



Strengthening Checks and Balances: Budget Analysis in Ukraine's Office of the President

By Gordon Evans

Introduction

Ukraine's future clearly orients towards Europe. Nonetheless, Canada, with a Diaspora of 1.2 million, retains a special relationship. Canada was the first Western nation to recognize Ukraine's independence and mobilized its largest ever number of election observers to monitor the 2004 Presidential revote. The CIDA-funded project, *National State Budget Analysis by Secretariat of the President*, continues Canada's long-standing commitment to democratic development in Ukraine.

Approved under CIDA's Deployment for Democratic Development (DDD) program in April 2008, the project aimed to: *Strengthen the capacity of the Secretariat of the President to analyze the national state budget and institutionalize a transparent and equitable budgetary process, thus better fulfilling the President's constitutional responsibilities in terms of providing checks and balances to the Cabinet of Ministers.*

PROJECT PROFILE

Title: National State Budget Analysis by Secretariat of the President

Client: Secretariat of the President

Consultant(s): Conference Board of Canada and International Centre for Policy Studies

Duration: approved April 2008; three missions: May, July, October 2008; final report March 2009.

Budget: \$118,546 supplemented by \$16,500 from Canada Fund for Local Initiatives

Key Outputs:

Secretariat of the President staff trained in how to assess the reasonableness of the underlying assumptions of the State Budget's economic forecast, including the key economic drivers;

Secretariat of the President staff trained in how to assess the economic impact of new measures contained in the State Budget;

Secretariat of the President staff trained in how to assess the alignment of the proposed State Budget measures with stated national policy goals;

Secretariat of the President staff trained in how to undertake a gender disaggregated analysis of the State Budget;

A manual that describes the methodology to achieve the above four outputs and gives examples from the most recent State Budget.

Interestingly, the project operated during a period of economic and political turmoil where the usually arcane world of macroeconomics was thrust to the forefront of public debate. In November 2008, following a debt

downgrade and severe currency depreciation, Ukraine negotiated a US\$16.4 billion loan with the IMF. In January 2009, the dispute with Russia over natural gas pricing led to a suspension of Russian gas shipments through Ukraine to Europe at the height of winter. Clearly, compelling incentives existed for the Office of the President to assume a more proactive role in assessing the macro/microeconomic and gender impacts of the state budget.

In profiling this project, it is worth highlighting two atypical dimensions: first, Ukraine is a semi-presidential system¹ where the President is an active participant in the system of checks and balances; few projects work with the Office of the President to bolster this role; second, the gender budgeting component offers a rare example in the world where a concerted effort is being undertaken to determine the true impacts of budgetary decisions on women.

Ukraine's Democratic Governance Profile

Ukraine's Orange Revolution made headlines around the world as it forced a revote of the discredited 2004 presidential elections. Since then, Ukraine has made steady progress towards democratization. Freedom House raised Ukraine's status to "free" from "partly free" in 2006 after the Presidential revote and has maintained this ranking following the "free and fair" March 2006 Parliamentary elections. However, Ukraine's democratic journey is far from complete.

Widespread corruption persists. Ukraine is ranked 134th of 180 countries covered by Transparency International's 2008 Corruption Perceptions Index. Among European countries, only Russia (140th) and Belarus (151st) rank lower. Ukraine's 2.5 score is virtually unchanged since 2002 and has actually declined from 1998 when it registered 2.8.²

The 2008 Press Freedom Index (Reporters without Borders) ranks Ukraine 87th of 173 countries. Within Europe, Moldova, Russia and Belarus score lower. However, Ukraine's ranking has improved dramatically since 2004 when it placed 138th.

Ukraine's scores on the World Bank's Worldwide Governance Indicators have mostly improved since 2004. Strong advances have been made under "voice and accountability" and "political stability," with marginal improvements in "rule of law", "regulatory quality" and "control of corruption." By contrast, "government effectiveness" has experienced a slight decline.

The ongoing friction between the President and Prime Minister, culminating in the 2008 presidential threat to dissolve parliament and force elections, has generated concerns regarding the rule of law and the division of powers.

Although not directly related to democratic governance, the UN Human Development Index (HDI) can indicate whether or not a country is translating the presumed benefits of democratization into tangible social and economic gains. Here, the data is less positive. The 2008 HDI ranked Ukraine 82nd of 179 countries, second lowest among European countries, and worse than its 70th position in 2004. In fact, Ukraine's pre-independence 1990 score was significantly higher.

¹ Ukraine's governance system is broadly classified as semi-presidential, where the President and Prime Minister both have meaningful influence over national policy. Other examples of semi-presidential systems include Russia, France, and Pakistan.

² The TI Corruptions Perception Index ranks countries on a 0-10 scale where 10 represents an absence of corruption. In 2008, Denmark was rated the least corrupt country with a 9.3 score and Somalia the most corrupt with a 1.0 score.

CIDA Programming Framework: 2007-11

For Ukraine to prosper, it needs to have a strong, effective and efficiently run government. Despite the positive results achieved by a wide range of governance investments by CIDA and other donors, Ukraine continues to face serious challenges in regards to governance capacity, Soviet-style institutional inertia, confused and overlapping jurisdictions, a blurred line between the administrative and political components of government and the penetration of the state by oligarchic interests. Such weak governance, especially in relation to public financial management, results in corruption.

CIDA's *Framework for Country Programming 2007-11* underscores the challenges of Ukraine's post-independence journey and the need to strengthen governance.

Although DDD interventions are of insufficient scale to produce systemic change, their focused, strategic approach affords an opportunity to overachieve in terms of results. Once implemented, the *National State Budget Analysis by Secretariat of the President* project has the potential to sharpen public scrutiny of the budget and generate public debate on the budget's implications for women.

Shaping and Re-Shaping the Project

The project's origin put to rest any questions concerning "political buy-in." Reputedly, the President himself expressed frustration at the level of budget analysis provided through his Office. A senior public official present at the meeting approached the Conference Board, which had been active in the Ukraine for a decade, concerning a potential project with the President's Office to fix the problem.

Canada Fund

The Canada Fund for Local Initiatives is a unique CIDA programming mechanism that provides small grants to Ukrainian organizations... The main priority for the Canada Fund in Ukraine is democratic governance... the Canada Fund is expected to integrate gender equality considerations into all projects.

Embassy to the Ukraine website

CIDA was soon involved and a team³ quickly assembled from the Conference Board and the Ukrainian International Centre for Policy Studies (ICPS). Innovatively, funding for Ms. Romanyuk of ICPS was secured through the local Canada Fund as it could not be provided directly through DDD.

Scope definition proved a particular challenge and experienced some dramatic oscillations of perception and substance over the April-May inception period:

- *Too narrow:* The project was originally conceived as a capacity-building project where sufficient skills to analyse the state budget would be developed through a series of workshops.
- *Too broad:* The client, unaware of how long it takes to build a well-functioning macroeconomic policy unit, hoped that, through the project, the Office would acquire similar econometric modeling skills/tools as the Ministry of Finance.
- *Narrower, but expanding:* The client agreed that full macro skills would not be realistic, but requested that the project write and test the manual with staff within the project to address worries about staff turnover and sustainability.
- *Expanding again:* Late in the process, CIDA HQ requested the addition of a "gender budgeting" component. Fortuitously, Ms. Romanyuk had extensive experience in gender analysis so this proved feasible.

³ Team members included: Mr. Paul Darby and Mr. Pedro Antunes from the Conference Board, and Ms. Ogla Romanyuk and Mr. Maxim Boroda from ICPS

Although circuitous, the time taken to get it right was worthwhile. In fact, lead consultant Paul Darby of the Conference Board felt in retrospect that even greater attention to project scope and definition could have been built in at the inception stage. In short projects, this phase is essential for fostering the client’s buy-in to the final product.

Delivering the Project

By their nature, DDD projects force projects to focus their activities and resources. This project’s core activities were compressed into three months, including a design mission, manual write-up, and a testing/finalization mission.

From Paul Darby’s perspective, the litmus test for sustainability occurred when the President Office analysts and consultants gathered around a computer and applied the model “live” to the actual 2009 budget. By untangling budget codes, the possibilities of linking proposed expenditures to understandable policy areas, such as social protection, began to emerge. From the gender side, the ability to assess whether sector expenditures were directed disproportionately to men held significant appeal.

Project Timelines	
May	1 st mission: scope project
July to Sept.	2 nd mission: agree on manual contents draft manual
Oct.	3 rd mission: test manual; final training

It is too early to pass judgment on the project’s sustainability. However, early signs are promising. Since the project’s conclusion, Ms. Romanyuk reports that the Office of the President analysts have been in touch with her regarding application of the methodology.

Lessons Learned

The demands on DDD projects are substantial. Within a short time frame and limited budget, one or two Canadian experts are expected to assist their clients to produce tangible outputs and, in the medium-term, sustainable policy outcomes. Little time exists for cultural acclimatization, relationship building, piloting, or extensive consultations. Notwithstanding these constraints, the *National State Budget Analysis by Secretariat of the President* project did produce a concrete product that may be of both immediate and ongoing benefit. It is instructive to review key lessons learned.

- **Leave Something Behind.** As originally conceived, the project would have delivered a series of workshops aimed at capacity building and equipping President Office analysts to prepare a report based on their analysis and critique of the state budget. During early meetings between the project partners, it was agreed that a tangible product should be developed and tested as the centerpiece of the project. All project principals agree that this was the right call.
- **Use Local Networks.** The Ukrainian partner, ICPS, had worked previously with the Conference Board and provided an ideal partner. Moreover, it was ICPS’ former Director, and former President of the National Academy of Public Administration under the Office of the President, who first brought the President’s desire for improved budget analytical capability to the Conference Board’s attention.
- **Look for Leverage.** DDD funds Canadian technical assistance and related costs. In this case, the need for a local partner required an alternative approach. Working closely with Nathan Taylor, the then-First Secretary of CIDA’s Mission in Ukraine, the Canada Fund was tapped to fund the local partner.

- **Build on your Track Record.** The Conference Board's previous work in the Ukraine on macroeconomic modeling with the Ministries of Finance and Economy and the Central Bank made it a known and ideal partner for the project.
- **Nothing like the Real Thing.** Although the project produced the budget and analytic models based on the prior year's budget, the time frames for testing the models coincided with the release of the draft 2009 State Budget. As a result, project participants were able to test their new skills on the real thing. The Rubicon of the project's job relevance was crossed the moment this occurred.

Strengthening Democratic Governance

This project supports the *accountable public institutions* component of DDD.⁴ The DDD program is premised on the belief that democratic governance and long-term, sustainable development are mutually reinforcing.

One of the hallmarks of any democracy is the existence of effective constraints on executive power. In a semi-presidential system, both Parliament and the President can play such a role with respect to the government's primary statement of policy intent, the state budget. Under Article 106 of the Constitution the President: *has the right to veto laws adopted by the Verkhovna Rada of Ukraine with their subsequent return for repeat consideration by the Verkhovna Rada of Ukraine.* In fact, President Yushchenko vetoed the 2007 budget of the government coalition led by Prime Minister Yanukovich.

However, for a veto power to be effectively deployed, it is essential that the veto holder be able to pinpoint reasons. Alternatively, the President's Office can attempt to influence revisions at the parliamentary committee stage. In either case, the President's Office requires the capacity to analyse the budget and propose specific revisions. More generally, by increasing the Office of the President's capacity to assess budgetary economic and gender impacts, the project may enhance the quality of public and internal dialogue on budget choices and potential alternatives.

Knowledge Transfer Potential

Within Ukraine, the tools used by the Office of the President to assess the state budget are sufficiently generic that they could be shared with other groups, most notably civil society or the office providing support to Parliament's Committee on Budget. In fact, the gender budget analysis section was shared with another CIDA project (Socio-Economic Performance and Potential Analysis Capacity) managed by the Conference Board. Excerpts from the gender budget analysis section were incorporated into a regular ICPS publication, which is widely distributed to government, the private sector, NGOs and academia.

Internationally, alternative budget analysis has been used by civil society groups in countries such as India and South Africa to provoke public debate on the policy implications of budget choices and actual expenditures.⁵ The gender budget analysis tool in particular could have wider international application as an evidence-based mechanism to unpack the budget labyrinth and determine whether women's real policy needs are being equitably addressed.

⁴ The four components supporting democratic governance in DDD include: human rights; accountable public institutions; freedom and democracy; and rule of law.

⁵ In Gujarat, the NGO DISHA's Pathey Program produces an alternative budget analysis; see http://www.disha-india.org/achieve_ment.html. In South Africa,

Looking Ahead

The project concluded in February 2009. The government's 2010 budget has undoubtedly begun its lengthy preparatory phase, but will not emerge publicly until the fall. It is recommended that DDD follow up towards the end of the year to ascertain whether and how the budget analysis manual was used.

Signs are promising that the manual will not be consigned any time soon to the proverbial stack of "never-to-be-referenced-again" project documents gathering dust atop some corner bookshelf. The follow-up queries to Ms. Romanyuk regarding the manual tend to confirm Paul Darby's observation concerning the live testing of the manual on the 2009 budget: "they got it."

Deployment for Democratic Development is a CIDA-funded program implemented and administered by the Institute for Public Administration of Canada and Rights and Democracy. Visit the DDD website for further information. www.democraticdevelopment.ca

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