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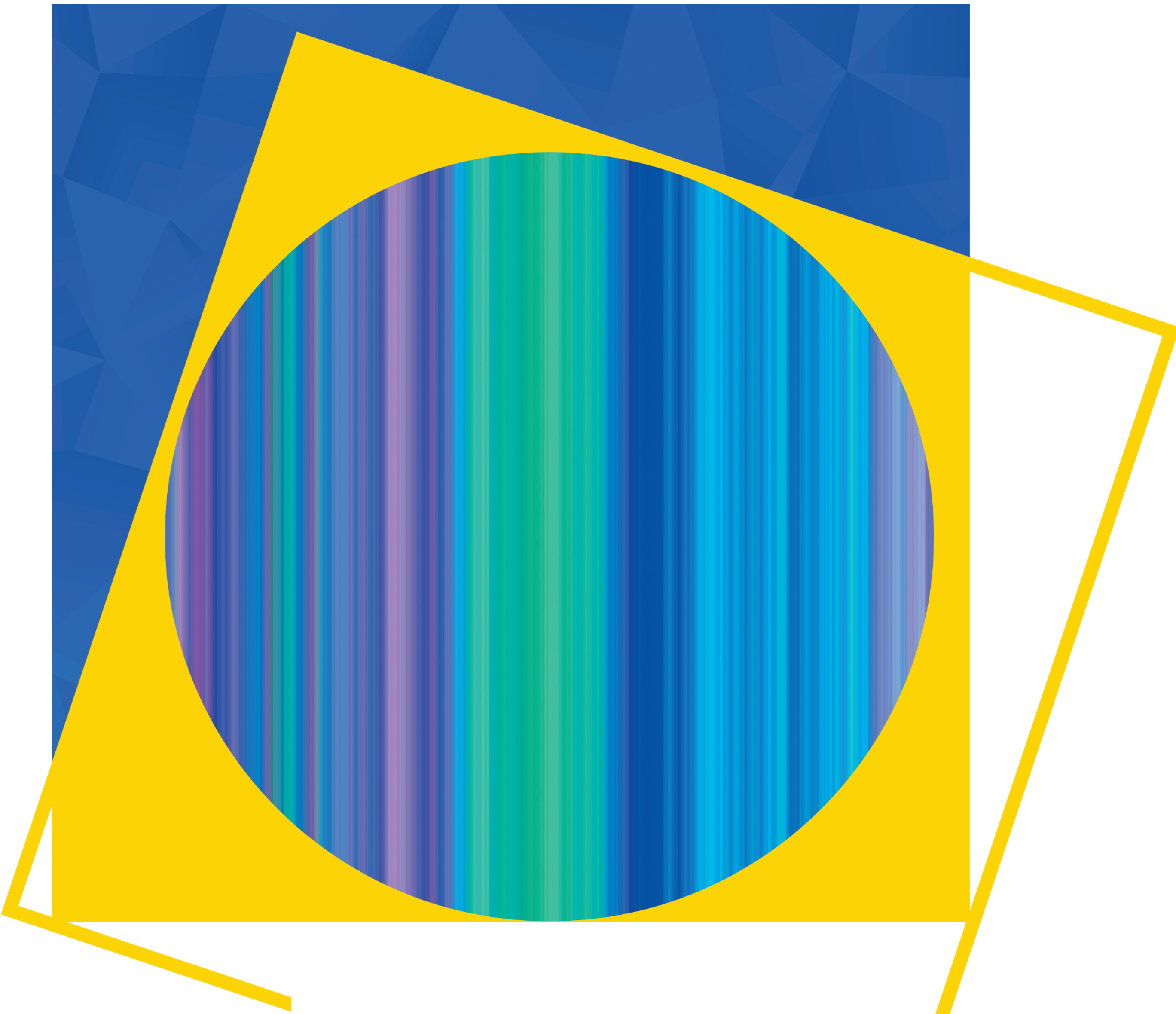

UKRAINE

Public Investment Management Diagnostic Assessment Report

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

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CONTENTS

Tables

Figures

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ABBREVIATIONS AND ACRONYMS

ACU	Accounting Chamber of Ukraine
BCU	Budget Code of Ukraine
CBA	Cost Benefit Analysis
CC	Climate Change
CEA	Cost Efficiency Analysis
CMU	Cabinet of Ministers of Ukraine
CPI	Consumer Price Index
DIAM	State inspection for Architecture and Urban Planning
EIA	Environmental Impact Assessment
EU	European Union
FY	Fiscal Year
GHG	Greenhouse Gas
IA	Internal Audit
IFI	International Financial Institution
MDA	Ministries, Department, Agencies which are Key Spending Units
M1 (WL)	Weakest link method
M2 (AV)	Averaging method
Ministry of Ecology	Ministry of Ecology and Natural Resources of Ukraine
MoE	Ministry of Economy of Ukraine
MoF	Ministry of Finance of Ukraine
MoI	Ministry of Infrastructure
Non-SSIP	State Investment Projects included in the budget outside of the regulated selection process
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PIM	Public Investment Management
PPL	Public Procurement Law
PPP	Public Private Partnership
SEA	Strategic Ecological Assessment
SOE	State-owned enterprise
SSIP	Selected State Investment Projects
UAH	Ukrainian Hryvnya
USPs	Unsolicited proposals for PPP projects
VRU	Verkhovna Rada of Ukraine (Parliament)
WHO	World Health Organization

Currency and Indicative Exchange Rates

* Local Currency Unit: Ukrainian Hryvnya (UAH)
* 1 US$ = 26.33 UAH as of October 31, 2021
* 1 EUR = 30.50 UAH as of October 31, 2021

Fiscal Year

* January 1 – December 31

OVERVIEW

1. **The main purpose of the 2021 Public Investment Management (PIM) Diagnostic Assessment is to provide the Government of Ukraine with an objective diagnostic of national-level PIM performance in comparison to international good practice, with recommendations for improvement.** This report identifies key strengths and weaknesses in the design and performance of Ukraine's PIM system and contains a set of actionable recommendations to correct the weaknesses over the short and long term. The assessment also provides a baseline against which to measure the success of future PIM reforms. In addition to the core assessment, separate assessments of climate change (CC) considerations in PIM and of PIM for public private partnerships (PPPs) and state-owned enterprises (SOEs) were performed.

2. **Although the assessment started in 2021, the impact of the Russian invasion was considered in formulating final recommendations.** Because the Russian invasion radically changed the context and focus of public investment near the conclusion of the core assessment, important issues emerging for the post-war reconstruction phase have been addressed in a dedicated chapter.

3. **Russia's war against Ukraine has radically changed the scale and nature of investment requirements, while reinforcing the need for a more robust, but agile PIM system to meet the challenges of reconstruction.** The direct damage caused to Ukraine's infrastructure during the war has reached a value of over USD110.4 billion, with minimum recovery needs for replacement of destroyed assets set at USD188 billion,[1] or 94 percent of 2021 GDP. At the same time, the economic resources available to finance reconstruction have plunged, with the country's economy expected to shrink by an estimated 35 percent in 2022, depending on the duration and intensity of the war.[2] The displacement of significant numbers of people within the country further complicates the planning and prioritization of public investments.

4. **Post-war reconstruction inevitably introduces new challenges and exacerbates existing ones.** With this in mind, addressing the PIM pre-war drawbacks prior to reconstruction will yield great benefits. More than ever, an effective PIM system will be required to ensure that scarce financial resources are directed towards high quality, priority projects that are then executed efficiently. Opportunities for corrupt practices can quickly emerge in emergencies when there is pressure to dilute robust project implementation procedures in the interests of quick results. Efficiency will be paramount as fast recovery of infrastructure will be required once the war ends.

5. **This assessment has been performed using the World Bank's most recent (2015) PIM assessment framework.**[3] This framework adopts the same principles as PEFA to score the dimensions of the PIM system. 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,[4] was performed by the IMF. Due to methodological differences, direct comparison of results from the three assessments is not possible. The CC assessment has been guided by two tools: i) the PIM indicator of the Climate Responsive Public Financial Management Framework ((CRPFM-5) and ii) Dimension 5 (Questions 1-3) of the World Bank's

1 Estimate by the Kyiv School of Economics, as of beginning of August 2022. https://kse.ua/about-the-school/news/direct-damage-caused-to-ukraine-s-infrastructure-during-the-war-has-reached-over-110-4-bln-minimum-recovery-needs-for-destroyed-assets-188-bln/

2 World Bank estimate: https://www.worldbank.org/en/country/ukraine/overview#3

3 'A New PIM Diagnostic Indicator: Strengthening the PIM Component of the PEFA Framework', J. Kim, G. Glenday & N. Biletska, World Bank 2015

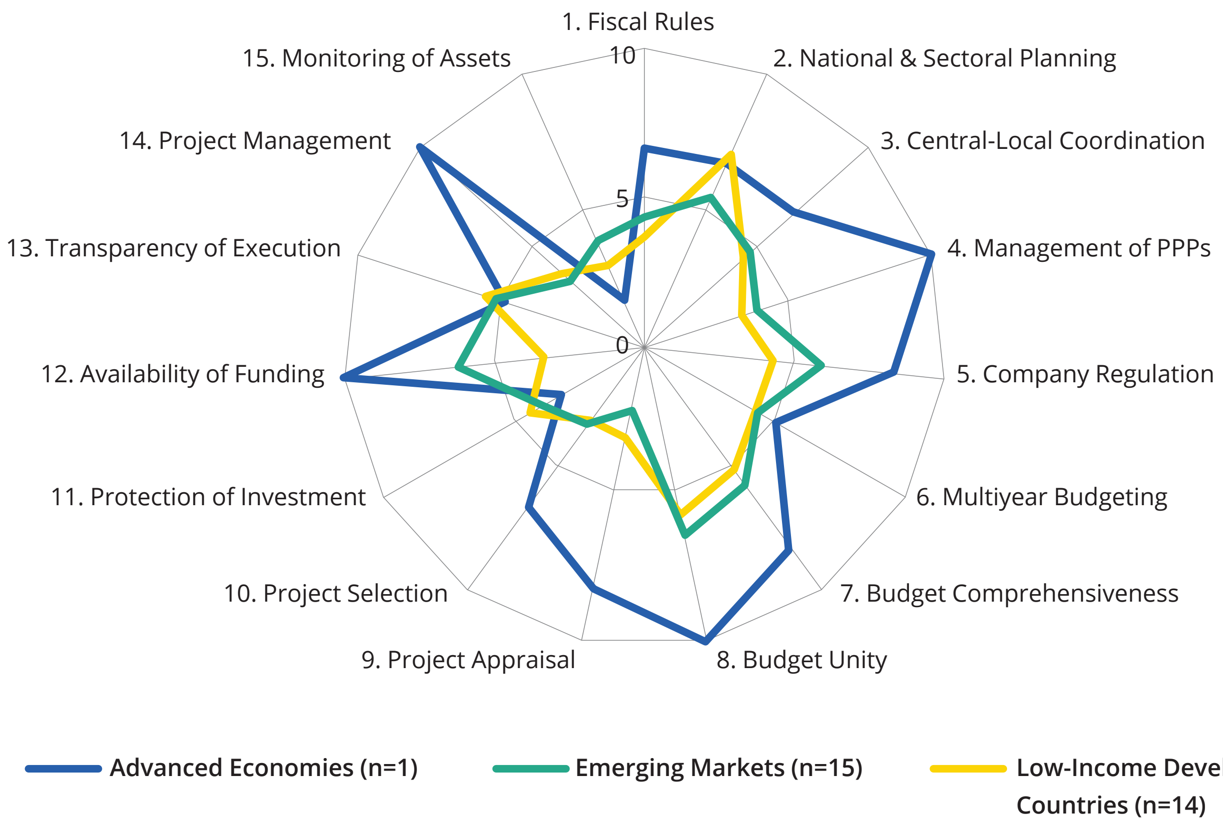
4 The assessment was carried out in 2016, but not released until 2019: Ukraine Public Investment Management Assessment: Technical Report, IMF, June 2016.

Infrastructure Governance Assessment Framework (InfraGov). When reviewing investments made by SOEs, indicator 5c of the IMF PIMA Framework, alongside the indicators in the WB PIM DA framework, were considered.

6. **Ukraine has made significant progress in improving PIM since 2015 and the level of its performance is similar to comparator countries across the world.** The improvement began in 2015 with amendments to the Budget Code, which clarified the roles and responsibilities of the main actors. In 2015 the government also approved Resolution No. 571 which established transparent appraisal and selection procedures, independent review, regular monitoring, and adjustment of state investment projects. In 2016, the MoE approved basic procedures for the monitoring of public investment projects, followed by guidelines for elaboration of a state investment project in 2017. As illustrated by the IMF analysis presented in **Figure 1**, project appraisal and selection are consistently the weakest areas of PIM in most countries. Multiyear budgeting also scores poorly, while national and sectoral planning tend to be weaker in emerging market countries.

7. **The Government's Public Finance Management (PFM) Strategy for 2022-2025 envisages further strengthening of the PIM system.** Despite the mentioned improvements, Ukraine's PIM system still suffers from deficiencies – it remains fragmented, short of capacity to carry out adequate due diligence, prone to corruption, and lacking in strategic orientation. The large overhang of underfunded ongoing projects is one symptom of these continuing problems, as are the significant variances from budget and schedule for completed projects. The PFM Strategy Action Plan includes specific reform steps and performance indicators aimed at addressing the PIM system's shortcomings.

Figure 1. Ranking of PIM Institutions by Scores in Design and Country Group



Source: Public Investment Management Assessment – Review and Update, IMF, 2018

8. **According to the assessment, clear roles and responsibilities exist in PIM, but institutional arrangements open up a "bypass" route that allows state budget funded investments to legitimately circumvent the PIM procedures.** This route is due to the non-mandatory nature of procedures caused by weaknesses in the terminology and its application. The term "investment project" is included in both the Budget Code and in the Law on Investment Activities, which allows for established procedures to be circumvented in many investment projects. Further, no organization is performing the "gatekeeper" role to prevent projects that have not been positively appraised from getting funding. Different PIM streams exist with their own specific procedures: (1) direct budget financing (state capital investments); (2) state budget support (state guarantees, budget lending); (3) PPPs; and (4) corporate sector investments (SOEs' investments of own funds). These mechanisms are guided by different procedures between, and even within, each means of financing, depending on the sources of funding and the nature of the property in which the investment is made.

9. **The key recommendation of the report is to unify the PIM procedures, including the terminology applied to the PIM system, and to eliminate bypass rotes.** A tight definition of an investment project is the key to closing the bypass route and should be implemented in the short term through amendments to the Budget Code. Simultaneously, the MoF should be authorized, through the Budget Code, to perform a gatekeeper function, allowing it to block projects that have not been appraised or properly selected from being included in the budget on the initiative of government entities and Parliament. Some international experience in enforcing a unified entry point for projects seeking state support is illustrated in **Box 1**.

10. **Combined with fundamental measures such as unification of PIM procedures, Ukraine can also benefit from measures that respond to the various constraints and urgency that the reconstruction will present, such as using simplified appraisal methods.** In the short term, these could be introduced across a range of project sizes, to facilitate the infrastructure reconstruction phase. In the

BOX 1

International Experience in Preventing the "By-Passing" of Established PIM Procedures

Chile

Chile's National Public Investment System is backed by legislation and is the single entry point for projects to access budget funding. Since the 1980s, all public bodies – ministries, regional governments, municipalities, publicly owned companies, and public services – wishing to undertake an investment project or program, must apply initially through the public investment system for funding (Article 19bis of Law 1.263, Ley Orgánica de la Administración del Estado). Only initiatives that have been evaluated can be undertaken within the public sector. The only exceptions (which are very rarely used) are defense projects and initiatives of the President. In 2010, the system was extended to concession projects where the private sector finances the investment.

Croatia

Croatia's Budget Act (Article 45) specifies that users of the state budget may assume commitments under investment projects only after an expert evaluation, and feasibility and efficiency assessment of any such investment project, are completed. These provisions apply also to local and regional governments. Applicable assessment methods and approval procedures are issued through a government directive. The same act (Article 124.10) authorizes financial penalties against legal persons for breaching these provisions.

absence of full economic appraisal, metrics such as the number of people benefiting from the restoration of services and the cost per user compared to similar projects (and considering that in some remote areas the cost of services will be higher, and the density of people served will be lower) are useful. In addition, line ministries should be made responsible for presenting complete and coherent projects that do not involve slicing up larger projects to fit below the value threshold for application of more advanced project appraisal procedures and methods. The MoE should be given a right and responsibility to reject "projects" that are obviously subsets of bigger projects to send them back to the ministries for proper configuration.

11. **A unified monitoring of the implementation of the whole reconstruction program (regardless of funding source) should be established.** Without a unified approach, fragmented monitoring and an inconsistent approach to adjustment and re-appraisal of investment projects (which have been identified as problems in the assessment), will increase due to accelerated preparation of reconstruction projects, potentially based on incomplete information. Basic completion review of all reconstruction projects and rapid analysis of results by central agencies to feed lessons back into the continuing reconstruction program will address those problems and minimize risks. A unified approach to PIM monitoring and reporting will also streamline the provision of information to Ukraine's development partners.

12. **Introduction of a government "center of excellence" can resolve the problem of inadequate institutional capacity.** The government PIM function has been significantly understaffed (in number and skills) at each stage of the PIM cycle, from preparation to implementation. A unit at the center of government – a "center of excellence" – can provide additional capacity to line ministries with the largest needs. It is important to note that this body's role is to support the successful delivery of large, complex, and risky projects, including by outsourcing of required skills. However, to avoid conflicts of interest, such a center cannot be granted rights to select and/or finance public investment projects. The UK is a good example of the establishment of a center of excellence in project preparation and implementation called the Infrastructure and Project Authority (see **Box 2**).

BOX 2

United Kingdom Infrastructure and Project Authority

Reporting jointly to the Office of the Cabinet and the Treasury (the finance ministry) the Infrastructure and Project Authority (IPA) has the role of supporting the successful delivery of large, complex, and risky projects. It has no direct involvement in project implementation and no approval or decision-making role.

The IPA's main functions are:

* Maintaining the system for monitoring government's major project portfolio, including:
    * Preparing an annual report on progress in delivery of around 150 major projects
    * Running the "traffic-light" warning system for delivery confidence
* Setting up and coordinating a system of integrated assurance and approval plans, which is a schedule of quality assessments over the planning and implementation of a project to support decision-making and inform approvals by the relevant ministry and the Treasury.
* Carrying out and supporting ad hoc delivery performance reviews - triggered by implementation performance issues - and escalating issues that cannot be resolved to higher levels of authority (accounting officers and ministers).
* Working with ministries to build capability in project management, including setting up the Major Projects Leadership Academy.
* Promoting transparency concerning major projects through public information flows.

The IPA has a staff of around 180, including analysts, policy advisors, commercial specialists, project delivery professionals, project finance professionals, and strategic delivery advisors.

13. **It will be important for sustainability of infrastructure to take the first steps towards climate change-informed PIM immediately during the reconstruction.** This is in consideration of the significant role of infrastructure through two relationships: (i) Climate change → infrastructure, since public infrastructure is increasingly exposed to the risk of damage from climate-related disasters and needs to be designed and operated in ways that reflect these risks; (ii) Infrastructure → climate change, since greenhouse gas (GHG) emissions are generated directly during construction and operation.

14. **Although the existing legal framework incorporates some formal elements of climate change considerations in PIM, it would be beneficial to make these considerations more explicit, introducing budget tagging of CC related expenditures, and strengthening the role of the Ministry of Ecology.** The legal framework includes regulations about public investments that have impacts on CC variables and GHG emissions, although only applied after project selection. CC should be considered in earlier PIM stages and evolve and adapt to future CC-induced hazards. National strategies or projects must consider Ukraine's international commitments. The Ministry of Ecology shall provide advisory and supervision support for related projects, issue guidelines for CC consideration in project designs, appraisal, and selection. Ukraine's budget system has many important elements of performance-based program budgeting which could be useful in tagging CC expenditures. A definition of "climate change expenditure" should be included in the Budget Code. Once legally established, such a definition would be the starting point for the government to improve CC-informed strategic planning in the medium term, and to identify and present costed CC measures in budget plans and reports.

15. **The management of public-private partnership (PPP) projects has improved in some areas since the 2012 PIM assessment, notably in the legal framework.** There has been significant improvement in the legislative framework for PPPs over the last five years. The adoption of the law on concessions and the law on PPP, as well as other legislative acts, has improved the PPP management system so that it now corresponds to good international practice.

16. **Despite a successful upgrade of the PPP legal framework, better harmonization with the Budget Code and strengthened transparency is needed in the mid-term.** Among other improvements, implementation of '*government-pays*' PPPs should be allowed for in the Budget Code. Lack of '*government pays*' PPPs is a serious constraint on this commonly-used funding framework. Although direct project financing for PPPs with state budget funds is allowed, there has been no case of the government funding such a project to date. Despite the broad requirements for transparency of information on PPP projects in the legislation (especially for concessions), there is a widespread problem with the practice of regularly applying a "confidential information" status. The confidential status is at odds with international good practice, which restricts confidentiality to commercially sensitive information only. The absence of an independent appeals process for private partners participating in PPP procurement/concessions can also act as a deterrent.

17. **The government has a detailed oversight function of State-Owned Enterprises (SOEs), but transparency concerning the overall scale of budgetary support for SOEs' investment requires further improvement.** The level of SOE capital investments financed using budgetary lending and state guarantees exceeded 20 percent of total public capital spending during the evaluated period but no information on this support was included in central government fiscal reports. Since SOEs use various sources of funding for their capital investments, they also follow different financing streams in each case, which may or may not be based on clear rules. Depending on the relevant investment financing streams, SOEs are guided by twelve legislative acts to receive state support for their investment projects. Legal conflicts are observed in these complex arrangements. Moreover, the legal framework does not prevent the "bypass route," in which SOEs can also receive budget funds within a budget program requested by the line ministry. SOEs also do not have clear internal rules for investment projects by own funds; only about a quarter of capital investment projects follow clear procedures.

18. **The main high-level recommendation for improving PIM for SOEs is that guidelines for internal investment management procedures be developed in the post-war period.** Even though SOE investment projects follow different financing streams with different requirements, the SOE itself must have a comprehensive picture of the effective implementation of its investments in the mid-term. This can be achieved through a unified approach for all SOE investment projects covering assessment, selection, and inclusion in a mid-term investment plan.

19. **The introduction of a long-term national infrastructure investment strategy as part of the country's regular strategic planning is vital for the effectiveness of public investments.** Implementation of such a strategy should then be detailed for the mid-term within a comprehensive public investment expenditure plan. Both instruments have a crucial role for steering financial resources towards investment in areas where creation or improvement of public services is most urgent, while at the same time considering sectoral development. Projecting forward to the post-war environment, the national reconstruction strategy may eventually evolve into a national infrastructure investment strategy. A realistic mid-term public investment expenditure planning should be introduced, covering all public investment streams involving budgetary funds or other state support (e.g., state loan guarantees and support to PPPs in any form).

20. **The existing databases are created for different purposes and for different types of projects, making information sharing across the PIM system fragmented with consequences for transparency and portfolio management.** There is no unified database that contains comprehensive information on all public investments at different stages in the project cycle. It is neither possible to track individual projects across the project cycle using a single information source, nor is it possible to obtain a full picture of the total number of projects (and their values) at different points in the project cycle. This fact makes it complicated to understand the progress of individual projects and to get comprehensive insights into the status of the project pipeline and implementation of the portfolio of ongoing projects.

21. **An integrated public investment management information system (PIMIS) will improve information sharing across the project cycle and should be developed over the medium term.** The PIMIS should cover all business processes (the PIM stages) and all investment streams. To control the entry and flow of projects through their stages of design, appraisal, and approval, it is important that all the key features of the projects and their development and approval status be entered.

22. A comprehensive set of recommendations is provided in **Section 3.2** of **Chapter 3**, **Chapters 4** to **7**, and in **Table 30**. The table provides a useful breakdown between short-term/postwar priorities and those that may require more time to be implemented.

CHAPTER 1

BACKGROUND AND APPROACH TO THE ASSESSMENT

1.1. Context for PIM Assessment

23. **While the situation has not been static, public investment management is still recognized as one of the weakest aspects of public financial management in Ukraine.** PIM has been characterized by a high level of discretion at various stages of the PIM cycle. Inefficiencies in the PIM system and a weak governance framework push the cost of construction in Ukraine almost to EU and US levels,[5] despite lower labor costs. These problems are magnified by Ukraine's vast public investment needs – an estimated USD100 billion and more up to 2030,[6] as estimated before the war.

24. **Moreover, the destructive impact of the war on infrastructure is immense and continues to mount.** Although the assessment does not cover 2022, the current situation emphasizes the importance of improvements to PIM, and many of the findings remain highly relevant as set forth in a supplementary chapter "PIM for Post-War Reconstruction." According to the Ukraine Rapid Damage and Needs Assessment – August 2022 report,[7] as of June 1, 2022, direct damage has reached over US$97 billion, with housing, transport, and commerce and industry being the most affected sectors. Reconstruction and recovery needs, as of June 1, are estimated at about US$349 billion, which is more than 1.6 times the GDP of Ukraine in 2021. Integrated into these needs are critical steps toward becoming a modern, low-carbon, disaster- and

5 The construction of 1 kilometer of the road in Ukraine costs about 90 million hryvnia ($ 3.2 million). According to the ARTBA (American Road and Transportation Builders Association), it costs about USD 2 to 3 million per mile in rural areas to build 1 mile of a new 2-lane unshared road and USD 3 to 5 million in urban areas; about USD 4 to 6 million costs to build 1 mile of a 4-lane road in rural areas and USD 8 to 10 million in urban areas (a mile is 1.6 kilometers). https://economy.24tv.ua/vartist-ukrayinskih-dorig-2020-chomu-novini-ekonomiki-ukrayini_n1477613

6 https://zakon.rada.gov.ua/laws/show/179- 2021 -%D0%BF#n25

7 The report was jointly prepared by the World Bank, the Government of Ukraine, and the European Commission: https://www.worldbank.org/en/news/press-release/2022/09/09/ukraine-recovery-and-reconstruction-needs-estimated-349-billion?fbclid=IwAR0IXweVnvhcebI0kiIAI6NN_nccxSXqI0u5MDT7rDt5arg0OobWtyigNKc

climate-resilient, and inclusive country that is more closely aligned with European Union standards. To fund a whole National Recovery Plan to rebuild its shattered infrastructure and revitalize the economy after war with Russia the government estimates needs of USD 750 billion.[8]

25. **Prior to 2015, appropriate mechanisms for transparent and efficient management of public investments were missing.** The key principles and criteria for allocation of public funds to investment projects had not been defined. Consequently, state budget funds were allocated to investment projects without requiring a feasibility assessment or adequate justification. Projects to be financed by the state budget were selected based on discrete agreements rendering the PIM system inefficient and nontransparent.

26. **Following recommendations from the World Bank, Ukraine adopted a series of PIM reforms during 2014-2016, beginning with amendments to the Budget Code which clarified the roles and responsibilities of the main actors.** In 2015 the government approved Resolution No. 571[9] establishing transparent appraisal and selection procedures for public investment projects. This resolution identified the Ministry of Economy (MoE) as the lead institution responsible for the management of public investments. In 2016, MoE developed basic procedures for the monitoring of public investment projects. The key reforms of this period are summarized in **Box 3**.

27. **Despite the improvements implemented during 2014-2016, the PIM system is still fragmented, lacking in strategic orientation, and prone to corruption.** The main issues arise at the procurement stage with significantly more attempts to exclude procurement from the scope of competitive tenders in 2021, and weak public asset accounting, reporting, and monitoring (see **Box 4**). Areas of continued weakness include strategic prioritization, criteria-based selection, project database, investment portfolio management, and systematic monitoring of investment projects against implementation milestones. The lack of formalized criteria for project management arrangements, the absence of a cadre of professional managers of large-scale projects in public agencies, and questionable independence of appraisal all add to the problematic state of PIM.

BOX 3

PIM Reforms of 2014-2016

The most important reforms during 2014-2016 were:

a. Amendments to the Budget Code of Ukraine were adopted by the Parliament in December 2014, which identified the roles and responsibilities of the key PIM stakeholders, incorporated PIM into the budget process, introduced transparent project selection, and ensured the sustainability of financing.
b. Resolution No. 571 introduced step-by-step guidelines for preparation of public investment projects, appraisal and selection based on the identified criteria.
c. Cost-benefit analysis methodology was adopted through a specific value of the social-discount rate. MoE applied the methodology to selected projects.
d. An Inter-Agency Commission was created comprising the key Ministers and members of the Parliament's Budget Committee. The Commission has been selecting projects and determining their budget allocations since the State Budget 2016.
e. Publication of project concept notes, project selection results, and planned budget allocations on MoE's website was mandated.

8 Slide #8: https://uploads-ssl.webflow.com/621f88db25fbf24758792dd8/62c166751fcf41105380a733_NRC%20Ukraine%27s%20Recovery%20Plan%20blueprint_ENG.pdf

9 Resolution No. 571 of 22.07.2015 of the Cabinet of Ministers.

Findings of the Corruption Perception Index 2021[10]

BOX 4

In the 2021 the Corruption Perception Index report, Ukraine scored 32 points out of 100 possible. Its score decreased by one point to prior year, and Ukraine ranks 122nd out of 180 countries. Eswatini (formerly Swaziland) scores the same. Zambia, Nepal, Egypt, the Philippines, and Algeria are one point ahead.

Introducing transparent and accountable management of public assets and guaranteeing further development of the procurement sector were among core recommendations for Ukraine.

There were significantly more attempts to use non-competitive procurement in 2021 and early 2022 than previously. For example, the Parliament:

* Allowed the purchase of everything necessary for the Constitution Day and Independence Day, including the medical equipment, within the public investment project "Construction of a modern medical and diagnostic complex of the National Children's Specialized Hospital, Okhmatdyt"[11] under the negotiation procedure;
* Excluded the construction of Kyiv Ring Road from the scope of the Law on Public Procurement;[12]
* Allowed the construction of the Dniester PSPS and repairs to compressor stations for gas pipelines without competition, under the negotiation procedure.[13]

According to the State Property Fund of Ukraine (SPFU), as of July 1, 2021, more than 1 million objects of public property are registered in Ukraine. However, only access to information on assets that are subject to privatization or lease is facilitated. Public property accounting and access to information therefore needs to be improved. Reflecting some progress, changes to legislation and a new register were in development as of the end of 2021.

28. **In response to the continuing challenges, the government's Public Finance Management (PFM) Strategies for 2017–2020 and for 2022-2025 envisaged further strengthening of the PIM system.** Important measures remaining to be completed are: (i) implementation of a mid-term plan for priority public investments; (ii) the development of the capacities of line ministries to manage investment projects, including performing cost-benefit analysis; (iii) consolidation and analysis of basic data on investment and operating costs based on recent representative projects ; (iv) introduction of a centralized monitoring system for large-scale public investment projects; and (v) development of comprehensive project management guidance on investment projects financed from local budgets.

29. **The capacity to develop project feasibility studies is improving but is still inadequate.** Project initiators often do not allocate appropriate time for financial and procurement procedures, and other circumstances that may impede timely and successful project implementation. The project disbursements are, as a rule, lower than planned for a budget year. Because of the lack of funding, project initiators often elaborate the feasibility study on their own, with consequences for quality, although the quality has been improving. According to the MoE's annual report, the tendency of investment projects admitted by MoE to the selection procedure has also improved, showing the positive effect of moving up the learning curve – 15.1 percent refused in 2020 compared to 27.5 percent in 2017.

10 https://ti-ukraine.org/en/research/corruption-perceptions-index-2021/
11 Resolution No. 712, dated July 14, 2021.
12 Law No. 1530, dated June 3, 2021.
13 Law No. 2009, dated January 26, 2022.

30. **The portfolio of ongoing public investment projects has consistently exceeded the country's financial capacity, with a backlog of stalled, unfinished projects.** The estimated funding requirement to complete state investment projects selected for 2021[14] amounted to UAH 79.2 billion, while relevant expenditure included in the budget 2021 budget was UAH 4 billion, or 5.1 percent of the need. This fact means it will take 20 years to complete these projects at this rate. Despite a general understanding of the necessity to optimize the public investment portfolio, the total number of unfinished public investment projects and their costs have not been fully identified. The lack of institutional capacity for asset management further complicates all the existing problems of the investment portfolio.

1.2. Background to the Assessment and Objectives

31. **An assessment of Ukraine's PIM system was requested by the Ministry of Economy.** This assessment was carried out between July 2021 and May 2022 by a World Bank team working closely with counterparts from MoE. The goal of the assessment is improved targeting of public investments in line with strategic policy priorities of the government.

32. **The main objectives of the current PIM assessment are:**

* To provide the government 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 mid-term priorities for future PIM reforms, feeding into the design of the updated PFM reform strategy for 2021-2024 but also considering the dramatic infrastructure damage caused by the Russian invasion.
* To provide a baseline against which to monitor the success of new reforms.

1.3. Methodology for the Assessment

The Core Assessment

33. **There have been two previous assessments of Ukraine's public investment management (PIM) system.** The first, in 2012, was performed by the World Bank and the second, in 2016,[15] was performed by the IMF. The 2012 assessment used the World Bank's prototype PEFA-based framework, while the 2016 assessment used the IMF's 2015 PIMA framework.

34. **The current assessment has been performed using the World Bank's most recent (2015) PIM assessment framework which is an improvement over the 2012 version.[16]** Consisting of 23 indicators organized around the eight core "must have" PIM functions,[17] the new framework is a PEFA-style tool embodying the structured objectivity of PEFA applied to PIM. By choosing to use the 2015 framework, a direct comparison with the 2012 indicators is lost, but comparison at the level of the eight "must have" functions is still possible. The new framework helps to identify gaps in the current system more precisely than the previous one and, hence, helps to design a detailed reform program. It will also create a solid basis for benchmarking future progress. The cut-off date for the current assessment is October 31, 2021.

14 Based on the procedures set out in Resolution No. 571.

15 The assessment was carried out in 2016, but not released until 2019: Ukraine Public Investment Management Assessment: Technical Report, IMF, June 2016.

16 'A New PIM Diagnostic Indicator: Strengthening the PIM Component of the PEFA Framework', J. Kim, G. Glenday & N. Biletska, World Bank 2015

17 Chapter 2, 'Power of Public Investment Management, Transforming Resources into Assets for Growth', A. Rajaram, et al., World Bank, 2014

35. **Like PEFA, the WB PIM assessment framework is evidence-based and involves amalgamation of scores for different dimensions of an indicator to arrive at an overall score.** Dimensions are rated A to D, as with PEFA, and an absence of evidence incurs the lowest rating of D. Dimension ratings are amalgamated as appropriate using one of the two PEFA scoring methods, either weakest link (M1) or averaging (M2).[18] The dimensions of individual indicators can assess either institutional/system design – *de jure* characteristics - or the effectiveness of application of the design - *de facto* characteristics. Reflecting the fact that resources do not allow assessment of the entire population of projects, for some indicators, information on specific projects has been sampled from three sectors, healthcare, energy and ecology. The final output of the assessment is a performance report, which includes a summary of PIM performance and recommendations by functions (**Section 3.2** of **Chapter 3**). Strategic recommendations for PIM are also presented (see **Chapter 7**) but these include recommendations related to three subsidiary assessments and PIM for post-war reconstruction (see next section for further explanation).

36. **The assessment is complicated by the bypass route (see Figure 5) that allows many projects to avoid the *de jure* preparation, selection, and monitoring processes set out in Resolution No. 571 and supporting guidance.** Despite the fact that the term "investment project" is included in both the Budget Code and in the Law on Investment Activities, it has not prevented many investment projects from circumventing established procedures. The principle applied during the assessment is that effectiveness dimensions apply to the whole universe of projects, while institutional dimensions apply to the quality of system design (even if not universally applied). This approach ensures that good system design is recognized, even if its application is uneven. **Section 2.2**, Institutional Mapping, explains the relative importance of the bypass route in terms of the share of annual investment expenditures and the share of the value of the ongoing project portfolio.

Subsidiary Assessments: Climate Change, PPPs, and SOEs

37. **Subsidiary assessments have been carried out to accompany the 2015 assessment framework in the important areas of climate change, public-private partnerships, and investment by state-owned enterprises (SOEs).** The assessment framework does not include assessment of the management of investment by SOEs nor does it consider the extent that climate change is mainstreamed in the PIM system. These areas have been assessed in qualitative terms and are the subject of separate sections of the report. Likewise, the assessment of PPPs has been kept separate, reflecting the distinct institutional arrangements for PPPs in Ukraine.

38. **It has become critical for PIM to consider climate change in terms of recognizing the positive and negative effects of a project on climate change and determining optimal climate-proofing adaptations.** Projects have impacts on climate change and are, in turn, affected by climate change. The assessment framework has been guided by and is consistent with two tools with a climate change focus: (i) the PIM indicator (CRPFM-5) of the Climate Responsive Public Financial Management Framework (see Tool I in **Annex 1**); and (ii) Dimension 5 (questions 1-3) of the World Bank's infrastructure governance assessment framework (InfraGov) (see Tool II in **Annex 1**). As shown in **Annex 1**, CRPFM-5 is more directly aligned with individual indicators in the World Bank's 2015 PIM assessment framework than InfraGov, but both have provided useful insights. Climate change has been addressed in qualitative terms, i.e., not formally scored.[19]

18 The weakest link method involves using the lowest scored dimension (the 'weakest link') as the basis for the indicator score. A '+' is added if other dimensions are scored higher. The averaging method involves averaging dimension scores to arrive at the indicator score. Tables for averaging are the same as those used for PEFA.

19 Scoring is not considered appropriate at this stage given the newness of PEFA climate and the attention to climate change in PFM in general.

39. **The assessment of management arrangements for public investment through public-private partnerships (PPPs) has been performed separately from the main assessment.** Although PPPs are just another modality for implementing and financing public investment projects, their distinct place in Ukraine's PIM system warrants separate treatment. PPPs have been assessed on the basis of performance in relation to the 8 "must-have" functions. All assessments have been expressed in qualitative terms.

40. **The quality of investment by state-owned enterprises is an important weakness in Ukraine and the assessment needed to be responsive to this issue.** To capture SOE investment in the assessment it was decided to apply Indicator 5c of the IMF PIMA framework, alongside the indicators in the World Bank's 2015 framework. This allows a more global assessment of SOE governance through the questions: Does the government oversee the investment plans of public corporations (PCs) and monitor their financial performance? The assessment looks into SOEs' investment plans and their implementation across all funding sources, including those that are budget funded as part of the regular PIM cycle, as well as those funded by loans and own funds of SOEs.

Supplementary Discussions and Recommendations. PIM for Post-War Reconstruction

41. **The war has a significant impact on the operation and future development of the PIM system.** Despite the post-war condition not being the subject of the main assessment, the supplementary discussions and recommendations describe important issues arising from the new situation. The supplementary section looks at the recommendations from the core PIM assessment and indicates which of these will be important to incorporate in PIM for post-war reconstruction and which recommendations can be adopted for post-war needs. The section covers all eight PIM functions.

CHAPTER 2

PUBLIC INVESTMENT EXPENDITURE AND INSTITUTIONAL MAPPING

2.1. Public Investment in Ukraine

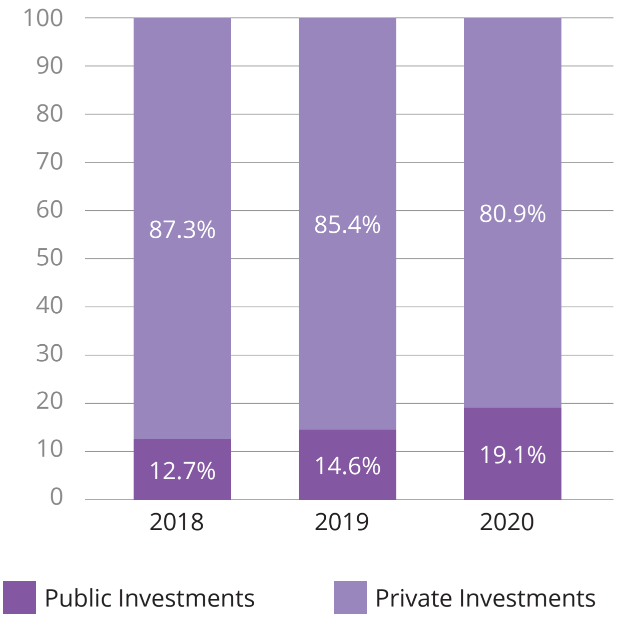
42. **During the assessed period, total investment in the economy was low by international standards and dominated by private investment.** In 2018 and 2019, total investment (gross fixed capital formation) stood at 17.6 percent of GDP, declining to 13 percent in 2020. The decline in 2020 can be explained by the COVID-induced economic downturn and declining investor confidence. Over the period of the assessment, the importance of public investment has grown in each year from 12.7 percent of total investment in 2018 to 19.1 percent in 2020 (see **Figure 2**). While both public and private investment declined in 2020, public investment held up better than private, explaining the significant increase in share. In comparison, gross fixed capital formation as percent of 2020 GDP stood at 17 percent in Poland, 18 percent in Bulgaria, 22 percent in Lithuania, 25 percent in Georgia, 25 percent in Romania, 26 percent in Moldova, and 31 percent in Estonia.[20]

43. **Capital expenditure makes up a relatively small share of total general government expenditure and its importance declined in 2020.** Recurrent expenditure dominates general government expenditure and, in 2018 and 2019, capital expenditure only represented around 11.5 percent of the total. In 2020, this share fell further to 10.6 percent (see **Figure 3**).

44. **The largest share of public sector capital expenditure in Ukraine is financed through local budgets.** Local budget capital spending represents over 40 percent of the total (see **Table 1**). However, local budgets finance a part of that spending by capital transfers from the state budget, which increases annually. Thus, in 2018 such transfers amounted to UAH 16 billion, or 17.7 percent of total local budgets

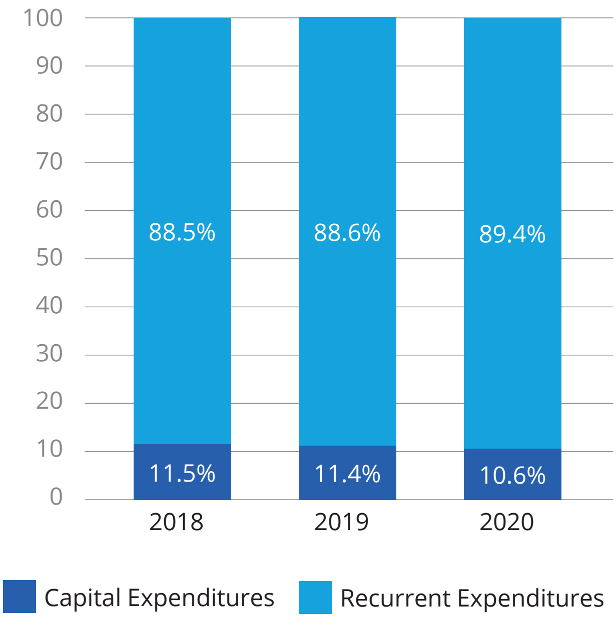
20 https://data.worldbank.org/indicator/NE.GDI.FTOT.ZS

Figure 2. Gross Fixed Capital Formation (% of Total)



Source: State Statistic Service, Bank Staff Calculations

Figure 3. Structure of Consolidated Budget Expenditures (%)



Source: Treasury, Bank Staff Calculations

capital spending; in 2019 – UAH 19.4 billion, or 19.6 percent; and in 2020 – UAH 24 billion, or 24.4 percent. Capital expenditures by SOEs have normally been the second largest source, representing around a third of the total in 2018 and 2019, but this was reversed in 2020 when central government capital spending rose to 31.9 percent of the total and SOE spending fell to 24.0 percent. This significant shift in shares is, like other changes, probably related to effects on SOE investment plans brought about by the COVID-induced economic downturn. 2018 and 2019 are therefore probably more representative.

Table 1. Structure of Public Sector Capital Expenditures[21]

Year	UAH union, million			Structure, percent		
	State Budget	Local Budgets	SOE Investment	State Budget	Local Budgets	SOE Investment
2018	53,793.1	90,386.2	72,152.7	24.9%	41.8%	33.3%
2019	56,773.6	99,199.7	82,063.0	23.8%	41.7%	34.5%
2020	70,922.3	98,204.0	53,309.3	31.9%	44.1%	24.0%

Source: Treasury, MoE, World Bank Team Calculations

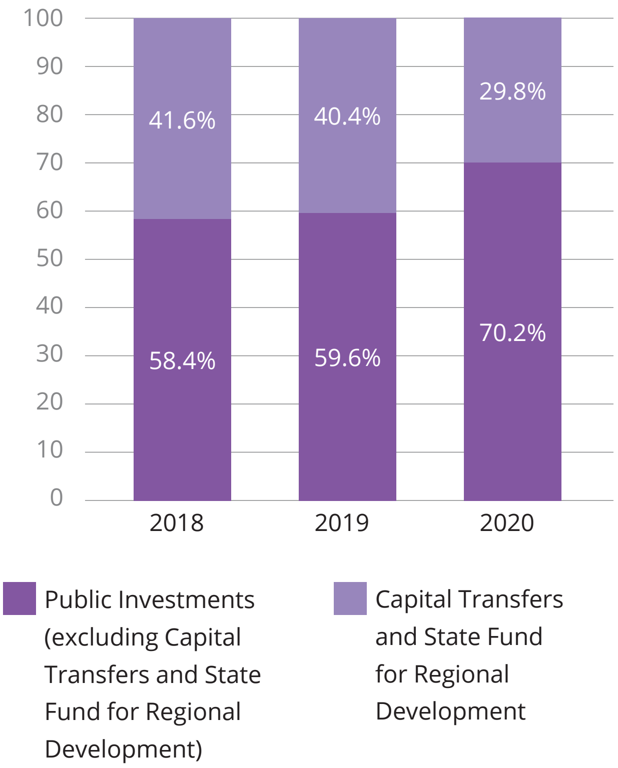
21 Transfers have been netted out to avoid double-counting.

45. **State budget investment expenditure must be distinguished from capital expenditure.** Capital expenditure, beside public investments, includes construction of housing, capital repairs and small acquisitions of equipment. Thus, investment expenditure and capital expenditure should not therefore be compared.

46. **An important share of investment expenditure through the state budget is made up of capital transfers to local government[22] and funding for the State Fund for Regional Development.** In 2018 and 2019, direct funding of investment projects represented just under 60 percent of the total, rising to 70 percent in 2020 (see **Figure 4**). The State Fund for Regional Development is one of the main financial instruments for the implementation of state regional policy. Financing from this fund is directed to the implementation of investment programs and regional development projects aimed at regional development and meet the priorities defined in State Strategy for Regional Development and relevant development strategies of the regions.

47. **Part of the public investments funded from the state budget are implemented via SOEs, but the share of such investments is not significant.** Budget funding for capital investments implemented by SOEs had been historically low – around 1-2 percent in 2016-2018 – and growing to 8 percent in 2020. As evidenced by the MoE reports and the list of priority investment projects approved by the CMU,[23] the majority of SOE investment projects are financed by their own funds and by external borrowings. Such capital investment projects follow the specific legislation on SOE financial and investment plans, as reviewed and approved by the government annually.

Figure 4. The Structure of the Actual Capital Investments and Transfers 2018 - 2020



Source: Treasury, Budget Program Passports, data received from the MDAs, State Statistic Service, Bank Staff Calculations

2.2. Institutional Mapping

48. **The Ministry of Economy takes the lead in coordinating and overseeing the public investment management system, but there are many other players within the central government. Table 2** maps the organizations involved in PIM against their roles and major tasks. It focuses on central government and excludes state-owned enterprises and sub-national governments.

49. **While Ukraine has formally established project preparation and selection practices, the system is frequently bypassed.** The rules of the system cover procedures for "State Investment Projects" and the term "investment project" is included in both the Budget Code and in the Law on Investment Activities. Despite this fact, MDAs are not restricted from naming their projects in a way other than "State Investment Project"; thus, MDAs might name the project generically as a "reconstruction project" or a "building project," causing the legislation to be inapplicable. By using this approach, MDAs do not need to spend time on the project development, preliminary screening, and appraisal stage, and do not need to compete against other investment projects.

22 Mostly these are unconditional capital transfers: only rarely are transfers tied to a particular project.
23 List of priority investment projects https://www.kmu.gov.ua/storage/app/uploads/public/5fd/c80/ee6/5fdc80ee67197829472716.doc

Table 2. Mapping of Organizations and Roles in Ukraine's PIM System – Central Government

Organization	Role/Major Tasks	Comments
Line Ministries (19), Central Government Bodies (42)	* To screen concept notes for projects proposed for selection according to Resolution No. 571 (SSIPs)[24], which includes projects for roads of national significance not covered by the State Road Fund, that directly affect their central functions and take decisions on feasibility study preparation * To conduct state examination of feasibility studies for SSIPs and submit SSIPs to the MoE * To design non-SSIPs,[25] including budgeting * To implement SSIPs that receive funding, including contracting * To monitor SSIPs and prepare monitoring reports * To receive and administer capital requests from agencies and other entities under their control	Excludes SOEs* and SNG [*Excludes capital investments by SOEs completed with own funding and funding raised via commercial banks, IFIs or any other direct financing other than budget.]
State Road Agency of Ukraine (Ukravtodor)	* To design, implement, and monitor SSIPs for roads of national significance covered by the State Road Fund (Order No. 573/1019)	Guidelines for the determination of the overall socio-economic efficiency of new construction, reconstruction and repair of public roads were adopted on December 14, 2021, after the cut-off date for the current assessment.
Ministry of Economy	* To conduct independent review of SSIPs and take decisions on their admission to selection * To propose the total amount of expenditures on SSIPs for the next three years to the Ministry of Finance * To support the selection process for SSIPs * To publish a list of SSIPs on its official website * To monitor SSIPs based on the monitoring reports prepared by line ministries, central government bodies and submit relevant recommendations to the Inter-Agency Commission on state investments projects * To prepare and submit to the State Audit Service proposals for conducting state financial audit of SSIPs * Development and maintenance of an Excel projects database for SSIPs * Procurement regulatory function * PPPs / Concessions[26]	Limited in capacity to cover all SSIPs by independent review and monitoring

24 A Selected State Investment Project (SSIP) is an investment project implemented through state investment in public property objects and selected for funding in accordance with the legally defined procedures.

25 State Investment Projects included in the budget outside of the formal selection process. The difference between and SSIP and a non-SSIP is explained more thoroughly later in this chapter.

26 Please see Table 26 for further details related to PPPs / Concessions.

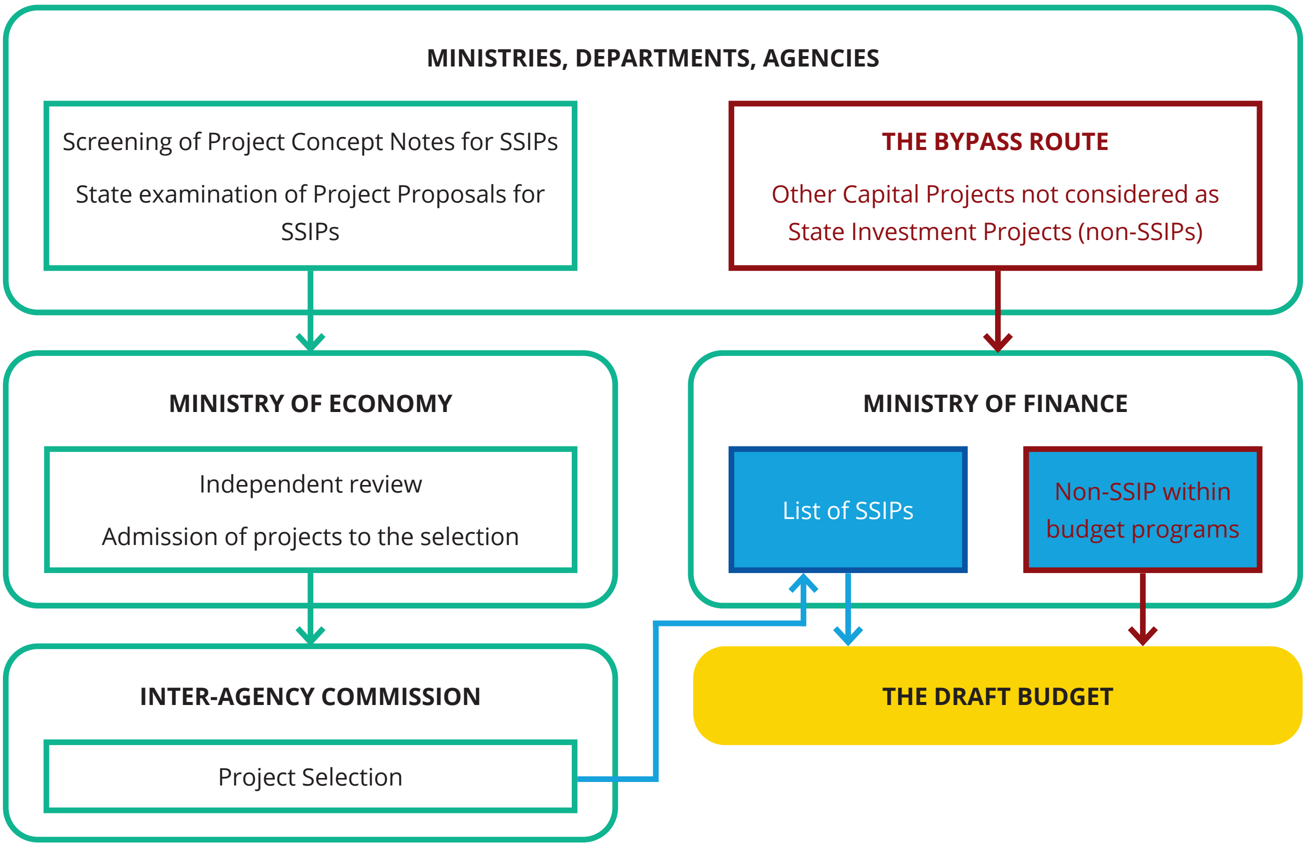
Organization	Role/Major Tasks	Comments
Inter-Agency Commission on State Investment Projects	✱ To review and select SSIPs ✱ To consider monitoring results for investment projects and take appropriate decisions ✱ To prepare and submit to the MoE proposals and recommendations on conducting independent economic appraisals or examinations of SSIPs; conducting a state financial audit of SSIPs	Consists of 50 percent of the ministries' representatives and 50 percent of the members of the Verkhovna Rada Budget Committee
Ministry of Finance	✱ To determine the total amount of expenditures on SSIPs for the next three years and include it in the Budget Declaration ✱ Direct negotiations with public entities regarding funding for non-SSIPs ✱ To determine budget allocations	
Accounting Chamber	As the supreme audit institution accountable to Parliament ✱ To carry out financial and performance audits, develop proposals and recommendations on measures to be taken for elimination and prevention of violations and deficiencies, and develop recommendations about improvement of relevant legislation, including procurement. For procurement, the AC audits procurements financed by state budget funds at all stages of procurement, including verification of legality and effectiveness of procurement, transparency and compliance with the prescribed procedures, assessment of the timeliness of receipt of goods, services, and work.	Also analyzes the annual report on execution of the Law of Ukraine on the State Budget for a relevant year submitted by the government
Anti-Monopoly Commission	✱ To receive and administer complaints about public procurement procedures	
State Audit Service	✱ Analysis and verification of the legality and effectiveness of investment projects of institutions under the control, which are implemented on the basis of state and local investment, state support, state and / or local guarantees, and the state of performance indicators achievements, management and use of investments (funds).	Under the Ministry of Finance

Source: Bank Staff Compilation

50. **A significant proportion of projects take the bypass route, undermining the integrity of the PIM system and requiring any assessment to differentiate between *de jure* and *de facto* practices. Figure 5** shows the established procedures and the bypass route. The bypass route is a legitimate route using the mainstream budget process but reflects the arbitrary nature of interpreting Resolution No. 571 by disregarding the Budget Code's requirement concerning selection of state investment projects by the Inter-Agency Commission.[27] Projects that are subject to Resolution No. 571 are subject to rigid application of the regulations and there are no violations. It should be noted that investment

27 Article 33-1.

Figure 5. Flow Chart of Project Preparation and Selection Practices in Ukraine



projects within the Road Fund can be selected both following Decree 571 and following the joint order of the Ministry of Infrastructure and the Ministry of Finance dated September 21, 2012 No. 573/1019 "About approval of the methodology for determining the amount of financing for the construction, reconstruction, repair and maintenance of automobile roads and the standards of expenses associated with the maintenance of highways." The latter also established selection criteria based on the results of socio-economic analysis.

51. **Throughout this report, projects are differentiated based on whether or not they follow the formal selection process.** Projects that follow the formal appraisal and selection procedures are referred to as selected state investment projects (SSIP);[28] a project that bypasses the formal PIM system is referred to as a "non-SSIP."

52. **Spending on non-SSIP projects has consistently been more than one-third of total domestic budget investment expenditure (excluding investment spending on regional development), and has risen to over 60 percent in recent year. Table 3** shows annual spending by type of procedure. The scale of the issue for regional development investment spending, which has its own formal procedures, is less significant, but still of concern. The share of non-SSIPs in total investment spending for regional development was around 40 percent in 2018 and 2019, rising significantly to 71.1 percent in 2021. **Table 4** looks at the investment through the non-SSIP route from a portfolio perspective. It indicates that the share of non-SSIPs in the total capital cost of the ongoing portfolio (excluding IFI financed projects) fell from 45.0 percent to 22.6 percent during the assessment period, with an average of 33.6 percent. The share of non-SSIPs rose again in 2021 to 46.3 percent. As a share of the portfolio including IFI projects the share is considerably lower, averaging 19.3 percent for 2018-2020.

28 State investment project is an investment project implemented through state investment in public property objects

Table 3. Public Investments Spending by Type of Procedure (UAH million)

	2018	2019	2020	2021
IFI projects	**5,911.2**	**9,564.1**	**8,691.5**	**8,724.5**
Total state budget investments	**9,191.7**	**11,419.8**	**15,643.2**	**24,809.0**
SSIP	4,914.9	7,946.3	10,978.9	9,339.7
share in total state budget investments, %	*53.5%*	*69.6%*	*70.2%*	*37.6%*
Non-SSIP	4,276.8	3,473.4	4,664.2	15,469.3
share in total state budget investments, %	*46.5%*	*30.4%*	*29.8%*	*62.4%*
Total public investments in regional development	**13,350.0**	**16,998.9**	**11,388.0**	**15,546.1**
SSIP	8,050.0	9,920.0	7,686.4	4,500.0
share in total public investments in regions, %	*60.3%*	*58.4%*	*67.5%*	*28.9%*
non-SSIP	5,300.0	7,078.9	3,701.6	11,046.1
share in total public investments in regions, %	*39.7%*	*41.6%*	*32.5%*	*71.1%*
Total public investments	**28,452.9**	**37,999.7**	**35,722.7**	**49,079.6**

Source: Originally approved budgets for 2018-2021, budget program passports for 2018-2021, information received from relevant MDAs, World Bank Team estimates.

Table 4. Share of Non-SSIPs in Total Capital Costs of Ongoing Investment Portfolio

	2018	2019	2020	Average 2018-2020	2021
Including Cost of IFI Projects	24.0%	19.0%	14.9%	**19.3%**	26.8%
Excluding Costs of IFI Projects	45.0%	33.3%	22.6%	**33.6%**	46.3%

Source: originally approved budgets for 2018-2021, budget program passports for 2018-2021, information received from relevant MDAs, World Bank Team estimates.

CHAPTER 3

ASSESSMENT BY INDICATOR FOR PIM FUNCTIONS

53. **This Chapter applies the World Bank's 2015 PEFA-style assessment framework for public investment management in order to assess where Ukraine stands compared to good practice in different facets of its PIM system.** For each of the 23 indicators, there is an introduction describing the rationale, followed by a summary table of the scores by dimension and the reasoning behind the scores. Each dimension of the indicator is then discussed in detail to demonstrate the evidence supporting the score. Each dimension has been scored on a scale of A to D, with A being the highest score. The scores for each dimension are consolidated to give an overall rating for the indicator (as shown in the summary table). Dimension scores are amalgamated using either the critical link (M1) or averaging method (M2) as defined by PEFA.[29] Since some indicators have five dimensions (not four, the maximum in PEFA), where the M2 method is intended, the indicator rating has been estimated by extrapolation from the PEFA averaging matrix.

3.1. Details of the Assessment

PIM Function 1. Strategic Guidance and Screening

PIM-1. Sector Analysis and Planning

RATIONALE

54. **This indicator aims at analysis and assessment of the capacities of MDAs to collect sector specific data, to use it for analysis, and to apply it effectively in the planning of investments.** The indicator focuses on the capacities of key sector MDAs and analyzes available sets of data published by agencies. Moreover, it assesses the effectiveness of MDAs in using available data and sector analysis

29 See footnote 18 for an explanation of the differences between scoring methods.

Summary of Scores and Performance Table PIM-1

Indicator/ Dimension	Score	Brief justification for score
PIM-1. Sector analysis and planning	**C**	**Scoring Method M2**
1.1. Sector analysis and planning capacity	**C**	All key sector MDAs collect and publish statistics and some analysis of their sectors. Moreover, the State Statistics Service collects and publishes data on each key sector. However, in very few cases are models to analyze, simulate and/or forecast sector supply and demand available.
1.2. Effective use of sector analysis and planning results	**C**	Most MDAs use sector analysis and planning results for formulation of sector strategies and priorities, and for screening SSIP projects and selecting them for financing. There is some evidence of using sector analysis and planning in estimating economic benefits from SSIP projects.

in formulation of national and sector priorities and strategies, screening project documents entering the preparation and appraisal pipeline, estimation of economic benefits from sector projects, and selection of projects and programs for inclusion in the mid-term and annual budgets in line with sector priorities.

1.1. SECTOR ANALYSIS AND PLANNING CAPACITY

Performance level and evidence for scoring the dimension

55. **Statistics and information on key sectors are collected and published by the State Statistics Service of Ukraine (SSSU) and international organizations, which forms a basis for sector analysis and planning.** SSSU collects data on various sectors and economic indicators (see **Table 5**) publishing them on its website. The data is available to everyone, and it is possible to download it and use it for sector analysis, models, forecasts, and other purposes within sector planning. Coupled with data published by international organizations (e.g., World Bank, UN, IMF) line ministries have a solid background for sector analysis and forecasting. Moreover, the MoE regularly prepares and publishes consensus forecasts of economic indicators, which can be used in forecasting.[30]

56. **All key sector MDAs collect and disclose statistical data on their websites.** The healthcare sector, for example, is supported by the *Center for Medical Statistics of the Ministry of Health of Ukraine*, a public agency with the task of collecting and verifying a wide range of healthcare data and developing methodologies for data collection. The center has been collecting data since 1993 by region (*oblast*).[31] The Ministry also has other agencies that specialize in collection and analysis of data in particular areas of healthcare. The Ministry of Ecology and Natural Resources collects and publishes data on various aspects of environmental protection, such as waste management, forest management,[32] and assessment of environmental pollution.[33] The Ministry of Energy collects and discloses data on all subsectors of the energy sector,[34] publishing data on production, consumption, and export of energy from various sources. Moreover, it issues analytical materials on energy sources and markets, and on capital

30 Consensus forecast by Ministry of Economy (2020) https://me.gov.ua/Documents/Download?id=4bbc60fa-b4f7-4fb9-a335-b60a2ac0ac03
31 Data of the Center http://medstat.gov.ua/ukr/statdanMMXIX.html
32 Ministry of Ecology and Natural Resources' website https://mepr.gov.ua/content/vidkriti--dani.html
33 Ministry of Ecology and Natural Resources' website https://mepr.gov.ua/timeline/Zviti.html
34 Ministry of Energy's website http://mpe.kmu.gov.ua/minugol/control/publish/newscategory?cat_id=35081

Table 5. Data on Indicators Provided by State Statistics Service

Key sector	Examples of data at SSSU	Period
Healthcare[35,36]	✱ Number of hospital beds ✱ Number of hospitals ✱ Number of doctors ✱ Number of patients by type of disease ✱ Injuries at work ✱ Number of hospitalized people ✱ Number of days spent in hospital	1990 - 2020
Ecology	✱ Waste generation and processing ✱ Air pollution by CO_2 ✱ Capital investment in environmental protection	1995 – 2019 1990 - 2020
Energy	✱ Energy balance of Ukraine ✱ Supply and consumption of energy ✱ Final energy consumption ✱ Renewable energy consumption ✱ Prices for gas and electricity	2007 – 2019 2017 – 2020 2007 – 2019 2007 – 2019 2017 - 2020

Source: World Bank Mission Team based on the State Statistics Service of Ukraine

investment in the sector. In addition to collecting their own data, key sector MDAs use external sources of data in their work, for example, databases of international organizations (e.g., World Bank, WHO, EU, USAID).

57. **While key sector MDAs have some sector analysis and planning capacity, most lack models that use available data to analyze, simulate, and forecast sector supply and demand.** The Department for Strategic Planning and Macroeconomic Forecasting in MoE develops forecasts for economic and social development trends, for which sector MDAs must provide data.[37] The forecasts typically cover macroeconomic indicators – GDP (including by sectors), industrial output index, consumer price index (CPI), producer price index (including by sectors), population, average salary, export, import and other indicators - modeled under different scenarios for short-term and mid-term perspectives.[38] These forecasts could potentially be used by key MDAs for forecasting the development of their sectors.[39]

58. **The score for this dimension is C.**

35 This information is published in a special section of SSSU in the form of a report with additional information on the sector, last report is dated 2020 https://ukrstat.gov.ua/druk/publicat/kat_u/2021/zb/11/Yearbook_2020.pdf

36 http://medstat.gov.ua/ukr/statdanMMXIX.html

37 Law on State forecasting and development of Programmes for Economic and Social development of Ukraine https://zakon.rada.gov.ua/laws/show/1602-14#Text

38 Forecast for economic and social development 2021 – 2023 https://www.me.gov.ua/Files/GetFile?lang=uk-UA&fileId=68afc88a-c642-4f3c-95c9-ed5a9c6546a6

39 Law on State forecasting and development of Programmes for Economic and Social development of Ukraine https://zakon.rada.gov.ua/laws/show/1602-14#Text

1.2. EFFECTIVE USE OF SECTOR ANALYSIS AND PLANNING RESULTS

Performance level and evidence for scoring the dimension

59. **While national and sector strategies show evidence of using sector analysis and planning results in their formulation, how effectively such inputs are used is questionable.** As a rule, sector analysis and planning results are used to describe the current state of affairs in strategies and to suggest targets to be achieved. However, in many cases the targets are set with a positive bias and no justification from forecasting methodologies. Only the latest National Economic Strategy 2030[40] explicitly states that economic modeling was used to forecast the country's development path and to set the targets.

60. **Sector analysis and planning results must be used for screening projects entering the preparation and appraisal pipeline.** According to Resolution No. 571, projects should be screened based on a concept note, which contains information on sector analysis and planning. Most key sector MDAs use sector analysis and planning when screening concept notes. **Table 6** shows how sector analysis and planning results are used in three sectors. However, some MDAs only screen projects on the basis of the urgency of the issue to be addressed without consideration of the sector context.

61. **Most key sector MDAs use sector analysis and planning when estimating economic benefits from projects in their sectors.** Estimation of economic benefits is the responsibility of an implementing agency, which develops project concept notes and feasibility studies. Concept notes and feasibility studies contain evidence of using some sector analysis, where relevant; however, in most cases, there are no references to the sources of data and no justifications for assumptions.

62. **When selecting projects and programs for inclusion in the mid-term and annual budgets in line with sector priorities, the responsible body, the Inter-Agency Commission (see PIM-3), must consider sector analysis and planning results.** Sector analysis and planning results are provided to the members of the Commission, together with the feasibility studies of projects that are eligible for selection. Moreover, representatives of sector MDAs make presentations of their projects at the meetings of the Commission where they provide information on sector analysis.

Table 6. Use of Sector Analysis and Planning Results for SSIP

Areas of sectoral analysis use	Healthcare	Ecology	Energy
Formulating national and sector priorities and strategies	Yes	Yes	Yes
Screening project documents entering the preparation and appraisal pipeline	Yes	No	Yes
Estimating economic benefits from sector projects	Yes	Yes	Not clear
Selecting projects and programs for inclusion in the mid-term and annual budgets in line with sector priorities	According to legislation, the Commission, when selecting projects, must consider sector analysis and planning results. According to MDAs, the Commission considers sector analysis and planning results, at least, at the meetings, where implementing agencies or line ministries make presentations of their projects.		

Source: World Bank Mission Team

40 https://www.nes2030.org.ua/

63. **There is no firm evidence of the application of sector analysis in planning those investments that do not follow Resolution No. 571.**[41] However, it is very unlikely that no consideration is given to sector plans when a project is proposed for budget funding outside the procedure established in Resolution No. 571; non-SSIPs are included in budget programs, which in principle should be strategy-driven as they are part of a performance-oriented budgeting approach. The rating for this dimension should therefore not be affected by non-SSIPs.

64. **The score for this dimension is C.**

PIM-2. Strategic plans and investment guidance, project development and preliminary screening

RATIONALE

65. **Strategic guidance and its role in public investment management is assessed within this indicator.** The indicator analyzes availability of well elaborated strategic documents, which can be used for public investment planning. Submission of project profiles (known as 'project concept notes' in Ukraine) and their screening by line ministries as an initial stage of investment planning is assessed based on the completeness of information provided by project initiators and the robustness of screening by line ministries. Assessment of the indicator covers the last three fiscal years (2018 – 2020).

Summary of Scores and Performance Table PIM-2

Indicator/ Dimension	Score	Brief justification for score
PIM-2. Strategic plans and investment guidance, project development and preliminary screening	**D+**	**Scoring Method M2**
2.1. Strategic guidance	C	Progress has been made in 2020 – 2021 with the development of the National Economic Strategy which will launch better strategic planning. But the period under analysis 2018 – 2020, does not show significant achievements in strategic guidance that might have had a positive impact on public investment planning.
2.2. Strength of strategic guidance	D	There is no investment strategy that serves as general guidance in Ukraine, although SSIPs selection decisions are taken with a strategic, mid-term perspective by the Inter-Agency Commission.
2.3. Submission of project profile (concept note)	C	Project implementing agencies usually submit project concept notes that contain most of the necessary information for review by the central agency. However, this is not the case for non-SSIPs.
2.4. Robust screening of project profiles (concept notes)	D	In some cases, up to 50 percent of project concept notes are rejected. But the number of concept notes submitted for central review is not large (for example, only four for Ministry of Ecology and Natural Resources in 2020). Causes of rejections are not known. Some may be due to formal aspects of the presentation and not to rejection of strategically or conceptually weak projects.

41 See Section 2.2 for an assessment of the relative importance of non-SSIPs compared to SSIPs

2.1. STRATEGIC GUIDANCE

Performance level and evidence for scoring the dimension

66. **There is no well-developed system for strategic planning at the national level nor is there continuous practice of applying a strategic approach to public investment.** In the period under analysis, the only strategic document that could be defined as a national strategy was the Sustainable Development Strategy up to 2020.[42] The document contains broad goals, with a focus on the reform agenda, but does not provide strategic guidance for public investment. However, when justifying public investment projects, agencies could refer to this strategy showing the link between its goals and the project purpose. Another document that can be considered as strategic is the government's program, which is developed by the Cabinet of Ministers of Ukraine (CMU) for the period of its term. Government programs typically contain priorities, tasks, and performance indicators for each ministry. Since 2018, there have been three different governments in Ukraine, meaning that the government program was redesigned three times, thus undermining the strategic purpose of the document. Based on the government program, a government Action Plan (Action Plan) is developed annually, which informs ministries in developing their own annual action plans. The Action Plan can contain specific investment projects, but with no prioritization and specification of project costs.

67. **In 2020, the list of priority public investment projects was approved by the government,[43] the aim of which is to guide agencies in their decisions.** The list contains the names of projects and possible sources of financing. It does not contain any additional information concerning the reasons and justification for inclusion of particular projects in the list. The list does not contain the data on project cost and implementation period.

68. **Sectoral strategic documents exist in Ukraine, but not for all sectors, and planning processes do not follow the same approach.** As a rule, strategies contain broad goals, which are then specified in action plans that can contain plans for implementation of particular investment projects. Existing strategies have been developed in different years and for different periods, which makes it difficult to unify them (see **Table 7**). Except for the key sector strategies mentioned in the table below, there are a number of strategies in other sectors such as transport, education, information and communications

Table 7. Strategic Documents by Key Sectors

Sector	Type of document	Name of Document	Year of approval
Energy	Strategy	Energy Strategy of Ukraine 2035	2017
Healthcare	Strategy	National Strategy for Reforming the system of Healthcare in Ukraine 2015 – 2020	2014
Ecology	Strategy	The Law of Ukraine on main principles (strategy) of state environmental policy to 2030	2019
Ecology	Action Plan	National Action Plan on Environmental Protection to 2025	2021

Source: World Bank Mission Team

42 Sustainable development strategy till 2020 'Ukraine – 2020' https://zakon.rada.gov.ua/laws/show/5/2015%23Text

43 List of priority investment projects https://www.kmu.gov.ua/storage/app/uploads/public/5fd/c80/ee6/5fdc80ee67197829472716.doc

technologies. For example, the National Transport Strategy to 2030 was approved in 2018, the National Strategy for the Development of Education in Ukraine to 2021 was approved in 2013, and the Strategy for Digital Transformation of Social Sectors to 2023 was approved in 2020. These strategies are overarching for the sectors, but there are also sub-sector specific strategies, for example, the Strategy for Improving Road Safety in Ukraine to 2024, the Strategy for the Development of Seaports of Ukraine to 2038, the Strategy for Energy Security, the National Strategy for Building a Safe and Healthy Educational Environment in the New Ukrainian School, and the Strategy for Treatment of Radioactive Waste in Ukraine.

69. **The National Economic Strategy was developed in 2021 under the initiative of the Prime Minister.** The Strategy is considered as overarching for all sectors; line ministries must adjust their plans according to this document. The strategy does not provide clear prioritization of public investment and does not contain priority investment projects, but it stresses the necessity to develop a National Investment Plan for 5 years and to improve management of public investment projects.

70. **The score for this dimension is C.**

2.2. STRENGTH OF STRATEGIC GUIDANCE

Performance level and evidence for scoring the dimension

71. **Ukraine does not have a formal national investment strategy, however some elements of strategic planning of investment are inherent to the budgetary management of public investment projects that follow Resolution No. 571.** Project selection decisions are taken with a strategic, mid-term perspective by the Inter-Agency Commission (see PIM-3), considering financing for the next year and a preliminary plan of financing for the following 2 years. This information is provided to MoF by MoE with the aim of requesting the necessary amount of funding for the forthcoming budget and to inform MoF of the forecast of investment funding needs, so that it can incorporate the data into the forecast of the budget for the two years following the planned year. But the MoE does not prepare a fiscally constrained mid-term public investment program.

72. **The score for this dimension is D.**

2.3. SUBMISSION OF PROJECT PROFILE

Performance level and evidence for scoring the dimension

73. **Implementing agencies must submit fully specified project concept notes[44] to line ministries.** According to Resolution No. 571 a project concept note must contain detailed information on project purpose and its justification, economic preconditions for project implementation, and preliminary analysis of project efficiency (see **Box 5**). At this stage, an implementing agency is required to analyze demand, examine alternative solutions, demonstrate compliance to strategic documents, specify costs, and identify beneficiaries, risks, and impact.

74. **Line ministries ensure the completeness of project concept notes and discipline is generally good.** Implementing agencies submit concept notes for public investment projects that usually contain most of the necessary information for central review. If a concept note does not contain all required information, the responsible line ministry rejects it and requests improvement. Projects not following Resolution No. 571[45] and seeking to find financing from the state budget are not required to prepare project concept notes. They follow the usual budget process.

75. **The score for this dimension is C.**

44 Project profiles are referred to as project concept notes in Ukraine.

45 See Section 2.2 for an assessment of the relative importance of non-SSIPs compared to SSIPs

BOX 5

Content of a Project Concept Note

* Project purpose and its justification:
  - Problems which shall be solved by implementing the project;
  - Results of analysis of demand on services (goods), provision (production) of which must be assured following implementation of the investment project;
  - Results of preliminary analysis of possible alternative options of solving the problems; and
  - Compliance of investment project purpose to state policy priorities.
* Economic preconditions for implementation (financing) of the public investment project:
  - Calculated cost of the project, including the expenditures attributable to its development and implementation, including costs incurred in previous periods, excluding costs, including capital, during the operational phase;
  - Justification of the choice of possible sources of financing;
  - Availability of a land parcel, titles related thereto and a list of measures that need to be taken in order to execute titles thereto (when necessary); and
  - Estimated cost of maintenance of the facility after implementation and justification of sources for maintenance [financing].
* Results of preliminary analysis of investment project implementation efficiency:
  - Expected impact (environmental, social and economic benefits and impact from implementation of the project);
  - Recipients of project benefits;
  - Preliminary assessment of risks of the project;
  - Duration and phases of implementation of the project, opportunities for implementation and management; and
  - Justification of further activities on implementation of the project (research, design).

Source: Resolution No. 571

2.4. ROBUST SCREENING OF PROJECT PROFILES

Performance level and evidence for scoring the dimension

76. **Screening of public investment projects is performed by line ministries, departments, agencies (MDAs) for state budget funds by the Budget Code.** An implementing agency submits the project concept note to the relevant MDA, which then considers it and takes a decision on whether to proceed with project development. If the decision is positive, it must be published on the website of the MDA for at least 15 days to receive comments and feedback from civil society. If the decision is negative or the project concept note needs to be refined, the MDA must inform an implementing agency by official letter. An MDA may create a commission for taking such decisions. Among key sector MDAs consulted, only the Ministry of Ecology and Natural Resources has a commission, which consists of representatives of various departments of the ministry.

77. **Available data shows that for Fys 2018 to 2020 no project concept notes for public investment projects were rejected by five ministries and institutions.**[46] Only the Ministry of Energy reported that in FY 2021 it rejected 50 percent of project concept notes presented. The main reason for

46 Namely the State Management of Affairs, National Academy of Medical Sciences, Ministry of Health, Ministry of Energy and Ministry of Ecology and Natural Resources.

rejection was noncompliance with the legislative requirements. In general, it can be said that screening is largely compliance oriented and does not involve questioning of the project rationale. The percentage of project concept notes rejected for Fys 2018 to 2020 was 0 percent, and if rejections in 2021 by the Ministry of Energy are considered, the average rejection rate would still only be around 3 percent.

78. **The score for this dimension is D.**

PIM Function 2. Formal Appraisal

PIM-3. Formal Project Appraisal Procedures and Guidelines

RATIONALE

79. **This indicator assesses the quality of project preparation and appraisal procedures.** Project appraisal procedures are critical for assuring public capital investment makes the best possible contribution to the growth of a country and to the wellbeing of the population. While cost-benefit analysis (CBA) or project appraisal can be complex and involve contentious judgments, it is generally accepted that decision-makers should be provided with technical advice on costs and benefits of alternative projects, because public investment decisions involve scarce resources and trade-offs between competing interests. These costs and benefits should ideally be society-wide costs and benefits, rather than solely fiscal or financial costs and benefits.

80. **Dimensions to be assessed under PIM-3 are:**

i. Clarity of roles and responsibilities in project appraisal for all participating MDAs;

ii. Availability of project appraisal technical guidance and support;

iii. Comprehensiveness and quality of available technical guidance;

iv. Proportionality of project appraisal, i.e., adequacy of appraisal procedures to project characteristics; and

v. Usage of feasibility studies to appraise large projects.

Summary of Scores and Performance Table PIM-3

Indicator/ Dimension	Score	Brief justification for score
PIM-3. Formal project appraisal procedures and guidelines	**C+**	**Scoring Method M2**
3.1. Clarity of appraisal roles	A	Roles and responsibilities for project appraisal are clear between and within line ministries and central agencies. The roles between agencies are regulated by the legislative acts, while the roles within agencies are defined either by organizational structure or separate internal orders of the agency.
3.2. Project appraisal guidance and support	B	Guidelines are available and comprehensive from the point of view of guidance for economic, financial and market analysis, and for environmental impact and risk assessment. Funding for project appraisal is not readily available but can be requested following standard budget procedures.
3.3. Technical content of guidelines	C	Guidelines do not cover distributional analysis and sector specific issues. Key economic parameters are not up to date.

Indicator/ Dimension	Score	Brief justification for score
3.4. Proportionality of project appraisal	C	The level of effort depends only on project cost and potential profitability. This is rigorously controlled. Other parameters are not considered. The appraisal methodology is financial analysis for potentially self-sustaining/ profitable projects; CBA for unprofitable projects with a total capital cost over 30 million UAH and CEA for unprofitable projects under that value. Use of multi-criteria analysis is not specified.
3.5. Usage of feasibility studies to appraise large projects	C	All projects following Resolution No. 571 must have a project proposal and this is enforced. Large projects financed by IFIs, or bilateral loans have feasibility studies prepared following guidelines from the financier. However, 46.3 percent of large projects (by value and excluding IFIs) are included in the budget without following Resolution No. 571 procedures and these have no feasibility studies.

EXISTING REGULATIONS REGARDING PROJECT APPRAISAL PROCEDURES AND GUIDELINES

81. **Resolution No. 571 adopted in July 2015 established the framework and procedures for project appraisal and selection.** It created the Inter-Agency Commission for Public Investment Projects as a collegiate body under the CMU and assigned it the task of selection of public investment projects. The resolution also defines procedures to be followed, institutional responsibilities and type of appraisal depending on total project investment cost. In appendices, it provides forms for presenting project proposals[47] and for the state expert review opinion.

82. **Resolution No. 571 is complemented by the Guidelines for Elaboration of a Public Investment Project.[48]** The stated purpose of the guidelines is to ensure a uniform approach to elaboration of a public investment project, by explaining in detail how to prepare and appraise a project. Guidelines were developed in 2016, with technical assistance from the World Bank, and approved and published by MoE in 2017. Except for the discount rate, which was recalculated in 2018, guidelines, methods and key economic appraisal parameters have not been updated over the last 3 years. Following initial support from the World Bank, provision of assistance and training for using the guidelines has been the responsibility of MoE. MDAs have the right to contact MoE, when necessary, to receive explanations and clarifications on the application of the guidelines.

3.1. CLARITY OF APPRAISAL ROLES

Performance level and evidence for scoring the dimension

83. **Roles and responsibilities for project appraisal are clearly defined in Resolution No. 571.** It states what kind of agencies/departments can initiate and develop projects and what kind of agencies can submit them for selection. The key principle of project appraisal is a bottom-up approach, which means that a public agency of the lower level (implementing agency/responsible executor) elaborates a project idea and a feasibility study, which must be reviewed and approved by a higher-level agency (line ministry/ key spending unit for the state budget funds). The role of MoE is to perform independent review of appraisal and to screen projects against criteria, while the Inter-Agency Commission takes a decision on project financing and implementation. The roles of all these actors are clearly specified in legislation.

47 Project proposal is a document, in which the results of appraisal are presented. In case of an investment project following Resolution No. 571, the project proposal is Annex 1, which consists of Resume, Technical and Economic Analysis, and Plan of Implementation, Financing, and State of implementation of a project. Throughout the Resolution No. 571, project proposal is also referred to as "public investment project" In this report this document is called "project proposal".

48 Order of the Ministry of Economy No. 1865

84. **The Project Proposal[49] is the key document of the appraisal process setting out the appraisal findings.** It includes information on the project purpose, its financial and economic analysis, technical solutions, social and environmental impact and other aspects specified in Resolution No. 571. Project proposals must be prepared by the implementing agency. The implementing agency has the right to use the services of external companies for development of a project proposal if it does not have the necessary capacities. Some key sector MDAs have specialized enterprises that handle the development of feasibility studies in their sectors, as is the case for the Ministry of Health.

85. **The score for this dimension is A**

3.2. PROJECT APPRAISAL GUIDANCE AND SUPPORT

Performance level and evidence for scoring the dimension

86. **Guidelines on project appraisal procedures and methods are provided in the official legislative acts and orders of the Ministry of Economy[50] and are readily available and used.** The guidelines are comprehensive and cover all topics required for the implementation of Resolution No. 571. Any project aimed at creating or improving a state-owned asset, including projects of SOEs, can be submitted for funding according to Resolution No. 571 and, in such cases, the guidelines must be (and are) followed, or the project will be rejected by MoE. If an agency decides to search for financing from external sources, the guidelines for project development issued by the individual IFI or donor are applied. Funding for the conduct of project preparation using external expertise is not always available. In fact, many public agencies that submit projects to MoE develop project proposals on their own, without external experts or consulting firms.

87. **The score for this dimension is B.**

3.3. TECHNICAL CONTENT OF GUIDELINES

Performance level and evidence for scoring the dimension

88. **Existing guidelines cover most key technical issues for financial and economic appraisal, but they do not cover distributional analysis, sector specific issues, and climate change impact.** The guidelines (see **Box 6**) are focused on explanation of how to fill in the form for the project, financial modeling, and cost-benefit analysis. They are supposed to be general, suitable for all sectors. The guidelines do not include any requirement for preliminary technical design of projects. In this respect, the project proposal required under Resolution No. 571 falls short of what is usually required for a feasibility study.

89. **To complement the guidelines the MoE has a webpage dedicated to public investment on its website, where it publishes international guidelines[51] for cost-benefit analysis in some sectors,[52] and includes additional learning and explanatory materials.[53]** Few key economic parameters for appraisal are provided by MoE (Investment Department, in particular), except for the social discount rate and appraisal horizons by project type. The discount rate was updated in 2018. In its explanatory letter to MDAs, the MoE Investment Department refers to its webpage for macroeconomic indicators that can be used in project appraisal; however, the summary of the forecast of indicators (GDP, CPI, export, import, etc., for 2017 – 2019) has not been updated since 2016. It should be noted that another department of MoE, the Department for Strategic Planning and Macroeconomic Forecasting, regularly publishes macroeconomic forecasts on its webpage.

49 Based on the content of the project proposal, it is equivalent to a prefeasibility appraisal in other countries, because technical aspects have not been developed to pre-design level.

50 Resolution No. 571 and MoE Order No. 1865 Methodological recommendation.

51 Link to website of the MoE with international and additional guidelines https://www.me.gov.ua/Documents/List?lang=uk-UA&id=f76f9c7a-7777-4419-a6d7-9faa1abec641&tag=MizhnarodniMetodichniRekomendatsii

52 Translated guidelines on CBA for culture and forestry sectors developed by governments of the UK and Canada for assisting corresponding agencies.

53 Additional materials at the MoE's website https://www.me.gov.ua/Documents/List?lang=uk-UA&id=24c6825e-1b25-4756-8f08-835a903b106d&tag=DopomizhniNavchalniMateriali

BOX 6

Technical Content of Guidelines

The guidelines provide methodological guidance, including on technical and economic analysis, in line with the required contents of the project proposal as follows:

- Goal of the project and its justification including:
  - A description of the problem or impediments whose resolution is to be achieved by the project
  - Qualitative and quantitative description of the results of implementation of the project, describing and specifying the products or services; providing the information on the volume of production and services provision, and specifying expected capacity utilization
  - Method of achievement of the end-result based on the analysis of alternative ways of achievement of the purpose and arguments on advantages of the selected way
  - Compliance of the project with directions for development of the state, as identified in strategic and programmatic documents
- Description of the project and projection of expenses including:
  - Technical and/ or technological analysis of the selected method of achievement of the end-result
  - Need to secure land required to implement the project
  - Description of the existing infrastructure to be used for implementation of the project and during operation of the facility
  - Environment protection measures including reproduction and preservation of natural resources and mitigation of environmental impacts
  - Need for development of design documentation and development phasing
  - List of measures aimed at implementation of the project including details of the funding schedule and time limits
  - Staffing according to project life cycle stages
  - Certificates, licenses and other permits needed for implementation of the project
  - Investment expenses by years of project implementation, separately for stages of project elaboration and implementation
  - Operational expenses
- Project effectiveness analysis covering:
  - The cost of final products (goods, works, and services)
  - Calculation for cost-effectiveness indicators (financial analysis)
  - Projected social and environmental consequences
  - Analysis and appraisal of project implementation benefits and projected economic effect (economic analysis) for projects with a total cost over 30 million UAH
  - Cost-effectiveness of implementation and operation for project with a total cost under 30 million UAH
  - Assessment of impact of project implementation on the budget
  - Analysis of risks and possible ways to reduce them
- Information about organizational structure and project management, including:
  - Information about the responsible executor/project implementing agency including internal organizational structure
  - The organizational chart for project implementation management
- Implementation and financing plan and its performance status.

Source: World Bank Mission Team based on published guidelines

90. **Guidelines contain worked examples of SWOT-analysis, financial modeling, cost-benefit analysis (financial and economic), and other parts of project proposal that might be difficult for implementing agencies to complete without models.** In addition to examples in the guidelines, MoE has uploaded Excel-based templates for financial modeling and CBA to its website, which can be used for analysis of projects. MoE provides support on the use of the guidelines by answering questions from MDAs. MDAs interviewed considered guidelines to be good but suggested that further clarifications of some topics through focused capacity building would be useful.

91. **One important MDA has developed its own sectoral guidelines in line with MoE's general recommendations.** With the assistance of the EU, the Ministry of Infrastructure (MoI) developed guidance for preparing investment proposals in the transport sector and for assessing and selecting investment projects (project proposals) in the sectors of transport, road infrastructure and postal services. These guidelines follow the approach required by Resolution No. 571 and the accompanying guidelines from MoE, while providing sector specific recommendations on project development (especially CBA) and project selection. There is no evidence of the existence of other sector specific guidance developed by sector MDAs.

92. **MoE has published international guidelines on its website for use in project appraisal.[54]** In particular, guidelines for cost-benefit analysis in forestry and art & culture sectors, general guidelines for CBA and for social CBA. Some of the guidelines are translated into Ukrainian languages, while some are in English. There is no evidence that key sector MDAs use these guidelines.

93. **The score for this dimension is C.**

3.4. PROPORTIONALITY OF PROJECT APPRAISAL

Performance level and evidence for scoring the dimension

94. **The method of project appraisal is determined by project cost and potential profitability; no additional criteria such as sector, complexity, and risk are considered.** Financial analysis is applied to self-sustaining/profitable projects, while both financial and economic analysis is applied to unprofitable projects with social and economic impact. Economic analysis is differentiated by project cost: cost-efficiency analysis (CEA) is applied to projects with the total investment cost below UAH 30 million, while cost-benefit analysis is applied to projects whose total cost is over UAH 30 million.[55] Since cost-benefit analysis is considered as more onerous than cost-efficiency analysis, both in terms of its need for specialized expertise and the greater transparency it sheds on the quality of a project, there is a risk of projects being deliberately submitted with a cost of UAH 29 million.[56] In most cases the projects clearly comply with the rule of below or above UAH 30 million, but sometimes misunderstandings appear with projects that almost reach the threshold.[57] Multi-criteria analysis is not defined as a methodology for application for small or repetitive projects.

95. **The score for this dimension is C.**

54 International methodological recommendations [MoE website] https://www.me.gov.ua/Documents/List?lang=uk-UA&id=f76f9c7a-7777-4419-a6d7-9faa1abec641&tag=MizhnarodniMetodichniRekomendatsii.

55 Approximately one million Euros which is a rather low limit. This can be compared for example with the case of Montenegro, where to be eligible for funding from the capital budget an investment proposal should include at least a feasibility study, and a cost-benefit analysis if the estimated value is above EUR 5 million. In the case of Albania procedures specify a threshold of 700 million LEK (EUR 5.68 million) for large projects to which a more rigorous appraisal is applied.

56 However, there are some projects with an estimated cost just below this limit which casts some doubt regarding ministries intentionally reducing estimated cost of projects to avoid the need to prepare appraisals using CBA.

57 For example, there is currently a project with a cost of 29 812.800 UAH in the healthcare sector. Another project spotted in the minutes of the meetings of the Commission is with a cost of 29 999 thousand UAH (health sector).

3.5. USAGE OF FEASIBILITY STUDIES TO APPRAISE LARGE PROJECTS

Performance level and evidence for scoring the dimension

96. **All projects submitted to MoE and selected by the Inter-Agency Commission are subject to complete appraisal studies ('project proposals') prepared following Resolution No. 571 and existing guidelines.** When Resolution No. 571 was adopted and the procedure for public investment projects was established, it was expected that all projects would undergo the same process to receive funding, but six years' experience has shown that it did not happen as expected. This is because there remain other ways to receive funding from the budget which are still in keeping with the legislation. This allows MDAs to make direct budget requests without addressing the MoE or the Commission to obtain funding for their investment projects. In this way, a significant share – on average 29.7 percent (by value) of large capital investment projects for the period 2018-2020[58] - end up being funded as budgetary programs outside the scope of Resolution No. 571. Projects to be financed from funds provided by IFIs or bilateral loans also have feasibility studies. However, such studies are prepared following the guidelines of the institutions providing the financing.

97. **The score for this dimension is C.**

PIM-4. Project Appraisal Capacity

RATIONALE

98. **This indicator analyzes project appraisal capacities at central and key sector MDAs, focusing on the quality of staff at agencies and availability of training for project appraisal.** The quality of staff is assessed as of the current moment, while availability and frequency of training is analyzed for the period of the past 3 years (2018 – 2020). The indicator seeks to determine whether central and key sector MDAs have well trained staff for: maintaining and updating guidelines and methods; routinely re-estimating all key economic parameters used in economic appraisal; and reviewing the quality of studies and methods for all large projects and selectively for other projects. This indicator requires identifying whether training at appropriate levels and frequency is provided to most MDAs to ensure a strong project appraisal capacity.

Summary of Scores and Performance Table PIM-4

Indicator/ Dimension	Score	Brief justification for score
PIM-4. Project appraisal capacity	**D+**	**Scoring Method M2**
4.1. Quality of staff to oversee project appraisal methods and applications	C	Central and key sector MDAs have limited capacities to provide quality control and guidance to conduct project appraisal. Typically, agencies have insufficient staff directly responsible for project appraisal methods and applications. The knowledge of most staff on project appraisal is limited to the content of the guidelines provided by MoE.
4.2. Scope and quality of project appraisal training	D	No training has been provided for the last 3 years. Staff interviewed indicated additional training is required.

58 The figure represents the share of non-SSIPs in the total capital cost of ongoing projects, excluding IFI financed projects. If IFI projects are included, the figure falls to 16.5 percent, because IFI projects follow formal procedures. The share has risen significantly to 51.8 percent in 2021, but this is outside the assessment period.

4.1. QUALITY OF STAFF TO OVERSEE PROJECT APPRAISAL METHODS AND APPLICATIONS

Performance level and evidence for scoring the dimension

99. **MoE, as a central agency, has limited capacities to provide quality control and guidance to the conduct of project appraisal.** There are only four people in the Unit for Public Investment Projects, which currently handles the portfolio of 66 projects. Every year, a minimum of 20 new projects are submitted to the unit for review. In the past, only 10 days were provided for reviewing the project proposals, which was not enough considering the other responsibilities of the unit and its staff. The period of project review was extended to a more appropriate 20 days in 2021. In addition to independent review of project proposals and provision of methodological support for project development, the unit deals with monitoring of public investment projects, provision of administrative and analytical support to the Inter-Agency Commission, budget management and communication of the Commissions' decisions to MoF.

100. **Key sector MDAs have capacity only for administration of projects and no capacity for development of sector specific guidance or training to subordinate agencies.** Typically, there are only a few people responsible for public investment projects management within key sector MDAs. For example, at the Ministry of Ecology and Natural Resources, there is only one person managing public investment projects, (not considering the head of the relevant department);[59] at the Ministry of Health, there are 2 people responsible for projects. They have enough capacity to review the project concept notes and project proposals for compliance with legislative requirements, but no capacity for development of sector specific guidelines[60] or for advising on economic parameters to be used in appraisal. Key sector MDAs, except the MOI which has its own guidance (see PIM-3.3), rely on the guidance from MoE in this respect.

101. **The score for this dimension is C.**

4.2. SCOPE AND QUALITY OF PROJECT APPRAISAL TRAINING

Performance level and evidence for scoring the dimension

102. **No training in project appraisal has been provided to central and sector MDAs for the last 3 years.** There were trainings in 2015 – 2016 following the establishment of the procedure for selection of public investment projects, but no training has been provided since that time. However, MoE provides individual ad hoc advice to sector MDAs in case they have questions regarding project appraisal procedures and methodologies.

103. **The score for this dimension is D.**

PIM-5. Screening of Feasibility Studies

RATIONALE

104. **This indicator assesses three dimensions for screening out bad projects at early stages, avoiding waste of effort on further design and appraisal.** Project screening should be done stepwise. Project concept notes must be reviewed to discard bad projects before they gain momentum and before resources and effort have been invested preparing more detailed studies. Afterwards review of pre-feasibility studies or feasibility studies prepared for the pre-selected projects should allow weeding out some projects, leaving only the better prepared and socio-economically more profitable candidates for inclusion in the budget.

105. **The dimensions examined cover screening procedures, the existence of the public investment program (PIP) database, and the extent to which screening has real impacts on what happens next to a project.** The first dimension looks at whether there are appropriately sequenced and well-defined procedures for preparation and appraisal of projects, and whether such studies are based on explicit criteria considering project type, size, sector, regulatory requirements, and prior investment experience

59 The head of department estimated that only 10 percent of time was dedicated to public investment projects.

60 An option would be to get donor support, as the Ministry of Infrastructure (MoI) did for developing guidance for preparing investment proposals in transport sector and for assessing and selecting investment projects (project proposals) in the sectors of transport, road infrastructure and postal services.

Summary of Scores and Performance Table PIM-5

Indicator/ Dimension	Score	Brief justification for score
PIM-5. Screening of feasibility studies	**D+**	**Scoring Method M2**
5.1. Sequenced and disciplined project screening procedures	C	The general process is well-defined in Resolution No. 571 but about a third of large projects by value (excluding IFI funded projects) are included in the budget without following the prescribed process.
5.2. Prescribed public investment program (PIP) database	D	A database in the form of an Excel spreadsheet exists, but it is not focused on project screening and does not register projects before they have been reviewed by the Commission. It is regularly updated but information registered is limited.
5.3. Projects rejected or required to be redesigned and reappraised	D	Very few projects are rejected following screening of feasibility studies.

with similar projects. The second looks at whether there is a legally sanctioned public investment database recording all projects as they pass through pre-screening, preparation, and screening. Such a database forms a project pipeline that allows control over the flow of quality-controlled projects into the budget. The third dimension assesses the effectiveness of this part of the system through the measure of the share of projects rejected or required to be redesigned and reappraised.

106. **The scoring of certain 'effectiveness' dimensions under this indicator is influenced by the large share of projects ('non-SSIPs') that avoid the formal procedures set out in Resolution No. 571.** On average during the assessment period, 33.6 percent of ongoing state budget-funded projects by total project value (see **Section 2.2**)[61] were non-SSIPs. This figure rose to 46.3 percent in 2021, outside the assessment period. For large projects, the average share for 2018-20 was 31.2 percent.[62] For the sake of brevity, these figures will not be repeated for each dimension.

5.1. SEQUENCED AND DISCIPLINED PROJECT SCREENING PROCEDURES

Performance level and evidence for scoring the dimension

107. **The processes for project preparation, appraisal and screening are well defined and documented for investment projects.** Existing regulations include:

a. The Procedure for selecting public investment projects approved by Resolution of Cabinet of Ministers of Ukraine No. 571 of 22 July 2015;

b. The Procedure for preparing, implementing, monitoring IFI-supported projects of economic and social development of Ukraine and completing their implementation, approved by Resolution of Cabinet of Ministers of Ukraine No. 70 of 27 January 2016.

61 The figure of 33.6 percent refers to domestically funded projects - SSIPs, non-SSIPs, regional development fund, and capital transfers, but excluding the road subvention, because of the difficulty in distinguishing between maintenance and capital investment. The figure excludes IFI financed projects. If IFI projects are included the figure falls to 19.3 percent, because IFI projects follow formal procedures.

62 16.8 percent including IFI projects.

108. **There is also the document "Guidance on assessing and Selecting Projects (Project Proposals) in the Sectors of Transport, Road Infrastructure and Postal Services".** It presents recommendations and criteria to be applied to assess and select the investment projects that need support of the MoI, including public investment projects for which the MoI will be the main spending agency, and investment projects that need state aid.

109. **The processes established in Resolution No. 571 do not include sector specific aspects but do differentiate depending on the project size.** Projects prepared by the implementing agencies are screened at several stages. The first screening occurs at the stage of concept note, when the line ministry decides to proceed with further project development or not. The second screening occurs at the stage of project proposal when the project is reviewed again by the line ministry. The third screening happens when the MoE reviews submitted projects, having the right to reject further development of the project. Formal procedures do not exist for the significant share of projects that are funded as budgetary programs outside of Resolution No. 571.

110. **The score for this dimension is C.**

5.2. PRESCRIBED PUBLIC INVESTMENT PROGRAM (PIP) DATABASE

Performance level and evidence for scoring the dimension

111. **The database of public investment projects exists and captures some information necessary for analyzing the project portfolio but does not include information on project screening and preparation.** The database is focused on project implementation. Once a project has been considered by the Commission for budgeting, regardless of the result of selection, it is included into the database. The database exists as an Excel spreadsheet. It is managed and regularly updated and uploaded to the website of MoE by a dedicated unit. It includes information on projects disbursements, total cost, period of implementation, and some information on project implementation status. However, the database does not include information about projects prior to the funding decision.

112. **The score for this dimension is D.**

5.3. PROJECTS REJECTED OR REQUIRED TO BE REDESIGNED AND REAPPRAISED

Performance level and evidence for scoring the dimension

113. **Most prefeasibility studies at the stage of review by the line ministry are not rejected.** One of the reasons for a low rejection rate may be the high rate of rejection at the earlier project concept stage, when the line ministry already takes a decision on whether or not to proceed with the project. But given that the focus of project concept note reviews (more on compliance and strategic alignment) is different from the focus of feasibility study review (more focusing on economic and environmental analyses), a low rejection rate at this stage is more likely a result of overoptimism. Since line ministries are interested in selection and funding of their projects under development, most of the conclusions of state expert reviews issued by line ministries are positive. However, not all project proposals pass the subsequent review by MoE, despite having had a positive conclusion from state expert review carried out on behalf of the line ministry. This suggests that sometimes state expert review is positively biased. Moreover, this rating of this dimension is further negatively affected by the large number of projects not following Resolution No. 571, as detailed above.

114. **The score for this dimension is D.**

PIM Function 3. Appraisal Review

PIM-6. Independent Review of Appraisal

RATIONALE

115. **This indicator assesses whether the documentation and findings of project appraisal are subject to an impartial review by a party not involved in their preparation, with the aim of validating quality and countering optimism bias.** There is a tendency for project proposals to systematically over-estimate project benefits and under-estimate costs. It has been observed all around the world and is especially serious for large infrastructure projects like railways, motorways,

Summary of Scores and Performance Table PIM-6

Indicator/ Dimension	Score	Brief justification for score
PIM-6. Independent review of appraisal	**C**	**Scoring Method M2**
6.1. Independent review of appraisal	C	According to Resolution No. 571, all projects are subject to a two-step independent review, first by the relevant line ministry that supervises the project proposer and then by the MoE; however, the independence of the line ministry and its commission (if created) can be questioned. Projects seeking other types of budget support have to go through state expert review according to Resolution No. 701.
6.2. Content of independent review	C	Resolution No. 571 provides guidance regarding content of the independent review. Methodology of the Order No. 243 provides details for state expert review of projects seeking other type of budget support.

large bridges, and tunnels. Independent review is widely regarded as the best way to counter the usual optimism bias of project promoters, by verifying the quality of the analysis, how realistic assumptions are, and if estimations of demand and cost are reasonable. It usually does not include revision of technical aspects of project pre-design. This review should ideally be done at an early stage in project development, prior to the submission of a budget request and at least when pre-feasibility or feasibility studies have been completed. All projects, regardless of proposed funding (donor funds, loan, own resources) and implementation mechanisms (direct contracting or PPP) should be subjected to such independent review.

116. **The dimensions of the indicator cover existence of an independent review mechanism and the contents of independent review.** The first dimension looks at whether projects (larger and more complex projects) are submitted for independent or quasi-independent review by an external agency that is expert in the project appraisal methodology. Such a review could involve either (i) reviewing the methods, parameters and assumptions used in a pre-feasibility or feasibility study, or (ii) conducting a preliminary feasibility study of a project proposal. Content of independent review focuses on the scope of the independent review to assess if it covers all dimensions of appraisal.

6.1. INDEPENDENT REVIEW OF APPRAISAL

Performance level and evidence for scoring the dimension

117. **A two-stage independent review process is established in Resolution No. 571.** The first step being a "state expert review", which is performed by MDAs, which may create a commission to conduct it. As stipulated in Resolution No. 571, members of the commission should be entirely unconnected with the project: "The members of such a commission shall not be representatives of investment activity entity, who prepared a concept note or will be responsible for public investment project elaboration and representatives of responsible executor." If such a commission is established in a ministry, as it has been in the Ministry of Ecology and Natural Resources, it constitutes a first level of independent review of project appraisal. Based on the findings of the commission, or the review of the project proposal, the MDA issues an opinion on the status of project preparedness and recommended future steps. The state expert review must be conducted within a period of 30 calendar days, which is in line with international standards. If the decision of the state expert review is positive, the MDA must officially appoint the responsible executor of the project, in most cases the agency that developed the concept note or project proposal.

118. **The rarity of negative opinions following state expert review suggests a lack of impartiality.** Commissions are created by line ministries with an interest in advancing projects promoted by their subordinate entities. Despite stipulations concerning independence in the regulations, commissions may be subject to the same optimism bias as project promoters, given the context within which they operate.

119. **After the mandatory state expert review of public investment project proposals, MDAs must submit them for review at the MoE.** MoE performs a second independent review of proposals based on the information submitted to verify correspondence with the legislation and application of guidelines. The proposal must be submitted to MoE before March 1 each year. It must comply with the information requirements specified in Resolution No. 571, must include findings of an independent state expert review of the investment project and may include expert review of construction designs. If there are no reasons to reject a project, i.e., it complies with the requirements of Resolution No. 571 and guidelines issued by MoE, projects are provided to the members of the Inter-Agency Commission for consideration and selection for financing. The large share of non-SSIP projects bypassing the formal process (as detailed in relation to PIM Indicator 5) undermines the impact of reviews on the general outcome of the review and selection process.

120. **Independent review of appraisal is also mandatory for other investment projects that require funding form the state budget or other types of support from the state budget.** According to the Law of Ukraine On Investment Activities for investment projects that require state support, implemented with the involvement of budget funds, funds of state enterprises, institutions and organizations, as well as loans provided under state guarantees, state expert review is carried out in accordance with the Resolution No. 701.[63] State expert review is performed by the MDA, to which an implementing agency reports, or which is responsible for the sector in which the project will be implemented.

121. **The score for this dimension is C.**

6.2. CONTENT OF INDEPENDENT REVIEW

Performance level and evidence for scoring the dimension

122. **Resolution No. 571 defines information to be presented when a project is submitted to independent review and the content of the analysis to be done.** Specifically, Article 12 indicates that the state expert review should analyze:

a. The project's compliance with legislative requirements and its urgency and crucial nature;
b. Environmental, economic, and social consequences;
c. The impact of results of implementation of the project on budget indicators;
d. Assumptions for the cost of the project and its implementation plan; and
e. Availability of appropriate staffing and physical infrastructure for implementation of the project.

Annex 2 to Resolution No. 571 contains a detailed form for state expert review. It requires an MDA to assess the project's compliance with a list of criteria that reflects mostly key analysis of the project proposal and adds detail to the list provided above. MDA must provide justification for its assessment.

123. **Details on how to develop the state expert review according to Resolution No. 701 are presented in the "Methodology for carrying out the state examination of investment projects issued by the MoE."[64]** An implementing agency, which has developed a project proposal, submits it with the supporting documents (financial reports, design documents) to the MDA. The MDA carries out the state expert review by checking compliance with the requirements and in case of non-compliance the project proposal is returned. If the information presented is complete, the methodology describes in detail all aspects that must be analyzed which include:

a. The relevance and strategic alignment of the investment project;

63 Resolution of CMU No. 701 as of 09.05.2011 on the Procedure for carrying out the state examination of investment projects.

64 MoE Order No. 243 (13/03/2013) for carrying out the state examination of investment projects and the form of the conclusion on its results

b. The presence of positive social effects;

c. The effectiveness of the use of budget funds;

d. The reliability of technical and economic calculations;

e. The validity of the scope and form of providing state support for project implementation;

f. The availability of appropriate staffing and logistics for project implementation,

g. The coherence of environmental, economic and social interests; and

h. Compliance of the investment project with the requirements of the legislation.

One important aspect missing is any reference to project risks. Risks are not included in Annex 2 of the Resolution No. 571 "Conclusion of State Expertise".

124. **The review done by the MoE concentrates on analysing the appraisal of the project.** Line ministries must validate all data in project studies and sign off on project proposals. MoE officials indicated in meetings held that they verify whether calculations are correct, if indicators of economic efficiency have been properly calculated, if there is correct use of the discount rate, and compliance of project implementation and operation period to the recommended one. They also check sources of data and technical parameters of projects. The MoE review is quality and compliance focused, but it is not clear that it satisfies the need to test a project for optimism bias by subjecting the basic assumptions used in the estimation of costs and benefits to robust challenge.

125. **The score for this dimension is C.**

PIM Function 4. Selection and Budgeting

4.A. BUDGET PREPARATION AND SELECTION

PIM-7. Project Selection and Budgeting

RATIONALE

126. **This indicator assesses four dimensions central to the selection of sound projects for budget financing – the last point in the PIM system that can prevent the adoption of poor-quality projects.** Effective capital budgeting combines a top-down process in which each ministry is given an indicative ceiling for capital spending, and a bottom-up process in which agencies prepare and submit sound project proposals for budget consideration. This requires a well-designed budget calendar allowing sufficient time for agencies to prepare their proposals, budget guidelines that ensure all project costs reflect expected price levels, and well prepared and carefully appraised projects that meet transparent criteria for selecting between competing projects.

127. **The scoring of certain effectiveness dimensions under this indicator is influenced by the large share of non-SSIP projects that avoid the formal procedures set out in Resolution No. 571.** On average during the assessment period, 33.6 percent of ongoing state budget-funded projects by total project value[65] were non-SSIPs (see **Section 2.2**). This figure rose to 46.3 percent in 2021, outside the assessment period. For large projects, the average share for 2018-20 was 31.2 percent.[66]

65 The figure of 33.6 percent refers to domestically funded projects - SSIPs, non-SSIPs, regional development fund, and capital transfers, but excluding the road subvention, because of the difficulty in distinguishing between maintenance and capital investment. The figure excludes IFI financed projects. If IFI projects are included the figure falls to 19.3 percent, because IFI projects follow formal procedures.

66 16.8 percent including IFI projects.

Summary of Scores and Performance Table PIM-7

Indicator/ Dimension	Score	Brief justification for score
PIM-7. Project Selection and Budgeting	**C**	**Scoring Method M1**
7.1. Clear and effective top-down budget	C	The budget circular sets general limits on current and capital expenditures by sector, but these limits have not identified expenditures on selected state investment projects (SSIPs). Despite the provision of the Budget Code that requires the inclusion in the budget of only projects evaluated and selected according to the established procedure (Resolution No. 571), the budget circular has not set restrictions on projects that did not follow the procedure, nor has it defined strategic priorities for such projects. Due to this, the volume of domestically funded projects included in the budget without application of the appraisal and selection procedures in Resolution No. 571 and regulations applying to SSIPs in the roads sector averaged 31.2 percent during 2018-2020.
7.2. Existence of and adherence to project and budget preparation and approval calendar	C	There is a well-designed budget calendar with integrated project planning cycle for SSIPs, but it has not been adhered to during the last three years. MDAs had already submitted their detailed spending proposals when they received a list of their selected SSIPs with identified budget allocations. For non-SSIPs, after receiving the budget circular, MDAs had 2 weeks in 2018 and 1 week in each of 2019-2020 to complete their spending proposals.
7.3. Budget guidelines and practice for adjustment of project budgets to current estimates	C	The legislation contains rules that require MDAs to adjust implementation and funding plans of new and ongoing SSIPs to budget year estimates. The legislation also contains rules according to which the MDAs adjust implementation and funding plans of ongoing SSIPs arising from changing economic conditions or project implementation experiences. The above rules do not apply to the significant share of investment projects that are included in the budget outside of the procedures defined in Resolution No. 571 and regulations applying to SSIPs in the roads sub-sector.
7.4. Transparent criteria for project selection including adequate forward recurrent budget	C	There are many instances where the criteria for project selection are either not identified, or not used. Clear criteria based on appraisal results are in place but are not adhered to by the significant proportion of projects that bypass the procedures in Resolution No. 571. There is a well-coordinated budget process, which ensures forward recurrent expenditures are met by forecast revenues after providing for implementation of projects under construction and/or operation.

7.1. CLEAR AND EFFECTIVE TOP-DOWN BUDGET

Performance level and evidence for scoring the dimension

128. **The budget circular sets total limits on current and capital expenditures by sector, but these limits currently exclude expenditures on SSIPs (which follow Resolution No. 571) while including expenditure for IFI projects through budget programs and expenditures for SSIPs in the roads sub-sector.**[67] The intended procedure, as set out in the Budget Code, is for the MoF to provide (through the Budget Declaration approved by the CMU) an indicative expenditure limit for investment to the MoE, so that the Inter-Agency Commission can select SSIPs within this limit, prior to the preparation of the budget circular. The Commission's decisions would then be reflected in the expenditure limits in the budget circular prepared by the MoF. However, this has not been happening and, in the assessed years, the Commission selected SSIPs after the MoF issued the budget circular, so the circular did not contain this information.

129. **In contrast to the Budget Code,[68] the budget circular does not establish restrictions on the inclusion in budget requests of project proposals that have not been selected according to the established process for SIPs.** The budget circular neither prohibits non-SSIPs nor gives MDAs clear alternative guidelines for including such projects in their budget requests. As a consequence, the budget circular does not succeed in limiting the number of project proposals from MDAs, allowing non-SSIPs to 'jump the fence' and avoid the rigorous appraisal process and selection procedure set out in Resolution No. 571 (see **Rationale** for Indicator PIM-7 for figures).

130. **The Inter-Agency Commission has no strategic priorities for selecting SSIPs since there is no investment strategy (PIM-2.2) and the budget circular contains no specific strategic priorities.** The budget circular only contains a requirement for all expenditures to comply with the state policy goals. The goals of state policy, in turn, correspond to the government's Action Plan, the National Sustainable Development Goals, and other forecasting and program documents for economic and social development. The budget circular has no specific strategic criteria to guide the choice of proposals for non-SSIPs or for roads-sphere SSIPs which are determined during the budget year.

131. **The score for this dimension is C.**

7.2. EXISTENCE OF AND ADHERENCE TO PROJECT AND BUDGET PREPARATION AND APPROVAL CALENDAR

Performance level and evidence for scoring the dimension

132. **There is a well-designed budget calendar which accommodates project preparation for SSIPs, but it has not been adhered to during the last three years.** The key stages and dates of the budget calendar are presented in **Table 8**. The budget is approved no later than December 1 and, in accordance with the legislation, contains budget allocations for selected state investment projects (SSIPs). The budget calendar provides sufficient time for ministries to prepare SSIPs and for their review by the MoE before selecting them for inclusion in the draft budget.

Table 8. Key Stages and Dates of the Budget Calendar

Time period	Budget calendar stage and project planning cycle
January 21	MoF sends the letter to MDAs regarding the start of Budget declaration preparation
By February 15	MDAs submit to the Ministry of Finance cost estimates of state policy goals and changes to the structure of expenditures under budget programs

67 SSIPs in the roads sub-sector follow the selection procedure established by joint Order of the Ministry Infrastructure and Ministry of Finance No. 573/1019 dated September 21, 2012, which take place during the budget year.

68 Part 7 of Article 33-1 of the Budget Code of Ukraine.

Time period	Budget calendar stage and project planning cycle
By March 1	MDAs submit proposals to the MoE on state investment projects for selection for the mid-term period
By April 6	The Ministry of Finance shall inform the MDAs on the instructions for preparing proposals for the budget declaration and approximate expenditure ceilings for the mid-term (3 years), without expenditures on SSIPs
By May 1	The MoE reviews SSIPs, forms a list of projects allowed for selection, determines the total amount of expenditures on SSIPs for the next three years and sends them to the Ministry of Finance
By May 15	The Ministry of Finance determines the projected amount of expenditures on SSIPs and includes them in the budget declaration submitted to the Cabinet of Ministers[69]
By May 25	The MoE prepares information on compliance of SSIPs with the selection criteria; development (implementation) of SSIPs in the budget period under planning and subsequent two budget periods, by area; total expenditures on SSIPs for the next three years and submits it to the Inter-Agency Commission
By June 1	The Cabinet of Ministers approves a budget declaration including a defined total amount for expenditure on SSIPs[70]
Starting from the beginning of June	The Inter-Agency Commission reviews and selects SSIPs allowed for selection within the limits of expenditures approved by the budget declaration
By June 21 (within three weeks after the Cabinet of Ministers of Ukraine approves the Budget Declaration)	The Inter-Agency Commission completes the selection of state investment projects that are to be included in the draft state budget for the next year[71]
By July 27	The Ministry of Finance shall issue a budget circular informing each MDA of its expenditure ceiling
By August 10	MDAs submit budget requests to the Ministry of Finance
By August 28	The Ministry of Finance holds bilateral meetings with the MDAs to reconcile requests
By August 31	The Ministry of Finance submits a draft state budget to the Cabinet of Ministers
By September 15	The Cabinet of Ministers submits a draft state budget to the Verkhovna Rada
Until December 1	The Verkhovna Rada approves the state budget for the next year

Source: Ministry of Finance 2020 Budget Calendar (Order of the Ministry of Finance of 30.01.2020 No. 32), Budget Code of Ukraine, Resolution of the Cabinet No. 571 dated 22 July 2015, minutes of the meeting of the Inter-Agency Commission on state investment projects dated 04.06.2020.

69 In 2018 the Ministry of Finance had to inform the Ministry of Economy on the total amount of state capital investments for the development and implementation of SIPs, also by May 15.

70 In 2018-2019 the Cabinet of Ministers of Ukraine had to approve the main directions of budget policy for the year under planning, with defined total amount of state capital investments for the implementation of SSIPs, also by June 1.

71 In 2018-2019, the deadline for completing the selection process was not set.

133. **For the period 2018-2020, MDAs had from 1 to 2 weeks to complete their spending proposals after the budget circulars had been issued; however, they were informed about selected projects after submission of those proposals.** The Commission completed the selection of SSIPs during the 2018-2020 period after the budget proposals submission date (**Table 9**).

134. **Large SSIPs have already been appraised by MDAs, and independently reviewed, prior to the budget circular.** Appraisal (see PIM-3) and state expert review (see PIM-5.3) is a prerequisite of submissions made to MoE for March 1; and MoE reviews proposals from March – April (see also PIM-6.1).

135. **The time available to MDAs for preparing detailed budget requests for non-SSIPs is very short - two weeks in 2018 and one week in 2019 and 2020.** Such projects follow the same timetable as for other categories of non-capital expenditure funded from the state budget.

136. **MoF does not analyze budget proposals for SSIPs given the country project selection procedure, which is managed by the MoE, and has, on average, less than 5 weeks to analyze capital spending proposals for non-SSIPs. Table 9** shows that the time available for the MoF to analyze budget proposals including non-SSIPs and brief ministers prior to a final cabinet decision varied from 1 to 5 weeks, averaging 3 weeks. SSIPs are included in the state budget after the Cabinet has submitted annual draft budgets to the VRU, so there is no scope for MoF to analyze these submissions.

Table 9. Timeframe for Preparation and Review of Budget Requests

	2018	2019	2020
Date of SSIPs selections	June 21 *for 10.6 percent more than indicative limit* and finalized on September 17 (*by 6.7 percent more than previous selection*)	July 9 (*in the amount of 40 percent more than provided by the MoF*) and November 1-3 (*within the established amount, which gave the MDAs the right to start filling out budget requests*)	November 16
Budget circular issue date (*expenditures for SSIPs are not included*)	July 27	September 3	August 11
Budget requests submission date	August 9	September 9	August 20
Time available for budget requests SSIPs completion	MDAs have already completed their detailed spending proposals	MDAs have already completed their detailed spending proposals	MDAs have already completed their detailed spending proposals
Time available for budget requests non-SSIPs completion	2 weeks	1 week	1 week
Time available for MoF to review proposals and provide briefing to ministers (to September 15)	5 weeks	1 week	3 weeks

Source: Minutes of the meetings of the Inter-Agency Commission on state investment projects dated 21.06.2018, 17.09.2018, 09.07.2019, 01.11.2019/03.11.2019, 16.11.2020; MoF's letters (budget circulars) dated 27.07.2018 No. 04110-09-9/20040, dated 03.09.2019 No. 04110-09-10/22087, dated 11.08.2020 No. 04110-08-2/24733.

137. **The laws on the state budget for 2018-2020 were approved before the beginning of the fiscal year.** The VRU approved the law on the state budget for 2018 on 7 December 2017; for 2019 on 23 November 2018; and for 2020 on 14 November 2019.

138. **The score for this dimension is C.**

7.3. BUDGET GUIDELINES AND PRACTICE FOR ADJUSTMENT OF PROJECT BUDGETS TO CURRENT ESTIMATES

Performance level and evidence for scoring the dimension

139. **The legislation contains rules that require MDAs to adjust implementation and funding plans of new and ongoing SSIPs to budget year estimates.**[72] The rules establish that the MDAs must make such adjustments within one month from the date of adoption of the law on the state budget for the corresponding year (or amendments to it) or the corresponding decision of the CMU. Budget program passports[73] can be formulated only based on the adjusted information.

140. **The above rules do not apply to non-SSIPs and SSIPs following Order No. 573/1019.** There is no information about the availability of appraisal estimates or findings for such projects, which could form the starting point for making informed judgements on adjustments.

141. **The score for this dimension is C.**

7.4. TRANSPARENT CRITERIA SELECTING PROJECTS FOR BUDGET FUNDING, INCLUDING ADEQUATE FORWARD RECURRENT BUDGET

Performance level and evidence for scoring the dimension

142. **Clear criteria based on appraisal results are in place and adhered to for prioritization and budget selection of SSIPs.** MDAs carry out the feasibility study for all SSIPs, which includes an analysis of a project's economic efficiency (see PIM-3). The Inter-Agency Commission selects projects based on the results of the feasibility study in accordance with the following criteria: the degree of project implementation, positive economic effect or economic efficiency, positive social and environmental effects, justification for choosing the sources of funds necessary for the operation of the facility, and savings in the cost of operating the facility compared to such costs before the project.

143. **Projects with a political imperative can bypass the procedures for SSIPs and be included in the budget.** A large share of investment projects in the state budget do not follow the selection procedure for SSIPs (see **Rationale** for Indicator PIM-7 for figures). As part of the mainstream budget process, MDAs may include expenditures on the implementation of such projects in budget requests within their expenditure ceilings set by the MoF. As well as this route, the VRU may require the government to include non-SSIPs, when finalizing the draft state budget for the second reading.

144. **There is a well-coordinated budget process, which ensures forward recurrent expenditures are met by forecast revenues.** MDAs submit calculations of new expenditures or an increase in existing expenditures for the next three years to MoF in the process of preparing a budget declaration. These calculations consider, among other things, the forward recurrent expenses for investment projects to be completed in the current year and the next two years. MoF considers such an increase in expenditures when calculating the expenditure ceilings for the relevant MDA for the next three years.

145. **The score for this dimension is C.**

PIM-8. Multi-year Budgeting

RATIONALE

146. **This indicator assesses two dimensions: (i) multi-year fiscal forecasts and functional allocations and (ii) multi-year public investment program (PIP) databases.** A multi-year perspective is particularly important to secure the funding of

72 Resolution of the Cabinet No. 571 dated 22 July 2015 'Some issues of public investment management': https://zakon.rada.gov.ua/laws/show/2059-19#Text.

73 Budget program passport is a document that defines the goal, objectives, directions for the use of budgetary funds, performance indicators and other characteristics of the budget program. MDAs approves their budget program passports after the MoF's review.

Summary of Scores and Performance Table PIM-8

Indicator/ Dimension	Score	Brief justification for score
PIM-8. Multi-year budgeting	**D+**	**Scoring Method M2**
8.1. Multi-year fiscal forecasts and functional allocations	D	Mid-term capital expenditure forecasts met one of the six requirements and partially met another in two of the three assessed years.
8.2. Multi-year database(s) of projects with approved funding	C	There is no comprehensive project database. Existing separate projects databases have significant gaps and do not facilitate mid-term fiscal management or management of the total cost of each project. MoE keeps records of SSIPs in Excel files containing a limited amount of information. The Ministry of Regional Development maintains a database of projects financed under the State Fund for Regional Development (SFRD), which also contains a limited list of information. MoF maintains a centralized financial database on the formulation and execution of all state budget expenditures, which contains separate, but limited, information on non-SSIPs, donor projects and SSIPs, along with other numerous information on non-investment expenditures.

capital investment projects that span a number of years, and to ensure the future affordability of their O&M impacts. Allocation of capital spending to the most productive sectors and projects requires a comprehensive, unified, and mid-term perspective to capital budgeting, as well as comprehensive databases that are maintained for all projects to be monitored and controlled from the stage of proposal and design, through appraisal, approval, budget selection, and implementation up to project completion.

8.1. MULTI-YEAR FISCAL FORECASTS AND FUNCTIONAL ALLOCATIONS

Performance level and evidence for scoring the dimension

147. **The government has not been consistent in preparing rolling mid-term budget estimates, achieving this in only two out of the three years under consideration.** In 2017, the government approved the forecast for 2019-2020 as part of the Key Directions of Budget Policy for 2018-2020. That forecast contained, among other things, a forecast of the current expenditure ceilings for MDAs, expenditures for the implementation of SSIPs and, as a separate line, forecasts of other capital expenditures (other than SSIPs). In 2018, the government submitted a forecast for 2020-2021 to the VRU, together with the draft law on the state budget for 2019. This forecast contained the allocation of current and part of capital expenditures by functions, the forecast of expenditures for the implementation of SSIPs, and as a separate line, unallocated by functions, part of other capital expenditures. Starting from 2019, the budget declaration replaced the Key Directions of Budget Policy document. The budget declaration for 2020-2022[74] was supposed to provide the forecast of expenditures for 2021-2022 in the form of expenditure ceilings for MDAs (without identification of capital expenditures within them), and the total amount for SSIPs. However, the government has not approved it, so there is no forecast for these years.

148. **On average only 25 percent of projected development expenditures for 2018-2020 are consistent with sector priorities set by MDAs in their sector strategies (see item (a) of Table 11).[75]**

74 At the end of 2018, a reform of mid-term budget planning was carried out, which provides for the introduction of the Budget Declaration as a mid-term budget document.

75 Note that there were no mid-term projections for 2021-22, so it is not meaningful to verify strategic priorities.

Based on the Budget Code[76] all MDAs must prepare their mid-term action plans (sector strategies). MDAs should consider those mid-term action plans when elaborating budget programs and while preparing proposals for the budget declaration. Despite this requirement, in 2018 only 28.6 percent of MDAs prepared such plans with both financial and performance forecasts. The figures for 2019 and 2020 were 22.8 percent and 23.6 percent, respectively.

149. **Transfers to local budgets are reflected in the forecast as a lump sum, so it is difficult to assess their compliance with the strategic documents of local authorities (see item (b) of Table 11).**

150. **It is impossible to determine compliance with a notional "Golden Rule" because the necessary data is not available.[77]** The expenditure forecasts do not contain the total amount of capital expenditure from the state budget and, in 2018, the budget forecast also did not contain the amount of debt financing. So, at the stage of issuing the forecast, compliance with the Golden Rule (which has not been formally adopted in any event), is not possible (see **item (c) of Table 11**).

151. **The mid-term expenditure forecasts do not take account of the implementation plans for SSIPs, and there is no indication that this is done for non-SSIPs either (item (d) of Table 11).** Whereas MoE routinely provides MoF with expenditure projections aggregated from the individual expenditure plans for the SSIPs that have been selected,[78] MoF has consistently included much smaller amounts in its mid-term budget forecasts. For example, in the MoF forecast prepared in 2018, its estimates were nearly five times less than the aggregated implementation plans for 2020 and three times less than for 2021.[79]

152. **If a project is to be completed during the forecast period, the forecast includes the recurrent expenditures required for the operation and maintenance of newly created facilities (item (e) of Table 11).** MDAs provide the Ministry of Finance with information on new expenditures and changes in the structure of expenditures for the coming three years at the beginning of the budget process. The Ministry of Finance takes this information into account when making a forecast for the corresponding period.

153. **Approved capital expenditures, as a rule, differed significantly from the forecast (Table 10), and explanations for deviations were not provided (item (f) of Table 11).** The budget documentation for the corresponding years did not provide explanations on the reasons for the deviation of capital expenditures from those that were projected in the previous year.

154. **Mid-term budget estimates covering 3 years on a rolling basis partially contain capital expenditure plans and are consistent with 2 of the 6 requirements (Table 11).**

155. **The score for this dimension is D.**

Table 10. Projected and Approved Expenditures for 2019-2021

	2019	2020	2021
State capital investments			
Forecast for 2017, UAH billion	1.7	1.7	
Approved by law, UAH billion	4.2	2.4	
Deviation, %	*250%*	*140%*	

76 Fifth part of the Article 22.

77 The 'Golden Rule' of government spending is a fiscal policy stating that a government should only increase borrowing over an economic cycle in order to invest in projects that will pay off in the future. This allows for borrowing to cover recurrent expenditure in a downturn, provided borrowing is lower in the upswing.

78 Paragraph 3 of Point 19 of the procedure for selecting state investment projects, approved by Resolution of the Cabinet of Ministers of Ukraine No. 571 of 22 July 2015.

79 Official data for other years is not available.

	2019	2020	2021
Forecast for 2018, UAH billion		2.1	2.1
Approved by law		2.4	4.0
Deviation, %		*114%*	*190%*
Capital expenditures of the general fund			
Forecast for 2017, UAH billion	13.0	13.9	
Approved by allocation, UAH billion	50.6	44.8	
Deviation, %	*390%*	*320%*	
Forecast for 2018 (unallocated), UAH billion		8.5	36
Approved by allocation, UAH billion		N/E*	N/E*
Deviation, %		*N/E**	*N/E**

** N/E – Not existing – Information does not exist*

Source: The main directions of budget policy for 2018-2020; forecasts of the State Budget of Ukraine for 2018-2019 and for 2020-2021, submitted with the budget bills for 2017 and 2019 respectively; state budget laws for 2019 and 2020; state budget execution reports by economic classification for January 2019 and 2020.

Table 11. Compliance of Mid-term Capital Expenditure Forecasts Prepared in 2017, 2018 and 2019 with the Established 'Good Practice' Criteria

Capital expenditure plans	Forecasts prepared for		
	2018-2020	2019-2021	2020-2022*
(a) consistent with national and sector strategies and priorities;	Partial	Partial	No
(b) coherent with project and program policies and plans of local government;	No	No	No
(c) borrowing requirements consistent with Golden Rule over an economic cycle;	No	No	No
(d) provide for appropriation of funds for the length of the construction, contract, concession or agreement period;[80]	No	No	No
(e) appropriation of recurrent budget is provided for over the period consistent with sustaining operations and maintenance of the capital or development expenditures;	Yes	Yes	No
(f) annual budget capital expenditures are consistent with mid-term estimates or, otherwise, significant differences are clearly explained.	No	No	No

** The Cabinet of Ministers of Ukraine did not submit the forecast to the VRU*

80 Ukraine has had no experience with '*government-pays*' PPPs.

8.2. MULTI-YEAR DATABASE(S) OF PROJECTS WITH APPROVED FUNDING

Performance level and evidence for scoring the dimension

156. **There is no comprehensive database of all projects selected for funding through the state budget.** The lack of a comprehensive database prevents all projects from being monitored and controlled from budget selection through implementation and up to project completion, review, and registration. Each ministry maintains its own database to manage selection and budgeting of projects within its authority. None of these databases contains complete information about an investment project at each stage of its implementation.

157. **MoE keeps partial records of SSIPs in Excel format.** The project data stored covers the implementation period, total capital cost as currently estimated, total amount funded in previous years, the planned amount for the current year and funds needed for completion, and funds allocation for three forecast years. The data does not provide descriptive details; the initial cost of the project, either as a whole or by year; the expected service delivery and / or benefits; adjustments to costs and actual costs by year; or planned and achieved physical milestones.

158. **The Ministry of Regional Development maintains a database of projects funded under the State Fund for Regional Development (SFRD), which also contains a limited list of information.** This database is available online[81] and includes the following information: the year of start and completion of the investment component of the project, the scope of its implementation, the total capital cost of the project (allocated by sources of financing), the general contractor/service provider, and information about the status of the project implementation.

159. **The MoF maintains a database on the planning and execution of all state budget expenditures, which contains some information on SSIPs, non-SSIPs and donor projects.** This database only has information on the amount of funding for three years (in budget requests) or for one year (in budget program passports and reports on their implementation) - and on performance indicators for project implementation, such as the area of premises built, or the quantities of equipment purchased. The database also contains information on the total capital cost of SSIPs and some non-SSIPs. The database identifies SSIPs and IFIs projects separately, since they are classified under separate budget programs; however, there is no means of identifying non-SSIPS because they usually are included in budget programs with other expenditures.

160. **The score for this dimension is C.**

PIM-9. Comprehensive Capital Budget

RATIONALE

161. **Capital expenditure requires comprehensive, accurate, and timely reporting to decision makers during the year on actual spending compared to budget and reporting to the legislature at the end of year.** Comprehensive information on capital spending, no matter how or where it is financed, is required for a full appreciation of PIM activities. In many countries, central government capital spending is also financed by autonomous government agencies or extra-budget entities, such as Road Funds, Infrastructure Funds, Natural Resource Funds, or Privatization Funds. If this spending is not included in central government fiscal reports (other than as a single line item for each entity) it is defined here as unreported – even though it may be included in separate reports or financial statements of the entities themselves. Budget documentation should take a comprehensive view of all public investment activities; not just those directly financed through the general budget.

81 https://dfrr.minregion.gov.ua/Projects-list

Summary of Scores and Performance Table PIM-9

Indicator/ Dimension	Score	Brief justification for score
PIM-9. Comprehensive capital budget	**C+**	**Scoring Method M2**
9.1. Extra-budgetary capital expenditures	D	Capital expenditures of extra budgetary funds are not included in central government fiscal reports; however, there are no funds making major capital investments. The Treasury includes capital expenditures related to contingencies arising from natural disasters, etc., in budget execution reports. The level of SOE capital investments financed using budgetary lending and state guarantees exceeded 20 percent of total public capital spending in two of three assessed budget years.
9.2. Budget coverage of donor funded projects and programs	A	There is complete budget information and coverage for all projects and programs funded with country programmable aid under government control. All donor funds are included into the budget execution reports.

9.1. EXTRA-BUDGETARY CAPITAL EXPENDITURES

Performance level and evidence for scoring the dimension

162. **Ukraine has no extra-budgetary funds making significant capital investments, only the social funds with little or no such expenditure.**[82] The Treasury does not include the capital expenditures of extrabudgetary funds in the monthly, quarterly and annual reports submitted to the government, but the main funds did not have capital investments during the assessed period. Each of the extra-budgetary funds prepares quarterly and annual reports on its budget (estimates) execution, which include, inter alia, expenditures by economic classification, including capital expenditures.[83] The funds submit quarterly reports to the Treasury and MoF, as well as to the VRU, the President of Ukraine, CMU, and the Accounting Chamber of Ukraine (ACU).

163. **The Treasury includes capital expenditures related to contingencies arising from natural disasters, etc., in budget execution reports.** The contingency reserve fund is presented in the original budget by a separate budget program. When contingencies need to be drawn, the expenditures are reallocated to the relevant budget program in expenditure reports.

164. **The level of SOE capital investments at the expense of borrowing and state guarantee[84] in two out of the three assessed budget years exceeded 20 percent of total public capital spending.** SOEs submit their financial statements to the state body to which they belong,[85] the MoE or the MoF.[86] Financial statements contain the total capital investments at the expense of attracted funds, including state guarantees and crediting from the state budget within donor funded projects. The statements do not, however, show separately capital expenditures at the expense of borrowing and state guarantees. The MoE

82 The Pension Fund, the Social Insurance Fund, and the Unemployment Social Insurance Fund.

83 Based on the Procedure for preparation of financial and budgetary reporting by managers and recipients of budget funds, approved by the Order of the Ministry of Finance of Ukraine dated 24.01.2012 No. 44.

84 Since there is no information about actual capital investments of SOEs by state lending and guarantees, the calculation is based on all capital investments of SOEs by attracted credit funds.

85 Based on Decree of the Cabinet 'On approval of the Procedure for the financial statements submission' No. 419 dated 28 February 2000: https://zakon.rada.gov.ua/laws/show/419-2000-%D0%BF#Text.

86 Based on Order of MoE 'On approval of the Procedure for drawing up, approving and monitoring the implementation of the financial plan of a business entity of the public sector of the economy' No. 205 dated 2 March 2015: https://zakon.rada.gov.ua/laws/show/z0300-15#Text.

consolidates this information and publishes on its website but does not submit it to the legislature. SOEs' capital investments at the expense of lending and state guarantees accounted for 26.3 percent of total public capital spending in 2018, 23.8 percent in 2019, and 18.0 percent in 2020.

165. **The score for this dimension is D.**

9.2. BUDGET COVERAGE OF DONOR FUNDED PROJECTS AND PROGRAMS

Performance level and evidence for scoring the dimension

166. **There is complete budget information and coverage for all projects and programs funded with country programmable aid.[87]** According to the legislation,[88] loans from foreign countries, and international financial institutions for investment projects implementation are considered as government external borrowing. Annual state budget laws include expenditures for the implementation of such investment projects. The legislation prohibits the budgetary institutions from having extra-budgetary funds. Thus, once a budget institution expects to receive or receives international technical assistance grants (which include grants for construction), they include them in their budgets as own revenues, with matching expenditures. Accordingly, reporting on such expenditures is included in the reporting on the state budget execution on a monthly, quarterly and annual basis.

167. **The score for this dimension is A.**

PIM-10. Comprehensiveness and Degree of Public/Parliamentary Access to Capital Budget Information

RATIONALE

168. **The annual budget presented by the executive to the legislature, including the supporting documents submitted with the budget, should provide a complete picture of central government capital expenditure and be easily accessible to the public.** This should include information on capital transfers to sub-national governments, extra-budgetary activities, and off-budget activities such as quasi-fiscal activities and Public Private Partnerships (PPPs). Information at the project level may be contained in annual plans or similar documents of MDAs, rather than in the budget documents, provided these are submitted to the legislature either at the same time as the budget, or, if after the budget is submitted, prior to the start of the budget year.

Summary of Scores and Performance Table PIM-10

Indicator/ Dimension	Score	Brief justification for score
PIM-10. Comprehensiveness and degree of public / parliamentary access to capital budget information	**B**	**Scoring Method M2**
10.1. Budget information content	C	Budget documentation shows full compliance with two elements and partially with three elements.
10.2. Public access to budget information	A	The requirements are met for four elements out of five.

87 'Programmable Aid' is an OECD-DAC term, and it includes lending by development banks, like WB and EBRD.
88 According to the ninth part of Article 13 of the Budget Code: https://zakon.rada.gov.ua/laws/show/2456-17#Text.

Indicator/ Dimension	Score	Brief justification for score
10.3. Policy on publication of budget information	A	Budget Code is published on the legislature's website and requires publication of all budget documents including their immediate availability on the relevant websites.
10.4. Legislature's access to information and rule-bound procedures	C	The Parliament considers detailed capital expenditures of the state budget, including projects funded by donors, as part of budget requests. The timetable and procedure for the legislature's review of the budget is clearly set down in the legislation and gives two months for this review, which has been adhered to. The legislature adds investment project proposals to the budget, amounting to more than 10 percent of the total investment expenditures. Clear rules exist for in-year amendments to capital spending by the executive, but with strict limits on the extent to which capital expenditures may be expanded and re-allocated applying to SSIPs only. Retroactive approval by the legislature of budget amendments in relation to capital expenditures is not allowed.

10.1. BUDGET INFORMATION CONTENT

Performance level and evidence for scoring the dimension

169. **The government is required to submit a list of SSIPs to the VRU with the draft budget,[89] but the project selection of SSIPs during the 2018-2020 period was completed after the budget submission date.** This list should contain each project's total cost, remaining budget expenditure needs for project implementation and proposed budget allocations for the following year. But the government has not included such information in the budget documentation because the Inter-Agency Commission was late with the project selection. Once the selection was completed, the government included the results in the draft budget resubmitted to the VRU for the second reading (with a separate budget program for each SSIP).

170. **The budget documentation, which is all publicly available, contains summarized data on central government development expenditures for the budget year by MDA,[90] but does not contain separate data on capital expenditures.** Development expenditures include, in addition to capital expenditures, certain current expenses, notably, direct expenditure on research and development, and current transfers to enterprises in the field of research, agriculture, fuel and energy complex, transport, communications. The VRU publishes annual budget documentation on its website.[91] The capital expenditures for implementing donor-funded projects are part of development expenditure.

171. **The requirements are met for two elements and partially met for three elements out of the required nine (see Table 12).**

172. **The score for this dimension is C.**

89 According to paragraph 4-1 of Article 38 of the Budget Code of Ukraine.
90 According to Part 7 of Article 10 of the Budget Code of Ukraine.
91 The budget proposal for 2021 can be found at the following link: https://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=69938.

Table 12. Compliance with Criteria for Assessing the Information Content of the Budget

Information content of budget documentation	Consistent (Yes/No)	Explanation
1. Summarized data on central government capital expenditure for the budget year, by MDAs (or by sub-function or program). Data should also include budget and estimated outturn for the current year.	No	The budget documentation contains summarized data on central government development expenditures for the budget year by MDA but does not contain such data on capital expenditures. The annual report submitted by the CMU to the VRU and published on the website of the Treasury contains actual indicators for the previous year in the same format as the indicators of the budget documentation (i.e., no summarized data on capital expenditures). Annexes to the approved State Budget Law for the current year, which can be found on the website of the VRU, contain approved indicators for the current year in the same format as the indicators of the budget documentation (i.e., no summarized data on capital expenditures).
2. The amount appropriated by MDAs for the budget year for each major central government budget-financed capital spending project.	Partially	In the budget and, accordingly, the draft budget, each large SSIP is presented as a separate budget program and funds with relevant appropriations by budget program for the planned budget period. However, large non-SSIPs are often included in other budget programs with diverse other expenditures; so, there is no specific project appropriation.
3. The total approved multi-year cost of each major capital project, and the total estimated amount spent up to the end of the current year.	No	The government did not include such information in the budget documentation, although this is provided for in paragraph 4-1 of part one of Article 38 of the Budget Code of Ukraine.
4. Details as in 2-3 above for all central government capital projects financed by donors.	Partially	For capital projects funded by donors, no capital expenditure figures are provided (as indicated in Paragraph 1). The draft budget contains information on donor-funded capital projects on loan terms in a separate annex. However, this annex contains only the total amount of loan for the project implementation and does not contain the total cost of the project, which may also include co-funding from the Ukrainian side.
5. A brief description of the multi-year budgetary impact, and policy justification for all new major capital spending policy initiatives being introduced in the budget (including those financed by donors).	No	The government does not prepare such information.

Information content of budget documentation	Consistent (Yes/No)	Explanation
6. Details of capital grants or transfers, and of lending (including on-lending) by central government to state owned enterprises and/or sub-national governments that is predominantly intended to finance capital expenditure.	Yes	Such information is contained in budget requests and is reflected in the directions of using budget funds and performance indicators.
7. Details of contingent liabilities of central government relating to capital spending, such as guarantees for SOE or sub-national government borrowing to finance capital projects.	Yes	Budget documentation contains information on fiscal risks and their impact on the state budget indicators in the planned year,[92] including details about fiscal risks related to state debt and state guarantees, as well as to the activities of SOEs.
8. The nature, rationale for, and estimated fiscal impacts of any quasi-fiscal activities relating to capital spending, where of fiscal significance; and of any tax expenditures relating to capital spending.	Partially	The budget documentation contains a list of quasi-fiscal transactions and their possible impact on the budget indicators for the planned year, but they do not cover public capital investments.[93] The budget documentation also contains a list of all tax benefits with the calculation of budget revenue losses in the current year and planned year, including tax expenditures relating to capital spending.[94]
9. For any PPPs, disclosure of the long-term stream of purchase payments and receipts; details of contract provisions that give rise to contingent payments or receipts; amount and terms of financing provided by entities owned or controlled by government; and disclosure of how the projects affect the reported fiscal balance and public debt.	No	Information on fiscal risks in the budget documentation for 2021 (paragraph 7 of this table) explains that the assessment of fiscal risks related to the implementation of contracts concluded under the PPP, including concession agreements that may arise in the year being planned, was not conducted.

92 According to subparagraph 12[1] paragraph 1 of Article 38 of the Budget Code of Ukraine.

93 According to subparagraph 12[1] paragraph 1 of Article 38 of the Budget Code of Ukraine.

94 Examples of infrastructure quasi-fiscal transactions include lower service prices, lower consumer fees, or a formal or informal requirement for a private company to build a public asset, e.g., mining company shall build public road near the mine.

10.2. PUBLIC ACCESS TO BUDGET INFORMATION

Performance level and evidence for scoring the dimension

173. **Requirements for the disclosure of fiscal information are established for different public authorities and are met in most respects.** The VRU publishes on its website all registered draft laws and supporting documents, including the draft state budget and its supporting materials (budget documentation).[95] MoF ensures the publication of information on the execution of the state budget of Ukraine based on monthly, quarterly and annual results.[96] ACU publishes on its website annual reports on its activities, reports on state external financial control (audit) activities, work plans, and its decisions.[97] The State Audit Service publishes audit reports on its website.[98] Procuring entities ensure that information about procurement is made public.[99] **Table 13** details public access to information according to the five specified requirements. The requirements are met for four elements out of five.

174. **The score for this dimension is A.**

Table 13. Compliance with Criteria Relating to Public Access to Budget Information

Elements of public access	Consistent (Yes/No)	Explanation
1. Details of all capital spending in the annual budget, as defined in element 1 of the **Table 12**, can be obtained by the public through appropriate means when it is submitted to the legislature.	No	Such information is not available to the public because it is not submitted to the legislature in sufficiently disaggregated form: capital spending is included in the wider category of development spending (see explanation for item 1 of **Table 12**).
2. In-year budget reports on execution of capital spending are routinely made available to the public though appropriate means within one month of their completion.	Yes	Monthly reports on the budget expenditures execution contain information on the execution of total capital expenditures. These reports are published on the Treasury's website within one month of the end of the reporting month: https://www.treasury.gov.ua/ua/file-storage/vikonannya-derzhavnogo-byudzhetu
3. Year-end reports on execution of capital spending are routinely made available to the public though appropriate means within six months of completed audit.	Yes	Annual reports on the budget expenditures execution also contain information on the execution of total capital expenditures. These reports are published on the Treasury's website within three months of the end of the reporting year: https://www.treasury.gov.ua/ua/file-storage/vikonannya-derzhavnogo-byudzhetu

95 Article 92 of the Law of Ukraine No. 1861 dated 10 February 2010 'On the Rules of Procedure of the Verkhovna Rada of Ukraine'.

96 Article 28 of the Budget Code of Ukraine.

97 Article 30 of Law of Ukraine No. 576 dated 2 July 2015 'On the Accounting Chamber'.

98 Article 15 of the Law of Ukraine No. 2939 dated 13 January 2011 'On Access to Information in Public Domain'.

99 According to paragraph 10 of part one of Article 10 Law of Ukraine No. 922 dated 25 December 2015 'On public procurement'.

Elements of public access	Consistent (Yes/No)	Explanation
4. All external audit reports on central government capital spending are made available to the public within six months of completed audit.	Yes	All reports of the Accounting Chamber of Ukraine, which is a Supreme Audit Institution, including reports on capital expenditures, are published on its the website: https://rp.gov.ua/FinControl/FinReports/ . All audit reports of the State Audit Service, which is the government audit service, including reports on capital expenditure, are also published on its website: https://dasu.gov.ua/ua/plugins/userPages/54 .
5. All contract awards with value above approx. US$100,000 equivalent are published at least quarterly through appropriate means.	Yes	Procuring entities publish the procurement contract and all its appendices in the publicly available electronic procurement system (prozorro.gov.ua) – within three working days from the date of its conclusion.

10.3. POLICY ON PUBLICATION OF BUDGET INFORMATION

Performance level and evidence for scoring the dimension

175. **The Budget Code (published on the legislature's website) requires publication of all budget documents, including immediate availability of all documents on the website.** Article 28 of the Budget Code sets out requirements for availability of budget information. In accordance with these requirements, the MoF is required to ensure the disclosure of the following: (i) budget declaration together with relevant information and analytical materials; (ii) draft State Budget Law in the newspaper "Uryadovy Courier" no later than seven days after its submission to the VRU; (iii) the voted State Budget Law; (iv) information and analytical materials on the state budget (on its official website in a form accessible to the public) within one month from the date of publication of the law; (v) information on state budget execution according to the monthly, quarterly and annual results, including publication of the annual information in the newspaper "Uryadovy Courier", no later than March 1 of the year following the reporting year; and (vi) information on the execution of the consolidated budget (state and local budgets). In addition, according to the same Article 28, MDAs are required to ensure the publication of their budget requests on their websites, no later than three working days after the submission of the draft State Budget Law to the VRU; budget program passports and reports on their execution; reports on the implementation of SSIPs; and the results of evaluations of the performance of budget programs.

176. **The score for this dimension is A.**

10.4. LEGISLATURE'S ACCESS TO INFORMATION AND RULE-BOUND PROCEDURES

Performance level and evidence for scoring the dimension

177. **The VRU reviews detailed capital expenditures of the state budget, including projects funded by donors.** Such information is included into MDAs 'budget requests. MoF submits those requests to the Budget Committee of the VRU as part of budget supplementary documents. Members of Parliament also review budget requests within meetings of the VRU's sectoral committees. Draft budgets of social security funds included in budget documentation do not contain information on capital expenditures. The government does not submit information on PPP projects to the VRU.

178. **The timetable and procedure for the legislature's review of the budget is clearly set down in the legislation and gives two months for this review, which has been adhered to.** CMU must submit the draft State Budget to the VRU by September 15 of the year preceding the year under planning.[100] The review procedure provides that national deputies and specialized committees then send their proposals to the Budget Committee before October 1 for it to reach its conclusions.[101] According to the schedule, the review and first reading of the draft State Budget Law must be completed before October 20, and no later than November 20 for the second reading.[102] Review of the draft budget in the first and second readings and of submitted proposals, the conclusions of which are prepared by the Budget Committee, are carried out at the VRU meeting.[103] **Table 14** shows the extent of adherence to the formal timetable for the period 2018-2020.

179. **The VRU has the right to include its own projects and capital subventions in the budget and does so.** In 2018, the VRU included investment projects that had not been appraised by the government in the draft state budget with a value of 19.7 percent of the total public investments. The figures for 2019 and 2020 were 13.3 percent and 10.3 percent, respectively. The VRU assigned the government to take its proposals into account in the process of preparing the draft State Budget for the second reading. These proposals in most cases concerned local development projects.

180. **Clear rules exist for in-year amendments to capital spending by the executive, with strict limits on the extent to which capital expenditures may be expanded and re-allocated applying to SSIPs only.** The Inter-Agency Commission may propose amendments to SSIPs under certain conditions:[104] a violation of the terms of development or implementation, an increase in costs by more than 10 percent, or when a discrepancy between the object of procurement and the final result (which is planned to be achieved as a result of the project) has been identified. CMU may decide to reallocate expenditures on projects based on the proposals of

Table 14. Key Dates for Review of the Draft State Budget by the VRU

	Formal	2018	2019	2020
Submitted by the government to the VRU	By September 15	September 15	September 15	September 14
Adopted by the VRU in the first reading	By October 20	October 10	October 10	November 5
Submitted by the GOU for the second reading	By November 11	November 19	November 5	November 27
Adopted by the VRU in the second reading	By November 20	November 23	November 14	December 15
Adopted as a whole	By December 1	November 23	November 14	December 15

Source: Official Website of the Verkhovna Rada of Ukraine

100 Part three of Article 37 of the Budget Code of Ukraine.

101 Part one of Article 156 of the Law of Ukraine 'On the rules of procedure of the Verkhovna Rada of Ukraine' dated 10.02.2010 No. 1861.

102 Part four of Article 158 of the Law of Ukraine 'On the rules of procedure of the Verkhovna Rada of Ukraine' dated 10.02.2010 No. 1861.

103 Part four of Article 157 and part seven of Article 158 of the Law of Ukraine 'On the rules of procedure of the Verkhovna Rada of Ukraine' dated 10.02.2010 No. 1861.

104 Resolution of the Cabinet of Ministers of Ukraine No. 571 of 22.07.2015.

the Inter-Agency Commission. The Budget Code only establishes a procedure, but no restrictions, regarding increases in development expenditures,[105] which can only be achieved reducing other expenditures through a CMU decision. There is no rule or restriction on the downward reallocation of development expenditure, and such reallocations can lead to a significant reduction in development expenditure (PIM-11.1). Any increase that is not budget neutral requires approval of the VRU.

181. **Retroactive approval by the legislature of budget amendments with respect to capital expenditures is not allowed.** The Budget Code only allows retroactive budget amendments in relation to debt repayment and debt service. Specifically, expenditures for servicing and repaying public debt are executed in accordance with loan agreements, even if the amount of such expenditures exceeds the amount approved by the law. All other forms of retroactive spending decisions are not allowed.

182. **The score for this dimension is C.**

4.B. BUDGET OUTTURN PERFORMANCE

PIM-11. Development and Capital Budget Execution Rates: Aggregate Expenditure Outturn Compared To Adjusted Original Budget on a Commitment Basis

RATIONALE

183. **The capacity to implement the capital budget is an important indicator of PIM performance.** Under-execution of capital spending seriously inhibits governments' ability to translate public expenditure into improved public services. Under-execution may reflect a variety of underlying problems in PIM processes, including poor project preparation, underestimating costs or the time required to implement a project, over-budgeting relative to actual costs, bottlenecks in implementation at procurement or construction stages, or delays in disbursements of budgeted funds. Alternatively, over-execution compared to the original budget may reflect the fact

Summary of Scores and Performance Table PIM-11

Indicator/ Dimension	Score	Brief justification for score
PIM-11. Development and capital budget execution rates: Aggregate expenditure outturn compared to original budget on a commitment basis	**D**	**Scoring Method M1**
11.1. Budget execution rate	D	In two of the last three years the actual development expenditure (excluding donor funded projects) deviated from budgeted amount by more than 25 percent.
11.2. Donor budget execution rate	D	In all of the last three years actual donor funded project development expenditure deviated from estimated project expenditure by an amount equivalent to more than 25 percent of budgeted development expenditure.

105 Capital expenditures are part of the development expenditures approved by the state budget law.

that the original budget did not properly incorporate project costs or expected inflation adjustments or may simply be due to a policy decision to increase capital spending during the year, e.g., by means of a supplementary budget, in response to a change in circumstances such as an economic downturn, or an unexpected surge in revenues. It is important that the factors that have contributed to the variance between the original budget for the project and the final outturn are identified and analyzed. The variance across economic objects between budget and outturn provides a starting point for more in-depth analysis as to why and how capital spending was treated differently than other objects during budget implementation, and the impacts of this on the efficiency and effectiveness of project implementation.

11.1. BUDGET EXECUTION RATE

Performance level and evidence for scoring the dimension

184. **In two of the last three years actual development expenditure (excluding IFIs' projects) deviated by more than 25 percent from the originally budgeted amount.** The annual variations of total development expenditures (excluding donor projects) were 3.0 percent in 2018, -43.6 percent in 2019, and -44.5 percent in 2020 (**Table 15**). The low level of implementation of development expenditures in 2019-2020 was influenced, in particular, by MDAs' significant redistribution between development expenditures and consumption.

185. **By contrast to development expenditures, consumption expenditures exceeded the budgeted amounts in 2019 and 2020, by 3.2 percent and 18.6 percent, respectively.** Notably, salary expenditures were exceeded by 1.6 percent and 3.9 percent in these two years. Utilities and energy expenditures were, in contrast, under-executed by 7.1 percent and 25.2 percent (see **Table 16**). Total state budget expenditures were under-executed by 3.3 percent in 2019 and over-spent by 8.8 percent in 2020.

186. **The score for this dimension is D.**

Table 15. Total Budget and Actual Development Expenditure[106] (excluding IFIs' projects) (UAH billion)

	FY 2018	FY 2019	FY 2020
Budget	130.8	123.5	153.9
Actual	134.7	69.6	85.4
Deviation, %	*3.0%*	*-43.6%*	*-44.5%*

Source: State budget laws for 2018, 2019 and 2020; state budget execution reports in the form on annex 3 to the state budgets for 2018, 2019, and 2020

Table 16. Deviation of Actual Development Expenditure (excluding IFIs' projects) and Some Other Expenditure Categories from Original Budget[107]

	FY 2018	FY 2019	FY 2020
Development expenditure	3.0%	-43.6%	-44.5%
Consumption expenditure, of which:	-0.6%	3.2%	18.6%
Salary expenditures	*-0.8%*	*1.6%*	*3.9%*
Utilities and energy expenditures	*0.3%*	*-7.1%*	*-25.2%*

Source: State budget laws for 2018, 2019 and 2020; state budget execution reports in the form on annex 3 to the state budgets for 2018, 2019, and 2020

106 Based on the cash budget and outturns.
107 Based on the cash budget and outturns.

11.2. DONOR BUDGET EXECUTION RATE

Performance level and evidence for scoring the dimension

187. **In all of the last three years, actual IFI's project development expenditure fell short of the originally budgeted amount by more than 25 percent.** The annual variations were -53.9 percent in 2018, -66.0 percent in 2019, and -52.8 percent in 2020 (see **Table 17**). According to the Ministry of Finance,[108] the low level of implementation of donor funded project development expenditure was caused by the following factors:

* Weak disbursement planning by the responsible project executors;
* Quarantine measures related to the COVID-19 pandemic in 2020;

Table 17. Development Expenditure through IFI-Financed Projects - Total Budget and Actual (UAH billion)

	FY 2018	FY 2019	FY 2020
Budget	5.8	19.3	20.2
Actual	2.7	6.6	9.5
Deviation, %	*-53.9%*	*-66.0%*	*-52.8%*

Source: State Budget for 2018-2020, Treasury budget execution reports for 2018-2020

* Delays in the development of design and estimate documentation;
* Slow mobilization of contractors;
* Long-term selection of subprojects and final beneficiaries at the stage of implementation of framework projects, etc.
* Lengthy IFIs tendering procedures; and
* Delays in the entry into force of international agreements.

188. **The score for this dimension is D.**

PIM-12. Composition of Development and Capital Expenditure Outturn Compared to Adjusted Original Budget on a Commitment Basis

RATIONALE

189. **This indicator measures the extent to which changes during budget implementation are due to factors beyond the changes resulting from the deviation of the aggregate capital spending from budget (PIM-11).** It considers whether slippages in implementation impact evenly across sectors, or whether priority sectors are relatively well protected. In addition to providing an additional, more micro level indication of budget credibility, this indicator provides useful information for exploring the detailed

Summary of Scores and Performance Table PIM-12

Indicator/ Dimension	Score	Brief justification for score
PIM-12. Composition of development and capital expenditure outturn compared to adjusted original budget on a commitment basis	**C**	**Scoring Method M1**
12.1. Composite variance of capital expenditures across MDAs	C	In one of three years, the variance in the composition of development expenditures across agencies exceeded the overall deviation in development expenditures by more than 25 percentage points. The deviation was not significant in the other two years.

108 Reports on the implementation of the Public Debt Management Program for 2020, 2019 and 2018.:
https://mof.gov.ua/storage/files/ЗВІТ по Програмі удб 2020 рік.pdf
https://mof.gov.ua/storage/files/ЗВІТ по ПРОГРАМІ УДБ 2019(1).pdf
https://mof.gov.ua/storage/files/ЗВІТ по Програмі удб 2018_FINAL_.pdf

functioning of the PIM system. For instance, the MDAs with the greatest and the lowest divergence between budget and outturn provide possible entry points for exploring the underlying reasons for their performance.

12.1. COMPOSITE VARIANCE OF CAPITAL EXPENDITURES ACROSS MDAs

Performance level and evidence for scoring the dimension

190. **In one of three years, the variance in the composition of development expenditures across agencies exceeded the overall deviation in development expenditures by more than 25 percent.**[109] The average annual variations across MDA's were 29.9 percent in 2018; 52.2 percent in 2019; 50.8 percent in 2020. These figures deviated from overall deviations in development expenditures (PIM-11) by 26.9 percentage points in 2018, 8.6 percentage points in 2019 and 6.3 percent points in 2020 (see **Annexes 5 – 7**). The administrative breakdown based on the cash budget and outturns was used to calculate the variance in budget composition. There is no particular pattern visible in the deviations: no agencies can be identified with systematic deviations from the overall deviation that persist from one year to the next.

191. **The score for this dimension is C.**

PIM-13. Project Completion Time and Cost Variances for Completed Projects

RATIONALE

192. **Cost and time overruns are key indicators of the health of a PIM system.** They can arise from: poor design and planning of project costs and construction schedules; poor implementation (management, procurement, etc.); delayed approvals or budget releases; corruption; external factors, such as market price increases or shortages of key inputs; or some combination of all of these factors. Careful review of the capacities and performance in all the stages of project preparation and implementation as revealed by the other PIM indicators should help expose common causes. Estimates of cost and time overruns should be found in project completion reports (as in PIM-18).

13.1. PROJECT COMPLETION TIME AND COST VARIANCES FOR COMPLETED PROJECTS

Performance level and evidence for scoring the dimension

193. **The three-year weighted average**[110] **of (inflation adjusted) cost overruns for SSIPs, at 30.8 percent, was higher than the 30 percent threshold for this indicator.** During the assessed period, four state investment projects were completed in 2018 and 2019 and none in 2020 (**Annex 8**). The cost of the

Summary of Scores and Performance Table PIM-13

Indicator/ Dimension	Score	Brief justification for score
PIM-13. Project completion time and cost variances for completed projects	**D**	**Scoring Method M1**
13.1. Project completion time and cost variances for completed projects	D	The three-year weighted average of the cost overruns was higher than 30 percent. The three-year weighted average of the time overruns was lower than 100 percent.

109 Development expenditures include, among others, capital expenditures.
110 Average percentage variance weighted by total inflation-adjusted project implementation costs of each completed project.

project 'Restoration and adaptation of the Mariinsky Palace on the Hrushevskoho Str., 5a, Kyiv' amounted to UAH 922.8 million (equivalent to USD 35.8 million). The cost of other projects ranged from UAH 12.7 million (equivalent to USD 0.5 million) to UAH 122.3 million (equivalent to USD 4.8 million). The final cost of the largest completed SSIP was 29.3 percent lower than the approved cost adjusted for inflation. While the smallest of the four completed SSIPs was overspent compared to the planned projects cost.

194. **The three-year weighted average[111] of the time overruns, at 81.3 percent for SSIPs, 32.7 for SSIPs and non-SSIPs combined, was lower than the 100 percent threshold, however, there are doubts about the reliability of some figures.** Of the four completed SSIPs, one project ran over by 10 years; two projects ran over by one year; and one project was completed a year early. Funding for the SSIP, 'Restoration and adaptation of the Mariinsky Palace at 5a Hrushevskoho Street', began before 2015, when the preparation and selection system for state investment projects was introduced. Accordingly, there is no reliable data on the initial cost and timing of this project. The assessment is therefore based on the data contained in the project proposal submitted in 2015 under the new system, at which stage it was already an ongoing project. There were nine completed non-SSIPs which show almost no time overruns, which is questionable for two multi-years projects.[112] Accurate data for these two projects would significantly decrease the time overruns.

195. **The score for this dimension is D.**

PIM-14. Stock and Monitoring of Capital Expenditure Arrears

RATIONALE

196. **Overdue obligations to pay suppliers or contractors for capital expenditures could indicate a variety of underlying weaknesses in PIM or the wider PFM system.** Payment arrears could indicate poor integration of planned capital spending in the budget, weak in-year cash forecasting, a lack of commitment controls, or unforeseen lack of cash to meet the government's obligations. Supply and construction contracts normally establish a period for verification and approval of payment after the supplier/contractor submits the invoice, and a period within which the payment should be made. A default rule to decide when a payment is in arrears (if no explicit due dates are set or recorded) should be that a payment is in arrears 30 days after the procuring agency authorizes the payment or 60 days after receipt of the invoice.

Summary of Scores and Performance Table PIM-14

Indicator/ Dimension	Score	Brief justification for score
PIM-14. Stock and monitoring of capital expenditure arrears	**A**	**Scoring Method M1**
14.1. Relative size and growth in arrears	A	Arrears ranged from 0.5 percent to 0.7 percent of total expenditures and have been growing no faster than the real economic growth rate over past two years.
14.2. Availability of data	A	Data on expenditure arrears, including capital expenditures, is formed on a monthly and annual basis. The Treasury draws up and submits such monthly reports to the Parliament, President, Accounting Chamber, Cabinet and Ministry of Finance (no later than the first day of the second month following the reporting period.

111 Average percentage variance weighted by implementation time of each completed project.

112 'Construction of mine No. 10 'Novovolynskaya" was started in 1989, while Ministry of Energy identified the original date for the project competition as 2020. Similarly, 'Construction (acquisition) of the territorial administration of the State Judicial Administration in the Chernivtsi oblast (Storozhynetsky district)' was started in 2008, while the State Judicial Administration identified the original date of project completion as 2019.

14.1. RELATIVE SIZE AND GROWTH IN ARREARS

Performance level and evidence for scoring the dimension

197. **The stock of capital expenditure arrears is small compared to the size of the capital budget and has not been growing in an unsustainable way.** In 2018 and 2019, capital expenditure arrears amounted to 1.1 percent of state budget capital expenditures and in 2020 to 0.7 percent (see **Table 18**). Arrears are accounted for at the level of individual spending units, budget programs and the economic classification of expenditure. Arrears have been growing no faster than the real economic growth rate over the past two years.

198. **The score for the dimension is A.**

14.2. AVAILABILITY OF DATA

Performance level and evidence for scoring the dimension

199. **Expenditure arrears are calculated monthly, quarterly and annually[113] by all budget institutions and recipients of budgetary funds.** Spending units and recipients of budget funds prepare and submit reports, including the reports on expenditure arrears, using an automated e-reporting system. The Treasury checks the data in the submitted reports for consistency with similar data in the accounting records of the Treasury. The authorization of the Treasury confirms that the spending units and recipients of the budget funds compiled the budget reporting in accordance with relevant requirements, and the reporting is subject to consolidation in the summary reporting of the higher-level spending units.

200. **The Treasury draws up and submits monthly and annual reports on expenditure arrears.** These reports go to the VRU, the President, the ACU, CMU and MoF. These monthly reports must be submitted no later than on the first day of the second month following the reporting period.[114]

201. **The reports allow the age of arrears to be tracked.** The reporting presents the accounts payable as of the beginning of the reporting year, as of the end of the reporting period, in which the overdue arrears have been allocated, and the commitments awaiting payment. In addition, the reporting shows the arrears written off since the beginning of the reporting year.

202. **The score for the dimension is A.**

Table 18. Stock of Capital Expenditure Arrears (UAH million)

	2018	2019	2020
i) Stock of capital expenditures arrears	790.6	814.5	700.2
ii) Total actual capital expenditure	69,805.5	76,188.6	94,926.8
Ratio (i)/(ii), %	**1.1%**	**1.1%**	**0.7%**
Change (i) compared to the previous year, %	**-**	**3.0%**	**-14.0%**
Real economic growth rate over past two years, %	**-**	**3.2%**	**-4.0%**

Source: Treasury budget execution reports for 2018-2020

113 In accordance with the Order of the Ministry of Finance of Ukraine No. 44 dated 24 January 2012.
114 Part two of Article 59 of the Budget Code.

PIM Function 5. Implementation

PIM-15. Procurement

RATIONALE

203. **Procurement is at the heart of PIM because of the widespread importance of procurement as a means of implementing capital spending projects, but it is often a problematic area.** Competition and comprehensive coverage are key to a public procurement system that delivers economy in the use of public financial resources and should accordingly be embodied in the legal and regulatory framework. It is one thing for the principle of competitive procurement to be embodied in the legal framework, but competition must also be achieved in practice, making non-competitive procurement the exception rather than the rule. Ideally, the principle of comprehensive coverage should also extend to donor projects which should use national public procurement procedures when these are of a high enough standard.

204. **Transparency and recourse are also critical to good procurement processes.** Transparency must be embedded in the legal and regulatory framework and delivered in practice through open public access to full information on individual procurement exercises from beginning to end. Adequate recourse is assured by the existence and functioning of a complaints procedure that allows for submission and resolution of complaints in a fair, transparent, independent and timely manner, with the possibility of taking appeals to higher external authority.

15.1. TRANSPARENCY, COMPREHENSIVENESS AND COMPETITION IN THE LEGAL AND REGULATORY FRAMEWORK

Performance level and evidence for scoring the dimension

205. **The legal and regulatory framework establishes a transparent, comprehensive, and competitive public procurement system in Ukraine.** The MoE is the authorized body with the mandate to regulate and implement the state policy in the field of procurement. Amendments to the 2015 Law on Public Procurement (PPL) that came into effect in April 2020 introduced a number of significant changes, including lowering of thresholds for mandatory simplified procurement (which is a

Summary of Scores and Performance Table PIM-15

Indicator/ Dimension	Score	Brief justification for score
PIM-15. Procurement	**B+**	**Scoring Method M2**
15.1. Transparency, comprehensiveness, and competition in the legal and regulatory framework	A	The legal and regulatory framework provides the necessary basis for transparent, comprehensive, and competitive procurement.
15.2. Use of competitive procurement methods	A	All use of non-competitive procurement methods is fully justified within the law.
15.3. Share of programmable aid funds subject to national procurement procedures	D	Except in rare cases, donors do not use national procurement procedures.
15.4. Public access to complete, reliable and timely procurement information	A	All procurement information is freely available to the public through electronic means.
15.5. Existence of an independent administrative procurement complaints institutions and mechanisms	A	The appeals procedure is independent, transparent, and efficient.

competitive method), introducing the possibility for bidders to correct mistakes in submitted bids, disqualification of abnormally low bids, Prozorro Market (e-catalogues), and the possibility returning the fee for filing a complaint to the Antimonopoly Committee of Ukraine. The PPL supporting regulations have enshrined standards of public procurement that are in line with those in the European Union and satisfy all six of the assessment criteria for this dimension, meaning that the public procurement system:

i. Is organized hierarchically, with clearly established precedence;

ii. Is freely and easily accessible to the public;

iii. Applies to all procurement undertaken using government funds;

iv. Embodies open competitive procurement as the default method of procurement[115] and includes clear definitions of the situations in which other methods can be used and how this is to be justified;

v. Provides for public access to all of the following procurement information: government procurement plans; bidding opportunities, contract awards, and data on resolution of procurement complaints; and

vi. Provides for an independent administrative review process for handling procurement complaints.

206. **The introduction of e-procurement in 2016 has significantly increased the ease of access to public procurement.** E-procurement has contributed to the transparency of the procurement process, expanded business opportunities for participation in public procurement and allowed both regulators and the public to monitor the public procurement process. Since the electronic procurement system, Prozorro, was launched, the number of purchases has increased from 900 thousand in 2017 to almost 4 million purchases in 2020 and, accordingly, the total value of contracts signed through the system has risen from UAH 472 billion to UAH 676 billion in the same period.

207. **Procurement of works resulted in successful completion of 212,762 procedures or slightly over 6 percent of the total number completed procurements.** Open competition, simplified procurement, and reporting procedure for concluded contracts (publication of report) were the most widely used methods for works in 2020, for packages both below and above the thresholds. The largest number of bids received in 2020 was also observed in procurement of civil works, reaching 38 bids for a single procedure.

208. **The score for this dimension is A.**

15.2. USE OF COMPETITIVE PROCUREMENT METHODS

Performance level and evidence for scoring the dimension

209. **All contracts that are awarded by methods other than open competitive procurement are justified in accordance with the legal and regulatory requirements.** As indicated above, the law clearly stipulates the use of open competitive procedures and the conditions for exceptions. Statistics from the e-procurement system for 2020 indicate that non-competitive methods were used in 92 percent of procurements by number,[116] but only 32 percent by value.[117] However, these figures are misleading because many of these procurements were small purchases below the threshold for competitive procurement that are defined in the law and did not relate to capital expenditure. In 2020 86 percent of procurements in the e-procurement system fell below the threshold. The degree of competition is indicated by the number of tenders per procurement, which has averaged 2.3 between 2016 and 2020. The trend is upward and in 2020 the average number of bids for all procurement methods increased by 25 percent. The number of bids submitted in open competitions averaged 2.8 in 2020.

115 All procurements with cost estimate equal or above UAH 50.000,00 UAH (Ukrainian hryvnia), approximately US$ 1,880, shall use competitive procedures by law. For purchases below the UAH threshold, the law still obliges the purchaser to either publish a report on concluded contract, or conduct a simplified (competitive) procedure, or purchase from e-catalogues administered by the Central Procurement Agency.

116 211,928 out of 3,545,097 - MoE data

117 UAH 492.0 billion out of UAH 728.8 billion

210. **Reporting on concluded contracts[118] is the most widely used non-competitive procurement method for works.** It totalled 77.3 percent by number or 164,416 of the overall number of both below and above threshold procedures. Open competition (with/without publication in English language) represented 13,834 cases or 6.5 percent, while simplified procurement reached 11.3 percent, or 23,943 cases. Another widespread procurement method for works was the negotiation procedure, held 2,493 times or 1.2 percent of cases in 2020.

211. **The score for this dimension is A.**

15.3. SHARE OF PROGRAMMABLE AID FUNDS SUBJECT TO NATIONAL PROCUREMENT PROCEDURES

Performance level and evidence for scoring the dimension

212. **Most spending under IFI-supported projects is done using the IFIs' procurement systems and in accordance with their rules and procedures.** While exact figures for the share of programmable aid funds are hard to come by, the amounts involved are small and certainly below 40 percent of total programmable aid funds. In 2020, the e-procurement system shows 39 IFI-funded procurement procedures with a total value of UAH 1.31 billion compared to a total figure of UAH 728.8 billion managed in the system.

213. **The score for this dimension is D.**

15.4. PUBLIC ACCESS TO COMPLETE, RELIABLE AND TIMELY PROCUREMENT INFORMATION

Performance level and evidence for scoring the dimension

214. **All information on all forms of public procurement using public funds is stored in the procurement system and is publicly accessible.** All purchases in value greater than or equal to UAH 50,000 have been transferred from paper to electronic format and are carried out using the electronic procurement system. For procurements not using the electronic procurement system, a report on the procurement contract must be published in the electronic procurement system. This rule ensures free access to information on procurement of all items, including those with a value that is below the established thresholds for competitive procurement. In addition, the Ministry of Economy publishes annual reports on its official website which include the public procurement system operations analysis. In relation to works contracts, the public can access information on procurement plans (as published by individual public bodies), bidding opportunities, contract awards, and information on resolution of procurement complaints.

215. **The score for this dimension is A.**

15.5. EXISTENCE OF AN INDEPENDENT ADMINISTRATIVE PROCUREMENT COMPLAINTS INSTITUTIONS AND MECHANISMS

Performance level and evidence for scoring the dimension

216. **Participants to procurement procedures can submit a complaint to an independent appeal body, the Antimonopoly Committee of Ukraine.** The Antimonopoly Committee is the complaint review authority exercising, among other things, control in the field of public procurement within the scope of the powers vested in it by the Public Procurement Law (PPL) and the Constitution. The PPL was amended in 2020 to make it more efficient by reducing frivolous appeals and unnecessary delays. The appeal must be filed exclusively through the Prozorro electronic procurement system. The opportunity exists to appeal the procurement procedure for individual lots. An appellant may not withdraw his appeal if a registration card has been generated. A fee is charged for filing a complaint; the fee is set in proportion to the expected value of the contract award (prior to 2020 a fixed fee had been charged) and at a level that is not intended to dissuade serious appeals. The fee is refunded if the appeal is successful or partially successful.

118 Reporting on concluded contracts is applied to the procurement of goods, works and services, with value not over UAH 50 thousand without using the electronic procurement system.

217. **The appeals procedure has all the elements required to ensure an independent, accessible, and efficient appeals process.** The appeals procedure:

i. Is comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector, civil society, and government;

ii. Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions;

iii. Does not charge fees that prohibit access by concerned parties;

iv. Follows processes for submission and resolution of complaints that are clearly defined and publicly available;

v. Exercises the authority to suspend the procurement process;

vi. Issues decisions within the 10 business-day timeframe specified in the rules/regulations;

vii. Issues decisions that are binding on all parties, while not precluding subsequent access to the courts to appeal a decision.

218. **According to the Antimonopoly Committee of Ukraine, in 2020, 12,675 appeals were received.** Of these appeals, 11,463 were accepted for consideration. As a result of consideration of appeals, 24,270 decisions were made leading to: 3,808 appeals being denied, 6,834 being satisfied in full or in part, and 1,145 being terminated.

219. **The score for this dimension is A.**

Recent And Ongoing Reforms

220. **The ongoing war forces the government to adopt quickly, and changes are necessarily adopted very often.** For example, the Resolution of the Cabinet of Ministers of Ukraine dated February 28, 2022, No. 169 "On defense and public procurement of goods, works and services during the war Martial Law" has been already amended six times.

221. **New cost-estimating norms for construction in Ukraine (also known as "DBN") were approved by Order No. 281 (November 1, 2021) of the Ministry of Communities and Territorial Development.** The order introduced two important changes: i) wider use of external consultant engineering services to supervise public investment projects in the field of construction, bringing Ukraine closer to FIDIC standards; and ii) basic rules for the application of estimation norms and regulations on pricing in construction for determining the cost of new construction, reconstruction, capital repair of buildings, buildings and structures of any purpose, their complexes and parts, linear objects of engineering and transport infrastructure, as well as the restoration of monuments architecture and urban planning. These requirements are mandatory for construction financed out of state funds, covering budget funds, funds of state and communal enterprises, institutions, and organizations, and loans provided under state guarantees. The application of the order in the construction of objects with the involvement of other sources of financing is stipulated by the respective contract.

PIM-16. Project implementation management

RATIONALE

222. **This indicator assesses project implementation management, in particular the availability and content of guidelines, clarity of accountability, the availability and content of implementation plans, and the system for total project cost management.** The aspects of project management listed above are factors in successful implementation of projects, within approved budgets and timelines. Assessment covers the current situation and seeks to identify whether there are clear rules for accountability for project management between and within MDAs. In addition, the indicator stresses the need for an effective use of a system for managing total project costs.

Summary of Scores and Performance Table PIM-16

Indicator/ Dimension	Score	Brief justification for score
PIM-16. Project implementation management	**C**	**Scoring Method M2**
16.1. Guidelines on project implementation	C	The existing legislative framework provides a set of rules that must be followed during project implementation; however, they do not represent consolidated guidelines and do not provide any advice on effective project implementation from the point of view of management.
16.2. Clear accountability and implementation plans	C	Management accountability between agencies is clear and implementation plans are comprehensive. However, management accountability within agencies is not completely clear, and there is no unified system for assignment of persons responsible for project implementation.
16.3. Total project cost management system	C	There is capacity to track total project costs and it is used actively to control costs of SSIPs; however, the system is manual and there is no dedicated electronic system for assuring thorough control of projects costs from beginning to end. There is no standardized mechanism to control the total project costs of non-SSIPs; however. It is possible to do this following the regulation for construction.

16.1. GUIDELINES ON PROJECT IMPLEMENTATION

Performance level and evidence for scoring the dimension

223. **There are no consolidated guidelines for project implementation management, either at the level of central government or key sector MDAs.** Currently project implementing agencies refer to a wide range of legislative acts that set the rules governing project implementation in different places. The regulatory framework for public investment management sets out lines of accountability for management and reporting.[119] Financial management of projects is governed by the regulations for state budget management, which require reporting on state budget funds to MoF.[120] The legislative framework for procurement[121] and construction[122] provides rules on procedures and defines the roles of the agencies involved. Together, these legal instruments set out the rules and target compliance, but they do not provide advice on effective management itself. Thus, there are two main issues in this area: lack of consolidated guidance and lack of management guidance in the existing legislation. Good practice would involve a unified 'handbook' that pulls together the rules and procedures set out in different places and provides best practice advice on project management.

224. **The score for this dimension is C.**

16.2. CLEAR ACCOUNTABILITY AND IMPLEMENTATION PLANS

Performance level and evidence for scoring the dimension

225. **Management accountability within MDAs is not clear enough: some agencies have departments responsible for project implementation control and others do not.** Partly reflecting the lack of unified guidance (see PIM-16.1),

119 Resolution No. 571, Order on Monitoring
120 Budget code, Regulation on passports of budget programs
121 The Law on procurement
122 Range of laws and legislative acts provide the rules for construction.

there is no unified system for assignment of persons directly responsible for project implementation in line ministries and implementing agencies. Sector MDAs may issue internal orders that establish responsibilities and some *ad hoc* rules for project implementation, but the situation differs in each case. For example, the Ministry of Ecology and Natural Resources has issued an internal order, which defines responsibilities for budget programs (including project-programs) and there is a designated unit for coordination of projects and financing plans in which one person is responsible for projects. In contrast, in the Ministry of Energy, each sector department is responsible for projects falling within its area of competence, but there are no rules for establishing responsibilities for project implementation at the level of positions within the organization. The Ministry of Healthcare has a sector for assistance to investment projects implementation, but lines of accountability are defined by the public investment management legislation, which say nothing about organizational structures and management accountability within organizations.

226. **Project implementing agencies following Resolution No. 571 have to prepare a comprehensive implementation plan, but it does not contain anything on accountability and distribution of responsibilities, and there is no similar planning document for projects funded as budget programs outside this process.** The implementation plan forms part of the project implementation and financing plan, which is Part III of the project proposal. The plan contains information on the project timeline, expenditure by aggregated components, the procurement plan, and cash flow forecast. The project activities and cost plan show the funds needed for implementation, for example, for construction or purchase of equipment, with specification by year. Moreover, implementation plans contain information on the planned physical progress, showing the components of the project, their cost, and the expected year of completion. For example, a project for the reconstruction of a hospital that includes works on several buildings will show the plan for each separate building specifying construction works and purchase of equipment. The plan is only detailed by month for the first year; financial and physical indicators are by year for subsequent years the project implementation period. The implementation plan, as contained in the originally approved project proposal, must be updated every year following inclusion of the project in the state budget, including roll forward of the monthly plan by another year.

227. **The score for this dimension is C.**

16.3. TOTAL PROJECT COST MANAGEMENT SYSTEM

Performance level and evidence for scoring the dimension

228. **There is capacity to track total project costs over time against the total approved budget, and this is actively used to control expenditure of SSIPs following Resolution No. 571.** Total project costs are controlled by the MoE on behalf of the Inter-Agency Commission at least once a year using a paper-based system. Implementing agencies prepare and line ministries submit updated implementation plans and monitoring reports, in which the information on the total project cost and amount financed is provided. Control of total project costs is performed primarily to comply with the requirement for a project review if increases in total costs exceed a specified threshold (see PIM-19). Some key sector MDAs keep their own records on total project costs, which allows them to control changes, but this is not systematic.

229. **While total costs of SSIPs are actively controlled, there is no mechanism to control total project costs of non-SSIPs.** Since there is no requirement to review non-SSIPs (which are not subject to Resolution No. 571), the incentives for monitoring their total project costs are weaker. The only instrument restricting changes in project costs is the requirement to review and get approvals from supervising line ministries for the technical construction design and plan in case of significant changes. The design documents contain the cost sheet of the project, which needs to be re-approved, in case of changes. The amended project design must go through expertise by an organization authorized by the Ministry for Communities and Territories Development. This is more of an administrative exercise for construction objectives than a process for cost control.

230. **There is no dedicated electronic system for tracking the costs of projects over their lifetimes within MoE.** There is a non-electronic database of projects that includes data on total project cost and

cumulative disbursements to date. The database includes only projects following Resolution No. 571 or being monitored by the Inter-Agency Commission and is updated at least once a year. At the time of assessment, the portfolio in the database consisted of only 67 projects, which means that it can be managed manually. However, every year the portfolio grows which points to the eventual necessity of introducing an automated system. Some key sector MDAs have their own databases allowing them to control changes in total project cost. For example, at the Ministry of Health, a hand-written journal was introduced in 2015 for registering projects selected by the Inter-Agency Commission and recording funding received against total project costs. Similar records have been kept in Excel format since 2020.

231. **The score for this dimension is C.**

PIM-17. Control, Monitoring and Reporting: Physical and Financial Milestones

RATIONALE

232. **This indicator covers issues of control, monitoring, and reporting on progress of public investment projects.** It focuses on content and frequency of financial and performance reporting, and analyzes the classification of expenditure and milestones in the reports. Particular attention is paid to the quality of information provided in the monitoring and other reports that allow comparison of estimates and actual performance of project implementation. Within this indicator the application of national monitoring and reporting procedures to donor funded projects is analyzed as well. The assessment covers the period of the last completed year (2020).

Summary of Scores and Performance Table PIM-17

Indicator/ Dimension	Score	Brief justification for score
PIM-17. Control, monitoring and reporting: physical and financial milestones	**C**	**Scoring Method M2**
17.1. Scope and coverage of expenditure and performance reporting	C	There is a well-designed expenditure and performance reporting system for SSIPs. Reporting allows direct comparison with budget estimates and relates to all individual SSIPs in the budget while non-SSIPs are hidden in bigger and complex budget programs. Expenditures are reported based on payments and not commitments. The focus of reporting is on annual performance rather than accumulated progress.
17.2. Timeliness of reports	D	Monitoring reports were prepared half yearly for the last fiscal year. In 2021, quarterly monitoring has been introduced with corresponding changes in Resolution No. 571.
17.3. Use of national procedures on donor funded projects or programs	A	All donor-funded investment projects follow national procedures established specifically for donor/technical assistance and IFI projects.
17.4. Quality of information reporting	B	The reports provide accurate data, but some drawbacks exist, for example, weak justification of discrepancies.

17.1. SCOPE AND COVERAGE OF EXPENDITURE AND PERFORMANCE REPORTING

Performance level and evidence for scoring the dimension

233. **There is a well-designed expenditure and performance reporting system with an annual perspective for SSIPs.** The Order on Monitoring[123] issued within the framework of Resolution No. 571 established a reporting and monitoring regime for SSIPs. Reports cover cash expenditures against plan, physical progress against key milestones[124] identified in the implementation plan[125] and procurement activity, all on an annual basis only. Commitments are not reported. Reporting is upwards from the implementing agency to the MoE via the responsible MDA. The reporting requirements also apply to projects considered and rejected by the Inter-Agency Commission, but then implemented using another funding source. There are other complementary layers of reporting for SSIPs (discussed below), which have different purposes and provide different perspectives.

234. **All SSIPs are assigned their own Budget Passport Program and their performance is reported annually to MoF, as part of the budgetary performance reporting.**[126] Since Budget Passport Programs are components of the budget, there is a direct correspondence between financial reporting through this system and the budget. Budget Passport Programs include performance indicators, including outputs, which should give some measure of physical progress against plan. Reports are required to explain deviations from plan. The Budget Passport Program, and the reports on its implementation, must correspond with the approved implementation plan in terms of both expenditures and indicators of physical performance. The drawback is that the reporting perspective is annual, rather than whole-of-project, and is not useful as a basis for in-year adjustments as it comes after the end of the budget year. A copy of the report on Budget Passport Program execution must be provided to MoE as an attachment to the annual monitoring report and provides verification of the expenditure figures in the latter.

235. **Implementing agencies for SSIPs also report on progress when updating their financial and physical implementation plans for the coming budget year.** The updated plan contains a section that shows project progress, including cash expenditures, activities planned and performed with a timeline presented in the same way as in the project proposal, implementation plan, and monitoring reports. The advantage of this reporting is that it has a whole-of-project perspective, but its timing, after the budget is approved, is not helpful for informing high-level budgetary decisions.

236. **There is no systematic performance reporting system for individual non-SSIPs.** If a non-SSIP is assigned its own Budget Passport Program, then annual progress reports are prepared that relate directly to the project, in the same way as SSIPs. However, many non-SSIPs will be included in broader Budget Passport Programs, which include recurrent spending and, potentially, expenditure on other projects. In these cases, there is not always discernible performance reporting on individual projects: performance indicators might be for other activities within the budget program, but not for non-SSIPs. In addition, the MoE is not informed in which budget programs it will find non-SSIPs.

237. **Treasury prepares in-year and end-of-year budget expenditures execution reports which cover all projects and programs and can be directly compared with the approved budget.**[127] These reports contain, among others, reports on the execution of financial indicators as presented in the annexes to the annual State Budget Law. Reports thus allow comparison with each budget program and project presented in the approved budget in terms

123 Order of MoE No. 1785 on Monitoring of development (implementation) of public investment projects

124 Examples of milestones include completion of land acquisition, launch of tenders, finalization of construction of separate components of an asset, and purchase of equipment.

125 The Plan of Implementation and Financing and State of Project Implementation forms Part III of the Project Proposal approved by the Inter-Agency Commission and is updated annually (see PIM 16) as part of securing budget funds for the next year of implementation.

126 Order of MoF No. 1098 on Passports of budget programs

127 Articles 60 and 61 of the Budget Code.

of 'consumption' and 'development' expenditures,[128] salary, and utilities. Expenditures on SSIPs and non-SSIPs that have been assigned their own Budget Passport Program can be compared directly with approved budget allocations; for non-SSIPs integrated into broader programs it is not possible to make a direct comparison.

238. **Treasury reports provide complete information on expenditures at the payment stage, but only information on unpaid commitments, not all commitments.** Unpaid commitments are shown in arrears reports only. Total commitments are not shown beside the approved and executed expenditures, as presented in the approved budget.

239. **The score for this dimension is C.**

17.2. TIMELINESS OF REPORTS

Performance level and evidence for scoring the dimension

240. **Implementing agencies prepared monitoring reports semi-annually and annually for the last completed fiscal year, in line with the Order on Monitoring by MoE.[129]** Semi-annual reports were provided to MoE by line ministries no later than the fifteenth day of the month following the reporting period and by March 1 for annual reports. Line ministries are required by the legislation in place to perform monthly monitoring of projects under their responsibility or that of their subordinated agencies; however, in practice, monthly monitoring is not performed by all MDAs as required because each has its own system for controlling project implementation. Line ministries are expected to publish information on monitoring on their websites.[130]

241. **Reporting on the implementation plan and the Passport of Budget Program is linked to budgeting and is less frequent than reporting requirements under the Order on Monitoring.** The updated plan of implementation and financing and state of project implementation must be provided to MoE not later than 15 days after the Law on the Budget of Ukraine enters into force. The frequency of such reporting depends on the changes in the law on the state budget. If there are no changes in the budget, the reporting has to be performed once a year. Reports on execution of Passports of Budget Programs are prepared once a year, by March 1, together with annual reporting on state budget execution.

242. **The Treasury prepares reports on the execution of financial indicators as presented in the budget quarterly and annually.** The Treasury submits such reports to the VRE, CMU, ACU, and MoF, and publishes them on its website.

243. **The score for this dimension is D.**

Recent And Ongoing Reforms

244. **Quarterly reporting was introduced in 2021 through amendments to Resolution No. 571, however the annual reporting requirement remains unchanged.** Although regular quarterly reporting was not established by law before 2021, the MoE or the Inter-Agency Commission could still demand submission of monitoring reports upon request at any time during a year. Implementing agencies now submit reports to MDAs and, following review of these submissions, the MDAs then report to MoE no later than the 15th day of the month following the reporting period. Annual reporting requirements remains as before. The corresponding change has not yet been introduced to the Order on Monitoring, which still requires half yearly and annual reporting.[131] Monthly monitoring by line ministries remains unchanged.

128 The budget does not present current and capital expenditures, but consumption and development expenditures. Last of them include some current expenditures beside the capital expenditures.

129 Order of the Ministry of Economy No. 1785 as of 25.19.2016 on Approval of the Procedure for monitoring of development (implementation) public investment projects

130 Example of information disclosure by the line ministry (Ministry of Health)

131 The article on quarterly monitoring in Resolution No. 571 appeared with the last amendments as of 07.04.2021 and seems that corresponding changes have not been done in Order of the Ministry of Economy No. 1785 as of 25.19.2016 on Approval of the Procedure for monitoring of development (implementation) public investment projects (Order No. 1785)

17.3. USE OF NATIONAL PROCEDURES ON DONOR FUNDED PROJECTS OR PROGRAMS

Performance level and evidence for scoring the dimension

245. **Donor-funded projects or programs are monitored using designated national procedures.** The procedures are not the same as those for projects funded from the state budget. There is one set of procedures for grant-funded 'technical assistance' projects[132] and one set of IFI projects.[133] Although labelled as applicable to technical assistance, the procedures for grant-funded projects also apply to investment in fixed assets. Currently, in Ukraine there are more than 500 international 'technical assistance projects', one fifth of which is related to construction and infrastructure. Monitoring of technical assistance projects is carried out by the Secretariat of the CMU together with the beneficiary and authorized representatives of the development partner[134] (by agreement).[135] The procedures require half yearly and annual reporting. The form of the report requires provision of data on expenditures by categories and specification of discrepancies between plan and actuals. The CMU prepares consolidated annual reports on international technical assistance to Ukraine. In addition to national procedures for monitoring of such projects, each donor establishes its own rules for monitoring and control.

246. **Monitoring of IFI-financed projects is carried out by the MoF, reporting to the CMU and Office of the President.** The responsible implementing agency reports on both physical and financial performance to the MoF on a quarterly basis (by the 15th of the month following) and on an annual basis (by January 15 of the next year). Reports on the status of loans and related transactions are required on a monthly basis. The MoF reports quarterly to the CMU on the status of loans and semi-annually on implementation progress. An annual performance report is also submitted.

247. **Donor-funded projects use national procedures for financial and performance reporting in part of the budget execution reports and budget programs passports execution reports.** MDAs include all received donor funds in their budgets as own revenues and relevant expenditures. IFI-financed projects are included in the budget as separate programs. Thus, these figures are included in the Treasury reports and performance achieved is included in the budget programs passports.

248. **The score for this dimension is A.**

17.4. QUALITY OF INFORMATION REPORTING

Performance level and evidence for scoring the dimension

249. **The quality of reporting of factual information on financial and physical progress is good and there are no substantive concerns.** The sampled line ministries[136] did not identify any special concerns with the quality of reporting from implementing agencies. The MoF and MoE did not identify any specific problems with regarding to reporting by MDAs, nor did internal audit units or the State Audit Service identify any systemic issues in the quality of reporting.

250. **Although based on small sample of reports for SSIPs, there are some concerns about the more analytical part of reporting.** Explanations for deviations from plan appear to be weak or missing and remedies are not well explained or missing (see **Box 7**).

251. **The score for this dimension is B.**

132 Resolution No. 153 of the CMU on creation of a single system for attraction, use, and monitoring of international technical assistance.

133 Resolution No. 70 of the CMU preparation, implementation, carrying out of monitoring and completion of implementation of projects of economic and social development of Ukraine supported by the international financial organizations.

134 Development partner is a donor

135 Before 2020 this function was managed by MoE, the same department that dealt with public investment projects, but still procedure for PIP and donor projects were different

136 Ministries of Energy, Health and Ecology

Examples of Analytical Weaknesses in Reporting

BOX 7

Example 1: Children's Hospital[137]

The agency implementing the OKHMATDYT project (construction of a hospital for children) in its report for 2018 states the following reason for discrepancies in all components of a procurement plan: 'The Passport of a budget Program' for 2018 was approved by a joint Order of MoF and Ministry of Healthcare No. 508/373 as of 20.03.2018. On 27.11.2018 changes were made in the passport. This is an explanation of discrepancies for about 8 components, moreover, it does not provide clear reasons for discrepancies.

In the section for 'measures taken to eliminate discrepancies' the agency just lists contracts concluded in 2018.

Example 2: National Cancer Institute[138]

While the structure of the monitoring report requires provision of reasons for discrepancies and measures to eliminate them for each component of a plan, in many cases, this requirement is disregarded and general reasons for all components are provided (OKHMATDYT, National Cancer Institute (Report for 2018).

Example 3: Restoration of Lviv University[139]

In the report on the project for Restoration of National Lviv University, there are discrepancies, but no explanations.

PIM-18. Project Handover, Asset Registration, and Completion Review

RATIONALE

252. **This indicator assesses the processes necessary for the completion of a project and drawing conclusions on effectiveness of its implementation.** It analyzes project completion and handover mechanisms, as well as asset registration. Internal and external completion reviews should be assessed within this indicator for the last three fiscal years. The indicator shows how the project handover is arranged, how the agencies assure availability of funding and personnel for facility operation, and what kind of analysis they conduct for learning lessons for future projects.

Summary of Scores and Performance Table PIM-18

Indicator/ Dimension	Score	Brief justification for score
PIM-18. Project handover, asset registration, and completion review	**D+**	**Scoring Method M2**
18.1. Formal project completion and handover mechanism	C	A systematic project completion and handover mechanism exists, but verification of the adequacy of funding and organizational arrangements for operations and maintenance is not performed.

137 https://moz.gov.ua/uploads/2/10686-info_20190101_ohmadet.pdf

138 https://moz.gov.ua/uploads/2/10687-info_20190101_2_nciukraine.pdf

139 https://mon.gov.ua/storage/app/media/innovatsii-transfer-tehnologiy/2021/02/11/Richnyy%20zvit%20DIP%20Restavratsiya%20korpusu%20Lvivskoho%20universytetu%20Franka.pdf

Indicator/ Dimension	Score	Brief justification for score
18.2. Asset registers	B	There are two registers, and the law obliges all assets to be registered in both. Most valuable information is recorded, but there is no information on the maintenance history and current condition.
18.3. Policy and guidance on internal completion review	D	There is no internal completion review.
18.4. Existence of external completion review	D	There is no external completion review, but some elements of this process exist for individual projects on an ad hoc basis.
18.5. Proportion of projects subject to completion reports by country or donor partner	D	No fully nationally funded large projects are subject to completion reporting, while all donor funded large projects are.

18.1. FORMAL PROJECT COMPLETION AND HANDOVER MECHANISM

Performance level and evidence for scoring the dimension

253. **A formal project completion and handover mechanism exists within the construction sector system, but it is not imbedded in the PIM system.** The regulation for the construction sector is applicable to all types of projects, regardless of the sources of financing and appraisal procedures. Once a fixed asset is constructed, permission for putting it into operation has to be issued. Different procedures for obtaining permission apply to different types of assets according to defined 'classes of consequences' resulting from failure of the building or structure. The definition of 'consequences' extends to economic consequences, so the focus of the process goes beyond safety. For simple assets where the impact of failure would be relatively small and localized (1st class of consequences or CC1), it is enough to register the declaration of the completion of the construction by paper or electronic means, with no physical verification by an independent body. For more complicated structures with wider consequences (2nd and 3rd classes of consequences or CC2 and CC3, respectively), the asset owner or manager of construction goes through an independent certification process which requires thorough checks on the newly created asset.[140] Only after registration of the declaration (CC1) or issuance of the certificate (CC2 and CC3), can handover be performed. Most public investment projects will need to follow the certification route, with the far easier self-declaration applying only to minor works.

254. **To obtain a certificate for putting an asset into operation, the operating entity has to prepare the 'act' of the asset's preparedness for operation.** The act is prepared after full completion of construction and includes a technical inventory together with the creation of a 'technical passport'. It must be signed by an implementing agency, general contractor, subcontractors, general designers, and technical supervisors. The documents are submitted to DIAM (State inspection for Architecture and Urban Planning), a new agency established in September 2021. DIAM verifies documents for compliance with construction norms and standards and visits the site, taking photos and videos for the record. Earlier the function was performed by the State Construction and Architectural Agency (DABI) which has now been dissolved. After verification of documents, the agency takes a decision on issuance of the certificate that gives the right to put the asset into operation, arrange ownership rights, and conclude contracts for connecting municipal infrastructure. The certificate must be issued within 10 days after the asset manager has submitted all the necessary documents.

255. **The project completion and handover mechanism described above does not include verification of the adequacy of funding and organizational capacities for operations and maintenance.** This is the responsibility of implementing agencies and line ministries. They must assure operation and maintenance by applying for funds from the state budget and by launching a competition for hiring personnel necessary for the asset operation.

256. **The score for this dimension is C.**

140 Resolution of CMU as of 13 April 2011 No. 461 on Issues of putting constructed assets into operation.

18.2. ASSET REGISTERS

Performance level and evidence for scoring the dimension

257. **The asset register for the construction sector includes information on assets at different stages of construction, from provision of permission for construction to putting into operation.** The register is maintained and administered by DIAM. All construction assets, whether public or private, are included in the construction asset register. The register includes information on the owner of the asset, construction company, design company, documents for land usage, class of consequences of asset failure, and supervising consultant.[141]

258. **There is a register of state property that includes information on public legal entities and public assets.** The register is managed by the Fund of State Property. The information in the register is updated quarterly and public agencies must provide relevant information to the Fund. The Fund must maintain the register, including update of software and provision of the information from the register upon request.[142] In the part about managing public fixed assets, the register contains information on location of the asset, its owner, current book value, size/space, land plot, and the information on whether an asset is leased, concessioned, pledged, or not included in statutory capital of enterprises.[143] There is no information on asset age and condition. The purpose of the register is to provide information for monitoring the effective use of state-owned property and facilities and for ensuring the implementation of management decisions.

259. **The score for this dimension is B.**

18.3. POLICY AND GUIDANCE ON INTERNAL COMPLETION REVIEWS

Performance level and evidence for scoring the dimension

260. **There is no established procedure or supporting guidance for regular and systematic internal completion reviews for public investment projects, either SSIP or non-SSIP.** Monitoring of SSIPs as required by the Order on Monitoring only has an annual perspective, and the final monitoring report at the time of project completion focuses only on the last year of implementation rather than the whole implementation period. None of the agencies interviewed reported the existence of any form of basic completion review process, involving analysis of divergences from plan during implementation and lesson learning.

261. **The score for this dimension is D.**

18.4. EXISTENCE OF EXTERNAL COMPLETION REVIEWS

Performance level and evidence for scoring the dimension

262. **There is no well-established procedure for regular and systematic external completion reviews, except for IFI's projects.** The State Audit Service performs audits of IFI's investment projects, which are close to completion, analyzing the results of their implementation and providing recommendations. The same practice may be used for the completion review of SSIP, but it is not mandatory and no evidence of such reviews has been found. At the same time, bodies of the State Audit Service analyze efficiency of the use of assets created as a result of implementation of SSIP and non-SSIP projects within state financial control (inspection, state financial audit), but these audits are focused on operation only, not on the individual projects and analysis of results of implementation. In some cases, a supervisory board of trustees may be appointed, which can control project implementation and assess the project completion results. Such a board functions for the ongoing SSIP 'construction of a hospital for children, OKHMATDYT'. The supervisory board of trustees is provided for in the articles of association, and it has authority to take part in the monitoring and control of project progress, including completion review.

263. **The score for this dimension is D.**

141 Construction register: https://dabi.gov.ua/declarate/list.php?sort=num_re&order=ASC; https://data.gov.ua/dataset/e626418b-8403-4afa-bf9c-55581cf16f96

142 Resolution of CMU as of 14 April 2004 No. 467 on single register of state property

143 Structure of the Single register of state property

18.5. PROPORTION OF PROJECTS SUBJECT TO COMPLETION REPORTS BY COUNTRY OR DONOR PARTNER

Performance level and evidence for scoring the dimension

264. **While there are no completion reviews of large, fully nationally funded projects, there is a strong system for completion review of donor projects.** According to the legislative framework for technical assistance projects (which includes major construction projects, as already stated), a completion monitoring report must be provided to the Secretariat of the CMU. This report requires provision of data on planned and actual results of a project, assessment of project results by beneficiary, and issues or proposals.[144] Projects financed by IFIs, in addition to being audited by the State Audit Service upon completion, must be analyzed after completion by the line ministry or implementing agency.[145] The project completion report must be prepared within 2 months after all project payments have been completed. The report is submitted to the CMU for approval. After approval of the report, the implementing agency informs VRU about the economic and/or socio-economic effects of the project. The report does not require ratification by the VRU.

265. **The score for this dimension is D.**

PIM Function 6. Adjustment

PIM-19. Project Adjustment

RATIONALE

266. **This indicator assesses project adjustment and budget reallocation mechanisms and their practical application.** It aims at identification of rules and regulations for project adjustment, including availability of triggers for project review and budget reallocation. The processes for adjustment of contracts and project design documents are analyzed under this indicator as well. Assessment must show how monitoring contributes to efficient budget reallocation, what happens when there are excessive deviations from plan, whether this area is appropriately regulated, and what space for maneuver project implementing agencies have during project implementation. The indicator seeks to find out whether existing regulation for project review has resulted in significant changes in public investment projects in the past 3 years.

Summary of Scores and Performance Table PIM-19

Indicator/ Dimension	Score	Brief justification for score
PIM-19. Project adjustment	**C+**	**Scoring Method M1**
19.1. Clear authority for managing adjustments for contracts and PPPs[146]	A	Line ministries and implementing agencies can adjust contracts and designs according to the legislative framework for the area of procurement and the construction sector. While there is a transparent provision of authority for adjustments to contracts, rules for adjustments to design documents are not specific enough.
19.2. Active monitoring of progress and budget reallocation procedures and actions	B	There is straightforward evidence of systematic and active oversight of SSIPs by senior management in implementing agencies, by supervising line ministries, and by central agencies. The Inter-Agency Commission typically reallocates funds from poor performing SSIPs to better performing ones within a year. This system is not, however, applicable to non-SSIPs.

144 Resolution No. 153 On creation of a unified system for international technical assistance https://zakon.rada.gov.ua/laws/show/153-2002-%D0%BF#n195

145 Resolution No. 70

146 PPPs are dealt with in a separate chapter.

Indicator/ Dimension	Score	Brief justification for score
19.3. Mechanism to trigger review of project justification	C	The policy provides the triggers according to which the original business case of SSIPs must be reviewed, but some of them are not fully explained in the legislation and can be interpreted in diverse ways. The Inter-Agency Commission has the right to request business case review under a wide set of conditions, which are not defined as triggers. Reviews performed during the last three years, have not resulted in any problem projects being significantly re-designed, scaled down, or cancelled. There is no mechanism to trigger review of non-SSIPs.

19.1. CLEAR AUTHORITY FOR MANAGING ADJUSTMENTS FOR CONTRACTS AND PPPs

Performance level and evidence for scoring the dimension

267. **Line ministries and implementing agencies are provided with the authority to manage adjustments for procurement contracts, project design, and construction plans within specified limits.** The legislative framework in the public procurement and construction sectors provides rules for adjustments that, within limits, do not require approvals by other agencies. The legislation for procurement and construction applies to all projects regardless of the process of selection or funding. In the case of SSIPs, the information on adjustments must be provided to the Inter-Agency Commission, either for information or for re-consideration of project financing, in case specific triggers are breached.

268. **Adjustments for contracts for implementation of public investment projects can be made to the extent the Law on Public Procurement[147] allows.[148]** The key principle of allowed adjustments lies in the possibility of changing prices and certain aspects of goods and services that do not lead to an increase of the contract amount.[149] Such changes in the contracts can be made upon agreement of all parties (line ministry /project implementing agency and contractor) and can be related to changes in the required quantity or quality of goods, changes in market prices or the macroeconomic environment, extension of the contract term or other changes necessary for the full execution of the contract.

269. **The legislation sets out rules for adjustments to project construction plans and designs but does not specify exact limits within which the implementing agency/line ministry can make changes with no approvals.** The project design consists of several stages[150] that result in various types of documents[151] that must pass through expertise and approvals by various authorities.[152] The final project design document, which is called 'working documentation'[153] and contains the construction plan with drawings, costs, and specification of equipment and materials, may be changed in the process of construction with no expertise and approval by other agencies, except for the project design developer. However, if the implementing agency initiates adjustments that will result in changes of any of the design documents preceding the final stage of 'working documentation' (there are no specified triggers), it will need to make formal adjustments, receive approvals, and go through expertise as if it were a new project.

270. **The score for this dimension is A.**

147 The Law on Public Procurement, article 41 (part 4 – 6)

148 https://infobox.prozorro.org/articles/vnesennya-zmin-do-dogovoru-ta-publikaciya-zvitu-pro-vikonannya-dogovoru

149 Contract values typically include a contingency to small variations in cost due to unforeseen physical factors.

150 Except for assets with first class of consequences (CC1), where there I sonly one stage, but it is applied only to simple structures.

151 Order No. 45 of the Ministry for Territories and Communities Development of Ukraine on Procedure for Development of project documentation for construction

152 Resolution No. 560 of the Cabinet of Ministers of Ukraine as of May 11th, 2011, on the Procedure of approval of construction projects and their expertise

153 The working documentation provides detailed specification of drawings, technical solutions, and calculations that were approved at the previous stages of design. The preceding stages include drawings, technical solutions, and calculations, but with less details than in the working documentation. Preceding stages may result, for example, in design concept, technical and economic justification and other documents depending on the class of consequences of an asset.

19.2. ACTIVE MONITORING OF PROGRESS AND BUDGET REALLOCATION PROCEDURES AND ACTIONS

Performance level and evidence for scoring the dimension

271. **There are explicit rules and procedures on monitoring progress and budget reallocation for SSIPs, however there is no such system for non-SSIPs which are included in the State Budget without going through a formal selection program.** Active monitoring of projects approved under Resolution No. 571 is performed by the MoE based on the regular reporting regime described under PIM-17. The MoE reports the findings of its monitoring activities to the Inter-Agency Commission to inform its members on a project's progress. The findings are presented to the members of the Inter-Agency Commission in the form of a table with the information on the project, its implementing agency, line ministry, expenditures, and a brief description of project progress, including comments on the deviation from the plans and measures to be taken to close any time/scope gaps.

272. **The Inter-Agency Commission can also call for a mid-term audit of a project under implementation if monitoring reveals problems.** The Inter-Agency Commission may take a decision to request an audit of a partially or nearly completed public investment project, as well as projects on which fraud/corruption cases or nontargeted use of resources are suspected. Audits are carried out by the State Audit Service. During the last three fiscal years, two public investment projects were audited,[154] in the area of responsibility of the Ministry of Culture. The audit reports include a performance focus, analyzing project implementation and identifying bottlenecks for successful completion.

273. **Donor-funded projects are actively monitored.** The semi-annual consolidated reports on the implementation progress of IFI projects, which are submitted by the MoF to the government (see PIM-17.3), include proposals for resolving problematic issues. The consolidated semi-annual and annual reports on grant-funded technical assistance projects (including construction projects) prepared by the Secretariat to the CMU identify deviations from the financial plan. The annual reports[155] include conclusions, recommendations, and measures for further use and attraction of technical assistance.

274. **The Inter-Agency Commission has the right to take decisions on budget-neutral reallocations between projects in the portfolio within a budget year based on monitoring reports from MoE.** If a monitoring report identifies poor progress in the implementation of a particular project (e.g., increase of project cost by more than 10 percent, breaching of set deadlines, non-compliance of procurement result with the plan) the Inter-Agency Commission may take a decision to reduce or stop financing for such a project and reallocate funds to other projects in the ongoing portfolio or to a new project in the pipeline within a budget year. If the decision on budget reallocation is taken, MoF is informed about it by MoE, while the actual transfer of funds is requested by the relevant line ministry. The MoE discloses information on monitoring and reallocation decisions taken by the Commission by publishing the minutes of the meetings on its official website.[156] A recent healthcare sector project, *Reconstruction and Expansion of the National Cancer Institute*, provides a good example: UAH 150 million were approved for this project in 2019, but execution did not go as planned. As a consequence, the Commission re-allocated almost the whole amount to other projects.

275. **At least on a monthly basis, senior management in implementing agencies and line ministries are supposed to perform internal monitoring.** The form of this monitoring is determined by the individual line ministry and is, as a consequence, variable in the degree of coverage and rigor across the public sector.[157] The legislation allows (but does not oblige) line ministries to create commissions for internal monitoring of project implementation and taking collective decisions.

154 Audit report of Comprehensive restoration and adaptation of the Zhovk castle of the State Historical and Architectural Reserve in Zhovkva.

155 Annual reports for 2019 and 2020 are available online at the government's web portal.

156 Minutes of the meetings of the Inter-Agency Commission from July 2016 to October 2020 [website], https://www.me.gov.ua/Documents/List?lang=uk-UA&id=40253ac5-2a8c-447d-857d-1a34739d765a&tag=MonitoringStanuVikonanniaTaRealizatsiiDerzhavnikhInvestitsiinikhProektiv, (accessed 15 June 2021)

157 Part II, Article 1 of the Order No. 1785

Although MoE does not control the internal monitoring of projects, some discipline is imposed through the requirement for line ministries to collect data on progress from implementation agencies in order to provide comprehensive quarterly and annual reports to MoE (as described under PIM-17). MoE also has the right to request information on project implementation at any time.[158]

276. **The score for this dimension is B.**

19.3. MECHANISM TO TRIGGER REVIEW OF PROJECT JUSTIFICATION

Performance level and evidence for scoring the dimension

277. **Triggers requiring an implementing agency to review the business case for a SSIP focus on cost overruns and change of design; reviews are not triggered by demand changes or delays.** Such triggers are only applicable to SSIPs and there are no specific rules applicable to non-SSIPs. Review of the business case may be triggered in the following circumstances: (i) changes that lead to increases in project costs of more than 10 percent, including inflation; (ii) changes in technical solutions and/or the adding of extra expenses or additional components[159] not provided for by the approved project documentation; (iii) changes in the list or purpose of equipment provided in the project proposal; and (iv) other justified conditions that affect project results.[160] The updated business case must go through examination by the line ministry[161] and be submitted to the Inter-Agency Commission for a decision on further project implementation.[162] There is some evidence that reviews are too easily triggered, especially in relation to the cost trigger (which is relatively sensitive, given that it includes inflation), leading to over-burdensome administration rather than improved quality of investment decisions.

278. **Independently of triggers leading to mandatory review, the Inter-Agency Commission may take a decision on project cancellation or the necessity to review a project at any stage of its lifecycle if there are delays, cost overruns, change in demand, and corruption cases.** Specific criteria give the right to the Inter-Agency Commission to stop funding for project implementation or require project review under the following circumstances: (i) if the project implementation time is extended by more than one year compared to the plan; (ii) if the cost has increased by more than 10 percent compared to estimates during procurement (however, this contradicts the 10 percent change in the cost as a trigger for review, when the project must be reviewed under such conditions without approval by the Commission); (iii) if the demand for the project services has significantly decreased; or iv) (if a fraud or corruption case related to project development or implementation is proved. Nevertheless, it should be admitted that the Commission is not obliged to cancel or initiate review of the project, but only given a right to do so.[163] At the same time, the MoE or any other agency can request a project review and reconsideration by the Inter-Agency Commission, if they become aware of delays, cost overruns, or changes in procurement plans, but this rarely happens.[164]

279. **The review of project justification typically results in changes to the project financing schedule and amount, as well as to the implementation timeline, but not in cancellation or rescoping.** Review and subsequent adjustment are most often initiated because of (i) the inability of project implementing agencies to keep up with the approved plan; (ii) project selection based on unrealistic project cost estimates as a basis for selection; and (iii) the effects of inflation on costs.

280. **The score for this dimension is C.**

158 Part II, Article 3 of the Order No. 1785
159 Constituents or launch complexes of construction.
160 Article 7 of Resolution No. 571
161 Article 8 of Resolution No. 571
162 Article 7 of Resolution No. 571
163 Article 23 of Resolution No. 571
164 Article 30 of Resolution No. 571

PIM Function 7. Service Delivery

PIM-20. Control, Monitoring and Reporting: Financial and Service Delivery Performance

RATIONALE

281. **The quality-of-service delivery should be reported regularly to the sector agency and at least quarterly to the line ministry and central ministries.** Reporting and control of expenditure commitments and the timely release of funds are critical to keeping service delivery on target. An effective internal control system is one which is relevant and comprehensive, is widely understood and complied with, and is circumvented only for genuine emergency reasons. Evidence of the effectiveness of the internal control system should come from government financial controllers, and regular internal and external audits (PIM-22). The effectiveness of expenditure commitment controls is singled out as a separate dimension due to the importance of such controls to ensure that the government can always pay its bills (thereby avoiding expenditure arrears (PIM-14).

282. **The internal audit function for MDAs should meet international standards such as ISPPIA.**[165] Evidence of an effective internal audit function would include a focus on significant systemic issues and high-risk areas, use by the SAI of the internal audit reports, and action by management on internal audit findings. The internal audit function may be centralized in a financial inspectorate with a mandate across entities of the central government, or by separate internal audit functions for individual government entities. The combined effectiveness of all such audit organizations is the basis for assessing this indicator.

General observation

283. **Separate budget programs cover the capital cost of each state investment project, while the capital cost of projects funded outside formal PIM procedures are covered by budget programs that include operating costs of similar institutions/ facilities.** Once the state investment project is completed, the operating and maintenance costs are included in the relevant budget program, which covers the operations of the institution running the project.

Summary of Scores and Performance Table PIM-20

Indicator/ Dimension	Score	Brief justification for score
PIM-20. Control, monitoring and reporting: financial and service delivery performance	**C+**	**Scoring Method M1**
20.1. Scope and coverage of expenditure and performance reporting	C	Treasury prepares quarterly and annual budget expenditures execution reports which cover all projects and programs, allowing direct comparison of O&M expenditure with the approved budget. The reports provide complete information on expenditures at the payment stage, but only unpaid commitments are given. MDAs establish service delivery targets for each budget program and report on their achievement.

165 International Standards for the Professional Practice in Internal Audit, issued by the Institute of Internal Auditors.

Indicator/ Dimension	Score	Brief justification for score
20.2. Timeliness of reports	C	Budget execution reports which can be directly compared with the approved budget are prepared quarterly and issued within 6 weeks of end of period; and budget program passports execution reports (performance reports) are prepared only annually.
20.3. Quality of information reporting	B	There are some minor issues with the quality of the budget execution reports as identified by internal audit. The service delivery performance information is assured by the public availability of source information; conducting external and internal audits of the reliability of performance information and its sources; and using the electronic forms and information system to prepare and issue reports.
20.4. Coverage and quality of the internal audit function	B	The most of state public authorities (90 percent) provide for the internal audit function and its overall effectiveness, and they cover 74 present of total state budget expenditures. The Ukrainian Internal Audit Standards describe practical implementation of internal audit in the line ministries and public institutions. Internal audits are focused on systemic issues (more than 50 percent of staff time). The share of performance audits in the total number of audits increased to 30 percent in 2020 against 10 percent in 2018.
20.5. Extent of management response to internal audit findings	B	IA units issued more than 14.1 thousand recommendations in 2020, and action was taken on about 85.5 percent of these recommendations, the due date of which has come.

20.1. SCOPE AND COVERAGE OF EXPENDITURE AND PERFORMANCE REPORTING.

Performance level and evidence for scoring the dimension

284. **Treasury prepares quarterly and annual budget expenditures execution reports which cover all projects and programs and can be directly compared with the approved budget.**[166] According to the law, quarterly and annual budget execution reports contain, among others, reports on the execution of financial indicators as presented in the annexes to the annual state budget law. Thus, reports allow comparison with each budget program and project presented in the approved budget in terms of 'consumption' and 'development' expenditures,[167] salary and utilities.

285. **The reports provide complete information on expenditures at the payment stage, but only information on unpaid commitments.** Unpaid commitments are shown within arrears reports only. Total commitments are not shown beside the approved and executed expenditures, as presented in the approved budget.

286. **MDAs establish service delivery targets[168] for each budget program and report on their achievements.** This information is contained in the budget program passports and budget program passports execution reports.[169] Budget program passports execution reports contain actual performance results compared to all targets in the budget programs passports. Each performance indicator in these documents covers all similar institutions financed through the budget program. The information comes from individual performance

166 Articles 60 and 61 of the Budget Code.

167 The budget does not present current and capital expenditures, but consumption and development expenditures. Last of them include some current expenditures beside the capital expenditures.

168 Performance indicators.

169 According to the MoF's Order No. 1098 dated 29 December 2002 'On budget program passports'.

reports submitted to the MDA by each institution. Generally, the monitored performance indicators track improvements in public service delivery (increased volumes or better quality of services), including programs involving use of newly created assets/ facilities.

287. **The score for this dimension is C.**

20.2. TIMELINESS OF REPORTS

Performance level and evidence for scoring the dimension

288. **Financial reporting is more regular and timelier than reporting on service delivery performance.** Budget execution reports that can be directly compared with the approved budget are prepared quarterly and issued within 6 weeks of end of period.[170] Budget program passports execution reports (which deal with service delivery) are only prepared annually, not quarterly. MDAs prepare the reports within three working days of submission of the consolidated annual budget reports and publish them on their official websites. These reports contain planned and actual performance indicators, including service delivery indicators, and explanations for deviations. Spending units report on performance more frequently, providing MDAs with actual performance indicators monthly and (or) quarterly, depending on requirements established by the MDAs.

289. **The score for this dimension is C.**

20.3. QUALITY OF INFORMATION REPORTING

Performance level and evidence for scoring the dimension

290. **The use of the Treasury Single Account (TSA) ensures the accuracy of financial reporting.** The Treasury uses the Treasury Single Account to service all budget transactions (revenues and expenditures) for all budget spending units. Such a mechanism allows a thorough and regular monitoring and verification of financial information and cash flows (in particular, crosschecking). The Treasury reports include both approved expenditures (the law with all subsequent amendments) and actual figures, according to the cash accounting method. With regard to expenditures and lending, the reports are compiled using all classification types (budgetary programs, functional and economic classification, and also the administrative classification of the state budget).[171]

291. **In support of Treasury reporting, effective financial management information systems exist at the level of spending units.** Each spending unit has its own system for automating the financial activities of public sector organizations. In this system, authorized persons with special access keep accounts, sign payment orders, and generate reports.

292. **There is not always a clear link between the generated performance information and the source data.** Each performance indicator included in the execution reports for budget program passports is confirmed by either official state statistics, financial and other reporting, accounting data, statistical data or internal recording.[172] When it comes to official statistics, the connection is obvious. However, there is no information system linking performance indicators included in these execution reports and the other source data used to confirm the performance indicators. There is also no full list of such documents and the data which is contained in them. MDAs consolidate information about performance indicators from each spending units in Excel files and prepare the budget program passports and execution reports using a centralized IT System. This system only contains the key figures on final planned / actual performance and does not contain information on their calculation. No significant concerns about the accuracy of performance information are highlighted in audit reports.

293. **The score for this dimension is B.**

170 Treasury prepares quarterly reports no later than 35 days after the end of the reporting quarter (article 60 of the Budget Code)

171 2019 Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report, Ukraine.

172 Based on MoF's Order No. 1536 dated 10 December 2010 'On the performance indicators of budget programs'.

20.4. COVERAGE AND QUALITY OF THE INTERNAL AUDIT FUNCTION

Performance level and evidence for scoring the dimension

294. **While the internal audit (IA) function is well established across government, its effectiveness is compromised by the failure to fully staff or even partially staff IA units.** State public authorities representing 90 percent of the total and representing 74 present of total state budget expenditures have internal audit departments. However, staffing is a serious problem: at the end of 2020, 18 public bodies had more than 50 percent vacancies in their internal audit departments and 11 bodies had not staffed their departments at all. These institutions constituted almost 26 percent of overall state budget expenditures in 2020. While recruitment of qualified staff is undoubtedly a problem, there is also a suspicion that entities are not always pursuing recruitment seriously.

295. **The Ukrainian Internal Audit Standards describe the practical implementation of internal audit in the line ministries and main public institutions of Ukraine.** These Internal Audit Standards also prescribe the professional and functional independence of internal auditors. Ukrainian standards are based on the Institute of Internal Auditors (IIA) but differ in some respects. Methodical recommendations and guidelines on conducting internal audit procedures in line with general accepted good practices were updated in 2018. The Ministry of Finance has published five methodological guidelines for internal audit units during 2019-2020. These methodological guides cover issues of: (i) general competences, knowledge and skills; (ii) risk-based planning of activities; (iii) assessing the quality of internal audit; (iv) internal audit tools; and (v) methodological guidelines for internal audit. These methodological guidelines cover performance audit as the assessment of the institution's activities on: (i) the effectiveness of the internal control system, (ii) the degree of achievement of goals, (iii) budget programs planning and execution, including budget program passports and relevant reports, and (iv) the quality of the administrative services delivery.

296. **Internal audits are focused on systemic issues (more than 50 percent of staff time).** All public bodies with IA units send internal audit plans to the MoF, together with justifications for the inclusion or exclusion of audit objects and calculations of the workload of internal auditors. The MoF reviews and analyzes the internal audits plans, in particular, regarding the inclusion of audits focused on systematic issues in those plans. Based on the results of the analysis of the state bodies' operational internal audit plans for 2021, prepared by MoF, there are only very few cases of internal audits, which are focused on non-systemic issues.

297. **Internal audits focus on high-risk areas.** MDAs with IA units approve annual internal audit plans using a risk-based approach, whereby each potential subject of an audit is scored according to risk factors and only the riskiest subjects are selected. The report on the status of internal audit functioning in 2020 shows that the share of performance audits in the total number of audits increased to 30 percent in 2020 against 10 percent in 2018. The Accounting Chamber and the State Audit Service are informed of the results of internal audits during the implementation of state control measures, in particular with respect to findings concerning internal control.

298. **The score for this dimension is B.**

20.5. EXTENT OF MANAGEMENT RESPONSE TO INTERNAL AUDIT FINDINGS

Performance level and evidence for scoring the dimension

299. **IA units issued more than 14.1 thousand recommendations in 2020, and action was taken on about 85.5 percent of these recommendations, the due date of which has come.** According to the report on the results of IA units' performance in 2020,[173] almost 1.7 thousand audit reports were issued based on the results of internal audits. Almost 48.2 thousand shortcomings and problems were identified. The most shortcomings and problems were identified in the following areas: performance of control and supervisory functions; functioning of the internal control system; the correctness of accounting, the reliability of financial and budgetary reporting; budget programs planning and execution and their performance. As a result of the implementation of audit recommendations, the legal, regulatory and

173 Information on the functioning of the state internal financial control, 2020, prepared by the MoF.

internal documents were revised and / or developed for the regulation and improvement of functions and processes. In particular, attention was directed at the delivery of administrative services and paid services and the calculation of their associated costs, as well as methods of calculating performance indicators for budget programs.

300. **The score for this dimension is B.**

PIM-21. Service Delivery

RATIONALE

301. **The ultimate purpose of public sector projects and programs is to deliver services that generate positive impacts.** These are enhanced if the services can be delivered efficiently or at a low unit cost. Projects and programs are designed to deliver targeted levels of services over an extended period. Once projects are operational, the services delivered should be monitored and variances from the targeted amounts should be estimated, analyzed and explained. Variances can arise because of poorly estimated targets, resulting from economic conditions that differ from those forecasted, causing shifts in costs or demand for the service, or because the project performance varies from expectations.

302. **The estimation of unit costs incurred in service delivery is a key input to both evaluating the performance of a project and in implementing performance budgeting and management.** Sector MDAs should estimate, at least annually, the costs of delivering key services in key sectors.

21.1. EFFECTIVE SERVICE DELIVERY BY PROJECTS IN KEY SECTORS

Performance level and evidence for scoring the dimension

303. **MDAs are required to provide the MoE with information on the implementation status of state investment projects during the three years after the completion of the investment stage and commissioning of facilities.**[174] Reports should be provided annually by March 1 of the year following the reporting year. The template of the report contains, among other things, the information about service delivery, such as access to the service, improving the quality of services, compliance with standards, and compliance with European standards. However, there is no methodology for comparing actual services delivered with targeted amounts for the specifically related project. Consequently, MDAs do not comply with these procedures and no such reports are prepared.

Summary of Scores and Performance Table PIM-21

Indicator/ Dimension	Score	Brief justification for score
PIM-21. Service delivery	**D**	**Scoring Method M2**
21.1. Effective service delivery by projects in key sectors	D	Spending units do not estimate, analyze, and explain variances in actual service delivery indicators from the targeted amounts for the specifically related project.
21.2. Unit cost reporting and variances in key sectors	D	Key spending units measure unit costs and report annually within the budget programs passports and the budget programs passports execution reports respectively using cash basis (not accrual) cost accounting systems.

174 According to the MoE's Order No. 1785 dated 25 October 2016 'On approval of the Procedure for monitoring the state of development (implementation) of public investment projects'.

304. **Spending units do not estimate, analyze and explain variances in actual service delivery indicators from the targeted amounts for a specific project.** Spending units, including those that use newly created assets/facilities, measure and monitor service delivery by performance indicators which are contained in the budget program passports. These performance indicators include service delivery indicators, such as number of service recipients, service cost, service quality level, etc., but as performance indicators for the budget program as whole, not for specific projects. Each spending unit has its own performance plan which it monitors during the fiscal year in accordance with the rules set by the MDA. There is no requirement or evidence to show that the indicators in the plan are in line with the values targeted in the proposal for a specific project.

305. **The score for this dimension is D.**

21.2. UNIT COST REPORTING AND VARIANCES IN KEY SECTORS

Performance level and evidence for scoring the dimension

306. **Spending units measure unit costs and report on the achieved performance indicators on a cash basis.**[175] They report to MDAs on achieved performance indicators as part of the budget programs implementation during the fiscal year and as part of the annual execution reports for budget program passports. Achieved performance indicators are reported for all projects delivering key services within a relevant budget program. While each institution keeps records on an accrual basis, performance indicators are reported using cash-based costs,[176] with no allowance for expenses related to consumption of fixed capital.

307. **The score for this dimension is D.**

PIM Function 8. Evaluation

PIM-22. Scope, Nature and Follow-up of External Audit and *Ex-Post* Evaluation

RATIONALE

308. **This indicator aims at analysis and assessment of external audit and *ex-post* evaluation of public investment projects.** It focuses on the procedure for external audit and timely submission of the audit reports. The indicator analyzes the existence and practical application of *ex-post* evaluation of public investment projects. The assessment covers the last three completed fiscal years (2018 – 2020).

Summary of Scores and Performance Table PIM-22

Indicator/ Dimension	Score	Brief justification for score
PIM-22. Scope, nature and follow-up of external audit and *ex-post* evaluation	**D+**	**Scoring Method M2**
22.1. Timeliness of audit reports	C	Comprehensive annual budget execution reports are submitted to ACU by CMU in a timely way according to a legislated timetable.
22.2. Audit of service delivery performance and conduct of impact studies	D	Very few public investment projects are audited individually. Those projects that are audited are at the stage of implementation, not operation.

175 According to the MoF's Order No 1098 dated 29 December 2002 'On budget programs passports'.
176 According to the MoF's Order No. 1536 dated December 10, 2010, 'On the performance indicators of the budget program'.

Indicator/ Dimension	Score	Brief justification for score
22.3. *Ex-post* evaluation of large projects	D	There is no formalized *ex-post* evaluation in Ukraine, but elements exist within procedures for monitoring at the operational stage for projects following Resolution No. 571. However, in practice, implementation of these procedures is not performing well due to their complexity and lack of capacities at MDAs.

22.1. TIMELINESS OF AUDIT REPORTS

Performance level and evidence for scoring the dimension

309. **The State Treasury provides annual budget execution reports to the Accounting Chamber of Ukraine and CMU.** Annual reports are submitted to ACU by the CMU not later than April 1 of the year following the reporting period.[177] MDAs do not independently submit audited reports on capital expenditure to the ACU.

310. **The annual budget execution reports submitted to ACU for audit include specific information on public investment.** According to the requirements of the Budget Code, as well as general expenditure information, the reports must include information on the implementation of SSIPs, indicating the total cost of each project, including information on the status of the project indicating the degree of its readiness and the amount of state budget expenditures required for project completion.[178] As well as information related to projects financed from the state budget, the report must include information on the implementation of investment projects implemented by the state with loans obtained from foreign countries, foreign financial institutions and international financial organizations. The total cost of each project must be included, together with information on the status of the project, indicating the degree of its readiness, volumes of relevant credits (loans) and state budget expenditures required for project completion under budget programs, as well as volumes of such credits (loans) and expenditures for the budget reporting period under budget programs. In contrast to the requirements, the actual annual budget execution report only includes information on the planned and actual costs within the year. Execution reports do not include information about non-SSIPs (28.8 percent of total project costs). The reports are published by the Treasury in the form of Excel tables, and they do not contain any analytical data. Although the detailed information is not available in the public sphere, ACU has indicated that it receives the package of documents containing all the information required by the Budget Code.

311. **The score for this dimension is C.**

22.2. AUDIT OF SERVICE DELIVERY PERFORMANCE AND CONDUCT OF IMPACT STUDIES

Performance level and evidence for scoring the dimension

312. **The ACU does not systematically audit individual public investment projects, nor does it carry out audits of service delivery for such projects, although it is allowed to do both.** Special audits[179] are typically focused on whole public agencies (not specifically on investment spending or projects) and on budget programs. Audits of IFI-financed projects are also performed. Very few individual public investment projects have been audited by ACU during 2018 – 2020, and none of those that were audited had been implemented as SSIPs according to Resolution No. 571. As part of the audit of budget programs and of MDAs, performance audits of SSIPs may be performed indirectly, but it may be difficult to disentangle the effects of projects from the wider elements of the program or the activities of an MDA. As an example, in 2018 ACU audited the use of state budget funds for maintaining the safe functioning of the Ukryttia facility in the Chernobyl area, which is managed by the Ministry of Ecology and Natural Resources.[180] Within

177 Budget code of Ukraine, Art. 61, https://zakon.rada.gov.ua/laws/show/2456-17#Text
178 Budget code of Ukraine, Art. 61
179 For the purposes of this assessment, special audits are distinguished from the standard audits of budget execution reports.
180 Audit report of use of budget funds for Ukryttia Program.

this audit, three public investment projects that had been selected by the Inter-Agency Commission are mentioned but are not subject to in-depth analysis of service delivery and impact. The report focuses on compliance with budget processes and uses passports of budget programs as supporting documents.

313. **The score for this dimension is D.**

22.3. *EX-POST* EVALUATION OF LARGE PROJECTS

Performance level and evidence for scoring the dimension

314. **No formal procedure or methodology for *ex-post* evaluation of public investment projects exists.** MoE recognizes this as one of the weakest points in PIM system and sees a need for external assistance in this respect. Despite the lack of formal *ex-post* evaluation, some elements of it can be found in the existing procedures for monitoring SSIPs. According to the Order on Monitoring, 'monitoring' has to be performed three years after an asset is put into operation. Such 'monitoring' includes provision of actual data and discrepancies in financial, economic, social, and environmental indicators compared to what was forecasted in the project proposal and implementation plan. The 'monitoring' report requires collection of data and calculation of indicators of financial and economic performance (economic NPV and benefit-cost ratio), social and environmental indicators and indicators of budget efficiency. In many respects, except for the conceptual link with monitoring,[181] the Order on Monitoring describes a *de facto ex-post* evaluation. However, in practice, according to the MoE, this requirement is not being properly fulfilled as it presents technical difficulties for MDAs and there is no supporting methodological guidance and training. No such procedure exists for non-SSIPs, which are not subject to Resolution No. 571 and the related Order on Monitoring.

315. **The score for this dimension is D.**

PIM-23. Legislative Scrutiny of External Audit Reports

RATIONALE

316. **This indicator seeks to determine whether the external audit reports are submitted in a timely way and whether an adequate response to them is provided.** The indicator assesses processes for external audit review, its content and timeliness. In addition, the indicator focuses on the response to recommendations provided within audit and assesses reaction and compliance to the recommendations by MDAs.

Summary of Scores and Performance Table PIM-23

Indicator/ Dimension	Score	Brief justification for score
PIM-23. Legislative scrutiny of external audit reports	**B+**	**Scoring Method M1**
23.1. Timeliness of audit report reviews	A	The reports are provided in a timely way to VRU: annual audit reports on state budget execution are submitted to the VRU within 4 months of the end of the period in question.
23.2. Coverage of legislative scrutiny	B	Within the audit of annual budget, the results of all MDAs are analysed, including capital expenditures as part of development expenditure. Specific scrutiny of capital expenditures and public investment projects is fragmented, and there is no regulation that would require regular audit of investment as distinct from the rest of expenditures.

181 Implementation and performance monitoring are continuous processes; *ex-post* evaluation is a 'point-in-time' assessment. Many of the indicators listed in the Order on Monitoring, such as NPV, IRR, etc., are not monitoring indicators, as they cannot be calculated and examined on a continuous basis: they are 'point-in-time' indicators.

Indicator/ Dimension	Score	Brief justification for score
23.3. Responsiveness to audit scrutiny findings and recommendations	A	There is a clear legislative framework for providing responses to audit reports and audit recommendations and evidence that it works in practice.

23.1. TIMELINESS OF AUDIT REPORT REVIEWS

Performance level and evidence for scoring the dimension

317. **The ACU informs the VRU of its audit findings in a timely way, including the facts relating to violations of budget legislation.** The ACU submits its conclusions and recommendations regarding the annual report on execution of the State Budget to the VRU within 4 months of the end of the period in question.[182] The information is provided to VRU within 15 days of approval by the ACU. A letter signed by the ACU chairman is sent to VRU and includes copies of the conclusions and recommendation.[183]

318. **The score for this dimension is A.**

23.2. COVERAGE OF LEGISLATIVE SCRUTINY

Performance level and evidence for scoring the dimension

319. **The government's quarterly and annual reports on state budget execution are audited by the ACU and the subject of legislative scrutiny.** There is no requirement to carry out annual audits of all the individual entities of central government, so parliamentary scrutiny focuses on the execution of the state budget. The annual report on execution of the state budget submitted by the CMU, covers revenue, expenditure (including all capital and/or development projects) and assets/liabilities. It includes information on public investment projects, including those implemented with IFI loans. Implementation of budget programs is also reported on in this document. The report analyzes budget execution from the point of view of both financial flows and performance.

320. **When analyzing the report on execution of the state budget, ACU provides a brief analysis of state capital expenditures, which are also mentioned in a fragmented way across its report.** There is no specific section that focuses on investment alone in the structure of the conclusions of the ACU on the results of its analysis of the annual report on execution of the Law on State Budget of Ukraine (the ACU's 'report on its conclusions and recommendations'), which covers revenues, expenditures, sources of financing and transfers only. There does not seem to be a systematic approach to public investment analysis from year to year: for example, in the report for 2019 there is some analysis of public investment projects,[184] while the same type of report for 2020 does not contain any information at all on public investment projects (financed according to Resolution No. 571), except for IFI projects and local budgets.

321. **The ACU's conclusions and recommendations are scrutinized by the parliamentary Budget Committee, which has a public investment sub-committee, and by specialized sector committees reporting to the VRU.** The Budget Committee pays attention to capital investment expenditures when reviewing the ACU's reports and the sector committees do so when reviewing special audits of relevance to their sectors. The responsibilities of the public investment sub-committee include consideration of issues related to public investment

182 As verified by dates on submission letters from ACU to VRU and consistent with the findings of the 2019 Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report, Ukraine (PI-30.1. Audit coverage and standards).

183 Chapter 40 of the Regulation for the Accounting Chamber https://rp.gov.ua/upload-files/About/RegulatoryDoc/arp_1.pdf

184 Report on execution of state budget, 2019 https://rp.gov.ua/upload-files/Activity/Collegium/2019/33-8_2019/Vysn_33-8_2019.pdf

projects as these arise in any legislative instruments or reports on implementation from the executive or ACU and of proposals to reallocate budget funding for public investment projects between MDAs. The public investment sub-committee also participates in the Inter-Agency Commission for State Investment Projects, which represents a potentially serious conflict of interest.

322. **Legislative scrutiny is concluded with the VRU preparing a resolution on the report on execution of the state budget.**[185] The opinion expressed in this report is grounded in the conclusions provided by ACU and the VRU Budget Committee. In contrast to the ACU's reports, significant attention is paid to public investment, including both SSIPs (funded according to the Resolution No. 571) and projects financed by IFIs. The resolution for 2020, for example, advises CMU to take measures to ensure the efficient and effective use of state capital investments and compliance with the deadlines for the implementation of public investment projects.

323. **The score for this dimension is B.**

23.3. RESPONSIVENESS TO AUDIT SCRUTINY FINDINGS AND RECOMMENDATIONS

Performance level and evidence for scoring the dimension

324. **The ACU audit procedure includes monitoring and assessing the implementation of the audit recommendations.** Audit reports provide recommendations to the agency/organization audited. The audited agency reports on implementation of recommendations. The monitoring reports are presented in the form of a table listing all of the recommendations (proposals) and indicating the implementation status and timing against each one. This table should be filled in by the audited agency. Within one month after receiving the recommendations, the audited agency must inform the ACU of measures taken or planned to comply with the proposed improvements.[186] If the audited agency does not respond as required, ACU informs other superior bodies and the mass media.[187] There is evidence of audited agencies complying with the ACU's recommendations and reporting on the results of their implementation.[188]

325. **The score for this dimension is A.**

3.2. Summary of PIM Performance and Recommendations by Functions

326. **There are many public institutions involved in PIM in Ukraine, each of them plays a significant role at various stages of the system, but overlapping roles and gaps exist.** The MoE is responsible for development of legislation in PIM and coordinating other MDAs. It is directly involved in the management of SSIPs by performing reviews of project proposals, handling requests for capital investments to the MoF, arranging selection of projects by the Inter-Agency Commission, and monitoring projects. Line ministries and central government bodies are responsible for screening project profiles, reviewing appraisals, arranging budget requests and financing, as well as closely controlling the progress of projects for which they are responsible. The Inter-Agency Commission's role is to select SSIPs for funding, monitor their implementation, and take decisions on budget re-allocations. The MoF deals with budgeting of non-SSIPs funded through budget programs and takes decisions on the financing cap for SSIPs. The Accounting Chamber's (ACU) responsibility is to perform financial and performance audits of public expenditure, including expenditure on public investment projects. The State Audit Service (SAS) also performs an external audit of investment projects. The Anti-Monopoly Commission handles the complaints related to public procurement.

185 Resolution of VRU on the Report on execution of the Law of Ukraine on the State budget of Ukraine for 2020

186 Guidelines on performance of Audit by the Accounting Chamber of Ukraine https://zakon.rada.gov.ua/rada/show/vr5-5150-15#Text

187 The Law of Ukraine on Accounting Chamber, Article 36 https://zakon.rada.gov.ua/rada/show/576-19#n330https://zakon.rada.gov.ua/rada/show/576-19#n330

188 Information on the implementation of the decision of the Accounting Chamber on the results of audit of the Program Ukryttia by Ministry of Ecology and Natural Resources. https://rp.gov.ua/FinControl/FinReactions/?id=1064

327. **Despite the establishment of a regulated PIM system in which projects are appraised and selected for budgeting, a significant share of public investments still bypasses the established route because of loopholes in the legal and regulatory framework.** The appraisal and selection of projects functions separately for the state and local budgets; moreover, there is a separate procedure used by the Ministry of Infrastructure for transport sector projects, which resembles the procedure for SSIPs. The current legal and regulatory framework does not support a unified PIM system for all projects receiving state budget funding.

Main Cross-Cutting Challenge and Recommendation

Details are provided in **Chapter 7**.

Main cross-cutting challenge

The significant proportion of investment that bypasses the formal appraisal and selection procedure, as well as project monitoring and adjustments, as established in Resolution No. 571.

Main cross-cutting recommendation

To improve the terminology applied in the PIM system, so that it includes all public investments, without exception.

PIM Function 1: Strategic Guidance and Screening [Indicators 1–2]

Main Features of a Good PIM System

328. **Good practice in strategic guidance and screening for public investment projects has several features, the basis of which is authoritative and evidence-based national strategic investment planning.** A good PIM system should be guided by a published national development strategy or vision, which comprises straightforward and clear strategic objectives with specification of outputs and outcomes. Another important feature is a focus on alternative methods of achieving of objectives, which should be already developed at the stage of project conceptualization. Finally, an effective PIM system should involve a formal review and approval of project ideas to assure compliance with key national strategic goals and to select the most promising alternatives for further development of project proposals.

Main Findings by Indicator

PIM-1 [OVERALL SCORE C]

329. **Despite reasonable availability of statistical data, use of evidence-based sector analysis for stronger strategic planning is not as strong as it should be.** While relevant statistics are collected and published by the State Statistics Service and sector MDAs, thorough analysis of the data and its use in appropriately sophisticated demand/supply models are lacking due to the lack of analytical and planning capacities (Score C). Despite some evidence of the use of analysis in strategy formulation, effective use of sector analysis, and planning results is not being achieved (Score C).

PIM-2 [OVERALL SCORE D+]

330. **Although high-level national strategic planning exists, it does not yet provide sufficient guidance to support identification and preliminary screening of project concepts.** Strategic guidance, despite its availability, is not adjusted to the needs of a good PIM system and is not useful for project screening and prioritization (Score C). There is no investment strategy to guide the screening of public investment projects (Score D). Project profiles for screening and taking a decision on further development of a project are only submitted to MDAs for SSIP projects (Score C). Screening of project profiles does not follow a standard approach with each MDA following its own logic. The rejection rate of project concept notes was 0 percent in 2018-2020 and only around 3 percent in 2021 (Score D).

Main Challenges and Recommendations Relating to this Function

Challenge 1.1.

Lack of sophisticated methods for data analysis and forecast to support evidence-based strategic planning.

Recommendation R-1

MDAs should improve their practices in sector analysis and planning with the introduction of econometric modeling and application of methods relevant to the sector. The analysis and results of modeling should be accessible to the public and available for using in sector forecasting or forecasting investment project impacts. The results of sector analysis performed by MDAs should be used in strategic documents, making it possible to set realistic goals for investment projects and assess their impacts on the sector.

Challenge 1.2.

Insufficient strategic guidance to give direction to project identification and as a basis for screening project concepts for strategic relevance.

Recommendation R-2

Government should consider developing a national infrastructure investment strategy (with a 10-year horizon, rolled forward every 3-5 years). The strategy should contain a clear outcome-oriented logic to guide MDAs, SOEs, and other actors of the PIM system. The adoption and updating of such strategy should be given a legal basis.

Challenge 1.3.

Pre-appraisal screening of project concepts for strategic relevance and rationale is applied unevenly.

Recommendation R-3

The project concept stage and associated decision to move to appraisal should be more firmly embedded in the legal and regulatory framework and then properly enforced by the MoE and the MoF with clear evidence of the project's rejection or a request for it to be re-evaluated at a sufficient standard.

PIM Function 2: Formal Appraisal [Indicators 3-5]

Main Features of a Good PIM System

331. **Formal appraisal must be based on clear methodological guidance and the established capacity of staff to implement it.** To ensure objective analysis and a unified approach to appraisal of public investment projects, governments should develop methodological guidance and make it accessible to the actors in the PIM system. The methodological guidance on project appraisal should be transparent, leaving little room for interpretation. The application of guidance should be disciplined but proportionate to project scale and risk,[189] leading to a decision on economic and technical feasibility, and financial, environmental, and social sustainability. Efficient training and deployment of staff is the cornerstone of good project appraisal and correct application of guidance.

Main Findings by Indicator

PIM-3 [OVERALL SCORE C+]

332. **Formal project appraisal procedures and guidelines are in place for SSIPs, but this is not the case for non-SSIPs.** Regulated by legislative acts and by internal orders of MDAs, appraisal roles and responsibilities are clear between and within agencies (Score A). Project appraisal guidance for SSIPs is available, is used by project developers, and covers

189 Sometime referred to as 'proportionality' or the 'proportionality principle'.

the main topics of a typical feasibility study (Score B). While being universal and applicable to various projects, guidelines lack sector-specific elements, distributional analysis, and up-to-date economic parameters (Score C). A methodological approach to project appraisal depends on the project cost and the potential for making a profit only, while other risk-based factors are not considered (Score C). Feasibility studies are used to appraise large SSIP projects, including those of IFIs; however, 46 percent of projects (excluding IFI projects) are financed from the state budget without an appraisal procedure that includes preparation of a feasibility study (Score C).

PIM-4 [OVERALL SCORE D+]

333. **Project appraisal capacity is not well developed due to limited experience and number of staff.** Staff to oversee the application of project appraisal methods are in short supply in MDAs, and in most cases the available project appraisal guidelines are the only source of knowledge (Score C). Project appraisal training has not been provided for the last three years. The MDAs interviewed pointed out the pressing need to arrange workshops to strengthen their knowledge and become familiar with up-to-date appraisal methods (Score D).

PIM-5 [OVERALL SCORE D+]

334. **Screening of feasibility studies is well defined; non-SSIPs, however, avoid this stage and there is no systematic recording of the process, making it hard to analyze its effectiveness.** Sequenced and disciplined project screening procedures, as defined in Resolution No. 571, are applied to SSIPs, while non-SSIPs do not follow the designated procedure (Score C). A prescribed public investment program (PIP) database exists, but it does not cover the screening process. This absence of reliable recording makes it impossible to track the progress of projects (Score D). The lack of good data makes it hard to assess the share of projects rejected or required to be redesigned and reappraised. Based on the limited data provided by key MDAs, in many cases no projects are rejected, and green lights are given for the development of projects that have received preliminary approval (Score D).

Main Challenges and Recommendations Relating to this Function

Challenge 2.1.

A significant share of the portfolio of public investment projects is not subject to formal appraisal.

Recommendation R-4

A strengthened legal framework – the Budget Code, Resolution No. 571, and other related laws and legislative acts – should include provisions to ensure that investment projects cannot be hidden in wider budget programs, thereby allowing them to be funded without appraisal.

Challenge 2.2.

Inconsistencies in the application of appraisal tools resulting from the absence of detailed methodological guidelines for practitioners and poorly developed appraisal capacities.

Recommendation R-5

The MoE should improve project appraisal guidelines. The application and proportionality of appraisal methods should be better justified and explained in the guidelines.

Recommendation R-6

MDAs should develop sector-specific guidelines (including sector-specific approaches to CBA).

Recommendation R-7

The MoE should arrange regular and continuous training for MDAs, project initiators and other stakeholders in using existing (and improved) guidelines and other sector specific methods of appraisal.

Recommendation R-8

Support MDAs in using-contracted outside expertise when needed for large scale projects where specialized skills would be essential for preparation.

Recommendation R-9

Investment-intensive MDAs and project initiators should establish project management teams or units with adequate numbers of staff responsible for project appraisal.

PIM Function 3: Appraisal Review [Indicator 6]

Main Features of a Good PIM System

335. **All project appraisals should be subject to technical review or independent prefeasibility by an entity independent of the project sponsoring agency/ministry and with a high level of expertise in the conduct of project appraisal.** Independent review is especially important for all large projects above a defined total estimated cost or with new and complex institutional arrangements. Independent review is widely regarded as the best way to counter the usual optimism bias – over-estimation of benefits and under-estimation of costs – of project promoters, by verifying the quality of the analysis, how realistic assumptions are, and if estimates of demand and cost are reasonable. It usually does not include revision of technical aspects of project pre-design. Independent review should follow a comprehensive set of criteria covering all dimensions of appraisal, including realism of demand/benefits and cost estimates.

Main Findings by Indicator

PIM-6 [OVERALL SCORE C]

336. **Independent review is well established in the legislative framework; however, it is applied to SSIPs only and the independence of the procedure is not fully assured.** A two-level independent review of appraisal is functioning in the Ukraine PIM system, however, its independence can be questioned, as the first level of independent review is performed by the MDA with an interest in project implementation (Score C). The content of an independent review is detailed in the legislation, but there is no reference to project risks (Score C).

Main Challenges and Recommendations Relating to this Function

Challenge 3.1.

Expert review, the first level of independent review, is performed by the MDA with responsibility for the project, creating a conflict of interest.

Challenge 3.2.

Review of project proposals by MoE does not fulfil the requirement of full independence. The MoE is engaged in consulting MDAs and project initiators during project development, which undermines the independence of the review.

Recommendation R-10

The MoE should establish and lead a robust independent project review process, drawing on external expertise provided by parties not involved in the project when needed to supplement MoE capacities. The MoE should establish a roster of external (to MoE) independent reviewers from which it can draw for specialist knowledge that it lacks. Members of the roster can be from other parts of the public sector or from the private sector. Projects should be reviewed by a team consisting of MoE staff and external experts. There should be a certification system for external reviewers who should not have any conflict of interest in relation to the project under review. The MoE should consider the opinion of the independent review team when deciding to permit the project to participate in the selection by the Inter-Agency Commission. At the same time, the opinion should be provided to members of the Commission.

PIM Function 4: Selection and Budgeting [Indicators 7-14]

Main Features of a Good PIM System

337. **Good selection and budgeting should include transparent criteria for selecting projects, a well-structured budget system, effective gatekeeping, and adequate financing.** After projects are appraised, they must be selected for financing from the state budget. The selection must be based on the transparent criteria allowing the most beneficial projects to be included in the budget. The budget preparation process should be structured in such a way as to allow integration of investment and recurrent implications of projects into budgeting. PIM and budget systems should include effective gatekeeping, which must ensure that only appraised and approved projects are included in the state budget. The budgeting process must ensure adequate financing for selected projects, including recurrent costs after project completion.

4.A. BUDGET PREPARATION AND SELECTION [INDICATORS 7-10]

Main Findings by Indicator

PIM-7 [OVERALL SCORE C]

338. **Project selection and budgeting is well organized for state investment projects, even if the schedule has not been adhered to and non-SSIPs avoided established procedures.** The top-down budget process has not been working effectively because the budget circular does not contain limits for expenditures for SSIPs, there are no restrictions on inclusion of non-SSIPs in the budget, and there is no strategic guidance for selection of projects (Score C). Adherence to the project and budget preparation and approval calendar has been poor in the last three years (Score C). Budget guidelines and practices for adjusting project budgets to current estimates are well arranged, but only SSIPs adhere to them (Score C). Transparent criteria for project selection exist but are applied to SSIPs only and adequate forward recurrent budget is assured by the budget process (Score C).

PIM-8 [OVERALL SCORE D+]

339. **There is a multi-year budgeting process, but it has not been functioning fully, which creates risks for multi-year projects.** The practice of multi-year fiscal forecasts and functional allocations by the government falls short of good practice: only in two out of three years was such a forecast prepared, only 25 per cent of projected development expenditures are consistent with sector priorities, the mid-term expenditure forecasts do not take into account implementation plans for either SSIPs or non-SSIPs, and approved capital expenditures differ significantly from the forecasts (Score D). There are several separate databases of projects with approved funding, which cover various processes and are managed by different MDAs; however, these have not been designed to support mid-term fiscal management and management of total project costs. (Score C).

PIM-9 [OVERALL SCORE C+]

340. **The capital budget contains complete information on donor projects but is not comprehensive due to lack of reporting on extra-budgetary capital expenditures.** There are no extra-budgetary capital expenditures captured by the central government fiscal reports. SOE capital investment financed with budgetary lending and state guarantees exceeded 20 percent of total public capital spending in two of three assessed budget years (Score D). Donor funded projects and programs are covered by the budget execution reports, and all information on these projects and programs is available (Score A).

PIM-10 [OVERALL SCORE B]

341. **Despite high accessibility of the capital budget information, the quality of the information requires several improvements.** The budget documentation contains neither summarized data on capital expenditure by MDAs (or by sub-function or program), nor full information requirements for each major capital project, including policy justification and details for PPPs (Score C). Public access to budget information is fully provided (Score A). Publication of budget information is assured by the existing policy; the actual publication is compliant with the law (Score A). The legislature has full access to information on

capital expenditure and rule-bound procedures are in place; however, the legislature added investment project proposals to the budget, amounting to more than 10 percent of the total investment expenditures in the last three years (Score C).

4.B. BUDGET OUTTURN PERFORMANCE [INDICATORS 11-14]

Main Findings by Indicator

PIM-11 [OVERALL SCORE D]

342. **Actual development budget expenditure, including donor project expenditure, has significantly deviated from the originally budgeted amount during the period under analysis.** The deviation exceeded around 44 percent during two out of three years under analysis (Score D). Actual donor project expenditure deviated from estimates by almost 60 percent of budgeted development spending (Score D).

PIM-12 [OVERALL SCORE C]

343. **The variance in the composition of development spending across agencies has exceeded the overall deviation in development expenditure, but not by a consistently high proportion.** The composite variance of development expenditures across MDAs exceeded 25 percentage points in one of the last three years. The deviation was not significant in the other two years (Score C).

PIM-13 [OVERALL SCORE D]

344. **Project completion time and cost variances for completed projects have breached the limits acceptable for a good PIM system.** In the last three years project completion time and cost variances for completed projects exceeded 30 percent (Score D).

PIM-14 [OVERALL SCORE A]

345. **The stock and growth rate of capital expenditure arrears does not exceed the limits common for a good PIM system, and their monitoring is well organized.** The size of arrears has been below 1 percent of total expenditures in the last three years and their growth rate was not faster than the real economic growth rate over the past two years (Score A). Reliable and complete data on the stock of arrears is generated monthly and annually (Score A).

Main Challenges and Recommendations Relating to this Function

Challenge 4.1.

No one is performing the "gatekeeper" role and preventing projects that have not been positively appraised from getting budget funding.

Recommendation R-11

The MoF's gatekeeper function should be embedded in a strengthened legal framework (the Budget Code). The MoF, as a gatekeeper, must be able to block un-appraised projects from entering the budget by the initiative of both government entities and Parliament.

Challenge 4.2.

Budget documentation and financial reporting are not sufficiently informative to serve as a background for adequate scrutiny of public investment projects and informed decision making.

Recommendation R-12

The budget should present the full list of state investment projects (as an annex) regardless of funding source or type, including the total approved multi-year cost, the total estimated amount spent up to the end of the current year, the amount for the budget year and the balance to complete, divided by year for the mid-term and in aggregate thereafter.

Recommendation R-13

Ensure strict adherence to the rule of allocating at least 70 percent of capital investments to ongoing projects in accordance with implementation plans. New projects should not be started if there is no fiscal space to implement them within mid-term estimates. To implement this, appropriate mid-term analytical information should be added to project selection results.

Recommendation R-14

Financial reporting should be more comprehensive. Reports should be extended to contain SOE capital investments that are financed with budgetary lending and state guarantees (by projects). Such information should include planned and actual indicators, the total approved multi-year cost, the total estimated amount spent up to the end of the current year, and the balance to complete a project.

PIM Function 5: Implementation [Indicators 15–18]

Main Features of a Good PIM System

346. **Good practice in project implementation stands on such pillars as good guidance, well thought-out plans, clear accountability, efficient procurement, availability of funding, and thorough reporting.** The first requirement is for comprehensive guidelines on project implementation and management. Secondly, there should be clear organizational and management responsibilities and accountabilities for delivering on a detailed project implementation plan. Thirdly, procurement should be efficient, competitive and transparent. Fourthly, there should be predictability in the availability of funds for commitment and payment of project expenditures. Finally, sufficiently regular and detailed reporting should be in place allowing the control of annual and total project costs.

Main Findings by Indicator

PIM-15 [OVERALL SCORE B+]

347. **The procurement system is well elaborated and established in Ukraine and could potentially be used by donors.** Transparency, comprehensiveness, and competition in procurement is assured by the legal and regulatory framework (Score A). Use of competitive procurement methods is the basis of the procurement system, while non-competitive methods are fully justified by law (Score A). The share of programmable aid funds subject to national procurement procedures is non-existent, as donors do not yet use the national procurement system (Score D). Public access to complete, reliable, and timely procurement information is fully provided, and all information can be found online (Score A). Independent administrative complaints institutions and mechanisms exist within the procurement system (Score A).

PIM-16 [OVERALL SCORE C]

348. **Projects are managed with reasonably clear accountability and control over total costs, however, there are no guidelines uniting the principles of project management in a widely applied system.** Guidelines on project implementation do not exist, however, the regulations in various areas related to public investment and state budget process provide a set of rules that should be followed by all project implementers (Score C). Implementation plans are developed and followed. Accountability is clear between agencies, but there is a lack of clarity within agencies, especially at the level of personal responsibility (Score C). A well-developed, but non-electronic, total project cost management system is in place but applies to SSIPs only (Score C).

PIM-17 [OVERALL SCORE C]

349. **The processes of control, monitoring, and reporting are established and function reasonably well, but there is room for improvement in certain areas.** Expenditure and performance reporting is applied to SSIPs but is focused on annual expenditures and does not cover commitments (Score C). Semi-annual and annual reports were provided during the period under analysis, while best practices require

quarterly reporting (Score D). Donor funded projects or programs are monitored according to the national legislation (Score A). Quality of information reporting is good enough but lacks detailed justification for discrepancies (Score B).

PIM-18 [OVERALL SCORE D+]

350. **Project handover and asset registration are in place; however, a formal, analytical completion review process does not exist in Ukraine's PIM system.** A formal project completion and handover mechanism functions, but it does not examine adequacy of funding and other preparatory works for operation (Score C). There are two asset registers that contain information about all assets created, regardless of the type of project, but the information recorded is limited, missing information on the maintenance history and current condition (Score B). Policy and guidance on internal completion review does not exist (Score D). External completion review as a separate, integral process does not exist (Score D) and completion reports are mandatory for IFI and donor projects only (Score D).

Main Challenges and Recommendations Relating to this Function

Challenge 5.1.

Too much informality in project implementation arrangements.

Recommendation R-15

The MoE should develop guidelines for project management that would cover the end-to-end process of the project cycle. The guidelines should be useful for project initiators and MDAs, to which they report.

Recommendation R-16

MDAs should transpose the guidelines to internal legislative acts/orders clearly stating the roles of actors involved in project implementation.

Challenge 5.2.

Disjointed and incomplete reporting of implementation progress for whole projects.

Recommendation R-17

Improve the monitoring system to make it more informative in terms of the total project progress, in both financial and physical terms. The monitoring reports should be focused not only on in-year reporting – quarterly or annual results against annual plans- but should clearly describe the situation with total project progress against total cost, the planned implementation schedule, and implementation milestones.

Challenge 5.3.

Good practice in total cost control does not extend across all types of projects and the system used would be difficult to scale up.

Recommendation R-18

Introduce automation of total project cost management (preferably using a software), which would alert the MoE and the MoF automatically if the projected total project cost exceeds the approved amount of funding or established limits for reassessment of a project.

Challenge 5.4.

Lesson-learning from implementation experience is not built into the system.

Recommendation R-19

The strengthened legal framework should include provision for regular and systematic internal and external completion reviews with analytical content. The results of reviews should be presented to the Inter-Agency Commission and MoE for learning lessons.

PIM Function 6: Adjustment [Indicator 19]

Main Features of a Good PIM System

351. **Good process for project adjustment during implementation must be based on responsive monitoring, judicious use of virement, and fundamental review.** The idea of responsive monitoring is that the project progress should be actively followed to detect deviations from the plan at an early stage in order to have an opportunity to resolve the issues. A good adjustment process is not possible without judicious use of virement, which should allow reallocation of budget between high and low performing projects. There should be a clear mechanism for triggering fundamental reviews of failing projects or those where baseline conditions have changed unfavorably.

Main Findings by Indicator

PIM-19 [OVERALL SCORE C+]

352. **A project adjustment process, based on active monitoring and specific triggers exists but its efficiency is open to question.** Ukrainian legislation in the construction and procurement sectors provide rules for managing adjustments for contracts and PPPs (Score A). Active monitoring of progress and budget reallocation procedures are well established in legislation and applied in practice to SSIPs (Score B). A mechanism to trigger review of project justification is set up, however, it is not applied to non-SSIPs and there are some ambiguities in the legislation, allowing various interpretations of triggers and their application (Score C).

Main Challenges and Recommendations Relating to this Function

Challenge 6.1.

Implementation of projects that are significantly off track continues without an informed decision on whether continuing with implementation still makes sense.

Recommendation R-20

Improve the mechanism for project reassessment by enforcing strict application of triggers and consequences for breaching them. Reassessment should lead to an explicit decision to continue, re-scope, or cancel a project. Resolution No. 571 should be reviewed to avoid the possibility of ambiguous interpretation of triggers (see Recommendation R-2). Consideration should also be given to raising the value trigger (currently a 10 percent cost increase) and expressing it in real terms.

PIM Function 7: Service Delivery [Indicators 20-21]

Main Features of a Good PIM System

353. **Sustainable service delivery depends on adequate resourcing of operational expenditures, which is assured through good reporting and oversight of actual performance.** In-year reporting and annual statements of operating and maintenance expenditures and service delivery results are important for assuring quality service delivery. The service delivery should be monitored regularly by an MDA and the central agency responsible for public investment policy. At the operational stage, the internal audit is essential for monitoring and identification of risk areas.

Main Findings by Indicator

PIM-20 [OVERALL SCORE C+]

354. **Budget execution reports allow direct comparison of costs to those approved in the budget and internal audit and responses to its findings are functioning well.** Expenditure and performance reporting allows comparison of operational and maintenance costs with the approved budget, but not strictly on a commitment basis (only unpaid commitments are covered). Service delivery targets are set for each budget program (Score C). Budget execution reports, which can be directly compared with the approved budget, are prepared quarterly and issued within 6 weeks of end of a period (Score C). There are no material issues in the quality of

information provided by reporting (Score B). Internal audit is operational for most, but not all, central government entities (90 percent) and it includes a focus on systemic issues (more than 50 percent of staff time) (Score B). Prompt and comprehensive action is taken by many MDAs in response to internal audit findings (Score B).

PIM-21 [OVERALL SCORE D]

355. **Service delivery is not estimated and monitored against the plans of specific projects.** Service delivery by specific projects in key sectors is not measured and monitored (Score D). Unit cost reporting and variances in key sectors is performed within reporting on budget program passports using cash basis (not accrual) accounting systems (Score D).

Main Challenges and Recommendations Relating to this Function

Challenge 7.1.

It is difficult to determine if individual projects are delivering the volume and quality of services that were envisaged during planning

Recommendation R-21

The MoE should review the regulation on monitoring of projects during the operational stage to ensure measurement and reporting of service delivery performance against an *ex-ante* project plan.

Challenge 7.2.

Not all MDAs have an internal audit function, which affects project service delivery negatively

Recommendation R-22

MDAs should improve the internal audit function by ensuring that they have fully staffed internal audit departments and by strengthening control and enforcement of responses to internal audit findings.

PIM Function 8: Evaluation [Indicators 22-23]

Main Features of a Good PIM System

356. **A good evaluation process must be based on *ex-post* studies and impact assessments.** Policy and methodological guidance on *ex-post* evaluation must be available and applied to individual projects. Impact evaluations should also be undertaken for all major projects and a sample of smaller projects.

Main Findings by Indicator

PIM-22 [OVERALL SCORE D+]

357. **Elements of external audit and *ex-post* evaluation of public investment projects exist but are fragmented across the public finance and investment system.** Annual budget execution reports are submitted for the audit review by ACU in a timely manner, but there is no practice of developing audit reports on individual projects (Score C). Audit of service delivery performance and conduct of impact studies is not performed for individual projects (Score D). *Ex-post* evaluation of large projects is not provided for in legislation, however, some elements of it exist within operational monitoring (Score D).

PIM-23 [OVERALL SCORE B+]

358. **Legislative scrutiny of external audit reports functions well, as stipulated by regulations.** Annual audit reports on state budget execution are submitted to the VRU in a timely manner (Score A). Legislative scrutiny covers aggregated capital expenditures of all MDAs, but it is not based on individual investment projects (Score B). Responsiveness to audit scrutiny findings and recommendations is provided for in legislation and works in practice (Score A).

Main Challenges and Recommendations Relating to this Function

Challenge 8.1.

Concept and practice of *ex-post* evaluation is not institutionalized in Ukraine

Recommendation R-23

Establish a formal *ex-post* evaluation process, covering efficiency, effectiveness, and impact: the legislative framework for SSIPs should be developed by adding by-laws and a methodology for *ex-post* evaluation of investment projects. Ideally *ex-post* evaluation must be performed not by MDAs or project implementers, but by independent third parties. However, additional funding for such services must be envisaged in the state budget.

Challenge 8.2.

There is no agency that would be clearly assigned to the external audit of public investment projects

Recommendation R-24

SAS should coordinate with ACU more closely to minimize unnecessary overlap in audit, and more regularity in project audit should be introduced.

Recommendation R-25

Perform external audit of individual major projects upon completion and on an annual basis for a sample of all projects using risk-based selection. ACU should be assigned the role of external auditor of public investment projects. The audit should be performed regularly. The results of audit should be communicated to the MDAs, project implementers, MoE, Inter-Agency Commission, and public.

CHAPTER 4

CLIMATE CHANGE-INFORMED PIM IN UKRAINE

4.1. Introduction

359. **Climate change (CC) is a major threat to people and countries around the world.** Greenhouse gas concentrations are at their highest levels in two million years and as a result, the earth is now about 1.1°C warmer than it was in the late 1800s. And because the Earth is a complex interrelated system, the increase in average temperatures has many profound consequences, including, intense droughts, water scarcity, severe fires, rising sea levels, flooding, melting polar ice, catastrophic storms and declining biodiversity. Climate change will increase the vulnerability of human and natural systems and the economic costs of climate will be large.

360. **Financial resources and sound investments are needed to address climate change, to both reduce emissions, promote adaptation to the impacts that are already occurring, and to build resilience.** According to the 2018 Report of The Global Commission on The Economy and Climate[190] the world will need to make significant investment in infrastructure over the next 15 years –around US$90 trillion by 2030, and ensuring that this infrastructure is sustainable will be a critical determinant of future growth and prosperity. The report also highlights that those investments can be recouped by transitioning to a green economy and unlocking new economic opportunities. Transitioning to a low-carbon, sustainable growth path could deliver a direct economic gain of USD 26 trillion through to 2030 compared to business-as-usual.

361. **Which are the most important negative effects of climate change in each country depend on its location, topography, socio economic conditions, and main economic activities.** For Ukraine climate-driven changes such as higher temperatures may cause potential shifts in agricultural zones that can compromise the country's food security and economic growth. Urban population vulnerability

190 https://newclimateeconomy.report/2018/wp-content/uploads/sites/6/2019/04/NCE_2018Report_Full_FINAL.pdf

is magnified by infrastructure deficiencies including an aging and fragile housing stock, and limited potable water supply. Increased incidence of strong floods in the last 20 years has affected nearly one-third of the population, especially in the Carpathian Mountains and their foothills. Droughts now occur on average once every three years. Other impacts of climate change include:[191] a decline in surface water quality and quantity, erosion and flooding of coastal areas, damage to coal/gas infrastructure causing power supply interruptions, increased forest fire risks and increase of some diseases.

362. **Public infrastructure contributes to Climate Change in diverse ways.** Greenhouse Gas (GHG) emissions are generated directly during construction and operation, for example from machines during construction or from the operation of a coal burning energy generation facility. Construction of a new road can increase deforestation, either by land clearing for construction or by facilitating access to forests and fostering cutting of trees. There are also indirect effects both during construction and operation, for example from the production of steel and cement to be used for construction or from the increased use of fossil fuel powered vehicles promoted by a new road.

363. **But provision of new public infrastructure can also contribute to reducing GHG emissions,** for example by substituting electricity generated by burning fossil fuels with solar or wind power generation, or by simply reducing use of energy by better insulation of public buildings and homes or by reducing the use of fossil fuel powered motor vehicles thanks to improvements in public transportation by train.

364. **Public infrastructure is also increasingly exposed to the risk of damage from climate-related disasters and needs to be designed and operated in ways that reflect these risks.** More severe weather can have serious impact on infrastructure, as has been recently the case in Germany and China. Design standards must change in other ways to take account of the increased intensity and higher probability of the occurrence of heavy rains, fires, fierce winds, or extreme heat or cold and, consequently, increased resiliency to impacts generated by climate change.

4.2. Methodological Approach

365. **To better address the aspects of PIM that are directly related to or affected by CC, the assessment of climate-informed PIM in Ukraine is organized around the eight 'must-have' functions of the World Bank PIM framework, rather than the more in-depth PIM indicators.[192]** For those must-have functions that should include a CC aspect, **Table 19** presents: (i) the climate responsive PIM aspect; (ii) what is analysed; and (iii) the related PIM indicators.

Table 19. Framework for the Assessment of PIM and CC

Must-have PIM function	Climate responsive PIM aspect	What is analysed	Related PIMs
1. Investment Guidance	Climate-informed strategic guidance	If CC impacts are incorporated into mid- and long-term strategic plans, if these plans serve as guidance for infrastructure development planning, and if CC informed strategies are being used as guidance for early screening of projects.	PIM-1. Sector analysis and planning PIM-2. Strategic plans & investment guidance, project development and preliminary screening

191 Source: Climate Change Risk Profile Ukraine, USAID 2016

192 It will be remembered that the PIM indicators are already grouped according to the eight 'must-have' functions, which were originally expounded in Policy Research Working Paper 5397, A Diagnostic Framework for Assessing Public Investment Management, Anand Rajaram, Tuan Minh Le, Nataliya Biletska, Jim Brumby. WB. August 2010.

Must-have PIM function	Climate responsive PIM aspect	What is analysed	Related PIMs
2. Project Appraisal	Climate-informed project appraisal	If project appraisal studies incorporate analysis of the impact of the project on CC and if project risks due to CC and project resilience have been identified and incorporated into the project design.	PIM-3. Formal project appraisal procedures and guidelines
4. Project Selection and Budgeting	Climate-informed project selection	If CC impacts of the project and risks due to CC are being used as criteria for project selection and if there is clear identification of CC related projects in the budget (CC tagging).	PIM-7. Project selection and budgeting
5. Project Implementation	Climate-informed monitoring during implementation	If monitoring procedures during project implementation include objectives, indicators or activities relating to CC.	PIM-17. Control, monitoring and reporting: physical and financial milestones
7. Project operation	Climate risks monitoring during operation	If monitoring procedures during project operation include objectives, indicators or activities relating to CC.	PIM-20. Control, monitoring and reporting: financial and service delivery performance PIM-21. Service delivery

Source: World Bank Mission Team

366. The assessment framework set out in **Table 19** is fully consistent with the dimensions of the PIM indicator in the pilot PEFA Climate (CRPFM-5) and the relevant questions of the climate dimension of the World Bank's InfraGov assessment tool (questions 1-3 of InfraGov 5).

4.3. Existing Legal Framework

367. **The existing legislative framework includes regulations about public investments that have impacts on CC variables, as well as regulations about emissions of GHG.** Most of the regulatory framework concerns environmental impact, pollution, and the resilience of assets to existing climatic conditions. The legal framework therefore includes impacts on CC issues and factors climate impacts into infrastructure design but is not specific to CC and adaption of infrastructure to CC-induced hazards. The legislation for disaster risk management is more developed and detailed in respect of addressing the hazards that might arise from CC. Despite the lack of specific CC provisions in the regulatory framework for PIM, the existing framework (see table in **Annex 2**) contains guidelines that can be used for assessment of the risks of disasters. It also provides a basis for further development of PIM procedures that incorporate CC.

368. **The design standards for infrastructure in Ukraine are aimed at both resilience of buildings and mitigation of negative impacts on the environment; however, they are based on historical data that may not reflect CC impacts.** The existing design standards take account of climatic, geological, and seismological factors that may affect

the project or asset. There are specific formulas that define the characteristics of a facility, which should be resistant to snow, wind, and other weather conditions. According to the information provided by the Ministry for Communities and Territories Development, which is responsible for development and updating of the design standards, the future effects of the climate on the asset to be constructed or reconstructed are defined based on probability theory. The national standards for calculation of loads and impacts on the future assets advise using available statistics to generate probability distributions for the occurrence of hazards. However, these probabilities are based on past events and therefore do not consider changes in the probability of occurrence and magnitude of the events due to CC.[193]

369. **While many design and construction standards have been updated during the last several years, some of them remain unchanged since the 1990s or 2000s.** The Ministry for Communities and Territories for Development plans to work until 2031 on updating design norms to create a unified and overarching regulatory environment in the construction sector harmonized with the requirements of the EU.[194] This provides an opportunity to incorporate changes based on forecasted impacts of CC in Ukraine.

4.4. Institutional Framework

370. **The institutional framework in Ukraine pertaining to CC issues includes a number of key players.** The key institutions and their roles regarding CC and PIM are:

i. The Ministry of Ecology and Natural Resources ensures the formulation and implementation of state policy in the field of (among others) regulation of negative anthropogenic impact on climate change and adaptation to its changes and compliance with the UN Framework Convention on Climate Change, the Kyoto Protocol, and the Paris Agreement. Responsibilities also include policy formulation and control of compliance in environmental impact assessment of projects and strategic ecological assessment.

ii. The Ministry for Communities and Territories for Development is in charge of development and approval of construction standards and policy formulation for compliance with construction standards, which include resilience to climate and norms to increase energy efficiency.

iii. The MoE, which is responsible for policy formulation and implementation in the area of compliance and selection of SSIPs based on CC related criteria.

iv. Line ministries (MDAs), which must ensure SSIP's compliance to CC-related criteria.

v. Agencies and SOEs which are responsible for preparing environmental impact assessments and strategic ecological assessments.

4.5. Climate Change: Assessments by PIM Function

Climate-informed Strategic Guidance

371. **No strategic guidance pertaining specifically to PIM and CC has been developed, but Ukraine has commitments under international agreements that are aimed at mitigation and adaptation to CC, and which have some influence on PIM.** These include the Association Agreement, the United Nations Framework Convention on CC, and the Paris Agreement. Within scope of the Paris Agreement, Ukraine's NDC target is not to exceed 60

193 In the national design and construction standard it is said 'the values of loads (the effects on assets) and coefficients may be set by probabilistic justification using available statistics. At the same time atmospheric effect may be set according to the data of the State Meteorological Service of Ukraine, as well as data of departmental meteorological services certified by the State Meteorological Service of Ukraine.'

194 Draft Order of the Cabinet of Ministers of Ukraine 'On approval of the Concept of development of the system of technical regulation and regulatory support in construction in Ukraine '

percent of 1990 GHG emission levels in 2030.[195] In addition, Ukraine is committed to achievement of the Sustainable Development Goals till 2030, including *Goal 13 Climate Action*, within which Ukraine aims to reduce GHGs in economic activity. The second Kyoto Protocol obliged Ukraine to limit or reduce its GHG emissions by 24 percent below 1990 levels, but SDGs do not impose any particular targets on countries. The Low Emission Development Strategy to 2050 determines the national stakeholders' agreed vision on decoupling further economic and social growth from growth in greenhouse gases emissions, but does not address public investments and makes no specific reference to resilience of infrastructure to CC. The national strategic documents concerning CC mitigation or having an impact on CC are shown in **Table 20**.

372. **There are no requirements for individual projects to be compliant with international climate-related commitments.** Ukraine must control and report on compliance with international environmental agreements and commitments, but the contribution of each individual project is not assessed. If a project is likely to cause significant impact on the environment, it will be assessed within the full environmental impact assessment (EIA) for construction projects, which typically happens after the project is screened, appraised, and selected for financing. At the stage of preliminary screening, developers of SSIPs must provide basic information in the project concept note on the impact the project will have on environment, but not specifically in relation to CC.[196]

Table 20. National Strategic Documents Addressing CC mitigation

Type of document	Name of Document	Year of approval	Status
The Concept/ Strategy	The Concept on State Climate Policy Implementation till 2030[197]	2016	In force
Action Plan	The Action Plan to Implement the Concept on State Climate Policy[198]	2017	In force
Strategy	Low Emission Development Strategy to 2050	2017	In force
Strategy	The Law of Ukraine on main principles (strategy) of state environmental policy till 2030[199]	2019	In force
Action Plan	National Action Plan on Environmental Protection till 2025[200]	2021	In force
Action Plan	2020 National Renewable Energy Action Plan[201]	2014	Expired
Strategy	The Environmental Safety and Climate Adaptation Strategy by 2030	2021	Expected
Action Plan	Action Plan to the Strategy for Environmental Safety and Climate Adaptation Strategy by 2030	2021	Expected

Source: World Bank Mission Team

195 Updated Nationally Determined Contribution of Ukraine to the Paris Agreement (updated on 31.07.2021) https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Ukraine%20First/Ukraine%20NDC_July%2031.pdf

196 Information required under Resolution No. 571 is less than what is normally required as a preliminary environmental impact assessment in a feasibility study as per international standards.

197 The Concept on State Climate Policy Implementation till 2030 in English https://mepr.gov.ua/files/docs/Zmina_klimaty/Concept%20of%20State%20Climate%20Change%20Policy.docx

198 The Action Plan to Implement the Concept on State Climate Policy https://zakon.rada.gov.ua/laws/show/878-2017-%D1%80#Text

199 The Law of Ukraine on main principles (strategy) of state environmental policy till 2030 https://zakon.rada.gov.ua/laws/show/2697-19#Text

200 National Action Plan on Environmental Protection till 2025 https://www.kmu.gov.ua/storage/app/uploads/public/60a/222/2fb/60a2222fb2d25472902158.doc

201 2020 National Renewable Energy Action Plan https://zakon.rada.gov.ua/laws/show/902-2014-%D1%80#Text

Table 21. Examples of Strategic Justification for a Sample of Projects

Project name	Strategic documents
Creating a comprehensive system for handling of radioactive materials, which are formed during stopping the operation of power units and reconstruction of Shelter object. (Ukryttia, Chornobyl area project)	1. Law of Ukraine 'On the National Targeted Environmental Program for Radioactive Waste Management' (dated 17 September 2008, No. 516-VI). 2. 'Strategies for radioactive waste management in Ukraine' (approved by the order of the Cabinet of Ministers of Ukraine dated 19.08.2009 N 990-p). 3. Law of Ukraine 'On the National Program of Decommissioning of the Chornobyl power plant and Transformation of the Shelter into an Ecologically Safe System' (dated 15.01.2009 No. 886-VI). 4. Strategies for the transformation of the Shelter' (approved by the Decision of the Interdepartmental Commission for Comprehensive Resolution of the Chornobyl power plant of March 12, 2001, for No. 2).
Geological study and industrial development of the Avramivske residual ilmenite deposit	Law on approval of the National program of development of mineral resource base of Ukraine for the period till 2030

Source: World Bank Mission Team

373. **According to Resolution No. 571, SSIPs must be aligned with the national and sectoral strategic documents, which by inference includes climate-related strategies, although there is no explicit requirement.** Project concepts and project proposals should indicate the strategies to which the goal of the project is related; however, in most cases, the strategies mentioned relate to direct project outputs and outcomes, rather than cross-cutting issues like CC (see examples in **Table 21**). Moreover, given that there is no specific CC-informed public investment strategy, screening for strategic alignment is difficult.

Climate-informed Project Appraisal

Climate-informed Appraisal of SSIPs According to the Resolution No. 571

374. **Resolution No. 571 requires that project proposals for SSIPs contain information on emissions, pollution, energy saving, and mitigation of environmental impact risks.** There are two sections in a project proposal requiring forecasts and analysis of environmental impact: 'measures for environmental protection' and 'forecast of social and environmental impact'. However, there is no specific mention to emissions of GHGs.

375. **MoE has issued guidelines proposing the structure of the mentioned sections, but not specifying the methodology (Table 22).** The guidelines do not require evaluation of CC impact, climate adaptation or disaster risk management within public investment projects, but they do require environmental impact and risk assessment, including reduction of emissions, some of which can impact CC.

376. **The information provided in project proposals submitted to the MoE does not include specific references to CC.** Occasionally emissions of GHGs are mentioned, but there is no reference to CC impacts of the project, risks to the project due to CC or the CC contribution of the project. As an example, the project proposal to create a comprehensive system for handling radioactive materials contains information on forecast reductions in radioactive pollution, but nothing on GHG emissions. While another project proposal relating to mining (Geological study and industrial development of the Avramivske residual ilmenite deposit) contains information on the volume of GHG emissions during the operational phase (**Table 23**). These inconsistencies can be avoided by providing clear guidance to project proponents.

Table 22. Contents of Guidelines

Section 8: Measures for environmental protection	Section 17: Forecast of social and environmental impact
Among the set of measures envisaged by the project, it is recommended to highlight and indicate in this paragraph the following, which are aimed at: * reproduction and conservation of natural resources, * negative impact on the environment. The information contained in this paragraph reveals the environmental impacts of the project, therefore, describing the measures, it is advisable to indicate the expected measurable indicators (reduction of emissions, increase in plantations, etc.).	To make a forecast of environmental consequences, the following structure is proposed: * analysis of the current state of the environment in the territory that may be affected as a result of the project implementation (quantitative and qualitative characteristics), * analysis of the impact of the project on the environment in absolute and relative indicators: improving air quality and reducing the level of its pollution; increasing the level of purity of water.

Source: World Bank Mission Team based on MoE guidelines

Table 23. Examples of Content of Sections about Environmental Impact and Protection in Project Proposals

Project name	Content of sections devoted to environmental protection in a project proposal (sections 8 and 17)
Creating a comprehensive system for handling of radioactive materials, which are formed during stopping the operation of power units and reconstruction of Shelter object. (Ukryttia, Chornobyl area project)	**8. Measures for environmental protection.** Brief information on resource saving, protection of environment (water, for example), and monitoring of radioactive pollution is provided. There is reference to EIA. There is no information on impacts of CC on the projects, neither on GHG emissions during the construction period. **17. Forecast of social and environmental impact.** This section focuses on impact and results related to reduction of risks of radioactive pollution.
Geological study and industrial development of the Avramivske residual ilmenite deposit	**8. Measures for environmental protection.** The section includes information on measures to prevent air pollution (from dust), water, and sound pollution. **17. Forecast of social and environmental impact.** The section contains forecasts of GHG emissions during the operational stage of the project, as well as of water and soil pollution. It is stated that the emissions and pollution are within the norms of the Ukrainian legislation.
Construction of water supply networks in settlements of Lviv region, which use transported water	**8. Measures for environmental protection.** Except for measures to protect environment, the section includes information on GHG emissions during construction. GHG emissions from transportation of water before project completion are also shown, these emissions will be avoided after putting the project into operation. **17. Forecast of social and environmental impact.** Provides the same information as section 8.

Source: World Bank Mission Team based on review of project proposals.

377. **The legislative framework for PPP projects provides analysis of environmental impacts, but it does not refer to CC.** The project proposal for a PPP project contains two sections related to environment, but not directly referring to CC: 'environmental consequences of public-private partnership, taking into account the possible negative impact on the environment' and 'socio-economic and environmental prospects after the expiration of the contract concluded in the framework of public-private partnership.'[202] The guidelines for development of a PPP project proposal contain information on environmental impact assessment, but it is focused on analysis of the project's direct impact on the local environment and does not mention CC aspects or GHG emissions.[203]

Climate-informed Appraisal of SSIP and Non-SSIP Projects According to the Legislative Framework on Construction

378. **A full EIA is only required for certain public investment projects at the stage of project engineering design, that is, after the appraisal decision and irrespective of whether they are SIPPs or non-SIPPs.** This requirement is limited to State Budget funded projects or PPPs from certain sectors only, as specified in the law.[204] The prescribed sectors mostly relate to natural resources extraction, the oil and gas industry, agriculture, light industry or other activities that might have significant impacts on the environment. The report on the EIA has to be published for public consultation by the agency or SOE that plans to implement a project. The reports that are approved by the Ministry of Ecology and Natural Resources are then entered into the single register of environmental impact assessments.[205] However, doing an EIA with a CC orientation at the design stage is too late for including mitigation and (especially) adaptation measures into the project design, and for considering technological, location and size options. Good practice would involve including assessment of CC considerations in an earlier, preliminary 'EIA' that could have an influence on project design at appraisal stage.

379. **The report on the full EIA contains a section[206] that requires CC analysis; however, the existing guidelines do not include a methodology for such analysis.** The Ministry of Ecology has developed a general guideline for EIA and another specific guideline for the forestry sector. The general guidelines, which were approved in 2021, mention CC and GHG emissions, but do not specify the requirements of the analysis.[207] The guidelines for the forestry sector mention CC, but again do not provide any specific methodology on CC analysis.[208] There are no other guidelines published by the Ministry of Ecology.

380. **Disaster risk management is considered in the full EIA, but only from the perspective of dangers from the project, rather than dangers to the project.** The report on EIA must include information on the expected disasters the implementation of a project could potentially cause; however, there is no specific requirement for identifying and studying CC related disasters that may affect the project. Measures to prevent or mitigate the impact of disasters on the environment must be described in the report. The guidelines recommend applying

202 Resolution of CMU No. 384 as of 11.04.2011 on Some issues of organization of public-private partnership https://zakon.rada.gov.ua/laws/show/384-2011-%D0%BF#n274

203 Guidelines on the issues of public-private partnership https://www.me.gov.ua/Files/GetFile?lang=uk-UA&fileId=711e3245-1af5-47a1-b4e9-16ed2ae0225f

204 The Law on Urban Planning, Article 31 https://zakon.rada.gov.ua/laws/show/3038-17#n390

205 Resolution of the CMU No. 1026 as of 13/12/2017 On approval of the Procedure for submission of documentation for issuing an opinion on environmental impact assessment and financing of environmental impact assessment and the Procedure for maintaining the Unified Register of Environmental Impact Assessment https://zakon.rada.gov.ua/laws/show/1026-2017-%D0%BF#n79

206 The mentioned section requires description of environmental factors that are likely to be affected by the planned activity and its alternatives, including public health, fauna, flora, biodiversity, land (including land acquisition), soil, water, air, and climate-related factors (including CC and GHG emissions).

207 Order of the Ministry of Environmental Protection and Natural Resources of Ukraine No. 193 as of 15.03.2021 On approval of the General methodological recommendations on the content and procedure for compiling reports on environmental impact assessment https://mepr.gov.ua/documents/3342.html

208 Order No. 136 as of 02/03/2020 of the Ministry of Energy and Environmental Protection of Ukraine on approval of the Methodological recommendations for the development of the report on environmental impact assessment in the field of forestry https://mepr.gov.ua/documents/2749.html

mathematical modeling, method of analogies and others to assess the risks of disasters caused by the project. The guidelines for the forestry sector provide some general recommendations on the application of disaster risk assessment in the sector but do not provide any specific methodology.

Climate-informed Project Selection and Budgeting

381. **Although one of the criteria established by the MoE for selecting a new SSIP is a positive environmental effect, that criterion is not used in practice due to a lack of necessary information.** CC assessment criteria and prioritization are not used to select an SSIP for funding nor are they applied when selecting budget funded projects that do not follow the procedures in Resolution No. 571.

382. **The fiscal planning and budgeting do not allow tracking of climate change expenditures,[209] (including those of investment projects related to climate policy implementation).** Project assessment criteria and prioritization methods do not include consideration of a project's exposure to climate risks. There are no requirements for MDAs to prepare an assessment of a project's exposure to climate risks. Extreme weather and other disaster management are not considered during selection or during the preparation of project design documentation prior to implementation.

Climate-informed Monitoring during Implementation

383. **Monitoring reports for SSIPs[210] do not focus on or require reporting related to CC or disaster risks.** While the project proposal for an SSIP includes analysis of environmental impact and risks, there is no requirement to report on this aspect during project implementation. And, as has already been described, specific consideration of CC in environmental impact and risk assessments done during project preparation is not occurring, in practice, both for procedural and capacity reasons.

384. **In those cases where a full EIA is required at design stage,[211] the implementing agency has to prepare an environmental monitoring plan.** The general guidelines for EIA specify the details of how the monitoring should be performed. The guidelines advise measuring all environmental impacts specified in the EIA report and reporting this information, together with analysis, to the Ministry of Ecology and Natural Resources. The frequency of reporting is not regulated by the general guidelines, but the guidelines for the forestry sector advise providing monitoring reports once every two to three years until the negative impact on the environment fully disappears. The procedure for monitoring and its frequency must be specified in the monitoring plan at the stage of EIA. In principle, this could be an instrument for monitoring CC impacts and risks, but this would require having identified the climate related impacts in the original EIA, which is not currently happening.

385. **Monitoring as part of the Strategic Ecological Assessment (SEA) process is also required.** Upon the completion of the SEA report, the monitoring plan is prepared and approved for controlling the impact the project may have on the environment. The monitoring must be performed by the agency that developed the planning document (a feasibility study, for example) once a year until the expiry of a planning document[212] and a year after.[213] The monitoring report should be published on the website of the agency.

Climate Risks Monitoring during Operation

386. **Monitoring of environmental and CC risks during operation of non-SSIP is not conducted.**

209 Climate change expenditures are any expenditures incurred to take measures to reduce risks, mitigate or address the impacts of climate change. *Using the Technical Annex: Overviews of Climate Expenditure Tagging Frameworks. February 2021. World Bank.*

210 Reports on passports of budget programs, monitoring reports on public investment projects, and updated Part III of feasibility study – see PIM 17.1 for a full discussion.

211 The Law of Ukraine on environmental impact assessment https://zakon.rada.gov.ua/laws/show/2059-19#n2

212 The legislation refers to the 'planning document', as strategic environmental assessment relates not only to investment project, but any government initiative that may have impact on environment.

213 Resolution No. 1272 of CMU as of 16.12.2020 On Approval of the Procedure for monitoring of consequences of execution of the document of the state planning for environment, including for health of the population https://zakon.rada.gov.ua/laws/show/1272-2020-%D0%BF#n10

Budget reporting and monitoring cover operations of budgetary institutions, without considering their direct impacts on the environment. Thus, when an investment project in a budgetary institution (such as healthcare or education institution) has been completed, the respective Passports of Budget Programs and relevant reports contain performance indicators about healthcare and education only, and nothing about environmental consequences, including in relation to CC.

387. **Monitoring of service delivery from SSIPs at the operational stage should be carried out based on the indicators contained in the feasibility study.**[214] However, despite this requirement, no reports are in fact prepared on the status of implementation of public investment projects after the completion of the investment stage and commissioning of facilities. During such monitoring, environmental indicators should be monitored only in terms of increasing / decreasing emissions of pollutants. A project's exposure to climate risks is not required to be monitored.

388. **SOEs whose activities have an impact on the environment, including those enterprises that have completed investment projects, monitor such impacts and prepare an annual report on the findings.** This is required by several regulations, each of which addresses the reporting of a particular type of environmental impact, notably: (1) generation and management of waste,[215] (2) water pollution,[216] and (3) emissions of pollutants, including GHGs.[217] **Table 24** presents how monitoring data required by existing legislation is useful for SOEs. The mitigation of the risks to the climate from an enterprise's activities, including activity as a result of a project, might be presented, for example, in the investment program of the enterprise. At the same time SOEs, whose activities have an impact on the environment currently implement investment projects with extensive measures to reduce the negative impact on the environment.

Table 24. Examples of Potential Uses of Monitoring Data

Type of monitoring data	Use of data	Regulation
Water quality	Scientifically substantiated recommendations necessary for making management decisions in the field of water use and protection and reproduction of water resources.	Resolution of CMU No. 758 as of 19.09.2018 On approval of the Procedure for state water monitoring.
Waste generation and management	Determine and predict the impact of waste on the environment, and the timely detection of negative consequences and their prevention.	The Law of Ukraine No. 187 as of 05.03.1998 On Waste, Article 29
Emissions	Regulate emissions of pollutants into the atmosphere from stationary and mobile sources, to reduce the degree of impact on the state of physical and biological factors of the air.	Resolution of CMU No. 1655 as of 13.12. 2001 On Approval of the Procedure for maintaining state accounting in the field of atmospheric air protection'.

Source: World Bank Mission Team based on existing legislation.

214 Order of MoE No. 1785 as of 25.10.2016 On approval of the Procedure for monitoring the state of development (implementation) of public investment projects

215 Order of the State Statistics Service of Ukraine No. 164 as of 25.06.2021 On approval of the form of state statistical observation No. 1-waste (annual) *Report on the formation and management of waste*

216 Resolution of CMU No. 758 as of 19.09.2018 On approval of the Procedure for state water monitoring

217 Order of the State Statistics Service of Ukraine No. 405 as of 18.12.2019 On approval of the form of state statistical observation No. 2-TP (air) (annual), *Report on emissions of pollutants and greenhouse gases into the atmosphere from stationary sources of emissions*

389. **The monitoring of environmental and CC risks has recently been enabled through a newly adopted legislative framework, that will require strengthening monitoring during operation and maintenance of public investment projects.** In December 2019, the Ukrainian Parliament adopted the Law on Monitoring, Reporting, and Verification of GHG emissions.[218] Together with supporting legislative acts,[219] it is aimed at fulfilling Ukraine's obligations under international agreements. The idea of the newly introduced system is to monitor the emissions of facilities that fall under the list of sectors/activities with high emissions and to verify the monitoring. The legislative framework covers only the industry and energy sectors, which are the biggest emitters of the GHGs (CO2 and NO2) that are monitored. The Ministry of Ecology and Natural Resources is the key body regulating this area.

4.6. Conclusions and Recommendations

390. **Mainstreaming of CC into PIM is at very initial stage in Ukraine and improvements to the existing framework are required.** There is no specific legal framework requiring consideration of CC impacts on projects or of the effects of specific projects on CC. There are also no guidelines on how to consider these issues when appraising and selecting public investment projects.

391. **Fiscal risk statements do not identify climate change related risks and climate-related expenditures are not identified in the budget and consequently not tracked.** The only exception is the budget program 'State support for measures aimed at reducing greenhouse gas emissions (increasing absorption), including insulation of social security facilities, development of international cooperation on climate change.' The key spending unit of this program is the Ministry of Ecology and Natural Resources. However, climate change expenditures of other ministries and agencies, and subnational governments are not tagged in the state budget.

392. **When selecting public investment projects, there is no screening based on criteria of climate policy alignment, climate impacts or climate-related risks.** Indirect consideration is, however, given in the case of SSIPs because selection criteria include environmental impact. And considering that project proposals include information on emissions, CC is to some extent factored into the decision.

393. **To make progress on CC-informed PIM, the following improvements could be made:**

a. Ensure that the national strategic documents of relevance to public investment address clearly the relevant international commitments and policies and make specific reference to requirements for resilience of infrastructure to CC.

b. Update Resolution No. 571 and existing guidelines to require an assessment of the impact of a project on CC variables (GHG emissions), strictly requiring that individual projects be compliant with international climate-related commitments and policies, and that there be an analysis of resilience of the project to CC impacts.

c. Support CC informed appraisal of projects, strengthen the CC criteria in project appraisal methodologies and EIA methodologies, and begin to generate forward-looking information about variables important for project design and appraisal which will be affected by CC (such as increased strengths of winds, greater intensity of rains, changes in rain patterns, forecasted frequency of forest fires, etc.)

d. Develop guidelines and procedures for tagging CC related projects in the budget, and for monitoring CC variables during project implementation and operation. This could be implemented through the budget program classification: the third register of the budget program classification[220] with the number "9" could identify and tag climate related budget programs and the last digit could differentiate mitigation and adaptation measures of such a program.

218 The Law of Ukraine on Monitoring, Reporting, and Verification of GHG emissions https://zakon.rada.gov.ua/laws/show/377-20#Text

219 Resolution of the CMU No. 880 as of 23.09.2020 On approval of the list of activities, greenhouse gas emissions of which are subject to monitoring, reporting and verification https://zakon.rada.gov.ua/laws/show/880-2020-%D0%BF#n8 and Resolution of CMU No. 960 as of 23.09.2020 On approval of the Procedure for monitoring and reporting on greenhouse gas emissions https://zakon.rada.gov.ua/laws/show/960-2020-%D0%BF#n9

220 The classification consists of seven digits grouped in four registers (MoF's Order of January 14, 2011 No. 11 "On budget classification".).

CHAPTER 5

ASSESSMENT OF PUBLIC-PRIVATE PARTNERSHIPS

394. **PPPs are public investment projects implemented with private financing and management and should therefore share common approaches to their identification and preparation.** In common with conventionally financed projects, PPPs support the creation of infrastructure and provide services that are a significant component of the public good, or address market failures that would prevent or impede the provision of these services directly by the private sector. Additionally, both forms of implementation involve financial obligations for the public sector, including direct and / or contingent liabilities.

395. **PPPs should be appraised for basic need and public value prior to decisions being taken about the form of financing.** Uncoordinated management of these processes negatively affects the proper identification and selection of new infrastructure projects and can lead to the inefficient allocation of resources. The implementation of all public projects may require budget funds or create fiscal obligations or fiscal risks for the state, leading to the inefficient use of limited state resources if management is inadequate. This problem can undermine the fiscal and fiduciary obligations of the government. In view of this, it is considered both desirable and effective to use a unified PIM system incorporating PPP in the framework of infrastructure planning and public financial management.[221] This chapter considers PPPs separately from more conventional infrastructure procurement and financing modalities to reflect current practice in Ukraine.

396. **The assessment of the current arrangements for organizing PPP in Ukraine was carried out using the same methodology as the main assessment considering the idiosyncrasies of PPP.** Due to these features, and due to there being no current possibility of providing long-term fiscal commitments on PPP projects, indicators characterizing the budget outturn performance were excluded from the PPP assessment.

221 See Chapter 10 of the World Bank's Public Investment Management Reference Guide, 2020.

Additionally, given the different procedures concerning their implementation and adjustment, this chapter did not assess those indicators (see **Table 25**). Given the limited experience of PPP in Ukraine compared to the implementation of conventional public investment projects and the lack of information on their practical use, the assessment of the selected indicators was carried out at a qualitative level.

Table 25. Framework for the Assessment of PIM and PPP

Indicators excluded from evaluation	Reason
4. Selection & budgeting	
4.A. Budget preparation & selection	
PIM-9. Comprehensive capital budget	In PPP projects, the capital is provided by the private sector rather than the government. Accordingly, the information on capital budget submitted for consideration to the legislature does not include any capital commitments for PPP projects.
PIM-10. Comprehensiveness and degree of public/parliamentary access to capital budget information	
4.B. Budget outturn performance	
PIM-11. Development and capital budget execution rates: Aggregate expenditure outturn compared to adjusted original budget on a commitment basis	The issue of budget outturn performance in relation to PPP projects can be considered only in the context of providing government support to PPPs, including those implemented in the form of a concession. This is not possible today as result of existing limitations in the Budget Code of Ukraine. Hence, the corresponding indicators are excluded from the assessment
PIM-12. Composition of development and capital expenditure outturn compared to adjusted original budget on a commitment basis	
PIM-13. Project completion time and cost variances for completed projects	
PIM-14. Stock and monitoring of capital expenditure arrears	
5. Implementation	
PIM-17. Control, monitoring & reporting: physical and financial milestones	This indicator does not consider the specifics of PPP and is relevant only for conventional procurement. Management of total costs during a PPP project lifecycle is carried out by a private partner / concessionaire. The public partner/ grantor does not interfere with the private partner's operational activities and only controls the achievement of the performance indicators by the private partner / concessionaire as stipulated by the PPP / concession agreement.
PIM-18. Project handover, asset registration and completion review	This indicator does not consider the specifics of PPP and is relevant only for conventional procurement. For PPP projects, including those that are implemented in the form of a concession, the handover of management responsibility for future operation / maintenance and adequate budget to maintain and operate the assets is to the private sector, and occurs when the PPP / concession agreement is signed.

Indicators excluded from evaluation	Reason
7. Service delivery	
PIM-21. Service delivery	This indicator does not consider the specifics of PPP and is relevant only for conventional projects. In PPP projects, the reimbursement of investments by a private partner / concessionaire depends on his achievement of the performance indicators specified in the relevant agreement. Most of these performance indicators (or even all) relate to the services provided under the agreement.
8. Evaluation	
PIM-23. Legislative scrutiny of external audit reports	This indicator does not consider the specifics of PPP and there are no specific requirements covering PPP external audit reports

Source: World Bank Mission Team

5.1. Introduction and the Current Situation

397. **The Government of Ukraine recognizes the importance of PPPs for improving public infrastructure for service delivery and includes in the National Sustainable Development Goals, the initial target of 45 new PPP projects by 2030.** Later, in 2019 the GoU revised this indicator: new targets are 205 PPP contracts in 2020; 216 PPP contracts in 2025; and 240 PPP contracts in 2030.[222] The importance of accelerating infrastructure development through private sector participation is constantly emphasized in government strategies and programs, including the National Economic Strategy until 2030. However, Ukraine still has limited and not particularly successful experience in the practical implementation of PPP projects.

398. **Only six concession projects have been implemented in relation to state assets up to 2021.** Four concession agreements were concluded during 2004 – 2012 for relatively small projects in the energy sector: two projects for wind power plants of UAH 18.27 million and UAH 157.8 million, respectively; one for a thermal power plant of UAH 51.5 million; and one in tourism. Two of these agreements are in the process of early termination. The remaining two agreements, for Kherson and Olvia port projects, with investments of USD 53 million and USD 654 million respectively, were signed by the Ministry of Infrastructure (MoI) in 2020. At the time of the assessment (October 31, 2021), these projects were still in the transition period (pre-implementation). Over the same period, an unknown number of other projects were signed but subsequently cancelled.

399. **Most public authorities do not actively initiate infrastructure projects on PPP terms.** Currently, only MoI is preparing PPP proposals for projects in the seaport sector and in roads and railway station reconstruction. Reflecting this activity, at the time of the assessment, six concept notes on the implementation of road projects in the form of non-concession PPPs have been adopted in accordance with the requirements of the legislation. No other line ministries currently consider exploring the potential for PPP implementation.

222 Information in accordance with the letter of the MoE Nr.3032-04/10 dated 13.01.2022 and the Report of the State Statistic Agency of Ukraine for achievement of SDG 17 in 2020 - http://www.ukrstat.gov.ua/. As of January 26, 2022, the National Report "Sustainable Development Goals" is posted on the official website of the Ministry of Economy, which does not reflect these changes
https://www.me.gov.ua/Documents/List?lang=uk-UA&id=938d9df1-5e8d-48cc-a007-be5bc60123b8&tag=TSiliStalogoRozvitku

400. **Ukraine has had a number of unsolicited proposals ('USPs') submitted for consideration over the past four years.** The number of USPs is higher than the number of PPP proposals initiated by public authorities over the same period. Three USPs were submitted for airport infrastructure projects, one for a seaport and one for energy infrastructure. One of these proposals has been rejected, all others are still at different stages of consideration; so far, no agreements have been signed. The rules for USPs remain the same as for proposals initiated by the government in accordance with good practice.

401. **It has been impossible to assess the quality of completed concept notes and feasibility studies of PPP projects due to their being classified by the authorities as "confidential."** Despite the broad requirements for transparency of information on PPP projects in the legislation, especially for concessions, there is a widespread problem with the practice of regularly applying a 'confidential information' status (see **Box 8**). MoI has applied this to all concept notes and feasibility studies of PPP projects, including even the most basic information. This is at odds with international good practice which would restrict confidentiality to commercially sensitive information.

5.2. Legal Framework

402. **In recent years (2016-2021) Ukraine has significantly improved its legislation in the field of PPP/concessions.** A new law on concessions has been adopted; significant improvements have been made to the Law on PPP and other relevant laws and sub-laws of Ukraine. The legal framework in the field of PPP has been updated with the support of the EBRD and the World Bank. As a result, the legislation specifically related to PPP is now generally in line with good international standards and allows the use of modern innovative approaches to structuring PPPs.

BOX 8

Access to Public Information

According to the Law of Ukraine "On Access to Public Information":

* Confidential information refers to public information with a limited access. It is considered to be information to which the access is restricted by an individual or legal entity, except for subject of government authorities, and which may be disseminated in the manner prescribed by them at their request in accordance with the conditions provided for by them. That means, that the law clearly stipulates that subject of power (public authorities) may restrict access to information received by them confidentially, if the dissemination of this information is not agreed by those persons (individuals or legal entities) who granted it such status (Articles 6 – 7 of the Law);
* It is the information that can be restricted, not the document. Therefore, if the document contains information with limited access, only the information that has been granted confidential status is not a subject to dissemination, and not the entire document (Part 8 of Article 6 of the Law).
* The law also defines that information on the possession, use or disposal of state and municipal property, as well as information on budget commitments or the disposal of budget funds in any other way are the information to which access cannot be restricted. (Part 5 of Article 6 of the Law).

The concept notes have been prepared by the Ministry of Infrastructure, which is the subject of government authority; they contain information on the possession, use or disposal of state or communal property, access to which may not be restricted in accordance with the law. The same applies to the feasibility studies developed by the Ministry of Infrastructure (subject of authority).

In addition, documents as a whole (concept notes and feasibility studies) are currently classed as confidential, and not individual information contained in them: this is expressly prohibited by law.

403. **At the same time, a serious obstacle to the development of '*government-pays*' PPPs and some concession projects remains.** As the Budget Code does not currently provide for the possibility of making long-term commitments on PPP (concession) projects, most of the forms of government support for PPP implementation provided for in the PPP Law and Concession Law cannot be applied in practice.[223] This means that projects that rely on such arrangements, typically in the social sectors, are not bankable. This is the main reason that to date no 'government-pay' PPP contracts have been implemented in Ukraine: only commercially attractive concession projects have been prepared. A new draft law amending the Budget Code is currently in the parliamentary process and, if approved in the form required, would solve this issue.

404. **The current PPP specific legislation clearly defines the conditions for using PPP for the implementation of infrastructure projects.** It establishes a unified procedure for PPP project initiation, regardless of the form of PPP (concession / 'user pays' or 'government pays') or the initiator of a PPP proposal (public authority or private business). The process of appraising PPP proposals is clearly established in the legislation and clarified in comprehensive guidance. It meets international principles in this area and can be considered to represent good practice.

405. **In 2021, a detailed PPP manual was developed with World Bank support.[224]** This manual provides comprehensive guidance on the application of current legislation to initiate, prepare, appraise, procure and manage PPP projects, including methodological approaches to project prioritization and the formation of pipeline projects. It includes analysis and experience of their use in other countries. It provides a basis for increasing the institutional capacity of public authorities and for accelerating the process of preparing and implementing PPP projects for the development of sustainable and resilient privately financed infrastructure.

406. **PPP legislation now permits modern innovative mechanisms for structuring PPP projects, allowing an implementation model that balances public interest with private business expectations.** These mechanisms include various forms of government support which can be used for both concessional and non-concession PPPs; Step-in-Rights for lenders; and a competitive dialogue procedure.[225] However, all this potential has not been realized due to a combination of the current constraints of the Budget Code and the low institutional capacity of public authorities.

5.3. Institutional Arrangements

407. **Ukrainian legislation clearly defines the institutional roles and responsibilities of various public entities through all phases of the PPP project cycle (see Table 26).** Responsibility for state policy in the field of PPP is vested with the MoE which is legally mandated with developing, overseeing and monitoring PPP policy in Ukraine. MoE is the 'gatekeeper' in PPP project implementation for state assets. MoE approval of conclusions concerning the results of efficiency analysis of PPP implementation is mandatory when adopting a decision to use PPP implementation for state-owned assets.

408. **The 'Agency for Public-Private Partnership Support' (PPP Agency) assists the MoE in providing methodological support to public authorities during the preparation and implementation of PPP projects and in boosting the PPP pipeline.** Established by MoE in 2019, the PPP Agency is responsible for: identifying PPP projects; assisting public partners in the preparation of identification reports, concept notes, feasibility studies and tender documents; capacity building; and seeking investors

223 In accordance with the Budget Code of Ukraine, state and municipal bodies can make budget commitments at the expense of the appropriate budget only within a mid-term period (3 years). Long-term liabilities are only possible for energy service contracts, following lobbying on behalf of that sector.

224 Project 'Strengthening the Use of Public Private Partnerships (PPPs) for Better Public Capital Investment Management Projects'

225 Can be used only for procurement in concession projects

for PPP projects. IFC is providing active support to the development of the PPP Agency's institutional capacity. However, it has been impossible to assess this capacity, as all documents prepared by the PPP Agency, including the project identification reports, have been classified as 'confidential'.

409. **The dual role of MoE as 'gatekeeper' and project promoter through the PPP Agency creates a conflict of interest.** The motivations of a promoter are to boost the attraction of a project to investors and lenders, and this can lead to 'optimism bias'.[226] Often, there are also strong political pressures to conclude transactions with a focus on speed, rather than the quality of the transaction. The motivations of a 'gatekeeper' though are entirely different in that it is tasked with quality checking claims and assumptions made by project promoters so as to rein in optimism bias and ensure that decisions are made on an objective basis. Most governments handle this by keeping the two functions entirely separate.

410. **The Ministry of Finance (MoF) has the responsibility to assess the fiscal costs and risks that can arise from PPP projects, as well as the feasibility of providing governmental support.** MoF also analyzes the impact of PPP/concession project risks on the overall level of fiscal risk to the public finances. However, at the present time, MoF's capacity in the field of assessing and controlling key fiscal risks arising from PPP projects is insufficient to exercise these powers. It does not have a specialized unit responsible for PPP projects and lacks the methodological principles for assessing fiscal costs and risks from PPP contracts, which still need to be developed.

Table 26. Institutional Mapping of PPP Activities in Ukraine – Central Government

Role/Major Tasks	Comments
Line Ministries (19), Central Government Bodies (42)	
✱ To prepare and screen concept notes for projects in relation to proposals under their management and decide on feasibility study preparation ✱ To prepare PPP based proposals consisting of the feasibility studies and financial models ✱ To conduct an analysis of efficiency of PPP proposals (including unsolicited proposals) and submit the conclusion on their results to the MoE ✱ To take decision on PPP implementation (if approved by the MoE) ✱ To establish a tender commission for PPP procurement ✱ To engage advisors or independent experts for assisting in preparation of tender documentation and support of the tender commission's activity (if needed) ✱ To organize the tender and select the winner ✱ To negotiate a PPP/concession agreement with the winner ✱ To sign the PPP/concession agreement as the public partner/grantor ✱ To sign the direct agreement (if applicable) ✱ To monitor the implementation of the PPP/concession agreement in which they are public partners/grantors	Limited in capacity and experience in PPP

226 'Optimism bias' is the systematic tendency for project promoters and planners to over-estimate benefits and under-estimate costs of proposals. This is a behavioral characteristic that can be compounded by strategic misrepresentation.

Role/Major Tasks	Comments
Ministry of Infrastructure	
✱ Performs all the tasks outlined above for line ministries and central government bodies in the field of seaports and river ports, railways, airports, roads, and the postal service	Experience of preparation and concluding two concession agreements in seaports and the most extensive portfolio of potential PPP projects
Ministry of Economy	
✱ To take part in the assessment of PPP concept notes ✱ To conduct jointly with other line-ministries the independent review of PPP proposals, reach conclusions and approve (or refer) them ✱ To monitor the implementation of the PPP/concession agreements and report on their results to the Ministry of Finance ✱ To prepare and screen PPP concept notes for projects in relation to objects for which there is no state body designated by the Law to perform the necessary PPP management functions, and to take decision on the feasibility study preparation ✱ To prepare PPP proposals consisting of feasibility studies and financial models for projects in relation to objects for which there is no state body designated by the Law to perform the necessary PPP management functions ✱ To conduct an analysis of efficiency of PPP proposals (including unsolicited proposals) for projects in relation to objects for which there is no state body designated by the Law to perform necessary PPP management functions, and to submit the conclusion on their results to the Cabinet of Ministers ✱ To delegate its representatives as members of PPP/concession tender commissions ✱ To publish the results of PPP implementation, including the assessment and monitoring of the general level of risks for the public partner in PPP agreements ✱ To monitor the effectiveness of public authorities in the field of PPP, to protect the legal rights and interests of public and private partners in PPP agreements	Inadequate capacity and limited experience with PPP
Cabinet of Ministers of Ukraine	
✱ To decide on PPP implementation (or otherwise) for projects in relation to objects for which there is no state body designated by the Law to perform the necessary PPP functions ✱ To decide on the implementation and further operation of public roads of state importance on the terms of the concession ✱ To sign the concession agreement as the grantor or to define the public partner/grantor for projects in relation to objects for which there is no state body designated by the Law to perform the necessary PPP functions ✱ To take decision on the expediency of the concession and direct negotiations with the lessee of state property ✱ To approve the conditions of concession tenders for projects of construction and further operation of public roads of state importance ✱ To take decisions on government support for PPP/concession project implementation ✱ To determine a body that conducts the final evaluation of the implementation of the PPP / concession	

Role/Major Tasks	Comments
Ministry of Finance	
* To take part in approval of PPP concept notes * To assess the fiscal consequences that may arise during the implementation of PPP/concession as a result of direct and indirect obligations of the public partner/grantor, the feasibility and the possibility of providing government support and to approve the conclusion on the results of analysis of efficiency * To delegate its representatives as members of PPP/concession tender commissions * To conduct a general assessment of fiscal risks, including PPP fiscal risk, based on the appropriate reports of the MoE	Limited in capacity and experience in PPP; absence of internal coordination in the review of PPP feasibility studies
PPP Agency	
* To identify PPP project ideas * To assist public partners in the preparation of identification reports, concept notes, feasibility studies and tender documents * To provide for capacity building * To seek potential investors and lenders for PPP/concession projects	State enterprise under management of the MoE
Project Office SPILNO	
* To support the activities of the Ministry of Infrastructure in preparation of concept notes and PPP proposals for seaports and roads and in providing monitoring for two seaport concessions in Kherson and Olvia seaports	Located in the Ministry of Infrastructure, funded by donors
Project Office 'Reform Support Team'	
* To support the activities of the Ministry of Infrastructure in preparation of concept notes and PPP proposals for seaports and railway station buildings	Located in the Ministry of Infrastructure, funded by donors
Anti-Monopoly Committee	
* To give consent to the signing of a PPP/concession agreement in cases provided for by law * To provide for analysis of compliance with the requirements of the legislation on protection of economic competition and legislation in the field of state aid in the process of approval of conclusions on results of analysis of efficiency of PPP implementation	

411. **Line ministries retain ownership responsibility for PPP projects.** They are responsible for: preparing and analyzing PPP proposals, including USPs; approving decisions on PPP implementation; organizing and conducting tenders; and selecting private partners/concessionaires for the implementation of relevant projects. They also act as the public partners/grantors under PPP/concession contracts.[227] Ultimately though, it is the government as a whole that bears the risk should things go wrong.

227 In accordance with the legislation, other public entities (the Cabinet of Ministers of Ukraine, the National Academy of Sciences of Ukraine, national branch academies of sciences, or in case of a concession agreement and the CMU decision approval - state enterprises, institutions, organizations, companies, 100 percent of shares of those belong to the state or another business company, 100 percent of the shares (shares) of which belong to the state) also can participate in the PPP/concession projects as public partners/grantors under some conditions established by the Law.

412. **The most experienced ministry in PPP development is the MoI, which implements state policy on seaports and river ports, railways, airports, roads, and the postal service.** Currently, this ministry has the most extensive portfolio of potential PPP projects. The activity of MoI in the field of PPP is strongly supported by two donor-funded Project Offices, SPILNO[228] and the Reform Support Team. On August 31, 2021, the MoI itself had a PPP & Privatization Division consisting of three persons; however, this small team does not have the technical capacity to review, assess, give opinions on, direct and manage PPP projects in the manner set out in the legal framework.

5.4. PPP: Assessments by Indicators

413. **The following section gives the qualitative assessment by selected indicator organized around the main PIM functions.**

PIM Function 1. Guidance & Screening

PIM PPP-2. Strategic Plans & Investment Guidance, Project Development and Preliminary Screening

414. **Sector analysis, forecasting and planning for the PPP implementation of infrastructure projects are still not practiced in MoE, MoF and in line ministries of Ukraine.** Strategic documents, such as the National Report 'Sustainable Development Goals: Ukraine'[229] and the National Economic Strategy until 2030[230] contain separate goals related to PPP/ concessions. At the same time, these goals are not accompanied by results from any analysis which justifies the projected use of PPP implementation.

415. **The government's goals for PPP implementation are not realistic or credible.** The NSDGs set a target of concluding 45 PPP projects before 2030 (SDG 17), but from 2017 – 2021 only two concession agreements were concluded. Additionally, in accordance with the previously mentioned Cabinet Decree,[231] 46 PPP projects should have been implemented by 2023, but to date PPP concept notes have only been prepared for 6 of the 46.

416. **A systematic approach to identifying priorities with PPP potential at an early stage is still missing.** Principles and a methodology for the selection of priority investment projects identified by a Cabinet Decree in 2020,[232] as well as for possible sources of their financing or funding (including PPP), are unknown. A methodology for selecting those to be implemented by PPP still has not been developed.

417. **There is no national PPP project pipeline in key market-facing sectors such as health, energy and environment, making it difficult for national and international investors to view future opportunities.** The first steps to applying a program approach to PPP were made by the State Road Agency of Ukraine (Ukravtodor) at the end of 2020. Ukravtodor, together with the Ministry of Infrastructure and the IFC, has prepared a PPP pipeline for the road sector and has begun its implementation. This initiative should provide a beacon of good practice for other sectors to follow.

418. **PPP proposals must be screened for their compliance with the NSDGs and the strategic priorities of the country and industry.** Potential PPP projects must be screened using criteria which include the existence of suitable options, other than PPP, for solving problems; suitability for implementation as a PPP; and (as with other investment proposals) socio-economic and environmental consequences of project implementation. Additionally, demand for the services provided under the project and risks - potential cost and distribution between partners, including fiscal risks – should be analyzed, as well as the project's efficiency compared with implementation without the involvement of a private partner. This requirement

228 SPILNO' in Ukrainian means 'TOGETHER'
229 https://ukraine.un.org/uk/49413-2017-nacionalna-dopovid-cili-stalogo-rozvitku-ukraina
230 Cabinet Decree 'On approval of the National Economic Strategy for the period up to 2030' No. 179 dated 3 March 2021
231 Ibid
232 Cabinet Decree 'On adopting the list of priority investment projects for the state until 2023' No. 1581-r dated 16.12.2020

is established through a Cabinet decree.[233] For the period 2017 – 2021, only nine concept notes (three for seaports in 2017 and six for highways in 2021) and two feasibility studies relating to concessions for certain state assets (ports) were prepared and approved. All these documents have been prepared by the MoI, with strong donor support (IFC and EBRD). However, the quality of this screening cannot be assessed since all of them have been defined by the MoI as confidential.

419. **PPP projects are not initially identified based on the results of an analysis of their potential effectiveness[234] nor is there any legislative provision for doing so.**[235] The only ministry that is actively involved in initiation/implementation of PPP projects, MoI, selects projects for the preparation of concept notes for PPP implementation mainly based on initiatives of the Ministry's Project Offices (RST and SPILNO). As reported by MoI, this is done by considering a project's commercial attractiveness and ability to attract financial resources for the preparation of a PPP proposal.

420. **Project profiles (concept notes) are required for projects proposed for PPP implementation, but screening does not appear to be rigorous.** Despite similarities in the format, the process is not integrated with that of state investment projects.[236] In practice, none of the PPP concept notes prepared during the last five years was rejected,[237] including when a project was lacking strategic relevance or a convincing rationale for the project's sustainability. This undermines the primary purpose of pre-screening.

421. **Preparation of concept notes leaves room for the possibility of changing the project implementation mechanism but in practice this rarely happens.** Evaluation of concept notes provides an opportunity for considering the implementation modality, even if processes differ for state investment projects and PPPs. Notwithstanding this possibility, none of the projects proposed for implementation as a PPP were subsequently recommended for implementation as a state investment project. Additionally, only one of the projects submitted for consideration as a state investment project in 2019 was subsequently recommended for implementation as PPP. This project was submitted by the Institute of Neurosurgery of the National Academy of Medical Sciences of Ukraine. No further steps were taken to explore this possibility, and it has more recently been re-submitted for implementation as a state investment project. The ability to switch implementation methodologies, based on emerging evidence and assessment, is an important feature of a good PIM system and may need to be strengthened in Ukraine.

PIM Function 2. Formal Appraisal

PIM PPP-3. Formal Project Appraisal Procedures and Guidelines

422. **The roles and responsibilities of MoE, MoF, line ministries and central agencies in PPP projects are clear (see Table 26).** The appraisal process at all stages – concept note evaluation, preparation of conclusions on the result of the assessment of feasibility studies and financial models to analyze efficiency, and approval of these conclusions by MoE and MoF – is also clear. Roles and responsibilities are defined in legislation[238] and explained in the PPP Manual.[239]

423. **The PPP Manual provides a detailed methodology for the preparation of a feasibility study and financial model, as well as for their appraisal.**[240] This manual covers financial appraisal, economic analysis – using social cost benefit analysis

233 Cabinet's Decree 'Some issues of organization of public-private partnership' Nr. 384 dated 11.04.11 with amendments

234 As an example of a prioritization approach, the World Bank's PPP Manual describes a methodological approach to prioritize PPP projects based on country / territory strategic development priorities and sector priorities. https://www.me.gov.ua/Documents/Detail?lang=uk-UA&id=2bc79196-a3b2-41a9-86e2-f55f9a8f5c9c&title=MetodichniRekomendatsii

235 Cabinet's Decree 'Some issues of organization of public-private partnership' Nr. 384 dated 11.04.11 with amendments

236 As defined in Resolution No. 571.

237 In accordance with the legislation before taking decision on a PPP feasibility study preparation a concept note for the relevant project (for state assets) should be approved by the public authority-project initiator and MoE and MoF.

238 PPP Law and LoC

239 https://www.me.gov.ua/Documents/Detail?lang=uk-UA&id=2bc79196-a3b2-41a9-86e2-f55f9a8f5c9c&title=MetodichniRekomendatsii

240 See Part 2 and Annex to the PPP Manual https://www.me.gov.ua/Documents/Detail?lang=uk-UA&id=2bc79196-a3b2-41a9-86e2-f55f9a8f5c9c&title=MetodichniRekomendatsii

or cost-effectiveness analysis – market analysis and risk assessment for different sectors, and includes the evaluation of environmental and social impacts, and other potential approaches for project proposal preparation and evaluation. Particular attention is paid to further evaluation of the public value of the project, first identified in a concept note, as well as project risk assessment. In the concept note, only a qualitative assessment of project risks is undertaken, whilst in a feasibility study, all risks with significant fiscal consequences should be assessed quantitatively.

424. **The depth and scale of the preparation and appraisal of PPP projects is not based on the size or risk involved in the project.** The legal framework provides for no specific approach to allow for reduced appraisal requirements for smaller projects: all PPP proposals should be assessed following the same procedure. The minor exception is for unsolicited proposals, which are exempt from the preparation of a concept note only, but in all other respects the same procedures apply. As Ukraine does not yet have enough experience in PPP project preparation and implementation, it may be too early to think about differentiating, for example, by small projects or repeat projects (of which, there have been none, so far), and this need not be seen as a serious weakness at this stage.

425. **The World Bank, IFC and EBRD are actively involved in the process of PPP development in Ukraine.** They aid in preparation and evaluation of PPP projects as well as supporting the development of PPP legislation, capacity building, and institutionalizing the PPP process. However, donors work mostly with MoE, MoF, MoI and the State Road Agency on potential '*user-pays*' PPPs. PPP projects in health, education, energy, heating, environment, water supply and sanitation are not among their current priorities in Ukraine. This is due to current legislative challenges in conducting so-called '*government-pays*' PPPs.[241]

426. **The legislation does not require stakeholder consultation, except with the public authorities involved in the appraisal process.** Contrary to good practice, communication and engagement with civil society on a PPP project implementation is not provided for. This means that opportunities for improving projects through consultation and discussion with interested (and often knowledgeable) parties are being missed.

PIM PPP-4. Project Appraisal Capacity

427. **The quantity and quality of staff in central agencies and key sector MDAs for overseeing and conducting PPP project preparation and appraisal is not adequate for them to fulfill the roles assigned to them.** Substantial capacity development will be required before this is the case. There is a possibility of future support from a dedicated PPP agency created by MoE but, again, its capacity will need to be strengthened before this becomes fully effective. The PPP division of MoE has positions for only five people, of which two positions are currently vacant. There are also capacity issues in organizing the appraisal process for PPP proposals within MoF, as well as in line ministries and state agencies (except MoI and the State Agency on Energy Efficiency – as explained below).

428. **MoF has the responsibility to assess the fiscal consequences from PPP project proposals in relation to their fiscal risks and the feasibility of providing any governmental financial support for such proposals.[242]** It also has the responsibility of analyzing the impact of PPP/concession project risks on the overall level of fiscal risks which could impact the public finances. However, at the present time, MoF has limited understanding of the subject matter related to PPPs; no experience or capacity to fulfill its role; and there are no internal procedures for reviewing PPP proposals within the ministry.

429. **MoF has no division responsible for the analysis of PPP project proposals or for monitoring and control of implementation.** Instead, the analysis of PPP project proposals is carried out by its specialized divisions according to a project's technical area. The department of MoF in charge of monitoring fiscal risks is not involved in the review of PPP concept notes nor in the analysis of draft PPP / concession agreements. Only two introductory training sessions on the PPP Manual have been conducted for the ministry (by the World Bank in 2020-2021).

241 As opposed to '*user-pays*' PPPs.

242 Cabinet's Decree 'On approval of the Methodology for assessing fiscal risk' Nr. 351 dated 24.04.2019 'and 'Some issues of organization of public-private partnership' Nr. 384 dated 11.04.11 with amendments

430. **MoI, despite being the most competent ministry on PPP issues, has a privatization and PPP division consisting of only 3 people.** Only the head of the division has been trained on PPP issues. Almost all the tasks facing the Ministry in the field of PPP are carried out by the Project Offices, SPILNO and RST. RST has 10 staff involved in PPP related activities and SPILNO has five. Projects prepared and supported by these offices are allocated to them on a subjective basis. The staff of these offices are regularly trained on PPP issues and supported by donors. They have been involved in the preparation of two seaport concession projects and have a fairly good working knowledge in PPPs. In other ministries (except for the State Agency on Energy Efficiency), there are no divisions responsible for PPP issues; or with competencies in this area.

431. **The Agency for Public-Private Partnership Support (PPP Agency) was created in 2018 by the MoE with the purpose of providing support to public partners during the preparation and implementation of PPP projects.** Its main function is to implement measures for boosting high-quality and investor-attractive PPP projects in various sectors. The PPP Agency supports line ministries, agencies and local authorities in PPP proposal preparation and appraisal. The staff of this agency, consisting approximately of 10 persons, are trained and institutionally supported by IFC. The PPP Agency actively participates in the activities of the MoI and local self-government bodies in the process of identifying and preparing PPP project proposals, providing them with advice. The Agency prepares project identification reports on behalf of these organizations, and actively cooperates with MoI's project offices.[243] It is not possible to assess the quality of the documents prepared by the PPP Agency's employees, since all documents, including the project identification reports, are classified by the Agency as confidential. This lack of transparency is unusual compared to international comparators and could not be considered as good practice.

432. **Training on PPP issues is fragmented, uncoordinated and infrequent.** Public authorities at the central and local level need comprehensive and holistic training programs on PPP issues. During 2020 and 2021 the World Bank and IFC organized training on PPP, mostly for the MoE, the MoF and the PPP Agency. However, training for high-level decision makers in the identification, preparation and selection of projects for PPP implementation is not frequent enough to achieve a critical mass of skills at the required level.

PIM PPP-5. Screening of Feasibility Studies

433. **Well-defined and documented processes for feasibility study preparation, appraisal and screening exist, but the stringency of screening raises questions.** These processes are prescribed in the legislation and clarified in the PPP Manual. All concept notes and PPP proposals (feasibility studies) should undergo in-depth appraisal with formal decisions at key stages, including a decision to proceed with a feasibility study preparation. Since none of the feasibility studies (2) prepared by public authorities in the last five years was required to undergo redesign and/or reappraisal this may raise concerns about the stringency of the screening. Among five unsolicited proposals (USPs) submitted during the last five years, only one was rejected by the MoI; and decisions on PPP implementation for four others were adopted, but with only one being eventually successful.[244] All PPP feasibility studies (USPs and those prepared by the public side) are confidential and cannot therefore be evaluated in this assessment, making it difficult to comment on their quality.

243 According to information provided by the PPP Agency, in 2019 it prepared 2 identification reports on airports; in 2020 - 62 identification reports on roads (12 of these projects were selected for further consideration) and 11 identification reports for projects in the city of Lviv; in 2021, until August - it prepared 11 identification reports for state and municipal property. It also assisted in the preparation of concept notes for 3 airports, 7 railroad stations, 6 roads and 2 seaports.

244 The winner was adopted in August 2019, but the PPP agreement still was not signed.

434. **There is no computer database that can be used by public authorities for managing and analyzing the data on PPP projects, including on fiscal risks issues.** Very limited information on PPP projects through their stages of design, appraisal, approval and implementation, including on the pipeline of project proposals, is openly available, including on official sites of public authorities.

PIM Function 3. Appraisal Review

PIM PPP-6. Independent Review of Appraisal

435. **PPP legislation has clear requirements for the preparation of a PPP proposal and its subsequent independent review.** Following the appraisal of a PPP proposal, a written conclusion should be prepared by the proposer. A review of a PPP proposal and its conclusions by the MoE, the MoF and other relevant line ministries is obligatory for PPP projects that involve state assets, even if they do not need government support at the expense of the state budget. Approval of the conclusion by the MoE is a necessary condition for adopting a decision on PPP project implementation.

436. **Although independent reviews do take place, due to capacity constraints, these reviews may not be effective in identifying issues that need to be addressed in projects before they proceed.** The current PPP/concession legislation does not provide for the possibility of independent technical reviews by any entity external to the responsible public authorities. The quality of any review therefore relies entirely on the skills of the central oversight entities, MoE and MoF, which have been shown to be under-resourced in terms of human capacities. These capacity weaknesses strongly suggest that the review system may not be as strong in practice as it is on paper.

PIM Function 4. Selection and Budgeting

PIM PPP-7. Project Selection and Budgeting; and PIM PPP-8. Multi-year Budgeting

437. **The PPP Law and Law on Concessions (LoC) provide the possibility of receiving government financial support for implementation of PPP/ concession projects.** This can be in the form of providing state guarantees and local guarantees; through funding from state or local budgets, or other sources in accordance with national and local programs; or by payments to the private partner as provided for in a PPP agreement, in particular payments for operational readiness, or for construction.[245] However, Ukraine has so far had no experience of applying government support for PPP projects. Funding through budget programs is not currently provided to line ministries to support PPP projects; neither is there any methodology or guidance on providing government support in the framework of PPPs.

438. **It is not presently possible to make '*government-pays*' PPP projects bankable in Ukraine.** A draft law on amendments to the Budget Code of Ukraine provides for the possibility of long-term obligations in the framework of PPP contracts. Currently under consideration by the Parliament,[246] the draft law would also establish limits on the scale of obligations and government support for PPP projects. If the draft Law is adopted, it would be a significant move towards making socially orientated projects bankable. Procedures for applying and approving government financial support should then be developed, as well as an appropriate guideline. A computer database, with a long-term perspective for budgeting of PPP projects, would also become important in the practical application of the new funding regime.

245 In the form of new construction, reconstruction, restoration, overhaul or technical re-equipment.

246 Recently adopted in the first reading.

PIM Function 5. Implementation

PIM PPP-15. Procurement

439. **Selection of private partners/concessionaires does not come within the scope of the Public Procurement Law.** Instead, there are separate procurement rules defined by the LoC for concessions and by the PPP Law and the relevant sub-law[247] for non-concession PPPs. Competitive tender procedures apply to all procurements of private partners/concessionaires, including those for unsolicited proposals which, as already indicated, are treated the same as government-initiated proposals. These procedures correspond to good international practice in all respects. They are clearly established and easily accessible to the public. Open competitive procurement is the principal procurement method for non-concession PPPs. For concessions, it is also possible to apply a competitive dialogue procedure, but this has not yet happened in Ukraine. It is obligatory to contract independent, experienced advisors for tender documentation preparation if the cost of the project is more than UAH 250 million. One drawback of the legislation is that an independent complaints procedure for handling PPP/concession procurement and for clearing appeals has not yet been defined.

440. **The LoC also permits the e-procurement of concessionaires for projects with investment value less than UAH 250 million if the tender is conducted without a pre-qualification stage.[248]** The CMU Decree on the use of electronic procurement for conducting concession tenders also established the comprehensive procedures under the LoC, covering: decisions and conclusions on admission / non-admission of bidders to participate in the tender; minutes of the meetings of the tender commissions; requests for clarifications and elimination of violations in the process of the competition (not personalized); scanned copies of the concluded concession agreements; applications of applicants for participation in the preliminary selection; and requirement for all tender proposals of bidders to be published in the e-system for all concessions.[249] This condition does not apply to non-concession PPPs.

PIM PPP-16. Project Implementation Management

441. **There is comprehensive guidance for operational staff in MDAs on PPP project implementation;[250] however, good practice in its application remains to be achieved.** Only six concession projects have been implemented to date. Four of these were concluded before 2010 and two of these are out of operation and in the process of termination. The two other concession agreements, for the seaports of Kherson and Olvia, were concluded more recently, in 2020, and are still in the transition period. The management systems for these two concessions are still in the formative stage and there is no clear responsibility for their management within the MoI, as yet. Each of these projects is managed by two large working groups each consisting of representatives of the public and private partners.[251]

442. **Slow progress to date on the currently live concessions indicates that these arrangements may not be very efficient.** Implementation plans for these projects, including a detailed timeline, critical path and key milestones linked to funding tranches, are still absent nearly a year after the signing of the agreements. International practice would indicate that all of these issues would already have been agreed in principle as part of an implementation plan prior to concluding the contracts. Delays such as these are damaging to the investor climate and are very likely to deter further investment through concessions and PPP, unless they can be resolved in good time, consistent with international practice.

247 Cabinet's Decree 'Some issues of organization of public-private partnership' Nr. 384 dated 11.04.11 with amendments.
248 Cabinet's Decree 'Some issues of using the electronic trading system for concession tenders' – Nr.1210 from 9.12.2020
249 Except for the information determined by the applicant as confidential and / or secret in accordance with the Law of Ukraine 'On Access to Public Information'
250 Manual on PPP, Phase 4
251 These Working Groups can consist of between 20 and 30 people

443. **Monitoring reports sent to MoE display a number of areas requiring significant improvement.** Those reviewed have no information concerning: performance indicators for the projects; the financial obligations of the concessionaires; and analysis of the risks assigned to the concessionaires in the framework of monitoring. Taking performance indicators as an example, monitoring becomes impossible when the desired levels of performance, against which actual performance should be compared, are not provided.

PIM Function 6. Adjustment

PIM PPP-19. Project Adjustment

444. **According to the legislation,[252] the procedure for amending a PPP / concession agreement, is one of the essential components of an agreement.[253]** A PPP / concession agreement may be amended by its parties or at the request of one of the parties on the basis of a court or arbitration decision in case of significant breach by the other party of obligations under such agreement, or in case of significant change of circumstances, which guided the parties in the process of concluding a PPP agreement. Additionally, the Concession Law establishes a prohibition for the parties to change any of the terms of a concession agreement which were included in the bid and became the basis for determining the bidder as the winner.

445. **The same legislation obliges contracting authorities to inform the MoE about amendments of a PPP / concession agreement within a year after such changes.[254]** However, there are no requirements for submitting requests or seeking approval of proposed changes to the relevant agreements by the MoE and the MoF before amendments are signed. The Concession Law additionally has the requirement to publish amendments to the concession agreement within five days from the date of their introduction in the Electronic Trading System.[255]

PIM Function 7. Service Delivery

PIM PPP-20. Control, Monitoring and Reporting: Financial and Service Delivery Performance

446. **In 2020, MoE established a comprehensive procedure for submission of annual reports on the operational implementation of PPP/concession agreements by the public partners (grantors).** This procedure, the development of which has been supported by the World Bank, required detailed reports on PPP/concession agreements covering all actual performance results.[256] The first reports in this procedure have demonstrated a need to strengthen the conceptual and practical understanding of how such reports should be prepared. The reports are high-level and formalistic in their approach to the provision of information. As a result, the information – which covered neither service delivery performance indicators nor evaluation of authority risks – is of limited usefulness for understanding the operational performance of PPPs.

252 Concession Law and CMU Decree 'Some issues of organization of public-private partnership' Nr.384 dated 11.04.2011 with amendments

253 Including in accordance with the Step-in-Rights procedure if a direct agreement is concluded for the implementation of a PPP / concession project,

254 In case of amendments to a PPP / concession agreement during the reporting period, the state partner / grantor must provide for to the MoE certified copies of additional agreements with such amendments together with the annual report (MoE Order 'About the statement of the Procedure for submission by the state partners (grantors) of the annual report on performance of an agreement concluded in the framework of the public-private partnership, including a concession agreement' No. 986 dated 26.05.2020).

255 At the moment the Electronic Trade System is not put into operation. The 'Electronic Trading System' is an e-procurement system that should be developed for organizing e-procurement for concessions in accordance with the Concession Law (this term defined in the Concession Law). It is not the same as the general e-procurement system, PROZORRO.

256 MoE Order 'On approval of the procedure for submission by the state partners (grantors) of the annual report on the implementation of the agreement concluded in the framework of the public-private partnership, including the concession agreement' – No. 986 from 26.05.2020

PIM Function 8. Evaluation

PIM PPP-22. Scope, Nature and Follow-up of External Audit and *Ex-Post* Evaluation

447. **The PPP Law and LoC both require an *ex-post* evaluation for all PPP/concession agreements regardless of their size.** However, due to inadequate capacity for PPP in Ukraine no such evaluations have been provided so far. There is no methodology or guidance on how to conduct *ex-post* evaluations.

448. **The Accounting Chamber of Ukraine (ACU) has not conducted any audits on PPPs to date.** This is due to the absence of any projects that draw directly on the budget. If the draft law on amendments to the Budget Code of Ukraine is passed, it would provide for the possibility of long-term obligations in PPP contracts. This would likely lead to future PPP projects coming under the remit of the ACU.

5.5 Recommendations Specific to PPP

1. All public investment projects, including PPPs, should be appraised first for basic need and public value to the nation prior to decisions being taken about the form of financing.
2. The MoE should decide whether to retain the role of promoter or regulator in order to avoid the current conflict of interest.
3. The MoF needs to develop regulations, good practices and capacity to assess fiscal risks arising from PPP contracts *ex-ante*, and to monitor, report and disclose them *ex-post*.
4. The MoE should strengthen regulation concerning the amendment of PPP / concession agreements, so that proposed adjustments to PPP/concession agreements become the subject of oversight and approval by MoE and MoF; and extend the requirement of the Concession Law to publish amendments to all PPP agreements within 5 days after their approval for non-concession PPPs.
5. In the event that the draft Budget Code is amended to allow multi-year commitments, the MoE should develop a small pipeline of pilot projects of '*government-pays*' projects to test them on the investor / lender market and to learn critical lessons in preparing and procuring them.
6. Transparency in the process of developing and appraising the PPP option should be dramatically increased with the 'confidential' status being reserved only for the commercially sensitive information of bidders.
7. A coherent and endorsed strategy for the use of private finance in the delivery of public service (PPP in the broadest definition) should be developed.

CHAPTER 6

ASSESSMENT OF STATE-OWNED ENTERPRISES

6.1. Public Investment and Institutional Mapping in Ukraine

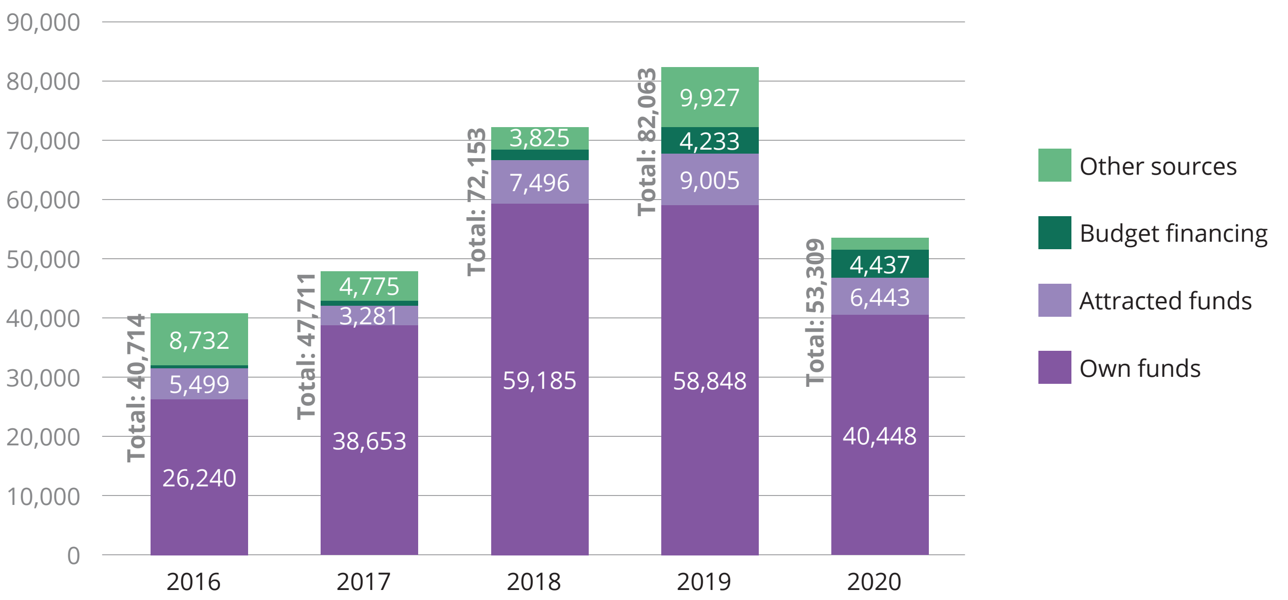
Public Investments Implemented by SOEs

449. **Infrastructure sectors in Ukraine are dominated by state-owned enterprises (SOEs) which historically implement significant capital investments in public infrastructure.** SOEs that operate as natural monopolies are typically found in the energy and transport sectors but are also present in other sectors of the economy. SOEs with market shares exceeding 50 percent are identified in at least 15 of 28 subsectors and markets in which they operate.[257]

450. **Capital investments implemented by SOEs were on the rise until 2019 and reached UAH 82 billion or 2 percent of GDP, with the largest source of funding from SOEs' own funds and credit facilities.** SOEs invest in core infrastructure projects such as energy networks, railways, seaports, and defense systems. As demonstrated in **Figure 6**, the largest source of funding for capital investment comes from their own funds, i.e., accumulated profits, funding between 64 percent and 82 percent of all their capital investments. The second largest source is borrowings—commercial banks, securities market placements, IFIs—financing between 7-15 percent of all capital investments. The share of budget funding for such investments has been low – around 1-2 percent in 2016-2018, increasing to 8 percent in 2020.

257 WB (2019) Reducing Market Distortions for a More Prosperous Ukraine.

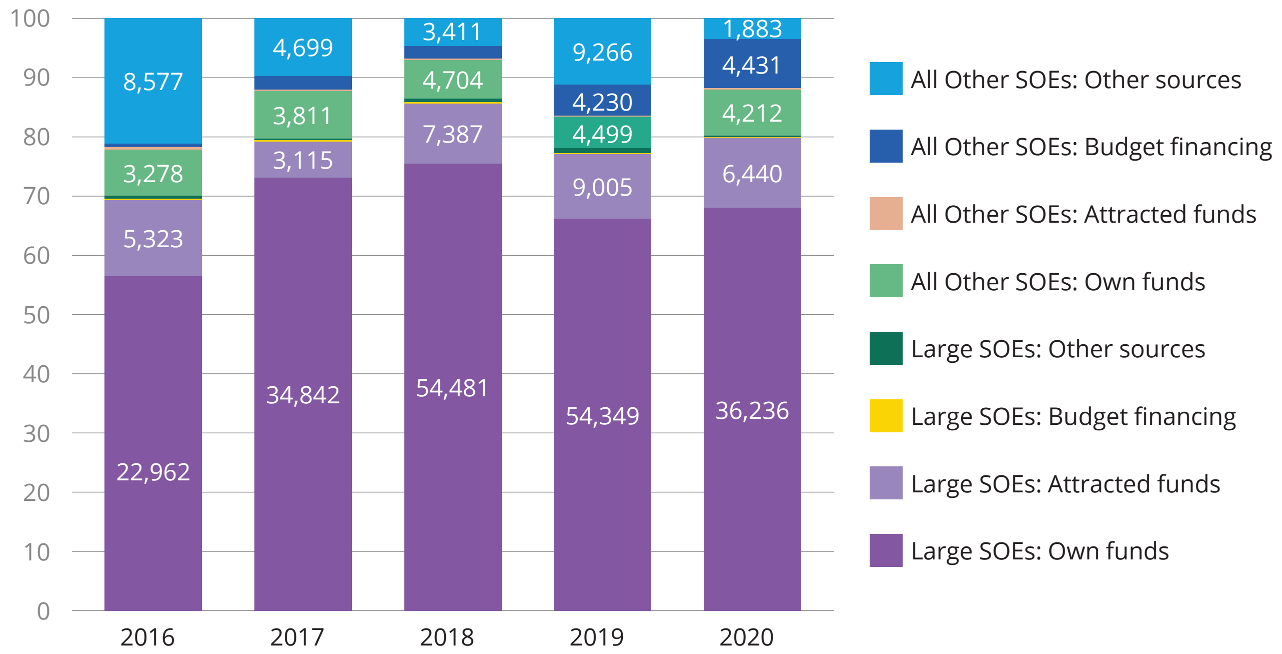
Figure 6. SOE Capital Investments by Source of Funding, UAH million



Source: Treasury, WB Staff Calculations

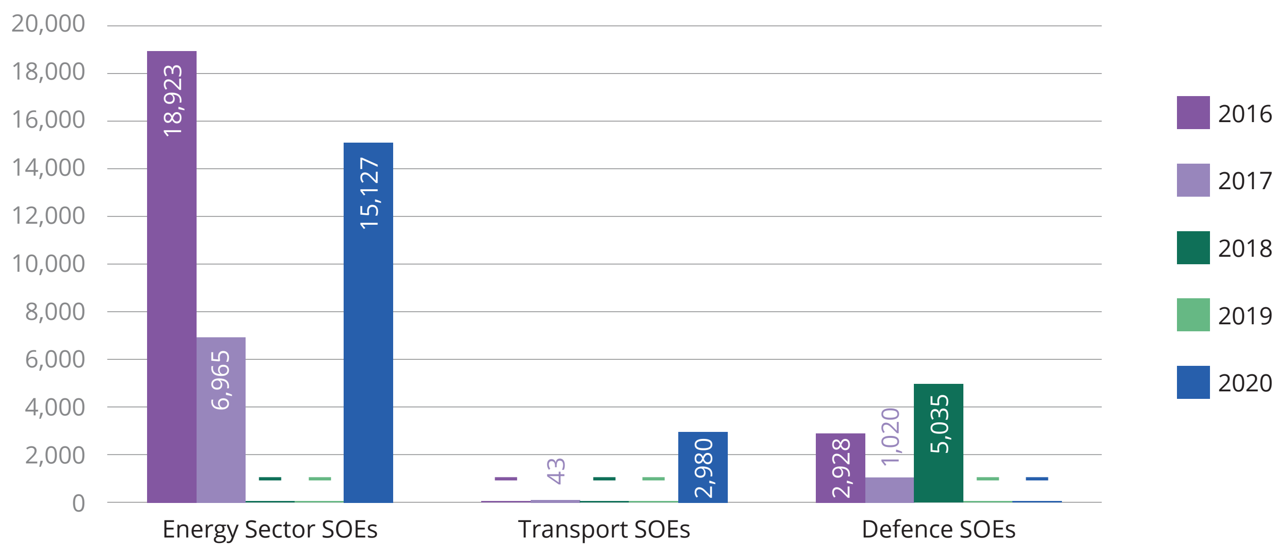
451. **Large SOEs do not rely on budget funding for their capital investments.** If analyzed by SOE size, natural monopolies and SOEs with profits exceeding UAH 50 million fund their capital investments via accumulated profits and various types of borrowings. Smaller SOEs receive budget funding for their capital investments; this trend increased from 2019-2020 (**Figure 7**).

Figure 7. Capital Investments by Source of Funding with Breakdown by SOE size, UAH million



Source: Treasury, WB Staff Calculations

Figure 8. State Guarantees Issued to SOEs by Sector, UAH million



Source: Treasury, WB Staff Calculations

452. **SOEs' investment potential largely depends on the amount of profits they can retain, with a balanced and predictable dividend policy forming a foundation for proper planning and implementation of their investment plans.** SOEs in Ukraine have complicated and non-formalized relationships with the central budget, which undermine the companies' operational efficiency. When fiscal pressures are low, SOEs are held less accountable for their financial inefficiency; but during times of fiscal stress, they are usually requested to transfer more profits to the budget. This approach impacts SOEs' ability to properly plan their investments and sustain their investment commitments, leading to productivity losses.

453. **Borrowed funds are the second largest source for SOEs capital investments, funding between 7 percent and 15 percent in 2016-2020, with some of these loans being guaranteed by the government.** SOEs borrow funds from local commercial banks, they issue bonds locally and internationally, and they also take long-term loans from the IFIs – directly or via on-lending through the state budget. Some of these borrowings are provided directly to SOEs at their own credit risk, and sometimes the government provides state guarantees. During 2016-2020, total state guarantees issued to SOEs and state-owned banks fluctuated between UAH 5 billion (2019) and UAH 23.8 billion (2020), with the energy sector dominating for both internal and external guarantees. However, only part of these state guarantees is directed towards capital investments. For example, SOEs' capital investment projects guaranteed by the state in 2020 accounted for only UAH 7.9 billion of the total UAH 18.1 billion (**Figure 8**), whereas UAH 10.2 billion were provided to PJSC Ukrenergo to cover its arrears to suppliers.

6.2. Assessment of State-Owned Enterprises

Introduction and the Current Situation

454. **SOEs implement a large share of public sector capital expenditure in Ukraine – above 30 percent in 2018-2019 and 24 percent in 2020.** SOEs have normally been the second largest source of public sector capital expenditure, representing around a third of the total in 2018 and 2019, but this was reversed in 2020 when central government capital expenditure rose to 31.9 per cent of the total and SOE spending fell to 24.0 per cent. This significant shift is

most likely related to effects of COVID-19 measures and the initiation of the Great Construction project,[258] both of which were funded from the central budget in 2020.

455. **SOEs fund their capital investments from several sources, including their own funds, borrowings, and to a lesser extent, from budget funding.** Budget funding for capital expenditure of projects implemented by SOEs had been historically low – around 1-2 percent in 2016-2018 – but grew to 8 percent in 2020. Most of such projects are implemented by medium size SOEs, while large SOEs that are natural monopolies and those with profits exceeding UAH 50 million, rely on their own funds and borrowings. SOEs' capital and retained earnings are the main sources of funding for capital expenditure, providing between 64 percent to 82 percent of all funding needs. The second largest source is borrowings—commercial banks, securities market placements, IFIs—financing between 7-15 percent of all capital expenditure.

456. **Depending on the source of funding for capital investments, different legislative procedures and approval routes are applied.** Budget-funded capital expenditure follows the SSIP cycle, as described in detail earlier in this assessment report; however, the share of such funding is insignificant. In addition to the SSIP cycle, SOEs can be financed by means of direct funding from the state budget within various budget programs, thus bypassing the SSIP cycle. Capital expenditure funded from SOEs' own and borrowed resources fall under different legislation and approval procedures, including separate sets of requirements for IFI funding,[259] and borrowing with state guarantees.[260] The variety of these cycles correspond to the specific requirements of the funding source and are based on a robust approval process. All of them are covered in this chapter. Importantly, all capital expenditure implemented by SOEs—own and budget funded—fall under the requirements of the public procurement legislation, which provides a coherent framework for goods and services procured during the implementation process, except for projects financed by the IFIs which follow their own dedicated procedures.

Methodological Approach

457. **The assessment of SOEs' capital investment practices in this report applies elements of the IMF PIMA Framework's Indicator 5c, alongside the indicators in the World Bank's 2015 framework.** Indicator 5c allows a broad assessment of SOE governance through a single question: Does the government oversee the investment plans of public corporations and monitor their financial performance? To answer this question, the assessment investigates SOEs' investment plans and their implementation across all funding sources, including those that are funded from the state budget, as well as those funded by loans and own funds of SOEs. The summarized answer to this question is presented in **Table 27**.

458. **Extending this analysis, this chapter follows a similar approach to the main assessment, considering the various aspects of budget funded capital investments and the specifics of SOE investments made outside the budget.** It analyzes the legislative framework for the financial and investment planning of SOEs and its actual application, the effectiveness of the institutional setup, covering the roles and responsibilities of various agencies and SOE management; implementation and monitoring of investment projects; evaluation of projects; and central government oversight of the financial performance of SOEs. The analysis investigates the similarities and differences of these metrics, looking at how SOEs manage investment projects regardless of funding source.

258 Great Construction is the national project initiated by President Volodymyr Zelensky in autumn 2019 with the main purpose to build and renovate the necessary social, transport infrastructure throughout Ukraine.

259 Resolution of the CMU No. 70 as of 27.01.2016 On preparation, implementation, carrying out of monitoring and completion of implementation of projects of economic and social development of Ukraine supported by the international financial organizations.

260 Resolution of CMU No. 835 as of 13.11.2013 on the Procedure on Selection of investment projects, for implementation of which state support is provided and Resolution of CMU No. 809 as of 15.06.2011 On approval of the Procedure for approval of attraction of loans, providing guarantees or sureties for such obligations by state-owned enterprises, including business associations (except banks), in the authorized capital of which 50 percent or more shares are owned by the state.

Table 27. Summary of Indicator 5c

Indicator/ Dimension	Brief Description
PIM-SOE. Central Government oversight of state-owned enterprise (SOE) investment plans and financial performance	There is a legislative framework in place for the government to review and approve financial plans of SOEs, which also include capital investment plans. This assessment concludes that in principle the government follows this procedure, although in practice very few SOEs include capital investment plans in their financial plans. Hence, the government cannot review and approve the entirety of SOEs' investment plans financed from all sources: state budget, own, or borrowed funds. The government does not prepare or publish an aggregate report on SOE performance. This practice ceased to exist with the last report published for 2018. At the same, consolidated information on SOEs' capital investment plans is made publicly available by the MoE annually. This published information covers all funding sources for capital investment by SOEs, including the state budget, own funds, and borrowings.

Legal Framework

459. **The legislative framework for capital investment by SOEs varies depending on the funding source.** The main legislation for the budget-funded investment is the Law on Investment Activities,[261] Resolution No. 835[262] on provision of state aid for investment projects, and Resolution No. 571[263] that establishes guidelines for all public investment projects, including their appraisal and selection procedures. In addition, SOEs follow their sectoral legislation that sets out the strategic priorities for the sector, forms the basis for all capital investment projects, regardless of their funding source, and outlines possible sources of funding. Energy sector SOEs, for example, follow the Law on the Energy Market,[264] as the main strategy setting document.

460. **Public investments implemented under the SSIP framework under Resolution No. 571 follow the robust practices, but this is not the case for capital investments implemented by SOEs under broader budget programs.** The current assessment confirmed that budget-funded public investment projects following Resolution No. 571 procedures become subject to a rigid application of the SSIP procedures and regulations, and there are no exceptions noted in this process. However, the assessment could not confirm the same for the capital investment projects implemented by SOEs and financed under the budget programs.

461. **For capital investments funded by borrowed funds, SOEs are required to follow specific legislation depending on the source.** If an SOE would like to borrow funds, it must follow: (i) Resolution No. 70 for IFI financing; (ii) Resolution No. 835 for loans from the state budget or loans from other creditors (non-IFI's), or those to be covered by state guarantees; or (ii) Resolution No. 809 for approval of state guarantees.[265]

462. **Capital investments implemented using SOEs' own funds follow Order No. 205 on financial planning for SOEs.[266]** Order No. 205 establishes the detailed process for financial planning, prioritization of expenses and the approval procedure, including for investment plans, among others. Order No. 205

261 Law on Investment Activities (1991) with changes and amendments.

262 Resolution of CMU No. 835 as of 13.11.2013 On approval of Procedure for selection of investment projects, for implementation of which state aid is provided.

263 Resolution of the CMU No. 571 as of 22.07.2015 on Some issues of public investment management

264 Law on Energy Market (2017), with changes and amendments.

265 In case of attraction of loans with state guarantees following Resolution No. 835 or Resolution No. 70 with state guarantees of MoF, Resolution No. 809 must be applied as well for approval of provision of guarantees.

266 Order of MoE No. 205 as of 02.03.2015 On approval of the Order on preparation, approval, and control of execution of the financial plan of an entity of public sector of economy.

also offers a pro-forma for financial plans but lacks an example of a pro-forma investment plan. If an SOE decides to use own funds (i.e., accumulated profits) to fund capital investments, these must be reflected in the financial plan and approved in accordance with the established procedure. The approval process for financial plans is clear and established as follows:

* Based on the mid-term sectoral strategy and the SOE's own investment plan (if available), annual financial (and investment) plans are drafted by the senior management with a detailed list of projects to be funded and their proposed funding sources;
* For those SOEs that have an established Supervisory Board and respective provision in their charter, the financial (and investment) plan has to be approved by the Supervisory Board before proceeding further;[267]
* A draft annual financial (and investment) plan is submitted to the ownership agency or responsible ministry for approval by June 1st of the year preceding the implementation year;
* Ownership agencies collect and submit consolidated indicators of SOEs' financial plans to the MoF by July 15th, so they can be considered during the state budget preparation;
* Final approval of the financial (and investment) plans must be completed by the ownership agency or ministry by September 1st of the year preceding the implementation year, except for SOEs regulated by the National Commission for State Regulation of Energy and Utilities, the plans for such SOEs must be approved by December 31st; and
* Once approved, MDAs/ownership agencies submit consolidated data on SOEs' financial (and investment) plans to the MoE, the MoF, and the State Tax Service.

463. **For large SOEs – natural monopolies and those with profits exceeding UAH 50 million per year – the procedure differs, as their financial (and investment) plans must be signed off by the CMU.** All the above referenced procedures apply, however, in addition, to their ownership agency or ministry, MoF and MoE must approve and send for further approval by CMU. Moreover, specific procedure applies to JSC Ukrzaliznytsia (JSC Ukrainian Railways), whose plans must also be approved by MoI. All these central level ministries – MoE, MoF, MoI – must analyse SOEs' draft financial (and investment) plans within 10 days and decide on approval or rejection. Following their decision, the CMU takes its own decision on approval of a financial (investment) plan. Once approved by the CMU, the ownership agency or SOE sends the approved financial (investment) plan to MoE, MoF, and State Tax Service. Responsibility and timeline for this process is summarized in **Table 28**.

Table 28. Summary of Responsibility and Timeline over Large SOEs' Financial and Investment Plans

Type of SOE	Financial Plan Approved by	Approval Timeline
Natural monopolies with profits exceeding UAH 50 million per year	MoE and MoF	July 1st
Owned directly by and reporting to the CMU	MoE	June 1st
Operating in the power (electricity) sector as natural monopolies, with expected profits exceeding UAH 50 million per year, whose activities are regulated by the National Commission for State Regulation of Energy and Utilities	MoE and MoF	November 1st

267 Establishment of a Supervisory Board is only obligatory for certain types of SOEs, according to criteria defined by GoU (Resolution No. 142 of CMU). Even for those SOEs, where their financial plans have to be approved by their Supervisory Boards, this practice is limited to those enterprises that have legislated such a body in their organisational structure. In practice, this norm is yet to be implemented at most SOEs (beyond the existing nine), as its implementation depends on the establishment of a board.

Type of SOE	Financial Plan Approved by	Approval Timeline
Operating in the power (electricity) sector, owned by and reporting to CMU, whose activities are regulated by the National Commission for State Regulation of Energy and Utilities	MoE	November 1st
Special Case: JSC Ukrzaliznytsia (JSC Ukrainian Railways)	MoI	June 1st

Source: WB staff compilation of the legislation framework

464. **Capital investments implemented via borrowed funds must follow the same procedures for financial plans as established under Order No. 205, but with additional requirements of the IFIs.** In addition to the procedures described above, SOEs must adhere to Resolution No. 809[268] in cases where they are looking to attract mid- and long-term loans or place bonds (with or without state guarantees), to Resolution No. 70[269] in the case where they attract financing from IFIs, or Resolution No. 835 in case of seeking loans from the state budget, compensation of interest rates, or state guarantees. In cases SOE seeks funding according to Resolution No. 809 or No. 70, the MoF must be notified in advance, and receive and approve the proposed project on the basis of detailed information, including a draft of the loan agreement. Once the project is approved, with the loan received or bonds issued, the SOE must provide a copy of the signed agreement to the MoF for further registration. Any changes to loan agreements or conditions of a bond placement must be approved by the MoF. Resolution No. 835 sets out the rules for competitive selection of investment projects with the involvement of MoE and MoF for analysis of project economic efficiency and fiscal risks. The main legislative routes to approve SOE capital investments are presented below in **Figure 9**.

Figure 9. Legislative Procedures for SOE Capital Investments

FUNDING SOURCE	BUDGET FUNDS	SOE OWN FUNDS	BORROWED FUNDS
LEGISLATIVE PROCEDURES	✱ Law on Investment Activities ✱ Sectoral Laws and Strategies ✱ Resolution No. 571 ✱ Resolution No. 835	✱ Sectoral Laws and Strategies ✱ Order No. 205 ✱ SOE Charters	In addition to procedures for own funds: ✱ Resolution No. 809 ✱ Resolution No. 70 (IFIs) ✱ Resolution No. 835

Source: World Bank mission interviews, author's presentation

268 Resolution of CMU No. 809 as of 15.06.2011 On approval of the Procedure for approval of attraction of loans, providing guarantees or sureties for such obligations by state-owned enterprises, including business associations (except banks), in the authorized capital of which 50 percent or more shares are owned by the state.

269 Resolution of the CMU No. 70 as of 27.01.2016 On preparation, implementation, carrying out of monitoring and completion of implementation of projects of economic and social development of Ukraine supported by the international financial organizations.

Institutional Arrangements

465. **As is the case for all public investment projects, capital investments by SOEs are subject to a multi-layer institutional approval process.** Some of the institutional functions overlap, causing delays in the approval and implementation process (as also noted in 2019 IMF PIMA assessment), and some are not followed up consistently in practice. Institutional responsibilities are presented in **Table 29**.

466. **Overlapping functions and limited capacity are the main constraints in both monitoring of capital investments implemented by SOEs, and oversight of their financial performance, including implementation of investment plans.** The development of capital investment projects, their processing, and approval by different routes—while complex—is clearly laid out in the existing legislation. The only exception is the capital investments implemented by SOEs under special budget programs, as detailed above and discussed in the recommendations section.

Table 29. Institutional Responsibilities over SOE Capital Investments – Central Government

Role/Major Tasks	Comments
SOEs	
✱ Prepare annual investment plans based on long-term sectoral strategies (10 years) or own mid-term investment strategies (3-5 years) ✱ Finalize financial and investment plans (responsibility: senior management) ✱ Approve, if established and empowered by charter (responsibility: supervisory boards) ✱ Monitor the implementation of the approved projects (quality and financial dimensions) ✱ Report on project implementation status to their ownership agencies/ ministries and MoE	Varies by sector and by entity
Ownership agencies / ministries	
✱ Develop and approve sectoral strategies and authorize mid-terms investment plans for SOEs under their mandate ✱ Prioritize and authorize individual capital investment projects for SOEs under their mandate ✱ Authorize annual financial plans and investment plans, including individual projects, for SOEs under their mandate ✱ Comment, revise, correct SOEs' financial plans and investment plans, as necessary, to authorize for further processing ✱ Monitor the implementation of the approved projects and investment plans for SOEs under their mandate (quality and financial dimensions) ✱ Monitor financial performance of SOEs under their mandate	Limited resources to allow for timely approval of financial / investment plans and quality implementation monitoring Limited resources to pro-actively engage on monitoring and assessment of SOEs' financial performance
Sector regulators	
✱ Authorize investment plans for SOEs operating in regulated sectors (i.e., energy)	N/A

Role/Major Tasks	Comments
MoF	
✱ Take part in approval of SOE financial and investment plans – annual plans and individual projects ✱ Assess fiscal implications of proposed SOE investment projects ✱ Authorize SOE capital investment projects that involve budget funding, borrowings and / or state guarantees ✱ Monitor the implementation of approved projects for all SOEs (financial dimension only) ✱ Conduct a general assessment of fiscal risks, emanating from operations of SOEs ✱ Identifies and assesses risks for projects following Resolution No. 835	Limited connectivity with SOE ownership agencies/ ministries during the annual assessment
MoE	
✱ Take part in the approval of SOEs' capital investment projects for entities under their mandate ✱ Monitor the implementation of the approved projects for all SOEs (financial dimension only) ✱ Prepare and publish the annual aggregated results of implementation progress of financial and investment plans of SOEs ✱ Collect and publish financial performance data for SOEs on the public web portal (ProZvit) ✱ Assesses economic efficiency of projects following Resolution No. 835 ✱ Perform independent review of appraisal of projects following Resolution No. 571	Insufficient capacity and limited resources to pro-actively engage on monitoring and assessment of financial performance of SOEs The MoE no longer produces an aggregated report on SOE performance (last one dated 2018)
Cabinet of Ministers of Ukraine	
✱ Approve financial (and investment) plans for SOEs under their direct mandate, as well as those operating in regulated or monopoly sectors, for which profits exceed UAH 50 million	N/A
State Audit Service	
✱ Assess the effectiveness, legality, targeting, and efficient use of budget funds, with the aim of achieving budget savings	N/A
Accounting Chamber of Ukraine	
✱ Perform audit of the use of state budget funds by SOEs (this includes investment projects financed by the state budget and by IFIs) ✱ Perform audit of procurement financed by the state budget funds	N/A
Antimonopoly Committee of Ukraine	
✱ Takes decisions on whether state aid (in particular, in the form of state guarantees) is admissible and issues relevant conclusions.	N/A

Source: World Bank mission interviews, author's presentation

SOEs: Assessments by PIM Must-Have Functions

467. **The assessment below of capital investments processes and procedures for SOEs follows the structure of the main assessment.** To provide a certain degree of comparability with other PIM dimensions in this report, the assessment is organized around the eight "must have" functions of the WB PIM framework, rather than the more in-depth 23 PIM indicators.[270]

PIM Function 1. Guidance and Screening

468. **Ukrainian SOEs follow the applicable sectoral strategies and develop their own mid and long-term strategic plans of capital investments.** Sectoral strategies are developed and approved by respective line ministries in their sectors of operation. All main sectors have such strategies in place – for example, the Energy Strategy of Ukraine through 2035, the 10-year Development Plan for the Electric Power Transmission Grid, and the National Transport Strategy through 2030.

469. **All sectoral SOEs develop their own mid- and long-term strategic development plans based on their respective sectoral strategies.** Each SOE must develop mid- and long-term strategic development plans and approve them with their ownership agency or respective line ministry. Such plans must be based on sectoral strategies and can be updated annually on a rolling basis. The government has developed respective methodological recommendations[271] to help SOEs develop their own strategic development plans. These plans should contain general information about the SOE, current analysis of its operational activities, strategic mission and objectives, expected results, and conclusions. The application of SWOT analysis is advised for the existing and planned activities implemented by SOEs. Such recommendations are optional and are a helpful tool to guide SOEs in developing a comprehensive multi-year strategic planning document.

470. **Based on the sectoral strategies and their own mid- and long-term strategic development plans, SOEs prepare annual financial plans, which also contain investment plans.** Such annual plans must be directly linked to their own investment plans (typically for 3-5 years). This assessment could not, however, locate and verify such mid-term investment plans as published by the SOEs. As there is no legislative requirement for such publication, SOEs refrain from making this information public.

PIM Must-Have Functions: PIM Function 1. Guidance and Screening

Must-have PIM function	Good policy treatment[272]	What is analysed
1. Investment Guidance	**Regulated sectoral SOEs:** Treat as part of sector-specific planning and strategy. Justify public support if used. **Non-regulated SOEs – own funds:** SOE develops own strategy and guidance. **Non-regulated SOEs – budget funds or state guarantees:** Treat as part of sector strategies. Justify budget funding/ subsidy/ guarantee.	The basis for the planning of investment projects by SOEs, linkages to sectoral strategies, mid- and long-term plans, and the use of such strategies and plans as guidance for project development and screening.

270 It will be remembered that the PIM indicators are already grouped according to the eight "must-have' functions, which were originally described in Policy Research Working Paper 5397, A Diagnostic Framework for Assessing Public Investment Management, Anand Rajaram, Tuan Minh Le, Nataliya Biletska, Jim Brumby. WB. August 2010.

271 Ministry of the Economic Development and Trade of Ukraine, Order No. 971 dates August 14, 2013 (Methodological Recommendations).

272 World Bank (2021): Assessing Public Investment Management Functions and Institutional Arrangements for State-Owned Enterprises. A Diagnostic Framework.

471. **Overall, it may be concluded that the existing system of SOE investment guidance and preliminary screening are structured properly in Ukraine.** All SOEs—regulated and non-regulated—must follow their sectoral strategies, develop their own mid- and long-term strategic development plans that are approved internally, then by sector regulators (for regulated sectors), and after by ownership agencies or line ministries. Potential investment projects included in such mid- and long-term strategic development plans undergo preliminary screening and prioritization at all levels of this process, ready to be substantiated and transposed into the detailed investment plans. There seems to be a reasonable connection between high level sectoral objectives and entity level investment plans.

PIM Functions 2 and 3. Project Appraisal and Independent Review

472. **The procedures for project assessment vary according to the source of funding.** Financial and investment plans prepared by SOEs (as discussed above under Legal Framework) must contain information on the source of funding. Capital investment projects to be implemented with own or borrowed funds will be included in the financial and investment plan in consultation and agreement with their ownership agency/line ministry. A project appraisal typically covers the main metrics of the proposed investment, such as the payback period, net present value, internal rate of return, and other referenced indicators. Such appraisal is carried out by the SOE itself or with the engagement of external consultants, as needed.

473. **If an SOE seeks budget funding for a capital investment project, it must adhere to public investment procedures established by Resolution No. 571 or Resolution No. 835.** Resolution No. 571 envisages development of a project concept note and a project proposal. In such cases, a line ministry plays an important role in taking the project concept through the approval process ending in the selection stage by the Inter-Agency Commission. More details on this procedure can be found in **Chapter 3** of this report (PIMs 1 – 6, 16 – 23). SOEs can also receive budget funding for implementation of public investment projects by applying for state aid following Resolution No. 835. To receive such funding, SOEs must develop a project proposal, which is like the one under Resolution No. 571, but does not require CBA or CEA.[273]

PIM Must-Have Functions: PIM Function 2 and 3. Project Appraisal and Independent Review

Must-have PIM function	Good policy treatment	What is analysed
2. Project Appraisal	**All SOEs – own funds:** Conduct financial and risk analysis. Additional requirements may apply in case of major environmental or social risks, or for mega projects. **All SOEs – budget funds or state guarantees:** Conduct full integrated analysis.	How the SOE capital investment projects are appraised and analysed.
3. Independent Review of the Appraisal	**Listed SOEs:** Comply with market disclosure requirements applicable to listed entities. **All SOEs:** All mega projects to be approved by line ministries, MoF, MoE and, ideally, by agencies with independent experts.	If and how the SOE capital investments are independently reviewed.

273 Order of Ministry of Economy No. 724 as of 19.06.2012 On approval of the form of the project (investment) proposal, based on which the investment project is prepared, for the development of which state support may be provided, the Procedure for development and the form of the investment project for the implementation of which state support may be provided.

474. **Independent review of appraisal is required for public investments financed from the state budget, with SOEs own funds and loans with state guarantees.** Independent review is required by Resolution No. 571, Resolution No. 835, and the Law on Investment Activities.[274] As described in **Chapter 3**, the Resolution No. 571 requires "state expert review" to be overseen by MDAs, which may create a special commission for this purpose. Members of such commission should be entirely independent of the project under review. The findings of this commission form the basis for the MDA's opinion on the project preparedness and recommendations for next steps. Resolution No. 835 and the Law on Investment Activities require the state expert review by MDAs as well, and it has a similar form and methodology as the state expert review according to Resolution No. 571.[275] For capital investment projects implemented with borrowed financing without state guarantees, the current assessment has not identified any legislative requirements for an independent review of appraisals of capital investment projects.

PIM Function 4. Project Selection and Budgeting

475. **This assessment has identified that, in practice, some SOEs do not submit their investment plans as part of the financial planning process, as summarized in Figure 10 (and detailed above under Legal Framework).** Despite the legislative requirement to provide an investment plan together with their financial plan, not all SOEs submit it for government approval and monitoring. The MoE, which is engaged in reviewing all financial plans from SOEs, observes that approximately half of the submitted financial plans do not include an investment plan component. There is no pro-forma template, for investment plans, so each SOE prepares one based on their understanding and capacity. As a result, some investment plans remain general, containing only basic information on planned investments, while others include complete specification per investment projects, covering detailed calculations and projections. This variation creates a certain degree of complication for approvers and becomes one of the reasons for delayed approval of the plans.

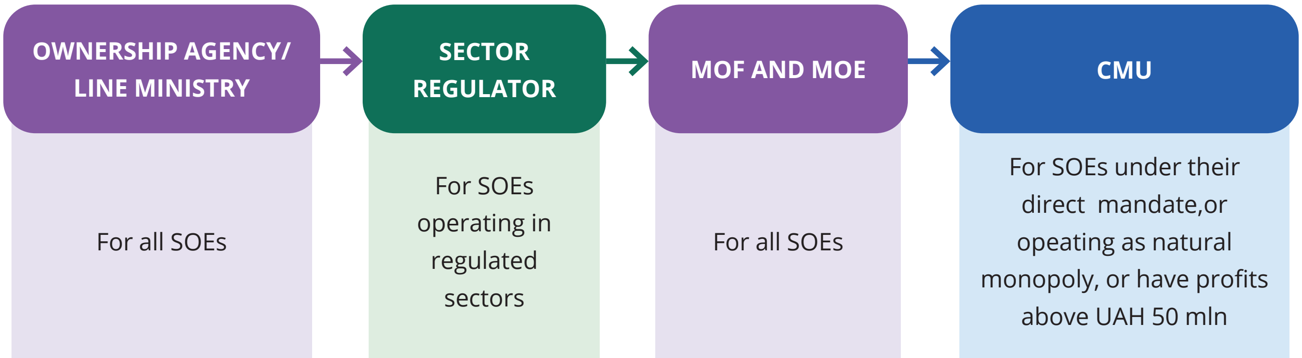
476. **Approval of SOE financial (and investment) plans must be completed by September of the planning year and is sometimes delayed, undermining implementation of ongoing and planned investment projects.** The ownership entity is required to analyze financial plans from SOEs within 10 days of receipt, compare them with previous periods, and approve or return them to the SOE for improvement, if necessary. The final approval of financial plans by the ownership entity has to be completed by September 1st or by December 31st for electric power enterprises licensed by the National Commission for State Regulation in the Fields of Energy and Utilities. In case of delays in approval by any agency in this complex process, SOEs cannot implement their investments or other significant transactions. In practice, such delays can be significant – for example, the range of delays identified by the

PIM Must-Have Functions: PIM Function 4. Project Selection and Budgeting

Must-have PIM function	Good policy treatment	What is analysed
4. Project Selection and Budgeting	**Regulated sectoral SOEs:** Require SOE Board approval, sector regulator and government approval. **Non-regulated SOEs – own funds:** Require SOE Board approval. **Non-regulated SOEs – public funds or state guarantees:** Require SOE Board approval, and government approval.	What approval processes are established for SOEs capital investments and their selection, depending on the source of funding. How multi-year implementation is addressed. Access to capital budget information.

274 Article 15.
275 Resolution of CMU No. 701 on approval of the procedure for state expert review of investment projects.

Figure 10. Schematic Approval Process for SOE Financial and Investment Plans



Source: Authors' depiction of local legislation

Accounting Chamber can range from a few days to 1.4 years.[276] This delay in the approval process presents significant risk of implementation delays, preventing SOEs from reliably planning their investments and sustaining their investment commitments to ongoing projects.

477. **SOEs' supervisory boards play no formal role in the capital investment planning process, which does not adhere to the recommended practices.** Supervisory boards are charged with strategy setting, oversight over performance indicators, and ensuring proper risk assessment at SOEs and should be taking a more active role in capital investment planning. Presently, SOE boards' role in the process is not well established and complicated by two factors: (i) only nine SOEs in Ukraine have established supervisory boards; and (ii) SOE boards are only involved on a discretional basis in capital investment planning, and only at those SOEs where such authority is assigned to them in the entity charter. For example, Ukrzaliznytsia (Ukrainian Railways) approved their 2021 investment plan at the senior management level, as the board was not fully appointed and thus not operational during the investment planning period. In the current setting, the final decision on all capital investments by SOEs rests with the government, leaving no tools for SOE boards to weigh in on strategic priorities or sources of funding for such investments.

478. **Mid- and long-term investment planning remains an issue for Ukrainian SOEs.** The current time horizon for allocating public funds remains mainly short-term, as it depends on annual budget allocations, with no guarantee of continuity of funding from one year to another. The investment planning process for SOEs is also complicated by the fact that the government does not have predictable dividend policies: the size of dividend payments is set by the government annually through the budget law. These two factors undermine SOEs' ability to do mid- to longer-term capital investment planning. To implement large capital investments—the implementation of which spans several years—SOEs have been relying on long-term funding from IFIs and other lenders as sustainable sources of long-term financing.

479. **There are no specific criteria for selection of projects financed with SOE's own funds or those financed from the state budget under budget programs.** Selection of projects funded via SSIP under Resolution No. 571 is well regulated and established and is performed by the Inter-Agency Commission. Selection of projects financed under broader state budget programs following Resolution No. 835 and Order No. 205 is performed by the Commission established by an MDA/ownership agency. While in all cases profitability, economic impact, environmental, and social impacts are considered when taking decisions, the selection criteria is not specific for projects funded by SOEs' own funds or under the budget programs (Resolution No. 835).

480. **Access to information on capital investment by SOEs remains limited.** During this assessment, only a few SOEs disclosed their entity-level investment plans.

276 Accounting Chamber report on the results of the effectiveness audit of the revenue collection from SOEs reporting to the Ministry of Economic Development, Trade and Agriculture of Ukraine (22.06.2021).

PIM Function 5. Project Implementation

481. **SOEs remain in full charge of the implementation of their capital investment projects and report regularly on the implementation progress to the government.** Implementation reporting is structured similarly to project planning documentation. Progress reports are submitted quarterly to the ownership agencies or the line ministries responsible for monitoring implementation of approved financial and investment plans. The ownership agencies or line ministries are updated on both qualitative and financial progress of projects.

482. **All capital investments implemented by SOEs—own and budget funded—fall under the requirements of the PPL.** This legislation provides a coherent framework for the goods and services procured during the implementation process. Capital investments projects financed by the IFIs follow their dedicated procedures to be in line with the IFI procurement requirements, as legislated by Resolution No. 70.[277] There are no exceptions to these two routes of capital investments execution.

PIM Must-Have Functions: PIM Function 5. Project Implementation

Must-have PIM function	Good policy treatment	What is analysed
5. Project Implementation	**All SOEs:** Apply public procurement rules.[278] Active project management, monitoring, and project progress updates. **Listed SOEs:** In addition to the above, comply with relevant disclosure requirements.	How the procurement rules are applied. What are the regular progress updates and monitoring during project implementation.

PIM Functions 6, 7 and 8. Project Adjustment / Project Operation / Project Evaluation

483. **Project adjustments must undergo the same procedure as an approval process, which is done via regular reporting to the government and annual financial planning.** Using the annual financial and investment planning process, SOEs can introduce adjustment to ongoing projects if they follow the same procedures as apply to a regular financial planning cycle. This approach keeps all parties up to date with the implementation progress and ensures that all necessary approvals are obtained through due process.

484. **SOEs are required to prepare and submit their quarterly and annual financial statements to their ownership agencies and are subject to multiple regulations in accounting and financial reporting.** SOEs follow general reporting and disclosure requirements for all Ukrainian entities – private or state owned – such as the Accounting Law (1999 with changes and amendments), and the Commercial Code of Ukraine (2003).[279] In addition to these general requirements, SOEs are also subject to some specific reporting requirements that may apply to them depending on their legal form or sector, such as outlined in the CMU Resolution No. 1067.[280] Moreover, SOEs in the form of joint stock companies are also subject to reporting and disclosure requirements

277 Resolution of the CMU No. 70 as of 27.01.2016 On preparation, implementation, carrying out of monitoring and completion of implementation of projects of economic and social development of Ukraine supported by the international financial organizations.

278 Public procurement or alternative competitive procurement rules.

279 Commercial Code of Ukraine (2003), Article 73.

280 Resolution No. 1067 dated November 9, 2016, "On approval of the Procedure for disclosure of information on the activities of state unitary enterprises and business companies in the authorized capital of which more than 50 percent of shares belongs to the state. Available online at: https://zakon.rada.gov.ua/laws/show/1067-2016-%D0%BF#Text.

PIM Must-Have Functions: PIM Functions 6, 7 and 8. Project Adjustment / Project Operation / Project Evaluation

Must-have PIM function	Good policy treatment	What is analysed
6. Project Adjustment	**Regulated sectoral SOEs:** Require SOE Board approval, sector regulator and government approval. **Non-regulated SOEs – own funds:** Require SOE Board approval. **Non-regulated SOEs – public funds or state guarantees:** Require SOE Board and government approval.	What are project adjustment procedures for SOEs capital investments.
7. Project operation	**All SOEs:** Provide quarterly and annual financial statements. **All SOEs – public funds or state guarantees:** Report regularly on SOE performance, social or policy activities: quantities achieved, cost incurred, and budget support received.	What are the financial reporting practices. How is the aggregated reporting over SOE financial performance established.
8. Project Evaluation	**All SOEs:** Timely complete, publish, and ensure review of all external audit reports by line ministries and legislature. **All SOEs – own funds:** Conduct financial and risk analysis of the projects, except in case of major environmental or social risks, or mega projects. **All SOEs – public funds or state guarantees:** Complete full integrated analysis for all large projects.	What are the completion procedures for SOE capital investment projects. What is the process for *ex-post* evaluation of projects.

Source: World Bank authors, based on the World Bank World Bank (2021): Assessing Public Investment Management Functions and Institutional Arrangements for State-Owned Enterprises. A Diagnostic Framework.

under the Law on Joint Stock Companies (2008), the Law on Securities and Stock Market (2006), and regulations issued by the National Securities and Stock Market Commission (NSSMC).[281]

485. **Although financial reporting and disclosure regulations are largely in place, the SOE oversight functions are currently divided between the different branches of the government.** SOEs report to their ownership agencies, including line ministries, the State Statistics Service, and MoF, which complicates the monitoring and oversight function. The MoE plays a coordinating role in SOE financial performance oversight, collecting and processing financial information from the largest SOEs and those that send their financial information via ownership entities. The MoE manages the SOE portal (ProZvit), which contains information on about half of SOEs (1,800 SOEs out of about 3,600 existing). While this information is available at an entity level, regular and consistent aggregated reporting of SOEs' financial performance is not available. The MoE used to publish an aggregate TOP-100 SOEs report (2014–2018), which provided a comprehensive snapshot of the financial performance of the largest SOE and their indicators, but this practice was unfortunately discontinued.

281 NSSMC Decision No. 2826, dated June 19, 2013, "Provision on the disclosure of information by securities issuers". Available online at: https://zakon.rada.gov.ua/laws/show/z2180-13#Text.

486. **SOEs are subject to external audit only for projects that are funded from the state budget.** The ACU can conduct financial and effectiveness audits of such projects at their own initiative in line with the Law on the Accounting Chamber, or at the request of the central or local governments, or members of the Parliament. Such audits are conducted for the capital investments implemented under Resolution No. 571. Further details are outlined in **Chapter 3**.

Proposed Recommendations

487. **While the framework for SOEs' capital investment is in place and largely followed, investment project approval, implementation, and funding allocation can be significantly improved.**

1. Investment plans envisaged under Order No. 205 should be consistently enforced by all levels of the government – ownership entities, line ministries, MoE, MoF, and CMU. This fundamental document must become an integral part of the financial planning process and submitted as legislated. The MoE may consider developing a detailed methodology and a template for investment plans that can be applied by SOEs.
2. Project proposal and appraisal methods under Resolutions No. 571 and No. 835 should be aligned for a more consistent approach. Resolution No. 571 ruling the SSIP process should prevail and be applicable to all capital investments funded by the budget funds, as implemented by SOEs. This will help align the methodologies, streamline the implementation and enforcement, and reduce room for the misallocation of public funds.
3. SOE boards should be empowered to take a more active role in capital investment planning and approval. For those SOEs where boards are established their role in SOE capital investment planning should be clearly stipulated in the company charters, allowing the boards to weigh in on strategic priorities and sources of funding for SOEs investments. For this recommendation to demonstrate effect, the government should remain on the path of strengthening the corporate governance practices of SOEs by appointing supervisory boards with a majority of independent members for at least the top 50 SOEs.
4. Approval of SOE financial and investment plans should be gradually transferred to SOE supervisory boards in line with good international practice and recommendations from the OECD. This step would allow SOEs to manage their cash flows in a more effective manner, prioritizing critical infrastructure investments with multi-year implementation horizons.
5. Delays in approval of financial and investment plans should be minimized to the extent possible and stay within the legislated time periods. The authorities in charge of clearing and approving the plans are recommended to follow the legislated time frames to minimize delays in implementing the capital investment projects.
6. Multi-year capital investment funding should be introduced. As it may be difficult to introduce multi-year commitments for budget-funded capital investment, SOEs should at least be allowed to plan their own funds allocation for a mid-term implementation period.
7. SOEs should be allowed to retain a stable and healthy portion of their earnings to re-invest these funds into building the critical infrastructure and growing Ukraine's public asset value. This is now complicated by the annual determination of the dividend to be paid, which varies significantly from year to year and precludes SOEs from sustainably planning their investment strategy.
8. Transparency of SOE capital investments and access to information could be significantly improved if SOEs were to disclose their mid-term investment strategies and annual investment plans on their own websites. This would allow for a more transparent reporting and increased public scrutiny over the capital investments projects implemented in the public interest. Currently, this practice is not widely followed by SOEs not disclosing their mid- or longer-term investment plans.

9. SOE financial oversight needs to be streamlined with the institutional responsibilities over SOE performance monitoring centralized at the MoE. This will enable better coordination and information flow among multiple SOE ownership agencies and ministries and improve timely decision making.

10. SOE aggregate reporting should be reinstated following the successful practice of 2014-2018. The government would significantly improve its commitment to SOE transparency, including to transparency of SOEs' capital investments, if it reinstates its regular aggregate TOP-100 SOEs report (2014–2018) to provide a comprehensive snapshot of the financial performance of the largest SOE and their main indicators. This would also respond to the recommendations of the IMF, OECD, and the World Bank, previously shared with the government.

11. Staff capacity should be significantly improved. Capacity building, training, and expert support all need to be considered. Donor support may be requested if needed.

CHAPTER 7

CONCLUSIONS AND STRATEGIC RECOMMENDATIONS

7.1. Conclusions and Strategic Recommendations Based on the Assessment

488. **The main reason for the lack of a breakthrough in improving the PIM system is the significant proportion of investments that bypasses the formal appraisal and selection procedure established in Resolution No. 571.** The issue arises due to the non-mandatory nature of procedures, compounded by weaknesses in the terminology and its application, allowing projects to circumvent the system. Despite the fact that the term "investment project" is included in both the Budget Code and in the Law on Investment Activities, it has not prevented many investment projects from circumventing established procedures. The average share of non-SSIPs in the total public investments was 19.3 percent over the period of 2018 – 2020, increasing to 26.8 percent in 2021, 33.6 percent in 2019, and 46.3 percent in 2020 (excluding IFI projects). Out of total public investments, the share of non-SSIPs among regional development projects (which are not the focus of this assessment), varied from 33 percent to 71 percent of total investments from 2018 to 2021.

The main regulatory recommendation is that public investment should be clearly defined in the legal and regulatory framework and the terminology will apply to all kinds of investment projects, so that there is no ambiguity concerning the scope of the PIM system. Ambiguity could be resolved through amendment of Art. 2, point 26 of the Budget Code by following criteria of public investments:

* Construction, expansion, acquisition, renovation, or replacement of existing facilities (including the cost of land, engineering, architectural planning, and contractual services) that require a total expenditure of at least [financial value] over the life of the project, or
* Rehabilitation of existing facilities with a total expenditure of [financial value] and an economic life of at least [number of years] years.
* Major equipment with a cost of [financial value] and a useful life of [number of years] years, when it is not a part of a construction project.

489. **Limited progress in strategic planning has been made in 2020 – 2021 on the National Economic Strategy,[282] and there has been no effort to develop a specific mid-term public investment plan.** Although it represented a step forward, the National Economic Strategy still does not contain comprehensive guidelines, or the specification of outcomes and outputs needed for investment planning within different sectors. The continued lack of legislative requirements concerning the approval of a mid-term plan and the procedure for its development and approval will further exacerbate delays and cost overruns in project implementation, slowing down the achievement of qualitative and quantitative improvements in the provision of public services.

The main strategic recommendation is that long-term planning should be improved to include a national infrastructure investment strategy and a realistic mid-term public investment expenditure plan should be introduced, which covers all public investment streams involving budgetary funds or other state support (e.g., state loan guarantees and support to PPPs in whatever form). A long-term strategy, which is sufficient for effective investment planning, could be presented as a consolidated group of sectoral strategies with an analysis of the main cross-sectoral links, as well as having an investment strategy component. The mid-term public investment plan should present: (i) the intended mid-term goals and outcomes of the strategy; (ii) estimation of total funding and allocation of funds between investment streams and sectors; (iii) cross-cutting strategic objectives for investments, such as energy saving, accessibility for people with disabilities, overcoming the consequences of climate change, etc.; and (iv) general requirements for project selection within each of the streams. Any relevant public investments would be required to follow the mid-term investment plan. Given the uncertainties concerning total funding for investment (made worse in the context of the war), the base estimates may need to be supplemented by low-case and high-case scenarios and related allocations for outer years of the plan.

490. **Ukraine has 15 types of capital investment streams but still lacks a unified PIM system.** Public investment is implemented through different mechanisms according to the means of financing: (1) direct budget financing (state capital investments); (2) state budget support (state guarantees, budget lending); (3) PPPs; and (4) corporate sector investments (SOEs' investments of own funds). **Annex 3** sets forth the different responsible agencies and the legal/regulatory instruments that apply to 15 types of capital investment streams. It shows that very similar projects can be subject to different procedures depending on the financing source, while other capital investments lack specific rules and procedures governing critical components of a functioning PIM system. Since SOEs use various sources of funding for their investments, they follow different laws in each case, except for the legislation on financial planning which is mandatory for all but does not provide clear rules for public investment management. Environmental impact is partially considered within some investment streams.

491. **Rules and procedures cover the critical PIM system components only for state investment projects, PPP, the regional development fund, IFI funding, credit funds with state guarantees, and infrastructure projects.[283]** Under these rules and procedures, the MoE, the Ministry for Communities and Territories Development, the MoF, and sectoral ministries are in charge of overseeing, supporting or controlling project appraisal and selection, monitoring, evaluation, and initiating audits within relevant streams. Other rules and procedures, relating to other capital investment streams only partially cover the critical PIM system components. In particular, they usually cover project selection without any guidelines on project appraisal. Monitoring of such projects is carried out based on construction legislation, under which the results are not formalized, submitted to the implementing agency, or published.

492. **Some identical streams follow different procedures, potentially leading to ineffective project selection and undermining PIM as a whole.** For example, projects in the newly established

282 It should be mentioned, such recent progress did not affect the score since the period under analysis is 2018 – 2020.
283 Infrastructure projects is a new category of state investment projects that has come into existence after the period covered by the assessment.

stream of "infrastructure bonds" (row 14 in **Annex 3**) are the same as state investment projects (row 1 in **Annex 3**); however, they follow different regulations and have different responsible agencies, adding to the undesirable fragmentation of the PIM system. Similarly, projects in the road sector can be selected under different streams, e.g., the state road fund (row 3 in **Annex 3**) or state investment projects (row 1 in **Annex 3**). The same situation exists in the environmental protection sphere – similar projects can be selected under environmental protection measures (row 5 in **Annex 3**) or as state investment projects (row 1 in **Annex 3**). The existence of dual tracks for certain types of projects leads to a lack of transparency and inconsistencies in competition for limited resources.

The recommendation is that each type of investment project must follow a unified and clear procedure. To do this, at the legislative level, the types (spheres) of investment projects that require state financing (support) must be clearly linked with the relevant streams of their financing and not interfere in other streams. Relevant procedures should cover all PIM stages, including completion review and post-completion evaluation. In addition, strong strategic planning and budgeting systems, are required, including the aforementioned mid-term investment plan, in which the mid-term limits for each stream are set. So as not to overstretch limited capacities and create bottlenecks and to keep effort proportionate to the scale of expenditure and/or risk, less onerous procedures and methods should be maintained for lower value/lower risk projects, as is done currently through the use of a value threshold. The value threshold should be kept under review and adjusted as necessary to balance supply and demand for the scarce analytical and managerial skills required. Bearing in mind that a project should include all activities necessary to deliver sustainable benefits to beneficiaries, line ministries should be made responsible for presenting complete and coherent projects that do not involve slicing up larger projects to fit below the threshold. All related project profiles (when these exist) that are integral to achievement of the same purpose should be merged into one project at the screening stage, when the MDA management considers concept notes and takes a decision on whether to proceed with project development. The MoE should be given the right and responsibility to reject "projects" that are obviously subsets of bigger projects and send them back to the ministries for proper configuration.

493. **Local governments receive state budget funds for their investments through different capital investment streams, and not all of them are covered by clear rules.** The regional development fund (row 7 in **Annex 3**) and local road subvention (row 4 in **Annex 3**) are covered by established rules, while other subventions (row 10 and row 12 in **Annex 3**) are not. Beside this, the regional development fund is not a subvention but direct financing of local investments through the state budget, while the cash flows are going to local government institutions that are implementing projects that should be done through the relevant local budget.

The recommendations are that all investments in the local infrastructure must follow a unified approach and local governments must also follow the comprehensive rules covering all of the PIM stages. Article 105 of the Budget Code on "subventions for the investment projects implementation" which covers all subventions of an investment nature, presents the basics of good practice, and should be properly applied. Improvements to this article could also be made, for example, by adding the population density as a criterion for project selection. The regional development fund's financing should also be subvention to local government budgets and not direct financing of projects, so that it does not subvert the budget process at the local level. Regarding PIM rules for local governments, advisory methodological guidelines, which local self-governments may apply, should be established at the national level. Ongoing training of local staff should also be available, including through a special online training platform. If applied adequately, such rules would support improvements in the effectiveness and efficiency of public investments in local infrastructure.

494. **At the same time state budget programs for subventions do not follow performance program budgeting, despite the fact that relevant local budget programs reflect performance in their spending.** Performance program budgeting is actively used now at the central and local government levels with clear outputs and, partially, outcomes and KPIs. Excluding state budget programs for subventions from PPB leads to a lack of strategic focus in local investments and weak effectiveness at the national level. Performance presented in the relevant local budget programs is usually limited to an investment project and the national investment goal is ignored.

The recommendation is that all investments from the state budget in local infrastructure must be based on performance program budgeting. Each budget program for investment subvention (including the regional development fund) from the state budget to local budgets must have a high-level mid-term goal, outputs, and outcomes. This will ensure that selected projects will contribute to the achievement of strategic goals.

495. **Legislative improvements with some relevance to climate change have occurred since the 2012 PIM assessment, which did not itself address climate change (CC).** Resolution No. 571 requires environmental impact assessment as part of public investment project appraisal and Order No. 1865 (dated December 22, 2017) of the MoE gives details of environmental impact assessment as part of public investment project appraisal. The law of Ukraine on Strategic Environmental Assessment, adopted in 2018, requires strategic environmental assessment of draft public planning documents, complementing the procedures for the preparation and adoption of such documents. When used correctly, the latter should improve strategic guidance for public investments planning in relation to CC.

496. **Despite some improvements to the legal framework, the evidence suggests that CC considerations are not well embedded in the Ukraine PIM system.** There are some elements of CC analysis related to public investment projects, but these elements do not form a comprehensive approach to incorporating assessment of CC into appraisal and selection of projects, either from the perspective of a project's impact on CC or from the perspective of the potential effects of CC on the project. The Ministry of Ecology and Natural Resources (Ministry of Ecology) is not involved in the CC analysis during the feasibility study, but only after all selection procedures have been completed and then only for projects with significant impacts on the environment. There are different procedures managed by the Ministry of Ecology or the regulatory bodies in the construction sector which require environmental impact analysis, but only in very rare cases is CC mentioned. Even if environmental impact analysis involves such indicators as greenhouse gas emissions or energy efficiency indicators, there is no evidence or requirement to assess the sustainability and resilience of infrastructure to the potential effects of CC.

The institutional recommendation in relation to CC-PIM is that the Ministry of Ecology should be designated as supervisor for the consideration of climate change impacts and effects on PIM. Public investment projects (possibly over an established threshold) must be analyzed from climate change adaptation and mitigation points of view prior to project selection; the analysis results must be used in the project selection and implementation stages. The Ministry of Ecology should provide guidelines for CC to be incorporated in appraisals and should perform an independent review of appraisals to ensure that CC has been adequately addressed.

497. **The management of PPP projects has improved in some areas since the 2012 PIM assessment, notably in terms of the legal framework, but transparency remains an issue.** The budget documentation still does not disclose PPP-related fiscal risks or include any information on PPPs. However, on the positive side, there has been significant improvement in the legislative framework for PPPs over the last five years. The adoption of the law on concessions and the law on PPP, as well as other legislative acts, has improved the PPP management system so that it now corresponds to good international practice. In addition, a manual for PPP projects covering the end-to-end project management process was developed in 2021 (outside the assessment period). Despite successful upgrading of the legal and regulatory framework for PPP, there remain some inconsistencies between the new framework and the Budget Code, which does not allow implementation of '*government-pays*' PPPs. This is a serious constraint on this commonly used funding framework for PPPs. Direct project financing for PPPs with state budget funds is allowed, however, there has to date been no case of the government giving direct financial support to a PPP. '*Government-pays*' PPPs do not work due to the lack of an instrument such as a long-term obligation in the framework of PPP contracts. The legislation to allow financial support to '*government-pays*' PPPs has now been passed by the Parliament (but outside the assessment period); however, it only concerns special funds of the budget, such as the Road Fund and Inland Waterways Fund (for state assets) and allows commitments for projects relating to the creation or improvement of municipal assets.

498. **Weaknesses in some processes lead to reduced transparency in relation to PIM for PPPs.** Despite the broad requirements for transparency of information on PPP projects in the legislation, especially for concessions, there is a widespread problem with the practice of regularly applying a "confidential information" status. The confidential status is at odds with international good practice which restricts confidentiality to commercially sensitive information only. Also, central government authorities have not been following the requirements of the PPP legislation in a timely way, which has contributed to undermining confidence among private partners. The absence of an independent appeals processes for private partners participating in PPP procurement/concessions is also a deterrent.

Regarding PPP projects, institutional capacity strengthening, legislative changes, and the development of mechanisms for the application of budget funding in these projects are required. MoF capacity needs to be strengthened via the creation of a specialized unit or team responsible for PPP projects and the development of the methodological principles for assessing fiscal costs and risks of PPP contracts. Also, comprehensive changes to the Budget Code must be introduced to allow financing of PPP projects from the general fund of the budget.

499. **Transparency concerning the scale of budgetary support to SOEs remains poor.** The level of SOE capital investments financed using budgetary lending and state guarantees exceeded 20 percent of total public capital spending, but no information on this support was included in central government fiscal reports. This is the same finding as in the 2012 PIM assessment. Some changes were observed at the institutional level during this period. The share of the public sector in the economy decreased in 2020 to 8 percent (by 1.8 percentage points), compared to 2013. At the same time, the share of capital investments of public sector entities decreased to 7.7 percent (by 1.3 percentage points), and the share of the number of economic entities in the public sector decreased to 0.5 percent (by 0.2 percentage points).

500. **Since SOEs use various sources of funding for their capital investments, they also follow different streams in each case which may or may not be based on clear rules and procedures (see Annex 3).** Depending on the relevant investment streams SOEs are guided by twelve legislative acts to receive state support for their investment projects. One of those streams (row 11 which concerns environmental protection measures) is not covered at the project appraisal and expertise stages and three of them (rows 6, 11, and 12) are not covered at the project appraisal, expertise, and selection stages. Legal conflicts are observed in these complex arrangements. For example, Resolution No. 835 regulates project selection with support from state guarantees, but in practice it does not apply to guarantees for IFI loans. At the same time, the decree does not contain relevant exceptions and legally it must be applied for all state guarantees. Moreover, the legal framework does not prevent the "bypass route", whereby SOEs can also receive budget funds within a budget program requested by the line ministry (the "non-SSIP" route), thus bypassing the requirements for Resolution No. 571. SOEs also do not have clear internal rules for investment projects by own funds; only about a quarter of capital investment projects follows clear procedures.

501. **While the government's oversight function appears to be detailed (though not transparent enough) it works in a one-sided manner; procedures for preparation of financial plans by SOEs[284] do not extend to financial planning for capital investments due to the lack of enforcement of relevant legislation, so the oversight function does not significantly contribute to the effectiveness of SOE capital investments.** The main actor and supervising body for SOEs in terms of public investment is the ownership agency/ministry. It approves financial and investment plans of SOEs, develops strategic documents to be followed by SOEs, prioritizes and authorizes capital investment, controls implementation of projects, and assesses overall performance of enterprises. The MoF is involved in approval of financial and investment plans, assesses the fiscal risks of projects, and performs financial

284 Procedures were introduced in 2015 by the MoE Order No. 205.

monitoring of investment projects. The CMU is an ownership institution for some SOEs, for which it approves financial plans. It also deals with approval of plans of natural monopolies and enterprises with the net profit exceeding UAH 50 million. The State Audit Service and the Accounting Chamber of Ukraine perform external audits of SOEs within their mandate. While the high-level arrangements are in place, basic tools – comprehensive requirements, guidelines, instructions, forms – for SOE investment management are missing, and the legislation is not being followed. The result is that there is no complete and consistent portfolio of investment projects, and no comprehensive vision of whether the investment plans are linked with the strategic priorities. These weaknesses call into question the efficiency of SOE investments as a whole.

The recommendation regarding SOE investments is that guidelines for the internal investment management procedures should be developed for SOEs. Even though SOE investment projects follow different streams with different requirements, the SOE itself must have a comprehensive picture of the effective implementation of its investments in the mid-term. Therefore, a unified procedure for all SOE investment projects covering assessment, selection, and inclusion in a mid-term investment plan should be developed. This plan, which should follow a well-defined format, should be subject to review by the oversight ministry and the MoF and the MoE. Introduction of improvements in the structure and content of investment planning will strengthen the government's oversight function.

502. **PIM is weakened by the shortage of qualified staff and the absence of process automation.** Project appraisal capacity is not well developed due to little experience and limited number of staff. Project appraisal training has not been provided for the last three years.[285] Information sharing across the PIM system is fragmented with consequences for transparency and portfolio management. There is no unified database that contains comprehensive information on all public investments at different stages in the project cycle. The existing databases are created for different purposes and for different types of projects. It is neither possible to track individual projects across the project cycle using a single information source, nor is it possible to obtain a full picture of the total number of projects (and their values) at different points in the project cycle. This makes it complicated to understand the progress of individual projects and to get comprehensive insights into the status of the project pipeline and implementation of the portfolio of ongoing projects.

The main recommendation for strengthening staff capacity is that a sustainable system of training for employees involved in all PIM stages should be set up. Skills development should become embedded in work practices. To do this it should be a mandatory part of the induction of new employees involved in PIM and should be repeated periodically through refresher courses for existing staff. Participation and success in PIM training should also become part of staff performance evaluation and there should be a credible certification process. Developing the training through an on-line platform will ensure consistency and quality, while offering flexibility for participants in timing and location of the training. Given the weaknesses in upstream processes, capacity building in appraisal will be important, but downstream processes, like project management and contract management, should not be neglected. Because it takes time to build capacity, the government may want to think practically about pooling skills and creating centers of expertise that can be used broadly across institutional lines to support priority needs.

Capacity building should also not take place in a void and must be preceded by other recommended reforms, such as anchoring the definition of a public investment project in law (and then enforcing it) and issuing standardized project management guidelines.

The main recommendation in the information technology sphere is that a comprehensive public investment information management system (PIMIS) be created, covering all business processes (the PIM stages) and all investment streams. To control the entry and flow of projects through their

285 To address this issue, the project under which the current assessment falls is also establishing an online training platform for certification of staff in the required skills.

stages of design, appraisal and approval it is important that all the key features of the projects and their development and approval status be entered and monitored in a centralized information system for all projects. This forms a controlled pipeline of projects under preparation and approval that feeds into the mid-term public investment plan. This PIMIS should be mandated by law or regulation so that projects cannot be parachuted into a budget without entering through the formal channels of the public investment pipeline. The PIMIS is likely to be a long-term development, so it could be useful to identify the core module or functionality that would be most critical to start with, like controlling the project pipeline and monitoring linked to financing. The MoE should be responsible for development, introduction, and maintenance of such a system. Other actors in PIM should have rights for making changes in the system within their area of responsibility. The data from the system should be publicly available.

7.2. Supplementary Discussions and Recommendations. PIM for Post-War Reconstruction

Introduction

503. **PIM for post-war reconstruction needs to be streamlined but the fundamental functions of PIM will still need to be performed.** If Ukraine's pre-war PIM system had been in line with international good practice, the country would have been better prepared for the demands of developing and implementing an urgent post-war reconstruction program. The assessment findings and recommendations of the core PIM assessment indicated that Ukraine's PIM system falls short of good practice in many respects. The weaknesses identified cannot be corrected in the short term and yet the post-war reconstruction of the country will be a matter of extreme urgency. A pragmatic approach will therefore be required. Fast-tracking infrastructure reconstruction will be vital and some compromises in terms of administrative procedures will inevitably have to be made. But care will be required so as not to undermine the progress that has already been made, for example, in public procurement. With this in mind, the current section looks at the recommendations from the core PIM assessment and indicates which of these will be important to incorporate in PIM for post-war reconstruction and which recommendations can be adopted for post-war needs.

504. **PIM for post-war reconstruction cannot be divorced from the changed political context, which will likely lead to a reorientation of public investment.** This reorientation may in some cases be strongly influenced by political imperatives rather than by pure efficiency-related criteria. Ukraine can be expected to look westward toward the EU more than ever; this will affect public investment priorities as the country seeks closer integration politically and economically. This will impact the demand for infrastructure services as Ukraine endeavors to become more embedded in European supply chains.

505. **Reconstruction will be hugely symbolic, and the part it could play in restoring confidence should not be underestimated.** The return of refugees and internally displaced people will require confidence-building measures, including reconstruction. The reconstruction should therefore be people-driven aiming to provide housing and jobs, so that returnees have basic services and livelihoods. Nevertheless, financial and human resources will be scarce and rational decision-making and efficient implementation will be required to ensure that these scarce resources are used to best effect. This is the goal of PIM for post-war reconstruction.

Legal and Institutional Framework

506. **Strengthening the legal and institutional framework for PIM is a precondition for a successful reconstruction effort.** The core PIM assessment has described a highly fragmented PIM system differentiated by various factors including source of finance and/or implementation modality. The existing institutional framework involves

diverse legal instruments, various non-standard procedures, procedural gaps, and too many oversight organizations. The recommendation is for a more unified PIM system, involving an end to multiple entry-points, introduction of unified procedures and methods, and establishment of more consolidated management responsibilities.

507. **An essential early reform should be the establishment by law, and subsequent enforcement, of a universally applicable and unambiguous definition of a public investment project.** The scope of the public investment system should be delineated so as to avoid any room for misinterpretation; this is as important for reconstruction projects as it is for development projects. This will ensure that all budget-funded projects are subject to the same procedures, without exception.

508. **Management of post-war reconstruction will be critically handicapped if similar fragmentation is reproduced.** Unified procedures for planning, management, and decision-making will be essential to ensure that reconstruction priorities are identified and addressed in a consistent way without duplication or gaps. Institutional fragmentation risks creating an unfocused reconstruction program, with damaging competition for scarce resources, inconsistent decision-making, and unnecessary delays in reestablishment of critical public services, all of which must be avoided. A unified approach to reconstruction is therefore essential and could also be a precursor to a more homogeneous PIM system in the post-reconstruction phase. Capacity was strained before the war and will most likely become much more of a problem in the reconstruction phase, when some further capacity will have been lost, needs and workloads will be higher, and on-time completion will become even more essential. A combination of leveraging donor funds to get short term capacity, building capacity internally, and considering the establishment of a government "center of excellence" to provide capacity to line ministries with the largest needs will be a good options to solve the capacity problem.

Strategic Guidance and Screening

A Short- to Mid-Term National Reconstruction Strategy

509. **A strategic approach to post-war reconstruction is required.** The PIM assessment has highlighted shortcomings in the information requirements and analytical capacities for strategic planning, and the absence of an overarching long-term strategic plan for public investment. Improvements in these areas will require structured reforms and take time to achieve. Post-war reconstruction cannot wait for these developments but will nevertheless still require a strategic approach, meaning a clear identification of the problem and its scale, setting of objectives, determining the constraints, and establishing what needs to be done to achieve the objectives within the constraints. A strategic approach also entails assessing the availability of resources, both financial and human, for achieving the objectives and setting forth criteria for prioritizing outputs within these constraints. A basis for assessing whether the objectives have been achieved is also required, meaning easily measurable key performance indicators and baseline figures for these indicators.

510. **A short- to mid-term strategy for reconstruction of damaged or destroyed public infrastructure is essential.** Such a strategy is required to guide choices and ensure that scarce financial resources are directed toward the highest priorities in terms of re-establishing basic services and kick-starting the economy. The strategy may also extend to construction of entirely new facilities, where it is clear that displaced populations will not be able to return to their regions of origin. The strategy should cover:

- Overview of the reconstruction task: a summary assessment of the damage and its impact on access to basic services and livelihoods
- Analysis of changes in the demand for infrastructure services as a result of the movement of people and businesses within the country caused by the war

* Objectives for re-establishment of access to basic services and livelihoods
* Reconstruction needs to deliver on objectives
* Estimation of costs of reconstruction and sources of funding
* Criteria for prioritizing reconstruction projects

511. **The country's newly prepared Comprehensive Recovery Plan (Plan) cannot be static.**[286] Costing an estimated USD 750 billion, and presented on July 4-5, 2022, the Plan focuses on the profound transformation of the country into a new European member based on the principles of the green economy. The Plan will need to be frequently updated as new information becomes available on the extent of the war damage, on implementation progress and problems, and on availability of resources for implementation.

512. **The national reconstruction strategy may eventually evolve into a national infrastructure development strategy.** The evolution of a post-war reconstruction strategy into a long-term development strategy may be some years away and it will not necessarily an easy transition. Nevertheless, some capabilities developed for the reconstruction strategy can be expected to be transferable to longer-term investment planning.

Preliminary Screening of Reconstruction Project Concepts

513. **While restoration of pre-war infrastructure and public services will be the main priority, longer-term strategic considerations should not be ignored when screening initial proposals for reconstruction projects.** The following questions should therefore be considered at an early stage of project development before a decision to prepare a reconstruction project is reached:

* **Is the reconstruction of the facility compatible with pre-war sector development/reform strategies and cross-cutting issues, like climate change?**
    * Pre-war reforms, in education and health for example, might have envisaged the phasing out or downsizing of certain facilities. It would not make sense to rebuild (or build back to the same scale) such facilities if they were to have been closed anyway. The same logic applies to previously planned expansion of service provision when projects should consider the creation of new public facilities.
    * Reconstruction of some facilities may not be compatible with climate change policies. Concepts may therefore need to be modified to include mitigation and adaptation measures that were not part of the original asset.
* **Will reconstruction of the facility be consistent with the post-war economic geography and demography of the country?**
    * Depending on the nature of any peace settlement, post-war trade patterns might be radically altered, and it would not make sense to build back (or build back to the same scale) transport infrastructure, storage, or other trade-related facilities that serve former patterns of trade. Sometimes construction of new facilities in new locations may need to take precedence over general reconstruction if exports depend on it.
    * Even after allowing for the return of IDPs and refugees, the distribution of the population across the country may be changed by the war with implications for the scale of facilities in certain areas.
* **Is the project consistent with the post-war defensive posture and vulnerabilities of the country?**
    * Reconstruction in at-risk zones may have lower priority when there are equally valid competing claims on scarce financial resources in stable parts of the country.
    * Based on the lessons of the war, concepts for reconstruction projects may need to consider adaptations for the better withstanding of any future conflict and the protection of citizens.

286 https://www.urc2022.com/urc2022-recovery-plan

Mostly the answer to these three questions will be in the affirmative but for some it will not. Raising the questions early will help ensure that very scarce reconstruction resources are not wasted.

514. **Reconstruction may demand a broader perspective on how a project is defined to include "area-wide" group projects.** Reconstruction will often be about rebuilding communities through the infrastructure that serves them. The project may not necessarily be concerned with the creation of an individual sector-specific asset, but rather the reconstruction of a group of assets that deliver the basic services needed to allow a community to function again. Related projects, such as housing (family-type group homes for children, including those orphaned by the conflict), schools, clinics, police stations, and commercial facilities can be gathered into one project with realistic mid-term implementation plans (note: the first step is often housing).

Appraisal and Independent Review

515. **Robust appraisal of reconstruction projects will be important, even if the full set of appraisal procedures and methods is not applied in the post-war emergency.** Stronger and universally applicable appraisal procedures and methods coupled with continuous capacity building have been recommended. A more stringent independent review process, with greater objectivity and depth has also been recommended. Implementation of these recommendations will need to be a longer-term aspiration which is only possible when the country is back in development mode; in reconstruction mode, simpler procedures and methods will be needed to ensure swift, but robust decision-making.

516. **Working in favor of a more straightforward approach is the fact that decisions to rebuild are less contentious because the demand for the services has already been demonstrated.** But choices will still need to be made in a systematic way. Stepwise assessment, decision-making, and objective external review should be retained, even if the procedures and methods are simplified and fast-tracked. This means beginning with a preliminary screening (see above) and an initial decision on whether more in-depth project preparation is worthwhile, followed by a decision based on more thorough preparatory work, especially in relation to cost estimates and the demand for the restored services. Simple metrics like reconstruction cost per user may be used to prioritize more cost-effective options and to set maximum allowable unit costs thresholds.[287] Speed of completion may also need to be considered: higher cost projects that can start delivering services sooner may sometimes be preferable when users have no alternatives.

517. **While a technical feasibility study will always be required for an appraisal decision, a full economic cost-benefit analysis may be replaced by simplified qualitative analysis for reconstruction projects.** Such an approach may involve the use of multi-criteria analysis to give structure to qualitative assessments. Cost-effectiveness analysis may also be performed where this can help in choosing between alternatives and benchmarking against similar projects to ensure that unit costs of services delivery are not excessive. In effect, methods usually reserved for smaller projects can be applied to large projects because of the urgency and because of the greater confidence in the demand for services from reconstructed facilities. The latter point suggests the need for more sophisticated analysis when a project involves new construction to meet the demands of permanently displaced people and businesses. **Box 9** gives an idea of the kind of criteria that should be considered when assessing and reaching a decision on a reconstruction project at the appraisal stage when a full social cost-benefit analysis is not performed.

287 Rules of thumb to keep costs under control by specifying maximum unit costs, above which reconstruction will not be allowed or must be subject to special approval.

Possible Appraisal Criteria for Reconstruction Projects

BOX 9

* Is the proposed reconstruction consistent with the direction of pre-war government policy and with strategic post-war priorities in the sector concerned?
* Will the facility provide vital services for the public and businesses?
    - Are services critical to basic needs of the population, to restoring livelihoods, or restarting businesses?
    - Are services currently not provided by alternative nearby facilities?
* Is the success of the project contingent on the completion of other reconstruction projects providing complementary services?
    - Are complementary projects ongoing or planned to be completed in time to realize the benefits of the proposed projects?
    - Should the project be planned as a component of an integrated reconstruction project?
* Was there strong demand for the services of the facility before the war and is that demand expected to return quickly to pre-war levels? [Demand needs to be quantified and evidence provided]
    - Did the facility have spare capacity before the war or was it used at, or above, planned capacity?
    - Was pre-war demand for the facility's services growing, static, or falling?
    - Is the return of pre-war demand contingent on the return of displaced people? If so, is restoration of public services a critical factor in the return of these people, or are there other more important factors?
* Are the costs of reconstruction reasonable?
    - Are the reconstruction costs per user (unit of demand) in line with those for other reconstruction projects of the same type or with other realistic benchmarks, allowing for differences in the cost of services between more remote areas and urban areas?
    - Does cost-effectiveness analysis of alternative reconstruction options (where these exist) indicate that the preferred option is superior? If not, are there other factors to be taken account of in reaching a decision on the preferred option?
* Did the facility have adequate O&M financing pre-war and is this funding expected to be restored when the facility is reconstructed? If not, is there an alternative proposal for meeting O&M costs?

518. **It will be important to consider alternatives as part of appraisal even if a full economic cost-benefits analysis is not used to decide between them.** A broad perspective of alternatives must be taken that goes beyond technical variations in the reconstruction design. The attractiveness of alternatives will depend on the extent of damage to an existing facility and the level of reconstruction required (partial or total). Alternatives may not be as convenient in terms of accessibility as reconstruction of the damaged/destroyed facilities, but the cost savings involved may be seen to outweigh these disadvantages. Possible alternatives may include:

* Simple repairs of nearby existing facilities providing the same services to reinstate capacities.
* Extensions to nearby existing facilities providing the same services to increase capacities.
* Completely new facilities on new sites in the vicinity – this alternative should not be dismissed too early as reconstruction of existing facilities may be complex and costly, depending on the nature of the damage in the immediate area, and abandonment and new construction may be more cost-effective.[288]

288 In this case a cost-effectiveness analysis should ideally be performed, looking at lifecycle cost streams of the alternatives.

519. **An agile approach to appraisal decision with room for reversals and modification will be important.** Data for decision-making may also be unreliable and subject to revision, especially on the cost side, so room for reversal or revision of decisions in light of better information will need to be built into processes. In a post-war emergency, the reconstruction program cannot be allowed to be handicapped by inertia in decision-making. The full extent of damage and hence costs may only be revealed once reconstruction work has begun and structures are exposed, thus requiring dynamic planning and potential review of previous decisions.

520. **The need for strong independent review of appraisals will be as important as ever during the post-war reconstruction.** A strengthened independent review process was one of the main recommendations of the core PIM diagnostic assessment (see **Chapter 3**). The issues that give rise to the need for independent review – issues with the quality of appraisal, optimism bias, and deliberate misrepresentation – are just as likely to be present during post-war reconstruction as in normal times. Third-party review of the appraisal of reconstruction projects will therefore be important for the quality of decision-making. Processes need not be as elaborate as for new public investment projects, but an objective eye on appraisal findings and decisions will still be necessary.

521. **Retaining public confidence in the fairness of the reconstruction program will be important.** The criteria for appraising reconstruction projects and the appraisal results should therefore be publicly available. When decisions are altered to reflect changes in understanding of the project and its costs (see discussion of an agile approach above), this must be done in a transparent way.

Budgeting

522. **Reconstruction projects must be programmed within a realistic mid-term financial framework.** The mid-term investment plan linking the objectives of a long-term investment strategy and the funding realities and providing predictable project financing beyond the current year is a core recommendation of the core PIM assessment. Such a plan is even more important in the reconstruction phase when predictable financing will be critical to restoring services.

523. **Once a reconstruction project is agreed, it must be fully funded from beginning to end (unless the costs change radically because of new information) even if it takes more than a budget year to implement.** This means that decisions on new reconstruction projects should be made only after provision is made for commitments to ongoing projects and should be programmed within a rolling mid-term perspective thereby providing the possibility of greater scope for new projects in out years as ongoing projects are completed. Thus, the basic requirements for sound budgeting of investment projects apply equally to post-war reconstruction, where such an approach relies also on reliable and timely information on financial and physical progress reaching those responsible for programming, so that the fiscal space available for new reconstruction projects can be accurately estimated. It also relies on reliable and comprehensive information on financing from all sources.

524. **An increase in donor funding for the reconstruction effort is expected and must be managed carefully to maximize its effectiveness.** Donors have already pledged additional financial resources and more funding is likely to be forthcoming. These financial resources need to be carefully managed so that they are channeled to national priorities as identified in the Comprehensive Recovery Plan and coordinated with fully nationally funded initiatives. Duplication and service provision "deserts" can arise when reconstruction efforts from different funding sources are not properly coordinated. It is therefore important that one central body develops and maintains a comprehensive view of the whole reconstruction program regardless of funding source.

525. **There will be pressure during budgeting to spread financial resources thinly in the interests of fairness and to start as many reconstruction projects as possible in order to be seen to be "doing something" for everyone.** It will be a mistake for budget decisions to be influenced by these pressures. The focus should be on delivering results – measured in terms of number of citizens accessing restored services in each sector – rather than on managing appearances by distributing financial means evenly. In this respect, the oversight organizations should be ruthless in withdrawing budget funding from non-performing reconstruction projects that are demonstrably failing to deliver. This requires comprehensive and active monitoring of the reconstruction program (see also next section).

526. **Project preparedness will be extremely important in deciding to allocate funds to a reconstruction project.** The readiness of a project to be implemented (i.e., preparedness) is a core decision criterion for budgeting (and programming over a mid-term framework); this is even more so in post-war reconstruction where there is desperate need to re-establish public services as quickly as possible. As a result, in some circumstances, readiness may override other factors. Many of the usual issues like land ownership, site access, and permission to carry out new construction, will not apply to reconstruction. But there will be new issues like the safety of the site for workers (because of unexploded munitions or mines). Availability of utilities such as water and electricity will remain important but may depend on the timing of complementary projects. This notion suggests the possible use of a broader definition of a reconstruction project (see also the discussion above on area-wide group projects).

Implementation

Procurement

527. **Ukraine has made noteworthy progress in public procurement, as recorded in the core PIM assessment, and the gains should not be sacrificed in the implementation of the post-war reconstruction program.** Opportunities for corrupt practices can quickly emerge in emergencies when there is pressure to dilute robust procedures in the interest of quick results. Lack of competition due to severe damage to some construction companies may also be a problem. As much as possible, Ukraine should resist adverse pressures and protect the advances it has made in public procurement. Further, implementation should not be allowed to be held up unduly by over-burdensome procurement procedures; some streamlining will therefore probably be unavoidable, but under no circumstances should transparency be allowed to erode. This may be a difficult balancing act, with some necessary compromises in both directions.

Accountability on Project Outcomes

528. **External auditors, the anti-corruption agency, and civil society should be important voices of accountability on project outcomes.** MDAs must be in no doubt that any corrupt actions within the procurement process for post-war infrastructure recovery will be exposed. Since the most serious consequences of corruption result from procurement on investment projects, the ACU should plan to audit each project under implementation. While respecting their distinct mandates and independence, there may be some benefit in coordinating project audits with the State Audit Service to avoid duplication to the degree possible. The work of the National Agency of Corruption Prevention in developing recommendations for a damage assessment methodology will be important. This should ensure that there will be no corrupt practices when letting investment contracts. The government should promote civil society's involvement through enhanced transparency.

Project Management

529. **Strengthened project management procedures and methods (a recommendation from the core PIM assessment) could be one of the most urgent areas of PIM reform for the post-war reconstruction program.** The core PIM assessment has exposed informality and lack of clear lines of accountability in project management, together with the absence of formal guidelines on project management procedures. The successful implementation of a results-oriented emergency reconstruction program, with tight deadlines for re-establishing public services for devastated communities, will necessitate effective project management if reconstruction projects are to be delivered on time and budget. Preparation of a manual of project management procedures for the reconstruction program should be done as early as possible. The manual should be updated regularly based on experience (see the discussion below of project completion reviews). Likely shortages of project management skills could be addressed by pooling together scarce human resources in a central government unit with the aim of then directing them towards the highest priority projects. Thus, implementing agencies could "borrow" skilled project managers (or other downstream professionals) or seek ad hoc specialist inputs or advice, when required.

Monitoring and Adjustment

530. **Unified monitoring of the implementation of the reconstruction program and timely adjustment of projects in the event of setbacks will be important.** Fragmented monitoring and an inconsistent approach to adjustment and re-appraisal of investment projects have been identified as problems in the core PIM assessment. These are areas where early improvements would be of significant benefit to the smooth implementation of the post-war reconstruction program. Accelerated preparation of reconstruction projects, potentially based on incomplete information, makes sound monitoring of implementation even more important so that adjustments can be made rapidly when updated information comes to hand. The main oversight body must be ready to reassess the case for reconstruction projects in light of current information during implementation and be prepared to cancel or postpone those projects that are no longer likely to be completed within a reasonable budget. The need for a unified approach to the post-war reconstruction program has already been discussed and this should be reflected in a unified monitoring system, rather than the diverse systems that have been identified in the core PIM assessment. Mobilizing internal auditors to verify monitoring information might be one way of improving discipline in terms of accuracy and timeliness.

Operations

531. **When financial resources are extremely tight, as they will be post-war, it is vital that the reconstruction effort is directed towards facilities that will not be prevented from functioning effectively because of shortage of budget for operations and maintenance expenditures.** The sustainability of operations and maintenance is important in peace time when investment projects may augment or improve the quality of public services, but it becomes more important in the post-war context when communities depend on the restoration of basic services, not improvements at the margin. This is not an area where significant problems were identified in the core PIM assessment, but problems could easily emerge in the post-war environment. The existence of sustainable funding streams for operations and maintenance should be one of the criteria for selecting reconstruction projects for (see Budgeting above), but such funding needs then need to be budgeted, which is best done within a mid-term financial perspective. That completed projects are delivering services on a sustainable basis should be verified as part of the *ex-post* completion review (see next paragraph).

Ex-Post Completion Review

532. **Rapid learning and feedback into design and implementation of the reconstruction program will be important for its success.** The core PIM assessment recommended a more systematic approach to post-completion project review, both internally and externally. The post-war reconstruction program should have a structured review process such that lessons can be learned quickly and fed back into the design and implementation of the rest of the program. Reviews without the organizational arrangements for compiling and disseminating findings will be of limited use. Organizational arrangements should therefore be put in place to ensure that findings are assimilated. Post- completion reviews should include confirmation that projects are delivering services of the specified quality to the expected number of users. As with other aspects of post- war PIM, transparency will be important in maintaining public confidence and the findings from reviews should be publicly available.

7.3. Recommendations Adapted to the Post-War Conditions

533. **The recommendations provided within discussions and recommendations around the PIM for post-war reconstruction are consistent with those from the core PIM assessment but are adapted to the post-war conditions. Table 30** summarizes the longer-term recommendations arising from the core PIM assessment alongside the main recommendations for PIM for reconstruction. A critical task for the next stage will be to consider how to create the capacities needed to implement each recommendation, and how to sequence the implementation of recommendations until capacities are scaled up.

Table 30. PIM Reform Priorities

Prerequisites for infrastructure recovery	Short term and Post-War PIM Reform Priorities	Core Mid and Long-Term PIM Reform Priorities
	Institutional Framework	
✱ Introduce in the Budget Code a tight definition of an investment project, as the key to closing the bypass route. ✱ Consider a government "center of excellence" to provide capacity to line ministries with the largest needs in the implementation of the unified approach to reconstruction.	✱ Implement a unified approach for project appraisal and selection covering all investment project types and funding sources. ✱ Establish methodological PIM guidelines for local self-governments. Such guidelines should cover all PIM stages, including pre-feasibility and screening, appraisal and independent review, project selection, monitoring and adjustment, operation and completion review. ✱ Authorize the Ministry of Ecology and Natural Resources to be the core adviser for the consideration of CC impacts and effects on PIM. ✱ Establish a definition of "climate change expenditure" in the Budget Code and implement a tagging mechanism for such expenditures through budget programs. ✱ Develop guidelines for internal SOE's investment management procedures covering assessment, selection, and inclusion in a mid-term investment plan. ✱ Establish a database(s) in the most accessible form covering the project cycle until the end of implementation.	✱ Build sectoral MDAs internal capacity for the implementation of the unified PIM system. ✱ Establish a comprehensive public investment information management system (PIMIS) covering the whole project cycle. ✱ Set up a sustainable system of training for employees involved in all PIM stages at the national and sub-national level. ✱ Strengthen capacity and improve MoF procedures on fiscal cost and risks of PPP projects. ✱ Authorize SOEs' supervisory boards to approve SOE financial and investment plans gradually.
	Strategic Guidance and Screening	
	✱ Provide MDAs with clear mid-term strategic post-war priorities based on results of the damage assessment to guide the submission of any capital investment project proposals. ✱ Develop and apply rigorous and systematic screening of reconstruction proposals using criteria that prioritize restoration of essential public services to communities and businesses while not contradicting long-term strategic development goals. ✱ Monitor screening to ensure clear evidence of projects being rejected or requested for re-evaluation at a sufficient standard.	✱ Establish a long-term national infrastructure investment strategy which considers CC commitments. ✱ Create a mid-term public investment plan. ✱ Institutionalize screening of all project concepts at the gateway to appraisal.

Prerequisites for infrastructure recovery	Short term and Post-War PIM Reform Priorities	Core Mid and Long-Term PIM Reform Priorities
	Appraisal and Independent Review	
* Introduce simplified appraisal methods for any type of post-war capital investment projects, even for major reconstruction projects, focusing on ensuring that demand for services from the project is urgent, unmet by other means, and likely to return to pre-war levels. Verify that opportunities to "build back better" have been exploited, especially in relation to climate change, both in terms of climate change mitigation and adaptation. * Make line ministries responsible for not slicing up projects to fit below the threshold. All related project profiles should be merged in one project at their screening stage, when MDA considers concept notes and takes a decision on whether to proceed with project development. * Give to the MoE the right and responsibility to reject "projects" that are obviously subsets of bigger projects and send them back to the ministries for proper configuration.	* Strengthen the CC criteria in project appraisal methodologies and EIA methodologies and begin to generate forward-looking information about variables important for project design and appraisal which will be affected by CC.	Institutionalize formal appraisal for <u>all</u> project proposals by: * Extending current procedures to all types of projects and funding sources * Developing methodological guidelines - national and sectoral * Instituting continuous capacity development

Prerequisites for infrastructure recovery	Short term and Post-War PIM Reform Priorities	Core Mid and Long-Term PIM Reform Priorities
Budgeting		
✱ Authorize the MoF to perform a gatekeeper function to block projects from entering the budget by the initiative of both government entities and Parliament (through the Budget Code) if they have not been properly appraised and selected.	✱ Allow only projects appraised according to established rules to be selected. ✱ Introduce clear and transparent selection criteria scaled to the type and complexity of the project that give a heavy weighting to readiness for implementation, alignment with strategic post-war priorities, and the availability of financial means for sustainable operations and maintenance. The capacity of the project owner to manage the project and the procurement strategy should also be given a heavy weighting. ✱ Strengthen realistic fiscal forecasting with a mid-term perspective for reconstruction spending and ensure that only projects that can be fully funded from beginning to end are selected for funding.	✱ Strengthen mid-term financial programming of public investment projects within available fiscal space. ✱ Improve the content of budgetary information available to decision-makers and the public on all relevant capital investment projects. ✱ Extend financial reports by including SOE capital investments that are funded with budgetary lending and state guarantees (by projects).
Implementation and Adjustment		
✱ Introduce agile procurement for reconstruction while maintaining adequate discipline, and consider available institutional mechanisms to decrease corruption risks for the procurement process. ✱ Develop an approach to pooling and prioritizing access to scarce project management skills.	✱ Introduce strengthened project management procedures and methods, with an emphasis on defining clear accountability to ensure that reconstruction projects are delivered on time and budget. ✱ Establish unified monitoring of the implementation of the whole reconstruction program (regardless of funding source) and ensure timely adjustment of projects in the event of setbacks by the authority which is responsible for the supervision.	✱ Introduce uniform project management procedures and methods across government. ✱ Strengthen active monitoring with a focus on controlling costs and identifying and rectifying poorly performing projects. ✱ Improve the mechanism for project reassessment by enforcing strict application of triggers and consequences for breaching them. ✱ Introduce a mandatory external audit of the implementation of all major investment projects with publication of the results.

Prerequisites for infrastructure recovery	Short term and Post-War PIM Reform Priorities	Core Mid and Long-Term PIM Reform Priorities
Operations		
	* Ensure sustainable funding of operations for reconstructed facilities so that benefits are realized.	* Strengthen monitoring of service delivery and reporting on service delivery performance from newly completed projects. * Modernize asset management.
Completion Review		
	* Establish basic completion review of all reconstruction projects and rapid analysis of results by central agencies to feed lessons back into the continuing reconstruction program.	* Extend obligatory completion reviews - with an analytical component – to all projects. * Introduce selective *ex-post* evaluation of project effectiveness and impact.

ANNEX 1

TOOLS WITH A CLIMATE CHANGE FOCUS FOR THE ASSESSMENT FRAMEWORK

Tool I: Dimensions of PEFA Climate Indicator CRPFM-5 – Climate Responsive Public Investment Management

Dimension	Comment
CRPFM–5.1 Climate related provisions in regulatory framework for public investment management	
CRPFM–5.2 Climate related project selection	Relates directly to PIM-7
CRPFM–5.3 Climate related provisions for project appraisal	Relates directly to PIM-3
CRPFM–5.4 Reporting from entities in charge of implementation	Relates directly to PIM-17

Tool II: InfraGov Dimension 5

Incorporating resilience to climate change, natural disasters, and public health risks is important for infrastructure outcomes.

InfraGov guiding questions for Dimension 5:

Question	Comment
1. Are infrastructure projects aligned with national strategies and international commitments on climate change (e.g., on transitioning to long-term, low-emissions strategies)?	Relates to PIM-2
2. Are there mechanisms in place to monitor and mitigate environmental and climate change risks throughout operation and maintenance, and possible disposal?	Relates to PIM-20 and PIM-21
3. What is the status of incorporation of disaster risk management and climate change adaptation in national public investment systems?	Relates to PIM-1 to PIM-7
4. Are there well-designed disaster risk finance and insurance mechanisms in place to help incentivize resilient infrastructure through the financing of preventive measures?	Outside scope of the PIM assessment

ANNEX 2

SUMMARY OF EXISTING LAWS, RESOLUTIONS AND ORDERS WITH A BEARING ON CLIMATE CHANGE AND DISASTER RISK MANAGEMENT

	Name of the Law or legislative act	Content
	Regulations directly related to CC	
1	The Law of Ukraine on monitoring, reporting, and verification of GHG emissions	Sets rules for monitoring and reporting of GHG emissions of operating facilities
2	Resolution of the CMU No. 880 as of 23.09.2020 On approval of the list of activities, GHG emissions of which are subject to monitoring, reporting and verification	Specifies the Law on Monitoring, Reporting, and Verification of GHG emissions
3	Resolution of CMU No. 960 as of 23.09.2020 On approval of the procedure for monitoring and reporting on greenhouse gas emissions	Specifies the Law on Monitoring, Reporting, and Verification of GHG emissions
	Regulations on disaster management	
4	Order No. 637 of the Ministry of Labor and Social Policy of Ukraine as of 04.12.2002 on approval of methodology for definition of risks and their acceptable levels for declaration of safety of objects of increased danger	Provides methodology for identification of disaster risks
5	Order No. 98 of the Ministry for Emergencies and Protection of the Population from the Consequences of the Chornobyl Disaster (reorganized to State Emergency Service of Ukraine) as of 23.02.2006 on Approval of the Methodology for identification of potentially dangerous objects (facilities/assets)	Provides methodology for identification of disaster risks
	Regulations on environmental impact	
6	The Law of Ukraine on Strategic Environmental Assessment, adopted in 2018	Regulates strategic environmental assessment of draft public planning documents and complements the procedures for the preparation and adoption of public planning documents ensuring the strategic environmental assessment thereof.

	Name of the Law or legislative act	Content
7	Resolution No. 1272 of CMU as of 16.12.2020 on approval of the procedure for monitoring of consequences of execution of the document of the state planning for environment, including for health of the population	Sets rules for monitoring according to the Law of Ukraine on Strategic Environmental Assessment
8	The Law of Ukraine on regulation of construction activity (adopted in 2011)	Requires environmental impact assessment of certain type of construction projects
9	Order No. 45 of the Ministry for Development of Territories and Communities on development of the design documentation for construction	Requires EIA of certain type of construction projects
10	Resolution of the CMU No. 1026 as of 13/12/2017 On approval of the procedure for submission of documentation for issuing an opinion on environmental impact assessment and financing of environmental impact assessment and the procedure for maintaining the Unified Register of Environmental Impact Assessment	Sets the rules for EIA of construction projects
11	Order of the Ministry of Environmental Protection and Natural Resources of Ukraine No. 193 as of 15.03.2021 On approval of the general methodological recommendations on the content and procedure for compiling reports on environmental impact assessment	Guidelines for EIA required by the Resolution No. 1026
12	Order No. 136 as of 02/03/2020 of the Ministry of Energy and Environmental Protection of Ukraine on approval of the methodological recommendations for the development of the report on environmental impact assessment in the field of forestry	Guidelines for EIA in forestry sector required by the Resolution No. 1026
13	Resolution of CMU No. 571 as of 22.07.2015 on some issues of public investment management	Requires environmental impact assessment within public investment project appraisal
14	Order of MoE No. 1865 as of 22.12.2017 on approval of methodical recommendations for preparation and appraisal of public investment project	Details environmental impact assessment within public investment project appraisal
	Regulations on design of infrastructure	
15	Composition and content of materials for impact assessment on environment at design and construction of enterprises, buildings and other structures.	Approved in 2003, last changed in 2010 https://www.minregion.gov.ua/wp-content/uploads/2017/12/4.1.-DBN-A.2.2-1-2003.-Sklad-i-zmist-materialiv-otsinki.pdf
16	Basic requirements to buildings and structures, mechanical resistance and resilience.	Approved in 2008, last changed in 2020 https://www.minregion.gov.ua/wp-content/uploads/2017/03/DBN-V.1.2-6-2008.pdf

	Name of the Law or legislative act	Content
17	Basic requirements to buildings and structures, energy saving.	Approved in 2008 https://www.minregion.gov.ua/wp-content/uploads/2017/03/DBN-V.1.2-11-2008.pdf
18	System for ensuring the reliability and safety of construction sites. General principles of ensuring the reliability and structural safety of buildings and structures.	Approved in 2009, last changed in 2018. https://www.minregion.gov.ua/wp-content/uploads/2017/04/DBN-V.1.2-14-2009.pdf
19	System for ensuring the reliability and safety of construction sites. Loads and impacts.	https://www.minregion.gov.ua/wp-content/uploads/2017/12/37.1.-DBN-V.1.2-22006.-SNBB.-Navantazhennya-i-vplivi.-Nor.pdf

Source: World Bank Mission Team

ANNEX 3

DETAILS OF LEGISLATION REGULATING CAPITAL INVESTMENT STREAMS

	Capital Investment Stream	Agency Responsible for Stream Supervision	Critical components of a functioning PIM system			Applied to SOEs
			Project Appraisal and Expertise	Project Selection	Project Monitoring	
1	State Investment Projects	Ministry of Economy	**1.** Resolution No. 571 dated July 22, 2015 (*including environmental impact*) **2.** Order of MoE No. 1865 dated December 22, 2017	**1.** Resolution No. 571 dated July 22, 2015 (*including positive ecological effect*)	**1.** Resolution No. 571 dated July 22, 2015 (*including environmental impact*) **2.** Order of MoE No. 1785 dated December 22, 2017 **3.** Resolution No. 903 dated July 11, 2007 (*construction legislation*)	✓
2	PPP	Ministry of Economy	**1.** Law on concessions No. 155 dated October 3, 2019 **2.** Law on PPP No. 2404 dated July 1, 2010 **3.** PPP manual (*including environmental impact assessment*)	**1.** Law on concessions No. 155 dated October 3, 2019 **2.** Law on PPP No. 2404 dated July 1, 2010 **3.** PPP announcement about the competition **4.** PPP manual (*including criteria of Environmental Compliance and Environmental Impact Assessments*)	**1.** Law on concessions No. 155 dated October 3, 2019 **2.** Law on PPP No. 2404 dated July 1, 2010 **3.** PPP manual (*including environmental performance indicators*) **4.** Resolution No. 903 dated July 11, 2007 (*construction legislation*)	✓

	Capital Investment Stream	Agency Responsible for Supervision	Critical components of a functioning PIM system			Applied to SOEs
			Project Appraisal and Expertise	Project Selection	Project Monitoring	
3	Capital investments within the State Road Fund (*the national level*)	State Road Agency	No rules	**1.** Order of Ministry of infrastructure and MoF No. 573/1019 dated September 21, 2012 (*including minimal negative impact of the project on the environment*)	**1.** Resolution No. 903 dated July 11, 2007 (*construction legislation*)	✗
4	Subvention from the central budget to local budgets within the State Road Fund	State Road Agency	No rules	**1.** Oblast level rules	**1.** Resolution No. 903 dated July 11, 2007 (*construction legislation*)	✗
5	Environmental protection measures	Ministry of Ecology and Natural Resources	No rules	**1.** Order of Ministry of Ecology and Natural Resources No. 194 dated June 12, 2015	**1.** Resolution No. 903 dated July 11, 2007 (*construction legislation*)	✓
6	Water Management Development Fund	Ministry of Ecology and Natural Resources	No rules	No rules	**1.** Resolution No. 903 dated July 11, 2007 (*construction legislation*)	✓
7	Regional Development Fund	Ministry for Communities and Territories Development	**1.** Resolution No. 196 dated March 18, 2015	**1.** Resolution No. 196 dated March 18, 2015	**1.** Resolution No. 196 dated March 18, 2015 **2.** Resolution No. 903 dated July 11, 2007 (*construction legislation*)	✗
8	IFI funding and credit funds through the budget	Ministry of Finance	**1.** Resolution No. 70 dated January 27, 2016	**1.** Resolution No. 70 dated January 27, 2016	**1.** Resolution No. 70 **2.** Resolution No. 903 dated July 11, 2007 (*construction legislation*)	✓
9	IFI credit funds by state guarantees	Ministry of Finance	**1.** Resolution No. 70 dated January 27, 2016	**1.** Resolution No. 70 dated January 27, 2016	**1.** Resolution No. 70 **2.** Resolution No. 903 dated July 11, 2007 (*construction legislation*)	✓
10	Subvention on socio-economic development of territories	Ministry of Finance	No rules	No rules	**1.** Resolution No. 903 dated July 11, 2007 (*construction legislation*)	✗

	Capital Investment Stream	Agency Responsible for Stream Supervision	Critical components of a functioning PIM system			Applied to SOEs
			Project Appraisal and Expertise	Project Selection	Project Monitoring	
11	Other capital investments which are not identified as "State Investment Project"	Ministry of Finance	No rules	No rules	**1.** Resolution No. 903 dated July 11, 2007 (*construction legislation*)	✓
12	Other subventions with capital investment nature	Sectoral ministries	No rules	No rules	**1.** Resolution No. 903 dated July 11, 2007 (*construction legislation*)	✗
13	Internal credit funds by state guarantees	Sectoral ministries, Ministry of Finance	**1.** Order of MoE No. 724 dated June 19, 2012 **2.** Order of MoE No. 1279 dated November 13, 2012 **3.** Resolution No. 701 dated June 9, 2011 **4.** Order of MoE No. 243 dated March 13, 2013 **5.** Resolution No. 131 dated February 23, 2011	**1.** Resolution No. 835 dated November 13, 2013	**1.** Resolution No. 903 dated July 11, 2007 (*construction legislation*)	✓
14	Infrastructure bonds[289]	Sectoral ministries, Ministry of Economy, Interagency commission	**1.** Resolution No. 1245 dated November 17, 2021 **2.** Order of MoE No. 724 dated June 19, 2012 **3.** Order of MoE No. 243 dated March 13, 2013	**1.** Resolution No. 1245 November 17, 2021 (*Including conclusion on environmental impact assessment in relation to projects that may have a significant impact on the environment*)	**1.** Resolution No. 1245 November 17, 2021 **2.** Resolution No. 903 dated July 11, 2007 (construction legislation)	✓
15	SOEs own funds	Sectoral ministries, Ministry of Finance	No rules	No rules	**1.** Resolution No. 903 dated July 11, 2007 (*construction legislation*)	✓

289 New stream established after the period covered by the assessment: amendments to law on Economy and Commodity Markets (No. 738 of June 19, 2020).

ANNEX 4

SCORES OF THE 2021 PIM DA INDICATORS

PIM Indicator	Scoring method	Dimension score i	ii	iii	iv	v	Overall score
PIM Function 1. Guidance & screening							
PIM-1. Sector analysis and planning	M2	C	C				C
PIM-2. Strategic plans & investment guidance, project development and preliminary screening	M2	C	D	C	D		D+
PIM Function 2. Formal appraisal							
PIM-3. Formal project appraisal procedures and guideline	M2	A	B	C	C	C	C+
PIM-4. Project appraisal capacity	M2	C	D				D+
PIM-5. Screening and selection of feasibility studies	M2	C	D	D			D+
PIM Function 3. Appraisal review							
PIM-6. Independent review of appraisal	M2	C	C				C
PIM Function 4. Selection & budgeting							
4.A. Budget preparation & selection							
PIM-7. Project selection & budgeting	M1	C	C	C	C		C
PIM-8. Multi-year budgeting	M2	D	C				D+
PIM-9. Comprehensive capital budget	M2	D	A				C+
PIM-10. Comprehensiveness and degree of public/ parliamentary access to capital budget information	M2	C	A	A	C		B
4.B. Budget outturn performance							
PIM-11. Development and capital budget execution rates: Aggregate expenditure outturn compared to adjusted original budget on a commitment basis	M1	D	D				D
PIM-12. Composition of development and capital expenditure outturn compared to adjusted original budget on a commitment basis	M1	C					C

PIM Indicator	Scoring method	Dimension score					Overall score
		i	ii	iii	iv	v	
PIM-13. Project completion time and cost variances for completed projects	M1	D					D
PIM-14. Stock and monitoring of capital expenditure arrears	M1	A	A				A
PIM Function 5. Implementation							
PIM-15. Procurement	M2	A	A	D	A	A	B+
PIM-16. Project implementation management	M2	C	C	C			C
PIM-17. Control, monitoring & reporting: physical and financial milestones	M2	C	D	A	B		C
PIM-18. Project handover, asset registration and completion review	M2	C	B	D	D	D	D+
PIM Function 6. Adjustment							
PIM-19. Project adjustment	M1	A	B	C			C+
PIM Function 7. Service delivery							
PIM-20. Control, monitoring and reporting: financial and service delivery performance	M1	C	C	B	B	B	C+
PIM-21. Service delivery	M2	D	D				D
PIM Function 8. Evaluation							
PIM-22. Scope, nature and follow-up of external audit and *ex-post* evaluation	M2	C	D	D			D+
PIM-23. Legislative scrutiny of external audit reports	M1	A	B	A			B+

ANNEX 5

CALCULATIONS FOR PIM-12, 2018 (UAH THOUSAND)

#	Name of the ministry (department)	Originally approved budget	Actual	Originally approved adjusted budget	Deviation	Absolute deviation	Deviation, %
1	Ministry of Defense of Ukraine	25,464,406.4	33,067,448.2	25,599,662.4	7,467,785.7	7,467,785.7	29.2%
2	State Road Agency of Ukraine (including nationwide expenditures and crediting)	33,777,103.6	24,022,757.0	33,956,513.1	-9,933,756.1	9,933,756.1	29.3%
3	Ministry of Regional Development, Construction, Housing and Municipal Services of Ukraine (including nationwide expenditures and crediting)	13,518,972.2	9,366,699.8	13,590,779.2	-4,224,079.4	4,224,079.4	31.1%
4	Ministry of Internal Affairs of Ukraine	7,916,955.4	12,071,974.9	7,959,006.9	4,112,968.0	4,112,968.0	51.7%
5	Ministry of Agrarian Policy and Food of Ukraine	7,030,743.1	5,019,601.2	7,068,087.4	-2,048,486.2	2,048,486.2	29.0%
6	Ministry of Finance of Ukraine (including nationwide expenditures and crediting)	8,725,544.0	7,685,473.1	8,771,890.4	-1,086,417.2	1,086,417.2	12.4%
7	National Academy of Sciences of Ukraine	4,303,385.6	4,415,322.5	4,326,243.3	89,079.1	89,079.1	2.1%
8	Ministry of Energy and Coal Industry of Ukraine	4,246,437.6	3,259,910.1	4,268,992.9	-1,009,082.8	1,009,082.8	23.6%
9	Ministry of Economic Development and Trade of Ukraine	4,129,109.7	5,835,947.9	4,151,041.8	1,684,906.1	1,684,906.1	40.6%
10	Ministry of Education and Science of Ukraine (including nationwide expenditures and crediting)	4,280,770.5	5,047,583.6	4,303,508.1	744,075.5	744,075.5	17.3%
11	Ministry of Ecology and Natural Resources of Ukraine	3,012,708.1	3,784,890.4	3,028,710.3	756,180.1	756,180.1	25.0%
12	Ministry of Infrastructure of Ukraine	2,629,848.2	970,245.4	2,643,816.8	-1,673,571.4	1,673,571.4	63.3%
13	State Space Agency of Ukraine	2,173,551.8	2,072,011.8	2,185,096.8	-113,085.0	113,085.0	5.2%

178 Annex 5. Calculations for PIM-12, 2018 (UAH Thousand)

#	Name of the ministry (department)	Originally approved budget	Actual	Originally approved adjusted budget	Deviation	Absolute deviation	Deviation, %
14	Ministry of Health of Ukraine (including nationwide expenditures and crediting)	3,776,553.1	3,397,795.3	3,796,612.5	-398,817.2	398,817.2	10.5%
15	State Judicial Administration of Ukraine	1,611,506.7	1,818,036.3	1,620,066.3	197,970.0	197,970.0	12.2%
16	Ministry of Social Policy of Ukraine (including nationwide expenditures and crediting)	1,533,120.5	1,838,620.0	1,541,263.8	297,356.3	297,356.3	19.3%
17	National Academy of Agrarian Sciences of Ukraine	1,196,565.0	1,154,637.6	1,202,920.6	-48,283.0	48,283.0	4.0%
18	Chief Directorate of Intelligence of the Ministry of Defense of Ukraine	930,923.0	1,005,141.5	935,867.7	69,273.9	69,273.9	7.4%
19	Ministry of Culture of Ukraine	861,164.3	971,011.5	865,738.4	105,273.1	105,273.1	12.2%
20	State Service of Special Communications and Information Protection of Ukraine	745,433.5	829,267.9	749,392.9	79,875.0	79,875.0	10.7%
	Other Ministries (departments)	4,796,512.6	9,752,825.1	4,821,989.6	4,930,835.5	4,930,835.5	102.3%
	share of other MDAs in total development expenditures	*3.5*	*7.1*	*3.5*	*x*	*x*	*x*
	Total composition of development expenditures across agencies	**136,661,314.9**	**137,387,201.2**	**137,387,201.2**	**x**	**41,071,156.5**	**29.9%**
	The absolute overall deviation in development expenditures (PIM-11)						**3.0%**
	Variance						***26.9%***

ANNEX 6

CALCULATIONS FOR PIM-12, 2019 (UAH THOUSAND)

#	Name of the ministry (department)	Originally approved budget	Actual	Originally approved adjusted budget	Deviation	Absolute deviation	Deviation, %
1	State Road Agency of Ukraine (including nationwide expenditures and crediting)	29,650,173.3	11,952,775.6	15,823,011.5	-3,870,236.0	3,870,236.0	24.5%
2	Ministry of Defense of Ukraine	24,718,308.4	5,675,264.7	13,191,089.1	-7,515,824.4	7,515,824.4	57.0%
3	Ministry of regional development, construction, housing and municipal services of Ukraine (including nationwide expenditures and crediting)	14,452,755.7	10,463,075.6	7,712,808.9	2,750,266.7	2,750,266.7	35.7%
4	Ministry of Internal Affairs of Ukraine	11,687,592.9	13,884,341.3	6,237,161.4	7,647,179.9	7,647,179.9	122.6%
5	Ministry of Economic Development, Trade and Agriculture of Ukraine	13,278,097.5	5,098,096.0	7,085,944.8	-1,987,848.7	1,987,848.7	28.1%
6	Ministry of Finance of Ukraine (including nationwide expenditures and crediting)	7,546,040.9	4,284,836.5	4,026,994.8	257,841.7	257,841.7	6.4%
7	Ministry of Education and Science of Ukraine (including nationwide expenditures and crediting)	9,656,856.9	7,183,076.1	5,153,445.7	2,029,630.4	2,029,630.4	39.4%
8	National Academy of Sciences of Ukraine	4,775,080.7	603,584.9	2,548,253.5	-1,944,668.6	1,944,668.6	76.3%
9	Ministry of Energy and Environmental Protection of Ukraine (including nationwide expenditures and crediting)	7,540,392.3	2,309,735.3	4,023,980.3	-1,714,245.1	1,714,245.1	42.6%
10	Ministry of Health of Ukraine (including nationwide expenditures and crediting)	4,426,391.7	3,551,863.3	2,362,173.3	1,189,690.0	1,189,690.0	50.4%
11	Ministry of Infrastructure of Ukraine	2,368,337.7	876,660.5	1,263,879.1	-387,218.6	387,218.6	30.6%
12	State Space Agency of Ukraine	1,806,196.7	37,056.7	963,888.8	-926,832.2	926,832.2	96.2%

180 Annex 6. Calculations for PIM-12, 2019 (UAH Thousand)

#	Name of the ministry (department)	Originally approved budget	Actual	Originally approved adjusted budget	Deviation	Absolute deviation	Deviation, %
13	Ministry of Social Policy of Ukraine (including nationwide expenditures and crediting)	2,019,442.0	1,852,635.0	1,077,688.6	774,946.4	774,946.4	71.9%
14	State Judicial Administration of Ukraine	1,358,196.7	1,718,698.4	724,810.7	993,887.8	993,887.8	137.1%
15	National Academy of Agrarian Sciences of Ukraine	1,221,012.4	41,592.9	651,601.4	-610,008.5	610,008.5	93.6%
16	National Academy of Medical Sciences of Ukraine	1,015,527.0	466,269.7	541,942.7	-75,673.0	75,673.0	14.0%
17	Ministry of Culture of Ukraine	4,500.0	840.0	2,401.5	-1,561.5	1,561.5	65.0%
18	Chief Directorate of Intelligence of the Ministry of Defense of Ukraine	887,865.5	162,482.7	473,815.3	-311,332.6	311,332.6	65.7%
19	State Service of Special Communications and Information Protection of Ukraine	886,165.1	75,270.1	472,907.9	-397,637.8	397,637.8	84.1%
20	Foreign Intelligence Service of Ukraine	626,002.7	189,086.9	334,070.5	-144,983.6	144,983.6	43.4%
	Other Ministries (departments)	2,842,210.9	5,761,392.4	1,516,764.7	4,244,627.7	4,244,627.7	279.8%
	share of other MDAs in total development expenditures	*2.0*	*7.6*	*2.0*	*x*		
	Total composition of development expenditures across agencies	**142,767,147.0**	**76,188,634.5**	**76,188,634.5**	**x**	**39,776,141.2**	**52.2%**
	The absolute overall deviation in development expenditures (PIM-11)						**43.6%**
	Variance						***8.6%***

ANNEX 7

CALCULATIONS FOR PIM-12, 2020 (UAH THOUSAND)

#	Name of the ministry (department)	Originally approved budget	Actual	Originally approved adjusted budget	Deviation	Absolute deviation	Deviation, %
1	State Road Agency of Ukraine (including nationwide expenditures and crediting)	57,732,622.8	38,096,940.6	31,126,979.8	6,969,960.8	6,969,960.8	22.4%
2	Ministry of Defense of Ukraine	32,163,176.9	5,368,555.0	17,341,019.8	-11,972,464.8	11,972,464.8	69.0%
3	Ministry for Communities and Territories Development of Ukraine (including nationwide expenditures and crediting)	14,843,134.9	9,158,672.6	8,002,788.3	1,155,884.3	1,155,884.3	14.4%
4	Ministry of Internal Affairs of Ukraine	11,687,592.9	10,544,541.3	6,301,454.0	4,243,087.3	4,243,087.3	67.3%
5	Ministry of Energy and Environmental Protection of Ukraine (including nationwide expenditures and crediting)	8,945,222.3	1,079,931.5	4,822,884.2	-3,742,952.7	3,742,952.7	77.6%
6	Ministry of Economic Development, Trade and Agriculture of Ukraine	8,704,465.3	2,984,088.9	4,693,078.2	-1,708,989.3	1,708,989.3	36.4%
7	Ministry of Education and Science of Ukraine (including nationwide expenditures and crediting)	9,717,961.9	3,927,308.7	5,239,512.6	-1,312,203.9	1,312,203.9	25.0%
8	National Academy of Sciences of Ukraine	4,779,737.4	267,266.2	2,577,031.5	-2,309,765.3	2,309,765.3	89.6%
9	Ministry of Infrastructure of Ukraine	4,213,266.3	2,195,259.8	2,271,614.4	-76,354.5	76,354.5	3.4%
10	Ministry of Finance of Ukraine (including nationwide expenditures and crediting)	4,608,835.5	5,153,327.9	2,484,888.5	2,668,439.4	2,668,439.4	107.4%
11	Ministry of Health of Ukraine (including nationwide expenditures and crediting)	4,395,605.9	8,996,118.8	2,369,924.1	6,626,194.7	6,626,194.7	279.6%

182 Annex 7. Calculations for PIM-12, 2020 (UAH Thousand)

#	Name of the ministry (department)	Originally approved budget	Actual	Originally approved adjusted budget	Deviation	Absolute deviation	Deviation, %
12	Ministry of Culture, Youths and Sports of Ukraine (including nationwide expenditures and crediting)	2,630,350.8	293,608.8	1,418,173.5	-1,124,564.7	1,124,564.7	79.3%
13	National Academy of Agrarian Sciences of Ukraine	1,438,744.7	44,595.8	775,710.1	-731,114.3	731,114.3	94.3%
14	Ministry of Veterans' Affairs, Temporarily Occupied Territories and Internally Displaced Persons of Ukraine (including nationwide expenditures and crediting)	1,323,938.7	658,067.1	713,811.6	-55,744.4	55,744.4	7.8%
15	Main Directorate of Intelligence of the Ministry of Defense of Ukraine	1,196,270.9	184,333.6	644,978.5	-460,644.9	460,644.9	71.4%
16	Ministry of Social Policy of Ukraine (including nationwide expenditures and crediting)	1,897,239.9	825,866.0	1,022,911.2	-197,045.3	197,045.3	19.3%
17	National Academy of Medical Sciences of Ukraine	743,695.9	447,053.7	400,969.3	46,084.4	46,084.4	11.5%
18	Foreign Intelligence Service of Ukraine	673,321.0	260,226.9	363,026.1	-102,799.2	102,799.2	28.3%
19	State Service of Special Communications and Information Protection of Ukraine	645,739.5	86,101.9	348,155.3	-262,053.5	262,053.5	75.3%
20	Security Service of Ukraine	617,085.2	593,042.2	332,706.1	260,336.0	260,336.0	78.2%
	Other Ministries (departments)	3,106,969.1	3,861,610.6	1,675,145.9	2,186,464.8	2,186,464.8	130.5%
	share of other MDAs in total development expenditures	*1.8*	*4.1*	*1.8*	*x*	*x*	*x*
	Total composition of development expenditures across agencies	**176,064,977.8**	**94,926,763.0**	**94,926,763.0**	**x**	**48,213,148.4**	**50.8%**
	The absolute overall deviation in development expenditures (PIM-11)						**44.5%**
	Variance						***6.3%***

ANNEX 8

PROJECT COMPLETION TIME AND COST VARIANCES OF COMPLETED PROJECTS

Name of the project	The total capital cost of the project				Project completion time				
	original, UAH thousand	project inflation-adjusted construction cost, UAH thousand	final (actual), UAH thousand	the ratio of the final (actual) to the project inflation-adjusted construction, percent	original, year of the beginning and the end	final, year of the beginning and the end	original, number of years	final, number of years	the ratio of the final number of years to the initial, percent
Weighted average overruns	X	X	X	**130.8%**	X	X	X	X	**132.7%**
Restoration and adaptation of the Mariinsky Palace at 5a Hrushevskoho Street, Kyiv	1,305,536.0	1,305,536.0	922,807.8	70.7%	2002-2018	2002-2018	17	17	100.0%
Restoration with redevelopment of attics in the building No. 5. on the Nyzhankivsky Street for the educational premises of the Lviv National Music Academy named MV Lysenko within the volume of the existing attic	4,802.8	4,945.8	12,686.4	256.5%	2015-2018	2015-2019	4	5	125.0%
Reconstruction with re-profiling of the unfinished construction of the House of Culture in Ostroh for the academic building of the National University 'Ostroh Academy'	39,757.1	122,324.7	122,324.7	100.0%	2007-2010	2007-2019	3	13	433.3%
Reconstruction of the educational building No. 4 of Cherkasy National University maned Bohdan Khmelnytsky - architectural monuments of local significance at the address: Cherkasy, Ostafy Dashkovych Street, 24	60,130.5	60,130.5	57,788.4	96.1%	2018-2020	2018-2019	3	2	66.7%
State support for the construction of mine No. 10 'Novovolynskaya'	N/A	4,457,239.5	N/A	N/A	1989-2020	1989-2020	31	31	100.0%
Construction and reconstruction of public highways in the Khmelnytsky region	N/A	109,992.0	N/A	N/A	2018-2019	2018-2019	2	2	100.0%

Name of the project	The total capital cost of the project				Project completion time				
	original, UAH thousand	project inflation-adjusted construction cost, UAH thousand	final (actual), UAH thousand	the ratio of the final (actual) to the project inflation-adjusted construction, percent	original, year of the beginning and the end	final, year of the beginning and the end	original, number of years	final, number of years	the ratio of the final number of years to the initial, percent
Construction and reconstruction of public highways in the Cherkasy region	N/A	204,612.4	N/A	N/A	2018-2018	2018-2018	1	1	100.0%
Subvention from the state budget to the oblast budget of the Kherson oblast for the construction of an overpass on ave. Admiral Senyavin - St. Zalaegerseg in the city of Kherson	N/A	19,000.0	N/A	N/A	2018-2018	2018-2018	1	1	100.0%
Construction of real estate for the needs of foreign diplomatic institutions of Ukraine	N/A	3,360.0	N/A	N/A	2018-2018	2018-2019	1	2	200.0%
Construction (acquisition) of the territorial administration of the State Judicial Administration in the Chernivtsi oblast (Storozhynetsky district)	N/A	74,601.0	N/A	N/A	2008-2019	2008-2019	11	11	100.0%
Reconstruction of existing non-residential buildings No. 1, 2, 11 of a military town with the placement of the Odessa Administrative Court of Appeal at the address: Odessa, Primorsky District, Gagarina Avenue, 19-21 (adjustment for the completion of construction)	N/A	199,905.5	N/A	N/A	2017-2019	2017-2019	3	3	100.0%
Reconstruction of the stadium 'Trudovye Rezervy,' Dnepropetrovsk. Indoor sports demonstration facility for sports games. Adjustment	N/A	213,720.1	N/A	N/A	2017-2020	2017-2020	4	4	100.0%
Construction of the Tatarbunarsky group water pipeline in the Odessa region and the turn. Platforms for water towers near the village. Glubokoe and near the village. Borisovka, Tatarbunarsky district, Odessa region	N/A	19,943,8	N/A	N/A	2018-2020	2018-2020	3	3	100.0%