

Negotiating Team for the Accession of Ukraine to the European Union Working Group for Public Finance Management

PUBLIC FINANCIAL MANAGEMENT as a part of the Public Administration Reform

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Public Financial Management



Public financial management (PFM) system is related to the different EU negotiating Chapters, such as:



Chapter 6: Company law



Chapter 16: Taxation



Chapter 17: Economic and monetary policy



Chapter 18: Statistics



Chapter 29: Customs Union



Chapter 32: Financial control



Chapter 33: Financial and budgetary provisions



Sub-chapter: Economic criteria

Continued development of the PFM system





- Fundamental budget reform
- Implementation of program performance budgeting
- New system of interbudgetary relations

2010 New version of the Budget Code

- Improved procedure for the preparation, consideration and adoption of the state and local budgets
- New fiscal rules established
- New model of public internal financial control introduced
- Financial basis of local budgets strengthened

2014 The Budget Code amended

PFM Strategy 2013-2017

 Launch of decentralization reform in Ukraine

2018 The Budget Code amended

PFM Strategy

2017-2020

- Introduction of medium-term budget planning at the state and local levels
- Harmonization of strategic and budget planning
- Updated budget calendar
- Expanded fiscal rules

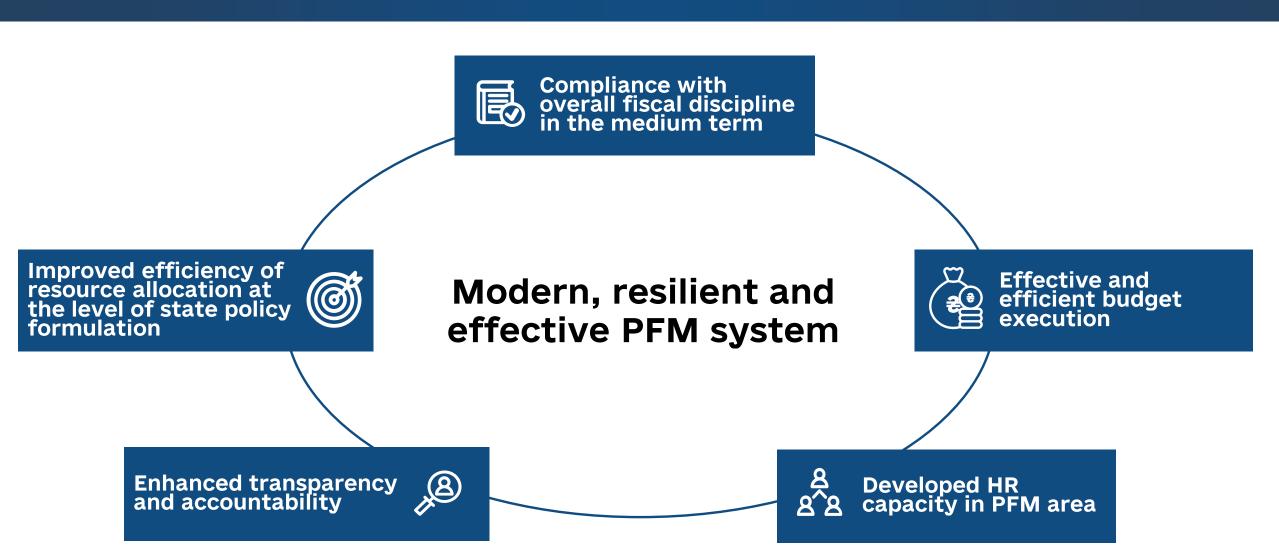
Current PFM Strategic Framework



Public Finance Management Strategy	2022-2025	
Strategy for the digital development and transformation of the PFM System	2021-2025	
Strategy of modernizing the public sector accounting ————— and financial reporting	2018-2025	
National Revenue ———————————————————————————————————		2024-2030
Roadmap for Reforming the Public Investment Management and the relevant Action Plan		2024-2028
Medium-Term State Debt Management Strategy	2024-2	2026
Budget Declaration		2025-2027

PFM Strategy 2022-2025: Objectives





PFM Strategy 2022-2025: Key results under **Martial Law**





Medium-term budget planning restored - the Budget Declaration for 2025-2027 was approved



Significant progress was made in harmonizing national customs and tax legislation with EU legislation



MoF gatekeeper role regarding budget amendments was strengthened



NCTS Phase 5 is applied starting in 2024



Spending reviews of the state budget were resumed and conducted for 28 policy areas



Ukraine is fully prepared to join automatic exchanges of tax related information under CRS and CbCR Standards in 2024

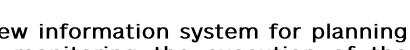


Comprehensive reform of public investment management launched





New criteria-based budget transfers introduced to improve fiscal standing of war-affected communities

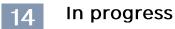




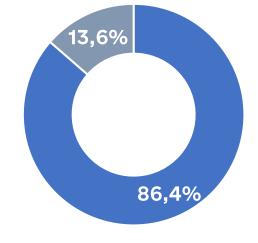
A new information system for planning and monitoring the execution of the State Budget was developed

MEASURES*:





Excluding measures not yet due. as well as measures suspended under Martial Law (46)



PFM Strategy 2022-2025: Coordination and monitoring of implementation



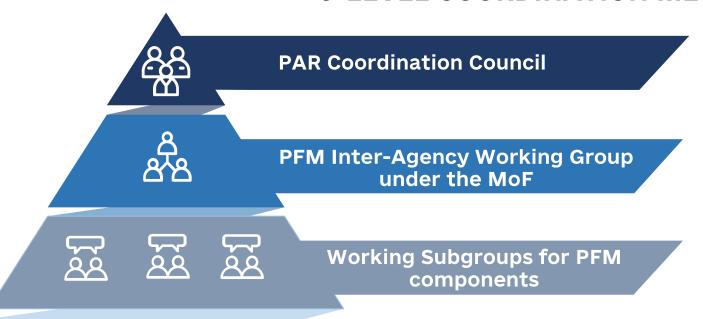
MONITORING

QUARTERLY - monitoring report on PFM Strategy Action Plan (AP) implementation

ANNUALLY - analytical report on the achievement of PFM Strategy objectives and relevant indicators

All reports are published on the Ministry of Finance website: https://mof.gov.ua/uk/zvit

3-LEVEL COORDINATION MECHANISM



Ensures alignment between PAR and PFM reforms, performs high-level coordination of implementing agencies, reviews and approves annual analytical reports on PFM Strategy implementation.

Monitors and assesses of the Strategy implementation (discusses achievements, priorities, provided and needed support from development partners, etc.)

Identify the gaps in particular PFM areas and prepare proposals on amendments to the PFM Strategy and AP

Coordination mechanism include involvement of experts and representatives of NGOs, international partners, authorities etc.

Annual PMF dialogue led by the MoF with GOU and external stakeholders (in 2024 - October)

PFM Strategy: Challenges and next steps



Challenges remaining in the reform process:



- Implementation of a number of PFM Strategy measures was suspended under the Martial Law, especially those related to large-scale capacity development and establishment of new bodies;
- Specific reform plans and timelines need to account for the uncertainty and volatility of the macroeconomic situation and the state of public finances associated with Martial Law

Next steps:



- Progress evaluation and assessment of the relevance of activities which were suspended under the Martial Law
- As part of the updated Enlargement Report 2024, Screening Process and SIGMA Report 2024, priorities for further development of the PFM will be identified
- Launch of new PFM Strategy preparation by end Q1 2025 to be adopted by the year end

MoF launches the preparation of new PFM Strategy under the PFM Inter-Agency Working Group (WG)



Working subgroups
develop
proposals for
reform measures



Consultations with GoU authorities, international partners, NGOs



WG endorses the draft PFM Strategy and MoF submits its for CabMin approval

Reforming National Strategic Planning System



Main gaps:



- Lack of coherent system of national strategic planning, weak links between strategic planning, budget planning and public investment planning (PIM);
- Outdated and incomplete legislative framework and lack of legally defined principles, types and hierarchies of strategic documents and lack of a clear division of powers of key stakeholders in the process



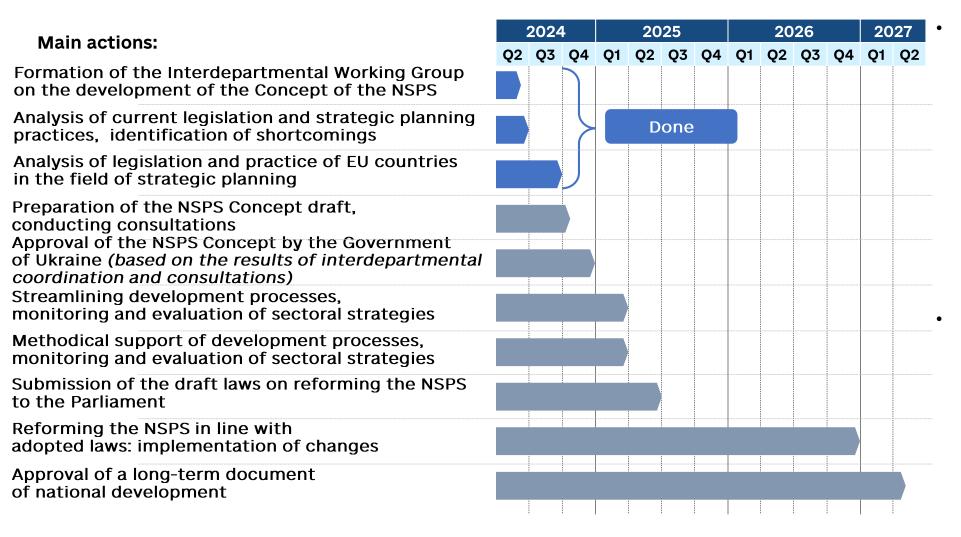
Measures taken:

- Improvement of national strategic planning system is an important component of 3 reforms: PAR, PFM and PIM.
- Action Plan for PIM Roadmap envisages that, by the end of 2024, the Ministry of Economy will develop a Concept of the national strategic planning system, including:
 - > description of the system of strategic planning documents and relations between them, including introduction of long-term document of national development
 - > approaches to goal setting,
 - > main stakeholders and their roles,
 - > compliance with the macrofiscal framework.
- Working Group for Concept preparation was established under the Ministry of Economy

Reforming the National Strategic Planning System (NSPS): next steps



The road map of reforming NSPS at the national level



- The successful implementation of the reform depends on will political and involves clear distribution of powers strengthening of and the institutional capacity of all the participants in strategic planning process
- The reform has complex nature: the implementation of is expected changes from the national level to the level of regions, communities and cities, taking into account the best practices of EU countries

Compliance of the Ukrainian Budget Legislation with the EU Acquis



EU standards served as a guidance for the first budgetary reform initiated in 2001, including program and performance-based budgeting



Provisions of the European Council Directive 2011/85/EU (regarding the budgetary frameworks of the member states) implemented in the Budget Code of Ukraine, include, in particular:

- The medium-term budgetary frameworks at the state and local levels (the Budget Declaration and the local budgets forecasts under Articles 33 and 75¹ of the Budget Code of Ukraine)
- The fiscal rules (Articles 14 and 18 of the Budget Code of Ukraine)
- Disclosing information on contingent liabilities with potentially large impacts on budget (Article 32¹ and 33 of the Budget Code of Ukraine)
- Public accounting practices for all sub-sectors of general government (Articles 56-62 of the Budget Code of Ukraine)

In the domain of budget preparation, the quality of the medium-term budget framework (MTBF) has been improved through the introduction of a clear legal framework for preparation, consideration, and approval of the MTBF, as well as the introduction of a new medium-term Budget Declaration since 2018. Budget preparation has also been improved through the addition of policy-based information, mainly related to non-financial performance to inform decision-making.

The annual budget process is well established in key budget legislation to foster budget discipline, with an orderly budget calendar that is adhered to.

(SIGMA Monitoring Report 2023)

Medium-term Budget Framework and Fiscal Sustainability





Budget Declaration – medium-term fiscal policy document, established in the Budget Code of Ukraine in 2018 (Article 33), which serves as a basis for preparing draft annual State Budget and forecasts of local budgets and contains:

- key macro indicators of economic and social development of the country
- key budget indicators
- objectives of state policy by sectors
- ceiling of expenditures and loans to the key spending units
- relations between the state budget and local budgets
- assessment of fiscal risks and their impact on the state budget indicators

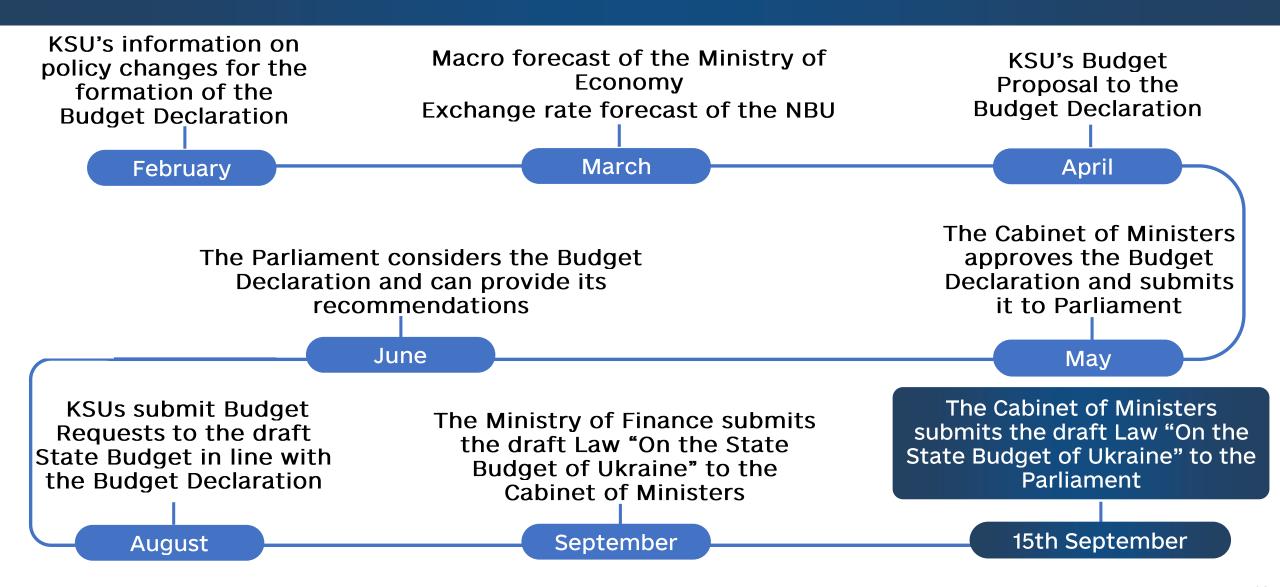
Introduced Budget Declaration for 2022-2024 (CMU Resolution No. 548 dated May 31, 2021) The preparation of the Budget Declaration in 2022 and 2023 was suspended due to the Martial Law Restored Budget Declaration for 2025-2027 (CMU Resolution No. 751 dated June 28, 2024)



The Public Financial Management System Reform Strategy for 2022-2025 envisages an improvement of medium-term planning reliability - reduction of the deviation of the budget indicators for the planning year provided for in the Budget Declaration from the corresponding indicators approved in the previous Budget Declaration from 10% to 5%

Budget Planning at the State Level





Fiscal Rules set in the Budget Code





Deficit

The ceiling of the state budget deficit determined by the law on the State Budget of Ukraine may not exceed the state budget deficit indicator for the respective budget period as defined in the Budget Declaration, which is 3 per cent of the forecasted nominal GDP of Ukraine for the respective year (part two of Article 14 of the Budget Code of Ukraine)



State Debt

The ceiling of the state debt and the state-guaranteed debt at the end of a budget period may not exceed 60 per cent of the annual nominal GDP of Ukraine (part two of Article 18 of the Budget Code of Ukraine)



EU Fiscal Rules



State Guarantees

The ceiling of the state guarantees issuance may not exceed 3 per cent of the planned revenues of the general fund of the state budget (part one of Article 18 of the Budget Code of Ukraine, suspended until the 2028 year by Article 57)

Control is carried out by the Accounting Chamber, the Cabinet of Ministers and participants in the budget process (Article 26 of the Budget Code of Ukraine)

Due to the Martial Law, the requirements for compliance with fiscal rules have been suspended

Ensuring predictability and consistency of annual budget planning amid the full-scale war

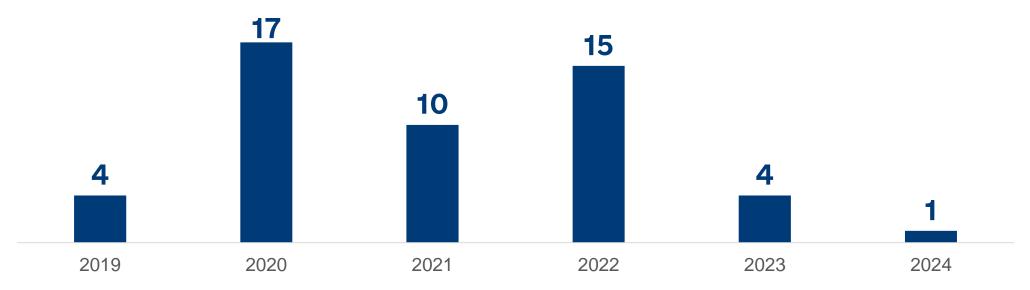




Art. 52 of the Budget Code of Ukraine (amended in September 2023):

- defines the comprehensive list of cases when the state budget can be amended;
- strengthens the role of the Ministry of Finance as a gatekeeper preventing unrealistic or high-risk amendments to the state budget against limited budget resources

Number of amendments to the Laws on State Budget for the corresponding year

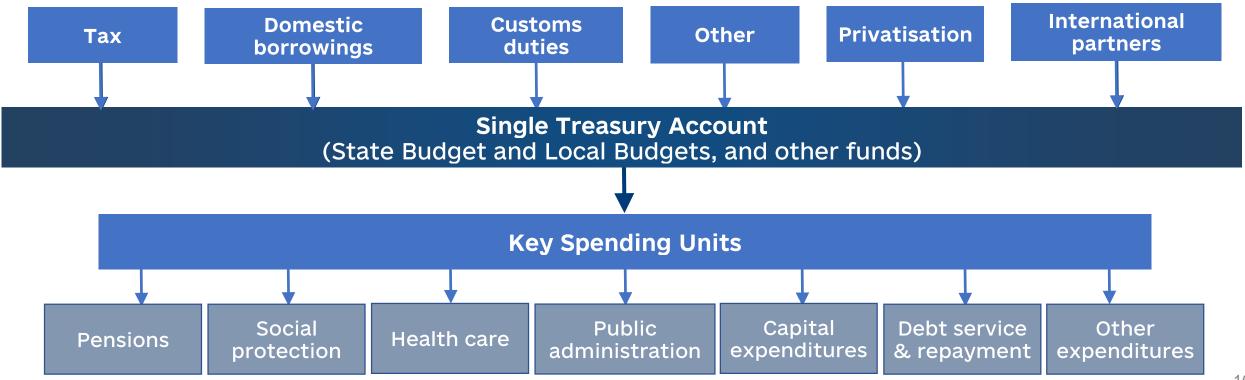


Treasury services



The State Treasury Service of Ukraine (Treasury):

- Provides treasury services for budgetary funds by maintaining a single treasury account opened with the NBU
- Performs ex-ante and current control to ensure that budget funds, coming from all sources, are used for intended purposes
- Maintains accounting records of all transactions related to the execution of state and local budgets
- Prepares consolidated financial statements of public sector entities and budgets, etc.



Public Sector Accounting





Legal framework for reforming the public sector accounting system

- Law of Ukraine "On Accounting and Financial Reporting in Ukraine"
- Strategy for reforming the Public Finance Management System for 2022-2025
- Strategy for the Modernization of the Public Sector Accounting and Financial Reporting System for the period up to 2025



Standards of accounting

Ukraine applies a unified set of national regulations (standards) on public sector accounting, which introduces a new conceptual framework for accrual-based accounting based on the indirect adoption of International Public Sector Accounting Standards (IPSAS)



Scope of coverage

The financial reporting in Ukraine covers ministries, other authorities, key spending units, state and local budgets, and compulsory state social and pension insurance funds. The Treasury prepares consolidated financial statements on the general property status and performance of public sector entities and budgets.



Assessment of compliance with international IPSAS standards

In 2023, Ukraine conducted an assessment of the public sector accounting system according to the World Bank's PULSE methodology, which resulted in a high grade of "B+", which indicates a high level of compliance of national standards with international standards (IPSAS). The report is published on the official website of the World Bank's Financial Reporting Reform Center:

https://cfrr.worldbank.org/publications/public-sector-accounting-assessment-pulse-report-ukraine and the official website of the Ministry of Finance of Ukraine:

https://mof.gov.ua/uk/news/ievrointegratsiia_shchodo_zvitu_pro_otsinku_bukhgalterskogo_obliku_derzhav nogo_sektoru_pulse_v_ukraini-4654

Further Approximation of Ukraine's Budgetary Framework to the EU Acquis





The following aspects of the PFM system require implementation to improve the compliance with the provisions of the Directive 2011/85/EU:

- Alignment of information with the European System of Accounts (ESA 2010)
- Establishing an independent fiscal oversight institution
- Extending medium-term budget planning to the sectors of general government (local budgets and compulsory state social and pension insurance funds)
- Introducing baseline calculation-based approaches to budget planning (expenditures under unchanged policy)



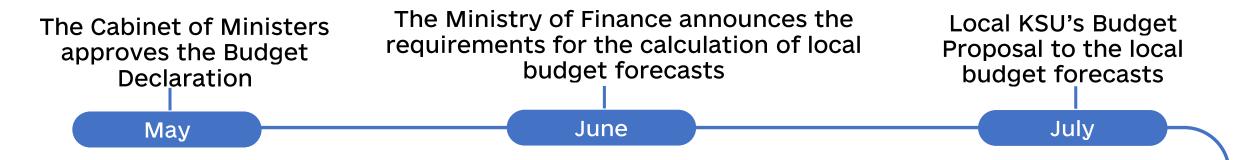
Measures taken:

- The Budget Declaration for 2025-2027 includes key indicators of local budgets
- Approaches developed, together with the IMF, to calculate the baseline considering the list
 of factors that influence the expenditures of the key spending units of the State Budget

The Ministry of Finance, together with IMF experts, is conducting a diagnostic review of the medium-term budget framework which will result in an action plan for further improvements

Roadmap: Medium-term Budget Planning at Local level





The Local Budget Forecast is the basis for drafting the Local Budget

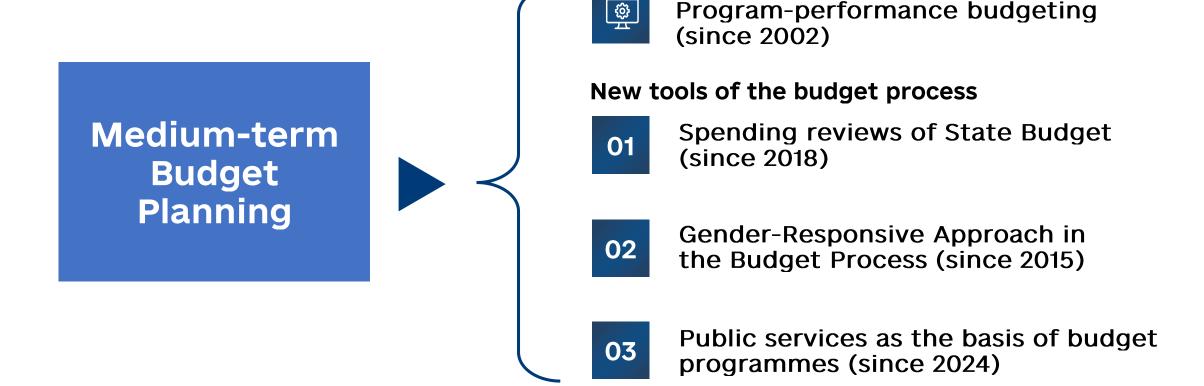
September

The Council of Ministers of the Autonomous Republic of Crimea, local state administrations, and local councils approve local budget forecasts

In September 2024, the Parliament of Ukraine adopted amendments to the Budget Code of Ukraine and restored medium-term budget planning at the local level to ensure predictability of budget policy

Sustainability and Efficiency of the Budget Process

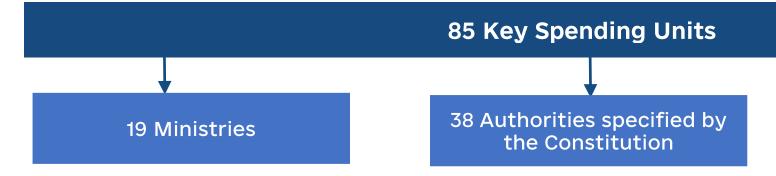




Efficiency of the new tools' application is closely linked with the implementation of reform measures in the areas of strategic planning and policy formulation

Key Spending Units (KSU)





- The status of the key spending units is granted to authorities that, in accordance with the legislation, should be ensured independence, including financial one.
- To strengthen the strategic orientation of the budget process, PFM Strategy envisages optimization of the number of key spending units based on the criteria of the formulation of public policy in the relevant sphere, the availability of a special status or a justified need for independence of financial support.
- At the same time, such optimization needs to be linked with the activities under PAR Strategy aimed at effective organization and coordination of central executive bodies

28 Other Institutions

- •3 subsidiary bodies authorised to support the activities of the VRU, the President of Ukraine and the Government;
- •10 institutions with special status or independent financial support defined by the legislation;
- •8 institutions authorised by law or by the Government to implement state policy in the relevant field;
- 6 academies of sciences;
- State Judicial Administration.

Transparency and completeness of reporting



Ukraine's Number

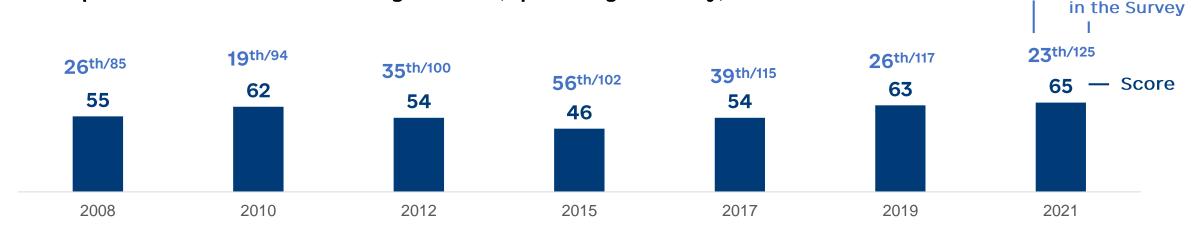
of countries

Place in Survey



- Ukraine has demonstrated good performance in transparency and access to budget information over the years and managed to join the group of countries with access to significant information (61-80 points), according to Open Budget Survey, before the full-scale war.
- Under the Martial Law, publication of the detailed budget execution information by the State Treasury has been suspended, however main budget indicators and performance continue to be published by the MoF on its website and Open Budget portal https://openbudget.gov.ua/
- When the security situation permits, there will be additional budget information published, and with the abolishment of the Martial Law, publication of information will be restored in full

Ukraine's place in the International Budget Index (Open Budget Survey) for 2008-2021



Fiscal Risk Management: Legal framework

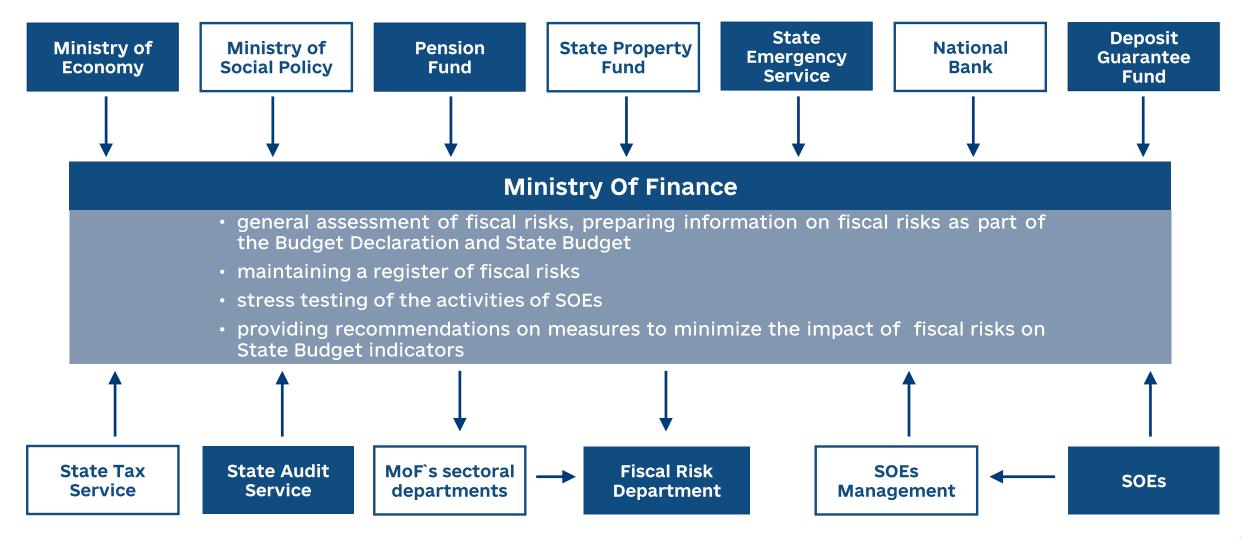




- The Budget Code of Ukraine
- Resolution of the Cabinet of Ministers of Ukraine No. 351 dated 24.04.2019 'On Approval of the Methodology for Fiscal Risk Assessment'
- Resolution of the Cabinet of Ministers of Ukraine No. 7 dated 11.01.2018 'On Approval of the Methodology for Assessing Fiscal Risks Related to the Activities of Public Sector Economic Entities'
- Resolution of the Cabinet of Ministers of Ukraine No. 232 dated 16.02.2011 'On Approval of the Methodology for Identifying Risks of Public-Private Partnerships, Assessing Them and Determining the Form of Their Management'

Fiscal Risk Management: Institutional Set-up





Fiscal Risk Management: Key results and next steps





Key results:

- Since 2017, information on fiscal risks and their impact on the State Budget indicators is prepared annually (included in the materials to the draft Law on the State Budget of Ukraine and published on the website of the Ministry of Finance (https://mof.gov.ua/uk/zvity)
- Since 2020, the Budget Declaration includes a section on the assessment of fiscal risks and their impact on the State Budget indicators
- Since 2021, to determine the impact of SOEs on the State Budget indicators, stress testing of their activities is carried out under various scenarios



Next steps:

- Development and implementation of fiscal risk management framework for local budgets
- Enhancing the methodology for assessing fiscal risks associated with public investment projects, in particular PPPs, concessions, and the activities of SOEs
- Improvement of stress testing of the activities of SOEs under various scenarios
- Continued implementation of the SOEs corporate governance reform in line with the adopted legal framework

Debt Management Strategy





Medium-term state debt management strategy is a tool designed by the Ministry of Finance of Ukraine and regularly prepared since 2011 to assess the current status and dynamics of the state debt of Ukraine and define objectives, targets and tasks over the medium term to optimize state debt structure from a cost/risk perspective while bringing the country on the path to a more sustainable debt trajectory

Main objectives of Medium-term state debt management strategy for 2024-2026:



Attracting long-term concessional funding and maximize the share of grants in official sector support



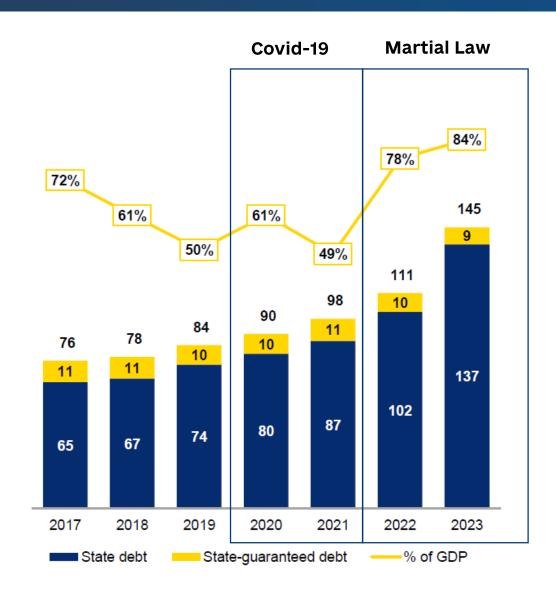
Maintaining strong investor relations and pursue the development of domestic capital markets



Containing refinancing risk

Debt Sustainability Path





IMF Program requirements

Debt/GDP: Public debt should reach 65% of GDP by 2033 and 82% of GDP by 2028

GFN/GDP: Gross financial needs should average 8,0% of GDP in the post-war period (2028-2033)

Flow relief to the IMF Program: Ukraine should aim to achieve flow relief on external debt service of 1-1,8% of GDP per year (equivalent to \$ 11,8 bn over 2024-2027Q1)

Debt Management Office (DMO)





Objective of DMO establishment:

 To implement the best international practices in debt management and to separate the functions of debt policy formation and its implementation, in particular, recording of the debt obligations, preparing borrowing plans, and analytical reporting



Measures taken:

- The legal framework for establishment of the Debt Management Office was adopted in 2020 (the legal framework included in the Budget Code of Ukraine and the Resolution of the Government of Ukraine No. 127 dated 02.12.2020)
- Due to the Covid-19 Pandemic and the Martial Law the functioning of the Agency was not launched



Next steps:

 Together with the IMF and the World Bank, the Ministry of Finance is working on the implementation of the best practices regarding the separation of powers and functions between the divisions of the Ministry of Finance and the Debt Management Office

Public Investment Management (PIM): Strategic and Legal Framework





Approved:

- Roadmap for Reforming Public Investment Management (GoU decision of December 22, 2023) and Action Plan for Its Implementation for 2024-2028 (GoU Decree No. 588-p of June 18, 2024) in line with recommendations of the EC, World Bank and IMF
- GoU Resolution on Establishment of Strategic Investment Council to coordinate the priorities of public investment and approve a single project pipeline (No. 549 of May 14, 2024)
- Procedure for preparation, submission, assessment and determination of criteria for prioritization of concepts of public investment projects for 2025 (GoU Resolution No. 903 of August 9, 2024)



Under development:

- Amendments to the Budget Code of Ukraine defining the scope of public investment and key stakeholders, establishing medium-term plan for priority public investment, integrating PIM into the budget process at the central and local level, institutionalizing IT systems for public investment management, including DREAM
- Amendments to the legislation to streamline all investment procedures in line with the unified definition of a public investment project
- Procedures and methodological framework for PIM

Public Investment Management (PIM):

Reform Scope



PIM system 'as is':



No strategic planning of public investments at the state and local level



Weak connection between public investments and budget planning



Fragmentation of procedures for preparation, appraisal, selection and implementation of projects depending on the financing mechanisms (18 different investment streams existing) and the existence of opportunities to bypass them



Weak institutional capacity of authorities to prepare, evaluate and implement investment projects



Lack of an effective system for monitoring and evaluating the implementation of public investment projects

PIM system 'to be':



Unified definition of a public investment project and new improved PIM procedures will be applied to all projects related to recovery, restoration and modernization



Decision-making on public investments will take place within the framework of strategic and medium-term budget planning - mediumterm plan of priority public investments will be prepared and approved together with the Budget Declaration



Approaches to the evaluation and selection of public investment projects will be unified regardless of the sources and mechanisms of financing, which will allow the creation of a single project pipeline for obtaining access to financing



To ensure the necessary capacity, an IT ecosystem for PIM based on updated methodologies and centers of expertise will be created

Public Investment Management (PIM): Institutional Set-Up



Strategic Investment Council



Prime Minister Members of the Cabinet of Ministers



- Coordination of strategic priorities for public investments
- Approval of a medium-term plan of priority public investments and single project pipeline

Project Preparation Framework

Ministry of Economy

- Coordinating national strategic planning and PIM methodology, preparation of the medium-term plan of priority public investments and single project pipeline
- Monitoring of implementation of a single project portfolio

Ministry of Finance

- Defining fiscal framework for public investments including all sources and financing mechanisms and the need to ensure macro-financial stability
- Budgeting of public investments in accordance with strategic goals and objectives and the resource framework
- Assessment of the financial feasibility of investments and proposed sources and financing mechanisms

Ministry of Infrastructure

- Creation of a strategic framework for regional development to guide public investments at the local level
- Development of sectoral strategies in the fields of transport, housing policy, utilities and communal services, energy efficiency, which should guide the investments and construction standards
- Prioritization of projects within their sectors, coordination of preparation and monitoring of their implementation

Line ministries

- Development of sectoral strategies, prioritization of projects within their sector
- Coordination of preparation and monitoring of their project implementation

Agency for Restoration

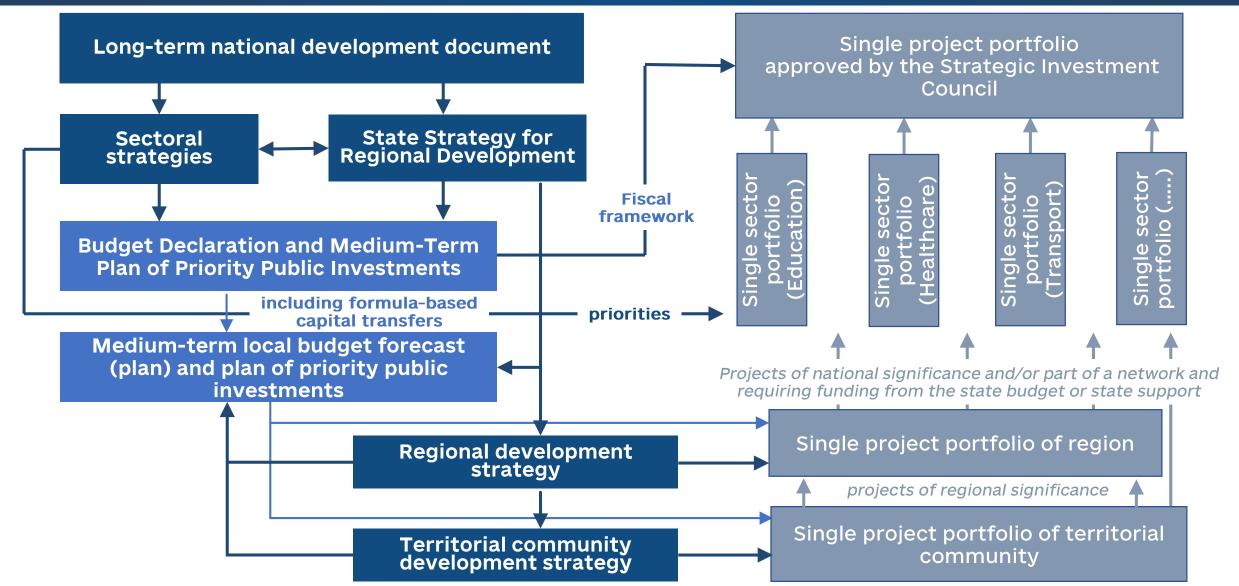
- Preparation and implementation of large-scale infrastructure projects at the national level
- Providing support in the implementation of investment projects at the local level at the request of local government

Sub-National Governments

- Development of strategies for the restoration and development of relevant territories and single project pipelines based on them
- Preparation, prioritization and implementation of public investment projects at the local level

Public Investment Management (PIM): Formulation of Single Project Pipeline





Public Investment Management (PIM): Digitalization



DREAM

(bank of projects that meet the established requirements, passed evaluation and selection procedures; set of working tools to facilitate preparation and evaluation of projects; monitoring system)

IT Systems of the Ministry of Finance

(planning and monitoring execution of state and local budgets, reflection of projects approved for financing in the budget, IFI project register)

Digital ecosystem of public investment management (main IT systems)

Prozorro

(planning and implementation of public procurement)

Treasury IT

(execution of project financing)

Public Investment Management (PIM): Results Achieved and Next Steps





Transitional Model Implemented:

- Strategic Investment Council (SIC) chaired by the Prime Minister established to play the central role in defining and communicating public investment priorities
- PIM units established at the Ministry of Finance and the Ministry of Economy and staffed
- Over 700 project concepts screened by Ministry of Economy, Ministry of Finance and Ministry of Infrastructure for strategic relevance, socio-economic, financial and technical feasibility and pilot single project pipeline (SPP) for 2025 approved by SIC to serve as main source of projects for domestic and external financing, including Pillar II of Ukraine Facility
- Development of Project Preparation Framework (PPF) launched together with EC, World Bank and other development partners

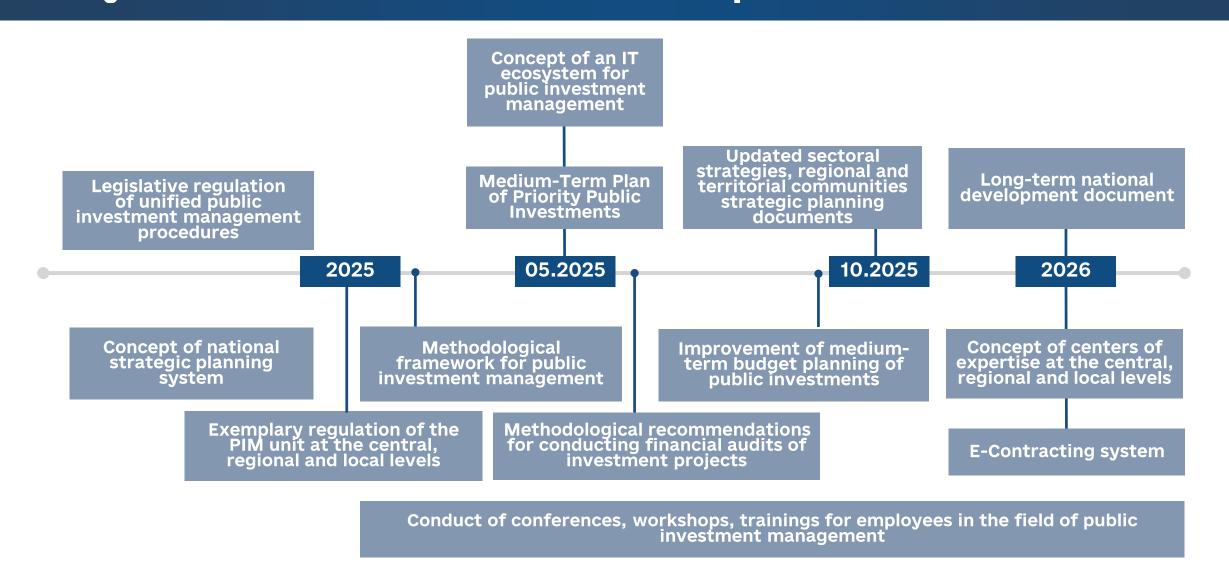


Next Steps:

- Adoption by Verkhovna Rada of amendments to the Budget Code and other laws on establishment of PIM system
- Approval of the Concept for national strategic planning
- Approval of procedures and methodological framework for PIM at the national and local level
- Preparation and approval of the Medium-Term Plan of Priority Public Investments together with the Budget Declaration

Public Investment Management (PIM): Key milestones in PIM reform implementation





Public Asset Management





Main legal framework

Law of Ukraine "On Management of State Property Objects" dated September 21, 2006



Unified Register of State Property

In accordance to this Law was established the Unified Register of State-Owned Property, which is a state information and communication system that collects, records, accumulates, processes, protects and provides information on real estate, including real estate leased, concessioned or pledged, of state-owned enterprises, institutions and organizations, as well as on corporate rights of the state and state property that is not included in the authorized capital of business entities.

State Property Fund is a main stakeholder and administrator of the register



State Ownership Policy

According to the Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine on Improving Corporate Governance" dated 22.02.2024 No. 3587-IX, that bring out the corporate governance in SOEs according to the standards of the OECD, Cabinet of Ministers should approves the State Ownership Policy, which defines general principles, in particular, regarding the classification of state unitary enterprises and business companies in accordance with the grounds for remaining in state ownership, plans for privatization, reorganization or liquidation, as well as the justification of any other categorization of state unitary enterprises and business companies in which the state holds more than 50 percent of the authorized capital.

Fiscal decentralization



Transfer of powers from the State to the local self-governments is done exclusively based on the legislation with financial provision of the delegated powers ensured

Delegated powers:

- availability of free education and medical care on the relevant territory;
- · organization of work to prevent neglect of minors
- monitoring compliance with land and environmental legislation, land use and protection of natural resources at the national and local levels
- ensuring the implementation of measures provided for by legislation to improve the housing and material living conditions of certain categories of citizens

Financing sources for the exercise of delegated powers:

- Horizontal equalization of tax capacity of communities
- Personal income tax (60% established by the Budget Code + 4% additionally stipulated in annual budget laws starting from Covid-19)
- Part of rent payments for the use of natural resources
- Educational transfer
- Transfer for individual programs in the field of health care
- Excise tax on retail trade

Own powers:

- management of communal property of the respective territorial communities determined by the council
- management of housing and communal facilities
- organization of waste management
- organization of improvement of settlements

Financing sources for the exercise of own powers:

- Local taxes and fees
- Land tax
- Tax on real estate other than land
- Single tax

Local self-governments independently determine the directions for the use of budget funds in accordance with the legislation of Ukraine and independently of each other consider and approve relevant local budgets

Fiscal decentralization: key challenges and next steps





Current challenges:

- Lack of clear legislative delineation of powers between the levels of government and relevant budgets
- Lack of clearly defined list of public services guaranteed by the state
- Lack of tracking and recording mechanisms for internal migration processes

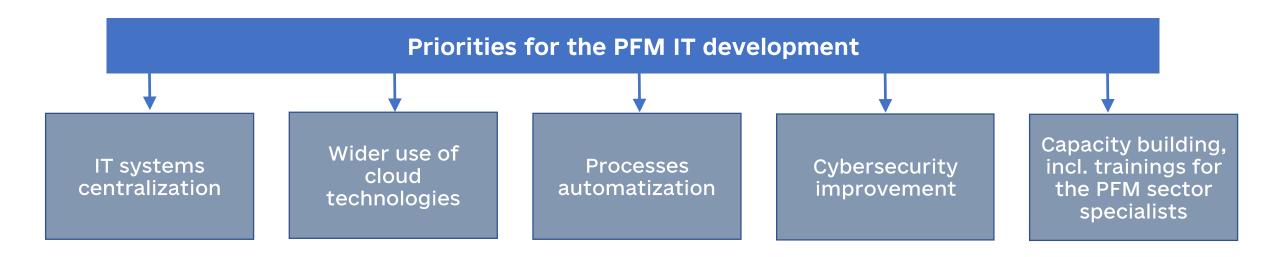


Next steps:

- Regulation of state supervision over the legality of decisions of local self-government bodies
- Amendments to the laws on local self-government, on local state administrations to clarify the delineation of powers
- Identifying of the value indicators of social standards to better determine the financial provision of delegated powers
- Improvement of the mechanism of horizontal equalization of tax capacity of territories in line with current realities and population distribution

Strategy for the Digital Development and Transformation of the PFM System





Currently, a number of PFM IT systems are undergoing modernization, including those for budget planning and execution monitoring, and new IT systems are being conceptualized for public sector accounting and public internal financial control

Contact details of the Presenter





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ANNEXES

Public Financial Management Network



Secretariat of the Cabinet of Ministers

Ministry of Economy

State Customs Service; State Tax Service

State Treasury Service

State Audit Service

Local authorities

Other authorities, civil society

Ministry of Finance

PFM reforms coordination

Accounting Chamber

National Bank

State Statistics Service

Ministry of Restoration

Pension Fund Social funds

MoF Authorities Involved in the PFM





Leadership of the Ministry of Finance of Ukraine





Mission of the Ministry of Finance of Ukraine





The mission of the Ministry of Finance of Ukraine is to provide the financial basis for the proper delivery of public functions supported by a well-balanced budgetary policy as well as to create favourable conditions for stable economic development by managing public funds in line with the principles of balance, effectiveness, unbiased approach, integrity, sustainability and transparency.

Mission of the Ministry of Finance of Ukraine



The Ministry of Finance of Ukraine is responsible for the formation and implementation of the key areas of government policy:



Budgetary policy
Assurance of predictability,
transparency and balance of budgetary
policy in the medium term and
allocation of resources in accordance
with the state development priorities



Tax and Customs policy
Establishment of a fair modern
tax and customs system that
ensures the achievement of
the strategic goals of
sustainable economic
development



Financial policy in the following areas
Assurance of the effective cooperation
on the financial matters with
international financial organizations,
foreign states and banks; participation
in state policy formation on the
financial services market and stateowned banks sector development



Debt policy
Debt sustainability assurance,
government debt management
and state-guaranteed debt

National Legislation on PFM





Spending reviews of state budget



Article 20 of the Budget Code of Ukraine

The Ministry of Finance has defined the General Requirements for the State Budget Spending Reviews (Order of the Ministry of Finance No. 446 dated October 23, 2019)

2023 2024 2018 - 2021 the reviews the reviews In 2022 the reviews the reviews suspended covered covered are covering 32 8 areas areas areas were Key Key Key 13 **Spending Spending Spending** Units Units **Units**



Ukraine Plan under the Ukraine Facility (Indicator 2.4 of Reform 2) foresees for annual spending reviews of state budget expenditures based on the methodology in line with the OECDs best practices in the following priority areas: social protection, education, healthcare, energy, and business support

Gender-Responsive Approach in the Budget Process



The Ministry of Finance approved the Methodological Recommendations for the Implementing and Using the Gender-Responsive Approach in the Budget Process (Order of the Ministry of Finance No. 1 dated January 2, 2019)

Target: improve the quality of public services and their accessibility to different groups of women and men

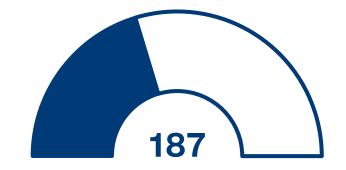
Methodological approaches

Organizational approaches

allow considering gender aspects in the process of budget programmes planning, implementation and reporting

Conducted gender-analysis of budget programmes

The PFM System Reform Strategy for 2022-2025 stipulates that every Key Spending Units shall annually conduct a gender analysis of at least one budget programme



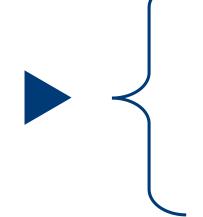
Public Services





Public services are the basis for the formation of budget programmes: areas of use of budget funds are formed considering the public services provided within the budget program, and performance indicators highlight the volume and quality of public services

Methodological Recommendations for the Formation of Budget Programs by the Key Spending Units of the State Budget (Order of the Ministry of Finance No. 465 dated August 25, 2023)



- Summarize the requirements for the creation and content of budget programmes
- For the first time provide explanations of the content of public services (their types, recipients, providers) to be reflected in budget programmes

Implementation of the baseline calculation-based approaches to budget planning





Stages of implementation:

- MOF develops a legal act
- MOF calculates the baseline of expenditures considering the information received from the KSU on the factors affecting budget expenditures and the macroeconomic forecast
- aggregated indicators of the baseline level of state budget expenditures (calculated by the Ministry of Finance) included in the Budget Declaration for 2026-2028
- KSU-s calculate the baseline of expenditures when preparing the Budget Declaration for 2027-2029
- The baseline level for the spending of the state budget expenditures (summarized by the Ministry of Finance) is included in the Budget Declaration for 2027-2029

Alignment of information with the European System of Accounts (ESA 2010)





The Ministry of Finance, the Ministry of Economy, the State Statistics Service within their fields of responsibilities will perform the following activities

- Preparation of methodological approaches for switching cash receipts and expenses to accrual receipts and expenses 2025
- Preparation of a transition table of economic expenditures / revenues classification and ESA2010 2025
- Development of a form for informing by the Ministry of Defence regarding investments in the field. Development of a form for informing by the MoF Debt Policy Department (local debt management unit) regarding data on state (local) debt interests on loans and deposits paid to financial institutions. Improvement of reporting forms regarding the financial indicators of higher education institutions, scientific institutions and healthcare institutions 2025
- Development of reporting forms for the Energy Efficiency Agency regarding ESCOs. Development of reporting forms for the KSUs regarding PPP contracts 2025
- Analysis of existing ESCO and PPP contracts regarding inclusion into the general government sector. Preparation of a request to the European Commission 2026
- Improvement of VAT accounting and forecasting (non-collected VAT due to VAT fraud and due to insolvency) and some expenditures - 2026
- Preparation of an Inventory of the methods, procedures and sources used for the compilation of deficit and debt data and the underlying government sector accounts according to ESA2010 – 2026
- Preparation of amendments to the budget classification and the financial and budget reporting for approximating to the ESA2010 2026
- Development of a presentation form and methodological framework for medium-term budget forecast in the general government sector – 2025
- Define the unchanged policy concept. Develop approaches to baseline calculations regarding the revenues, macroeconomic indicators and expenditures 2025

PIM Reform: Priority tasks (1/3)





1. Ensuring legislative regulation and strategic planning of public investments

- Legislative regulation of unified public investment management procedures, including key definitions, introduction of medium-term public investment planning at all levels in close connection with budget planning
- Development of the Concept of the national strategic planning system, which will contain a methodological framework for the preparation of strategic documents
- Development of a long-term national development document, update sectoral strategies, regional and territorial communities strategic planning documents
- Development of the Medium-Term Plan of Priority Public Investments together with the Budget Declaration, its annual update and monitoring



2. Creation of methodological framework for public investment management

- Development of the procedure and guidelines for the preparation and appraisal of public investment projects, including sectoral guidelines
- Approval of the methodology for determining the sources/mechanisms of financing of public investment projects
- Development of the procedure for the formation of sectoral pipeline and a single pipeline of public investment projects, including screening and prioritization of public investment projects, and selection of projects for funding
- Development of the procedure for the implementation, monitoring and evaluation of public investment projects, incl. an ex-post evaluation procedure
- Development of methodological recommendations for conducting financial audits of investment projects

PIM Reform: Priority tasks (2/3)





3. Improvement of medium-term budget planning of public investments

- Development of the concept of the use and recording of multiannual budget commitments and contingent liabilities for the implementation of public investment projects to ensure macro-fiscal stability and debt sustainability
- Improvement of medium-term budget planning of public investments at all levels, amendments to the forms of budget requests and passports of budget programs
- Strengthening of the fiscal risks management, associated with public investments, especially regard to state (local) guarantees and PPPs
- Creation of an Interdepartmental Commission (consisting of representatives of the MoF, MoE and MoI) for the selection of public investment projects for funding at the State level; development of an exemplary regulation on the commission for the selection of PIP at the local level
- Ensuring proper recording and reporting of public investments



4. Creation of an IT architecture for public investment management

- Development of the concept of a Unified Digital Ecosystem for public investment management, consisting of a single project pipeline, budget module, e-procurement and treasury services
- Regulation of information exchange between DREAM, IT systems of the Ministry of Finance and the Ministry of Economy for end-to-end management of PIPs
- Ensuring that public investment projects are included in the DREAM and full digitalization of public investment management
- The E-Contracting system development and implementation

PIM Reform: Priority tasks (3/3)





5. Increasing the institutional capacity of public investment management bodies

- Development of an exemplary regulation of the public investment management unit at the central, regional and local levels
- Development of the concept of centers of expertise at the central, regional and local levels
- Ensuring the development and approval of a standard training program and professional development program for employees in the field of public investment management at the all levels
- Developing the capacity of line ministries to carry out cost-benefit analyses and reliable cost estimates for the preparation and implementation of public investment projects
- Creation of supporting technical tools for the preparation, appraisal and analysis of the implementation of investment projects within DREAM, including cost-benefit analysis, reliable estimates of preparation and implementation costs
- Conduct of conferences, workshops, trainings for employees in the field of public investment management and professional development for specialists directly interacting with DREAM, development of an in-depth course (on-line)

Fiscal decentralization progress



During 2014-2019

- Adopted amendments to the Budget and Tax Codes
- Established unified standards for deductions of national taxes and the list of sources of formation of local budgets was expanded
- Canceled indicative planning of local budget indicators by the Ministry of Finance and introduced horizontal equalization of the tax capacity of territories
- Started the creation of amalgamated territorial communities with the expansion of their sources of revenues and spending powers
- Introduced direct inter-budgetary relations with amalgamated territorial communities

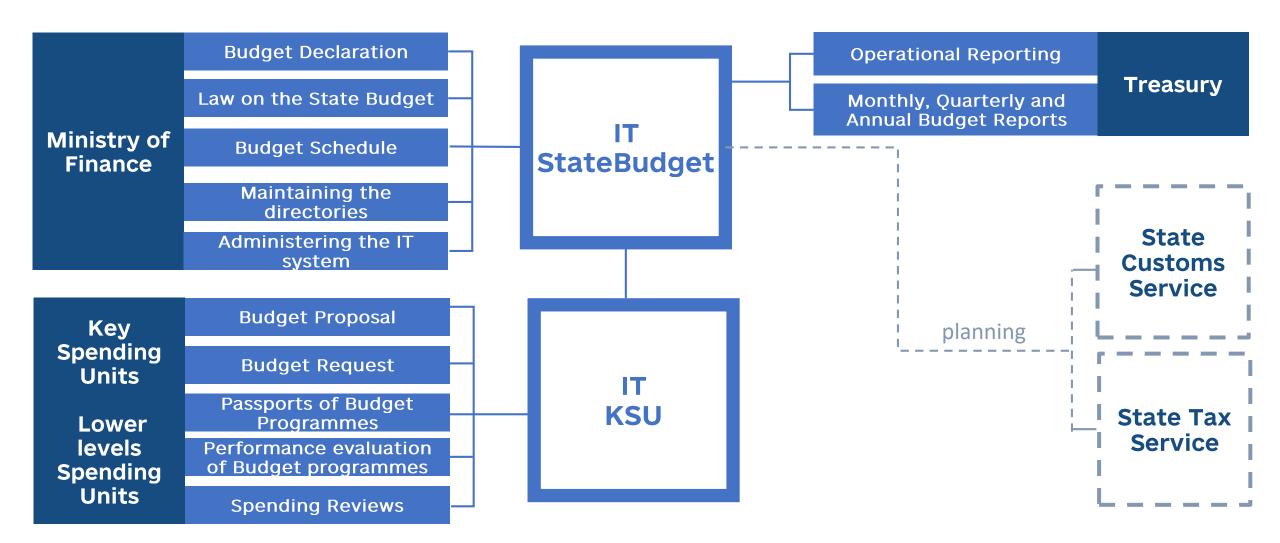
During 2020-2021

- Approved a new basic-level administrativeterritorial system
- Formed 1469 territorial communities, 136 districts
- Adopted amendments to the electoral legislation
- Conducted the Local elections on the new territorial basis of communities and districts
- Introduced direct inter-budget relations with all local budgets

Pre-war results of decentralization reform included the annual increase in investment resources of local budgets and the growth of the share of expenditures for the performance of self-government powers, which indicated an increase in the spending autonomy of local budgets and the effectiveness of the use of budget funds at the local level.

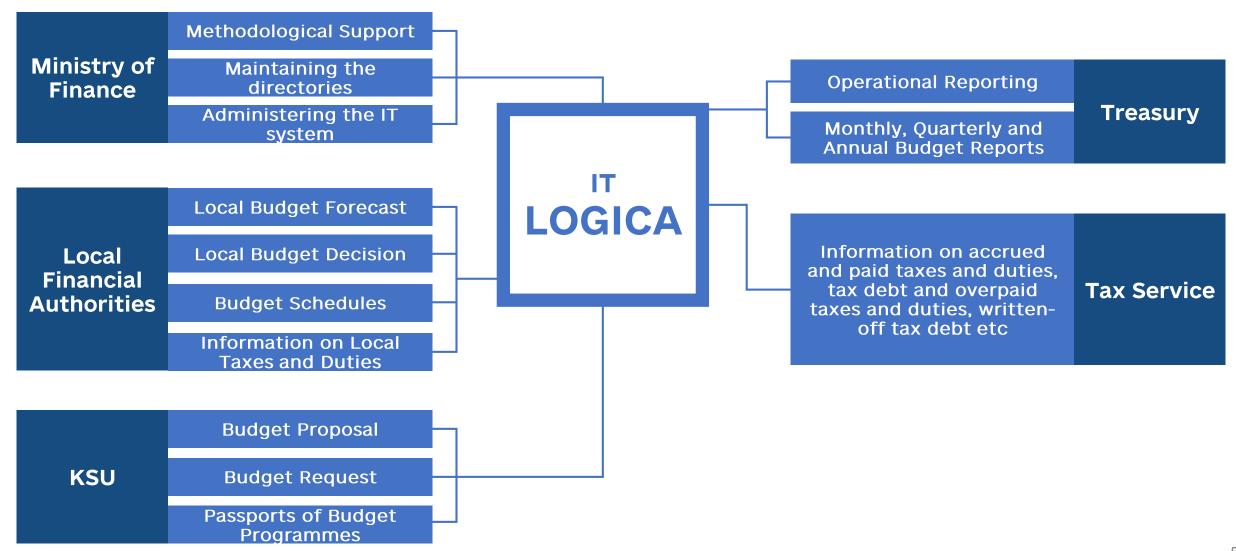
IT system «StateBudget» for budget planning and execution monitoring





IT System «LOGICA» for prompt information exchange with local budgets





Centralized public sector accounting system



Implementation of a centralized information and analytical accounting system in the public sector

Current gaps:

Constant need for capital investment in purchasing, updating and maintaining software products at the public sector level

Lack of adequate cyber security arrangements

Lack of disaggregate accounting information at the national level

Separate data storage, lack of integration processes

Implementation objectives:

Availability in the Ministry of Finance of Ukraine of primary accounting information at the national level, the possibility of using analytical tools

Unified free software product for the entire public sector that works according to the policy established by the Ministry of Finance of Ukraine

Integration with state services and information resources

Single information space and balance

Ensuring reliable protection of information



