



EXPLAINING BUDGET DEVIATION

A BUDGET CREDIBILITY SNAPSHOT

April 2019

The study of budget credibility examines the extent, nature, causes and consequences of deviations from approved budgets. In this series, part of the International Budget Partnership's Assessing Budget Credibility Project, 24 civil society partners in 23 countries probed a specific area in which execution of the national budget repeatedly diverged from the approved plan to learn whether adequate reasons were provided for the deviation. The broader synthesis report on these findings can be found [here](#).

UKRAINE: ROAD INFRASTRUCTURE

Globally, Ukraine ranks 132nd in terms of highway development. Ninety percent of the country's roads are in poor condition. In 2018, it was estimated that 492,426 km of roads need to be built or repaired at a cost of UAH 11 billion.

BUDGET CREDIBILITY CHALLENGE

The road sector budget in Ukraine has been heavily underspent. According to the Treasury Service, only 76 percent of the designated roads' budget was executed between 2013-2015. However, the level of under-spending has been diminishing. In 2016 and 2017, the overall execution rate rose to 91 and 97 percent, respectively. A similar trend can be found with the Development of Network & Maintenance of Public Roads program, which oversees all public roads of national importance. Between 2013 and 2017, the execution rate of this program averaged 83 percent, although in 2017 it reached 97 percent. While the program's execution rate has outperformed the overall capital budget execution rate in every year during this period, it has been lower than that of other programs run by the State Road Agency. It should be noted that important policy changes, namely the creation of a road fund in 2018, may further improve the program's budget execution in the future.

The underspending may be correlated with the uneven success in meeting targets for road rehabilitation. Of the 40 non-financial performance targets related to this program, 10 were not met in 2017. On the other hand, 14 of the targets were exceeded, obscuring the link between the execution of the budget and performance indicators.

DEVELOPMENT OF NETWORK & MAINTENANCE OF PUBLIC ROADS: EXECUTION RATE, 2013-2017

Budget Year	Budget Allocation (UAH)	Actual Spending (UAH)	Execution rate (%)
2013	9,907,869,339	7,457,744,883	75
2014	4,418,775,792	3,462,719,116	78
2015	6,134,423,631	4,553,889,189	74
2016	10,282,626,593	9,376,057,032	91
2017	13,762,311,912	13,292,717,036	97

Source: Ukraine Treasury Service

WERE EXPLANATIONS FOR THE DEVIATIONS FOUND IN GOVERNMENT REPORTS?

To some extent. The following reports contained justifications for budget deviations:

- Concept Note for the State Target Program for the Development of Public Roads of National Importance for 2018-2022 by the Cabinet of Ministers
- Year-End Reports of the State Agency of Automobile Roads of Ukraine
- Performance Audit Report for Budget Years 2013-2015 by the Ukraine Accounting Chamber

In 2013 and 2014, the published accounts blamed lack of funds, including private funds that were meant to be brought in using public credit guarantees. In 2015, only one road's poor execution is described. In 2016, more significant reasons are given, related to political and bureaucratic delays and lack of equipment to transport road construction materials.

The following reports were also reviewed, but did not provide explanations:

- Strategy of Reformation & Development of Road Sector of Ukraine
- In-Year Reports on the Execution of the State Budget
- Year-End Reports on the Execution of the State Budget

The government is supposed to publish a report on its performance indicators, but the State Agency of Automobile Roads has not done so. The researcher was able to acquire the unpublished 2017 version of this report and found that the document offered reasons to explain why certain projects were not implemented.

DID THE GOVERNMENT AGREE TO BE INTERVIEWED TO EXPLAIN FURTHER?

Yes. An interview was conducted with Victor Sasin, Director of the Department of Strategic Development of the Road Market and Road Transport at the Ministry of Infrastructure. He stated that budget execution is highly dependent on the head of the administration, head of the road department, and staff that prepare tender documentation. He believes that increasing the quality of management and staff trainings would positively affect the process of budget implementation.

WERE THE REASONS PROVIDED BY GOVERNMENT ADEQUATE?

The published reasons are of limited value. In general, they lack important detail and cannot explain the variation in execution over time. For example, in 2016, some reasons were given for under-spending, but the year was one in which the road program saw significantly improved budget execution. Publishing the internal report would increase the level of information provided on non-financial performance, but the information is partial and lacks a clear link to the budget.

Nonetheless, there are some reasons for the improvement in nonfinancial performance in 2016 and 2017, including the implementation of an electronic procurement system and procedural reforms, but it is not entirely clear how these changes have affected the rate of budget execution.

As is the case with the published reports, the reasons provided by the Director are generic and could not explain all variations over time, or across agencies.