



The European Commission - World Bank Partnership Program Part III for Europe and Central Asia Programmatic Single-Donor Trust Fund (TF0473423) - Public Finance Management Support Program for Ukraine (EUR4PFM) - Component 2 Activities

**UKRAINE**  
**Public Investment**  
**Management Diagnostic**  
**Assessment Report**

February 10, 2023  
Kyiv, online-event



[This Photo](#) by Unknown Author is licensed under [CC BY-NC-SA](#)



**WORLD BANK GROUP**

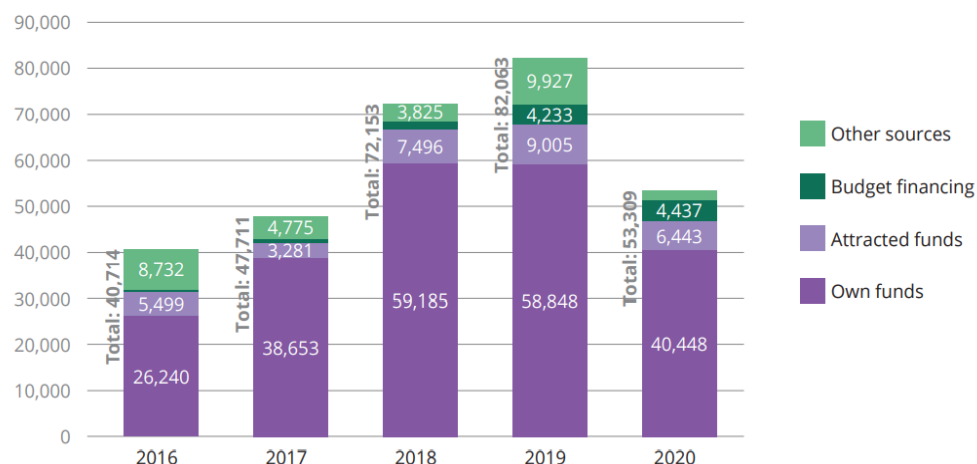
## **PIM via State-Owned Enterprises Assessment Results**

---

Natalie Manuilova  
Team Member

# CAPITAL INVESTMENT BY SOE

SOE Capital Investments by Source of Funding, UAH million



Source: Treasury, WB Staff Calculations

- SOEs implement large amount of Ukraine's capital investments – between 24-30% in 2018-2020
- Capital investments by SOEs were on the rise until 2019 reaching UAH 82 billion or 2% of GDP
- Largest source of funding - own funds, i.e., accumulated profits: 64-82% of SOEs' investments
- Second largest source – borrowings from commercial banks, securities market, i.e. bonds
- IFIs financing between 7-15% of SOEs capital investments
- Share of budget funding ~1-2% in 2016-2018, increasing to 8% in 2020
- Large SOEs (profits exceeding UAH 50 mln) fund their capital investments primarily from accumulated profits and various types of borrowings
- Smaller SOEs rely on budget funding, this trend increased from 2019-2020

# METHODOLOGICAL APPROACH TO ASSESSMENT

## IMF PIMA Framework's Indicator 5c:

- indicator 5c allows a broad assessment of SOE governance through a single question: *Does the government oversee the investment plans of public corporations and monitor their financial performance?*

## World Bank's 2015 PIM framework, 8 PIM Functions:

1. Guidance and Screening
2. Formal Appraisal
3. Appraisal Review
4. Selection and Budgeting
5. Implementation
6. Adjustment
7. Service delivery
8. Evaluation

# MAIN FINDINGS OF ASSESSMENT

## Strengths

- ❑ Structured guidance and screening: existing system of SOE investment guidance and preliminary screening are structured properly in Ukraine
- ❑ Comprehensive project appraisal procedure: appraisal covers main metrics of proposed investment, i.e., payback period, net present value, internal rate of return, other indicators
- ❑ Independent review of appraisal: required for public investments financed from the state budget, SOEs own funds and loans with state guarantees
- ❑ All capital expenditure implemented by SOEs—own and budget funded—fall under the requirements of the public procurement legislation (IFI funded projects – IFI procedures)

## Weaknesses

- ❑ SOEs' investment potential depends on the amount of profits they retain – there is a need for consistent, predictable dividend policy to plan for large infrastructure investments
- ❑ Role of SOE boards is circumvented, corporate governance remains weak – reforms should be continued, with financial oversight and SOE aggregate reporting reinstated by MOE
- ❑ Many SOEs do not have internal policies for investment planning, prioritization – need to develop such policies (internally) and guidance on investment plans (from MOE)
- ❑ Various sources of funding require following different rules of projects appraisal and financing - lack of unified approach to investment planning and project implementation

# CHALLENGES AND RECOMMENDATIONS:

## PLANNING, SELECTION, BUDGETING

### Main Challenges

- ❑ SOEs do not always prepare, submit investment plans as part of their financial planning process
- ❑ No pro-forma template for investment plans, each SOE prepares one based on their understanding and capacity
- ❑ SOEs' supervisory boards have no role in the capital investment planning process, out of line with the recommended practices
- ❑ Approval of SOE financial (and investment) plans to be completed by September, but is often delayed, undermining implementation of investment projects
- ❑ Mid- and long-term investment planning remains an issue due to one-year horizon for budget-funded projects

### Recommendations

- ❑ Investment plans (under Order No. 205) should be consistently enforced by all levels of the government, ownership entities
- ❑ MOE to consider developing guidance, methodology and a template for investment plans to be applied by SOEs
- ❑ SOE boards should be empowered to take a more active role in capital investment planning and approval, in line with good international practice and recommendations from the OECD
- ❑ Investment (and financial) plans must be approved timely to minimize delays in implementing capital investments, within the legislated time frames to minimize delays
- ❑ For large, long-term investments, SOEs should be allowed to plan using other funding options - own profits, borrowed funds

# CHALLENGES AND RECOMMENDATIONS:

## IMPLEMENTATION, EVALUATION

### Main Challenges

- ❑ Access to information on capital investment by SOEs is limited, including on projects evaluation and audit (when applicable)
- ❑ SOE oversight functions are decentralized between different branches of the Government: line ministries, State Statistics Service, State Property Fund, MOF
- ❑ No aggregate reporting on SOEs portfolio performance or indicators available: Top-100 SOEs publication discontinued in 2018, ProZvit initiative was never fully launched

### Recommendations

- ❑ Transparency of SOE capital investments, access to information could be improved with SOEs disclosing their investment strategies, annual investment plans, project evaluation reports
- ❑ SOE financial oversight needs to be streamlined, institutional responsibilities over SOE performance monitoring centralized, for example, at MOE
- ❑ SOE aggregate reporting should be reinstated following the successful practice of 2014-2018, and to respond to the recommendations of the IMF, OECD, and the World Bank