



MINISTRY OF  
**FINANCE OF**  
UKRAINE

***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*

<b>Fiscal discipline</b>	<b>Efficiency of resources allocation</b>	<b>Budget execution</b>	<b>Transparency and accountability</b>
<ul style="list-style-type: none"><li>▪ Tax system</li></ul>	<ul style="list-style-type: none"><li>▪ Strategic planning system</li></ul>	<ul style="list-style-type: none"><li>▪ Public procurement system</li></ul>	<ul style="list-style-type: none"><li>▪ State budget transparency and citizens participation in the budget process</li></ul>
<ul style="list-style-type: none"><li>▪ Macroeconomic and budget forecasting</li></ul>	<ul style="list-style-type: none"><li>▪ Program-based budgeting</li></ul>	<ul style="list-style-type: none"><li>▪ Investment management</li></ul>	
<ul style="list-style-type: none"><li>▪ Medium-term budgeting</li></ul>	<ul style="list-style-type: none"><li>▪ Fiscal decentralization and connection between state and local budgets</li></ul>	<ul style="list-style-type: none"><li>▪ Accounting standards in public sector</li></ul>	<ul style="list-style-type: none"><li>▪ IT system to support public finance reform</li></ul>
<ul style="list-style-type: none"><li>▪ Fiscal risk management</li></ul>		<ul style="list-style-type: none"><li>▪ Internal controls and independent financial audit</li></ul>	
<ul style="list-style-type: none"><li>▪ Debt management</li></ul>			
<ul style="list-style-type: none"><li>▪ Liquidity management</li></ul>			



# *Modern and fair tax system that ensures equality of all taxpayers against law*

## **1. Predictable tax policy**

- Medium-term strategy of the development of Ukraine's tax system
- Strict compliance with the rules on tax law changes

## **2. Efficient tax administration**

- Completion of SFS reform
- Implementation of tax electronic services (e.g. electronic cabinet of taxpayer)

## **3. Tax base extension**

- Implementation of actions to restrict base erosion and profit shifting (BEPS)
- The elimination of conditions for the abuse of the simplified tax system

## **4. Compliance with tax law**

- 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

## **5. Improvement of customs controls**

- Improvements in planning and forecasting of customs payments
- Integration of customs and tax data bases



## *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

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

## Introduce

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

## 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

Improvement of medium-term public debt management strategy. Strategy contain measures on management of risks associated with public debt

### 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**

Achieving project targets

Centralized monitoring system for large-scale projects

Progress report publication of all ongoing large projects

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**

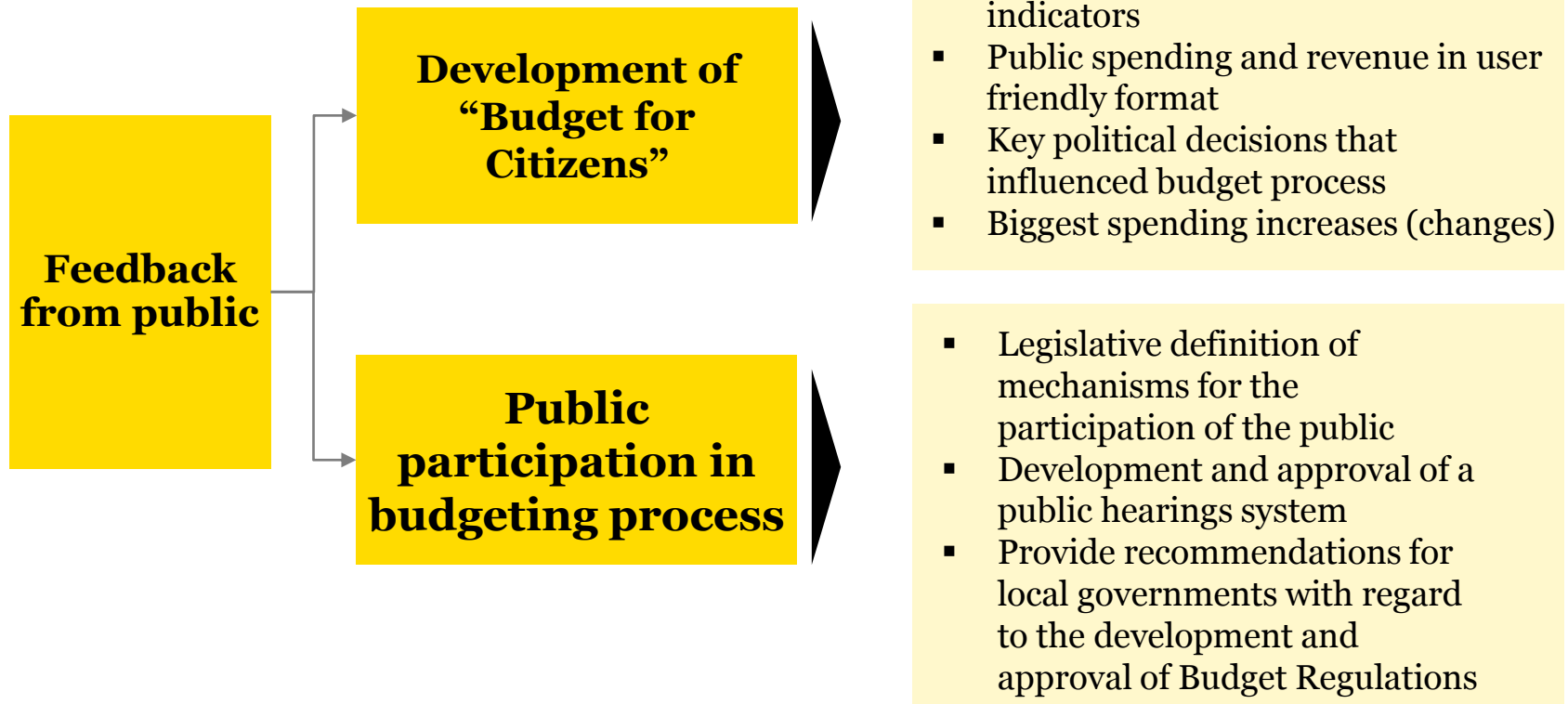
- IT audit
- Public procurement

## **IV Efficiency in performing of financial inspections**

- Inspections are based on risk assessment and targets serious violations



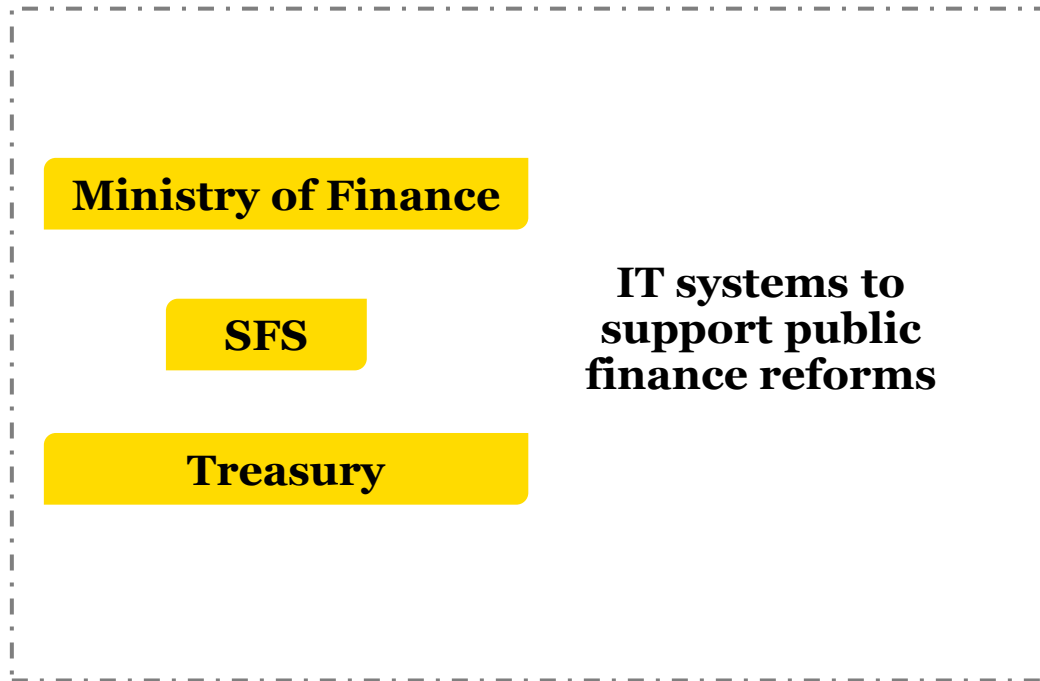
# *Budget transparency and public participation into budgeting process*







## *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.



## *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!***