

Quarterly Report
01 April 2012 - 30 June 2012

Prepared by IBSER for grant
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Abbreviations

AFO	Association of Financial Officers of Ukraine
AUC	Association of Ukrainian Cities
CLC	Commercial Law Center
CPER	Combined Program Evaluation and Review
DHA	District Heating Assessment
EC	European Commission
ESCO	Energy Servicing Company
EU	European Union
FAF	Foreign Assistance Framework
GOU	Government of Ukraine
HCSS	Housing and Communal Services Sector
IBSER	Institute for Budgetary and Socio-Economic Research
LG	Local Government
LINC	Local Investment and National Competitiveness
MBR	Municipal Budget Reform
MFF	Municipal Finance Facility
MFSI	Municipal Finance Strengthening Initiative
MOF	Ministry of Finance
MOU	Memorandum of Understanding
NGO	Non-Governmental Organization
OSR	Own-source Revenues
PFR	Public Finance Review
PMP	Performance Monitoring Plan
PPB	Performance Program Budgeting
RTI	Research Triangle Institute
SEFR	Support for Economic and Fiscal Reform
TSA	Treasury Single Account
USG	United States Government
WB	World Bank

Executive Summary

- The proposals prepared by MFSI-II experts for amending the principal normative-legal act, which regulates the use of PPB methodology at the local level, have been taken into account. These proposals are reflected in changes to the Ministry of Finance Order No.679 "On Certain Issues of Implementing an Experiment on Introduction of the Performance Program Budgeting Method of Formulation and Execution of Local Budgets" and registered by the Ministry of Justice of Ukraine. Such improvements of the PPB methodological framework undertaken with participation of MFSI-II experts will raise the quality of formulation of budget programs developed on the PPB basis. Also, such changes will significantly streamline the document flow procedures for local budgets and improve the transparency of execution of PPB-based budgets accordingly.
- MFSI-II experts have analyzed the existing reporting forms on execution of local budgets, which are compiled by the State Treasury Service of Ukraine. Based on the results of this work, IBSER proposals have been developed and submitted to the Ministry of Finance of Ukraine regarding improvement of the reporting forms on execution of PPB-based local budgets, which are compiled by the State Treasury of Ukraine.
- Experts of the MFSI-II Project have completed a series of regional training events on implementation of the Performance Program Budgeting method for planning and execution of local budgets. In April-June 2012, training workshops on PPB implementation at the local level were organized in the Khmelnytskyi, Rivne, Dnipropetrovsk, Chernivtsi, Zaporizhyya, Mykolaiv, and Kherson oblasts. The regional PPB coordinators from each of the regions and the specialists of structural units of Finance Departments responsible for formulation of departmental indicators of respective budgets have been engaged in the training workshops. A total of 1,139 local specialists passed through training during this quarter. Since the beginning of the year, such training workshops have been conducted in all oblast centers for specialists of each of the regions, which joined the experiment in 2012. A total of 2,590 local-level specialists passed through training since the launch (10 October 2011) MFSI-II so far. The trainings and consultations covered all departments, which made it possible to formulate local budgets in the PPB format in all areas of using the budget funds, and ensured their transparency and efficient use. As of now, as the result of the completed training, the participants have prepared more than 11,000 budget requests, approved more than 15,000 budget programs with performance indicators developed.
- IBSER conducted a regular meeting of the Interagency Working Group. The meeting was attended by heads of structural units from the Ministry of Finance, line ministries, and MFSI-II experts. Discussed at the meeting were the conceptual directions of the amendments, which need to be made to the Standard Lists of budget programs and performance indicators approved by joint orders of the Ministry of Finance and respective line ministries. Also, the proposals prepared by MFSI-II experts regarding further ways of improving the PPB normative framework were discussed. In particular, the issue was considered of introducing the component of "subprograms" and optimizing the structure of budget programs and performance indicators. Implementation of these proposals would allow to improve the quality of budget program preparation, provide the basis for performance evaluation, and facilitate the development of PPB-based local budgets in all regions of Ukraine.
- Experts of the MFSI-II Project have analyzed the Law of Ukraine dated 12 April 2012, No.4647 "On Amending the Law of Ukraine 'On the State Budget of Ukraine for the Year 2012.'" The main purpose behind these amendments was taking into account in the budget of the expenditures for implementation of social initiatives by the President of Ukraine, for which more than a half (UAH 18.2bn) of the additional resource (UAH 33.4bn) is allocated. The additional resource was found mainly thanks to accounting for the finalized indicators of budget execution based on the 2011 results with regard to VAT and enterprise profit tax, which according to experts of the MFSI-II Project, is justified.
- To provide an opportunity for raising the level of activity in collaboration of cities with private partners in the framework of the existing legislation, the MFSI-II Project experts have submitted to the Ministry of Finance their proposals with regard to amending the Procedure of Local Borrowing. The

proposed changes envisage a possibility for local governments to attract investments for realization of municipal infrastructure development projects, in particular those related to energy saving, not just in monetary form, but also by implementation of works (provision of services, supply of goods) by private partners. At the same time, the MFSI-II Project experts have submitted their proposals with regard to amending the Budget Code of Ukraine to the Ministry of Finance, Verkhovna Rada Committee on Budget, and the Coordinating Center for Implementation of Economic Reforms under the President of Ukraine. Among other things, the said amendments envisage a possibility to double the amount of investments to be allocated by cities for implementation of infrastructure improvement projects, in particular those related to energy saving, thanks to attracting private partners and better protection of the rights of creditors and private partners in implementation of such projects.

- The analysis of Poltava and Lviv current budget energy expenditures has been submitted. Similarly to the analysis findings for the two previous cities (Pavlohrad and Horlivka, see Q1 Report), this analysis shows that in the environment of scarce budget resources, the expenditures for communal services and energy of local budgets gradually "displace" other vitally important expenditures. Therefore, it is essential to apply a systemic approach to energy saving in cities, as well as attract additional funds for realization of development projects in the area of energy consumption. To support the latter, an evaluation of creditworthiness of two of the selected cities Pavlohrad and Poltava has been conducted. Budgets of these two cities have been recognized as sufficient in general for implementation of the projects they propose. Conclusions with regard to their creditworthiness will improve the likelihood of creditors' agreeing to support realization of energy saving projects in the above cities and provide for a reduced energy consumption in the budgetary sphere.

The analysis of energy expenditures carried out as part of this task has become the basis for developing a system of monitoring and evaluation of the efficiency of energy expenditures of the participating cities, which was developed by experts of the MFSI-II Project. In time, the developed system would allow to achieve savings of energy resources thanks to tracking the most "wasteful" end users of energy and the possibility to choose the top priority energy saving projects, which would provide the highest energy efficiency gains in the medium term.

The developed system of monitoring and evaluation of efficiency of energy expenditures will, in turn, become the basis for developing financial incentives in order to stimulate the creation of efficient energy saving systems in the budgetary sphere under Task 2.2.

- In the reporting timeframe, the project prepared monthly monitoring reports (three for the reported period) on the implementation of State and local budgets for the period from February 2012 to April 2012.
- According to the treasury's preliminary data, MFSI project's experts prepared "Budget Monitoring for January-March 2012." The monitoring included an analysis of the latest trends regarding State and local budget execution, as well as an analysis of the legislative acts influencing the budget process, approved over the reporting period.
- On 27 April 2012, a meeting of the National Advisory Board (NAB) on efficient public finance management took place. The event was devoted to discussion and coordination of the actions undertaken towards implementing progressive budgeting methods, in particular, the Performance Program Budgeting (PPB) method. The meeting was attended by the representatives of the Secretariat of the Verkhovna Rada Committee on Budget, Ministry of Finance, and State Treasury Service of Ukraine. Discussed at the meeting were the issues related to the ways of report generation in the execution of PPB-based local budgets and conducting the preparatory activities required for implementation of treasury servicing based on PPB.
- On 27 June 2012, IBSEER conducted a roundtable on "Formation of City Budget Based on Performance Program Budgeting and Results of Its Implementation," which took place in Stryi, Lviv oblast. The roundtable participants were the representatives of City Council deputy corps, key spending units of city budget, representatives of NGOs, MFSI-II experts, and members of the press. This public event has resulted in familiarizing the participants with the current status of implementing the modern methodology of efficient use of budget funds in the city of Stryi and developing the proposals, which will need to be taken into account when preparing the year 2013 budget.

List of major activities for the next quarter

- MFSI-II experts and the Ministry of Finance of Ukraine continue working together to implement the Performance Program Budgeting method at the level of local budgets. As part of the budget reform pursuant to the Program of Economic Reforms for the year 2010-2014 entitled "Prosperous Society, Competitive Economy, Effective Government," a series of regional meetings/consultations for participants of the experiment are scheduled to take place in August -October 2012.
- By the end of the next quarter IBSER will prepare a strategy to establish a sustainable PPB training program(s) in Ukraine and will present it to USAID.
- By the end of the next quarter, it is planned to prepare three monthly monitoring reports on the implementation of State and local budgets for the period from May 2012 to July 2012.
- If needed, legislative changes will be developed for the legislation on local-level strategic planning and legislation, which regulates the issues of local government's attracting private sector resources for realization of local infrastructure development projects.
- The analysis of efficiency of energy costs for the budgets of the remaining selected cities (Chernihiv, Ivano-Frankivsk, Zhytomyr) will be completed and a system for monitoring energy budget expenditures of the selected cities developed.
- By the end of the next quarter, MFSI experts plan to prepare the *Budget Monitoring for January-March 2012*.
- The preparation and organization of a National Advisory Board meeting is scheduled for July 2012.
- The preparation and organization of a Financial-Economic Forum is scheduled for September 2012.

Key Milestones and Major Deliverables Summary

Objective A: Provide legislative, methodological and organizational support to central and local government bodies to expand PPB to all local budgets in Ukraine

- The proposals prepared by MFSI-II experts regarding amendments to the principal normative-legal act, which regulates the application of PPB methodology at the local level have been taken into account.

Timeline: June 2012

- The proposals for improving the existing reporting forms, as well as new forms for the treasury servicing of PPB-based budgets developed

Timeline: January – June 2012

- Delivering a series of cluster trainings on PPB budgeting

Timeline: January – June 2012

- Working Group

Timeline: January – June 2012

Sub-objective A.1: Ensure institutional sustainability of the PPB training program(s).

- Strategy to establish a sustainable PPB training program(s) in Ukraine

Timeline: April - September 2012

Objective B:

- Four Ukrainian cities for the project are selected using the developed unified methodology

Timeline: October - December 2011

- System for monitoring energy-related budget expenditures for the selected four cities developed

Timeline: April - June 2012

Objective C: Enhance public awareness of the public budgeting process, revenues and expenditures

- Monthly monitoring of national and local budget implementations

Timeline: second week of every month

- Monitoring of the budget and fiscal impacts on local budgets in form of a full-scale analysis of the budget process

Timeline: June 31, 2012

- Preparation and organization of National Advisory Board

Timeline: April 27, 2012

- Preparation of Electronic bulletin

Tasks and Subtasks

Objective A: Provide legislative, methodological and organizational support to central and local government bodies to expand PPB to all local budgets in Ukraine

Task 1.1: Provide assistance to the GOU (Ministry of Finance, State Treasury of Ukraine, local finance departments, key spending units, specifically) in conducting state-supported pilot programs on Performance Program Budgeting (PPB) and their implementation in local budgets in Ukraine

Sub-task 1.1.1: Develop and formalize system to monitor and evaluate execution of local budget programs for all local government functions

Deliverable: The draft methodology of monitoring and evaluating the performance of local budget programs based on PPB developed.

Timeline: December 2011

Result/ Deliverable:

IBSER developed the draft methodology for monitoring and evaluating the efficiency of budget program performance (including energy saving actions and the improvement of the natural environment). The said proposals were considered at a meeting of the NAB on December 28 2011, which was attended by members of Parliament, experts of the Verkhovna Rada Budget Committee and other parliamentary committees, Ministry of Finance, and local governments.

The revised methodology was submitted in January 2012 to the Ministry of Finance for approval and dissemination to all local budgets. The work is currently in progress to finalize and improve the methodology.

See folder “Deliverables”

Accomplished (see «Quarterly Report 01 October – 31 December, 2011»).

Result/Deliverable: Review of the methodology at a roundtable meeting, finalizing based on the received recommendations, and approval of the methodology. Minutes of the roundtable meeting or meeting of the NAB

Timeline: January-June 2012

1. At the meeting of the National Advisory Board (NAB) on efficient public finance management, which was held on 28 December 2011, a concept was discussed of a comprehensive evaluation of execution of budget programs at the level of local budgets. At the time of this writing, phase one of finalizing the evaluation methodology has been completed and it is being tested using the Kyiv city budget programs.

2. On 7 June 2012, at a meeting of the Interagency Working Group at the Ministry of Finance of Ukraine, an issue was decided on improving the methodology of evaluation of budget programs and IBSER was commissioned to prepare a methodology for implementing a comparative analysis of efficiency of budget programs based on a formula approach. Work is currently in progress to develop the said evaluation methodology.

See folder “Deliverables”

Deliverable: Report on the results of the monitoring and evaluation of the performance of PPB-based budget programs

Timeline: September 2012

Deliverable: Proposals for improving the methods of monitoring and evaluation of performance of the local PPB-based budget programs

Timeline: September 2012

Sub-task 1.1.2: Complete the legislative, regulatory and methodological framework taking into account the specifics of PPB implementation at various levels of local budgeting

In order to implement the State support of the PPB methodology for all oblast, rayon and oblast-significant municipal budgets, IBSER will:

- assist in developing proposals that amend the regulatory and legislative framework as needed to complete PPB implementation for oblast and district budgets, and budgets of republic-significant municipalities of the Autonomous Republic of Crimea and of oblast-significant municipalities.
- help in developing proposals that amend the regulatory and legislative framework as needed to complete PPB implementation for the budgets of rayon-significance municipalities and urban districts.

Deliverable: Proposals that amend the regulatory and legislative framework as needed to complete PPB implementation for oblast and district budgets, and budgets of republic-significant municipalities of the Autonomous Republic of Crimea and of oblast-significant municipalities developed

Timeline: October 2011 - September 2012

The proposals for amending the principal normative-legal act, which regulates the use of PPB methodology at the local level, prepared by MFSI-II experts are taken into account. These proposals are reflected in amendments to the Ministry of Finance Order No.679 "On Certain Issues of Conducting an Experiment of Implementation of the Performance Program Budgeting Method of Formulation and Execution of Local Budgets" and registered by the Ministry of Justice of Ukraine. In particular, incorporated were the proposals of MFSI-II experts with regard to:

- the rules of compiling the passports of budget programs of local budgets, semiannual and annual reports of their execution;
- the form of passport of local budget program;
- the form of semiannual/annual report on execution of budget program of local budget.

Such improvements of the PPB methodological framework achieved with participation of MFSI-II experts will lead to a better quality in the formation of PPB-based budget programs. Also, such changes will significantly simplify the document flow procedures for local budgets and improve the execution transparency of PPB-based budget

See folder “Deliverables”

Deliverable: proposals that amend the regulatory and legislative framework as needed to complete PPB implementation for the budgets of district-significance municipalities and urban districts developed

Timeline: July-September 2012

Sub-task 1.1.3: Develop formats and procedures for treasury-based services of local budgets to improve the budget software used by the State Treasury; field-test these products within the local governments that have been a part of the pilot program

IBSER will provide technical support for improving the formats and procedures of treasury servicing of local budgets. It will support the implementation of the preparatory work needed for introducing the generation of reports on the execution of local budgets based on the codes of program classification of expenditures and crediting of local budgets.

- IBSER will review the existing reports on the execution of local budgets used by the Treasury and draft its proposals with regard to their amendment in the context of PPB.
- IBSER will prepare its proposals for improving the procedures for the treasury servicing of local budgets. It will submit its proposals with regard to such amendments to the legislative framework that defines Treasury functions.
- IBSER will develop proposals for the requirements specification to improve the budget software used by the State Treasury and assist with its field-testing after installation in the pilot regions.

Deliverables: The proposals for improving the existing reporting forms, as well as new forms for the treasury servicing of PPB-based budgets developed

Timeline: January-June 2012

The MFSI-II experts have reviewed the existing reporting forms on execution of local budgets, which are compiled by the State Treasury of Ukraine. The analysis has shown that these reports need amending in the context of PPB budgeting, namely: it is necessary to take into account the special circumstances of execution of local budgets using the codes of program classification of expenditures and crediting of local budgets.

The special features in generation of reports according to PPB were brought for consideration of the members of the National Advisory Board on efficient public finance management and approved at the meeting of 27 April 2012. Based on the results of this work, the IBSER proposals for improving the reporting forms on execution of local budgets, which are compiled by the State Treasury Service of Ukraine, have been developed and submitted to the Ministry of Finance of Ukraine.

See folder “Deliverables”

Deliverables: The proposals for improving the procedure for the treasury servicing of local budgets developed. The proposals with regard to amendments to the legislative framework, which defines Treasury functions developed

Timeline: July-September 2012

Deliverables: The proposals for the requirements specification to improve the budget software used by the State Treasury developed

Timeline: April-September 2012

MFSI-II experts have started preparing the transitional tables, which will be used for modifying the software used by the State Treasury Service of Ukraine.

Sub-task 1.1.4: Prepare and disseminate a PPB hand book

Deliverable: *The PPB Handbook (Third edition) produced, disseminated, and published on the Project website*

Timeline: *March 2012*

Result/ Deliverable:

The MFSI-II experts have prepared a Modern Tools of Financial Planning Handbook, which contains the training, normative, and methodological materials needed for learning the methods and applying the practices of local budget planning based on Performance Program Budgeting. The methodology of financial justification of strategic documents and principles of financial analysis of investment projects are provided.

The history and practices of raising the efficiency of budget spending in the developed countries worldwide are discussed in detail, as well as the main features, elements, and basic component of PPB.

Special focus is made on discussing the key element of Performance Program Budgeting, i.e., the budget program. A detailed discussion is presented of all the budget program elements, characteristics are given of all categories of performance indicators of budget programs, and special circumstances of their application.

The procedures and applied aspects of use of the provisions are described, as well as the standard documents forms, in particular, those related to use of the program classification of expenditures and crediting at the local budget level, completing budget requests, compiling passports of budget programs, as well as preparing quarterly and annual reports on implementation of budget program passports.

The publication is intended for specialists of local finance departments, central and local government officials, structural units of the executive branch, and members of the deputy corps. Its use will make it possible to improve the knowledge of local-level specialists with the modern tools of financial planning and will be disseminated during PPB trainings for new participants of the experiment.

See folder "Deliverables"



Accomplished (see “ Quarterly Report 01 January 2012 – 31 March 2012»)

Sub-task 1.1.6: Train at least 8,000 budget officers from local finance departments, key spending units, as well as territorial departments of the Treasury

In order to efficiently implement PPB at the local level, it is necessary to improve the qualifications of the personnel of local finance departments, the specialists of the spending units and recipients of budget funds, as well as of the representatives of regional and local offices of the State Treasury.

- At the regional level, IBSER will deliver a series of cluster trainings

Deliverable: *Report on the number of trainings held and the number of participants attending the trainings with a breakdown by gender*

Timeline: *April-September 2012*

Result/ Deliverable:

After completing a series of coordinating meetings, as part of implementation of tasks of the Municipal Finance Strengthening Initiative Project Roll-out (MFSI-II), IBSER arranged the trainings and consultations on PPB implementation in the oblast centers.

In January-March 2012, trainings on PPB implementation at the local level were conducted in the Kyiv, Ivano-Frankivsk, Cherkasy, Chernihiv, Volyn', Sumy, Kirovohrad, Odesa, Vinnytsya, Zakarpatska, Poltava,

and Kharkiv oblasts. A total of 1,451 local specialists passed through training in the previous reporting quarter.

Accomplished (see “Quarterly Report 01 January 2012 – 31 March 2012»)

Experts of the MFSI-II Project have completed delivery of a series of regional trainings on implementation of the Performance Program Budgeting method of planning and execution of local budgets. In April-June 2012, trainings on PPB implementation at the local level were organized in the Khmelnytskyi, Rivne, Dnipropetrovsk, Chernivtsi, Zaporizhzhya, Mykolaiv, and Kherson oblasts.

The coordinators of PPB implementation from each of the regions and specialists of the structural units of Finance Directorates responsible for the formulation of departmental indicators of respective budgets were engaged in the trainings. All in all, 1,139 local specialists passed through training in this quarter. Since the beginning of the year, such trainings were delivered in all oblast centers for specialists of each of the regions, which joined the experiment in 2012. This year, a total of 2,590 local specialists passed through training.

Regional training on implementation of the Performance Program Budgeting method of planning and execution of local budgets, the city of Mykolaiv, 17 May 2012



The trainings and consultations covered all the departments, which made it possible to formulate local budgets in the PPB format in all areas of using the budget funds, and ensured their transparency and efficient use. As of now, as the result of the delivered trainings, the training participants have prepared more than 11,000 budget requests and approved more than 15,000 budget programs with appropriate performance indicators developed.

See folder “Deliverables”

Sub-task 1.1.7: Conduct training sessions for relevant public budget officers on the following issues:

- ***Designing effective development budget programs;***
- ***Linking local economic development strategies and plans to available governmental and non-governmental resources;***
- ***Conducting sound financial analysis and developing credible investment and project financing proposals;***
- ***Incorporating financial and economic analysis in the preparation of local strategic documents.***

To assist local governments in applying credible financial analyses and projections to estimate the costs of local developmental strategies and individual projects and identify the sources of funding, IBSER will prepare a draft bylaw with regard to medium-term budgeting at the local level.

In order to provide quality methodological support to the delivery of trainings, IBSER will develop the relevant methodology and modules for PPB training materials. These modules will contain, among other things, recommendations for local governments that address the environmental protection and healthcare problems in their strategies and development budget programs, as well as the methodology of medium-term budget projection. IBSER will present a draft module for DIALOGUE project and will take into consideration its feedback.

- IBSER will develop the proposals into a draft bylaw on medium-term budgeting at the local level.
- IBSER will develop a methodology of financial justification of strategic documents. This methodology will provide for linking local economic development strategies and plans to available governmental and non-governmental resources, as well as incorporating financial and economic analyses in the preparation of local strategic documents. As the result, local budgets will have sufficient resources to support all essential local government functions.
- IBSER will develop a separate module on using the methodology of financial justification of strategic documents as part of PPB training materials (see Sub-task 1.1.4).

- IBSER will develop a module on designing effective development budget programs and conducting a sound financial analysis and developing credible investment and project financing proposals, as part of PPB training materials (see Sub-task 1.1.4).

Result/Deliverable: Draft bylaw on medium-term budgeting at the local level

Timeline: January - March 2012

Result/ Deliverable:

Experts of the MFSI-II project have developed a methodology of cost and credit provision for the planning year and two subsequent budget years by key spending units of local budgets.

The developed methodology sets the sequence and technique of expenditures cost and credit provision of local budgets for the medium-term within a budget process.

The methodology will result in the medium-term as following:

- improved budget management actions by key spending unit;
- cost optimization to achieve the best possible outcome from the budget spending;

- the problem of a gap between the key spending unit's need in funds and budget capacity to satisfy it resolved. The developed methodology has been forwarded to the Ministry of Finance of Ukraine, where a decision will be made on the format of its approval.

Accomplished (see “ Quarterly Report 01 January 2012 – 31 March 2012»)

Result/Deliverable: Methodology of financial justification of strategic documents developed

Timeline: October 2011 - January 2012

Result/ Deliverable:

Experts of the MFSI-II project have developed the *Methodology of financial justification of strategic documents*.

The prepared methodology sets out the hierarchy of financial justification of strategic documents taken together and their interrelations between each other, as well as the financial provision for implementation of strategic documents by funding source.

Presented in the methodology is the required structure of the financial component of a strategic plan and clarifications of each of its components. The arrangement is presented of financial provision for realization of a strategic plan, which takes into account the cost of each planned task, with a specification of funding sources. A separate listing is supplied of possible financial sources for implementation of strategic plan tasks, such as budget funds, resources of international financial institutions, and a possibility of attracting resources of the private sector is also discussed.

Accomplished (see “ Quarterly Report 01 January 2012 – 31 March 2012»)

Result/Deliverable: The module on using the methodology of financial justification of strategic documents as part of PPB training materials developed

Timeline: January - March 2012

Result/ Deliverable:

The draft modules were presented and discussed during the Eighth Financial and Economic Forum *The Socioeconomic Prerequisites for Local Development in 2012-2014*, which took place on 14 October 2011, with participation of O. Slobozhan, a representative of the Association of Ukrainian Cities and Communities, which is the implementer of the DIALOGUE Project. The module has been developed and included in the PPB Handbook under Sub-task 1.1.4. and forwarded to AUC.

Accomplished (see “ Quarterly Report 01 January 2012 – 31 March 2012»)

Result/Deliverable: The module on designing effective development budget programs and conducting sound financial analysis and developing credible investment and project financing proposals, as part of PPB training materials developed

Timeline: November 2011 - March 2012

Result/ Deliverable:

The module has been developed and included in the PPB Handbook under Sub-task 1.1.4. The developed module contains a mechanism for conducting a financial analysis and the methods of calculating the benefits and costs of investment projects. Formulas are provided for calculation of basic indicators in conducting a financial analysis of investment projects.

Accomplished (see “ Quarterly Report 01 January 2012 – 31 March 2012»)

Sub-task 1.1.8: Provide advisory support to those local governments that have not been involved in the PPB pilot project

- IBSER will develop the existing local network of consultants who will help introduce PPB budgeting and will facilitate coordination between participants in the process. Also, the consultants will collect, summarize, and submit for consideration by the Ministry of Finance the most important issues and promote the dissemination of recommendations for their resolution in the regions. To facilitate experience sharing among all the participants in the experiment and analyzing the progress of implementation of PPB budgeting, information from all the regions will be collected and processed on an ongoing basis. Best practices in PPB implementation will be highlighted on the IBSER website and in print publications.
- IBSER will continue supporting the website section "Topical PPB Issues: Expert Answers column," where visitors will be able to receive answers to their questions through interactive communication.

Deliverable: Annual experiment progress reports

Timeline: June 2012

According to the Ministry of Finance letter of 1 March 2012, No. 31-05030-12-8/5208 "Regarding implementation of Phase II of the experiment on PPB introduction at the local level," MFSI-II experts have prepared a report on the activities undertaken by experiment participants for introducing the Performance Program Budgeting method in 2012.

See folder “Deliverables”

Result/Deliverable: Running a column called «Topical Questions on PPB: Answered by Experts» on IBSER web-page

Timeline: monthly

Result/Deliverable:

New set of questions (twenty-four for the reported period) with experts answers related to PPB section has been placed on the site, the information is regularly updated. In general, 56 answers to PPB questions have been prepared and posted on the website since the launch of the MFSI-II Project.

See folder "Deliverables"

Task 1.2: Review the legislation and analyze the execution of the State and local budgets of Ukraine. Provide support to operations of Interdepartmental Working Group

Sub-task 1.2.1: Advisory support to the interagency working group in finalizing the methodology, and the laws and regulations needed

- IBSER will provide organizational support to the Ministry of Finance's Intergovernmental Working Group by organizing meetings and developing the relevant recommendations regarding PPB methodology implementation.

Result: Meetings of the working group will be held on a regular basis

Deliverable: Developed recommendations

Timeline: November 2011, February 2012, May 2012, September 2012

Result/ Deliverable:

1. A meeting of the Intergovernmental Working Group on implementation of performance program budgeting at the level of local budgets was held on **26 December 2011**. The meeting summarized the results of Working Group activities in 2011 and set out the directions of work for 2012. In particular, these included the completion of elaboration by the Ministry of Finance of the software for local budgets, designed for preparation of PPB-based local budgets in the automatic mode, and finalization of the methodological framework of PPB and delivery of training for all new participants in the experiment (346 budgets in 2012).

Accomplished (see «Quarterly Report 01 October – 31 December, 2011»).

Due to the change in leadership at the Ministry of Finance of Ukraine and the Ministry's preparation of the annual report on 2011 budget execution, no meetings of the Interagency Working Group were held in the first quarter of 2012.

Accomplished (see “ Quarterly Report 01 January 2012 – 31 March 2012»)

2. A regular meeting of the Interagency Working Group on conducting the preparatory work for implementing the Performance Program Budgeting method of formulation and execution of local budgets was held at the Ministry of Finance of Ukraine on 7 June 2012. The meeting was attended by department heads of the Ministry of Finance, line ministries, and MFSI-II experts.

Based on the results of the meeting, the First Deputy Minister of Finance has signed the minutes, which incorporate the proposals made by MFSI-II experts. These include the following:

- a decision is made to amend the Standard Lists of budget programs with a view to their consolidation and optimization of performance indicators. The structural units of the Ministry of Finance with the line ministries are instructed to submit by 16 July 2012 their proposals with regard to amending the Standard Lists of budget programs, and prepare drafts of appropriate orders by 1 August 2012. It is also stipulated that IBSER will provide the advisory and practical assistance in preparing the drafts of the relevant joint orders;
- the departments of the Ministry of Finance of Ukraine are commissioned to elaborate by 1 August 2012 the issue of the expediency of amending the Provisional Classification of Expenditures and Crediting of Local Budgets;
- IBSER is requested to prepare the methodology of comparative analysis of the efficiency of budget programs based on a formula approach.

Realization of these tasks will improve the legislative framework of PPB, ensure optimization of the structure of budget programs of local budgets, and create an opportunity to make a comparative analysis of efficiency in implementation of budget programs.

See folder “Deliverables”

Sub-task 1.2.2: Help local governments assess draft laws affecting their revenues and resource allocation including the State Budget Bill to identify and mitigate potential risks for the local development

To implement this task, IBSER will carry out:

- analysis of the draft Budget Declaration for the next year;
- analysis of the provisions of the draft legislation aimed at amending the revenue base of local governments;
- analysis of the Budget Law for the respective year;
- analysis of the Changes to the Budget Law for the respective year is prepared and the suggestions to it are incorporated in the Law (if such changes are brought forward for consideration by the Verkhovna Rada);
- analysis of the Changes to the Tax Code, land laws, and other laws related to local budgets, which could affect their revenues and resources.

Result Analysis of the Budget Declaration for the next year is prepared and the suggestions to the document are accepted and incorporated in the text of the document

Timeline: April- June 2012

1. A Decree of the Verkhovna Rada of Ukraine "On the Main Directions of Budget Policy for the Year 2013" approved on 22 May 2012, under No. 4824 takes into account the proposals made by experts of the MFSI-II Project. Mentioned among the key characteristics and positive trends of 2012, note should be made of that the Main Directions of the Budget Policy are based on the previously approved national strategic documents; clear results for implementation of budget policy in 2013 have been set, some of them are supported by specific indicators; main forecasts of macroeconomic indicators of economic and social development have been established in line with the general pace of economic development; the exchange rate of hryvnya to U.S. dollar and some estimates have been provided.

The main tasks of the budget policy and specific indicators regarding the deficit and State debt should support the continuation of a trend towards reducing the budget debt burden in subsequent years. The Decree sets the provisions for implementing the key social initiatives of the President of Ukraine, which were taken into account when adjusting the State budget of Ukraine for the Year 2012.

At the same time, there are certain risks of failure to implement certain provisions. In particular, as regarding building the relations between the State budget and local budgets through adoption by 1 August 2012 of the legislation with regard to calculating the expenditures of local budgets based on State social standards and standard amounts of services provided at the expense of budget funds (added by the Committee on Budget of the Verkhovna Rada of Ukraine). This is a task for different ministries, which will require significant time for their development and approvals with local governments. Therefore, the specified deadline is unrealistic.

In general, the Decree incorporates seven proposals developed by participants of the Ninth Financial and Economic Forum held under MFSI-II Project on 2 March 2012. These concern the following:

- the top priority given to incurring the expenditures aimed at addressing the issues of energy efficiency and energy conservation;
- increasing the proportion of local budget revenues in the consolidated budget;
- raising the level and efficiency of using the budget funds by means of gradual implementation of Performance Program Budgeting at the level of local budgets;
- the need of planning the revenues, expenditures, and credit provision of local budgets for the medium term based on a unified methodology;
- taking steps to achieve a transition to State's provision of direct targeted cash allowances and gradual monetization of social benefits, with streamlining the list of recipient of such benefits.

2. MFSI-II experts have analyzed the provisions of the Tax Code of Ukraine in the part of tax on the immovable property and identified risks and loopholes of the legislation that may reduce the financial role of the tax for the local budgets. Besides, MFSI-II experts have prepared proposals

aimed to remove the identified loopholes. The proposals in the form of the draft law “On changes to the Tax Code of Ukraine” were directed to the Verkhovna Rada Committee On Finance, Banking, Tax And Customs Policy. As of now, the date of introduction of the immovable tax is postponed till January 1, 2013.

Deliverable: Analysis of the provisions of the draft legislation aimed at amending revenue base of local governments

Timeline: Ongoing process

1. Draft Law of Ukraine No.9686, "On Amending the Budget Code of Ukraine" registered on 12 January 2012, proposes excluding 50 percent of the fee for extracting minerals of national significance on land from the oblast budget revenue that is taken into account when determining the amount of intergovernmental transfers. Of this revenue, 90% would be remitted to the General Fund revenues of the State budget and the other 10% would be allocated to oblast budget revenues that are not taken into account when calculating intergovernmental transfers.

Accomplished (see “ Quarterly Report 01 January 2012 – 31 March 2012»)

2. The Draft Law of Ukraine “On Amending the Tax Code of Ukraine (on the taxation of personal super income)" registered on 16 January 2012, No.9722, as well as the related Draft Law of Ukraine "On the Social Responsibility of Big Business to Society" registered on 16 January 2012, No.9721, both propose introducing additional taxation on income in excess of UAH 20mn per year, remitting the proceeds from this source to the State budget and using it exclusively for the "provision of aid for maternity, childhood, needs of the youth, and the provision of pensions."

Accomplished (see “ Quarterly Report 01 January 2012 – 31 March 2012»)

3. The Draft Law of Ukraine “On Amending the Tax Code of Ukraine" registered on 16 January 2012, No.9720, proposes to "make tax-exempt all apartments with a floor area of up to 150 sq m and residential buildings with a floor area up to 300 sq m, and levy a tax on those residential properties which exceed these limits."

Accomplished (see “ Quarterly Report 01 January 2012 – 31 March 2012»)

Result: Performance of an analysis of the Budget Law for the respective year is prepared

Deliverable: Analysis of the Budget Law for the respective year

Timeline: December 2011

Result/Deliverable:

The MFSI-II Project experts have analyzed the Main Characteristics of the Law of Ukraine “On the State Budget of Ukraine for the Year 2012.”

Accomplished (see “ Quarterly Report 01 January 2012 – 31 March 2012»)

4. A Draft Law of Ukraine “On Amending the Budget Code of Ukraine” (prepared by People's Deputy O.O.Omelchenko) was registered on 10 May 2012, under No.10446. The draft law aims to strengthen the financial base of the Kyiv city budget, as well as to improve the efficiency of using the budget funds. The draft law takes into account the proposals made by MFSI-II experts developed under MFSI Project. Among other things, those involve the remittance of the personal income tax collected in Kyiv to the city budget in full, rather than 50%, as required now. Also, the legislative draft proposes to incur expenditures of the city of Kyiv for the performance of its capital city functions from the budget of the Kyiv city at the expense of the subvention and grant to be transferred from the State budget (today, these expenditures are incurred from the State budget by the Ministry of Finance). The said draft law is

in line with the principles of Performance Program Budgeting and should be a positive fact. Changes with regard to establishing the amount of funds to be transferred by local budgets to the State budget once in three years are important for implementation of the Kyiv City Strategy up to the year 2025, which was developed with participation of MFSI Project experts, as well as for improving the medium-term budgeting in general.

Result: Analysis of the Changes to the Budget Law for the respective year is prepared and the suggestions to it are incorporated in the Law (in case such changes are brought for consideration of the Verkhovna Rada of Ukraine)

Deliverable: Analysis of the changes to the Budget Law

Timeline: Depending on the date of law adoption.

1. On 12 April 2012, the Verkhovna Rada of Ukraine passed the Law of Ukraine No.4647 "On Amending the Law of Ukraine 'On the State Budget of Ukraine for the Year 2012.'" This law increased the State budget revenues by UAH 33.4bn or by 10.1%. The value-added tax on goods imported in Ukraine is the main source of this increase, with a growth of UAH 14.0bn or by 13.7%. Also the revenues from enterprise profit tax increased by UAH 4.4bn or by 8.3%, value-added tax on goods made in Ukraine by UAH 3.5bn or by 3.9%, and some other revenues.

When reviewing the said changes to the State budget, the MFSI-II Project experts noted that they fully agree with the provisions of the current legislation, which stipulate that "amendments to the law on the State budget of Ukraine may be made in case of a deviation of the evaluation of the key projected macroeconomic indicators of the economic and social development of Ukraine and the budget revenues from the forecast used when approving the State budget" (Article 52 of the Budget Code of Ukraine). The revision of annual plans for VAT and enterprise profit tax is explained by finalizing the budget performance indicators for 2011.

Of the total additional resource (UAH 33.4bn), nearly a third was allocated for strengthening local budgets, i.e., for State budget transfers to local budgets. Enactment of the majority of new social initiatives launched by the President of Ukraine is accounted at the total amount of UAH 18.2bn. These include improvement of pensions provision of UAH 9.1bn, payment of compensations to individuals for their depreciated cash savings of UAH 6.2bn, operation of a mechanism of providing cheaper mortgage loans of UAH 1bn, raising the subsistence level for disabled persons and children of UAH 0.7b, modernization of social services in order to fully cover the most vulnerable citizens by State care of UAH 0.4bn etc.

Alongside President's social initiatives, expenditures for economic activity have also been increased, in particular, by UAH 0.5bn for the State Regional Development Fund, for housing and communal services, State capital expenditures distributed by the Cabinet of Ministers of Ukraine. A positive fact should be mentioned of an UAH 8.3bn increase in the amount of development expenditures in general compared to the indicator approved in December of last year.

Experts of the MFSI-II Project note that the planned amount of credit repayment to the budget of UAH 12.3bn still remains a risk. Moreover, the analysis shows that credit repayment amounted to about 60.0% of the plan in 2010, while in 2011, the annual plan was only executed by 22.5% (UAH 2.3bn vs. the plan of UAH 10.2bn). Therefore, in order to implement the plan this year in full, certain effort will need to be made.

decisions; however, granting of a guarantee was hampered by the inability of the Ministry of Finance to approve it due to lack of the relevant procedure. Similar problems were experienced by other cities. From now on, it is possible to start a practical implementation of an energy saving project in the city of Kyiv, which will reduce CO2 emission by 1,460.7 tons/year, and this mechanism can also be employed in other cities.

3. The Decree of the Cabinet of Ministers of Ukraine dated 14 May 2012, No. 541 "On Approving the Procedure of Granting Local Guarantees" has been published at the Government Portal.

The Procedure specifies the information, which must be included in a resolution of the Verkhovna Rada of the Autonomous Republic of Crimea or that of a relevant City Council, and a list of documents, which should be attached to a written notice to the Ministry of Finance.

According to the Procedure, the Ministry of Finance shall review the submitted documents within 20 working days, and make sure that the scope and conditions of granting a local guarantee are in line with the requirements of the budget legislation, issue a resolution on approving the scope and conditions of granting a local guarantee or provide a reasoned rejection, which shall be communicated to the Verkhovna Rada of the Autonomous Republic of Crimea or a City Council.

Part eight of Article 74 of the Budget Code of Ukraine envisages that the scope and conditions of local borrowing shall be coordinated with the Ministry of Finance. However, the said Decree states that a resolution on coordinating by the Ministry of Finance of the scope and conditions of granting a local guarantee shall also be subject to approval by the Cabinet of Ministers.

The Institute experts believe the need for approval of a resolution issued by the Ministry of Finance by the Cabinet of Ministers will significantly complicate the procedure and prolong the time for obtaining the authorization documents. Besides, there are no criteria for Cabinet's approval or rejection. IBSER has sent out the information about the approved procedure of granting local guarantees to all stakeholders, including the AUC and MHR Project in order to identify all potential risks for local government.

Sub-task 1.2.3: Help the GOU develop and review amendments to budget legislation that promote local level strategic planning and enable local governments to attract the private sector resources for the local infrastructure development projects;

- ***Help the GOU develop and review amendments to the Budget Code and sub-laws that:***
- ***Enable all creditworthy communities to have access to credit resources to fund their infrastructure development projects;***
- ***Regulate the process of adoption by local governments of responsibilities and financial obligations within PPP arrangements; and***
- ***Enable local governments separating energy efficiency savings from the rest of the budget and using these savings to reimburse implementers of performance contracts.***

MFSI-II experts will carry out an analysis of the budget legislation that promote local level strategic planning and enable local governments to attract the private sector resources for the local infrastructure development projects. Based on this analysis, if necessary, IBSER will prepare draft changes to the legislative and regulatory framework, will submit them for roundtable / meeting of NAB discussion, and will develop the strategy for promoting these changes

Result/Deliverable: *An analytical memo with the findings of the review of the legislative and normative framework in the field of Public-Private Partnership is prepared*

Timeline: *January - March 2012*

Result/ Deliverable:

Experts of the MFSI-II project have analyzed the legislation on local-level strategic planning, as well as the legislation, which regulate the issues of local government's attracting private sector resources for realization of local infrastructure development projects. The said analysis has revealed certain drawbacks, which need to be eliminated. For instance, with regard to strategic planning, the legislation on State

forecasting and development of programs of socioeconomic development of Ukraine makes no provision for financial support to the development priorities, including a forecasting of financial resources, whereas it is well known that a financial justification of strategic documents allows making a sound allocation of budget resources for the medium-term. Without a financial justification, a strategic plan is just a declaration of intent, it becomes unrealistic, and stops being a tool of effective management.

As regards to the public-private partnerships, its development in Ukraine is hampered, among other things, by lack of a legislative mechanism, which would ensure that public sector obligations are irrevocable. This problem for financial obligations under PPPs could be resolved if these obligations would have the same status as the State/local guarantee obligations.

Also, the analysis has identified some other obstacles with regard to the said issues. Based on the conducted analysis, an analytical memorandum has been prepared to become the basis for developing relevant legislative amendments under this Sub- task.

Tetyana Korotka, Officer for Cooperation with the Government of Ukraine of the Public-Private Development Project in Ukraine (P3DP) USAID, Candidate of Economic Sciences, was invited to and took an active part in the Ninth Financial and Economic Forum on the topic of ***The Year 2013 and Medium-Term Budget Policy***, which took place on 2 March 2012. The issues of Public-Private Partnerships were considered at the Forum, and presentations were made on the topic by Iryna Zapatrina, Chairperson of the Board of the Ukrainian Public-Private Partnership Support Center, and I.F. Shcherbyna with participation of T. Korotka. Also, T. Korotka took part in developing the recommendations of the Forum, which were then disseminated among all the stakeholders.

Accomplished (see “ Quarterly Report 01 January 2012 – 31 March 2012»).

Result: Development of draft changes to the legislation and regulations

Deliverable: Proposals regarding legislation improvement: draft amendments to the Budget Code (if needed); draft decrees of the Cabinet of Ministers (if needed); draft decisions of the State Treasury (regarding the issues of budget execution when implementing PPP projects) (if needed)

Timeline: April – June 2012

The MFSI-II project is involved actively in the development of changes to legislation that will enable local self-governments to raise private sector funding for the purpose of implementing local infrastructure development projects.

Thus, to provide opportunity for enhancing the activity of cooperation between towns and cities with private partners within the limits of applicable legislation, the MFSI-II developed and on May 22 filed with the Ministry of Finance of Ukraine their draft changes to Resolution No. 110 of the Cabinet of Ministers of Ukraine “On Approval of the Procedure for Municipal Borrowing”.

The proposed changes provide for the possibility of raising investments by local self-governments for the implementation of municipal infrastructure development projects, in particular, in the area of energy efficiency, not only in monetary terms, but also through engaging private partners in carrying out works (delivering services, supplying goods).

Furthermore, the MFSI-II project developed and submitted on May 21 to the Ministry of Finance, Budget Committee of the Verkhovna Rada of Ukraine and Coordination Center for Economic Reform mandated by the President of Ukraine its proposals regarding changes to the Budget Code of Ukraine, specifically:

- setting out powers and guarantees for the performance of obligations by public partners if the government and local territorial communities raise funds on the basis of public-private partnership, in particular with the engagement of energy service companies;
- possibility to increase twofold the volume of municipal investments to implement infrastructure development projects thanks to private partners involvement;
- improvement of creditors' and private partners' rights protection in the course of project implementation.

The aforesaid changes will facilitate the regulation of relations in such important area as local development projects planning and funding, in particular those related to energy saving.

See folder "Deliverables"

Result: Preparation and organization of a round table/ meeting of NAB for all interested parties

Deliverable: Recommendations of roundtable participants with regard to the legislative proposals developed under this task.

Timeline: September 2012

Sub-task 1.2.4: Help local governments assess draft legislation affecting the local development such as Community Associations Bill and Regional Development Bill and suggest amendments with a focus on strengthening local revenues

- IBSER will review the draft legislation affecting local development and suggest amendments with a focus on strengthening local revenues (if an administrative and territorial reform is implemented, the said proposals will take the aspects of a new State system into consideration);

Deliverable: The proposals based on the analysis findings prepared

Timeline: Ongoing process

Result/ Deliverable:

The Decree of the Verkhovna Rada of Ukraine dated 7 February 2012, No.4350-VI directed to send for the repeated first reading the draft Law of Ukraine on the foundation of the State regional policy, which was registered by the Verkhovna Rada on 1 June 2010, under No.6462. This legislative draft proposes creating the legislative foundations for implementation of the State regional policy. Among other things, the legislative draft sets out the key principles of conducting the regional policy by setting the goals and objectives of the regional policy, as well as the powers of the national and regional authorities. In addition, the legislative draft provides for establishing a National Regional Development Fund for the purpose of participation in financing of inter-regional and regional development programs and projects. To finance the operations of the National Regional Development Fund, a number of sources have been set up, including 5% of the enterprise profit tax paid by enterprise, except municipal enterprises, which tax is remitted to the State budget of Ukraine, which amounts to UAH 2.7bn (RDF) of the 2012 plan. One of the unresolved issues of the Tax code of Ukraine approved in December 2010 is the problem of providing sufficient financial resources to local budgets. Therefore, from the conceptual point of view, the redistribution of tax flows, which could have been potentially directed to local budgets, will, in fact, result in strengthening the centralization trends, opposite to the development of local government. From the legislative point of view, the issue on using the tax revenues for replenishing the National Regional Development Fund must be regulated by the Budget Code of Ukraine. No calculations or estimates of a possible economic impact from establishment and activities of the National Regional Development Fund are provided in the explanatory documents to the legislative draft, with only a statement to the effect that the Fund is going to acquire an ability to independently finance its operations through its own generated income in the medium term. On the whole, MFSI-II experts support the idea of streamlining and strengthening the State's regional policy. At the same time, they emphasize the need of identifying additional sources of funding of such policy and making relevant changes to the respective pieces of legislation, which regulate the budgetary issues.

Accomplished (see “ Quarterly Report 01 January 2012 – 31 March 2012”).

There were no legislative drafts affecting local development and suggested amendments with a focus on strengthening local revenues registered in the reporting period.

Result/ Deliverable:

The MFSI-II Project experts took part in a working meeting on 17 February 2012, chaired by Anatoliy Blyznyuk, the Minister of regional development, construction, and housing and communal services of Ukraine. Discussed at the meeting were the main directions and priorities of implementation of the local government and regional development reform. A decision was made that in the complicated political situation (election year), implementing such a reform could hardly be feasible. Therefore, the legislative draft on associations of territorial communities could become the first step for further reforms. Also, MFSI-II experts reviewed the provisions of the draft Law of Ukraine "On Associations of Territorial Communities" No.9590 of 14 December 2011 with regard to the financial support to associated communities. Conclusions and proposals were prepared and forwarded to all stakeholders in 22 February 2012. After this, the proposals were considered at the roundtable meeting () at the Committee on State Building and Local Government of the Verkhovna Rada of Ukraine on 12 March, 2012.

Accomplished (see "Quarterly Report 01 January 2012 - 31 March 2012").

- IBSEER will review the legislative draft aimed at financial support of regional development, in particular, for establishing a Regional Development Fund, and prepare its proposals intended for strengthening the financial resources of local governments.

Deliverable: The proposals based on the analysis findings prepared

Timeline: IV Quarter 2011 - III Quarter 2012

The Cabinet of Ministers of Ukraine approved a Decree of 21 March 2012, No.312 "On Approving the Procedure of Using in 2012 the Assets of the State Regional Development Fund." The Regional Development Fund was created not as an institution but rather as a subvention, which is granted from the State budget to local budgets. The Decree describes the mechanism of using the resources allocated in the State budget in 2012 under the program "State Regional Development Fund." According to the approved procedure, the allocation of budget resources has been set between the budgets of the Autonomous Republic of Crimea, oblast budgets, and budgets of the cities of Kyiv and Sevastopol, in the following proportions:

70% of the total - in proportion to the size of the population living in the relevant region;

30% of the total - with due account for the problems of socioeconomic development of individual administrative-territorial units (small cities, mountain, miners' towns, and depressed territories etc.) based on the proposals submitted by the Council of Ministers of the Autonomous Republic of Crimea, oblast, Kyiv and Sevastopol city State administrations. According to the Procedure, the budget funds must be used for financing investment programs/projects and activities, which are in line with the priorities in the development of the regions, as stipulated by the State Regional Development Strategy for the period of up to the year 2015 approved by Decree of the Cabinet of Ministers of Ukraine dated 21 July 2006, No.1001, and regional development strategies (hereinafter referred to as investment programs/projects and activities), and included in:

targeted State programs of regional development;

agreements on regional development and programs of recovery of depressed territories;

State programs for development of cross-border cooperation;

programs and activities of socioeconomic development of the regions, including the programs and activities for development of individual administrative-territorial units (small cities, mountain, miners' towns, depressed territories etc.).

At the same time, MFSI-II experts believe that lack of clearly set criteria and mechanisms of distribution of the second part of financial resources of the Fund (30%) could lead to an opaque distribution and "manual" control.

At the time of this writing, the Cabinet of Ministers is developing a draft ordinance, which will approve the list of facilities and activities to be funded in 2012 at the expense of the State Regional Development resources.

Accomplished (see "Quarterly Report 01 January 2012 – 31 March 2012»).

There was no legislative draft registered in the Verkhovna Rada of Ukraine in the reporting period aimed at financial support of regional development, in particular, for establishing a Regional Development Fund

Sub-objective A.1: Ensure institutional sustainability of the PPB training program(s).

Sub-task A.1.1: Conduct a study of the training centers that can offer PPB training sessions and methodological support to facilitate the introduction and effective application of PPB at the local level; identify those centers that are capable and interested in conducting PPB training sessions and providing methodological support on a regular basis

- IBSER will prepare a strategy to establish a sustainable PPB training program(s) in Ukraine and will present it to USAID by the end of Year 1, organize and select one or two post-graduate educational institutions, which are capable of and interested in delivering PPB training sessions.

Result/Deliverable: Strategy to establish a sustainable PPB training program(s) in Ukraine

Timeline: April-September 2012

Work has been launched to formulate a strategy to establish a sustainable PPB training program(s) in Ukraine and the criteria for selection of post-graduate educational institutions, which are capable of and interested in delivering PPB training sessions.

Objective B: Develop and introduce financial practices that foster energy efficiency in 15 selected cities

Task 2.1: Assist the cities in introducing an effective system of managing energy savings in the public sector

- IBSER will develop a unified methodology and select four Ukrainian cities for the first year of the project. IBSER will coordinate selection with MHR, Public Private Partnership Development Program and Developing Initiative for Advocating Local Governance in Ukraine (DIALOGUE).
- To assist the municipalities in designing sound energy efficiency programs, IBSER will develop a system for monitoring energy-related expenditures based on the PPB method for selected four cities. To implement this system and based on the experience of MFSI Project activities in the city of Kyiv, IBSER will prepare the training materials for its realization and deliver trainings for the specialists of key spending units in four municipalities selected for its application.

Result/Deliverable: Four Ukrainian cities for the first year of the project are selected using the developed unified methodology

Timeline: October - December 2011

Result/Deliverable:

The unified methodology of cities' selection has been developed. When selecting a city, the following criteria are taken into account: population size; existence of the city's energy saving program (Municipal Energy Plan) or energy saving project; cooperation with MHR project; amount of the development budget; a report on energy saving activities in previous years available; willingness of the city leadership to take part in implementing the tasks set out by the MFSI-II project, etc.

Based on a competitive selection process, the cities of Pavlohrad, Poltava, Lviv, Chernihiv, Ivano-Frankivsk, Zhytomyr and Horlivka have been selected. Memoranda of Cooperation have been signed with the winning cities outlining:

- the cities' consent to provide all the materials needed for implementing analyses of municipal energy costs;
- the cities' participation in the development and implementation of a system of monitoring the energy costs and the financial incentives to promote the creation of effective energy performance systems in the public sector;
- participation of the staff of City Councils, City Executive Committees, and City State Administrations in trainings on using the system of monitoring of energy costs, and participation of the staff of communal service enterprises in trainings on monitoring and evaluation of energy performance projects, and on the financial and economic justification of strategic and planning documents;
- participation of city representatives in roundtables, conferences, working meetings, and other activities to be organized by IBSER as part of implementation of the MFSI-II Project energy efficiency component, etc.

Accomplished (see “Quarterly Report 01 January 2012 – 31 March 2012”).

Result: Analysis of four selected cities current budget expenditures on energy resources.

Deliverable: Report on analysis of four selected cities current budget expenditures on energy resources.

Timeline: January – March 2012

Result/ Deliverable:

In addition to the cities of Pavlohrad and Horlivka (see Quarterly Report 01 January 2012 – 31 March 2012), the cities of Poltava and Lviv have also submitted information. Similarly for the previous two cities, experts of the MFSI-II Project have reviewed the actual energy consumption by budgetary institutions in the abovementioned two cities. This review has been implemented on actual indicators, which characterize the use of heat energy, electric energy, natural gas, and water in 2008-2011 by budgetary institutions in the sectors of the social and cultural sphere, public administration and others. Conclusions and recommendations have been provided based on the results of the conducted work.

The analysis shows that expenditures of the Poltava city budget for heat, electric power, and natural gas have been growing annually at a rather high pace. For instance, with the total reduction of expenditures by 6.6ppt in 2009, the expenditures for communal services and energy increased by 19.4ppt. In 2010, with the total growth in expenditures by 13.5ppt, the expenditures for communal services and energy increased by 26.8ppt. The situation regarding the rate of growth in expenditures was better in 2011: the total expenditures increased by 8.7ppt and the expenditures for communal services and energy increased by 9.8ppt. The share of energy costs in the total 2011 expenditures increased by 2.9ppt compared to 2008 to 9.4%. In other words, there was some "displacement" of other essential expenditures from the budget, given scarcity of budget resources. This fact testifies to the need to taking a systemic approach to energy saving in the city, as well as the need of attracting additional funds for implementing development projects in the area of energy consumption.

According to the analysis results, it has been found that the cost of heating accounts for more than a half of all expenditures used for communal services and energy. The largest amounts of heat are used by budgetary institutions in the departments of education and health, which, among other things, is due to the most extensive networks of institutions in these two sectors. At the same time, a significant non-uniformity

of heat consumption per unit of heated floor area is observed (see Charts 1 and 2). As seen from Chart 2, the largest amounts of heat were consumed by budgetary institutions in the department of social protection and social security of 0.168 Gcal per 1 sq m. This, in particular, could be explained by presence of a certain proportion of premises, which have low heat resistance due to significant age of buildings and lack major renovations. Therefore, when developing a system of monitoring and evaluation of city's energy expenditures, it is necessary to take into account the need of tracking the condition of premises, in particular, their energy properties.

Chart 1

Heat Consumption per One Square Meter of Heated Area in 2008

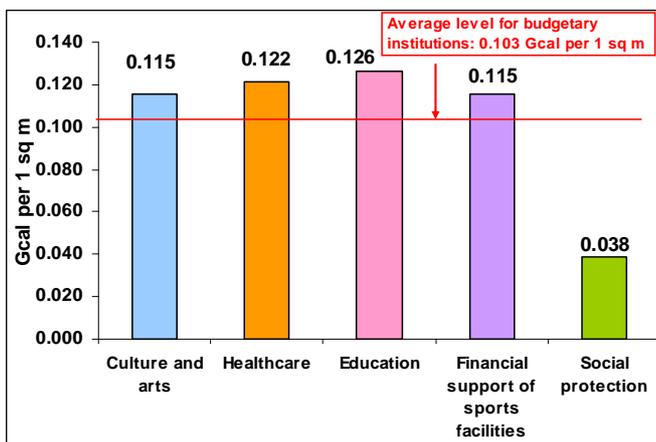
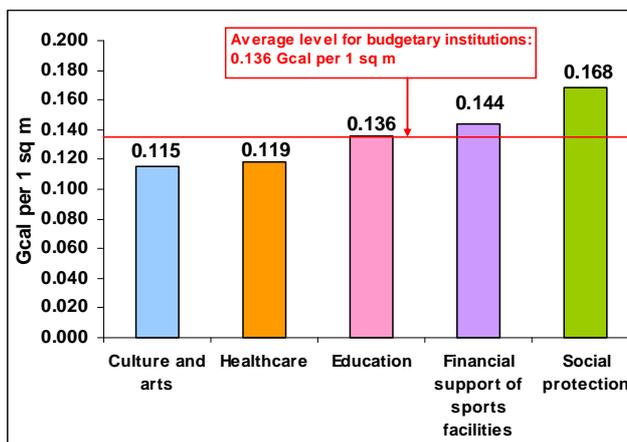


Chart 2

Heat Consumption per One Square Meter of Heated Area in 2011



The analyses of energy expenditures for the remaining cities, with which the Memoranda have been signed, such as Chernihiv, Ivano-Frankivsk, and Zhytomyr, will also be implemented in the nearest future.

Expenditures of the Lviv city budget for heating, electric power, and natural gas are growing at a rather high rate every year. Their share in the total expenditures increased in 2011 compared to 2008, when it amounted to 6.6%, by 2.9ppt (to 9.5%). In the overall structure of city expenditures for energy, heating accounts for the largest share (from 57.4% in 2008 to 65.8% in 2011) (see Chart 3). This share reached the highest level in 2010, when it amounted to nearly two thirds of all energy expenditures (69.4%). That year, the said expenditures increased by 26.5% against 2009, and more than doubled compared to 2008. Expenditures for electric power are the second largest, with their share in the overall structure averaging

Chart 3

Structure of Energy Expenditures by Type of Energy in 2008-2011

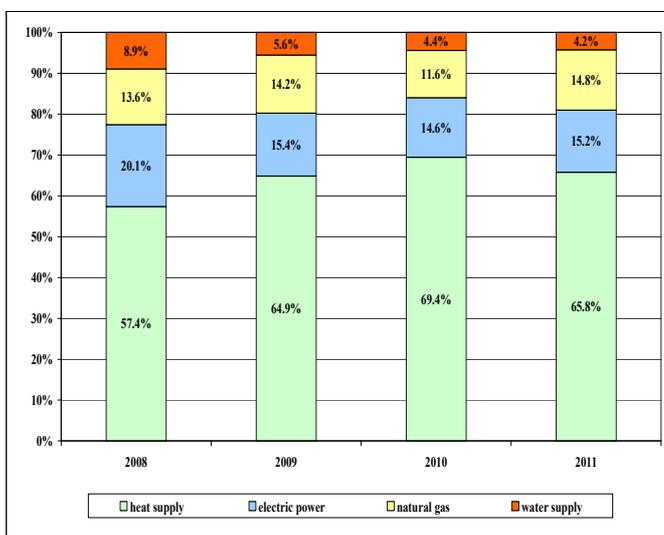
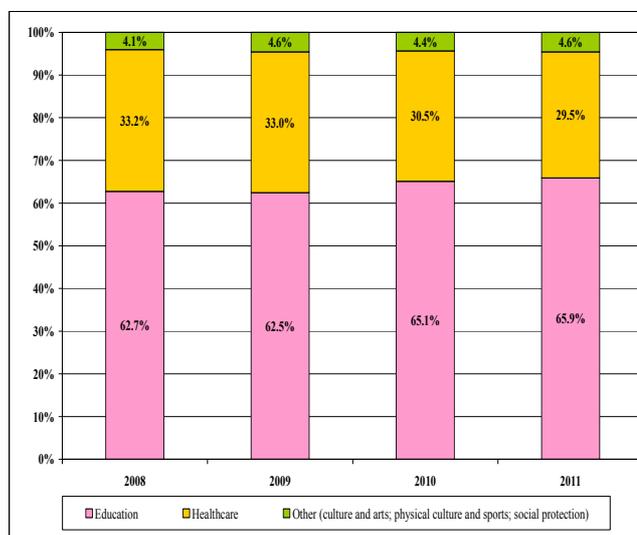


Chart 4

Structure of Energy Expenditures by Department in 2008-2011



16.3% in the last four years. The highest share of these expenditures was noted in 2008, when it amounted to

20.1%, which is 4.9ppt more than in 2011. Educational institutions account for the largest amounts in the structure of energy costs (see Chart 4). These institutions were using on average about two thirds of all energy expenditures in the last four years. Accordingly, the heated space used by these institutions is the largest from among all the sectors, totaling 611,400 sq m in 2011.

The analysis has revealed a non-uniformity of heat consumption per 1000 sq m of heated area. The highest amounts are consumed by budgetary institutions in the department of health at 101.91 Gcal per 1000 sq m, education at 89.23 Gcal per 1000 sq m. It has been found that there is no interrelation in the city between the decrease/increase in the amount of communal services and energy used and the energy saving activities, worsening of the condition of buildings, weather conditions etc.

Also, as part of this task, assessment was made of the creditworthiness of two of the selected cities, namely, Pavlohrad and Poltava, which are starting their collaboration with creditors for the purpose of implementing energy saving projects. In the course of preparing of relevant conclusions, the main sources of revenue generation for these budgets have been identified and the levels of their execution in 2009-2011 compared to the plan, the structure and amounts of the development budget have been analyzed, as well as the structure of budget expenditures, in particular, with regard to the share of protected items, which are mandatory for execution and shall not be subject to reduction etc.

On the whole, the development budgets of both Pavlohrad and Poltava have been found to be sufficient for annual repayment of local debt (meeting the guarantee obligations in case of a claim under guarantee) at the amount of not more than UAH 4.1mn-UAH 5.2mn and UAH 5.5mn-UAH 6.8mn, respectively. These capacities of the cities, in turn, are sufficient for implementation of the projects they are proposing. The said conclusions will strengthen the likelihood of creditors' agreeing to support realization of energy saving projects in the said cities (the relevant business plans are currently being developed by the said cities) and provide for a reduced energy consumption in the budgetary sector.

See folder “Deliverables”

Result/Deliverable: System for monitoring energy-related budget expenditures for the four selected cities.

Timeline: April – June 2012

Based on their experience of preparing analyses of energy expenditures of cities under this Task, experts of the MFSI-II Project have developed a system of monitoring and evaluation of efficiency of budget expenditures for communal services and energy (MES) for the selected cities.

Among other things, the system is intended to ensure energy saving. Its key principles include comprehensiveness to ensure coverage by the monitoring and evaluation system of all the budgetary institutions; unification and formalization of the documents and indicators used for monitoring and evaluation, which will provide for the equivalence and comparability of the information related to the efficiency of energy consumption for all budgetary institutions; and for providing a clear periodicity of generation of the information on energy consumption by budgetary institutions, which will make it possible to prepare evaluations for the required periods of time as needed.

MES envisages application of PPB-based tools for monitoring and evaluation of the efficiency of energy expenditures, as well as setting an interrelation between the evaluation outcome and the indicators of energy characteristics of the premises. The MES monitoring will be carried out by introducing a register of MES indicators, which will include the information required for rating the efficiency of expenditures for communal services and energy for budgetary institutions in general (general indicators) and for each budget program (individual indicators). The summary of register information is presented in Table 1.

Structure of Information Contained in the Register of MSE Indicators

Type of information*	General indicators	Individual indicators for institutions directly providing services to population	Individual indicators for institutions performing administrative, methodological, etc. functions
1) nominal and relative change in floor area of the premises used by budgetary institutions for the conduct of their functions;	+	+	+
2) expenditures for communal services and energy per unit of floor area (by type);	+	+	+
3) relative change in the amount of expenditures for communal services and energy (by type) in comparable prices;	+	+	+
4) relative change in the amount of expenditures for communal services and energy per unit of floor area (by type) in comparable prices;	+	+	+
5) expenditures for water supply and sewerage services per person served by institutions, in comparable prices;	+	+	-
6) relative change in the amount of expenditures for communal services and energy per person served by institutions (by type) in comparable prices;	+	+	-
7) expenditures for water supply and sewerage services per one staff position in comparable prices;	+	-	+
8) relative change in the amount of expenditures for communal services and energy per one staff position (by type) in comparable prices;	+	-	+
9) consumption of communal services and energy per unit of floor area, which is used by budgetary institutions for the performance of their functions (by type);	+	+	+
10) relative change in the consumption of communal services and energy per unit of floor area used by budgetary institutions for the performance of their functions (by type)	+	+	+
11) consumption of water supply and sewerage services per person served by institutions;	+	+	-
12) relative change in the consumption of communal services and energy per person served by institutions (by type);	+	+	-

13) change in the consumption of water supply and sewerage services per one staff position (by type)	+	-	+
14) relative change in the consumption of communal services and energy per one staff position (by type).	+	-	+

* The indicators, which characterize the heat consumption, are used in MES with due account for the application of a reduction factor of the temperature regime of the year preceding the reporting or baseline year to the temperature regime of the comparison year.

The results of MES evaluation will reflect the level of efficiency of using the budget funds for payment for the communal services and energy according to the criteria of: high, medium, and low. The evaluation criteria are shown in Table 2.

Table 2

**Indicators of Evaluated Efficiency of Budget Expenditures
for Communal Services and Energy with Breakdown by Criteria**

#	Description of criterion/indicator
I.	By results of operation of the budgetary institution in the reporting year
1.	Characteristics of energy consumption
2.	Characteristics of the cost of consumed energy
3.	Characteristics of expenditures for end users
4.	Characteristics of the efficiency of expenditures for implementation of energy savings activities/projects
II.	By the level of use of communal services and energy by a budget program relative to the average level of such use in the budgetary sphere
5.	Evaluation by the level of use of communal services and energy by the budget program per unit of floor area
III.	By the efficiency of funds invested in implementation of energy saving activities/projects
6.	Evaluation of the return on the funds invested in implementation of energy saving activities/projects

To establish an interrelation between the evaluation results and the indicators of energy characteristics of premises, a scale of evaluation of the priority of implementation of energy saving activities (projects) will be used, which will comprise three stages:

Level of priority	Number of points (proposed scale)	Energy characteristics of premises	Energy saving potential
High priority	3 points	unsatisfactory condition	more than 25%
Medium priority	2 points	satisfactory condition	from 10% to 25%
Low priority	1 point	good condition	less than 10%

The developed system will make it possible to:

- track the most "wasteful" end users of energy, as well as the reasons behind this, in particular, the age and condition of the buildings such users are accommodated in, and the potential for energy savings;
- monitor the results of implementation by spending units of the energy saving activities/projects in previous years, in particular, the amounts of savings in energy costs;

- identify the top priority energy saving projects, which would ensure the highest energy efficiency in the medium term;
- apply effectively the mechanisms of financial incentives intended to promote the creation of efficient energy saving systems in the budget sphere under Task 2.2.

See folder “Deliverables”

Result/Deliverable: The training course developed and a report prepared on the number of trainings held and the number of specialists who participated in trainings with a breakdown by gender.

Timeline: July – September 2012

Task 2.3: Assist partner municipalities in building capacity of municipal enterprises to conduct modern financial analysis and planning to support their strategic and annual plans

- IBSER experts will assist partner municipalities to build capacity of communal utilities in financial and economic analysis and planning as part of their strategic and action plans including their coordination and consistency with the city's strategic goals and objectives.

Result/Deliverable: The methodology of financial and economic justification of strategic and planning documents of municipal enterprises consistent with the municipality's strategic goals and objectives developed

Timeline: July – September 2012

Objective C: Enhance public awareness of the public budgeting process, revenues and expenditures

Task 3.1: Analyze the execution of budgets at all levels and analyze the budget legislation, disseminate impartial information

IBSER will prepare an independent budget implementation and budget legislation analysis to support the efficient and transparent implementation of local budgets. Thus, work will continue to analyze the execution of budgets at all levels and analyze budget legislation. In particular, in order to ensure the monitoring of the impact of the changes to the local revenues legislation, the IBSER will conduct a constant monitoring of the budget process in all of its stages. The results of the monitoring will be presented in monthly and quarterly publications dedicated to the analysis of the budget execution. The results of the monitoring and analysis conducted will be disseminated among all the stakeholders and partners, including the GOU, IFIs, AUC, NGOs and local governments.

Result: IBSER experts will prepare a monthly monitoring of national and local budget implementations and place it on the IBSER's Web-site (web-page).

Deliverable: Monthly monitoring

Timeline: The monthly monitoring in electronic form is prepared and placed on the IBSER's Web-site (web-page) by the end of second week of every month

Result/ Deliverable:

In the reporting timeframe, the project prepared monthly monitoring reports (three for the reported period) on the implementation of state and local budgets for the period from February 2012 to April 2012

(See “PMP”). The reports were placed on the website. On the whole, there were nine monthly monitoring reports prepared and published on the website since the launch of the MFSI-II Project.

See folder “Deliverables”

Result: Monitoring of the budget and fiscal impacts on local budgets in form of a full-scale analysis of the budget process

Deliverable: Budget Monitoring

Timeline:

The Monitoring for Quarter 4, 2011 is published, distributed among the IBSER’s partners, and placed on the IBSER’s Web-page by March 31, 2012.

The Monitoring for Quarter 1, 2012 is placed on the IBSER’s Web-page by June 30, 2012.

The Monitoring for Quarter 2, 2012 is published, distributed among the IBSER partners, and placed on the IBSER’s Web-page by September 30, 2012.

Result/ Deliverable:

In total, there were two quarterly monitoring reports prepared and published on the website since the beginning of the MFSI-II Project. In Q1 2012, the MFSI-II project’s experts prepared ‘Budget Monitoring for January–December 2011.

Accomplished (see “ Quarterly Report 01 January 2012 – 31 March 2012»)

According to the treasury preliminary data, MFSI project’s experts prepared ‘Budget Monitoring for January–March 2012 (See “PMP”). The monitoring included an analysis of the latest trends regarding State and local budget execution, as well as an analysis of the legislative acts influencing the budget process, approved over the reporting period. ‘Budget Monitoring’ was distributed among the interested parties and stakeholders, and placed on website. Key highlights include:

The real GDP fell 2.7 times compared to the same period of 2011 (in permanent prices of 2007). Its growth amounted to 2.0% compared to 5.4% last year, and 8.5% in the pre-crisis period of 2008.

The nominal GDP totaled UAH 297.0bn, which is UAH 33.4bn or 12.7% more year-on-year. This growth is the lowest in the period of 2009-2012, in particular, it decreased by 7.4ppt compared to 2011. The nominal GDP increased by UAH 23.5bn or 8.9% in last year’s prices.

Similarly to the results of Q1 2011, a trend towards decline in the output continued in the majority of industries in 2012. When comparing the economic performance in January-March 2011-2012, note should be made that a decline in industrial output was observed in the two major industries in 2011: production of food, beverages, and tobacco products, and the production of coke and petroleum products. The number of such industries increased to six this year.

The consumer price index and producer price index were growing in January-March at a rate, which is the lowest in the last five years. Since the year outset, consumer prices increased by 100.7% compared to 109.7% in the pre-crisis year 2008, and 103.3% last year; and the producer prices increased by 101.1% compared to 112.4% and 108.4%, respectively.

In view of the above, the year-on-year indicators of real wages growth were higher than last year and amounted to 114.7% or 3.6ppt more in January-March.

A negative foreign trade balance of Ukraine remained at about last year's level and amounted to -\$1.2bn.

The actual intake of consolidated and State budget revenues in January-March 2012 continued the trend, which emerged at the beginning of the year, i.e., the inflow of budget

Structure of Revenues of the Consolidated and State Budgets of Ukraine in January-March 2010–2012

(%)

Revenues	Consolidated budget			State budget		
	2010	2011	2012	2010	2011	2012
Tax revenues, including:	78.1	86.5	84.7	76.0	87.0	84.5
– enterprise profit tax	13.9	13.6	14.6	18.5	17.4	18.6
– value-added tax	31.7	34.7	32.0	42.5	44.6	41.0
– excise tax	7.8	8.2	8.2	10.3	10.2	10.3
– taxes on foreign trade and external transactions	2.2	2.6	2.7	3.0	3.3	3.4
Non-tax revenues	19.6	12.6	14.6	22.6	12.7	15.3
Income from capital transactions	1.5	0.6	0.4	0.8	0.1	0.1
Targeted fund	0.8	0.3	0.2	0.5	0.2	0.1
Other revenues	0.1	0.0	0.1	0.1	0.0	0.0

revenues was at the planned level. Thus, the State budget received nearly a quarter of the funds planned for the year (23.2%), which, on the whole, is normal for execution of the annual plan and is almost the same as the level of actual annual revenues in the first quarter of previous year.

At the same time, it is typical that a significant slowing down in the pace of growth of tax revenues is observed for nearly all the items, except for the profit tax, whose growth rate is in line with that of last year.

It should be noted that the revenues from taxes on foreign trade and external transactions were growing faster than the increase in the volume of foreign trade transactions. This difference can be explained by an administrative action taken to combat illegal schemes of smuggling of goods via Ukraine's customs border.

The main factors of increased revenues from the excise tax include greater receipts from excise taxes on petroleum products and alcohol, while the amount of excise tax revenues from tobacco and products remained at approximately last year's level. Unlike last year, the revenues from the excise tax on ethyl alcohol and spirits have increased. It can be assumed that this is related to an increased production of alcoholic beverages on the eve of raising the rates of tax on this category of excise goods, which is planned for Q2 2012.

The level of execution of consolidated budget expenditures continues an upward trend compared to similar indicators of previous years, and is the highest in the last three years at 21.8%.

The rate of growth of consolidated budget expenditures amounted to 17.2% or nearly at last year's level. However, this year it exceeded the GDP growth rate, which, for objective reasons, decreased significantly compared to last year. In this connection, the share of consolidated budget in GDP has increased to 33.3% or 1.3ppt more. It is a positive factor that the share of social expenditures decreased in all budgets year-on-year and amounted to 66.4% for the consolidated budget.

Expenditures of the State budget without intergovernmental transfers totaled UAH 52.1bn, which is UAH 4.4bn or 11.8% more year-on-year. The level of execution of the annual plan remained almost at last year's level and amounted to 20.2%, which is 0.5ppt more than in 2011.

The best funded were the expenditures for transport (27.3% of the annual plan, which is 9.3ppt more than last year), intergovernmental transfers (23.8%), education and social protection and social security (23.6% each). As usual, there was virtually no funding in the first quarter for the housing and communal services sector, with UAH 6.9mn or 1.3% of the annual plan spend for this purpose this year so far.

Of the total amount of increase in expenditures compared to last year (UAH 9.3bn), nearly a half (45.0%) falls on current transfers to government bodies at other levels, 16.2% for other current expenditures, 11.6% for capital transfers (which, in particular, was linked to the completion of preparations for the European 2012 Football Championship finals in Ukraine), and more than 9.0% for payment of interest on the State debt.

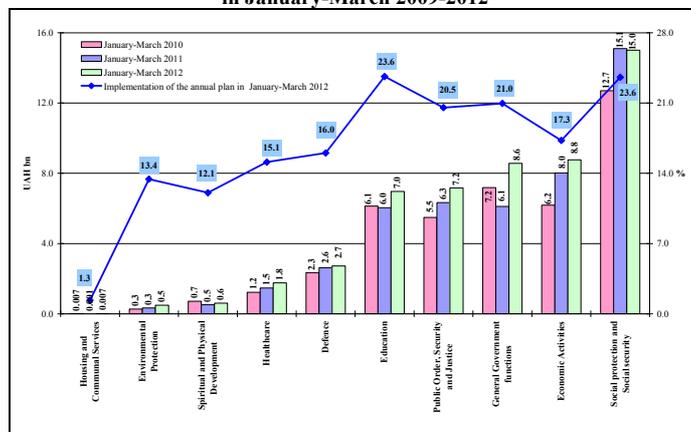
The State budget was executed with a surplus of UAH 0.9bn in Q1 2012, unlike a deficit of UAH 0.9bn in Q1 2011. The surplus of the General Fund of the State budget totaled UAH 0.4bn. Borrowing exceeded State debt repayment by UAH 12.9bn, which is 55.4% more year-on-year.

State budget borrowing totaled UAH 23.7b (24.0% of the annual plan), which is 2ppt more than the 2011 figure, but less than a half of the 2010 indicator. Internal borrowing totaled UAH 22.9bn, including the issue of internal government bonds totaling UAH 6.0bn for replenishing the authorized capital of the National Joint-Stock Company Naftogaz of Ukraine (which totaled UAH 5.0bn in 2010). External borrowing totaled UAH 0.7bn.

State debt repayment totaled UAH 10.7bn in Q1 2012, which amounts to 16.3% of the annual plan. The internal debt repayment totaled UAH 9.2bn or 26.5% of the annual plan, and external debt repayment totaled UAH 1.5bn or 4.9% of the annual plan.

The proceeds from privatization of State property totaled UAH 4.1bn or 10.9% of the annual plan.

Dynamics of State Budget Expenditures by Functional Classification in January-March 2009-2012



The local budget revenues increased by 17.5% and reached UAH 45.5bn. However, a growing dependence is noted of local budgets on intergovernmental transfers from the State budget. In recent years, their share in the structure of local budget revenues was growing year on year, and reached its highest level of 52.4% in Q1 2012.

The dynamics of monthly local budget revenues (without intergovernmental transfers) generally follows the trends of recent years. At the same time, some increase in these revenues is observed, which is mostly due to increased intake of personal income tax and fees for special use of natural resources.

Thus, the personal income tax continues to retain its position as the most important source of local budget revenues. The revenues from this source totaled UAH 13.4bn, which is 16.0% more year-on-year.

Payment for land remains an important source of local budget revenues. This source generated nearly UAH 2.9bn, which is 15.9% more than in January-March 2011. Also, note should be made of increased revenues from charging the fees for special use of water and fee for use of subsoil resources. This increase is due to an increased number of payers and raising of the tax rates according to the Tax Code.

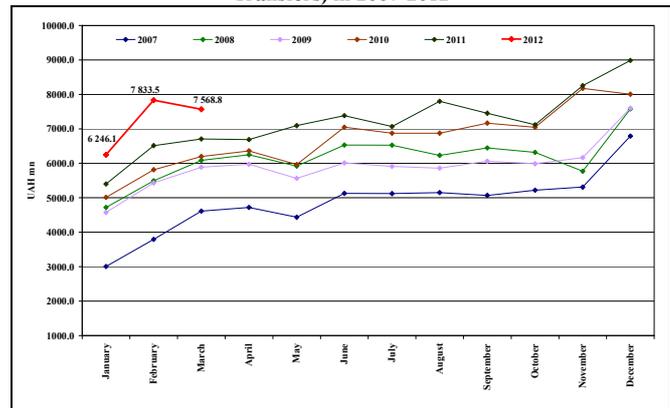
Also, a growth to UAH 1.7bn or by 4.9% in the revenues of the development budget of local budgets was observed. It should be noted that the development budget revenues were influenced positively by being assigned the single tax. In Q1 2012, these revenues became the main source of income at 43.1% of all development budget revenues.

The local budget expenditures increased by 22.4% and reached UAH 47.2bn. The monthly trend of local budget expenditures was similar to that of last year. At the same time, a rather substantial increase in the expenditures of local budgets was recorded in February and March 2012 compared to similar indicators of last year. This occurred due to a more than 20% growth in payroll for the staff of budgetary institutions, as well as a 30% higher expenditures for communal services and energy.

As usual, the bulk of local budget expenditures are allocated for the social and cultural sphere. At the same time, the expenditures for economic activity and the housing and communal services sector increased by 31.4% and 24.1%, respectively, in the reporting period. It should also be noted that capital expenditures of local budget were funded at UAH 2.5bn, and their amount increased by UAH 945.6mn or by 59.8%.

See folder “Deliverables”

Dynamics of Monthly Local Budget Revenues (without Intergovernmental Transfers) in 2007-2012



Task 3.2: Conducting public events and engaging the public in the budget process

In order to efficiently engage the public in the budget process and sound the public opinion, IBSER will support the holding of public hearings. IBSER will continue its practices of holding meetings of the National Advisory Board and the Financial and Economic Forums on an ongoing basis with an invitation extended to all interested parties, including to representatives of the general public. In order to ensure the broadest possible dissemination of information at the local level and raising the level of public awareness, use will be made of all available mass media and other formats, such as holding of public hearings, publication of printed materials etc

Result/Deliverable: - Participation of IBSER experts in working meetings, roundtables, conferences, including international ones, radio and TV talk shows with the aim of disseminating information on the issues addressed by the project

Timeline: Ongoing process

Result/Deliverable:

- Experts of the MFSI-II took part in the Ekonomichne kolo (Economic Circle) program at the Kyiv State TV channel (KDRTRK) on 14 November 2011.
- On 9 December 2011, Experts of the MFSI-II took part in the event co-sponsored by the Principal Organizational Directorate of the Verkhovna Rada of Ukraine and the Parliamentary Development Program II. The event was attended by the heads of structural units of the Staff and the heads of Secretariats of Verkhovna Rada committees. The meeting was intended to familiarize the participants with the activities of international projects and programs, which are willing to cooperate with the Ukrainian parliament and provide analytical, consultative, informational, and technical assistance. Based on the results of the discussion, the participants of the meeting have agreed to jointly prepare a plan of priority tasks for the next 10th session of the Verkhovna Rada and for the year 2012 in general, step up cooperation between the parliamentary committees and the European Information Center, and publish a directory of organizations supporting parliamentary activities in Ukraine.

Accomplished (see «Quarterly Report 01 October – 31 December, 2011»).

Experts of the MFSI-II were invited by the Ministry of Regional Development, Construction, and Housing and Communal Services to take part in a Public Board meeting on 29 March 2012. This Board has been set up to ensure the coordination of work and holding of consultations with the general public on the matters of formulation and implementation of State policy in the field of regional development, construction, and housing and communal services of Ukraine in accordance with the Decree of the Cabinet of Ministers of Ukraine dated 3 November 2010, No.996 “On Ensuring Participation of the General Public in the Formulation and Implementation of State Policy.”

Accomplished (see “Quarterly Report 01 January 2012 – 31 March 2012»)

On April 04 MFSI-II Project Participates in Kyiv Municipal Legislation Conference. The MFSI-II Project was invited by the Principal Directorate of Energy, Energy Efficiency, and Energy Conservation of the Kyiv City State Administration (KCSA) to take part in a conference to discuss a draft resolution of the Kyiv City Council “On Stimulating the Efficient Use of Energy Resources in Budgetary Institutions and Communal Service Enterprises of the City of Kyiv.” Following a review of the draft resolution, the MFSI-II Project developed proposals regarding budgetary mechanisms for stimulating efficient energy use within the framework of the existing legislation. The proposals were presented to the KCSA Directorate, which approved them in general. It was decided to present them for consideration by KCSA Chairman Oleksandr Popov at the earliest opportunity. This groundwork will be used as the basis for developing the financial incentives that promote the creation of an efficient energy savings system in budgetary institutions as part of Task 2.2 of the MFSI-II Project.

On 21 May 2012, the Institute for Budgetary and Socio-Economic Research (IBSER) took part in the Modern Library: Developing Local Communities Fair, which was held at the Ukrainian House national business and cultural cooperation center.

The event was co-sponsored by the Bibliomist Program, Ministry of Culture of Ukraine, National Parliamentary Library of Ukraine, Ukrainian Library Association, HURT Resource Center, Ukrainian Parliamentary Support Program II (PSP II) established and supported by the U.S. Agency for International Development (USAID), as well as by the Department of Media, Education, and Culture at the United States Embassy to Ukraine.

The Fair is designed to provide a hands-on demonstration of how modern libraries develop their local communities and improve the social, cultural, and economic aspects of the life of Ukrainians, as well as to disseminate information about the activities of non-governmental organizations that work with libraries.

Modern Library: Developing Local Communities Fair ,
Ukrainian House national business and cultural cooperation
center, 21 May 2012



The Fair was opened by welcoming remarks from U.S. Ambassador to Ukraine John F. Tefft, Chief Manager of the Global Libraries initiative of the Bill and Melinda Gates Foundation Siri Oswald, Chairman of the Bibliomist Program Advisory Board Andriy Kurkov, leader of the UDAR political party and co-founder of the Klychko Brothers' Foundation Vitaliy Klychko, and Director General of Microsoft in Ukraine Dmytro Shymkiv.

The exhibitors included more than 50 libraries from all over Ukraine, which provide innovative services to the populace, as well as the partners of the Bibliomist Program, such as USAID. IBSER provided more than 500 copies of its analytical periodical publications presented at the booth of the Municipal Finance Strengthening Initiative Project Roll-out (MFSI-II).

More information about the Fair:

([http://ula.org.ua/index.php?id=single&tx_ttnews\[tt_news\]=124&cHash=8fd66bcf3ad6dec3c89056e680aed8ec](http://ula.org.ua/index.php?id=single&tx_ttnews[tt_news]=124&cHash=8fd66bcf3ad6dec3c89056e680aed8ec))

MFSI-II experts took part in the '20th Annual East and West Public Administration: 20 Years of Development' conference held in Ohrid, the Republic of Macedonia, on May 23-26, 2012. The event was arranged by the Network of Institutes and Schools of Public Administration in Central and Eastern Europe (NISPAcee) in cooperation with St. Clement of Ohrid University of Sofia. IBSER joined NISPAcee activities aimed at public administration improvement, particularly in the public finance area, in 2007.

This year the NISPAcee conference focused on consideration of the past and analysis of the future development of administrative and fiscal policy in Central and Eastern Europe and Central Asia.

The conference program included a number of general sessions, working meetings on the conference main topic, expert groups meetings, forums and specialized working groups divided by topics and focused on working upon specific issues of public administration.

The conference participants discussed the impact of the economic crisis on public finances and strength of fiscal policy by the example of European countries and the experience in the area of performance program budgeting implementation. They considered the changes that have occurred in fiscal policy over recent years and the consequences thereof in different countries, in particular, evolution of the real estate tax in the Czech Republic and Slovakia, as well as the development, current situation and problems of the Republic of Moldova tax system. Moreover the participants raised a set of questions about local budgets, more specifically, regarding the Hungarian experience of borrowing by local governments and the degree of decentralization and changes in expenditure priorities of local budgets in Poland.

20th Annual East and West Public Administration: 20 Years of Development Ohrid, the Republic of Macedonia, 23-26 May 2012



More information about the conference:

<http://www.nispa.org/conference.php?sid=759&cid=20>

MFSI-II expert took part in a meeting of representatives of local government development partnering organizations, which was held as part of the implementation of the DIALOGUE Project at the Association of Ukrainian Cities and Communities on 24 May 2012.

The meeting focused on proposals regarding how international technical assistance projects in the area of local economic development would work together under a Work Plan for implementing the provisions of the Memorandum of Cooperation with the Ministry of Economic Development and Trade of Ukraine.

The representatives at the meeting supported the idea of signing the Memorandum. They acknowledged the importance of setting up an effective entity for representing the interests of local governments in the issues of local economic development. All participants of the meeting have agreed to submit their concrete proposals for the Work Plan.

MFSI-II experts took part in a meeting of the Regional Development and Interbudgetary Relations Reform task force of the Committee on Economic Reforms under the President of Ukraine, which was held at the Ministry of Finance on 25 May 2012.

The meeting focused on State debt management, improving local borrowing procedures, implementing a system of risk management related to local debt and the provision of local guarantees.

In addition, the participants discussed the status of regulatory support for the mechanism of implementing regional development projects via the State Regional Development Fund, as well as proposals regarding the establishment of social standards in the areas of healthcare, culture, sport and youth, family and children.

Special focus was made on the progress in realizing the 2012 National Action Plan for implementing the "Prosperous Society, Competitive Economy, Efficient State" Program of Economic Reforms for the years 2010-2014.

MFSI-II experts took part in the Health Care System Reforming in Pilot Regions conference held on May 31, 2012 and chaired by First Deputy Head of the Presidential Administration I. Akimova.

Deputy Health Minister O. Tolstanov, heads of departments of the Health Ministry, Ministry of Finance, and Principal Health Care Departments of Vinnytsya, Dnipropetrovsk, Donetsk Oblast State Administrations and Kyiv Municipal State Administration also participated in the conference.

The participants discussed the progress of the health care reform and, particularly, the reallocation of functions between primary and secondary health care providers.

The reforms proposed will result in changes in the structure of health care institutions, the scope of services delivered by them, changes in approaches used for evaluating the activities of health care services providers, and introducing performance-based salaries for General Practitioners. To achieve this, relevant changes should be made to applicable regulations.

One of the reform tasks relates to PPB improvement, in order to apply it in pilot-program primary and secondary health care institutions in towns and districts of the Vinnytsya, Dnipropetrovsk and Donetsk oblasts and the City of Kyiv.

These reforms will make possible to improve the quality of health care services, ensure budget transparency and objective assessment of the reformed health care system operation.

On **20 June 2012**, MFSI-II experts took part in a roundtable meeting on "Budget Policy in Ukraine in the Environment of Risks of a Slowing-down Economic Dynamics" conducted by the National Institute of Strategic Studies. The meeting was attended by Ukrainian MPs, representatives of government agencies, nongovernmental associations, leading economists, and experts of think-tanks.

The roundtable participants discussed the issues of priorities in the budget policy of Ukraine for the year 2013.

A conclusion was reached in the course of debates that the key tasks of the budget policy include the continuation of reforms of the budget system envisaged by the Program of Economic Reforms for 2010-2014, improving the efficiency of the budget policy, and revising some of its priorities.

A lively interest was provoked by the issues of raising the efficiency and productivity of State investments, introduction of mechanisms for limiting unjustified increase in social expenditures, expanding

the financial base of local governments, building the institutional platform for implementation of debt policy, and improving the efficiency of debt policy.

The participants noted that in the course of implementing the budget system reform, the focus must be made on improving the efficiency of public expenditures. To this end, the activities will have to be implemented to:

- improve the mechanism of medium-term budget forecasting;
- continue the process of optimization of the number of budget programs and the number of key spending units;
- improve the Performance Program Budgeting (PPB) method;
- extend PPB to local budgets at all levels; and
- ensure transparency and openness of the budget process.

Experts of the MFSI-II Project took part in a meeting of the Committee on Economic Reforms at the Kyiv City State Administration (KCSA) on the topic "On the Progress of Reform of the Medical Care System" held under the chairmanship of KCSA Chairman O.P.Popov on **21 June 2012**.

The meeting was also attended by Deputy Minister of Health O.K.Tolstanov, heads of district State administrations in the city of Kyiv, Principal Directorate of Health of the Kyiv City State Administration, and heads of Kyiv healthcare institutions.

Discussed at the meeting were the issues of reform of the healthcare system in the city of Kyiv, in particular, the progress in the creation and operation of primary medical and social care centers.

Special focus was made on improving the system of financial provision for the primary medical link, where use of PPB was considered as an important mechanism of reform implementation, which will make it possible to objectively evaluate the efficiency and quality of service provision by the healthcare institutions, which are being reformed.

On 16 April 2012, IBSER Director General took part in the *Poryadok dennyi* (Agenda) live talk show. Changes to the Ukraine 2012 budget were discussed.

Result: Preparation and organization of Financial-Economic Forum

Deliverable: Minutes of Financial-Economic Forum, agenda and recommendations of Forum participants

Timeline: February 2012, September 2012

Result/ Deliverable:

The Ninth Financial and Economic Forum on the topic of ***The Year 2013 and Medium-Term Budget Policy*** took place on 2 March 2012.

The main focus of the Forum was to discuss the issues related to the budget strategy in the context of socioeconomic development and budget policy tasks, as well as local government reforms.

The participants of the Financial and Economic Forums included the representatives of ministries and departments, local governments, representatives of the academia, international expert community, civil sector, and mass media.

A number of pressing issues of country's budget policy directions were considered and discussed at the Forum. Among other things, these included the social factors of modernization of the Ukrainian society, strategic priorities of budget policy, implementation of a system of strategic planning, improving the methodological and normative framework of the Performance Program Budgeting method in the local-level budget process, urgent issues of improving the mutual relations between the State budget and local budgets in 2013, raising the effectiveness of State supervision, recommendations of the Council of Europe, and its support in implementation of local government reform, new approaches to the financing of regional development

The Ninth Financial and Economic Forum, 2 March 2012



projects, financial mechanisms for stimulating the process of consolidation of territorial communities, State support for energy efficiency programs, and mechanisms of State support for ensuring energy efficiency.

Based on the results of an active discussion, its participants have developed a number of recommendations, which have been then summarized and disseminated among all the stakeholders and also published on the website.

Accomplished (see “ Quarterly Report 01 January 2012 – 31 March 2012»)

Result: Preparation and organization of a National Advisory Board

Deliverable: Minutes of a National Advisory Board and agenda

Timeline: April 2012, June 2012, August 2012

A meeting of the National Advisory Board (NAB) on efficient management of public finance took place on 27 April 2012.

The event was intended to discuss and coordinate the actions carried out for the purpose of introducing progressive budgeting methodologies, in particular, the Performance Program Budgeting (PPB) method.

The meeting was attended by the representatives of the Secretariat of the Verkhovna Rada Committee on Budget, Ministry of Finance of Ukraine, and State Treasury Service of Ukraine.

Discussed at the meeting were the issues regarding the ways of generation of reports on execution of local budgets formulated based on PPB, and conducting the preparatory activities necessary for implementation of PPB-based treasury servicing.

Upon request of the Ministry of Finance of Ukraine (letter of 1 June 2012, No.31-05010-19-17/13992), the next meeting of the National Advisory Board (NAB) on the issues of efficient public finance management has been rescheduled for 20-21 July 2012.

See folder “Deliverables”

Result/Deliverable: Regular updating of IBSER’s website with information regarding project activities

Timeline: Ongoing process

The IBSER web-site is updating on a regular basis with information regarding MFSI-II project activities in Kyiv and in the regions (Ukrainian, Russian and English pages). In particular, the following sections:

News:

~ all news and events where MFSI-II project experts participated in the period January-March 2012 are written, placed and updated on the site..

~ Research and Materials:

~ All MFSI-II project periodic publications (its electronic versions), prepared in the period January-March 2012, have been placed on the site in the Subsection – “Analytical materials” (Ukrainian and English versions).

~ Useful References (subsections – Media about us; Our Partners)

~ All monitored articles published in national and regional media in the January-March 2012 have been converted into electronic version, placed on the site and updated on a regular basis (Ukrainian and English versions)

~ New set of questions in section “Experts’ answer” with experts answers related to PPB section has been regularly added on the site, the information is regularly updated.

Meeting of the National Advisory Board (NAB) on efficient management of public finance, 27 April 2012



Besides, MFSI-II project activity has been constantly promoting through IBSER web-site, distribution of MFSI-II project periodic publications and image materials containing MFSI-II logo to different target groups through MFSI-II project events' participants, mass media, MFSI-II project partners' web-sites and their networks.

Since the IBSER web-site was created it has been updating on a regular basis with information regarding MFSI-II project activities in Kyiv and in the regions (Ukrainian, Russian and English pages). In particular, the following sections:

~ News:

~ all news and events where MFSI-II project experts participated in the period April - June 2012 are written, placed and updated on the site on a regular basis.

~ Research and Materials:

~ All MFSI-II project periodic publications (their electronic version), prepared in the period April - June 2012, have been placed on the site in the Subsection – “Analytical materials” (Ukrainian and English versions).

~ Useful References (subsection – Media about us)

~ All monitored articles published in national and regional media in the period April - June 2012 have been converted into electronic version, placed on the site and updated on a regular basis (Ukrainian and English versions)

~ New set of questions in section “Experts’ answer” with experts answers related to PPB section has been regularly added on the site, the information is regularly updated

~ Since the section “E-Bulletin” has been settled, it’s filled on a monthly basis:

~ E-Bulletin #34 (Ukrainian and English versions) has been placed on the site and distributed to more than 500 partners (representatives of governmental institutions, NGOs, international organizations, foreign experts, technical projects, national and regional mass media)

2. Among other things, the IBSER website now has a new column *Monitoring of Legislative Changes*, which periodically covers the information regarding changes in the Ukrainian legislation, newly passed laws and legislative drafts in the 1st, 2nd, and 3rd reading, and the registered bills related to changes in the budgetary sphere.
3. Changes occurred in the technical application, simplifying and improving the process of contributing information to the website.

Result: Preparation of Electronic bulletin intended for the publication of news on project activities for electronic mailing to addressees in the database of IBSER partners

Deliverable: Electronic bulletin

Timeline: March 2012, June 2012, September 2012

One Bulletin issue (#34-April-June) has been prepared in Ukrainian and English and e-mailed to more than 500 partners. It is also placed on the project web-site in “E-Bulletin” section. Overall, two quarterly Bulletins have been prepared since the launch of the MFSI-II Project.

See folder “Deliverables”

Result: Support the holding of separate information public events in partner cities

Deliverable: The report on implementation of information public events in localities prepared

Timeline: June 2012

On 25 April 2012, as part of the training for the representatives of Finance Directorates from the Chernivtsi and Ternopil oblasts on implementation of the Performance Program Budgeting method for the planning and execution of local budgets, a public presentation of information on PPB budgeting took place. This event was covered by a TV report on budget formulation using this new budgeting method. This TV story was broadcast on the Chernivtsi TV channel. For more details please visit:

On 27 June 2012, with support from IBSER, a roundtable meeting on the topic "City Budget Formation Based on the Performance Program Budgeting Method and Results of Its Implementation" was held in the city of Stryi, Lviv oblast. The meeting participants included representatives of the City Council deputy corps, key spending units of city budget, representatives of non-governmental organizations, MFSI-II experts, and representatives of the media.

Highlighted at the meeting were the results of execution of PPB-based city budget and the benefits of municipal budget formulation based on PPB.

This public event has resulted in familiarizing the participants with the progress in implementation of the modern methodology of efficient use of budget resources in the city of Stryi and development of the proposals, which will need to be taken into account when preparing the 2013 budget.

See folder "Deliverables"

Roundtable meeting on the topic "City Budget Formation Based on the Performance Program Budgeting Method and Results of Its Implementation", the city of Stryi, Lviv oblast, 27 June 2012

