### ANNEX 2

of the Commission Implementing Decision on the Special Measure 2017 II for Ukraine

Action Document for Public Finance Management Support Programme for Ukraine - (EU4PFM)

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#### INFORMATION FOR POTENTIAL GRANT APPLICANTS

**WORK PROGRAMME FOR GRANTS**

This document constitutes the work programme for grants in the sense of Article 128(1) of the Financial Regulation (Regulation (EU, Euratom) No 966/2012) in sections 5.3.1.1 and 5.3.3.1 concerning grants awarded directly without a call for proposals.

| 1. **Title/basic act/CRIS number** | Public Finance Management Support Programme for Ukraine - (EU4PFM)  
CRIS number: ENI/2017/040-426  
financed under European Neighbourhood Instrument |
| 2. **Zone benefiting from the action/location** | Ukraine  
The action shall be carried out at the following location: Ukraine |
| 3. **Programming document** | Not available (Special Measure) |
| 4. **Sector of concentration/thematic area** | N/A  
DEV. Aid: NO |
| 5. **Amounts concerned** | Total estimated cost: EUR 55 million  
Total amount of EU budget contribution: EUR 50 million  
This action is co-financed in joint co-financing by SIDA for an amount of EUR 5 million |
| 6. **Aid modality(ies) and implementation modality(ies)** | Project Modality  
- Direct management: grants – direct award  
- Direct management: procurement of services  
- Indirect management with Swedish International Development Cooperation Agency (SIDA)  
- Indirect management with Central Project Management Agency (CPMA)  
- Indirect management with World Bank Group  
- Indirect management with United Nations Office for Project Services (UNOPS) |
| 7. **DAC code(s)** | 15111 Public Finance Management |
### 8. Markers (from CRIS DAC form)

<table>
<thead>
<tr>
<th>General policy objective</th>
<th>Not targeted</th>
<th>Significant objective</th>
<th>Main objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation development/good governance</td>
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<td>☐</td>
<td>X</td>
</tr>
<tr>
<td>Aid to environment</td>
<td>X</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Gender equality (including Women In Development)</td>
<td>X</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Trade Development</td>
<td>☐</td>
<td>X</td>
<td>☐</td>
</tr>
<tr>
<td>Reproductive, Maternal, New born and child health</td>
<td>X</td>
<td>☐</td>
<td>☐</td>
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</tbody>
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<table>
<thead>
<tr>
<th>RIO Convention markers</th>
<th>Not targeted</th>
<th>Significant objective</th>
<th>Main objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Biological diversity</td>
<td>X</td>
<td>☐</td>
<td>☐</td>
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<tr>
<td>Combat desertification</td>
<td>X</td>
<td>☐</td>
<td>☐</td>
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<tr>
<td>Climate change mitigation</td>
<td>X</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Climate change adaptation</td>
<td>X</td>
<td>☐</td>
<td>☐</td>
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</tbody>
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### 9. Global Public Goods and Challenges (GPGC) thematic flagships

| n/a                                                                           |              |                      |               |

### SUMMARY

In the aftermath of 2014 political changes and macroeconomic adjustments, Ukraine's political authorities are committed to bring public finances on a sustainable path and to modernise public finance management. The Ministry of Finance (MOF) jointly with relevant public institutions has prepared a credible and relevant four-year Public Finance Management (PFM) strategy, which was adopted in February 2017. The EU aims at further stepping up its assistance to the government in this area and enhancing its support to structural reforms in PFM.

Public finance management (PFM) is a priority area for the EU – Ukraine relations. Strong PFM systems are essential for sound management of taxpayers’ money and to promote effective and sustainable economic management, trade and business climate, and public service delivery. Good PFM systems are also indispensable in ensuring that EU and other donor assistance is used effectively to achieve reform goals. PFM is covered in the EU-Association Agreement, is necessary for Macro-Financial Assistance and a general condition for budget support. The reform of public finances is also part of the current IMF programme with Ukraine.
The proposed EU assistance programme on PFM will provide a major impetus to the implementation of the Government PFM strategy. In line with the PFM strategy and Ukraine's commitments under the Association Agreement and the International Monetary Fund (IMF) programme, the following reform areas for the EU support programme in the area of public finance have been identified: (i) budget process, accounting, control and accountability, (ii) efficient budget spending, (iii) revenue mobilisation (tax and customs administration) and Financial Investigation Service, and (iv) horizontal institutional capacity building for PFM.

The selected management modality for the larger part of the assistance is indirect management. Component I will be implemented through a grant to IMF (direct management), an indirect management agreement with SIDA, Sweden, and an indirect management agreement with UNOPS. Component II will be implemented through an indirect management agreement with the World Bank Group. Component III will be implemented through a grant to the IMF (direct management) and through an indirect management agreement with the Central Project Management Agency, Lithuania. Component IV will be implemented through an indirect management agreement with UNOPS and a service contract (direct management).

With the involvement of several implementing agencies, including International Financial Institutions and EU Member States' Agencies, ensuring coordination among different partners will be of high importance. The overall coordination of activities will be ensured through direct engagement of the EU Delegation to Ukraine and the Support Group for Ukraine. Common logistical support for all implementers will be ensured as a practical means of coordination. A common efficient knowledge management system will be established.

Structured policy dialogue will be organised on PFM issues, linked to the implementation of Ukraine's obligations under the Association Agreement and its own reform commitments under the national government reform plan and the PFM strategy. A Memorandum of Understanding (MoU) between the implementing partners explaining division of labour, exchange of information, reporting, etc. could be agreed with the authorities to ensure proper coordination.

This programme is part of a comprehensive effort of the EU to support Ukraine's public sector governance. There are a number of ongoing capacity building projects, in particular in Public Administration Reform (PAR), decentralisation, rule of law, etc. The programmatic link with the PAR sector support programme is particularly important. PFM policy dialogue and sector coordination is part of the PAR sector governance. The progress of PFM reforms is also regularly assessed in the context of the compliance assessment of the PAR Budget support's general conditions.

The sustainability of the programme will be ensured through an important 'horizontal component' that aims at supporting fundamental reforms in line with the PAR strategy, such as internal organisation, Human Resources Management, policy planning capacities, service delivery capacities, etc. Support in IT will be central to all the envisaged PFM components of this programme, as a key tool to enhance efficiency and transparency.

1. **CONTEXT**

1.1. **Sector/Country/Regional context/Thematic area**
Ukraine is a unitary semi-presidential constitutional republic of 42.6 million inhabitants (2016). With Gross Domestic Products (GDP) per capita of EUR 1.907 in 2015 (EUROSTAT) the country ranks as lower-middle income, down from middle income earlier in the decade.

The country experienced a major political and later military crisis in 2013/2014, triggered by the suspension by then-President Viktor Yanukovych of the signature of the Association Agreement and Deep including a Comprehensive Free Trade Area (DCFTA) with the European Union. The widespread popular protests known as the "Revolution of Dignity" lead to a change of government. The subsequent signature of the Association Agreement and a democratic reform process that has so far yielded important results in the areas of the fight against corruption, judiciary and law enforcement, decentralization, energy governance and public administration.

Years of structural deficiencies of the Ukrainian economy, compounded by the conflict in the East of the country, the illegal annexation of Crimea and the Russian economic pressure triggered a major economic crisis. As a result real GDP fell by 6.6% in 2014 and by 9.8 % in 2015. Following a successful restructuring of external debt and stabilisation of the local currency, economic growth has returned in 2016, at 2.3% while inflation came down to annual average of around 14%. While production costs including labour are low and quality is high thanks to the good industrial and education basis in Ukraine, the business climate is still weak due to the dominance of oligarchic structures, corruption, legal insecurity and the armed conflict. While income equality is low, wealth inequality is among the highest in the region and globally, which is an indicator for a dominant shadow economy. Declining real wages, recession and tough fiscal policies contributed to poverty increase in 2015, with the average monthly wage of USD 177 in 2015 being among the lowest in the region. Unemployment grew between 2013 (7.3%) and 2016 (9.3%). Further concerns in the social sectors include the increasing energy tariffs (partly mitigated by targeted subsidies), the ineffective pension and social assistance system and underperforming health system. Ukraine has generally good educational attainments and scores highly on the 2016 World Economic Forum Human Capital Index (26/130).

1.1.1 Public Policy Assessment and EU Policy Framework

In the aftermath of the 2014 political changes and macroeconomic adjustments, Ukraine's Government is committed, through signing the Association Agreement (AA) with the EU and through participation in the IMF programme, to bring its public finances on a sustainable path and to modernise its public administration and institutions. In line with its commitments the MOF has prepared an updated four-year Public Finance Management (PFM) Strategy. The new Strategy adopted by the Cabinet of Ministers of Ukraine in February 2017 is based on the 2020 Strategy, the Coalition Agreement, and the Public Administration Reform Strategy, and incorporates international commitments assumed by Ukraine under its Association Agreement and Association Agenda with the EU, the IMF Extended Fund Facility, and conditionalities of the EU budget support and of EU Macro-Financial Assistance.

The goal of the government's PFM Strategy is to develop a modern and efficient public finance management system capable of providing public services in the most efficient manner while making use of available resources and allocating them in consistency with development priorities. In particular, the strategy aims at making the budget process a more strategic exercise and ensure that financial resources needed for reforms are known in the medium-term and
relevant provisions in the budget are made. The Strategy also envisages augmenting fiscal space by eliminating inefficient public spending and revising approaches to funding public services provision. Finally, the Strategy aims at increasing overall fiscal responsibility in the public sector.

The expected outcomes of the government's PFM Strategy are:

- Reducing deficit and debt of the general government sector in the medium term, and keeping them at an acceptable level;
- Ensuring predictability of the budget and tax policy;
- Strengthen the mechanism of control and audit;
- Improving the quality of public service delivery and the efficiency of public investments while using resources in a more sustainable manner.

The degree of reform ownership at the top level of the Ministry of Finance is high. The comparatively short delay in which the PFM strategy was adopted in the Cabinet of Ministers after successfully completing the round of inter-governmental consultations shows commitment across government institutions. A PFM Action Plan providing more details on specific actions timeline and deliverables was adopted in May 2017.

A reform governance and monitoring framework has been laid out in the PFM strategy. The Ministry of Finance is responsible for coordination of the Strategy implementation. A three-tier coordination mechanism is to be implemented to support the efficient implementation of the Strategy. Furthermore, and in line with the PAR strategy a dedicated policy unit is about to be set up in the Ministry of Finance. In addition, the capacity of the Ministry of Finance is currently being reinforced through the EU-financed Reform Support Team, while discussions on strengthening reform steering and monitoring capacity are ongoing with the State Fiscal Service. The format for an enhanced structured policy dialogue between the EU and the Ukraine's government on PAR/PFM issues is envisaged.

The 2015 Public Expenditure and Financial Accountability Assessment report (PEFA) prepared by the World Bank has shown limited progress in structural reforms of public finances. Shortcomings concern mainly the implementation of the law on external audit, the lack of coordination between the Ministry of Finance and the State Fiscal Service, and the misinterpretation of the respective internal audit and internal control function.

IT systems in the Ministry of Finance (MoF), The State Fiscal Service (SFS) and the Treasury Service of Ukraine (TSU) are largely outdated. IT hardware equipment has recently been upgraded and modernised following several IT reports prepared by GIZ and EU experts in 2016. There is no single Integrated Financial Management System and interoperability between the

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1 (i) an Inter-agency PFM System Development Working Group chaired by a Deputy Minister of Finance will be tasked with monitoring of implementation, evaluating the status of implementation of Strategy activities and preparing regular (quarterly and annual) reports; (ii) a Special Working Group in charge of the public administration reform in PFM configuration chaired by the State Secretary of the Ministry of Finance will be tasked with coordinating the implementation of Strategy activities associated with institutional change, reviewing Strategy implementation reports and, if needed, preparing proposals on its improvement, as well as draft decisions of the Public Administration Reform Coordination Council; (iii) a Public Administration Reform Coordination Council will be in charge of the overall coordination and monitoring of the Strategy implementation
existing systems on Budget, revenues and treasury is not ensured. An IT audit is currently under preparation that will identify the main functional gaps, sustainability, security problems and IT hardware shortcomings.

As i.a. outlined in the 2015 PEFA report, progress has been observed over the last two years in the following PFM areas:

(i) **Budget process**: Ministry of Finance introduced legal amendments establishing the conditions to reduce the number of in-year budgetary amendments. Some elements of strategic planning into budget documents have been introduced (budget programs and their output indicators have been subordinated to strategic goals of key spending units). The medium-term indicators have been introduced into Core Budget Policy Statement and the draft 2017 state budget. Budget transparency has increased with the adoption of the Law on Access to Public information. Fiscal risks and cash management units were set up in Ministry of Finance.

(ii) **Tax and customs administration**: A State Fiscal Service (SFS) Reform Action Plan was implemented in 2015 and 2016 under the guidance of the IMF. A concept for the reform of the SFS was agreed by Cabinet of Ministers in March 2017 but is still waiting for PM signature. Staff cuts have been implemented. A new organisational structure is foreseen. The e-VAT administration aimed at reducing VAT refund fraud has been successfully introduced. Key Performance Indicators for the State Fiscal Service have been formulated and made public, with regular progress reports being published. The Tax Code of Ukraine has been amended to abolish a number of tax preferences and to provide a better oversight of SFS by the Ministry of Finance.

(iii) **External audit**: The 2015 Law “On Accounting Chamber” strengthened the independence of the supreme audit institution and expanded its powers to cover the audit of state budget revenues; financial audits and performance audits methodologies have been aligned with international standards; the provision of access for all members of the Accounting Chamber of Ukraine (ACU) to all databases, registers, and automated systems whose operations are funded from the state budget.

(iv) **Public procurement (PP)**: A new Public Procurement Law and a roadmap aimed at the harmonization with the EU legislation and standards have been adopted. There was a substantial reduction in the number of exemptions to competitive procedures. The obligatory e-procurement has been introduced. Ukraine joined the WTO's Agreement on Government Procurement while the e-procurement law has been adopted.

(v) **Reform and privatisation of state-owned enterprises (SOEs)**: A strategy has been developed to: (i) reform 'strategic' SOEs and (ii) to facilitate privatisation/liquidation of other SOEs. Governance and transparency of large SOEs has improved though enhanced financial reporting, appointment of Chief Executive officers (CEOs) and Board of Directors, and the introduction of competitive salaries. New CEOs have been appointed in some large SOEs while line ministries have transferred several SOEs to the State Property Fund.

(vi) **Public investment management (PIM)**: The Budget Code of Ukraine has been amended to integrate public investments into the budgeting process and to improve decision making procedures. A transparent selection procedure of public investment projects has been established as well as a high-level inter-agency Commission constituted of members of the Cabinet of
Ministers and of the Budget Committee of the parliament. A new requirement for the allocation of at least 70% of public capital expenditure towards existing projects improved the stability of funding.

1.1.2 Stakeholder analysis

Ministry of Finance (MoF):

The Ministry of Finance is in charge of the overall coordination of PFM, managing budgetary processes and coordinating and overseeing the State Fiscal Service and State Treasury Service. The Ministry employs around 700 staff; it has seen some organisational reforms in the past. In line with the overall PAR strategy the Ministry is currently undergoing a functional review as one out of 10 pilot Ministries, with the intention to strengthen its policy functions.

State Fiscal Service (SFS):

SFS employs around 40,000 staff. The SFS is going through a major organisational reform under the guidance of the IMF that should strengthen the function-based structure. Steps have recently been undertaken to improve the strategic, medium-term vision for the development of Ukraine’s tax and customs administration. A Concept for the SFS reform has recently been agreed by the Cabinet of Ministers and is waiting for the PM signature. A draft customs reform action plan has been prepared while a more detailed medium-term action plan for SFS reform is expected to be prepared in summer-autumn 2017, with support of the IMF. Yet, the cooperation between the MoF and the SFS remains weak. A new governance framework for the reform of the SFS has recently been announced. It foresees the direct involvement of the Prime Minister in the steering of reforms, an international advisory board, a management board and a number of technical working groups.

State Treasury Service of Ukraine (TSU):

The State Treasury Service is an important participant in the budget process. The main tasks of the TSU consist in providing treasury services to the central government key spending units and to local budgets. The institution employs around 11,000 staff; it has not seen any important reorganisation recently. The upcoming IT audit in PFM area will also cover the TSU. The role of the Treasury should be to act as the accountant of the state under the supervision of the Ministry. The Ministry of Finance is currently unable to properly track budget implementation. Following IMF recommendations, a cash management unit has been established in the Ministry of Finance.

Ministry of Economic Development and Trade (MEDT):

The Ministry of Economic Development and Trade plays an important role in the PFM reform process being responsible for public procurement, public investment management and the overall strategy for the reform and privatization of State Owned Enterprises. The institution employs around 800 staff; it has seen an important reduction of staff in the last years. IT hardware and software equipment might be outdated while IT security and sustainability are questionable. The MEDT does not have the necessary IT tools to effectively and efficiently monitor the financial operations of the SOEs.

State Audit Service (SAS):
The State Audit Service, former Inspection Service that is subordinated to the Cabinet of Ministers is in charge of centralized internal control of public funds at central and local level. It has seen a significant cut in its employment figures but remains a largely unreformed institution in terms of organizational capacity. It employs around 3,200 staff (500 in HQs, 2,700 in the regional offices). No IT assessment/audit has been recently undertaken; IT hardware and software equipment are expected to be outdated, while IT security and sustainability are questionable. The SAS is currently working on a reform concept, which is expected to be adopted before end 2017.

Line ministries:

There has been a weak link between strategic planning by line ministries and budget planning. Financial resources have not been tied to policy goals. The sectoral expenditure has often been inefficient and needs to be reviewed through spending reviews. In line with 2016-2020 Public administration reform (PAR) Strategy, 10 line ministries are currently participating in the first wave of the PAR. New policy Directorate Generals are established, functional reviews are performed, new HR/recruitment policies are established, while strategic policy analysis is strengthened.

Accounting Chamber of Ukraine (ACU):

The Accounting Chamber of Ukraine (ACU) is an independent body which reports to the Verkhovna Rada (Parliament). The new, progressive law "On the Accounting Chamber of Ukraine" was approved in August 2015. It strengthens the interaction between the Parliament, the Government and the Accounting Chamber enhancing transparency and ensuring public access to ACU reports and aims at improving the quality of audit and control in line with INTOSAI standards. The institution employs around 420 staff (including around 100 in regional offices); it has not seen any important reorganisation recently. No IT assessment/audit has recently been undertaken; IT hardware and software equipment are expected to be largely outdated, while IT security and sustainability are questionable.

Verkhovna Rada of Ukraine (Parliament):

The 450 member unicameral Rada is responsible for the budget adoption and budget amendments, as well as for the state budget oversight through the Accounting Chamber of Ukraine. Both, the Cabinet of Ministers and the Verkhovna Rada, approve the annual budget resolution, which sets out the broad policy directions to be followed in budget development as well as consolidated levels of spending, revenue and deficit. Information about budget execution is available on website of the Budget Committee and the ACU.

Civil Society Organisations (CSOs):

Several coalitions of Ukraine-wide CSOs monitor budget elaboration and transparency of the state budget. The main focus is on expenditure (including quality of procurement).

### 1.1.3 Priority areas for support/problem analysis

<table>
<thead>
<tr>
<th>Priority areas</th>
<th>Problem analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget process</td>
<td>The reliability of <em>macroeconomic projections</em> is affected by political interference aimed at meeting funding needs and developing positive perceptions of economic development. Medium-term State Budget projections, which are prescribed by the</td>
</tr>
<tr>
<td>Priority areas</td>
<td>Problem analysis</td>
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<tr>
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<tr>
<td></td>
<td>Budget Code, are not done regularly.</td>
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</tbody>
</table>

**Medium-term framework:** While some elements of medium-term budget planning were introduced in the 2010 Budget Code, the steps taken have been insufficient. Positive changes in 2015 and 2016 included limiting the number of in-year budget amendments, introducing some elements of strategic planning in budget documents, including medium-term indicators into Core Budget Policy Areas and the draft 2017 state budget and, most recently, adopting a three-year Budget resolution 2018-20 in June 2017 (to be approved by the Parliament). Yet, the relationship between public policy priorities, state budget expenditures and key spending units’ performance results is weak. Lack of a clear “top down” approach in ensuring policy priorities results in budgeting on the basis of historic needs and makes it difficult to implement new policies.

**Budget credibility:** The one-year planning horizon prevents the government from attaining its fiscal goals of ensuring that the budget deficit is at a sustainable level and reducing public debt over the medium-term. In addition, it makes budget policy unpredictable for key spending units and limits their capacity to plan.

**Strategic Planning:** There is not yet a fully developed strategic planning in Ukraine. Laws prescribe obligatory development of specific projection, program, and planning documents for the medium- and short-term periods de jure. However, these documents are not aligned with each other, nor are they focused on attaining long-term public policy goals. There has been no single vision on the strategic framework of document types, hierarchies, and planning horizons and lack of consensus at the political level with regard to the power distribution for development and approval of such documents and for their implementation. Only recently first efforts have been undertaken to change this with the adoption of the 2018-2020 Government Action Plan. It is still to be seen if this document will serve as a basis for budgetary planning.

**Program-based budgeting:** The Budget Code calls for establishing a link between the funding of a budget program and the socially important outcomes expected from a program implementation. Still, the program-based budgeting (PBB) is implemented without meeting obligatory prerequisites, such as the availability of a long-term Ukraine development strategy and the implementation of the strategic and medium-term budget planning. As a result, the program-based budgeting is used only pro-forma. The Ministry of Finance has taken actions to improve program-based budgeting. Since 2015, the key spending units have been obliged to specify the linkage between their budget programs and strategic objectives to which they are subordinated. Yet, the efficiency of this process remains questionable due to the lack of a holistic system of strategic planning and, first of all, sectoral strategic plans. In addition, there is a large number of budget programs which makes monitoring of policy goals attainment difficult. Also, budget funds are disbursed across a large number of activities rather than being concentrated on the attainment of a strategic goal. Too many outcome indicators only monitor...
**Priority areas** | **Problem analysis**
---|---
| | statistics, rather than illustrating the budget program implementation outcomes. As a consequence, results the program-based budgeting are not used for management decisions.

**Budget transparency and public oversight:** Improvements have taken place over the last years, also linked to important pressures from civil society since 2017, in the aftermath of EuroMaidan events. The Verkhovna Rada and the Ministry of Finance publish a comprehensive package of budget information on their web-sites and in the press, including budget proposals and approved budget, in-year and annual budget execution reports, budget monitoring information. Publication of this information is required by the Budget Code and Rules of Procedures of the Rada. Public access to budget information improved with the introduction of the obligation for the Ministry of Finance to publish the budget proposal not only in the press, but also on its web site as well as publish the enacted budget and its summary within a month after approval of the state budget law. Moreover, the Ministry of Finance launched a web-portal providing access to all public expenditure transactions online (including the pension fund and social insurance payments), as well as Treasury Single Account balances in each region. The Ministry of Finance is currently upgrading this web-portal and plans to turn it into an electronic "Transparent Budget" system that will link all stages of the budget process, allowing for the monitoring of the budget process at both state and local levels by 2018. This system is being created, following communication with civil society as well as recommendations of the World Bank, the IMF, the Open Budget Partnership and the EU. However, so far only 45% of spending units and budget funds recipients (out of more than 76 000) and on 15% of state-owned enterprises are registered in the portal. The World Bank published a comprehensive **PEFA assessment of 2016** with up-to-date diagnostics of public financial management performance. PEFA scores B for comprehensiveness of budget documentation and public access to fiscal information. Key bottlenecks are in line with OBI report for Ukraine 2015 and include lack of medium term budget outlook and Citizens budget. The EU has been funding civil society projects raising awareness about budget transparency both at the state and local levels. The Ministry of Finance has a public council and conducts regular consultations with civil society which should be more structured. Furthermore, the complexity of the published information and the lack of a Citizens’ Budget make it impossible to have a proper feedback and participation of citizens in the budgeting process. The published information is too voluminous and focuses on financial data intended for specialists. In addition, the participation of citizens in the budgeting process has not been recorded in applicable legislative and regulatory instruments, and takes place irregularly.

**Spending reviews:** Neither comprehensive, nor sectoral analysis of the expenditures efficiency and appropriateness has been carried out in Ukraine in a systematic manner. There is no system in place to reflect results of spending reviews in the budget process.

**Accounting:** Ukraine is reforming the accounting system and financial reporting in
<table>
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<th>Priority areas</th>
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<td>the public sector in consideration of the requirements of the international public sector accounting standards (IPSAS) through implementation of national public sector accounting policies (standards) (NPSAP(S)), developed on the basis of international standards. As of today, 19 NPSAP(S) have been approved, with some of them having been in use since 2015. The rest of NPSAP(S) and a new Public Sector Chart of Accounts will be introduced in 2017. The public sector accounting system is in transition. It does not meet all the modern demands for the transparency of the public finance information for external users and for the support of decision making in the field of the public administration and local self-government well enough. Deficiencies of this approach include the existence of two accounting methods: the cash basis for the budget outturn and the modified accrual basis for the performance of budget estimates of budget-funded institutions.</td>
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<tr>
<td>Internal control and external audit</td>
<td><strong>Internal control including internal audit:</strong> There are many layers of control and inspection, conducted by various actors, which are not always coherent with each other and not in line with international standards. Since the managerial accountability principle has not been fully embedded in the administrative culture, there is no public sector internal control culture but rather an inspection culture. Focus of control is too much on inspection of individual transactions and errors (after they have occurred) rather than ensuring that managers set up an efficient internal control system in order to manage organisational risks. Also, the role of internal audit is misunderstood to be another form of inspection, not a function that supports managers in ensuring a well-functioning internal control system. For many years, the State Fiscal Inspection (SFI) confused the different objectives and approaches of internal audit with the function of inspection. This inhibited the concept of Internal audit which was developed by the Central Harmonisation Unit (CHU). In early 2017, the CHU was transferred to the MOF Budget department, and assumed the responsibility to develop public sector internal control standards and practice according to international standards.</td>
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<td><strong>External Audit:</strong> The implementation of the 2015 law on external audit has not started yet to the full extent because the new members of the Accounting Chamber have not been appointed. While the new law brings activities of the Accounting Chamber substantially closer to the international standards of the International Organisation of Supreme Audit Institutions (INTOSAI), and strengthens its role, the ACU’s mandate does not include the audit of own proceeds of local governments and of income and expenses of state-owned enterprises. So far, the Accounting Chamber has not performed financial audits of budget reports on the basis of the ISSAI international standards.</td>
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<td><strong>Liquidity management:</strong> The efficient management of public funds requires attention in a situation of limited access to capital markets and an unstable</td>
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2. which is an advisory service related to managerial accountability with a central role played by the management,
3. which is a control component on fraud, violation of the law, etc.
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<th>Priority areas</th>
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<td>economic situation that makes it difficult to predict the revenues and expenditures in the medium-term. Balances of the Single Treasury Account (STA) are subject to violent fluctuations, and frequently approach zero in the middle of the month when many expenditures fall due, or going up closer to the end of the month. This volatility of balances and the simultaneous release of substantial amounts into the financial system force the NBU to intervene to sterilize excessive liquidity on the market. Cash forecasting in Ukraine focuses on short-term cash needs. At present, the State Treasury Service produces a daily forecast of STA cash flows for the following month which is used to plan budget outturn and develop a government bond issue plan. There are no cash flow projections with a six-month horizon, due to the lack of up-to-date monthly financial plans from key spending units. The existing T-bill issuance program is not fully coordinated with the cash flow profile of government operations, and the annual borrowing plan is based mainly on the debt redemption time schedule.</td>
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| Efficient expenditure | The lack of a comprehensive fiscal risk management system affects the reliability of the budget policy, the sustainability of the public debt and the efficient allocation of public resources in accordance with policy priorities. The activities of state-owned enterprises are one of major sources of fiscal risks starting from direct budget expenditures in connection with the reduction in dividends and the increase in subsidies to cover losses of non-commercial and commercial state-owned enterprises to the contingent fiscal risks, arising in connection with outstanding public guarantees of the debt of state-owned enterprises and other liabilities of state-owned enterprises that may require budget spending. The efficient fiscal risk management is hampered by the lack of sufficient information about sources and probabilities of such risks, including risks arising from contingent liabilities. There is also an uncertainty with regard to the volume of the state-owned sector, which increases the risk of the understatement of potential consequences for the state budget. Different sources of information about the list of state-owned enterprises exist, their operations are governed by fragmented legislation and there are various categories of enterprises and only partial information about the actual period of their operation. Also, public assets held by subnational governments may not be included in the databases at all times and comprehensive information of land assets and commercial real estate held by public entities is missing. Existing borrowing procedures for state-owned enterprises do not include sufficient safeguards to insulate the budget from having to cover future repayment risks. The assessment of the creditworthiness of state-owned enterprises and their resilience to shocks is weak, and SOEs' financial plans are frequently based on unrealistic assumptions, which lead to optimistic projected performance indicators hiding state-owned enterprises’ vulnerabilities and the related risk of defaulting on debt obligations, which could affect the budget. The entities in charge of supervising and controlling the operations of SOE are often not in a position to effectively assume this function, since accounting standards of |

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4 SOEs represent a significant fiscal risk for the budget: Ukraine has around 3,500 SOEs (out of which 1,100 should be liquidated) with total assets of around UAH 1.57 trillion. 42 SOEs account for 94% of all assets and for 92% of the net loss.
Priority areas | Problem analysis
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SOE are fragmented and IT tools are often not used for the generation and presentation of accounts.

**Public investment management:** Reforms are still needed to improve the system of public investment management, based on the relevance, effectiveness and transparency of selection of public investment projects, with the goal of the creation of long term fixed assets in state ownership. In 2016 the first monitoring of the implementation of public investment projects on the principle of publicity of the results of the monitoring, revealed a number of institutional and administrative problems. The system still has a number of substantial deficiencies that need to be addressed: (i) public investments are not strategically planned and prioritized in a way with a view to ensuring their efficient completion and that of the ongoing portfolio; (ii) procedures for consideration and selection of investment projects, that are supported by or can have an impact on the state budget vary depending on the level of government and the type of public authority initiating the project; (iii) fully developed methodological guidance for project appraisal is absent for project developers, together with the capacities to carry out such appraisal; (iv) project implementation performance indicators are not actively monitored and controlled by the government and there is no uniform database of launched projects and guidance for public investment portfolio management; (v) the public investment management coordination system is underfunded and no independent appraisal is available; (vi) project management arrangements are not formalized and there is no cadre of professional managers for large-scale projects in the system of government agencies.

Revenue collection | The SFS institutional capacity remains inadequate to effectively implement its functions in administration of taxes, duties and mandatory payments. Reforming the State Fiscal Service (SFS) aimed at increasing the effectiveness and efficiency of its functions and optimize its structure is highly important. Without restoring confidence in the SFS, there is little hope for increase of tax discipline, which is the basis for voluntary tax compliance. An important factor that impedes the development of the SFS is the low remuneration. Poorly-developed services and low level of advice increase the time spent by taxpayers to meet the requirements of the tax and customs legislation. The SFS organizational structure is ineffective and a number of SFS structural units are standalone legal entities, which leads to ineffective administrative processes. Compared to revenue administrations of many other countries the staffing level of the SFS is significant and further adjustments in staffing levels will be needed.

While tax reforms have been pursued in recent years, there is still a substantial need for the continued effort aimed at eliminating systemic deficiencies in the tax system. Control activities of tax agencies influence the conditions of doing business in Ukraine substantially. Frequent audits and unsound demands for taxpayers distract them from the performance of business functions and create an atmosphere of uncertainty. The fact that a number of tax law provisions are construed ambiguously during their application affects negatively the activities of the domestic businesses and makes the national economy less appealing to foreign investors.
<table>
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<th>Priority areas</th>
<th>Problem analysis</th>
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<td>investors. Inefficiency of tax control measures results in the low level of tax compliance and the lack of loyalty of taxpayers to the payment of taxes. The lack of a medium-term strategy of the development of Ukraine’s tax system substantially complicates business planning, gives rise to substantial risks in business, and worsens the investment climate. Inefficient control activities and inconsistent interpretation of legislation by tax administration negatively impact business environment. E-services to tax payers are still suboptimal. Voluntary tax compliance is low; there is no compliance strategy, transparent risk-based auditing remains the exception and the organizational set up of the State Fiscal Service is sub-optimal.</td>
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Because of the codification of laws and systematization of regulations carried out in 2012 - 2013, a substantial reduction in the number of legislative acts regulating the customs system was achieved. However, complexity, excessive bureaucracy and vulnerability to corruption of customs control and clearance procedures make the customs operations overall inefficient and user-unfriendly. A detailed roadmap to adjust Ukrainian legislation to the legislation of the EU, in particular to the new EU Customs Code, is still outstanding. Furthermore, trade facilitation measures have not evolved much over the recent years, particularly regarding the introduction of the institute of authorized economic operators, simplification of customs procedures, use of electronic customs declarations, use of scanning systems, modernization of the risk management systems, integrated border management, etc. Finally, there is no efficient post clearance control and audit program. |

| Horizontal sectoral issues (HR, IT, organisational issues, strategic planning) | Human resources: The principle of merit-based recruitment exists but implementation of the principle will require capacity building and – for larger recruitment or re-attestation exercises – support with the provision of external support. The Ministry of Finance and other PFM institutions do not have effective HR tools to evaluate the candidates’ integrity during at the selection procedure. While the SFS still has its own training institution, the Academy of Public Finance has been transferred from the Ministry of Finance to the Ministry of Education and does not focus on practical training. There is currently neither effective provision for initial and continuous training, nor for career management, including improved access of women to management positions. While internal audit units formally exist in PFM institutions, there is no efficient anti-corruption and integrity policy. Lack of adequate salaries makes it difficult to attract and keep new talents. This problem is especially latent in the area of IT professionals. There are no comprehensive Human resource development strategies in the PFM institutions and HRM units limit themselves to administer staff instead of developing capacities, attracting talents and offering development opportunities. There are only partial and heterogeneous systems of IT based HRM. A project to develop a public administration wide integrated Human resource information management system is about to be developed but will need to be further enlarged and rolled out through the administration. There are a number of general shortcomings on HRM, linked e.g. to cumbersome recruitment procedures, a non-attractive salary |

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<th>Priority areas</th>
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<td>structure, limited possibilities for incentivizing payments, lack of general standard job descriptions, et. Those issues are dealt with on a PAR wide basis through technical assistance and policy dialogue within the EU funded PAR sector support programme. It will however be necessary to implement those reforms at sectoral level, through i.a. this PFM programme.</td>
</tr>
<tr>
<td><strong>Organisational:</strong></td>
<td>Throughout the Ukrainian public administration, organizational structures are not conducive for the implementation of key ministerial functions. Only recently within the PAR process, initiatives have been taken to rationalize administrative structures, bring structure in line with mandates and align job descriptions with requested profiles. The management of Ministries is often dysfunctional with the existence of a high number of deputy Minister posts, who assume management functions instead of providing policy guidance. With the new law on civil service, the posts of state secretaries have been created and recruitment took place recently. The Ministry of Finance is among the ten pilot Ministries that currently undergo a functional analysis with the aim of creating a limited number of policy departments. The Public administration wide reform processes on re-organisation and rightsizing will need concrete practical support in each line Ministry. Other PFM actors such as the ACU, the SAS and the TSU have not yet undergone any major functional analysis and reorganisation. They have not yet started the transformation towards modern, efficient and transparent public institutions and substantial work is needed to change organisations and management practices. Reorganisation in the SFS started under the guidance of IMF Fiscal Affairs Department experts, yet it will take time to establish and efficient function-based organisational structure with a line of command across the whole institution. The institution is extremely centralised with a lack of a proper delegation system and rational working procedures. The institution is still divided into numerous legal entities which makes a central approach to management principles difficult.</td>
</tr>
<tr>
<td><strong>ICT (IT security):</strong></td>
<td>EU and GIZ consultants have prepared a number of scoping reports on the IT landscape in MOF and SFS in 2016. The reports found major weaknesses in the use of IT across the board. The recommendations included urgent upgrade of hardware and database infrastructure, and the need to address the security and life cycle concerns. Some of these recommendations have recently been implemented. Yet, existing IT systems are fragmented; specific functions are automated without due regard to the linkage between processes and institutions. The implementation of priority tasks of the public finance management reforms is complicated by the lack of an integrated information system, capable of supporting all stages of the budget development and expenditure process. The efficiency of the electronic exchange of information between the Ministry of Finance, the State Fiscal Service, and the State Treasury Service is low. IT security and backup systems are weak, while IT project management principles are neglected. Attracting IT specialists to public sector jobs is also a very challenging task due to uncompetitive salaries. Finally, most of IT services are outsourced, which represents an IT security risk. The EU currently finances a comprehensive IT audit</td>
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Priority areas | Problem analysis
--- | ---
 | for the main PFM institutions (MoF, SFS and TSU) which will provide further information on the gaps and needs by the end of 2017. ICT is generally considered by the MoF management as the key tool for improving management.

**Prioritisation and sequencing of reforms**

The prioritisation and sequencing of reforms are largely defined by the ongoing public administration reform, on the one hand, and sectoral strategies, on the other. In other words, organisational reform is taking place in parallel to sectoral structural reforms, as per decision of the government. Thus, as part of the PAR, Ministry of Finance is currently undertaking a Functional review that should lead to organisational changes. SFS organisational reform is also ongoing. HRM strategies including vetting and reappointment of staff, at least in the SFS, have to be developed and implemented. Basic IT capacities in IT infrastructure and IT security are being strengthened at the same time through budgetary allocation in both, MOF and SFS. The preparation of an IT system Development Plan that would guide future investment decisions in IT is expected for late 2017. High-level sectoral strategic documents of the government have been prepared for the PFM area. In particular, the PFM strategy and PFM Action plan identify the prioritisation and sequencing of reform steps in different PFM subsectors. More detailed reform action plans will be prepared in the coming months, in particular for the SFS, State Audit service, CHU, etc. The project supports both, organisational and sectoral reform steps, as identified by the government.

2. **RISKS AND ASSUMPTIONS**

<table>
<thead>
<tr>
<th>Risks</th>
<th>Risk level (H/M/L)</th>
<th>Mitigating measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited political commitment and weak governance of PFM reform at political level due to short-term reform priorities</td>
<td>Medium</td>
<td>Introducing enhanced structured EU-Ukraine policy dialogue on PFM reform bottlenecks; EU representatives becoming part of the reform governance structures</td>
</tr>
<tr>
<td>Governance issues in the SFS are not addressed and undermine the reform implementation</td>
<td>Medium</td>
<td>EU participates in the new governance structure to support SFS Reform. In particular, an EU representative participates in the to be established International Supervisory Board of the SFS that reports to the Prime Minister.</td>
</tr>
<tr>
<td>Capacity development plan for IT is not prepared</td>
<td>Low</td>
<td>The existing EU-financed technical assistance provides support to the IT audit of the PFM in 2017 (EU-WB Trust Fund).</td>
</tr>
<tr>
<td>Public administration weaknesses will decrease the reform speed</td>
<td>Medium</td>
<td>Structural PAR issues are actively addressed through the EU PAR Budget Support programme and an intensive policy dialogue with Ukraine authorities.</td>
</tr>
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</table>
### Risks

<table>
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<tr>
<th></th>
<th>Risk level (H/M/L)</th>
<th>Mitigating measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial investigation service legislation is postponed</td>
<td>High</td>
<td>EU, IMF and EU Member States present a joint position and engage in enhanced policy dialogue.</td>
</tr>
<tr>
<td>Accounting Chamber top management is not appointed</td>
<td>High</td>
<td>EU engages with the government in enhanced policy dialogue and facilitates awareness-raising events in the Parliament.</td>
</tr>
<tr>
<td>Capacity for absorption of expert advice and reform steering capacity is not ensured</td>
<td>Medium</td>
<td>The EU-funded Reform Support Team in MOF is strengthened in line with arising needs while EU discusses with EBRD the possibility of setting up Reform Support teams in relevant other beneficiaries.</td>
</tr>
<tr>
<td>Insufficient coordination of donors in the area</td>
<td>Low</td>
<td>EU continues to facilitate the exchange of information, openness and regular meetings of all relevant donor organisations, to ensure alignment of donor positions and stronger leverage in policy dialogue with the government on reform priorities.</td>
</tr>
<tr>
<td>Complex coordination requirements for the management of this comprehensive PFM programme</td>
<td>Medium</td>
<td>A dedicated support and secretarial team will be established in order to ensure a coordinated approach, information sharing and knowledge management.</td>
</tr>
<tr>
<td>Necessary legislative changes for PFM reforms are blocked in the VR, due to political reasons</td>
<td>Medium</td>
<td>Active advocacy measures will be conducted with Verkhovna Rada (Parliament) committee members and public diplomacy involving also CSO.</td>
</tr>
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</table>

### Assumptions

The PFM strategy and PFM action plan are regularly updated and the Ministry of Finance leadership provides the necessary impetus for reforms and supports the reform momentum. The governance and monitoring structures for the implementation of the PFM strategy are established along the lines outlined in the Strategy. Key donors develop common position on the main reform objectives and provide consistent messaging. The new programme will be complementary and will closely collaborate with existing EU initiatives on PAR and Anti-Corruption.

### 3. Lessons learnt, complementarity and cross-cutting issues

#### 3.1. Lessons learnt

- Need for a long-term substantial and comprehensive EU engagement in PFM. Strong PFM systems are essential to promote effective and sustainable economic management and public service delivery. Good PFM systems are also indispensable in ensuring that
EU and other donor assistance is used effectively to achieve development goals. There is a need to support the reforms over a longer period of time. Reform processes in the budget and treasury are complex and need to be conducted progressively and incrementally.

- Need for continued political dialogue to ensure continued progress of reforms. To ensure substantial and non-reversible changes in the public finance management reform, a continuous policy dialogue supported by strong technical expertise is required. It will therefore be important to establish an intensive and structural dialogue with the main PFM stakeholders on policy priorities and implementation issues.
- Need to ensure that PFM is addressed as the overall PAR framework, to ensure consistent reforms (IT systems, HR capacities, etc.)
- Need to ensure government own monitoring and reporting and involvement of both internal and external stakeholders in this exercise to ensure more sustainable reforms.
- Need to ensure proper donor coordination so as to ensure that there is appropriate sequencing of reforms and capacities are not diverted.

### 3.2 Complementarity, synergy and donor coordination

The overall coordination of activities will be ensured through direct engagement of the EU Delegation and Support Group for Ukraine staff as well as supporting structures of an 'EU House for public finance management reform' that will provide an office, logistical support and secretariat for embedded experts but also provide the necessary alignment of activities. The necessary streamlining will take place through enhanced structured policy dialogue on PFM issues, linked to the implementation Ukraine's obligations under the Association Agreement and its own reform commitments under the national government reform plan and the PFM strategy.

#### EU funding at bilateral level

The EU is currently funding a PAR Sector Budget Support Programme of EUR 104 million, including EUR 90 million through budget support and EUR 14 million through complementary technical assistance. This programme addresses structural issues of PAR, linked i.a. to (i) strategic planning and coordination of public policy, (ii) civil service and HRM, (iii) accountability, transparency and oversight and (iv) delivery of services. The areas of activities of this programme directly impact on the horizontal capacities of the PFM stakeholders.

The EU has been involved in the PFM sector through twinning and several service and grant contracts on customs, statistics, external audit, budget transparency and civil society, and public procurement system. The new measure will capitalise and coordinate activities with the existing EU projects, and expand the scope of intervention to other core functions of the PFM reform agenda as reflected in the new PFM strategy (budget process, tax administration, efficient public spending, internal control and audit, SOEs, etc.). The new measure also takes into consideration other donor projects.

Current EU projects in PFM (ongoing and in preparation):

- A twinning project supports the SFS in reinforcing integrated-border management (IBM) elements in customs (EUR 1.8 million, 2016-2017). The main objective is to establish a basis for effective customs management and integrity based on IBM principles. This
aspect is crucial to develop a fair and transparent trade environment in Ukraine in the framework of the Association Agreement, with expected impact on economic growth and revenue mobilization.

- A twinning - in preparation - aims at improving the capacity of the Accounting Chamber of Ukraine. The overall objective of the "Development of external audit and control of public finances in Ukraine" is to strengthen the external state audit and control system by implementing INTOSAI standards, and to improve the quality of audits. The twinning is currently postponed.

- A technical assistance contract to "Harmonise of Public Procurement system in Ukraine with EU standards" (EUR 4 million, 2013 - 2017) is being successfully implemented in the MEDT, contributing to the development of the public procurement policy and legal framework, institutional infrastructure, improvement of transparency and integrity of the public procurement in Ukraine.

- Grant projects have been implemented on budget transparency and civil society awareness, such as "Public Budgets from A to Z: Greater Civil Society Awareness, Access and Participation" and "Creation and implementation of public funds utilization monitoring system - Open Budget".

- Other EU assistance in PFM: the EU provides assistance to the reform of tax administration (better oversight of SFS performance by MOF, contribution to SFS strategy and action plan), in 2017. The EU finances a Reform Support Team in the Ministry of Finance and also the Senior High-Level Advisory Team (SAGSUR), with representatives covering PFM and broader economic issues.

**EU funding at multi-country level**

The EU-funded OECD-SIGMA played an important role in the PFM area during the period 2013-2016 assisting the MoF in the PFM reform process with a qualified pool of expertise. SIGMA's work programme 2017-19 on PFM is, however, limited to reviewing the implementation of the PFM strategy and action plan, although remote support is possible on specific components of the PFM action plan (PIFC, External audit).

**International Financing Institutions (IFIs)**

**IMF**

The IMF Fiscal Affairs Department is active in several key areas of PFM, with the focus on tax administration, tax policy, customs, budget process and management of state assets. There are regular review missions and specialised missions of technical experts. In the State Fiscal Service, the IMF resident advisor advises the authorities on the overall organisational reform as well as on a number of specific issues.

**World Bank (WB)**

The WB current PFM portfolio of projects focuses on reviewing public investment projects' vetting and prioritisation in the Ministry of Economic Development, and providing assistance on transfer pricing to Ministry of Finance. An EU-funded WB Trust Fund was set up in May 2017 to finance support activities linked to reforms under the PFM and PAR strategies.

**EBRD**


An EBRD-managed and EU co-financed Multi Donor Account (MDA) was set up in 2015 to finance i.a. a high-level advisory group on economic issues and Reform Support teams in line ministries, including in the Ministry of Finance. In addition, the MDA is actively supporting PP reforms through co-financing of the ProZorro platform and PP monitoring. The EBRD is also active in the field of SOE reform and privatisation. It participates in the Working Group on privatisation, supports the development of corporate governance plans for individual SOEs, is member of the selection panels for CEOs and supervisory board members, advises in the proceedings of large privatisations and actively contributes to drafting legislation.

**Other donors**

The European Union Border Assistance Mission to Moldova and Ukraine (EUBAM), launched in 2005, promotes border control, customs and trade norms and practices that meet EU standards and serve the needs of its two partner countries. The Mission contributes to cross border cooperation and confidence-building and helps to improve efficiency, transparency and security along the Moldova- Ukraine border. EUBAM significantly contributes to accede to a Common Transit Convention (CTC) and implementation the Authorised Economic operator (AEO) programme.

**EU member states**

The German-UK PFM technical assistance covers a broad range of PFM topics, mainly through short-term advisory work, including missions and workshops of civil servants from Germany and other EU Member States on tax administration, tax policy, budget transparency, budget process, public procurement, external audit, communication etc. There is a close cooperation with the Netherlands in the area of internal audit. GIZ also finances a number of permanent senior advisors to the government and supports financially the ProZorro e-procurement portal and the E-Data project for a transparent budget. In addition to the joint work on PFM, DFID works on local taxation (PWC consultant team) and provides important inputs on the SOE reform together with GIZ (reporting and monitoring of SOE performance). The Netherlands support internal audit reforms through a number of measures including trainings, manuals, etc.

**USA**

The US Treasury supports the State Fiscal service in reform of the Large Tax payer office and Human resource strategy and integrity. The US Treasury experts undertake regular short-term IT missions to support risk-management system and electronic services development in the Large Taxpayer Office and a number of SFS-wide reforms. The US Treasury currently provides a resident advisor to the Ministry of Finance with a focus on debt management and on budget reform. The US provides funding to ProZorro e-procurement platform of the Ministry of Economic Development. Furthermore, the US experts have helped preparing the Customs assessment report. Finally, the US is deeply involved in the reform and privatisation of SOEs. Thus, the USAID has financed due diligences of individual companies in the privatisation proceedings (e.g. electricity companies) and has recently offered assistance to review and reform the SPF.
3.3 Cross-cutting issues

Good governance, rule of law, gender equality, sustainable development and climate change are among the essential cross-cutting elements of the EU-Ukraine Association Agreement and shall be seen as priority horizontal issues for this Action as applicable.

The increased implementation of EU standards and best practices will strengthen transparent and accountable governance processes and contribute to the efficiency of public resources allocation. In addition, greater involvement of civil society in policy-making will serve as a guarantee for an effective monitoring of the reforms covered by the action.

Public Administration Reform: This action will take into account relevant reforms linked to the ongoing Public Administration Reform\(^5\) (PAR). This assistance package should be seen as part of a comprehensive effort of the EU to support Ukraine's stronger public sector governance. There are a number of ongoing capacity building projects, in particular in PAR, decentralisation, etc. EU assistance to Ukraine in PFM reform and in PAR reforms is closely inter-linked, also through a common governance structures. As stated in the PFM strategy, "building an efficient and competitive economy in Ukraine entails carrying out a systemic reform in the public finance management as part of the reform of the overall public administration system, which problems and inconsistencies pose a serious risk to the economic growth resumption'. Especially for the horizontal capacity building in human resource management and management of information systems it will ensure that the reforms supported by this Action are aligned with the objectives of Ukraine's 2016-2020 PAR Strategy. Further area of interlinkages between PAR and PFM is the reform of strategic planning and budgetary planning. The joint governance structures of reform monitoring that PAR and PFM reforms have in common (Cabinet of Ministers and Reform Council) should facilitate consistency in approaches taken in two policy areas. In addition, implementation of the PFM strategy is an integral part under the EU PAR Budget support.

Gender mainstreaming: The Ministry of Finance of Ukraine, line ministries and regions administrations – are in the process of introducing gender responsive budgeting (GRB). GRB is an approach that involves working in a comprehensive way to integrate gender perspectives at all stages of the budget process. Integration of gender budgeting into the public finance management system in Ukraine will in time help to improve the effectiveness of public spending and strategic planning. Moreover, GRB will facilitate a balanced development of the society, by addressing the interests and needs of women and men and marginalized social groups. With the support of SIDA the Ministry of Finance started implementation of the gender-responsive budgeting principles in 2014. Since then, gender budget analysis has been undertaken for programs financed from state and local budgets in education, youth policy, physical education and sports, social protection and social security and health care. Studies conducted in 13 regions showed that the needs of men and women for public services are different. The EU will further support this effort in the reform of the budget process. In this way the measure will be contributing to the EU Action plan on gender.\(^6\)

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\(^5\) The PAR principles are the following: (i). existence of a strategic framework, (ii) policy development and coordination, (iii) public service and HRM, (iv) accountability, (v) service delivery, (vi) public finance management, [http://www.sigmaweb.org/publications/principles-public-administration-european-neighbourhood-policy.htm](http://www.sigmaweb.org/publications/principles-public-administration-european-neighbourhood-policy.htm)

**Human rights and the rule of law:** Budget transparency and oversight are two elements of democracy and good governance in the PFM sector, ensuring public access to budget information and that public resources are effectively and efficiently used to meet public needs and improve the quality of the public services. In this area, the EU plays a major role in supporting the participation of the civil society in the policy dialogue with the Ukrainian authorities, both in the definition and monitoring of the PFM reform conditionalities. On the oversight part of public finance management, the Accounting Chamber of Ukraine plays a crucial role in guaranteeing the external control over use of funds of the State Budget of Ukraine.

4. **Description of the action**

4.1 **Objectives/results**

**Overall Objective:**

The overall objective of the programme is to improve Public Finance Management in Ukraine, thereby ultimately improving public service delivery and the business climate.

**Specific objectives:**

1. Support relevant national institutions in the improvement of budget preparation, implementation and control.

2. Contribute to the better management of public expenditures in the areas of public investments, fiscal risks and payroll management

3. Support the further development of a modern, efficient and fair revenue collection system.

4. Support relevant PFM institutions in the enhancement of their organizational capacities.

**Expected Results:**

1.1 Strengthened capacities on independent macroeconomic and fiscal forecasting.

1.2 Strengthened capacities in MOF and line ministries for the introduction and implementation of medium-term budgetary planning.

1.3 Strengthened capacities regarding programme-based budgeting.

1.4 Strengthened capacities linked to presenting budgetary information to the public.

1.5 Strengthened capacities linked to institutionalization and execution of spending reviews in MOF and line ministries.

1.6 Strengthened capacities in the government and Parliament linked to establishing a coherent and credible fiscal framework and improving fiscal impact assessments on legislation.

1.7 Strengthened capacities in the Treasury and MOF regarding budget execution function and liquidity management.

1.8 Strengthened capacities with regards to the further alignment of the Ukrainian accounting system with international standards.

1.9 Strengthened capacities for internal control including internal audit of public finances.

1.10 Strengthened capacities in external audit in line with international standards.
2.1 Strengthened capacities in public investment and public asset management.
2.2 Strengthened capacities in fiscal risks monitoring, reporting and managing in the MOF.
2.3 Strengthened capacities of SOEs on financial reporting and of Line Ministries in monitoring SOE.
2.4 Strengthened capacities in managing headcount and payroll controls through, inter alia, the roll out of an automated information system of Human resource management.

3.1 Strengthened capacities in introducing and implementing a new tax compliance strategy and developing a compliance measurement framework.
3.2 Strengthened capacities on the SFS oversight within the Ministry of Finance.
3.3 Strengthened capacities in the review and adaptation of business processes within the tax and customs administration.
3.4 Strengthened capacities in establishing and operationalising the new Financial Investigation Service.
3.5 Strengthened capacities in broadening Ukraine's tax base through, inter alia, improved tax-related information flows.
3.6 Strengthened capacities in the legal approximation of customs laws and regulations with EU acquis and international best practices.
3.7 Strengthened capacities of the tax and customs administration to counter tax avoidance and to implement trade facilitation measures.

4.1 Strengthened capacities to design and implement modern Human resources management practices in PFM institutions.
4.2 Strengthened capacities for the review, adaptation and automation of PFM business processes.
4.3 Strengthened capacities to review and adapt institutional procedures, structures and practices in PFM institutions.
4.4 Strengthened capacities to design, coordinate, monitor, update and report on PFM policy documents.

4.2 Main activities

The following are indicative activities, which might be further complemented and adjusted to reach the objectives of the programme.

4.2.1 Activities under Component 1: Support relevant national institutions in the improvement of budget preparation, implementation and control

4.2.1.1 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions on better modelling of macroeconomic and fiscal trends and on depoliticising of the macro-forecast by developing a concept of independent vetting of government forecast and facilitation of its introduction.

4.2.1.2 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions for introducing and operationalising medium-term expenditure budget planning.
4.2.1.3 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions regarding streamlining programme-based budgeting through reducing the number of first-level budgetary institutions, the number of programmes, developing Key Performance Indicators (KPIs) system for programmes linked to strategic government priorities.

4.2.1.4 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions regarding introduction of Citizens budget and introducing public hearings/consultations as a part of the budgeting process.

4.2.1.5 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions regarding institutionalisation and performing sectoral spending reviews in selected line ministries.

4.2.1.6 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions in establishing fiscal framework through adoption of a credible fiscal strategy, establishing an independent Fiscal Council, and strengthening fiscal impact assessment for new legislative proposals.

4.2.1.7. Expert advice, training, exchanges and advocacy in legal, methodological and governance questions in supporting a) a stronger position of the Central Harmonisation Unit in MOF, improving efficiency of internal audit function and strengthening monitoring and reporting standards in internal control including internal audit; b) Modernisation of State Audit Service through, inter alia a functional review, improved methodology of different types of audit and risk-based automated selection of controls and audits;

4.2.1.10 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions enhancing quality of external audits, inter alia strengthening follow-up mechanism on audit reports of the ACU, development and implementation of ACU institutional development Strategy and supporting further legal approximation to international standards.

4.2.2 Activities under Component 2: Public expenditure

4.2.2.1 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions to further develop project management of public investment and public assets.

4.2.2.2 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions to strengthen the system of fiscal risks assessment, monitoring and
reporting and making it part of the budget process, inter alia through setting up a fiscal risk registry, analysis of fiscal risks.

4.2.2.3 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions to improve accounting and reporting standards of SOEs and stronger corporate governance standards of SOEs inter alia through strengthened financial reporting capacity of SOEs and monitoring capacity of government institutions.

4.2.2.4 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions to strengthen government's Human resource management system through, inter alia, roll out the automated system of Human resource management to better implement payroll controls and align payroll and personnel records across the public administration.

4.2.3 Activities under component 3: Revenue mobilisation

4.2.3.1 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions for the introduction of the new tax compliance strategy and implement a comprehensive compliance measurement framework and indicators, in cooperation with IMF's work on compliance risk management.

4.2.3.2 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions for establishing an effective oversight function in the Ministry of Finance through, inter alia, facilitating effective oversight, data integrity control systems, third party audit, and monitoring of KPIs).

4.2.3.3 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions related to undertaking and ensuring a follow up to the High-Level Business Process Review of core functions of tax administration and subsequent in-depth review of selected functions (tax audit, filing and payment function including tax accounting and electronic services to tax payers (E-Cabinet for tax payers, introduction of a single account to pay taxes, duty and payments to the budget), refunds function including an independent assessment of the E-VAT system and debt collection function).

4.2.3.4 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions in establishing and making operational the new Financial Investigation Service through, inter alia, defining organisation structure, recruitment of staff, definition of roles, capacity building in economic crime investigation, automation of key functions, provisions of equipment, facilitating the recruitment of staff and its professionalization.

4.2.3.5 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions for Ukraine's accession to the OECD Initiative on automatic exchange of information on foreign financial accounts established and implemented within the Global Forum on Transparency and Exchange of Information for Tax Purposes as well as the other corresponding projects.
4.2.3.6 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions in the implementation of Customs reform strategy and Action Plan through, inter alia,

a) Harmonising Ukraine's Customs legislation with the EU Customs Code, facilitating its implementation and facilitation the implementation of the EU Duty Relief regulation;
b) Facilitating the accession to the Convention on a common transit procedure and implementation of New Computerized Transit System (NCTS), including support on legal issues, on setting up the administrative structure, and on implementation of NCTS technical issues and provide necessary equipment for NCTS7.

4.2.3.7 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions linked to countering tax avoidance and implementing customs trade facilitation measures.

4.2.4 Activities under component 4: Horizontal functions and governance

4.2.4.1 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions linked to the development and implementation of modern HRM policies.

4.2.4.2 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions linked to, inter alia, establishment of initial and continuous training system (including online training portal).

4.2.4.3 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions linked to, inter alia, design and implement integrity and anti-corruption policies across the PFM system institutions including full and independent vetting and re-appointment of staff.

4.2.4.4 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions linked to, inter alia, business process reviews and adaptation, change management in all relevant PFM agencies and development of strategic planning functions.

4.2.4.5 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions and procurement of IT equipment and IT solutions to support, inter alia, improved IOT interoperability and information exchange between the Ministry of Finance, the State Fiscal Service, and the State Treasury Service.

4.2.4.6 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions and procurement of IT equipment and IT solutions to support, inter alia, the automation of functions in PFM in line with the priorities specified of the government IT systems development plan for PFM as regards budget process, accounting, treasury and

7 Enhanced support will depend on a concrete policy reform framework and readiness to implement substantial reform in customs area.
expenditure controls, revenue mobilisation and trade facilitation, financial and economic crime investigation, public procurement, internal control and external audit, and IT security.

4.2.4.7 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions and procurement of IT equipment and IT solutions to support, inter alia, automation of budgeting and accounting IT platform, online auditor management and training platform for internal audit and control, support IT development in core functions of tax administration reviewed during Business Process Review or in-depth review of selected functions such as audit\(^8\), refunds, filing and payment, debt collection and further tax and customs functions.

4.2.4.8 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions and procurement of IT equipment and IT solutions to support urgent additional PFM reform priorities

4.2.4.9 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions to support the overall planning, coordinating and monitoring of PFM reforms.

4.2.4.10 Expert advice, training, exchanges and advocacy in legal, methodological and governance questions to support effective policy dialogue on PFM issues involving different stakeholders, including from Civil Society.

4.3 Intervention logic

The action aims at supporting the implementation of Ukraine's PFM Strategy and action plan 2017-2021, in compliance with the PFM objectives of the EU-Ukraine Association Agreement and the country's international commitments (IMF, EU). Developing an efficient and competitive economy and improving the trade and business climate in Ukraine require a systemic reform of the public finance sector, whose problems and inconsistencies present a major risk to economic growth. An efficient public finance management reform should provide the basis for the implementation of the public policy and the attainment of strategic development goals, by supporting overall fiscal discipline, strategically allocating budget funds, and providing services efficiently. There are four areas of support that have been identified and reflected into the Logical framework in Appendix 1: (i) budget process, internal control and audit (ii) efficient public spending, (iii) revenue mobilisation and Financial Investigation Service, and (iv) horizontal institutional capacity building for PFM.

Continued EU-Ukraine policy dialogue on PFM is accompanied with a sound monitoring mechanism and regular reviews, to ensure that a credible reform process is underway and that jointly agreed policy benchmarks are met (Cf. 5.6).

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\(^8\) E-audit and associated software as well as IT tools for tax audit desk examination
5. IMPLEMENTATION

5.1 Financing agreement
In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period
The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission’s authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation modalities
The amount allocated for the PFM special measure is EUR 50 million. In addition, EUR 5 million co-financing through the implementing partner SIDA has been announced. A number of different implementation modalities will be used. The European Commission through the EU Delegation to Ukraine and the Support Group for Ukraine (SGUA) will ensure effective coordination and monitoring of the implementation of the various components. In addition, a dedicated team of high-level experts will be recruited under the UNOPS in order to facilitate coordination, policy dialogue and monitoring of the reform process. The presentation below also defines fall-back options for each component.

The Commission will ensure that the entities receiving funds in direct and/or indirect management and providing financing to third parties in the context of this action will ensure compliance with EU restrictive measures affecting the respective countries of operation.

5.3.1 Budget process modernisation, improved control and accountability
5.3.1.1 Grant: direct award to the International Monetary Fund (direct management)
a) Objectives of the grant, fields of intervention, priorities of the year and expected results:
The activities under the grant will contribute to specific objectives 1 and 3 i.e. supporting budget process modernisation and support development of a modern and fair revenue collection with the aim of improving voluntary compliance with tax and customs legislation. The implementation entails strategic policy advice on (i) budget reform and institutionalisation of spending reviews and (ii) advice on SFS reform.

b) Justification of a direct grant
Under the responsibility of the Commission's authorising officer responsible, the grant may be awarded without a call for proposals to the IMF, Fiscal Affairs Department (FAD). The recourse to an award of a grant without a call for proposals is justified because the IMF Fiscal Affairs department has the exceptional technical competence and the necessary specialisation to support
the budget and tax administration reform at the strategic level. Furthermore, due to the ongoing IMF Extended Fund Facility programme with Ukraine, IMF is a key stakeholder in the current reform process. In addition, it has a very strong track record in supporting budget and tax administration reform around the world, strong backup capacity in the headquarters and world-renowned expertise. Finally, IMF FAD has been providing technical assistance to the Ukrainian authorities for many years, and extending this support would ensure business process continuity and preservation of previous relevant expertise. Specific objectives will be to support the budget reform through policy advice on the overall reform direction. The types of action eligible will be the following: (i) Expert advice on the overall strategic direction of the budget reform; (ii) Policy reports on selected budget reform issues, prepared by IMF headquarter missions, (iii) Expert reports prepared on selected topics relevant to budget reform, such as fiscal risk management etc.

c) Essential selection and award criteria
The essential selection criteria are the financial and operational capacity of the applicant. The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

d) Maximum rate of co-financing
The maximum possible rate of co-financing for this grant is 100%.
In accordance with Article 192 of Regulation (EU, Euratom) No 966/2012, if full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100 per cent. The essentiality of full funding will be justified by the Commission's authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

e) Indicative trimester to conclude the grant agreement:
4th quarter of 2017 or 1st quarter of 2018.

f) Exception to the non-retroactivity of costs
The Commission authorises the eligibility of costs prior to the submission of the grant application as of 1 September 2017. This shall allow the Commission to take over funding of the IMF resident advisor in tax revenue collection (component 3), of which IMF funding will end in September 2017.

5.3.1.2 Indirect management with SIDA
A part of the selected activities supporting the specific objectives of the PFM reform Strategy may be implemented in indirect management with Swedish International Development Cooperation Agency (SIDA – Sweden), in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails results and activities under the Component 1: budget process (medium and program based budgeting reform, sectoral spending reviews), fiscal governance (forecast, fiscal rules, fiscal impact assessment) and PIFC. This implementation is justified because SIDA has relevant experience in capacity building and can provide relevant expertise to the Ukrainian government officials. SIDA's expression of interest for this component is considered relevant and appropriate due to the following reasons: (i) SIDA has the necessary country knowledge and experience in the sector as it has implemented a large budget project in the past and is currently implementing another budget-reform project; (ii) SIDA has the necessary project management capacity having been a development partner over
many years; (iii) SIDA is ready to provide co-financing of around EUR 5 million, (iv) SIDA’s experts are well perceived by the Ukrainian authorities and enjoy a high level of trust, including at the level of decision makers. Finally, Sweden plans to provide own technical assistance in the budgetary area in the future; the planned assistance would be even more effective if integrated and coordinated in a broad EU programme. The entrusted entity would carry out the following budget-implementation tasks: running the public procurement and grant award procedures, concluding and managing the resulting contracts, including making of the related payments.

If negotiations with the above-mentioned entrusted entity fail, that part of this action may be implemented in indirect management with the United Nations Organization for Project Services (UNOPS). The implementation by this alternative entrusted entity would be justified because UNOPS provides project management, infrastructure and procurement services with a focus on sustainability and national capacity development in more than 80 countries, implementing more than USD 1 billion of projects for its partners annually. UNOPS offers, in a complementary manner, financial and project management, human resources and procurement services. UNOPS thus has longstanding experience in supporting capacity building in the neighbourhood and development countries. A larger contract with UNOPS would also allow to link closer the expert advice on thematic areas of reform with the necessary horizontal reforms in organisational structure, HR and information systems. The alternative entrusted entity would carry out the following budget-implementation tasks: running the public procurement and grant award procedures, concluding and managing the resulting contracts, including making of the related payments.

5.3.1.3 Indirect management with UNOPS

A part of the selected activities supporting the specific objectives of the PFM reform Strategy may be implemented in indirect management with UNOPS in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails results and activities under the Component 1 (control and audit of the budget, accounting and support to Treasury reform). This implementation through UNOPS is justified because it provides project management, infrastructure and procurement services with a focus on sustainability and national capacity development in more than 80 countries, implementing more than USD 1 billion of projects for its partners annually. UNOPS offers, in a complementary manner, financial and project management, human resources and procurement services. It would also carry out the following budget-implementation tasks: running the public procurement and grant award procedures, concluding and managing the resulting contracts, including making of the related payments.

If negotiations with UNOPS for indirect management of parts of component 1 fail, this component will be implemented through direct management (procurement of services and supplies – see section 5.3.5).

5.3.2 Public expenditure

5.3.2.1 Indirect management through the World Bank Group

A part of the selected activities supporting the specific objectives of the PFM reform Strategy may be implemented in indirect management with the World Bank Group in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails the
results and activities under Component 2. This implementation is justified because the World Bank Group has a long and extensive experience in Ukraine in the PFM sector, including an involvement in the preparation of the Integrated Financial Management Information System, the recent assessment of Ukraine's PFM system (PEFA 2016), and a direct support to the preparation of the revised PFM strategy. Most importantly, an EU-World Bank Trust fund agreement was signed in May 2017 allowing for a first joint assistance project of EUR 5 million to be implemented through this mechanism. In addition, it is important to mention that the World Bank has so far been in the lead in Ukraine on public investment management reform.

The entrusted entity would carry out the following budget-implementation tasks: running the public procurement and grant award procedures, concluding and managing the resulting contracts, including making of the related payments.

If negotiations with the above-mentioned entrusted entity fail, that part of this action may be implemented in indirect management with the UNOPS. The implementation by this alternative entrusted entity would be justified because UNOPS provides project management, infrastructure and procurement services with a focus on sustainability and national capacity development in more than 80 countries, implementing more than USD 1 billion of projects for its partners annually. UNOPS offers, in a complementary manner, financial and project management, human resources and procurement services. UNOPS thus has longstanding experience in supporting capacity building in the neighbourhood and development countries. A larger contract with UNOPS would also allow to link closer the expert advice on thematic areas of reform with the necessary horizontal reforms in organisational structure, HR and information systems. The alternative entrusted entity would carry out the following budget-implementation tasks: running the public procurement and grant award procedures, concluding and managing the resulting contracts, including making of the related payments.

5.3.3 **Revenue mobilisation**

5.3.3.1 Grant, direct award to International Monetary Fund (direct management)

a) Objectives of the grant, fields of intervention, priorities of the year and expected results:
The activities under the grant will contribute to specific objectives 1 and 3 i.e. supporting budget process modernisation and support development of a modern and fair revenue collection with the aim of improving voluntary compliance with tax and customs legislation. The implementation entails strategic advice on (i) strategic policy advice on budget reform and institutionalisation of spending reviews and (ii) strategic policy advice on SFS reform.

b) Justification of a direct grant
Under the responsibility of the Commission's authorising officer responsible, the grant may be awarded without a call for proposals to the IMF, Fiscal Affairs Department. The recourse to an award of a grant without a call for proposals is justified because the IMF Fiscal Affairs department has the exceptional technical competence and the necessary specialisation to support the budget and tax administration reform at the strategic level. Furthermore, due to the ongoing IMF Extended Fund Facility programme with Ukraine, IMF is a key stakeholder in the current reform process. In addition, it has a very strong track record in supporting budget and tax administration reform around the world, strong backup capacity in the headquarters and world-renowned expertise. Finally, IMF FAD has been providing technical assistance to the Ukrainian authorities for many years, and extending this support would ensure business process continuity.
and preservation of previous relevant expertise. Specific objectives will be to support the tax and customs administration reform through strategic advice on the overall reform direction. The types of action eligible will be the following: (i) Expert policy advice on the overall strategic direction and organisational reform in the SFS; (ii) Strategic reports prepared on SFS reform by IMF headquarters missions; (iii) Expert reports prepared on selected topics relevant to SFS reform based on short-term missions.

c) Essential selection and award criteria
The essential selection criteria are the financial and operational capacity of the applicant. The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

d) Maximum rate of co-financing
The maximum possible rate of co-financing for this grant is 100%. In accordance with Article 192 of Regulation (EU, Euratom) No 966/2012, if full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100 per cent. The essentiality of full funding will be justified by the Commission's authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

e) Indicative trimester to conclude the grant agreement:
4th quarter of 2017 or 1st quarter of 2018.

e) Exception to the non-retroactivity of costs
The Commission authorises the eligibility of costs prior to the submission of the grant application as of 1 September 2017. This shall allow the Commission to take over funding of the IMF resident advisor in tax revenue collection (component 3), of which IMF funding will end in September 2017.

5.3.3.2 Indirect management with Central Project Management Agency (CPMA), Lithuania
A part of the selected activities supporting the specific objectives of the PFM reform Strategy may be implemented in indirect management with the Lithuanian Central Project Management Agency (CPMA) in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation covers Component 3: Revenue mobilisation including Financial Investigation Service. The CPMA expression of interest for this component was considered relevant and appropriate due to the following reasons. Lithuania can provide relevant experience to the Ukrainian government officials as it shares a similar historical background of transition towards a democratic and rules-based system of financial governance. Since Lithuania’s membership in the EU, the CPMA has relevant experience in implementation and administrative – financial management of nearly 50 EU Twinning, grant and technical assistance projects. It is currently also implementing some EU-financed projects in Ukraine in the customs and border management areas. Furthermore, Ukraine is a priority country for Lithuania in terms of development cooperation agenda. The entrusted entity would carry out the following budget-implementation tasks: public procurement and grant award procedures, concluding and managing the resulting contracts, including making of the related payments.

If negotiations with the above-mentioned entrusted entity fail, that part of this action may be implemented in indirect management with the United Nations Organization for Project Services
The implementation by this alternative entrusted entity would be justified because UNOPS provides project management, infrastructure and procurement services with a focus on sustainability and national capacity development in more than 80 countries, implementing more than USD 1 billion of projects for its partners annually. UNOPS offers, in a complementary manner, financial and project management, human resources and procurement services. UNOPS thus has longstanding experience in supporting capacity building in the neighbourhood and development countries. A larger contract with UNOPS would also allow to link closer the expert advice on thematic areas of reform with the necessary horizontal reforms in organisational structure, HR and information systems. The alternative entrusted entity would carry out the following budget-implementation tasks: running the public procurement and grant award procedures, concluding and managing the resulting contracts, including making of the related payments.

5.3.4 Horizontal functions and governance

5.3.4.1 Indirect management with UNOPS

A part of the selected activities supporting the specific objectives of the PFM reform Strategy may be implemented in indirect management with UNOPS in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails results and activities linked to Component 5 (IT component, coordination and support to the overall coordination of the Action and promotion of sector approach). This implementation through UNOPS is justified because it provides project management, infrastructure and procurement services with a focus on sustainability and national capacity development in more than 80 countries, implementing more than USD 1 billion of projects for its partners annually. UNOPS offers, in a complementary manner, financial and project management, human resources and procurement services. It would also carry out the following budget-implementation tasks: running the public procurement and grant award procedures, concluding and managing the resulting contracts, including making of the related payments.

If negotiations with the above-mentioned entrusted entity fail, that part of this action may be implemented partially (IT and HRM) through indirect management through the two EU Member states' agencies selected for components I and III (SIDA and CPMA). This choice is justified because of the specific expertise and experiences of those agencies developed under points 5.4.2 and 5.4.3. The alternative entrusted entities would carry out the following budget-implementation tasks: running the public procurement and grant award procedures, concluding and managing the resulting contracts, including making of the related payments. The remaining share of the activities will be implemented through direct management (procurement of services – see section 5.3.5).

5.3.4.2 Procurement (direct management)

<table>
<thead>
<tr>
<th>Subject in generic terms</th>
<th>Type (works, supplies, services)</th>
<th>Indicative number of contracts</th>
<th>Indicative trimester of launch of the procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### 5.3.5 Changes from indirect to direct management mode due to exceptional circumstances

If negotiations with UNOPS for indirect management of component 4 as detailed under section 5.3.1.3) are unsuccessful, parts of this component (PFM governance and coordination) will be implemented through procurement of services and supplies (direct management):

<table>
<thead>
<tr>
<th>Subject in generic terms</th>
<th>Type (works, supplies, services)</th>
<th>Indicative number of contracts</th>
<th>Indicative trimester of launch of the procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component 1 (section 5.3.1.3) - control and audit of the budget, accounting and support to Treasury reform</td>
<td>Services and supplies</td>
<td>Up to 3</td>
<td>From Q1 2018 to Q4 2018</td>
</tr>
<tr>
<td>Component 4 (section 5.3.4.1) - PFM Governance and coordination</td>
<td>Services</td>
<td>1</td>
<td>Q1 2018</td>
</tr>
</tbody>
</table>

### 5.4 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission’s authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.
5.5 Indicative budget

<table>
<thead>
<tr>
<th>Modalities for implementation for 2018-22</th>
<th>EU contribution</th>
<th>Third party contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(EUR million)</td>
<td>(indicative)</td>
</tr>
<tr>
<td>1. Budget process modernisation, improved control and accountability</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>1.1 Grant, direct award to IMF, Fiscal Affairs Department</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>1.2 Indirect Management with SIDA</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>1.3 Indirect Management with UNOPS</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>2 Public expenditure optimisation</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>2.1 Indirect Management with WorldBank</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>3. Revenue mobilisation</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>3.1 Grant, direct award to IMF, Fiscal Affairs Department</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>3.2 Indirect Management with CPMA, Lithuania</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>4. Horizontal functions and governance</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>4.1 Indirect management with UNOPS</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>4.2 Direct management - Evaluation/Audit</td>
<td>0.5</td>
<td></td>
</tr>
<tr>
<td>4.3 Direct management - Communication/visibility</td>
<td>1.5</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
<td><strong>55</strong></td>
</tr>
</tbody>
</table>

5.6 Organisational set-up and responsibilities

The overall coordination of the overall implementation of the action will be managed by the EU Delegation with support of dedicated expertise provided by UNOPS. This action of the special measure programme will be steered and monitored by a Joint Monitoring Group. This group will include representatives of the EU services, as well as representatives of key ministries and related agencies involved in the implementation of the PFM activities. Relevant civil society organisations, representatives of the national institutions and development partners, will also be invited to the meetings where appropriate.

The main tasks of the Joint Monitoring Group are as follows:
- Monitoring and control over the Action's implementation,
- Assessment of the degree of fulfilment of the performance indicators defined in the logframe matrix,
- Ensuring interaction between relevant state bodies with a view to achieve expected results of the Action and fulfil related performance indicators,
- Preparing recommendations aiming at addressing shortcoming and problems in the process of implementation of this Action.

The Joint Monitoring Group will meet at least 4 times per year.

With several implementing agencies, including International Financial Institutions and EU Member States' Agencies, ensuring coordination among different donors will be key. The overall coordination of activities will be ensured through direct engagement of the EU Delegation and
Support Group for Ukraine staff as well as supporting structures of an 'EU House for public finance management reform' that will provide an office, logistical support and secretariat for embedded experts but also provide the necessary alignment of activities.

In parallel to the project implementation, a broader policy dialogue between EU, Ukraine, relevant international organisations and key partner countries is expected to take place. Steering and monitoring governance structures for PFM Strategy implementation⁹ are to be established under the leadership of the Ministry of Finance, with the participation of representatives of the key public institutions involved in the PFM process (Cf. 1.1.2) and international donors (WB, EU, etc.) in order to review the implementation of the PFM Strategy and PFM Action Plan. Thus, the necessary streamlining will take place through the enhanced structured policy dialogue on PFM issues, linked to the implementation Ukraine's obligations under the Association Agreement and its own reform commitments under the national government reform plan and the PFM strategy. A detailed Memorandum of Understanding (MoU) explaining competencies, functioning, reporting, etc. could be agreed with the authorities to ensure the success in the implementation of the reform.

5.7 Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partners' responsibilities. To this aim, the implementing partners shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the log frame matrix. The final report, narrative and financial, will cover the entire period of the action implementation. Monitoring exercises will be performed in line with DG NEAR Guidelines on linking planning/programming, monitoring and evaluation.¹⁰

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.8 Evaluation

Having regard to the importance of the action, mid-term and final evaluations will be carried out for this action or its components via independent consultants contracted by the Commission. Evaluation exercises will be performed in line with DG NEAR Guidelines on linking planning/programming, monitoring and evaluation.

⁹ PAR Coordination Council and PAR Task Force at senior civil service level (in PFM configuration).
It will be carried out for problem solving, management and learning purposes at various levels (including for policy revision).

The Commission shall inform the implementing partners at least 30 days in advance of the dates foreseen for the evaluation missions. The implementing partners shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partners and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Where relevant and where appropriate the provisions included in the framework agreement(s) signed with the entrusted entity(ies) will apply.

Indicatively, the contract for evaluation services shall be concluded in the first quarter of 2019.

5.9 Audit
Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Where relevant and where appropriate the provisions included in the framework agreement(s) signed with the entrusted entity(ies) will apply.

Indicatively, one contract for audit services shall be concluded in the first quarter of 2020.

5.10 Communication and visibility
Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

The implementation of the PFM strategy and related action plan should be visible, and increase transparency and understanding of the population on the impact of the reform process. It should better explain how its objectives meet public needs and improve the quality of public services. The role of the civil society in public life became a key element of the "Revolution of dignity" of 2014, and it is also envisaged to increase the participation of the civil society in the current activity assuming that it is also a good vector of communication with the population.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.4 above. It is envisaged to include a visibility module in each of the current contracts where necessary.
In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

Where relevant and where appropriate the provisions included in the framework agreement(s) signed with the entrusted entity(ies) will apply.
APPENDIX - INDICATIVE LIST OF RESULT INDICATORS (FOR THE ENTIRE ACTION)

The inputs, the expected direct and induced outputs and all the indicators, targets and baselines included in the list of result indicators are indicative and may be updated during the implementation of the Action without an amendment to the financing decision. The table with the indicative list of result indicators will evolve during the lifetime of the action: new columns will be added for intermediary targets (milestones), when it is relevant and for reporting purpose on the achievement of results as measured by indicators. Note also that indicators should be disaggregated by gender whenever relevant.

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Intervention logic</th>
<th>Indicators</th>
<th>Baselines (or as indicated in the corresponding cell)</th>
<th>Targets 2021</th>
<th>Sources and means of verification</th>
</tr>
</thead>
</table>


Government Effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5. Percentile rank indicates the country's rank among all countries covered by the aggregate indicator, with 0 corresponding to lowest rank, and 100 to highest rank. Percentile ranks have been adjusted to correct for changes over time in the composition of the countries covered by the WGI.

<table>
<thead>
<tr>
<th>Specific Objective(s):</th>
<th>Outcome(s):</th>
</tr>
</thead>
<tbody>
<tr>
<td>SO 1: Support relevant national institutions in the improvement of budget preparation, implementation and control.</td>
<td>International Budget Partnership, Open Budget Index (OBI) PEFA overall assessment OECD baseline assessment (for PFM area)</td>
</tr>
<tr>
<td>2015: Ukraine's rank is 46 out of 100</td>
<td></td>
</tr>
<tr>
<td>2015 PEFA (published in 2016) demonstrates limited progress in comparison to PEFA 2010</td>
<td></td>
</tr>
<tr>
<td>OECD baseline assessment of 2018 is performed (for PFM area)</td>
<td></td>
</tr>
<tr>
<td>2021: Ukraine is in the top 50 countries</td>
<td></td>
</tr>
<tr>
<td>2020 PEFA (published in 2021) shows an overall improvement in comparison to 2015</td>
<td></td>
</tr>
<tr>
<td>OECD Baseline Assessment (for PFM area) of 2021 shows an overall improvement in comparison to 2018</td>
<td></td>
</tr>
<tr>
<td>International Budget Partnership(^{13}) OECD/SIGMA reviews, EUDEL/SGUA reports IMF and EU-WB Trust fund reports MoF/RST Annual and Quarterly PFM monitoring PEFA assessments OECD Baseline Assessments (to be performed)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Specific Objective(s):</th>
<th>Outcome(s):</th>
</tr>
</thead>
<tbody>
<tr>
<td>SO 2: Contribute to the better management of public expenditures in the areas of public investments, fiscal risks and payroll management</td>
<td>The extent to which public expenditure efficiency is in line with international best practices</td>
</tr>
<tr>
<td>2017: limited public expenditure efficiency</td>
<td></td>
</tr>
<tr>
<td>2017: Audits of Accounting Chamber of Ukraine performed in 2016 analysing efficiency of budget performance provide a baseline</td>
<td></td>
</tr>
<tr>
<td>2021: Closer alignment of public expenditure efficiency with international practices</td>
<td></td>
</tr>
<tr>
<td>2021: Audits of Accounting Chamber of Ukraine performed in 2020 analysing efficiency of budget performance show an overall improvement</td>
<td></td>
</tr>
<tr>
<td>OECD/SIGMA reviews, EUDEL/SGUA reports IMF and EU-WB Trust fund reports MoF/RST Annual and Quarterly PFM monitoring PEFA assessments OECD Baseline Assessment</td>
<td></td>
</tr>
</tbody>
</table>

\(^{13}\) [http://www.internationalbudget.org/summaries/ukraine-4/](http://www.internationalbudget.org/summaries/ukraine-4/)
<table>
<thead>
<tr>
<th>Specific objective(s): Outcome(s)</th>
<th>SO 3: Support the further development of a modern, efficient and fair revenue collection system.</th>
<th>The degree of shadow economy</th>
<th>The degree to which strategic reform documents for SFS reform are in place and implemented</th>
<th>World Bank Doing Business Report (Paying taxes) Time to comply with tax obligations Time to obtain a VAT refund TADAT assessment</th>
<th>2016: 38% (estimated by MEDT) 2017: SFS reform concept is prepared, waiting for signature; a medium-term tax and customs reform strategy with annual action plan is to be prepared by end-2017. 2016: Ukraine's ranking - 84 2017: 355.5 hours 2017: 28 weeks TADAT assessment of 2017 provides the baseline</th>
<th>2021: 20% 2021: Action plan(s) for tax and customs reform are implemented in line with deadlines 2021: improved ranking. 2021: less than 250 hours 2021: 16 weeks A TADAT assessment of 2021 shows overall improvement of alignment with international best practices in tax administration</th>
<th>MEDT estimates of shadow economy, independent estimates WB Doing Business reports OECD/SIGMA reviews EUDEL/SGUA reports IMF and EU-WB Trust fund reports MoF/RST Annual and quarterly reports on PFM strategy implementation SFS annual, quarterly and monthly reports on KPI implementation TADAT User satisfaction surveys</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific objective(s): Outcome(s)</td>
<td>SO 4: Support relevant PFM institutions in the enhancement of their organizational capacities</td>
<td>The scope of using modern organizational, HR, IT techniques and practices in PFM area The degree of staff satisfaction</td>
<td>Baseline survey on staff satisfaction to be conducted in 2017</td>
<td>2017: Limited scope Baseline survey on staff satisfaction to be conducted in 2017</td>
<td>2021: Larger scope; closer alignment with international best practices 2021: Survey results show increased satisfaction</td>
<td>OECD/SIGMA reviews EUDEL/SGUA reports IMF and EU-WB Trust fund reports MoF/RST Annual and Quarterly PFM monitoring TADAT assessments OECD Baseline Assessment Staff satisfaction survey</td>
<td></td>
</tr>
</tbody>
</table>
| 1.1 Strengthened capacities on independent macroeconomic and fiscal forecasting | - PEFA PI-14 score (Quality of Macroeconomic and fiscal forecasting)  
- PEFA PI-1 score (Aggregate expenditure outturn compared to originally approved budget)  
- PEFA PI-2 score (Composition of expenditure outturn compared to approved budget)  
- PEFA PI-3 score (Aggregate revenue outturn compared to originally approved budget) |
|---|---|---|---|---|
| | 2015\textsuperscript{14} Score: B+  
2015 score: B  
2015 score: C+  
2015 score: C | 2020\textsuperscript{15} Score: A  
2020 score: A  
2020 score: B  
2020 score: B | OECD/SIGMA reviews, - EUDEL/SGUA reports  
IMF and EU-WB Trust fund reports  
MoF/RST Annual and Quarterly PFM monitoring  
PEFA assessments  
OECD baseline assessments |

| 1.2 Strengthened capacities in MOF and line ministries for the introduction and implementation of medium-term budgetary planning. | - PEFA PI-16 score (Medium-term perspective in expenditure budgeting)  
- PEFA PI-6 score (Central government operations outside financial reports)  
- PEFA PI-17 score (Orderliness in budget process, subcomponent) |
|---|---|---|---|---|
| | 2015 Score: D  
2015 Score: D+  
2015 Score: C | 2020 Score: B  
2020 Score: B  
2020 Score: B | PEFA assessments  
OECD/SIGMA reviews, - EUDEL/SGUA reports  
IMF and EU-WB Trust fund reports,  
MoF/RST Annual and Quarterly PFM monitoring  
OECD baseline assessment |

| 1.3 Strengthened capacities regarding programme-based budgeting | - PEFA PI-8 score: performance indicators for service delivery, subcomponent (i)  
- PEFA PI-8: performance indicators for service delivery, subcomponent (ii) |
|---|---|---|---|---|
| | 2015 Score: B  
2015 Score: C | 2020 Score: A  
2020 Score: B | OECD/SIGMA reviews, - EUDEL/SGUA reports  
IMF and EU-WB Trust fund reports,  
MoF/RST Annual and Quarterly PFM monitoring  
PEFA assessment  
OECD baseline assessment |

\textsuperscript{14} Published in 2016  
\textsuperscript{15} To be published in 2021
<table>
<thead>
<tr>
<th>1.4 Strengthened capacities linked to presenting budgetary information to the public.</th>
<th>PEFA PI-9 score (Public access to fiscal information)</th>
<th>2015 Score: B</th>
<th>2020 Score: A</th>
<th>PEFA assessments</th>
</tr>
</thead>
</table>

1.5 Strengthened capacities linked to institutionalization and execution of spending reviews in MOF and line ministries

<table>
<thead>
<tr>
<th>Savings in % of expenditure</th>
<th>2017: 0% of relevant expenditure</th>
<th>2021: 2% of relevant expenditure</th>
<th></th>
<th>Reports of MOF EU project implementation reports</th>
<th>IMF reports OECD/SIGMA reviews, EUDEL/SGUA reports MoF/RST Annual and Quarterly PFM monitoring</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of expenditure that are covered by spending reviews</td>
<td>2017: 0%</td>
<td>2021: 50%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extent of clear guidance to line ministries</td>
<td>2017: Guidelines for optimisation of programmes do not exist</td>
<td>2021: Guidelines for optimisation of programmes are prepared</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extent of institutionalisation of spending reviews</td>
<td>2017: No institutionalisation</td>
<td>2021: Spending review process is institutionalised and is part of the budget process</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1.6 Strengthened capacities in the government and Parliament linked to establishing a coherent and credible fiscal framework and improving fiscal impact assessments of legislation.

<table>
<thead>
<tr>
<th>PEFA PI-15 score</th>
<th>2015 Score: D+</th>
<th>2020 Score: B</th>
<th>OECD/SIGMA reviews, EUDEL/SGUA reports IMF and EU-WB Trust fund reports, MoF/RST Annual and Quarterly PFM monitoring; Reports published by the Fiscal Council ; PEFA assessment; MOF reports on the implementation of the PFM strategy; OECD baseline assessment.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existence of a credible fiscal strategy</td>
<td>2017: no fiscal strategy</td>
<td>2021: fiscal strategy adopted</td>
<td></td>
</tr>
<tr>
<td>Quality of fiscal impact assessments, methodology and procedures</td>
<td>2017: The process of fiscal impact assessment exists formally but little substantial content.</td>
<td>2021: All new government legislative proposals apply modern fiscal impact assessment methodology</td>
<td></td>
</tr>
<tr>
<td>Existence of independent Fiscal Council</td>
<td>2017: No independent Fiscal Council</td>
<td>2021: Independent Fiscal Council is established and operational</td>
<td></td>
</tr>
</tbody>
</table>
| 1.7 Strengthened capacities in the Treasury and MOF regarding budget execution and liquidity management. | Quality and transparency of budget execution  
Quality of Liquidity and cash management | 2017: Budget execution is partially untransparent and paper-based  
2017: Liquidity and cash management are limited in scope; low integration between liquidity and debt management | 2021: Budget execution is transparent and is performed electronically  
2021: Better cash flow projections, integration of the liquidity management and debt management function | PEFA assessments  
OECD/SIGMA reviews, DG BUDGET review  
Dutch gvt reports, MoF/RST Annual and Quarterly PFM monitoring reports  
Treasury reports, MOF reports |
| --- | --- | --- | --- | --- |
| 1.8 Strengthened capacities with regards to the further alignment of the Ukrainian accounting system with international standards | The extent to which Ukraine's public sector accounting system is aligned with international best practices | 2017: Ukraine's accounting system is not fully in line with international standards | 2021: Ukraine's accounting system is closer aligned with international accounting standards | OECD/SIGMA reviews  
MoF/RST Annual and Quarterly PFM monitoring reports  
Treasury reports, MOF reports |
| 1.9 Strengthened capacities for internal control including internal audit of public finances. | PEFA PI-25 score (Internal controls on non-salary expenditure)  
PEFA PI-26 score (Effectiveness of Internal Audit)  
Quality of processes of internal control  
Quality of Internal capacity and expertise | 2015 Score: B  
2015 Score: D+  
2017: CHU in MOF has been established  
2017: The professional training of internal controller/auditors has not been assessed  
2017: Limited number of internal audit units are fully operational | 2020 Score: A  
2020 Score: B  
2021: Processes of internal control correspond to international best practices  
100% of internal controller/auditors have undergone a dedicated training module  
2021: Pilot internal control projects have been successfully implemented | PEFA assessments  
OECD/SIGMA reviews, DG BUDGET review  
Dutch gvt reports, MoF/RST Annual and Quarterly PFM monitoring reports  
Treasury reports, MOF reports |
| 1.10 Strengthened capacities in external audit in line with international standards. | PEFA PI-8 score: subcomponent (iv): performance evaluation for service delivery  
PEFA PI-30 score (External Audit)  
The extent to which the external audit legislation is in line with international standards  
The extent to which the current ACU law of 2015 is implemented | 2015 Score: D  
2015 Score: C  
2017: ACU law is not fully in line with INTOSAI standards.  
2017: ACU law of 2015 is not fully implemented; new ACU college is not appointed. | 2020 Score: B  
2020 Score: B  
2021: ACU law is brought closer in line with INTOSAI standards  
2021: ACU law of 2015 is fully implemented; ACU college is appointed; the ACU produces reliable and transparent audit reports based on INTOSAI standards using in full its mandate | PEFA assessments  
OECD/SIGMA reviews,  
EUDEL/SGUA reports  
Quarterly PFM monitoring reports on the implementation of the PFM strategy  
ACU reports  
EU project implementation reports |
| 2.1 Strengthened capacities in public investment and public asset management. | PI-11 score (Public investment management)  
PI-12 score (Public asset management)  
Quality of public investment projects preparation and monitoring  
Quality of public asset management | 2015 Score: D+  
2015 Score: C+  
2017: Methodology for PIM exists but limited application  
2017: The coverage of training on PIM methodology is limited  
2017: Weak management of public assets. | 2020 Score: B  
2020 Score: D  
2021: Methodology for PIM is fully used by the state investment fund  
2021: Key staff of relevant agencies has followed the training module on PIM methodology  
2021: Incentives for more efficient management of public assets are in place. | Reports of MEDT  
Reports of the World Bank  
PEFA assessments  
Relevant EU project reports |
| 2.2 Strengthened capacities in fiscal risks monitoring, reporting and management framework in the MOF. | PI-10 score (Fiscal risks reporting)  
Fiscal risks are monitored in line with IMF’s Fiscal Transparency Code  
Existence of Fiscal risk assessment methodology and the extent of its use | 2015 Score: C+  
2016: Budget declaration does not contain assessment of fiscal risks  
2017: Fiscal risk assessment and monitoring methodology does not exist | 2020 Score: B  
2021: Budget declaration contains assessment of fiscal risks; the fiscal risks monitoring system is fully operational.  
2021: Fiscal risk assessment and monitoring methodology is adopted and is fully operational | EU Project implementation reports  
PEFA reports  
Government reports |
|---|---|---|---|---|
| 2.3 Strengthened capacities of SOEs on financial reporting and of Line Ministries in monitoring SOEs. | The extent of application of SOE accounting and reporting practices based on international standards  
Automation of SOE accounting of reporting system | 2017: Weak SOE accounting and reporting practices,  
2017: Limited use of standard methodology  
2017: Weak internal capacities in the ministries  
2017: Limited automation | 2021: SOE reporting system is brought closer to international best practices  
2021: Methodology to analyse SOE financial performance indicators is developed and used  
2021: Stronger internal capacities for accounting and governance personnel at SOEs.  
2021: SOE reporting system is an online platform with automated functions | Project implementation reports; PEFA reports; government reports. |
### 2.4 Strengthened capacities in managing headcount and payroll controls through, inter alia, the roll out of an automated information system for Human resource management.

| PEFA PI-23 score: Payroll controls (i) integration and payroll and personnel management | 2015 Score: D | 2020 Score: B | Reports of government, Reports of the World Bank PEFA assessments |
| PEFA PI-23 score: Payroll controls (ii): management of payroll changes | 2015 Score: C | 2020 Score: B |
| The extent to which the payroll system is automated | 2017: Automated HRMIS is being designed and tested for pilot cases¹⁶ | 2021: Roll-out of the HRMIS across government institutions |

### 3.1 Strengthened capacities in introducing and implementing a new compliance strategy and developing a compliance measurement framework.

| SFS KPI: Tax returns filed on time | 2015 KPI value: 96% | 2017 KPI value: 98% | Reports of the World Bank PEFA assessments |
| SFS KPI: Tax returns filed electronically | 2016 KPI value: 55% | 2017 KPI value: 70% |
| The capacity of tax administration to encourage voluntary tax compliance | 2017: Limited capacity |
| The degree of implementation of tax compliance monitoring and evaluation methodology | 2017: Methodology does not exist |
| 2017: Methodology is established and is operational |

### 3.2 Strengthened capacities on the SFS oversight in the Ministry of Finance.

| The extent to which SFS oversight is ensured. | 2017: MOF unit for SFS oversight is established; SFS key performance indicators exist but reporting is limited; IT audit for PFM system including SFS is in preparation, to be carried out in late 2017 |
| 2021: SFS oversight by MOF is fully operational in line with its mandate. |

¹⁶ as part of the implementation of the EU-funded Trust Fund with the World Bank "Support to Implementation of Public Administration Reform (PAR) and Public Financial Management (PFM) Strategies in Ukraine Activities"
<p>| 3.3 | Strengthened capacities in the review and adaptation of business processes within the tax and customs administration. | The extent to which core business processes correspond to international best practices. PEFA PI-19 score: (revenue risk management), (ii): PEFA PI-19 score (revenue risk management), (iii): revenue audit and investigation Tax audit quality as reflected in share of payment of tax assessments paid Share of planned audits in total audits Share of tax payers submitting their tax filing electronically out of total | 2017: Core business processes have not been benchmarked against best practices 2015 Score: C 2015 Score: C SFS KPI, 2015 baseline: 8%, Early 2017 KPI value: 14% SFS KPI, 2015 baseline: 19.4% SFS KPI, 2015 baseline: 55% 2021: Core business process review is undertaken; recommendations are formulated and followed up. 2020 Score: B 2020 Score: B 2017 KPI: 30% 2017 KPI: 40% 2017 KPI: 70% | 2021: Initiatives to expand the tax base and reduce shadow economy are implemented | WB Doing Business reports OECD/SIGMA reviews, EUDEL/SIGMA reports IMF and EU-WB Trust fund reports MoF/RST Annual and quarterly reports on PFM strategy implementation SFS annual, quarterly and monthly reports on KPI implementation TADAT User satisfaction surveys Treasury reports EU project reports PEFA assessment SFS KPI reporting |
| 3.6 Strengthened capacities in the legal approximation of customs laws and regulations with EU acquis and international best practices | WB Doing Business Index (Trading across Borders) | 2016: Ukraine's ranking: 115 |
| | Existence of strategic policy documents to guide customs reform | 2017: Customs actions plan has been presented for public consultation |
| | The degree of Ukraine's customs legislation being in line with the Union Customs Code | 2017: Ukrainian customs legislation is not fully in line with the Union Customs Code |
| | The degree of Ukraine's accession to Convention on a Common Transit Procedure (CTC) | 2017: Ukraine is lagging behind in fulfilment its obligations on preparation to accession to CTC |
| | | 2021: Improved ranking of WB Doing Business Index (Trading across Borders) |
| | | 2021: Customs strategy developed, adopted and implemented; |
| | | 2021: Ukrainian customs legislation is aligned with the Union Customs Code in line with the commitments of the EU-Ukraine Association Agreement |
| | | 2021: Ukraine has joined the CTC |
| | Customs Reform Strategy and Action Plan, implementation Review Reports | Reports by EU, EUBAM, EUAM, EU-Ukraine AA |
| | Implementation progress reports, Customs Sub-committee operational conclusions; IMF and EU-WB Trust fund reports; Annual WB Doing Business Index; Media and CSO reports |
| 3.7 Strengthened capacities of the tax and customs administration to counter tax avoidance and implement trade facilitation measures. | The degree of the use of cash registers | 2017: there is obligation for large tax payers to use cash registers in settlements |
| | The extent and quality of post-clearance controls | 2017: Limited extent and weak quality of post-clearance controls |
| | | 2021: cash registers are used more widely |
| | | 2021: Post-clearance controls are implemented in line with international best practices |
| | Relevant reports by MOF, SFS and Treasury | Relevant IMF reports |
| | Relevant EU project implementation reports |</p>
<table>
<thead>
<tr>
<th></th>
<th>4.1 Strengthened capacities to design and implement modern Human resources management practices in PFM institutions.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Existence and implementation of an HR policy in PFM area The extent of integrity and professional capacity of staff of the relevant PFM institutions The extent of vetting and re-attestation in SFS The extent of implementation of merit-based selection and recruitment procedures Existence and implementation of anti-corruption and integrity policies The extent continuous and initial training offers for staff in relevant areas of specialisation exist and are taken up.</td>
</tr>
<tr>
<td>2017:</td>
<td>A coherent HR policy in PFM area does not exist 2017: No baseline assessment; no needs mapping 2017: No evidence of independent and merit-based vetting of employees in SFS 2017: Competitive recruitment and career management procedures are not always followed or do not exist 2017: No coherent anti-corruption and integrity policies across PFM area 2017: No appropriate continuous or initial training offer in MOF, SFS or Treasury</td>
</tr>
<tr>
<td>2021:</td>
<td>HR strategies in PFM area are implemented 2021: Integrity and professional capacity of employees is strengthened in line with an independent needs assessment 2021: 100% of key managerial and control staff have gone through an independent vetting procedure 2021: A merit-based recruitment of top management is established and followed. 2021: Coherent anti-corruption and integrity policy is implemented 2021: Training platform(s)/offers are operational; 50% of key employees have followed a specialised training</td>
</tr>
<tr>
<td></td>
<td>Reports of independent HR companies Relevant reports by MOF, SFS and Treasury Relevant IMF reports Relevant EU project implementation reports</td>
</tr>
<tr>
<td>Section</td>
<td>Description</td>
</tr>
<tr>
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</tr>
<tr>
<td>4.2 Strengthened capacities for the review, adaptation and automation of PFM business processes.</td>
<td>Existence of IT strategy/strategies for PFM area/areas</td>
</tr>
<tr>
<td></td>
<td>Extent of automation of key business processes in key PFM sub-components</td>
</tr>
<tr>
<td></td>
<td>The extent of interoperability of IT systems in PFM area</td>
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<tr>
<td></td>
<td>The degree of E-Prozorro portal capabilities</td>
</tr>
<tr>
<td></td>
<td>The degree of functioning of IT governance in PFM</td>
</tr>
<tr>
<td>4.3 Strengthened capacities to review and adapt institutional procedures, structures and practices in PFM institutions</td>
<td>The extent of organisational restructuring in PFM institutions</td>
</tr>
<tr>
<td></td>
<td>The extent of PAR reform implementation in PFM institutions</td>
</tr>
</tbody>
</table>

Relevant reports by MOF, SFS and Treasury Relevant IMF reports Relevant EU project implementation reports
<table>
<thead>
<tr>
<th>4.4 Strengthened capacities to design, coordinate, monitor, update and report on PFM policy documents.</th>
<th>The degree of functioning of the PFM reform governance</th>
<th>2017: PFM reform governance for reform monitoring and reporting has been established by the PFM strategy</th>
<th>2021: PFM reform governance functions well and shows a good track record in addressing bottlenecks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The degree of functioning of the SFS reform governance</td>
<td>2017: New SFS reform governance structures (incl. International Supervisory Board at PM level and management board at Minister of Finance level) have been announced</td>
<td>2021: SFS reform governance structures (incl. International Supervisory Board at PM level and management board at Minister of Finance level) are operational and show a good track record in overcoming reform bottlenecks</td>
</tr>
<tr>
<td></td>
<td>Relevant reports by MOF, SFS and Treasury</td>
<td>Relevant reports by MEDT</td>
<td>Relevant IMF reports</td>
</tr>
<tr>
<td></td>
<td>Relevant EU project implementation reports</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>