

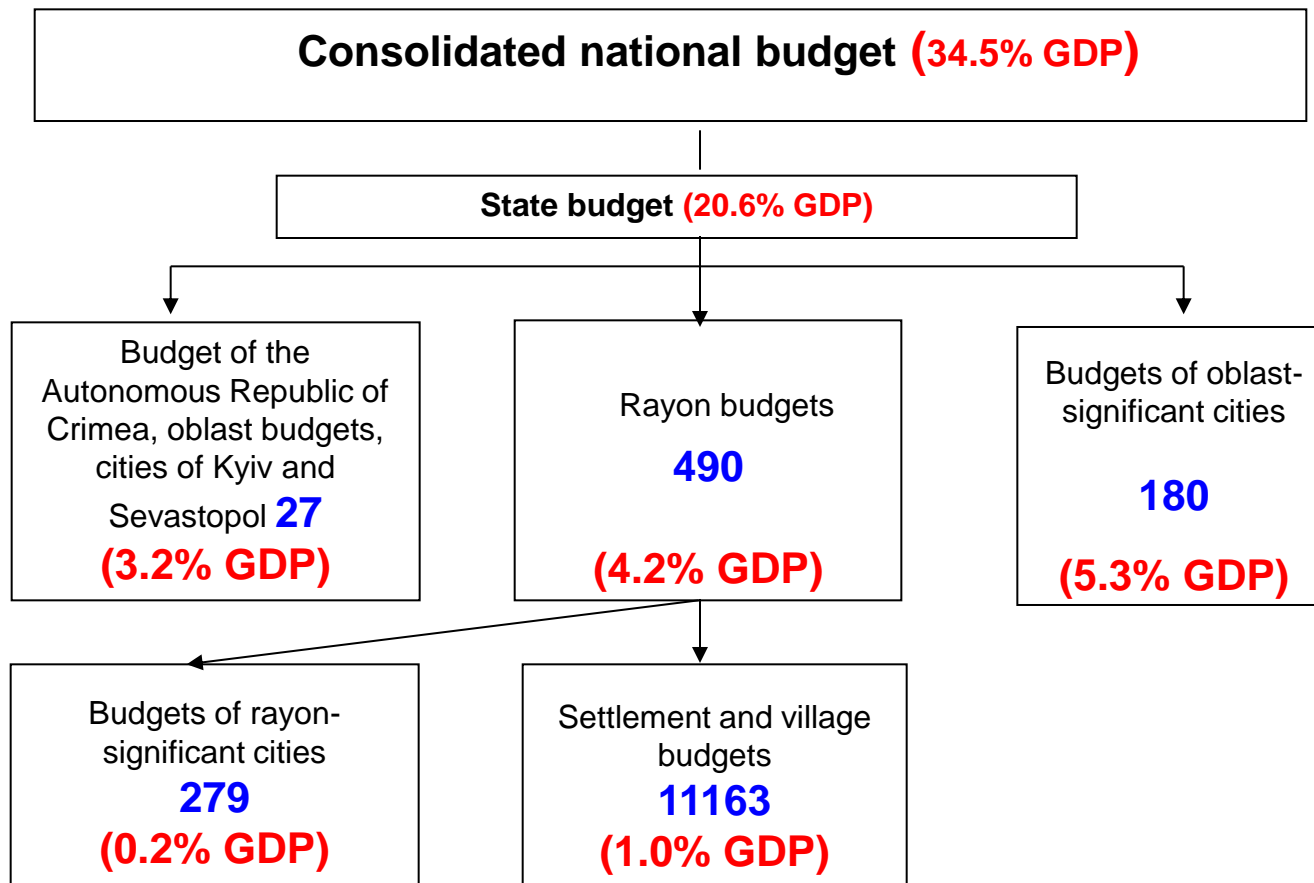


**Local government finances:
Country overview -
Ukraine**

Key Concepts of the Budget Process and Budget System of Ukraine

- ❑ The budget is prepared for one year, which coincides with a calendar year in Ukraine, starting on 1 January and ending on 31 December.
- ❑ The budget system of Ukraine consists of the State budget and local budgets.
- ❑ The State budget and local budgets are all independent.
- ❑ The budgets consist of the General Fund and Special Fund. The General Fund includes revenues and expenditures without targeted allocation. Revenues of the Special Fund have targeted allocation. Expenditures of the Special Fund are incurred at the expense of specifically designated revenues of the Special Fund.
- ❑ The budgets of oblasts, Autonomous Republic of Crimea, cities of Kyiv and Sevastopol, rayons and oblast-significant cities (692 budgets, before occupation of some parts of the Ukrainian territory by the Russian Federation) have direct interbudgetary relations with the State budget. Nevertheless, the Soviet *Russian doll* principle still persists at the level of rayon budgets, i.e., the budgets of villages, settlements, and rayon-significant towns receive transfers via their rayon budget.
- ❑ Ukraine uses a budget classification in conformity with international standards (IMF methodology GFS 2001).
- ❑ All budget revenues and expenditures are accounted at Treasury accounts.

Budget System of Ukraine



What Is Financed by the Budget?

	State budget	Local budgets
Public administration	<ul style="list-style-type: none"> Legislative and executive branches, President of Ukraine, holding elections and national referendums 	<ul style="list-style-type: none"> Maintenance of local government bodies
Education	<ul style="list-style-type: none"> Specialized State-owned schools, extracurricular educational institutions (designated by the Cabinet of Ministers), vocational, higher, and postgraduate education, (payment for services based on State order) 	<ul style="list-style-type: none"> Preschool, general secondary (including specialized educational institutions), extracurricular education
Healthcare	<ul style="list-style-type: none"> Specialized hospitals and polyclinics, military hospitals, national sanatoria, sanitary and epidemiological stations 	<ul style="list-style-type: none"> Outpatient clinics, polyclinics, hospitals, maternity homes, first and emergency aid stations
Social protection and social security	<ul style="list-style-type: none"> State programs of social aid, payment of pensions to military servicemen, State support to public organizations, compensation for deficit of the Pension Fund of Ukraine 	<ul style="list-style-type: none"> Support of children and low-income individuals
Culture and arts	<ul style="list-style-type: none"> National and State libraries, nature reserves, national museums and exhibitions, national theaters and philharmonics, support of cinematography, TV, radio broadcasting, the press, State archives 	<ul style="list-style-type: none"> Libraries, museums, exhibitions, theaters, clubs, philharmonics of local significance, zoos
Physical culture and sports	<ul style="list-style-type: none"> State programs in the area of physical culture and sports, maintenance of central sports schools of sport excellence, national centers for physical culture and sports of disabled persons 	<ul style="list-style-type: none"> Sport schools for children and youth, centers for physical culture and sports of disabled persons, maintenance of sports facilities
Economic activity	<ul style="list-style-type: none"> Development of transport, road infrastructure, postal service, telecommunications, and information technology, conservation of architectural monuments, building of national monuments 	<ul style="list-style-type: none"> Construction, reconstruction, repair, and maintenance of local roads
Other expenditures	<ul style="list-style-type: none"> Basic and applied research, and information links of State significance, international activity, judiciary, national defense, law enforcement, national security, creation and replenishment of State stocks and reserves, State debt servicing 	<ul style="list-style-type: none"> Local programs for development of housing and municipal utilities, and municipal improvements in localities

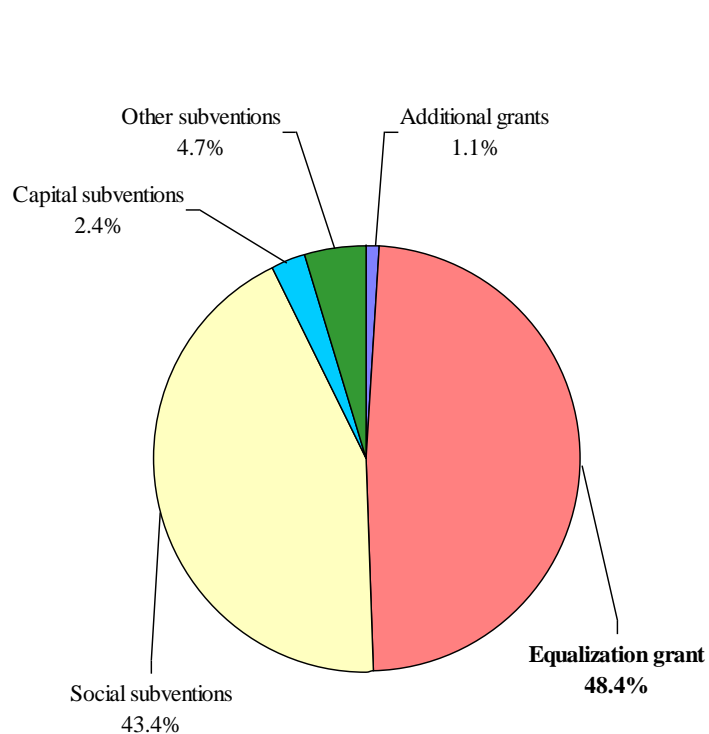
Financing of Healthcare (for example)

State budget	Oblast budgets	Budgets of cities and rayon budgets	Budgets of villages and settlements
<ul style="list-style-type: none"> ❑ Multidisciplinary hospitals and polyclinics, which carry out specific national functions (determined by the Cabinet of Ministers) ❑ Clinics of research institutes, specialized hospitals, centers, lazarettos, hospitals for war veterans, specialized medical and sanitary units, specialized polyclinics, specialized dental clinics (determined by the Cabinet of Ministers) ❑ National sanatoria for TB patients, national specialized sanatoria for children and teenagers, specialized sanatoria for war veterans and disabled persons, national rehabilitation centers and complexes for disabled person (determined by the Cabinet of Ministers) ❑ Sanitary and epidemiological stations, disinfection stations, epidemics control activities 	<ul style="list-style-type: none"> ❑ Oblast-significant hospitals, centers for emergency medical aid and disaster medicine, emergency/acute care stations ❑ Specialized hospitals, polyclinics, including dental clinics, centers, dispensaries, hospitals for war veterans, children's homes, blood transfusion stations ❑ Sanatoria for TB patients, sanatoria for children and teenagers, sanatoria for medical rehabilitation ❑ Medico social expert commissions, forensic medical examination bureaus, medical statistics centers, health centers, and public health education activities 	<ul style="list-style-type: none"> ❑ General hospitals, maternity homes, polyclinics and outpatient clinics, general dental polyclinics, district hospitals, medical outpatient clinics, nurse and obstetrics and nurse stations, primary medical care centers ❑ City and rayon health centers, and public health education activities 	<ul style="list-style-type: none"> ❑ Incur no expenditures for healthcare

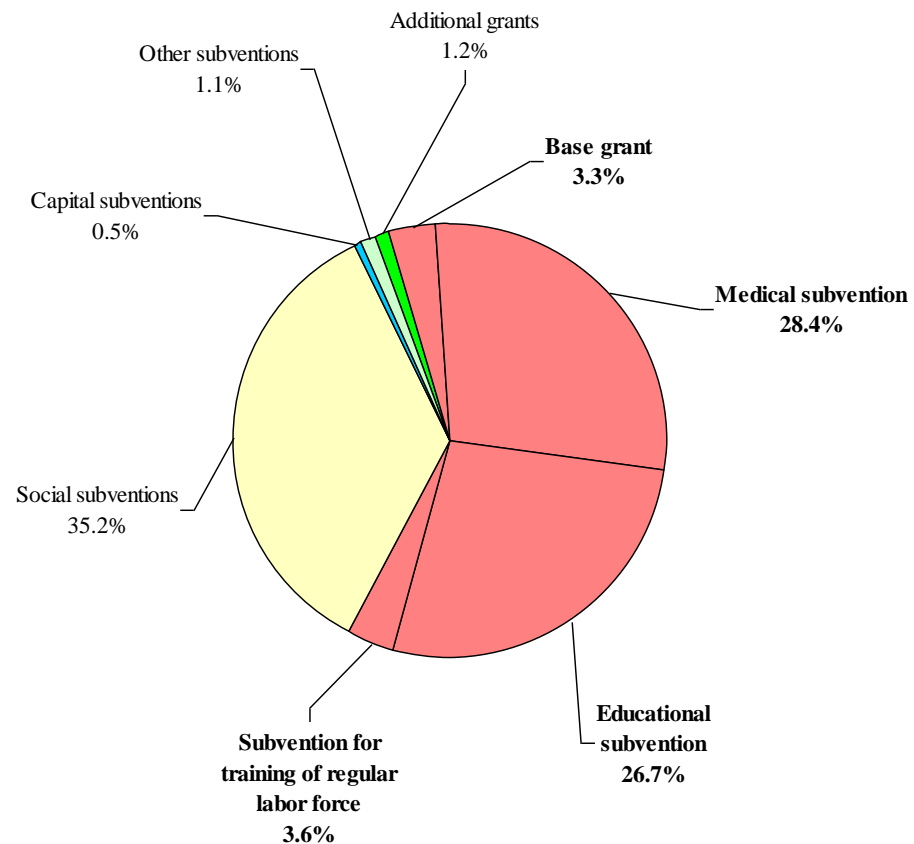
Intergovernmental Transfers

- ❑ On 28 December 2014, amendments were approved to the Budget Code of Ukraine, which introduce new models of financial provision of local budgets and inter-budget relations
- ❑ The key distinction of the new equalization system is abolition of the equalization/withdrawal grant and introduction of a base/reverse grant, as well as of educational subvention, subvention for training of regular labor force, medical subvention, subvention for implementing medical activities of certain State programs and comprehensive activities of programmatic nature.
- ❑ Both the base and reverse grants shall be used for horizontal equalization of taxable capacity of territories. Such equalization shall be implemented for personal income tax and profit tax separately.
- ❑ The amount of local budget expenditures for allocation of the medical and educational subventions is calculated based on the budget sufficiency standard per unit of contingent or population. Formally, this standard is determined based on the budget capacity rather than well-founded calculations.
- ❑ The State budget is annually transferring into local budgets about 20 to 40 various types of intergovernmental transfers, such as:
 - Grants;
 - Subventions for implementation of State social protection programs;
 - Subventions for implementation of investment projects etc.

New and Old Systems of Inter-Budget Transfers

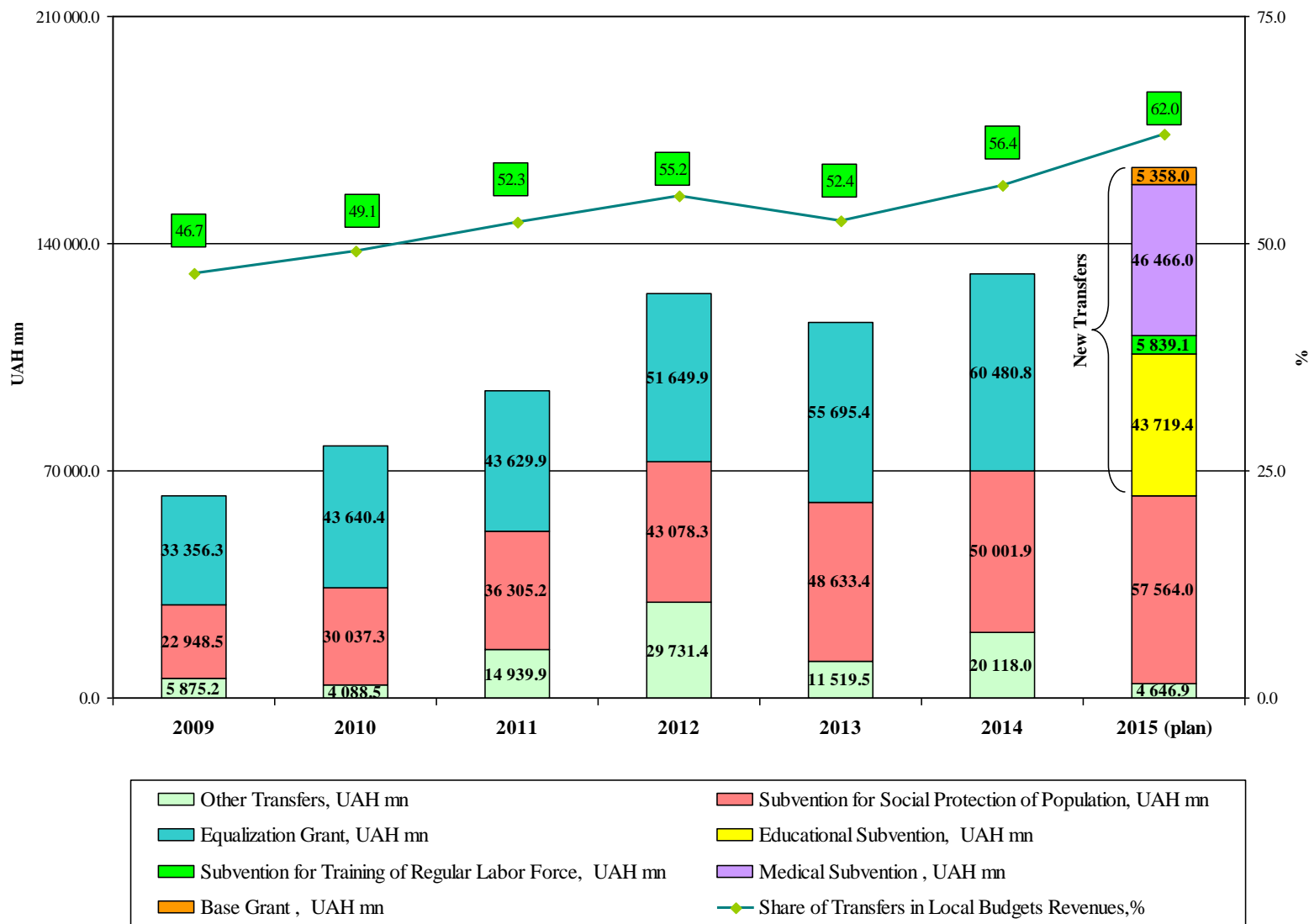


2014



2015

Dependence of Local Budgets on Transfers from the State Budget



Budget Deficit and Sources of Financing

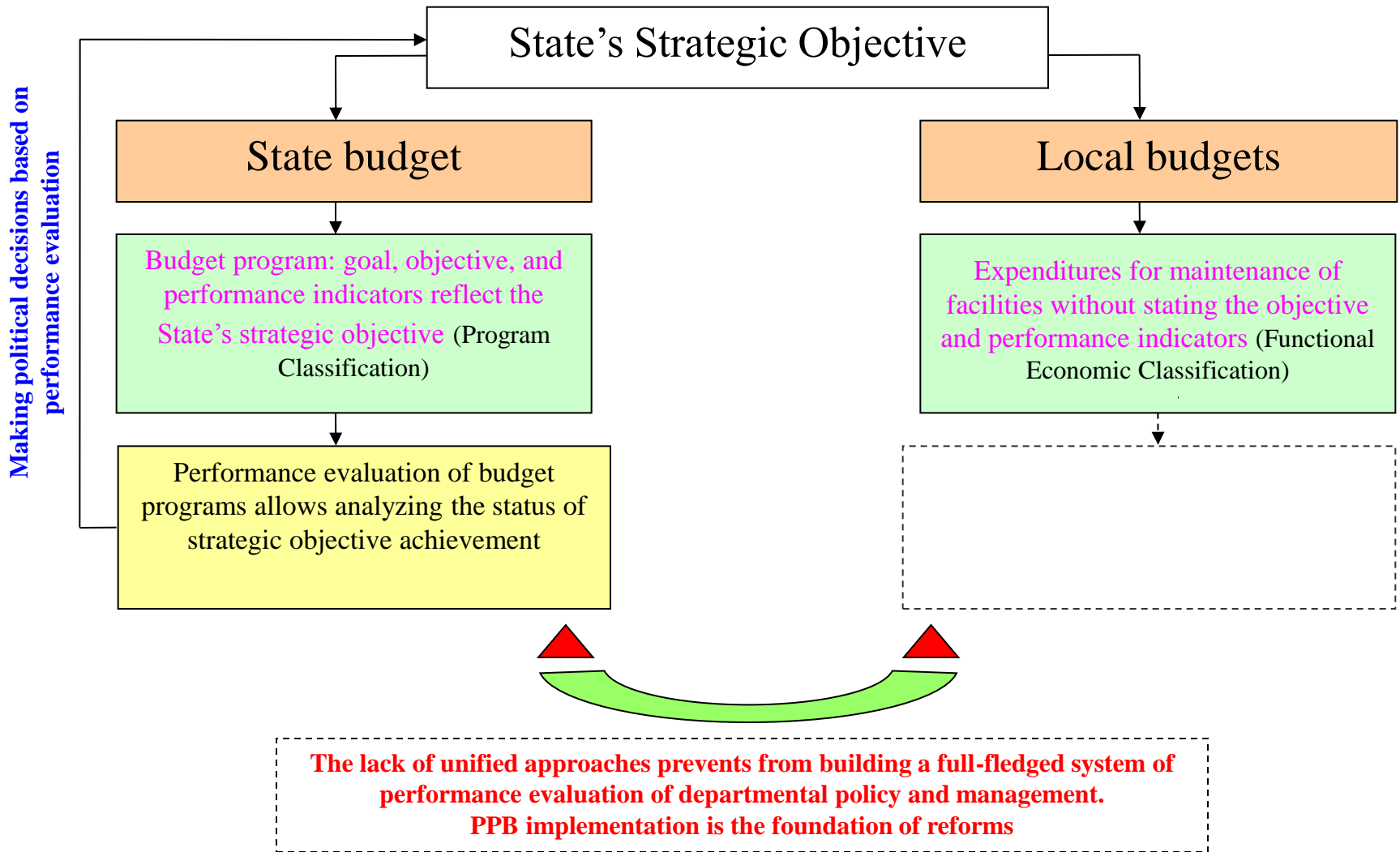
- ❑ Budget approval with a deficit is allowable where justified sources of budget financing are available.

- ❑ The budget sources of financing may include:
 - Borrowing;
 - Placement and return of budget funds from deposits;
 - Receipts upon presentation of securities;
 - Free balance of budget funds;
 - Proceeds from privatization of State property (State budget).

Use of PPB in the Budget Process

- ❑ At the State budget level, PPB has been in use since 2002.
- ❑ Local budgets using obsolete line-item method.
- ❑ In 2008, the Ministry of Finance with the Institute of Budgetary and Socio-Economic Research launched a pilot of PPB implementation for 36 local budgets in four pilot regions. In 2013, 692 budgets (all 27 regions).
- ❑ Starting in 2017, all local budgets shall be formulated and executed based on PPB.
- ❑ The following is needed:
 - Set up a training center for delivery of trainings (more than 8000 persons);
 - Finalize the basic methodological and regulatory framework.

Need for PPB Implementation





Issues to Be Addressed

- ❑ Absence of a common methodology of medium-term budget forecasting for all participants in the budget process.
- ❑ Single-year budget cycle.
- ❑ System of monitoring and evaluation of efficiency of budget spending.
- ❑ Weaknesses of legislation on the procedures of conducting public events and public engagement in the budget process.
- ❑ Raising the professional level of specialists.
- ❑ Support to implementation of reforms in the budgetary sector.