

ROADMAP

FOR REFORMING PUBLIC INVESTMENT MANAGEMENT SYSTEM

Background

Public investment management is a crucial component of a sustainable and efficient public finance management system. Effective public investment is one of the important prerequisites for achieving and maintaining economic growth, meeting the demand for public services, and improving the quality of human capital. Investments in public infrastructure, economic and social, are an important factor for increasing productivity and competitiveness, reducing the imbalances in the development of regions and the emergence of new promising sectors of the economy with additional jobs.

Over the past decades, Ukraine's public sector capital stock has steadily decreased. Having started at a relatively high level (99% of GDP in 1996), it is now among the lowest among comparable countries (56% in 2013). Among the main reasons for this situation are low consolidated budget capital expenditures (about 3.1% of GDP on average in 2011-2021) due to the lack of fiscal space and the protection by legislation of the main categories of current budget expenditures, as well as the shortcomings of the institutional base for managing public investments, which lead to their inefficient allocation and use.

The process of budget decentralization, which began in 2014, contributed to a significant expansion of the investment opportunities of local self-government bodies. Thus, the share of capital expenditures in the total volume of expenditures of local budgets increased from 6.2% in 2014 to 20% in 2021. Overall, local budgets accounted on average for almost 45% of all public investment (including capital transfers from the state budget), compared to 30% from the state budget and almost 25% from state-owned enterprises. At the same time, the development of the capacities of local self-government bodies regarding strategic and budget planning and implementation of investment projects has been taking place at a much slower pace.

In 2020-2021, in the context of the economic downturn caused by the COVID pandemic, the share of public investment in total investment has increased to 18.3% from 10.2% average in 2014-2019. At the same time, capital expenditures account for a relatively small share of total government expenditures - in 2018 and 2019,

capital expenditures accounted for only 11.5% of the total expenditures (4% of GDP) of the consolidated budget, and in 2022 this share decreased to 4.3% (2.5% of GDP).

The process of streamlining the public investment management system to ensure its efficiency and effectiveness in line with best practices began in 2015 in close cooperation with the World Bank. Amendments were made to the Budget Code of Ukraine, which were designed primarily to improve the system for managing state investment projects, and established procedures for assessment and selection, independent expertise, regular monitoring and adjustment of state investment projects. Also, in 2016, monitoring of the implementation of state investment projects was introduced for the first time based on the principles of public information on monitoring results.

However, the practical implementation of these changes, focused on only one category of investments, did not lead to a significant increase in the efficiency of the public investment management system. According to the results of the Diagnostic Assessment of Public Investment Management conducted by the World Bank in 2021, it was found that the portfolio of current public investment projects year after year exceeds the financial capacity of the country, resulting in the accumulation of suspended, unfinished projects. Thus, the estimated cost of the full implementation of state investment projects selected for 2021 amounted to 79.2 billion hryvnias, while budget expenditures for the implementation of state investment projects in 2021 amounted to 4 billion hryvnias. In general, strategic prioritization, criteria-based selection, project database, investment portfolio management, and systematic monitoring of investment projects at all stages of their implementation were attributed to aspects of public investment management where weakness remains. The lack of formalized criteria and mechanisms of project management and the pool of professional managers for large-scale projects in state bodies, as well as the questionable independence of expertise, create additional problems for the management of public investments.

Further steps to resolve the identified problems were reflected in the Strategy for Reforming the Public Finance Management System for 2022-2025 and aimed, first, at ensuring a strategic and transparent allocation of resources and assessment of the cost of investment projects, strengthening the capacity to manage investment projects both at the central and at the local level.

By 2022, the legislation provided for 15 types of capital investment streams, including state investment projects, the Road Fund, the Regional Development Fund, IFI and foreign governments' funds and loans, loans under state/local guarantees, PPPs, various subventions to local budgets for capital investments, the development budget of local budget, own funds of state-owned enterprises, etc. All

these streams have rules and procedures of varying degrees of maturity and coverage, which does not make it possible to talk about a comprehensive system of public investment management, and gives the opportunity to project initiators to choose not the most suitable, but the least demanding method of obtaining funding from the point of view of procedures.

With the beginning of the full-scale armed aggression of the Russian Federation, another stream was added to this list - the Fund for Liquidation of the Consequences of Armed Aggression of the Russian Federation, which, together with the funds and loans of IFIs and foreign governments and the Road Fund, became in fact the only mechanisms for making capital investments in martial law conditions due to the suspension of all other procedures.

Problems to be solved

The full-scale military aggression of the Russian Federation against Ukraine led to radical changes in the scale and nature of Ukraine's investment needs. According to the Second Rapid Assessment of Damage and Recovery Needs (RDNA2), conducted jointly by the World Bank Group, the Government of Ukraine, the European Commission and the United Nations, the direct damage caused to Ukraine's infrastructure for the period from February 2022 to February 2023, is estimated at more than 135 billion US dollars. The total amount of needs for recovery and reconstruction is estimated at more than 411 billion US dollars, which is 2.6 times higher than Ukraine's GDP in 2022. In addition, the war put a pressure on the public finances of Ukraine, including a decline in GDP, a reduction in the volume of foreign economic activity, a lack of revenue to the budgets from tax and customs payments, a significant increase in the level of the state budget deficit, difficulty in fulfilling debt obligations, uncertainty and inability to realistically forecast the duration of the war, the scale of further destruction and losses, their impact on state finances. All this reduces the fiscal space for capital expenditures to a critical level.

Significant recovery needs combined with limited internal and external financial resources to address these needs calls for a sustainable and effective public investment management system. At the same time, it is important, even before the start of large-scale post-war reconstruction, to address significant deficiencies that remain in the system, including:

- lack of strategic planning of public investments both at the state and local level, which leads to the dispersion of limited resources and the impossibility of measuring the impact and effectiveness of the investments made;

- a weak connection between public investments and budget planning, which leads to both the unpredictability of financial resources for the implementation of investment projects and the lack of funds for the maintenance of the created assets;
- fragmentation of the procedures for the preparation, appraisal, selection and implementation of investment projects depending on the financing mechanisms and the existence of opportunities to bypass them, which makes it impossible to create a single pipeline of projects, their prioritization and effective monitoring;
- weak institutional capacity of authorities to prepare, evaluate and implement investment projects, including lack of formalized procedures at the level of authorities for managing investment projects and lack of qualified personnel, especially at the local level;
- lack of an effective system for monitoring and evaluating the implementation of public investment projects;
- weak public asset management, including insufficient control over the accumulation, analysis and filling of register information on the condition of state and communal property.

Additional challenges in the conditions of martial law are the necessity to respond to the needs of immediate restoration of destroyed objects, primarily critical infrastructure and housing, and develop more flexible procedures for the implementation of such investment projects, which would at the same time ensure a sufficient level of control and impact from the capital investments made.

Eliminating these shortcomings and responding to new challenges will require changes in all major aspects of public investment management, including legislative, institutional and methodological.

The goal of the roadmap

This roadmap is a framework document developed taking into account the recommendations of the World Bank and the IMF, the best European practices, as well as the needs of rapid recovery and post-war reconstruction.

The goal of the road map is to form the context, vision, main principles, and directions for building a coherent, sustainable, and effective public investment management system, which ensures the planning of investment projects based on strategic priorities and the medium-term budget framework, their selection in

accordance with unified and transparent procedures and clear criteria and implementation within the planned terms and funding.

The target model of the public investment management system should ensure:

- prioritization – directing resources to the most important needs for society, as established in strategic documents;
- financial sustainability – investments that the state can afford, fully financed and provided with funds for maintenance throughout the entire life cycle of the created assets;
- efficiency and effectiveness – the choice of the most rational mechanisms for the implementation of investment projects from the point of view of costs and benefits and achievement of the results planned;
- timeliness – synchronization of decisions regarding the implementation of public investments with the budget process and compliance with the established timeframe for preparation and implementation;
- environmental sustainability, inclusiveness and accessibility;
- transparency of decision-making process and achieved results;
- accountability – clear responsibility for the implementation of projects on time, within the budget and in accordance with established requirements and objectives.

Description of the target model of public investment management

I. Coverage of the public investment management system

The creation of the desired public investment management system involves, first, the introduction of a single terminology that will allow for the unification of approaches to the implementation of investments, regardless of the sources and mechanisms of financing and the levels of authorities that initiate them, including:

public investments are capital expenditures of public sector entities (central and local authorities, state and communal enterprises) for the creation and restoration of fixed assets with productive use for a period of more than one year. Funding sources can be state or local budget funds (budget revenues, including grants; external and internal borrowings), state or communal enterprise funds (own funds and borrowed funds), international technical assistance funds, infrastructure user fees;

public investment project is a set of measures (organizational, legal, managerial, analytical, financial, and technical), determined on the basis of strategic documents and aimed at the development of certain industries, sectors of the economy, industries, regions, and provision of public services, the implementation of which is carried out using public investments. Public investment can take the form of traditional infrastructure projects or public-private partnerships. Public investment projects that have a common goal and require coordination in implementation can be combined into programs, for example, investment programs for comprehensive restoration of a certain area.

These definitions, as well as the distinction between investments and other types of capital expenditures (repair works, small purchases of equipment as part of operational activities, etc.), will be reflected in legislation, including the Budget Code of Ukraine.

II. Participants of the public investment management system

The improvement of the public investment management system requires a clear definition of the roles of the main participants in the process to ensure coordination and effective control at all stages and to prevent conflicts of interest regarding the preparation, evaluation, and selection of investment projects.

The distribution of roles should also meet the challenges of recovery the significant growth of investment needs in conditions of greater limitation and unpredictability of financial resources to meet them. This increases the need for the strategic allocation of investments and the strengthening of the role of the Ministry of Finance at all stages of the investment cycle to ensure the effective use of public funds and the preservation of macro-financial stability.

The main participants of the public investment management system will perform, first, the following functions:

The Strategic Investment Council chaired by the Prime Minister, made up of members of the Cabinet of Ministers – ensuring coordination of strategic priorities for public investments and approval of a single project pipeline. The Ministry of Economy will provide information and analytical support for the Council's activities;

Ministry of Economy – coordination of the national system of strategic planning and preparation of a long-term document of national development, which contains the main goals and priorities of investment; preparation of a medium-term

plan of priority public investments in close connection with the Budget Declaration; methodological support for the preparation, prioritization, appraisal, selection and implementation of public investment projects to ensure unified approaches to all types of public investments both at the central and local levels; monitoring the implementation of single project portfolio; policy formation in the field of public procurement and ensuring the functioning of the Prozorro electronic procurement system;

Ministry of Finance – determination of the fiscal framework for public investment, taking into account all sources and mechanisms of financing and the need to ensure macro-financial stability; methodological support for budget planning of public investments aligned with the strategic goals and objectives and fiscal framework; assessment of the feasibility of attracting public investment and ensuring the selection of the optimal financing mechanism; assessment of fiscal risks related to public investments, primarily regarding PPPs and concessions; assessment of the reasonableness of the determined cost of projects and availability of financing; ensuring inclusion in the budget or provision of state support only for those projects that have passed established appraisal and selection procedures;

Ministry of Infrastructure – coordination of strategic planning of regional development, consisting of the State Strategy for Regional Development, the Plan for Reconstruction and Development of Regions and the Program for Integrated Development of Communities, on the basis of which public investments at the local level should be planned; preparation of sectoral strategies in the fields of transport and transport infrastructure, housing policy, housing and communal services and energy efficiency, determination of sectoral prioritization criteria based on them, preparation of a sectoral project pipelines and proposals for the medium-term plan of priority public investments and coordination of the implementation of projects in the said sectors; development and implementation of the Digital Restoration EcoSystem for Accountable Management (DREAM), which will become a bank of public investment projects that meet the defined strategic priorities of national and regional development and established criteria, and will ensure effective monitoring of their implementation;

Line ministries – preparation of sectoral strategies, determination of sectoral prioritization criteria based on them, preparation of a sectoral project pipelines and proposals for the medium-term plan of priority public investments and coordination and monitoring of project implementation in the relevant spheres of state policy;

State Agency for Reconstruction and Development of Infrastructure of Ukraine – preparation and implementation of large-scale infrastructure projects in

accordance with the medium-term plan of priority public investments; provision of support to local self-government bodies during the preparation and implementation of infrastructure projects;

Local self-government bodies – preparation of plans for the recovery and development of relevant territories, development, prioritization and implementation of public investment projects based on them;

Accounting Chamber of Ukraine – conducting a financial audit and performance audit of relevant programs and expenses, developing proposals and recommendations for taking measures to eliminate violations and shortcomings and prevent them, developing recommendations for improving the relevant legislation;

The State Audit Service of Ukraine – analysis and verification of the legality and effectiveness of the implementation of investment projects using state and local budget funds, state support, state and/or local guarantees, as well as analysis and verification of the achievement of performance indicators, management of investments (funds) and their use.

II. The main steps in the investment cycle

1. Strategic and medium-term budget planning of investments

Ensuring prioritization, financial stability, and efficiency of public investments is impossible without the introduction of strategic planning of public investments in close connection with medium-term budget planning and maximum integration of investment management into the budget process. All public investments must be reflected in the appropriate budget - state or local - regardless of sources (budget revenues, including grants, internal and external borrowing, international technical assistance funds) and financing mechanisms (direct budget financing, provision of subventions, provision of loans from the budget and under a state or local guarantee, concession, public-private partnership).

Decisions on new public investments will be made within the framework of strategic planning and medium-term budget planning. In the process of improving the national strategic planning system, the preparation of a long-term document of national development in accordance with the best European practice will be ensured by the Ministry of Economy, which will include strategic goals by policy areas and indicators of their achievement, as well as the general macro-fiscal framework for the relevant period, determined by the Ministry of Finance, considering all possible

sources of funding. Further cascading of these goals into specific tasks and measures, including investments, will be ensured in the sectoral strategies prepared by the relevant line ministries and in the State Regional Development Strategy developed by the Ministry of Infrastructure, which will be the basis for strategic planning documents of regions and communities.

The matching of strategic priorities with financial resources available from all sources for the medium-term perspective will take place within the Budget Declaration, which will include strategic goals and the expenditure ceilings for the spheres of state policy, including capital expenditures (at the local level, the medium-term forecast of the local budget). At the beginning of the preparation of the Budget Declaration, the Ministry of Finance will present the general macro-fiscal framework for 3 years (preliminary macroeconomic indicators, revenues, expenditures, and deficit of the state budget) to the key spending units of the state and local budgets.

To implement the defined strategic goals and objectives and taking into account the fiscal framework provided by the Ministry of Finance, the ministries and other central executive bodies will develop concepts (profiles) of public investment projects, in accordance with the methodology determined by the Ministry of Economy together with the Ministry of Finance and Ministry of Infrastructure, for all projects that require financing from the budget (for all sources, including IFI and foreign governments' funds) or state support (state guarantees, concessions, PPPs). Project concepts will focus on the strategic relevance and financial sustainability of the proposed project, will include links to the established strategic goals to which the project corresponds, and justification of how the implementation of the project will contribute to their achievement, analysis of possible alternative options, the expected impact of the implementation of the project (population coverage, impact on economic growth, security considerations), economic prerequisites for project implementation (estimated cost, including maintenance of created assets, availability of land, permits, etc.), justification for choosing possible sources of financing, terms and stages of project implementation, etc. Concepts will also include aspects related to environmental sustainability, inclusiveness and accessibility, in accordance with methodological guidelines developed by the Ministry of Economy together with the Ministry of Environment, Ministry of Social Policy and other relevant bodies.

Preliminary screening and prioritization of concepts will be carried out by the bodies that form the state policy in the field of project implementation, according to the methodology determined by the Ministry of Economy and in accordance with the sectoral prioritization criteria determined by these bodies on the basis of sectoral

strategies. All related project concepts that are an integral part of achieving the same goal should at this stage be combined into one project to avoid dispersal of resources for implementation. Further review of the concepts that successfully passed the preliminary screening will be carried out in the order of their priority: by the Ministry of Economy regarding compliance with strategic goals and objectives and general compliance with the requirements for preparation; by the Ministry of Finance regarding the feasibility of attracting public investment, the realism of the projected cost of implementation and provision of financing, and the feasibility of the proposed financing sources; and by the Ministry of Infrastructure regarding compliance with regional policy priorities and technical aspects of project implementation. Concepts that received a positive conclusion as a result of the review will be the basis for further development of a public investment project (project proposal) and will form a prioritized sectoral project pipeline together with projects that are already at the stage of preparation or implementation.

In the next step, the Ministry of Finance will provide key spending units with the medium-term expenditure ceilings for their spheres of state policy, as well as the aggregate expenditure ceiling for the implementation of public investment projects at the expense of all sources. At the same time, when determining the amount of resources for new investment projects, it is necessary to consider the need to direct funds, first of all, to the continuation (completion) of the implementation of already started projects to avoid the accumulation of large volumes of unfinished construction and the dispersion of limited resources. The appropriate percentage of funding will be determined based on the analysis of the updated project portfolio and reflected in the Budget Code.

Considering the prioritized sectoral project pipelines and within the expenditure limit, the ministries submit their proposals regarding the priority directions and projected amounts of investments to the Ministry of Economy, which consolidates them into the Medium-term plan of priority public investments for further consideration and endorsement by the Strategic Investment Council and approval together with the Budget Declaration. In addition to the main areas of investment by public policy spheres and regions and the corresponding distribution of funding, the plan will also contain cross-cutting strategic investment objectives (energy efficiency, inclusiveness, accessibility, overcoming the consequences of climate change, etc.) and general approaches and project selection criteria. An addition to the Medium-Term Plan will be a single project pipeline - a consolidated prioritized list of projects (concepts) based on sectoral portfolios, formed by the Ministry of Economy, considering the level of their maturity. All relevant public investments will have to be made in accordance with the Medium-Term Plan.

2. Selection and approval of public investment projects for financing

At the next stage, project proposals for projects (concepts) included in the Medium-Term Plan of Priority Public Investments are developed by the project initiators. Approaches to the appraisal of projects (project proposals) will be unified regardless of the sources and mechanisms of financing but considering the size of the project and the degree of risks. The appraisal methodology, updated by the Ministry of Economy together with the Ministry of Finance, will contain different types of analysis and clear criteria for their application (cost, industry, level of complexity and risk, etc.) and will be applied to projects implemented both at the national and local levels.

The appraisal of large investment projects (worth more than 300 million hryvnias) will be carried out by the Ministry of Economy, the rest of the projects – by the relevant line ministries responsible for the policy sphere in which the project is planned to be implemented, while the Ministry of Economy will ensure the quality control of the appraisals. Information on the results of project appraisals will be displayed in the integrated IT system for managing public investment projects (DREAM). At the same time, considerable attention will be paid to the development of the ministries' ability to carry out cost-benefit analysis, reliable estimates of capital (and current) costs for the development and implementation of public investment projects.

Only positively evaluated projects will be admitted to the annual selection by the Interdepartmental Commission, which will include the Ministry of Economy, the Ministry of Finance and the Ministry of Infrastructure, for further financing from the budget and with the provision of state support (state guarantees, concessions, PPPs) within the expenditure limits. In this way, a single "entry point" for budget funding proposals will be created, which will contribute to the formation of a level playing field and ensure full consideration of the trade-offs associated with the implementation of projects that must be made when prioritizing them. During the selection, the prioritization of submitted projects will be taken into account, taking into account the criteria defined in the Medium-Term Plan of Priority Public Investments (for example, the level of population coverage, contribution to GDP, etc.), as well as the degree of readiness of the project for implementation. Inclusion in the list of projects approved by the Interdepartmental Commission will be the only basis for the Ministry of Finance to include such projects in the draft state budget.

At the legislative level, the requirement will be strengthened that only projects that have passed the appraisal and selection in the prescribed manner can be included in the budget. This requirement will also be additionally reflected in the budget circulars of the Ministry of Finance regarding the preparation of budget requests. During the selection of projects by the Interdepartmental Commission, the Ministry of Finance will ensure compliance with the limits for various types of public investments to ensure debt sustainability and minimize fiscal risks.

The Law on the State Budget will approve the volume of financing of public investment projects under the specific budget programs for the planned year, and the annexes to the budget will contain information about the goal, expected results, a brief description of the measures, the total cost of the project, including the maintenance of the created assets, indicative financing for two following planned years and the financing plan until the end of the project implementation. Regarding PPP and concession projects, an assessment of the fiscal risks associated with their implementation will be additionally provided.

3. Implementation of public investment projects

Projects will be implemented on the basis of comprehensive plans developed by responsible implementing agencies. To ensure the effective implementation of projects, Ministry of Economy will develop methodological guidelines for each stage of the project life cycle and tools, including digital ones, will be created for regular training of the relevant personnel of the line ministries and other central executive agencies. At the same time, the Reconstruction Agency will be able to provide direct support to responsible project implementing agencies, including local governments, in case they lack the necessary project management capacity. In the event of the implementation of an investment project by concluding a public-private partnership agreement, the initiators may involve the PPP Agency in accompanying and supporting the preparation of such projects.

The responsible implementing agencies will develop a monthly expenditure forecast within the framework of the implementation of investment projects for the relevant year, submit it to the Ministry of Finance and regularly update it to ensure effective liquidity management of the single treasury account and foreign currency accounts of the Government. The Ministry of Finance, in turn, will ensure the accounting and monitoring of multiannual commitments during the entire period of implementation of the investment project.

ProZorro system will be mandatory for all purchases for the implementation of public investment projects. Possibilities will be further expanded to conduct

procurement in accordance with the procurement procedures of various international organizations. Also, further approximation of the procurement legislation to the EU directives will be ensured, as well as the development of the ProZorro system to reflect those changes. Procurement monitoring will be carried out by SASU, including standardized checklists, taking into account the best international practices. Also, the Ministry of Economy will ensure the development of the E-Contracting system, which will allow to convert the contracts concluded in the ProZorro procurement system into an electronic format and ensure their automatic transfer to the Treasury system for further registration.

Monitoring of the implementation of public investment projects will be carried out in accordance with the comprehensive implementation plans and according to the financial and physical indicators approved in the passports of the relevant budget programs. Monthly and quarterly reports will be submitted by responsible implementing agencies through the integrated IT system for managing public investment projects (DREAM). Budget reporting formats will be revised by the Ministry of Finance to present expanded information on the implementation of investment projects (including information on SOE investments that are funded with budgetary resources and /or state guarantees), which will be sent to the updated IT system for planning and monitoring the implementation of the state budget and the LOGICA system for local budgets.

The Ministry of Economy and the Ministry of Finance will prepare consolidated quarterly information on the state of project implementation and financing respectively, which will be considered by the Interdepartmental Commission with subsequent adoption, if necessary, of decisions on project adjustments and funding redistribution.

The procedures for completing the project and accounting the created assets will be streamlined. An assessment of the sufficiency of financing and the implementation of organizational measures for the operation and maintenance of facilities will be introduced, as well as a mandatory report on the completion of the project, which will be published in the integrated IT system for managing public investment projects (DREAM) and will be available for analysis and consideration during the development of similar projects.

4. Audit and assessment of implementation

Internal audit units of responsible implementing agencies will carry out regular internal audits of investment projects based on risks, the Accounting Chamber will carry out external audits of investment projects, including financial audits and

performance audits, the State Audit Office will analyze and verify the legality and effectiveness of the implementation of investment projects using funds from the state and local budgets, state support, state and/or local guarantees, as well as analysis and verification of achievement of performance indicators, management of investments (funds) and their use. Methodological guidelines for conducting various types of audits will be clarified to ensure their synergy.

The implementation of public investment projects will also be the subject of spending reviews conducted by the main managers of budget funds in accordance with the methodology determined by the Ministry of Finance. The overall purpose of such reviews is to increase the efficiency and effectiveness of budget expenditures and to determine the level of achievement of the state policy goals to which they were directed, which will help improve value-for-money of investment projects.

The assessment after the completion of investment projects will be conducted by the Ministry of Economy, with the possible participation of the Accounting Chamber and independent experts, 3-5 years after the end of the investment stage to determine the degree of achievement of the expected results and public benefit.

III. Management of public investments at the local level

At the local level, a similar approach will be introduced for investment projects that require financing from the local budget or support in the form of local guarantees, which involves close integration of strategic, budget and investment planning.

The process of improving the system of planning documents of regional and local development and urban planning initiated by the Ministry of Infrastructure will ensure the streamlining and optimization of many currently existing instruments and increase their quality. The priority directions of public investments will be determined in the plans for the recovery and development of the respective territories, which, in turn, must be coordinated with the State Strategy for Regional Development.

The development of concepts of public investment projects by the initiators will be carried out considering the relevant methodological recommendations of the Ministry of Economy, the preliminary screening will be carried out by the relevant key spending units of local budgets (regarding strategic relevance) and the local financial body (regarding financial sustainability). During the preparation of the medium-term forecast of the local budget, the local financial body will provide the key spending units of local budgets with the aggregate amount of resources from all

sources that can be directed to investment projects. To ensure the targeted direction of funds involved in the implementation of investment projects, appropriate changes will be made to the functioning mechanisms of the development budget of the local budget.

The project appraisal will be carried out by a separate unit for public investment management, and the selection and approval of the list of priority investment projects will be carried out by the investment commission, considering the methodological recommendations of the Ministry of Economy regarding prioritization, evaluation, and selection of projects. The approved list will be entered into the integrated IT system for managing public investment projects (DREAM).

The intergovernmental capital transfer system will be reviewed by the Ministry of Finance together with the Ministry of Infrastructure, Ministry of Economy, other bodies and in consultations with subnational governments to ensure that such transfers support the implementation of regional and local development strategies. This review will also ensure that there is alignment in public investment at the national, regional, and local levels.

IV. Single digital ecosystem of public investment management

In the conditions of a significant amount of work for the implementation of all outlined investment plans, limited financial and human resources and a lack of relevant competencies in the civil service, the expanded use of digital technologies is seen as an effective way to address these challenges and ensure efficiency and transparency in the management of public investments.

To this end, the creation of a single IT ecosystem based on the updated methodologies of public investment management will be ensured in line with the interoperability principles, consisting of:

- DREAM system, which will become an integrated IT management system for public investment projects that have passed the established evaluation procedures (a unified bank of projects), and will provide monitoring of their implementation, as well as a set of technical tools to facilitate the preparation and appraisal of projects;
- IT systems of the Ministry of Finance for planning and monitoring the execution of state and local budgets, which will ensure the reflection of projects selected for financing in the budget, as well as the "Transparent

Budget" information and analytical system, which provides public access to information about the planning and use of public funds;

- ProZorro e-procurement system to ensure procurement planning and implementation;
- E-Contracting system, which will be developed by the Ministry of Economy and will allow to transfer the contracts concluded in the ProZorro procurement system into an electronic format, and ensure their automatic transfer to the Treasury system for further registration;
- E-Kazna system, which provides treasury service for the implementation of projects;
- E-Accounting system for accounting and financial reporting in the public sector, which will be developed by the Ministry of Finance to accumulate primary accounting information at the national level.

V. Capacity building for public investment management

One of the most significant obstacles to the effective management of public investments is the lack of qualified personnel both within the state institutions that prepare projects and in those that carry out their evaluation. The preparation of a high-quality project concept, feasibility study with a financial model and analysis of benefits and costs, with a forecast of the impact on the environment and a technical solution requires a project team of specialists from various fields, which is lacking for project initiators.

Solving the problem of insufficient capacity will take place in several ways. First, the Ministry of Economy, together with the Ministry of Finance and the Ministry of Infrastructure, will update the entire methodological base of public investment management for all stages of the investment cycle, from the preparation of project concepts to the evaluation of project implementation after its completion. The Ministry of Finance will also develop approaches to assessing the feasibility of attracting public investments, ensuring the selection of the optimal financing mechanism, assessing fiscal risks associated with public investments, primarily regarding PPPs and concessions, assessing the reasonableness of the determined cost of projects and the availability of financing, which can also be used by local financial authorities. Knowledge bases with all the necessary information will be created on the websites of the relevant ministries, and the Ministry of Economy, together with

the National Agency for Civil Service, will develop training programs for public investment management specialists and training plans.

Secondly, the creation and strengthening of appropriate dedicated units for the management of public investments in the bodies at the central and local level will be ensured. The Ministry of Economy will develop an exemplary statute and functions of such a unit. To support their work, technical tools for preparation, evaluation and analysis of the implementation of investment projects will be created within the integrated IT system for managing public investment projects (DREAM). Special attention will be paid to the cost benefit analysis, the reliable assessment of capital and current costs for the development and implementation of public investment projects, generalization and analysis of basic data on investment and operating costs based on recent representative projects, etc.

Thirdly, centers of expertise on public investment management will be created within the Government, for example on the basis of the Reconstruction Agency, the PPP Agency. Mechanisms for attracting external expertise will also be developed, primarily at the stage of project preparation, both with the use of international technical assistance (tools similar to JASPERS) and at the expense of budget funds.

Transitional model

At the initial stage (2024-2025), before the development of a national development strategy and the corresponding update of sectoral strategies, the “Ukraine Plan” stipulated under the European Union Ukraine Facility program for 2024-2027 can serve as a reference point for strategic planning of public investments, which contains priority areas of reforms and investments in accordance with the defined model of socio-economic development. At the same time, the Ministry of Infrastructure will ensure the consistency of the State Strategy for Regional Development until 2027 with the priorities defined in the “Ukraine Plan”, which will allow to ensure connection with the plans for the recovery and development of the territories in the future.

Prior to the full legislative regulation of the new public investment management system, the priority areas of public investments for the medium term with the appropriate allocation of funding and criteria for project prioritization can be determined as part of the Budget Declaration for 2025-2027. Guidelines for the preparation of concepts of public investment projects and prioritization criteria will be included in the budget circular of the Ministry of Finance to the key spending units during the preparation of the Budget Declaration. The results of the screening

and prioritization of project concepts conducted by the Ministry of Economy, the Ministry of Finance and the Ministry of Infrastructure will be submitted to the Strategic Investment Council, which will be established in 2024. Based on the results of the review, the formed list of priority projects can be presented by the Ministry of Finance to international partners within the framework of the Multi-agency Donor Coordination Platform for Ukraine to determine the available amount of external financial resources for project implementation and reflect it in the Budget Declaration.

Although a technical rationale will always be required to make a decision on project appraisal, for projects aimed at rapid recovery in the transition phase, instead of a full economic cost-benefit analysis, a simplified qualitative analysis may be conducted in cases defined in and in accordance with the guidelines developed by the Ministry of Economy.

During the selection of projects for financing, the main factors at this stage should be the number of citizens who have access to restored services in each of the sectors, and the degree of project maturity, in order to avoid, on the one hand, dispersal of funds and, on the other hand, freezing of budget allocations under projects not ready for implementation.

Stages and ways of roadmap implementation

The creation of a coherent, sustainable and effective public investment management system will be carried out in accordance with this road map until 2028 through the implementation of a number of measures in two stages.

The first stage (2024-2025) provides for the creation of prerequisites for the transition to a new model of public investment management, including:

- legislative regulation of unified public investment management procedures by introducing a unified definition of a public investment project, distinguishing between investments and other types of capital expenditures (repair works, small purchases of equipment as part of operational activities, etc.) and streamlining the legal framework of existing capital investment flows both at the central and local levels;
- introduction of strategic planning of public investments, including the creation of the Strategic Investment Council and the establishment of

provisions for the preparation of the Medium-term plan of priority public investments together with the Budget Declaration;

- complete update of the methodological framework of public investment management for the unification of approaches to the preparation, prioritization, evaluation and selection of public investment projects, regardless of funding sources and mechanisms, and the creation of a single project pipeline for obtaining access to funding;
- improving the medium-term budget planning of public investment, assessment of various aspects of the financial sustainability of public investments at various stages of the investment cycle and strengthening the management of fiscal risks of the state and local budgets related to public investments, primarily regarding guarantees, PPPs and concessions;
- institutionalization of expanded public investment management functions at the Ministry of Economy, Ministry of Finance and Ministry of Infrastructure;
- creation of an IT architecture for public investment management based on an updated methodological framework in line with the principles of interoperability, including a single bank of projects, a budget module, e-procurement and treasury servicing;
- development of training programs for public investment management specialists and training plans.

In the second stage (2026-2028), efforts will be focused on the implementation of a new model of public investment management, including:

- approval and implementation of the Medium-term plan of priority public investments, maintaining the relevance of a single project pipeline;
- further improvement of medium-term budget planning of public investments and management of related fiscal risks;
- ensuring preparation, evaluation and selection of public investment projects based on unified procedures;
- digitization of the public investment management process to ensure its efficiency and transparency, including electronic submission and tracking of

documents, verification of submitted information, implementation monitoring, as well as digital tools to simplify project preparation, analysis and evaluation;

- capacity building for public investment management, including the creation and strengthening of relevant dedicated units in bodies at the central and local level, creation of centers of expertise for the preparation and implementation of projects and mechanisms for attracting external expertise, etc.