEGY

### A. The Need for an STS Reform Strategy

**4. By leading the development of a Reform Strategy, STS senior managers can take full ownership of the agency's reform agenda.** Through this development process, a clear consensus among those senior managers on the vision, roadmap, and reform priorities can be achieved.

**5. Documentation of a Reform Strategy will support the delivery of STS reforms over the medium term.** A single coherent reform strategy, developed by STS senior managers, can minimize fragmentation of reform efforts, clarify the sequencing of reforms, identify measurable

outputs and outcomes, and ensure that the resources needed to deliver those reforms are taken into account in implementation plans.

**6. Circulation of a Reform Strategy to external and internal stakeholders can provide a “reality check” on action plans and implementation timelines.** Before the public circulation of the Reform Strategy document, it will be important to check that: i) the description of proposed reform initiatives and their objectives are clear and comprehensible to all stakeholders, ii) they accord with Government priorities for both the short- and medium-terms, iii) they are internally consistent, iv) linkages among different reform initiatives are identified and understood, and v) those reform initiatives can be properly resourced and requisite funding secured.

**7. A Reform Strategy will be the key document that both STS and donors will use to identify STS capacity development (CD) needs.** Reform priorities identified by STS senior management in its Reform Strategy, especially those priorities requiring significant investments of resources for their implementation, would be a logical starting point for discussions on CD needs. Many STS reform initiatives are already receiving support from donors and development partners and further assistance has been offered. The critical task for STS will be to align CD support to priority needs.

## **B. Developing the STS Reform Strategy**

**8. STS has taken steps that will facilitate the development of a Reform Strategy and related Implementation Plan.** A July 5, 2019 Resolution of the Cabinet of Ministers approved an Action Plan for implementation of the conceptual directions for reforming the STS. That document identified 55 major tasks and subsidiary activities with broad deadlines for completion and performance indicators. Some features of a future STS that has a strong focus on taxpayer services and an increased emphasis on voluntary compliance through increased digitalization and electronic services have been outlined in a recent STS PowerPoint presentation. However, the STS “visionary” features included in that presentation will require significant elaboration if it is to present a clear view of the STS “future state”.

**9. STS will need to undertake further work to transform its action plans into a clearly articulated strategy.** It is difficult to identify a limited number of critical, high-level reform objectives and priorities among the 55 tasks set out in the detailed Action Plan. Some of the descriptions of the reform tasks to be undertaken are unclear. Linkages between different reform tasks in the Action Plan are not described and performance indicators generally indicate the completion of a specific task rather than the delivery of a substantive output or outcome.

**10. The STS Executive Team must take ownership of the Reform Strategy.** Delivery of initiatives included in the Reform Strategy will be an essential part of their work. These managers and their deputies must lead and “champion” reform efforts in their functional departments. They also have an important contribution to make to the development of the Strategy, identification

of priorities, decisions on the implementation plan, and allocation of resources to deliver reform outcomes over a multi-year period.

**11. Work can only proceed on the preparation of the Reform Strategy once the functional managers and their deputies have been appointed.** Most of the HQ managers of functional departments and their deputies are yet to be appointed. Processes for selection of STS HQ managers of functional departments are progressing and are expected to be completed in the near term. Their deputies should also be appointed as soon as possible.

## C. Identifying the Key Objectives of the Reform Strategy

**12. Transformation of the STS into a modern tax administration is the goal.** That high level goal can only be achieved if the objectives of the Reform Strategy are clearly defined. A proposed model of reform objectives was presented in previous IMF advice.<sup>1</sup>

- **Unified organization.** Implementation of the SLE model and organizational restructuring to be fully function-based across headquarters and the field office network. New management approaches will ensure clearly defined functional responsibilities to managers and staff, and the formal delegation of responsibilities to the lowest competent level.
- **Human resources.** Staffing needs to be transformed. The future workforce must be smaller and professionalized as new jobs replace old. It will be better paid and corruption free.
- **Core operations.** Business processes will be transformed from those currently undertaken. This will be facilitated partly by technology but also by a radical simplification and rationalization of redundant activity as the STS better understands the real risks to tax compliance and how to respond to them. Structural and human resources reform, combined with better information for decision making from more sophisticated use of technology, will allow a more nimble and flexible tax administration to respond faster to risks to revenue.
- **Higher compliance.** Compliance will improve. Routine taxpayer obligations will be largely automated reducing compliance and Government administrative costs. Taxpayer certainty will increase and the rule of law applied reducing avoidable disputes. Buttressing this, legislative changes could provide the STS with more robust enforcement powers to address serious tax noncompliance.
- **Culture, accountability and transparency.** Most importantly, the culture, accountability and transparency of the STS will be improved. Business trust in the integrity of the STS will be higher with the establishment of a more transparent and professional tax organization.

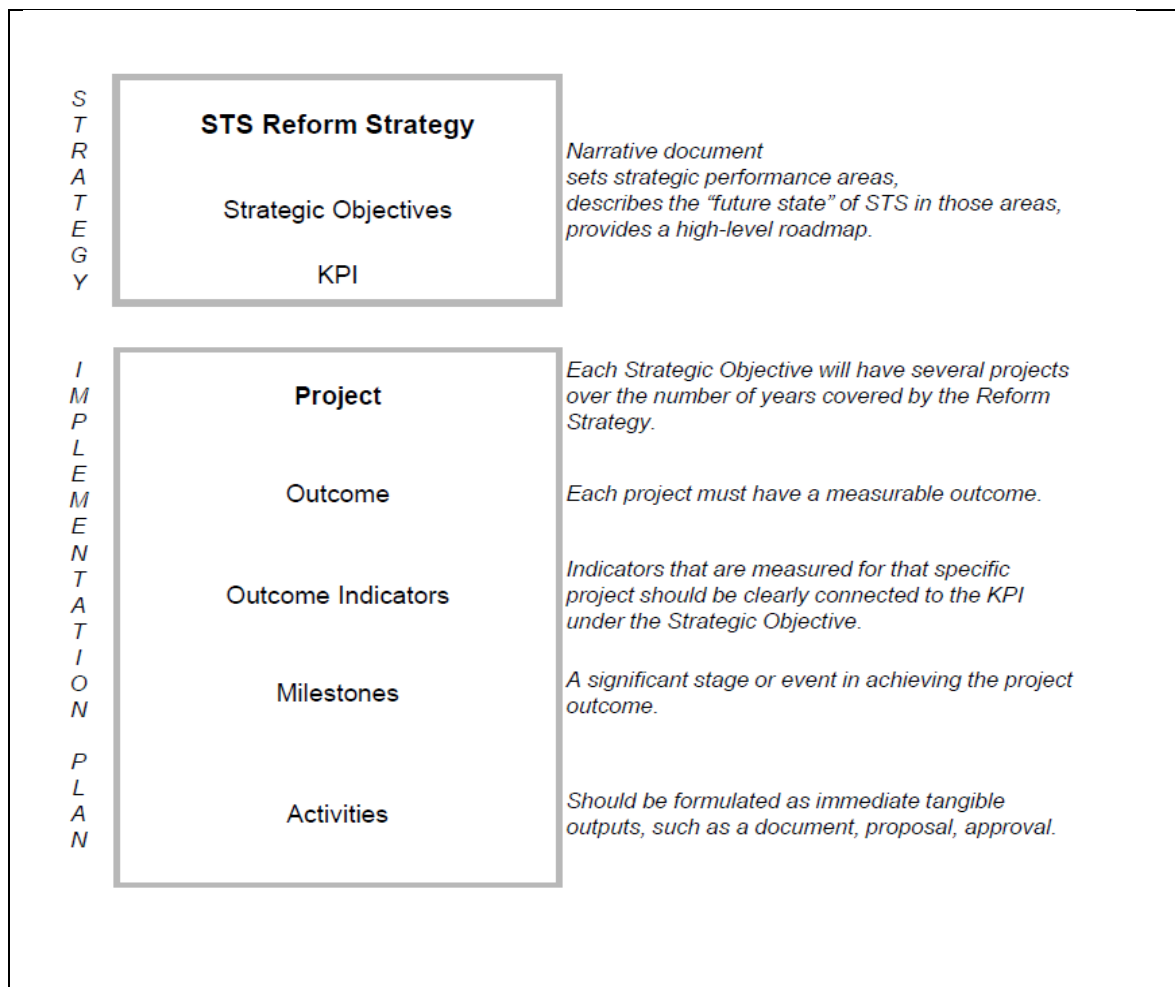
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<sup>1</sup> P. Barrand et al, *A Proposed Implementation Plan for SFS Reform*, September 2017, Section II.

**13. A coherent STS Reform Strategy could be built around a set of objectives.** Many of the 55 STS tasks identified in the July 5, 2019 Action Plan approved by the Cabinet of Ministers would readily fit under the five objectives outlined in this model above. Adoption of a set of reform objectives as part of the Reform Strategy framework would facilitate stakeholder understanding of the Strategy and the reasons for prioritizing particular reform initiatives. Moreover, a set of clearly defined reform objectives could guide the design of an STS communication strategy for “selling” its reform program.

**14. A Roadmap, as a part of the STS Reform Strategy, should provide an overview of main development areas under each strategic objective for the entire period of the Reform Strategy.** STS would use this Roadmap to determine its priorities and timeline for implementation of reforms as well as Key Performance Indicators (KPIs) for reform objectives. Box 2 outlines the relationship between the Reform Strategy and its Implementation Plans. Appendix I provides a sample template for STS project plans that can be used for implementing priority reform projects.

### Box 2. Relationship between the Reform Strategy and Implementation Plans



## II. REFORM GOVERNANCE ARRANGEMENTS

**15. Implementation of the STS Reform Strategy will require careful management.** This will be necessary to ensure timely delivery of reform measures while securing stable ongoing revenue collections.

**16. Some steps have been taken recently to build STS project management capabilities.** Funding by European Bank for Reconstruction and Development (EBRD) has been secured for the establishment of a Reform Project Office (RPO). Some members of the RPO team have been identified and it is expected to begin full-fledged work in January 2020.

**17. The Fund has provided earlier advice on reform governance arrangements for revenue administration reform<sup>2</sup>.** Reform governance arrangements proposed in this section are adapted to the current situation. In 2017, the then Government had decided upon a governance model for tax administration reforms that involved high level political supervision of the reform program.

**18. The main difference in the governance model proposed in this section is that the STS Commissioner and his Deputies would be fully responsible for implementation of reforms.** This arrangement would, of course, be accompanied by regular reporting to the Minister of Finance on reform progress.

**19. A further difference between the two models is that the EBRD has recently provided funding for the establishment of an RPO.** In 2017, the possibility to have an RPO was not under consideration. With the RPO's establishment, its role and responsibilities in supporting and facilitating reforms and its line of reporting to STS senior management need to be documented.

**20. A draft charter for the RPO has also been prepared for the approval of the STS Commissioner but modifications to that draft will be necessary before its finalization.** The draft charter suggests that it is the RPO that will be responsible for: i) coordinating reform implementation, ii) proposing measures to be taken to implement reforms, iii) establishing work bodies (i.e. project groups), and iv) a wide range of other reform-related tasks. The RPO's proposed responsibilities would appear to usurp and cut across the role and responsibilities of the STS Reform Steering Committee (RSC) and the Deputy Commissioner (Reform), which are discussed hereunder. Against that background, the RPO's role and responsibilities will need to be more circumscribed so that the main responsibility and authority regarding reform implementation would lie with the STS management through the RSC and Deputy Commissioner (Reform) responsible for implementation while the RPO will perform only the supporting role.

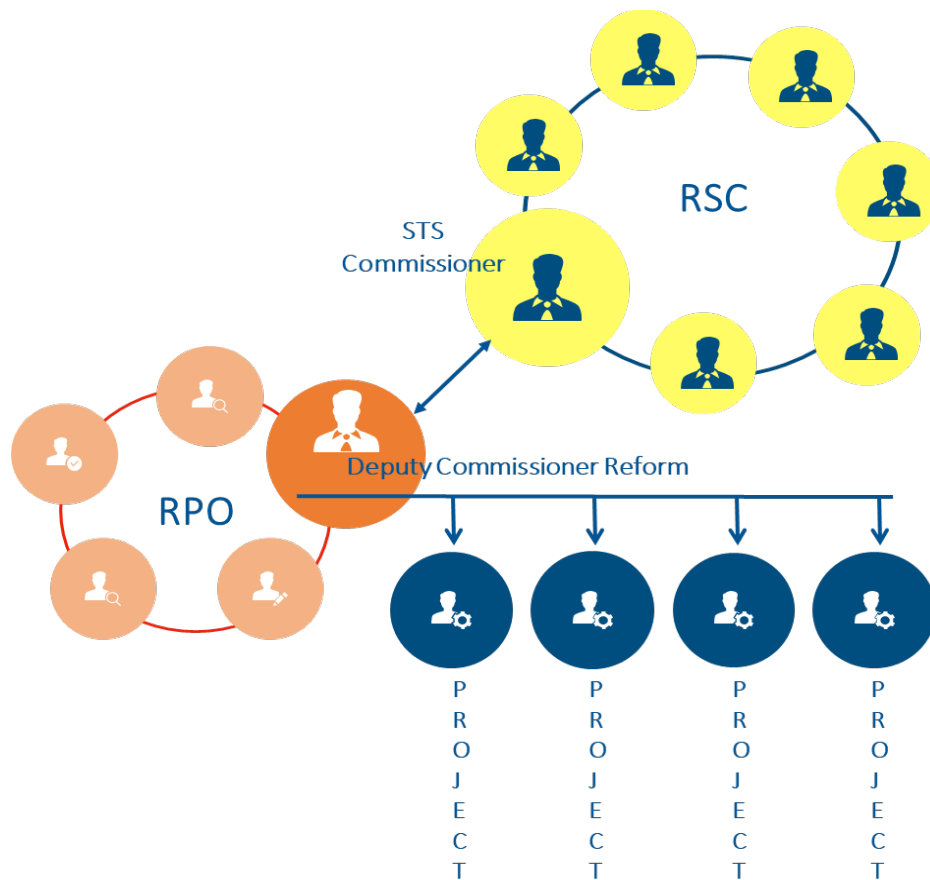
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<sup>2</sup> P. Barrand et al, 2017.

## A. The Proposed Reform Governance Structure

21. The STS Reform Governance structure and implementation arrangements will comprise four elements: i) a Reform Steering Committee (RSC), ii) a high-level STS official responsible for day-to-day management of the reform program (Deputy Commissioner (Reform)), iii) the Reform Project Office (RPO), and iv) Project teams. (See Figure 1 for a proposed structure of reform governance).

Figure 1. Proposed Structure for Reform Governance



22. Establishment of an STS RSC and defining its responsibilities are important steps in building the reform governance structure. The RSC is the key body responsible for: i) oversight of the STS reform program that includes all the reforms in the STS, ii) setting reform priorities, iii) defining the scope of reform initiatives and the timing of their implementation, iv) establishing project teams and appointing members, v) high level coordination of reform implementation across functional lines, and vi) identifying and allocating STS resources to projects in line with reform priorities. Importantly also, the RSC can help to identify and remove obstacles that may be beyond the authority of the project team or relevant functional



departmental head, and resolve situations where different functional departments may have conflicting views on how a particular reform initiative should proceed.

**23. Most of the membership of the RSC should comprise senior STS managers.** The RSC should be chaired by the STS Commissioner. All of the STS Deputy Commissioners should be members of the RSC, including the Deputy assigned responsibility for the day-to-day management of the reform program. The MOF should be represented on the RSC at the level that allows an effective strategic dialogue between the leaderships of both institutions. Inclusion of some heads of key functional departments and regional offices (e.g. the pilot offices) might also be considered.

**24. Membership of the RSC should be limited to eight or nine people.** Experience shows that decision-making on reforms can be slow if RSCs have a large and unwieldy membership. An RSC membership of eight or nine persons is likely to be the optimal committee size to facilitate decision making.

**25. The RSC should, for at least the first six to nine months of its operation, meet weekly.** Given the scale of the STS reform effort to be included under the Reform Strategy, and the need to ensure both that priority projects are on-track and that STS and donor resources are appropriately deployed to reform efforts, weekly RSC meetings will be required initially.

**26. One of the new Deputy Commissioners of the STS should be appointed as the leader of the reform effort.** That Deputy Commissioner should have a hands-on role working with managers of functional departments in the development of all aspects of the Reform Strategy and the scoping of reform projects. The Deputy Commissioner (Reform) should coordinate reform projects and present to the RSC any issues involving conflicting priorities and other obstacles to reform implementation. The Deputy Commissioner (Reform) should also provide close guidance to the RPO head and team members in carrying out their work.

**27. The RSC should report every two weeks to the Minister of Finance on the progress of reform efforts.** For the first six to nine months of reform and during periods when priority reform deadlines must be met, it would be appropriate for the RSC to report to the Minister on a two-weekly basis. That reporting timeline would not, of course, preclude the STS Commissioner from bringing reform-related matters to the Minister's attention when the Minister's decision or signature on a decree is urgently required to progress a reform matter.

**28. The RPO should be responsible for supporting the RSC and reform program.** Those responsibilities would include research and support functions for the RSC. The RPO's line of reporting to the Deputy Commissioner (Reform) and its more circumscribed role and responsibilities should be reflected in a revised draft of the RPO Charter. Box 3 provides some basic functions of the RPO.

### Box 3. Main Functions of the RPO

- Ensure the Reform Strategy Implementation Plan is comprehensive and dependent activities are appropriately sequenced.
- Maintain document version control for the Plan.
- Act as central document repository.
- Identify inter-dependencies of activities.
- Coordinate development partner support for the reform components.
- Maintain a database of all CD recommendations related to reform projects and regularly update their status.
- Monitor activities at a central level.
- Monitor the reform budget.
- Conduct regular meetings with project managers to discuss progress and any issues.
- Provide support and guidance to Project Managers on communication and change management.
- Ensure project status reports are filed on time and review them for clarity and completeness.
- Develop summary reform status reports for RSC.
- Identify variances from the plan and problems that are likely to emerge.
- Act as secretariat for RSC - organize meetings, call for agenda items and ensure the necessary supporting documents are provided, prepare and distribute minutes of meetings, monitor progress on action items.

## B. Reform Project Teams

**29. Primary responsibility for individual reform projects should be assigned to the heads of the particular functional departments in which reforms are to be implemented.**

Those departmental heads will identify the team leader and the individual staff members who will be assigned full-time to the project team to undertake the reform initiative. Support and guidance for reform initiatives will be provided by the RPO and donors and development partners will assist with significant technical and other support across a range of projects.

**30. Where reform projects (particularly SLE implementation) cross different lines of functional responsibilities, the RSC will have an even more important role to play in the development and implementation of those projects.** A single project manager will need to be appointed to each cross-function project and functional department heads impacted by the reform project will need to assign full-time staff to project implementation.

**31. Functional department heads will be required to submit regular reports to the RSC on the progress of their reform work.** In addition to submitting written reports, functional department heads could be invited to address the RSC regarding major obstacles in meeting

project milestones and other impediments to reform implementation. Designated project team leaders could also be invited to participate in those discussions in appropriate cases. Functional department heads should, however, use their own delegations to the maximum extent possible, to resolve such obstacles and impediments as they arise.

### C. Securing Revenues as a Reform Strategy is Being Implemented

**32. A major concern for many tax administrations is that their priority focus on collecting current revenues<sup>3</sup> can be lost as a large reform program is being implemented.**

This is a real concern when functional managers have to grapple with major reform implementation challenges as well as to deliver the revenue collection and other performance objectives assigned to their functional areas.

**33. One approach adopted by countries that have undertaken successful reform programs is to hold a regular (generally two-weekly) meeting of senior managers (Commissioner and Deputies) to review the tax administration's performance.** It is important that this meeting is separated from, and held on a different day from, the meeting of the RSC, even if the participants in the performance management meeting are essentially the same as the membership of the RSC. Reinforcing the separation of the two management functions of reform and performance oversight is necessary to ensure that strategic reform and operational issues are not mixed together in senior management meetings with the risk that the strategic or operational focus of a particular meeting may be lost.

## III. SINGLE LEGAL ENTITY

**34. Transformation of the STS from multiple legal entities to a single legal entity (SLE) with a function-based organizational structure is the critical first step in building a modern tax administration in Ukraine.** The HQ level and the regional level of the STS need a sound understanding of the respective roles and objectives in order to benefit from SLE implementation instead of formally introducing an organigram but keeping the old distribution of authority and procedures. Box 4 outlines the main benefits of the SLE.

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<sup>3</sup> Revenues include taxes, contributions, fees, and other revenues a tax administration is responsible for.

#### Box 4. The Main Benefits of the SLE

- **Increasing revenues and minimizing corruption.** Streamlined functional operations will result in increased revenues and minimize corruption risks. Accountabilities of functional managers for revenue performance outcomes will be clearly defined. Regional office heads will no longer have any discretionary authority to intervene in operational decisions concerning taxpayers.
- **Improving organizational flexibility.** As an SLE, the STS can adapt quickly as its business processes are reviewed and optimized. Implementation of decisions on numbers, location, and roles and duties of staff will take substantially less time in a SLE structure. National strategic interests and reform priorities will prevail over the interests of particular regions in all decision-making.
- **Reducing STS operating costs.** Implementation of the SLE has a potential to result in significant cost reductions through centralized management of support services, and simplification and automation of support services, such as personnel administration, accounting, and document management.
- **Strengthening consistent and transparent treatment of taxpayers.** An SLE can ensure uniform delivery of tax administration services and functions and more consistent application of the tax laws across the country.

**35. A strong HQ is needed to build function-based operations, and to ensure transparency and the prevalence of national interest.** The potential for corruption is built into the existing structure, where the regional level management has the authority to interfere in operational decisions. STS has already made some progress by replacing some of the heads of the regions but unless there is a fundamental change in the role of the head of the region, old practices are likely to re-emerge.

**36. A strong HQ with the responsibility over functional management does NOT mean that all decisions will be made in the HQ.** It means that the reporting responsibilities are determined within the functional management line and decision-making delegated to the lowest competent level. In this set-up the signature of the Head of the Regional Functional Division can have the same authority as the signature of the Head of the SLE in accordance with the delegation to that position.

**37. There will be four managerial levels in the STS HQ and up to three managerial levels in the regional operations.** Each managerial level has its own set of responsibilities in terms of organizational performance management (planning, monitoring, and performance assessment) and human resource management (decisions concerning recruitment, individual performance appraisal, training and development, and optimization of staffing numbers). Appendix II provides a framework for distribution of responsibilities in a function-based STS.

**38. Further discussion is needed regarding the roles and value-added of the current administrative management positions in the regions.** Positions of the Head of the Region, Head of the District, and Head of the Tax Inspectorate will have no responsibility for operational decisions. They could, however, have a coordinating/communication role to ensure the adequacy of the working environment and to liaise with the stakeholders at the regional and local level.

**39. Legislation on the SLE must ensure the proper autonomy of the STS in administrative and operational matters.** The Commissioner of the STS will have the decision-making authority in all administrative and operational matters of the STS and the ability to delegate this authority in all administrative and operational matters of the STS to the lowest competent position level. It is important to make sure that the decision-making authority is delegated to a position in the organizational structure, not to a specific individual working in that job at the particular time. Box 5 lists the main types of decisions over which the STS Commissioner should have sole authority. Sole authority means that no other member of staff has the authority to delegate responsibilities assigned by the STS Commissioner.

**Box 5. The Main Types of Decisions over which the STS Commissioner has Sole Authority**

- Delegation of powers granted by the Tax Code.
- Selection and recruitment of staff to STS.
- Distribution of the budget of the STS between the structural units.
- Signature of contracts ensuring the proper servicing of the STS operational locations.
- Changes to the STS structure, modifications to staffing numbers, and relocation of the positions within STS.

**40. STS as an SLE will have much more flexibility in reallocation and re-profiling of its resources.** Important drivers in achieving the reform objectives will be the business process optimization and automation. These will inevitably result in a decreasing number of staff and locations of operations, as well as the re-allocation of staff. Economies of scale will be required as citizens demand more services and specialized infrastructure is too costly to replicate beyond a few sites (e.g. telephone call centers). Replicating specialized skill sets across multiple locations to administer tax laws becomes impractical. "Centers of excellence" in specialist subject areas (e.g. international tax, transfer pricing, banking and finance, extractive industries) can be established to exercise responsibilities across regions and located wherever these highly skilled and scarce personnel can be retained.

**41. STS HQ needs to take responsibility not only for reform planning and project management but also change management.** Reforms to change the organizational culture cannot be implemented from outside the STS. HQ management team of Heads of Departments and their deputies need to work together in designing the plans and the related change management initiatives to implement those plans as discussed in the section on reform governance.

**42. Implementation of the SLE must be the first priority among the STS reform initiatives.** Available resources within STS and from donors and development partners should be

allocated to the preparation of: detailed action plans, delegation matrices<sup>4</sup>, awareness training programs for the HQ and regional managers, and change management and communication plans to support the SLE implementation.

**43. It would be helpful to clarify the responsibilities of the Ministry of Finance and the STS in preparing for the implementation of the SLE.** While the ministry has the primary role in the design of the legal framework and liaison at the political level, STS has a clear responsibility in identifying the implementation risks and solutions at the organizational level.

**44. Implementation of SLE must follow the clearly defined milestones.** Appendix III provides the draft action plan for the SLE implementation with milestones to ensure the successful implementation of the SLE in three distinct phases: i) Preparatory phase, ii) Pilot phase, and iii) Full roll-out phase. Once the key staff have been appointed to STS, and the governance framework for the reforms is in place (see Section III), STS should finalize the action plan by using the draft that is provided in the Appendix III and assigning the responsibility to specific people.

**45. Timely achievement of the milestone on “Distribution of decision-making authority and STS management processes of planning, monitoring, and reporting are approved by the Commissioner” is a critical step in the implementation of the SLE.** Activities under this milestone will provide inputs to development of: i) bylaws and regulations, ii) the charter of the STS, iii) internal procedures and guidelines for piloting the SLE, and iv) the overall communication plan to minimize resistance to the change. Refer to Appendix III, activity 6.

## IV. OTHER PRIORITY REFORMS

**46. Recent taxpayer service improvements have benefited taxpayers.** STS has made extensive efforts in recent years to deliver electronic services, thereby reducing taxpayer compliance costs. These services include an electronic office that provides the taxpayer’s registration, accounts, payment, and other taxpayer-specific data, access to a broad range of information sources, and analytical support such as pre-filing of VAT return information, invoicing data held by STS, and certain parametric information that may be of interest to the taxpayer. A range of other documents such as returns and other reports can, of course, be filed electronically to the STS.

**47. Uptake by taxpayers using the STS electronic services has been exponential over the past three and a half years.** STS has advised that users of the private electronic cabinet (to access their personal tax data and to communicate with STS electronically) have increased from

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<sup>4</sup> Distribution of decision-making authority via delegation matrices is a critical task for achieving function-based single legal entity for STS as specified in the SLE project plan in Appendix III.

31,294 in March 2016 to 1,835,648 in November 2019. In the same time period, the number of documents filed electronically has increased from 627 to 24,793,256.

**48. In recent years, these taxpayer service improvements have been the main focus of STS reform efforts to the exclusion of other important compliance initiatives.** It would seem appropriate at this time to ensure that all recent taxpayer service initiatives are fully embedded into STS operations before implementing other service initiatives. This would then permit STS management to give attention to other reform priorities.

**49. Given the constrained capacities of STS to implement a large number of major strategic reforms simultaneously, two important compliance-related reforms should now be given urgent priority.** Attention should now be directed to: i) improving the effectiveness of tax audit operations, and ii) addressing serious weaknesses in the disputes resolution function.

## **A. Tax Audit Operations**

**50. The effectiveness of tax audit operations continues to be seriously constrained by the unnecessary division of audits between scheduled and unscheduled audits.** The division of audit types is defined by the Tax Code of Ukraine and the Code also requires publishing on the website a list of those taxpayers who are to be subject to scheduled audits during the coming financial year and the criteria that have been used to select those taxpayers. The STS may also conduct unscheduled audits, but the scope of these audits is generally more limited (e.g. focusing on “cash” businesses, failure to file returns, and VAT refund claims).

**51. The number of audits being conducted by STS has decreased over the past five years.** According to STS sources, cases assigned for scheduled audit have fallen from approximately 20,000 to about 5,000 over that period. The number of unscheduled audits has increased slightly from 2018 to 2019 with approximately 10,880 such audits completed in the first nine months of 2018 compared with 12,100 in the same period of 2019.

**52. The publication of the list of those taxpayers selected for scheduled audits on the STS website can have significant unintended consequences.** While the intended purpose of publication may be to promote transparency and integrity, announcing the names of taxpayers subject to scheduled audits may act as a disincentive to voluntary compliance by other taxpayers. Those taxpayers not targeted will perceive that they have a positive incentive to underreport their tax liabilities during the period. Importantly, the public disclosure of the names of those taxpayers who will be audited during the coming year may cause them significant reputational damage.

**53. STS ability to conduct unscheduled audits is often constrained by legal challenges.** Unscheduled audits are challenged on procedural grounds in order to obstruct or delay the conduct of an audit, the detection of the taxpayer’s non-compliance, and the issue of amended assessments. When taxpayers use these procedural challenges, their cases can be put forward for

inclusion in the next year's scheduled audit program. In many situations, however, by the time that case is included in next year's scheduled audit program, the delinquent taxpayer's business operations have disappeared or been liquidated. Even if the business continues to operate, it will have enjoyed an extensive period of time in which to cover up its non-compliant behavior, thereby making the work of the STS auditor more difficult.

**54. STS will unlikely be able to build a proper risk-based system for selecting its cases for audit while the artificial distinction between scheduled and unscheduled audits is enshrined in law and practice.** The annual audit program developed by STS should be focused on significant tax compliance risks identified using a risk engine that draws upon a wide range of information sources. STS needs to fully develop this risk engine and the data sources necessary to support it.

**55. The provision of tax audit moratoria in previous years may have also acted as a disincentive to future compliance.** Despite any plans STS may have to strengthen audit operations and increase compliance enforcement activities, taxpayers may dismiss concerns about the possibility of detection of their non-compliance if they believe the Government may decide to provide further moratoriums and amnesties in the future.

**56. STS, with support from CD providers, should undertake a fundamental review of the effectiveness of its audit operations.** This review would identify weaknesses in current audit practices and in the management of audit risks. The review should also detect necessary changes in legislation and be carried out as soon as possible, ideally simultaneously with developing the model of decision-making authority for the SLE by end-May 2020. The main focus should be to: i) prioritize the use of risk-based criteria in the selection of all audit cases, ii) strengthen audit case management systems, iii) implement modern automated audit procedures and processes, and iv) ensure the quality and consistency of all audit assessments. Legislative changes required to modernize audit operations will also be a necessary part of any audit reform package.

## **B. Disputes Resolution**

**57. The STS reports that the system for resolution of disputes is not working properly at this time.** The STS disputes review process has a credibility problem because, based upon past experience, taxpayers believe that STS does not provide an independent review of a taxpayer's objections to audit assessed liabilities.

**58. A fully independent and credible disputes resolution process inside a tax administration is a critical feature of modern tax administration.** If the internal disputes resolution process is not independent, the consequence will be an escalation of many cases to the court system and significant "reverse work flows" for a tax administration.



**59. Some changes have been made to streamline the disputes resolution process.** The number of layers of appeal of administrative decisions within STS has been recently reduced from two to one.

**60. Nevertheless, most taxpayers take advantage of both the STS review and court appeals processes to dispute their tax liabilities.** According to STS sources, 80 percent of taxpayers take their disputes with the STS to the court system. An important motivation for many taxpayers in contesting their tax liabilities is the possibility to delay the payment of assessed liabilities.

**61. The Legal Department of the STS is overwhelmed with dispute cases on an ongoing basis.** Of the 120 Legal Department staff, approximately 40 are responsible for reviewing disputes. Many of these staff handle seven to eight dispute cases on any day. Although a lot of these disputes are considered “standard complaints”, others involve complex issues of law and fact which legal staff struggle to resolve quickly. Legal department staff also commented upon the inadequate character of most of the documents submitted by taxpayers to support their objections and appeals.

**62. A bill has been submitted to Parliament that would seek to improve the disputes resolution process.** STS staff advised that the bill envisages the establishment of a new body comprising staff of the STS, MOF, and the Business Ombudsman’s Council to handle tax disputes. At this stage, however, it is unclear which cases would be submitted to this new body since the number of disputes filed annually is very large.

**63. Experience in a number of countries shows that bodies (comprising officials and private sector representatives) that are established to improve the resolution of tax disputes can often be ineffective.** This is particularly the case when people appointed to those bodies do not have extensive experience working with, and interpreting, a country’s tax laws. As a consequence, such bodies can be exposed to pressures and lobbying from business groups to provide decisions favorable to business interests when those decisions are clearly inconsistent with the intended operation of the tax laws.

**64. What is needed at this time is a professional disputes resolution unit inside the STS that is recognized as fair and completely independent of the STS audit function.** Box 6 outlines good practices in tax dispute resolution that have been implemented by many countries.

## Box 6. Good Practices in Tax Dispute Resolution

Effective management of tax disputes and taxpayer appeals is a critical part of a tax administration's responsibilities. Tax administrations should move quickly to finalize disputes. Assessments that are not soundly based on law can create major reverse work flows for the tax administration and tie up significant resources. Excessive disputation by taxpayers can also delay the recovery of large amounts of tax, interest, and penalties by the tax administration. Independent tribunals and courts have an important role to play in ensuring that disputes are resolved promptly.

### Desired outcome

The tax dispute resolution process is fair and independent, accessible to taxpayers, and effective in resolving disputed matters in a timely manner.

### Important Features of a Tax Dispute Resolution System

- The tax dispute review process must safeguard a taxpayer's right to challenge an assessment resulting from an audit and to receive a fair hearing.
- The tax administration must ensure, ex ante, that audit assessment documents explain clearly the basis for adjustments to tax liabilities, and the reasons penalties have been imposed.
- The process must be based on a known legal framework that is understandable and accessible to the taxpayer.
- The process must be credible, transparent, and independent and resolve disputed matters in a timely manner.
- The process must provide for a second stage review by an independent external specialist tax tribunal or court where the taxpayer is dissatisfied with the outcome of the tax administration's review.
- The process must not, however, facilitate efforts by a taxpayer to file frivolous objections and/or appeals to delay payment of properly assessed tax liabilities, and interest and penalties imposed according to law.
- The process must provide an effective "feedback loop" to auditors to ensure that they are familiar with decisions on disputes under both internal review processes and tribunal and court review processes.

**65. A new provision permitting a new form of notification of a Tax Decision to the taxpayer is also being considered for inclusion in the Tax Code.** The law currently requires a separate tax decision to be notified to the taxpayer on each and every additional tax obligation identified by the STS in an audit. The proposed new notification format would allow STS to include multiple tax obligations identified in an audit in one document. This should reduce the numbers of disputes since taxpayers must now separately dispute each tax obligation separately.

**66. The Legal Department lacks a rulings database that could help to ensure consistency of decision making by its disputes resolution staff.** Without easy access to a database of precedents to guide decision-making, it is likely that the Legal Department's disputes staff will take additional time to resolve cases and their decisions may not be fully consistent with the department's own views on the interpretation of the tax laws.

**67. While some measures to improve disputes resolution processes in the STS have been taken or are being considered, a more fundamental review is warranted.** Such a review could be supported by international experts who could share the experiences of modern tax administrations in developing modern, independent, and credible dispute resolution mechanisms to support tax administration.

## V. REFORM IMPLEMENTATION

**68. Implementation of the STS Reform Strategy requires systematic change management to build up support for the reforms.** A Reform Strategy Communication Plan is needed and must: i) identify and tailor messages to the main internal and external stakeholders, ii) coordinate responsibilities for communication and delivery of those messages, and iii) determine the timing of communications, as well as the channels of communication.

**69. An Implementation Plan for each project should encompass the change management activities.** Appendix IV describes the critical steps to ensure the clear understanding of the scope and impact of each change, associated risks, required resources, and timely communication to the stakeholders to minimize resistance to change.

**70. STS is expected to finalize the appointment of the HQ managers and start the preparatory work on reform implementation immediately.** The immediate activities geared to creating the reform governance, strategic focus, and preparations for the SLE implementation are outlined in the Table 1.

**Table 1. Recommended Immediate Steps to be Taken by the STS**

By end-December 2019
Appoint of the Deputy Commissioner in charge of managing the reform implementation.
Appoint the STS HQ Heads of Departments and their deputies.
Approve the reform governance framework.

By end-January 2020
Establish the Reform Project Office and the Reform Steering Committee.
Establish the Project Team for SLE.
Develop the STS Reform Strategy and the Roadmap.
Develop the STS Reform Strategy Communication Plan.
Develop the SLE communication plan.

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**By end-February 2020**

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Prepare the first draft of "Distribution of decision-making authority and STS management processes of planning, monitoring, and reporting", providing input for:

- the bylaws and regulations on SLE to be adopted by Cabinet of the Ministers;
- charter(s) of the STS;
- new job descriptions;
- management training;
- communication.

Initiate projects to develop automated workflows for document management in administrative support functions.

Initiate projects in priority areas of core functions.

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**By end-April 2020**

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Provide structured input to the MOF on the operating model of the STS as an SLE so that all the bylaws and regulations can be adopted by June 2020.

Approve the internal guidelines for operational and strategic planning.

Complete all the technical preparations in HR, accounting, budget, and assets required to launch the SLE Pilot phase.

Complete all the management training required to launch the SLE Pilot phase.

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**By end-May 2020**

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Approve the STS performance management system.

Approve the new job descriptions of managerial positions of the STS HQ and SLE pilot regions.

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## **VI. IMPLEMENTATION SUPPORT**

**71. Considering the scale of reforms needed and the limited availability of internal resources, the STS will require external support to successfully implement its reform agenda.** Besides the currently assigned resources for reform implementation, the available support from various donors and development partners should be mobilized.

**72. The Reform Strategy defined according to principles outlined in this report should serve as the basis for distribution of donor resources.** It will help the STS to effectively use available resources, focus them on priority areas only, and avoid possible overlaps. To ensure optimal use of the resources, the STS should be prepared to decline assistance that would not contribute to major improvements in priority areas.

**73. The FAD can consider supporting the STS.** Support over the next 18 - 24 months can be provided in activities related to achieving the SLE and some priorities of tax administration (tax audit and disputes resolution). Given the limits on the CD resources available, coordinated action between several donor organizations may be required. For example, while FAD could provide expert support in designing (together with the STS reform team) the new delegation matrices, other donors could be involved in supporting outreach activities like training and communication.

**74. The decision for further FAD involvement will be subject to the passage of legislation and the appointment of functional STS managers of key departments participating in reform working group.** FAD will also need to consider how proposed support will be financed. Table 2 provides a possible plan for FAD CD activities during the next 18 months.

**Table 2. Proposed Plan for FAD CD Activities**

Objective	Expected Outcome	Activity	Timing	Comment
Strengthen revenue administration management and governance.	Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized.	3 two-week 2 expert missions, working with the reform implementation team of the STS to support SLE project.	Every second month, starting from the month following the adoption of SLE legislation. Presumably January/ February 2020.	The work will start once the pre-conditions for establishing the SLE are met.
	Organizational arrangements enable more effective delivery of strategy and reforms.			The reform implementation team continues work while experts are not present; may be supported by resident advisors from US Treasury OTA and/or EC Project.
	Support functions enable more effective delivery of strategy and reforms.			
	Corporate priorities are better managed through effective risk management.	2 - 3 two-week expert visits	To be determined	
	More independent, accessible, effective and timely dispute resolution mechanisms adopted.	2 - 3 two-week expert visits	To be determined	
Stronger core tax administration functions.	Audit and other verification programs more effectively ensure accuracy of reporting.	4 - 6 two-week expert visits	To be determined	

## Appendix I. A Sample Project Plan Template

Title of the Project						
Outcome	What is the end-achievement of that strategic measure?					
Outcome Indicators	What should be the impact on the strategic KPI?					
Milestone	Activities	Responsible person	Contributing units and persons	Deadline	Main risks	Reference to any other relevant initiatives
<b>Preparation phase</b>	Make sure to include activities and analysis in the "Initiation phase" of the Change management guidelines.					
<b>1. Milestone</b>		For the purposes of clarity in reporting role and realistic resource planning, this column should include the name of the responsible person for each milestone and activity.	For the purposes of realistic resource planning each contributing unit should assign a specific person to provide input to the activities.		Define the factors that can have a negative effect on achieving the milestone/activities, so that the Responsible Persons and the RSC can focus their attention.	The milestones and activities within one project might be connected. The milestones of this project might be connected to the milestones or activities in the other projects.
	1.1. Activity .... formulated as an output					
	1.2. Activity ....					
<b>2. Milestone</b>						
	2.1. Activity ....					
	2.2. Activity ...					
<b>Piloting phase</b>	With nation-wide initiatives piloting of some scale if strongly recommended to eliminate design flaws.					
<b>3. Milestone</b>						
	3.1. Activity .... formulated as an output					
	3.2. Activity ....					
<b>4. Milestone</b>						
	4.1. Activity ....					
	4.2. Activity ...					
<b>Full Roll-Out phase</b>						
<b>1. Milestone</b>						
	1.1. Activity .... formulated as an output					
	1.2. Activity ....					
<b>2. Milestone</b>						
	2.1. Activity ....					
	2.2. Activity ...					
<b>DEADLINE</b>	If time-bound by external factors, work back from the given deadline. Otherwise start planning from the top.					

## Appendix II. Distribution of Responsibilities in a Function-based STS

RESPONSIBILITY	Headquarters				Regional Offices		
	Deputy Commissioner	HQ Head of Department	HQ Head of Division	HQ Head of Unit	RO Head of Division	RO Head of Unit/Section	STI Head of Unit/Section
Ensure the legitimate, effective and efficient operation of the structural unit(s) under his/her supervision.	x	x	x		x	x	x
Distribute the resources amongst the structural units under his/her supervision.	x	x			x		
Coordinate the work amongst structural units under his/her supervision.	x	x			x		
Coordinate the work in his/her area of responsibility with other functional areas.	x	x	x				
Define the business processes and KPI.		x	x				
Ensure the continuous improvement of the business processes in line with the strategy of the STS.	x	x	x				
Provide input to business process improvement.					x		
Develop annual reform plan.	x	x	x				
Develop annual operational plan and set the targets.		x	x				
Provide input to annual operational plan.				x	x	x	
Immediate supervision of and direction to managers/staff under his/her supervision.	x	x	x	x	x	x	x
Functional guidance to the regional level.			x	x			
Regular reporting against the plans.	x	x	x	x	x	x	x
Assessment of functional performance of the units under his/her supervision.	x	x			x		
Selection and recruitment of managers to positions under his/her supervision.	x	x	x		x		
Selection and recruitment of staff to the units under his/her supervision.				x	x	x	
Performance appraisal and training needs analysis of managers/staff under supervision.	x	x	x	x	x	x	x

## Appendix III. Proposed Project Plan for the SLE Implementation

Transformation of the STS to a function-based SLE Action Plan 2019-20				
<b>Outcome:</b>	The STS is functioning as a single legal entity and modern management principles are introduced to minimize the corruption and to provide for continuous improvement.			
<b>Outcome Indicators:</b>	Increased revenue and reduced corruption, reduced staff numbers and increased salaries, reduced taxpayer complaints, and increased professionalism.			
<b>Milestone</b>	<b>Activities</b>	<b>Responsible person</b>	<b>Contributors</b>	<b>Deadline</b>
<b>Preparation phase</b>				
<b>1. Leader of the Reform Program is appointed</b>		<b>Commissioner</b>		<b>end-Dec 2019</b>
<b>2. STS HQ heads of departments are appointed</b>		<b>Commissioner</b>	<b>MOF, Minister</b>	<b>end-Dec 2019</b>
	2.1. Appropriate candidates are selected and submitted for approval to the MOF.	Commissioner		
	2.2. Legitimate background checks are performed and written feedback given to the Commissioner of the STS.	MOF Rep.		
	2.3. Draft job descriptions for the STS HQ Heads of Departments are prepared to include the HQ role in reform planning and implementation.	Commissioner	Reform Lead, Head of HR Department	
<b>3. Reform governance framework is approved by the Commissioner and the Ministry of Finance, and implemented</b>		<b>Commissioner</b>		<b>end-Dec 2019</b>
	3.1. STS internal discussions on the reform governance framework recommended by the IMF.	Reform Lead	Commissioner, Heads of STS Departments	
	3.2. Developing the solution for extra remuneration of the STS managers and staff devoted to the reforms.	Reform Lead	Head of HR Department, Head of Accounting, Donors/Partners	
	3.3. STS proposal of reform governance submitted to MOF for comments.	Commissioner	MOF Rep.	
	3.4. STS Reform Governance Framework is issued as the order by the STS Commissioner.	Reform Lead	Commissioner	
	3.5. Reform Steering Commission, Reform Project Office and Project Team for SLE are established.	Commissioner	Reform Lead, Heads of STS Departments	
<b>4. SLE Communication Plan is approved by the Reform Steering Committee</b>		<b>Commissioner</b>	<b>Heads of STS Departments</b>	<b>end-Jan 2020</b>
	4.1. First draft of the SLE communication plan submitted for the review by the SLE project team.	Reform Lead	Project team	end-Jan 2020
	4.2. SLE communication plan submitted for review to the Reform Steering Committee.	Reform Lead	RSC	mid-Jan 2020
	4.3. SLE communication plan approved by STS Commissioner.	Commissioner		end-Jan 2020
<b>5. SLE Law Adopted</b>		<b>MOF, Minister</b>		<b>end-Jan 2020</b>



<b>6. Distribution of decision-making authority and STS management processes of planning, monitoring, and reporting are approved by the Commissioner</b>		<b>Reform Lead</b>	<b>Heads of STS Departments and Divisions, reps of pilot region(s)</b>	<b>end-March 2020</b>
	6.1. Function-specific project teams are formed and briefed to review their specific part of the existing 500+ functions and 6000+ procedures	Reform Lead	Heads of STS Departments	
	6.2. The format, the contents and the further use of the deliverables is agreed upon bearing in mind that this analysis provides input to: the bylaws and regulations on SLE; charter(s) of the STS; new job descriptions; management training; communication; proposals for process optimization and automation to eliminate bottlenecks in the managerial processes.	Reform Lead	Project managers, External advice	
	6.3. The list of issues, alternative solutions and risks is produced by each project team according to the format agreed upon previously.	Project managers	Heads of STS HQ Divisions, Reps of the pilot region(s)	
	6.4. STS strategic planning process is developed and tested resulting in the first draft of the STS strategic plan.	Strategic Development Department	Commissioner, Reform Lead, Heads of STS Departments, MOF Rep.	
	6.5. STS operational planning and reporting process is developed and relevant responsibilities included in the managerial job descriptions.	Organizational Support Department	Commissioner, Reform Lead, Heads of STS Departments, MOF Rep.	
	6.6. Review and approval of the final draft of "Distribution of decision-making authority and STS management processes of planning, monitoring and reporting".	Reform Lead	RSC, Commissioner	
	6.7. Development of specific contents for the Milestones 2, 11, 12, 13.			
	6.8. Development of the regular feedback-collection methodology for the pilot phase.	Reform Lead	RSC	End-Feb 2020
<b>7. Cabinet of Ministers has made the changes to related laws and regulations</b>		<b>MOF Rep.</b>	<b>STS</b>	<b>End-May 2020</b>
	7.1. The list of the bylaws and regulations that need to be changed is determined.	MOF Rep.	Reform Lead	
	7.2. The list of bylaws and regulations that need to be developed is determined.	MOF Rep.	Reform Lead	
	7.3. STS provides its input based on the results of activities under Milestone 6.	Reform Lead	Heads of STS Departments	
	7.4. Drafts of bylaws and regulations are submitted to the Cabinet.	MOF Rep.	Commissioner, Reform Lead	End-April 2020
<b>8. HR technical preparations are completed in relation to Pilot Sites</b>		<b>Head of HR Department</b>		<b>End-April 2020</b>

	8.1 Insert here the activities based on your experience with the intro of SLE's at the regional level.			
<b>9. Budget, accounting, assets technical preparations are completed in relation to Pilot Sites</b>		<b>Head of .... Department</b>		<b>End-April 2020</b>
	9.1 Insert here the activities based on your experience with the intro of SLE's at the regional level.			
<b>10. STS performance management system approved by the STS Commissioner and ready to be tested at Pilot Sites</b>		<b>Commissioner</b>	<b>Deputy Commissioners, STS Heads of Departments</b>	<b>End-May 2020</b>
	10.1. Operational output KPI for regular monitoring are determined in all the core functions.	Heads of STS Departments and Divisions	Reps of pilot region(s)	
	10.2. Impact/outcome KPI are determined in all core functions linking the operational performance to the strategic objectives	Heads of STS Departments and Divisions		
	10.3. Formats of the annual operational plan and reports are determined and reporting automated as far as possible.	Heads of STS Departments and Divisions		
	10.4. Guidelines for STS managers on planning and reporting are produced and presented as part of management training under Milestones 10 and 11.	Organizational Support Department	HR Department, RPO	
<b>Piloting phase</b>				
<b>11. Orientation training for HQ (functional) managers completed</b>		<b>Heads of Departments</b>	<b>RST</b>	<b>end-April 2020</b>
	11.1. Training materials, guidelines are developed.			
	11.2. Calendar plan for management training is issued and logistical preparations made.			
	11.3. Training events according to the plan.			
<b>12. Orientation training for regional level (functional) managers of Pilot Sites completed</b>		<b>Heads of Departments</b>	<b>RST</b>	<b>end-April 2020</b>
	12.1. Training materials, guidelines are developed.			
	12.2. Calendar plan for management training is issued and logistical preparations made.			
	12.3. Training events according to the plan.			
<b>13. New job descriptions for all HQ managerial positions and managerial positions of the Pilot Sites approved</b>		<b>Heads of Departments</b>	<b>Head of HR Department, Heads of HQ Divisions, Reps of pilot region(s)</b>	<b>End-May 2020</b>
	13.1. The list of internal guidelines for all managerial levels in all functions is developed and published on STS intranet site.	Reform Lead	Project Team	
	13.2. The new job descriptions of all the STS HQ managers are developed and submitted for approval to the RSC.	Reform Lead	Project Team	
	13.3. The new job descriptions of all the functional management levels in pilot regions are developed and submitted for approval to the RSC.	Reform Lead	Project Team	

	13.4. The new job descriptions of all the administrative management levels in pilot regions are developed and submitted for approval to the RSC.	Reform Lead	Project Team	
<b>14. Feedback Report on performance of all the managerial processes and decision-making issues is completed and adjustments made as appropriate</b>		<b>Reform Lead</b>	<b>Heads of HQ Departments and Divisions, Reps of pilot region(s), MOF</b>	<b>End-August 2020</b>
	14.1. Weekly review of pilot feedback introduced to project team and RSC meetings.	Reform Lead		End-April 2020
	14.2. Monthly feedback report for May submitted to the RSC, including the proposals to adjust: <ul style="list-style-type: none"> <li>- STS internal guidelines;</li> <li>- bylaws and regulations;</li> <li>- laws.</li> </ul>	Reform Lead	Project Team	Beg-June 2020
	14.3. Strategy for handling the changes to the bylaws, regulations and laws is decided by the RSC.	Commissioner	RSC	Mid-June 2020
	14.4. Required adjustments made to STS internal guidelines.	Reform Lead	Project Team	Beg-June 2020
	14.5. Monthly feedback report for May submitted to the RSC.	Reform Lead	Project Team	Beg-July 2020
	14.6. Required adjustments made to STS internal guidelines.	Reform Lead	Project Team	Beg-July 2020
	14.7. Monthly feedback report for June submitted to the RSC.	Reform Lead	Project Team	Beg-August 2020
	14.8. Required adjustments made to STS internal guidelines.	Reform Lead	Project Team	Beg-August 2020
	14.9. STS input for the changes in the bylaws, regulations and laws submitted to the MOF.	Reform Lead	Project Team	Mid-August 2020
<b>15. Full Roll-Out phase Action Plan is approved by the Commissioner</b>		<b>Reform Lead</b>		<b>Mid-September 2020</b>
	15.1. Draft Action Plan together with the communication plan submitted to the RSC.	Reform Lead	Project Team	End-July 2020
	15.2. Changes to bylaws, regulations and laws accepted at the appropriate level.	Minister of Finance	RSC	End-August 2020
<b>Full Roll-Out phase</b>				
<b>16. HR technical preparations are completed in relation to other regions</b>		<b>HR Department</b>		<b>End-Sept 2020</b>
	16.1 <i>Insert here the activities based on your experience with the Pilot phase.</i>			
<b>17. Budget &amp; accounting technical preparations are completed in relation to other regions</b>		<b>.... Department</b>		<b>End-Sept 2020</b>
	17.1 <i>Insert here the activities based on your experience with the Pilot phase.</i>			
<b>18. Orientation training for regional level (functional) managers completed</b>		<b>Heads of Departments</b>	<b>RST</b>	<b>End-Sept 2020</b>
	18.1 <i>Insert here the activities based on your experience with the Pilot phase.</i>			
<b>19. New job descriptions for all managerial positions of the Regions approved</b>				<b>End-Sept 2020</b>
	19.1 <i>Insert here the activities based on your experience with the Pilot phase.</i>			
<b>DEADLINE</b>	<b>1st of January, 2021</b>			

## Appendix IV. Guidelines on Change Management and Communication

### INTRODUCTION

Introduction of new principles, methodologies or procedures always involves a two-way of communication through several stages of exchange of information, mutual confirmations and education.

**With the owner of the function/process in the lead**, the change management and communication cycle starts from the clear identification of the need for change in case of each strategic objective and/or measure and ends with reviewing the change implementation process.

The detailed action plans for implementing the changes under each strategic objective should accommodate the activities described in the change management cycle presented below.

### INITIATION/ANALYSIS PHASE OF CHANGES

**A small expert team is engaged in the analysis.**

**Message to the top management and internal communication is:**

**“There is an opportunity/need for change and we are analyzing it. We will talk about it again .... (when). .... (who) is responsible for the process.”**

- Diagnosing the need for change: feedback from staff, new laws or regulations, new technologies, budget cuts, etc.
- Articulating the objective of change: describe the desired situation in the area where you want to implement the change.
- Determining the scope of change: who and what exactly will be affected, as well as what will not be affected.
- Deciding on, how the success of the change will be measured: include the implementation indicators in the detailed action plans (e.g. milestones, deadlines, budget) and listing the impact indicators (e.g. reduced lead time, reduced costs, increased employee satisfaction) as per the change vision/objective.
- Understanding the needs and interests of the stakeholders:
  - Identify the stakeholders for each specific change initiative
  - What financial or emotional interest do they have in the outcome of your work? Is it positive or negative?
  - What motivates them most of all?
  - What information and how do they want from you? What is the best way of communicating your message to them?
  - If they are not likely to be positive, what will win them around to support your project?
  - If you don't think you will be able to win them around, how will you manage their opposition?

## PLANNING PHASE

**In addition to the original team, the top management and stakeholder team(s) are involved.**

**Message to all of those affected by change is:**

**“The analysis has clearly shown, that ..... (benefits explained). .... (who) are working on detailed planning and preparation of staff for changes. The preliminary Agenda is ...”**

- Choosing the change strategy: how should this change be implemented?
  - Should the changes be made 'Big Bang' or in a phased way?
  - Will we pilot any changes?
  - How much development effort is required before we can start implementation?
  - What is the experience of making change here?
  - What are the largest risks which the plan must mitigate?
- Establishing and training the team(s): HOW and by WHO specific change initiatives are going to be implemented?
  - Will it be the additional task for the unit manager/process owner affected by the change?
  - Will it be a special project team that works in parallel with the “service unit” affected by change?
  - Or will there be a combination depending on the specific change initiative?
- Setting up change management process depending on the capability and competency of the managers, and risk assessment results:
  - Can the existing STS planning-monitoring cycle be used?
  - Does the change planning and implementation monitoring require a separate process with higher frequency and a separate Steering Committee?
- Designing the action plans that normally include the following:
  - Objective of the change and references to the strategic plan;
  - Expected outcome and Impact Indicators;
  - Enabling activities;
  - Change implementation activities;
  - Deadlines;
  - Responsible persons;
  - Reference to risk assessment results (optional).
- Doing the risk assessment: risks are identified, evaluated and recorded, so that they can be properly managed.

## IMPLEMENTATION PHASE

**Top management and the implementation team(s) are responsible.**

**Message to all of those affected by change is:**

**“Our plans are progressing ... (how). Most successful is ....., but in the area of ... we need to work more on .... to achieve the goal”.**

- Monitoring delivery to plans according to the process and procedures that were established in the planning phase;
- Adjusting the plans and resources, communicating it to all those affected by change;
- Rewarding excellent performance of the team members to motivate continuous professional efforts.

The change is implemented as planned when:

- All impact indicators have been achieved;
- New processes and procedures are documented and legitimized;
- Employees are trained and capable of performing well in the new circumstances;
- New technology is working properly;

- All transition risks eliminated, mitigated (offset), or managed in the framework of routine risk management.

#### **REVIEW PHASE**

**Top management and the implementation team(s) are responsible.**

**Message to all of those affected by change is:**

**“We did it!!”**

- Introducing the habit of regular monitoring and evaluation so that there is continuous improvement:
  - Visibly recognize individuals who suggest or make improvements;
  - Provide a clear mandate for people to make improvements;
  - Reflect “improvement” responsibilities within the performance assessment criteria;
  - Seek out issues and problems – they represent opportunities for improvement!
  - Build a mechanism for identifying and absorbing good practice.