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Budgeting in Ukraine

by
Dirk-Jan Kraan, Lisa von Trapp, Valentina Kostyleva, Jan van Tuinen and Matthias Morgner*

This budget review of Ukraine first discusses some general legal, political and economic characteristics of the country and recent institutional reforms. Section 2 examines the budget formulation process with separate attention for the budget structure and classification, the annual budget preparation cycle, medium-term planning, long-term fiscal sustainability, the organisation of the Ministry of Finance, and the funding of local government. Section 3 addresses the parliamentary budget process with special attention for the Budget Committee, the annual parliamentary budget cycle, and the impact of parliament. Section 4 focuses on budget execution with special attention for the annual executive process, cash management, and budgetary discipline. Section 5 looks at the supply side of the budget process: the ministries and agencies that provide for public administration and service delivery at the level of central government, as well as such provision by local governments. Section 5 also addresses public employment, the civil service, public procurement, and the public enterprise sector. Section 6 looks at accounting and audit, with special attention for financial reporting, internal audit, and external audit.

JEL classification: H610, H570, H830

Keywords: Budget formulation, budget preparation cycle, budget structure and classification, medium-term planning, long-term fiscal sustainability, parliamentary budget process, parliamentary budget committee, annual budget cycle, budget execution, cash management, budgetary discipline, public administration and service delivery, local government, public procurement, public employment, civil service, public enterprise sector, accounting, audit, financial reporting, internal audit, external audit, Ukraine.

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Preface

This review of the budget process of Ukraine was carried out as part of the work programme of the OECD Working Party of Senior Budget Officials. In 2004, the Working Party established the Network of Senior Budget Officials of Central, Eastern and South-Eastern European (CESEE) countries. Budget reviews serve as a basis for examination of a country’s budgetary institutions by the network in its annual meetings and enable participants to discuss the budget procedures of a country in depth.

A team of the OECD Secretariat consisting of Dr. Dirk-Jan Kraan (lead), Ms. Lisa von Trapp, and Ms. Valentina Kostyleva, supported by Mr. Jan van Tuinen (Netherlands Ministry of Finance) and Mr. Matthias Morgner (GIZ, German International Co-operation), undertook a mission to Kiev from 11 to 15 October 2010 to prepare the review. During the mission, the team met with: Mr. Vladimir Lositsky, Head of the Budget Department, Ms. Natalia Tovsta, Deputy Head of the Budget Department, Ms. Liudmilla Litvinenko, Deputy Head of the Department of the Treasury, and other officials of the Ministry of Finance; Ms. Svitlana Danylenko, Director of the Department of Economics and Financing of the Ministry of Education and Science, and other officials of the Ministry of Education and Science; and Ms. Nataliya Shchepotyeva, Director of the Department of Financial Inspection.

The OECD team also met with: Mr. Andriy Vatulev, Head of the Secretariat of the Budget Committee of Parliament, Ms. Svitlana Feshuk, Deputy Head of the Secretariat of the Budget Committee of Parliament, and other officials of the Budget Committee staff; Mr. Oleksandr Yaremenko, Deputy Head of the Accounting Chamber of Ukraine, Mr. Taras Prytula, Director of International Co-operation of the Accounting Chamber, and other officials of the chamber; Mr. Yuri Hanushak, Director of the Association of Cities of Ukraine; and Ms. Klavdia Pavluk of the Institute of Economics and Forecasting. Additional information was provided by Mr. Andriy Bega of the National Agency of Ukraine for the Civil Service, and by the State Statistics Committee and the State Property Fund.

The OECD team is grateful to all these officials and experts for the information they provided and for their willingness to explain the procedures and practices of budgeting in Ukraine. The OECD team appreciated in particular the open and frank discussions with the Ukrainian interlocutors and their continued co-operation in 2011 in further refining some of the information in this report. The draft of the report was completed in March 2012.

The team would like to thank in particular Ms. Valentina Doletska, Deputy Head of the Budget Department, for the excellent organisation of the meetings, her help with the collection of documents, and her extraordinary hospitality during the team’s stay in Kiev.

The team would also like to thank GIZ (German International Co-operation) for its financial support concerning the translation of documents and its logistic support during the team’s stay in Kiev.
1. Introduction

1.1. Contents of the review

The main purpose of an OECD budget review is to provide information about the current institutional features of a country’s budget process which can serve as a basis of discussion in a meeting of delegates from countries in similar conditions. Such discussions may be useful to other countries in that they can learn from the country under review, and may be useful for the country under review because it can receive suggestions from other countries for overcoming the problems it is facing (peer review). The OECD Secretariat usually adds its own policy suggestions to the reviews, but in general strives for restraint in this respect in order to allow maximal room for exchange of views among peers. In countries of the most eastern part of Europe, restraint seems the more appropriate because these countries are already overloaded with policy advice on budget reform from international organisations and foreign donor countries. In general, this review follows this approach of a focus on description and restraint with recommendations, but with one nuance.

The OECD Secretariat has noticed that the emphasis of the advice from other international organisations and donor countries to eastern European governments often focuses on what is thought to be particularly important for transition countries. However, such advice sometimes does not take into account the features of budgetary institutions actually prevailing in OECD countries. Most OECD budget reviews are of course concerned with OECD countries and serve as peer reviews for member countries of the OECD. However, since 2004 the OECD Secretariat also conducts budget reviews outside the OECD area, particularly in central and eastern Europe and in Asia. The general approach of non-member country reviews is that similar problems should be analysed in a similar way, regardless of whether a country is a member of the OECD or not. Within certain limits, principles of effective and efficient public finance management are equally applicable to OECD and non-OECD countries. A difference in economic context may necessitate different budgetary policies, but generally does not justify a different approach to the reform of budgetary institutions. The current review follows the usual OECD approach, comparing the budgetary institutions of Ukraine with those actually prevailing in OECD countries. In some areas – such as medium-term expenditure frameworks, baseline estimates, governance of state-owned enterprises, steering of executive agencies, internal financial control, and internal audit – this may lead to conclusions that differ from those of other international organisations or donor countries. Since it may be important for Ukraine to be informed about these differences, the current review is less reserved in making recommendations in these areas than in other areas.

Under the before-mentioned proviso, the review follows the usual set-up of an OECD budget review. In the rest of this section, some general legal, political and economic characteristics of Ukraine will be mentioned and recent institutional reforms will be surveyed. Section 2 is devoted to the budget formulation process with separate attention for the budget structure and classification, the annual budget preparation cycle, medium-term planning, long-term fiscal sustainability, the organisation of the Ministry of Finance, and the funding of local government. Section 3 addresses the parliamentary budget process with special attention for the Budget Committee, the annual parliamentary budget cycle and the impact of Parliament. Section 4 focuses on budget execution with special attention for the annual executive process, cash management and budgetary discipline. Section 5 looks at the supply side of the budget process: the ministries and agencies that
provide for public administration and service delivery at the level of central government, as well as local governments that provide for public administration and service delivery at the level of local government. Section 5 also addresses public employment, the civil service, public procurement, and the public enterprise sector. Section 6 looks at accounting and audit, with special attention for financial reporting, internal audit and external audit.

1.2. General characteristics

1.2.1. Legal framework

Ukraine gained independence in 1991. The Constitution of 1996 established Ukraine as an independent republic. The Constitution provides for a unicameral Parliament of 450 members elected for a five-year term, a directly elected President and an independent judiciary. The members of Parliament are elected from party lists on the basis of proportional representation with a threshold of (currently) 3% of the popular vote to gain parliamentary seats. The government is formed by the President and the Cabinet of Ministers. Currently there are 16 ministers, including the Prime Minister. The Prime Minister is nominated by the President with the approval of the Parliament, and resigns upon dismissal by the President (Article 103.9 of the Constitution). The ministers are nominated by the President on the proposal of the Prime Minister (Article 102.10 of the Constitution), and resign if the Prime Minister resigns. The Cabinet needs the confidence of the Parliament and is obliged to resign if it loses confidence (Article 115 of the Constitution). The Cabinet is also responsible to the President. This arrangement characterises the government form of Ukraine as a semi-presidential system. In such a system, it is possible in principle that the President has to work with a Cabinet composed of parties that have not supported his/her own election, as happened in 2006-07 and for a short period after the presidential elections of 2010.

The Constitution enshrines judicial independence (Article 126). There are courts of first instance and appeal courts. The courts of last instance are the Supreme Court and high courts for some forms of administrative jurisdiction. In addition to the regular court system, there is a Constitutional Court that decides on the constitutionality of laws and by-laws. The Constitutional Court is composed of 18 members, six of whom are appointed by the President, six by the Parliament, and six by the congress of judges (Article 148 of the Constitution).

The main laws regulating the budget process are:
- the Constitution of Ukraine (of 1996);
- the Budget Code of Ukraine (of 2010);
- the Law on the Accounting Chamber of Ukraine (of 1996);
- the annual Law on the State Budget of Ukraine.

The revenue side of the budget is further determined by:
- the Tax Code (of 2010).

Other relevant laws are:
- the Law on the Cabinet of Ministers (of 2010);
- the Law on Local Self-Government (of 1997);
- the Law on Local State Administrations (of 1999);
- the Law on the Civil Service (of 1993);
1.2.2. Geography and demography

The land area of Ukraine is 603,700 square kilometres, making it the second-largest country in Europe after the Russian Federation.

The population is 45.9 million (January 2010). Ethnic Ukrainians make up 76.5% of the population, the next-largest ethnic group being Russians (13.5%). The population is declining rapidly due to one of the lowest fertility rates in Europe (1.27 births per woman) and substantial emigration (0.3 per thousand in 2008). The population declined from 51.7 million in 1989 to 45.9 million in 2010, a loss of 11.2% in two decades. Life expectancy at birth is low: 68 years (estimation 2008), with a large discrepancy between males (62.2 years) and females (74.2 years). Although estimates vary, approximately two to three million Ukrainian citizens are currently working abroad – most of them illegally – in construction, service, housekeeping and agriculture, with around half of this number in the Russian Federation.

GDP per head is USD 2,569, higher only than Georgia and Moldova among European countries. In 2009, 35% of Ukraine’s population could be defined as poor (on the basis of the World Bank’s threshold of income less than a dollar per day). Poverty is concentrated in rural areas, particularly in the western and southern parts of the country. Poverty rates are substantially lower in urban areas and in the industrialised east of the country.

1.2.3. Gross domestic product

Ukraine experienced a sharp economic contraction in the 1990s following independence. As a result, by 2000 real wages plunged to less than 40% of their 1992 level. Positive economic growth resumed in 2000. During 2001-08, growth of GDP averaged 7.5% year on year, among the highest in Europe. Strong foreign and domestic investment together with improvements in the external terms of trade, due to high steel prices (steel being a main export product of Ukraine), helped maintain double-digit growth in domestic demand. However, with a pre-crisis fixed exchange rate, buoyant international liquidity led to the build-up of foreign commercial debt, causing high inflation (over 30% in 2008) and a widening deficit on the current account (17 percentage points during the period 2004-08).

The global economic and financial crisis hit Ukraine particularly hard. By the fourth quarter of 2008, capital inflows came to an abrupt stop, the terms of trade reversed as steel prices dropped, and export markets shut down. The crisis also accentuated the vulnerabilities of the banking sector, leading to a systemic liquidity and solvency crisis. GDP contracted by 15% in 2009, with investments falling by 46% year on year. Since October 2008, after the abandonment of the fixed exchange rate, the national currency (hryvnia, UAH) has lost about 40% of its value against the United States dollar.

Ukraine’s economy resumed growth in 2010 as a result of moderate improvements in external demand. Real GDP grew by 3.7% in 2010. The balance-of-payments pressures have eased, and the current account was almost balanced in 2010 thanks to growing export demand and higher prices of core exports (steel, agricultural products). At the same time, improved rollover rates on external commercial debt supported new inflows on the capital account. Deposits in the banking system have been increasing from the lows of 2009. Consumer price inflation has decelerated to single digits since 2010.

- the Law on Public Procurement (of 2010).
Table 1 summarises the GDP development since 2004 in comparison to the EU, split into the “old” (pre-2004) member states and the “new” (central and eastern European) member states.

Table 1. Growth of real GDP

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</tr>
</thead>
<tbody>
<tr>
<td>EU15 (older)</td>
<td>2.3</td>
<td>1.8</td>
<td>3.0</td>
<td>2.8</td>
<td>0.2</td>
<td>-4.3</td>
<td>1.8</td>
<td>1.6</td>
<td>1.9</td>
</tr>
<tr>
<td>EU10/12 (accession)</td>
<td>6.0</td>
<td>5.4</td>
<td>6.2</td>
<td>5.8</td>
<td>4.3</td>
<td>-3.0</td>
<td>1.8</td>
<td>2.9</td>
<td>3.2</td>
</tr>
<tr>
<td>Ukraine</td>
<td>12.1</td>
<td>2.7</td>
<td>7.3</td>
<td>7.9</td>
<td>2.1</td>
<td>-15.1</td>
<td>3.7</td>
<td>4.5</td>
<td>4.9</td>
</tr>
</tbody>
</table>

1. Forecasts.


1.2.4. Sectoral structure

Ukraine has a major ferrous metal industry, producing cast iron, steel and pipes. Ukraine is one of the largest steel producers in the world. Another important branch is the country’s chemical industry which includes the production of mineral fertilisers. Manufactured goods include metallurgical equipment, diesel locomotives, tractors, and automobiles. The country possesses a massive high-tech industrial base, including much of the electronics industry, arms industry and space programme of the former USSR, most of which is owned by the state. Ukraine is a major producer of grain, sugar, meat, and milk products. It is the largest producer of sunflower oil in the world. Because Ukraine possesses 30% of the world’s richest black soil, its agricultural industry has a huge potential. However, farmland is for a large part not privatised, hampering access to international investments and best farming technology. The agricultural industry is already highly profitable with 40-60% profits but, according to analysts, its outputs could still rise up to fourfold.

Ukraine encourages foreign trade. The EU is the largest trading partner, with 27.1% of exports and 33.7% of imports in 2008. Trade with the EU has seen double-digit growth in recent years. The Russian Federation is Ukraine’s second trading partner, with 21.1% of exports and 28% of imports in 2009. Steel products account for 46% of Ukraine’s overall exports. Ukraine is among the top ten arms exporters in the world. The output of Ukrainian defence plants grew annually by more than 50% in recent years, with the largest growth reported by aircraft builders and ship builders.

Ukraine imports 90% of its oil and most of its natural gas. The Russian Federation ranks as Ukraine’s principal supplier of oil, and Russian firms now own and/or operate the majority of Ukraine’s refining capacity. Natural gas imports come from Russia, which delivers its own gas as well as gas from Turkmenistan. Ukraine transports Russian gas to the EU through its well-developed gas pipeline system, being Europe’s vitally important connection to the Russian gas supply.

Ukraine is independent in its electricity supply, moreover exporting it to Russia and other countries in eastern Europe. This is achieved through a wide use of nuclear power and hydro-electricity. The current energy strategy includes a gradual decrease of gas- and oil-based generation in favour of nuclear power, as well as energy-saving measures to reduce industrial gas consumption. Reform of the still opaque energy sector is a major objective of the IMF and World Bank programmes with Ukraine (see below). Ukraine is a
partner country in the EU INOGATE programme (Interstate Oil and Gas Transport to Europe) which has four key objectives: enhancing energy security, convergence of member state energy markets on the basis of EU internal energy market principles, supporting sustainable energy development, and attracting investment for energy projects of common and regional interest.

Table 2 summarises the current sectoral structure of the domestic economy of Ukraine.

<table>
<thead>
<tr>
<th>Contribution to GDP (per cent, 2010)</th>
<th>Employment (per cent of total domestic employment, 2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>9.8</td>
</tr>
<tr>
<td>Industry</td>
<td>32.3</td>
</tr>
<tr>
<td>Services¹</td>
<td>57.9</td>
</tr>
<tr>
<td></td>
<td>15.8</td>
</tr>
<tr>
<td></td>
<td>18.5</td>
</tr>
<tr>
<td></td>
<td>66.7</td>
</tr>
</tbody>
</table>

1. Services include: construction, transport and communication, trade, health and social services, communal and other consumer services, education, culture, art and science, finance and public administration.


1.2.5. Political developments

On 1 December 1991, an all-Ukrainian referendum endorsed the independence of Ukraine and the presidential form of government, by 90% of the popular vote. Simultaneously, Leonid Kravchuk was elected as the first President of the new Ukrainian state. He was one of the three participants of the Belovezhski agreements which led to the dissolution of the Soviet Union and the establishment of the Commonwealth of Independent States (CIS). In July 1994, Leonid Kuchma was elected as his successor in pre-term presidential elections. Kuchma was re-elected in 1999 and stayed in office for a total of ten years. During Kuchma’s term in office, the new Constitution was adopted. In December 2004, Viktor Yushchenko was elected as President of Ukraine.

The parliamentary elections of March 2006 were based on a new electoral law that introduced a mixed system according to which half of the 450 seats were elected from single-seat constituencies and half from party lists with proportional representation (used in the parliamentary elections of 1998 and 2002). The new electoral law lowered the threshold for parties to be eligible to enter Parliament from 4 to 3%, making it increasingly difficult for any one party to gain a majority of seats. The election of March 2006 produced inconclusive results. None of the three main parties in the new Parliament (Our Ukraine supporting Mr. Yushchenko, the Party of the Regions led by Mr. Yanukovych, and the Yulia Tymoshenko Bloc led by Ms. Tymoshenko) won sufficient seats to govern on its own. Next to the three main parties, only the Socialist Party of Ukraine and the Communist Party of Ukraine secured seats. For months, coalition talks dragged on. By late June 2006, an “orange coalition” was formed between Our Ukraine and the Yulia Tymoshenko Bloc with support of the Socialist Party of Ukraine. However, this coalition unravelled after a few months. In August 2006, Mr. Yanukovych became Prime Minister.

As part of the “orange revolution”, the Ukrainian Constitution was changed to shift powers from the presidency to the Parliament. Among other things, as far as the appointment of ministers was concerned, the President retained only the right to appoint the ministers of foreign affairs and defence, with the approval of Parliament. Other ministers are appointed by the Prime Minister. This constitutional revision came into effect in 2006.
when Mr. Yanukovych formed the government. As a result, President Yushchenko had to deal with a powerful Prime Minister who had control over many important portfolios.

After more and more parliamentarians defected to the ruling coalition, bringing a two-third majority into sight (which would allow the Parliament to overturn presidential vetoes), Mr. Yushchenko decided to dissolve Parliament. The decree was immediately labelled unconstitutional by the ruling coalition which appealed to the Constitutional Court. Against a backdrop of mutual recriminations and before the court could reach a verdict, negotiations between Mr. Yushchenko, Mr. Yanukovych and Mr. Moroz – leader of the Socialist Party of Ukraine – produced an agreement in May 2007 creating a legal base for an early election in September.

In the new Parliament, five political parties or blocs surpassed the 3% threshold to win a seat. The Party of the Regions emerged as the overall winner with 175 seats in its control, followed by the Yulia Tymoshenko Bloc with 156 seats. The Socialist Party did not reach the electoral threshold, and a new party, the Lytvyn Bloc, led by former parliamentary speaker Mr. Volodymyr Lytvyn, entered the Parliament with 20 seats. The Communist Party of Ukraine obtained 27 seats. However, the formation of a coalition between the Yulia Tymoshenko Bloc and Our Ukraine allowed them to obtain a narrow majority of just one vote, and Yulia Tymoshenko became Prime Minister on 18 December 2007. Ms. Tymoshenko was then ousted as Prime Minister on 3 March 2010 following a parliamentary vote of no confidence and the breaking up of the coalition that had appointed her.

The presidential elections of January/February 2010 were won by Mr. Yanukovych. His major priorities were: the establishment of Ukraine as a democratic state, with respect for the rule of law, the rights of people and freedom of speech; administrative reform, fighting corruption and the shadow economy; building a strong national economy with a high level of employment; increasing salaries and pensions; stability of the price level and the currency exchange rate; introducing European standards of social security, health care, education, housing and quality of life to develop the human potential of Ukraine; reform of the armed forces to build a professional defence force; preserving the principles of openness and good-neighbourly relations in external policy; non-aligned status of Ukraine; European integration of Ukraine; and strategic partnership with Russia, the United States and the EU. After the election of Mr. Yanukovych, the Party of the Regions succeeded in organising a parliamentary majority consisting of the Party of the Regions, the Communist Party, the Lytvyn Bloc, and some others, which voted in a government led by Mr. Mykola Azarov.

The difficult relations between the President and the Cabinet that had complicated the governance of Ukraine almost since independence have now come to an end, thus restoring a certain stability in the political process.

1.2.6. International relations

Ukraine acceded to the World Trade Organisation in 2008 after a long process to enact the required legislation. Although EU membership is at best a distant prospect, a deepening of economic relations with the EU is still expected. Work is under way on a new “enhanced agreement” with the EU, including an extensive free trade deal, to replace the existing Partnership and Co-operation Agreement. Ratification of any enhanced agreement with the EU could take several years, although the free trade deal would come into force sooner.
Relations between Russia and Ukraine have improved markedly. In June 2010, the Ukrainian Parliament passed a law barring the country’s membership of military blocks, in effect ruling out NATO membership. In April 2010, the President agreed to extend the lease accorded to the Russian Black Sea Fleet on facilities in Crimea for a further 25 years from 2017, in exchange for a reduction in the price of Russian gas imports. The agreement will ease previous bilateral tensions related to energy supplies.

1.3. Foreign aid

Ukraine’s economy grew rapidly from 2000 to 2008 (more than 7% annually). Strong growth was supported by high steel prices (steel exports amounted to 15% of GDP) and lingering Russian subsidies for the gas supply (gas imports amounted to 6% of GDP). Large capital inflows caused the banks and corporations to rely on short-term external borrowing. Household finances and corporate balance sheets were weakened due to increased borrowing from banks in foreign currency encouraged by low interest rates and a rigid monetary policy aimed at stabilising the exchange rate. In 2008, the fiscal position deteriorated sharply. Windfall revenues were spent largely on higher wages and social transfers, propelling gross compensation of employees and social benefits some 220% higher over the period 2004-08. During the first months of 2008, credit growth amounted to 70%, consumer price inflation to 30%, and wage growth to 30-40%. In Ukraine, the global financial crisis set in relatively early, namely in mid-2008. On the export side, the price of steel declined by 65% shortly after July 2008. On the import side, Russia signalled its intention to phase out remaining gas subsidies. In the context of the deepening global financial turmoil, Ukraine was shut out of the international capital markets. Major strains appeared in the banking system, causing among other things the sixth-largest bank to be put under state receivership. After the National Bank of Ukraine had spent USD 4 billion to sustain the exchange rate, it was forced to let the hryvnia float. In this context, the Ukrainian government asked the IMF for a two-year stand-by agreement of USD 16.5 billion in support of its policy plan as laid down in the Memorandum of Economic and Financial Policies (MEFP).

The MEFP envisaged restoring financial and macroeconomic stability. Measures were specified regarding: i) appropriate liquidity support and expansion of deposit guarantees; ii) a stronger bank resolution framework, including availability of public funds for recapitalisation; and iii) a stronger framework for resolution of household and enterprise sector debts. In addition, the MEFP aimed to facilitate adjustment to potentially large external shocks and to allow gradual reduction of inflation. Measures included: i) a flexible exchange rate policy; ii) transition to inflation targeting in monetary policy; iii) resetting incomes policy in line with targeted inflation; iv) maintaining a prudent fiscal policy; and v) bringing energy prices more in line with costs. The programme was set up to respond flexibly to economic developments. Recovery of steel prices and resumption of capital inflows would be met with higher reserve accumulation and adjustments to monetary policy (to safeguard inflation targets). Downside risks such as a longer loss of access to capital markets would be cushioned by the flexible exchange rate and additional measures.

In response to the request, the IMF agreed a two-year arrangement under credit tranche terms. IMF financing would contribute to covering Ukraine’s balance-of-payments needs. Following initial reserve losses, associated with tactical interventions aimed at facilitating an orderly adjustment of the exchange rate, the financing would be used to build Ukraine’s gross international reserves back up to a level that would be sufficient to cover at least 75% of short-term debt obligations.
The new government that took office in March 2010 was confronted with the aftermath of the global financial crisis. It quickly moved to formulate a five-year economic reform plan to tackle long-standing structural weaknesses and, in July 2010, some months before the expiration of the stand-by agreement of 2008, the government requested support from the IMF in the form of a new stand-by agreement spanning the period to the next parliamentary elections scheduled for the fall of 2012, amounting to USD 14.9 billion. The Ukrainian authorities saw a new stand-by agreement as providing a strong signal that sound macroeconomic policies and financing are in place to support adjustment and reforms to ensure that Ukraine will be in a position to deal with risks in the event of worsening external conditions. The new stand-by agreement was expected to catalyse financing from markets and foreign governments to cover Ukraine's still sizeable external financing needs.

The five-year economic reform plan of the new government aims to: i) restore confidence and fiscal stability by reducing the general government deficit to 2.5% of GDP in 2012 and setting public debt on a downward path below 35% of GDP by 2015; ii) initiate reforms to modernise the gas sector and phase out the deficit of Naftogaz, including through gas tariff increases and a price mechanism that depoliticises price setting of public utilities, making use of the new gas law adopted in July 2010; iii) restore and safeguard banks' soundness through completion of recapitalisation plans by end-2010 and strengthened supervision; and iv) develop a more robust monetary framework focused on domestic price stability with greater exchange rate flexibility under a more independent National Bank of Ukraine.

As far as fiscal policy is concerned, discussions with the IMF on the new stand-by agreements focused on bringing public finances onto a sustainable path without hampering the nascent economic recovery. It was agreed that the combined general government deficit and the deficit of the state-owned gas company Naftogaz would not exceed 6.5% in 2010. Without policy change, the combined deficit would approach 9% of GDP, reflecting revenue shortfalls, higher wages and pensions, and investment needs for the 2012 UEFA European Football Championship; so the authorities prepared a supplementary budget for 2010 that would bring the lower target within reach. Given the half-year effect of measures and the fragility of the economy, any further effort was not considered feasible in 2010. However, the authorities agreed to reduce the deficit to 3.5% of GDP in 2011 and 2.5% in 2012, while Naftogaz's deficit would be eliminated in 2011. For that purpose, the authorities agreed to adopt the following structural measures: i) structural pension reform to be initiated in 2011; ii) fiscal reforms, as envisaged in the recently adopted Tax Code and Budget Code, including improved tax collection, a medium-term perspective for budget preparation, and stronger requirements for assessing the impact of new initiatives; iii) public administration reforms to be implemented by March 2011, including bringing on budget a larger part of the user fees collected by public enterprises, strengthening the oversight and control of the delivery of administrative services to the public, and improving cost efficiency; and iv) additional energy sector reforms, including an additional increase of gas prices by 50% in April 2011, semi-annual price increases thereafter and an automatic price adjustment mechanism to follow import prices, once import parity is reached.

The IMF has agreed the package. The new stand-by agreement includes USD 2 billion for budget support in 2010, which was requested in view of the shallowness of domestic capital markets and the need to enhance confidence in international capital markets.
In the first review under the stand-by agreement of 2010 (February 2011), the IMF concluded that all end-September fiscal performance criteria were fulfilled, although the lifting of the ban on penalties for overdue utility bill payments met with delay. The issuance of bank recapitalisation funds was within programme ceilings. Monetary targets were also achieved, although the agreement on phasing out restrictions on the foreign exchange market met with delay.

The World Bank provides support for Ukraine on the basis of its Country Partnership Strategy (CPS) which covers fiscal years 2008-11 and has the following objectives:

i) improving competitiveness;
ii) reforming public finances and the public sector; and
iii) improving service delivery. In the context of the economic downturn of 2009, the CPS progress review focused its policy priorities on the support of fiscal, business climate and banking sector reforms for the remainder of the CPS. The CPS envisages a lending range of USD 2-6 billion over the four-year CPS period.

The World Bank concluded a series of development policy loans in late 2008 and will initiate a new series focusing on structural reforms. The first of the new series is tentatively sized at USD 500 million. The World Bank will continue with a policy lending series on banking sector reform. A first operation was disbursed in 2009 (USD 400 million) and a second is being prepared (USD 350 million). Both policy lending operations are subject to agreement with the Ukrainian authorities on key structural reforms to be supported.

The World Bank continues to be active in project financing. As of December 2011, among the projects in the public sector are a Public Finance Modernisation Project (USD 50 million), a State Tax Service Modernisation Project (USD 40 million) and a Statistical Modernisation Project (USD 32 million). In addition, the World Bank supports a large number of projects in the spheres of land registration (USD 195 million), energy (USD 366 million), infrastructure and pipelines (USD 104 million), export promotion (USD 304.5 million), social support (USD 99.4 million) and energy efficiency (USD 200 million).

Ukraine joined the European Bank for Reconstruction and Development (EBRD) in 1992, and since then the EBRD has been active in supporting Ukraine’s transformation to a market economy. The previous EBRD country strategy for Ukraine, approved in 2007 and effective until recently, outlined four main areas of operational focus: i) promoting higher efficiency, competitiveness and corporate governance standards in the local private sector and assisting direct foreign investment; ii) promoting the development of the domestic capital markets and providing continued support to micro, small and medium-sized private enterprises through dedicated long-term credit lines with partner banks; iii) promoting energy efficiency and security, environmental protection and sustainable use of natural resources throughout all sectors of the economy; and iv) improving the efficiency and reliability of key infrastructure, of power generation, transmission and distribution, and of the oil and gas transport systems of Ukraine. A new strategy for Ukraine was approved by the EBRD board on 13 April 2011. It promotes the diversification of production capacities, enhancing the country’s competitiveness, the development of local capital markets and energy sector reforms, as well as improving corporate management and transparency.

As of November 2011, the EBRD portfolio in Ukraine accounted for about 296 projects, with the total amount of funding reaching EUR 6.7 billion. The bank’s exposure in Ukraine is the second largest after the government of Russia, accounting for one-eighth of the bank’s overall portfolio. The financial sector and industry are the two largest sectors of operation in
Ukraine, accounting for four-fifths of the total operating assets. Operations in the infrastructure and energy sectors are also significant. Among other programmes, the EBRD launched a new business advisory services programme aimed at efficiency enhancement of local small business. The programme implies involving local business advisors.

The European Union is another major international donor for Ukraine. For the period from 2007 to 2013, technical and financial assistance is principally provided under the new European Neighbourhood and Partnership Instrument (ENPI). This instrument was established to develop an increasingly close relationship, gradual economic integration and deeper political co-operation, including on foreign and security policy, between the EU and Ukraine. The total budget of the ENPI for the seven-year period (from 2007 to 2013) amounts to EUR 2.7 billion. The main tools to provide technical assistance in the framework of the ENPI are Twinning,6 TAIEX7 and SIGMA.8 Moreover, within the framework of the ENPI, on 2 March 2011 the European Commission and the government of Ukraine signed a Memorandum of Understanding on the National Indicative Programme (NIP) for Ukraine for 2011-13. The overall budget of EU assistance to Ukraine under the NIP is EUR 470 million. The programme focuses on good governance and the rule of law, on the preparations for the entry into force of the agreement on a Deep and Comprehensive Free Trade Area (DCFTA)9 and on sustainable development, including energy, environment, transport and regional development. Specific programmes of support under these priority areas are at present being developed.

In addition to the IMF, the World Bank, the EBRD and the EU, various country donors are active in Ukraine, particularly Germany (GIZ), the Netherlands, Sweden (SIDA) and the United States (USAID). All of these country donors have programmes in the sphere of financial management. GIZ (German International Co-operation) focuses on assistance in the sphere of budget classification, financial impact assessment of legislation, internal and external audit, and the medium-term expenditure framework. The Netherlands has set up a training facility for financial officials. SIDA (the Swedish International Development Co-operation Agency) focuses on modernisation of the budget process in the Ministry of Finance, line ministries and other central public authorities, and in particular the development of the medium-term expenditure framework and performance-based budgeting. USAID (the United States Agency for International Development) focuses among other things on intergovernmental financial relations. The EU focuses on the development of internal public financial control.

All country donor organisations report a lack of commitment of the Ukrainian authorities and slow progress on separate projects. In view of the substantial overlap of the efforts of international financial institutions and country donors, this situation should not cause surprise. There is a serious problem of donor co-ordination in Ukraine. Two factors are at work in this respect. On the one hand, it is the task of the Ukrainian government to clearly articulate its requests to specific donors for advice. On the other hand, some of the donors are driven by intra-organisational incentives to spend regardless of the needs expressed by the Ukrainian partners. Both factors in combination lead to a considerable waste of efforts and resources that needs to be addressed urgently. It is not enough that donors sit around a table and decide who does what. The urgent requirement is a change of mentality. Aid should only be provided for concrete projects at the explicit request of the Ukrainian authorities, and budgets should only be made available after agreement about such requests has been reached. Intra-organisational incentives to spend predetermined budgets should be removed.
1.4. Fiscal policy

After spending hikes in 2004 related to the presidential election of 2005 leading to a deficit of more than 4% in that year, subsequent Cabinets have succeeded in reducing the deficit to a more sustainable level. However, the global financial crisis has hit Ukraine particularly hard, reducing tax revenues and inducing a general government deficit (exclusive of the Naftogaz deficit and bank recapitalisation costs) of more than 6% of GDP in 2009. In addition, Naftogaz was confronted with large increases in the import price of Russian gas, unilaterally imposed by the Russian Federation. The support for Naftogaz in 2009 amounted to 2.5% of GDP. Bank recapitalisation costs amounted to 2.6% of GDP in 2009.

The budget of 2010 aimed at a deficit of 5.3% exclusive of Naftogaz support and bank recapitalisation costs. When this target slipped, the government proposed and Parliament approved a revision of the 2010 budget in July 2010, lowering the general government deficit to 5.5% and the Naftogaz deficit to 1% of GDP. Measures included: an increase in tax and pension fund revenue (increase in several excise rates, limited loss deduction from 2009, and raised social insurance rates); spending cuts (mostly subsidies, and administrative appropriations for several government bodies); an increase in Naftogaz’s revenue and better control over its spending (increased final gas prices for utility companies and households, elimination of gas price privileges for industrial sectors, automated drafting system for utility company payments to improve compliance, measures to save costs and rationalise spending for Naftogaz’s operations); mitigation of the impact of rising gas prices and increased taxes on the most vulnerable by extension of existing social assistance programmes; and improvement of the tax administration and spending monitoring.

The revised target was roughly met, mostly due to good revenue performance in the final quarter of 2010 supported by additional non-tax revenue (5.1% of GDP). The Naftogaz deficit was overshot (1.4% instead of 1% of GDP), but the total deficit remained within the 6.5% limit agreed with the IMF.

The stock of value-added tax arrears is nearly phased out. Arrears peaked at UAH 25 billion (2.3% of GDP) in mid-2010 and then declined through issuance of VAT bonds (1.5% of GDP) and cash payments. The end-September 2010 indicative ceiling agreed with the IMF was met. In view of administrative delays in processing claims and budgetary constraints, the Ukrainian authorities have requested a modification of the December 2010 indicative target to allow for a small amount of arrears (0.1% of GDP). They are committed to eliminating all arrears in 2011 and introduced a more systematic process for refunds in 2011.

Fiscal policy in 2011 remained strongly determined by the IMF stand-by agreement. The 2011 general government budget submitted to Parliament targeted a deficit of 3.1% of GDP. As revenues were projected to decline by about 1.7% of GDP, mainly on account of lower non-tax revenue (especially lower profit transfers of the National Bank of Ukraine), the authorities were determined to achieve the adjustment through spending consolidation while protecting capital and social protection outlays. Measures included: i) reduction in the public wage bill (freezing real wages, curtailing employment, reducing bonuses); ii) reduction in subsidies and discretionary spending on goods and services; and iii) consolidation of pension spending by limiting increases and enacting pension reform. The 2011 budget increased capital spending to about 3% of GDP. The authorities considered this necessary to meet project commitments for the 2012 UEFA European Football Championship and for basic infrastructure upgrades which were compressed in recent years. In addition, selected infrastructure projects to be delivered by private companies...
and state enterprises were seen as critical, and the authorities planned to facilitate these through state loan guarantees. To control overall public sector indebtedness, state guarantees were limited to UAH 15 billion (1.2%), the same level as in 2010.

On the revenue side, apart from the decline of non-tax revenues, the new Tax Code is broadly revenue neutral (see Box 1) and no other tax policy changes are envisaged in the near term, leading to tax revenues remaining broadly unchanged as a share of GDP. In addition, some specific operations not reflected in the general budget deficit have added to public debt in 2011. The government plans to issue guarantees of 1.2% of GDP. The budget also provides for the recapitalisation of banks, limited to the unused amount carried over from 2010.

Box 1. The new Tax Code of Ukraine

The new Tax Code adopted in early December 2010, after considerable public opposition, aims to reform the complex tax legislation, reduce the tax burden over time, and strengthen administration. The Tax Code consolidates most existing legislation, but launches significant changes. The Ukrainian authorities have sought to create incentives for small business owners, thus stimulating growth and job creation. On balance, the code’s impact is estimated as revenue neutral in 2011, though with downside risks given potential implementation challenges. The main changes introduced in the code are:

- Elimination of many small taxes (reducing revenue by about 0.2% of GDP in 2011).
- Tax rate cuts. The corporate tax rate will be cut from 25% by two percentage points each year through 2013, to 19%, and then reduced to 16% starting from 2014. The value-added tax rate will be reduced by three percentage points starting from 2014, to 17%. These measures will reduce revenues by about 0.2% of GDP in 2011.
- New taxes and increases in existing rates. The code introduces a property tax for large homes, increases the personal income tax on large incomes from 15 to 17%, and increases a number of excise and other tax rates, generating about 0.4% of GDP in revenues in 2011.
- Tax holidays and exemptions. The code introduces new tax holidays for small enterprises (up to 1 January 2016) and for specific industries (hotels, shipbuilding and aerospace industry, electrical power industry, machine-building industry for agribusiness and light industry, up to 1 January 2021) and a three-year VAT exemption for several sectors that are subject to significant VAT refund fraud. While the overall revenue impact of these measures is likely to be small, they bring distortions, add to existing exemptions and break the VAT chain.
- Changes to the calculation of the corporate profit base and amendments to tax reduction rules. These measures aim at closing a number of loopholes in the existing legislation.

Figure 1 shows the development of expenditures and revenues of general government since 2007 as well as the resulting deficit. The deficit excludes the Naftogaz deficit and bank recapitalisation transfers.

Due to strong growth and low deficits, public debt has been falling rapidly in Ukraine in the period from 2000 to 2008, reaching the bottom level of 12.3% of GDP in 2007. Then a sharp upward turn occurred due to the global financial crisis. Even if GDP growth resumes as currently expected, public debt will not start to fall again before 2013. Given the limited capacity of domestic capital markets, a substantial part of debt (more than half) is held by foreign creditors, which explains the concern to maintain the confidence of international capital markets and the need for IMF support. Figure 2 shows the development of public debt in Ukraine.
1.5. Institutional policy in the recent past

1.5.1. The new Budget Code

In Ukraine, reform of fiscal institutions started around 2000. The Cabinet that took office in 2000 ensured for the first time that enterprises paid their taxes in cash and eliminated a long-standing recourse to mutual offsets. These measures raised receipts significantly and increased transparency. Subsequent Cabinets largely preserved these reforms and introduced others. Methodological changes introduced in 2002 brought revenue planning more in line with IMF standards, by including privatisation as financing rather than revenue. Other reforms included a shift in intergovernmental budget relations: introduced in 2002, this brought greater financial independence to local government by ensuring that transfers go directly to sub-national budgets on the basis of objective criteria, irrespective of the financial situation at the local level.
In 2007, the Cabinet of Ministers adopted a public finance reform strategy which, in its final version, was supported by a major financial contribution of the World Bank (see Section 1.3). Major components of the strategy are:

- introduction of a financial management information system along with the required legislative and organisational adjustments;
- modernisation of accounting, including integration of charts of accounts, and harmonisation with the budget classification;
- further improvements in debt management;
- improvements in monitoring and evaluating institutional reforms;
- improved revenue forecasting;
- introduction of modern internal financial control techniques.

World Bank financing has mostly focused on the financial management information system; World Bank support for other components is relatively limited. Country donors have been asked either to deepen support in other areas or to fund activities that fall outside the boundaries of the existing strategy (see Section 1.3).

In 2007, a Decree on a Concept of Local Finance Reform was signed by the Prime Minister. It set out an ambitious agenda for reform of the funding of local government by the introduction of tax-sharing arrangements and equalisation grants. The reform was intended to proceed in two phases. The revision of the Budget Code was intended as the legal vehicle for the first phase of the reform.

A major revision of the Budget Code was approved by the Parliament in 2009, but subsequently rejected by President Yushchenko in early 2010. After some amendments were made, the Parliament and President Yanukovych approved the new Budget Code later in 2010. Important features of the new Budget Code include:

- Introduction of medium-term budget planning, including:
  - submission of the draft medium-term forecast of the state budget to the Parliament together with the submission of the draft budget law, and approval by the Cabinet of Ministers of an updated forecast within one month after publication of the annual state budget law;
  - a draft medium-term forecast covering two years following the budget year. The forecast is put up under the respective responsibility of the Ministry of Finance (for the state budget) and the local financial authorities (for local budgets).
- Introduction of programme budgeting and of a budget classification according to programmes.
- Improvement of the procedures for the examination and adoption of the state budget of Ukraine.
- Improvement of debt management.
- Improvement of budget management through new procedural rules and adjustment of the budget calendar, allowing more time for budget preparation by line ministries and other central public authorities (CPAs).
- Modernisation of accounting in the public sector.
- Implementation of the European model of public internal financial control.
● Enhancement of the financial autonomy of local government by:
  ❖ expansion of the revenue base of local budgets by reallocation of certain revenue sources from the state budget to local government budgets, and by enlarging the number of local revenue sources which are not taken into account when determining intergovernmental transfers;
  ❖ allocation of responsibilities between the central government and local governments on the basis of the principle of subsidiarity;
  ❖ the promotion of investment areas.

1.5.2. Innovation projects

In 2010, the Ministry of Finance of Ukraine launched a programme to modernise public finances, called “Reloading of the system of public finances of Ukraine”. This programme aims to provide for more stability in fiscal planning, to shift from micro management to strategic management, to modernise budget regulation based on the updated Budget Code and the Tax Code, to promote and protect investment in infrastructure, and to develop mutually profitable relations with the IMF on the basis of restored credibility of fiscal planning. It is hoped that the implementation of the programme will improve the climate for foreign investment in Ukraine.

The programme encompasses 15 projects that are to be implemented in two stages. In the first stage, among other things, the Budget Code and the Tax Code were implemented, and by-laws and regulations were developed to implement these codes, including regulations concerning the handling of the state debt. In the second stage, projects such as “Virtual University”, “Transparent Budget” and the establishment of a “centre for independent assessment and certification of employee competences” were launched. Currently 11 of the 15 projects of the programme “Reloading of the system of public finances of Ukraine” have been implemented.

“Virtual University” is a training facility for civil servants that applies modern technologies of electronic (remote) learning. The training facilitates the acquisition of new knowledge and its practical application alongside professional activity. It is based on the involvement of highly qualified practitioners of the Ukrainian Ministry of Finance and other ministries, agencies and organisations in the training process. It gives trainees access to various sources of information (online libraries, databases, bases of knowledge, etc.).

The major goal of the programme is to provide training at an academic level for civil servants who are working in the areas covered by the Budget Code and the Tax Code. The target group consists of around 20 000 civil servants working in the area of budgeting and 20 000 civil servants working in the area of tax implementation.

The project “Transparent Budget” aims to make available to the public more information about budget preparation and execution. This will allow the public to carry out independent monitoring of the budget process and thus contribute to the fight against corruption. It is expected that this will also increase the sense of responsibility of public authorities for the efficient handling of public resources.

1.5.3. Privatisation

After independence, the state privatised on a grand scale. By 1999, more than 80% of all enterprises (accounting for over 60% of GDP) had been privatised but, in many cases, controlling shares of the so-called privatised enterprises remained in government hands,
perpetuating the role of former communist directors and precluding significant productivity gains. Privatisation efforts intensified in 2003-04 in the run up to the presidential elections of 2004. As a result, in 2004 privatisation earnings totalling UAH 9.6 billion (USD 1.8 billion) exceeded the sales recorded cumulatively over the preceding five years. However, this led to a certain debate in subsequent years about the procedures that were followed and to renegotiations of previous contracts.

The appointment in August 2006 of the Cabinet headed by Mr. Yanukovych brought a stop to the reprivatisation debate. Regarding new planned privatisations in the coal sector, the government failed to produce the necessary legislation. After returning to power in late 2007, Ms. Tymoshenko put a renewed focus on privatisation, including reprivatisation. In 2008, her government established a privatisation list including the fixed-line telecommunications monopoly Urktelecom, chemical plants, and six regional power distributors. The Cabinet of Mr. Azarov, after taking office in 2010, appears to push on with privatisation but with a more pragmatic approach. Of the total revenue target of UAH 6.4 billion (USD 820 million), only UAH 1.9 billion (USD 240 million) was realised in 2010. However, the government overshot the 2011 target of UAH 10 billion (USD 1 270 million) after it sold in March 2011 the state's 93% share in Urktelecom to Austrian-based Epic Financial Consulting for UAH 10.6 billion (USD 1 340 million). The revenue from the sale of state enterprises in 2011 comprised UAH 11.01 billion. The forecast amount for the 2012 state budget in terms of revenues from state property privatisation is UAH 10 billion, estimated on the basis of the tasks defined by the Economic Reforms Programme for the years 2010-14 ("rich society, competitive economy, efficient state") which presupposes the optimisation of the public economy sector and completion of privatisation as a broad-scale social and economic project by 2014.

1.5.4. Pension reform

Ukraine's pay-as-you-go pension legislation has structural weaknesses. Pension expenditures increased from around 9% of GDP in 2003 to well above 18% in 2009, one of the highest levels in the world. At the same time, the Pension Fund revenues have not increased at the same pace, and more transfers from the central government (having reached 7% of GDP in 2009) are needed to balance the accounts. These developments were the result of an ageing population and a trend increase in the dependency ratio, a low retirement age and minimum contribution periods, generous benefits, favourable treatment of working pensioners, early retirement provisions, extensive special pension regimes, and compliance problems on the revenue side. The government decided to prioritise pension reform, partly in connection with the IMF stand-by agreement.

In December 2010, the government developed a draft law on the pension scheme reform by which, in the medium-term perspective, a series of measures are proposed for balancing the pay-as-you-go pension insurance scheme as well as for setting the parameters for the functioning of the two-level pension system, i.e. mandatory defined-contribution pension scheme. The law is expected to improve the pension provision, to mitigate the ageing population effect on the Pension Fund budget, to clarify the conditions for pension contributions, and to help to resolve a number of other social issues.

1.5.5. Gas sector reform

Gas sector reform is a high priority under the government's new economic plan (see Section 1.3). Ukraine is one of the least energy-efficient countries in the world and is highly
dependent on imported gas, mainly from Russia. Below-market domestic prices and low payment compliance have weakened the finances of the state-owned Naftogaz company's finances, generating the need for substantial budgetary support. Investment in exploration, extraction and transportation is insufficient, domestic production is well below potential, and gas transit through Ukraine is at risk due to deteriorating pipeline networks.

The reforms undertaken and to be pursued under the new economic plan include:

- Gradually bringing domestic gas prices to import parity. In August 2010, domestic gas price increases of 50% were implemented for households and utility companies. Further gas price increases took place in April 2011 (20%) and July 2011 (20%). Central heating prices were increased by 26% in April and October 2011. Industrial prices are already at market levels, and preferential tariffs for various industries have been eliminated.
- Strengthening social safety nets. To limit the impact of the large gas price increases on the poorest segments of the population, the government has increased transfers (affecting around 5% of households) using established support programmes.
- Strengthening payment discipline, among other things by automatic withholding of utility payments to Naftogaz.
- Liberalisation of the gas sector by a gradual restructuring of Naftogaz, including by adopting separate cost centres for gas imports, gas production and gas transit.
- Modernising the gas transit infrastructure with the help of loans from the World Bank, the EBRD and the European Investment Bank (see Section 1.3).

2. Budget formulation

2.1. National budget

2.1.1. Structure of the national budget

The national budget of Ukraine is composed of the state budget and the local budgets. The state budget is the budget of the central government including all grants and transfers to the local level. Local budgets include the budgets of the Autonomous Republic of Crimea and of the cities of Kiev and Sevastopol, the budgets of oblasts, rayons and cities, and the budgets of city districts, villages, rural settlements and towns. The national budget can be seen as the consolidated budget of Ukraine. It is used for analysis and forecasts of economic and social development of the country.

The insurance funds are excluded from the national budget. These funds are: the Mandatory Insurance Fund for Unemployment, the Social Insurance Fund for Temporary Disability, the Social Insurance Fund for Occupational Accidents, and the Pension Fund. The insurance funds are managed on a parity basis by the state and by representatives of the trade unions. The budgets of these funds are approved by their boards except for the Pension Fund, which is approved by the Cabinet of Ministers.

A budget reserve fund exists to cover incidental expenditures at each level, e.g. related to clean-up operations after natural disasters and the provision of humanitarian aid. The size of the budget reserve fund shall not exceed 1% of the respective budget's general fund expenditures. In 2010, the state budget reserve fund was approved in the amount of UAH 1.5 billion (USD 190 million). The decision on the appropriation of funds from the budget reserve fund is taken respectively by the Cabinet of Ministers of Ukraine, the Council of Ministers of the Autonomous Republic of Crimea, the local state authorities, or the executive authorities of the respective local councils (page 24 of the Budget Code of
Ukraine), with the Cabinet of Ministers of Ukraine (or the Council of Ministers of the Autonomous Republic of Crimea, the local state authorities or the executive authorities of the respective local councils) being accountable on a monthly basis before the Parliament of Ukraine (or the Verkhovna Rada of the Autonomous Republic of Crimea, or the appropriate rada of local level) on spending the resources from the funds of the respective budget’s reserve fund. The state budget reserve fund refers to the expenditures of the state budget of Ukraine for the respective year approved by the Parliament of Ukraine.

2.1.2. Budget classification of the state budget

The state budget of Ukraine is adopted for one calendar year and consists of two parts: an extensive textual part and annexed budget tables. The textual part, structured by article like any other law, contains a detailed description of the table figures. The text also contains a set of general rules (principles of budgeting, budget reallocation rules, etc.) which are carried over from year to year in the same formulation. The 2010 Budget Code took over most of these provisions, allowing a substantial reduction of the textual part of the 2011 budget (down to 17 pages, whereas the textual part of the 2010 budget amounted to 69 pages). As the textual part refers to the figures in the annexed tables, any changes in these figures lead to changes in the textual part of the law in respective articles.16

The appropriations of the state budget are presented in the tables annexed to the budget law. In 2011, there were nine annexes to the state budget law which all have the same legal status and are approved by Parliament as part of the law:

- Annex 1: Revenues of the state budget of Ukraine.
- Annex 3: Expenditures of the state budget of Ukraine.
- Annex 4: Reimbursement of credits to the state budget and their distribution by programmes.
- Annex 5: Distribution of expenditures on health programmes by local governments.
- Annex 6: Equalisation grants to local governments.
- Annex 7: Subsidies, subventions and other grants from the state budget to local governments.
- Annex 8: The list of bodies assigned to control the execution of payments to the budget.
- Annex 9: Expenditures on the courts of all jurisdictions.

Annex 3 – the most employed annex, as it contains information on budget expenditures – classifies the appropriations by institution (ministries and other central public authorities), budget holder, and programme (including activities under programmes), with some detail on economic groups (labour costs, utilities and energy services, gross investments) according to the format of Table 3. The columns for labour costs and for utilities and energy services do not necessarily add up to the amount of current expenditures since there may be other current expenditures (subsidies, procurement other than for utilities and energy services, etc.). However, the requirement to specify labour costs and utilities and energy services makes them line items with binding ceilings. Additional spending on these line items is only possible through reallocation.

The state budget of Ukraine is split into general and special funds. The general fund includes all budget revenues that are not earmarked for specific purposes and all
expenditures funded from these revenues. The special funds cover budget revenues earmarked for a specific purpose and expenditures for that purpose.

The appropriations for grants to local governments as well as interest on debt are contained in other annexes (6 and 7).

All line items are also classified for informative purposes in functional and economic classifications. The code of the functional classification is applied to the programme level, the code of the economic classification to the line-item level. The economic, institutional and functional classifications are separately adopted by a resolution of the Ministry of Finance. This resolution is annually amended in light of the adopted state budget (and its programme classification). In practice, the economic and functional classifications remain unchanged from year to year, while the institutional classification alters depending on the distribution of budget programmes among line ministries.

An example of the first three columns of the line-item format, as presented in Table 3 for the Ministry of Foreign Affairs, is provided in Table 4.

<table>
<thead>
<tr>
<th>Code of programme classification</th>
<th>Code of functional classification</th>
<th>Title under the programme classification expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1400000</td>
<td>Ministry of Foreign Affairs</td>
<td></td>
</tr>
<tr>
<td>1401000</td>
<td>Apparatus of the Ministry of Foreign Affairs</td>
<td></td>
</tr>
<tr>
<td>1401010</td>
<td>0113 Management of the state policy in the area of foreign affairs.</td>
<td></td>
</tr>
<tr>
<td>1401020</td>
<td>0113 Ukraine’s contributions to the budgets of United Nations bodies and specialised agencies of the UN and other international organisations.</td>
<td></td>
</tr>
<tr>
<td>1401030</td>
<td>0113 Operation of foreign diplomatic missions of Ukraine.</td>
<td></td>
</tr>
<tr>
<td>1401040</td>
<td>0113 Ownership for the needs of overseas diplomatic missions of Ukraine.</td>
<td></td>
</tr>
<tr>
<td>1401050</td>
<td>0113 Implementation by the Ministry of Foreign Affairs of its authority to conduct foreign policy of Ukraine abroad; organisation of and control over the overseas diplomatic missions of Ukraine.</td>
<td></td>
</tr>
<tr>
<td>1401060</td>
<td>0113 Expenditure related to Ukraine’s chairmanship of the Committee of Ministers of the Council of Europe.</td>
<td></td>
</tr>
<tr>
<td>1401080</td>
<td>0113 Ensuring the stay of foreign delegations coming to Ukraine on official visits.</td>
<td></td>
</tr>
<tr>
<td>1401100</td>
<td>0950 Training and development of skills in the area of international relations.</td>
<td></td>
</tr>
<tr>
<td>1401110</td>
<td>0113 Financial support for promoting a positive image of Ukraine at the international level.</td>
<td></td>
</tr>
<tr>
<td>1401120</td>
<td>0950 Training of diplomatic officers belonging to categories 5-7 of the civil service.</td>
<td></td>
</tr>
<tr>
<td>1401130</td>
<td>0113 Production of identity documents for travelling abroad.</td>
<td></td>
</tr>
<tr>
<td>1401150</td>
<td>0829 Measures to support relations with Ukrainians residing abroad.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Ministry of Finance, Ukraine.
All budget programmes have codes. The code contains information referring to the responsible ministry or other central public authority (CPA), its budget holder, the programme, and the activities under the programme. The programme code is presented in Table 5.

Table 5. The Ukrainian budget programme code

<table>
<thead>
<tr>
<th>xxx</th>
<th>x</th>
<th>xx</th>
<th>x</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main line ministry or other central public authority (code of the institutional classification of budget expenditures)</td>
<td>Budget holder of the main line ministry or other central public authority responsible for the budget programme implementation</td>
<td>Budget programmes, implemented by the budget holder</td>
<td>Activities under the budget programme</td>
</tr>
</tbody>
</table>

The programme classification was introduced in Ukraine in 2002. Its implementation was approved in a resolution of the Cabinet of Ministers of 14 September 2002 (No. 538). Until recently, the number of budget programmes in the classification of Annex 3 varied from year to year and amounted to 900-950 programmes (including activities under programmes) per year. Since 2011, the number of budget programmes has been reduced and there are 580 programmes in the draft budget law of Ukraine for the year 2012. Therefore, the number of “line items” is not very large. It is noteworthy that the number of programmes can increase within the budget year (by means of supplementary budget laws).

Each budget programme has its own “passport”, a document that defines the objectives and areas of use of programme funds, persons in charge, effective indicators, and other characteristics of the programme. The passport guides the programme implementation during the budget year and contains performance indicators necessary for performance evaluation. The passports are signed by both the responsible line ministry and the Ministry of Finance. As for the state budget, the passports are valid for a one-year period.

The programme passports are compiled by line ministries in co-ordination with the Ministry of Finance immediately after the state budget is approved on the basis of the information provided in the budget requests. Responsible line ministries report on a quarterly basis and at the end of the year on the programme performance results as targeted in the passports.

2.1.3. Budget and priority programmes

Budget programmes in Ukraine are partly based on priority programmes (also called “target programmes” or “earmarked programmes”). The priority programmes are approved by the Cabinet of Ministers for the medium or long term (for 5-10 years) and anchor state priorities. However, they do not authorise expenditures. Priority programmes cover broader areas than budget programmes. Hence, there are fewer priority programmes than budget programmes (for example, in the area of education and science, in 2009 there were 18 priority programmes and 50 budget programmes). Budget programmes develop certain areas of priority programmes and make their financing possible in the upcoming budget year. Therefore, a priority programme which is not sustained by a budget programme does not receive funding and remains on hold. While budget programmes are co-ordinated by the Ministry of Finance, priority programmes are under the responsibility of the Ministry of Economic Development and Trade.
In 2010, there were about 280 priority programmes in Ukraine with varying status (effective, discontinued, on hold, etc.). At present, the government is making efforts to review them in order to eliminate overlapping and discontinued programmes and to analyse the needs.

2.1.4. Programme classification in OECD countries

OECD countries usually have a single budget classification which serves as the basis for budget negotiations within the government and for authorisation by Parliament. Frequently occurring features are:

- a limited number of line items (not more than 500);
- within each line ministry, a single line item for current operational expenditure of the core ministry and for each agency under the ministry (compensation of employment plus procurement);
- breakdown by expenditure groups or programmes (apart from current operational expenditure);
- multi-annual estimates on the basis of current policy provided in the same classification.

A stylised form of such a classification is shown in Table 6.

2.1.5. Cash base of appropriations

Ukraine uses cash-based appropriations. According to the experience of the OECD Secretariat, this is a suitable appropriation standard. Accrual budgeting leads to many practical and technical problems and reduces the transparency and comprehensibility of
the budget, not least for the politicians who have to decide on it. The EU follows an intermediate approach by requiring stabilisation programmes to be on the basis of ESA95 (Eurostat, 1996). This requires that most expenditures be presented on a commitment basis, but with ample room for exceptions in the spheres of revenues and transfers, and with investments on the basis of production rather than consumption.

2.2. The annual budget formulation sequence

2.2.1. Budget calendar

Table 7 summarises the calendar for the annual budget preparation process.

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>By 15 March</td>
<td>The National Bank of Ukraine submits projected monetary indicators for the forthcoming year to the Parliament and the Cabinet of Ministers.</td>
</tr>
<tr>
<td>By 20 March</td>
<td>The Ministry of Finance prepares a draft budget declaration for the forthcoming budget year and submits it to the Cabinet of Ministers for consideration.</td>
</tr>
<tr>
<td>By 1 April</td>
<td>The Cabinet of Ministers considers and approves the budget declaration and submits it to the Parliament within a three-day period.</td>
</tr>
<tr>
<td>May-August</td>
<td>The Ministry of Finance fixes expenditure ceilings (for current expenditures and capital expenditures included in priority programmes) for the upcoming budget year as well as expenditure benchmarks for two out-years for ministries and other CPAs, and brings them to the attention of line ministries.</td>
</tr>
<tr>
<td></td>
<td>Line ministries and other CPAs submit data (estimates) to the Budget Department of the Ministry of Finance on structural changes that have occurred in line ministries and other CPAs (and their budget holders) since the previous year, and make preliminary requests for additional expenditures needed in the upcoming budget year due to new policy/legislation.</td>
</tr>
<tr>
<td></td>
<td>Line ministries and other CPAs submit budget requests (electronically) where they break down expenditures by and within the programmes and, if needed, request and motivate additional resources.</td>
</tr>
<tr>
<td></td>
<td>The Budget Department receives and analyses the budget requests and holds conciliation meetings with the line ministries and other CPAs regarding the parameters of the state budget for the coming budget year.</td>
</tr>
<tr>
<td>September</td>
<td>The Ministry of Finance calculates and makes known to the local governments the sub-national revenue forecasts, the amounts of inter-budgetary transfers and the indicators used for defining the transfers.</td>
</tr>
<tr>
<td>By 15 September</td>
<td>The Ministry of Finance prepares a forecast of the consolidated budget of Ukraine on key parameters of revenue, expenditure, financing and debt for a period of three years following the budget year, for the approval of the Cabinet of Ministers (draft resolution).</td>
</tr>
<tr>
<td></td>
<td>The Cabinet of Ministers approves the budget bill and submits it along with relevant materials to the Parliament and the President of Ukraine.</td>
</tr>
</tbody>
</table>


The sequence, deadlines and participants of the budget preparation process are elaborated in details in a document ("action plan") adopted annually by the Ministry of Finance. The plan assigns responsibilities and tasks to the divisions of the Ministry of Finance or to relevant state bodies regarding the draft budget. The action plan is approved by an internal decree of the Ministry of Finance. For example, the action plan for the 2011 state budget and preliminary forecasts for the 2012-14 consolidated budget of Ukraine included the following preparation stages:

- devising goals/objectives for the budget declaration and preparing preliminary indicators for the 2011 budget;
- fixing ceilings, collecting budget requests from line ministries and other CPAs for the 2011 state budget, and preparing parameters for the 2012-14 consolidated budget (for Cabinet's approval and adoption of a Cabinet resolution);
- preparing and submitting the 2011 budget bill to the Parliament of Ukraine.
2.2.2. Budget declaration

The annual budget formulation process starts in January-February with the preparation of a budget declaration for the forthcoming year (see Box 2). The declaration contains the major outlines of budgetary policy for the upcoming budget. The Ministry of Finance drafts and submits the declaration to the Cabinet of Ministers by 20 March. Line ministries can comment the draft declaration and make suggestions. According to the Budget Code, the Cabinet of Ministers approves the budget declaration no later than 1 April and submits it to the Parliament of Ukraine within a three-day period (Article 33.3). Subsequently, the Parliament considers the major outlines of the budgetary policy for the upcoming budget and adopts a resolution on the budget declaration (see Section 3). The draft budget law of Ukraine for the next year must be developed while taking into account the requirements of the Budget Code and the major lines of the budgetary policy for the next budget as adopted or acknowledged in the resolution of the Parliament.

Box 2. Ukrainian budget declaration for the forthcoming budget year

The “Budget Goals and Objectives Declaration” (budget declaration) for the upcoming budget year is based on economic and social development projects and programmes, and contains the following provisions:

- basic projections of macro indicators of the economic and social development of Ukraine, including nominal and real GDP, consumer price and producer price indexes, the average official exchange rate of the hryvnia for the year and, by the end of the year, the unemployment rate;
- major objectives of the budgetary policy, in particular with respect to deficit and debt ceilings of the state budget, share of the projected annual GDP distributed via the consolidated budget of Ukraine, the minimum wage, the cost of living, etc.;
- priority tax policy objectives;
- implementation of the priority state programmes;
- interrelationship of the state budget with local budgets, including justification of the share of local budgets in the consolidated budget of Ukraine;
- other issues to be addressed in preparing the budget bill.

2.2.3. Macroeconomic forecasting

In Ukraine, the Ministry of Economic Development and Trade plays a key role in preparing and co-ordinating the macroeconomic forecasts underlying the budget. Forecasting procedures were established in the Decree of the Cabinet of Ministers on Drawing Forecast and Programme Documents of Economic and Social Development of 26 April 2003 (No. 621), which was recently amended in light of the new Budget Code of Ukraine. The amendments introduced strategic plans and modified the terminology and time frames.

The Macroeconomic Forecasting Department of the Ministry of Finance is in charge of medium-term budgetary forecasting, making use of the macroeconomic forecasts of the Ministry of Economic Development and Trade. The department also performs analyses of the impact of macroeconomic developments on the budget and of the impact of fiscal policy on the economy. Finally, the department is responsible for updating its forecasts in
the course of budget formulation and execution, for the preparation of the annual budget execution report, and for disseminating public finance statistics. The co-ordination procedures between both ministries were established by Decree No. 621 mentioned above, but officials of both ministries do not see the division of tasks in entirely the same way, and in practice there may be some overlap.

The Macroeconomic Forecasting Department has a staff of 22 and is organised in five units:

- macroeconomics (5 staff);
- statistics (5 staff);
- modelling (5 staff);
- medium-term forecasting (5 staff);
- budget execution (2 staff).

Macroeconomic forecasting for the forthcoming budget year starts in March. The Ministry of Economic Development and Trade together with the National Bank of Ukraine and other relevant state bodies prepares preliminary macroeconomic forecasts of economic and social developments for the forthcoming budget year\(^{23}\) (by 1 April 2010 for the 2011 budget). Since 2003, the Ministry of Economic Development and Trade has also prepared preliminary macroeconomic forecasts of economic and social development for the three years following the budget year.

While preparing forecasts, the Ministry of Economic Development and Trade takes into consideration the opinions of independent institutions, for instance the assumptions of the Forecasting Institute of the Academy of Science of Ukraine and those of Consensus Economics.\(^{24}\) The forecasts of Consensus Economics are posted on the website of the Ministry of Economic Development and Trade.

While the Ministry of Economic Development and Trade prepares its preliminary macroeconomic estimations, the responsible units of the Ministry of Finance submit to the Revenue Department\(^{25}\) preliminary revenue forecasts for the state and local budgets for the coming budget year and two out-years\(^{26}\) (by 1 March 2010 for the 2011 budget). The forecasts incorporate expected changes in tax policy. The responsible units also submit an assessment of expected revenue performance in the current year.

The Revenue Department of the Ministry of Finance (25 staff) is organised in four units:

- aggregating unit (7 staff);
- excise taxes and other payments unit;
- income tax and VAT unit;
- natural resources fees and local-level taxes unit.

Each of these units prepares a calculation of tax and fee revenues using the preliminary macroeconomic estimations of the Macroeconomic Forecasting Department\(^{27}\) of the Ministry of Finance, the prevailing tax legislation, and the data from other relevant ministries or agencies.

The units of the Revenue Department and other responsible divisions of the Ministry of Finance prepare and submit to the Macroeconomic Forecasting Department and the Budget Department of the Ministry of Finance (by 15 April 2010 for the 2011 budget) the following estimations for the upcoming budget year and two out-years:

- revenue forecast of the state and local budgets (in 2010: for 2011 and for 2012-14\(^ {28}\));
- debt interest payments and repayments from the budget (in 2010: for 2011 and for 2012-14);
● loan reimbursements back to the budget (in 2010: for 2011 and for 2012-14);
● forecasts of deficit financing and interest.

The first calculations are available in April each year and are subject to further adjustments as new macroeconomic forecasts from the Ministry of Economic Development and Trade come in. The Ministry of Economic Development and Trade updates its macroeconomic assumptions up to three times within the period from March to August. By 1 September, the final revenue forecast is submitted to the Budget Department. The calculations are usually quite accurate. Supposing that the economy is stable and that the macroeconomic forecasts are not modified substantially, the calculation error may amount to 5% of total real revenue at most.

If necessary, the Ministry of Economic Development and Trade can further update its macroeconomic estimations for the upcoming budget year and two out-years after submission of the budget to the Parliament. This can occur, for instance, in the period between the first and the second parliamentary readings of the budget bill, as well as during budget execution. If the macroeconomic situation changes substantially during the budget year, the macroeconomic estimations for the budget year are adjusted by a resolution of the Cabinet of Ministers. In practice, such adjustments occur every three months. If there is an impact on the revenues and expenditures, the budget law is subsequently amended (Article 52 of the Budget Code).

2.2.4. Preliminary requests

In March-April each year, the Ministry of Finance asks line ministries to provide data on structural changes and requests for additional expenditures in the upcoming budget year. The data concern in particular:
● changes in budget programmes, inclusion/exclusion of a budget programme, merging or splitting of programmes, transferring a programme to a different budget holder due to legislative changes;
● changes in the parameters that determine programme totals (for instance, increase/decrease in numbers of unemployed, pensioners or other entitlement beneficiaries);
● calculations regarding the need for capital expenditures for the coming budget year;
● sectoral expenditure calculations;
● changes in staff numbers.

2.2.5. Setting ceilings, submitting requests and drafting the state budget

On the basis of the data on structural changes and the preliminary requests of line ministries and other CPAs, the Ministry of Finance fixes expenditure ceilings for current expenditures and for capital expenditures which are covered by priority programmes; these ceilings will further determine the development of the budget formulation process. The ceilings cover the upcoming budget year. In addition, the ministry sets expenditure benchmarks for the two out-years. The ceilings and benchmarks are set in the budget circular which is sent to the line ministries and other CPAs. The budget circular contains various forms to be filled in and guidelines for formulating requests. The Ministry of Finance also establishes a time schedule for further conciliation meetings with the line ministries. And the Ministry of Finance communicates to the line ministries and other CPAs indicative estimates of expenditures and loans issued from the budget, for the two out-years following the budget year (Article 21 of the Budget Code).
Upon receiving the budget circular, the line ministries and other CPAs are given approximately one month to prepare their budget requests.\(^{29}\) In practice, this means filling in the forms annexed to the budget circular. In one form, requests for additional expenditures can be made and motivated. The requests should contain reliable and comprehensive information and be submitted to the Ministry of Finance on time (see Box 3). According to Article 35 of the Budget Code, the budget requests should take into account the reports on the implementation of budget programmes as envisaged in the passports of the previous year. The line ministries and other CPAs should also provide information about the contribution of the requested resources to the stage-by-stage implementation of priority programmes. Finally, line ministries and other CPAs should prepare activity plans for the budget year and the following two years which provide information about the policies to be funded by the requested resources.

Box 3. **Budget formulation process in a line ministry (or other CPAs) in Ukraine**

Line ministries (or other central public authorities) are requested to submit information on structural changes and make preliminary requests for additional expenditures in March-April of the year preceding the budget year.

Following these preliminary requests, line ministries receive from the Ministry of Finance a circular fixing the expenditure ceilings and providing guidelines for preparing budget requests. Line ministries issue similar circulars for their budget holders prescribing expenditure ceilings and providing instructions for request preparation. The budget holders are required to provide their budget requests to the financial directorate of their line ministry. Upon receipt of these requests, the financial directorate draws up a single budget request for the Ministry of Finance.

According to the representatives of the Ministry of Education, the real expenditure needs usually surpass the expenditure ceilings of the Ministry of Finance by approximately 30% and therefore the budget request exceeds the expenditure ceilings. The Ministry of Education sees the ceilings as not binding and has learned over time that they can be increased through negotiation.

When the budget bill is being scrutinised in the Parliament, line ministers have another opportunity to explain the potential use of additional resources, but cannot plead for changes since they have to respect the budget bill as submitted by the Cabinet of Ministers. Upon the approval of the state budget law, line ministries are allowed 45 days to draw up programme passports in co-ordination with the Ministry of Finance on the basis of the information provided in the budget requests. The line ministries also report on a half-yearly basis and at the end of the year on the programme performance results as targeted in the passports.

The budget requests are sent electronically to the Ministry of Finance. The ministry checks the conformity of the requests with the expenditure ceilings and assesses the effectiveness and efficiency of the proposed policies (Article 36 of the Budget Code). The budget requests are subsequently discussed and agreed between the line ministries and the Ministry of Finance according to the schedule of conciliation meetings. If the Ministry of Finance fails to reach an agreement with a line ministry (or other CPA), the Ministry of Finance will note the lack of agreement when it submits the budget bill to the Cabinet.

Following the budget request assessments and the conciliation meetings, the Ministry of Finance develops a budget bill for the forthcoming budget year which is then submitted
to the Cabinet of Ministers along with the relevant materials. The Cabinet delivers the budget bill to the Parliament and the President of Ukraine by 15 September each year.

2.3. Medium-term planning

2.3.1. Medium-term budgetary framework

The new Budget Code of Ukraine (2010) introduced a forecast of the state budget for the two years following the upcoming budget year. The forecast is developed by the Ministry of Finance jointly with the Ministry of Economic Development and Trade and the National Bank of Ukraine, together with other relevant ministries and CPAs, and includes the following indicative forecasts (Article 21 of the Budget Code):

- major macro indicators of economic and social development (nominal and real GDP, consumer and producer price indexes, annual average and end-of-year exchange rate of the hryvnia, enterprises’ profits and payroll costs, the unemployment level, exports and imports of goods and services, and other indicators used in the development of a draft budget);
- the consolidated budget of Ukraine by major types of revenues, financing, expenditures, and borrowing;
- the state budget by major types of revenues, financing, expenditures, and lending;
- expenditures for budget programmes ensuring implementation of priority programmes, including those financed by loans (borrowings) obtained by the government from foreign countries, banks, and international financial institutions;
- the grants to local governments.

The state budget indicative forecast for two out-years is submitted to the Parliament with the budget bill. The forecast is adjusted to comply with the adopted version of the state budget, and then approved by the Cabinet of Ministers within one month after the Law on the State Budget is published.

The indicative forecast for the state budget of Ukraine for the two out-years is seen by the Ukrainian authorities as a target indicator for the line ministries for the medium term. The newly introduced forecast for the state budget for two out-years resembles to some extent a medium-term budgetary framework (MTBF) as defined by the European Union. However, the framework, according to the EU, includes medium-term budgetary objectives or ceilings, not just forecasts. The role of an MTBF consists in helping to ensure fiscal discipline. Furthermore, the existence of an MTBF may facilitate monitoring by providing benchmarks against which budgetary developments can be assessed over time. The strengthening of the MTBF usually serves as a complement to the introduction of other institutional reforms such as an expenditure rule or top-down budgeting. As of 2008, almost all EU countries (except Cyprus, Greece, Hungary, Luxembourg and Portugal) have budgetary frameworks covering from two to five out-years.

Medium-term budgetary planning has a very important role in OECD countries. Objectives or ceilings focus on the expenditure side of the budget and take the form of medium-term expenditure frameworks (MTEFs). The level of commitment with regard to MTEFs in these countries is generally high, which promotes better fiscal discipline and improves budgetary outcomes (a low deficit, or a surplus, and low debts). As of 2008, 20 OECD countries have been working with expenditure frameworks that establish ceilings or targets for periods covering from three to five years (see Box 4).
The state budget forecasts for 2013 and 2014 which were developed in accordance with the new Budget Code will serve as a basis for the formulation of the draft state budget for 2013. Yet to get closer to comprehensive medium-term budgetary planning, the Ukrainian government may wish to consider shifting from a forecasting approach to a targeting approach. The best solution could be a flexible framework. While a flexible framework can be annually updated, it provides better fiscal discipline: the multi-annual consequences of all changes have to be traded off against each other and against the adjustment of medium-term targets.
targets for expenditures, revenues or the deficit. The framework should be decided at the start of budget preparation after the preliminary requests of line ministries and other CPAs have been received, and it should be approved by the Cabinet of Ministers and communicated by the Minister of Finance as binding guidelines for the preparation of definitive requests. It is essential (also in a flexible framework approach) that the ceilings not be changed anymore during budget preparation (nor during budget execution). Negotiations may affect allocation within the ceilings but not the ceilings themselves.

2.3.2. Baseline estimates

In order to be credible and realistic, an expenditure framework should rely on multi-annual estimates on the basis of current policy or current law (“baseline estimates”; see Box 5).

The data on structural changes and preliminary request estimates to be submitted by Ukrainian ministries and other CPAs at the start of budget preparation (see Section 2.2.4) are somewhat similar to the baseline estimates in OECD countries. The similarities are that they are provided by line ministries, they capture the cost of current law and/or current policy, and they are used by the Ministry of Finance to establish expenditure ceilings (for the upcoming year). However, the estimates in Ukraine cover only one (budget) year and do not cover out-years. They are not updated further and are not sufficiently comprehensive, as they focus only on changes expected in the budget year, while the concept of baseline estimates implies providing all costs of current law and/or current policy. Therefore, the preliminary request estimates do not fulfil the key purpose of baseline estimates which is to attain consistency between current policy and medium-term fiscal objectives (as provided by an expenditure framework).

Box 5. Baseline estimates in OECD countries

OECD countries that work with expenditure frameworks produce and update multi-annual baseline estimates. Each programme has its own particular set of factors that will affect expenditures – for instance, economic variables, demographic developments, price changes, or participation rates. The baseline estimates capture the cost of current law and/or current policy over the medium term and are essential for the allocation of financial resources in the annual budget negotiation. They are essential to ensure the consistency of current law or policy with the multi-annual ceilings. Best practice in OECD countries shows that baseline estimates are frequently updated to reflect any changes in the underlying variables (usually monthly or quarterly) and are prepared at a line-item level (the same level of detail as the annual budget), and that they should be part of the annual budget proposal submitted to Parliament (OECD, 2002). The baseline estimates should also be agreed between the line ministry and the finance ministry. They are an essential tool for budgetary discipline not only during budget formulation, but also during budget execution. During execution, baseline estimates alert at an early stage to overspending, which should immediately trigger corrective measures (not in the next budget).

Establishing the expenditure framework can be seen as a top-down process, and preparing budgetary and multi-annual estimates as a bottom-up process. In fact, the reconciliation of prescriptive targets or ceilings with descriptive line-item estimates is central to a disciplined budget process.
2.4. Fiscal sustainability

Fiscal sustainability – the major objective of fiscal policy – relies primarily on fiscal rules. The 2008 financial crisis has particularly exposed the importance of well-designed fiscal rules (supported by other fiscal institutions reinforcing fiscal discipline, such as medium-term expenditure frameworks and fiscal councils). Therefore, OECD countries consider fiscal rules as one of the most important fiscal institutions, and consistently work on adopting the most efficient design and combination of fiscal rules.

According to the definition of a fiscal rule proposed by Kopits and Symanski (1998), a fiscal rule is “a permanent constraint on fiscal policy, typically defined in terms of an indicator of overall fiscal performance […]. A critical feature of a fiscal rule is that it is intended for application on a permanent basis by successive governments in a given country.” Fiscal rules can serve different goals, and their role in promoting budgetary control varies. Fiscal rules can be applied to various fiscal aggregates, such as measures of expenditure, revenue, budget balance or debt.

Ukraine has introduced a debt rule. According to the new Budget Code of 2010, the total amount of public debt and state-guaranteed debt at the end of the budget year should not exceed 60% of annual nominal GDP (Article 18 of the Budget Code). A debt rule of this type is suitable for providing an anchor for fiscal policy in the long run. However, it does not provide sufficient guidance for fiscal policy when debt is well below its ceiling, which is the case in Ukraine (see Section 1).

In addition to the debt fiscal rule, the new Budget Code contains a provision that applies to the revenue side (Article 53 of the Budget Code). It says that if actual revenues of the state budget exceed the revenues approved in the Law on the State Budget, the extra revenues should be spent on top-priority investment programmes (projects) approved under the procedure established by the law and perform actions related to social reforms. This rule is accompanied by the following clause: “the fact of exceeding the targeted state budget revenues […] based on the results for three quarters in the event the indicators of the state budget revenues […] exceed the target by more than 15%.” This rule raises several concerns.

First, this provision promotes pro-cyclical spending. Second, the provision is ambiguous: it states that the extra revenues should be spent “on top-priority investment programmes (projects) approved under the procedure established by the law and perform actions related to social reforms” but the regulation prescribing the procedure for defining top-priority investment programmes has not been established, and it is not clear what are “actions related to social reforms”. Such obscure provisions allow spending outside the regular budget process and undermine fiscal discipline.

Together with debt and revenue rules, OECD countries use expenditure and balance rules. Expenditure rules in OECD countries usually set limits on total, primary or current spending in growth rates of GDP, or in per cent of nominal or structural GDP. An expenditure framework is not an expenditure rule (because it is not permanent), but its effect in the medium term is comparable. Expenditure rules and expenditure frameworks must be anchored in a structural balance rule in order to guarantee long-term sustainability (public debt remaining constant as a share of GDP or converging toward a sustainable level, for instance 60% of GDP). Steering on the expenditure side rather than on an annual cyclically adjusted deficit constraint is more transparent and possibly less susceptible to manipulation (Anderson and Minarik, 2005).
Fiscal rules should also apply to local government (see Box 6 for the funding of local government in Ukraine). According to the Budget Code, local authorities formulate and execute their local budgets independently. However, Article 18.3 of the Budget Code puts constraints on debt and guarantees. In particular, the total amount of local debt and debt guaranteed by the Autonomous Republic of Crimea or an oblast as of the end of the budget year should not exceed 100% (400% for the city of Kiev) of the average annual projected volume of revenues in the development budget (net of the amounts of local domestic and foreign

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**Box 6. Intergovernmental financial relations in Ukraine**

Ukraine is a unitary state with three levels of local government:

- Oblasts (24), the Autonomous Republic of Crimea (1), the cities of Kiev and Sevastopol (2);
- Rayons (488) and cities in oblasts and in the Autonomous Republic of Crimea (177);
- Districts in cities (55), towns (278), settlements (782) and villages (10 279).

Funds can be transferred between the state budget and the local budgets of the first and second levels except the Autonomous Republic of Crimea (691 in total), as well as the local budgets of different levels in accordance with Articles 92 and 93 of the Budget Code.

**Decentralisation of public service provision.** According to officials of the Ministry of Finance, the division of tasks between the central government and local governments is based on the principle of subsidiarity, which implies that public services are provided by the government that is as close to the citizens as possible while respecting equal rights to basic services and taking into account economies of scale and spill-over effects. The share of local budget expenditures in the expenditures of the consolidated budget of Ukraine is about 44%.

**Grants from the central government.** Local budgets receive non-earmarked equalisation grants, as well as other grants and subventions from the state budget (an additional service cost related equalisation grant, subventions for social protection programmes, subventions for investment programmes, and other grants and subventions). The share of such transfers in the consolidated budget of Ukraine is 24.8% (in 2011). According to the State Treasury, the transfers from the state budget account for about 52% of the total revenues (local and special fund) of local budgets.

The non-earmarked equalisation grants account for 51.9% of the total amount of transfers from the state budget to local budgets. The remaining grants (48.1%) are earmarked for specific services, such as service cost related equalisation grants, social protection subventions, subventions for the socio-economic development of the regions, etc.

**Equalisation grants.** Equalisation grants can be provided to all local governments of the first level. The size of equalisation grants is determined in accordance with the Budget Code of Ukraine using the following parameters:

- financial ratios of budget adequacy and their adjustment factors;
- population level and the number of consumers of guaranteed services;
- relative taxation potential index of the relevant budget;
- estimated volume of the revenue basket of local budgets;
- equalisation factor;
- target ratio of the number of employees of local self-government bodies in relation to the population level.

The relative taxation potential index is a factor that expresses the level of potential tax revenue of the local government in comparison with the national average on a per capita basis.
borrowings) defined under the forecast of the corresponding local budget for the next two years following the budget year. Should this threshold be exceeded, then the Parliament of the Autonomous Republic of Crimea and the corresponding oblast council can take measures to bring the total amount of debt into compliance with the provisions of the Budget Code.

2.5. Organisation of the Ministry of Finance

The Ministry of Finance of Ukraine is led by the Minister of Finance, the First Deputy Minister and two Deputy Ministers (Figure 3). The First Deputy Minister is in charge of the Budget Department, the Local Budgets Department, and the department responsible for the finances of public enterprises. The Budget Department (with a staff of 60 people) is the core department in the budget preparation process, where contributions of the expenditure divisions are brought together and reconciled in the budget bill. The First Deputy Minister also supervises the Department for Taxation and Customs Policy, Revenue Administration, and Accounting Principles. Of the other two Deputy Ministers, one is in charge of sectoral finances, including the social sector, the state debt and international co-operation. The other Deputy Minister is in charge of the administrative affairs of the ministry.

**Figure 3. Organisation of the Ministry of Finance of Ukraine (as of 2011)**

The total staff of the Ministry of Finance amounts to 900 persons. Overall, the Ministry of Finance plays a central role in the budgetary process of Ukraine. It has considerable power, establishing expenditure ceilings for line ministries and allocating resources within line ministries. The ministry co-ordinates the work of the State Treasury, the customs and tax administrations, and the Financial Inspection (the latter body was formerly known as
the Main Control and Revision Organisation; see Section 6.2 on internal audit). This strong position of the Ministry of Finance is positive for budget discipline, especially during times of fiscal consolidation. However, the power of the Ministry of Finance should not overwhelm the role of line ministries. In OECD countries, there is a common trend to make line ministries more responsible and to give them more discretion over their budget in line with broad strategic expenditure priorities. A strong and independent role of line ministries enables a finance ministry to focus on the larger picture and on strategic issues.

2.6. Conclusion

Since 2002, the state budget of Ukraine has been based on programmes. The number of budget programmes amounts to 900-950 with a decreasing trend in recent years. There are about 580 budget programmes in the state budget of Ukraine for the year 2012. Each programme has a “passport” developed by a line ministry (or other CPA) defining the objectives, the budget holders in charge, indicators of effectiveness, and other programme characteristics. The passport serves to guide the implementation of the programme and to assess its performance.

The introduction of a programme classification is an important step forwards in the modernisation of public finance management in Ukraine. However, there are two remaining concerns. First, the expenditures of the state budget law are presented in a number of independent tables that make it difficult to fully identify the expenditures under each programme. For instance, interest payments and grants to local governments are presented in different tables than operational expenditures. The OECD Secretariat recommends presenting all expenditures by programme in a single table. This will contribute to the transparency of the budget.

The second concern relates to the proliferation of priority programmes. The priority programmes aim to anchor state priorities for the medium and long term. Budget programmes provide funding for priority programmes in the budget year. At present, there are various priority programmes which overlap or are out of date, and there is a lack of coordination between them. The need to streamline priority programmes has already been acknowledged by the Ukrainian government. The OECD Secretariat recommends decreasing the number of priority programmes or abolishing them entirely. In OECD countries, sectoral priorities are usually laid down in sectoral medium or long-term plans that are under the responsibility of line ministers and serve to guide budget requests. Sectoral priorities have no special status in the budget process.

Ukraine uses cash-based appropriations. According to the experience of the OECD Secretariat, this is a suitable appropriation standard. The introduction of elements of accrual accounting should be considered carefully and should not hamper the transparency of the budget nor scrutiny by parliamentarians.

Ukraine has made progress with medium-term financial planning but further improvements are possible. The new Budget Code of 2010 requires the Cabinet to adopt a forecast of the consolidated budget by major types of expenditure and revenue for two out-years in the month following the adoption of the budget law. This forecast does not provide a solid medium-term framework and has little impact on fiscal discipline.

To further strengthen medium-term planning, Ukraine needs an effective mechanism which imposes expenditure ceilings on ministries and other CPAs for the medium term (upcoming budget year and two or three out-years). This requires that an expenditure
framework be adopted before the moment when line ministries are asked to submit their budget requests. In view of the volatility of the economic developments in Ukraine, the OECD Secretariat recommends a “flexible framework” approach. This implies expenditure ceilings for the budget year and two or three out-years which are rigorously maintained during budget preparation and execution, but which can be updated annually at the start of a new budget cycle. Moreover, the ceilings should cover both capital and current expenditures.

As well as a medium-term expenditure framework, baseline estimates are an essential component of medium-term planning. Realistic and up-to-date estimates on the basis of current policy or current law are a necessary prerequisite for drawing up a medium-term expenditure framework. In addition, they provide the basis for enforcing budgetary discipline. All overspending, including overspending in out-years, should be compensated immediately when it is observed (which may be at the moment the estimates are updated during budget preparation and execution). The preliminary requests of ministries and other CPAs can be seen as a first step in the direction of developing baseline estimates. However, to provide a sound ground for building up a credible expenditure framework, the preliminary requests need to be frequently updated, cover the medium term and provide all costs of current law and/or current policy. Many OECD countries update baseline items quarterly.

The programme passports compiled by line ministries in co-ordination with the Ministry of Finance after the approval of the state budget provide the basis for performance assessment of budget programmes. Responsible line ministries report on a quarterly basis and at the end of the year on the programme performance results as targeted in the passports. Experience in some OECD countries shows that reporting performance data in the budget (or in the supporting material) can overload the budget documents and impair their transparency. Therefore, the Ukrainian practice of keeping performance assessment apart from the budget process and under the responsibility of line ministers is sensible. However, the frequency of this reporting may be reduced to every half-year rather than quarterly in order to prevent bureaucracy.

Ukraine has introduced a debt rule (the debt should not exceed 60% of annual nominal GDP) and a rule for extra revenues. The provision of the Budget Code regarding the extra revenues could be improved in order to avoid any doubt about spending extra revenues not exceeding the threshold of 15% and to prevent pro-cyclical spending. At the sub-national level, there are constraints on debt and guarantees. The existing set of fiscal rules is useful, but does not sufficiently safeguard fiscal sustainability in the long term.

OECD countries are currently changing their domestic fiscal rules in order to make their fiscal frameworks more solid. Implementation of expenditure rules or an expenditure framework anchored in a structural balance rule34 is a common tendency in the leading countries. Introducing a structural balance rule seems to be premature for Ukraine at the moment; however, the first steps towards expenditure and balance rules can already be taken. In this regard, Ukraine may wish to consider the introduction of an expenditure framework targeting total or primary spending as a percentage of trend GDP. The expenditure framework should be coupled with a balance rule, which makes the targets of the expenditure framework dependent on the trend revenue.

3. Role of the legislature

3.1. The Ukrainian Parliament – Verkhovna Rada

The Verkhovna Rada (Rada) is the sole body of legislative power in Ukraine. Article 113 of the Constitution establishes the accountability relationship between the Rada and the
executive branch: “The Cabinet of Ministers of Ukraine is responsible to the President of Ukraine and is under the control of and accountable to the Verkhovna Rada of Ukraine within the limits envisaged in Articles 85 and 87 of the Constitution of Ukraine.” The authority of the Rada includes “approving the state budget of Ukraine and introducing amendments to it; controlling the implementation of the state budget of Ukraine and adopting decisions in regard to the report on its implementation” (Article 85.4 of the Constitution).35

Since 2008, elections and changes in government (and in 2009, the financial crisis) have often disrupted the normal budget cycle in Parliament (see Section 1.2.5).

The Rada’s role in the budget process is regulated by the Constitution of Ukraine (Article 85.4 as cited above), by the Budget Code, and by the Rada’s Rules of Procedure, specifically Chapter 27 on the “Adoption of the State Budget of Ukraine and Supervision of its Implementation”. The Rules of Procedure provide the most detail in terms of Parliament’s role in the budget process and, as of February 2010, the Rules of Procedure have the status of a law.

3.2. The Budget Committee

Committees play a vital role in the work of the Rada. In a 2009 survey of 125 deputies, a clear majority reported that committees are the most important place for deliberation on proposed legislation.36 The Rada determines the composition of committees according to the Constitution (Article 89), the Rada’s Rules of Procedure, and the “Resolution on the List, Composition and Competencies of Committees of the Verkhovna Rada of Ukraine”. Committee membership and leadership reflect the political composition of the Rada. There are currently 26 standing committees ranging in size from 7 to 34 members, and one ad hoc committee with 37 members. The Rada also has the right to establish “temporary special” and “temporary investigative” commissions to consider issues of public interest.

All committees participate in the review of the draft budget, but the main committee charged with budget-related matters is the Budget Committee. The above-mentioned resolution on committees defines the Budget Committee’s competencies as: state budget policy and intergovernmental fiscal relations; the state budget of Ukraine (including revenues, expenditures, and budget execution); the budget process; assessment of the budget’s compliance with the Budget Code of Ukraine; activities of public financial institutions; and the Accounting Chamber.

Membership on the Budget Committee is highly sought after and, with 34 members, it is the largest standing committee.37 All political parties and factions represented in the Parliament have the right to delegate at least one representative to the Budget Committee, and the chair and first deputy chairs are normally from different parties. The current Budget Committee leadership comprises a chair, two first deputy chairs and three deputy chairs.38 Additional members chair the eight Budget Committee sub-committees on:

1. Monitoring the Impact of Draft Laws on Budget Indicators.
2. State Debt and Debt Financing.
3. Revenues.
4. Expenditures.
5. Local Budgets.
7. Investment Programmes.
8. Activities of the Accounting Chamber and Control of Budget Implementation.
A representative of both the Ministry of Finance and the Accounting Chamber is required to attend meetings of the Budget Committee. The Budget Committee also regularly invites representatives from other government entities and outside experts to participate in its meetings and to provide opinions.

The Budget Committee is supported by a secretariat which comprises around 30 professional staff. All are civil servants (thus largely protected from political shifts in the Parliament) and most have previously worked in the Ministry of Finance. While not formally assigned to cover specific areas of the budget, in practice staff tend to have areas of specialisation. The Budget Committee secretariat reviews the draft budget and prepares relevant analyses. Depending on the issues at hand, it may also call on outside experts and institutions.

3.3. The parliamentary approval process

The fiscal year follows the calendar year except in extraordinary circumstances. The Rada’s involvement in the budget cycle can be broken down into four main stages (Figure 4): i) examination and adoption of a resolution approving or “taking into account” the executive’s budget declaration; ii) review, amendment and approval of the executive’s draft budget; iii) in-year monitoring of budget execution; and iv) scrutiny of the Accounting Chamber’s audit findings. This section focuses on the first two phases.

Figure 4. The role of the Verkhovna Rada in the budget cycle of Ukraine

Article 33 of the newly amended Budget Code stipulates that the Cabinet of Ministers of Ukraine develops and approves the budget declaration no later than 1 April of the year preceding the planned one and, within a three-day period, submits it to the Verkhovna Rada. Previously the Rada received this document at the end of May, which meant limited time for debate. Upon receipt, deputies and committees develop their proposed amendments which are forwarded to the Budget Committee (Article 152.2-4 of the Rules of Procedure). The Budget Committee summarises these proposals and prepares a draft resolution. The government prepares the draft state budget with reference to the Rada’s resolution on the budget declaration.
The government has the monopoly of legislative initiative with regard to the budget. Article 116.6 of the Constitution and Articles 32 and 34-37 of the Budget Code establish the roles of the Cabinet of Ministers and of the Ministry of Finance in drafting the budget. Article 96 of the Constitution requires the Cabinet of Ministers to submit the draft budget to Parliament no later than 15 September. The Rada then has approximately two and a half months to review the budget. This is slightly less than the three months recommended by the “OECD Best Practices for Budget Transparency” (OECD, 2002). In addition, the bulk of the work of the standing committees on the budget is undertaken by 1 October (see Table 8).

Table 8. Parliamentary budget approval timetable in Ukraine

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
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<tbody>
<tr>
<td>Within three days of 1 April</td>
<td>The &quot;Budget Goals and Objectives Declaration&quot; (budget declaration) for the forthcoming budget period is submitted to Parliament.</td>
</tr>
<tr>
<td>1 May</td>
<td>The government submits the annual report on execution of the budget for the previous year.</td>
</tr>
<tr>
<td>1 June</td>
<td>Parliament adopts a resolution on approval or consideration of the budget declaration. Parliament also approves its own budget for the upcoming year at this time.</td>
</tr>
<tr>
<td>15 September</td>
<td>The draft Law on the State Budget is submitted to Parliament by the Cabinet of Ministers.</td>
</tr>
<tr>
<td>20 September</td>
<td>Presentation of the draft budget law by the Minister of Finance; first plenary debate; referral to the Budget Committee and other relevant committees.</td>
</tr>
<tr>
<td>1 October</td>
<td>Deputies and committees submit proposed amendments to the Budget Committee.</td>
</tr>
<tr>
<td>15 October</td>
<td>The Budget Committee (in consultation with government representatives) prepares a first opinion.</td>
</tr>
<tr>
<td>20 October</td>
<td>First reading; the draft budget with proposals is sent back to the government for revision.</td>
</tr>
<tr>
<td>3 November</td>
<td>The government submits a revised draft budget.</td>
</tr>
<tr>
<td>20 November</td>
<td>Second reading; after the second reading, no additional proposals can be made.</td>
</tr>
<tr>
<td>By 1 December</td>
<td>Bill adopted and sent to the President of Ukraine.</td>
</tr>
</tbody>
</table>

After the submission of the executive’s budget proposal, deputies are given roughly five days to acquaint themselves with the budget. Around 20 September, the Minister of Finance presents the draft budget in the plenary followed by a debate in which deputies may ask questions. The draft budget is then referred to the Rada committees.

The standing committees and individual Members of Parliament have until 1 October to submit proposals for amendments to the Budget Committee. Amendments must show sources of funding should they entail additional expenditure. As part of the scrutiny process, committees may conduct public hearings within the scope of their competencies. Government representatives are present at, and participate in, all parliamentary committee meetings.

Authors of amendments come to the Budget Committee to discuss them. A representative of the Cabinet of Ministers is also present during these discussions. The outcomes of these discussions are minuted and used by the Budget Committee staff to create a comparative table of the amendment proposals and the Budget Committee’s opinion on whether they should be adopted or rejected. Based on this comparative table, the Budget Committee’s opinions and proposals are prepared, debated and voted on in the plenary in the first reading on 20 October. More specifically, a first vote is taken to dismiss all amendments rejected by the Budget Committee. If however, the author of an amendment objects to its rejection, then the amendment is discussed in the plenary. Amendments that are not dismissed are discussed article by article and voted on. Parliament then sends the draft budget with its proposals back to the government for revision. At this stage during revisions, the government may accept or reject Parliament’s proposed amendments. The government also has the opportunity to make other changes, including changes to key budget indicators set earlier in the year.
The government submits a revised budget to Parliament by 3 November. The Budget Committee then reviews this revised budget, in particular whether the government has taken Parliament’s views into account. At this stage, only the Budget Committee can propose additional changes, although any changes cannot change total amounts but rather would consist of moving allocations from one part of the budget to another. The Budget Committee produces a second opinion recommending that the Rada adopt the revised draft as is, or amend it. If the Parliament cannot agree to the revised draft as a whole, it may vote article by article. The budget must be adopted by 1 December. Typically, the budget is adopted as of the second reading, although there is a procedure in place for a third reading. The approved consolidated budget includes the general parameters of the state budget and the distribution of its indicators under the budget classification (primarily in terms of key spending units and budget programmes) and some additional details in accordance with Article 40 of the Budget Code.

As with any other legislation, once Parliament has adopted the budget law and sent it to the President of Ukraine for signature, he or she has 15 days to sign it (accepting it for execution and officially promulgating it) or to return it to Parliament “with substantiated and formulated proposals for repeat consideration” (Article 94 of the Constitution). The President has only vetoed the budget law once, and typically signs it within three to five days. If the budget law is not in force by the beginning of the new budget year, Article 41 of the Budget Code regulates spending by the Cabinet of Ministers, allowing for monthly expenditure not exceeding one-twelfth of the budget expenditure approved for the previous budget year.

Parliament also plays an oversight role in the execution and audit phases. According to the Budget Code, the State Treasury must report to the Rada on budget execution on a monthly, quarterly, and annual basis. Reports include both financial and budget information (with the latter defined as progress on budget execution in terms of budget classification). During the year, the Rada (as well as the President and the Cabinet of Ministers) may propose, and the Rada may adopt, legislation modifying the state budget law. As demonstrated in Table 9, this happens in practice with a small number of laws adopted each year.

The Budget Code (Article 61) also defines the content of the constitutionally mandated annual report on budget execution submitted to Parliament no later than 1 May of the following year. This report is made public. The Accounting Chamber then has two weeks to submit its own report analysing the government’s report (Article 62 of the Budget Code). Article 161.6 of the Rada’s Rules of Procedure further states that the Budget Committee

<table>
<thead>
<tr>
<th>Total proposed draft laws modifying the budget law</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposed by the Verkhovna Rada</td>
<td>11</td>
<td>17</td>
<td>63</td>
<td>43</td>
<td>32</td>
</tr>
<tr>
<td>Proposed by the President of Ukraine</td>
<td>10</td>
<td>11</td>
<td>51</td>
<td>27</td>
<td>27</td>
</tr>
<tr>
<td>Proposed by the Cabinet of Ministers</td>
<td>-</td>
<td>1</td>
<td>4</td>
<td>2</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total adopted legislation by the Verkhovna Rada modifying the budget law</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposed by the Verkhovna Rada</td>
<td>8</td>
<td>5</td>
<td>9</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Proposed by the President of Ukraine</td>
<td>7</td>
<td>-</td>
<td>4</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Proposed by the Cabinet of Ministers</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>1</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Information obtained from the secretariat of the Budget Committee of the Ukrainian Parliament.
must consider the government’s report in conjunction with the Accounting Chamber and prepare its own recommendations within 15 days. The Cabinet of Ministers and representatives of the Accounting Chamber and Budget Committee must all make presentations to the Rada. The Parliament must then “conduct a full discussion and adopt a resolution on approval of a report on implementation of the state budget of Ukraine for the previous year” (Article 162.2 of the Rules of Procedure). The relationship between the Rada and the Accounting Chamber is discussed further in Section 6 on audit.

3.4. The impact of Parliament

The Ukrainian Parliament enjoys wide amendment powers which it uses in practice. There are no limits to the number of amendments that can be proposed, and it is not atypical for upwards of 2,000 amendments to be submitted in the period before the first reading. As noted earlier, the years 2008, 2009 and 2011 were atypical but nevertheless saw proposals for between 500 and 1,000 amendments. Amendments and the vote on the budget are not seen as a confidence vote in the government. The data in Table 10 shows the effects of the amendments submitted and approved by the Parliament on the overall budget revenues and expenditure. According to the Budget Committee secretariat, total changes can range anywhere from 1% to 10%. However, changes to the various parts of the budget may be more substantial. Given that the government has the opportunity to revise its draft budget during the parliamentary review process, it is somewhat difficult to distinguish between the changes initiated by Parliament and the changes initiated by the government. This is particularly true for changes in revenue and expenditure, as the government may dramatically revise macroeconomic indicators between the first and second reading of the draft budget.

3.5. Conclusion

The budget approval process in Ukraine differs from many OECD countries in that it can be characterised as more of a continuous negotiation between the government and Parliament. The draft budget goes back to the government for revision following the first reading in Parliament. And while the government typically takes Parliament’s viewpoints and proposals into consideration, the government’s revisions may or may not include them. In addition, government representatives are present at, and participate in, all parliamentary committee meetings. This allows committee members to ask questions and engage in an ongoing dialogue.

The Budget Committee in particular and the Parliament more generally benefit from significant non-partisan staff support for budget analyses.

Parliament enjoys wide amendment powers which it uses in practice. Its potential impact on the budget is significant. However, recent years marked by political turmoil, as well as changes in key legislation such as the Budget Code, have restricted parliamentary procedures for debating and amending the draft state budget in the first and second readings. The Parliament would benefit from additional time for debate, in line with OECD best practices for budget transparency (OECD, 2002), in particular extending the period for review by the sectoral committees.

Parliament’s relationship with the Accounting Chamber and use of audit findings could also be improved (see the discussion on audit in Section 6).
Table 10. **Dynamics of planned indicators of the state budget of Ukraine, 2006-10 (million UAH)**

Changes from introduction of the draft budget bill to adoption and in-year modifications

<table>
<thead>
<tr>
<th></th>
<th>Government draft budget</th>
<th>State budget law adopted by the Parliament</th>
<th>Per cent change</th>
<th>State budget law following modifications during the fiscal year</th>
<th>Per cent change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15-09-2005</td>
<td>20-12-2005</td>
<td>When approved (%)</td>
<td>Throughout 2006</td>
<td>Throughout 2006 (%)</td>
</tr>
<tr>
<td>I. Revenues</td>
<td>118 706.0</td>
<td>124 945.1</td>
<td>5.26</td>
<td>127 516.6</td>
<td>2.06</td>
</tr>
<tr>
<td>II. Financing (deficit)</td>
<td>9 898.4</td>
<td>12 909.0</td>
<td>30.42</td>
<td>13 245.7</td>
<td>2.51</td>
</tr>
<tr>
<td>III. Crediting</td>
<td>1 160.5</td>
<td>772.7</td>
<td>-33.42</td>
<td>562.9</td>
<td>-27.15</td>
</tr>
<tr>
<td>IV. Expenditures, total, of which:</td>
<td>127 443.8</td>
<td>137 081.5</td>
<td>7.56</td>
<td>140 199.4</td>
<td>2.27</td>
</tr>
<tr>
<td>1 Transfers to local budgets</td>
<td>23 955.4</td>
<td>32 701.4</td>
<td>36.51</td>
<td>35 057.8</td>
<td>7.21</td>
</tr>
<tr>
<td>2 Verkhovna Rada of Ukraine</td>
<td>572.9</td>
<td>605.6</td>
<td>5.87</td>
<td>606.6</td>
<td>0.00</td>
</tr>
<tr>
<td>3 Public affairs management</td>
<td>632.7</td>
<td>605.3</td>
<td>-4.33</td>
<td>615.7</td>
<td>1.72</td>
</tr>
<tr>
<td>4 Cabinet of Ministers of Ukraine</td>
<td>217.5</td>
<td>233.0</td>
<td>7.13</td>
<td>233.0</td>
<td>0.00</td>
</tr>
<tr>
<td>5 Ministry of Finance (including tax and customs services, Main Control and Revision Organisation, State Property Fund)</td>
<td>10 758.6</td>
<td>10 792.0</td>
<td>-0.31</td>
<td>9 889.0</td>
<td>-8.37</td>
</tr>
<tr>
<td>6 Ministry of Education and Science, National Academy of Sciences and National Academy of Pedagogical Sciences</td>
<td>10 286.7</td>
<td>10 559.6</td>
<td>2.65</td>
<td>10 566.3</td>
<td>0.06</td>
</tr>
<tr>
<td>7 Ministry of Healthcare</td>
<td>3 232.7</td>
<td>3 147.2</td>
<td>-2.64</td>
<td>3 154.7</td>
<td>0.24</td>
</tr>
<tr>
<td>8 Ministry of Labour and Social Policy and transfers to the Pension Fund</td>
<td>32 681.6</td>
<td>29 714.4</td>
<td>-9.08</td>
<td>30 393.8</td>
<td>2.29</td>
</tr>
<tr>
<td>9 Ministry of Defence and Administration of the State Border Guard Service</td>
<td>7 844.6</td>
<td>8 135.9</td>
<td>3.71</td>
<td>8 780.9</td>
<td>7.93</td>
</tr>
<tr>
<td>10 Security agencies (including the Office of the General Prosecutor, Security Service of Ukraine, Ministry of Internal Affairs, Ministry of Emergency Situations, etc.) and Ministry of Coal Industry</td>
<td>10 733.6</td>
<td>11 075.2</td>
<td>3.18</td>
<td>11 109.8</td>
<td>0.31</td>
</tr>
<tr>
<td>11 Judicial authorities</td>
<td>1 507.6</td>
<td>1 628.3</td>
<td>8.00</td>
<td>1 687.9</td>
<td>3.66</td>
</tr>
<tr>
<td>12 Ministry of Fuel and Energy and Ministry of Coal Industry</td>
<td>4 329.1</td>
<td>5 184.9</td>
<td>19.77</td>
<td>5 285.6</td>
<td>1.94</td>
</tr>
<tr>
<td>13 Ministry of Agrarian Policy</td>
<td>4 224.1</td>
<td>5 675.6</td>
<td>33.93</td>
<td>5 662.1</td>
<td>0.08</td>
</tr>
<tr>
<td>14 Ministry of Transport and Communications and State Road Service</td>
<td>5 498.1</td>
<td>5 325.3</td>
<td>-3.14</td>
<td>5 403.6</td>
<td>1.47</td>
</tr>
</tbody>
</table>

Source: Information obtained from the secretariat of the Budget Committee of the Ukrainian Parliament.

### 4. Budget execution

#### 4.1. Organisation of budget execution

The Cabinet of Ministers of Ukraine is responsible for budget execution, with the Ministry of Finance providing overall management of budget execution (Article 42 of the Budget Code). The State Treasury, operating as an agency of the Ministry of Finance, has a central role in budget execution. It is responsible for managing payment transactions, for the financial control of commitments, and for accounting.

Ukraine has implemented a single treasury account (STA) held at the National Bank of Ukraine. The STA is the main account used by the state for financial transactions and for management of state and local budget funds. Payments are made through the electronic
The payments system of the National Bank of Ukraine. The State Treasury of Ukraine keeps current accounts in foreign currency opened on its behalf in the National Bank of Ukraine and in the State Export and Import Bank of Ukraine. The State Treasury assures timely and complete recording of all operations, providing users with real-time information about the state of assets and liabilities and budget execution. The State Treasury operates at three levels which approximate the administrative and territorial divisions of Ukraine. The first is the central level, the second is the regional level with 27 departments, and the third is the district level with 633 departments, making a total of 660 local bodies with around 16,000 employees.

Within one month after the budget law is approved by the Parliament, the Ministry of Finance draws up a disbursement schedule of the state budget, the rozpys. This document

Table 10. **Dynamics of planned indicators of the state budget of Ukraine, 2006-10 (million UAH)** (cont.)

<table>
<thead>
<tr>
<th></th>
<th>Government draft budget</th>
<th>State budget law adopted by the Parliament</th>
<th>The law on the budget considering the introduced amendments</th>
<th>Per cent change</th>
<th>Per cent change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>14-09-2006</td>
<td>19-12-2006</td>
<td>Throughout 2007</td>
<td>Throughout 2007</td>
<td></td>
</tr>
<tr>
<td>I. Revenues</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>II. Financing</td>
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<tr>
<td>III. Crediting</td>
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<td></td>
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<tr>
<td>IV. Expenditures, total, of which:</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Transfers to local budgets</td>
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<td></td>
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<tr>
<td>2. Verkhovna Rada of Ukraine</td>
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</tr>
<tr>
<td>3. Public affairs management</td>
<td></td>
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</tr>
<tr>
<td>4. Cabinet of Ministers of Ukraine</td>
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<td></td>
</tr>
<tr>
<td>5. Ministry of Finance (including tax and customs services, Main Control and Revision Organisation, State Property Fund)</td>
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<td></td>
</tr>
<tr>
<td>6. Ministry of Education and Science, National Academy of Sciences and National Academy of Pedagogical Sciences</td>
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<td>7. Ministry of Healthcare</td>
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<tr>
<td>8. Ministry of Labour and Social Policy and transfers to the Pension Fund</td>
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</tr>
<tr>
<td>9. Ministry of Defence and Administration of the State Border Guard Service</td>
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</tr>
<tr>
<td>10. Security agencies (including the Office of the General Prosecutor, Security Service of Ukraine, Ministry of Internal Affairs, Ministry of Emergency Situations, etc.) and Ministry of Coal Industry</td>
<td></td>
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<tr>
<td>11. Judicial authorities</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>12. Ministry of Fuel and Energy and Ministry of Coal Industry</td>
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<td></td>
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<tr>
<td>13. Ministry of Agrarian Policy</td>
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</tr>
<tr>
<td>14. Ministry of Transport and Communications and State Road Service</td>
<td></td>
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</tr>
<tr>
<td>Source:</td>
<td>Information obtained from the secretariat of the Budget Committee of the Ukrainian Parliament.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
provides a monthly breakdown of planned expenditure approved by the budget law. In particular, the disbursements to the budget holders by budget programmes are allocated on a monthly basis. The approved rozpys is transferred to the State Treasury for execution.

The approved rozpys can be amended during the year as a result of the following events:

- approval of changes to the state budget law by the Parliament;
- reallocations by the government with the approval of the parliamentary Budget Committee among budget holders or among budget programmes of the budget holder(s).

Changes to the state budget rozpys result in the introduction of changes in the monthly cash plans (koshtorys) of budget institutions.

As part of the process of budget execution (but also for the purpose of assessment and budget formulation), budget holders are required to submit “passports” for budget programmes.

Table 10. **Dynamics of planned indicators of the state budget of Ukraine, 2006-10 (million UAH)**

<table>
<thead>
<tr>
<th></th>
<th>Draft budget, proposed by the government</th>
<th>Draft budget, proposed by a new government</th>
<th>The law on the budget, adopted by the Parliament</th>
<th>Per cent change</th>
<th>The law on the budget considering the introduced amendments</th>
<th>Per cent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Revenues</td>
<td>191 125.7</td>
<td>215 359.4</td>
<td>215 359.4</td>
<td>0.00</td>
<td>231 932.0</td>
<td>7.70</td>
</tr>
<tr>
<td>II. Financing (deficit)</td>
<td>18 945.0</td>
<td>18 500.3</td>
<td>18 822.2</td>
<td>1.74</td>
<td>25 020.2</td>
<td>32.93</td>
</tr>
<tr>
<td>III. Crediting</td>
<td>-1 860.4</td>
<td>1 642.6</td>
<td>1 809.6</td>
<td>10.17</td>
<td>3 744.3</td>
<td>106.91</td>
</tr>
<tr>
<td>IV. Expenditures, total, of which</td>
<td>211 931.0</td>
<td>232 217.1</td>
<td>232 372.0</td>
<td>0.07</td>
<td>253 207.9</td>
<td>8.97</td>
</tr>
<tr>
<td>1 Transfers to local budgets</td>
<td>56 279.7</td>
<td>59 544.2</td>
<td>59 634.2</td>
<td>0.15</td>
<td>62 712.4</td>
<td>5.16</td>
</tr>
<tr>
<td>2 Verkhovna Rada of Ukraine</td>
<td>797.4</td>
<td>852.4</td>
<td>860.4</td>
<td>0.94</td>
<td>860.4</td>
<td>0.00</td>
</tr>
<tr>
<td>3 Public affairs management</td>
<td>1 015.6</td>
<td>1 236.9</td>
<td>1 236.9</td>
<td>0.00</td>
<td>1 241.3</td>
<td>0.36</td>
</tr>
<tr>
<td>4 Cabinet of Ministers of Ukraine</td>
<td>389.1</td>
<td>428.1</td>
<td>428.1</td>
<td>0.00</td>
<td>428.1</td>
<td>0.00</td>
</tr>
<tr>
<td>5 Ministry of Finance (including tax and customs services, Main Control and Revision Organisation, State Property Fund)</td>
<td>13 847.8</td>
<td>20 286.4</td>
<td>20 241.4</td>
<td>-0.22</td>
<td>20 767.0</td>
<td>2.60</td>
</tr>
<tr>
<td>6 Ministry of Education and Science, National Academy of Sciences and National Academy of Pedagogical Sciences</td>
<td>17 818.5</td>
<td>18 072.3</td>
<td>18 090.2</td>
<td>0.10</td>
<td>18 202.5</td>
<td>0.62</td>
</tr>
<tr>
<td>7 Ministry of Healthcare</td>
<td>5 570.6</td>
<td>5 725.8</td>
<td>5 745.8</td>
<td>0.35</td>
<td>5 780.0</td>
<td>0.60</td>
</tr>
<tr>
<td>8 Ministry of Labour and Social Policy and transfers to the Pension Fund</td>
<td>29 794.5</td>
<td>38 743.5</td>
<td>38 775.5</td>
<td>0.08</td>
<td>45 241.6</td>
<td>16.68</td>
</tr>
<tr>
<td>9 Ministry of Defence and Administration of the State Border Guard Service</td>
<td>11 251.1</td>
<td>11 949.7</td>
<td>11 949.7</td>
<td>0.00</td>
<td>11 976.2</td>
<td>0.22</td>
</tr>
<tr>
<td>10 Security agencies (including the Office of the General Prosecutor, Security Service of Ukraine, Ministry of Internal Affairs, Ministry of Emergency Situations, etc.) and Ministry of Coal Industry</td>
<td>18 363.8</td>
<td>19 180.7</td>
<td>19 180.7</td>
<td>0.00</td>
<td>19 374.7</td>
<td>1.01</td>
</tr>
<tr>
<td>11 Judicial authorities</td>
<td>2 428.4</td>
<td>2 839.6</td>
<td>2 839.6</td>
<td>0.00</td>
<td>2 838.6</td>
<td>-0.03</td>
</tr>
<tr>
<td>12 Ministry of Fuel and Energy and Ministry of Coal Industry</td>
<td>9 495.3</td>
<td>12 241.8</td>
<td>12 241.8</td>
<td>0.00</td>
<td>16 004.3</td>
<td>30.74</td>
</tr>
<tr>
<td>13 Ministry of Agrarian Policy</td>
<td>11 834.7</td>
<td>9 849.6</td>
<td>9 849.6</td>
<td>0.00</td>
<td>10 994.6</td>
<td>11.62</td>
</tr>
<tr>
<td>14 Ministry of Transport and Communications and State Road Service</td>
<td>8 888.9</td>
<td>11 381.2</td>
<td>11 381.2</td>
<td>0.00</td>
<td>12 191.5</td>
<td>7.12</td>
</tr>
<tr>
<td></td>
<td>88.60%</td>
<td>91.44%</td>
<td>91.43%</td>
<td></td>
<td>90.29%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Information obtained from the secretariat of the Budget Committee of the Ukrainian Parliament.
to the Ministry of Finance. These documents include planned expenditure as well as other information such as goals, tasks, activities, and expected results (see Section 2.1.2).49

The commitments are incurred and the expenditures are accounted for by the budget holders only within the limits of the monthly cash plans (koshtorys) of the budget institutions. Payment orders and documents incurring commitments are signed by the heads of the budget institutions and their chief accountants. The State Treasury is responsible for the registration and accounting of commitments and payments of budget holders, and records them in the reports on budget execution. If a commitment is approved, it is registered (the Treasury keeps a register of all commitments). The Treasury bodies reconcile the registration of the budget holders’ commitments submitted by each budget holder and the supporting documents in respect of compliance of the data with

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**Table 10. Dynamics of planned indicators of the state budget of Ukraine, 2006-10 (million UAH)**

<table>
<thead>
<tr>
<th>Draft budget, proposed by the government</th>
<th>Revised draft budget, proposed by the government</th>
<th>The law on the budget, adopted by the Parliament</th>
<th>Per cent change</th>
<th>The law on the budget considering the introduced amendments</th>
<th>Per cent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Revenues</td>
<td></td>
<td></td>
<td>15-09-2008</td>
<td>237 547.2</td>
<td>2.67</td>
</tr>
<tr>
<td>II. Financing (deficit)</td>
<td></td>
<td></td>
<td>23-12-2008</td>
<td>238 931.3</td>
<td>0.58</td>
</tr>
<tr>
<td>III. Crediting</td>
<td></td>
<td></td>
<td>26-12-2008</td>
<td>2 920.1</td>
<td>-6.99</td>
</tr>
<tr>
<td>IV. Expenditures, total, of which</td>
<td></td>
<td></td>
<td>2009</td>
<td>302 184.7</td>
<td>2.56</td>
</tr>
<tr>
<td>1 Transfers to local budgets</td>
<td>68 530.4</td>
<td>59 533.1</td>
<td>60 819.7</td>
<td>21.6</td>
<td>61 483.2</td>
</tr>
<tr>
<td>2 Verkhovna Rada of Ukraine</td>
<td>1 043.7</td>
<td>661.9</td>
<td>740.8</td>
<td>11.93</td>
<td>758.1</td>
</tr>
<tr>
<td>3 Public affairs management</td>
<td>1 624.7</td>
<td>753.2</td>
<td>832.2</td>
<td>10.49</td>
<td>817.4</td>
</tr>
<tr>
<td>4 Cabinet of Ministers of Ukraine</td>
<td>501.1</td>
<td>281.2</td>
<td>281.2</td>
<td>0.00</td>
<td>281.2</td>
</tr>
<tr>
<td>5 Ministry of Finance (including tax and customs services, Main Control and Revision Organisation, State Property Fund)</td>
<td>31 333.3</td>
<td>23 902.8</td>
<td>23 980.6</td>
<td>0.20</td>
<td>23 192.6</td>
</tr>
<tr>
<td>6 Ministry of Education and Science, National Academy of Sciences and National Academy of Pedagogical Sciences</td>
<td>21 175.3</td>
<td>20 990.4</td>
<td>21 079.7</td>
<td>0.43</td>
<td>21 079.7</td>
</tr>
<tr>
<td>7 Ministry of Healthcare</td>
<td>7 385.5</td>
<td>5 545.9</td>
<td>5 545.9</td>
<td>0.00</td>
<td>5 904.2</td>
</tr>
<tr>
<td>8 Ministry of Labour and Social Policy</td>
<td>49 228.8</td>
<td>52 593.2</td>
<td>52 593.2</td>
<td>0.00</td>
<td>53 330.9</td>
</tr>
<tr>
<td>9 Ministry of Defence and Administration</td>
<td>20 152.6</td>
<td>12 864.3</td>
<td>13 556.0</td>
<td>5.45</td>
<td>13 566.0</td>
</tr>
<tr>
<td>10 Security agencies (including the Office of the General Prosecutor, Security Service of Ukraine, Ministry of Internal Affairs, Ministry of Emergency Situations, etc.) and Ministry of Coal Industry</td>
<td>27 208.4</td>
<td>19 573.8</td>
<td>20 548.4</td>
<td>4.98</td>
<td>20 548.4</td>
</tr>
<tr>
<td>11 Judicial authorities</td>
<td>3 784.7</td>
<td>2 281.4</td>
<td>2 323.4</td>
<td>1.84</td>
<td>2 447.7</td>
</tr>
<tr>
<td>12 Ministry of Fuel and Energy and Ministry of Coal Industry</td>
<td>17 965.4</td>
<td>5 703.3</td>
<td>5 703.7</td>
<td>0.01</td>
<td>5 719.2</td>
</tr>
<tr>
<td>13 Ministry of Agrarian Policy</td>
<td>11 980.6</td>
<td>5 737.6</td>
<td>5 738.9</td>
<td>0.02</td>
<td>5 738.9</td>
</tr>
<tr>
<td>14 Ministry of Transport and Communications and State Road Service</td>
<td>12 561.6</td>
<td>15 902.8</td>
<td>16 270.3</td>
<td>2.31</td>
<td>12 770.3</td>
</tr>
</tbody>
</table>

| Source: Information obtained from the secretariat of the Budget Committee of the Ukrainian Parliament. |
that included in the register. During the registration and accounting for the budget commitments, an audit is done to check for compliance of the budget fund application with the budget appropriation and the passports of the budget programme (in the event of application of the programme-based method in the budget process). The audited registers of budget commitments are included in the Treasury database. Should the commitments be incurred by the budget holder in violation of legislative requirements, such commitments are not viewed as budgetary commitments and cannot lead to payment from the budget funds. Such commitments are not registered by the Treasury. After eliminating the irregularities, the budget holder re-submits the commitments to the Treasury for registration. The commitments not registered in the Treasury are not subject to payment from the budget funds.

Table 10. Dynamics of planned indicators of the state budget of Ukraine, 2006-10 (million UAH) (cont.)

Changes from introduction of the draft budget bill to adoption and in-year modifications 2010 (as of November 2010)

<table>
<thead>
<tr>
<th>Draft budget, proposed by the government</th>
<th>Draft budget, proposed by a new government</th>
<th>The law on the budget, adopted by the Parliament</th>
<th>Per cent change</th>
<th>The law on the budget considering the introduced amendments</th>
<th>Per cent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>16-09-2009</td>
<td>23-04-2010</td>
<td>27-04-2010</td>
<td>0.00</td>
<td>252 751.2</td>
<td>-5.50</td>
</tr>
<tr>
<td>I. Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>284 691.9</td>
<td>267 452.0</td>
<td>267 452.0</td>
<td>0.00</td>
<td>252 751.2</td>
<td>-5.50</td>
</tr>
<tr>
<td>II. Financing (deficit)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>46 748.3</td>
<td>57 745.4</td>
<td>57 745.4</td>
<td>0.00</td>
<td>54 095.4</td>
<td>-6.32</td>
</tr>
<tr>
<td>III. Crediting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 168.2</td>
<td>1 641.2</td>
<td>1 180.9</td>
<td>-28.05</td>
<td>1 180.9</td>
<td>0.00</td>
</tr>
<tr>
<td>IV. Expenditures, total, of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>324 272.0</td>
<td>323 556.2</td>
<td>324 016.5</td>
<td>0.14</td>
<td>305 665.7</td>
<td>-5.66</td>
</tr>
<tr>
<td>1 Transfers to local budgets</td>
<td>83 807.1</td>
<td>77 440.9</td>
<td>0.15</td>
<td>78 014.2</td>
<td>0.59</td>
</tr>
<tr>
<td>2 Verkhovna Rada of Ukraine</td>
<td>578.9</td>
<td>839.4</td>
<td>4.32</td>
<td>822.2</td>
<td>-6.11</td>
</tr>
<tr>
<td>3 Public affairs management</td>
<td>984.3</td>
<td>1 051.0</td>
<td>0.00</td>
<td>946.7</td>
<td>-9.92</td>
</tr>
<tr>
<td>4 Cabinet of Ministers of Ukraine</td>
<td>331.3</td>
<td>313.9</td>
<td>1.12</td>
<td>311.8</td>
<td>-1.74</td>
</tr>
<tr>
<td>5 Ministry of Finance (including tax and customs services, Main Control and Revision Organisation, State Property Fund)</td>
<td>31 673.7</td>
<td>23 187.0</td>
<td>23 210.0</td>
<td>0.10</td>
<td>22 862.9</td>
</tr>
<tr>
<td>6 Ministry of Education and Science, National Academy of Sciences and National Academy of Pedagogical Sciences</td>
<td>20 347.5</td>
<td>23 078.4</td>
<td>23 113.9</td>
<td>0.15</td>
<td>22 617.8</td>
</tr>
<tr>
<td>7 Ministry of Healthcare</td>
<td>6 292.5</td>
<td>6 700.1</td>
<td>0.00</td>
<td>6 135.1</td>
<td>-8.43</td>
</tr>
<tr>
<td>8 Ministry of Labour and Social Policy and transfers to the Pension Fund</td>
<td>60 441.7</td>
<td>72 339.0</td>
<td>72 339.0</td>
<td>0.00</td>
<td>69 229.2</td>
</tr>
<tr>
<td>9 Ministry of Defence and Administration of the State Border Guard Service</td>
<td>15 183.6</td>
<td>15 751.3</td>
<td>15 770.3</td>
<td>0.12</td>
<td>13 584.8</td>
</tr>
<tr>
<td>10 Security agencies (including the Office of the General Prosecutor, Security Service of Ukraine, Ministry of Internal Affairs, Ministry of Emergency Situations, etc.) and Ministry of Coal Industry</td>
<td>23 069.8</td>
<td>23 163.2</td>
<td>23 163.2</td>
<td>0.00</td>
<td>22 805.2</td>
</tr>
<tr>
<td>11 Judicial authorities</td>
<td>2 839.3</td>
<td>2 877.0</td>
<td>0.00</td>
<td>2 806.5</td>
<td>-2.45</td>
</tr>
<tr>
<td>12 Ministry of Fuel and Energy and Ministry of Coal Industry</td>
<td>9 921.2</td>
<td>7 182.3</td>
<td>7 182.3</td>
<td>0.00</td>
<td>6 278.3</td>
</tr>
<tr>
<td>13 Ministry of Agrarian Policy</td>
<td>6 008.8</td>
<td>7 242.5</td>
<td>-1.35</td>
<td>5 754.5</td>
<td>-19.46</td>
</tr>
<tr>
<td>14 Ministry of Transport and Communications and State Road Service</td>
<td>14 845.2</td>
<td>7 934.9</td>
<td>7 934.9</td>
<td>0.00</td>
<td>9 065.2</td>
</tr>
<tr>
<td>85.21%</td>
<td>83.17%</td>
<td>83.09%</td>
<td>85.47%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Information obtained from the secretariat of the Budget Committee of the Ukrainian Parliament.
4.2. Cash management

Through the STA, the State Treasury maintains real-time data about the available cash balances. The short-term debt management is the responsibility of a department in the Ministry of Finance, the Department of Public Debt. The State Treasury and the Department of Public Debt communicate on a weekly basis but work from different forecasts, although both use the rozyps.

The State Treasury prepares rolling three-month forecasts of cash flows based on the rozyps, actual cash-flow data, and historical patterns. These forecasts are circulated to the Ministry of Finance and the National Bank of Ukraine.

A recent “Public Finance Assessment of Ukraine” (SIGMA, 2010) indicates that there have been improvements in debt and cash management, and that the World Bank will continue to support work in this area (see Section 1.3). There is also a project under way with the European Union to explore other countries’ experiences as the basis for the development of a regulatory framework for cash management, which is currently lacking in Ukraine (see Box 7).

---

Box 7. Models of cash management

Three basic models of cash management exist in OECD countries, although the majority have adopted a single treasury account.

In the decentralised model, all budget holders have their own accounts with commercial banks. These accounts are funded by periodical cash advances supplied by the Treasury on the basis of cash-flow estimates and cash allotment decisions. Budget institutions then make payment orders by drawing on their own accounts.

In the centralised model, budget holders are not allowed to have their own accounts with commercial banks. There is only a single account (with sub-accounts), usually kept at the central bank, which belongs to the Treasury. Since the Treasury is not allowed to borrow from the central bank, the Treasury handles short-term borrowing by auctioning securities among the commercial banks. All budget institutions have to send payment orders to the Treasury in order to draw upon their sub-accounts.

In the hybrid model, budget holders are allowed to have their own bank accounts with a single commercial bank, but any positive balances on these accounts are daily transferred to the Treasury account with the central bank and all bank accounts are daily supplied with cash advances. The contract with the commercial bank is usually auctioned. Similarly, short-term borrowing is centralised at the Treasury. Budget holders make payments by drawing on their own account with the commercial bank.

Both the centralised and the hybrid model realise efficiency gains through consolidation of balances and centralisation of short-term debt management at the Treasury.

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4.3. Budgetary discipline

4.3.1. Overspending and reallocation

Budgetary discipline during budget execution is fairly strict. Pursuant to Article 23 of the Budget Code, no budget obligations or payments can be made without a corresponding budget authorisation in the state budget law (or local budget). If additional resources are needed, the state budget law must be amended. The Cabinet of Ministers, the President or
the Parliament may propose legislation modifying the state budget law. This does happen in practice, with a number of laws adopted each year.

The reallocation regime in Ukraine is also fairly strict. Article 23 of the Budget Code regulates the budget reallocations from one budget holder to another, reallocation between budget programmes within the overall budget of a ministry or other CPA, the increase of development expenditures at the expense of other expenditures, and the reallocation of the state grants among territorial units. Reallocation can be decided by the Cabinet of Ministers of Ukraine with the approval of the parliamentary Budget Committee.

4.3.2. Carry-overs

Budgetary control is fairly strict regarding carry-overs. Unused line-item funds cannot be transferred to the next budget year. With the exception of the special fund, the only way to transfer unused funds is by re-appropriation in the upcoming year’s budget. For the special fund, any remaining cash balances are kept by the State Treasury to cover the same types of expenses in the next budget period. In the event of no relevant budget allocations for the next budget period, the cash balances of the special fund are transferred to the general fund of the budget (Article 57 of the Budget Code).

4.3.3. Government Reserve Fund

The Government Reserve Fund is for extraordinary expenditures, for example responding to natural disasters and for humanitarian aid. The reserve fund should not exceed 1% of the total budget. In 2010, the reserve fund was in the amount of UAH 1.5 billion (USD 190 million). The Cabinet of Ministers decides on the allocation of resources from this fund (Article 24 of the Budget Code). The decision on the allocation of resources from the Government Reserve Fund is taken by the Cabinet of Ministers of Ukraine, the Council of Ministers of the Autonomous Republic of Crimea, the local state administrations, and the executive authorities of the respective councils of local government (Article 24 of the Budget Code). The Cabinet of Ministers (or the Council of Ministers of the Autonomous Republic of Crimea or the executive authorities of local government) report to the Parliament of Ukraine (or the Council of Ministers of the Autonomous Republic of Crimea or the councils of local government) on a monthly basis on the use of the resources (Article 24 of the Budget Code). The reserve fund of the state budget is included in the state budget of Ukraine and accordingly approved by the Parliament of Ukraine.

4.4. Conclusion

The organisation of budget execution in Ukraine has improved markedly over recent years and is generally in accordance with practice in OECD countries.

Cash management is still in development. The State Treasury is taking appropriate measures to develop instruments with the aim of improving cash-flow management (supported by a twinning project with the World Bank). It is important that in the co-operation with the World Bank appropriate emphasis is put on the reliability of financial plans.

The Budget Code (Article 23) regulates the procedures for reallocation once the budget is approved by the Parliament. The code stipulates that a government decision on reallocation has to be approved by the parliamentary Budget Committee. On the occasion of the next revision of the Budget Code, the Ukrainian authorities may wish to take into account that many OECD countries allow small reallocations between line items (within
certain thresholds as a percentage of existing appropriations) within a ministry without supplementary budget laws, possibly after notification of the Parliament.

Carry-overs of appropriations can be allowed in Ukraine on an ad hoc basis in view of the implementation of the mid-term planning scheme for budget programmes. On the occasion of the next revision of the Budget Code, the Ukrainian authorities may wish to take into account that many OECD countries allow carry-overs within certain margins or with compensation in the next budget year (so that carry-overs cannot accumulate over the years).

5. Public administration and service delivery

5.1. Organisational structure

5.1.1. Central government

In December 2010, the President signed a decree which established a new structure of central government. The number of ministries has been reduced from 21 (including the Prime Minister and one minister without portfolio) to 17 (including the Prime Minister). The Cabinet decides collectively, and all members of the Cabinet have equal voting power. The Prime Minister’s vote decides in the case of a draw (Article 52 of the Law on the Cabinet of Ministers).

Prior to the reform, the central government consisted of 20 ministries and 87 other central public authorities (CPAs) and governmental public management bodies. In order to streamline the execution of state policy, the President of Ukraine reorganised the executive branch of government and reduced the number of ministries to 16 and the number of other central public authorities to 58 (74 CPAs in total).

The current 16 line ministries are:

1. Ministry for Economic Development and Trade (the Minister is also the First Deputy Prime Minister).
2. Ministry for Infrastructure (the Minister is also a Deputy Prime Minister).
3. Ministry for Regional Development, Construction and Housing (the Minister is also a Deputy Prime Minister).
4. Ministry for Social Policy (the Minister is also a Deputy Prime Minister).
5. Ministry for Agriculture and Foodstuffs.
7. Ministry of Culture.
11. Ministry of Environment and Natural Resources.
15. Ministry of Foreign Affairs.

There is no clear division of tasks between ministries and other CPAs (state services, agencies, inspections, etc.). Both ministries and other CPAs may perform executive, supervisory and regulatory tasks. One of the key objectives of the administrative reform
was to create a government structure with a clearer division of tasks between ministries on the one hand and various types of other CPAs on the other hand. Another objective was to create more uniformity in the internal structure of CPAs, for instance concerning their financial administration. These objectives have not yet been fully realised.

In some OECD countries, there has been a tendency in the last two decades to move executive agencies out of the core ministries and provide them with a separate financial administration (“arm's-length agencies”). These reforms have contributed to accuracy of information about the costs of policy execution. However, these agencies remain firmly under ministerial responsibility. In the limited number of cases where independence of policy execution is required for appropriate task execution (for example, the electoral committee or the statistical office), the executive agencies still remain under ministerial responsibility as far as operational management is concerned. In addition to government agencies, OECD countries have organised some public agencies in the form of public non-profit institutions with legal personality separate from the state (for instance, cultural institutions and universities). These institutions may receive grants from the state, but their expenditures and revenues are not part of the state budget. In Ukraine, a further clarification of the status and competences of CPAs other than ministries would be useful. Important criteria should include the following:

- Policy development should remain the task of core ministries: no policy development in executive agencies. If policy execution is transferred to an agency, the financial administration of the agency should be completely separated from that of the core ministry (including payment for support services still provided by the core ministry), so that the financial administration of the agency provides accurate insight into the costs of policy execution.
- All agencies should remain under ministerial responsibility except a limited number of agencies for which independence is essential for appropriate task execution; also, for the latter agencies responsibility for operational management should rest with the minister.
- Public non-profit agencies with legal personality should be separated from the state budget.

5.1.2. Local government

Ukrainian local government at the level of oblasts, rayons and cities has representative bodies, the regional councils (radas). The councils consist of deputies that are elected by residents on the basis of general, equal and direct suffrage by secret voting for a term of five years. The oblast and rayon councils and the councils of the cities of Kiev and Sevastopol have no executive bodies. The rayon and oblast councils delegate executive powers indicated by law to the respective local state administrations. The local government is financed from the local budgets.

The local state administrations serve as executive bodies in oblasts and rayons and in the cities of Kiev and Sevastopol. The heads of the local state administrations are appointed by the President of Ukraine on the recommendation of the Prime Minister for a term in office equal to that of the President. The heads of the local state administrations are responsible for the organisation and staffing of the local state administrations. The local state administrations are financed from the state budget.

A thorough reform of the structure of local government and the territorial division of the country below the regional (oblast) level has been under discussion for more than ten years. Under the auspices of the Ministry for Regional Development, Construction and
Housing, a reform programme has been finalised and adopted by the Cabinet of Ministers. According to this programme, the number of rayons will be reduced from the current 488 to around 170; the number of local governments of the first level will be reduced from the current 12 000 to some 1 500. This new structure is expected to meet the requirements of the EU for territorial governance and public administration, as well as the requirements of the EU statistical office EUROSTAT known as Nomenclature des unités territoriales statistiques (NUTS). Compliance with the EU requirements and with NUTS is an important precondition to qualify for European structural funds. This reform programme was temporarily put on hold when President Yanukovych took office in the first quarter of 2010.

5.2. Service delivery

5.2.1. Service delivery by central government

Central government organisations provide collective services in the sectors of defence, public order and safety, environmental protection, penitentiary services, basic research, and transport. For instance, the central government agency in charge of roads (Ukravtodor) maintains about 170 000 kilometres of national roads.

Individual services provided by the central government comprise higher education (universities) and some forms of public health services. For instance, public health facilities which specialise in particular diseases are under the direct command of the Ministry of Health. All other forms of public health services, as well as primary and secondary education, are delivered by local governments. The public health system is fully tax-financed and officially provided free of charge to the population. Old-age and disability pensions and benefits for unemployment, sick leave, work accidents and temporary disability are provided by social security funds which are financed by mandatory payroll contributions.

For the delivery of administrative services such as licenses and permits, the Ukrainian government is currently setting up a web-based database which will help to identify the type of service provided by each central public authority (CPA).\textsuperscript{54} Once completed, this inventory shall serve as a basis for the development of an e-government portal which will allow citizens to receive some services on the basis of an online application. Central government services are sometimes provided directly\textsuperscript{55} by the CPA in Kiev; however, the majority of services are provided through deconcentrated offices of the CPA at the regional level.

A number of services are provided against payment of a fee. The charging and collection of fees is not always clearly regulated. Fees are not necessarily channelled through the single treasury account. These deficiencies have recently been officially recognised, and the President has instructed the Cabinet of Ministers to develop a draft law to address these issues. The law will prescribe among other things that all non-tax revenue generated by fees for services will be included in the state budget.

5.2.2. Service delivery by local government

Local governments provide the majority of services in the sectors of education, public health, housing and public utilities. Table 11 illustrates the distribution of functions between the levels of local government; Table 12 shows expenditures.

In the majority of cases (social protection, education, public health), the service providers are public agencies owned by local government. In some cases (for instance, waste disposal), local governments may contract out service provision to the private sector; in others (for instance, water and wastewater transport and treatment), local governments
may award concessions to the private sector without transferring ownership of the infrastructure.

A large majority of local services is provided through oblast and rayon administrations on the basis of mandates in state laws (so-called delegated competences). However, there is a considerable problem of unfunded mandates, in that the grants from central governments are not sufficient to provide the services prescribed by law. In particular, local governments have to use a large part of non-earmarked grants and local taxes to fund mandated services, leaving very little room to fund local services not mandated by law.

5.3. General government employment

5.3.1. Size and remuneration

Employment in general government consists of civil servants and other employees. The status of the first category is regulated by the Law on the Civil Service of 1993, except for certain provisions of the Labour Code which are applicable to all employees including civil servants. The status of other employees is regulated by the Labour Code.

Table 13 provides an overview of employment in general government, including employees on temporary contracts, but this excludes public employment in state-owned enterprises (SOEs). The figure for “public administration” includes the police, the judiciary,
and permanent (professional) military personnel. Military personnel serving under conscription are not included. It is acknowledged that data for public employment may not be fully compatible with OECD national accounts data. However, overall figures suggest that the share of public employment in Ukraine is substantially higher than the OECD average (OECD, 2009, p. 67).

When comparing the GDP share of general government compensation of employees, Ukraine does not score particularly high, due to low remuneration levels (OECD, 2009, p. 63). In Ukraine, the share of public sector salaries in per cent of GDP was around 10% in 2007; in 2010, this share was more than 12%. The share of compensation of employees in the central government budget is around 18%. This figure includes civil servants working in the regional administrations (oblasts and rayons) who belong to the national civil service and are financed by the state budget. The salaries of officials at the regional level who do not have the status of civil servants (and thus are not paid from the state budget), together with the payroll costs of all public employees of first-level local government, are included in the local budgets. The share of compensation of employees in the local budgets is considerably higher, amounting to some 40% (see Table 14).

### Table 12. Expenditures of sub-national budgets in Ukraine, by function

<table>
<thead>
<tr>
<th>Function</th>
<th>Oblasts</th>
<th>Kiev and Sevastopol</th>
<th>Rayons</th>
<th>Cities</th>
<th>Villages</th>
<th>Settlements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>2,898</td>
<td>8,419</td>
<td>7,863</td>
<td>425</td>
<td>799</td>
<td>400</td>
</tr>
<tr>
<td>Health care</td>
<td>5,662</td>
<td>5,271</td>
<td>3,549</td>
<td>19</td>
<td>691</td>
<td>136</td>
</tr>
<tr>
<td>Social protection</td>
<td>2,018</td>
<td>3,571</td>
<td>4,440</td>
<td>7</td>
<td>15</td>
<td>7</td>
</tr>
<tr>
<td>Public administration</td>
<td>400</td>
<td>1,592</td>
<td>276</td>
<td>141</td>
<td>1,143</td>
<td>200</td>
</tr>
<tr>
<td>Economic activity¹</td>
<td>3,769</td>
<td>3,199</td>
<td>613</td>
<td>184</td>
<td>350</td>
<td>199</td>
</tr>
<tr>
<td>Housing</td>
<td>1,662</td>
<td>5,062</td>
<td>256</td>
<td>176</td>
<td>126</td>
<td>121</td>
</tr>
<tr>
<td>Culture, media and physical development</td>
<td>1,037</td>
<td>1,026</td>
<td>763</td>
<td>25</td>
<td>271</td>
<td>50</td>
</tr>
<tr>
<td>Public order, security, judicial power</td>
<td>1</td>
<td>13</td>
<td>10</td>
<td>1</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>Environmental and nuclear safety, emergency services</td>
<td>29</td>
<td>28</td>
<td>37</td>
<td>3</td>
<td>19</td>
<td>3</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>17,477</td>
<td>28,181</td>
<td>17,807</td>
<td>981</td>
<td>3,425</td>
<td>1,128</td>
</tr>
</tbody>
</table>

Share of total (%)

<table>
<thead>
<tr>
<th>Function</th>
<th>2000</th>
<th>2005</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public administration</strong></td>
<td>1,198.6</td>
<td>1,028.9</td>
<td>1,036.4</td>
<td>1,067.5</td>
<td>1,078.6</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td>1,609.7</td>
<td>1,668.2</td>
<td>1,693.7</td>
<td>1,702.4</td>
<td>1,698.4</td>
</tr>
<tr>
<td><strong>Public health and social security</strong></td>
<td>1,379.6</td>
<td>1,356.6</td>
<td>1,359.0</td>
<td>1,369.9</td>
<td>1,348.1</td>
</tr>
<tr>
<td><strong>Public services, culture and sports</strong></td>
<td>0.860</td>
<td>0.817</td>
<td>0.833</td>
<td>0.840</td>
<td>0.784</td>
</tr>
<tr>
<td><strong>Total public sector</strong></td>
<td>4,188.6</td>
<td>4,054.5</td>
<td>4,089.9</td>
<td>4,140.6</td>
<td>4,125.9</td>
</tr>
<tr>
<td><strong>Total domestic employment</strong></td>
<td>20,175.0</td>
<td>20,680.0</td>
<td>20,904.7</td>
<td>20,972.3</td>
<td>20,191.5</td>
</tr>
<tr>
<td><strong>Public sector in % of total domestic employment</strong></td>
<td>20.76</td>
<td>19.61</td>
<td>19.56</td>
<td>19.74</td>
<td>20.43</td>
</tr>
</tbody>
</table>

1. Includes construction, agriculture, forestry, fishing and hunting, transport, roads, communication, and other economic activities.


### Table 13. General government employment in Ukraine

<table>
<thead>
<tr>
<th>Year</th>
<th>Public administration</th>
<th>Education</th>
<th>Public health and social security</th>
<th>Public services, culture and sports</th>
<th>Total public sector</th>
<th>Total domestic employment</th>
<th>Public sector in % of total domestic employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>1,198.6</td>
<td>1,028.9</td>
<td>1,036.4</td>
<td>1,067.5</td>
<td>4,188.6</td>
<td>20,175.0</td>
<td>20.76</td>
</tr>
<tr>
<td>2005</td>
<td>1,609.7</td>
<td>1,668.2</td>
<td>1,693.7</td>
<td>1,702.4</td>
<td>4,054.5</td>
<td>20,680.0</td>
<td>19.61</td>
</tr>
<tr>
<td>2007</td>
<td>1,379.6</td>
<td>1,356.6</td>
<td>1,359.0</td>
<td>1,369.9</td>
<td>4,089.9</td>
<td>20,904.7</td>
<td>19.56</td>
</tr>
<tr>
<td>2008</td>
<td>1,389.6</td>
<td>1,356.6</td>
<td>1,359.0</td>
<td>1,369.9</td>
<td>4,140.6</td>
<td>20,972.3</td>
<td>19.74</td>
</tr>
<tr>
<td>2009</td>
<td>1,348.1</td>
<td>1,348.1</td>
<td>1,348.1</td>
<td>1,348.1</td>
<td>4,125.9</td>
<td>20,191.5</td>
<td>20.43</td>
</tr>
</tbody>
</table>

Source: OECD estimates based on data obtained from the State Statistics Committee of Ukraine.
5.3.2. Civil service

The civil service is regulated by the Law on the Civil Service of 1993. The law was amended as part of the administrative reform of November 2011, with the aim of ensuring necessary conditions for increasing the prestige of the civil service. Among other things, the amendments concerned the definition of the status of civil servant, quality requirements for the services rendered by civil servants, implementation of a transparent mechanism for accession to the civil service, guarantees for the political neutrality of the civil service, implementation of an effective mechanism for prevention of corruption, conditions for transparent administrative procedures, and social and financial protection for civil servants.

The total number of civil servants in Ukraine as of year-end 2009 was almost 300,000. More than one-half of these work in the regional administrations (second-level local government). The number of civil servants has grown by one-third over the period from 2000 to 2009, with the largest share of growth at the regional level.

According to an administrative reform announced by the President in December 2010 (Decree 1085 of 9 December 2010), the number of civil servants working in central government agencies – including their decentralised branches – will be reduced by one-third (Table 15).

Entry to the civil service is open to every citizen of Ukraine possessing “appropriate education and professional training” (Article 4 of the Law on the Civil Service). Admission to civil service positions is normally granted following a competitive selection procedure (Article 15 of the Law on the Civil Service); this procedure follows a general regulation approved by the Cabinet of Ministers in 2002. According to this regulation, recruitment is entrusted to the head of each CPA or regional administration who decides to start a competitive selection procedure if there is a vacancy; the CPA or regional administration is obliged to announce a competition in the mass media one month prior to its starting date. Candidates have to pass...
an examination in front of a competition commission. The examination includes questions on knowledge of the Constitution, of the Law on the Civil Service and of professional legislation. The competition commission recommends successful candidates to the head of the CPA or regional administration, who takes the ultimate decision.

Article 15 of the Law on the Civil Service states that the President of Ukraine, the chair of the Parliament of Ukraine, members of the Cabinet of Ministers, and the heads of regional administrations have the right to select and appoint their deputies, heads of the press service, consultants and secretaries without the need for these persons to undergo the competitive selection procedure as described above. Once appointed, these people are given the status of a civil servant. This system is called “patronage service” in the law.

Civil servants are classified by categories of positions which depend on the organisational and legal level of the body employing them, the scope and nature of the work to be performed, and the role and place of the positions in the structure of the state body (Articles 25 and 26 of the Law on the Civil Service). Promotion is based on performance and tenure. Every civil servant is required to participate in training courses regularly (at least once every five years). A number of long- and short-term courses are offered by state-run public administration academies (SIGMA, 2006). This education is provided free of charge to civil servants.

Performance appraisal systems are formally in place but need to be developed further. On joining the civil service, an employee is assigned a rank within a category. To obtain the next (more senior) rank within the category, the civil servant needs two years of service and a satisfactory performance appraisal. Each category is divided into a number of seniority ranks. The amount of the rank-related bonus remuneration increases with rank.

Civil servants may be removed from their position only for reasons of severe misconduct (Article 30 of the Law on the Civil Service); dismissals following a change in the Cabinet of Ministers are formally not provided for, except for positions under the “patronage service”. In practice, however, changes in the Cabinet regularly result in far-reaching personnel changes in the staffing of CPAs. Staff replacements often reach as far down as the head of department, affecting the third level from the highest civil service level. Civil servants may submit a request for resignation for reasons of health or “principal disagreement” with decisions by superiors (Article 31 of the Law on the Civil Service). After dismissal or resignation from a post, re-entry to the civil service is permitted.

The minister, the first deputy minister and deputy ministers are not civil servants but “political persons”. The deputy minister in charge of administrative affairs is formally a civil servant of the second category. However, in the past deputy ministers could be asked to leave office after the appointment of a new minister. Much discussion has evolved around the introduction of the position of “state secretaries” or deputy ministers, who are (better) protected against the “hire and fire” personnel rotation following changes of Cabinet. Thus far, the position of state secretary does not exist in Ukraine. In practice, some deputy ministers remained in their position irrespectively of changes of Cabinet, largely because of their expert knowledge of the subject (this applies, for instance, to the Deputy Minister of Finance in charge of the state budget). As a result of the administrative reform of December 2010, each ministry now has one deputy minister in charge of administrative affairs.

A designated government agency deals with issues related to the management and development of the civil service. This agency, the National Agency of Ukraine for the Civil Service (Natsderzhsluzhba or NAUCS), is not subordinated to any ministry but reports directly to the Cabinet of Ministers. Its tasks comprise the planning and development of
human resources for the public sector, supervision of the “personnel reserve”, and integrity
and anti-corruption matters (Articles 10 and 11 of the Statute of the NAUCS). The NAUCS is
also known as the Main Department for Civil Service and also has an important role in
further development of the structure of central government.

The basic salary of a civil servant depends on category and rank. Apart from that, civil
servants may be paid additionally for high records of performance, for extremely significant
work and for knowledge of foreign languages and their application in their work, and may be
provided with additional allowances for a scientific degree and an honourable title. The
bonuses are added to the basic salary. The share of pay for tenure (number of years served)
ranges between 10% (at least three years) and 40% (at least 25 years) of the sum of the basic
salary and the rank-related bonus (Article 33 of the Law on the Civil Service).

Within the limits of the approved payroll, the heads of CPAs and local state
administrations are entitled to pay bonuses to employees on the basis of their contribution
to the overall performance results, within the limits of the bonus fund. The bonus fund
amounts to at least 10% of the payroll fund for basic salaries and may be augmented by
savings on the payroll fund. The criteria, procedures and size of the bonus payments are
defined in the regulations of the administrations concerned.

The payroll fund allocated to a government organisation is calculated on the basis of the
number of staff to be normally employed by the organisation. This normative staff number is
endorsed by the Cabinet of Ministers and revised only infrequently. The factual staff numbers
are usually below the normative number; the difference can be used to add to the bonus fund.

The ratio of basic pay to bonus pay used to be unbalanced, with up to 80% of the
budget of a CPA or local state administration available for bonuses (SIGMA, 2006). This
practice was considerably affected during the economic crisis when the bonus budgets
were significantly cut. Since 2008-09, the ratio of bonus pay to basic pay tends to be closer
to 50%, varying quite significantly across CPAs. The need to bring the pay structure for the
civil service into closer alignment with international standards is recognised by the
Ukrainian government, and the objective is to increase the role of the basic salary in the
salary composition and to improve the system of additional payments and allowances.

Until 2007, salaries in the civil service compared relatively well to the average salaries
in other sectors. Depending on the region, civil servants’ salaries were between 10 and 70%
higher than average wages (Morgner and Wesemann, 2009). In the regions with a less
developed economy, especially in rural western Ukraine, employment in the civil service
was financially more attractive compared to the private sector than it was in the
industrialised regions of eastern Ukraine. In the capital, Kiev, the large number of high-
level jobs in the civil service resulted in a financially highly attractive public employment.
The situation changed when the generous bonus payments were cut back in reaction to the
economic crisis. In addition to stricter limitations for bonus payments, the Ukrainian
government refrained since 2008 from pay rises for the civil service (except for pay rises to
compensate for inflation) as part of the successive financial assistance packages
negotiated with the IMF (see Section 1.3).

5.4. Public procurement

Public procurement in Ukraine constituted 11.5% of GDP in 2009 (see Table 16). In 2010,
the share was estimated to have risen to 17% of GDP (prognosis by the Economist
Intelligence Unit, 2011). These figures are comparable with the lower end of the range found in 19 OECD countries (OECD, 2009, p. 111).

Since July 2010, the legal framework for public procurement in Ukraine has been provided by the Law on Public Procurement. The law was developed in close co-operation with EU and World Bank experts and is regarded to be broadly in compliance with WTO and EU requirements. The current law applies to procurement worth more than UAH 100 000 (around EUR 10 000) for goods and services and UAH 300 000 (around EUR 30 000) for works. Irrespective of the value, procurement in a number of sectors of the economy is not subject to the provisions of the law. Such exemptions apply to cases where state secrets or sovereign rights (like printing bank notes) are affected. Another exemption applies to procurement related to the preparations for the 2012 UEFA European Football Championship, which is less convincingly explained by deadlines for completing the preparations for the event. Since the adoption of the law, a number of ministries have attempted to seek other exemptions for some parts of procurement in their area of responsibility. Such attempts received critical comments by the EU and World Bank experts, as they would undermine the objective of the procurement law to provide for unified and transparent regulation in this sector.

The procurement law provides for equal treatment of domestic and foreign bidders. In contrast to previous regulations, the law now clearly establishes complaint procedures. It provides for a centralised publication of procurement notes and results. Among the shortcomings noticed by the expert community are the excessive requirements for information to be submitted for publication of procurement notices, the lack of provisions for the use of e-procurement, and too ample opportunities for rejecting bidders or cancelling tender procedures.

According to the law, the Ministry of Economic Development and Trade acts as the government authority responsible for appropriate procurement procedures. In case of complaints, the Antimonopoly Committee is the responsible authority. The Ministry of Economic Development and Trade implements the provisions of the law. It provides for uniform procedural standards to be applied in the procurement department of every CPA; it maintains a centralised source of public information for all planned procurements and publishes the results of the procurements.

The procurement procedure as such is carried out by each CPA or local government which thereby becomes the “procuring entity”. Each procuring entity establishes a competitive procurement committee and draws up a procurement plan. Each committee consists of at least five members. If an authorised personnel complement of the procurement subject is less than five persons, the number of the procurement committee members shall equal the authorised personnel complement of the procurement subject.

### Table 16. Public procurement in Ukraine as a share of GDP, 2008-10

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (billion UAH)</td>
<td>948.1</td>
<td>914.7</td>
<td>1 008.3</td>
</tr>
<tr>
<td>Total procurement (billion UAH)</td>
<td>167.3</td>
<td>105.3</td>
<td>172.1</td>
</tr>
<tr>
<td>Total procurement as a share of GDP (%)</td>
<td>17.7</td>
<td>11.5</td>
<td>17.1</td>
</tr>
</tbody>
</table>

¹. Prognosis.
Source: Data obtained from the State Statistics Committee of Ukraine.
Information about planned procurements is published in printed form and on an Internet portal called “Public Procurement”, managed by the Ministry of Economic Development and Trade. The Internet portal also provides information on the results of the single-source procurement. The procuring entities may additionally publish information on procurement plans and results on their own websites. Potential bidders can thus receive information about procurement plans from both the ministry and the procurement entity.

The Law on Public Procurement provides for the following forms of public procurement (see Table 17):

- open bidding;
- restricted bidding;
- two-stage bidding;
- request for price quotations;
- single-source procurement.

### Table 17. Public procurement in Ukraine by type of procedure applied, 2008-10

<table>
<thead>
<tr>
<th>Procedure</th>
<th>2008</th>
<th></th>
<th></th>
<th>2009</th>
<th></th>
<th></th>
<th>2010</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of tender procedures</td>
<td>Share of number of tenders (%)</td>
<td>Share of funds disbursed (%)</td>
<td>Number of tender procedures</td>
<td>Share of number of tenders (%)</td>
<td>Share of funds disbursed (%)</td>
<td>Number of tender procedures</td>
<td>Share of number of tenders (%)</td>
<td>Share of funds disbursed (%)</td>
</tr>
<tr>
<td>Open bidding</td>
<td>73 677</td>
<td>72.7</td>
<td>43.6</td>
<td>62 648</td>
<td>75.2</td>
<td>67.3</td>
<td>75 310</td>
<td>78.9</td>
<td>56.2</td>
</tr>
<tr>
<td>Reduction¹</td>
<td>3 598</td>
<td>3.6</td>
<td>3.0</td>
<td>18</td>
<td>0.02</td>
<td>0.6</td>
<td>1 157</td>
<td>1.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Restricted bidding</td>
<td>1 289</td>
<td>1.3</td>
<td>1.1</td>
<td>565</td>
<td>0.7</td>
<td>0.9</td>
<td>388</td>
<td>0.4</td>
<td>0.9</td>
</tr>
<tr>
<td>Two-stage bidding</td>
<td>321</td>
<td>0.3</td>
<td>3.1</td>
<td>523</td>
<td>0.6</td>
<td>0.6</td>
<td>367</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Request for price quotations</td>
<td>13 561</td>
<td>13.4</td>
<td>1.2</td>
<td>17 168</td>
<td>20.6</td>
<td>2.1</td>
<td>15 345</td>
<td>16.1</td>
<td>1.4</td>
</tr>
<tr>
<td>Single-source procurement</td>
<td>8 906</td>
<td>8.8</td>
<td>48.0</td>
<td>2 391</td>
<td>2.9</td>
<td>28.5</td>
<td>2 794</td>
<td>2.9</td>
<td>40.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>101 352</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>83 313</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>95 361</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

1. This procedure is no longer applicable since the adoption of the procurement law.

Source: Data obtained from the State Statistics Committee of Ukraine.

The law further defines criteria for selecting the appropriate procedure. Open bidding is the main procurement procedure. A two-stage bidding procedure may be applied if the procuring entity is unable to determine in advance the required specifications of goods or works and if it is necessary to hold preliminary negotiations with participants in order to make an optimal procurement decision. Price quotations may be requested in cases of procurement of goods and services for which a permanently active market exists, provided the procurement value does not exceed UAH 200 000. The single-source procurement procedure is a procedure according to which a procuring entity enters into agreement with a single bidder following negotiations with one or several bidders and acceptance of the successful bidder’s proposal. The responsibility for selecting the appropriate procedure rests with the procurement committee created within the procuring entity.

The number of public procurement tenders carried out annually usually exceeds 100 000 tenders per year (but in 2009 when the Ukrainian economy was hit hard by the economic crisis, the number was lower). The majority of tenders apply the open bidding procedure. Public enterprises are responsible for the largest part of public procurement as shown in Table 18.
The public enterprise sector can be divided into two main parts: public enterprises which are owned and controlled by the state or by local government on the one hand; and joint stock companies in which the state or local government owns a part of the shares, on the other hand. According to the statistics maintained by the State Property Fund of Ukraine, there are 4 148 public enterprises owned and controlled by the state (state-owned enterprises, SOEs). They are active in many sectors of the economy (see Table 19).

### Table 18. Public procurement in Ukraine by client, 2008-10

<table>
<thead>
<tr>
<th>Origin of funding</th>
<th>2008</th>
<th>Share of total (%)</th>
<th>2009</th>
<th>Share of total (%)</th>
<th>2010</th>
<th>Share of total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>State budget of Ukraine</td>
<td>28 149</td>
<td>16.8</td>
<td>23 993</td>
<td>22.8</td>
<td>23 058</td>
<td>13.4</td>
</tr>
<tr>
<td>Budget of the Autonomous Republic of Crimea</td>
<td>2 386</td>
<td>1.4</td>
<td>204</td>
<td>0.2</td>
<td>364</td>
<td>0.2</td>
</tr>
<tr>
<td>Local budgets</td>
<td>22 558</td>
<td>13.5</td>
<td>13 635</td>
<td>13.0</td>
<td>13 394</td>
<td>7.8</td>
</tr>
<tr>
<td>Funds of public enterprises</td>
<td>18 719</td>
<td>11.2</td>
<td>31 359</td>
<td>29.8</td>
<td>58 952</td>
<td>34.3</td>
</tr>
<tr>
<td>Funds of joint stock companies with public ownership greater than 50%</td>
<td>90 918</td>
<td>54.4</td>
<td>35 206</td>
<td>33.5</td>
<td>73 757</td>
<td>42.9</td>
</tr>
<tr>
<td>Other (including social security funds, the National Bank of Ukraine)</td>
<td>4 565</td>
<td>2.7</td>
<td>868</td>
<td>0.8</td>
<td>2 595</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>167 295</strong></td>
<td><strong>100</strong></td>
<td><strong>105 265</strong></td>
<td><strong>100</strong></td>
<td><strong>172 120</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Data obtained from the State Statistics Committee of Ukraine.

### Table 19. State-owned enterprises in Ukraine by sector of economic activity

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity generation</td>
<td>30</td>
</tr>
<tr>
<td>Metallurgy</td>
<td>18</td>
</tr>
<tr>
<td>Chemistry</td>
<td>60</td>
</tr>
<tr>
<td>Engineering and metal processing</td>
<td>273</td>
</tr>
<tr>
<td>Timber processing and paper production</td>
<td>124</td>
</tr>
<tr>
<td>Construction materials</td>
<td>49</td>
</tr>
<tr>
<td>Light industry</td>
<td>38</td>
</tr>
<tr>
<td>Food production and processing</td>
<td>196</td>
</tr>
<tr>
<td>Transport</td>
<td>238</td>
</tr>
<tr>
<td>Construction</td>
<td>219</td>
</tr>
<tr>
<td>Agriculture</td>
<td>780</td>
</tr>
<tr>
<td>Other (for instance, real estate)</td>
<td>2 100</td>
</tr>
<tr>
<td>Not specified</td>
<td>23</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4 148</strong></td>
</tr>
</tbody>
</table>

Source: Data obtained from the State Property Fund of Ukraine.

Apart from the above-mentioned SOEs, the state holds shares in a further 664 joint stock companies. In 290 of the latter, the public share exceeds 50%. Ownership rights are executed by the State Property Fund and other bodies of government.

The state portfolio of public enterprises (including joint stock companies with more than 50% state shares) has reported losses over the past years (see Table 20).
Among the SOEs are natural monopolies like Ukrenergo (power generation and distribution), Naftogaz of Ukraine and Ukrtransgaz (natural gas transport), and Ukrposhta (postal services). Their profitability can usually be secured by regulated prices for their services. However, in the past two crisis-affected years, this was not always possible, as shown by the example of Naftogaz which was subsidised with UAH 24.4 billion in 2009. About one-quarter of the SOEs (1,789 SOEs, or 26.3% of all SOEs) operate in the real estate sector, mostly leasing premises in public buildings under market conditions or acting as intermediaries for the provision of public services.

In accordance with the Commercial Code of Ukraine, SOEs have to draft annual financial plans. In the case of the natural monopolies, or if the financial plans show planned profits exceeding UAH 50 million, these financial plans have to be approved by the Cabinet of Ministers. In all other cases, the plans are subject to approval by the relevant ministry. The financial plans set a figure for the expected payments to the state budget.

In cases where SOEs incur losses, the government takes an ambiguous position. As of April 2010, some 440 SOEs were believed to be bankrupt. However, bankruptcy laws do not apply to SOEs and joint stock companies with more than 25% of public shares. Officially, a "no bailout" policy applies, but Naftogaz alone in 2009 received financial support of UAH 24.4 billion (which equalled 2.7% of GDP in that year). Moreover, entire sectors of the economy benefit from quasi-permanent subsidies. Coal mining, where officially no privatisation has yet taken place, receives funds each year from the state budget for investment in equipment and infrastructure. Subsidised or regulated tariffs (at below-market rates) for electricity or natural gas are beneficial for both public and private enterprises in the chemical and metallurgic industries. In more fragmented sectors like agriculture, regulated tariffs more frequently create market imbalances when applied preferentially to public agricultural businesses.

The joint stock companies were expected to contribute UAH 297.8 million from dividends to the 2009 state budget (up from UAH 263.8 million in 2007 and 273.8 million in 2008). This target for 2009 was actually overshot, and a total of UAH 435 million was transferred to the budget. Apart from the revenue from dividends, the state budget receives income from taxes paid by the joint stock companies (UAH 855 million in 2008, UAH 470 million in 2009, according to the annual reports of the State Property Fund).

In Ukraine, there are still a number of enterprises which are regarded as attractive assets for privatisation. The question whether to start the privatisation process for several of these assets has been debated for quite some years and is influenced by political considerations about the “strategic importance” of such enterprises, by lobbying of

Table 20. **Aggregated financial results of SOEs and of joint stock companies with state shareholding greater than 50%**

<table>
<thead>
<tr>
<th></th>
<th>Public enterprises</th>
<th>Joint stock companies with state shareholdings greater than 50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>-784.8</td>
<td>-40.1</td>
</tr>
<tr>
<td>2007</td>
<td>-734.6</td>
<td>-553.1</td>
</tr>
<tr>
<td>2008</td>
<td>-836.0</td>
<td>-692.2</td>
</tr>
<tr>
<td>2009</td>
<td>-1,764.7</td>
<td>-1,250.5</td>
</tr>
</tbody>
</table>

Source: Estimates of the Ukrainian Ministry for Economic Development and Trade.
domestic business groups and by the state of the economy, which has caused some planned privatisations to be postponed in view of market conditions. Under the current government, privatisation activity has increased again (see Section 1.5.3).

5.6. Conclusion

The government of Ukraine has embarked on an ambitious programme to modernise its public administration and arrangements for service delivery. In 2010, new legislative frameworks for administrative reform and for public procurement were adopted. New legislation regulating the civil service, the delivery of public services and the organisational structure of local government has been prepared but has thus far not been implemented. After years of slow progress in these areas, it is important that these reforms are pursued energetically.

The reduction of the number of ministries from 21 to 16 brings the structure of the government of Ukraine closer in line with that of comparable OECD countries such as the Czech Republic, France, Poland, the Slovak Republic and Spain, which all have between 15 and 17 ministries (OECD, 2009, p. 37).

Recently, progress has been made with the clarification of the status and competences of CPAs other than ministries. A “Scheme of the CPAs Organisation and Interaction” was approved by a decree of the President of Ukraine in December 2010 (Decree 1085 of 9 December 2010). The organisation, competences and activities of ministries and other CPAs (state services, agencies and inspections) are governed by the Law on the CPAs (Law 3166-VI of 17 March 2011).

Local governments have an extensive mandate to provide public services. However, local governments often lack sufficient resources to fund their mandates. The government should review these mandates in the light of available resources and make sure that all mandates can be funded by earmarked and non-earmarked grants.

Local government finances are administered by the central tax service (revenue) and the State Treasury (expenditure), thus providing for effective enforcement of the existing rules of financial administration.

The share of public employment in Ukraine is larger than in most OECD countries. The share of total public employment has remained at around 20% of total domestic employment over the last ten years. The number of civil servants as a part of public employment grew by almost 50% between 2000 and 2009. Currently the government has embarked upon a 30% reduction of the number of civil servants.

In spite of recent adjustments, public sector pay still consists for a large part of bonuses and other allowances not included in basic salaries. In OECD countries, bonuses and other incentive payments – if they exist at all – generally comprise a small share of the basic salary. The Ukrainian authorities may wish to consider reducing the bonus part of the salary with a simultaneous increase of the basic salary.

In per cent of GDP, the public procurement sector is comparable with the OECD average. Unified legislation has been adopted in Ukraine to regulate the sector following a period of insufficient oversight. Given the vulnerability of public procurement for corruption, the enforcement of the current legislation should be pursued.

Ukraine has a very large public enterprise sector that is characteristic for a number of eastern European countries. The sector is fragmented and there is no consistency in the
status of companies. Subsidies and tariff regulations can lead to market distortions. It is important that the government pursue its policies aimed at the reduction or abolition of both subsidies and price or tariff regulations.

Since late 2010, the government has increased privatisation after a period of limited activity, but privatisation policies are not always transparent. It is important that privatisation be resumed with vigour now that the market circumstances are improving again. Transparency of the procedures should be a primary concern in this effort.

6. Accounting and auditing

6.1. Accounting

The accounting methodology is regulated by the Ukrainian Ministry of Finance which co-ordinates the activities of the State Treasury.

The accounts of the state budget and the local budgets of Ukraine are kept at the State Treasury. The accounts reflect all expenditures and revenues of the state and local budgets as well as the assets and liabilities of the state and the local governments.

The State Treasury has a single treasury account at the National Bank of Ukraine for executing financial transactions and for an effective management of the resources of the state and local budgets through the electronic payment system of the National Bank. To carry out transactions in foreign currency related to the execution of the state budget, the State Treasury keeps current accounts in foreign currency opened on its behalf in the National Bank of Ukraine and in the State Export and Import Bank of Ukraine.

State debt, liabilities of budget holders, and revenue and expenditure transactions are accounted for at the moment the payments are made (cash basis), while the transactions related to budget funding are accounted for at the moment the funds are credited to an account. Certain agencies and funds apply the accrual method in their accounts, according to which the transactions and events are recognised at the moment they arise irrespective of the date of payments.

In the period 2007-15, a thorough reform of government accounting methods is being pursued. Pursuant to the strategy of the accounting system modernisation in the state sector for the years 2007 to 2015 (approved by Decree 34 of the Cabinet of Ministers of 16 January 2007), the national accounting standards are to be applied in the state sector starting from 2013. The strategic goal of this reform is the strengthening of the public sector accounting system with consideration of the requirements of international standards. The State Treasury and the Accounting Chamber have agreed a common format for the financial reports on budget execution. Starting from 2013, the ministries and other CPAs are expected to compile the financial reports according to the national accounting standards.

The chief accountant of the ministry or other CPA assures that the financial statements and budgetary reports are compiled and submitted in compliance with the set requirements. The forms of financial reporting and the order in which they are filled in are set by the Ministry of Finance. The State Treasury is responsible for the composition, consolidation and presentation of the reports on budget execution.

There are monthly, quarterly and annual financial reports. A monthly report is presented to the Parliament, the Cabinet of Ministers, the Accounting Chamber and the Ministry of Finance no later than 15 days after the end of the reporting month. Summary indicators of state budget execution, information about the use of particular budget
articles and information on the use of the reserve fund are presented no later than 25 days after the end of the reporting month. A report on the development of public debt is presented no later than the first day of the second month after the end of the reporting month. A quarterly report is presented no later than 15 days after the end of the reporting quarter; it contains sections such as summary indicators of monetary developments, the development of state debt, summary indicators of state budget execution, and state guarantees. An annual report on the execution of the state budget is presented no later than the first of May of the year following the reporting year; it contains similar sections as the quarterly reports and, in addition, summary indicators on the execution of local budgets and explanatory information requested by the Cabinet of Ministers. The Ministry of Finance takes care of the publication of all financial reports.

The annual financial report is reviewed in Parliament. The Minister of Finance presents the report and makes a speech. The chair of the Accounting Chamber and the chair of the Budget Committee present their own reports. The review is completed by a parliamentary resolution acknowledging the government report. Parliament does not approve the report.

6.2. Internal audit

The establishment of internal audit units in accordance with international best practice is a relatively new development in Ukraine. This initiative is governed by the concept of public internal financial control for the period until 2017 (hereinafter referred to as the Concept) and the action plan on its implementation (hereinafter referred to as the Action Plan).

According to the Concept and the Action Plan, in the first stage (2008 to 2011) the legal framework for public internal financial control (PIFC) was adjusted to the EU requirements. In addition, measures were taken concerning the training of personnel and information supply.

Starting from 2012, the next stage of implementation of the Concept and the Action Plan is being launched, namely the establishment of internal audit units in the ministries and other CPAs.

The budgetary legislation of Ukraine (Constitution, Budget Code, decrees of the Cabinet of Ministers) clearly identifies the obligations of the budget holders including those for internal financial control and internal audit (see in particular Articles 26 and 111 of the Budget Code). Ukraine is developing internal financial control and internal audit in accordance with European standards.

In addition, a government decree regarding internal audit subdivisions and the conduct of internal audit in the ministries and other CPAs, as well as internal audit standards and a Code of Ethics for Internal Auditors, were adopted in September 2011.

Traditionally, some of the functions of internal control were fulfilled in Ukraine by the Main Control and Revision Organisation (MCRO) and by decentralised subdivisions inspecting the ministries and other CPAs.

At the end of 2010, the actual number of employees in the MCRO was 7,818, while there were 1,446 employees in the decentralised subdivisions inspecting the ministries and other CPAs. The administrative reform of December 2010 (see Section 5.3.2) will lead to a 20% reduction of the number of employees of the MCRO (which was recently renamed “Financial Inspection”) and its local bodies.
The internal audit units in the ministries and other CPAs that are being established starting from 1 January 2012 will be based on the currently acting decentralised inspecting subdivisions for ministries and other CPAs of the MCRO and will perform the function of internal audit in the Ukrainian system of public internal financial control (PIFC).

As long as the internal audit units in the ministries and other CPAs as part of the PIFC arrangement are not yet developed to the extent necessary to assure an adequate level of internal control, the Ukrainian authorities consider it necessary to maintain external fiscal inspection by the MCRO on behalf of the government.

Pursuant to the Concept, the MCRO is defined as the body in charge of implementation of reforms in the PIFC system in Ukraine, and the Ministry of Finance is defined as the co-ordinator of reforms in the area of public finance.

Since 2007, a separate structural subdivision of the MCRO fulfils the tasks of co-ordination, methodology development and supervision of the acting decentralised inspecting subdivisions at the ministries and other CPAs. This subdivision, the Administration for PIFC Harmonisation (with a staff of 11 persons) currently performs the function of the central harmonisation unit in the European sense.

In OECD countries, internal financial control is entirely left to budget holders (the Anglo-Saxon/Nordic model), or to budget holders and relatively small units of controllers reporting to the finance minister but often located in the line ministries and agencies (the southern European model). However, this refers to preventive control, not to ex post assessment which, in OECD countries, is the exclusive domain of internal and external audit institutions.

In the view of the OECD Secretariat, Ukraine is progressing steadily towards a comprehensive arrangement of internal control and audit. In due course, this arrangement will encompass three elements:

- Preventive internal control by budget holders through effective administrative procedures.
- Preventive control by the State Treasury on commitments and payment (see Section 4.1).
- Ex post control by internal audit units in the ministries and other CPAs, building on the current decentralised internal control subdivisions for the ministries and other CPAs.

If this arrangement is fully developed in a few years’ time, there will no longer be a need for decentralised subdivisions inspecting the ministries and other CPAs or for ex ante inspectors as exist in southern European countries. This implies that the role of the MCRO should be reconsidered in the medium term, making sure that the best possible use is made of its valuable expertise – either in the new internal audit units or in the financial directorates of the ministries, or elsewhere – in a way that further contributes to the quality of financial management in Ukraine.

In OECD countries, internal audit units (as opposed to the central steering and co-ordination unit) are placed within the ministries and agencies and report to ministers and agency heads. This is an important requirement for the effective execution of their primary tasks, which are to identify financial risk and to give advice to budget holders on risk reduction. A relation of confidence with budget holders is an essential prerequisite for the fulfilment of these tasks. In this respect, the current intentions of the government of Ukraine are fully consistent with OECD country practice.
6.3. External audit

6.3.1. Legal basis and budget

In 1996, the Accounting Chamber of Ukraine (ACU) received constitutional status. The organisation and activities of the ACU are regulated by the Constitution, the Law on the Accounting Chamber of Ukraine, the Budget Code, and other legislative acts (secondary legislation).

According to the Law on the ACU, the Chamber is subordinated and accountable to the Parliament. The ACU operates independently of any other state authority.

The appropriation for the ACU in the 2009 state budget amounted to UAH 54 million (about EUR 5 million) which is relatively little vis-à-vis comparable OECD countries.

During budget preparation, the ACU has to submit its budget request to the Ministry of Finance. This is felt by the ACU as a violation of its independence, as the Chamber has to control the Ministry of Finance. However, the submission of budget requests to a ministry (not always the finance ministry) is common practice in OECD countries, as usually some ministry has to take care of the budget law for the high colleges of state. It is important, though, that the supreme audit institution can bring its views on its own budget to the attention of Parliament.

6.3.2. Competences and tasks

The ACU is the supreme audit institution of Ukraine. It audits the expenditures of the state budget and reports its findings in public reports. It also provides public advice on the budget law submitted by the government to Parliament and issues reports on budget execution (Article 243 of the Law on the ACU). In addition, the ACU audits the preservation and use of state property. The ACU also audits classified (secret) expenditures concerning national security and defence.

A constitutional amendment of December 2004 stipulated that the remit of the ACU would be extended to include the audit of state revenues. Before that amendment, the ACU had no right to control the revenue side of the budget. However, recently the Constitutional Court declared the 2004 constitutional amendments invalid. As a consequence, the ACU has lost the right to audit state revenues. On the other hand, the ACU has expert knowledge on revenues and can issue analytical reports on the revenue side of the budget. In addition, the ACU can issue opinions on the completeness and timely collection of revenues as part of its reports on budget execution. In this context, the ACU can also identify deviations from the approved revenue estimates in the budget, observe and analyse violations, and make proposals regarding their rectification (Article 22 of the Law on the ACU).

The ACU has no right to audit the expenditures of local budgets. It can, however, audit the state grants to local governments which make up more than 90% of the revenues of local budgets.

The ACU produces both financial audits and performance audits. Financial audits assess the accuracy and reliability of the financial reports and the compliance with prevailing legislation. Performance audits assess the effectiveness and efficiency of expenditures. All audit reports contain recommendations for correcting errors and deficiencies as well as for measures to increase effectiveness and efficiency of the use of public resources.

The audit reports are sent by the Accounting Chamber to the Parliament and to the heads of the relevant ministries, other CPAs, enterprises and other institutions subject to audit. The
detected violations of law and inflicted damage to the state are communicated by the Accounting Chamber to the Parliament. In the event of violations entailing administrative or criminal responsibility, the board of the ACU can decide to pass the materials concerned to the law enforcement agencies (Article 26 of the Law on the ACU). The board of the Accounting Chamber can decide, if necessary, to send advice to the President of Ukraine, the Cabinet of Ministers, the Ministry of Finance and other CPAs about the audit findings.

The ACU issues quarterly reports on budget execution. In addition, the ACU reviews jointly with the Budget Committee of Parliament the annual report on budget execution that is submitted to Parliament by the Cabinet of Ministers by 1 May following each budget year. To prepare the review, the ACU issues a report on the disbursement of public funds within 15 days after submission of the report to Parliament. The ACU has no formal right to approve the annual report on budget execution. Parliament and government can just “draw lessons” from the opinion of the ACU on how to improve budget execution in the future.

One-third of the membership of the Parliament can order the ACU to perform an audit on a specific subject.

The ACU is of the opinion that performance auditing should be an exclusive task of the internal audit units and the ACU. In its view, the Financial Inspection should not perform performance audits. The ACU is also of the opinion that the Financial Inspection should be placed in the Ministry of Finance if it is to be reshaped as a steering and co-ordination unit for internal audit.

6.3.3. Organisation and working methods

The board of the ACU consists of the chair, two deputy chairs, the secretary, and nine chief controllers. The members of the board are appointed by Parliament by means of a secret ballot for a term of seven years.

The ACU has ten departments, each headed by a chief controller. The ACU includes regional offices covering the whole country and directs some of its tasks to the regional offices. The regional offices conduct their own audits under the direction of the central management of the ACU (taking into consideration the annual audit working plan).

As of December 2009, the total staff of the ACU amounted to 479 employees. The central office had 362 employees and the regional offices had 117 employees.

The ACU is a member of the EUROSAI Governing Board. Currently, the project for “Implementation of Twinning Fiche Terms of Reference” is being developed in co-operation with the Swedish National Audit Office. Furthermore, the Accounting Chamber of Ukraine has been selected as the external auditor for the Organisation for Security and Co-operation in Europe (OSCE).

The college of the Accounting Chamber formulates the work plan of the chamber on the basis of proposals from the department directors. The college takes into account the suggestions of the Parliament and its committees. The college ensures that the work plan includes the obligatory consideration of addresses and proposals from the President of Ukraine and from the Cabinet of Ministers.

6.3.4. Results

In 2009, the ACU issued 130 reports, of which 20 concerned state priority programmes (see Section 2.1.3). In addition, 610 letters and notifications were sent to public authorities
with requests to react to detected violations and deficiencies and to take action to recover public funds.

In 2009, 25 reports were forwarded to the General Prosecutor’s Office (14 by decision of the ACU board, 11 on the request of the General Prosecutor). The ACU never lost a single case in court when a prosecution took place.

By 1 December every year, the ACU submits an annual report to Parliament on its activities and the costs of these activities. The report also contains summary information on the audit reports and the frequency of detected infringements. In addition, information bulletins are published regularly and made available on the website of the ACU. Communication about results is also promoted by press conferences and briefings, interviews, public speeches and articles in electronic and printed mass media.

6.3.5. Follow-up of the reports

Ministries and other CPAs are supposed to react to the findings and recommendations of the ACU but their reactions are not always complete and adequate.

The Cabinet of Ministers reviews the completed audit reports and informs the ACU of the actions taken. The ACU maintains a database on recommendations and actions taken.

Regularly, but at least twice a year, committees of the Parliament scrutinise ACU reports and notifications. This may lead to proposals for the amendment of the budget law or substantive laws.

The parliamentary resolution on the review of the annual report on budget execution (see Section 6.2) generally includes a range of proposals to eliminate ineffective or inefficient policies, to be taken into account during the preparation of the upcoming budget.

6.3.6. Revision of the Law on the Accounting Chamber

The ACU has drafted a revision of the Law on the Accounting Chamber. This draft clarifies the role and competencies of the ACU in many respects. The draft was prepared with the help of foreign experts. The draft pre-supposes the adjustment of Article 98 of the Constitution (reinstatement of the amendment of December 2004 allowing the audit of state revenues; see Section 6.3.2).

6.4. Conclusion

In recent years, a thorough reform of the accounting methods in the government has been pursued. The strategic goals of this reform are the strengthening of the accounting methodology and the creation of a single methodological basis of accounting and reporting in accordance with international standards. Important progress has been made, but the reforms have not yet been completed and should be pursued.

The budgetary legislation of Ukraine (Constitution, Budget Code, decrees of the Cabinet of Ministers) clearly identifies the obligations of the budget holders including those for internal financial control and internal audit (see in particular Articles 26 and 111 of the Budget Code). Ukraine is developing internal financial control and internal audit in accordance with European standards. For that purpose, it will adopt legislative acts (secondary legislation, including a decree by the Cabinet of Ministers) required for the establishment of internal audit units in the ministries and other CPAs.

Ukraine is progressing steadily towards a comprehensive arrangement of internal control and audit. If this arrangement is fully developed in a few years’ time, there will no
longer be a need for decentralised subdivisions inspecting the ministries and other CPAs or for ex ante inspectors as exist in southern European countries. This implies that the role of the MCRO should be reconsidered in the medium term, making sure that the best possible use is made of its valuable expertise.

In OECD countries, internal audit units (as opposed to the central steering and co-ordination unit) are usually placed within the ministries and agencies and report to ministers and agency heads. This is an important requirement for the effective execution of their primary tasks, which are to identify financial risk and to give advice to budget holders on risk reduction. A relation of confidence with budget holders is an essential prerequisite for the fulfilment of these tasks. In this light, it is recommended to the authorities of Ukraine that audit units are not centralised but rather placed inside ministries and other CPAs.

The Accounting Chamber of Ukraine has developed into an effective and well-organised supreme audit institution. Its production of audit reports (both financial and performance audits) is impressive, and its contribution to the quality of financial reporting and the effectiveness and efficiency of the use of public funds is generally acknowledged.

In some OECD countries, the supreme audit institution can audit state revenue and the budgets of local governments. The Ukrainian authorities may wish to consider a similar extension of the remit of their supreme audit institution.

**Notes**

4. This section is largely based on Economist Intelligence Unit (2008, 2011).
6. Twinning is a technical assistance tool which implies that state institutions of European Union countries deliver technical assistance to Ukrainian public institutions in order to share best practices and to help adopt and implement reforms and legislation consistent with EU policy.
7. TAIEX (Technical Assistance and Information Exchange) is an instrument of the European Commission’s Directorate-General for Enlargement. TAIEX helps countries with regard to the adoption, application and enforcement of EU legislation.
8. SIGMA, a joint initiative of the EU and the OECD, supports Ukraine in its efforts to improve governance and management by: assessing reform progress and identifying priorities for reform against baselines set by good European practice and existing EU legislation; supporting institution building, and setting up legal frameworks and procedures to meet European standards and good practice; and facilitating assistance from the EU and other donors by helping to design the preconditions for projects and to implement action plans.
9. The DCFTA is designed to deepen Ukraine’s access to the European market and to encourage further European investment in Ukraine.
12. Mr. Yanukovych succeeded Mr. Yushchenko in February 2010; see Section 1.2.5.

16. That is the reason why the Parliament amends articles together with the lines in the budget tables.

17. A budget programme is a systematised list of activities aimed at achieving a general goal and tasks, implementation of which is proposed and fulfilled by a spending unit in accordance with its responsibilities (Article 2 of the Budget Code).

18. The number of budget programmes has been increasing since 2002 and reached a thousand by 2007. Starting from 2007, the government made efforts to decrease the number, and in the 2008 budget there were 923 programmes, in the 2009 budget 991 and in the 2010 budget 919. These numbers do not take into account appropriations for interest and grants to local governments that are appropriated in other annexes of the state budget.


20. Prior to the 2010 amendments to the Budget Code, the budget declaration had been adopted too late in the budget formulation schedule, so it could not be taken into account during budget preparation. From 2010, the declaration has to be approved early enough to provide guidelines on policy priorities.

21. Strategic plans include the “Development Strategy for Ukraine” for ten years, the “State Strategy for Regional Development” and state strategies for specific regions.

22. The Macroeconomic Forecasting Department has recently been integrated into the Budget Department of the Ministry of Finance.

23. In practice, it is a one-page document listing key parameters.

24. Established in London in 1989, Consensus Economics prepares monthly compilations of country economic forecasts and topical analyses (see www.consensus economics.com/about.htm).

25. The Revenue Department has recently become a unit of the Department for Taxation and Customs Policy, Revenue Administration and Accounting Principles.

26. The forecasts for two out-years are the current requirement of the new Budget Code; the 2001 Budget Code required three out-years.

27. It is interesting to mention that, within the Ministry of Finance, the Revenue Department receives macroeconomic forecasts from the Macroeconomic Forecasting Department. The Revenue Department may comment or make suggestions on these macroeconomic forecasts, if needed, and accept the forecasts to be used in calculations. If the Revenue Department disagrees with the macroeconomic estimations, it has to address the Macroeconomic Forecasting Department, which in its turn addresses the Ministry of Economic Development and Trade with a reasoned request to reconsider and change the macroeconomic forecasts. This fact supports the argument that the Ministry of Economic Development and Trade is essentially the only producer of macroeconomic estimations in Ukraine.

28. In the 2010 budget formulation, the old rule was applied. Therefore the forecast covered three out-years and not two.

29. According to Article 2 of the Budget Code, a budget request is a document developed by a key spending unit containing duly substantiated proposals on the amounts of budget funds required to conduct its activities in the future budget periods.

30. In the EU Domestic Fiscal Governance Database, the medium-term budgetary frameworks (MTBFs) are defined as those fiscal arrangements that allow government to extend the horizon for fiscal policy making beyond the annual budgetary calendar (see http://ec.europa.eu/economy_finance/db_indicators/fiscal_governance/framework/index_en.htm).

31. Note by Turkey: The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the “Cyprus issue”.

Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

33. It may be argued perhaps that the 15% margin serves to identify “structural revenue gains” as opposed to cyclical windfalls, but even in this interpretation it would be safer to maintain the separation between expenditures and revenues and reserve the structural revenue gains for tax relief. Revenue rules of this type exist in several OECD countries (the Netherlands, the United States).

34. The structural fiscal balance is obtained by removing the cyclical component from the headline fiscal balance. The cyclical component depends on two factors: the size of the output gap; and the output elasticity of the tax yield, which indicates the extent to which the tax yield reacts to fluctuations in GDP. The determination of the output gap is not always an easy exercise for OECD countries, and there are ongoing political discussions about the calculation procedures.

35. Article 85 of the Constitution stipulates that the Verkhovna Rada has to give its consent to the appointment of the Prime Minister by the President. Article 87 of the Constitution refers to the power of the Verkhovna Rada to undertake a vote of no confidence in the Cabinet of Ministers.

36. This response was given by 68.8% of the 125 deputies who participated in the survey in February-April 2009 by the Parliamentary Development Project for Ukraine II (PDP II). This survey was the sixth since 1998, and it tracked attitudes and opinions of deputies on a variety of issues.

37. The Budget Committee is a focal point for lobbying from the business community, and that many parliamentarians come from business backgrounds and maintain strong links to the business community.

38. The current chair is from the People’s Party (Lytvyn Bloc) and the deputy chairs are from the All-Ukrainian United Fatherland (BYuT Bloc) and the Party of the Regions.

40. Such extraordinary circumstances include martial law or a state of emergency (Article 3 of the Budget Code).

41. The draft budget is also published in the government Courrier seven days after submission to Parliament (Article 28.2 of the Budget Code).

42. The Verkhovna Rada is allowed to return the draft budget if it is missing documents or is not in line with the Budget Code or the “Budget Goals and Objectives Declaration” for the forthcoming budget period. In this case, the government is obliged to revise the draft budget and resubmit it within seven days. In practice this is rare, although it did happen once in the late 1990s.

43. If the budget is not balanced at this point, it can be submitted for a second first reading.

44. In 2009, these changes were quite significant due to the financial crisis.

45. Article 94 of the Constitution continues:

   In the event that the President of Ukraine has not returned a law for repeat consideration within the established term, the law is deemed to be approved by the President of Ukraine and shall be signed and officially promulgated.

   If a law, during its repeat consideration, is again adopted by the Verkhovna Rada of Ukraine by no less than two-thirds of its constitutional composition, the President of Ukraine is obliged to sign and to officially promulgate it within ten days.

   A law enters into force in ten days from the day of its official promulgation, unless otherwise envisaged by the law itself, but not prior to the day of its publication.

46. Monthly reports are issued within 15 days (state budget) and 25 days (consolidated and local budgets) of the close of the reporting period. Quarterly reports are issued within 35 days of the close of the quarterly reporting period.

47. In 2006, 2 233 amendments were submitted and 1 900 were recommended for consideration by the government following the first reading. In 2007, the numbers were 2 330 and 1 800 respectively.

48. The single treasury account (STA) is divided into 27 technical accounts.

49. According to Article 20.8 of the Budget Code: “The key spending unit (budget holder) together with the Ministry of Finance of Ukraine shall develop and approve the budget programme passport within 45 days following the date when the Law on the State Budget of Ukraine comes into effect.”
50. The Department of Public Debt has recently become the National Debt Management and International Co-operation Department.

51. Balances of the state budget funds of Ukrainian institutions operating abroad also remain on the accounts opened abroad in order to make expenditures in the next budget period in accordance with their cost estimates.

52. However, an exceptional case was noted in 2008 when, following summer floods, the Parliament voted to increase the reserve fund and reduce expenditure elsewhere.

53. Constitutional amendments in 2004 had shifted the competency to create ministries and other CPAs from the President to the Cabinet of Ministers. In October 2010, these amendments were rescinded by the Constitutional Court (see Section 1.2.5).


55. Examples comprise the issuing of registered seals for doctors and a number of licenses and permits in the field of environmental protection which are issued exclusively in the capital Kiev.


57. In the last decade, international financial organisations have started to put much emphasis on the notion of “public internal financial control”, but in many OECD countries this notion did not exist as a separate set of requirements for financial management. However, these countries do have regulations in place that define the duties and responsibilities of budget holders which can retrospectively be interpreted as “public internal financial control”.

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