

ICPS newsletter

Effective budget process means good resource allocation

A new stage of the budget process is starting in Ukraine. The Cabinet of Ministers should submit a draft of the 2000 budget to the Verkhovna Rada in a week. World experience of the budget process was studied by participants of a seminar titled "Reforming the Budget Process" held as a part of the ICPS's Centre for Policy Excellence (budget policy) project. The main conclusions of the seminar notes prepared for fellows by project consultant Diana Cook is presented below

Objectives of the budget process

In the fiscal area, the budget process is the key decision-making tool. The budget process is the vehicle by which the government sets its overall budget plans and within which decisions are made on the allocation of funds. By allocating resources, the budget process is a valuable tool to support a stronger strategic focus and to provide effective government management.

The three key objectives that a well designed budget process should deliver on are:

- the need to maintain effective fiscal control;
- allocating resources consistent with the

government's strategic objectives;

- improving the value for money of public spending.

Maintaining fiscal control

A challenge to the budget process is to manage "bottom-up" pressures by maintaining a high level of overall fiscal discipline. This is necessary to help the government achieve its key policy priorities and fiscal objectives.

Research has identified the sustained control of public spending as the most critical factor in successful deficit reduction. This stresses the importance of developing limits on the overall level of government spending, and of processes which assist ministers to manage spending within those limits.

Allocating resources consistent with government's strategic objectives

Governments face potentially limitless demands to increase public spending. Unless they are well-managed, these demands can seriously undermine a sound fiscal position. In addition, individual spending proposals are likely to vary in their contribution to the government's wider social and economic objectives. Without an effective budget process, ministers have less scope to make and implement decisions on the best mix of spending, tax, or debt changes, or to assess the extent to which individual resource bids are consistent with government priorities.

Improving the value for money of public spending

Through its purchases of goods and services, and through income transfers, government makes a significant claim on the nation's resources. In seeking to increase Ukraine's overall welfare, the government has a strong interest in ensuring that its spending is making the best possible contribution to economic and social welfare. Therefore, the budget process needs to include reviews of the effectiveness of government spending.

Taking opportunities to improve the value for money of spending offers the potential to raise the overall quality of spending, without increasing the overall level of spending. This can occur through refocusing existing programs or, if necessary, reallocating resources to higher priorities.

Pursuing opportunities to increase value for money could involve requiring ministers to demonstrate that they are seeking to improve the quality of spending on an ongoing basis. Tools that could be part of such a process would include examination of the opportunities for contracting out, benchmarking prices or costs, and evaluations of the effectiveness and continued need for additional resources.

IMF code of good practices on fiscal transparency

1. Clarity of roles and responsibilities

The government sector should be clearly distinguished from the rest of the economy, and management roles within government should be well-defined. There should be a clearly legal and administrative framework for fiscal management.

2. Public availability of information

The public should be provided with full information on the past, current, and projected fiscal activity of government. A public commitment should be made to the timely publication of fiscal information.

3. Open budget preparation, execution, and reporting

Budget documentation should specify fiscal policy objectives, the macroeconomic framework, the policy basis for the budget, and identifiable major fiscal risks. Budget estimates should be classified and presented in a way that facilitates policy analysis and promotes accountability. Procedures for the execution and monitoring of approved expenditures should be clearly specified. Fiscal reporting should be timely, comprehensive, and reliable and it should identify deviations from the budget.

4. Independent assurances of integrity

The integrity of fiscal information should be subject to public and independent scrutiny.

Last Week

German economists forecast oil demand in Ukraine. Mr. Christian von Hirschhausen, an economist with the German Advisory Group on Economic Reform in Ukraine, presented forecasts of oil and petroleum product consumption in Ukraine to 2010, prepared by the German Institute for Economic Research, at the ICPS's macroeconomic seminar on August 31.

According to the current forecast of the Ministry of Economy of Ukraine, in 2010 primary energy consumption should be 25 percent higher than 1995 levels. Contrarily, German economists calculated that in 2010 primary energy consumption (according to all possible scenarios) will be smaller in comparison with year 1995. Since in the long term the biggest share of oil consumption will apply to the transport sector, in the future Ukraine's demand for oil will be determined by the consumption dynamic in this sector. Under weak economic growth in 2010 petroleum consumption in the transport sector will increase to 10.6 million tons (in comparison with 9.4 million tons in 1996); under strong growth it will increase to 12.6 million tons.

In general, in 2010 according to different scenarios, that take into account economic growth rates and energy-consumption levels of the Ukrainian economy, oil consumption will be from 23 to 43 million tons of oil equivalent.

Next Week

Budget importance. ICPS's macroeconomic seminar, devoted to the subject "The Role of the Budget in Managing the Country", will be held on September 14. The presentation will be given by Mr. Janis Platais, IMF advisor at the State Treasury of Ukraine. Participants will discuss the following questions:

- what is really wrong with government financing in Ukraine recently?
- what is the impact of the current budget policy on economic performance in Ukraine?
- how should the ministries of finance and economy and the revenue collecting authorities share their respective responsibilities in managing the economy?

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Educational Reform Strategy project in Lviv: next steps

The Executive Committee of the Lviv city rada made a decision to consider education as the city's development priority and worked out an educational reform program in Lviv. Mr. Pavlo Khobzei, chief of the board of education of the Department for Humanitarian and Social Policy of the Lviv city rada, Mr. Mykhailo Komarnytsky, director of the Institute for Policy Technologies, Ms. Vira Nanivska, director of ICPS, Mr. Yuri Lukovenko, manager of ICPS's Educational Reform Strategy project, and Mr. Volodymyr Nikitin, advisor to ICPS, discussed the next steps of the Educational Reform Strategy project in Lviv on September 2

The aim of the reform is to establish a modern system of education management in Lviv. The transition to new functions of education management should be based on the principles of locality, program integrity, openness for integration and global experience, decision-making transparency, and involvement of the public in the process of reform. The end products of the program are the following:

- **education accessibility:** broad-based and accessible education;
- **inclusion of the Lviv education system in the global educational network:** compliance with the international standards, diploma convertibility, relationship with Europe, prestige of Lviv education;
- **realisation of Lviv's human resource potential:** improvement of employment and competitiveness of Lvivites under market conditions, economic reform progress in the region, placement of human resources in regional development programs.

During the discussion, participants

determined the development of principles and content of the system of public and state education management to be a priority at the *departmental level*. Within the framework of this system, activity is planned in the following directions:

- formulating in Lviv an institutional educational policy able to provide for the stable development of the educational sphere and economic reforms in the region;
- imposing a programmatic method of financial education management and possibility of expanding this method throughout Ukraine;
- developing and imposing regional educational standards, raising Lviv education to the level of international requirements, and promoting the process of Ukraine integration into Europe.

At the *intersectoral level* it is necessary to develop reform priorities for every economic sector of the city. Such programs will provide the opportunity to formulate technical objectives for developing the educational sphere in Lviv.

The International Centre for Policy Studies announces an open competition for several research analyst positions within its macroeconomic unit.

Requirements of applicants:

- higher education in economics;
- fluency in English and Ukrainian;
- strong statistical analysis skills;
- ability to communicate economic ideas to non-specialists;
- desire to make a career in economic research.

Preference will be given to applicants with experience in policy analysis. Remuneration package is competitive and commensurate with experience.

The set of application documents must include:

- resume;
- one-page work on the subject "Reasons of the Economic Decline in Ukraine".

Documents must be sent by e-mail to: rpiontkivsky@icps.kiev.ua no later than September 9. Phone: 463-5966. Fax: 463-5970

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