

ICPS newsletter

The Budget Process in Ukraine Must Be More Effective

As a policeman on the road controls the stream of cars and runs street traffic, so the budget process must also be a base for successful government of the nation and its economy. This comparison was made by Stephen Leeds, U.S. Treasury Advisor for the Ministry of Finance at the seminar on "Designing an Effective Budget Process for Ukraine"

Budget process and strategic planning

At its heart, the budget process is essentially a planning and scheduling process, which is intended to produce information on specified topics and in specified formats for specified customers by specified dates. It is also a communication vehicle, through which the public sector communicates to the legislative branch, to the public and to all portions of the executive branch about the public resources that will be expended during a specific time period and for specific purposes. In addition, it is a control and accountability process, through which resources are managed and individuals charged with using those funds are told what their limits and responsibilities are.

All nations around the world face financial constraints, so governments of all nations will remain under constant pressure to find ways of providing the highest levels of service to their citizens, but at the lowest cost. These pressures have been leading many countries to bringing greater openness into their budget processes, providing greater clarity of goals and objectives for their major programs, and making conscious efforts to link related programs together into an integrated strategy.

Under these circumstances, nations are increasingly turning to strategic planning as the overall approach to be used to organize their government activities.

Strategic planning in the public sector involves:

- identifying an organization's ultimate purpose;
- focusing on the path toward attaining that purpose;

- acquiring and applying resources needed to follow that path;
- periodically reviewing progress in pursuing the purpose; and,
- on the basis of that review, adjusting the methods and resources being used.

Problems of the budget process

Are there any reasons to talk about problems of the budget process in Ukraine? Anatoliy Maxiuta, Head of the Main Budget Department, Ministry of Finance, Ukraine, clearly described the economic situation. 1996-1998 there was a rise of consolidated budget arrears in the social sphere. Within 1998 tax arrears of enterprises and organization to the budget increased by UAH 8 billion. These facts are evidence of the system misbalance - enterprises have debts to the state, which in its turn does not fulfill its obligations on wages and pensions. Revenues as a portion of GDP are scaling down, national debts are scaling up.

Problems arise because of:

- imperfection and contradiction of budget legislation;
- opacity of the budget process;
- large amount of spending units;
- lack of a stable system in forming local budgets and relationship with local bodies.

In addition, Ukrainian legislation puts such national obligations, which do not correspond to the real budget capacity to carry them out. Indicators of the previous budget, current budget and draft budget for the next year are not coordinated with each other.

There is a lack of long-term planning of the budget policy and budget process as well.

Last week

Crises demand strategic approach to state policy. On May 26 at ICPS, Alfred Le Blank, Representative of Policy Research Secretariat of the Government of Canada, gave a lecture on "Development of Institutional Capacity of the Government of Canada to Perform Long-Term Policy".

In the early 90's Canada was under the threat of a severe financial crisis. People were worried that civil servants could not manage events. Government capacity to carry out policy analysis was very weak.

In 1996 the Policy Research Committee was established to define and eliminate causes of the financial crisis and overcome problems of productivity. The Committee develops medium- and long-term plans of work (for 5-10 years), discovers gaps in social knowledge and determines the major directions of policy development. Today the priorities are economic growth, human development, social cohesion, global challenges and opportunities, pilot projects.

Research groups include representatives of different departments. For example, officials of 17 departments are working in the Growth group. This group is managed by the Deputy Minister of Industry and the Deputy Secretary of the Treasury of Canada.

It was found that organising horizontal communication is not a simple task. People have their own daily duties and sometimes they can not find extra time to work on projects. Economists think like economists, sociologists think like sociologists, lawyers think like lawyers. But in spite of all these difficulties, there are positive results. Work effectiveness and coherence are succeeded by means of regular meetings, seminars and common research. Assistance to government in determining strategic priorities was organised thanks to all these efforts.

The Committee is also developing plans for pilot projects, such as research on ageing, sustainable development and productivity.

There is no common structure of the national funds running. The role of the Ministry of Finance in the system of governmental authorities has been insufficiently determined up to now.

Obstacles of the reform course

During group work, seminar participants gave their view on the main obstacles of the development of the effective budget process.

Such factors as a lack of parliamentary majority, which does not allow for adopting a submitted budget in due time; unconformity of the base legislation with budget legislation; vague differentiation of authorities and responsibilities between the government and parliament were defined as *political obstacles*.

Main *economic restrictions* are deterioration of the national economic situation; tax policy; quality of predicted budget revenues; chronic budget non-execution.

Ministry of Finance does not have enough capacity to influence the budget process. Government servants have an insufficient level of economic education. These are *institutional obstacles*.

Draft of the Budget Code makes anxious

Anatoliy MAXIUTA, Head of the Main Budget Department, Ministry of Finance, Ukraine:

"Introduced draft will not improve the situation, but make it only worse. This document is written by fragments, which do not coordinate with each other; there is a lack of internal logic. In the opinion of the officials of Ministry of Finance, it is unfit for practical application"

Tasks for the nearest future

How can we create an effective budget system, which will become an instrument of economic growth and ensure proper fulfilment of national functions? What are ways to overcome the problems, which prevent successful budget process reforms?

According to seminar participants, first of all the goals and priorities of the budget policy for year 2000 should be determined; a long-term strategy should be developed as well.

Secondly, budget expenditures should be planned on the base of real forecast of revenues and deficit optimal amount, proceeding from the secure tendency of national debts. Legislation on national obligations should conform to budget capacity.

Thirdly, the Ministry of Finance should delegate authorities and responsibilities of financial policy realisation in

corresponding branches to the branch ministries.

Fourthly, it is necessary to adopt legislation, which will regulate authority delegation and resources sharing between central and local bodies, formation of local budgets and their relations with national budget.

Fifthly, the government should cut the list of spending units. Extra-budget funds of budget institutions and organisations should be entered on the budget of all levels.

Then, the system of public information of the budget strategy and budget execution should be adjusted to provide the budgets process with limpidity and publicity.

Quarterly seminar "Designing an Effective Budget Process for Ukraine", Project Centres of Policy Excellence: Budget Policy, May 29, 1999

Change in Land Ownership Is the Substance of Agrarian Reform

Ukrainian agriculture has faced the problem of a catastrophic decline in productivity. The Agrarian Policy Committee was established by the President of Ukraine to overcome this problem. Head of the Committee is Mikhaylo Gladiy, the Deputy Prime Minister. Representatives of the Committee Secretariat offered ideas on agriculture restructuring during the macroeconomic seminar at ICPS

Volodymyr Demyanchuk, Chief of the Committee Secretariat, said that changing land ownership is the substance of agrarian reform. According to Mr. Demyanchuk, privatization of agricultural enterprises was practically accomplished during the last few years, and land sharing was also carried out, but these actions have not brought about the necessary effects because land has not become real property yet; there is no land market, and effective systems of financing agricultural production are not being introduced. There is no information support

for agrarian reform, so land owners have no clear idea of the present legislative framework of the land and agrarian reform. Opposition between the government and the Verkhovna Rada also affects reform progress. A common concept of agrarian reform accepted by every branch of authority should be developed. But there is no such concept yet.

At the same time, we can not say that agrarian reform is at a standstill. According to Olga Kovalenko, Chief of the Strategic Department of the Secretariat, since 1996

more than 5,000 agricultural enterprises were privatized. But loss-making enterprises supported by the state are an essential hindrance for restructuring the agrarian sector. The process of restructuring viable enterprises must be promoted. Terms of assigning land and equipment to more effective owners should be defined for bankrupt companies. Such a situation, when the state supports loss-making enterprises, leads to a lack of investment in agrarian production. Investors do not want to put resources into ineffective enterprises.

An example was cited of the successful agrarian reform experience of Vietnam, where reforms were carried out in a few days. Land was leased out for 50 years, and the state did not interfere in the production process, limiting only monopoly profits.

Macroeconomic seminar "Agriculture - Reforms and Their Effectiveness", International Centre for Policy Studies, 25 May 1999.

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