TECHNICAL ASSISTANCE REPORT

UKRAINE

National Revenue Strategy Implementation: Customs Administration Reforms

APRIL 2025

Prepared By

Urmas Koidu

Authoring Department

Fiscal Affairs Department

I. Introduction

1.   A National Revenue Strategy 2024-2030 (NRS) was adopted in December 2023 by the Cabinet of Ministers of Ukraine, outlining revenue mobilization reforms. Its customs administration component includes specific measures to address structural obstacles and inefficiencies in customs processes. At the request of the State Customs Service (SCS) and the Customs Policy Department of the Ministry of Finance (MoF), the IMF Fiscal Affairs Department (FAD) provided peripatetic expert support to facilitate the implementation of the NRS by reviewing progress and providing advice.

2.   This technical assistance report summarizes the support provided by Mr. Urmas Koidu from September 16 to December 16, 2024. Mr. Koidu organized weekly video conferences (VCs) with senior management of the State Customs Service (SCS) and the Ministry of Finance (MoF) to oversee the implementation of the NRS. Advice was given through regular VCs and desk assessments of documents prepared for the NRS Steering Committee (SC), which convened twice during the expert's assignment. The capacity development (CD) support focused on the agreed areas of the NRS customs component. Guidance was provided on these areas, as well as on strengthening project management and governance, improving the risk management function, and planning the modernization of customs IT systems.

Box 1. Customs administration component of the NRS

Customs administration

5.2.1 Strengthening anti-corruption measures and increasing trust in the customs authorities

5.2.2 Support and cooperation with business

5.2.3 Development of international customs cooperation

5.2.4 Institutional development of customs authorities

5.2.5 Development of IT and provision of technical means of customs control

Source: NRS

II. Findings and Advice

3.   **Overall, good progress and a high level of commitment to implementing the NRS have been observed.** Notable advancements include establishing an NRS implementation mechanism within the SCS, developing the SCS Reform Plan 2024-30 (RP30), creating the Steering Committee (SC), and regular reporting on NRS implementation. The RP30 was adopted in May 2024, and a Steering Committee (SC) was established in September 2024 to guide the implementation of the NRS customs administration component. Chaired by the acting head of the SCS, the SC comprises senior and middle management from the SCS and the MoF.

4.   **The SC has organized two meetings to oversee RP30 progress and adopted several key documents.** Such documents include the risk matrix and key performance indicators (KPIs) to monitor and assess progress. A monthly RP30 progress report has been produced for the SCS since July 2024, and a quarterly report is submitted to the MoF for review. The first quarterly report, covering July-August 2024, and aligning the legal framework with the EU's standards s approved by the SC and submitted to the MoF for review.

5.   **Additionally, Ukraine has made significant progress in modernizing the legal framework, including aligning with EU standards, particularly the Union Customs Code (UCC).** Recent efforts include the adoption of laws No. 3926 on August 22, 2024, and No. 3977 on September 17, 2024. Law No. 3977-IX enhances transparency in the selection of the head of the SCS, the assessment of their performance, and the management of the organization. A new draft of the Customs Code, fully aligned with the UCC and incorporating other EU regulations, is underway, with the first draft expected to be published in Q1 2025. These efforts have been well recognized, with a recent EU assessment noting that customs (Chapter 29) is one of the five out of 29 EU association chapters implemented at a good level in Ukraine[1].

6.   **Furthermore, significant advancements have been made in IT.** The SCS has launched a single integrated IT platform—the automated customs clearance system—to centralize and unify customs clearance across all regions. This system aligns with the EU IT strategy and facilitates future integrations with EU systems.

7.   **Yet, there are issues for further improvements and vulnerable factors to which advice was provided (see next sections).**

A. Stakeholder engagement

8.   **The expert considers stakeholder engagement a critical and vulnerable factor in implementing the NRS and RP30.** The stakeholders may have their own agendas that differ from the goals of the NRS. Without their better understanding, sharing goals, and preparation for adapting to new environments and procedures, additional costs and time may be required for NRS implementation.

---

[1] https://neighbourhood-enlargement.ec.europa.eu/ukraine-report-2024_en

9.   Stakeholder engagement should be actively promoted in the implementation of the NRS, while maintaining high levels of transparency and accountability to achieve the NRS goals. If the NRS implementation process is influenced by lobbying groups whose goals are incompatible with NRS' goals, the anticipated outcomes and benefits may not be realized from the stakeholder engagement. The SCS has established a stakeholder engagement forum, and the RP30 has been repeatedly circulated among stakeholders. This open and accountable practice should be enhanced for better discussions on NRS implementation and potential reviews of planned activities. Bilateral engagement with stakeholders should be avoided or subject to precautionary measures and record-keeping to increase accountability. When engaging with the business sector, it is preferable to interact with business associations rather than individual companies. Direct telephone calls to SCS executives should be avoided; instead, calls should be made through assistants or operators who record the caller's identification.

10.   Effective engagement is essential not only with external stakeholders but also with internal stakeholders, such as staff and managers. The implementation of the NRS and the overall performance of the SCS depend on the performance of its staff and managers, which is influenced by factors like motivation and productivity. SCS staff vividly recall that a lack of communication and consultation during the merger and subsequent separation of the tax and customs services created unpredictability and instability, lowering motivation and productivity at that time.

11.   Maintaining good stakeholder engagement and safeguarding the NRS goals is critically dependent on the role of the head of the SCS. For many years, the SCS had only an acting head who was not fully empowered and could not instill confidence in the organization. The expert was informed that the process for selecting a new head of the SCS has begun, with expectations for a smooth selection.

12.   Change management is critically important as part of stakeholder engagement. The SCS has identified change management as a focus area for future FAD capacity development (CD), along with guidance on improving and enhancing the active involvement of external stakeholders in the reform process. The aim is to develop comprehensive stakeholder involvement and change management plans. The value of interactive meetings in supporting these efforts cannot be overstated.

B.   Key Performance Indicators (KPI)

13.   Key Performance Indicators (KPIs): KPIs to monitor the progress of NRS implementation have been approved by the SC. The expert introduced KPIs developed based on the WCO Performance Measurement Mechanism[2], including SMART criteria[3]. An SCS document, approved by the SC, lists 23 KPIs, their target values, calculation methods, and recommended monitoring intervals.

14.   Developing and using KPIs is an international best practice, but having too many KPIs is not advisable. Too many KPIs can lead to issues such as overwhelm and confusion, diluted focus,

---

[2] PMM | Home

[3] SMART criteria means that KPIs should be Smart, Measurable, Achievable, Relevant, and Time-bound.

increased complexity, misalignment, and data overload. KPIs should be carefully selected to accurately represent the key issues.

15.   **The expert reviewed the KPIs and provided advice on grouping them by purpose, such as for internal use or for a wider audience[4].** Several KPIs are highly relevant, effective, and useful for monitoring NRS progress, for example, trade volume by Authorized Economic Operators (AEOs), stakeholder perception of transparency, budget reliability, and legislative alignment with EU customs law. Other KPIs are important for SCS's internal administration but not for a broader audience, as they are too specific and cover certain areas of customs administration. Examples include changes in the number of corruption cases, complaints about possible corruption, the effectiveness of the Help Desk, the risk management system, and other indicators specific to customs processes. A few KPIs (nine out of 23) apparently have weak linkage with effectively measuring the progress towards strategic objectives and were advised not to be used (e.g., 'Decent wages'). It was agreed to further discuss KPIs at HQ-led mission in February 20253.

C.   Improving risk management function

16.   **Preliminary discussions were held on three subjects regarding risk management.** These three subject are the use of advance cargo information, the application of random checks, and practical information from centers of excellence. The ongoing revision of the SCS's risk management function was acknowledged, with a suggestion to address these subjects comprehensively in the next FAD capacity development (CD) mission[5]. A draft agenda and expert profile for the CD mission were agreed upon between FAD and the authorities.

Advance cargo information

17.   **Advance cargo information, provided by transporters and logistics operators such as freight forwarders, is valuable for risk management.** Since this information comes from sources other than importers, it is considered third-party data, enriching risk-based selectivity. Therefore, a regulatory framework is needed to obtain accurate data from these operators rather than from traders. Challenges arise with consolidated shipments, where multiple consignments (international sales units) are packed into one shipment (transportation unit). In such cases, consignment-level cargo information is retained by freight forwarders in exporting countries.

Random check

18.   **The SCS has recently introduced the practice of random inspections of Authorized Economic Operator (AEO) companies' consignments.** These checks aim to measure the integrity of AEO selectivity concerning compliance risks, maintain a level of prevention, and identify new threats. The methodology for these random checks should be further developed and evaluated in practice. Statistically reasonable random checks are considered part of compliance measurement in customs administration,

---

[4] In addition to them, selected KPIs will be used for measuring performance of new head of SCS which is stipulated in the new law.

[5] Matsudaira, Hoque, Hebert and Yasui (2025). "Ukraine – National Revenue Strategy Implementation in Customs Administration". IMF FAD Technical Assistance Report (March 2025).

helping verify compliance and identify potential risks that may not be detected through other targeted methods[6].

19. Discussions focused on the purpose of random selection and how customs can utilize the results of random checks if conducted properly. Comparing the results of regular random checks to risk-based checks can demonstrate the effectiveness of risk assessment, e.g., detection rate of random checks versus detection rate of risk-based checks. Other purposes of random checks include verifying the performance of customs control staff and estimating the level of smuggling, undervaluation, or similar phenomena common in cross-border trade. The detection rate of random checks can be extrapolated to the entire population, such as the number of declarations, to understand the share of smuggled and undervalued goods. The size of random check samples can vary depending on the specific context. A common practice is to use statistically significant sample sizes, typically between one percent or smaller to ten percent of global samples, depending on risk patterns and available sources.

Competence centers

20. RP30 includes measures for developing competence centers, also known as centers of excellence and expertise. These specialized units within customs administration focus on specific areas of knowledge, such as national targeting, classification, valuation, and industry-specific centers. They provide advice to other segments of customs administration and compile, review, and analyze this advice to enhance services. Considering the planned activities of the SCS, it is advisable to explore various models for establishing new competence centers in the risk management area and study relevant international practices.

D. Customs Information Technologies (IT) program

21. The SCS Strategic IT Plan for 2024–2026 encompasses the development of several critical systems. Such IT systems include customs clearance system, risk management system, and the modernization of the transit system (New Computerized Transit System (NCTS) Phase 6). The primary challenges faced by the SCS include insufficient funding, reliance on external teams, and inadequate capacity to identify the best option for its IT projects.

22. The SCS Strategic IT Plan for 2024–2026 includes the development of several critical systems. It includes the customs clearance system, risk management system, and the modernization of the transit system (New Computerized Transit System (NCTS) Phase 6).

23. Various options for developing these IT systems were discussed, including in-house development, outsourcing, purchasing off-the-shelf products, and other alternatives[7]. Each option has its advantage and disadvantage, and the IT development environment can vary by country and local context. For example, some countries may have state-owned IT companies or special-purpose entities

---

[6] See Guidelines to Chapter 6 of Revised Kyoto Convention General Annex. (6.2.4. Compliance Measurement). https://www.wcoomd.org/-/media/wco/public/global/pdf/topics/wto-atf/dev/rkc-guidelines-ch-6.pdf

[7] If the budget is tight, there can be an option of Build-Operate-Transfer type of Public and Private Partnership, where the government may not need budget to build and operate the ICT system while the operator will recuperate its investment, cost, and agreed profit margin from the user fee. After the agreed terms *e.g., length of year, know-how transfer and training), at the end of contract, the system will be transferred to the customs administration.

mandated to develop public sector IT systems. At the Customs Reform Working Session held on November 27, 2024, in Warsaw, EU4PFM experts highlighted that, in recent years, EU Member States typically rely on outsourced IT development supported by multi-year contracts. The experts advised that, for each option, the potential risks and long-term financial implications of expanding internal IT development capacity within Ukrainian administrations should be assessed.

24.   To identify the best option for the SCS and stakeholders, the SCS has undertaken measures to enhance project management practices and facilitate the outsourcing of large-scale customs system development projects. Advice regarding advantages and disadvantages of in-house development and out-sourcing will be followed by next HQ-led customs administration CD mission (February 2025).

III. A Suggested Way Forward

25.   The authorities agreed with FAD HQ-led customs administration CD mission in February 2025 to provide follow-up review and advice on the issues listed above. The scope covers stakeholder engagement and change management, KPIs, selected issues of risk management (i.e., advance cargo information, random selection, competence centers), and IT development.