



JOINT SDG FUND



UNITED NATIONS
UKRAINE



ANALYSIS OF THE INSTITUTIONAL ENVIRONMENT AND LEGAL FRAMEWORK THAT GOVERNS PUBLIC FINANCING OF THE SDGs



The report has been prepared by UNDP in the framework of implementation of the "Promoting strategic planning and financing for sustainable development at the national and regional levels in Ukraine" Joint Programme



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1 INTRODUCTION: THE SDGS IN UKRAINE

In 2017, the national “Sustainable Development Goals: Ukraine” report defined the baseline and benchmarks for Ukraine to achieve the Sustainable Development Goals (SDGs), as approved by the United Nations in 2015.¹ The National report was prepared by the Ministry of Economic Development and Trade and approved by the High-Level Interagency Working Group for Organizing the Process for Achieving the SDGs in Ukraine under the chairmanship of Stepan Kubiv, First Vice Prime Minister and Minister of Economic Development and Trade of Ukraine. The ‘leave no one behind’ principle was taken into account. The national SDG system developed includes 86 national development targets and 172 indicators for monitoring them. The targets are defined not only for the central level, but also for oblasts.

The Ministry of Development of the Economy, Trade and Agriculture (MinEc) is responsible for monitoring efforts to attain the SDG in Ukraine, and is mandated to be the Executive Secretariat of the Interagency Working Group on the Coordination of Implementation and Monitoring of the SDGs in Ukraine.² Under Cabinet of Ministers Decision 686-p of 12 August 2019, the State Statistics Service of Ukraine (Ukrstat) is responsible for providing and publishing information on monitoring of the SDGs.³ Currently information is being collected on 96 of the indicators.

On 30 September 2019, the President of Ukraine approved a Decree on the Sustainable Development Goals for Ukraine until 2030.⁴

The document is rather declarative as reconciles the 17 SDG areas. It also requires the Cabinet of Ministers, with other stakeholders, to analyze forecasting and programme documents and improve them, as well as to introduce a system to monitor implementation of the SDGs (the results of monitoring should be published by 1 March every year).

Under Prime Minister of Ukraine Order 33598/1/1-19 of 3 December 2019, on implementation of the Presidential Decree, in January 2020 the MinEc prepared a monitoring report entitled “SDG: Ukraine, 2019”.⁵ In June 2020, the First Voluntary Review on the SDGs in Ukraine was published by the MinEc.⁶

Overall, the MinEc assessment shows that the SDGs are included in national strategic and policy documents, and that 145 strategic and policy documents are in line with the SDGs. But this may be accidental, as the SDGs cover all fields of life and, thus, it is difficult to define different key performance indicators (KPIs) for strategic and policy documents.

In September 2020, the Ukrstat introduced a **monitoring instrument** on its website (with the help of VoxUkraine): http://ukrstat.gov.ua/csr_prezent/ukr/ukr4/index.html. This instrument enables monitoring of progress since 2015 towards achievement of the SDGs at national level. This makes it clear to see in which policy areas more efforts are required to achieve the SDGs by 2030.

¹ National report available at <https://me.gov.ua/Documents/Download?id=05822f66-290b-4b51-a392-347e76ebeb5f>

² MinEc page on the SDG: <https://bit.ly/3j7bWfT>

³ The data is published (in Ukrainian) at: http://ukrstat.gov.ua/csr_prezent/ukr/st_rozv/metadata/metadata.htm

⁴ Available (in Ukrainian) at www.president.gov.ua/documents/7222019-29825

⁵ Available at: http://ukrstat.gov.ua/csr_prezent/ukr/st_rozv/publ/SDGs13.01.2020_engl.pdf

⁶ Available (in Ukrainian) at <https://bit.ly/346ly5c>



Figure 1: Status of SDG incorporation into current national strategic and policy documents



Source: MinEc, "SDG: Ukraine, 2019" Monitoring report

Achieving the identified SDGs by 2030 requires a robust strategic planning system to enable comprehensive policy making. This report addresses the question of whether the current strategic planning framework enables policies to be effective, and whether they are aligned with the budget to ensure financing of reforms related to the SDGs.

The establishment of an effective integrated national financing framework (INFF) is recommended to ensure better implementation of the SDGs and their alignment with the budget. INFFs enable policymakers to map the landscape for financing sustainable development and set out a strategy to increase and make most effective use of investment for sustainable development, coordinate the technical and financial cooperation they receive, manage financial and non-financial risks, and ultimately achieve the priorities articulated in a national sustainable development strategy or plan.⁷

The potential benefits for the Government of implementing an INFF include better understanding of the government policies by both domestic and international stakeholders, including international financial institutions (IFIs). An INFF also enables the full picture of financial resources (domestic and international as well as public and private) available to finance activities intended to facilitate achieving the SDGs.

It should be clear from the start that an INFF takes time to develop. The SDGs are defined in Ukraine, but are not yet an integral part of all strategic documents at national and regional levels. However, aligning efforts towards the SDGs with resources would improve chances of achieving the goals by 2030.

⁷ Integrated national financing frameworks: inception phase, Working Draft, January 2020.



2 STRATEGIC PLANNING FRAMEWORK IN UKRAINE: NATIONAL AND SUB-NATIONAL LEVELS

2.1 Key entities to conduct strategic planning under the Constitution

The Constitution of Ukraine defines the key responsibilities of the Verkhovna Rada (Parliament), the President and the Cabinet of Ministers (Government).⁸ All of these should work to implement the strategic target of Ukraine of full membership of the European Union (EU) and the North Atlantic Treaty Organization (NATO).

The strategic planning responsibilities of the Verkhovna Rada include approval of laws as well as of national economic, scientific and technological, social, cultural and environmental programmes. It also considers the Programme of the Cabinet of Ministers and approves it.

The President is responsible for national security, defence and foreign affairs, and represents the country in the international arena. The President presents an Address to the population every year in the Parliament on Ukraine's domestic and foreign affairs situation. This Address is traditionally prepared by the National Strategic Institute of Ukraine under the President. It includes a description of the current situation as well as some strategic goals and plans for the future; however, the plans for the future are often declarative and not always consistent with the Government's plans.

The Cabinet of Ministers of Ukraine (CMU) is appointed by the parliamentary coalition, which should agree on a coalition agreement. The CMU is responsible for implementing all types of policies. It develops and implements national programmes for economic, scientific and technological, social, and cultural development and the environment. It elaborates the State Budget Law and executes it.

Local governments in oblasts, rayons and cities are responsible for implementing national and regional policies, and for approving and spending budgets. After the implementation of the decentralization reform (launched in 2015) and the creation of amalgamated territorial communities, local self-government bodies created at all regional levels (from village and towns to rayon and oblast levels) are responsible for elaborating and approving the development of social and economic as well as cultural development programmes and overseeing their implementation.

However, evidence suggests that this framework is not operating in a smooth way.⁹ The current Parliament does not have a Coalition Agreement, as one party has a majority (therefore, its Party's programme could *de facto* be considered the equivalent of such an Agreement). However, the President *de facto* appoints the Prime Minister and many Ministers with the votes of parliamentarians from his party. Even though the CMU should frame policies in many areas it is sometimes deprived of this responsibility, as many decisions are taken by the President (even in economic and social areas)

⁸ See (in Ukrainian): <https://zakon.rada.gov.ua/laws/show/254%D0%BA/96-%D0%B2%D1%80#Text>

⁹ See (in Ukrainian) <https://youtu.be/ImXWEBsORF0>



as well as by the Parliament. According to the SIGMA report, the development of laws in Ukraine is imperfect as the VRU initiates, elaborates and approves too many laws, and up to 40 per cent of laws are already amended in the first year after their approval.¹⁰

2.2 Strategic planning at national level

Law 1602-III on State Forecasting and Elaboration of Economic and Social Development Programmes of Ukraine, which was approved in 2000, addresses the elaboration of certain strategic planning documents in Ukraine, namely longer-term and short-term forecasts at national and sub-national levels. However, the Law is outdated and rather declarative.

Strategic documents can be approved by the President, the Government, the Verkhovna Rada and line ministries at national level¹¹ as well as by local government entities at sub-national level.

The President: In 2015, the President approved the Ukraine-2020 Strategy of Sustainable Development,¹² which defined Ukraine's goal to be achieving European living standards and a prosperous Ukraine. This broadly set out reforms to be achieved in key areas and defined clear KPIs. The document was prepared by the back office of the National Reform Council. For several years this Council was a platform for high-level discussions on the reform agenda and for decisions on which key reforms should be made.¹³

The President issues Decrees (such as in the case of SDGs) that require further actions from the Government. Even though these are not strategic documents, they may result in the approval of strategic documents and concepts by the Cabinet of Ministers. In particular,

the Government noted that it elaborated the Regional Development Strategy for 2021-2027 on the basis of Presidential Decree 713, "On immediate measures on ensuring economic growth, promoting regional development and preventing corruption" of 20 September 2019

The Cabinet of Ministers has a Strategic Government Committee, comprised of CMU members (i.e. Ministers). This Committee is responsible for aligning the priorities and reforms of various ministries with the Government's programme and Ukraine's international obligations. The Committee had several important meetings under the leadership of Prime Minister Volodymyr Groisman in 2017-2018; however, it currently does not seem to be very active in defining a clear strategic vision for the development of Ukraine and discussing policy options and priorities. Therefore, the Cabinet of Ministers takes often decisions on the approval of its decisions without discussions at the level of Ministers (the regulations on the Government meeting should be already agreed by all to be voted).¹⁴

Certain government committees (e.g. on social issues and on EU integration), which enable at least some discussions on certain draft legislation on the level of Deputy Ministers. However, these are often also rather formal. Moreover, parliamentarians typically do not take part in these discussions, which reduces the integrity of the policy framework.

The Regulation of the Cabinet of Ministers (Reglament) defines the procedures of the preparation of strategic documents by the government. The key strategic document is currently the Programme of the Cabinet of Ministers, which is to be developed to enable 'the exercising the power' by the CMU. The duration of the Programme is not clearly defined (often this was a short-term document), but if approved by the Parliament it grants the Cabinet of Ministers one year of immunity. The Government then approves an Action Plan for the Programme's implementation (typically also one year).

In 2020, the Parliament did not approve the Government's Programme, which is unprecedented. The official reason for this was the

¹⁰ <https://par.in.ua/en/overview-in-ukraine/progress/sigma-assessment>

¹¹ Broadly, a rapid search (in Ukrainian) of different types of strategies at the legislation website returns about 150 results, <https://zakon.rada.gov.ua/laws/stru/t152#Stru>

¹² <https://zakon.rada.gov.ua/laws/show/5/2015#Text>

¹³ The current President has tried to renew the National Reform Council; however, it did not become again a platform for strategic planning.

¹⁴ See (in Ukrainian) <https://youtu.be/lmXWEBsORF0>



poor quality of the Programme and its declarative nature. Overall, the Programme is rather declarative and does not identify priorities, but rather follows the approach that ‘all good things are our priorities’. Moreover, due to the COVID-19 pandemic, the Government’s policies in 2020 are more in the line of anti-crisis measures and policies rather than following a strategic view. Nevertheless, the Government approved an Action Plan for Implementation of the Programme, which is more focused but is still not a step-by-step guide to policy implementation. Given the weak capacities in most central executive bodies such policies result in a lack of efficiency and effectiveness in addressing changes.

The Government approves strategies for reforms and sectoral reforms in the form of Resolutions (there is no specific type of Government act as a Policy Act). There are about 100 Government strategies,¹⁵ more than 300 concepts, and about 1,000 action plans or sectoral plans. Strategic documents include, for example:

- Public Financial Management (PFM) Reform Strategy for 2017-2020, CMU Resolution 142-p of 8 February 2017;
- Strategy of Public Administration Reform of Ukraine for the Period until 2021, CMU Resolution 474-p of 24 June 2016;
- State Strategy for Regional Development in 2021-2027, CMU Resolution 695 of 5 August 2020;
- Medium-term Public Debt Management Strategy for 2019 – 2022, CMU Resolution 473-p of 5 June 2019;
- Strategy for Reforming the Public Procurement System (“Road Map”), CMU Resolution 175-p of 24 February 2016;
- Strategy for Promotion of the Ukrainian Language until 2030, CMU Resolution 596-p of 17 July 2019;
- Strategy for Promoting the Export of Agricultural, Food and Manufacturing Products until 2026, CMU Resolution 588-p of 10 July 2019;
- Strategy for Development Innovations until 2030, CMU Resolution 526-p of 10 July 2019.
- National Transport Strategy until 2030, CMU Resolution 430 of 30 May 2018.

Even from this short selection of strategies from the long list in force the duration of the strategies is not uniform. The strategies may expire in different years, but the greatest problem is that they are not based on a single national development strategy. The strategic documents were approved in different years and, thus, consider different Programmes of Cabinets of Ministers, which often lack continuity.

Currently, all strategies should be approved concurrently with clear action plans; previously this was not compulsory. As a result, in some cases there was a time gap between approval of strategies and action plans. However, costing is still not done properly. Meanwhile, there is no practice of reviewing strategies before their end dates: only action plans are changed, but without extension of their deadlines.

During autumn 2020, the CMU announced the launch of the process to prepare Ukraine’s **National Economic Development Strategy 2030**.¹⁶ This document will define the main economic vectors of Ukraine’s development, and the initiatives included in the Strategy will be further translated into state target programmes. Drafting of the Strategy has been outsourced to the Centre for Economic Recovery and will be supported by the Secretariat of the Cabinet of Ministers.¹⁷

The **Forecast for Economic and Social Development of Ukraine for 2021-2023**, which was elaborated by the MinEc and approved by the CMU, provides a medium-term macroeconomic forecast.¹⁸ However, this is not really a strategic document as it rather assumes that current policies will continue and that the Government will continue market-oriented reforms. In particular, the forecast assumes an improved business environment with regard to taxation, export promotion and so on. At the same

¹⁵ Available (in Ukrainian) at <https://zakon.rada.gov.ua/laws/main/tt2152>

¹⁶ <https://youtu.be/KPLm0sYMjjs>

¹⁷ www.facebook.com/recovery.org.ua/posts/191308165931002

¹⁸ This forecast was approved by CMU Resolution 671 of 29 July 2020: <https://bit.ly/2T5PI3l>



time, the exact measures and policies are not defined, new policy options are not discussed, and priorities are not changed.

In August 2020, the Cabinet of Ministers approved the **State Strategy for Regional Development in 2021-2027** (CMU Resolution 695 of 5 August 2020), which will replace the previous Strategy approved for the period until 2020.¹⁹ The Strategy defines the general direction for the sustainable development of regions and is elaborated on the basis of Ukraine's nationally defined SDGs for 2030. It sets numerous objectives and priorities for the development of regions.

Line ministries approve medium-term strategies for their activity (however, not all ministries have approved such strategic plans, or else they have not published them on their websites). Currently, there is no unified approach to developing such documents, as strategies have different structure, content and duration. In particular, the MinEc has a Strategy for 2020-2024²⁰ with KPIs that include the SDGs, plans for fiscal financing as well as for technical assistance from donors. The Ministry of Finance has a strategic plan for 2018-2021 with defined KPIs but without costing.²¹ The Strategy of the Ministry of Education is until 2024, identifies objectives rather than clear KPIs and does not contain costing²² (there is also a public operational plan for 2020).

The Parliament, which according to the Constitution can approve state economic and social development programmes, approved in particular The Environmental Policy of Ukraine until 2030 (Law 2697-VIII of 28 February 2019) and the Anti-Corruption Strategy for 2014-2017 (Law 1699-VII of 14 October 2014). There is no clear understanding of which type of strategies should be approved by the Parliament and which by the Government. The VRU Committees have meetings at which they discuss draft laws submitted parliamentarians, the CMU or the President. They invite the representatives of the CMU for the discussions. They also

have a Government Day in the Parliament at which the Prime Minister and selected ministers report on specific topics with question and answer sessions afterwards. The Parliament also has public hearings on certain important topics with the participation of experts, academia and civil society, lead to agreed conclusions and recommendations; however, the evidence shows that their impact is very limited, and they rarely have policy impact.

State targeted programmes are *de facto* strategic documents, approved either by the Cabinet of Ministers or the Parliament, and should be included in the budget and receive financing as special programmes. The Programs have defined KPIs to be reached during implementation. However, the MinEc analysis showed that actual budget financing is typically lower than planned, the KPIs do not facilitate assessment of efficiency, and the programmes did not achieve the expected results.²³

Overall, there is **no robust strategic framework and a lack of clear hierarchy of planning documents**. A comprehensive system has not been developed for planning and implementing reforms. There is also no system to clearly monitor their impact on the economy and society. Moreover, there is no continuity in policies: almost every new CMU in general, and minister in particular, attempts to start creating strategies from scratch. A striking problem under the current system of strategic planning relates to the role of the leading party in the Government in the area of strategic planning. This is divided between the CMU Secretariat (SCMU), the Ministry of Finance and the Ministry of Justice (these entities should provide their agreement on all acts that are to be approved by the CMU). While the Ministry of Finance and the Ministry of Justice often might have a conflict of interest between their fields of competence and independent opinions, the SCMU can block some decisions without providing independent expertise.²⁴

¹⁹ Available (in Ukrainian) at: <https://zakon.rada.gov.ua/laws/show/695-2020-%D0%BF#Text>

²⁰ Available (in Ukrainian) at: <https://bit.ly/3k6aj3o>

²¹ Available (in Ukrainian) at: <https://mof.gov.ua/uk/strategichnij-plan-dijalnosti-minfinu>

²² Available (in Ukrainian) at: <https://bit.ly/37k3308>

²³ <https://bit.ly/37mwzT4>

²⁴ See (in Ukrainian): <https://youtu.be/lmXWEbSORF0>



2.3 Association Agreement between Ukraine and the EU

While at the central level there is no strategic document for Ukraine's development, there is a document that frames the strategic objective for the country. This is the Association Agreement (AA) between Ukraine and the EU. The AA was signed in 2014 and envisages a comprehensive plan for reforms in Ukraine in line with the EU acquis.

The Government has approved a clear-cut Action Plan for Implementation of the Association Agreement.²⁵ It envisages numerous changes concerning approval of new or updating current legislation but does not set out step-by-step priorities. The lack of resources – and sometimes of political will and continuity of policies – results in rather limited progress in implementation of the AA in some fields.²⁶

Implementation of the Association Agreement is supported by both technical and financial assistance provided by the EU. In particular, the EU provides budgetary support for the implementation of certain reforms and macro-financial assistance programmes for the implementation of a broader set of reforms. Political support for Ukraine from the EU is also essential for the country's development.

2.4 Strategic planning at sub-national level

Strategic planning seems to be more streamlined at sub-national level than at national level. The local government approves strategies for regional development on the basis of key regulations on strategic planning including:

- Law of Ukraine 280/97 on Local Self-governance of 21 May 1997 (with amendments);

- Law of Ukraine 586-XIV on Local State Administrations of 9 April 1999 (with amendments);
- Law of Ukraine 156-VIII on the Principles of State Regional Policy of February 2015;
- CMU Resolution 932 on the Procedure for the Elaboration of Regional Strategies and Plans for their Implementation as well as Monitoring and Efficiency Assessment of 11 November 2015 (with amendments).

In the Law of Ukraine on the Principles of State Regional Policy, the State Strategy for Regional Development is defined as the principal strategic planning document for implementing state regional policy and regional (oblast-level) development strategies – the main strategic planning documents at sub-national level. The State Strategy for Regional Development sets the directions of changes for regional policies and defines the objectives of regional development. Financing is to be allocated from the State Regional Development Fund for regional development programmes based on the tasks defined in the Strategy. In 2020, the State Strategy for Regional Development for 2021-2027 was approved by the Government.²⁷

At the same time, the sub-national strategic planning is negatively affected by the lack of coordination between sectoral strategic documents at central level. In particular, local governments are not always informed about certain regional or sectoral initiatives and plans of the central governments, and in some cases are only aware of them after the publication of the particular document by the CMU.

The regional (oblast-level) development strategies were approved by oblast authorities for the period until 2020.²⁸ In 2020, most oblasts have developed and approved their regional strategies for 2021-2027.²⁹ As this occurred in most regions before the State Strategy for Regional Development was approved by the Government, they are now being revised and aligned with the national-level strategy until 2027.

²⁵ Available (in Ukrainian) at: <https://zakon.rada.gov.ua/laws/show/1106-2017-%D0%BF#Text>

²⁶ Progress towards implementation of the AA can be monitored through the 'Pulse of the agreement' Instrument at: <https://pulse.eu-ua.org/>

²⁷ Available (in Ukrainian) at: <https://zakon.rada.gov.ua/laws/show/695-2020-%D0%BF#Text>

²⁸ All oblast development strategies are published (in Ukrainian) on the website of Ministry for Communities and Territories Development of Ukraine: <https://bit.ly/3o2SN2h>

²⁹ <https://bit.ly/3mztjWX>



According to the Ministry for Communities and Territories Development of Ukraine, there is a risk of these regional strategies not being implemented as they are not aligned with budget financing.³⁰ Moreover, the priorities defined in the State Strategy for Regional Development and the regional strategies were not always used by the authorities when selecting projects for the financing from the State Regional Development Fund (SRDF).³¹ Many of the projects being financed the SRDF were social projects rather than projects for economic development and competitiveness enhancement; while about a third of the projects did not envisage the achievement of any goal defined in regional strategy, and most of actions from the strategy were not targeted by projects.³² Often, the KPIs of projects are rather generally defined, which makes it difficult to assess the projects' efficiency and effectiveness.

Local government entities also approve regional programmes for the implementation of national programmes. However, these programmes lack financing, which makes them ineffective.

Moreover, local self-government bodies at the level of amalgamated territorial communities are also expected to elaborate development strategies. The evidence shows that the development strategies of amalgamated communities are often elaborated with the technical assistance of a variety of projects and donors and may be rather different even though the Ministry of Regional Development, Construction, and Public Housing and Utilities (since 2019 the Ministry of Communities and Territories Development) in 2016 approved a Methodology for the Preparation of Strategies.³³ According to the Methodology, a local strategy for a duration of 7 years should define clear strategic and operational goals, and KPIs.

In addition, local governments at all levels can approve local targeted programmes, typically with a medium-term perspective, as well as social and economic development programmes

for the next year. The structure of local targeted programmes is not defined in the legislation, while the structure of social and economic development programmes is defined by the CMU.³⁴

Overall, there is no strategic framework at local level. As a result, all local governments decide separately which documents they require and how to frame them.³⁵ Some amalgamated communities have approved development strategies with technical assistance from international donors. However, the structure and formats of documents vary as donors usually attempt to develop their own ('best') approach.

2.5 Draft Law on Strategic Planning by the MinEc

Ukraine does not have one clear law on the creation of strategic planning framework. A draft law was elaborated to this end by the MinEc in 2017; however, it was not approved by the Cabinet of Ministers. The draft law was intended to frame an integral and consistent system of strategic planning in Ukraine, and to define procedures for elaborating, approving and implementing strategic planning documents.

The draft law envisages a clear hierarchy of strategic and planning documents. It sets out 16 types of strategic and planning documents at national and subnational levels, including:

- Ukraine's Vision (30 years, updated every 15 years);
- Ukraine Development Strategy (15 years, updated every 5 years);
- Ukraine Regional Development Strategy (15 years);
- Regional strategies of development (7 years);

³⁰ Available (in Ukrainian) at: <https://bit.ly/2TDZz0g>

³¹ Available (in Ukrainian) at: <https://decentralization.gov.ua/news/12831>

³² Available (in Ukrainian) at: <https://decentralization.gov.ua/news/10591>

³³ Order available (in Ukrainian) at: <https://zakon.rada.gov.ua/rada/show/v0075858-16#Text>. However, it should be borne in mind that this Methodology is a recommendation rather than an obligation.

³⁴ Available (in Ukrainian) at: <https://zakon.rada.gov.ua/laws/show/621-2003-%D0%BF#Text>

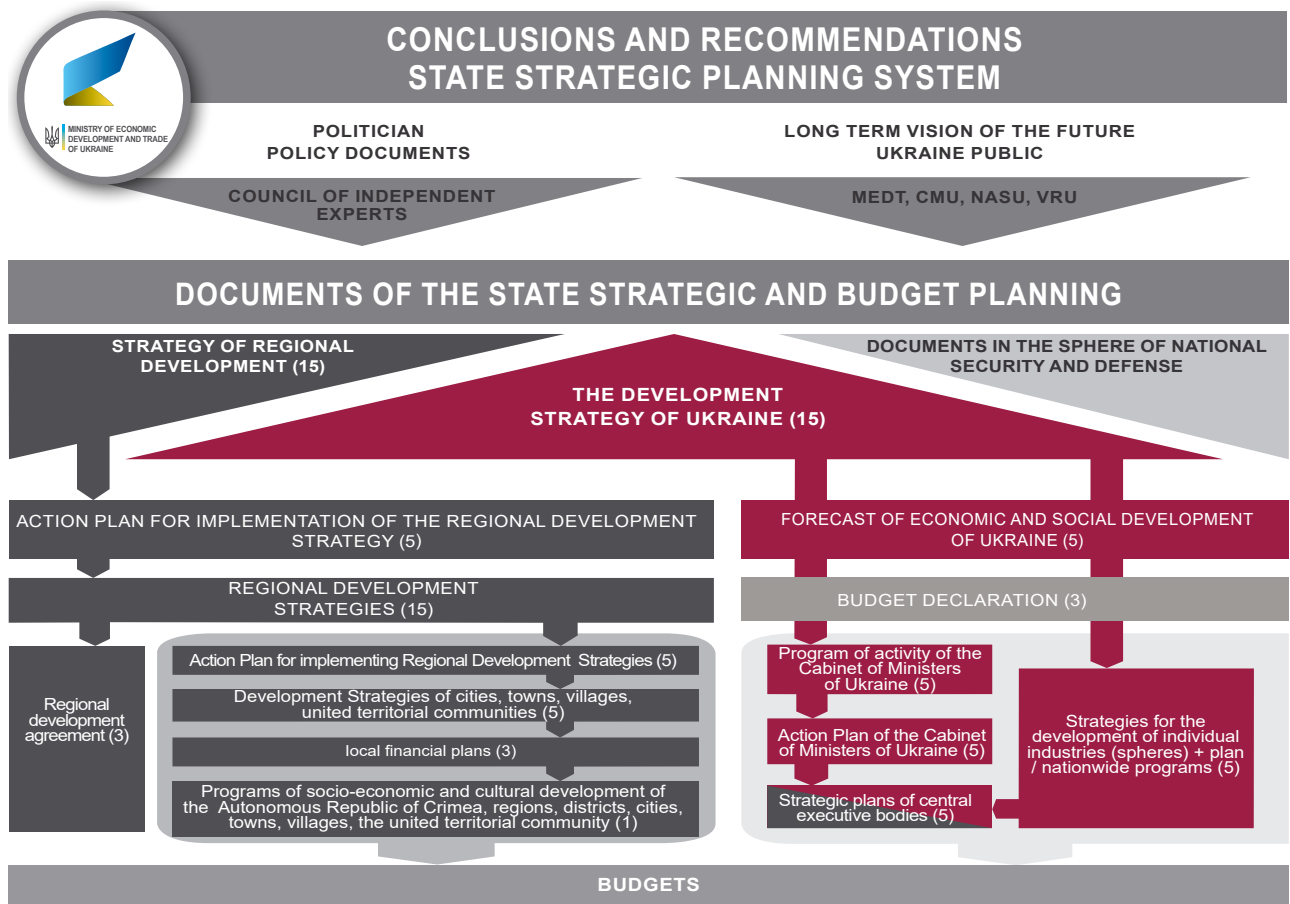
³⁵ Available (in Ukrainian) at: <https://decentralization.gov.ua/uploads/library/file/566/2.pdf>



- Forecast of Economic and Social Development of Ukraine (5 years, updated every year);
- Government Programme (5 years);
- Strategic plans of central executive authorities (5 years, updated every year);
- Strategies for the development of particular areas (5 years, updated annually);
- Strategy for the development of cities, towns, villages, united territorial communities (5 years);
- Budget Declaration (3 years, updated annually).

This approach was intended to build a sound strategic planning framework as the basis for policy making. It would also result in higher consistency of documents and more clarity concerning responsibilities and time frame. In addition, it would enable the alignment of strategies with financing. The crucial fact is that all strategies should be costed and financial (fiscal) constraints should be considered while defining priorities and making policy options.

Figure 2: Strategic planning as suggested by the Draft Law on Strategic Planning



Source: MinEc, Monitoring report “SDG: Ukraine, 2019”

The Law has not yet been approved by the Cabinet of Ministers, probably because of differences in views between the MinEc and the SCMU on several essential issues. The most striking difference is the view on which of the two entities should take the lead in identifying the development strategy. Another, less

important, difference concerns the creation of a Council of Independent Experts. Such a Council would be responsible for analysing the compliance of all strategic documents with the key priorities and the assessment of the macroeconomic forecast, which is prepared by the MinEc.



3 STRATEGY ALIGNMENT WITH BUDGETS

3.1 PFM reform

The Public Financial Management (PFM) Reform Strategy for 2017-2020 envisages implementing strategic planning and introducing a medium-term budget framework as core components of an efficient PFM system.³⁶ The Strategy was intended to develop a consistent strategic planning framework, which would be aligned with the budget. However, the draft law on strategic planning envisaged in the Strategy was not approved, and the medium-term budget framework was suspended.

The PFM Reform Strategy envisaged improving the programme target in budgeting. Therefore, all budget programmes should have clear SMART KPIs, which enable their effectiveness and efficiency to be estimated. Currently, the national-level KPIs are vague and declarative. At the same time, the evidence suggests that the implementation of the programme targeted method in budgeting at local level remains inadequately low and inefficient.

A new PFM reform strategy is likely to be approved by the Cabinet of Ministers in the near future.

3.2 Medium-term Budget Declaration

Budget preparation in Ukraine is generally an annual process and, thus resources cannot be allocated in the longer term for strategic

priorities (even if they were defined). In addition, the Government does not usually conduct clear discussions on priorities and policy options. The key spending units typically submit budgetary requests to the Ministry of Finance that are much higher than the fiscal financing available and, thus, the Ministry of Finance mostly returns to key spending unit expenditure ceilings, which are based on current fiscal parameters.

Amendments made to the Budget Code in December 2018 finally introduced a medium-term budgetary framework in Ukraine to enable strategic priorities to be incorporated into budgets. The three-year Budget Declaration was defined as a document of medium-term budget planning, which defines the grounds for budgetary policy and sets fiscal indicators for next three years. It is in fact a key document intended to align strategic goals with fiscal financing, which should consider goals and priorities defined in the annual Address of the President to the Parliament, the Government Programme, social and economic forecasts and programmes. The medium-term Budget Declaration is the basis for the preparation of state budgetary law and forecasts of local budgets.

The three-year Budget Declaration should contain information on key macroeconomic indicators, total fiscal revenues, expenditure, provision of credit, deficit and financing, the subsistence minimum, the minimum wage and so on. It also describes the priority tasks for financing different areas of state policies as well as setting the spending ceilings for key spending units. Fiscal risk description is another integral part of the Budget Declaration.

³⁶ Available (in Ukrainian) at: <https://zakon.rada.gov.ua/laws/show/142-2017-%D1%80#n9>



The preparation of the three-year Budget Declaration is an iterative procedure of communication between the Ministry of Finance and all key spending units. Critical dates for this are defined in the Budget Code, while some are set in the letter of instructions sent by the MinFin to the key spending units about mid-January (Note: BC in the list below refers to deadlines that appear in the Budget Code):

- By approximately mid-February: Key spending units are instructed to send their priorities for state policies in their areas for the period to be included in the Budget Declaration. The information should also contain details about possible shifts in spending between budget programmes;
- (BC) the National Bank of Ukraine (NBU) sends to the President of Ukraine, the Verkhovna Rada and the Cabinet of Ministers information on the expected NBU surplus to be transferred to the budget (a preliminary indicator by 1 March and an updated one by 15 April) and forecasted monetary indicators including exchange rate (by 1 March);
- (BC) the MinEc submits a preliminary macroeconomic forecast to the MinFin by 1 March and an updated forecast by 15 April.
- (BC) The High Council of Justice submits priorities for financing the judicial system to the Cabinet of Ministers by 1 March;
- By about mid-March the Ministry of Finance forecasts fiscal revenue for the next three years, defines financing needs and estimates the fiscal balance. On the basis of this information it prepares expenditure ceilings, which are then submitted to key spending units by approximately the end of the first week of April.
- (BC) The National Security and Defence Council submits to the MinFin the distribution of the financing allocated by the Ministry for defence and security between key spending units by 15 April;
- Key spending units submit to the MinFin the goals and priorities of state policies in the respective areas as well as results to be achieved, taking into account the expenditure ceiling defined by the MinFin (by about mid-April). Over the next 10 days conciliation meetings take place between MinFin and key spending units to agree on the pro-

visions and indicators of the Budget Declaration;

- (BC) the MinFin submits the Budget Declaration to the Cabinet of Ministers by May 15 (simultaneously, the MinEc submits the macroeconomic forecast for three years for the approval);
- (BC) the CMU approves the Budget Declaration by 1 June and submits it to the Verkhovna Rada within three days. The Parliament then considers the Budget Declaration and either approves it or not.

Therefore, the preparation of the three-year Budget Declaration is a comprehensive task, with a key role played by the Ministry of Finance. The efficient and effective preparation of this document, which is essential for aligning strategy and financing, requires clear understanding of priorities and the reform agenda by each key spending unit. The priorities should be agreed within a government programme to ensure that the Budget Declaration is straightforward and consistent. Therefore, the preparation of the Budget Declaration should start with the approval of the Strategy for Ukraine's Development (if there is none), or at least from a high-level discussion on priorities and policy options in a medium-term perspective. In addition, the key spending units should receive clear instructions on their budget submissions, so they can define the reasons for the changes in spending for the next years: inflation, new reforms, new priorities, etc.³⁷

Unfortunately, a three-year Budget Declaration has never been approved by the Government. In 2019, the Ministry of Finance submitted the Budget Declaration for 2020-2022 to the Cabinet of Ministers, which did not approve the Declaration because of political turmoil. Moreover, the Budget Declaration was elaborated by the Ministry of Finance in the absence of upfront strategic plans of the Government with clearly identified priorities and objectives.

³⁷ An IMF technical assistance mission worked in Ukraine to assess the Budget Declaration in 2019. Its conclusions are reflected in "Ukraine: Technical Assistance Report-Enhancing the Medium-Term Budget Framework and Preparing Expenditure Baseline", IMF Country Report No. 19/353, available at: www.imf.org/en/Publications/CR/Issues/2019/11/22/Ukraine-Technical-Assistance-Report-Enhancing-the-Medium-Term-Budget-Framework-and-Preparing-48835



In 2020, preparation of the Budget Declaration was suspended due to the uncertainty caused by the COVID-19 pandemic. However, a document with the title 'Budget indicators for 2021-2023', which is *de facto* the text part of the Budget Declaration, was submitted by the Government to the Parliament as a background document to the Draft State Budget Law for 2021.³⁸ The preparation of medium-term budgets by local governments, which was due to start in 2021, was also suspended.

3.3 Budget requests and budget passports

During the budget process all key spending units should prepare budget requests for the next three years, which should then be used to develop the medium-term Budget Declaration and the Budget Law for the next fiscal year. The budget requests should clearly define the objectives for each budget programme and KPIs, which should then be used to assess the efficiency and effectiveness of budget programmes. However, the analysis shows that KPIs rarely follow the SMART approach, which means that efficiency and effectiveness cannot be measured properly. The defined objectives are rather declarative and do not allow the priorities of the Government to be understood.

Budget requests should provide information on analysis of programme implementation in the preceding period. However, the key spending units usually only provide information on financing that do not include analysis of the results of programmes.

Budget requests are usually submitted in PDF format, which makes it difficult to analyse the programmes and their KPIs. The documents are published on the website of each key spending unit.

The Budget Passports, which are one-year documents, have the same deficiencies as budget requests. They lack good KPIs, which prevents assessment of the efficiency and effectiveness of the programmes, even though the Ministry

of Finance Order provides clear instructions for setting such indicators.

3.4 Costing

Costing is defined as compulsory for all types of policy documents. The author of the document (draft order, resolution, or law) should provide a costing assessment, calculating the sum required to implement the new or updated regulation if it has an impact on state and/or local budgets.

The Ministry of Finance updated the methodology for costing in December 2019.³⁹ The author of the draft regulation of the CMU or draft law to be submitted by the CMU to the Parliament is required to complete the table indicating the objective and consistency with the government programme and other strategic documents, and providing clear costing for the three-year period. However, the evidence indicates that they do not always do the task properly.

Parliamentarians are also required to submit costing analysis as a background document for the draft law. However, usually they just state that the draft law will not affect the budget or does not need additional financing. According to the Budget Code (article 27) the Cabinet of Ministers (namely the Ministry of Finance) should provide an assessment of the impact of the draft law on fiscal indicators if there is any impact.

The lack of proper costing seems to result from the absence of strong political will for good assessment of financing needs. Another reason is the lack of capacities or clear instructions. While assessing the capacities of two-line ministries for conducting forward baseline expenditure estimates in two key spending units the IMF experts summarize: "The two ministries appear to have the capability to prepare expenditure baselines with the right instructions".⁴⁰

³⁹ MinFin Order 510 of 6 December 2019, available (in Ukrainian) at <https://zakon.rada.gov.ua/laws/show/z0075-20#Text>

⁴⁰ IMF, "Ukraine: Technical Assistance Report-Enhancing the Medium-Term Budget Framework and Preparing Expenditure Baseline", IMF Country Report No. 19/353, available at: www.imf.org/en/Publications/CR/Issues/2019/11/22/Ukraine-Technical-Assistance-Report-Enhancing-the-Medium-Term-Budget-Framework-and-Preparing-48835

³⁸ Appendix to the Draft State Budget Law for 2021, No. 4000 from September 14, 2020, <https://bit.ly/31adb7X>



3.5 Efficiency of budget spending

In 2020, the Ministry of Finance approved an Order on Assessment of the Efficiency of Budgeted Programmes of the State Budget (effective since 24 July 2020).⁴¹ This evaluation is intended to increase the effectiveness and efficiency of budget programmes, risk assessment, optimize implementation of budget programs, and improve budget planning and transparency of public spending. This Order *de facto* introduces a costing mechanism for the policies of key spending units as they require a definition and then assessment of the linkage between the KPIs and spending, as well as the development of measures to increase efficiency and effectiveness.

Key spending units should conduct efficiency assessments of each budget programme during the preparation of the Budget Declaration, budget requests and budget passports. The efficiency assessment of the budget programmes is conducted during the elaboration of suggestions for the Budget Declaration and budget requests and is based on analysis of:

- The compliance of budget programmes with the goals and priorities defined in the annual Address of the President to the Parliament, the Government Programme, the Social and Economic Forecast and programmes;
- The compliance of budget programmes with Ukrainian primary and secondary legislation;
- The possibility of achieving the goals and tasks of budget programmes and justification of programmes;
- The KPIs of programmes;
- The actual results of programmes in preceding budget programmes.

However, this Procedure does not seem to have been properly implemented so far. In particular, the budget requests for 2021-2023 often have rather vague or improperly defined KPIs, which means that efficiency assessments cannot be conducted properly. Analysis of the actual results typically only includes

reporting on actual spending, without analysis of KPIs and the efficiency of programmes.

An efficiency assessment should be also conducted during spending reviews⁴² of budget programmes. The reviews are intended to improve efficiency through elaboration and then introduction of measures to change financing principles, regulations and financing, or to liquidate or streamline programmes, as well as to set the correct KPIs. However, two years after the introduction of spending reviews to improve the efficiency of fiscal spending, in most cases they have not been completed.

The Order on Efficiency Assessment sets out a clear structure for the report on the efficiency assessment to be conducted by the key spending units for the reporting period. Therefore, in 2021 reports should be prepared within reporting on execution of budget programmes, including analysis of deviation of the actual KPIs from what was planned, analysis of effectiveness, and the measures required to increase efficiency.

⁴¹ MinFin Order 223 of 19 May 2020, available (in Ukrainian) at <https://zakon.rada.gov.ua/laws/show/z0646-20#Text>

⁴² In 2019, spending reviews were conducted as pilots. In October 2019, the MinFin approved Order 446 on Spending Reviews of State Budget, to introduce spending reviews as a regular measure to be used by the key spending units with the aim of increasing efficiency.



4 THE INTEGRATED NATIONAL FINANCING FRAMEWORK (INFF): COMPOSITION AND WORKING PLAN

4.1 The recommendations on the INFF draft composition

The Government of Ukraine has taken on the obligation to integrate the Sustainable Development Goals (SDGs) into its strategic documents. In 2019 the President of Ukraine required actions from the Government to integrate the SDGs into policies (Presidential Decree 722/2019 of 30 September 2019).

In 2017, a High-level Interagency Working Group to coordinate implementation and monitoring of the SDGs was created under Stepan Kubiv, Deputy Prime Minister and Minister of Economic Development and Trade. The Working Group's composition was somewhat updated in 2018 and then in 2019. The Working Group comprised representatives of 17 ministries (at the level of Deputy Ministers), heads of several government entities and research institutes. Seventeen Working Subgroups were created (one for each SDG). Even though the regulation on the Working Group is still effective, it is not operational as the individuals in the ministries have changed since then. The Government was supposed to approve a new regulation; however, it seems to lack the political will to do this.

Given Ukraine's current strategic planning framework, it would appear beneficial to create an INFF multi-sectoral working group under the leadership of the Prime Minister with the participation of ministers from key line ministries. It would be beneficial to define the composition of the Working Group by positions rather than by names to avoid breaks in the work of Working Group when the personnel in the

positions change. The role of the Ministry of Finance will be crucial for the effectiveness of this working group.

It would be beneficial for this group to be a high-level Working group that could create several sub-groups. The number of the sub-groups is still to be agreed. It would probably be advisable to form sub-groups under each of the line ministers responsible for one or more SDGs. The Sub-groups should be headed by Deputy Ministers, and include participants from academia, civil society and NGOs. The participation of the Deputy Minister of Finance (or the head of the respective Department) is essential for the effectiveness of the work. The decision to create sub-groups should be taken at the first meeting of the INFF Working Group. The sub-groups should then be created by the decision of respective ministers.

POSSIBLE DRAFT

The Cabinet of Ministers has taken a decision:

1. To create an Interagency Working Group to Introduce an Integrated National Financing Framework in Ukraine, annex.
2. To approve the Regulation on the Interagency Working Group to Introduce an Integrated National Financing Framework in Ukraine, attached.

ANNEX. The composition of INFF multi-sectoral working group

Prime Minister, Head of the Working Group



Minister of the Cabinet of Ministers of Ukraine (Head of the Secretariat of Cabinet of Ministers)

Deputy Prime Minister for European and Euro-Atlantic Integration of Ukraine

Minister of Finance

Minister for Development of Economy, Trade and Agriculture of Ukraine

Minister of Social Policy

Minister of Education

Minister of Health

Minister for Communities and Territories Development of Ukraine

Deputy Prime Minister, Minister of Digital Transformation of Ukraine

Minister of Environmental Protection and Natural Resources of Ukraine

Minister of Infrastructure of Ukraine

Minister of Culture and Information Policy of Ukraine

Head of the State Statistical Service of Ukraine

Director of the Institute of Demography and Social Research

INVITED AND INCLUDED UPON THEIR AGREEMENT

The deputy head of the Presidential Office

The Heads of the Parliament Committees on social policy, health, and budget policy

Head of the UNDP Office in Ukraine

Top representatives other relevant UN Agencies

Head of the WHO in Ukraine

Representative of the EU Delegation to Ukraine

Head of the World Bank Office in Ukraine

Head of the ILO in Ukraine

Head of the IMF representative office in Ukraine

Head of the EBRD Office in Ukraine

Head of the EU4PAR

The Regulation on the Interagency Working to Introduce an Integrated National Financing Framework in Ukraine

THE AIM OF THE INFF WORKING GROUP

To discuss, elaborate and approve decisions to integrate the SDGs into strategic documents and align them with resources, including financial, towards the medium- and long-term priorities and achieving the SDGs in Ukraine.

THE TASKS OF THE INFF WORKING GROUP

To agree on amendments to legislation to begin to create a strategic planning framework, including a financial needs assessment

To approve a Financial Strategy that matches resources with needs

To approve the results of monitoring and reviews (which are to be conducted by the Secretary of Cabinet of Ministers)

To ensure administration and coordination of the strategic planning framework.

4.2 The recommendations on the INFF workplan

The INFF Multi-sectoral Working Group should meet on a quarterly basis to agree upon the decisions developed by the sub-groups, with the aim of ensuring effective integration of the SDGs into strategic documents, which are then aligned with the budget.

Draft agenda of the first meeting:

- Opening by the Prime Minister;
- Presentation of key bottlenecks in the process of integrating the SDGs into strategic documents and key challenges in aligning the strategic goals into budget documents / to be followed by discussion;
- If the meeting is in January 2021, then Budget Declaration discussion as a topic: the SDGs should be included by the principal administrators of budget funds into the strategic documents and proposals to Bud-



get Declaration. Moreover, at this meeting or a separate one the INFF Working Group should discuss the priorities and policy options to be reflected in the Budget Declaration;

- Protocol decision on the work of all SDG working subgroups under the umbrella of the INFF working group, for the coordination of meetings and agendas;
- A decision on the line ministries responsible for particular SDGs and the creation of respective sub-groups.

Further meetings of the INFF working group should be used as a platform for

the discussion of further policy steps and changes in regulations required for efficient implementation of policies intended to achieve the SDGs.

The meetings of the subgroups should be conducted at least once a quarter before the meeting of INFF Working Group.

The SCMU should receive reports on the results of the work of the sub-groups and present the compiled results at the meeting of the INFF Working Group. The discussions at the high-level Working Group should include topics where, for instance, there is not a joint view within a sub-group.



5 KEY RISKS AND CHALLENGES

The policies intended to achieve the SDGs should be comprehensive and consistent in time. However, governments in Ukraine change too often, which results in a fragmented policy framework and a lack of continuity of reforms and policies. As a result, policies that have already begun are sometimes left behind and reforms start from scratch.

As a result, the greatest concern and risk for the implementation of the INFF in Ukraine is the frequent changes in government, while the INFF is a long-term project that requires patience from governments to be developed and needs time to see results. Every new government is likely to criticize many initiatives of its predecessors and try to find their own way to proceed.

This could be illustrated with the example of health care reform. A World Bank study showed

that the results of the health care study can be seen after five years from the start. At the same time, in Ukraine governments promise people immediate results from reforms, and also start to change the approach before even completing the first steps.

Taking this into account quick win-win solutions are required about how to adopt the INFF in a way that proves to the Government the benefits of the new approach.

There is a clear need for demand and political will from the Prime Minister to have the INFF in place. Therefore, taking into account the decentralization and recent local elections it could be beneficial to extend work with local governments. Clear cooperation with other donors is required to complement actions rather than duplicate them.



6 RECOMMENDATIONS AND SCOPE OF WORK FOR FURTHER IN-DEPTH ASSESSMENT AND POLICY DEVELOPMENT

This current report illustrates how strategic planning is conducted at national and sub-national levels. It has revealed the weaknesses of the current situation in the rather fragmented approach to strategic planning, as there is no strategic planning framework for developing comprehensive strategic documents. The numerous strategies are not always consistent with each other. The frequent changes in political leadership and resulting lack of continuity of reforms (and simultaneously the lack of amendments to strategic documents), result in further lack of longer-term vision of the country's development.

The Government should again discuss the issue of approving the Law on Strategic Planning, which at least would introduce a framework for strategic planning. The strategic planning framework should provide a strong and comprehensive basis for policy making and budgeting.

- The capacity of key spending units should be increased to elaborate clear strategies with SMART KPIs (*SURGE project*) and to conduct costing.
- Clear actions required to achieve the SDGs should be elaborated and costed. Potential sources of financing should be assessed (public, private, PPPs, and international development assistance).

Budget Declaration preparation should begin with the approval of a clear-cut longer-term

Government strategy that sets clear priorities and objectives. Preparation of the medium-term Budget Declaration at national level requires capacity building in line ministries. After this, clear templates, instructions, and explanations should be elaborated for sub-national level.

- Therefore, the SDGs should become an integral part of the Government Strategy, which then would become a ground for preparing the medium-term Budget Declaration. This would ensure the alignment of strategic planning with budgeting.
- Further in-depth assessment should analyse key bottlenecks to preparation of strategic documents in Ukraine: such as lack of clear political will, lack of continuity, lack of capacity to set goals, lack of financing, etc. This analysis would enable the elaboration of the policies required to address the issues.
- Quick win-win solutions should be elaborated while implementing the INFF to show the benefits of the new approach.

Not all politicians and policymakers seem to know about the SDGs and their role. The fact that many SDGs are included into strategic and policy documents may be explained by the fact that they cover most policy areas and are thus included by chance.

- A qualitative study should be conducted to assess the awareness of policy makers at national and regional levels about the SDGs.



The study should include at least two in-depth interviews with the line ministries responsible for reforms in the SDG fields: Deputy Ministers and persons responsible for strategic planning (Heads of Strategic Directorates where they are created); and in-depth interviews in regions (at the levels of oblasts, rayons and amalgamated communities).

- In addition, an on-line survey should be conducted of possible stakeholders (media, civil society, academia, politicians, etc.) on their awareness of the SDGs: the process of localizing the SDGs, the elaboration of strategic documents and monitoring achievements requires inclusion of the general public, business and civil society. Their involvement will only be effective if they clearly understand what stands behind the abbreviation. Analysis of the survey would also help to create an effective communication strategy to increase the awareness of all stakeholders about the SDGs and their role.
- Visualization at national level has been conducted by Ukrstat, and visualization at local level could be done similarly to the OECD in the future if there was capacity and resources (www.oecd-local-sdgs.org/). This could help to create competition between local governments for SDG ratings.
- Local governments should be trained to prepare strategic documents and define SMART KPIs (overall, the SDGs could be sufficient KPIs for many policies). Alignment with the budget – that is, the implementation of medium-term budgeting – would also require capacity building.
- However, SDGs cover a broad set of areas and, thus, priorities should be defined, and may vary between territories and cities.

No single source provides information on the SDGs in Ukraine. Some information is published by either MinEc or Ukrstat. The most recent news on the SDG website (<http://sdg.org.ua/ua/news>) is from 2018, and no recent reports are published there:

- The Government should be advised to update this website and publish there all the news and recent reports on implementation of the SDGs in Ukraine.

Integration of the SDGs into strategic documents at local level and their alignment with local budgets appears to be essential currently, given the recent local elections and the implementation of decentralization reform:

- There is a clear need for the localization of the SDGs⁴³ as many national SDGs cannot be reached without adequate policies from local governments. The approach presented by the OECD could be useful.⁴⁴ The entity responsible for collecting the data would have to be clarified: Ukrstat or the local authorities.

⁴³ The baseline was defined for oblasts: <https://www.ua.undp.org/content/ukraine/en/home/library/sustainable-development-report/tracking-progress-on-SDGs-for-the-regions-of-Ukraine.html>

⁴⁴ <https://www.oecd-ilibrary.org/sites/e86fa715-en/index.html?itemId=/content/publication/e86fa715-en>



ANALYSIS OF THE INSTITUTIONAL ENVIRONMENT AND LEGAL FRAMEWORK THAT GOVERNS PUBLIC FINANCING OF THE SDGS

THE REPORT HAS BEEN PREPARED BY UNDP IN THE FRAMEWORK OF IMPLEMENTATION OF THE "PROMOTING STRATEGIC PLANNING AND FINANCING FOR SUSTAINABLE DEVELOPMENT AT THE NATIONAL AND REGIONAL LEVELS IN UKRAINE" JOINT PROGRAMME