

**Quarterly Report**  
**01 October – 31 December, 2011**

*Prepared for IBSER by grant*  
*# AID-121-A-11-00006*

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## 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 was 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 will be considered at a roundtable meeting or meeting of the NAB, which will be attended by members of Parliament, experts of the Verkhovna Rada Budget Committee and other parliamentary committees, Ministry of Finance, and local governments.

The approved methodology will then be submitted to the Ministry of Finance for confirmation and dissemination to all local budgets.

See folder "Deliverables"

**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**

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

**Timeline: September 2012**

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

**Timeline: September 2012**

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

In order to implement the State support of the PPB methodology for all oblast, rajon 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 develop proposals that amend the regulatory and legislative framework as needed to complete PPB implementation for the budgets of rajon-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 (to be completed next year)*

*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 (to be completed next year)*

***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*

*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 (to be completed next year)*

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

Timeline: *April-September 2012 (to be completed next year)*

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

IBSER will prepare online and hardcopy versions of a handbook on PPB-based budgeting. This Handbook will cover international experience, methods of using the tools adapted for use in Ukraine, modern methodological frameworks, the guidelines of the Ministry of Finance, and the experience of application in the pilot regions, as well as practical use recommendations.

Deliverable: *The PPB Handbook produced, disseminated, and published on the Project website*

Timeline: *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:**

Experts of the MFSI-II project with the Ministry of Finance conducted a series of regional coordinating meetings on implementation of the Performance Program Budgeting (PPB) method for planning and execution of local budgets.

Invited to attend the meetings were deputy chairpersons for economic issues of oblast State administrations, coordinators of PPB implementation in the regions, as well as directors of all Finance Directorates of the oblasts, cities, and rayons, which participate in the experiment, and their deputies, who are heads of Budget Departments.

The coordinating meetings were held:

on 26 October 2011, in Kyiv – for participants of the experiment from the Kyiv, Sumy, and Chernihiv oblasts;

on 2 November 2011, in Odesa – for participants of the experiment from the Odesa, Mykolaiv, Kirovohrad, and Kherson oblasts and the city of Sevastopol;

on 10 November 2011, in Dnipropetrovsk – for participants of the experiment from the Dnipropetrovsk, Poltava, and Zaporizhya oblasts;

on 11 November 2011, in Donetsk – for participants of the experiment from the Donetsk and Kharkiv oblasts;

on 17 November 2011, in Khmelnytskyi – for participants of the experiment from the Khmelnytskyi, Chernivtsi, Ivano-Frankivsk, Ternopil, Zakarpatska, Rivne, and Volynska oblasts;

on 24 November 2011, in Vinnytsya – for participants of the experiment from the Vinnytsya and Cherkasy oblasts.

These activities were intended to carry out appropriate preparatory and organizational work as part of implementation of Phase II of Performance Program Budgeting implementation in 2011-2014, which envisages the inclusion of all oblast budgets and budgets of oblast-significant cities in the experiment.

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 will arrange the trainings and consultations on PPB implementation in the oblast centers for the specialists of structural units of Finance Departments, who are responsible for the formulation of departmental indicators of relevant budgets.

The trainings and consultations will cover all the departments, which will make it possible to formulate local budgets in the PPB format in all areas of using the budget funds, and will ensure their transparency and efficient use.

See folder “Deliverables”

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

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

To assist local governments apply 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 their 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 before the DIALOGUE project and will take its feedback into account in the final version of the document.

- IBSER will develop its proposals to 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: Methodology of financial justification of strategic documents developed***

***Timeline: October 2011 – January 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 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*

***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*

**Result/Deliverable:**

New set of questions (fifteen for the reported period) with experts answers related to PPB section has been placed on the site, the information is regularly updated.

See folder “Deliverables”

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

Timeline: *monthly*

**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***

- IBSEER 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:

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).

*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, IBSEER 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*

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

Timeline: *Ongoing process*

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: 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

Deliverable: Aanalysis 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

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

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

IBSER 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: 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

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

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

Timeline: September 2012

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

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

Deliverable: *The proposals based on the analysis findings prepared*

Timeline: *Ongoing process*

- 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 (to be completed next year)*

## ***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*

## ***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 the cities' selection has been developed. When selecting a city, the following criteria are taking into account: 1) a city should have an energy saving program (Municipal Energy Plan) or energy saving project, 2) a city should cooperate with MHR project, 3) amount of the development budget, 4) amount of debt obligations, and 5) willingness of the city leadership to take part in implementing the tasks set out by the MFSI-II project. Due to a late approval of the Law of Ukraine "On the State Budget of Ukraine for the Year 2012" and, accordingly, deferred approval of local budgets, the selection of cities has been shifted to January 2012. At the time of this report, the cities' indicators are being reviewed in accordance with the criteria established in the methodology.

*See folder "Deliverables"*

*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: System for monitoring energy-related budget expenditures for the four selected cities.*

*Timeline: April – 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*

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

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

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

*Timeline: July – September 2012*

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

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

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

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

*Deliverable: Monthly monitoring*

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

*Result: 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.*

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

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

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

Timeline: Ongoing process

Result/Deliverable:

- 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.
- Representatives of IBSER took part in the Ekonomichne kolo (Economic Circle) program at the Kyiv State TV channel (KDRTRK) on 14 November 2011.
- On 9 December 2011, representatives of IBSER 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.

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: Preparation and organization of a National Advisory Board

Deliverable: Minutes of a National Advisory Board and agenda

Timeline: April 2012, June 2012, August 2012

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

Timeline: Ongoing process

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

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