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**MUNICIPAL FINANCE  
STRENGTHENING INITIATIVE**

**Report**  
**01 October 2008 – 31 December 2011**

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**IBSER** INSTITUTE FOR BUDGETARY  
AND SOCIO-ECONOMIC RESEARCH

Prepared by the Institute for Budgetary and Socio-Economic Research (IBSER) Municipal Finance Strengthening Initiative project, which is funded by the U.S. Agency for International Development.



## List of Acronyms

AUF	Association of Ukrainian Financiers
AUC	Association of Ukrainian Cities
CLC	The Commercial Law Center
PERT	Program Evaluation and Review Technique
DHA	District Heating Assessment
EC	European Commission
ESCO	Energy service company
EU	European Union
FAF	Foreign Assistance Framework
GOU	Government of Ukraine
HCS	Housing and communal services
IBSER	Institute for Budgetary and Socio-Economic Research
LG	Local government
LINC	Local Investments and National Competitiveness Project
MBR	Municipal Budget Reform Project
MFF	Municipal Finance Facility
MFSI	Municipal Finance Strengthening Initiative Project
MOF	Ministry of Finance
MOU	Memorandum of Understanding
NGO	Non-governmental organization
OSR	Own-source revenues
PFO	Public Finance Overview
PMP	Performance Monitoring Plan
PPB	Performance Program Budgeting
RTI	Research Triangle Institute
SEFR	Support to Economic and Fiscal Reform
STA	Single Treasury Account
USG	United States Government
WB	World Bank
IWG	Intergovernmental Working Group
NAB	National Advisory Board
KCEA (KCSA)	Kyiv Council Executive Authority (Kyiv City State Administration)



## **Area 1: Improvement of legislative and regulatory framework**

### **Task 1.1: Help the GOU and/or other Ukrainian stakeholders to improve the system of intergovernmental budget relations**

*Sub-Task 1.1.1: Review the existing formula for intergovernmental transfers and recommend improvements to the Ministry of Finance, relevant parliamentary committees, and other stakeholders*

#### **Result**

MFSI conducted an analysis of the formula for intergovernmental transfers and developed proposals for their improvement. The proposals, mentioned above, were developed taking into account the best world international experience regarding the equalization transfers system, as well as the distribution formula.

Moreover, MFSI project's experts organized and conducted a series of working meetings with the representatives of the Verkhovna Rada Budget Committee and Local Budgets Department under the Ministry of Finance of Ukraine, aimed at the discussion of the analysis results prepared by MFSI experts.

*See folder "Deliverables"*

*Sub-Task 1.1.2: Review the process of assigning central budget capital transfers to local budgets for infrastructure development and recommend improvements to ensure transparency, consistency and sufficiency of the funds allocated to financing local communal services infrastructure development according to the priorities of local and regional development strategies;*

- Analysis and recommendations regarding the process of assigning central budget capital transfers to local budgets
- Presentation of the proposals regarding the process of assigning central budget capital transfers to local budgets at a meeting of NAB and submission to the Ministry of Finance, Ministry of Economy and the Budget Committee to be taken into account in their work
- Recommendations regarding the process of assigning central budget capital transfers to local budgets

#### **Result**

MFSI experts analyzed the existing capital transfers allocation system and prepared proposals related to the formula allocation.

The proposals above were submitted to the National Advisory Board (NAB) at a meeting held on April 15, 2009, and improved subject to proposals made by the Ministry of Finance of Ukraine and on June 11, 2009 were sent to the Ministry of Finance of Ukraine along with a calculation sample.

*See folder "Deliverables"*

- **Assisting the Ministry of Finance and the Secretariat of the Verkhovna Rada Committee on Budget in finalizing the new version of the Budget Code in order to overcome the veto of the President of Ukraine.**

### **Result**

Proposals made by MFSI project were included as changes to the Budget Code that were approved by the Verkhovna Rada of Ukraine on July 8, 2010, (Article 105). The changes will ensure improvements to the efficiency of the distribution of subventions for the execution of investment projects between administrative and territorial units. In particular it is envisioned that the distribution of subventions for the implementation of investment projects shall be performed on the basis of official parameters that are based on actual and anticipated economic and social growth indicators within the relevant territory, which, in particular, includes the level of population density, as proposed by MFSI experts.

In 2011, two proposals directly elaborated by MFSI were incorporated into changes to the Budget Code of Ukraine (72 for the whole period of project implementation): a tax on property (1) and the funds of shared participation in the development of infrastructure (2) have both been included into development budget revenues. According to the estimates made by MFSI and the Ministry of Finance, this could generate about Hr 100mn extra for the cities in 2012, with a realistic potential of increasing their development budgets to Hr 2.5bn or by 1.6 times.

*See folder "Deliverables"*

### ***Sub-task 1.1.3: Promote further budget reforms and use of PPB methodology at the central and local levels***

- **Preparation and organization of the Financial & Economic Forum**

### **Result**

Five Financial and Economic Forums and Conference on Improving the Efficiency of Budget Process Based on the Principles of Modernization of Administrative Management and Partnership with Civil Society were organized and conducted.

**The 4th Financial and Economic Forum** devoted to the topic of "Formulation of Forecast Indicators for 2010 Local Budgets" convened at the premises of the Ukrainian Ministry of Finance on 27-28 August 2009. The event was organized by the Ministry of Finance with support from the Municipal Finance Strengthening Initiative project, which is implemented by IBSER with support of USAID, as well as the Public Administration Reform project sponsored by the German Technical Cooperation Society.

The Financial and Economic Forum was attended by representatives of the Cabinet of Ministers' Secretariat, Budget Committee of Ukrainian Parliament, Association of Ukrainian Cities and Communities, Association of Financial Officers of Ukraine, and the Presidium of the Council of



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Village and Settlement Mayors attached to the Cabinet of Ministers, heads of local finance departments, and oblast State administrations.

The key objective of the event was discussing the topical issues in the formulation of forecast indicators of local budgets for the year 2010, as well as reviewing the Draft Law of Ukraine “On the State Budget for the Year 2010” with regard to local budgets and intergovernmental finance relations.

Minutes of Financial & Economic Forum, agenda and list of Forum participants has been placed on MFSI project web-site. Information on the Forum is also included into E-Bulletin #10 and sent to 350 MFSI partners.

References on the publications and TV/Radio spots, resulted from issues being discussed at the Forum, are placed on MFSI project web-site in “Media about Us” section.

**The Fifth Financial and Economic Forum** “The Ways of Strengthening Cities' Financial Capacity in the Crisis Conditions” was held at the Grand Conference Hall of the Ukrainian National Academy of Sciences on 27 November 2009. The Forum hosted an international conference with participation of the M.E.S.A.10 Slovak Center for Economic and Social Analysis.

The event, conducted by the Institute for Budgetary and Socio-Economic Research (IBSER) as part of the Municipal Finance Strengthening Initiative (MFSI) project, implemented with support from USAID, was devoted to a comprehensive discussion of the issues related to strengthening the financial capacity of local government to improve their ability to implement infrastructure projects, in particular, energy-saving projects.

Participants of the Forum included more than 60 representatives from different branches of government and the public, including those from the Ministry of Finance of Ukraine, Ministry of Economy, Ministry of Housing and Communal Services, National Bank, leading commercial banks, oblast governors, mayors, local finance directors, academics, members of the international expert community and NGOs.

Within the Fifth Financial and Economic Forum there was organized a press-conference attended by 20 representatives of national media organizations (TV, radio, printed media, and news agencies).

Agenda, list of Forum participants as well as presentation materials have been placed on MFSI project web-site. Information on the Forum is also included into E-Bulletin #13 and sent to 350 MFSI partners.

References on the publications and TV/Radio spots, resulted from issues being discussed at the Forum, are placed on MFSI project web-site in “Media About Us” section.

**The Sixth Financial and Economic Forum** “Raising Competitiveness of the Ukrainian Economy and Government Efficiency: Steps of the Budget Policy in 2010-2014” was held on June 24-25, 2010.

The Forum focused on discussing the tasks and prospects for implementing public finance reform, as well as the ways of strengthening the financial capacity of local government.

The Forum participants were familiarized with the results of PPB pilot projects in Zhytomyr, Luhansk, and Lviv oblasts and the Autonomous Republic of Crimea in 2008-2009 and the results produced by the Intergovernmental Working Group at the Ministry of Finance in the area of developing the methodological foundations and methodology recommendations for the

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implementation of the Performance Program Budgeting (PPB) method at the local level. The Representatives of the Ministry of Finance of the Autonomous Republic of Crimea, and Principal Finance Directorates of the Zhytomyr, Luhansk, and Lviv Oblasts familiarized the Forum participants with their experience of practical PPB implementation at the local level, as well as with the methodological principles of using PPB and medium-term budget planning for improving the investment attractiveness of infrastructural development projects. Moreover, representatives of the financial directorates of certain pilot cities familiarized the Forum participants with the social and economic impact produced by the implementation of individual local PPB-based projects.

Summing up the event, the participants discussed further plans and steps for PPB implementation based on a medium-term approach starting in 2014 subject to the requirements set out in the “Prosperous Society, Competitive Economy, Effective State” program for economic reforms in Ukraine for the years 2010-2014.

On 31 March, 2011 MFSI held the **seventh Finance and Economic Forum** on the following theme: Strengthening the Financial Capacity for Local Development.

The Forum included discussions on the issues of development budget formation given the environment of the new Budget Code and Tax Code, raising the efficiency of budget resources management, the prospects for using Public Private Partnership arrangements, and local borrowing and guarantees as tools for implementing infrastructure projects.

The results from the evaluation of the experiment of implementing the Performance Program Budgeting (PPB) method for local budgets in 2010 were presented. In particular, case studies of PPB implementation in Kyiv, Crimea and Zhytomyr oblasts were made examined, and there was also a discussion on further steps in implementing the PPB experiment at the local level in 2011-2012. Besides, the Forum participants point to the importance of implementing the tasks contained in the *Prosperous Society, Competitive Economy, Efficient State* Program of the President of Ukraine with regard to applying the Performance Program Budgeting method for the formulation and execution of local budgets starting in 2014.

The Forum participants also point to the significant success of the experiment conducted by the Ministry of Finance of Ukraine and local executive authorities and local governments of Luhansk, Zhytomyr, and Lviv oblasts, Autonomous Republic of Crimea, and the City of Kyiv, in collaboration with the Institute for Budgetary and Socio-Economic Research with support from USAID. Thus, not only the legislative foundations and regulatory framework were laid down at the first year of implementation, but also positive results were achieved from the implementation of individual programs.

Based on the results of monitoring the progress of the experiment conducted by the Ministry of Finance, more than 60% of participants received their first positive results in 2010.

Taking into account the results of Phase One of the Performance Program Budgeting experiment of implementation of the Performance Program Budgeting method of formulation and execution of local budgets, the Forum participants consider it essential to recommend the continuation of work related to quantitative and qualitative expansion of the experiment.

More than 50 representatives of the Verkhovna Rada Budget Committee; Cabinet of Ministers; Ministry of Finance; Ministry of Economic Development and Trade; Ministry of Housing & Communal Services; other government agencies; oblast State administrations and oblast Finance



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Departments; representatives of USAID and EBRD; the academic community: international experts; NGO leaders and mass media took part in the Forum.

Based on the findings of the 7th Financial and Economic Forum, recommendations were prepared and distributed among all the stakeholders.

**The Eighth Financial and Economic Forum** on the topic of Socioeconomic Prerequisites for Local Development in 2012-2014 was held at the Rus' Hotel conference hall on 14 October 2011.

The event was conducted by the Institute for Budgetary and Socio-Economic Research (IBSER) as part of the Municipal Finance Strengthening Initiative Project implemented by IBSER with support from the U.S. Agency for International Development (USAID).

The Forum's main focus was on the ways to strengthen the financial capacity of Ukraine's local governments both for the short- and medium-term, and the prospects of interbudgetary relations reform. The Forum was conducted in the time of the 2012 draft State budget consideration by the Verkhovna Rada, and the Forum's participants reviewed the special circumstances of its formulation, its main parameters, and discussed how it could be improved, as well as the prospects for the government's social commitments. The experts raised the important issue of the risks and prospects for developing Ukraine's regions in the post-crisis period.

Also, as part of the event, the positive results from implementing the Performance Program Budgeting (PPB) method in local budgets were reviewed. Important issues such as expanding local governments' financial base and in particular, the implementation of local development projects based on Public-Private Partnerships and attracting credit resources, were discussed.

The Forum was co-chaired by Chairman of the Verkhovna Rada Budget Committee, V.O. Baranov, and Advisor to President of Ukraine, A.A. Maksiuta. The participants included the representative of the Coordinating Center for Implementation of Economic Reforms under the President of Ukraine, of the Ministry of Finance of Ukraine, Ministry of Housing and Communal Services of Ukraine, State Finance Inspectorate, State Agency for Investments and Management of National Projects of Ukraine, Ukrhazbank Public Stock Company Joint-Stock Bank, Association of Ukrainian Cities, Mission of the UN Children's Fund to Ukraine (UNICEF), USAID, other public institutions, academic circles, the international expert community, the civil society sector, and mass media.

Recommendations were prepared based on the event's results and disseminated to all stakeholders.

A **conference** titled Improving Budget Process Efficiency Based on the Principles of Modernizing Administrative Management and Partnership with Civil Society was held in the city of Irpin' on **23 December 2011**. As part of the conference, a roundtable discussion called Interrelation between Efficient Budgeting and Other Aspects of Local-Level Management Systems was also held.

The conference focused on issues regarding the achievements and prospects for reform of the system of local finance, ways of ensuring budgeting efficiency at the local level, their interrelation with the improvement of administrative management and public participation, as well as other topical issues.

Conference attendees included the representatives of government ministries and departments, oblast, district, and city State administrations, representatives of academia and the international expert community, and the civil sector.



*See folder “Deliverables”*

- **Preparation and organization of the National Advisory Board (NAB)**

**Result**

Eight meetings of the NAB on the issues of efficient public finance management were organized and conducted.

The National Advisory Board (**December 26, 2008**) was devoted to the discussion of draft Law of Ukraine “On the Main Bases of Public and Private Partnership Development in Ukraine”, particularly, in what concerns the implementation of innovative financial technologies in the communal sector.

The representatives of the Ministry of Economy and Finance of Ukraine, Ministry for Housing and Communal Services of Ukraine, USAID project “Trainings on Public-Private Partnership in Ukraine”, Association of the Ukrainian Cities, Fund for Local Self-Government Support and MFSI experts took part in the NAB meeting.

MFSI experts performed the following activities:

- invitation of participants (fax the letters, confirmation calls etc.);
- arrangement of the premises (Hotel President);
- preparation of the information kits with NAB’s materials to be distribute among the participants;
- preparation of the info on the NAB meeting and its placement on the website;
- placement of the information on the NAB meeting in the 3-rd issue of E-Bulletin and its distribution over MFSI project data base

The participants of the National Advisory Board developed the recommendations, placed on the Institute’s website, and submitted them to all the interested parties.

On **April 15, 2009**, there was held the joint meeting with the participation of the Intergovernmental Working Group established at the Ministry of Finance of Ukraine for issues related to development of the methodological framework for implementation of the performance program budgeting (PPB) at the local level, and the NAB in terms of the state finance management.

The meeting was attended by approximately 50 representatives of the Verkhovna Rada Budget Committee, Verkhovna Rada Committee for Construction, City Planning, Housing and Communal Services and Regional Policy, Ministry of Economy and Ministry of Finance of Ukraine, Ministry of Housing and Communal Services, State Treasury of Ukraine, Association of Ukrainian Towns, local government bodies, international expert environment, local government bodies representatives, oblast and municipal financial departments in Lugansk, Odesa, Lviv oblast and the AR of Crimea, leaders of Ukrainian social sector. Within the framework of the meeting there was held the press conference in which participated representatives of 12 national mass media companies (TV, radio, printed media, information agencies).

Recommendations of the attendees were taken into account by the Ministry of Finance of Ukraine for the purpose of implementation of the PPB in 4 pilot oblasts.



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Minutes of the meeting, agenda and NAB's recommendations has been placed on MFSI project web-site, sent to NAB's participants, partners and 80 national media representatives. It's also included into E-Bulletin #7 and sent to 350 MFSI partners.

Media monitoring, resulted from the press-conference within NAB's meeting, revealed 10 publications, TV and radio spots covered the event and MFSI project activity (references to media outlets are placed on MFSI project web-site in "Media About Us" section).

A joint meeting of the NAB and Intergovernmental Working Group Intergovernmental Working Group at the Ministry of Finance of Ukraine was held on **December 29, 2009** at the premises of the Big Conference Hall of the National Academy of Sciences of Ukraine.

The event was held jointly by the Ministry of Finance of Ukraine and the Institute for Budgetary and Socio-Economic Research, implementing the Municipal Finance Strengthening Initiative project with support from the USAID.

The purpose of the meeting was to discuss and coordinate actions taken in order to implement Performance Program Budgeting (PPB) in local budgets.

Participants of the event discussed the proposals concerning the modernization of the experiment related to implementation of PPB at the local level and examined methodological principles of its implementation. In particular, forms and instructions concerning principal documents of the budgeting process under PPB at the local level, standard list of budgetary programs and indicators of their implementation results as well as the methodology for evaluation of experiment related to PPB implementation during local budgets preparation and execution were considered during the event. Members of the I WG have approved the said documents and recommended that the Ministry of Finance of Ukraine approve the respective instructions and document forms.

Members of the Intergovernmental Working Group recommended the Ministry of Finance to increase the number of local budgets participating in PPB-related experiment from 26 to 43.

As regards a standard list of budget programs and their performance indicators, the event participants believe those must be approved by joint ordinances of the Ministry of Finance and line ministries, so that the latter should be involved as much as possible into the process of raising efficiency of funds spending in their respective sectors.

The meeting was held with the participation of representatives of the Budget Committee of the Verkhovna Rada of Ukraine, Ministry of Finance and Ministry of Economy of Ukraine, Ministry of Housing and Utility Services of Ukraine, Ministry of Justice of Ukraine, Ministry of Education and Science of Ukraine and Ministry of Health of Ukraine, State Treasury of Ukraine, General Financial Department of the City of Kyiv, Association of Bankers of Ukraine, IBSER etc.

A joint meeting of the National Advisory Board on public finance management and Intergovernmental Working Group under the Ministry of Finance of Ukraine took place at the Ministry of Finance building on **31 March 2010**.

The event was held jointly by the Ministry of Finance of Ukraine and the Institute for Budgetary and Socio-Economic Research, implementing the Municipal Finance Strengthening Initiative project with support from the USAID.

The purpose of the meeting was to discuss and coordinate actions taken in order to implement the Performance Program Budgeting (PPB) in local budgets.



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The meeting participants reviewed the evaluation results of PPB pilot implementation for the formulation and execution of local budgets for the year 2009, and discussed the issues related to the PPB local-level implementation Action Plan for 2010.

Also, the meeting considered the issue of developing the structure of the program classification code for the formulation and execution of local budgets in the PPB format. MFSI experts presented their latest achievements on this area and discussed further steps to be taken towards improving the program classification with the participants (primarily, with the specialists of the State Treasury of Ukraine).

More than 30 representatives of the Ministry of Finance of Ukraine, Ministry of Economy of Ukraine, Ministry for Housing and Communal Services of Ukraine, Ukrainian Parliament, Ministry of Labor and Social Policy, representatives of the State Treasury of Ukraine, Association of Ukrainian Cities and others participated in the discussion.

A joint meeting of the National Advisory Board on public finance management and the Intergovernmental Working Group under the Ministry of Finance of Ukraine took place at the Trade Union Federation Building in Kyiv on **24 September 2010**.

The event was intended to coordinate the activities being carried out to implement progressive budgeting techniques, in particular, Performance Program Budgeting (PPB).

The participants of the joint meeting of NAB and Intergovernmental Working Group included the representatives of the Verkhovna Rada Budget Committee, Ministry of Finance of Ukraine, Ministry of Labor and Social Policy, Ministry of Health of Ukraine, Ministry of Culture and Tourism, and Ministry of Education and Science, the State Treasury of Ukraine, Principal Finance Directorate of the Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA), and Association of Ukrainian Financial Officers.

In the course of the meeting, the participants discussed draft joint orders by the Ministry of Finance, and Ministry of Culture and Tourism, Ministry of Labor and Social Policy, and Ministry of Family, Youth, and Sports for approving standard lists of budget programs and their performance indicators for local budgets in the respective departments.

Special focus was made on discussing the draft code of the program classification of expenditures and crediting for local budgets developed by MFSI experts with the ministries mentioned above.

The National Advisory Board on public finance management met on **28 December 2010** to assess the implementation over the course of 2010 of Performance Program Budgeting in the pilot regions of the MFSI Project, as well as lay out further plans for implementing the PPB experiment at the local level.

The participants discussed issues related to changes in the standard lists of budget programs and their performance indicators as approved by joint orders of the Ministry of Finance and line ministries. They also familiarized themselves with the results of the monitoring of PPB application for planning and executing local budgets and the experience of the experimental implementation using case studies of individual cities and districts of Zhytomyr, Lviv, and Luhansk oblasts and the Autonomous Republic of Crimea.



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The meeting included a presentation of a standard departmental classification of local budget expenditures developed by MFSI experts, which was followed by a discussion of key aspects of its application for the formulation of program classification codes.

The NAB meeting was attended by representatives of the Ministry of Finance, Ministry of Economy, Committee on Budget of the Verkhovna Rada, State Treasury, Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA), experts of the leading think tanks and others.

Arranging of NAB meetings allows coordinating the efforts of all participants of the budget process aimed at improving the system of public finance management in Ukraine.

It also promotes the development of appropriate competent, expert recommendations and their consideration by government units and other stakeholders.

A meeting of the NAB on the issues of efficient public finance management was held on **19 August 2011**.

The event was held to coordinate the actions of implementing the Performance Program Budgeting method in pilot regions of the MFSI Project, summing up the results of the first six months of 2011, as well as identifying further steps towards improving the methodological framework of PPB implementation at the local level.

The participants discussed special circumstances regarding the identification of expenditure categories for developing budget programs, and proposed changes to the standard lists of budget programs and their performance indicators approved by joint orders of the Ministry of Finance of Ukraine and line ministries. They also reviewed the results of the monitoring of PPB application for planning and executing local budgets, and the experience of experiment implementation, using examples of some cities and districts from Zhytomyr, Lviv, and Luhansk oblasts, Crimea and the city of Kyiv.

The methodology of evaluating efficiency of budget programs for local budgets developed by MFSI experts was presented, and important aspects of its application at the level of local budgets were discussed.

The NAB meeting was attended by representatives of the Ministry of Finance, Budget Committee of the Verkhovna Rada, Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA), and experts from leading think tanks.

A regular meeting of the NAB on the issues of efficient management of public finance was held on **28 December 2011**.

The event focused on a discussion of the concept of implementing a comprehensive evaluation of budget program execution at the level of local budgets, as well as individual issues and areas of improving the PPB methodological base.

The meeting participants were joined by representatives of the Ministry of Finance of Ukraine, Secretariat of the Budget Committee of the Verkhovna Rada of Ukraine, and the State Finance Inspection of Ukraine.

During the meeting, the participants discussed the issues related to standard lists of budget programs and their performance indicators for local budgets, certain issues of identifying expenditure categories for developing budget programs, as well as methodological



recommendations for conducting evaluations of budget program efficiency. Based on the meeting results, the main directions of activities for developing and improving the PPB methodological framework were outlined for the year 2012.

*See folder “Deliverables”*

- **Printed materials of an annual publication “Innovative Practices: Local Finance Management”**

### **Result**

The 1st and 2nd issues of annual brochure “Innovative Practices: Local Finance Management” has been prepared by MFSI experts. It contains the materials, which provide illustrative examples of efficient planning and use of budget resources for the benefit of cities and their communities submitted by partner cities of the Municipal Finance Strengthening Initiative project implemented by IBSER with support of the USAID. The publication is intended for a wide audience and is expected to help popularize the achievements and best practices of PPB at the local level.

The brochures were printed, circulation – 200 copies (Ukrainian).

They were distributed through public events and direct mail to partner organizations in pilot regions of MFSI project.

The electronic versions of the publications are also posted in the Research and Materials / Other Publications section on the MFSI project website. They were also included into E-Bulletin #9 and #17, e-mailed according to MFSI project data-base to 350 partners.

The 3rd annual issue of the “Innovative practices: Local finance management” brochure has been prepared by MFSI experts. It contains illustrative examples of the efficient planning and use of budget resources for the benefit of cities and their communities submitted by partner cities of the Municipal Finance Strengthening Initiative project implemented by IBSER with support of USAID. The publication is intended for a wide audience and is expected to help popularize the achievements and best practices of PPB at the local level.

The brochure was printed in 2011, circulation – 500 copies in Ukrainian.

They were distributed at public events and via direct mail to partner organizations in the pilot regions of the MFSI project.

The electronic version of the publication is also posted in the Research and Materials / Other Publications section on the MFSI project website. It was included into E-Bulletin #28 and e-mailed according to MFSI project data-base to more than 500 partners.

To highlight best practices, a methodology guide *Using Financial Tools for Implementation of Local Infrastructure Development and Energy Savings Projects* was prepared. It contains the training, normative, and methodological materials needed for applying the mechanisms for financing investment programs/projects by local governments and communal services enterprises. It also provides an overview of the international practices in applying individual types of financial mechanisms.



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Special focus is made on the mechanisms of implementation of energy saving projects, as well as attracting the resources of international finance organizations for implementation of investment programs/projects.

The electronic version of the publication is also posted in the Research and Materials / Other Publications section on the MFSI project website.

*See folder “Deliverables”*

- **Electronic bulletin monthly “E-Bulletin” (Ukrainian and English versions)**

### **Result:**

Design, prepare and distribute 32 issues of **E-Bulletin** (Ukrainian and English versions), monthly electronic publication of the MFSI project, implemented by the Institute for Budgetary and Socio-Economic Research, which contains current news about the activity of the organization and is spread by means of electronic mail.

### **Deliverable:**

Bulletin issues have been prepared in Ukrainian and English and e-mailed to more than 500 partners according to the MFSI project data-base, including 137 GOU entities (ministries, agencies, the Parliament, etc.), 63 NGOs, 55 international organizations, 30 regional governments and 220 mass-media outlets from all over Ukraine. They are also placed on the project web-site in “E-Bulletin” section. In addition, 1,200 users download this information monthly from the MFSI website.

*See folder “Deliverables”*

- **Preparation and organization of media coverage of the coordinating meeting on PPB implementation in 4 pilot regions (4 press conferences with participation of oblast and rayon media)**

### **Result**

Preparation and organization of press conferences with participation of oblast and raion media in **Zhytomyr (3 March, 2009)** and **Lviv (27 March, 2009)**, in particular:

- Preparation of press-announcements and press-releases re event
- Preparation of the information for media on PPB implementation Action Plan
- Preparation of the information kit for participants and media aimed at further distribution at the event
- Preparation of the news on coordinating meeting and place it into site
- information on coordinating meetings included into the 6-th issue of E-Bulletin and send it by E-Bulletin distribution list, and
- preparation of media monitoring on the results of events: (Zhytomyr – 8 media outlets, Lviv - 6 media outlets).



MFSI organized media coverage and participation of oblast and rayon media representatives within the coordinating meeting on PPB implementation **in Lugansk** (2 April, 2009 – 8 journalists) and **Simferopol, AR Crimea** (9 April, 2009 – 7 journalists).

Regional media monitoring, resulted from two press-conferences within the above-mentioned coordinating meetings, revealed 10 publications, TV and radio spots (Lugansk – 6 media outlets, Simferopol - 5 media outlets) covered the events and MFSI project activity (references to media outlets are placed on MFSI project web-site in “Media About Us” section).

- **Participation of MFSI experts in the radio and TV programs on the topics to be implemented by the project**
- **Organization of project experts’ interviews for TV, radio, printed and electronic media**

### **Result / Deliverable**

MFSI conducted constant monitoring of media coverage of the MFSI project activities and project experts’ opinion in national and regional media. All materials and references have been placed at the web-site.

All MFSI project PR activities aimed at promoting further budget reforms and use of PPB methodology at the central and local levels help to improve professional level of coverage of the budgetary issues by national and regional media outlets (local and rayon media in particular); increase quantity and perform higher quality of coverage of the budgetary issues in the national and regional media outlets; further promote and distribute positive experience of local budgets formation and execution by PPB into other regions and all over Ukraine. Besides, all PR efforts help to increase the number of members of a wider public familiar with the topicality of project’s range of problems and importance of the budgetary issues; to improve the dialog between the central/local government and the public on important economic, budgetary, social issues and, as a result, increase the transparency in budget execution.

- **MFSI project web-site**

### **Result / Deliverable:**

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

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

- **MFSI project Data Base**

On-going process of updating the data-bases to implement MFSI project:

- update MFSI project general data base;
- update the E-Bulletin distribution list (Ukrainian and English separately).



**Task 1.2: Assist the GOU and/or other Ukrainian stakeholders in drafting and promoting the new and amended legislation needed to increase local budget revenues, including the Local Taxes and Fees Law, Land Tax Law, Property Tax Law, Tax Code**

- *Analysis of the Budget Declaration for the current year is prepared and the suggestions to the document are accepted and incorporated in the text of the document*

**Result**

In March 2009 MFSI experts have prepared an analytical report “Review of the Legislative and Regulatory Framework in the Context of Improving the Financial and Budgetary Management in Ukraine in the Environment of the Global Financial and Economic Crisis for Bettering the Condition of Local Budgets.”

In June 2009 MFSI experts prepared Analysis of the Budget Declaration for 2010. The major findings and the conclusions of the Analysis were provided to the MFSI project partners and placed on the MFSI project website.

The MFSI experts analyzed Budget Declaration for 2011 approved by the Cabinet of Ministers on April 19, 2010, reg. number 315. The main budget indicators were analyzed and the major budget priorities for 2011 were identified. The analysis was included into the Budget Monitoring for January-March 2010.

MFSI experts analyzed the Decree of the Verkhovna Rada of Ukraine “On the Main Directions of Budget Policy for the Year 2012” dated 13 May 2011, No.3358. This decree, similarly to other such documents of previous years, sets out the main objectives and tasks of the budget policy for 2012 in various sectors, tasks regarding the debt policy, and relations between the State budget and local budgets. The analysis was included into the Budget Monitoring for January-March 2011.

*See folder “Deliverables”*

- *Performance of an analysis of the Budget Law for the respective year is prepared*

In December 2008 MFSI experts prepared an Analytical Report “Review of Provisions of the Draft Law Of Ukraine “On State Budget Of Ukraine for 2009”. The principal provisions and major parameters of the state and local budgets for 2009 were analyzed, as well as possible risks of budget execution in 2009.

The major findings and the conclusions of the Analytical Report “Review of Provisions of the Draft Law Of Ukraine “On State Budget Of Ukraine for 2009” were presented to the executives of the USAID, provided to the MFSI project partners and placed on MFSI project website.



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## MUNICIPAL FINANCE STRENGTHENING INITIATIVE

The MFSI experts analyzed the Law on the State Budget of Ukraine for 2010 approved by the VR on April 27, 2010. The main budget indicators were analyzed as well as major risks of the budget execution in 2010 were identified. The analysis was prepared in form of an analytical memorandum. The analysis was placed to the project Web-site and sent to the project partners.

MFSI project's experts analyzed the Law On the State Budget of Ukraine for 2011, which was approved by the VR on December 23, 2010. The main budget indicators were analyzed as well as major risks to budget execution in 2011 were identified. The analysis was prepared in the form of an analytical memorandum.

The analysis was placed to the project web-site and sent to the project partners.

An analysis of the 2012 draft budget shows certain positive features regarding both the legislative draft itself and the transparency of the budget process in general. For instance, this is the first time ever that information from key spending units with regard to their tasks and expected results for 2012-2014 have been submitted together with the bill.

The macroeconomic indicators are calculated based on a conservative scenario, and analysts are commenting that the key budget parameters are realistic.

The minimal social standards will also be increased at a pace commensurate with economic development next year. Minimum wages and the subsistence level for able-bodied persons are slated to grow at 14%. The minimum wage level will reach Hr 1134 by the end of the year and will exceed the average subsistence level by 3.6% (or Hr 39). This is a positive fact, even though this difference is not sufficient to ensure a balance between labor remuneration fund and social allowances. The experience of EU countries shows that the minimum wage level should exceed the subsistence level by 2.5 times at a minimum.

The budget reflects the new pension reform, which is designed to significantly reduce the Pension Fund deficit next year, and adopted the State budget expenditures for covering this deficit by Hr 15.6bn or by 87.6%.

A positive trend continues in the narrowing of the gap between borrowing and debt repayment. The 2012 budget deficit will be significantly lower than the planned development expenditures, which indicates that borrowing will be mainly used for State investments. To compare, the deficit doubled the amount of these expenditures in 2010, thus reflecting that borrowings were used for current expenditures.

As regard to the relations between the State and local budgets, the 2012 draft State budget hardly reduces the dependence of local budgets on transfers from the State budget, with their share in the revenue structure amounting to 52.4% compared to the 52.7% planned for the year 2011.

*See folder "Deliverables"*

- ***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 by the Verkhovna Rada)***



In December 2008, MFSI specialists conducted analysis of amendments to the Law of Ukraine “On the State Budget of Ukraine for 2008”, adopted by the Verkhovna Rada of Ukraine. The analysis mentioned above is placed on the Institute’s website.

MFSI project analyzed the changes to the 2011 State budget approved by the Verkhovna Rada on June 14, 2011. The main budget indicators were analyzed as well as major risks to a successful budget execution in 2011 were identified. In particular, the increase of the budget revenues envisaged in the Law is justified if not understated as long as the positive trends of Ukraine’s economic development continue through the end of the year. Budget expenditures grew by UAH 12.3bn. The additional social expenditures aimed at increasing basic salaries in education, health, and social protection. Due to these changes, the Law decreases the budget deficit by UAH 3.5bn, bringing it to 2.7% of GDP, which is in line with the Cooperation Program between Ukraine and the IMF. The Law attempted to resolve another crucial problem of budget policy, which is interbudgetary transfers. The volume of such transfers was increased by UAH 3.4 bn.

The analysis was prepared in form of an analytical memorandum. The analysis was placed on the project website and sent to the project partners.

*See folder “Deliverables”*

- *Assurance of analysis of the draft legislation, aimed at amending revenue base of local governments and registered in the Verkhovna Rada of Ukraine*

### **Result**

In accordance with the project’s Work Plan, as well as reacting to the changing economic conditions in Ukraine impacted by the financial and economic crises, MFSI experts analyzed legislative initiatives, aimed at overcoming the consequences of the crises and prepared its own recommendations. The analysis of the mentioned legislative governmental initiatives and IBSER’s development of the own proposals are aimed at achievement of the main goals of MFSI project. In particular, local budget revenues increase, additional financial resources attraction, development of the proposals and local governments’ access mechanisms to credit resources, as well as the development of proposals, aimed at improvement of legislative and institutional framework for Municipal Finance Strengthening Initiative.

In November 2008, MFSI experts prepared Memoranda on Analysis of anti-crises measures registered for consideration by the Verkhovna Rada of Ukraine.

MFSI project’s experts participated in the sessions of the Anti-Crises Working Group organized at the VRU Committee on Taxation and Customs Policy. The MFSI experts presented their proposals, aimed at reforming of the land tax and local taxes and fees for the consideration by the Working group (according to the Work Plan).



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## **MUNICIPAL FINANCE STRENGTHENING INITIATIVE**

Some of the proposals of the MFSI project's experts were incorporated in the text of the draft law "On Local Taxes and Fees", which was adopted by the VRU in the first reading on December 24, 2008. However, because of the unjustified increase of the tax rates for market and parking tax envisaged by the bill, MFSI experts insist on serious review of its proposals.

MFSI experts prepared a draft of State Tax Administration of Ukraine Order, aimed at simplifying the procedure of issuing Unified Tax Payer Certificate and submitted it to the Cabinet of Ministers of Ukraine.

MFSI experts participated in the session of the VRU Tax and Customs Committee Public Board dedicated to the discussion of the draft Law on Local Taxes and Fees passed by Verkhovna Rada in the first reading.

MFSI project's experts were included in the VRU Tax and Customs Committee Working Group on Preparation of the draft law On Local Taxes and Fees (registration number 3552) for the second reading and took part in all working sessions of the working group.

Also, on invitation of the Association of Ukrainian Cities and Communities, MFSI experts took part in two expert-level meeting conducted:

- on February 12, 2009 dedicated to elaboration of a common position on the text of the draft law On Local Taxes and Fees, which was being prepared for the second reading, and
- on March 23, 2009 dedicated to the analysis of possible ways of strengthening of local finance basis.

A draft State Tax Administration of Ukraine Order aimed at simplifying the procedure of issuing Unified Tax Payer Certificate prepared by MFSI experts was supported by the Ministry of Economy of Ukraine and the State Committee on Entrepreneurship.

MFSI experts participated in the session of the VRU Tax and Customs Committee Public Board dedicated to the discussion of the draft Law on Simplified Taxation System Local Taxes and Fees passed by Verkhovna Rada in the first reading. The MFSI project's proposals were included in the preliminary agreed text of the draft law.

MFSI project's experts participated in the session of the VR Tax and Customs Committee Public Board dedicated to the discussion of the draft Law on Changes to Some of Legislative Acts of Ukraine (registration number 6337) passed by Verkhovna Rada in the first reading. MFSI experts provided their comments and proposals to the draft law.

In 2011, 4 MFSI proposals were incorporated into the Tax Code of Ukraine:

- 1) different forms of taxation of physical persons on the simplified system of taxation depending on type of activity (flat rate of percent of turnover);
- 2) automatic increase of the unified tax rate for physical persons along with the increase of the minimal wage established annually by Law on the State Budget;



- 3) introduction of a permanent certificate of a payer of the unified tax as long as needed (before the taxpayer was supposed to renew it every year);
  - 4) a list of cases for termination of the permanent certificate of a payer of the unified tax.
- **work with the VR Committee on Budget and Committee on Taxation and Customs Policy in the process of consideration and approval of the “Law on Changes to the Land Tax” and “On the Unified Tax for Small Entrepreneurs” in the Verkhovna Rada**

### **Result**

MFSI experts participated in the session of the VRU Tax and Customs Committee Public Board dedicated to the discussion of the draft Law On the Unified Tax for Small Entrepreneurs. The MFSI experts proposals were included in the preliminary agreed text of the draft law.

Experts of the MFSI prepared proposals and comments to the draft law “On Changes to the Law of Ukraine “On Land Tax” with a number of provisions in the wording proposed by MFSI.

- *work with the VR Committee on Budget and Committee on Taxation and Customs Policy in the process of consideration and approval of the Tax Code of Ukraine*

### **Result / Deliverable**

MFSI project’s experts participated in the session of the VRU Tax and Customs Committee Public Board dedicated to the discussion of the draft Tax Code passed by Verkhovna Rada in the first reading. MFSI experts provided their comments and proposals to the draft law.

MFSI experts participated in the session of the VRU Tax and Customs Committee Public Board dedicated to the discussion of the draft Tax Code. On 2 December 2010, the Verkhovna Rada of Ukraine approved in the second reading and as a whole the Draft Tax Code of Ukraine with proposals from the President of Ukraine. This decision was supported by 268 out of the 418 MPs registered in the session chamber.

The proposals from MFSI project experts regarding calculation of the parking fee on the presumptive basis, expanding scope of the tourist fee along with simplification of the tax-based calculation rules, the charge for conducting certain types of entrepreneurial activity and the simplified taxation system (with regard to the unlimited validity of a single-tax payer's certificate) have been taken into account in the final draft version of the Tax Code.

According to the IBSER’s experts estimate the own-source revenues of general fund of local budgets (the so-called "2nd basket") may grow more than twice, which meets the PMP indicator setting the growth of local budgets own revenues at 35 % level.

The MFSI project participated in the session of the Verkhovna Rada Finance, Banking, Tax and Customs Committee Public Board dedicated to the discussion of the bill On Changes to the Tax Code in the Simplified Taxation section. The project’s proposals were taken into consideration by



the Committee Public Board. In particular, the proposals concerned the issuance of the Unified Taxpayer certificate, split of the unified tax into two taxes: flat-rate tax and unified tax, adjusting the tax rates and the unified tax threshold depending on the minimal wage rate etc.

- **preparation of proposals for the draft law “On Property Tax”, organize public discussion of the draft pieces of legislation**

**Result / Deliverable:**

MFSI experts prepared a draft law “On Property Tax” as a proposal to the draft Tax Code. The Draft was a topic at the round table discussion, “State Finances Reform on Basis of Partnership of State and Local Authorities, Business and Civil Society” held on June 15, 2010.

*See folder “Deliverables”*

- **Conducting a conference on working out proposals for the developed legislative drafts and amending the existing laws aimed at strengthening the financial autonomy of local budgets**

**Results:**

On June 15, 2010, MFSI in cooperation with and under the auspices of the Ministry of Finance organized and conducted a round table discussion titled “State Finance Reform on Basis of Partnership of State and Local Authorities, Business and Civil Society”. In the framework of the round table issues of implementing the mechanism of Public-Private Partnership, as well as the reform of the tax system issue were discussed. In particular, the draft law “On Property Tax” was presented and discussed in the round table.

*See folder “Deliverables”*

On 2 February 2011, MFSI held a meeting with the representatives of the Association of Ukrainian Cities and the European Bank for Reconstruction and Development. The meeting focused on restrictions on the capacity of local budgets to implement infrastructure development projects that require significant additional resources. The restrictions have resulted from several factors.

First, Article 18 of the Budget Code puts a cap on the total amount of local debt and guaranteed local debt of not more than 100% of a local government’s development budget revenues. However, taking into account the considerable decline in the development budget revenues given the economic crisis, borrowing within the imposed limits will not be able to increase cities’ capacity to improve their infrastructure. At the same time, international finance organizations and financial institutions of foreign governments offer financing on terms that basically allow the gradual repayment of the principal over a period normally longer than four years. Therefore, on the whole, the above restriction is unjustified, as it does not account for the real-life uniform debt burden on local budgets.



Second, the Ministry of Finance completely stopped approving local borrowing except for a few projects related to the EURO 2012 Football Championship. The Ministry justifies this refusal by the requirement of the Memorandum of Economic and Financial Policy concluded between Ukraine and IMF with regard to limiting the total deficit of the general government sector to 5.5% of GDP in 2010, 3.5% in 2011, and 2.5% in 2012.

MFSI have already held discussions on the above issues and brought them up for a public debate. Thus, the respective proposals, together with the proposals for amending the Budget Code, were forwarded to the First Deputy Head of the Presidential Administration, Iryna Akimova, and the Association of Ukrainian Cities on 14 January 2011.

The meetings have resulted in agreeing on proposals for resolving this problem and identifying further joint actions.

On March 31, 2011, MFSI organized and conducted the “Strengthening the Financial Capacity for Local Development” Financial and Economic Forum . Issues regarding the strengthening of the financial base for local budgets’ capital funding were discussed at the Forum.

As part of the organization of work of the Intergovernmental Working Group set up under the Ministry of Finance of Ukraine and the discussions held with active participation of MFSI experts, a MOFU Order No.96 dated 14 February 2011 “On Approving the Standard Departmental Classification of Expenditures and Crediting of Local Budgets” and MOFU Order No.97 dated 14 February 2011 “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” were approved.

New versions were approved of joint orders of the Ministry of Finance of Ukraine and line ministries regarding standard lists of budget programs and their performance indicators for local budgets in the sectors of:

- Social protection and social security (dated 9 February 2011, No.75/39)
- Social protection of family, children, and youth (dated 9 February 2011, No.74/403)
- Physical culture and sport (dated 9 February 2011, No.73/404)
- General government (dated 22 December 2010, No.1608).

Drafting of the above documents has become a logical outcome of the efforts undertaken by the MFSI and MOFU towards PPB implementation at the local level. Their approval would allow unifying the programs and facilitate PPB-based development of local budgets.

- **Indicators**

MFSI, on a constant basis, analyzes and monitors the budget and fiscal impacts on budget implementation at both the central and local levels to provide independent information on the budget process, promote budget transparency to decrease corruption.

**MFSI provided monthly and quarterly monitoring reports for key budget indicators at the consolidated, national, and local levels (presented in charts and diagrams).**

- *The MFSI project prepared monthly monitoring reports of national and local budget implementations and placed the reports on MFSI project Website*



In the reporting timeframe, the project prepared monthly monitoring reports (39 for the reported period) on the implementation of state and local budgets. The reports were placed on the IBSER's website.

*See folder "Deliverables"*

- *The project prepared 'Quarterly Budget Monitoring' of national and local budget implementations*

MFSI project's experts prepared 14 'Quarterly Budget Monitoring' reports. 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 MFSI project website. As of today, the Budget Monitoring has 500 permanent subscribers, including 137 GOU entities (ministries, agencies, the Parliament, etc.), 63 NGOs, 55 international organizations, 30 regional governments and 220 mass-media outlets from all over Ukraine. In addition, 1,200 users download this information monthly from the MFSI website.

*See folder "Deliverables"*

- *Monitoring of the budget and fiscal impacts on local budgets in the form of a brochure, 'Budget & Economy'*

Thirteen brochures 'Budget and Economy of Ukraine' (Ukrainian and English versions) were published and distributed among the interested parties and stakeholders, and placed on MFSI project website. As of today, the Budget and Economics of Ukraine has 500 permanent subscribers, including 137 GOU entities (ministries, agencies, the Parliament, etc.), 63 NGOs, 55 international organizations, 30 regional governments and 220 mass-media outlets from all over Ukraine. In addition, 1,200 users download this information monthly from the MFSI website.

*See folder "Deliverables"*

### **Task 1.3: Help the GOU and/or other Ukrainian stakeholders improve the legislative and regulatory framework to enhance cities' creditworthiness**

*Sub-task 1.3.1.: Conduct stocktaking of legislative changes needed to improve cities' creditworthiness and their ability to borrow in particular focusing on the following issues:*

- **Research of the current legislation, legal norms and institutional relations**

#### **Result:**

In Q1 2009, MFSI project's experts investigated the budget legislation and regulatory and legal framework regulating local borrowings, and determined systematic problems to be resolved and the



conditions for improving local borrowing efficiency. The investigation's findings were submitted to stimulate discussion and agreement on a common position with regard to such issues at the round table conference held in April 2009 with the participation of banks, local government bodies and other parties concerned.

*See folder "Deliverables"*

- **Preparation and organization of 2 round tables for all interested parties**

**Result:**

Within the implementation of the above-mentioned task, MFSI project's experts actively work in 2009 and 2010.

MFSI experts arranged and held on April 16, 2009 the round table conference "Partnership between banks and local government bodies as one of the ways to overcome the economic crisis". The principal goal of this round table conference was to discuss MFSI experts' analysis of the budget and other legislation that regulate the mechanisms for raising credit funds by local government bodies for the purpose of developing municipal infrastructure, the systemic problems in this area to be resolved, and the development of proposals.

On the basis of the outcome of the round table, MFSI created a set of recommendations and sent them to all the parties concerned and invited them to participate in further work. Subject to the recommendations above the relevant changes to the existing legislation was developed aimed at ensuring the development of the local borrowing and guarantee market, and improving towns' creditworthiness by new mechanisms which will ensure that timely debt payments to be made by local government bodies, and also determine new types of cooperation between banks, local government bodies and municipal companies.

The minutes of the round table, its agenda and recommendations of the participants have been placed on the MFSI project website, sent to MFSI project partners and 80 national media representatives. It's also included into E-Bulletin #7 and sent to 350 MFSI project partners.

The round table was covered by national TV companies – "5 Channel" and ESG – Dilovyj Svit. References to media outlets are placed on MFSI project website in "Media About Us" section.

MFSI project's experts prepared and conducted on 30 March 2010, a roundtable entitled "The Ways of Regulatory Support for the Development of Local Borrowing."

The discussion concentrated on discussing the legislative proposals aimed at developing the market of local borrowing and guarantees. The proposals were prepared both based on the results of April 16, 2009 roundtable and as long-term cooperation between MFSI and local governments and potential creditors towards elaborating the financial mechanisms for implementation of municipal infrastructure development projects, in particular, those in the energy conservation area.

*See folder "Deliverables"*

- **Promotion of development and registration of necessary drafts laws and regulations**

**Result:**



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## **MUNICIPAL FINANCE STRENGTHENING INITIATIVE**

Thanks to MFSI project's recommendations developed from the 16 April, 2009 roundtable and fruitful cooperation with the Ministry of Finance, Verkhovna Rada, State Securities and Stock Market Commission, and other stakeholders, the Cabinet of Ministers passed a decree on 17 July 2009, No.865, to approve the conceptual changes to the Procedure of Borrowing into Local Budgets (approved by the Cabinet Decree of 24 February 2003, No.207). These changes simplified the procedure of approvals for local borrowing by the Ministry of Finance, and abolished this requirement in a number of circumstances; eliminated inefficient expenditures for obtaining findings of commercial rating agencies; set clear and transparent requirements for cooperation with the Ministry of Finance, etc.

*See folder "Deliverables"*

- **Monitoring the banking system in order to be informed about the processes underway in the banking sector, and developing the relevant proposals for improving access to credit resources for local governments.**

### **Result:**

In the reporting timeframe, the MFSI project prepared monthly monitoring reports (39 for the reported period) of the key banking indicators (total assets and clients' loan portfolio). This information will help to inform Ukrainian society about the processes underway in the banking sector. The reports were placed on MFSI project website.

*See folder "Deliverables"*

*Sub-task 1.3.2.: Assess current legislative and regulatory environment defining banks' ability to lend to local government; assess current practices, risks and other impediments preventing banks from expanding lending to local governments; propose mitigation measures; conduct training for five banks*

- **Development of questionnaires for random polling of banks**

### **Result:**

MFSI project's experts have developed a questionnaire for conducting a survey of banks and sounding the level of their interest and willingness to collaborate with local governments in the matters of lending and the key issues they are interested in for establishing this collaboration. The questionnaires were sent to 21 major banks.

*See folder "Deliverables"*

- **Polling performance**

**Result:**

Given the financial and economic crisis, only five stable system-making banks have returned their completed questionnaires, viz.: Oshchadbank, Ukreximbank, Alfa-Bank, FINANSY i KREDYT, and Ukrgasbank. It is significant that as of the date of questionnaire submission, the National Bank of Ukraine had not put any of these banks in temporary administration, which testifies to their rather stable financial position.

The survey results showed that domestic banking institutions were greatly interested in working with municipal enterprises and local governments on lending.

Despite the present difficult economic situation in the country, virtually all the banks that have returned completed questionnaires were prepared to continue this activity.

*See folder “Deliverables”*

- **Development of training materials**

MFSI project’s experts prepared and sent to banks the structure of trainings materials and prepared draft training materials.

*See folder “Deliverables”*

- **Organization of trainings in five banks**

**Result:**

*Based on the results of the consultations conducted with Serhiy Volodymyrovych Khudiyash, (Deputy Director, Financing and Program Directorate, Ukreximbank) and Serhiy Oleksandrovych Manokha (Deputy Chairman of the Board, Ukrsotsbank), IBSER has approached USAID with a proposal to terminate the work with banks (Subtask 1.3.2 of the Workplan), since the banks will not be able to start lending to local governments in 2010-2011 due to the significant impact of the financial crisis. The funds thus released (upon prior agreement with USAID) have been reallocated for working with the Principal Finance Directorate of the Executive Body of Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA)*

*(Task 2.1)*

*Status: Canceled by USAID*

- **Analysis of changes in the existing legislation, regulatory framework, and institutional relations in the fiscal area and area of State regulation of the financial market.**

**Result:**

1) The project’s active efforts, with the engagement of all stakeholders from the central government, resulted in amending in 2010 the Budget Code of Ukraine and Law of Ukraine “On the



State Budget of Ukraine for the Year 2010,” which resolved either fully or partially the problems of local borrowing that existed then.

2) When amending the Budget Code, 2010 changes were made to 13 provisions, which take into account the proposals made by MFSI experts, namely:

➤ Changes to the Budget Code, which were approved by the Verkhovna Rada of Ukraine on July 8, 2010, included 10 proposals made by MFSI that will ensure the improvement of both the creditworthiness of towns and cities, and the protection of creditor’s rights, in particular:

1. clear definitions of local borrowings and local debt have been provided for (Article 2);

2. limit on external borrowings from local budgets was reduced for towns with populations less than 800,000 inhabitants to 500,000 inhabitants. It will ensure an increase in the number of towns entitled to make external borrowings from six to nine. It will, in particular, include Lviv and enable it to carry out more active investment policy upon preparation of Euro-2012 (Article 16);

3. the list of local budgets’ development budget sources has been extended and will ensure a decrease in a number of private investors’ financial risks upon their engagement by local governments in the implementation of innovative mechanisms for the execution of infrastructure development projects (Article 71);

4. it was established that local external borrowings in the form of loans (credits) from international financial organizations may be performed by all municipal councils. Loan agreements providing for such borrowings shall provide for a direct writing-off from accounts of the relevant local budgets in case of its failure to comply with its liabilities due to lenders (Article 16);

5. it was established that regarding facilities, the implementation of which would require a longer term than a budget period indicative forecast development budget indicators are calculated as part of the local budget forecast for two subsequent budget periods and taken into account while approving local budgets throughout the whole period of such facilities implementation (Article 21). It will provide a lender with a warranty of funds proper use;

6. prior to the adoption of a local budget for a current budget year it is prohibited to make local borrowings and issue local guarantees (Article 79), which will ensure the improvement of the lender's rights protection;

7. bodies of the State Treasury shall be held liable for non-compliance with the procedure for treasury servicing of the state and local budgets (Article 123), which will prevent the failure of the State Treasury to make payments under local debt upon the availability of the relevant funds on local budget accounts.

➤ On 7 July 2011, the Verkhovna Rada approved amendments to the Budget Code that take into account three proposals initiated by the MFSI Project intended to strengthen the capacity of local governments to implement development projects via borrowed funds.

For the purpose of elaboration and speedy adoption of these amendments, IBSER, acting under the MFSI Project, put them for consideration by the Financial and Economic Forum and took part in meetings of working groups at the Verkhovna Rada Budget Committee. Approval of this law will provide the following:

- lifting any restrictions on granting of local guarantees for obtaining credits from international finance organizations; also, cities will be allowed to execute their guarantee obligations within the scope of their development budgets, which will provide better protection for creditors;



- the amount that can be borrowed by a municipality is doubled and set at 200% of the development budget. MFSI experts, however, do not believe this approach to be the best possible. It would have been more flexible and effective to lift any restrictions on the debt amount directly. Any restrictions should only apply to the annual repayment amount. Such repayment would not be allowed to exceed the estimated development budget for the year of its execution. Thus, if a city takes a credit for six years, its amount could be equal to 600% of the development budget (against 200% as proposed by the Ministry of Finance), and at the same time, the budget balance would be preserved;

- the restriction on external borrowing based on city size was nearly halved, from 500,000 to 300,000. Therefore, such a provision will make it possible for twice as many cities to borrow on external markets on better terms.

- A tax on property and the funds of shared participation in the development of infrastructure have both been included into development budget revenues. According to the estimates made by MFSI and Ministry of Finance, this could generate about UAH 1 billion extra for cities in this and the next year, with a realistic potential of increasing their development budgets to UAH 2.5 billion or 1.6 times.

At the same time and similarly to previous years, cities will have to issue their guarantees upon approval of the Ministry of Finance. This would complicate and slow down the procedure of soliciting credits by communal utilities for a certain period of time.

3) On 20 May 2011, the MFSI Project took part in a meeting of the Intergovernmental Working Group on the development of local budgets and interbudgetary relations, which was held at the Ministry of Finance, and proposed to amend the Decree of the Cabinet of Ministers dated 16 February 2001, No. 110 “On Approving the Procedure of Local Borrowing” with regard to allowing local governments to borrow by means of executing loan agreements with non-financial institutions. The proposals of legislative amendments in this matter were forwarded to the Department of State Debt Management and International Cooperation at the Ministry of Finance on 30 May 2011. The MFSI Project followed up on this work by reviewing the comments provided by the Ministry of Finance regarding the said proposals, researched the issues raised, and prepared substantiated responses to them. The amendments to the Cabinet of Ministers Decree No.110 are now being elaborated by the Ministry of Finance.

*See folder “Deliverables”*

***Sub-task 1.3.3.: Based on the results of the stocktaking, amend or draft as appropriate laws and sub-legislative acts aimed at improving cities’ creditworthiness and submit them to appropriate parliament budget committees, Government of Ukraine (GOU) bodies and LG associations for action***

Due to IBSER’s long-term work within the Municipal Finance Strengthening Initiative project (MFSI), in particular, in terms of developing legislative proposals in cooperation with the Ministry of Finance, Presidential Administration, and the Cabinet of Ministers, the organization of activities of the National Advisory Board, 28 proposals by MFSI experts, which will ensure the fulfillment of key tasks contemplated by the MFSI project such as the strengthening of municipal government’s financial basis, the strengthening of fiscal decentralization, improvement of local budgets’ attractiveness in terms of investment and the use of innovative financial tools for the purpose of



restoring and enhancing regional infrastructure energy efficiency, the application of Performance Program Budgeting (PPB) at the level of local budgets, the implementation of mid-term budget planning, were all taken into account.

*See folder “Deliverables”*

**Area 2: Help selected local governments increase their capacity to develop feasible infrastructure development strategies, capital project applications, and ensuring effective financial and budget management based on performance-program budgeting**

**Task 2.1: Provide assistance to the GOU (Ministry of Finance, specifically) in conducting state-supported pilots on Performance Program Budgeting (PPB) implementation in local budgets in four oblasts of Ukraine**

- *Development of training modules*

**Result**

MFSI experts have prepared training modules. These modules include the theoretical section based on the materials developed by IBSER under the Municipal Budget Reform (MBR) project and the instructive materials on implementation of the Performance Program Budgeting methodology for local budget formation and execution attached to the Ministry of Finance Order No.1172 of 22 September 2008 and approved at a meeting of the Intergovernmental Working Group on 29 January 2009 (set up pursuant to Order No.716 of the Minister of Finance V.Pynzenyk dated 23 May 2008). The materials comprise seven training modules.

In May 2011, the MFSI project experts developed a Handbook containing the training itself, normative, and methodological materials required for learning the methods and applying the practices of planning local budgets based on performance program budgeting at the level of republic, oblasts, rayons, and cities' budgets; references to normative-legal acts, procedures and practical aspects of applying the relevant provisions; standard document forms, training materials, self-testing assignments, recommended literature. In November 2011, the 2<sup>nd</sup> edition was prepared, which contains improved training materials and an updated regulatory framework for PPB.

The publications are intended for local financial officers, public servants, and local government officials, staff of structural units of executive authorities, and council members.

The Handbook was disseminated among more than 1,600 local-level specialists in the course of PPB training.

The electronic version of these publications is also posted in the Research and Materials / Other Publications section on the MFSI project website. In addition, 1,200 users download this information monthly from the MFSI website.

*See folder “Deliverables”*

- *Training/consultations for specialists of finance departments and key spending units*

**Result**



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## MUNICIPAL FINANCE STRENGTHENING INITIATIVE

The MFSI Project, working with the Ministry of Finance, has completed a series of workshops on instructive materials for implementing the Performance Program Budgeting method for formulating and executing local budgets for participants of the PPB experiment at the local level.

In general, 4,112 local specialists took part in trainings and consultations delivered by IBSER during throughout the period of implementation of the MFSI Project.

This work has resulted in the development and approval of more than 2,300 budget programs in budgets of experiment participants in 2011. A certain social impact is expected to be achieved by the overwhelming majority of budget programs as the result of implementing individual tasks. Economic effect is estimated at nearly Hr 25mn, including 226 programs, which incorporate energy efficiency activities (economic effect of Hr 7.3mn).

Starting in 2009, according to the Ministry of Finance Action Plan of PPB implementation for local budgets in 2009 (MOF Letter No. 31-11030-14-8/4196 of 17 February 2009), the initial phase involved **conducting coordinating meetings** between heads of oblast (republic), rayon and municipal administrations, heads of local finance departments and representatives of the Ministry of Finance of Ukraine and Institute for Budgetary and Socio-Economic Research. The meetings are intended to familiarize the participants with the activities and objectives for Phase One of PPB implementation at the local level and coordinate further steps.

**On 3 March 2009**, Zhytomyr hosted a coordinating meeting between the leadership of the Zhytomyr Oblast and representatives of the Ministry of Finance and Institute for Budgetary and Socio-Economic Research. The meeting participants included Deputy Head of the Zhytomyr Oblast State Administration (OSA) I.V.Orlov, Deputy Director of the Department of Local Budgets of the Ministry of Finance H.B.Markovych, Director of the Principal Finance Directorate of the Zhytomyr OSA H.H.Yemchenko, Project Coordinator of the U.S. Agency for International Development (USAID) A.V.Nesterenko, representatives of IBSER, as well as mayors, heads of rayon State administrations, director of municipal and rayon Finance Directors in the oblast, whose budgets have been selected for the State pilot of PPB implementation in the Zhytomyr Oblast (oblast level, four cities - Zhytomyr, Korosten', Malyn, and Novohrad-Volynskiy, as well as two rayons - Zhytomyr and Ovruch). Representatives of local media were also invited to the meeting.

**On 27 March 2009**, the First Deputy Head of the Lviv OSA Valeriy Pyatak chaired a coordinating meeting of the heads of oblast, rayon, and city administrations of the Lviv Oblast, heads of local finance departments and representatives of the Ministry of Finance, Project Coordinator of the U.S. Agency for International Development (USAID) A.V.Nesterenko, and representatives of IBSER. The meeting was attended by municipal leaders of Lviv, Drohobych, Morshyn, Stryi, and Chervonohrad, as well as of the Zhydachiv and Stryi rayons of the oblast, i.e., the cities and rayons whose budgets have been selected for the State pilot of PPB implementation for local budgets in the Lviv Oblast.

The next phase of the Action Plan of PPB implementation in local budgets in 2009 involved delivery of a series of training events.

**On 24 March 2009**, Zhytomyr hosted a one-day training workshop entitled *Instructive Materials for Implementation of Performance Program Budgeting (PPB) for the Formulation and Execution of Local Budgets*. The training event organized by MFSI with the Ministry of Finance was attended by 35 representatives of local finance departments, education and health directorates of the Zhytomyr Oblast, cities of Zhytomyr, Korosten', Malyn, Novohrad-Volynskiy, as well as the



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Zhytomyr and Ovruch rayons. The IBSER experienced trainers familiarized the participants with the theoretical principles of PPB, instructive materials, and practical aspects of PPB implementation according to the methodological documents prepared by the Ministry of Finance.

**On April 2, 2009**, in Lugansk was held the coordination meeting between managers of Lugansk oblast and representatives of the Ministry of Finance of Ukraine and the Institute for Budgetary and Socio-Economic Research. The meeting was attended by the Head of the General Financial Department in Lugansk State Oblast Administration, Yu.I. Balkovyi, representatives of the Ministry of Finance of Ukraine and IBSER, managers of Lugansk, Alchevsk and Rovenky, which budgets were determined as pilot for the purpose of the state experiment related to the implementation of the Performance Program Budgeting (PPM) for planning and execution of local budgets in Lugansk Oblast.

**On April 9, 2009** under the supervision of the Minister of Finance of the Autonomous Republic of Crimea, P.V. Tokariev, there was held the meeting between managers of the Autonomous Republic of Crimea, mayors, heads of financial departments and representatives of the Ministry of Finance of Ukraine and the Institute for Budgetary and Socio-Economic Research (IBSER). The meeting was attended by managers of Simferopol, Yalta, Alushta, Dzhankoy, Evpatoria and Bakhchisaray and Sovietskiy rayons, which budgets were determined as pilot for the purpose of the state experiment related to the implementation of the Performance Program Budgeting (PPM) for planning and execution of local budgets in the Autonomous Republic of Crimea.

The following phase of execution of the action plan related to the PPM implementation in local budgets in 2009 resulted in **holding a number of trainings**.

One day training session on the subject of “Instructive materials on implementation of the Performance Program Budgeting (PPB) for local budgets generation and execution” was held in Lviv **on April 23, 2009**. The training session that was arranged jointly by the MFSI and the Ministry of Finance of Ukraine was attended by 38 representatives of local financial authorities, education and health departments of Lviv Oblast, City of Lviv, Drogobych, Morshyn, Stryi, Chervonograd, and Zhydachiv and Stryi rayons. The participants dealt with experienced trainers of the MFSI, who made them familiar with theoretical basis of the PPB, instructive materials and practical issues related to implementation thereof according to the methodological documents as developed by the Ministry of Finance of Ukraine.

The meeting on the subject of “Instructive materials on implementation of the Performance Program Budgeting (PPB) for local budgets generation and execution” was held in Lugansk **on May 14, 2009**, within the framework of cooperation between the Ministry of Finance of Ukraine and the MFSI in terms of further implementation of the PPB at the local level. The training session was attended by 34 representatives of local financial authorities, education and health departments of Lugansk oblast, City of Lugansk, Alchevsk, Rovenky. During the meeting the participants discussed elements of the budget programs, rules for filling budgets requests for preparation of the local budgets for a planning year, rules for execution of a budget program passport, and requirements to preparation of quarterly and annual reports.

The training session on the subject of “Instructive materials on implementation of the Performance Program Budgeting (PPB) for local budgets generation and execution” was held in Simferopol **on May 22, 2009**. The training session was attended by 38 representatives of local financial authorities, education and health departments of the AR of Crimea, Simferopol, Yalta,



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Alushta, Dzhankoy, Evpatoria and Bakhchisaray and Sovietskiy rayons. This training was the conclusive event of the series of trainings related to the PPB implementation at the local level, which were held within the framework of cooperation between the Ministry of Finance of Ukraine and the MFSI in terms of further implementation of the PPB at the local level.

In May-June 2009 the experts of local financial authorities of 4 regions of Ukraine (26 budgets approved by the minutes of the meeting of the Intergovernmental Working Group for preparation of development of methodological framework for implementation of the performance program budgeting used for preparation and execution of local budgets dated January 29, 2009) and MFSI **provided a number of consultations** to help with development and approval of the budget programs in the area of “Education” and “Health Protection”.

Intensive consulting activity of MFSI experts provided during May-June, 2009 has been resulted in approval of the budget programs in the fields of education and health protection for 2009 in most of the cities and oblasts that participate in the experiment of PPB introduction at the local level. As of June 30, 2009, the programs in the area of “Education” and “Health Protection” were approved in 5 towns and 12 rayons, located in the regions of Ukraine covered by the experiment related to the PPB implementation at the local level. The process of the programs’ approval was finished in 2009.

A one-day training workshop “*Instructional Materials for Implementation of Performance Program Budgeting (PPB) Method for the Formulation and Execution of Local Budgets*” for specialists of the housing and communal services sector of the Lviv Oblast, including the cities of Lviv, Drohobych, Morshyn, Stryi, and Chervonohrad, took place in Lviv on 25 November 2009.

The training workshop organized by MFSI with the Ministry of Finance of Ukraine was attended by 25 participants representing the housing and communal services directorates and departments, and finance directorates and departments, which coordinate activities in the housing and communal services sector, as well as the staff engaged in implementation of the energy-conservation program and development of budget programs related to energy-conservation activities in the above cities of the Lviv Oblast.

In the course of the training session oblast representatives familiarized themselves with the components of budget programs, the rules of filling out the budget requests for preparing the draft municipal budget for the planned year, the rules of compiling a budget program passport, as well as the requirements for preparing the quarterly and annual reports on implementation of budget program passports.

By this workshop, MFSI launched another series of PPB training conducted throughout December 2009 in the rest of the pilot oblasts (Luhansk, Zhytomyr, and the Autonomous Republic of Crimea).

In November and December 2009, MFSI experts provided a series of consultations to specialists of local finance bodies, directorates/departments of education, health, and housing and communal services to assist them in developing the 2010 budget programs for the sectors of Education, Healthcare, and Housing and Communal Services.

In the period of January-March 2010, MFSI experts continues the series of training workshops/consultations on preparation of budget programs in the areas of education, healthcare, and housing and communal services for the year 2010. Such regional events were attended by the



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specialists from the Lviv and Zhytomyr oblasts, in charge of planning, developing, and implementing programs in the said areas.

Thus, training workshops/consultations were provided in cities and rayons of the Lviv Oblast devoted to the issues of formulating 2010 budget programs in the areas of Housing and Communal Services, Education, and Healthcare, with the total audience of 120 participants. The events brought together representatives of key spending units, lower-level spending units, and the specialists from Finance Directorates of Lviv Oblast cities and rayons, who coordinate activities in these areas.

On 25 March, 2010 provision of consultations continued in Zhytomyr, where MFSI experts were working with the staff of the Zhytomyr City Council Finance Department and with representatives of the Department of Education in charge of planning, developing, and implementing programs in the area of Education.

The delivered training events have resulted in preparing draft programs for all the budgets of Lviv Oblast, which take part in the pilot (except for those, who joined in 2010) and for the city of Zhytomyr for the sectors of Education, Healthcare, and Housing and Communal Services.

In April, 2010, MFSI arranged and held a number of training sessions concerned with methodological basis and instructive materials for planning and execution of budgets based on the Performance Program Budgeting.

Thus, MFSI experts held 8 trainings in Zhytomyr, Lviv and Luhansk Oblasts and the Autonomous Republic of Crimea on April 19-29, 2010. Trainings were attended by 250 representatives of main spending units, spending units of lower levels and experts of financial directorates, who coordinate the work of selected cities and districts in the housing, health care and education sectors.

During the training sessions the participants considered elements of budget programs, the rules for filling budget requests in the context of preparing a draft local budget for a planned year, the rules for preparing a budget program passport, as well as the requirements for preparing quarterly and annual reports on the execution of the budget program passport.

In addition, during April-June 2010 MFSI experts held a number of trainings/consultations regarding the preparation of budget programs in housing, health care and education sectors for 2010. Regional events were attended by more than 170 experts from Zhytomyr, Lviv and Luhansk Oblasts and the Autonomous Republic of Crimea, who are responsible for planning, developing and implementing programs in these sectors.

These trainings stimulated the preparation of draft programs for the education, health care and housing sectors in pilot budgets.

Throughout July 2010, MFSI experts continued delivering a series of training workshops/consultations on preparing budget programs in the sectors of education, healthcare, and housing and communal services for the year 2010. The participants of regional events included more than 250 specialists from the Autonomous Republic of Crimea, Zhytomyr and Lviv oblasts, who are responsible for planning, development, and execution of programs in the said sectors.



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The delivered training events have resulted in prepared projects and approved programs in the sectors of education, healthcare, and housing and communal services for the local budgets participating in the pilot.

In September 2010, experts of the Institute of Budget launched a series of training workshops and consultations on preparing draft programs, draft passports of budget programs, and draft city budget for the years 2011-2013 based on Performance Program Budgeting. The target audience was comprised of more than 200 specialists of finance and line departments of the Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA) and directorates of district State administrations in the city of Kyiv.

Training sessions were delivered according to the following schedule:

**14 September** - training for representatives of the Principal Finance Directorate of the KCEA (KCSA); Kyiv City district State Administrations; and Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA)

Principal Directorate of Economy and Investments;

**15-16 September** - training for representatives of the Principal Directorate of Education and Science of the KCEA (KCSA); Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA)'s Principal Finance Directorate; finance directorates and education and science directorates of the Kyiv City district State Administrations.

**21-22 September** – for representatives of the Principal Directorate for Social Protection of the Population of the Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA); Service for Children's Affairs of the Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA); Principal Finance Directorate of the Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA); the respective directorates of the Kyiv City District State Administrations and finance directorates of Kyiv City District State Administrations;

**22-23 September** - for representatives of the Principal Directorate of Culture and Arts of the Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA); Principal Finance Directorate of Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA); respective directorates of Kyiv City District State Administrations and finance directorates of Kyiv City District State Administrations.

**27-28 September** – for specialists of the Principal Directorate of Physical Culture and Sports of the KCEA (KCSA); Principal Directorate for Family and Youth of the KCEA (KCSA); Directorate for Women, Disabled Persons, War Veterans, and Labor of the KCEA (KCSA); Principal Finance Directorate of the KCEA (KCSA); respective directorates of Kyiv City District State Administrations, as well as finance directorates of Kyiv City District State Administrations.

**28-29 September** – for specialists of the Principal Directorate of Health and Medical Provision of the KCEA (KCSA); Principal Finance Directorate of the KCEA (KCSA); respective directorates of Kyiv City District State Administrations and finance directorates of Kyiv City District State Administrations.

Training workshops and consultations, which continued in October 2010, covered all the elements needed for formulating the Kyiv City budget and budgets of the city districts in every sector of municipal spending.



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Training/consultation for all participants of the experiment of implementing the Performance Program Budgeting in the Zhytomyr oblast was delivered on 11 November 2010. The training concentrated on the issues of compiling budget requests, passports of budget programs, and reports on execution of budget program passports. The participants were provided with an opportunity to familiarize themselves with the methodological features of formulating the 2011 budgets and learn about the latest changes in the PPB legislation.

Throughout October and early November 2010, IBSER experts delivered a series of training workshops and consultations on preparing draft programs, draft passports of budget programs, and draft budget of the city of Kyiv for 2011-2013 based on Performance Program Budgeting. The training audience consisted of more than 240 specialists of finance and line departments of the KCSA, Executive Authority of the Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA) and directorates of the Kyiv City district State administrations.

In the course of the training, the participants considered the following key issues:

- tasks and activities of PPB implementation at the local level;
- PPB-based budget formulation and execution at the local level: Overview;
- key conditions for PPB implementation: Strategic planning and medium-term budget planning;
- budget program and performance indicators of budget programs;
- completing budget requests for preparing a PPB-based draft local budget for the planning year;
- requirements to compiling a budget program passport; monitoring and analysis of budget program performance;
- responsible implementers of budget programs and special features of their participation in the budget process.

Such training workshops and consultations have covered all the sectors, which made it possible to formulate a PPB-based budget of the city of Kyiv for all areas of budget spending.

Throughout October - December 2010, MFSI experts provided consultations for specialists of all the local budgets who participate in the experiment (pursuant to the Ministry of Finance Order No.805 of 2 August 2010), with regard to monitoring and evaluation of experiment implementation in 2010 and developing draft programs for 2011. Modifications were developed for the system of monitoring and evaluation of experiment implementation for local budgets.

*See folder "Deliverables"*

The development and approval of budgets based on the Performance Program Budgeting method, thanks to its transparency and ease of understanding both for specialists and investors, would facilitate their attractiveness for investors. For instance, the city of Luhansk, which has drafted and approved as a whole the city budget and city district budgets based on PPB, attracted \$120.4mn in foreign direct investment by the end of 2009 alone, which is 56.2% more than in 2008.

In addition, execution of municipal budgets based on PPB provided Hr 7.2mn in savings in 2009 alone, which amounts to nearly 10% of the previous value of respective services per year. The savings in the health sector have been used for procurement of modern medical equipment and pharmaceuticals, which provided a significant social impact. Thus, mortality in the six pilot cities



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decreased by 1.5% on average. Thanks to savings in the education sector, energy-saving activities have been implemented in schools and kindergartens, providing additional savings of nearly Hr 1mn per year, as well as improved the state of children's health. There were 54 types of programs implemented in 2010, and the expected economic effect amounted to more than Hr 18mn. More than 660 local budget programs were approved for 2011, including 130 programs for the city of Kyiv, covering all city's activities.

On 21 January 2011, the KCEA (KCSA) jointly with the MFSI project conducted a seminar on implementing the Performance-Program Budgeting (PPB) method for formulating and executing local budgets in the City of Kyiv. The seminar was attended by about 40 deputy mayors for finance and economy and heads of finance directorates of Kyiv city district State administrations, as well as heads of line departments of the KCSA Principal Finance Directorate. Another scheduled series of training events was conducted in Kyiv on 28 February, and 16 and 17 March 2011. The audience of these trainings included 75 specialists from the finance and line directorates of Holosiyivskiyi, Solomyanskyi, Shevchenkivskiyi, Desnyanskyi, Darnytskyi, and Podilskyi district state administrations of the City of Kyiv.

The practical advice and recommendations provided by the MFSI project enabled the efficient execution of the Kyiv city budget, as 2011 budget has been developed for a medium-term period based on PPB requirements for the first time.

The active collaboration between the project and the KCEA (KCSA), which started in August 2010, has resulted in the approval of a PPB-format Kyiv City budget for 2011. Despite the very short timeframe, MFSI, supported by KCEA (KCSA), managed to deliver a large-scale series of training and consultations on PPB budgeting within a period of four months. Today, 691 budget programs totaling Hr 16.7bn for 2011 have been developed. This includes more than 60 programs estimated at over Hr 2.5bn to be invested in the development of municipal infrastructure. All programs have clear goals and four types of performance indicators, the most important of which are the productivity and efficiency indicators. This will launch the monitoring and evaluation of budget programs in the city, thus allowing the measurement of the social or economic impact resulting from each program's implementation.

The MFSI project, working with the Ministry of Finance, launched a series of regional coordinating meetings and trainings for new participants in the PPB experiment at the local level. The first such events were held in Luhansk on 1 through 3 March 2011, and in Lviv on 11 and 12 March.

On 1 March 2011, a coordinating meeting focusing on the key principles of conducting the PPB experiment was held with the Ministry of Finance and the leadership of the Luhansk Oblast State Administration (OSA) and the pilot budgets participating in the experiment in the pilot regions. The meeting was also attended by representatives of the OSA, Principal Directorate of the State Treasury, mayors, heads of district State administrations and heads of their respective finance directorates.

On the same day, a seminar on issues related to PPB implementation at the local level was held with the representatives of key spending units of the oblast budget, Principal Finance Directorate, and Principal Directorate of the State Treasury in Luhansk Oblast.

On 2 and 3 March 2011, MFSI delivered training seminars on the guidelines for implementing local-budget Performance Program Budgeting for the participants of the experiment in Luhansk



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Oblast (cities of Luhansk, Alchevsk, Rovenky, and Krasnodon). The participants included the representatives of the respective directorates of the State Treasury in the oblast, the finance and line directorates and departments responsible for social protection and social security, physical culture and sports, general government, municipal improvements, housing and communal services, and capital investments.

Similar training events were also conducted in Lviv on 11 and 12 March 2011.

The coordinating meeting brought together 36 representatives of the Lviv Oblast State Administration and pilot budgets participating in the experiment in Lviv Oblast. The seminar on the main documents for implementing local-level PPB, which took place on March 12, was attended by 32 representatives of the current participants of the experiment in Lviv Oblast (cities of Lviv, Drohobych, Stryi, Chervonohrad, Morshyn, Truskavets', Novyi Rozdil, and Boryslav).

These events launched Phase II of the experiment. This phase was designed to disseminate the experience of PPB application to the remaining 81 local budgets in the MFSI pilot regions. The experiment's participants in Zhytomyr, Lviv, and Luhansk oblasts and the Autonomous Republic of Crimea have already developed more than 880 budget programs in the PPB format, including 66 programs intended for developing the housing and communal services sector. Fourteen budgets in the above regions have approved their budgets in all areas of budget spending for a total amount of more than Hr 2.1bn.

Experts of the MFSI Project jointly with the Ministry of Finance of Ukraine have completed a series of regional coordinating meetings for new participants in the experiment of PPB implementation at the local level. The events were held in Simferopol and Zhytomyr.

Thus, a coordinating meeting between the Ministry of Finance of Ukraine and the leadership of the Autonomous Republic of Crimea and pilot budgets, which are participants of the experiment, on the main principles of PPB experiment in the pilot regions, took place in Simferopol, Crimea, on 14 April 2011. The meeting was also attended by representatives of the Principal Directorate of the State Treasury Service of Ukraine in the AR of Crimea, mayors and their deputies, heads of district State administrations, and heads of respective Finance Directorates, totaling 45 participants.

The concluding events in the series of regional coordinating meetings were held in Zhytomyr on 19 and 20 April 2011. The Coordinating Meeting of 19 April was attended by nearly 60 representatives of the Zhytomyr Oblast State Administration and the pilot budgets participating in the experiment in Zhytomyr Oblast. Later, the same day, the Ministry of Finance conducted a workshop on PPB implementation issues at the local level intended for the representatives of key spending units of the oblast budget, Principal Finance Directorate, and Principal Directorate of the State Treasury Service of Ukraine in Zhytomyr Oblast.

On 20 April 2011, MFSI experts delivered trainings on the guideline materials for implementation of the Performance Program Budgeting method for the formulation and execution of local budgets for the existing participants of the experiment in Zhytomyr Oblast. The trainees included 19 representatives of the respective directorates of the State Treasury Service of Ukraine in Zhytomyr Oblast, finance and line directorates/departments of education and science, health, labor and social protection, physical culture and sports, and others.

A series of training workshops for new participants of the PPB implementation experiment at the local level were delivered in Lviv on 9, 15, 17, and 20 June 2011. The training participants included key spending units and specialists of Finance Directorate of the city of Sambir and all rajons of Lviv



Oblast - new participants of the national experiment for implementation of Performance Program Budgeting in the planning and execution of local budgets. The trainings have familiarized more than 150 local government specialists with the guideline materials on implementation of the Performance Program Budgeting method for local budgets, provided examples of successful use of PPB tools in some local budgets of Lviv Oblast, and outlined further steps in implementing this experiment.

Continued efforts in this area allow generating significant social and economic results. Thus, implementation of PPB budgeting in the education department in the Stryi District has resulted in identifying the energy-saving program as the priority and its implementation in schools of the District in the period of 2009-2010. The priority tasks included renewal of boiler houses and replacement of old windows with new energy-efficient units. Windows in 19 schools were replaced in 2010; electric bulbs were replaced with energy-efficient ones; heating systems were replaced in two schools; maintenance and setting of boiler automation equipment was implemented in 12 schools for the total amount of Hr 651,000.

For instance, reconstruction was implemented of a school building with commissioning of a new boiler house of the Nezhukhivska Secondary General Educational School (before reconstruction, that boiler house consumed 57,800m<sup>3</sup> of gas costing Hr 203,000, with the post-reconstruction figures of 25,000m<sup>3</sup> of gas and cost of Hr 85,500). Thus, the economy amounted to Hr 117,500 per one heating season.

As the result of energy-saving activities in the Kyiv District's educational institutions in 2010, the savings totaled Hr 374,000, which can be used for further development of the education sector. Costs per pupil decreased substantially, however, this is only the financial component, while the conditions for learning and stay in the school building during the educational process, and, especially, after the classes have become much more comfortable.

Implementation of PPB in the health department of the City of Stryi has improved the quality of medical aid provided to the population through:

- procurement of new diagnostic and therapeutic equipment, which allows improving the quality and timeliness of medical aid, and reduced the duration of treatment and hospital stay;
- implementing renovations of medical institutions, thus improving the conditions and safety of patients' and personnel stay at the medical institutions;
- introducing energy-saving technologies, thus providing substantial savings in the cost of heating, water service, and other utilities.

Thus, the city's health institutions procured Hr 2.6mn worth of medical equipment in the period of 2007-2010. The equipment and furnishings of the maternity homes have been nearly completely renewed, with partial renewal of the central city hospital and children's hospital, and the dental clinic.

This has made it possible to improve the quality and timeliness of medical aid, as well as reduce an average patient's hospital stay from 13.6 to 11.6 person/days. Complications in implementing volume ventilation and postoperative complications have been reduced by 2.4%. Infant morbidity decreased and the level of physiological health of infants improved by 4.3%. The primary disability rate decreased from 60 to 52 per 10,000 of population.

Introduction of new perinatal technologies has made it possible to nearly halve the period of stay in the obstetrics ward, which provides Hr 138,000 in annual savings for the local health department.

In the period of 2007 through 2010, the city used Hr 715,800 of its own and leveraged resources for the overhaul of the maternity home's heating main, reconstruction of heating network in the



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antenatal clinic, repair of water supply and sewer system in the children's hospital, replacement of old windows with energy-saving units in the central city hospital, etc. The implemented set of actions has resulted in an improved condition of patients' stay at healthcare institutions, improved working conditions for the medical staff, and provided energy savings of Hr 633,500.

The MFSI Project, working with the Ministry of Finance, has completed a series of workshops on instructive materials for implementing the Performance Program Budgeting method for formulating and executing local budgets for new participants of the PPB experiment at the local level.

The trainings and consultations provided throughout July-September 2011 in four pilot regions covered about 700 representatives of key spending units and specialists of Finance Directorates of cities and all districts in Lviv, Zhytomyr, and Luhansk oblasts and the Autonomous Republic of Crimea,

In general, 2, 307 local specialists took part in trainings and consultations delivered by IBSER during year three of the MFSI Project.

This work has resulted in the development and approval of 2, 296 budget programs in budgets of experiment participants as of 1 July 2011. A certain social impact is expected to be achieved by the overwhelming majority of budget programs as the result of implementing individual tasks. For instance, plans in the department of education, culture, and social protection and social security of the city of Kyiv include:

- increasing the coverage of children with preschool education by 4.7% compared to last year; increasing the enrollment of pupils who have won prizes in knowledge competitions into specialized institutions by 3.7%; increasing coverage by extracurricular education by 1.8%; ensuring the training of workers by vocational institutions and increasing recruitment by 6.8% year-on-year;
- providing library services to 562,400 readers and ensuring the borrowing of more than 11.3 million books; providing for the preservation of the promotion of the national spiritual heritage and presenting 62,500 exhibits from the main museum collection to visitors of museums and exhibitions; increasing the number of visitors to culture and recreation parks by 15.0% against the actual figure of last year;
- providing preferential medical treatment for the persons affected by the Chornobyl disaster and providing more than 85,700 persons with free prescription drugs; providing support in connection with pregnancy and childbirth to more than 10,000 persons; ensuring the provision of services by centers for social and psychological rehabilitation of children and youth with functional limitations to more than 4,500 persons.

Despite the lack of a normative framework (Order of the Ministry of Finance of Ukraine "On Approving the Standard List of Performance Indicators for Budget Programs of Local Budgets for the Expenditures, which Are Disregarded When Determining the Amount of Intergovernmental Transfers" was only approved on 27 July 2011), some cities and districts included in their budget programs certain expenditures for energy efficiency measures with respective performance indicators. For example:

- as part of the program "General medical aid to population of all age groups," at the expense of the Ovruch district budget, reconstruction was implemented of the heating system and a solid fuel boiler installed at a district hospital of the village N.Velidnyky, and an old boiler was replaced with



a solid fuel boiler in the outpatient hospital. Use of this type of fuel will make it possible to reduce the local budget energy costs to Hr 200,000 per year.

- as part of the program “Preschool education”, budget funds of the city of Drohobych were used to implement reconstruction of an external heat network for a children’s educational institution for a total of Hr 17,500, replacement of gas hearths with gas cookers was implemented for a total amount of Hr 70,000. The implemented reconstruction of the external heat network will make it possible to reduce losses of heat and bring energy costs down during the heating season, and the replacement of gas hearths with gas cookers has already reduced gas consumption and allows saving Hr 16,000 to Hr 18,000 per month.

On the whole, the total savings of budget funds expected to be achieved as the result of implementation of individual tasks of budget programs with regard to energy efficiency actions will reach Hr 7.1bn in 2011.

Experts of MFSI Project with the Ministry of Finance conducted a series of trainings on implementation of performance program budgeting (PPB) at the level of local budgets.

Invited to participate in the training events were deputy mayor on economy from oblast State administrations, coordinators of PPB implementation in the regions, as well as directors of all Finance Directorates from the oblasts, cities, and rayons, which participate in the experiment, and their deputies, who are heads of Budget Departments.

The trainings were delivered:

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

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

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

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

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

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

These events were intended to conduct the appropriate preparatory activities and monitor the level of knowledge in the PPB methodology in the regions, which are to be included in the experiment in 2012.

*See folder “Deliverables”*

- **Publication of the info leaflet on gender issues**

## **Result**

MFSI experts have prepared a brochure *Budgetary Issues of State’s Gender Policy* highlighting the key issues of Ukraine’s gender policy and its interrelation with and impact on the country’s



budgeting process, including the need for implementation of progressive budgeting techniques - PPB.

*See folder "Deliverables"*

- ***Providing advisory support to the Intergovernmental Working Group in finalizing PPB methodology, legislation and regulations***

### **Result**

To provide advisory support to the activities of the Intergovernmental Working Group, MFSI experts carried out an ongoing analysis of the documents setting forth the strategic and medium-term plans of economic and social development of individual regions, international experience, and current provisions of PPB methodology. The analysis results and proposals developed were provided to all member of the Intergovernmental Working Group

MFSI experts have conducted an analytical study of the program for socioeconomic development of the city of Korosten' based on PPB method. The study will be used as a template for improving the methodology of Performance Program Budgeting implementation and will be considered at working meetings with the Ministry of Finance and other stakeholders. Similar studies will be conducted in other cities upon approval of the Ministry of Finance.

The cooperation of MFSI experts with the representatives of local finance departments (training delivered for specialists of finance directorates and key spending units in education and health, and consultations initiated on the issues of preparing budget programs of the Zhytomyr Oblast for 2009-2010) has resulted in approving the program "Implementation of Energy-Saving Technologies in Healthcare Institutions" for 2009 by the City Council session. The program has been developed in accordance with Performance Program Budgeting methodology and includes the appropriate performance indicators.

MFSI experts have started generating the database of social and economic development programs for towns, which participate in the experiment related to the performance program budgeting implementation in four pilot oblasts (the Autonomous Republic of Crimea, Zhytomyr, Lugansk and Lviv Oblast). In particular, the database was filled with social and economic development programs for towns of Alchevsk, Zhytomyr, Lugansk, Morshyn, Rovenky, Chervonograd.

Draft laws aimed at improvement of the financial and budgetary regulation in Ukraine and filling the revenues side of the state and local budgets under the conditions of the world financial and economic crisis were analyzed.

The MFSI experts continued developing the database of social and economic development programs for towns, which participate in the experiment related to the performance program budgeting implementation in four pilot oblasts. In particular, the data base was filled with social and economic development programs for towns of Alushta, Dzhankoi, Stryi, Sevastopol, and Novohrad-Volynskyi.

Experts of the IBSER have reviewed implementation of local budgets in the Lviv Oblast in the period of 2006-2009. The Oblast participates in the pilot for implementation of Performance



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Program Budgeting pursuant to ordinance of the Ministry of Finance of Ukraine. The relevant database has been developed and was sent to Intergovernmental Working Group members.

MFSI experts have reviewed implementation of local budgets in the Lugansk, Zhytomyr Oblasts in the period of 2006-2009. The oblast participates in the pilot for implementation of Performance Program Budgeting pursuant to ordinance of the Ministry of Finance of Ukraine. The relevant database has been developed and was sent to Intergovernmental Working Group members.

MFSI project's experts analyzed the execution of budgets of towns of Saky, the Autonomous Republic of Crimea, the Volodarsk-Volynskyi district of Zhytomyr Oblast and Novyi Rozdil, Lviv Oblast – which are participants in the performance program budgeting pilot implementation (according to order of the Ministry of Finance of Ukraine No. 1172, dated September 22, 2008).

MFSI experts continued to update the basis of the Program for Social and Economic Development of towns and districts participating in PPB pilot implementation at the local level. In particular, it was supplemented with the Program for Economic and Social Development of the Novograd-Volynskyi and Chudnivskyi districts in 2010.

MFSI project's experts analyzed the execution of budgets in Malyn and Novgorod-Volynskyi rayons of Zhytomyr oblast for 2007-2010 – which are participants in the performance program budgeting pilot implementation (according to order of the Ministry of Finance of Ukraine No. 1172, dated September 22, 2008).

MFSI project's experts continued to update the basis of the Program for Social and Economic Development of towns and districts participating in PPB pilot implementation at the local level. In particular, it was supplemented with the Program for Economic and Social Development Yalta city for 2007-2010 and Lviv city for 2009-2010 and was sent to Intergovernmental Working Group members.

MFSI project's experts have analyzed the execution of budgets in the cities of Krasnodon, Luhansk Oblast; Boryslav and Truskavets', Lviv Oblast; and Chudniv Rayon of Zhytomyr Oblast for 2007-2010. These local governments are participants in the performance program budgeting pilot implementation (according to order of the Ministry of Finance of Ukraine No. 805, dated 2 August 2010).

MFSI experts continued updating the basis of the Program for Social and Economic Development of towns and districts participating in PPB pilot implementation at the local level. In particular, it was supplemented with the Program for Economic and Social Development of the city of Kyiv for 2008-2010, with analysis of execution of the Kyiv city socio-economic development program for January-October 2010 and was sent to Intergovernmental Working Group members..

The status of execution of local budgets in January-October 2010 has been analyzed (General Fund revenues without transfers; revenues taken into account when determining the amounts of intergovernmental transfers; personal income tax; payment for land; tax arrears; loans received; General Fund expenditures; accounts payable; accounts receivable; funds received from surplus revenues; and intergovernmental transfers. Analysis has been carried out of execution of the Kyiv city budget in 2007-2010.



Participation of experts in activities of the Working Group promotes further development of the methodological framework of normative-legal acts, which would allow extending the PPB method application to all local budgets in Ukraine and approving this methodology at the legislative level.

It is for the first time that a system of budget program monitoring and evaluation is being developed, allowing to demonstrate the social and economic efficiency of using the funds of local budgets.

*See folder “Deliverables”*

- *Meetings of the Intergovernmental Working Group*

### **Result**

On **November 26, 2008**, a meeting of the Intergovernmental Working Group (established by the Order of the Minister of Finance of Ukraine, V.Pynzenyk of 23.05.2008, # 716), aimed to review the main methodological documents needed for PPB implementation at the local level was held. Besides, a format for the experiment conduct in the pilot oblasts (particularly, Autonomous Republic of Crimea, Zhytomyr, Lviv and Lugansk oblasts) was discussed. Based on the results of such Working Group meeting the recommendations on PPB implementation at the local level, there were developed and submitted to the Ministry of Finance of Ukraine.

On **January 29, 2009**, a meeting of the Intergovernmental Working Group was held aimed at review of the main methodological documents, needed for PPB implementation at the local level.

The status of preparatory activities and priority steps in PPB implementation for local budgets were discussed at the meeting. In particular, it was noted that experts of the Local Budget Reform and Development Strategy Section at the Department of Local Budgets of the Ministry of Finance and MFSI had jointly elaborated and prepared the methodological documents for PPB implementation at the local level. The prepared materials were disseminated among all Working Group members for their review.

The Intergovernmental Working Group selected 26 budgets in four pilot regions of Ukraine, where the PPB pilot is to be initially implemented.

On **April 15, 2009**, a meeting of the Intergovernmental Working Group (established by the Order of the Minister of Finance of Ukraine, V.Pynzenyk of 23.05.2008, # 716) was held aimed at review of the main methodological documents, needed for PPB implementation at the local level.

During the meeting there was considered an issue related to the progress in terms of implementation of the performance program budgeting (PPB) used for the purpose of local budgets preparation and execution. In particular, the meeting covered the issue related to the experience of the PPB implementation in Zhytomyr, Lugansk, Stryi during 2007-2008. There were considered proposals submitted by towns and rayons concerning modernization of the PPB implementation experiment format at the local level and discussed principal issues of the coordination meetings held during March-April 2009 with the participation of managers of local government bodies and financial authorities and representatives of the Ministry of Finance of Ukraine and the Institute for Budgetary and Socio-Economic Research (IBSER).



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Among other things the participants considered the issue related to ways of improvement of the software used for the purpose of preparation and execution of local budgets according to the PPB.

On **27-28 August 2009** the joint meeting of the Intergovernmental Work Group of the Ministry of Finance and Financial and Economic Forum took place.

The key objective of the event was discussing the topical issues in the formulation of forecast indicators of local budgets for the year 2010, as well as reviewing the Draft Law of Ukraine “On the State Budget for the Year 2010” with regard to local budgets and intergovernmental finance relations. Moreover, topical methodological issues on continuation of the Performance Program Budgeting implementation at the local level were discussed.

The pilot regions of the Municipal Finance Strengthening Initiative project have completed the approval process for their local budget programs for the year 2009.

Therefore, all the city, rayon, and oblast budgets (except the republican budget of the Autonomous Republic of Crimea), which are included in a list of the Ukrainian regions participating in the pilot intended for local-level PPB implementation have approved their programs in the sectors of Education, Healthcare, and Housing and Communal Services totaling Hr 1.7bn.

A total of 134 programs have been approved, including 74 programs in Education totaling Hr 946.4mn and 48 programs in Healthcare totaling Hr 714.9mn. Also, budgets for the city of Luhansk and its districts based on Performance Program Budgeting have been drafted and approved in general. The city of Dzhankoy, Crimea, and the city of Luhansk and its urban districts have approved 12 programs intended for development of infrastructure and housing and communal services totaling Hr 42.4mn.

On **December 29, 2009**, a meeting of the Intergovernmental Working Group was held aimed at review of the main methodological documents needed for PPB implementation at the local level. It was a joint meeting of the Intergovernmental Working Group at the Ministry of Finance of Ukraine and the National Advisory Board on Public Finance Management.

Forms and instructions concerning principal documents of the budgeting process under PPB at the local level, standard list of budgetary programs and indicators of their implementation results as well as the methodology for evaluation of experiment related to PPB implementation during local budgets preparation and execution were considered in the course of the meeting.

In addition, cities’ and rayons’ proposals with regard to upgrading the format of the pilot of PPB implementation at the local level have been considered and the key work areas for the year 2010 have been discussed.

A joint meeting of the National Advisory Board on public finance management and Intergovernmental Working Group under the Ministry of Finance of Ukraine took place at the Ministry of Finance on **31 March 2010**.

The Ministry of Finance noted at the meeting that the number of participants in the local-level PPB implementation pilot increased by ten budgets since the beginning of the year 2010.

In addition, discussed at the meeting were the results of the Performance Program Budgeting (PPB) implementation at the local level in 2009 and plans of further development of PPB experiment in local budgets for 2010.



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The meeting also considered the issues of elaborating the structure of the program classification code to be used for the formulation and execution of local budgets in the PPB format.

The regular meeting of the Intergovernmental Working Group at the Ministry of Finance for the Development of Methodological Principles and Recommendations for Implementation of the Performance Program Budgeting at the Local Level was held on **June 24, 2010**, under the auspices of the sixth Financial and Economic Forum.

The meeting took place with the participation of representatives of the Ministry of Finance, Ministry of Economy, Ministry of Housing and Communal Services, Ministry of Health, Ministry of Labor and Social Policy, and the General Financial Directorates of the Lviv, Luhansk, Zhytomyr Oblast State Administrations and the Autonomous Republic of Crimea.

The participants of the meeting considered the results of the Intergovernmental Working Group's activities and outlined further plans and steps regarding the implementation of PPB at the local level, and decided in particular on the following:

- To refer the budget of the City of Kyiv to the list of Performance Program Budgeting pilot budgets;
- To develop and make changes to the regulatory and legislative acts that govern the implementation of PPB at the local budget level taking into account the requirements set out in the Program for economic reforms in 2010-2014 "Prosperous Society, Competitive Economy, Effective State".
- To develop a model list of budget programs and their implementation by expenditures for budget sectors: culture and arts, physical education and sports, social protection and social security, public management.

On **15 September 2010**, a meeting of the Intergovernmental Working Group was held charged with conducting preparatory work for implementation of Performance Program Budgeting in the formulation and execution of local budgets.

The meeting was devoted to discussion of the draft Standard Lists of budget programs and their performance indicators for local budgets in the sectors of general government, culture, social protection and social security, physical culture and sports, and social protection of family, children, and youth. The drafting of these documents was a logical outcome of the efforts undertaken by MFSI and MOFU experts towards implementation of PPB at the local level. On 24 September 2010, with support from the Ministry of Finance, MFSI organized and conducted a joint meeting of the National Advisory Board on public finance management and the Intergovernmental Working Group under the Ministry of Finance.

In the course of the meeting, the participants discussed the draft joint orders of the Ministry of Finance with the Ministry of Culture and Tourism, Ministry of Labor and Social Policy, and Ministry for Family, Youth, and Sports regarding the approval of standard lists of budget programs and their performance indicators for local budgets in the respective sectors. The MFSI experts prepared the drafts of such joint orders in the course of the training workshops, which were launched in the city of Kyiv, and disseminated the summary of proposals and comments made among the meeting participants.



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Also discussed at the meeting was the draft code of the program classification of expenditures and crediting for local budgets, and a decision was made to speed up the work of reconciling and clarifying the proposed code structure.

On **2 November 2010**, the Intergovernmental Working Group under the Ministry of Finance of Ukraine (MOFU) convened for its meeting to discuss preparatory work for implementation of the Performance Program Budgeting method for the formulation and execution of local budgets.

The meeting focused on discussing the draft code structure of the program classification of expenditures and crediting of local budgets. A draft standard codifier of budget programs elaborated by MFSI experts was reviewed. In the course of the meeting, the participants discussed and identified the approaches towards developing a new departmental classification of expenditures and crediting for local budgets.

Efforts of the Intergovernmental Working Group and MFSI experts resulted in joint orders of the Ministry of Finance of Ukraine and line ministries have been issued to approve standard lists of budget programs and their performance indicators for local budgets in the sectors of:

- Social Protection and Social Security (dated 27 September 2010, No.1097/290)
- Social Protection of Family, Children, and Youth (dated 1 October 2010, No.1148/3437)
- Physical Culture and Sports (dated 1 October 2010, No.1149/3438)
- Culture (dated 1 October 2010, No.1150/41).

Also, the Ministry of Finance issued a separate order (dated 1 October 2010, No.1147) approving a standard list of budget programs and their performance indicators for local budgets in the sector of Public Administration.

On 23 November 2010, a roundtable was held on the topic “Support of Reforms by the Regional Development and Interbudgetary Relations Reform Working Subgroup.”

The meeting considered the status of implementation of the 2010 Action Plan of the Regional Development and Interbudgetary Relations Reform Working Subgroup within the Committee on Economic Reforms, targeted State programs and their results, in particular, the experience of applying the Performance Program Budgeting method of planning and execution of local budgets in the Zhytomyr oblast, as well as a standard list of budget programs and an updated codifier of budget programs.

Also, discussed at the meeting were the issues aimed at strengthening the economic capacity of local governments, specifically, the Performance Program Budgeting method for formulation of local budgets. The representatives of oblast finance departments shared their experience of implementing the Performance Program Budgeting in their day-to-day activity, pointed to the existing problem issues, and noted a significant economic impact from implementation of this method.

On **18 May 2011**, MFSI experts took part in a meeting of a subject Working Group *Stabilization of the State Budget of Ukraine* on implementing the Program of Economic Reforms for 2010-2014 entitled *Prosperous Society, Competitive Economy, and Efficient State*, which was held at the Ministry of Economy of Ukraine.

In the course of the meeting, the Working Group participants reviewed the current implementation status of the schedule for stabilization of the State budget as of January-April 2011. It was noted that all the actions are being implemented within the deadlines set by the schedule.



Among other things, two actions had been fully implemented as of 4 May 2011, with the Cabinet of Ministers issuing respective decrees based on their results, viz.:

1) Cabinet Decree of 17 March 2011, No. 255 “On Approving the Procedure of Decreasing Budget Allocations to Spending Units” according to the direction of “Strengthening Controls Over Targeted and Efficient Use of Budget Funds”; and

2) Cabinet Decree of 24 January 2011, No. 37 “On Amending the Procedure of Formulation, Consideration, Approval, and Key Requirements to Execution of Budgets of Budgetary Institutions” according to the direction “Amending the Normative-Legal Acts on Performance Program Budgeting.”

As part of the set objective, the Cabinet of Ministers also issued its Ordinance of 23 March 2011, No. 223 “On Optimization of Targeted State Programs” and Ordinance of 6 April 2011, No.292 “The Issues of Optimization of the Number of Budget Programs.”

MFSI project’s experts took part in a regular meeting of the Intergovernmental Working Group on development of local budgets and interbudgetary relations, which was held at the Ministry of Finance of Ukraine on 20 May 2011.

At the meeting, the participants reviewed and discussed issues in the field of local budgets and interbudgetary relations, which had been brought up by members of the Working Group for discussion at roundtables and Finance and Economic Forums. The issued were discussed regarding:

- generation of local budget revenues and stimulating local governments towards increasing their revenue generation;
- determining the ways of ensuring efficient management of budget funds, including by optimization of the structure of expenditures and streamlining the network of budgetary institutions; and
- attracting private funds for implementation of infrastructure development projects.

In particular, MFSI experts initiated a discussion of the issue related to the need of amending the Procedure of Local Borrowing, which is now hampering implementation of public-private partnership projects, specifically, regarding borrowing in the form of a commercial credit.

It was decided at the meeting, that the Working Group would continue working towards achieving a more efficient management of budget funds, with a special focus to be made on improvement of the existing normative framework.

A scheduled meeting of the topical working group in the area of Regional Development and Interbudgetary Relations Reform took place at the Ministry of Finance of Ukraine on **9 August 2011**.

The participants reviewed the status of implementation of the schedule of reforms in the area of Regional Development and Interbudgetary Relations Reform in 2011 discussed the issues related to calculation of estimates of local budget revenues, and agreed on the main approaches to the formulation of local budget expenditures.

The participants made a special focus on discussing the proposals of local governments with regard to amending the formula of distribution of intergovernmental transfers between the State budget and local budgets.

This work has resulted in development of proposals and informing the local governments on the main approaches of formulation of local budget expenditures for the year 2012, estimates of local



budgets by sector, and a draft decree on amending the Formula of distribution in terms of the amounts of intergovernmental transfers between the State budget and local budgets.

With the support of MFSI, a meeting of the Intergovernmental Working Group on conducting preparatory work for implementation of performance program budgeting at the level of local budgets was held on **11 October 2011**. Among other things, the meeting considered the results of monitoring of implementation of local budget programs, evaluation of their efficiency and effectiveness, as well as the issues of expanding the group of experiment participants using PPB components at the local level.

Based on the results of the meeting, a decision was made to include new participants in the experiment of PPB implementation at the local level in 2012. In addition, it was decided to elaborate the issue of preparing the Methodological Recommendations for carrying out the evaluation of efficiency of budget programs for local budgets.

With participation of MFSI representatives, a meeting of the Intergovernmental Working Group on conducting preparatory work for 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 finalizing the methodological framework of PPB and delivery of training for all new participants in the experiment (346 in 2012 budgets).

*See folder “Deliverables”*

- ***Methods of monitoring have been developed and approved at the NAB meeting and taken into account by the Intergovernmental Working Group***

### Result

Experts of the MFSI have developed the Methodology of Monitoring and Assessment of Local-Level Performance Program Budgeting Implementation, which includes: Questionnaire on the Progress of Pilot for Performance Program Budgeting Implementation at the Level of Local Budgets; Evaluation of Social Impact of Budget Programs; and the Guidelines for Completing the Questionnaire on the Progress of Pilot for Performance Program Budgeting Implementation at the Level of Local Budgets. In addition, they have developed a Report on the Results of Monitoring the Pilot for Performance Program Budgeting Implementation at the Local Budget Level and respective Guidelines for Completing a Report on the Results of Monitoring the Pilot for Performance Program Budgeting Implementation at the Local Budget Level.

The above methodological documents have been considered by a working group, which met with representatives of the Ministry of Finance on 21 September 2009, and brought them for consideration of the next National Advisory Board meeting.

The evaluation methodology for the local-level PPB implementation pilot was presented and approved at a joint meeting of the Intergovernmental Working Group for developing the methodological principles of implementation of the Performance Program Budgeting (PPB) method



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at the local level and the National Advisory Board (NAB) on Public Finance Management on 29 December 2009.

The presentation of results of the Performance Program Budgeting (PPB) implementation at the local level in 2009 took place at a joint meeting of the Intergovernmental Working Group on developing the methodological principles of local-level PPB implementation and the National Advisory Board (NAB) on 31 March 2010. The results were prepared in accordance with the methodology of evaluation of the local-level PPB pilot implementation.

The results of PPB implementation in local budgets following the results of the year 2009 were presented on the basis of the data of methodology for evaluation of PPB pilot implementation at the local level during the meeting of the Intergovernmental Working Group at the Ministry of Finance of Ukraine for Development of Methodological Principles and Recommendations for Implementation of the Performance Program Budgeting at the Local Level, which was held on June 24, 2010.

Based on the Methodology of Monitoring and Evaluation of Implementation of Performance Program Budgeting Method at the Local Level approved by the Intergovernmental Working Group, data have been collected from all participants of the experiment and budget ranking carried out as of 1 October 2010.

The results of the monitoring of PPB application in the planning and execution of local budgets were presented at the meeting of the NAB on 28 December 2010.

Based on the Methodology of monitoring and evaluating Performance Program Budgeting implementation at the local level approved by the Intergovernmental Working Group, data was collected from all experiment participants and a ranking of budgets compiled as of 1 January 2011.

The results of the monitoring of local-level PPB application were presented at a meeting of the topical working group in the Regional Development and Interbudgetary Relations Reform section at the Committee of Economic Reforms under the President of Ukraine, which was held on 29 March 2011.

For instance, to implement *The Provision of General Secondary Education by General Educational Institutions* budget program, 16,652 textbooks and 460 reference books were purchased for educational institutions in Ovruch district of Zhytomyr Oblast, which raised the quality of pupils' learning instructional materials, resulting in an average academic success rate of 9 at the end of the year. The installation of heat meters in two of the city's general education schools, the replacement of window panes in six general education schools, and replacement of standard lamps with energy-saving lamps — have all contributed to reducing energy costs by Hr 32,000 and improving the conditions of children's stay at the educational institutions. The installation of a solid fuel boiler at a general educational school in the district would save Hr 50,000 per year on fuel.

The procurement of diagnostic equipment and use of state-of-the-art treatment methods as part of the program *Primary Treatment and Preventative Care of City's Population* in the city of Drohobych, Lviv oblast, helped reduce cardiovascular disease rate by 10%, which provided savings of Hr 30,000 to Hr 50,000. Also, this reduced the rate of mortality from hypertension complications (infarction, stroke) by 3%-5%, resulting in savings of Hr 5,000 - Hr 10,000 and increasing the



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detection rate of cancer pathology in stages I-II by 4%-5%. The reconstruction of the water supply and sewerage systems in one of the city's hospitals helped reduce water supply costs by Hr 12,000.

The renewal of the material and technological base of a medical institution in Lviv, thanks to the implementation of the *Provision of Emergency and Urgent Medical Aid to City's Population* budget program, enabled the improvement of the 15-minute ambulance crews' arrival from 70.1% in 2008 to 76.3% of all calls in 2010.

These and other data on the social and economic impact from implementing some of the PPB-based local projects were also communicated in the Letter of the Ministry of Finance addressed to the pilot participants, dated 11 April 2011, No. 31-05020-10-5/9437.

Based on the Methodology of monitoring and evaluation of implementation of the Performance Program Budgeting method at the local level approved by the Intergovernmental Working Group, data have been collected from all participants of the experiment and ranking of budgets conducted with the status as of 1 April 2011.

At the same time, the real need is in introducing measurement of efficiency of budget programs at the local level and realization of advantages of the Performance Program Budgeting method by shifting the focus from the control of performance of functions to the assurance of efficiency of public spending and achieved results. This would only be possible based on development and implementation of a methodology for measuring the efficiency of implementation of budget programs.

MFSI project's experts prepared and presented to the Ministry of Finance a draft of the methodology of evaluation of budget programs. Its implementation will make it possible to fully demonstrate the relationship between the achieved results and expenditures by analyzing the execution of a budget program in terms of the financing provision for implementation of its activities, measure the effectiveness of using budget funds, and evaluate the efficiency of program implementation, both in general and in individual tasks. Subsequently, the comparison between the evaluation results of budget program execution in their dynamics would allow identifying the best performing budget programs, which would influence the decisions on the amount and allocation of budget resources in future budget periods.

Based on the Methodology of monitoring and evaluation of implementation of Performance Program Budgeting method at the local level approved by the Intergovernmental Working Group, data has been collected from all participants of the experiment and a ranking of budgets prepared as of 1 July 2011.

The results of monitoring of PPB application in the planning and execution of local budgets were presented at a meeting of the National Advisory Board, which was held on 19 August 2011.

In addition, issues related to the results of evaluating the experiment of PPB implementation for local budgets in the first six months of 2011 were considered at a meeting of the Intergovernmental Working Group at the Ministry of Finance on 11 October 2011.

*See folder "Deliverables"*



- ***Running a column called «Topical Questions on PPB: Answered by Experts» on MFSI project web-page***

### **Result**

In June 2009, a new section “MFSI experts answer” was launched on the website, questions with experts answers related to PPB section have been placed on the site, and the information was regularly updated.

- **Press tours for oblast and district media**

### **Result:**

A press tour for representatives of the national mass media, as well as oblast and district reporters from MFSI project pilot regions was held on **June 24, 2010**, in order to get them acquainted with the best budgeting practices at the local level based on progressive methods (PPB), and improve their professional skills in the context of highlighting budget related issues in mass media.

The press tour assembled eight regional journalists from Zhytomyr (regional radio), Luhansk (regional radio), Lviv (Vysokyi Zamok newspaper and Internet-Agency), and Mariupol (regional TV-channel), and 17 reporters from the national mass media, who were also invited to highlight the sixth Financial and Economic Forum (June 24-25, 2010) and take part in the press conference.

The media monitoring was performed on the basis of press conference and press tour (held within the framework of the Forum) findings, materials of the national and regional materials and relevant reference was placed in the MFSI project web-site.

MFSI project jointly with the Ministry of Finance of Ukraine arranged a press tour to the city of Zhytomyr on **22 November 2010**. The press tour participants included 18 journalists representing the oblast, municipal, and rayon media outlets of the Zhytomyr Oblast, as well as correspondents of the national media.

The event was intended to familiarize the participants with the results and practical experience of implementing the Performance Program Budgeting method of planning and execution of local budgets.

A meeting of the Zhytomyr Press Club of Reforms entitled *Results and Practical Experience of Implementation of the Performance Program Budgeting Method in the Zhytomyr Oblast* took place as part of the press tour. This meeting was attended by the representatives of the Ministry of Finance, Institute of Budget, Principal Finance Directorate of the Zhytomyr Oblast State Administration, line directorates of the Zhytomyr City Council, and heads of organizations/institutions of Zhytomyr Oblast.

After the meeting, the journalists visited some of the institutions in Zhytomyr Oblast that took an active part in the experiment, and became familiar with the best practices of financial planning and practical experience of effective management using progressive methods (PPB).



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In particular, the press tour participants visited a number of locations in the city of Zhytomyr, namely:

- General Educational Institution No.25;
- Central City Hospital No.1; and
- Facilities of the KP EMZO Misksvitlo Municipal Street Lighting Enterprise.

The press tour for media representatives helped improve the professional level of coverage of the budgetary issues by national and regional media outlets (local and rayon media in particular); increase the quantity and provide higher quality of coverage of the budgetary issues in the national and regional media outlets; further promote and distribute positive experience of local budgets formation and execution by PPB (on Zhytomyr oblast example) into other regions and all over Ukraine. The journalist materials developed from press tour helped to increase the number of members of general public familiar with the topicality of project's range of problems and importance of the budgetary issues; to improve the dialogue between the central/local government and the public on important economic, budgetary, social issues and as a result to increase transparency in budget execution. Also, it aims improving the image/profile of the region - attractiveness for investors.

Results of the PPB implementation in Zhytomyr oblast were covered by 18 representatives of national and Zhytomyr oblast, municipal, and rayon mass media. In particular, 9 – printed media, 4 – radio channels, 4 TV companies.

The media monitoring is prepared on the results of the press tour – 17 journalist materials (14 references as well), among them:

4 – TV spots (Voice of America – “Chas-Time” program, “CTV-Tonis” and “Soyuz-TV” Zhytomyr TV Companies)

6 – radio spots (Zhytomyr Oblast radio company, UR-1, “Zhytomyrs’ka khvylya FM” Radio Co, «Krok FM» Radio Co)

8 – printed materials, 4 of them – in rayon printed publications.

All journalists materials resulted from the press tour have been placed at the web-site.

On **31 May, 2011**, MFSI project and the Ministry of Finance of Ukraine highlighted the implementation of Performance Program Budgeting in Lviv Oblast by a press tour. The tour, which included 18 journalists from around the Oblast as well as national media, showcased actual municipal-level authorities that had implemented projects through the use of PPB.

The tour included a meeting of the Lviv press club, which was attended by the Ministry of Finance, IBSER, General Financial Department of Lviv Oblast State Administration, sectoral departments of the Lviv Oblast State Administration, and managers of Lviv Oblast budget-funded entities.

After the meeting the journalists traveled to municipalities in Lviv Oblast to see positive results of using best financial planning practice and effective management based on progressive methodology (PPB).

In particular, participants visited:

- Central municipal hospital, town of Stryi
- Comprehensive 1-3 grade school, village of Nezhukhiv
- Art school, town of Morshyn



The journalists met the Stryi's and Morshyn's heads of financial and line departments, who explained the steps and specific results of PPB implementation in their education and health care sectors.

The press tour for media representatives helped to improve professional level of coverage of the budgetary issues by national and regional media outlets (local and district media in particular); increase quantity and perform higher quality of coverage of the budgetary issues in the national and regional media outlets; further promote the positive experience of local budget formation and execution of PPB (on Lviv oblast's example) into other regions and all over Ukraine. Also, the materials resulting from the press tour helped to increase the number of members of the wider public familiar with the project's range of problems and the importance of the budgetary issues; to improve the dialogue between the central/local government and the public on importance economic, budgetary, social issues and as a result to increase transparency in budget execution. Also, it aimed to improve the image of the region for investors.

Results of the PPB implementation in Lviv oblast were covered by 18 representatives of national and Lviv oblast, municipal, and district mass media. In particular, 12 – printed media, 3 – radio channels, 3 TV companies.

The media monitoring is prepared on the results of the press tour – 14 journalist materials among them:

3 – TV spots (Voice of America – “Chas-Time” program, “Lan-Stryi” and “Brodu” Lviv oblast TV & Radio Companies)

3 – radio spots (Lviv Oblast radio company, “Slovo” Boryslav Radio Co, «Lan» Stryi Radio Co)

8 – printed materials, 4 of them – in district printed publications.

All journalists' materials resulted from the press tour have been placed on the website.

*See folder “Deliverables”*

***Sub-task 2.1.1.: Transfer the PPB software to the Ministry of Finance, train assigned Ministry of Finance personnel on software use and maintenance, and provide technical assistance on adapting the software to Ministry of Finance requirements***

MFSI experts tested Budget software for the program software transfer to the Ministry of Finance of Ukraine, as required by the Work Plan. There were improved some objects within the configuration, in particular:

- completion of the manuals «CFC, SBC, CEEC»;
- completion of the document «Assignment Plans of Spending Units of the Lower Level» (“consumer baskets”);
- completion of the documents, related to download of the Treasury's data, particularly:
  - a) document «Local Budgets Execution by the Revenues»;
  - b) processing of «Statements Download»;
  - c) processing of «Form 412».

New object: report “Treasury Data Check” was created and tested. MFSI submitted an act of acceptance-conveyance of SDFT to the Ministry of Finance of Ukraine.



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## **MUNICIPAL FINANCE STRENGTHENING INITIATIVE**

On 14 January 2009, MFSI handed over to the Ministry of Finance, free of charge, the Budgetary Process software of an automated system for the formulation, execution, and analysis of municipal budgets based on Performance Program Budgeting (PPB) and developed under the Municipal Budget Reform program with financing by the U.S. Agency for International Development (USAID).

Pursuant to a Ministry of Finance letter dated 20 February 2009, No.31-08010-07-17/4670, MFSI experts have completed the preparatory tasks of updating, installation, and modification of the Budgetary Process software application. Needs assessment has been conducted of the end user, i.e., the Ministry of Finance, with regard to compatibility of the transferred software with the software used by the Ministry and local finance departments. Technical advice has been provided to the Ministry of Finance regarding the consistency of the Budgetary Process software modules with the budgetary process in Ukraine. Technical assistance has been provided to the Ministry in making requisite technical modifications to the Budgetary Process software for its subsequent installation and use at the oblast, city, and rayon levels in the pilot oblasts selected for the Performance Program Budgeting pilot.

MFSI experts have analyzed the technological components of the Budget Process software product with the aim of improving the formulation of Performance Program Budget and line-item budget formats and have conducted a test installation of the Budget Process software on workstations at the Ministry of Finance of Ukraine.

MFSI experts have prepared a draft ordinance of the Ministry of Finance on Ministry's transferring the code and documentation to the Principal Design, Production, and Service Center of Computer Finance Technology State Enterprise (HolovFinTekh) and a draft ordinance from HolovFinTekh to the Ministry of Finance and Principal Finance Directorates of Oblast State Administrations with regard to ensuring organization of the process of supporting the Budget Process software at the local finance institutions, where it is implemented.

Assistance rendered in connection with development of training materials required to hold the training sessions related to use of the "Budgeting" software was transferred to the Ministry of Finance of Ukraine.

MFSI experts provided assistance in finalizing the PPB software for the city of Kyiv, which is one of the participants in PPB implementation experiment pursuant to Order of the Ministry of Finance No.805 of 2 August 2010. The said PPB software has been installed on a server of the Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA) for the formulation and execution of a PPB-based budget of the city. The MFSI server also has a remote access to the KCSA database for viewing information on PPB-based budget formulation (budget programs, their performance indicators, budget requests etc.).

The PPB software is continuously updated according to the requests of the Ministry of Finance. According to Ministry of Finance orders dated 14 January 2011, No.11; 31 January 2011, No.50; and 12 April 2011, No.497, the database of the directories has been updated. The following directory spreadsheets have been updated:

- Departmental classification of expenditures and crediting of the State budget (KVK);



- Program classification of expenditures and crediting of the State budget (KPKV);
- Classification of debt by creditor type;
- Classification of budget financing by creditor type;
- Classification of budget financing by type of debt obligation;
- Classification of debt by type of debt obligation;
- Classification of budget revenues (KKD);
- Functional classification of budget expenditures and crediting (KFKV);
- Functional classification of local budget expenditures;
- Directory of budget expenditures' economic classification codes.

Work continues on improving the software in response to the requirements of the Ministry of Finance of Ukraine:

1. The formats of Appendices to session resolution have been modified.
2. An option has been added of generating the following reports:
  - Abstracts of monthly and annual apportionment;
  - Distribution of indicators of consolidated appropriation plans;
  - Distribution of indicators of the consolidated budget;
  - Distribution of indicators of the Special Fund;
  - Consolidated indicators of the Special Fund;
  - Budget estimate;
  - Appropriation plan.
3. Budget Classification has been modified pursuant to the following Ministry of Finance orders:
  - No. 1567 of 16 December 2010;
  - No. 11 of 14 January 2011; and
  - No. 50 of 31 January 2011.
4. Modifications have been made to the reporting as per requirements of the Ministry of Finance Order No.4 dated 5 January 2011.
5. An option added of obtaining monthly statements from State Treasury offices on the balance of funds at accounts 3142 and 3152 and possibility of their analysis provided (BLS\* files).
6. Forms of the Ministry of Finance template have been modified.
7. Directories of baskets have been modified.

Thanks to the ongoing improvement of the software and bringing it into compliance with the current legislation, opportunities are expanded for users of this software product. In particular, a technical functionality has been added for generating new reports, automatic consolidation of financial indicators, formulation of budget estimate and appropriations plan.

In addition, automated report generation and creation of various databases, classifiers, and document templates — all of which significantly reduce the amount of time needed for PPB-based budget formulation. This, in turn, improves the productivity of specialists and, accordingly, provides savings for local budgets.

Thanks to the ongoing improvement of the software and bringing into compliance with current legislation, user functionalities of this software product are being expanded. In particular, in response to requirements of the Ministry of Finance:



1. An option is being added to generate a package of documents for transferring funds from the General Fund to the Special Fund.
2. The “Ordinance on allocating funds from the General/Special Fund of local budgets for the funds transferred from the General Fund of the budget to the development budget (Special Fund)” form has been modified pursuant to the Order of the State Treasury No.79 dated 5 April 2011.
3. Functionality is being added to simultaneously download Treasury files.

This would allow the automation of the report generation and creation of a variety of databases, classifiers, document templates, and would significantly reduce the time required to develop a budget based on Performance Program Budgeting. This, in turn, will influence the productivity of specialists, increase cost efficiency and save the resources of local budgets.

The software has been updated, with addition of new functionalities, including:

1. Option added in the analysis by source of financing to derive sign “-“from the directory of sources.
2. Option is added to generate a provisional/permanent apportionment of revenues and expenditures for any period by month, and not just generating the sum total of the specified months.
3. In the Reports on apportionment of revenues and expenditures with the label “New Form,” an option is added for special fund 9, to generate reports for special funds 2, 3, and 7 separately.
4. A possibility to compile analytical information without own-source revenues is added in the reports on revenues and expenditures.
5. An option is included to add KEKV 0000 to the Treasury analysis of expenditure execution.
6. When selecting consolidated budgets in all revenue forms with the label “New Form,” an option is added for generating the Reports not only for all the budgets of the consolidated budget, but also for a certain selective list of the budgets, which are included in the specified consolidated budget.
7. Functionality is added of completing 2012 budget requests using new forms.

*See folder “Deliverables”*

**Task 2.2: In coordination with MHR and LINC, provide specialized training and technical assistance to five pilot cities in financial planning and optimization for their municipal energy and economic development plans linking their infrastructure development strategies with adequate financial planning.**

Assist these cities in identifying and utilizing additional sources of financing (IFI and bank loans, grants, project financing, etc.); disseminate results and lessons learned to all MHR- and LINC- partner cities and to other relevant governmental and non-governmental bodies

- **Development of a training course**

**Result:**



MFSI took part in developing an application for cities wishing to participate as partners in the MHR project, as well as in the selection process itself. The selection process resulted in 34 cities selected. The decision with regard to successful applicants was made based on a careful consideration of applications from 92 cities, which were willing to participate in the competition.

Working meetings between USAID, MFSI, and MHR with regard to the selection of cities for participation in this Task took place and cities were selected, viz.: Ostroh, Rivne, Lviv, Cherkasy, Slavutych, Komsomolsk, Yevpatoria, Ivano-Frankivsk, Zhytomyr, Sevastopol, Dzhankoi, Krasnoperekopsk. In February 2011, experts of the MFSI Project offered to the LINC Project to take part in the selection of cities, as specified by the task; however, no reply has been received from the LINC Project.

In March 2010, experts of the MFSI Project took part in the training organized by MHR Project, which was delivered by the staff of EnEffect/ IRG/ EECU, with regard to determination of the financial framework.

The training materials under this task have been developed. In January 2011, MFSI experts took part in the training delivered to the representatives of regional training centers of the Municipal Heating Reform Project. In particular, MFSI experts presented an overview of strategic planning and application of innovative technologies for financing energy saving improvements.

*See folder "Deliverables"*

- **Organization of trainings in five cities**

**Result:**

Within the implementation of this task, during 2010 and early 2011 MFSI experts actively delivered a round of trainings on financial planning for 5 pilot cities, selected jointly with Municipal Heating Reform (MHR) Project. In particular, the first training workshop, titled "Financial Planning in Preparing a Strategic Plan of Economic and Social Development, and Municipal Energy-Saving Program" was held in the city of Yevpatoria on 17-18 August 2010. The training workshop was conducted for specialists of the city's Financial Directorate, Municipal Economy Directorate, Directorate of Economy, Directorate of Investment Policy, Directorate of Education, Directorate of Healthcare, Directorate of Physical Culture and Sports, Directorate of Labor and Social Protection, Directorate of Family and Youth, Service for Children's Affairs, Directorate of Capital Construction, Department of Municipal Energy, Occupational Safety, and Personal and Social Safety of the Population of Yevpatoria, and the representatives of spending units (City Polyclinic, Hospital, Palace of Sports).

The participants reviewed the issues regarding the financial justification of a strategic plan of infrastructure development, city's energy-saving program; specific mechanisms for attracting possible sources of financing, including borrowed funds, investments, funds attracted using Public-Private Partnership methods, and other off-budget sources. Special focus was made on the latest changes in the normative-legal framework.

In November and December 2010, the MFSI project conducted three training workshops on the topic "Financial Planning for Preparation of Strategic Plan of Economic and Social Development,



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and City's Energy-Saving Program" in the cities of Rivne, Lviv, and Ivano-Frankivsk, in April 2011 – in Sevastopol, on 23-24 May 2011 – in Dzhankoy and Krasnoperekopsk in the Autonomous Republic of Crimea. Cities were selected jointly with Municipal Heating Reform (MHR) Project.

*See folder "Deliverables"*

- **Consultations for specialists in developing strategies and infrastructure development projects**

Work was conducted with the City of Rivne with regard to the implementation of energy-saving projects. Among other things, consultations were provided on planning the sources for implementation of projects and justification of the development budget revenues to be used for repayment of local debt.

Calculations were made and respective consultations provided to NEFCO with regard to the capacity of the City of Lviv to repay local debt when attracting funds for implementing energy-saving projects.

Despite the fact that according to the plan, the cities' strategic documents were to be adopted in 2011, the city of Yevpatoria approved amendments to its municipal energy-saving program for 2007-2015 as early as December 2010. The amendments are related to finalizing the list of programs to be implemented under the program and identifying the respective sources of funding. Other cities have started working on development of their Municipal Energy Plans with appropriate financial justifications.

As part of this component, consultations have been provided:

- to specialists of the Lviv City Council on developing budget programs related to implementation of the Lviv Municipal Energy Plan (MEP) for 2011-2014 as a component part of the Sustainable Energy Development Plan (SEDP) for the city of Lviv until the year 2010 (savings from the activities under the budget programs in 2011 for the city of Lviv amount to Hr 0.1mn annually);
- to specialists of the Yevpatoria City Council on developing budget programs related to implementation of the Yevpatoria Municipal Energy Plan for a medium-term perspective (2010-2014) (savings from the activities under the budget programs for 2011 for the city of Yevpatoria formulated in accordance with the Municipal Energy-Saving Program total Hr 8.5mn annually).

Based on the results of consultations and seminars, the following documents have been approved, with the detailed specification of the sources of financing and respective performance indicators:

- The Ivano-Frankivsk Energy Saving and Energy Efficiency Targeted Municipal Program for 2010-2013. This program projects energy savings at about 30%, of which 10% is to be used for financing further energy saving activities. Also, the savings will make it possible to cover 8%-10% of the city's energy needs. As the result of Program implementation, energy consumption will be reduced by about 60,000 tons of equivalent fuel (about Hr 230mn), and greenhouse gas emissions will be cut by about 340,000 tons.

- The Rivne City Investment Program for 2011-2013. As the result of Program implementation, Direct Foreign Investment will increase by 50% (up to \$150.0mn) or \$600 in per-capita terms, with 1,500 new jobs created.

- Program of Dzhankoi City Economic and Social Development Program for 2011-2013 (economic effect of Hr 147,100 in 2011);



- Krasnoperekopsk Municipal Energy Plan (reducing the consumption of energy by 20% and halving the losses of heat energy by the year 2015).

Upon the initiative of the cities Slavutyich and Cherkasy, MFSI experts started preliminary work to search for creditors and elaborate the documents required to attract funding for the projects: "Creation of an additional source of heat and electric energy for users of the city of Slavutyich through building and operation of a cogeneration plant using local types of energy" (the project envisaged halving of the heat energy production cost for its fuel component); "The concept of renovation of buildings of budgetary institutions" in the city of Cherkasy (project energy savings amounted to 37%-65%, with the project payback period of five years). However, due to valid reasons, work on the above project was not continued. As regards the Slavutyich city project, it did not comply with the requirements of potential creditors, who wanted to support energy saving projects. The city of Cherkasy had some internal problems within the municipal administration.

*See Deliverables folder*

### **Area 3: Developing and implementing innovative procedures and approaches**

#### **Task 3.1: Develop, test and disseminate innovative financing technologies to fund renovation and energy efficiency improvements in public and private buildings and other infrastructure development projects**

*Sub-task 3.1.1.: Develop and test innovative infrastructure development financing tools such as ESCO performance contracting (both for public and residential buildings), energy efficiency loans secured by future utility payments, etc.*

- **Testing of the mechanism**

#### **Result:**

The MFSI project has developed a scheme for implementing energy-saving projects using Public-Private Partnership mechanisms in the format of a turnkey contract. According to this scheme, the financing obligations and property title could be imposed on and transferred to either a public or private partner. The essence of this financial mechanism is that a public institution makes an agreement with a private investor/service provider to design and build a finished facility, in accordance with specific characteristics and indicators to be agreed between the institution and the provider. The private provider undertakes to build a facility at a fixed price and assumes the risks of keeping the building cost within the agreed price. The local government incurs a debt to pay for the work completed.

The developed scheme could be used for work with local governments in other cities during implementation of energy-saving projects.

To test the mechanism of implementing an energy-saving project in the town of Ostroh, MFSI found a lender and carried out coordination meetings with all project implementation participants. The Town of Ostroh got support regarding the development of the municipal council resolution on attracting the loan, preparing the request to the Ministry of Finance, including a substantiation of



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compliance with the transaction requirements set by budget legislation, the ability to discharge in full and in a duly manner its liabilities, holding negotiations with the Ministry of Finance regarding taking out a loan of a new type. Thanks to the application of the mechanism developed, the City of Ostroh has managed to attract additional financial resources for implementing its energy-saving project. The resources were expected to amount to 70% of the average annual development budget; the credit would be repaid through the savings in payment for electric power achieved as the result of project implementation; CO<sub>2</sub> emission will also be reduced by 55%. However, in view of the fact that according to the Memorandum of Economic and Fiscal Policy signed between the Government of Ukraine and IMF, the local budgets were to be balanced in 2010, the Ministry of Finance has declined the borrowing application of the city of Ostroh.

To test the mechanism of implementation of an energy-saving project at budgetary institutions of the city of Rivne, involving a credit obtained from the NEFCO international finance organization, with participation of a Ukrainian bank, as part of the said component, a draft resolution of the City Council has been prepared and consultations provided on compiling the needed set of documents with all the requisite calculations according to the budgetary legislation. Implementation of the project was expected to provide savings of Hr 0.5mn per year, and the interest on credit amounts to 3.0% annual. On 12 November 2010, the City of Rivne submitted a set of documents for approval by the Ministry of Finance of Ukraine. However, due to the fact that according to the Memorandum of Economic and Fiscal Policy signed between the Government of Ukraine and IMF, the local budgets must be balanced in 2010, the Ministry of Finance has declined the borrowing application of the city of Rivne, as with the city of Ostroh.

In order to test the mechanism of implementation of an energy-saving project entitled *Improving the Energy-Efficiency in Buildings of Educational Institutions of Ivano-Frankivsk*, a draft resolution of the Ivano-Frankivsk City Council has been developed and consultations provided on compiling the required set of documents with all the requisite calculations pursuant to the budget legislation, which are needed for getting approval from the Ministry of Finance of Ukraine. Savings from implementation of the project amount to Hr 0.5mn per year, and the interest on credit is 3.0% annual. The said documents were forwarded to the specialists of the Ivano-Frankivsk City Council on 23 December 2010.

MFSI experts drew attention of the Administration of the President of Ukraine to the need for the Ministry of Finance to lift its moratorium on local borrowing, which emerged due to Ukraine's signing a Memorandum of Economic and Financial Policy with IMF. At the same time, MFSI noted that this would be a substantial supplement to the local financial resource, while having no significant impact on debt accrual for the country in general. Simultaneously, it was suggested that the Association of Ukrainian Cities should rally its membership to address this problem.

MFSI experts delivered consultations and prepared a set of documents pursuant to the Decree of the Cabinet of Ministers dated 16 February 2011, No. 110 "On the Procedure of Local Borrowing" (see Subtask 3.1.2), which the Ivano-Frankivsk City Council submitted for approval by the Ministry of Finance (letter of the Ivano-Frankivsk City Council of 3 June 2011, No. 961/01-11/03B). In September 2011, the Ministry of Finance approved borrowing by the city of Ivano-Frankivsk for implementing the above project, using the mechanism developed by experts of the MFSI Project (letter of the Ministry of Finance of 8 September 2011, No. 31-12/10-19-21/22208).

It is important to point out that the investment project *Improving the Energy-Efficiency in Buildings of Education Institutions of Ivano-Frankivsk* is to be implemented at nine public



buildings. The project payback period is three years. The project costs Hr 3.6mn, of which Hr 3.0mn will be borrowed from NEFCO for a period of up to four years at 3.0% annual interest. The remaining funds, if needed, will be provided by the Ivano-Frankivsk municipal budget. Implementation of this project would allow reducing the consumption of heat energy by 1,756.6 Gcal per year and electric energy down to 2.1kWh mn per year. Also, CO<sub>2</sub> emissions will be reduced to 415.7 metric tons per year.

*See Deliverables folder*

***Sub-task 3.1.2.: (in coordination with MHR and LINC) Provide specialized training and technical assistance to the five pilot cities in developing and implementing innovative infrastructure development financing tools; disseminate result to all MHR and LINC partner-cities, other stakeholders.***

- **Result: Organization of trainings in five cities**

**Result:**

On 28 February 2011, the MFSI Project delivered a training workshop on the topic of *Application of Financing Mechanisms for Implementation of Infrastructure Development Projects* in the city of Komsomolsk, Poltava Oblast. Komsomolsk is one of the cities selected for collaboration in the Municipal Heating Reform (MHR) project. On August 31, 2011, training workshops were delivered in Feodosiya as part of a large-scale seminar, which brought together 55 department heads and specialists from the Feodosiya and Sudak city councils, as well as specialists of Finance Directorate from the Kerch, Alushta, Saky, Yevpatoriya, and Yalta city councils.

The trainees included managers and specialists from the Urban Development and Architecture Directorate, Finance Directorate, Department for Housing and Communal Services Management and Reform, Housing Issues and Environment, Department of Communal Property Management and Reform, Department of Economy, Strategic Development, Municipal Initiatives, Investments and Trade, and Department for Regulation of Land Relations of the Dzhankoy City Council, as well as employees of the Department of Economy, Budget, and Finance, Department for Regional Development and Municipal Economy, Department of Architecture and Urban Development of the Krasnoperekopsk City Council.

The participants learned about the mechanisms of assuring coordination between the strategic documents and the development budget based on the Performance Program Budgeting method in the budget process; sources of financing the development plans and investment projects, such as economy of funds from energy savings, borrowing, granting of local guarantees, and pooling the resources of local governments and private investors based on the mechanisms of public-private partnership. Special focus was made on the latest changes in the normative-legal framework, including the changes in the procedure of local borrowing, which were approved by Decree of the Cabinet of Ministers dated 16 February 2011, No. 110 “On the Procedure of Local Borrowing,” and recommendations were provided regarding the set of the documents, which are needed for getting approval for the borrowing from the Ministry of Finance, in particular, a Draft Resolution on borrowing must contain the following:

- A statement on the intent to incur debt and its purpose;



- The amount of borrowing; interest on loan; repayment period;
- Mayor's authority to take all organizational and legal actions related to borrowing;
- Instruction to City's Finance Directorate to include the costs of repayment and servicing of a local debt, which would arise in case of borrowing, in preparing draft municipal budgets for the next three years;
- Other provisions (if needed).
- Appointing the persons responsible for implementing the borrowing resolution.
- A preamble of session's resolution to borrow must contain a reference to the relevant legislation.

When preparing a justification for the Ministry of Finance with regard to the compliance of the borrowing to the requirements set out by the budget legislation regarding the capacity of discharging the debt obligations, MFSI experts recommended to indicate the following:

- results of improving the socio-economic development and investment activity in the city thanks to implementation of investment programs/projects by the municipal government;
- current status of economic activity in the city and prospects for its improvement, in particular, thanks to implementation of a project using the borrowed resources;
- key indicators of the municipal budget for the previous year (with dynamics for the last three years).

In addition, when preparing a justification for the Ministry of Finance with regard to development budget revenues of the Special Fund, MFSI Project experts recommended to provide the following information:

- dynamics of the cost of land plots or properties in the last five years;
- area, location, and price of land plots or properties, year of sale (forecast up to the end of local debt repayment);
- to consolidate trust on the part of the Ministry of Finance, provide the amount of the development budget to be allocated for continuation/conclusion of any previously initiated projects;
- when implementing energy-efficiency projects, show the amount of energy savings to be used for repayment of local debt.

In the course of these training workshops, the trainees had an opportunity to practice their newly acquired skills by implementing a practical assignment of identifying, evaluating, and searching for sources of financing of an investment project for city development and present their findings for general discussion.

*See Deliverables folder*

- **Consultations for specialists in implementing the financial instruments**

### **Result:**

In order to implement energy-saving projects according to the Cabinet of Ministers Decree of 16 February 2011, No.110 "On the Procedure of Local Borrowing"<sup>1</sup> and the Budget Code of Ukraine, consultations have been provided to the cities of Ivano-Frankivsk, Ostroh, Rivne, Lviv, Zhytomyr and Yevpatoria on the modification to the municipal budget resolution, which needs to be adopted

<sup>1</sup> The Cabinet of Ministers Decree dated 24 February 2003, No.207 was in effect before the adoption of the current decree.



before submitting the documents to the Ministry of Finance. The prepared recommendations were forwarded to specialists of the cities. Also, consultations have been provided with regard to the prepared amendments to the local budgets resolution on obtaining a credit. In the course of the document review at the Ministry of Finance, MFSI provided support in further elaboration of the documents in order to obtain Ministry's approval for this borrowing. The projected indicators of city's development budget revenues have been analyzed and, in some cases, risks have been identified that could hamper approval by the MOF, and the anticipated actual revenues have been calculated to increase confidence on the part of the MOF. Also, consultations were provided as to the format and content of all necessary documents for successful interaction with Ministry when seeking approval for the borrowing.

As the result of the delivered training and provided consultations investors were identified, all necessary documentation for projects' realization was prepared, and consultations with MOF conducted. Examples of savings due to the projects' realization:

- economy of heat energy by educational institutions in Ivano-Frankivsk of 1,756.6 Gcal/year (4.2%), CO2 reduction of 415.7 tons/year;
- economic efficiency of project in Ostroh is Hr 0.2mn (CO2 reduction by 103.4 tons/year);
- economic efficiency of project in Rivne is Hr 0.5mn (economy of heat energy 879.8 Gcal/year;
- electric energy conservation in healthcare and educational institutions in Lviv will amount to 1,113 MW per year or Hr 669,100 in monetary equivalent;
- electric energy saving of project for some public and governmental facilities in Zhytomyr, namely street lighting and the preschool is 561 Mwh/year, economy of heat energy – 310 Mwh/year, economic efficiency of project 34 EUR/year;
- economic efficiency of project in Yevpatoria is Hr 0.2 mn.

*See Deliverables folder*

- **Printed materials of the recommendations developed and best practices (Manual)**

The Manual was prepared by experts of the MFSI Project. It contains illustrative examples of efficient financial mechanisms, which can be used by local governments when implementing infrastructure development projects. Among other things, the mechanisms provide for using private and leveraged resources. The publication is intended for local government staff, investors, and is aimed to expand the opportunities of local governments in mobilizing resources for implementation of their infrastructure projects.

*See folder "Deliverables"*

#### **Area 4: Support Kyiv City Strategy Development and Implementation.**

**Task 4.1 Assist the Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA) in developing accurate financial assumptions and in incorporating financial and economic analysis into municipal strategic planning documents such as the Strategic Development Plan of the City of Kyiv, the Energy Efficiency Plan of Kyiv and others as**



necessary. The assistance will ensure financial and budget consistency of these documents with each other as well as with other municipal programs implemented in the city of Kyiv.

- **Analysis of Kyiv City Development Strategy, evaluating the forecast of city budget expenditures and revenues**

**Result:**

MFSI took part in meetings of the working group elaborating the Strategic Development Plan of the City of Kyiv. This work was conducted in order to link the Kyiv Strategic Development Plan to the national development policy documents by means of medium-term planning of Kyiv city budget using Performance Program Budgeting. At the same time, suggestions were made for improving the planning system, in particular, with regard to setting the financing priorities based on strategic goals of city development and the annual review of medium-term objectives taking into consideration the results achieved.

The Kyiv City Development Strategy, which was approved on 15 December 2011, take into account MFSI recommendations.

The support provided by MFSI ensures the financial and budgetary consistency of the Kyiv City Strategic Development Plan, Kyiv Energy-Efficiency Plan, and other documents with each other, as well as with other municipal projects implemented in Kyiv.

In addition, emphasis was made in the course of the collaboration on the need of expanding the revenue base of the Kyiv city budget and searching for new sources of revenues, in particular, from non-tax revenues (land use rent and income from sale of municipal property). This would broaden city opportunities for further development. Attracting off-budget sources for implementation of municipal infrastructure development projects, in particular, those applying the mechanisms of public-private partnership will also enhance city's financial opportunities.

The MFSI project took part in six working meetings with the representatives of the Principal Finance Directorate and Principal Directorate for Economy and Investment of Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA). It was agreed at the meetings that MFSI will make a forecast of municipal budget revenues and expenditures for the medium term and an assessment of the financial resources needed for implementation of the Development Strategy.

In particular, the base for analysis was represented by treasury reports on execution of the Kyiv city budgets in the previous three years (2008-2010), approved budget apportionment for the year 2011, statistical data regarding the labor remuneration fund for the staff of city's budgetary institutions, average wages level in the region, actual and forecast data from official sources on consumer price index and gas prices.

Based on the received information, analysis was implemented of the Kyiv city fiscal capacity and forecast for the period of 2012-2014.

Evaluation of Kyiv city budget revenues for 2012-2014 was made *by bringing the data to comparable conditions*:

- increasing the rent to a threefold amount of land tax for non-agricultural land;
- reducing the personal income tax rate for passive income from 15% to 5%;
- reducing the personal income tax rate for nonresidents from 30% to 15%;



- crediting only 50% from the personal income tax to the Kyiv city budget as of 1 January 2011.

The following circumstances were taken into account in this process:

- cancellation of a number of local taxes and fees, including the market fee and municipal tax;
- introduction of a tax on property other than land as of 1 January 2012.

The following key parameters were taken into account when calculating the forecast for expenditures:

- consumer price index;
- rate of growth of gas prices;
- rate of growth of expenditures in the previous four years;
- the need for incurring individual expenditures (debt servicing and repayment, promissory notes, borrowing against promissory notes);
- implementation of socially protected expenditures at a minimum required level.

The document was presented to the Principal Finance Directorate and Principal Directorate for Economy and Investment of Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA) on 18 May 2011 and approved by Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA) representatives in general. The assessment of the Kyiv fiscal capacity for 2012-2014 and the information on implementation of PPB was presented to the KCSA Head O.P. Popov on 23 June 2011.

Subsequently, these calculations will be used when formulating the Kyiv city budget for the next three years and coordinating the City Development Strategy with city's financial capacity.

*See folder "Deliverables"*

**Task 4.2: Develop a methodology to design a municipal budget program that supports implementation of the city's Strategic Development Plan; determine indicators to monitor and evaluate budget program implementation; and provide support in practical implementation of the methodology and indicators.**

***Subtask 4.2.1: Develop a methodology for designing budget programs or new components of the existing budget programs and performance indicators to support implementation of the city's Strategic Development Plan.***

The Methodology was developed for designing budget programs or new components of the existing budget programs and performance indicators to support implementation of the city's Strategic Development Plan, which provides the following:

- ensuring the consistency between the strategic objective and the resource required for their phased-in achievement;
- gradual exclusion from among the budget expenditures, those expenditures, which do not contribute to municipal development and only serve particular political interests;
- clear measurement of social and economic results generated by every spent public hryvnya;
- introducing the governance practices, which are based on the data on operational results of each departmental infrastructural unit, which are expressed in objective numeric data and indicators.

*See folder "Deliverables"*

***Subtask 4.2.2: Provide support to Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA) in practical implementation of the methodology and performance indicators developed under***

To implement the Methodology developed under Subtask 4.2.1, training materials were developed and training workshops conducted for 606 staff of Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA).

Thank to the delivered training workshops and provided consultations, when preparing the Kyiv city budget, an interrelation was ensured between the expenditures and strategic objectives, in particular, by means of specifying the indicators, which characterize the achievement of these objectives. Such interrelation has been set in 50 budget programs for 2011.

*See folder "Deliverables"*

**Area 5: Develop and introduce financial practices that foster energy efficiency in the city of Kyiv.**

**Task 5.1 Assist Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA) to design and implement financial measures and incentives to introduce an effective energy savings management system in the public sector.**

**Subtask 5.1.1: Analysis of city budget expenditures for energy**

**Result:**

The MFSI Project conducted working meetings with representatives of the Heat and Energy Payments Control Department at Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA) Principal Finance Directorate in order to identify the list of available information on expenditures of the Kyiv city budget for energy. The MFSI Project has prepared an information request form for the information on energy expenditures in 2010-2011 by key spending unit, which was forwarded to the above department of the Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA) Principal Finance Directorate on 26 April 2011. Based on the information received from the Kyiv city key spending units according to the developed form, an in-depth analysis was conducted of the Kyiv city budget expenditures in this area and a report prepared on the energy-intensity of current budget expenditures of the city of Kyiv by key categories of the municipal budget.

Thus, the Kyiv city budget expenditures for heat supply (KEKV 1161 code of economic classification of expenditures), electric power (KEKV 1163), and natural gas (KEKV 1164) are increasing at a rather high rate on an annual basis. Their share in the total expenditures increased in 2011 against 2008, when it amounted to 2.4%, by nearly 2.5 times (up to 5.8%), and nearly tripled against the actual figures in 2009 (up to 6.9%).

The money spent by budgetary institutions for communal utilities and energy increased by 34.6% for social and cultural institutions against 2010, showing a rather uniform growth for all sectors. Of those, the highest growth is noted for the budgetary institutions in the area of physical culture and sport.



As a positive development, note should be made of a slower growth rate in expenses for public utilities and energy compared to expenditures for energy-saving activities. The greatest differences are observed in healthcare, which would allow observing in subsequent years the dependence between the amount of spending for energy-saving activities and the amounts of energy consumed. The department of culture and arts is the exception, where this growth rate is exceeded by 36.1ppt. However, since this ratio will need to be analyzed for a number of years in future, when expenditures for energy-saving activities will have been made, this fact could not be regarded as negative.

The amounts of funds spent by budgetary institutions for energy per sq m of general area are rather uneven. The greatest amounts of such funds were spent in 2010 by the institutions in the area of social protection and social security. The expenditures for public utilities and energy per sq m of general area increased for all departments associated with society and culture in 2011 against 2010: from 16.5% for healthcare and to 30.0% for physical culture and sports.

On the whole, it should be noted that the amount of expenditures for energy by departments associated with society and culture depends on the indicators of the network, staffing, and users served, since each department has its own special features in operation of their budgetary institutions. Also, there is also a correlation with the quality of buildings within the jurisdiction of key spending units. Thus, prevalence of a great number of institutions, which have low heat-resistance of premises due to old age of buildings, where they are accommodated, and absence of capital repairs in such buildings — all have direct impact on the operational cost per budgetary institution, including the amount of expenditures used for energy.

The implemented analysis will help identifying the municipal departments, where there are opportunities for allocating lower amounts of funds for energy, and using these reserves for implementation of energy-saving activities.

*See folder “Deliverables”*

**Subtask 5.1.2: Develop a system for monitoring and evaluation of municipal budget expenditures for energy based on PPB.**

The system for monitoring and evaluation of efficiency of Kyiv city energy expenditures based on PPB has been designed. Using the designed monitoring and evaluation system, the city of Kyiv will provide for setting an interrelation for the medium term between the costs of implementing energy saving improvements and the amounts of economy in energy costs. This will make it possible to efficiently manage such economy, in particular, by directing it towards debt repayment, if the improvements were implemented through borrowing, or towards implementation of new energy saving projects etc.

The system envisages that the budget documents of the city of Kyiv will clearly reflect the amount of funds allocated for implementation of energy saving improvements and the indicators, which will characterize the effect of undertaking these measures for the duration of the payback period of such projects, minimum.

The developed system will be used for providing assistance to other cities in implementing efficient energy saving management systems as part of MFSI-II project.

*See folder “Deliverables”*



***Subtask 5.1.3: Assist the Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA) in using the monitoring system developed under Subtask 5.1.2.***

The Handbook and training materials on applying the methodology developed under Subtask 5.1.2 have been prepared. The training on using the methodology was delivered to more than 600 Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA) staff.

Thanks to the delivered training and provided consultations, the end energy users of the city of Kyiv have provided:

- reduced consumption (economy) of heat – 31.8 Gcal thousand;
- reduced consumption (economy) of electric power – 6 209.3 kWh thousand;
- reduced consumption (economy) of natural gas – 166.9 m<sup>3</sup> thousand.

**Task 5.2 Assist the Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA) to use effective financial mechanisms in designing and implementing projects/programs promoting energy saving and emission reduction in communal services enterprises of the city.**

***Sub-Task 5.2.1 Assist the Kyiv City Administration to build capacity of communal utilities in financial and economic analysis and planning as part of their strategic and action plans which include coordination and consistency with the city's strategic goals and objectives.***

- Evaluating the strategic and planning documents of ten selected communal utilities.**

**Result:**

Evaluation of the strategic and planning documents of selected communal utilities conducted. The overall situation indicates that the communal utilities are lacking their own resources and have insufficient funding from the city budget, which results in a low level of investment expenditures. For example, the Kyiv Metro underground railway communal utility had the share of expenditures for payroll with taxes and energy amounting to 61.5% in 2010, with only 19.2% for material costs. Improvement of this ratio at 47.4% vs. 26.4% was planned for 2011, and company's main expectations were for increased funding from the municipal budget (22.5 times). In this environment, it is essential to ensure a reliable confirmation of budget resources' being used for achieving city's strategic objectives. In addition, in the light of scarcity of budget resources, the issue emerges of the need of looking for other available and efficient sources (IFOs and private investors) for realization of investment projects by municipal utilities and achieving the maximum benefits for the city from implementation of such projects.

*See folder "Deliverables"*

- Design a new planning methodology to be applied for design and implementation of programs and actions by communal service enterprises and a new methodology for effective financial management of communal service enterprises, including the tools of effective monitoring and evaluation of implementation of such projects.**



A methodology for design and implementation of programs and actions by communal service enterprises and a methodology for effective financial management of communal service enterprises, including the tools of effective monitoring and evaluation of implementation of such projects developed.

The Methodology of design and implementation of programs and actions by communal service enterprises, in particular, provides to communal services enterprises the tool for identifying and using efficiency sources of financing of investment projects by communal service enterprises, including Public Private Partnership, borrowing under municipal guarantees etc. Special emphasis is made on the mechanisms of implementation of energy saving projects. In addition, the Methodology supplies the methods for establishing an interrelation between the strategic plan objectives and tasks, targeted and budget programs, under which communal services enterprises are implementing their investment projects, as well as between enterprise's plans and city's strategic documents.

When using the Methodology for effective financial management of communal service enterprises, the communal service enterprises will be able to set clear final objectives of the project, determine the phases and service life of the project, evaluate the sources of financing, and efficiently distribute the available limited resources. Conducting a cost-benefit analysis will allow the communal service enterprises to independently determine the value of an investment project, internal and external effects from its implementation, set the limits for unrecoverable costs, review its explicit and implicit benefits and costs, compare its positive and negative consequences, as well as view the project from the point of view of both its financial and economic value.

*See folder “Deliverables”*

***Subtask 5.2.2 Assist communal utilities in using the methodologies developed under Subtask 5.2.1.***

A handbook and training materials on using the methods of financial planning and efficient management of financial resources of communal service enterprises has been developed and 203 representatives of communal service enterprises who have received the respective training.

As the result of the conducted trainings and provided consultations, the efficiency of using resources will be improved, in particular of budget resources, thanks to the quality of financial justification of strategic and planning documents by communal service enterprises. In addition, these documents will be interlinked with the strategic plan and targeted programs of the city. Strengthening the capacity for implementation of energy efficiency projects will ensure a reduction in energy consumption by communal service enterprises.

Every project to be implemented by a communal service enterprise will provide the highest output on invested funds.

*See folder “Deliverables”*

***Component 6: Assist the Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA) to improve the existing system of city’s administrative management and provision of services to the voters.***



**Task 6.1 Develop recommendations regarding the priorities, scope, and sequence of improvement and reorganization of the Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA) management system.**

**6.1. Regarding improvement of the Kyiv city administrative management system.**

As part of Performance Program Budgeting for 2011, 60 budget programs of key spending units in the area of Public Administration have been developed. Performance indicators have been designed for measuring and evaluating implementation of respective budget programs.

MFSI project's experts have reviewed the organizational structure of the Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA) and district State administrations of the city of Kyiv and provided appropriate recommendations at a meeting, which was held at the Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA) Principal Finance Directorate.

As the result, the 2011 Kyiv city budget takes into account the implemented administrative reform. The number of key spending units was reduced from 166 to 49.

*See folder "Deliverables"*

**Task 6.2 Inform the public about reforms of city's administrative management and ensure broader public participation.**

**Subtask 6.2.1 Develop a Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA) strategy of public outreach**

**Result:**

In order to develop a Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA) strategy intended for supporting the reform of the system of city administrative management and efficient budgeting, experts of the MFSI Project conducted working meetings with an Advisor to the Head of the KCSA Principal Finance Directorate and representatives of Press Office of the Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA) in order to identify and assess the needs and priorities in the KCSA information activity. Based on the results of these meetings and a review of the Draft Kyiv City Development Strategy until the year 2025, MFSI experts have prepared a Draft KCSA Public Outreach Strategy and submitted it to KCSA.

*See folder "Deliverables"*

**Subtask 6.2.2: Assist the Kyiv Council Executive Authority (Kyiv City State Administration) KCEA (KCSA) in implementing a strategy of public outreach.**

To ensure implementation of the Strategy, the Kyiv City Council approved the Public Outreach Strategy "Information Kyiv" on 15 December 2011. Deputy Chairman of KCSA directed the key spending units on 20 October 2011 to ensure the publication of reports on budget execution in a PPB format accessible for citizens.



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## MUNICIPAL FINANCE STRENGTHENING INITIATIVE

The Strategy intends to support the reform of the system of city administrative management and efficient budgeting, developed under Subtask 6.2.1, which was presented for consideration and discussion of stakeholders and the general public at the roundtable *Interrelation between Efficient Budgeting and Other Aspects of Local Governance*, which was held as part of the Conference on *Improving the Budget Process Efficiency Based on Modernization of Administrative Management and Partnership with Civil Society* in December 2011.

*See folder “Deliverables”*

**Task 6.3: Improve the knowledge of Kyiv City Administration officials about best practices of municipal management, service provision, and program budgeting in order to improve energy-efficiency and reduce hazardous emissions.**

**Result:**

MFSI and the city of Kyiv have worked closely regarding service provision and program budgeting in order to improve energy efficiency and reduce hazardous emissions. Negotiations were successfully conducted with NEFCO on the Corporation’s possible participation in implementing energy saving project in the Kyiv budgetary institutions.

The MFSI Project has developed a mechanism for implementing such a project, which was approved in general at working meetings, which were held jointly with KCSA and NEFCO. A draft decision of the City Council on borrowing has been developed and handed over to the KCSA Finance Directorate, which, in turn, submitted all the required documents for approval to the Ministry of Finance. The energy efficiency project was approved by the Kyiv City Council on 29 December 2011.

The energy saving project of replacing the stoves in the kitchens of Kyiv’s educational institutions will reduce the CO2 emission by 1,460.7 tons/year, consumption of electric power – by 30% (1,825,868 kWh/year or Hr 1.9mn). It is expected that the testing of these mechanisms in the course of implementing an energy saving project in a number of budgetary institutions would enable the subsequent use of this mechanism for large investments, which would help reduce end-use energy consumption.

*See folder “Deliverables”*