



The European Commission - World Bank Partnership Program Part III for Europe and Central Asia Programmatic Single-Donor Trust Fund (TF0473423) - Public Finance Management Support Program for Ukraine (EUR4PFM) - Component 2 Activities

UKRAINE
Public Investment
Management Diagnostic
Assessment Report

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Public Investment Management (PIM) Diagnostic Assessment 2021
(core assessment and post-war reconstruction)

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CONTEXT

1. **Introduction:** **What** are main purposes of the assessment and assessment methods?
2. **Key assessment findings:** **What** are key strengths and weaknesses?
3. **Assessment by PIM functions:** **How successfully** does Ukraine perform the main PIM functions?
4. **Post-war reconstruction:** **How** to succeed?

PART 1: INTRODUCTION: MAIN PURPOSES OF THE ASSESSMENT AND ASSESSMENT METHODS



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MAIN PURPOSES OF THE PIM DA ASSESSMENT

- To provide the Government of Ukraine with an objective and up-to-date diagnostic of national-level PIM performance compared to international good practice
- To monitor the results achieved through recent PIM reforms
- To identify short- and medium-term priorities for future PIM reforms, feeding into the design of the updated public financial management (PFM) reform strategy
- To provide a baseline against which to monitor the success of new reforms
- To benchmark and provide guidance on improving PIM processes for PPP and SOE's
- To benchmark climate change considerations and provide guidance for improvement
- Provide guidance on urgent PIM improvements in the context of the Russian invasion [NEW PURPOSE]

The goal is improved targeting of public investments in line with strategic policy priorities of the Government

ASSESSMENT METHODS

- Core assessment used WBG's 2015 assessment framework, which uses the similar principles as PEFA
- There have been two previous assessments of Ukraine's PIM system. The first, in 2012, was performed by the World Bank and the second, in 2016, was performed by the IMF.
- Due to methodological differences, direct comparison of results from the three assessments is not possible.

Standard tools were used with some adaptation to Ukraine and the particular purposes of the assessment

PART 2: KEY ASSESSMENT FINDINGS: UKRAINE HAS MADE SIGNIFICANT PROGRESS IN IMPROVING PIM SINCE 2015, BUT THE PERFORMANCE REMAINS POOR

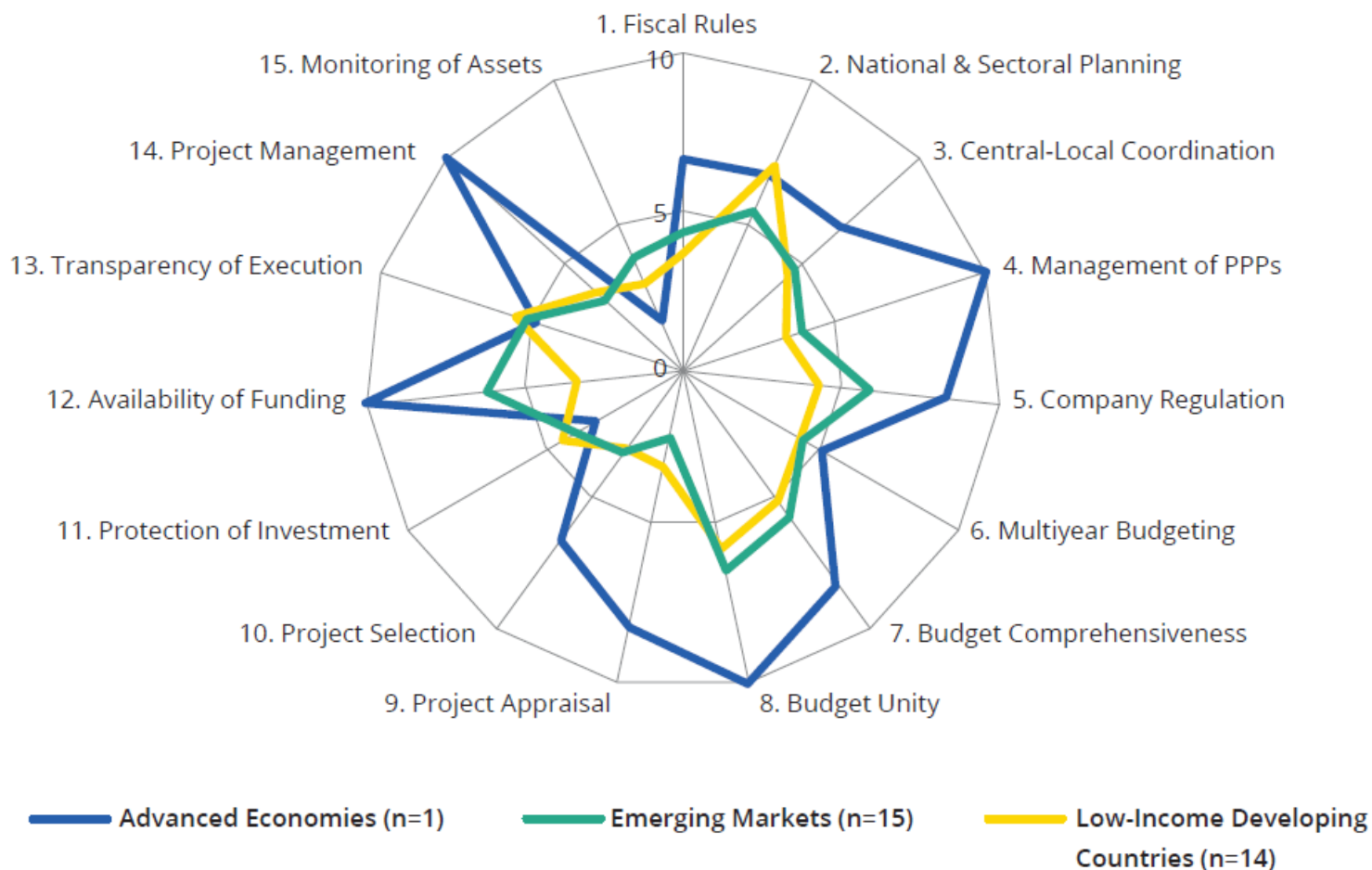


ASSESSMENT RATINGS BY FUNCTION AND INDICATOR

1. Guidance & screening	2. Formal appraisal	3. Appraisal review	4. Selection & budgeting	5. Implementation	6. Adjustment	7. Service delivery	8. Evaluation
Sector analysis and planning	Formal project appraisal procedures and guideline	Independent review of appraisal	Project selection & budgeting	Procurement	Project adjustment	Control, monitoring and reporting: financial and service delivery performance	Scope, nature and follow-up of external audit and ex post evaluation
Strategic plans & investment guidance, project development and preliminary screening	Project appraisal capacity		Multi-year budgeting	Project implementation management		Service delivery	Legislative scrutiny of external audit reports
	Screening and selection of feasibility studies		Comprehensive capital budget	Control, monitoring & reporting: physical and financial milestones			
			Comprehensiveness and degree of public/parliamentary access to capital budget information	Project handover, asset registration and completion review			
			Development and capital budget execution rates: Aggregate expenditure outturn compared to adjusted original budget on a commitment basis				
			Composition of development and capital expenditure outturn compared to adjusted original budget on a commitment basis				
			Project completion time and cost variances for completed projects				
			Stock and monitoring of capital expenditure arrears				

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UKRAINE'S PERFORMANCE IS NOT DISSIMILAR FROM COMPARATORS



MAIN STRENGTHS AND WEAKNESSES

Strengths

- Roles and responsibilities established by 2015 amendments to Budget Code
- Transparent appraisal & selection procedures, independent review, regular monitoring and structured adjustment (Resolution No. 571)
- Basic procedures for monitoring (2016)
- Guidelines for elaboration of state investment projects (2017)
- Public procurement reforms

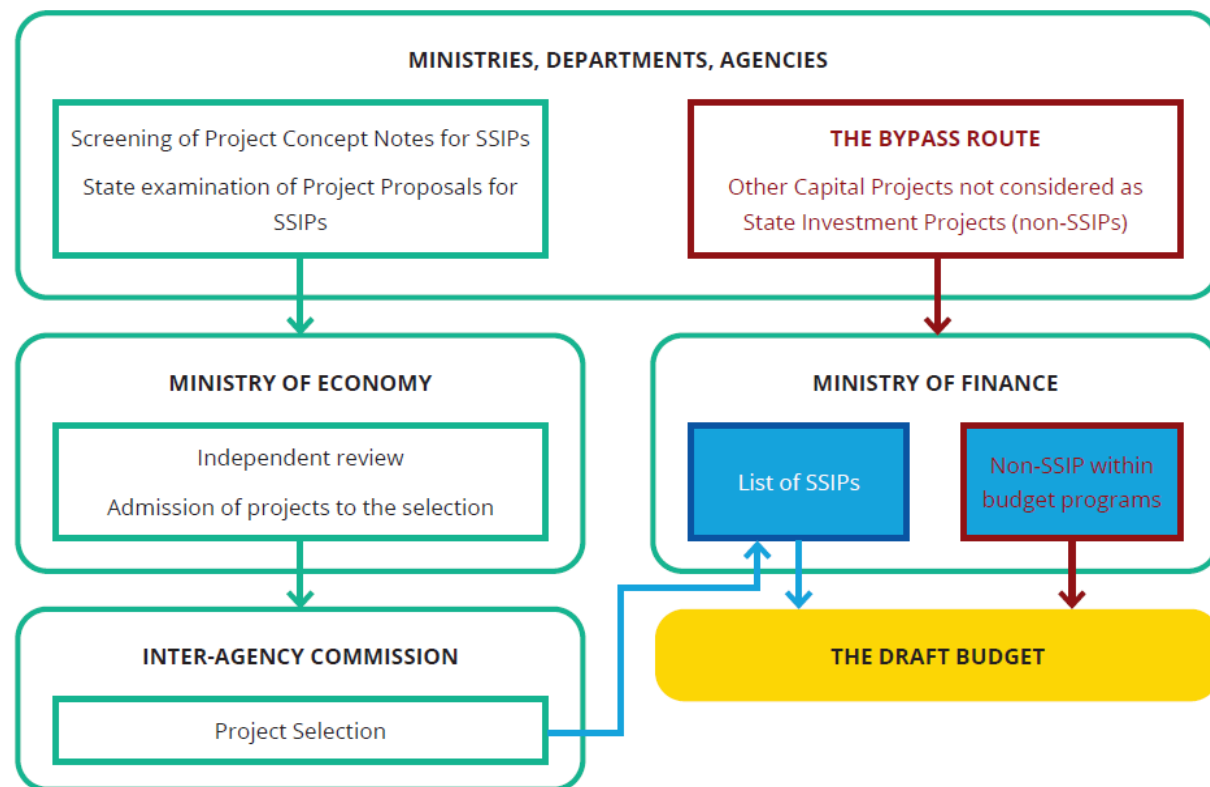
Weaknesses

- Ambiguous legal framework and absence of a strong 'enforcer'
- Fragmentation of processes and procedures by funding source and nature of asset
- Shortage of capacity to carry out adequate due diligence
- Weak strategic orientation
- Still prone to corruption
- The shortage of qualified staff and the absence of process automation

THE BYPASS ROUTE: A FUNDAMENTAL ISSUE

THE SOLUTIONS:

- **A TIGHT DEFINITION OF A PUBLIC INVESTMENT PROJECT**
- **UNIFIED PROCEDURES AND A UNIQUE GATEWAY**
- **AN EMPOWERED 'GATEKEEPER'**



PART 3: ASSESSMENT BY PIM FUNCTIONS: WEAKNESSES HAVE BEEN IDENTIFIED IN ALL OF THE MAIN PIM FUNCTIONS THAT NEED TO BE ADDRESSED



CHALLENGES AND RECOMMENDATIONS: STRATEGIC GUIDANCE

Main Challenges

- Analytical capacities for strategic analysis
- Insufficient strategic guidance for identification and prioritization
- Uneven application of pre-appraisal screening

Recommendations

- Improvements to practices in sector planning and analysis at ministry level
- National infrastructure investment strategy – long-term/rolling
- Reinforce project concept stage

CHALLENGES AND RECOMMENDATIONS: APPRAISAL & REVIEW

Main Challenges

- Significant share of projects escaping formal appraisal ('bypass route')
- Lack of detailed methodological guidelines and appraisal capacities
- Conflicts of interest in independent review of appraisals

Recommendations

- Stop investment projects from being 'hidden' in wider budget programs
- MoE to improve general project appraisal guidelines
- Ministries to develop sector-specific guidelines (consistent with MoE)
- MoE to organise regular and continuous training
- Establish robust independent review, drawing on specialist external expertise

CHALLENGES AND RECOMMENDATIONS: SELECTION & BUDGETING

Main Challenges

- Projects entering budget without adequate due diligence
- Budget documentation and financial reporting not sufficiently informative for adequate scrutiny.

Recommendations

- Formalise MoF's 'gatekeeper' function to give it power to enforce discipline
- Full list of state investment projects, with full cost information, to be annexed to budget
- Adhere more strictly to 70% rule for ongoing projects
- Introduce more comprehensive financial reporting, including reporting on SOE investments benefiting from budgetary support

CHALLENGES AND RECOMMENDATIONS: IMPLEMENTATION & ADJUSTMENT

Main Challenges

- Informality in project implementation arrangements
- Disjointed and incomplete reporting of progress
- Incomplete (often paper-based) application of total cost control
- Lesson-learning is not built into system
- Implementation of 'off-track' projects without reconsideration of the case for continuing

Recommendations

- MoE to introduce 'end-to-end' project management guidelines
- Ministries to adopt guidelines internally
- Improve monitoring system to cover progress against total cost, implementation schedule and physical milestones
- Introduce automation of total project management
- Formalise requirement for analytical project completion reviews
- Improve mechanism for project reassessment – strict application of triggers and formal decision based on analysis

CHALLENGES AND RECOMMENDATIONS: SERVICE DELIVERY & EX POST REVIEW

Main Challenges

- Difficult to determine if projects are delivering planned volume and quality of services
- Uneven internal audit across ministries
- Ex post evaluation not institutionalized
- Ambiguous responsibilities for external audit of projects

Recommendations

- MoE to introduce monitoring of operational performance
- Ministries to fully staff internal audit units and improve responsiveness to findings
- Establish and provide resources for an objective ex post evaluation process covering efficiency, effectiveness and impact
- SAS and ACU to coordinate to avoid overlap
- Assign external auditor role for investment projects to ACU
- Carry out external audit of individual major projects on completion and (risk-based) sample basis during implementation

PART 4: POST-WAR RECONSTRUCTION: RUSSIA'S WAR AGAINST UKRAINE HAS RADICALLY CHANGED THE SCALE AND NATURE OF INVESTMENT REQUIREMENTS



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WAR-TIME ISSUES & CHALLENGES FOR PIM

Investment needs
increased
exponentially

Fiscal capacity
radically reduced

Reliance on donors
increased

Skill shortages and
capacity constraints
exacerbated

Costs of PIM
inefficiencies
multiplied

Relocation of
people and
economic activity –
temporary or
permanent?

Westward
reorientation of
supply chains to
reflect political
realities

Reconstruction as a
confidence-building
tool

Opportunities for
corruption

PIM REFORMS FOR POST-WAR RECONSTRUCTION

War-time destruction and post-war reconstruction do not change the fundamentals of PIM, but they do influence the pace and sequencing of implementing recommendations from the core

Planning and Budgeting

- Introduce a dynamic short- to medium-term reconstruction strategy
- Apply concept screening criteria that reflect the new war-time/post-war political, demographic and economic realities, as well as long-term trends
- Introduce simplified, but robust, appraisal procedures and methods, but with strong independent review
- Program reconstruction projects within a realistic medium-term financial framework, ensuring full funding of projects from beginning to end

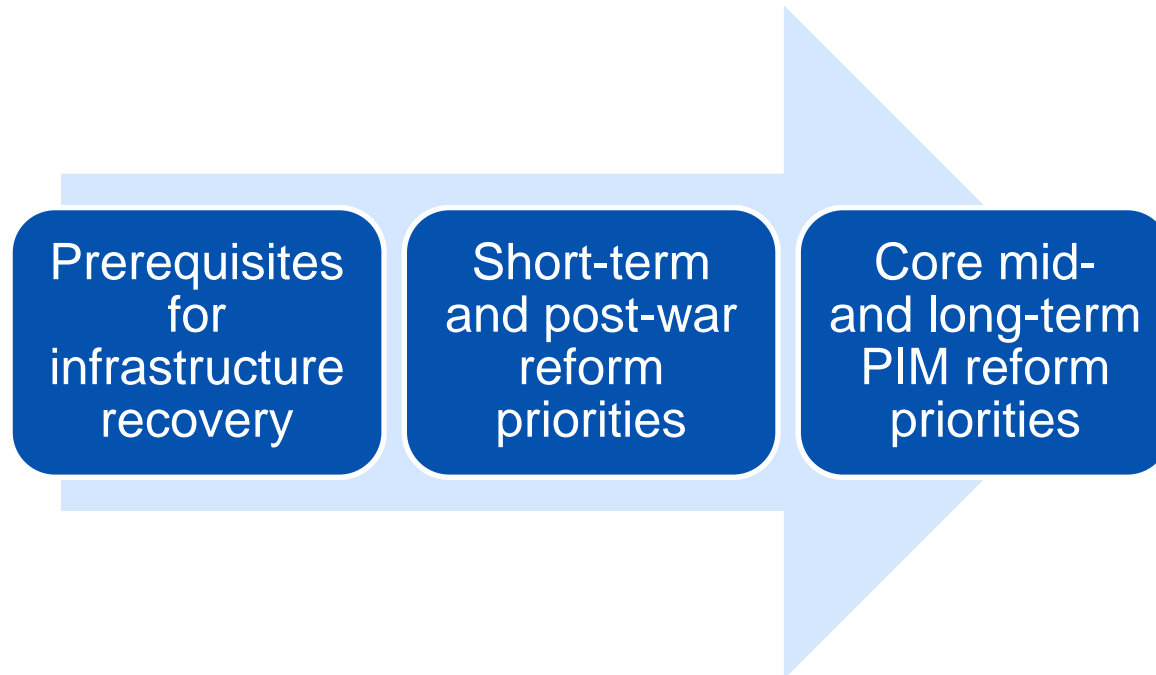
PIM REFORMS FOR POST-WAR RECONSTRUCTION

Implementation and Operations

- Practice agile procurement without sacrificing the gains achieved to date
- Prioritise strengthening of project management procedures and methods for reconstruction
- Unify monitoring of reconstruction program
- Introduce systematic external audit of reconstruction projects
- Ensure rapid learning and feedback from completed projects

SEQUENCING PIM REFORMS

Reconstruction has the potential to be the catalyst for deeper PIM reforms after the emergency phase



PREREQUISITES FOR INFRASTRUCTURE RECOVERY

