

Main Department of Civil Service of Ukraine
Center for Adaptation of the Civil Service to the Standards of the European Union
Center of Social Expertise of the Institute of Sociology, NAS of Ukraine

*Development of a Network of Policy Analysis Groups
in the System of Central Executive Bodies in Ukraine*

Improvement of Risk Management in the Financial Services Sphere in Ukraine

Kyiv
2009

This policy document was developed within the framework of the "Development of a Network of Policy Analysis Groups in the System of Central Executive Bodies in Ukraine" project, implemented by the Center of Social Expertise of the Institute of Sociology, the National Academy of Sciences of Ukraine under the contract with the Center for Adaptation of the Civil Service to the Standards of the European Union. The project was financed by the State Budget of Ukraine. Expert support was provided by the "Technical Support to Public Sector Reforms in Ukraine" project team (DANIDA funded).

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The electronic version of the policy document can be found on the web-site of the Center for Adaptation of the Civil Service to the Standards of the European Union at: www.center.gov.ua.

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Foreword

Development of the Ukrainian State and its movement towards the European community requires establishment of modern, professional civil service that would function in accordance with the requirements of democratic governance. Civil servants of Ukraine must be politically neutral and professional, armed with modern knowledge and skills in public administration.

Among the key functions of public officials in democratic countries is the development of policy recommendations and policy alternatives to solve the existing problems in specific sectors. Civil servants also hold consultations with stakeholders and carry out monitoring and evaluation of the policy efficiency and effectiveness.

Comparing with EU practice, the system of policy coordination and development in Ukraine is not sufficiently transparent and is too centralized. Requirements to analyze policy alternatives and hold consultations with stakeholders are not always fulfilled. The Ukrainian officials often lack practical skills to analyze policy problems and their causes, possible consequences and obstacles to implementation of various options for problem solution.

In order to strengthen the capacity of civil servants to analytical support of the strategic government decisions, the Main Department of Civil Service of Ukraine during 2005–2008 supported a number of initiatives dealing with activities of a network of the policy analysis groups in the central executive bodies in Ukraine. Around 130 civil servants of top and middle managerial levels from the Secretariat of the President of Ukraine, Secretariat of the Cabinet of Ministers of Ukraine, National Bank of Ukraine, ministries and other central executive bodies received training and acquired relevant public policy skills and knowledge needed for application of democratic procedures to the decision-making process.

Results of the policy analysis groups' activities include publication of green and white policy papers. This is an effective tool used in the EU member states and other developed countries to ensure efficiency, transparency, consistency and predictability of work of public authorities.

Requirements to the quality of public policy development and implementation become even more exacerbated in the context of preparation of the EU – Ukraine Association Agreement. Success of the relevant negotiation process largely depends on the capacity of the Ukrainian officials to formulate a coherent, effective and far-sighted strategy of mutual relationships.

Given the magnitude of the obligations of Ukraine in the framework of the future Association Agreement with the European Union, in 2008 the Main Department of Civil Service of Ukraine put forward an initiative, which was supported by the Government, to expand the network of policy analysis groups and to focus their work on the issues of implementation of Ukraine's commitments under the future Free Trade Agreement with the EU.

In December 2008 the initiative on “Development of a Network of Policy Analysis Groups in the Central Executive Bodies in Ukraine” was launched by the Center for Adaptation of the Civil Service to the Standards of the European Union. It was implemented by the Center of Social Expertise of the Institute of Sociology of the National Academy of Sciences of Ukraine. 10 cross-sectoral groups were created to deal with the sectoral issue of the EU–Ukraine Free Trade Agreement and 3 policy analysis groups—to deal with issues of the civil service reform. Each of the groups consisted of 7–10 top-level civil servants (II–IV categories).

Policy analysis groups dealing with priority issues of the EU-Ukraine Free Trade Agreement:

- Development of a strategy to overcome technical barriers to trade: standardization and compliance assessment.
- Development of a strategy in the field of financial services.
- Development of a strategy in the field of trade in services: the movement of capital.
- Development of a strategy in the field of public procurement.
- Development of a strategy in the field of sanitary and phytosanitary regulations.
- Development of a strategy in the field of protection of intellectual property.
- Development of a strategy in the transport sector.
- Development of a strategy in the environment sector.
- Development of a strategy in the energy sector.
- Development of a strategy in the field of taxation.

Policy analysis groups dealing with priority issues of the civil service reform:

- Reform of the classification system in connection with the civil service compensation system.
- Introduction of new approaches for the annual performance evaluation of civil servants’ activities.
- Reform of the system of professional development for civil servants.

In 2008–2009 the main task of policy analysis groups was the development of the sectoral strategies to meet the obligations imposed by the future Association Agreement with the EU. These strategies defined objectives and steps of implementation of the Agreement, as well as resources needed to implement a strategy (financial, human, and institutional). The draft strategies, discussed with all stakeholders, will enable to prepare for implementation of future Agreement and strengthen the position of the Ukrainian party at the currently running negotiations with the EU.

Public discussions of policy options for solving sectoral problems will promote better understanding and support by the stakeholders of the government policy and provide a feedback for the government.

This year, the policy analysis groups have had a number of innovations. First of all, it is their inter-ministerial structure: representatives of the Ministry of Justice, the Ministry of Economy and the Secretariat of the Cabinet of Ministers participated in almost all policy analysis groups. Secondly, the number of involved public officials and authorities significantly increased comparing to previous years—130 civil servants from 20 central executive bodies as well as from the Secretariat of the Cabinet of Ministers and the National Bank of Ukraine took part in policy analysis groups. In addition, analytical support to members of policy analysis groups was provided by both international and local sectoral experts from the International Center for Policy Studies (ICPS) and the Ukrainian-European Policy and Legal Advice Centre (UEPLAC).

During the year members of policy analysis groups participated in trainings and seminars guided by the EU and Ukrainian experts. They mastered the methodology of development of policy documents and decision-making procedures according to the European standards. The groups organized public consultations aimed at discussion of proposed drafts strategic documents with representatives of NGOs, business community and experts. Considerable number of received comments and suggestions greatly improved the quality of the policy documents.

The key to successful implementation of this initiative was a permanent monitoring and evaluation of the results of policy analysis group's work. According to the survey, most participants consider such trainings in policy analysis as very useful and effective because they provided opportunity to get equipped with skills in policy analysis, cost-benefit analysis and effective communication in the context of the requirements posed by the process of adaptation of the Ukrainian legislation and norms to the EU norms and standards, taking into account national interests of Ukraine.

Moreover, activities of policy analysis groups generate a multiplication effect; they become a basis for the new quality civil service and new administrative capacity of the central executive bodies. Despite the fact that only about ten civil servants are official participants of the policy analysis group, the practice shows that the number of public officials involved into the process of development of strategic policy documents is actually bigger.

In 2008, the School of Senior Civil Service was established, the task of which is to create institutional conditions for developing leadership in the civil service and public administration reform. Given the fact that policy analysis groups have proved their effectiveness as a progressive form of the civil servants' on-the-job training, the follow-up initiatives relating to policy analysis groups are planned to be carried out on the basis of the School of Senior Civil Service. This will contribute to further development of both policy analysis groups' network and strengthening of the in-service training system of the civil servants.

Introduction

Economic development of Ukraine, globalization process and increasing demands for transparency of financial systems functioning need flexible and timely reaction to various challenges and possible internal and external impacts. The rapid development of financial sector is accompanied by considerable risks in activity of financial institutions which are greatly manifested due to signs of a crisis. It demands clear definition of development ways and improvement of financial institutions risk management.

The aim of the policy document on “Improvement of Risk Management in the Financial Services Sphere” (hereinafter – policy document) is to formulate a clear vision of risk management development in the financial services sphere in the medium-term perspective.

The policy document was developed in the process of execution of the Order of the Cabinet of Ministers of Ukraine “On Support of Activities of Policy Analysis Groups in Central Executive Bodies and Secretariat of the Cabinet of Ministers of Ukraine” dated 07.02.2007 ¹ 32 and the Order of the Cabinet of Ministers of Ukraine dated 30.12.2008 ¹ 43542/99/1-08 by the policy analysis group which consisted of representatives of the Ministry of Finance of Ukraine, National Bank of Ukraine, State Commission of Financial Services Market, Securities and Stock Market State Commission, Ministry of Justice of Ukraine, Secretariat of the Cabinet of Ministers of Ukraine and International Center for Policy Studies.

1. Current Situation

Political factors which influence situation.

The priority of a state policy is the provision of stable rate of economic development. At the same time, increase of financial sector role in the economy is one of the most important tasks. The solution of problems of pertaining only to financial sector will depend on the investment climate, legal environment, tax system and improvement of financial activity regulation and supervision system. The processes of financial system improvement are important components of development and strengthening of market principles of economy functioning. Financial system is an important component of mechanisms of the market, and state economy regulation is of especial importance for formation and support of level of confidence in society as precondition of stable development including the confidence of economic subject to each other, to the national currency and to the State in general.

Economic development of Ukraine, globalization process and increasing demands for transparency of financial systems functioning need flexible and timely reaction to challenges and possible internal and external impacts, particularly risk management.

It demands clear definition of development ways and improvement of financial institutions risk management in Ukraine in the medium-term perspective, which has not been defined yet.

Economic factors which influence situation.

Lately, the assets of financial sector of economy increased in Ukraine. At first, it concerned crediting of the private sector of economy. On the average, during 2005–2008, the credit volume in real terms increased by 70% per year. As the result, the proportion of credits volume for the private sector to GDP which was 78% in 2008 (33, 5% in 2005) increased considerably (Figure 1).

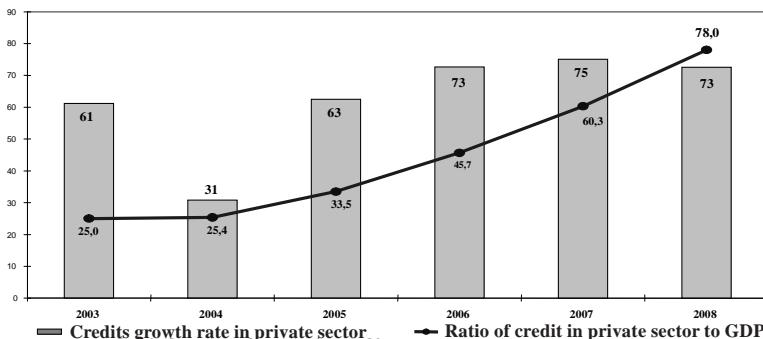


Figure. 1. Private sector credits: growth ratio (right scale) and GDP percentage (left scale) during 2003–2008.

Source: NBU.

Growth ratio of assets of non-banking financial institutions was also sufficiently high. Growth rate of assets of the insurance companies as defined by the Article 31 of the Law of Ukraine “On Insurance” was 23,7% and credit unions assets grew by 15,3% in 2008.

The dynamic of increase of financial sector assets during this period is the result of normally expected and forecasted increase of financial market volume because of market economy development in Ukraine, preparation and accession of Ukraine to the World Trade Organization and adaptation of the Ukrainian legislation to the EU legislation. At the same time, the rapid growth of financial institutions assets in Ukraine, particularly growth in volumes of crediting, is a dangerous tendency. The world experience of financial crisis reminds us that false perceptions of risks and inadequate actions in respect to their management or their absence could have adverse effects on the economy of the State.

The principal worry is caused by the fact that this process could be associated with considerable risks in general, and, specifically, in the financial sector.

The following facts demonstrate the growth of risks in banking sector. Currently, the structure of crediting of banking institutions according to the types of activity does not correspond to their share in the increase of GDP of Ukraine. During recent years,

the risk of credits concentration by the type of industry sector did not change. The highest level of credit concentration is in commercial sphere and construction. Such situation increases dependence of banks on possible risks of price fluctuations. The increase of volume of credits provided to construction industry led to non-repayment of credits due to the real estate price crash.

The influence of the hard currency–related risks strengthened because the share of credits given in the hard-currency made up 60% of the total volume of credits provided by banks to the Ukrainian economy. During last five years, this tendency increased considerably (Figure 2).

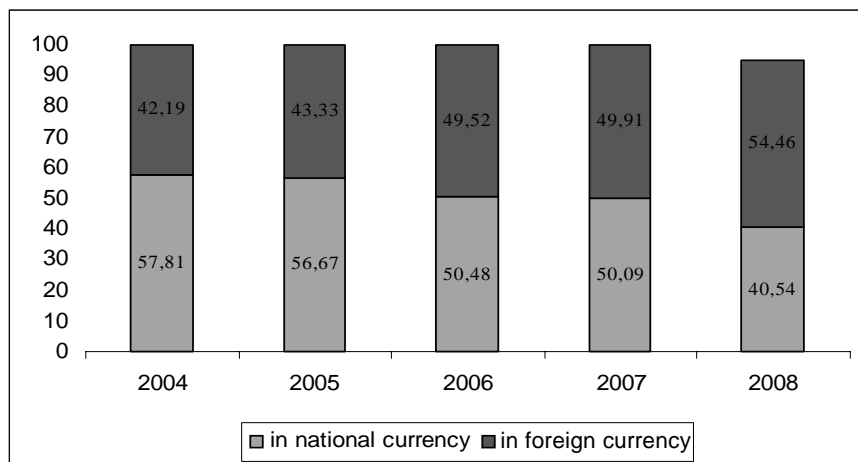


Figure 2. Structure of credits given by banks according to the forms of currency, %.

Source: NBU.

At the present time, credits are financed not only from local deposits but also using increased volume of the external loans to Ukraine. It is caused not only by increase of the share of foreign capital in Ukrainian banks but also by cheapening of foreign currency resources.

As for liquidity risks – they are revealed in increase of gaps between the volume of attracted deposits and amount of issued credits in respect to their maturity. In particular, at the end of 2008, correlation between fixed-term deposits and credits given to the private sector was 0.32. For comparison, it must be admitted that fixed-term deposits mobilized on the internal market cover 78% of banking credit in Armenia, 63% in Azerbaijan, 71% in Bulgaria, 52% in Georgia, 78% in Kyrgyzstan, 82% in Moldova and 52% in Russia. Presence of such misbalances demonstrates the increase of liquidity risks on the micro level through carrying out highly-risked liquidity policy by banks in respect to the long-term credits without availability of internal, long-term crediting resources.

4. Policy Alternatives

It is necessary to review and assess possible alternative actions in order to elaborate optimal way to secure financial institutions stability and as a result the stability for the whole financial system. The alternative variant of policy for improvement of risk management system in financial institutions could be an alternative policy enabling increase of the level of normative capital indexes in financial institutions.

Alternative 1. Improvement of risk management in financial institutions and incorporation of risk-evaluation based supervision of their activities (intensive way).

In order to implement such alternative it is necessary to take following actions:

- to elaborate a legislative base for risk management performance by financial institutions;
- to develop a legislative base for risk – based supervision evaluation over financial institutions;
- to provide regular information on rules concerning risk – based supervision evaluation to the subjects of such supervision (to elaborate methodical recommendations);
- to conduct trainings on risk management for the officers of financial institutions;
- to provide regulatory and supervisory authorities with software and computers, necessary for risk assessment.

The comparative analysis of advantages and disadvantages of alternative ways (Figure 3) shows that negative consequences of **Alternative 1** are characteristic for *short-term perspective* and are mostly related to expenses necessary for introduction of the relevant risk management systems and supervision based upon risk evaluation. The need for substantial expenses by the supervisory authorities and financial institutions connected with implementation, on the medium-term time basis, of the modern risk management systems and risk based supervision. Expenses of financial institutions cause increase of their value and, as a result, reduce their availability and consumption. Besides, the *long-term perspective* of implementation of Alternative 1 is quite outstanding due to its great positive consequences. Appropriate risk management is one of the main conditions of provision of stability in every financial institution activities, facilitates some increase of its sustainability and competitiveness. In its turn, the above-mentioned factors lead to increases in confidence to financial sector in general. The stabilization of earning capacity of financial institutions and establishment of competitiveness leads to reduction of financial services value, increase of their availability and consumption.

Consequences	Short-term perspective		Long-term perspective	
	Advantages	Disadvantages	Advantages	Disadvantages
Financial		Decrease of FI profits	Increase of FI profits	
		Increase of FI expenses		
		Increase of regulator's expenses		
Economical	Increase of FI stability		Increase of FI stability	
	Increase of FI competitiveness		Increase of FI competitiveness	
		Increase of FS value	Decrease of FS value	
		Decrease of FS consumption	Increase of FS consumption	
Social		Decrease of FS availability		Decrease of FS availability
			Increase of confidence in FS	

Figure. 3. Advantages and disadvantages of Alternative 1.

Alternative 2. Increase of capital indexes in financial institutions (extensive way).

In order to implement such alternative it is necessary to take the following measures:

- to upgrade the current legislation by introducing changes relating to the size of capital indexes;
- to conduct trainings for the officers of the supervisory authorities;
- to amend the current legislation which would envisage obligatory organizational and legal status of banks and insurance companies as joint stock companies.

Consequences	Short-term perspective		Long-term perspective	
	Advantages	Disadvantages	Advantages	Disadvantages
Financial		Decrease of FI profits		Decrease of FI profits
	Do not require expenses of FI			
	Do not require expenses of regulator			
Economical	Increase of FI stability			Decrease of FI stability
		Decrease of FI competitiveness		Decrease of FI competitiveness
		Increase of FS value		Increase of FS value
		Decrease of FS consumption		Decrease of FS consumption
Social		Decrease of FS availability		Decrease of FS availability
			Increase of confidence in FS	

Figure 4. Advantages and disadvantages of Alternative 2

The comparative analysis of the **Alternative 2** implementation (Figure 4) shows that such approach practically does not requires big expenses for regulatory and supervisory authorities in neither short-term nor long-term perspectives. However, its implementation will result mostly in negative consequences for financial institutions and for financial services consumers. Provision of increased capital indexes without proper consideration and appropriate assessment of involved risks becomes the reason of FI stability growth during the short-term perspective but it decreases FI competitiveness, causes increase of services cost and decrease of such services availability both in respect to short-term and long-term perspectives.

In order to assess alternative variants of the policy and to identify advantages and disadvantages there were used criteria which, from one side, characterize the alternative from the point of view of costs needed for its implementation (cost of the alternative implementation for the government, the cost of the alternative implementation for financial institutions, time required for this alternative implementation), and, from the other side, from the point of view of expected results (influence on level of FI interest in increase of their own level of sustainability, cost of financial services provided to customers, level of the population confidence in financial services, level of FI competitiveness) (see. Figure 5).

Criteria	Scale	Interest, %	Alternative 1 (risk management)		Alternative 2 (set of indexes)	
			Value	Amount	Value	Amount
Cost for Government (-)	1-5 (high-low)	10	1	2	4	8
Cost for FI (-)	1-5 (high-low)	5	2	2	5	5
Time required for implementation	1-3 (long- soon)	5	1	1,7	3	5
Increase of FI interest in stability growth	1-5	40	5	40	2	16
Reduction of FI assets value	1-5	20	5	20	2	8
Increase of population confidence	1-3	10	2	7	2	7
Increase of FI competitiveness	1-5	10	5	10	4	8
Total		100		82,7		57

Figure 5. Multi-criteria analysis of the Alternatives.

According to results of the multi-criteria analysis of the alternative variants (Figure 5) the alternative of risk management improvement is more beneficial than the alternative envisaging introduction of additional normative indexes.

5. Action Plan for Implementation of the Selected Alternative

Name of measure	Period of implementation	Costs of implementation
Direction 1. Elaboration of a legislative base for carrying out risk management by financial institutions. Actions:		
- elaboration and adoption of changes to some laws of Ukraine related to introduction of a system of risk management by non-banking financial institutions;	2010	48 (m.h.)
- definition of indexes for non-banking financial institutions concerning assessment of risks of their activity;	2010	120 (m.h.)
- improvement of the methodology for calculation of the size of funds needed for risks coverage by financial institutions;	2010	135 (m.h.)
- development of a legislative base for transition of all financial institutions to international accounting and financial reporting standards;	2010	90 (m.h.)
- implementation of the transition to the International audit standards, objective certification of the external auditors (increase of internal and external audits quality).	2011	120 (m.h.)
Direction 2. Development of a legislative base for supervision over FI using risk evaluation approach. Actions:		
- preparation and adoption of the Law of Ukraine “On Changes to Some Laws of Ukraine concerning Risk based Supervision Evaluation over Non-Banking Financial Institutions”;	2010	40 (m.h.)
- elaboration and adoption of internal normative documents-regulators related to implementation of risk-based supervision;	2010	80 (m.h.)
- development of legislation to improve legal conditions for the derivatives market functioning;	2011	160 (m.h.)
- preparation of legal framework for regulation of syndicated lending in order to secure more clear-cut distribution of risks.	2010	90 (m.h.)

Direction 3. Carrying out trainings on risk management issues for the staff of financial institutions and regulators. Actions:		
- arrangement of training for the specialists in external audit of banks in order to meet audit and ethic standards requirements posed by International Federation of Accountants – IFAC;	2011	180 (thousands UAH)
- carrying out 30 trainings on risk management for the staff of financial institutions;	2011	550 (thousands UAH)
- carrying out 5 trainings on risk based supervision evaluation for officials of the regulatory authorities;	2010	140 (thousands UAH)
- issue to employees of financial institutions 450 certificates confirming their training for upgrading their qualification in risk management.	2010	4500 (UAH)
Direction 4. Strengthening of institutional capacity of the regulatory authorities in the field of supervision based upon risk evaluation. Actions:		
- creation of sections within the Financial Services Commission and the Securities Commission which would be in charge of functions related to implementation of supervision based upon risk evaluation;	2009	20 (m.h.)
- elaborate relevant software packages ensuring effective system of information storage, exchange and use;	2010	210 (thousands UAH)
- purchase for regulatory authorities 3 software packages on risk management;	2010	2170 (thousands UAH)
- develop 2 software packages on risk management to be used by the regulators.	2012	840 (thousands UAH)

Direction 5. Adaptation of the legal acts of Ukraine in the sphere of financial services and banking law to *acquis communautaire* (EU legislation) during the period of 2009 – 2012 and within the competence of the regulatory authorities. Actions:

- assistance to adoption of the Law of Ukraine “On Changes to Some Laws of Ukraine concerning Increase of the Size of Statutory Capital of Professional Participants of the Securities Market”;
- assistance to adoption of the Law of Ukraine “On Changes to Some Laws of Ukraine related to Financial Services Markets Regulation”;
- assistance to adoption of the Law of Ukraine “On Changes to Law of Ukraine “On Financial Services and State Regulation of Financial Markets (in respect to operations with financial assets)”;

- assistance to adoption of the Law of Ukraine “On Financial Assets Beneficiary Ownership”;
- assistance to adoption of the Law of Ukraine “On Investment Guarantee Fund”;
- assistance of adoption of the Law of Ukraine “On System of Securities Depository Registration”;
- assistance of adoption of the Law of Ukraine “On Changes to Some Laws of Ukraine on Conclusion of Securities Sale-Purchase Agreements at Stock Exchanges”;
- reworking and assistance to adoption of the Law of Ukraine “On Changes to Law of Ukraine “On Insurance” (new edition), the provisions of which would meet substantial conditions of regulation of insurance (reinsurance) and intermediary activities set in the norms of the European law, in particular, containing legal definitions of the term insurer and reinsurer, licensing of insurance activity, types of life insurance, and types of insurance other than life insurance, substantial conditions of an insurance agreement, reinsurance activity, etc;
- elaboration and adoption of the Law of Ukraine “On Derivatives”;
- elaboration and adoption of the Law of Ukraine “On Changes to Some Laws of Ukraine in respect to Securities Market Legislation Improvement”;
- elaboration and assistance to adoption of the Law of Ukraine “On Changes to Law of Ukraine “On Securities and Stock Market” concerning the mechanism for execution of primary right of shareholder to buy shares of additional issue and consequences of issue recognition as unfair and invalid;
- elaboration and assistance to adopt the Law of Ukraine “On Changes to Law of Ukraine “On Securities and Stock Market (on information disclosure relating to stock market)” in order to adjust norms concerning issuer’s regular and special information disclosure;
- elaboration and assistance to adoption of changes to the Law of Ukraine “On Banks and Banking Activity” in order to provide the National Bank of Ukraine with the right to establish requirements in respect to professional competency and business reputation of banks leadership;
- elaboration and assistance to adopt the Law of Ukraine “On Changes to Law of Ukraine “On Securities and Stock Market” which would, in particular, include a set of provisions of *acquis communautaire*, especially those ones connected with conditions of registration of securities issue and securities issue prospectus, basic prospectus and its annexes, advertisement of securities issues prospectus, etc.

6. Monitoring and Impact Assessment

With the purpose to evaluate proposed policy it is envisaged to conduct regular monitoring and assessment of policy impact. The criteria for evaluation of positive policy impact could be as follows:

- increase of number of NBFIs which implemented risk management systems;
- decrease of financial services costs;
- decrease of number of financial institutions bankruptcies;
- establishment at the regulatory authorities of sections whose competence would include dealing with issues of supervision based on risk evaluation;
- reduction of number of problematic loans;
- increase of number of specialists on risk management issues in financial institutions and regulatory authorities;
- increase of level of implementation of international risk management standards in financial institutions.

Assessment of the policy impact should be conducted by the relevant public officials. Final reports will be the basis for decisions on necessity to change the policy.

Annex

Glossary of terms used in the document on “Improvement of Risk Management in the Financial Services Sphere”

Term	Meaning
<i>EU Directive</i>	Obligatory act addressed to one or several EU Member States. It defines the goals which should be achieved by the Member-State, however, it keeps the certain methods of their achievement by the Member-States.
<i>Control</i>	<ol style="list-style-type: none"> 1. The type of management activity of institution for the best achievement of defined goals. 2. The process which ensures the achievement of defined goals by the system and consists of 3 general elements: <ul style="list-style-type: none"> - provision of standards of system activity which are subject to examination; - comparison of achieved results with expected results; - adjustment of management process if achieved results differ from established standards essentially.
<i>Effectiveness indicators</i>	They are defined as ratio of results (the amount of produced goods, performed works, provided services) to costs of their achievement (value in money or human resources measure – resources expenses per unit of product index).
<i>Transparency</i>	Possibility of getting objective and integral information (full and reliable) on all levels in defined terms without conflict situation and with provision of the subjects property rights.
<i>Regulatory activity</i>	Activity directed to preparation, adoption, effectiveness examination and revision of regulatory acts which is performed by regulatory institutions, physical and legal bodies, their associations, regional communities in the context, on the basis and in a way defined by the Constitution of Ukraine and other legal acts.
<i>Regulatory act</i>	<ol style="list-style-type: none"> 1. Legal act adopted by the authorized regulatory institution which is directed at the whole or some provisions of which are directed at legal regulation of economic relations and also administrative relations between regulatory institutions or other authorities of state power and business entities. 2. Another official document adopted by the authorized regulatory institution which establishes, changes and abolishes the legal provisions used repeatedly and towards the public. It is directed at legal regulation of economic and administrative relations between regulatory institutions or other authorities of state power and business entities independently if this document is considered as legal act according to the Law which regulates relations in this sphere.

<p>Risk</p>	<ol style="list-style-type: none"> 1. Dimension which characterizes possibility of risk appearance with certain level of losses put in percentage. 2. Situational activity characteristic which means the uncertainty of its results, possible adverse effects and alternative variants of fault or success. 3. Possibility of danger, failure, damage. Possibility of danger is theoretical not practical, existence of hypotheses concerning the conditions of a danger occurrence. 4. Uncertainty of certain event in future. Uncertainty, the expectation of which could fluctuate, is considered both as positive and as negative business result, the effect on luck bringing some expectation for better result. 5. Effect on luck with expectation for better result.
<p>Bank risk</p>	<ol style="list-style-type: none"> 1. Situational characteristic of bank activity which shows the uncertainty of its results and possible adverse effects. 2. Possibility of loss of bank capital market value (obtaining losses) by all areas of business which is connected with internal and external uncertainty factors which make influence on bank's activity.
<p>Financial system stability</p>	<p>State of dynamic financial system when the influence of any action on financial system (or on its separate elements) does not influence significantly possibility of performing its own functions by the financial system. As for Ukraine, this function is the provision of conditions for stable development of the Ukrainian economy.</p>
<p>Risk factors</p>	<p>Unexpected and casual events which could lead to disruption of planned procedure and failure to achieve the goal.</p>
<p>Financial system</p>	<ol style="list-style-type: none"> 1. Complex of interrelated parts, chains and elements which participate directly in financial activity and facilitate its realization. 2. Complex of economic property relations connected with establishment, distribution and use of money funds (of state, enterprises and organizations) by financial institutions according to the requirements of economic laws and interests of dominant class.

Abbreviations:

JSC	Joint stock company
Financial Services Commission	State Commission of Financial Services Market Regulation
Securities Commission	Securities and Stock Market State Commission
MinFin	Ministry of Finance of Ukraine
NBU	National Bank of Ukraine
NBFI	Non-banking financial institutions
FS	Financial services
FI	Financial institutions
m/h	Man-hours

Information about the Activities of Policy Analysis Groups

The project “Development of a Network of Policy Analysis Groups in the System of Central Executive Bodies in Ukraine” is aimed at:

- promoting the development of democratic governance in Ukraine;
- promoting the strengthening of institutional capacity of central bodies of executive power for policy making;
- improving the coordination of public policy development;
- strengthening the strategic character and analytical support of decisions and enhancing the quality of overall government planning; and
- enhancing civil servants’ professionalism in developing policy proposals.

The legal basis for policy analysis groups functioning includes:

1. Order of the Cabinet of Ministers of Ukraine on “Activities of Policy Analysis Groups”, dated December 30, 2008 ¹ 43542/99/1-08.
2. Regulation of the Cabinet of Ministers of Ukraine “On approval of the year 2008 “EU – Ukraine Action Plan“, dated August 6, 2008 ¹ 1072-p.
3. Memorandum of Understanding between the Government of Ukraine and the Government of Canada concerning Ukrainian Civil Service Human Resources Management Reform Project, signed on May 26, 2008.
4. Regulation of the Cabinet of Ministers of Ukraine “On Ensuring Functioning of the Policy Analysis Groups in Central Executive Bodies and the Secretariat of the Cabinet of Ministers of Ukraine”, dated February 7, 2007 ¹ 32-p.
5. “Civil Service Development Program for 2005–2010”, approved by the Cabinet of Ministers of Ukraine on June 8, 2004 ¹ 746, with changes approved by the Cabinet of Ministers of Ukraine on September 3, 2008 ¹ 776.

The objectives of the project are the following:

- holding a series of practical target-oriented trainings and ensuring exchange of experience between the groups in respect to policy analysis, including methodology and practice of the comprehensive study of a situation and identification of a problem, assessment of its causes and implications, selection of alternative approaches to problem solution based on cost-benefit analysis and consideration of different stakeholders’ opinions;

- drafting policy documents relating to fulfillment of obligations imposed by the future EU – Ukraine Association Agreement with clear definition of tasks and steps for implementation of this Agreement;
- organizing public consultations aimed at discussion of proposed policy documents.

Policy documents developed by policy analysis groups in 2009:

- A policy on overcoming technical trade barriers: standardization and conformity assessment;
- Improvement of risk management in financial services sphere in Ukraine;
- Consultations on improving the investment climate of the agricultural sector of the Ukrainian economy;
- Dissemination of information on public procurement: adaptation of the Ukrainian legislation to the *acquis communautaire*;
- Strategy for the improvement of state sanitary and phytosanitary control and surveillance at state border crossing;
- Determination of optimal ways to reduce the level of piracy in Ukraine with respect to copyright and related rights in the course of circulation of copyright objects on tangible mediums;
- Harmonization of the national aviation safety system with European standards within the framework of the common aviation area Agreement. Participation of Ukraine in the European Aviation Safety Agency;
- Development of water resources management policy under the “Environment” Section of the EU Association Agreement;
- Priority efforts for the integration of unified power system of Ukraine into unified power systems of the European Union;
- Harmonization of Ukrainian legislation on the application of excise duty on alcohol and tobacco products in the context of the future Agreement on Association with the European Union.

Previous Initiatives on Policy Analysis

This project is a logical follow-up of the previous policy analysis initiatives carried out by the Main Department of Civil Service of Ukraine and international donors:

- “Public Policy Capacity Building” (1999–2003);
- “Establishing Policy Analysis Groups and an Information Resource Centre in the Government of Ukraine” (2000–2001);
- “The Activity of Policy Analysis Groups (PAGs) in Government Bodies in Ukraine” (2005–2006);
- “Strengthening the Institutional Capacity of Central Executive Power Bodies for Policy Making in the Context of the Concept Development of a Training and Consultative Center for the Highest Corps of Civil Servants” (2007–2008).

Firstly, such initiatives were funded by foreign donors, in particular, by the Canadian International Development Agency (CIDA) and the Swedish International Development Agency (SIDA).

Within the framework of the first project “Public Policy Capacity Building” (1999–2003) students of the National Academy of Public Administration under the President of Ukraine (NAPA) were engaged in the policy analysis training. The training included the internship in Canada and drafting of policy papers. Based upon project results, a course on policy analysis was included into the Academy’s curriculum, with practical assignments in drafting policy papers on selected topics.

The next project “Establishing Policy Analysis Groups and an Information Resource Centre in the Government of Ukraine” (2000–2001) was implemented as a joint initiative of the Cabinet of Ministers of Ukraine, International Center for Policy Studies (ICPS), Open Society Institute (OSI) and International Renaissance Foundation (IRF) with financial support from IRF under the tripartite agreement on cooperation between the Secretariat of the Cabinet of Ministers of Ukraine, ICPS and the IRF. The participants of this project were 49 governmental officials of higher and middle rank from the Ministry of Economy, Ministry of Finance and the Secretariat of the Cabinet of Ministers.

The outcome of these projects was inclusion into Regulations of the Cabinet of Ministers of Ukraine of a section that set requirements to policy documents (“policy decisions”), in particular, with regard to analysis of alternative solutions.

Upon the initiative of the Main Department of Civil Service of Ukraine, the efforts towards creation of policy analysis groups in central bodies of executive power continued in 2005. The projects were implemented by the Center for Adaptation of the Civil Service to the Standards of the European Union (the former name – Center

for Civil Service Institutional Development under the Main Department of the Civil Service of Ukraine), and were financed from the State Budget. List of policy documents developed by policy analysis groups during 2005–2008, is presented in Table 1.

In 2005–2006 the International Centre for Policy Studies implemented a project “The Activity of Policy Analysis Groups in Government Bodies in Ukraine”. The Department for International Development of the United Kingdom (DFID) and the Delegation of the European Commission to Ukraine provided assistance in engaging foreign consultants and trainers. The project results demonstrated the need to modify the training programs, to create policy analysis groups in other governmental bodies and to develop the network of policy analysis groups as a permanent forum for the articulation of new policy priorities and discussion of trends and prospects of social development.

The project “Strengthening the Institutional Capacity of Central Executive Power Bodies for Policy Making in the Context of the Concept Development of a Training and Consultative Center for the High Corps of Civil Servants”, which was implemented during 2007–2008, showed the importance of enhancing professional capacity of top civil servants in policy analysis and democratic decisions-making process. The need to acquire more knowledge and skills is emphasized in the context of participation of the government bodies in the Twinning projects.

Table 1. Analytical documents prepared by the policy analysis groups in 2005–2008

¹	Central executive body	Period of activity of PA groups	Subject of study
1.	Secretariat of the President of Ukraine	2005–2006	Strategy of democratic development of Ukraine and institutionalization of public policy tools in work of central bodies of executive government
2.	Secretariat of the Cabinet of Ministers of Ukraine	2005–2006	Democratization of decision-making process and compliance with the European requirements on applying democratic procedures in the decision-making process
3.	National Bank of Ukraine	2007–2008	Building the National Bank of Ukraine on the basis of independent, open and transparent activity
4.	Ministry of Economy of Ukraine	2005–2006	Policy and procedures for the preparation of state budget as the strategy for economic development of the country
5.	Ministry of Finance of Ukraine	2005–2006	State fiscal and taxation policy

6.	Ministry of Transport and Communication of Ukraine	2005–2006	State policy of Ukraine on integration of Ukraine to trans-European transport networks
7.	Ministry of Fuel and Energy of Ukraine	2007–2008	Creation of minimum supplies of oil and oil products
8.	Anti-Monopoly Committee of Ukraine	2005–2006	Policy in respect to liberalization of the domestic market and raise of competition at this market
9.	State Tax Administration	2007–2008	Improvements in tax information exchange
10.	State Committee of Ukraine on Technical Regulation and Consumer Policy	2005–2006	Policy of adaptation of the national legislation to norms and standards to requirements of the European Union
11.	State Nuclear Regulatory Committee of Ukraine	2007–2008	Increasing safety for resources of ionizing radiation in Ukraine
12.	State Agency of Ukraine for Investments and Innovations	2005–2006	Attracting foreign investments to Ukraine: problems and solutions
13.	State Commission on Securities and Stock Market	2007–2008	Increasing the level of corporate governance in joint-stock companies and ensuring of investors' rights
14.	National Electricity Regulatory Commission of Ukraine	2005–2006	Policy on regulation of the domestic electricity market
15.	National Space Agency of Ukraine	2005–2006	Policy on institutional development of the national space industry under market conditions
16.	Administration of State Border Service of Ukraine	2007–2008	Improvement of the system of border crossing in Ukraine for persons and transport vehicles
17.	State Department for the Execution of Punishment of Ukraine	2007–2008	Identification of the most optimal ways for minimizing the number of detainees in custody, and observance of norms for detention procedures in Ukraine

Information edition

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**Improvement of Risk Management
in the Financial Services Sphere in Ukraine**

developed within the framework of the "Development of a Network of Policy Analysis
Groups in the System of Central Executive Bodies in Ukraine" project

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Publisher – Center for Adaptation of the Civil Service to the Standards of the
European Union by the Main Department of the Civil Service of Ukraine
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Certificate of State Registration № 1 3280 dated 17.09.08.