



FISCAL AFFAIRS DEPARTMENT

Revenue Administration and Public Financial Management Reform in Southeast Europe (Phase II)

MID-TERM EVALUATION FINDINGS, RECOMMENDATIONS, AND PROPOSED ACTIONS FOR PHASE III

October 2022

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The table below provides a summary of the key findings and recommendations resulting from the evaluation of the implementation of the second phase of the capacity development project Revenue Administration and Public Financial Management Reforms in Southeast Europe completed between January and September 2022. The IMF responses indicate the approach to be followed for incorporating these recommendations in the design and implementation of the third phase of the project set to start in January 2023.

	Findings	Recommendations	Priority	IMF Response
1.	<p>Political risk is high in the region. PFM implementation, e.g., in PIM, has been slow due to political barriers. In RA, in addition to lack of senior endorsement of changes in one country, implementation of initiatives such as CRM will likely face resistance from vested interests.</p>	<p>Undertaking formal analyses of political, governance, corruption and institutional systems and structures in higher risk SEE II countries, at both Program and project levels, to identify and address potential barriers to effective implementation of CD:</p> <p>Consider, as part of designing SEE III, undertaking formal reviews covering the structural aspects of the political, governance and institutional systems in high risk SEE countries and the associated vested interests that may impede reform in PFM and RA. In addition to program-level review, consider assessing related risks associated with implementation of particularly sensitive topical areas. Preferably, such reviews should be systematically updated periodically, say six-monthly. They will potentially enable more proactive action (e.g., escalation, re-sequencing, bringing into discussions particular stakeholder groups, stop/go) to be taken.</p> <p>Special attention should be paid to addressing the primarily political economy constraints to PIM/PPP reform using a savvy PE-informed approach that aims to take incremental steps to implementing the basic revised framework for PIM/PPP reform. This needs to be based on close engagement at the political level to ensure that each required step has high level political buy-in. Where IMF <i>modus operandi</i> precludes such engagement, consideration should be given to working with</p>	High	<p>We agree with this recommendation which will be addressed at various fronts.</p> <p>Under the IMF’s RBM framework, we assess and update program and project risks at various levels from the project design phase through to project closing—we have done so for this proposal.</p> <p>We also report against these risks in the periodic progress reports to partners. This provides a basis for common understanding and for jointly bringing the respective issues up with the authorities. The local delegations, the IMF Resident Representatives, and the regional advisors/LTXs have a critical role to play in this regard.</p> <p>Integration between IMF surveillance, lending and CD provides another layer for addressing these risks at the highest political level. Indeed, these issues are routinely highlighted in Article IV staff reports and followed up at the highest levels by the area department mission chiefs and Resident Representatives.</p> <p>The IMF also has a framework to assess governance and anti-corruption issues and provide advice. We have applied this framework in several countries and SEE beneficiary countries could be candidates for this assessment as well.</p> <p>In sensitive policy areas, we agree political economy is relevant to specifying CD activities, including in PIM. Where risks are high, actions can focus on progressing reforms more in control of our direct counterparts. Coordination with EC, SECO, and IMF Article IV process has also been used effectively to secure high-level support for reforms.</p>

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		Partners.		
2.	Counterpart absorptive capacity, both in technical terms and with respect to staffing; lack of technical knowledge of senior staff (especially in RA); and need for major cultural change (also RA) has been a barrier to effective implementation of CD support in some countries.	Consider undertaking formal Resource Analyses of counterpart staffing levels, skills, and motivation to identify and address gaps: More attention might be given to areas such as leadership, change management, organizational capacity, and institutional infrastructure (esp. ICT, if needed and/or how it might impact on CD), that underpin and enable successful technical reforms. Softer qualitative issues, such as incentives, benefits, knowledge, attitude, skills, and behaviors should be considered, especially in situations requiring major changes. Also consider getting counterpart commitment to fill any resource gaps identified as part of the CD agreements being proposed for the next phase.	High	We agree with this recommendation. Indeed, when helping countries define their reform priorities, we typically undertake comprehensive diagnostic missions which focus not only on the technical issues but also on the enablers/soft issues, such as management and governance, reform management, leadership, and staff capacity (in all areas including IT), change management, etc. We also typically provide high-level recommendations in these areas and also partner with regional training institutions, such as CEF and other agencies such as the WB to provide assistance. In discussing potential reform programs, we do ask for counterpart commitment to fill in the resource gaps and monitor progress in these areas. For example, we have now formally asked North Macedonia tax administration to staff and operationalize the CRM and reform management functions as a condition for further CD. This issue has also been highlighted to the local delegations, the IMF mission chief and the Resident Representative for coordinated follow up. In line with the recommendation, we will continue strengthening these approaches, including increased resources to address these issues specifically.
3.	In the PFM workstream robust and comprehensive strategic plans have been approved, and major reform implementations are needed in a range of areas. In RA, important organizational transformation projects have been initiated, which need to be embedded and can take significant time.	Shift focus more to consolidation and capacity building in SEE III: Our suggestion is that during the next phase significantly more focus should be on building staff implementation capacity through, e.g., training, and hands-on support; and embedding processes. Engaging more long-term resident experts may be necessary in some cases. We understand that the SEE II CD delivery model may not be fully tailored to meet all needs in this area, so proactive action may be needed to engage development partners, especially the EU, in this effort. A differentiated approach may be needed between countries that have stronger capacity and motivation to implement reform, and others that have not.	High	Phase III is being designed to provide more hands-on implementation support through short-term experts and regional advisors' engagements, while diagnostic missions will support authorities to update their PIM reform plans. We are also adding an additional workshop to support peer to peer engagements. Increased LTX resources will allow increased engagement with authorities during the implementation of recommendations and more opportunities for follow-up training using peripatetic STXs. The last year of Phase II saw increased partnerships with development partners and other CD providers with a larger footprint on the ground, which proved useful to further reforms in different countries – this period was not within the scope of the evaluation. Examples of these are the development of PIM/PPP reform plans in Albania, that were closely coordinated with SIGMA and the WB. Similarly, in BiH the IMF invited the WB to support the Brcko District in a review of its legal framework on SOEs leveraging the progress already done by the WB with the FBiH and RS in similar legal reviews. Opportunities may exist with CEF and JVI to develop a train-the-trainer

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				approach using training material developed by FAD for workshops. In addition, FAD has in place online training courses in PFM and RA, precisely to allow country officials (notably those in middle management positions) to master their skills in these two areas with the view to strengthen their technical as well reform management capabilities.
4.	In RA, implementation of CRM requires significant changes in organizational structures, approach, and culture, but also opens new opportunities for increasing compliance.	Explore opportunities for optimizing the potential offered by CRM: In addition to using CRM to identify risk sectors and audit case selection and building on the risk differentiation management for LTO taxpayers, expand use of CRM to drive RA activities in supporting voluntary compliance amongst other taxpayers, through awareness, education, and outreach programs (which currently do not form a distinct element within the program). This may be an area for coordinated EU (or other donor) support.	Medium	We agree with this recommendation, and this is our approach. CRM was originally implemented primarily to select a taxpayer for audit. However, different RAs have progressed at different speeds in implementing our advice in a broader sense. Most of them have already established CRM units, which are appropriately positioned within the organizations and play a key role in the preparation of compliance improvement plans (BiH-ITA and RSTA, Albania, Kosovo, Serbia) that cover a spectrum of treatment measures, including education and service etc. The lack of adequate technological support, tools, and data limits achievements in those RAs that have key problems in core operation (BiH-FTA, North Macedonia) or are temporary suspended due to major organizational changes. (For example, MNE). CRM is a key pillar in the formulation of strategies for improved compliance management, and RA awareness of the importance of CRM to the efficiency and effectiveness of the entire RA operation is increasing.
5.	In RA, low data analytics capacity inhibits wider application of CRM, Tax Arrears, and HWI reforms. There is limited matching of data analytics CD to CRM CD, with data analytics supporting CRM in only 1 of 5 countries.	Strengthen SEE impact in CRM, Tax Arrears and HWI with Data Analytics CD: Identify data analytics needs, and coordinate/sequence data analytics CD with CRM, tax arrears and HWI CD to maximize the impact and effectiveness of CRM. Coordinate with other donors as data analytics CD may require procurement support.	Medium	Data Analytics is one of the main pillars for SEE Phase III. It has already been intensively applied in our CD delivery in FY22 and FY23. It covers the general data analysis, CRM, and specific compliance area or segment of taxpayers. We are also coordinating with partners as illustrated in the project proposal for phase III.
6.	A strong motivation of reform in all countries is Accession and the EU has potentially significant influence and leverage, especially in PFM.	IMF and EU should consider a closer, more strategic partnership for SEE III. Closer cooperation could extend to a more integrated dialogue with authorities; political escalation where necessary; and coordinated approach to CD interventions (e.g., when longer-term embedded CD-delivery is required). SECO can also play an	Medium	We agree with this recommendation. The IMF and EU have a close coordination role in the context of economic surveillance to European countries. IMF CD work has been building in this coordination. SEE III will pay attention to further this engagement in SEE beneficiaries, notably in connection with EU accession and the economic policies the IMF advises countries. And certainly, SECO will be part of this enhanced dialogue, ultimately the three partners are committed to support countries'

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		important partnership role, especially in RA.		progress in their economic and development agendas.
7.	Timescales for implementation of some proposed action plans may not have been realistic given counterpart capacity and other barriers. In addition, in some cases sequencing of activities may not have been optimal (e.g., timing of CD delivery where implementation of IT systems, or staffing up of implementation departments, is a prerequisite).	Consider developing milestones and outcomes in action plans more based on historic experience and counterpart capacity. More tailored sequencing of CD delivery may be required in some cases. We understand that as part of the TA agreements with counterparts for SEE III, they will more formally sign-off on action plans including the timetable for implementation. There is potentially some risk in them feeling implicit pressure in agreeing to unrealistic deadlines, including for internal organizational or political reasons. More care may need to be taken by IMF to establish realistic deadlines (some operational changes take a long time to embed), whilst ensuring momentum for implementation is maintained. In addition, the timing of CD delivery in light of dependencies may need more attention. This action may need to be complemented by a more structured monitoring of implementation of milestones (e.g., quarterly).	Medium	We agree with the need to define milestones and outcomes carefully, and to monitor and update these periodically, in line with events and updated CD advice. The work plans are prepared jointly with the authorities. We are aware of the challenges that the authorities face, particularly in a changing environment, and accordingly, our plans remain flexible. We are aware that the main challenges are related to the authorities' ability to implement the recommendations. Accordingly, our LTXs will increase their presence in the countries to at least 50% of their time, closely monitoring progress and assisting the authorities. Focused regional CD delivery in selected areas will help the authorities share and gather experience on the challenges they face, and the approaches others have successfully addressed and resolved.
8.	Corruption is a major cause of leakage in the region; climate change is an increasingly important issue; and gender is an important cross-cutting theme for donors.	Consider as part of SEE III engaging experts in anti-corruption (integrity), climate change, and if appropriate gender to advise on embedding these issues into project and CD design. Such experts, who need to be familiar with the PFM/RA thematic areas, could review the broad areas proposed for SEE III and highlight potential areas where anti-corruption, climate friendly, or gender supportive action may be taken (or there is risk of detriment). They may also provide advice at the project level when CD advice is formulated, when appropriate impactful provisions may be incorporated. It is acknowledged that governments may not be very receptive in this area, so selectivity	Low	We agree with this recommendation. Capacity on anti-corruption has been expanded and countries may also request IMF Governance Diagnostic missions, across IMF functions, as part of their engagement with the Fund. As FAD has strengthened its internal capacity with the establishment of the Climate Division and the Gender Working Group, cross fertilization of expertise, in the context of program delivery, will be pursued.

	Findings	Recommendations	Priority	IMF Response
		may be required.		



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