Quarterly Report

01 July 2012 - 30 September 2012

Prepared by IBSER for grant

 # AID-121-A-11-00006

Kyiv

10/13/2012

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 of MFSI-II experts have been incorporated in the Procedure of treasury servicing of local budgets. The said Procedure was approved by MOF Order of 23 August 2012, No. 938. The proposals apply to the supervisory powers of Treasury offices with regard to formulation and execution of local budgets based on Performance Program Budgeting.
- IBSER experts with the Ministry of Finance of Ukraine have started holding regional meetings/consultations for participants of the experiment. These meetings are a logical continuation of the activities of training specialists of local government finance bodies.
  In the reporting quarter, these meetings were held in the Kyiv, Kirovohrad, and Kherson. Also, PPB consultations were provided in Ivano-Frankivsk, Kalush, and Lutsk. The meetings and consultations were attended by representatives of 173 sub-national government entities. 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 resul of the delivered trainings, the training participants have prepared more than 11,000 budget requests and approved more than 16,000 budget programs with appropriate performance indicators developed
- On 26 September 2012, MFSI-II experts took part in a meeting of the Public Finance Reform task force. The participants discussed at the meeting the issues of improving the methodological framework of PPB implementation at the local level. Special focus was made on the procedures of treasury servicing of PPB-based local budgets.
- Experts of the MFSI-II Project have analyzed the Cabinet of Ministers Decree "The Issues of the State Regional Development Fund" of 4 July 2012, No. 656. This Decree approved the Procedure of preparing, evaluating, and selecting investment programs/projects, which can be implemented at the expense of resources of the State Regional Development Fund. Also, this Decree contains the Procedure of using the resources of the State Regional Development Fund.
- As part of Task 2.1, MFSI-II experts delivered a seminar "Financial mechanisms of improving energy efficiency in the budgetary sphere" on 7 August 2012. The seminar was attended by representatives of the Project city, Secretariat of the Committee on Budget of the Verkhovna Rada of Ukraine, Ministry of Finance, and State Treasury Service. MFSI-II experts presented to the participants a system of monitoring and evaluation of the efficiency of energy costs based on Performance Program Budgeting. The said system was developed by MFSI-II experts. Also, during the seminar, its participants considered the mechanisms of implementing a system of financial stimulation for efficient use of energy resources in budgetary institutions.
- IBSER experts developed a methodology manual *Business Plan of Communal Service Enterprises as a Form of Development Strategy Presentation*. The manual contains:
  - the concept of strategic planning and its components;
  - types and directions of enterprise's financial and investment strategy;
  - financial planning arrangements allowing communal services enterprises identify the sources and amounts of income generation, as well as optimize costs and achieve financial sustainability;
  - explanation of the essence of business planning and business plan itself as a format of presenting a development strategy;
  - a basic structure of business plan of a communal service enterprise, in particular, provided as example was a detailed structure of the business plan for a water communal service enterprise;
  - recommendations for phases of planning and implementation of enterprise's business plan.

The developed methodology manual will help the communal service enterprises of cities to implement their strategic development plans.

- 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 June 2012 to August 2012.

- According to the treasury's preliminary data, MFSI project's experts prepared "Budget Monitoring for January-June 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.
- The Tenth Financial and Economic Forum, on the topic of Innovative Formats of Local and Regional Development as a Tool of Strengthening the Financial Capacity of Local Governments, was held on 6 September 2012. Topics covered at the Forum included the strengthening the financial capacity of local governments, in particular establishment of mechanisms for intermunicipal cooperation (IMC) as an innovative tool for implementing State regional policy, budget forecasting in Ukrainian cities and oblasts, regulating the process of local governments' undertaking of financial obligations under Public-Private Partnership agreements.
- With support from the Ministry of Finance, MFSI-II arranged and conducted a roundtable on the topic "Local Budgets: A Component Part of Ukraine's Budget System." The event was held in Odesa on 20 and 21 July. As part of this event, a meeting was held of the National Advisory Board on efficient public finance management whose activities are supported by the MFSI-II Project. Based on the results of the meeting, recommendations have been developed for further directions of implementing the reform of the budget process at the local level and a schedule of conducting meetings/consultations on PPB implementation has been agreed.
- A meeting of the National Advisory Board (NAB) on efficient public finance management took place on 17 August 2012. The meeting covered topical issues of improving the regulatory framework for the formulation and execution of PPB-based local budgets with regard to implementation of the Law of Ukraine "On the Procedure of Healthcare System Reform Implementation in Vinnytsya, Dnipropetrovsk, and Donetsk Oblasts and the City of Kyiv." In addition, special features regarding the treasury servicing of PPB-based local budgets and directions of improving treasury procedures were discussed.

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 October-November 2012. After they are completed, MFSI-II experts will launch a new series of PPB trainings for raion-level specialists from all regions of Ukraine.
- MFSI-II experts will prepare an updated version of PPB Handbook, taking into account latest legislative changes.
- MFSI-II will prepare analysis of the Budget Law for the respective year.
- IBSER will provide organizational support to the Ministry of Finance's Intergovernmental Working Group and organize its meeting in November 2012.
- 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 September 2012 to November 2012.
- MFSI-II experts will select four cities for participation in the Project.
- MFSI-II experts will update Recommendations on financial incentives to promote the establishment of an effective energy savings system in the public sector by the end of next quarter.
- By the end of December will be develop the training materials on the monitoring and evaluation of energy efficiency projects implemented by municipal enterprises.
- By the end of the next quarter, MFSI experts plan to prepare the *Budget Monitoring for January-September 2012*.
- The preparation and organization of a National Advisory Board meeting is scheduled for December 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 – September 2012

- The proposals for improving the procedure for the treasury servicing of local budgets developed

  Timeline: July – September 2012

- Delivering a series of cluster trainings on PPB budgeting

  Timeline: January – September 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: Develop and introduce financial practices that foster energy efficiency in 15 selected cities.

- 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

- 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

- 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: September 28, 2012

- Preparation and organization of National Advisory Board

Timeline: July 20- 21, 2012; August 17, 2012

- Preparation and organization of Financial-Economic Forum

Timeline: September 6, 2012

- Preparation of Electronic bulletin

Timeline: September, 2012

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.

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.

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.

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

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

In order to implement evaluations of the performance of local budget programs, IBSER has prepared and submitted for consideration of the Ministry of Finance a draft Methodology of comparative analysis of performance of budget program based on a formula approach. This approach provides for determining the same performance criteria for all standard budget programs, which allows to standardize implementation of such evaluations based on the same algorithm. Its implementation would allow automating the summarizing of information on the evaluation results and ensuring comparison of evaluation results by all required cross-sections. At the next meeting of the Interagency Working Group on conducting the preparatory work for implementation of PPB for the formation and execution of local budgets, it is planned to consider the possibility of its implementation for all local budgets.

See folder "Deliverables"

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

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

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

MFSI-II experts are continuing their work to improve the legislative framework, which regulates PPB implementation for the budgets of district-significance municipalities and urban districts.

In close cooperation with MOF, the MFSI-II experts have prepared amendments to MOF Order of 9 July 2010, No. 679 "On Approving the Key Approaches to Implementation of the Performance Program Budgeting Method of Planning and Execution of Local Budgets."

Also, the MFSI-II experts have prepared and submitted to MOF the amendments to MOF Order of 14 February 2012, No. 97 "On Approving the Structure of the Code of Program Classification of Expenditures and Crediting of Local Budgets and the Codifier of Numbering of Standard Lists of Local Budget Programs."

Work is in progress on improving the key MOF orders on standard lists of budget programs. Thus, MFSI-II experts submitted their proposals for amending the Standard Lists in the sectors of *Public Administration, Social Protection and Social Security, Social Protection of Family and Children, Physical Culture and Sports*, on youth issues, as well as *Healthcare* for pilot projects in the Vinnytsya, Dnipropetrovsk, and Donetsk oblasts and the city of Kyiv. The proposals include reducing the number of budget programs, incorporating a Subprogram option in a budget program, as well as reducing the number of performance indicators in all Standard Lists.

All the proposals of MFSI-II experts have been incorporated. The said amendments in the Standard List of budget programs in the sectors of Healthcare for the pilot projects in the Vinnytsya, Dnipropetrovsk, and Donetsk oblasts and the city of Kyiv were approved by a joint order of the Ministry of Health and Ministry of Finance of 21 September 2012, No. 728/1015.

Thanks to this work, the Ministry of Finance has introduced the "budget program code" option as a basis for automation of PPB-based budget planning and execution. The budget process automation will reduce the corruption risks in the budgetary sphere. Also, the said orders have made it possible to simplify the budgeting procedures in the course of local budget formulation. The number of budget programs and their performance indicators decreased by 35%.

See folder "Deliverables"

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 treasure 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 budges, 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.

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

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

MFSI-II experts have prepared proposals for improving the procedures of treasury servicing of local budgets. Members of the National Advisory Board on efficient public finance management (the meeting was on held on 17 August 2012) considered the experts' groundwork and approved it at the meeting. The meeting participants proposed defining the supervisory powers of Treasury offices under application of the Performance Program Budgeting methods of local budget planning and execution. These powers include checking the availability of a budget program passport approved according to the established order and verification of the compliance of the undertaken budget obligations to such a passport.

The proposals of MFSI-II experts were incorporated in the Procedure of treasury servicing of local budgets (approved by MOF Order of 23 August 2012, No. 938).

In addition, the issues of improving the procedures of Treasury servicing of PPB-based local budgets were discussed by members of the Public Finance Reform task force (the task force meeting attended by MFSI-II experts was held on 26 September 2012).

The work implemented by MFSI-II experts has made it possible to determine the procedures of treasury servicing of PPB-based local budgets. This helps improve the transparency of budget execution and accessibility of budgets for the general public.

See folder "Deliverables"

Deliverables: The proposals for the requirements specification to improve the budget software used by the State Treasury developed
Timeline: April-September 2012

To improve the software used by the State Treasury Service of Ukraine, it is necessary to modify the porting forms on execution of local budgets. The approved Standard Lists of budget programs, Codifier of budget programs, and a Transitional Table from the provisional to the program classification of local budgets will serve as the basis for making such modifications.

MFSI-II experts have submitted proposals to all the relevant normative acts. The said provisions will be taken into account when developing the requirements specification and improving the accounting and reporting software on execution of PPB-based local budgets.

See folder "Deliverables"

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

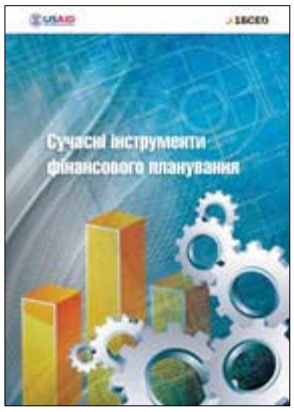
Deliverable: The PPB Handbook (Third edition) produced, disseminated, and published on the Project website
Timeline: March 2012
Result/ Deliverable:

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.

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. (See PMP).

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

In collaboration with the Ministry of Finance of Ukraine, MFSI-II experts have started conducting regional meetings/consultations for experiment participants. In the reporting quarter, such meetings were held in Kyiv, Kirovohrad, and Kherson. They covered the experiment participants from the Crimea, city of Kyiv, city of Sevastopol, the Kyiv, Chernihiv, Zhytomyr, Sumy, Cherkasy, Mykolaiv, Kherson, Odesa, Poltava, Kirovohrad, Zaporizhzhya, and Vinnytsya oblasts. Also, PPB consultations were delivered in Ivano-Frankivsk, Kalush, and Lutsk.

The meetings and consultations were attended by the representatives of 173 sub-national government entities. (See PMP).

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 16,000 budget programs with appropriate performance indicators developed.

See folder "Deliverables"

The regional meeting/consultation on the Performance Program Budgeting method of planning and execution of local budgets, Kivorohad, 19 September 2012

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.

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

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 (nine for the reported period) with experts answers related to PPB section has been placed on the site, the information is regularly updated. In general, 65 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.

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

3. A scheduled meeting of the Public Finance Reform task force was held on 26 September 2012. MFSI-II experts took part in the meeting. The meeting participants considered the issues of improving the methodological framework of PPB implementation at the local level. Special focus

was made by the meeting participants to the issues of procedures of treasury servicing of PPB-based local budgets. It was recommended that the State Treasury Service should continue its work towards improving the procedures of treasury servicing of local budgets based on the Performance Program Budgeting method.

Based on the meeting results, the task force members have recommended that after approval of the new Standard Lists of budget programs, Codifier of budgets programs, and building a transitional table from the Provisional Classification of Expenditures and Crediting of Local Budgets to the program classification of local budgets, the State Treasury Service should amend the reporting forms on execution of local budgets, draft the requirements specification, and improve the accounting and reporting software for PPB-based local budgets.

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.

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

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")

4. MFSI-II experts have analyzed the Draft Law of Ukraine "On Amending Article 167 of the Tax Code of Ukraine" (regarding taxation of income in the form of wages of medical, pedagogical, and research-pedagogical staff employed at State and municipal institutions). The Draft Law was registered on 27 August 2012 under No.11105. The Draft Law proposed reducing the taxation of income in the form of wages of medical, pedagogical, and research-pedagogical staff employed at State and municipal

institutions from 15 (17) to 10 percent. According to preliminary estimates, implementation of provisions of the said legislative draft would reduce the revenues of local budgets by about UAH 2.8bn per year. However, the legislative draft developers have not suggested any compensation for these losses of local budget revenues.

See folder "Deliverables"

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")

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 budges 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.

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

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.

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%.

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.

The largest amounts were allocated for new additional grants: for payroll of the staff of budgetary institutions (nearly UAH 1.5bn) and for stimulating local authorities for overfulfillment of their annual estimates for enterprise profit tax and excise tax (the plan amounts to over UAH 1.0bn). Also, the amendments have introduced a number of new subventions and increased funding of some of the social and capital subventions, which are provided from the State budget to local budgets by UAH 6.3bn in general or by 13.3%. The largest new subvention (nearly UAH 4.6bn) is intended for repaying the debt from the difference in tariffs for heat energy, water supply, and sewerage.

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

Deliverable: Analysis of the Changes to the Tax Code, land laws, and other laws related to local budgets, which could affect their revenues and resources prepared
Timeline: Depending on the date of law adoption

Result/Deliverable:

1. To implement the requirements of Article 74 of the Budget Code, in May 2012, the Cabinet of Ministers of Ukraine approved the Procedure of Granting Local Guarantees, which was developed with active participation of MFSI-II Project experts. The Procedure sets out the mechanisms of providing local guarantees according to the conditions stipulated by the Budget Code. The adoption of this procedure will expand the list of financial mechanisms for implementation by territorial communities of their investment programs/projects intended for improvement of municipal infrastructure or implementation of resource-saving technologies.
2. The Decree of the Cabinet of Ministers of Ukraine dated 14 May 2012, No. 541 "On Approving the Procedure of Granting Local Guarantees" specified the information, which must be included in the Verkhovna Rada of the Autonomous Republic of Crimea resolution on granting such guarantees 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.

The Institute experts underlined the further complication of the procedure for obtaining the authorization documents due to the requirement for approval of a resolution issued by the Ministry of Finance by the Cabinet of Ministers.

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

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;***
- ***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.

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

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

On 6 September 2012, MFSI-II experts conducted the Tenth Financial and Economic Forum. One of the Forum sections was devoted to considering the issues of implementing modern tools of strengthening the financial capacity of local governments.

During the Forum, its participants reviewed and discussed the topical issues of establishing the mechanisms of inter-municipal cooperation (IMC) as an innovative tool for implementation of the national regional policy. Also, they consider the issues of budget forecasting in the cities and oblasts of Ukraine, and regulating the process of local governments' undertaking financial obligations under Public Private Partnership agreements.

Based on the meeting results, its participants have developed recommendations for legislative determination of the ways and method of supporting the existing associated communities and IMC projects, namely:

- in the process of association, provide State budget subventions to target budgets under certain subvention granting criteria (e.g., granting subventions to the budgets, where the equalization grant share accounts for more than 70% of all revenues);
- in the Budget Code of Ukraine, grant a separate status to the budget of an associated community, setting its own revenue base, assigning additional powers, and direct relations with the State budget;
- allocate 10% of the Regional Development Fund for projects of associated communities or IMC projects.

In order to regulate the process of local governments' undertaking financial obligations under Public Private Partnership agreement, the meeting participants have suggested to amendment the Budget Code as follows:

- designate the conditional local debt as a sum total of the guaranteed local debt and obligations of the Autonomous Republic of Crimea and local government with regard to paying for goods, works, and services in future budget periods;
- grant the right to the Council of Ministers of the Autonomous Republic of Crimea and local councils to undertake obligations with regard to payment in future budget periods according to a schedule to be stated in an agreement for goods, works, and services, including those provided/implemented based on energy service contracts and/or when attracting resources under Public Private Partnership agreements;
- define the Public Private Partnership as attracting by the State (Verkhovna Rada of the Autonomous Republic of Crimea, city council) under contractual terms of funds and material and technical resources from the private sector, which resources are denominated in monetary equivalent, for implementation of the functions, which shall be implemented according to law at the expense of the funds of the State/local budgets;
- granting the obligations of public partners under Public Private Partnership agreements the same status as guarantee obligations;
- possibility of unconditional collection of debt under Public Private Partnership agreements.

The summarized recommendations have been forwarded to all the stakeholders and published on the Institute's website.

See folder "Deliverables"

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").

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").

- IBSER 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").

On 4 July 2012, the Cabinet of Ministers of Ukraine passed its Decree No. 656 "The Issues of the National Regional Development Fund" to approve the Procedure of preparation, evaluation, and selection of investment programs/projects, which can be implemented at the expense of the National Regional Development Fund. Also, the Cabinet Decree approved the Procedure of using the resources of the National regional Development Fund. The validity of these Procedures with regard to the allocation and use of resources of the National Regional Development Fund is not limited in time.

Adoption of the said Decree has normalized the mechanism of using the resources of the National Regional Development Fund, mechanism of monitoring and evaluation of using the budget resources of the Fund, as well as the list of terms and conditions for competitive selection, timeframe and institutional arrangements of its implementation.

At the same time, an unresolved issue remains of the coordination between the programs and activities to

be implemented at the expense of Fund resources and the priorities set in strategic development documents. The selection criteria of such projects should be based on the principles of impartiality and transparency in allocation of budget resources, which has not been fully realized in the approved procedures as yet. Also, when allocating funds, the results of previous periods must be taken into account, and the use of funds must be based on the methodology of Performance Program Budgeting.

See folder "Deliverables"

A roundtable on the Ways of Implementing Reform of Local Government in Ukraine will be held in Sevastopol **on 27 and 28 August 2012.**

The event will focus on how to implement local government reform in Ukraine, improve the quality of and access to administrative and social services, create the appropriate conditions for local governments' performance of their own and delegated functions, and other issues.

At the roundtable sessions, the Council of Europe will give a presentation of the COE Findings and Recommendations for Implementing the Reform of Local Government in Ukraine. The MFSI-II Project will give a presentation on Improving the System of Local Budgets in the Context of Local Government Reform.

The invitees to the roundtable include the first President of Ukraine and Chairman of the Constitutional Assembly, L.M. Kravchuk; advisors to the President of Ukraine; the Ministry of Regional Development, Construction, and Housing and Communal Services; Secretariat of the Cabinet of Ministers; Ministry of Finance; State Local Government Support Fund; Ministry of Justice; Council of Ministers of the AR of Crimea, and oblast State administrations and city radas, local government associations; Verkhovna Rada; Permanent Office of the President of Ukraine to the AR of Crimea; Swiss-Ukrainian Support of Decentralization in Ukraine Project, as well as independent experts and scholars.

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.

In order to determine the directions for implementation of the task under Sub-objective A.1 of the Project Work Plan, MFSI-II experts reviewed the system of acquiring additional education and qualifications enhancement in Ukraine. These include postgraduate education and a system of enhancement of the cadre (personnel) qualifications.

1. Postgraduate education is defined in Ukrainian law as a specialized improvement of person's

education and professional training by means of deepening, expanding, and updating person's professional knowledge, competences, and skills or learning another profession based on the previously achieved educational and qualifications level and practical experience.

According to such a governmental designation, the postgraduate education creates the preconditions for continuity and successiveness of education and includes the following:

- retraining – acquiring another profession based on previously achieved educational and qualifications level and practical experience, as well as an MBA degree;
- specialization – person's acquiring the competences of performing specific tasks and responsibilities, which have special features, within the scope of such person's profession;
- profile expansion (qualifications enhancement) – person's acquiring the competences of performing additional tasks and responsibilities within the profession;
- internship – person's acquiring the experience of implementing the tasks and responsibilities of a certain profession.

Postgraduate education is provided by higher educational institutions of postgraduate education or by structural units of higher educational institutions of appropriate accreditation level, including based on concluded contracts.1

2. The qualifications enhancement is intended for a consistent improvement of professional knowledge, skills, and competences, increase in workmanship and professionalism. Its special feature is that students already have certain knowledge and practical skills of implementing their work, they can critically assess the training materials, they want to receive exactly the information they need for their everyday work.

The qualifications enhancement means training intended to support and improve the professional level, knowledge, and skills of personnel.

Specific tasks of qualifications enhancement include: ensuring efficient implementation of new tasks; improving the management flexibility and ability to innovate. According to Western specialists, the efficiency of capital investment in qualifications enhancement of top managers approaches 800%.

At the same time, financial officers, i.e., the target audience of specialists who need to take a course in the application of PPB methodology, are not included in the system of qualifications enhancement in Ukraine.

Based on the findings of the conducted study, the MFSI-II experts have reviewed the opportunities for setting up in Ukraine a system for training local government specialists in PPB budgeting. Implementation of such a system will need to provide support to the reform results and create an opportunity for local government specialists to keep raising their professional level even after completion of the Project.

On 21 August 2012, a meeting was held with Director Yu.M. Karavaychenko of the Higher Education Department at the Ministry of Education and Science of Ukraine. On the whole, he responded very favorably to the idea of implementing such a system. In his opinion, these efforts will have to be conducted specifically within the system of qualifications enhancement. The city of Kyiv has several higher educational institutions with their own qualifications enhancement institutes. These include:

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1 http://uk.wikipedia.org/wiki/%D0%9F%D1%96%D1%81%D0%BB%D1%8F%D0%B4%D0%B8%D0%BF%D0%BB%D0%BE%D0%BC%D0%BD%D0%B0_%D0%BE%D1%81%D0%B2%D1%96%D1%82%D0%B0

- T. Shevchenko National University;
- National Economic University;
- Trade and Economic University;
- Kyiv Polytechnic Institute.

In addition, the Lviv State University, Kharkiv National University, and Odesa Economic University have sufficiently strong institutes.

At the same time, Mr. Karavaychenko has outlines certain risks:

- not a single one of the above institutes is working with public servants. Mainly, they provided services to accountants and economists, as well as other specialists from the private sector;
- the State provides no funding for the system of postgraduate education. It is fully self-supporting. Therefore, these services will be provided for a fee to local government specialists and they will need to be taken into account in respective local government budgets;
- the quality of teacher training is insufficient for implementation. Also, there is no culture of or clear official requirements to enhancement of qualifications of teachers themselves; therefore, they might object to the need for them to pass through relevant training.

Taking into account the results of the abovementioned meeting, the MFSI-II experts met with President of the National Academy of Public Administration under the President of Ukraine Mr. Yu.V. Kovbasyuk and his deputy Mr. S.A. Romanyuk on 22 August 2012. They told that the Academy was mainly working with public servants of all levels and from all parts of Ukraine. Studying at the Academy itself on an annual basis are:

2. 50 top public officials, 50 talented youth who have just graduated from higher educational institutions and will be recommended to positions in government bodies and local governments after graduation from the Academy;
3. 300 representatives of central government and local governments.

These programs are fully funded by the State budget of Ukraine. Also, the Academy has four Qualifications Enhancement Institutes located in Lviv, Dnipropetrovsk, Kharkiv, and Odesa. These higher educational institutions mostly provide paid educational services. In general, the Academy management responded favorably to the need of enhancing qualifications on a permanent, systemic basis specifically for PPB budgeting. They, however, expressed their wish to provide these services exclusively on a paid basis or with funding from the State budget.

Based on results of these meetings, IBSER forwarded official letters requesting to consider the possibility of and provide the proposals for setting up a training system:

- on 23 August 2012, to President of the National Academy of Public Administration under the President of Ukraine, Mr. Yu.V. Kovbasyuk (letter No.281 of 23 August 2012); and
- on 28 August 2012, to the First Deputy Minister of education and science, youth and sports, Mr. Ye.M. Sulyma (letter No.409 of 28 August 2012).

In response to the inquiry sent to the National Academy of Public Administration under the President of Ukraine, IBSER received official letter No. 1/15-01-1048 on 13 September 2009, with preliminary calculations of the total annual costs for organization of the educational process for enhancing qualifications of public servants on PPB issues at the oblast and raion levels, and in oblast-significant cities. The training cost per one trainee was estimated at UAH 955.54. This amount was calculated without transportation (UAH 600), disbursement of per diem or meals for participants (UAH 900). With all costs combined, the training cost per trainee amounts to UAH 2455.

As continuation of this activity, on 11 October 2012, MFSI-II experts held a meeting with the Director of the Institute of Postgraduate Education at the Kyiv Taras Shevchenko National University V.M. Peresyekin. He supported the idea of implementing such a system. However, he pointed to that such

services are also provided on paid basis only. Also, the minimum number of teaching hours must be 72 hours per person (the standard in the Ukrainian education system). According to the calculation supplied by the Institute of Postgraduate Education, the training cost amounted to UAH 1200 per person. This amount was calculated without the cost of lodging (UAH 1350), transportation (UAH 600), per diems and meals of participants (UAH 810). With all the expenses combined, the cost of training totaled UAH 3960 per trainee.

According to reports of the State Treasury of Ukraine, the total expenditures for official travel of the staff of all public administration apparatuses of local government (including raion-significant cities, urban districts, villages, and settlements) totaled UAH 9.2mn in 2011.

To achieve the PMP indicator «Percentage of budget officials trained by the assisted organization(s) that received PPB training», about 8300 persons should pass through training in three years (or 2760 persons per year). These are the employees of the Ministry of Finance of the Autonomous Republic of Crimea, Principal Finance Directorates, the staff of local finance departments of oblast-significant cities and raions. In this case, the training costs will amount to:

- UAH 6.8mn per year or 74% of all costs for official travel in Ukraine according to the calculation prepared by the National Academy of Public Administration under the President of Ukraine; or
- UAH 10.9mn per year or 118.5% of all costs for official travel in Ukraine according to the calculation made by the Institute of Postgraduate Education at the Kyiv Taras Shevchenko National University.

Thus, summing up the above information, it could be stated that local governments cannot afford to cover the costs of training of their staff at their own expense. Therefore, no such training could be conducted without assistance from external sources after completion of the MFSI-II Project.

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

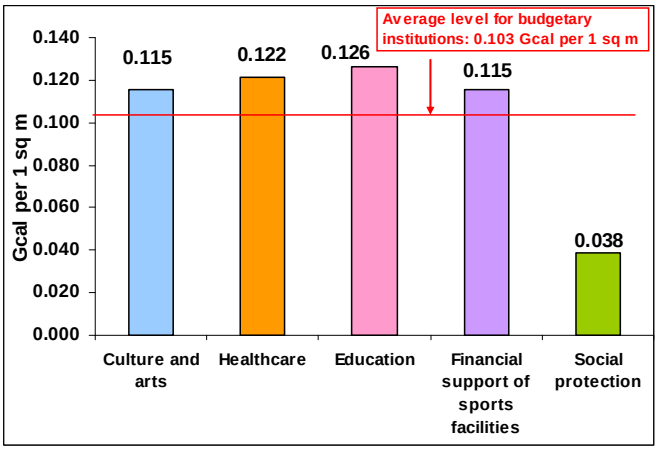
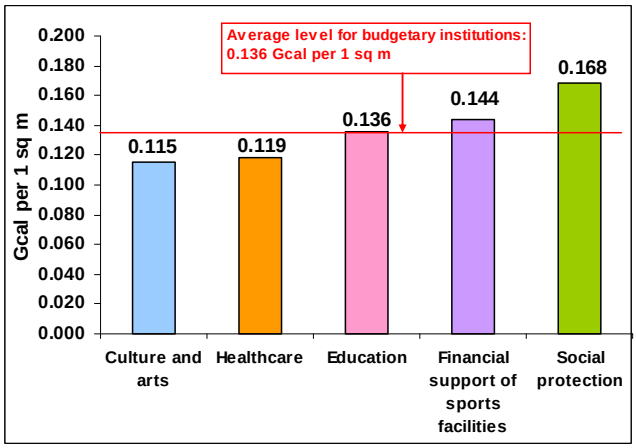


Chart 2

Heat Consumption per One Square Meter of Heated Area in 2011



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 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.

Chart 3

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

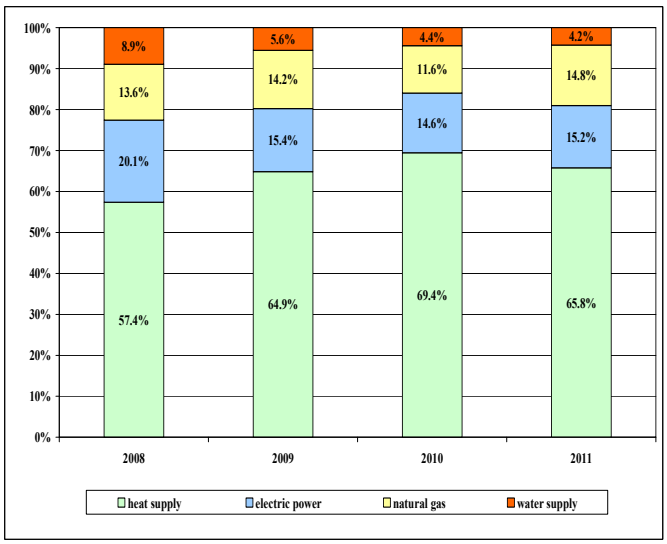
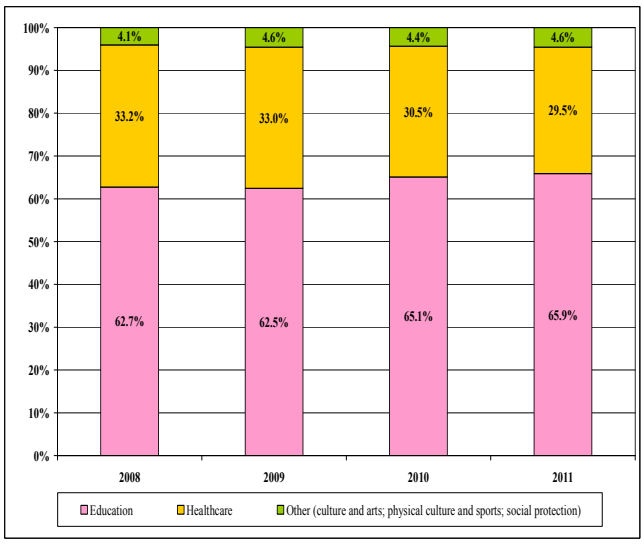


Chart 4

Structure of Energy Expenditures by Department in 2008-2011



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.

Accomplished (see "Quarterly Report 02 April 2012 – 31 June 2012").

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 was provided for the equivalence and comparability of the information related to the efficiency of energy consumption for all budgetary institutions: and has provided a clear periodicity of generation of the information on energy consumption by budgetary institutions, which made 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 carried out by introducing a register of MES indicators, which includes 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.

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 are 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) which are used, comprised 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.

Accomplished (see "Quarterly Report 02 April 2012 – 31 June 2012").

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

The IBSER experts have developed a training course on application of the system for monitoring

energy-related budget expenditures (developed under MFSI-II Project). On 7 August 2012, MFSI-II conducting a training seminar "Financial mechanisms for improving energy efficiency in the budgetary sphere" based on the developed training course.

The event was attended by 23 persons, including 15 women and 8 men. The participants learned about the system of monitoring and evaluation of energy-related expenditures based on the Performance Program Budgeting method, the mechanism of implementation of a system of financial stimulation of efficiency use of energy resources in budgetary institutions (see Task 2.2).

Seminar "Financial mechanisms for improving energy efficiency in the budgetary sphere"

Seminar "Financial mechanisms for improving energy efficiency in the budgetary sphere"

In addition, the representatives of Zhytomyr, Horlivka, and Ivano-Frankivsk presented their experience of implementing the energy efficiency and energy saving activities. This experience also included a review of implementation of energy performance investment projects. For implementation of these projects, MFSI-II assisted in developing the financial mechanisms and documents required for getting an agreement for implementation of the projects from the Ministry of Finance.

Use of the knowledge learned at the seminar will help to strengthen the capacity of local budgets of the Project cities both to ensure energy savings by end users and efficient management of the funds saved as the result of these activities.

See folder "Deliverables"

<u>Task 2.2:</u> Assist in designing and implementing financial incentives to promote the establishment of effective energy savings systems in the public sector

IBSER experts will help municipalities design and introduce financial incentives to promote the establishment of effective energy savings system in the public sector. This work, among other things, will require reviewing and improving the budget legislation, which will be implemented under Objective 1.2.3. The use of such a system will help make local budgeting more efficient. To help the chosen municipalities introduce the financial incentives that foster energy efficiency, IBSER will provide advisory support to the municipalities in designing budget programs, in particular, those intended for the realization of individual investment projects.

<u>Result/Deliverable</u>: Recommendations on financial incentives to promote the establishment of an effective energy savings system in the public sector are designed and presented at a session of the Financial and Economic Forum.
<u>Timeline</u>: (IV Quarter 2012 – I Quarter 2013; IV Quarter 2013 – I Quarter 2014; IV Quarter 2014 – I Quarter 2015)

As seen from this Task's timeline, it is not included in the MFSI-II Project Work Plan of year one. However, when developing the System of monitoring and evaluation of the efficiency of energy-related budget expenditures (MES) (see Task 2.1), MFSI-II Project experts decided that MES and the financial incentives are interrelated. Therefore, the MFSI-II experts started work of developing the said incentives and drafted

the respective preliminary recommendations. These recommendations contain:

- The mechanism of calculation and use of the saved funds as payment for energy
- Areas of using the saved funds. The saved funds shall be used for stimulation and implementation of new energy saving activities/projects.

The main issues in this work were the approaches to the calculation and use of the saved budget funds as payment for energy. The experts suggested two methods for calculation of savings:

1) for the heating period, which does not coincide with the budget period;
2) for the budget period.

For the heating period, the savings could be allocated and spent for the activities of stimulation based on the results of a competition in the year of completion of the heating season (see Fig.1). Next year, the said funds shall again be allocated for payment for the communal services and energy. Under this arrangement, budget appropriations for payment for communal services and energy of the current year shall be the source. However, if such an approach is used, there may arise the risk of a shortage of funds for payment for energy in the new heating season of the same budget period. To avoid such risks, the experts suggest to use 80% of saved funds (including 30% for financial incentives for the staff and 50% for new energy saving activities).

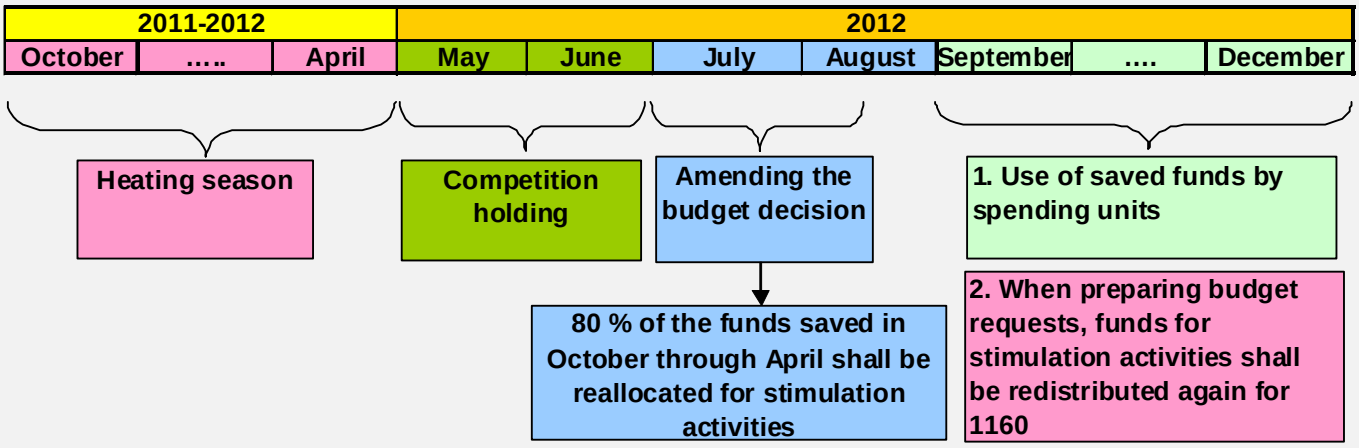


Fig. 1. Procedure of calculation of economy of budget funds for payment for energy in the heating season.

For the budget period, 100% of the saved funds could be allocated and spent for the activities of stimulation based on the results of the calendar year (see Fig. 2). The balance of funds at the beginning of the budget period following the period when savings were achieved shall be the source under such arrangement. If this approach is used, the local budget decision will need to be amended after completion of the competition and based on the availability of free balance of funds for implementing such stimulation.

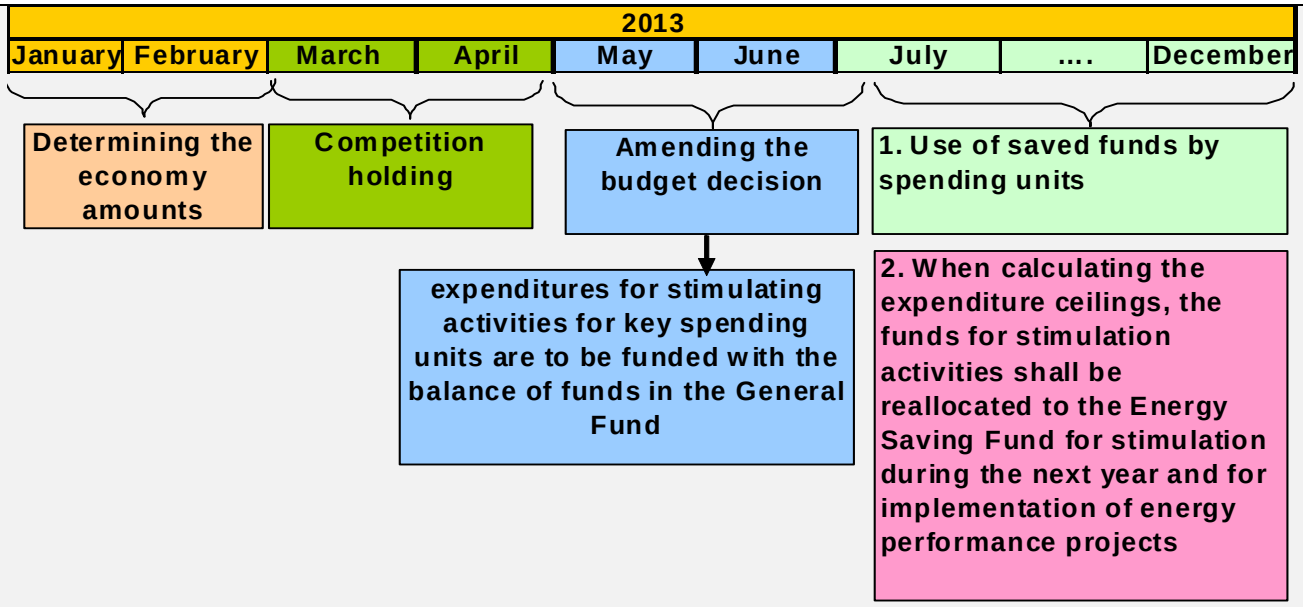


Fig. 2. Procedure of calculation of economy of budget funds for payment for energy in the budget period.

The procedural issues of calculation of this economy, in turn, would require setting clear rules at the city level, which, among other things, would need to take into account the availability of a system for monitoring the level of comfort of the temperature regime in institutions; use of MES at the city level and by each budgetary institution etc.

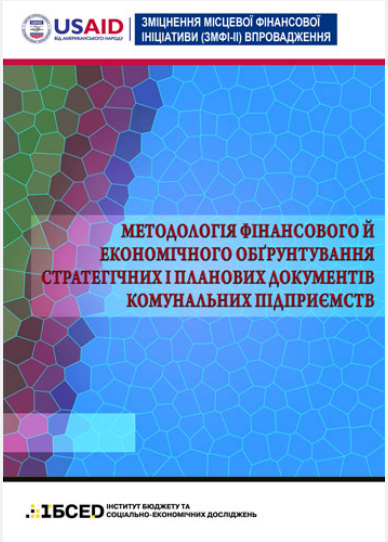
Further work on developing the said financial stimuli is continuing, in particular, the recommendations were presented at the seminar (see Task 2.1) and forwarded to the Project cities for preliminary review and feedback.

See folder “Deliverables”

<u>Task 2.3:</u> 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 or 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



Experts of the MFSI-II Project have prepared the methodology manual *Methodology of Financial and Economic Justification of Strategic and Planning Documents of Municipal Enterprises*.
The Manual provides definitions for seven directions/types of strategies:

- commodity-marketing;
- resource-marketing;
- technological;
- integration;
- social;
- investment-financial;
- management strategy.

The authors give a detailed description of the strategy types, which are the most closely related to implementation of infrastructure projects.

The specialists discriminate between enterprise's technological strategy and its investment-financial strategy:

1. The technological strategy as a strategy for development of the method of transforming resources into products chosen by the enterprise.
2. The investment-financial strategy as a body of decisions determining the means of attracting, accumulating, and spending of financial resources.

Also, the authors describe and types and directions of the financial-investment strategy of enterprise. In this chapter, among other things, they present theoretical issues of financial planning, which is a financial provision for enterprise's economic activity and a basis for taking financial decisions. In addition to the above, the authors present in this chapter possible sources of financing the investment activity, which include:

- accumulation fund, i.e., accumulation of part of profit and depreciation charges;
- receipts from additional issues of shares, bonds;
- funds of other enterprises and organizations, which are mobilized under agreements on joint activity, other forms of horizontal, vertical, and diagonal integration;
- bank credits and loans;
- credits provided from the State or local budgets, or compensation of interest rate on credits;
- capital investments allocated from the State or local budgets;
- Public Private Partnership and, in particular, the conditions of engaging energy service companies for implementation of energy performance contracts as one of its types.

Each of the above-listed sources of financing for investment activity has its special features, which make it attractive (or unattractive) for enterprise, which are often contradictory from various points of view on the financial-investment strategy and general strategy of enterprise development. In this process, the experts took into account such criteria of evaluating the options of strategies as:

- realistic use of the source (its accessibility);
- potential capacity of the source;
- economic efficiency of use;
- the level of risk in using the source (from the point of view of repayment of used resources or possible loss of control of the enterprise).

In addition to the above, the manual contains sections related to designation of the essence of municipal enterprise's business plan as a comprehensive, multifunction written document. This document should present the essence of business idea, ways and means of its implementation, it should characterize the market, production, organizational, and financial aspect of the municipal enterprise, special features of its management, as well as projected results from the planned activity. The experts describe the mechanism of formulation of a business plan and suggest a basic structure of business plan of the municipal enterprise. The

structure contains:

- resume (brief summary of business plan);
- location of enterprise;
- activity objective;
- description of the type of activity,
- description of services;
- assessment of the market;
- evaluation of possible competition;
- marketing strategy;
- projection of the volume of sales;
- plan of technical modernization of enterprise;
- enterprise management;
- personnel characteristics;
- material and technical provision;
- risk assessment;
- financial plan proper;
- project efficiency.

The MFSI-II experts provide recommendations with regard to each phase of business plan formulation.

The developed methodology manual will help municipal enterprises of cities in planning their activity for the long term (with optimal use of their own and investment resources for successful implementation of economically and socially important projects in the city).

See folder "Deliverables"

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 June 2012 to August 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 three quarterly monitoring reports prepared and published on the website since the beginning of the MFSI-II Project. In Q2 2012, the MFSI-II project's experts prepared 'Budget Monitoring for January–March 2012.

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

According to the treasury preliminary data, MFSI project's experts prepared 'Budget Monitoring for January–June 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:

Similarly to the first quarter of 2012, the macroeconomic situation in January through June was characterized by some slowing-down of economic growth. This growth was influenced by low external demand and reduced consumer inflation. The inflation level amounted to 100.1% compared to 105.9% last year, and 115.5% in the pre-crisis year 2008.

The country's real GDP amounted to 3.0% compared to 3.9% last year. As usual, metallurgy in Ukraine is an export-oriented industry. The output in this industry decreased slightly (by 1.5%). However, due to this industry's accounting for nearly 20.0% of all sales, a decline in its output has lead to worsening of general industry indicators.

In April through June 2012, consumer price indices and producer price indices were growing at a rate, which is the lowest in the last five years. Due to this, the real wages were growing faster than last year (by 15.6% compared to 8.1% in 2011). Also, the retail trade turnover increased by 16.0%, which testifies to a continued recovery of domestic consumer demand.

The intake of consolidated and State budget revenues was characterized in the first half of 2012 by slowing down in the rate of growth of the key tax revenues compared to last year. The most significant decline was noted for the rate of growth in the enterprise profit tax. It amounted to 11.9% in the said period compared to 50.4% in the first half of 2011, with VAT growth of 13.6% against 27.9%, respectively.

This notwithstanding, the consolidated budget revenues increased by 17.4% or to UAH 208.8bn. The State budget revenues (without intergovernmental transfers) increased by 17.5% to UAH 162.3bn.

Execution of the annual VAT refund plan is characterized by stabilization of the amount of refund of this tax from the budget. Its level started to be dependent on the change in the amounts of monthly VAT receipts. At the same time, the revenue plan for this tax was executed at a rather low level of 41.5%, which points to a tense situation with implementation of the annual plan.

The fastest growth was recorded in the first half of 2012 for the revenues from foreign trade and external transactions, which increased by UAH 1.5bn or 31.4% year-on-year. This growth primarily resulted from the smuggling control activities, as the growth in the volume of foreign trade in the first half of 2012 was insufficient compared to the same period of last year.

Raising of tax rates on alcohol, tobacco products, and motor fuel by 8.9% in 2012 is the key factor of increased revenues from excise tax.

These actions ensured a growth in revenues from this source by 22.8% or UAH 3.3bn compared to last year.

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

(%)

Revenues	Consolidated budget			State budget		
	2010	2011	2012	2010	2011	2012
Tax revenues, including:	**77.3**	**86.4**	**84.4**	**69.3**	**86.8**	**84.0**
– enterprise profit tax	11.8	14.4	13.7	14.5	18.5	17.6
– value-added tax	32.1	33.5	32.4	41.0	43.1	41.7
– excise tax	8.9	8.4	8.8	8.9	10.5	11.0
– taxes on foreign trade and external transactions	2.5	2.7	3.0	3.3	3.4	3.8
Non-tax revenues	**20.6**	**12.7**	**14.9**	**29.9**	**12.9**	**15.7**
Income from capital transactions	**1.1**	**0.5**	**0.5**	**0.4**	**0.1**	**0.1**
Targeted fund	**0.9**	**0.3**	**0.2**	**0.4**	**0.1**	**0.1**
Other revenues	**0.1**	**0.1**	**0.0**	**0.1**	**0.1**	**0.1**

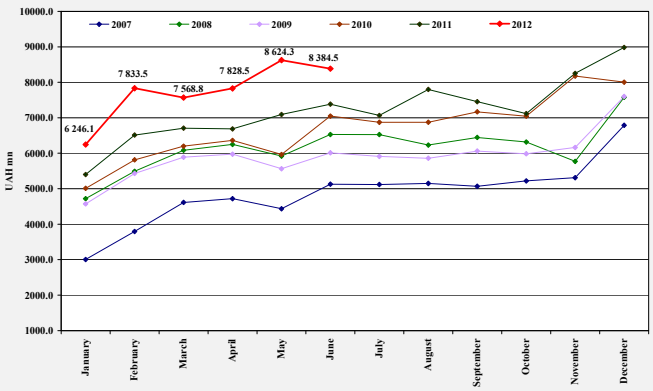
The local budget revenues increased by 16.3% and totaled UAH 96.0bn. Also, the share of intergovernmental transfers in the overall structure of local budget revenues remained practically at last year's level and amounted to 51.6% vs. 51.8% in the first half of 2011.

At the same time, a certain increase in tax revenues is noted in the revenue structure. This growth is linked to increased revenues from the personal income tax and fee for special use of natural resources.

Also, growth was observed in the revenues of local development budgets of up to UAH 4.8bn or by 8.3%. The development budget revenues benefited from being credited a single tax revenues (these proceeds amounted to 40.0% of all development budget revenues).

Payment for land remains an important item of local budgets revenues (UAH 5.9bn), which demonstrated a steady growth even during the financial and economic crisis. This growth is explained by increase in rates. At the same time, unlike previous years, when these funds were the main stable source of revenues in the structure of fees for special use of natural resources, in 2011 and the first half of 2012, stable revenue generation for local budgets was provided by charges for special use of water and fee for use of subsoil resources. This growth is due to an expanded number of payers and higher tax rates as per the Tax Code.

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



The level of execution of consolidated budget expenditures decreased slightly (by 0.2ppt) against January-June 2011 and amounted to 43.9%.

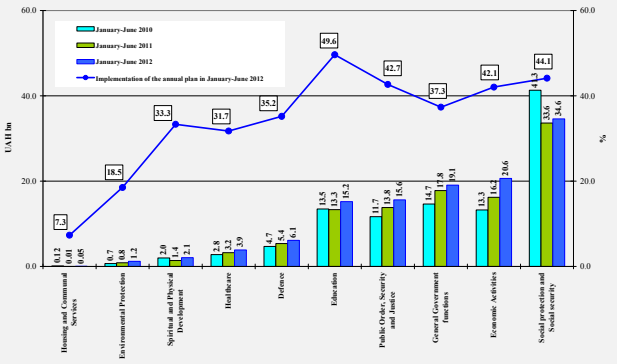
The rate of growth of consolidated budget expenditures increased by nearly 6.0ppt and amounted to 115.6%. This year, however, it exceeded the GDP growth rate, which decreased significantly compared to last year. Therefore, the share of consolidated budget expenditures in GDP increased to 33.4% or by 1.1ppt.

A trend continues of increasing the share of local budget expenditures in the consolidated budget expenditures (it increased by 1.6ppt year-on-year and amounted to 45.4%, which is the highest figure since 2005).

Expenditures of the State budget were executed at UAH 168.1bn, which amounts to 42.1% of the annual target.

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, the lowest funded were the expenditures for the housing and communal services sector, with UAH 53.8mn or 7.4% of the annual plan spent for this purpose in the first six months of this year.

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



The local budget expenditures increased by 18.9% and totaled UAH 99.0bn. The level of execution of the annual plan approved by local councils amounted to 47.9%. As usual, the majority of local budget expenditures are allocated for the social and cultural sphere. At the same time, in the first six months of 2012, there was an increase in expenditures for economic activity (by 31.4%) and a decrease in expenditures for the housing and communal services sector (by 7.0%).

A 0.8ppt growth is noted in the economic structure of expenditures for the share of expenditures for payroll with taxes. These expenditures are usually the highest from among all local budget expenditures and amounted to 49.2% in the first half of 2012. Also, expenditures for communal services and energy increased by 32.6%, which increased their share by 0.9ppt to 8.6% of all local budget expenditures. Capital expenditures of local budgets were funded at UAH 5.3bn and their amount increased by UAH 902.7mn or by 20.5%.

The State budget deficit totaled UAH 6.7bn, which amounts to 26.7% of its ceiling as set by the Law on the State Budget of Ukraine for 2012. Compared to the same indicator of last year, the State budget deficit decreased by UAH 4.2bn or by 38.8%.

State budget borrowing was incurred at UAH 50.3bn (51.1% of the annual plan). Internal borrowing totaled UAH 48.7bn, and external borrowing totaled UAH 1.6bn. State debt repayment totaled UAH 32.9bn or 49.9% of the annual plan. This includes repayment of internal debt of UAH 18.5bn or 53.4% of the annual plan, and external debt of UAH 14.4bn or 46.1%. The excess of borrowing over repayment more than halved compared to last year. This occurred due to a 15.4% lower State budget borrowing with simultaneous 48.1% increase in the expenditures used for State debt repayment.

See folder “Deliverables”

<u>Task 3.2:</u> 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

<u>Result/Deliverable</u>: - 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
<u>Timeline</u>: 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.

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

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 (PSPII) 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)

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

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.

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

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.

More information about the conference: http://www.nispa.org/conference.php?sid=759&cid=20

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

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.

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

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.

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

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.

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

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.

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

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.

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

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.

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

The MFSI-II Project was invited to the 6th Annual Pan-Ukrainian Accountants' Congress, which was held in Yalta **on 6 through 10 July 2012**.

The Congress was attended by about 350 participants, including representatives from the Ministry of Finance; Ministry of Social Policy; Ministry of Health; Ministry of Education and Science, Youth, and Sport; Ministry of Culture; State Tax Service, State Finance Inspectorate, State Treasury Service, and the nongovernmental sector.

The plenary meeting and subsequent discussions in groups focused on topical issues of planning and executing budgets at all levels, new approaches to the organization of internal audits, inspection and auditing activities, public procurements and other matters.

One of the most pressing issues discussed at the Congress was ways to improve the efficiency of using public funds and State property, especially in terms of budget planning and execution based on the Performance Program Budgeting method.

The MFSI-II Project took an active part in discussing these issues and delivered a presentation PPB Implementation: A Way of Combining the Strategy and Tactics of Medium-Term Budgeting.

In the course of a lively discussion following the presentation, the MFSI-II Project answered questions from the audience.

The Working Group on Public Finance Reform met at the Ministry of Finance of Ukraine **on 27 July 2012**. The group discussed the procedure of conforming the departmental priorities of regional development with the strategic objectives of the State policy on regional development, as well as the progress in preparing a Draft Decree of the Cabinet of Ministers "On Amending the Decree of the Cabinet of Ministers of Ukraine dated 23 May 2007 No.751" (on improving the mechanism of concluding regional development agreements).

On 30 August 2012, the MFSI-II Project took part in a meeting of the working group on developing the mechanism of incentives for stimulating efficient use of energy resources in Kyiv's budgetary institutions. During the meeting, the participants discussed the general methodology of determining the baseline level of heat consumption in the Kyiv budgetary institutions, including such issues as the direct calculation of the baseline heat consumption of the institutions, recommendations for planning heat consumption costs and for evaluating the implementation's efficiency. In turn, IBSER gave a presentation to open discussion on its recommendations developed as part of the Project regarding the mechanism of introducing a system of financial incentives for stimulating the efficient use of energy resources in budgetary institutions.

The Committee on Economic Reforms of the Kyiv City Council met regarding the issue of *Realizing the Social Initiatives of the President of Ukraine in the City of Kyiv,* with the participation of the MFSI-II Project. The meeting took place at the Kyiv City Administration offices **on 14 September 2012.**

The meeting focused on the directions for realizing an affordable housing construction program in the city of Kyiv, developing family-based types of child care, and paying compensation to Ukrainians for their lost cash deposits with the former USSR Savings Bank. Also, a presentation was made on implementing the social initiative of the President of Ukraine regarding the provision of pensions in the city of Kyiv and the implementation of the *Kyivan Card* social project.

Minutes of the meeting have been distributed among the event participants. The draft minutes highlight the ways of addressing the issues discussed, the directions of their implementation, and the names of the persons in charge of realizing them.

A meeting of the Committee for Economic Reforms "On the Progress of Reforms in the Health Care System" chaired by the Head of Kyiv City State Administration (KCSA) O.P. Popov was held at the KCSA building **on 21 September 2012.** Experts of the MFSI-II Project took part in the meeting.

The meeting was attended by members of the Committee for Economic Reforms, heads of district State administrations of the city of Kyiv, Principal Directorate of Health of the Kyiv City State Administration, and heads of Kyiv city healthcare institutions.

The meeting participants considered the real status of reforms in the Kyiv system of public health, set out the objectives to be reached in 2013, and discussed the concept of emergency medical aid reform.

It was pointed out at the meeting to the effective results of PPB implementation in the healthcare department. In particular, it is noted that setting of performance indicators has had a positive impact on the efficiency of using the budget funds and stimulates the quality of healthcare service provision.

The MFSI-II Project is continuing to actively implement the Performance Program Budgeting method of planning and execution of local budgets.

An interregional consulting meeting for coordinators of PPB implementation at the level of local budgets was held in Kherson **on 25 September 2012**. Its 31 participants included PPB implementation coordinators from the Autonomous Republic of Crimea, Sevastopol, Kherson, Odessa, Mykolaiv oblasts, heads of structural units from the Kherson Oblast State Administration Principal Finance Directorate and Finance Directorates of oblast-significant cities, as well as the representatives of key spending units of the Kherson Oblast budget.

At the meeting, the participants shared their experiences of PPB implementation in local budgets, considered the practical aspects of implementing Phase III of PPB implementation, and familiarized themselves with the directions of local-level PPB optimization.

This event continues a series of interregional consulting meetings for PPB implementation coordinators.

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.

The Ninth Financial and Economic Forum, 2 March 2012

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 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")

The Tenth Financial and Economic Forum, on the topic of ***Innovative Formats of Local and Regional Development as a Tool of Strengthening the Financial Capacity of Local Governments***, was held on 6 September 2012.

The Forum participants included the First Deputy Minister of Economic Development and Trade of Ukraine A.A. Maksyuta, People's Deputy of Ukraine Yu. Hanushchak, Director of USAID/Ukraine Office for Economic Growth Michael Martin, Reform Implementation Coordinator of the Coordinating Center for Implementation of Economic Reforms under the President of Ukraine S.M. Marchenko, and President of the Academy of Financial Management under the Ministry of Finance of Ukraine T. Yefimenko, Vice-President and Executive Director of Association of Ukrainian Cities and Communities M. Pittsyk, Intermunicipal Cooperation Expert of the Council of Europe J. Jackson and other leading specialists in regional and local development, representatives of government ministries and departments, heads of Principal Finance Directorates from Ukraine's oblasts, local governments, academia, the international expert community, and the non-governmental sector.

The Tenth Financial and Economic Forum, 6 September 2012

Topics covered at the Forum included the strengthening the financial capacity of local governments, in particular establishment of mechanisms for intermunicipal cooperation (IMC) as an innovative tool for implementing State regional policy, budget forecasting in Ukrainian cities and oblasts, regulating the process of local governments' undertaking of financial obligations under Public-Private Partnership agreements.

The Forum participants had a lively discussion of the presentations made. A number of recommendations have been developed, summarized and forwarded to all interested parties and published on the Institute's website.

See folder "Deliverables"

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.

Meeting of the National Advisory Board (NAB) on efficient management of public finance, 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.

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

With support from the Ministry of Finance of Ukraine, the MFSI-II Project arranged and conducted a roundtable on the topic "Local Budgets: A Component Part of Ukraine's Budget System." The event was held in Odesa on 20 and 21 July. As part of this event, a meeting was held of the National Advisory Board on efficient public finance management whose activities are supported by the MFSI-II Project. Representatives of the Ministry of Finance, heads of local finance departments, and experts of the MFSI-II

Project took part in discussing the pressing issues of implementing the reform of the public finance system.

Discussed at the meeting were the issues regarding the role of local budgets at the present stage of Ukraine's development, the status of execution of local budgets in the current year, and ways of improving their balancing.

Special focus was made on the progress in realization of the experiment on implementation of the Performance Program Budgeting method at the local level.

Based on the results of the meeting, recommendations have been developed for further directions of implementing the reform of the budget process at the local level and a schedule of conducting meetings/consultations on PPB implementation has been agreed.

See folder "Deliverables"

A meeting of the National Advisory Board (NAB) on efficient public finance management took place on 17 August 2012.

Meeting of the National Advisory Board (NAB) on efficient management of public finance, 17 August 2012

The event was held to coordinate the actions undertaken in implementing the Performance Program Budgeting (PPB) method.

The meeting covered topical issues of improving the regulatory framework for the formulation and execution of PPB-based local budgets with regard to implementation of the Law of Ukraine "On the Procedure of Healthcare System Reform Implementation in Vinnytsya, Dnipropetrovsk, and Donetsk Oblasts and the City of Kyiv." In addition, special features regarding the treasury servicing of PPB-based local budgets and directions of improving treasury procedures were discussed.

Among other things, the MFSI-II Project suggested the use of budget program numbers, which is a unique component of the program classification code, for adapting the existing reports on execution of local budgets. This approach will make it possible to generate a consolidated report on the execution of local budgets in the PPB format and to determine the further development of the existing software used by the Treasury.

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.

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

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)

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.

Changes occurred in the technical application, simplifying and improving the process of contributing information to the website.

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")

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 July-September 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 July-September 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 July-September 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.

The section of the Monitoring of Legislative Changes, which periodically covers the information regarding changes in the Ukrainian legislation is updated.

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.

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 (#35-July-September 2012) 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, three 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:
http://chernivtsy.tv/index.php?option=com_k2&view=item&id=153обласний-бюджет-формуватимуть-за-новим-методом&Itemid=40

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.

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

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.

Accomplished (see "Quarterly Report 01 April 2012 – 30 June 2012")