PUBLIC FINANCE MANAGEMENT SYSTEM
REFORM STRATEGY 2017-2020

Brussel

April, 2017
# Need for new strategy

## Existing model

- Unpredictable budget and tax policy
- Lack of integrated strategic planning system
- Existing system focuses on the mechanisms of cost control
- Lack of direct foreign investment in the national economy
- Limited resources are spent inefficiently
- Low level of satisfaction with public services from citizens

## Target model

- Introduction of strategic planning and medium-term budgeting
- Improvement of state budget planning and evaluation system
- Transition from keeping on balance approach to high quality of public services
- Increase in quality and efficiency of tax administration
- Decentralization and clear division of powers and appropriate resources and accountability of local budgets
Key deliverables

Development of modern and efficient public finance management system

Allocation of budget funds in accordance with defined national priorities for the period of three years

Clear strategic goals for five years period with defined KPIs

- Sustainable economic growth
- The effective provision of public services
- Stimulus for reforms in other areas
- Reform program for the medium-term
# Main components

<table>
<thead>
<tr>
<th>Fiscal discipline</th>
<th>Efficiency of resources allocation</th>
<th>Budget execution</th>
<th>Transparency and accountability</th>
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<tbody>
<tr>
<td>Tax system</td>
<td>Strategic planning system</td>
<td>Public procurement system</td>
<td>State budget transparency and citizens participation in the budget process</td>
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<td>Macroeconomic and budget forecasting</td>
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<td>Investment management</td>
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- Fiscal discipline
  - Tax system
  - Macroeconomic and budget forecasting
  - Medium-term budgeting
  - Fiscal risk management
  - Debt management
  - Liquidity management

- Efficiency of resources allocation
  - Strategic planning system
  - Program-based budgeting
  - Fiscal decentralization and connection between state and local budgets

- Budget execution
  - Public procurement system
  - Investment management
  - Accounting standards in public sector
  - Internal controls and independent financial audit

- Transparency and accountability
  - State budget transparency and citizens participation in the budget process
  - IT system to support public finance reform
# Modern and fair tax system that ensures equality of all taxpayers against law

<table>
<thead>
<tr>
<th>1. Predictable tax policy</th>
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<tr>
<td>▪ Medium-term strategy of the development of Ukraine’s tax system</td>
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<td>▪ Strict compliance with the rules on tax law changes</td>
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<th>2. Efficient tax administration</th>
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<td>▪ Completion of SFS reform</td>
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<td>▪ Implementation of tax electronic services (e.g. electronic cabinet of taxpayer)</td>
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<th>3. Tax base extension</th>
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<td>▪ Implementation of actions to restrict base erosion and profit shifting (BEPS)</td>
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<td>▪ The elimination of conditions for the abuse of the simplified tax system</td>
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<th>4. Compliance with tax law</th>
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<td>▪ Ensuring the inevitability of the liability for the violation of legislation and the liability of officers of controlling agencies for the violation of rights of taxpayers</td>
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<th>5. Improvement of customs controls</th>
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<td>▪ Improvements in planning and forecasting of customs payments</td>
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<td>▪ Integration of customs and tax data bases</td>
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Reliable basis for strategic and budget planning

Timeliness and reliability of data for budget forecasting

- Creation of a reliable base for the strategic and budget planning both for the short term and the medium term
- Regular revision and ongoing administration of forecasting models

Depoliticized macroeconomic and budget forecasting process aligned with budget needs

- Development and implementation of institutionalized independent evaluation of the macroeconomic and budget projections

Improvement of the quality of forecasting

- Employment of sophisticated forecasting tools
- Strengthening the coordination between macroeconomic forecasts and budget forecasting
Predictable and balanced medium-term budget and tax policy with clear development priorities

Define
- Key forecast macroeconomic targets
- Main budget and tax policies goals
- Expenditure ceilings, by totals and key spending units
- Strategic targets and KPI of KSU

Responsibility
- Optimization of the number of KSU agreed with public administration reform
- Increased responsibility for achieving strategic goals

Introduce
- Transparent procedures to define government priorities and resources distribution
- Participation of Verkhovna Rada in budget planning and approval of spending ceiling

Mid-term budget declaration as a tool of integrating strategic priorities of the state with budget opportunities

Authority
- Greater flexibility in the distribution of budget funds within the approved spending ceiling
- Incentives for effective management of budget funds
Minimizing the influence of unpredictable costs and risks on state budget

Measures to minimize risks

- Strengthening the management of SOEs borrowing
- Full disclosure of SOEs balances and the gradual removal of subsidies

Fiscal risk assessment as part of medium-term budget declaration

- Macroeconomic risks
- SOEs and guarantees
- Local municipalities borrowing
- Extra-budgetary funds

Strengthening the analytical capacity of the Ministry of Finance

- Information and analytical support
- Risk analysis and monitoring
Increasing predictability and availability of funds

Improved coordination

**Debt sustainability**


**Improving cash flow forecasting**

Development of quality daily forecasts of cash flows (6 month horizon).

**Funds management**

Mechanism for the placement of public funds on the STA and the Government’s foreign currency accounts. Coordination of timing of substantial receipts and expenditures of the state budget.
## Optimal use of limited budget resources

### 1. Strengthening responsibility of KSU

| Key spending units hold accountability for the attainment of budget policy goals (not MoF) | KPIs for KSU | Based on achieved progress in attainment of key state budget priorities |
| Monitoring and evaluation of the effectiveness of budget programs | Quantitative measured for budget programs | Oriented to provide high quality public services Aimed to meet the needs of different social groups |

### 2. Improvement in resources allocation

| Transition from the upkeep of institutions to the funding of the delivery of quality public services | Comprehensive and sectoral analysis of the expenditures efficiency and appropriateness spending review) | Public reporting of results of the evaluation of efficiency of budget programs |
Improving financial transparency and accountability of local governments

Clear delimitation of powers and resources allocation

**State budget**
- Incentives for balanced budget and efficient use of funds
- Updating of social standards and guaranteed standards of public services
- Transition to targeted in-cash benefits

**Local authorities**
- Increase in tax potential of local municipalities, including the use of real estate taxation
- Improvement of local spending through the implementation of medium-term budget planning and optimization of local state entities
- Strengthening capacity of local debt management
**Efficient use of public funds in order to meet public demand for high-quality goods and services**

**Public Procurement Reform Strategy 2015-2022**

- Development of institutional structure
- Mechanism of centralized procurement
- Improving e-procurement
- Professionalization in public procurement
- Creating a competitive environment
Strategic allocation of public investment

Public investment projects

Planning: based on the strategic priorities and medium-term fiscal prospects

Decision: based on a uniform transparent procedures

The concentration of limited resources

Increased transparency of the implementation of public investment projects

Centralized monitoring system for large-scale projects

Progress report publication of all ongoing large projects

Achieving project targets

Budget execution

Independent financial and commercial audit of projects
Improve quality, completeness and accuracy of data

New public sector accounting reform strategy

Determines the appropriateness of the complete migration to the accrual-basis accounting

Ensure completeness of the coverage of public funds

Develop the basis for the continued implementation of National Public Sector Accounting Policies

Introduce an integrated information and analytical system for consolidation of financial statements

Complete balance of public sector assets and liabilities

Transition to long-term budget planning and forecasting budget programs

Performance comparison of different institutions
Strengthen managerial accountability at all levels in the public sector

I Strengthening the efficiency of the internal audit
- Development of the functional capacity of internal audit functions
- Increase qualification of internal auditors

II Implementation of the internal control
- Pilot internal control projects will be carried out to strengthen managers’ responsibility
- for the management and advancement of an institution as a whole

III Specialized audits
- IT audit
- Public procurement

IV Efficiency in performing of financial inspections
- Inspections are based on risk assessment and targets serious violations
Budget transparency and public participation into budgeting process

**Feedback from public**

- Development of “Budget for Citizens”

**Public participation in budgeting process**

- Budget based macroeconomic indicators
- Public spending and revenue in user friendly format
- Key political decisions that influenced budget process
- Biggest spending increases (changes)

- Legislative definition of mechanisms for the participation of the public
- Development and approval of a public hearings system
- Provide recommendations for local governments with regard to the development and approval of Budget Regulations
IT in the Public Finance Management

New integrated information system includes:
- budget preparation and outturn monitoring at all levels;
- e-procurement system;
- monitoring and evaluation of fiscal risks;
- liquidity forecasting;
- improved information exchange.

Ministry of Finance

SFS

IT systems to support public finance reforms

Treasury
## Key priorities for 2017

### I. Development of the medium-term budget declaration and allocation ceilings for 2018-2020 within defined budget priorities

- Required changes to the legislation prepared by Minfin and adopted by parliament in March 2017. Minfin developed a road map for implementation of medium-term budget declaration

### II. Medium-term concept of the development of Ukraine’s tax system

- Concept prepared and adopted by CMU in March 2017. Minfin is leading the process of development of detailed action plan to implement the concept

### III. Ministerial reports goals and one’s performance to the Verkhovna Rada of Ukraine during the adoption of the budget declaration

- Initiated, within the process of implementation of medium-term budgeting

### IV. Implementation of comprehensive sectoral analysis of the expenditures efficiency and appropriateness (spending review) for 5 pilot Ministries

- Initiated consultations with line Ministries, potential candidates for pilot

### V. Improving local governments' budgeting and accounting process

- In progress. Minfin working on improvement of performance-based budgeting for local government and key spending units
Thank you!