

## Minutes of Meeting

### SFSU Management Assistance Group meeting

**Department/Section:** EUAM Operations/ Border Guard & Customs Advisory Unit

**Date/hour and place of the meeting:** 22 MAR 2016 1000 – 1230 hrs – SFSU HQ

**Participants & Contacts:**

SFSU and other institutions: see the list attached

EUAM: see the list attached

**Purpose of the meeting:**

The meeting aimed to establish a permanent platform for international donors to facilitate exchange of information on current and prospective needs of SFS; to identify, discuss and address issues of common concern in the area of customs management in Ukraine.

**Summary (considerations for operational planning):**

During the meeting on SFSU Management Assistance Group, initiated by the EUAM Mission, the main achievements and challenges of SFSU reforming process were described. The Head of SFSU briefed on current needs on the way toward further transformation. They are: financial support of improvement of SFSU IT Component (both software and hardware), different trainings for staff (on law-enforcement, internal security, AEO, post audit etc.), assistance on improvement of SFSU Strategic Communication and its HR business processes. It was also highlighted that some SFSU initiatives need to be supported by the Ukrainian government as well as Ukrainian parliament. Thus, SFSU encouraged representatives of international community to help in convincing both the Government and the Parliament in advisability and importance of those initiatives. It was agreed to transform SFSU MAG into permanent platform for further mutual update and cooperation on relevant issues, with EUAM having the Secretariat functions.

**Content (key points):**

1. The Head of SFSU highlighted that it was an outstanding event, which would allow gathering all relevant interlocutors dealing with assistance to SFSU. He expressed his gratitude to all those who contributed into the reforming process during 2015 (EUDEL, EC, EUAM, EUBAM, EU MSs, GIZ, IMF, US Treasury, World Bank) and expressed his high expectations from SFSUMAG as a coordination force for different types of donors' assistance.

2. Head of the Office of Reforms made a presentation of the state of play with SFSU reforming. Key Reforms streams for 2016 are the following:

- Customs control and security (adoption of legal framework for AEO, implementation of Twinning project on IBM development, introducing of Automated System for Video Surveillance on the Ukrainian-Belorussia border – PRINEX-2);
- Taxation and Legal Entities (introducing of e-cabinets for taxpayers, VAT administration, fuel selling administration, large taxpayers administration (LTs));
- LTs (simplification of procedures, implementation of desk&field audit);
- Tax and customs audit;
- Financial investigation (demilitarization of Tax police, adoption of the law on Service of Financial Investigations);
- HR;
- Anticorruption;
- Organizational Support;
- Appeals and Court Disputes Support.

In 2015, there were the following achievements in the sphere of SFSU reforming:

- Introduction of a new function-based organizational structure, revision of the functions of SFSU departments, optimization of numbers of tax inspectorates (their number was decreased from 330 to 260);
- Staff reduction and attraction of new professionals based on revised selection criteria. The reduction procedure of overall staff went through decreasing from 58800 people to 52000 people. However, there are two main obstacles for proper implementation of HR reform – lack of amendments to Tax and Customs Codes of Ukraine and insufficient level of automation of all business-processes;
- Development of an efficient HR policy (hiring new professionals, polygraph and psychometric testing of staff, start of the process of measuring of index of taxpayers’ satisfaction);
- Implementation of a wide range of e-services. However, this direction still needs a significant financial support on software, hardware, appropriate IT expertise to cover every single taxpayer;
- Launch of centralized appeal system, implementation of a new approach toward appeals resolution, selectivity of court disputes with support of cost-based approach;
- Opening of 5 LTs offices to provide improved services who LTs which collect about 60% of all revenues.

Mayor challenges of implementation of reforms:

- Dependence on the Parliament’s and the Government’s decisions (on the issue of increasing salaries, of establishing of the positions of 5 Deputies in SFSU);
- Long procedure of amendments to legislative acts;
- Outdated technical IT resources;
- Lack of financial support;
- Occasional misperception of SFSU image and its reforms by the general public and low level of trust from the society to be engaged into reform process.

It was highlighted that there were certain priorities in terms of request for international assistance:

- Development of border infrastructure;
- IT support for AEO, e-services, post-audit;
- Implementation of Advanced Passenger Information System;
- Implementation of Cargo Targeting System;
- Enhancement of Law-Enforcement Capacities.

In terms of financial investigations, there are the following needs to be assisted by international community:

- Development of a “tax gap” projects to assess the scope of the shadow economy;
- Studying the best practices in: preventing money laundering, using of indirect methods for estimation of individual tax liabilities, combating illegal practices with VAT;
- Workshop on risk selection for conducting audit on tax evasion;
- Consultation on the mechanism of declaration (legalisation) of the incomes of which taxes were not paid;
- Consultation on mechanism of detection, prevention and elimination of tax evasion schemas, in particular salary payments by means of “shadow funds” (salary in envelop).

In the area of organisational support SFSU needs assistance on review and reengineering of the business processes, development of the proper methodology and templates of the documents, staff trainings, advice on analysis of BPR results and improvement of business processes.

In relation to HR reform SFSU would like to have assistance on studying the best world practices of reforming HR function, development of the standards of professional behaviour, program on requalification of the retired staff, acquisition of tests for testing the staff, development of the performance management system, creating a platform for internal communication, diagnosis of tax and customs educational institutions of SFSU, developing of competitive up-to-date educational programs.

There is also a need of trainings on anticorruption issues (formation of “zero tolerance”), on methodology of corruption investigation.

3. The Deputy Head of the Department of Customs Control made a presentation on the state of play with implementation of IBM concept (there is an idea to introduce a cloud server for on-line data exchange between SFSU and SBGSU, but it needs a significant financial support). Another important task for 2016 is implementation of PRINEX-2 system at the BCPs on Ukrainian-Byelorussian border.

One of the actual issues is practical usage of the institute of AEO, which demands certain technical assistance from potential donors.

It was also stressed on importance of “lobbying support” for the implementation of the ideas of Advanced Passenger Information System and Cargo Targeting System to allow the appropriate draft of laws to pass through the Parliament.

4. Q&A. USAID representative briefed on the willingness to support developing of IT platform for AEO as well as risk management system.

The EUAM Mission’s representative asked about clarifying of SFSU consideration as a law-enforcement authority. The Head of SFSU briefed on the controlling nature of SFSU, however it is partially a law-enforcement authority which deals with tax evasions, smuggling and other customs offences, money laundering. It has key structural units, which are considered to be law-enforcement: Tax police, Internal Security, Anti-smuggling division within Customs Component.

**Next meeting:**

TBD, approximately in two months’ time

**Follow-up actions:**

1. Due to described needs in assistance for SFSU to define particular spheres of possible contribution into reform process and to inform all participants.
2. To arrange a follow-up meeting between SFSU and EUAM representatives to assess the outcome of SFSUMAG and perspectives of its further development.

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*Approved by: State Fiscal Service of Ukraine*