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**MUNICIPAL FINANCE STRENGTHENING  
INITIATIVE (MFSI-II) ROLL-OUT**

**Quarterly Report**  
**01 January 2013 - 31 March 2013**

*Prepared by IBSER for grant*  
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## Abbreviations

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



## Executive Summary

- The MFSI-II Project has developed a new methodology for the comparative analysis of budget program efficiency. The Ministry of Finance approved this methodology and communicated it to all Project participants (MOF Letter of 13 February 2013, No. 31-05010-14-8/4651). MOF recommends that it should be used by all spending units of local budgets when evaluating the efficiency of budget programs. This methodology is to be used for the first time for evaluating the efficiency of budget programs that were implemented in 2012. The methodology provides for using a formula-based approach and common criteria for efficiency of budget programs. Its application will make it possible to prepare an unbiased assessment of budget program efficiency both by key spending unit within the same local budget, and by different local budgets.
- The Project continued delivering a series of training events for new participants of PPB implementation at the local level. In January - March 2013, 14 one-day trainings on PPB implementation at the district budget level were organized. Such training events were delivered for specialists from Odesa, Sumy, Khmelnytskyi, Poltava, Chernivtsi, Cherkasy, Zaporizhzhya, Ivano-Frankivsk, Ternopil, and Kharkiv oblasts. The trainings were attended by PPB implementation coordinators from each region and specialists of the structural units of Finance Directorates in charge of the formulation of departmental indicators of respective budgets. Also, the trainings were attended by the representatives of the State Treasury Service of Ukraine. Altogether, 1,078 local-level specialists passed through training in the reporting quarter, in addition to 1,279 specialists who passed training during Q1 of the Project Year II.
- On 23 January 2013, a working meeting on implementation of the Performance Program Budgeting method of formulation and execution of local budgets was held under the Interdepartmental Working Group on the issues of implementing the National Action Plan. The meeting was attended by the Project staff, the Ministry of Finance of Ukraine and the State Treasury Service specialists. At the meeting, the participants considered how to improve the treasury servicing of PPB-based budgets. In particular, this involved an issue of implementing the generation of reports on execution of local budgets based on the codes of program classification of expenditures and crediting of local budgets. Addressing these issues will make possible to ensure improvement of the State Treasury procedures and promote accessibility of budget information.
- The Project delivered its first workshop for local specialists at the Center for Upgrading the Qualifications of Executive Cadre at the Odesa Regional Public Administration Institute of the National Academy of Public Administration under the President of Ukraine (ORIDU NADU under the President of Ukraine). The workshop was made up of four sessions and was held on 11 through 16 March 2013.
- The Project has analyzed energy expenditures of Myrhorod, Vinnytsya, Ternopil, Alchevsk, and Lutsk cities. The analysis shows that the amounts of energy expenditures are quite high and continue growing every year. Based on the results, the Project has provided recommendations for each city. Among other things, the cities will need to track the condition of buildings in terms of their energy performance.
- The Project has updated its Recommendations on financial incentives to promote the establishment of an effective energy savings system in the public sector. The new Recommendations were presented at the 11<sup>th</sup> Financial and Economic Forum on April 5, 2013.



- The Project held a workshop: *Planning and Evaluation Efficiency, Including That of Energy Performance Projects as a Guarantee for Achievement of Strategic Objectives*. The event took place in Kiev 29 March 2013 and it was attended by the representatives of communal service enterprises and Executive Committees of the City Councils of Zhytomyr, Chernihiv, Lviv, Pavlohrad, and Ivano-Frankivsk. The participants were introduced to the methodology of monitoring and evaluating of the energy performance projects and received recommendations on improving the efficiency of the financial justification of strategic documents by communal service enterprises in the context of city development priorities. Also, the participants shared their experiences of implementing energy performance projects across Ukraine.
- In the reporting timeframe, the Project prepared a total of three monthly monitoring reports on the implementation of State and local budgets for the period from November 2012 to January 2013.
- According to the Treasury's preliminary data, the Project prepared "Budget Monitoring for January-December 2012." The monitoring included an analysis of the latest trends regarding State and local budget execution, as well as an analysis of the legislative acts influencing the budget process approved during the reporting period.
- A meeting of the National Advisory Board on effective public finance management was held on 29 March 2013. The meeting was attended by the MOF and the State Treasury Service. The participants discussed how to amend the program classification and provisional classification of local budget expenditures. In particular, the participants concentrated on discussing the practical aspects of how to monitor and evaluate efficiency in local budget program implementation.
- The Project has prepared an annual publication *Innovative Practices: Local Finance Management – 2012 Results*. The publication contains examples of the results of implementing budget programs and energy saving projects, as well as successes in realizing strategic programs and PPB implementation. 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.
- A roundtable discussion on the topic *The Initial Results from Implementation of the Performance Program Budgeting Method in the City Budget Process* was held in Kalush, Ivano-Frankivsk Oblast, on 21 February 2013. This public event was attended by the deputy corps of the City Council, representatives of the key spending units of the city budget and media. The participants discussed important issues as to PPB implementation, defined efficiency of using budget funds, shared their experience in formulating budget programs, and outlined benefits from efficient monitoring and evaluation. Holding such events provides an open dialog between the government and the general public, engages the public in the management of public finance, and improves budget process transparency.



## List of major activities for the next quarter

- MFSI-II experts and the Ministry of Finance of Ukraine continue working together to implement the Performance Program Budgeting method at the level of local budgets. As part of the budget reform pursuant to the Program of Economic Reforms for the year 2010-2014 entitled "Prosperous Society, Competitive Economy, Effective Government," a series of regional PPB trainings for district-level specialists from all regions of Ukraine envisioned.
- IBSER will provide organizational support to the Ministry of Finance Intergovernmental Working Group and organize its meeting in May 2013.
- MFSI-II experts will complete developing their proposals for improving the existing reporting forms, as well as new forms for the treasury servicing of PPB-based budgets.
- By the end of the next quarter, it is planned to prepare three monthly monitoring reports on the implementation of the State and local budgets for the period from February 2013 to April 2013.
- MFSI-II experts will update the system for monitoring energy-related budget expenditures for the five selected cities.
- present Recommendations on financial incentives to promote the establishment of an effective energy savings system in the public sector at a session of the Financial and Economic in the beginning of April.
- MFSI-II experts will provide consultations on Recommendations on financial incentives to promote the establishment of an effective energy savings system in the public sector, including for development of budget programs and individual investment projects.
- MFSI-II experts will provide consultations to the staff of municipal enterprises on using the methodology of monitoring and evaluating of the energy performance projects and improving the efficiency of the financial justification of strategic documents by communal service enterprises
- By the end of the next quarter, MFSI experts plan to prepare the *Budget Monitoring for January-March 2013*.
- The preparation and organization of a National Advisory Board meeting is scheduled for June 2013.

## Key Milestones and Major Deliverables Summary

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

- Proposals that amend the regulatory and legislative framework as needed to complete PPB implementation for district budgets developed  
*Timeline: January – March 2013*
- The proposals for improving the existing reporting forms, as well as new forms for the treasury servicing of PPB-based budgets developed  
*Timeline: January – March 2013*
- Delivering a series of cluster trainings on PPB budgeting  
*Timeline: January – March 2013*
- Working Group

*Timeline: January 23, 2013*

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

- Report on the number of trainings held and the number of participants attending the trainings with a breakdown by gender

*Timeline: March 11-16, 2013*

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

- Analysis of current budget expenditures on energy resources in five selected cities

*Timeline: January – March 2013*

- Recommendations on financial incentives to promote the establishment of an effective energy savings system in the public sector are designed and presented at a session of the Financial and Economic Forum

*Timeline: October 2012 – March 2013*

- Report prepared on the number of trainings held and the number of specialists who participated in trainings with a breakdown by gender

*Timeline: January – March 2013*

- Consultations to the staff of municipal enterprises on using the methodology provided

*Timeline: January – September 2013*

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

- Monthly monitoring of national and local budget implementations

*Timeline: second week of every month*

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

*Timeline: March 31, 2013*

- Preparation and organization of the National Advisory Board

*Timeline: March 29, 2013*



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- Publication «Innovative Practices of the Local Finance Management»  
*Timeline: March, 2013*
- Support the holding of separate information public events in partner cities  
*Timeline: February 21, 2013*
- Preparation of Electronic bulletin  
*Timeline: January, 2013*



## Tasks and Subtasks

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

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

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

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

The revised methodology was submitted in January 2012 to the Ministry of Finance. The work is currently in progress to finalize and improve the methodology.

***Deliverable: Report on the results of the monitoring and evaluation of the performance of PPB-based budget programs (if the methodology is approved and implemented)***

***Timeline: March 2013***

MFSI-II experts have developed the methodology of comparative analysis of efficiency of budget programs. The Ministry of Finance approved the said methodology and communicated it to all project participants (MOF Letter of 13 February 2013, No.31-05010-14-8/4651). MOF recommended its use to all spending units of local budgets when evaluating the efficiency of budget programs.

The methodology provides for identifying the same criteria for the degree of efficiency for typical budget programs, allows unifying the implementation of efficient evaluation for all spending units of budget funds, as well as uses the same algorithm for the calculation based on a formula approach. This allows automating the preparation of information on the evaluation results and ensuring comparability of evaluation results in all required cross-sections.

Application of a single methodology allows obtaining an unbiased evaluation of efficiency of budget programs both by key spending unit within the same local budget, and by different local budgets.

It will be used by the project participants for the first time when evaluating efficiency of the budget programs which were implemented in 2012. This work will have been completed by the end of the first six months of 2013.

See folder "Deliverables"



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

*Timeline: January – March 2013*

The participants in the NAB meeting of 29 March 2013 decided to test the methodology of comparative analysis of efficiency of budget programs based on the 2012 local budget reporting data. Subject to evaluation will be the budget programs of individual oblast, district, and city formulated based on PPB in 2012.

The results obtained in the course of testing this methodology will be used by MFSI-II experts to prepare their proposals regarding the methods of monitoring and evaluation of performance of the local PPB-based budget programs and submit them for consideration to the Ministry of Finance of Ukraine.

See folder “Deliverables”

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

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

- assist in developing proposals that amend the regulatory and legislative framework as needed to complete PPB implementation for district budgets.
- prepare draft amendments to the joint orders of MOF and line ministries that approved the standard lists of budget programs and their performance indicators for all functions of local budgets.
- prepare updating (if needed) the instruction on using the program classification of expenditures and crediting of local budgets and the standard codifier of local budget programs.
- develop recommendations for the Government of Ukraine for regulating the issues related to the potential impact on the natural environment and public health in new PPB program documents and legislation.

*Deliverable: Proposals that amend the regulatory and legislative framework as needed to complete PPB implementation for district budgets developed*

*Timeline: October 2012 – September 2013*

MFSI-II experts continue their ongoing work to improve the regulatory and legislative framework required for PPB implementation in local budgets of all levels.

The Ministry of Finance of Ukraine issued two orders to amend the MOF Order of 14 February 2012, No. 97. These orders incorporate all the proposals made by MFSI-II experts with regard to amending the Structure of the code of program classification of expenditures and crediting of local budgets and the Codifier of budget programs of local budgets. In particular, the Code of program classification has been supplemented by the Subprogram option, the "budget program code" option is introduced, and all modifications enacted by the previously issued orders of MOF and line ministries are incorporated.

In addition, the proposals of MFSI-II experts are incorporated in the MOF Order dated 23 November 2012 “On amending the Order of the Ministry of Finance of Ukraine of 09 July 2010, No. 679,” which approves the main approaches to implementation of the Performance Program Budgeting method of compilation and execution of local budgets.

The approved amendments will:

- simplify the procedures of budgeting in formulation of local budgets thanks to reduction in the number of budget programs and the performance indicators in these departments;

- raise the level of efficiency in managing the budget process thanks to reducing the time for the formulation of PPB-based budgets;
- increase the transparency of PPB-based budget formulation.

Accomplished (see “Quarterly Report 01 October – 31 December, 2012”)

*Deliverables: Drafts amendments to joint orders of the Ministry of Finance and line ministries that approved standard lists of budget programs and their performance indicators*

*Timeline: October – December 2012*

Amendments have been enacted to the Standard lists of budget programs and performance indicators for the delegated functions in the departments of *Public administration, Social protection and social security, Social protection of family and children, and Physical culture and sport*, as well as similar provisions for the disbursement of expenditures for implementation of own functions of local budgets. The said amendments have been approved by orders of the Ministry of Finance of Ukraine and line ministries. In addition, the experts provided their proposals to modify the Standard lists of budget programs and the performance indicators for the expenditures in the departments of youth and culture.

The issued orders incorporate all the proposals made by MFSI-II experts with regard to reducing the number of budget programs and their performance indicators. The introduced amendments will significantly simplify the budgeting process and raise the level of efficiency in managing the budget process.

Accomplished (see “Quarterly Report 01 October – 31 December, 2012”)

*Deliverables: An updated instruction on using the program classification of expenditures and crediting of local budgets and the standard codifier of local budget programs prepared (if needed).*

*Timeline: April – June 2013*

*Deliverables: The recommendations for the Government of Ukraine for regulating the issues related to the potential impact on the natural environment and public health in new PPB program documents and legislation.*

*Timeline: July – September 2013*

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

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

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



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

Next year, should amendments be made to the PPB methodology for local budgets, IBSER shall:

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

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

*Timeline: January – June 2013*

MFSI-II experts continue their work toward improving the existing reporting forms on the execution of local budgets. Thus, the proposals of MFSI-II experts were incorporated into the modification of forms of financial and budget reports on execution of local budgets approved by Order No.14 of the Ministry of Finance of Ukraine dated 16 January 2013.

To ensure the unity of the budget process in Ukraine and adapt the budget reports to PPB, the MFSI-II Project experts have proposed to modify the program classification and the provisional classification of local budget expenditures. Further elaboration of the classifications is essential for them to be used starting in 2014 for the formulation and execution of PPB-based local budgets. They have also suggested to make appropriate changes to the forms of the State Treasury reports on execution of local budgets.

The abovementioned issues were discussed on 6 March 2013, in the course of a working meeting between the MFSI-II experts and specialists of the State Treasury Service of Ukraine, and approved at a meeting of the National Advisory Board (NAB) on effective public finance management.

The proposed changes will ensure the compilation of reliable and transparent reports based on PPB by offices of the State Treasury Service.

See folder “Deliverables”

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

*Timeline: October – December 2012 and July – September 2013*

MFSI-II experts continue working on improving the procedures of treasury servicing of local budgets.

The Order of the Ministry of Finance dated 25 November 2012, No. 1126 “On amending the Order of the Ministry of Finance of Ukraine of 30 January 2012, No. 60” approved amendments to the forms of budget reports on execution of local budgets, which incorporate the proposals made by MFSI-II experts with regard to improving the existing reporting forms on execution of local budgets.



In addition, at a meeting of the National Advisory Board on the issues of effective public finance management on 25 December 2012, the participants reviewed the experts' groundwork with regard to further ways of improving the treasury servicing of PPB-based local budgets.

Accomplished (see “Quarterly Report 01 October – 31 December, 2012”)

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

*Timeline: October 2012 – September 2013*

On 23 January 2013, as part of operations of the Interdepartmental Working Group on execution of activities on the National Action Plan, a working meeting was held on implementation of the Performance Program Budgeting method of formulation and execution of local budgets.

The meeting participants discussed the proposals made by MFSI-II experts regarding the approaches and directions for further improvement of the regulatory and methodological framework. These changes will be realized when finalizing the software for the State Treasury servicing of PPB-based local budgets, their execution, and generation of consolidated reports.

These changes will provide legislative regulation for the procedure of execution of PPB-based local budgets and will ensure the compilation of reliable and transparent budget reports.

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

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

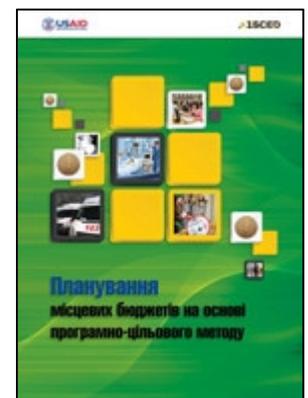
Should any significant changes be made in the methodological framework of Performance Program Budgeting for local budgets, this publication would be amended accordingly. An updated version of the Modern Tools of Financial Planning Handbook will be posted on the IBSER web page and disseminated during PPB trainings.

*Deliverable: The PPB Handbook improved due to changes in legislation (if needed), disseminated, and published on the website*

*Timeline: October – December 2012*

MFSI-II experts have prepared an updated version of the *Planning of Local Budgets Based on the Performance Program Budgeting Method* handbook, which contains the training, normative, and methodological materials required for studying the methods and applying the practices of local budget planning based on the Performance Program Budgeting method. This handbook reflects all the latest changes in the PPB legislation.

Its use will help improve the knowledge of local-level specialists about the modern tools of financial planning. This handbook will be disseminated during PPB trainings for district-level specialists.



Accomplished (see “Quarterly Report 01 October – 31 December, 2012”)



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

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

At the regional level, during the second year of MFSI-II project implementation, IBSER will deliver a series of cluster trainings, which will cover more than 2,000 rayon-level specialists. Thus, since the project launch, the MFSI-II experts have conducted a series of similar PPB trainings. Such trainings were delivered in all oblast centers for specialists of each region, which joined the experiment in 2012. Overall, 2,950 local-level specialists passed through this training, including 2,314 women and 265 men.

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

*Timeline: April – December 2012, July – September 2013*

With support from the Ministry of Finance of Ukraine, IBSER has completed delivery of regional meetings/consultations for participants of the PPB implementation experiment. In October and November, these meetings were held in Lviv, Kharkiv, and Rivne. The meeting participants shared their experience of PPB implementation in local budgets, considered the practical aspects of realization of Phase III of PPB implementation, and were familiarized with the directions for optimization of PPB budgeting at the local level.

In addition, upon request of the Kyiv City State Administration, MFSI-II experts took part in a meeting/training for specialists of municipal institutions, enterprises, and organizations of the city of Kyiv held on 31 October 2012. Among other things, the experts made a detailed presentation to the participants of the special features of PPB implementation in the budget process and PPB use as a tool for evaluating the institutional performance efficiency.

Such meetings were attended by 108 sub-national government entities in the reporting period (See PMP).

As seen from the results of evaluation of experiment's performance in 2012, the number of budget programs approved by local budget resolutions amounts to more than 31,000. In addition, the economy of budget funds totaled UAH 256.0mn as of 1 November 2012, which amounts to 74.9% of the annual plan. These results testify to the effectiveness of the training delivered.

Accomplished (see “Quarterly Report 01 October – 31 December, 2012”)

MFSI-II experts have launched a series of trainings for districts on PPB implementation at the local level. Four one-day trainings on PPB implementation at the local level for specialists from the Kyiv and Luhansk oblasts were delivered in November and December 2012. PPB implementation coordinators from each region and specialists of the structural units of District Finance Directorates in charge of the formulation of departmental indicators of respective budget were engaged in the trainings. More than 200 local-level specialists passed through this training in the reporting period (See PMP).

Accomplished (see “Quarterly Report 01 October – 31 December, 2012”)

MFSI-II experts continued delivering a series of training events for new participants of PPB implementation at the local level. In January - March 2013, 14 one-day trainings on PPB implementation at the district budget level were organized. Such training events were delivered for the specialists from the Odesa, Sumy, Khmelnytskyi, Poltava, Chernivtsi, Cherkasy, Zaporizhzhya, Ivano-Frankivsk, Ternopil, and Kharkiv oblasts. The trainings were attended by PPB implementation coordinators from each region and specialists of the structural units of Finance Directorates in charge of the formulation of departmental indicators of respective budgets. Also, the trainings were attended by the representatives of the State Treasury Service of Ukraine. Altogether, 1,078 local-level specialists passed training in the reporting quarter, with 1,279 specialists who passed training in Q1 of the Year II of MFSI-II Project (See PMP).

**Regional training on implementation of the Performance Program Budgeting method of planning and execution of local budgets, the city of Khmelnytskyi, 14 February 2013**



The training made it possible to formulate all the district budgets based on PPB for the first time in 2013. Thus, all the budgets of oblast-significant cities, oblast and district budgets (692 local budgets, see PMP) will be transferred to this modern planning method, which would allow generating a beneficial social and economic impact from utilization of budget funds.

**Regional training on implementation of the Performance Program Budgeting method of planning and execution of local budgets, the city of Cherkasy, 6 March 2013**



See folder "Deliverables"

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

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

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

In order to provide quality methodological support to the delivery of trainings, IBSER will develop the relevant methodology and modules for PPB training materials. These modules will contain, among other things, recommendations for local governments that address the environmental protection and healthcare problems in their strategies and development budget programs, as well as the methodology of



medium-term budget projection. IBSER will present a draft module for DIALOGUE project and will take into consideration its feedback.

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

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

*Timeline: January - March 2012*

The Order of the Ministry of Finance of Ukraine of 6 June 2012, No. 687 “On approving the Instruction on preparation of budget requests” contains the proposals of MFSI-II Project experts developed under this task with regard to the methodology of cost and credit provision for the planning year and two subsequent budget years by key spending units of local budgets.

Thus, the Instruction requires that the calculation of ceilings and indicative forecast indicators should be carried out, among other things, with due account to the following:

- the subsistence level and the level of its provision;
- the minimum wage amount and official pay rate of Tariff Grade I employee under the Unified Tariff Pay Scale of Grades and Coefficients for remuneration of the staff of institutions, establishments, and organizations in individual departments of the budgetary sphere;
- forecast prices of energy and tariffs for communal services;
- the need for inclusion of new (compared to the current budget period) priority expenditures, including those of periodical nature;
- the need for optimization of costs incurred by key spending units, including by means of concentration of resources in the priority areas, reduction of any secondary and exclusion of inefficient costs etc.

Also, the Instruction stipulates that a key spending unit shall allocate the ceiling and indicative forecast indicators by budget program with due account for the priorities of country’s socioeconomic development its activities are intended to implement and the strategic objectives set out in its action plans for the planning year and two subsequent budget periods.

Calculation of the amounts of expenditures and credit provision for the planning and subsequent two budget periods according to the Instruction shall be carried out by key spending units, among other things, with due account for the following:

- normative-legal acts, which regulate activities of a key spending unit in a relevant department;
- obligations under agreements/contracts;
- norms and standards;
- periodicity of implementation of individual budget programs, as well as of the individual activities, which are being implemented as part of budget programs;
- the level of priority of expenditures, with due account for the real budget capacity;
- the results of evaluation of the efficiency of budget programs conducted with due account for the methodological recommendations on efficiency evaluation of budget programs set out by the Ministry of Finance, and the conclusions regarding the results of the supervisory actions



taken by the bodies authorized to implement the supervision over observance of the budget law;

- prices and tariffs of the current year of the relevant goods (works, services) whose procurement is expected under a budget program;
- the quantity and cost drivers, which influence the amount of expenditures and credit provision in the planning and subsequent two budget periods.

It is also stipulated that the quantity drivers shall include, among others, the standard number of staff, number of students, number of budgetary institutions, number of disabled persons, pensioners etc. The cost drivers include consumer price indices and producer price indices, prices/tariffs of goods (works, services), subsistence level and the degree of its provision, the amounts of minimum wages and official pay rate of Tariff Grade I employee according to the Unified Pay Scale etc.

The amount of capital expenditures shall be determined taking into account the planned scope of works according to the construction documents, degree of construction readiness of facilities, quantity of the available equipment and durable goods, and the degree of their physical depreciation and obsolescence. The factors, which could be taken into account when determining the amount of capital expenditures, shall be determined by the key spending unit independently, with due account for special departmental conditions.

As regards the development of the medium-term forecast amount of expenditures for local budgets, the Ministry of Finance Letter of 23 November 2012 stipulates that the Instructions for preparation of budget requests shall be issued by local finance agencies in the form of orders. According to the Ukrainian rule-making practices, the local finance agencies will be using the above-mentioned Instruction at the national level as a template.

Accomplished (see “Quarterly Report 01 October – 31 December, 2012”)

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

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

Deliverable: Annual experiment progress reports

Timeline: March 2013

To enable monitoring of the status and results of PPB implementation at the local level, all the participants have provided their information on the work completed as of 1 November 2012 (The Ministry of Finance Letter of 14 November 2012, No. 31-05010-14-8/27459 “On the status of PPB implementation at the local level”). Based on these data, MFSI-II experts have compiled a ranking by determining the percentage of implemented budget programs achieving expected results, reductions in the cost of local government services achieved due to PPB implementation, percentage of government units where regular budget program monitoring and evaluation is conducted (See PMP).



Also, the results of evaluation of the PPB implementation in local budgets were highlighted at a meeting of the National Advisory Board on the issues of effective public finance management on 25 December 2012.

Accomplished (see “Quarterly Report 01 October – 31 December, 2012”)

Also, according to the Ministry of Finance letter of 14 November 2012, No. 31-05010-14-8/27459 “On the Status of PPB Implementation at the Local Level,” information was gathered regarding the status and results of PPB implementation at the local level as of 1 January 2013. Using these data, MFSI-II conducted grouping and summarized the project’s results in implementation of PPB in 2012. Thus, the participants approved almost 31,700 budget programs, including 2,600 programs with indicators for economy of budget funds. Based on the results of their execution, savings of nearly UAH 410mn ?? were achieved.

The summary on the monitoring of the status and results of PPB implementation at the local level was sent to the Ministry of Finance of Ukraine for consideration.

See folder “Deliverables”

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

*Timeline: monthly*

New set of questions (fifteen for the reported period) with experts answers related to PPB has been placed on the site, the information is regularly updated. In general, 92 answers to PPB questions have been prepared and posted on the website since the launch of the MFSI-II Project.

See folder “Deliverables”

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

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

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

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

*Deliverable: Developed recommendations*

*Timeline: November 2012, February 2013, May 2013, September 2013*

On 19 October 2012, MFSI-II experts took part in a meeting of the Public Finance Reform topical working group chaired by the Director of the Department of Territorial Budgets Ye.Yu. Kuz’kin. The



meeting concentrated on discussing the realization of actions in the 2012 National Action Plan. The meeting participants made a special focus on considering the issue of PPB implementation at the local level. In particular, the working group members discussed the matter of approval of budget programs by the participants of the PPB budgeting experiment. Based on the discussion results, the meeting participants provided their recommendations for summarizing the statistical information on the number of budgets and budget programs approved according to PPB.

In addition, the meeting participants noted the importance of efforts towards improving the Standard lists of budget programs and of amending the relevant regulations. MFSI-II experts are actively participating in this work, preparing their proposals and coordinating amendments to the normative-legal acts in collaboration with line ministries. The implemented work is reflected in the joint orders issued by MOF and other governmental ministries. Improving the Standard list will make it possible to reduce the number of budget programs and their performance indicators. This, in turn, will help increase the efficiency of formulation and execution of PPB-based local budgets, shorten the time required for preparing a PPB budget by specialists of local finance bodies. Thus, this will improve the budget process transparency, efficiency of using the budget funds and their economy. Achievement of the set objectives is fully in line with the goals and objectives of the MFSI-II Project.

Based on the results of the working group meeting, its participants have come to the conclusion about the need of continuing the work toward implementing PPB budgeting at the local level and have noted a high-level participation of IBSER in this process.

Accomplished (see “Quarterly Report 01 October – 31 December, 2012”)

On 23 January 2013, a working meeting on implementation of the Performance Program Budgeting method of formulation and execution of local budgets was held under the Interdepartmental Working Group on the issues of implementation of the National Action Plan.

The meeting was attended by MFSI-II experts, specialists of the Ministry of Finance of Ukraine and the State Treasury Service.

The meeting participants discussed the proposals of MFSI-II experts with regard to the topical issues of improving the treasury servicing of PPB-based budgets. In particular, this involved the issue of implementing the generation of reports on execution of local budgets based on the codes of program classification of expenditures and crediting of local budgets.

Based on the results of this meeting, the Ministry of Finance of Ukraine signed a protocol. This protocol has actually initiated a new phase in PPB implementation at the local level. Phase I was aimed at creating the legislative foundations and piloting the planning of PPB-based local budgets. At the same time, the said protocol launched the activities of building a methodological framework, which would regulate the execution of local budgets in the PPB format. This primarily applies to the State Treasury servicing of local budgets and generation of consolidated reports.

Addressing these issues will make it possible to ensure transparency in execution of local budgets, improve the State Treasury procedures, and facilitate accessibility of budget information.

See folder “Deliverables”

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

To implement this task, IBSER will carry out:

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

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

*Timeline: April – June 2013*

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

*Timeline: Ongoing process*

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

*Deliverable: Analysis of the Budget Law for the respective year*

*Timeline: December 2012*

The MFSI-II Project experts have analyzed the Main Characteristics of the Law of Ukraine “On the State Budget of Ukraine for the Year 2013.” Among other things, this law contains the following characteristics:

- Analysis of the 2013 budget shows some **positive features of the legislative draft and improved transparency of budget formulation**. This, first of all, applies to the fact that the next year will preserve the trends of recent years and the budget law does not introduce any changes to the tax and other laws. Besides, a detailed information used by the Ministry of Finance for calculations of both the State and local budgets is submitted alongside the draft budget.

- The basis for budget calculations is the **Nominal GDP** forecast for 2013 of UAH 1,576bn. This figure is 5.1% higher than the indicator used for the formulation of the 2012 budget, and 10.7% higher than the expected 2012 indicator. Thus, a moderately optimistic scenario is used for setting the key budget indicators, which envisages a beginning of renewal of economy's growth. **The Consumer Price Index** is projected at 4.8%.

- **Based on the projected slowing-down of the economy, it is proposed to more than halve the growth of the minimal social standards**. The growth in minimum wages and subsistence level for employable persons is set at 5.0%. (Increase in minimum wages amounted to 14.0% in 2012, 8.4% in 2011, and 38.1% in 2010<sup>1</sup>.) At the end of the year, the minimum wage will reach UAH 1218 and will exceed the average subsistence level by 3.6% (or UAH 42), as is the case this year. This is a positive fact, even though as mentioned by MFSI-II Project experts earlier, such an excess is not sufficient for ensuring a balance between the labor remuneration fund and social allowances. The experience of European

<sup>1</sup> This growth averaged about 20.0% in 2007-2009.



countries shows that the minimum wage level should exceed the subsistence level by at least 2.5 times. However, a greater than budgeted increase in the minimum wage level would only be possible with growth in the productivity of labor. Otherwise, such an increase would only become a driver of inflation.

- According to the underlying macroeconomic indicators, the State budget revenues are planned at UAH 362.8bn and expenditures at UAH 412.0bn. Also, the development expenditures are reduced by 42.2% to UAH 40.5bn

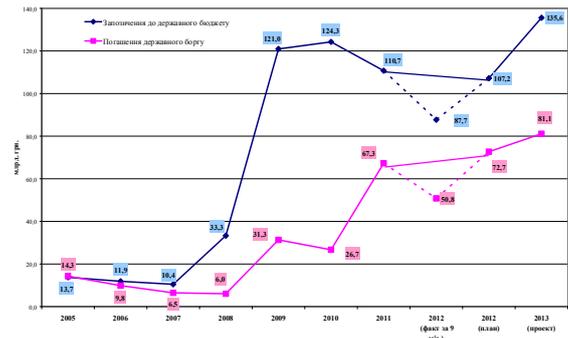
- **The State budget deficit** totals UAH 50.5bn or 3.2% of GDP (vs. 2.6% as planned for this year). This indicator is UAH 11.7bn or **30.1% more than the current year's deficit**. Also, a **positive trend of 2011-2012 towards narrowing the gap between the borrowing amount and debt repayment has reversed towards widening this gap**. It is proposed to increase the borrowing amount by 26.5% to UAH 135.6bn. **This borrowing amount will be the highest in the last eight years.**

- **The share of expenditures for State debt repayment and servicing will increase by 2.3ppt in 2013 compared to this year<sup>2</sup>, up to 23.0% of all budget expenditures. Compared to the pre-crisis year 2008 (as well as under comparable conditions), this indicator increased 3.6 times.** In 2014-2016, even without accounting for any borrowing to be undertaken in these years, the State debt repayment and servicing expenditures will increase by 16.7%, 23.9%, and 20.7%, respectively, compared to 2013<sup>3</sup>. This, as well as the allocation of the borrowed funds to satisfy current needs would increase the budget debt burden in subsequent years. In other words, if no urgent action to cut budget spending is taken, to make all the payments under the State debt, either funds would have to be diverted, mainly from the investment expenditures, which are one of the drivers of economic growth, or new borrowing would have to be incurred.

- Unlike this year's situation, the 2013 budget deficit will exceed the planned development expenditures by UAH 10.0bn or by 24.6%. Therefore, **the borrowed funds will be partially used for current needs of the State** in 2013. Let us recall that in the current year, the planned deficit makes up nearly a half of the planned development expenditures, i.e., the borrowed funds are mainly allocated for public investments.

- The draft State budget envisages **the provision of State guarantees** for the total amount of UAH 50.0bn, which is UAH 29.4bn less than planned for this year. The reduction in the total amount could be explained, among other things, by absence of the need to provide guarantees for preparations for the Euro-2012 Championship. However, **it is planned to provide some portion of the guarantees to key spending units for implementing capital expenditures in excess of the budget apportionment. Such guarantees present a hidden budget deficit and imply a threat of budget's getting out of balance in the medium term.** Thus, the essence of the concept of "State guarantee" consists in that the State guarantees repayment of borrower's debt if the borrower is unable to do so on time. Such an instrument of State support is used for the real sector of economy, where a borrower has its own sources of income at the expense of which he could repay the debts. The risk of emergence of the guaranteed event for the State budget needs to be removed as much as possible. In this case, however, the borrowers are government ministries and agencies, which have no income of their own, with the State budget funds being the only source for repayment of such debts. Notably, the authorization to take obligations "in excess of the budget apportionment" means "in excess of the 2013 budget balance."

Amounts of State Budget Borrowing and State Debt Repayment in 2005-2013



<sup>2</sup> The debt servicing expenditures include expenditures for compensation of the depreciated personal deposits, as envisaged in the 2013 draft budget.

<sup>3</sup> As per Explanatory Note attachment "The debt and guarantee obligations until full repayment"

- Similarly to previous years, the planned **revenues from privatization of State property** could contain the risk of budget shortfall. Let us recall that the plan for this indicator was implemented at 17.2% in 2010, was exceeded by 14.8% thanks to sale of Ukrtelecom in 2011, and was executed at 54.0% for nine months of this year. The amount of UAH 10.9bn is planned for the next year. Therefore, every effort will have to be made for the planned funds to reach the budget.

- **This is the first budget of Ukraine prepared with a reduction of budget indicators for revenues**, which is a reflection of the slowing-down of economic growth. Thus, the 2013 State budget revenues total UAH 361.2bn (without transfers), which is 5.4% less than the 2012 approved plan.

- A growing fiscal pressure on the economy was noted in recent years, as reflected in increasing the **share of GDP redistribution** via consolidated budget from 30.3% in 2011 to 32.0%<sup>4</sup> this year. At the same time, a reduction of this indicator to 29.4% is envisaged in 2013, which is 2.6ppt less than the planned revenues of the consolidated budget (with revisions) for 2012. **This reduction could be explained by two factors: a reduction of tax rates, in particular, a reduction of the profit tax rate from 21% to 19%, and down to 5% for software industry entities, as well as the expected underfulfillment of the annual plan this year.**

- The 2013 budget accounts for the reduction in revenues from the **enterprise profit tax** by 3.6% from that expected this year. This is explained by both a reduction of the tax rate as of 1 January 2013, and a transition to the annual payment of the tax, with introduction of the system of mandatory advance payments.

- The growth in revenues from the **value-added tax** is planned at moderate rates (+8.5%), with a simultaneous increase in budget refunds by nearly a quarter (+24.0%). At the same time, the draft provides for increasing such an indicator as VAT on goods made in Ukraine by 5.6% of that planned (with revisions) for 2012. However, it is from this component of the tax that the largest shortfall could be expected this year at the amount of UAH 12.7bn or 13.4% of the plan. Therefore, the actual increase for this item is planned at 18.2% for 2013, which, in the light of the expected GDP (10.3%) and inflation (4.8%) growth rates, appears too optimistic.

- According to the Explanatory Note, the **local budget revenues** in 2013 (without transfers) are planned by the Ministry of Finance at UAH 103.1bn, which is 5.3% more than the plan approved by local councils for 2012. **The personal income tax** continues to retain its position as the largest source of revenues for local budgets. The forecast for revenues from this tax is UAH 69.8bn, which is nearly 10.7% more than the 2012 plan. According to the monthly dynamics of revenues, the expected execution of the personal income tax will amount to about UAH 60.0bn in 2012. Thus, a 16.4% increase of this indicator is planned for 2013 compared to the expected level of this year. In the environment of increase of the nominal GDP by 5.1%, increase in minimal wages by 5.0%, and overall growth of labor remuneration fund by 5.1%, the forecast indicator for the main source of revenues of local budgets for 2013 is overstated by about UAH 6.5bn.

As of 1 January 2013, a new tax payment called the "**tax on immovable property** other than a plot of land" will be introduced. The draft envisages the revenues from its administration at UAH 75.1mn. These funds amount to 0.07% of all local budget revenues (without intergovernmental transfers). Such a minor amount of the planned revenues from this source shows that the enactment of this tax could not be justified by fiscal considerations. Therefore, there is a pressing issue of reconsidering the approaches to taxation of immovable property, as was repeatedly stressed by experts of the MFSI-II Project.

Also, **the Ministry of Finance forecasts a 55.7% growth in local taxes and fees** for 2013. Their total amount is set at UAH 5.3bn vs. UAH 3.4bn planned for 2012. In this case, the single tax is the main source, which has to provide UAH 4.6bn in revenues. The changes made by the Tax Code of Ukraine,

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<sup>4</sup> According to the 2012 annual plan (as amended)

which incorporated the proposals made by MFSI-II experts with regard to administration of this tax will make it possible to ensure this level of actual intake of local taxes and fees next year.

- According to the Constitution of Ukraine and the Law “On Local Self-Government,” the spending directions and items of local budgets are set by local governments independently. At the same time, according to the presented calculations of the Ministry of Finance of Ukraine prepared for the draft law, **the local budget expenditures of the General Fund and Special Fund** (without transfers) will total UAH 218.9bn, which is only 1.4% more than the 2012 plan. When calculating current expenditures of local budgets without taking the social subventions into consideration, a growth of 2.5% is assumed. Taking into account the planned inflation level of 4.8%, local governments will be unable to finance current operation of budgetary institutions even at this year’s level and will have to cut their capital expenditures even more. The shortage of funds is estimated at about UAH 3.5bn.

**The transfers will total** UAH 118.6bn in 2013, which is 4.7% more than the 2012 plan. The Analytical Note to the draft budget mentions a sharp reduction of capital subventions (by 59.6%). In the final version of the law, the amount of capital transfers is increased (at the expense of cutting the funds of the State Regional Development Fund). It now totals UAH 3.9bn, which is 40.7% less than the 2012 plan.

Therefore, a hidden deficit of local budgets pointed out by the MFSI-II experts remains at the level of UAH 10.0bn.

Accomplished (see “Quarterly Report 01 October – 31 December, 2012”)

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

*Deliverable: Analysis of the changes to the Budget Law*

*Timeline: Depending on the date of law adoption.*

*Deliverable: Analysis of the Changes to the Tax Code, land laws, and other laws related to local budgets, which could affect their revenues and resources prepared*

*Timeline: Depending on the date of law adoption*

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

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

MFSI-II experts will carry out an analysis of the budget legislation that promote local level strategic planning and enable local governments to attract the private sector resources for the local infrastructure development projects. Based on this analysis, if necessary, IBSER will prepare draft changes to the



legislative and regulatory framework, will submit them for roundtable / meeting of NAB discussion, and will develop the strategy for promoting these changes

*Result: Development of draft changes to the legislation and regulations*

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

*Timeline: April – June 2012*

*The experts continue developing and reviewing changes to the budget legislation, which would allow local governments attract resources of the private sector for implementation of infrastructure improvement projects.*

Striving to assist cities in attracting resources of the private sector for implementation of infrastructure improvement projects, MFSI-II experts conducted three working meetings with the Public Private Partnership Development Program (P3DP) as part of the Memorandum of Cooperation signed by the Institute for Budgetary and Socio-Economic Research and P3DP on 2 October 2012. They also took part in a roundtable to discuss the Draft PPP Development Strategy in Ukraine for 2012-2017 and the Action Plan on 6 November 2012.

Based on the results of these meetings, the experts have identified barriers to PPP development, including:

- lack of monitoring of the consumption of energy resources (electric power, heat, hot and cold water) by individual buildings, which accommodate budgetary institutions, and lack of systems for measurement and verification of the economy of these resources. This primarily prevents from attracting the private initiative to the energy saving activities in the budgetary sphere, where it is envisaged to make payments to the private partner at the expense of the achieved economy in energy costs;
- uncertainty as to the status of obligations undertaken by local governments, which should emerge in the framework of PPP agreements, and, accordingly, lack of the guaranteed performance by the public partner under these obligations in future. This creates a situation, where there is a low level of protection for the private partner and, therefore, its low interest in realization of infrastructure improvement projects;
- absence of practices of reflecting the revenues to relevant budgets in kind, as the result of acceptance by spending units of works and services on the condition of payment for them in subsequent years (commercial credit), and other issues.

In order to remove the said barriers, MFSI-II experts have updated their proposals for amendments to the Budget Code of Ukraine (see previous version of the proposals in the Report for April-June). Thus, the new amendments propose to introduce the concept of State/local contingent debt obligations, provide a comprehensive approach for maintaining the amount of local debt obligations and obligations under local contingent debt at an economically safe level, include the indicator of local contingent obligations in the projected indicative indicators of a local budget when making a local budget forecast for the two budget periods following the planning period etc.

The system for monitoring energy-related expenditures based on the PPB method for selected cities developed under Task 2.1 will also contribute to the removal of barriers to PPP development for implementation of infrastructure projects.

The prepared amendments to the Budget Code of Ukraine have been forwarded to all stakeholders for review.

Accomplished (see “Quarterly Report 01 October – 31 December, 2012”)



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

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

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

*Timeline: Ongoing process*

*Result/ Deliverable:*

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

*Deliverable: The proposals based on the analysis findings prepared (if changes are approved)*

*Timeline: October – December 2012 and April – June 2013*

The Law of Ukraine “On the State Budget of Ukraine for the Year 2013” provides for establishment of the Regional Development Fund as follows:

- UAH 987.5mn will be allocated for financing of programs and projects of socioeconomic development of the regions;
- UAH 300.0mn will be allocated for servicing and repayment of debt obligations for the credits obtained under State guarantees, which are used for realization of tasks and activities of the State Regional Development Fund.

However, according to provisions of the Budget Code of Ukraine, not less than 1 percent of the projected amount of revenues of the General Fund of the draft State budget of Ukraine for the relevant budget period must be allocated for accumulation into the Regional Development Fund. Based on this, the 2013 Regional Development Fund should have amounted to more than UAH 3bn. The actual amount provided in the budget is less than UAH 1.3bn.

Accomplished (see “Quarterly Report 01 October – 31 December, 2012”)

The Resolution of the Cabinet of Ministers of Ukraine No. 30 of 23 January 2013 amended the Procedure for preparation, evaluation, and selection of the investment programs/projects, which can be implemented at the expense of resources of the State Regional Development Fund.

Among other things, the minimal cost of the investment programs to be implemented in oblast-significant cities was reduced to UAH 1mn (previously, this cost had to be UAH 5mn at a minimum). In addition, the minimal cost of the investment programs intended to address the problems of one or more territorial communities (district-significant cities, villages, settlements) was reduced from UAH 1mn to UAH 0.2mn.

These changes will make possible to implement small investment projects and programs of local significance at the expense of resources of the State Regional Development Fund.

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

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

- Based on the strategy to establish a sustainable PPB training program(s) in Ukraine developed in the first year of project implementation, IBSER will organize and select one or two post-graduate educational institutions, which are capable of and interested in delivering PPB training sessions. With IBSER's support, these organization(s) will develop and adopt the PPB training curriculum and materials and will conduct PPB training sessions to support the introduction of PPB at the local level. During phase one, MFSI-II experts will organize and deliver PPB trainings for specialists of this/these organization(s).

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

*Timeline:* October 2012 – March 2013

In order to implement the task, the MFSI-II Project experts addressed a letter in the reporting period to the President of the Academy of Financial Management under the Ministry of Finance of Ukraine T.I. Yefymenok asking to consider a possibility of setting up a system of retraining and training for public servants at the Academy of Financial Management. No reply was received in the reporting period.

Also, the MFSI-II Project experts sent a letter to the Ministry of Finance of Ukraine asking to set up a working meeting to discuss the ways for launching a process of retraining and raising qualifications of public servants on the issues of PPB-based formulation and execution of local budgets.

Accomplished (see “Quarterly Report 01 October – 31 December, 2012”)

***Sub-task A.1.2: Help those training centers to develop a PPB training curriculum and PPB training materials and to conduct at least 50 PPB training sessions for relevant GOU officials***

- IBSER will hand over the PPB Handbook developed under Sub-task 1.1.4 to the selected training centers and will assist with the PPB training curriculum, as well as conduct at least 50 PPB training sessions with the specialists of such training centers. During the second year of project implementation, MFSI-II experts will deliver at least 10 PPB training sessions with the specialists of such training centers.

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

*Timeline:* April – June 2013

IBSER consultants conducted training for local specialists at the Center for Upgrading the Qualifications of Executive Cadre at the Odesa Regional Institute of Public Administration of the National Academy of Public Administration under the President of Ukraine (ORIDU NADU under the President of Ukraine). There were four trainings delivered in the period of 11 - 16 March 2013.

The trainings were attended by the local government officials from the Autonomous Republic of Crimea, Vinnytsya, Mykolaiv, Odesa, and Kherson oblasts, and the city of Sevastopol (14 men and 10 women).

Work is also being completed with regard to signing a Memorandum of Cooperation between the Dnipropetrovsk State Financial Academy and the Institute for Budgetary and Socio-Economic Research. A Draft Memorandum signed by IBSER has been forwarded to the higher educational institution for signing. The Work Plan and Draft Training Schedule are to be agreed upon after signing of the Memorandum.

At the same time, preliminary selection of other training centers is currently in progress with the aim of signing the relevant memoranda on delivery of PPB trainings.

See folder “Deliverables”

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

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

- IBSER will improve the unified methodology developed during the first year of project implementation and will select four Ukrainian cities for the second year of the project. IBSER will coordinate selection with MHR, Public Private Partnership Development Program and Developing Initiative for Advocating Local Governance in Ukraine (DIALOGUE).
- To assist the cities in developing well-founded energy efficiency programs, IBSER will develop a system of monitoring of energy expenditures based on PPB method for the selected four cities, which will be based on similar system developed for the cities selected for the first year of the project. In order to implement this system and based on the experience of MFSI-II Project accumulated in the first year of implementation, IBSER will prepare the training materials on implementation of the said system and will conduct training for specialists of key spending units in the four cities selected for its application.

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

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

*Timeline: January – March 2013*

*Continued collaboration with the Year One project cities.*

Thanks to collaboration of MFSI-II experts with the Year One project cities, two more cities, Lviv and Horlivka, received NEFCO credits for implementation of their energy saving projects in the reporting period.

The Joint Energy Saving Program in the City of Lviv project will be implemented in Lviv. The



project intends to upgrade the street lighting and renovate municipal buildings. It is planned to install LED lighting fixtures, replace window panes, improve thermal insulation of pipelines, provide heat insulation to roofs and walls, modernize the heating systems of buildings, and set up a new heat point. It is expected that implementation of this project would allow to save 1113MWh of electric power per year and cut the CO<sub>2</sub> emissions by 512.8 tons and SO<sub>2</sub> emission by 30.8 tons per year.



The city of Horlivka will realize the Modernization of Street Lighting in the City of Horlivka project. This project involves replacement of 1100 incandescent lamps currently used for street lighting in the city with high-pressure sodium lamps. Such lamps combine a higher luminosity with a lower energy consumption. It is expected that implementation of this project would save 544MWh of electric power per year and reduce CO<sub>2</sub> emissions by 436 tons per year.

Another achievement of MFSI-II experts in cooperation with the cities in the reporting period involved getting an approval by the city of Zhytomyr of its municipal guarantee for the Development of the Zhytomyr City Heating System project under a new procedure. This new guarantee approval procedure requires approvals not just by the Ministry of Finance, but also by the Cabinet of Ministers of Ukraine.

The new Zhytomyr city project is designed to increase the operational reliability of the municipal Zhytomyrteplokomunenergo heating utility, reduce energy consumption, and improve the quality of provided heating and hot water supply services to city residents by developing the Zhytomyr municipal heating system. Implementation of the project will have a significant social and economic impact for the city, including the estimated:

- reduction of natural gas consumption by 8 million cu m per year;
- reduction of electric power bills by UAH 12.0mn per year;
- reduction of operating costs (repair and maintenance) by UAH 3.0mn per year.

The total economic effect after implementation of the project will amount to UAH 31.9mn per year, and the city residents will benefit from stable and reliable heating service.

The city of Zhytomyr sent thank you letter for the methodological and advisory assistance provided by MFSI-II experts.

Accomplished (see “Quarterly Report 01 October – 31 December, 2012”)

MFSI-II experts have analyzed the energy expenditures of municipal budgets in 2008-2011 and noted that the expenditures for heating, electricity, and natural gas were growing every year.

Heating costs account for the largest share in the overall structure of energy expenditures of the cities of Alchevsk, Myrhorod, Lutsk, Vinnytsya, and Ternopil.

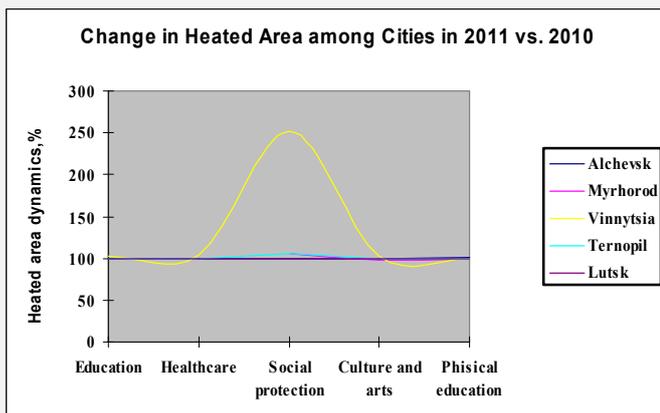
The department of education accounts for the largest percentage in expenditures for communal services and energy for all cities, immediately followed by the public health sector.

Variations in terms of heat consumption per 1,000m<sup>2</sup> of heated area are observed between the cities. This could be due to presence of buildings with low heat resistance due to old age and lack of major repairs.

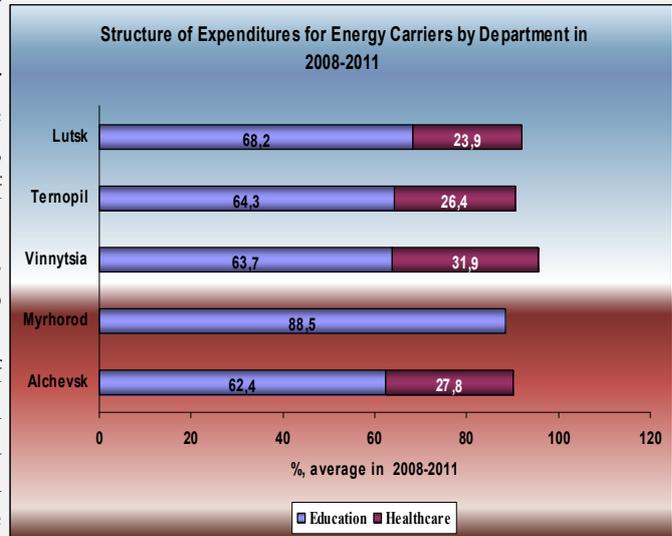
The analysis of energy expenditures shows significant variations in the ratio of heated area to the number of persons served by institutions.

The analysis of dynamics of the heated area of budgetary institutions in the cities in general in 2010-2011 shows that it largely remained unchanged, while the expenditures for communal services and electricity increased. This confirms the fact that increased energy expenditures are not

**Change in heated area among cities on 2011 vs. 2010**



**Structure of expenditures for Energy Carriers by Department in 2008-2011**



linked to increases in the heated area, but mainly to the increased cost of respective services.

The analysis of heat consumption per one square meter of heated area by budgetary institutions in 2011 shows that heat consumption differed for each city (in particular, the indicators varied depending on the population size, size of network of budgetary institutions etc.).

Heating accounts for the largest percentage in the general structure of energy expenditures of Alchevsk and Ternopil (45.1% to 45.7% in Alchevsk, and 70.9% to 76.3% in Ternopil in 2008-2011). Electricity is the second largest expenditure item, with its average share of 11.7% and 13.9% in

the last four years for Alchevsk and Ternopil, respectively.

In the overall structure of energy expenditures of Vinnytsya and Lutsk, heating also accounts for the largest share (75.6% to 78.1% in Vinnytsya, and 67.7% to 77.7% in Lutsk during 2008-2011). Electricity expenditures present the second largest item (similarly to the previous cities), with their share amounting to 12.7% for Vinnytsya and 13.6% for Lutsk on average within the last four years.

As regards to Myrhorod, it also follows the trend of the previous cities. Heating accounts for the largest share in the city's energy expenditures (from 63.9% in 2008 to 70.1% in 2011), electricity costs being the second largest, and their share in the overall structure of energy expenditures amounted to 11.4% on average in the past four years.

The common recommendations for the project cities (Alchevsk, Lutsk, Vinnytsya, Ternopil, and Myrhorod):

1. When monitoring and evaluating city's energy expenditures, one should compare indicators under comparable conditions, e.g., in comparable prices with regard to expenditures.
2. When finalizing the system of monitoring and evaluation of city's energy expenditures, provision should be made for tracking the condition of premises, in particular, their energy performance.
3. Certain standards need to be applied with regard to the ratio of heated area to the number of persons served by institutions (or to the number of full-time staff for the institutions, which provide



administrative services). Analysis of such indicators in the course of monitoring and evaluation will make it possible to analyze the efficiency of use of the premises accommodating the budgetary institutions.

4. The interrelation between the decrease/increase in the volume of consumption of communal services and energy and the energy saving activities, worsening condition of the premises, weather conditions etc. should be provided with a documented justification.

See folder “Deliverables” (analyses for individual cities and a consolidated analysis for the five cities)

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

*Timeline: October – December 2012*

The selection of cities for participation in the second year of the MFSI-II Project has been conducted according to an improved version of the selection methodology developed in the first year of the Project.

Based on the competition results, the cities of Ternopil, Vinnytsya, Myrhorod, Alchevsk, and Lutsk have been selected and the Memoranda of Cooperation have been concluded with these cities.

The issues of energy efficiency and energy saving are appropriately reflected in the policies of respective city councils of the selected cities. For example:

- a municipal energy saving program for 2012-2015 approved in Myrhorod;
- energy efficiency and energy saving programs for 2010-2020 are being implemented in Vinnytsya and Ternopil, and Vinnytsya also has a municipal energy plan;
- in addition to its energy efficiency program approved for 2011-2015, the city of Alchevsk has a concept of sustainable energy development policy;
- in Lutsk, in addition to implementation of its municipal energy plan, a sustainable energy development plan until the year 2020 is being developed.

The cities must not only strive to improve their energy efficiency, but should also undertake practical energy saving activities/projects. Therefore, the existence of such projects was one of the criteria in the city selection. All the chosen cities meet this criterion, for example:

- the project “Improving the energy efficiency of Ternopil city social facilities through development and implementation of a long-term mechanism of renewable financing of capital investments in modernization of buildings and essential infrastructure systems of budgetary institutions of the Ternopil City Council” (Ternopil);
- the project “Reconstruction of Myrhorod city heating system with utilization of alternative sources of energy in 2008-2013” (Myrhorod), and others.

Collaboration of the cities with the MFSI-II Project will help the cities to improve their energy efficiency, will facilitate establishment of an effective energy saving system in each of the selected cities, in particular, through experts’ development of a system for monitoring of energy expenditures for the cities, and financial incentives for energy saving in the budgetary sphere. The participation of city representatives in the seminars, working meetings, and other events organized by the MFSI-II Project will create opportunities for experience-sharing and for learning from the best domestic and international practices of improving the energy efficiency at the local level.

In the reporting period, the selected cities were actively collaborating with the MFSI-II experts. The cities are providing detailed information about their budgets with regard to expenditures for communal services and energy, and their consumption in the last four years, and information required for assessing the cities’ capacity to attract funds for implementation of energy saving projects.

Based on the results of analyzing the said information, the MFSI-II experts prepared their

assessments of the creditworthiness of the cities of Myrhorod, Lutsk, Ternopil, Vinnytsya, Alchevsk and made the relevant conclusions. Creditworthiness conclusions contain, among other things, a review of the sources of revenues of municipal development budgets, structure of expenditures, which reflects municipality's ability to allocate resources for the development needs etc. When conducting these analyses, the MFSI-II experts noted a growth in the development budget revenues of Lutsk, Myrhorod, and Ternopil in the last three years, and improvement in the level of its execution. Another positive factor consisted in a timely repayment of short-term loans by all the cities, whose creditworthiness was evaluated.

The general conclusion to be drawn from the conducted assessment of creditworthiness of the cities is that the development budgets of Lutsk, Myrhorod, Ternopil, Alchevsk and Vinnytsya are sufficient for annual repayment of local debt or for performance of guarantee obligations in case of a guaranteed event within the amounts required for implementation of their planned energy saving projects.

Experts of the MFSI-II Project carry out analysis of the cities selected for participation in the second year of the Project in terms of their current budget expenditures on energy resources.

Accomplished (see "Quarterly Report 01 October – 31 December, 2012")

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

*Timeline: April – June 2013*

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

*Timeline: July – September 2013*

### **Task 2.2: Assist in designing and implementing financial incentives to promote the establishment of effective energy savings systems in the public sector**

- IBSER experts will help municipalities design and introduce financial incentives to promote the establishment of effective energy savings system in the public sector.
- If needed, a review and improvement of the budget legislation needed for implementation of the said financial incentives will be carried out under Task 1.2.3.
- To help the chosen municipalities introduce the financial incentives that foster energy efficiency, IBSER will provide advisory support to the municipalities in designing budget programs, in particular, those intended for the realization of individual investment projects.

*Result/Deliverable: Recommendations on financial incentives to promote the establishment of an effective energy savings system in the public sector are designed and presented at a session of the Financial and Economic Forum.*

*Timeline: October 2012 – March 2013*

MFSI-II experts have updated the Recommendations on financial incentives to promote the establishment of an effective energy savings system in the public sector.

In particular, they have chosen a method for calculation of savings in payments for communal services and energy. These savings will be used for financial incentives in the budget period. The experts have suggested to use the balance of funds at the beginning of the budget period following the period, when the savings were generated, as a source for implementing the incentive activities. To this end, key spending units of local budgets will have to submit to Finance Directorates their calculations as to the savings in communal services and energy carriers achieved in the reporting year. Local governments will



be amending their local budget resolutions to accumulate the saved funds under a separate budget program. After conducting a competition and selecting the spending units to receive incentives, these accumulated funds will be distributed among them to provide financial incentives to the staff of respective institutions and material and equipment to the institutions, and implement energy saving activities. The balance of the funds could be spent for other energy saving activities.

A systemic approach is essential to address the issue of using the savings in payments for communal services and energy carriers. Therefore, these recommendations are an integral part of the general mechanism for using the saved funds.

Such a mechanism provides for accounting the saved funds generated through implementation of energy performance projects. This is due to the fact that it is necessary to ensure:

- targeted use of the saved funds for repayment of debt, where debt was incurred for project implementation, or for compensating an ESCO;
- an increased amount of expenditures for energy saving activities.

When working with the project cities, MFSI-II experts will be suggesting for each local council to address certain additional issues, including:

- whether incentives should be provided to all institutions, which have achieved certain savings in communal services and energy, or just those, which have reached sufficiently high savings amounts?
- would sanctions be used against the spending units, which have allowed unjustified excessive consumption of communal services and energy above the set limits?
- whether incentives should be provided to officials and staff of the institutions, which have implemented energy saving activities, but achieved the savings figures higher than those planned in the design documents?

To implement the above-mentioned and other issues MFSI-II experts will be providing recommendations with regard to the respective provisions to be included in the said mechanism, depending on the wishes of individual cities.

The Recommendations will be presented at the 11<sup>th</sup> Forum.

See folder “Deliverables”

*Deliverable: Consultations on system implementation provided to the cities, including for development of budget programs and individual investment projects.*

*Timeline: April – September 2013*

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

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

*Deliverable: The training materials on the monitoring and evaluation of energy efficiency projects implemented by municipal enterprises*

*Timeline: October – December 2012*

MFSI-II experts have developed the training materials for conducting the monitoring and evaluation of the energy efficiency projects implemented by municipal enterprises.



The main monitoring objectives have been identified as follows:

- regular measurement of interim results and achievements;
- timely detection of any deviations from the set targets;
- timely problem detection;
- timely adjustment of actions to address any detected problems.

The materials explain what data are to be used for conducting monitoring and evaluation, the sources and types of such data. Possible implementers of monitoring and evaluation are described.

The materials contain a classification of the indicators used for conducting the monitoring and evaluation of projects. Thus, the indicators are sub-divided into direct, indirect, qualitative, quantitative, custom, standard, input indicators, activity indicators, outputs, outcomes, and impact indicators. Also, formulas are presented for calculation of basic indicators, and for conducting the monitoring and evaluation of projects. Since the reduction of CO<sub>2</sub> emissions is one of the key indicators for nearly all the energy efficiency projects, the training materials cover the methodology of evaluating a reduction of greenhouse gas emissions resulting from rehabilitation of buildings.

Accomplished (see “Quarterly Report 01 October – 31 December, 2012”)

Deliverable: Report prepared on the number of trainings held and the number of specialists who participated in trainings with a breakdown by gender

Timeline: January – March 2013

On 29 March 2013, MFSI-II experts conducted a seminar: *The Planning and Evaluation Efficiency, Including That of Energy Performance Projects as a Guarantee for Achievement of Strategic Objectives*. The event was attended by the representatives of communal service enterprises and the Executive Committees of City Councils of the project cities.

*The Planning and Evaluation Efficiency, Including That of Energy Performance Projects as a Guarantee for Achievement of Strategic Objectives Seminar, 29 March 2013*



There were 17 participants total, including 6 women and 11 men.

The participants were introduced to the methodology of monitoring and evaluation of energy performance projects and received recommendations on improving the efficiency of financial justification of strategic documents by communal service enterprises in the context of city development priorities.

A representative from the Kyiv City State Administration (KCSA) was invited to the seminar for experience-sharing. The Deputy Director of Regional and Economic Policy, Head of Strategic Planning and Coordination of Municipal Targeted Programs at the KCSA Department of Economy and Investment Ms. Olha Bazarna has shared with the participants the experience of the City of Kyiv in strategic planning and its and the city's targeted programs interrelation with budget programs.



*The Planning and Evaluation Efficiency, Including That of Energy Performance Projects as a Guarantee for Achievement of Strategic Objectives Seminar, 29 March 2013*



Also, the representatives of the cities of Zhytomyr, Ivano-Frankivsk, Lviv, and Chernihiv presented their experience of the communal service enterprises in attracting investments and implementing energy performance projects. To implement these projects, MFSI-II experts have provided assistance to the Executive Committees of the City Councils in preparing the required documents.

For example, Borys Pakholyuk, Director of Municipal Development at the Zhytomyr City Council, made a presentation on implementing energy saving technologies in street lighting in Zhytomyr. A Heating Engineer at the KP Zaliznychneteploenergo Operational Unit Vasyl Terekh

reported on the results of investment programs and development prospects of the Lviv-based KP Zaliznychneteploenergo heating utility. Serhiy Kotsur, the Chief Engineer of the KP Chernihivvodokanal water utility told about investments in development of KP Chernihivvodokanal, and Deputy Head of the Production and Process Department at the KP Ivano-Frankivskvodoekotekhprom water utility Ivan Palimon made a presentation on implementation of energy performance projects at the KP Ivano-Frankivskvodoekotekhprom.

Use of knowledge and skills acquired at the seminar will allow the communal service enterprises to apply modern approaches in developing their strategic and planning documents, carry out effective monitoring and evaluation of individual energy performance projects. The experience acquired will make it possible to strengthen the capacity of communal service enterprises in effective planning, management, and implementation of energy saving activities.

See folder “Deliverables”

*Deliverable: Consultations to the staff of municipal enterprises on using the methodology provided*

*Timeline: January – September 2013*

MFSI-II experts presented a methodology of monitoring and evaluation of energy performance projects and their recommendations for improving the effectiveness of financial justification of strategic documents by communal service enterprises at a seminar held on 29 March 2013. Based on the seminar results, the MFSI-II experts forwarded letters with the presentation materials to the participants to provide their comments and highlight issues. MFSI-II experts will collect the cities’ responses and provide consultations.

See folder “Deliverables”



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

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

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

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

*Deliverable: Monthly monitoring*

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

In the reporting timeframe, the project prepared monthly monitoring reports (three for the reported period) on the implementation of the state and local budgets for the period from November 2012 to January 2013 (See "PMP"). The reports were placed on the website. On the whole, there were fifteen monthly monitoring reports prepared and published on the website since the launch of the MFSI-II Project.

See folder "Deliverables"

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

*Deliverable: Budget Monitoring*

*Timeline:*

*The Monitoring for Quarter 3, 2012 is placed on the IBSER's Web-page by December 31, 2012.*

*The Monitoring for Quarter 4, 2012 is published, distributed among the IBSER's partners, and placed on the IBSER's Web-page by March 31, 2013.*

*The Monitoring for Quarter 1, 2013 is placed on the IBSER's Web-page by June 30, 2013.*

*The Monitoring for Quarter 2, 2013 is published, distributed among the IBSER partners, and placed on the IBSER's Web-page by September 30, 2013.*

*Result/ Deliverable:*

In total, there were five quarterly monitoring reports prepared and published on the website since the beginning of the MFSI-II Project.

According to the State Treasury preliminary data, MFSI project's experts prepared 'Budget Monitoring for January–December 2012 (See "PMP").

The monitoring included an analysis of the latest trends regarding the State and local budget execution, as well as an analysis of the legislative acts influencing the budget process, approved over the reporting period. 'Budget Monitoring' was distributed among the interested parties and stakeholders, and placed on website. Key highlights include:

**The macroeconomic situation** was characterized by a slower economic growth due to recession in the global economy. Compared to the respective 2011 figure (in constant 2007 prices), the real GDP increased by 0.2%<sup>5</sup>, which is 5.0ppt less than last year. At the same time, this indicator is better than the average figure for the European Union Member States, which have shown a 0.3%<sup>6</sup> decline in real GDP.

The nominal GDP totaled UAH 1,408.9bn, which is UAH 106.8bn or 8.2% more than last year.

Despite some positive developments in 2012, the foreign trade conditions remained unfavorable. A trend is observed towards a decline in industrial output. Thus, the industrial production index amounted to 98.2% against 107.6% in 2011.

The consumer price index amounted to 99.8% vs. 104.6% in 2011, and the producer price index decreased by 13.9ppt to 100.3%.

The foreign trade balance of Ukraine worsened 1.4 times; it had a negative value of \$9.0bn compared to \$6.7bn in 2011.

The nominal average wage per one full-time employee amounted to UAH 3,025.0 at the end of 2012, with a 14.9% year-on-year growth. This is 2.7 times higher than the national social standards (minimum wage level and subsistence level of an employable person, which amount to UAH 1,134). The situation at the end of 2011 was similar.

The real wages increased by 14.4% (this increase amounted to 8.7% in 2011). The retail trade turnover increased by 13.7% in comparable prices in 2012, which is an indicator of domestic consumer demand recovery.

Even though **the actual consolidated and State budget revenues** were higher than last year's results, the 2012 budget year ended with a shortfall. Thus, according to the official data, the actual revenues of the consolidated budget of Ukraine totaled UAH 445.5bn, which is 11.9% more year-on-year. At the same time, this amounts to 92.9% of the plan. The actual intake of revenues of the State budget of Ukraine totaled UAH 344.7bn, which is UAH 32.9bn or 10.6% more year-on-year. The level of annual plan execution amounted to 92.5%, which is in line with the forecast made by IBSEER experts.

The main reasons behind this non-execution included tax revenues, in particular, a shortfall in the value-added tax totaled UAH 25.3bn or 15.5%, enterprise profit tax totaled UAH 2.9bn or 5.0%, excise tax on goods made in Ukraine totaled UAH 4.0bn or 12.8%, rent and fees for fuel and energy resources totaled UAH 3.7bn or 17.5% etc. The annual plan for tax revenues was executed only for such items as taxes on foreign trade and external transactions, and fees for special use of natural resources.

At the same time, the plan for non-tax revenues was exceeded by nearly UAH 10.0bn. Also, the main item to provide such surplus were the funds remitted by the National Bank of Ukraine. These funds totaled UAH 26.6bn based on the year's results, which was double the plan.

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

(%)

Revenues	Consolidated budget			State budget		
	2010	2011	2012	2010	2011	2012
<b>Tax revenues, including:</b>	<b>74.6</b>	<b>84.0</b>	<b>80.9</b>	<b>71.4</b>	<b>83.9</b>	<b>79.7</b>
– enterprise profit tax	12.8	13.8	12.5	17.1	17.5	16.1
– value-added tax	27.5	32.7	31.2	36.9	41.7	40.3
– excise tax	9.0	8.5	8.6	11.8	10.6	10.8
– taxes on foreign trade and external transactions	2.9	2.9	3.0	3.9	3.8	3.8
<b>Non-tax revenues</b>	<b>23.4</b>	<b>15.0</b>	<b>18.2</b>	<b>27.8</b>	<b>15.6</b>	<b>19.8</b>
<b>Income from capital transactions</b>	<b>1.0</b>	<b>0.6</b>	<b>0.7</b>	<b>0.2</b>	<b>0.2</b>	<b>0.4</b>
<b>Targeted fund</b>	<b>0.9</b>	<b>0.3</b>	<b>0.2</b>	<b>0.5</b>	<b>0.1</b>	<b>0.1</b>
<b>Other revenues</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>	<b>0.0</b>

**The local budget revenues** increased by 24.1% and totaled UAH 225.3bn. However, a trend continues of dependence of local budgets on intergovernmental transfers from the State budget. Their amount increased to UAH 124.5bn (or by 31.2%). Thus, the share of intergovernmental transfers in the structure of local budget revenues reached its highest point in recent years of 55.2%.

The amount of tax revenues, which make up 85.2% of local budget revenues (without intergovernmental transfers), increased by 17.5% in 2012. Growth was demonstrated by all significant sources of revenues: personal income tax increased by 13.0%, payment for land by 17.6% etc. At the same time, the highest rate of growth from among the sources of local budget revenues is noted for the single tax on small business, which was generated at the amount of UAH 4.8bn, which is nearly 2.5 times the 2011 amount.

Also observed was a growth to UAH 14.2bn or by 6.8% in the revenues of the development budget of local budgets. This growth has benefited from inclusion of the single tax (those revenues amounted to 34.0% of all development budget revenues).

**The level of execution of consolidated budget expenditures** decreased by 1.1ppt year-on-year and amounted to 92.4%, with an 18.2% increase in actual expenditures (by UAH 75.8bn).

The qualitative structure of consolidated budget expenditures remained virtually unchanged from 2011. There was a slight decline in the share of expenditures for economic activity in the total amount of expenditures (by 1.0ppt); the share of social expenditures remained nearly at last year's level and amounted to 60.7% vs. 60.3% in 2011. Execution of the expenditures for social protection and social security increased by 15.9% against the 2011 figure and totaled UAH 125.3bn. The amount of expenditures for education increased by 15.0% against last year and totaled UAH 101.6bn, with the proportion of these expenditures in the total consolidated budget expenditures decreasing by 0.1%.

**The expenditures of the State budget of Ukraine with intergovernmental transfers** totaled UAH 395.7bn, which is 15.8% (by UAH 62.3bn) more than in 2011. The level of annual plan execution decreased slightly and amounted to 92.7%, which is 1.1ppt down. At the same time, there was a sharp increase in the execution of expenditures for the housing and communal services sector (by 55.6ppt).

Despite a reduced level of execution of the expenditures for environmental protection (by 11.8%), a note should be made of a significant increase in the absolute value of this indicator (UAH 4.1bn) against last year (UAH 3.0bn) by UAH 1.1bn.

The top funding priority was assigned to the expenditures for debt servicing, social protection, and intergovernmental transfers, as well as public order and security, and education.

In terms of the economic classification, some changes occurred in the budget expenditures related to both their decreased level of execution in general, and to individual structural changes. Among other things, the budget capacity to make capital investments was somewhat reduced.

Thus, the share of current expenditures increased by 1.9ppt to 92.5%. This increase took place at the expense of transfers to government bodies of other levels, whose share increased by 3.7ppt and which accounted for a third of all State budget expenditures. Current transfers to the population accounted for 18.8% of all budget expenditures, payroll with taxes accounted for 15.1%, and payment of interest on State debt amounted to 6.5%. On the whole, the said expenditures accounted for 70.6% in the structure of budget expenditures.

Both the amount and level of execution of capital expenditures have declined. Thus, the capital expenditures totaled UAH 29.5bn, which is UAH 1.7bn or 5.6% less than in 2011. The level of their execution decreased by 5.9ppt and amounted to 65.5%.

The following expenditures decreased in the following departments:

- State Automobile Roads Service, where expenditures for the development of network and maintenance of public automobile roads decreased by UAH 1.1bn or by 13.6% and totaled UAH 7.0bn;
- National Agency for Preparation and Hosting the 2012 European Football Championship Finals in Ukraine and Implementation of Infrastructure Projects due to a reduced volume of work for preparation for the finals compared to the year 2011;
- Ministry of Energy and Coal Industry due to change in funding priorities. Thus, the expenditures for



State support to building coal and peat producing enterprises and their technical re-equipment decreased by UAH 0.4bn. At the same time, the current expenditures for State support to coal producing enterprises for partial coverage of production costs of finished marketable coal products increased significantly (1.5 times) and totaled UAH 10.2bn.

**The local budget expenditures** increased by nearly 23.0% and totaled UAH 222.6bn. The level of execution of the annual plan approved by local councils amounted to 94.3%. As usual, the majority of local budget expenditures are used for the social and cultural sector. At the same time, expenditures for the housing and communal services increased significantly in 2012 (+135.5%).

The nature of changes in the local budget expenditures was on the whole similar to that last year. At the same time, a rather substantial growth in the amounts of local budgets expenditures was noted in February and March 2012 year-on-year. June was noted for the usual increase in local budget expenditures due to vacation pay to the staff in the education and other departments. However, a significant growth in expenditures fell on the last month of 2012. This was primarily due to a sharp growth (more than triple) of Kyiv city expenditures.

In the economic structure of expenditures, a 0.6ppt decrease in noted in the share of expenditures for payroll with taxes, which is commonly the largest item from among all the local budget expenditures amounting to 43.9% in 2012. Also, a 21.6% increase was noted in the expenditures for communal services and energy carriers. Their share amounted to 6.3% of all local budget expenditures. Capital expenditures of local budgets were funded at UAH 16.2bn and their amount decreased by UAH 1.2bn or by 6.8%.

**The State budget deficit** totaled UAH 53.5bn, which amounts to 137.7% of the ceiling set by the 2012 State budget law. The State budget deficit increased by UAH 29.9bn or 2.3 times compared to the respective indicator of 2011.

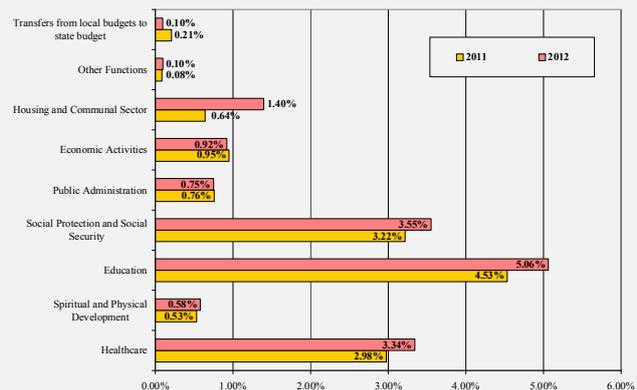
**The State budget borrowing** was incurred at the amount of UAH 109.8bn (102.5% of the annual plan). Internal borrowing was incurred at the amount of UAH 66.8bn, with external borrowing of UAH 43.0bn. **State debt repayment** totaled UAH 68.1bn, which amounts to 98.8% of the annual plan. This included repayment of internal debt of UAH 38.0bn or 100.0% of the annual plan, and external debt of UAH 30.1bn or 97.4%. Excess of borrowing over repayment increased by 19.1% year-on-year.

According to the State Treasury Service, **the amount of loans to cover temporary cash gaps of local budgets** at the expense of funds at the Single Treasury Account totaled UAH 41.9bn, which is 74.6% more than the respective indicator of 2011.

**The revenues from privatization of State property** decreased by 40.8% compared to 2011 and totaled UAH 6.8bn or 97.1% of the annual plan. More than 70.0% of the total revenues or UAH 4.9bn were received from sale of blocks of shares of eight Ukrainian electricity and heat generation companies, such as: PAT Zakhidenergo, PAT Donetskoblenenergo, PAT EK Chernivtsioblenergo, PAT Vinnytsyaoblenergo, PAT Zakarpattiaoblenergo, PAT Dniproenergo, PAT Dniprooblenergo, and PAT Krymenergo.

**The balance of budget funds** totaled UAH 27.1bn at the end of 2012, showing an UAH 11.9bn or 30.4% decrease from the year outset. Nearly all the balance of the General Fund or more than UAH 17.0bn was used for financing the budget deficit.

**Share of Local Budget Expenditures in GDP  
in 2011-2012**



See folder "Deliverables"



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

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

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

*Timeline: Ongoing process*

On **17 October 2012**, the MFSI-II Project took part in a meeting of the Economic Reform Committee on Progress in Implementing Reforms of the Administrative Services System in the City of Kyiv.

The meeting, chaired by the Head of the Kyiv City State Administration (KCSA) Oleksandr Popov, took place at the KCSA office. The attendees included members of the Economic Reform Committee, heads of district State administrations in the city of Kyiv, Principal Directorate of Regulatory Policy and Entrepreneurship of the Kyiv City State Administration, and managers of Kyiv communal service enterprises.

It should be noted that the MFSI-I Project had assisted in developing the reform of the Kyiv city administrative system. Among other things, the Project analyzed the status and management of administrative service provision within the Kyiv city budget. The analysis' findings included an imperfect organizational structure in terms of administrative services provision and a non-uniform structure of services and the organizations providing these services. This hampers the implementation of effective management in the budgetary sphere.

The conclusions from MFSI-I were taken into account in the course of reform implementation. For example, the number of key spending units was reduced from 166 in 2010 to 49 in 2011. Moreover, about 50 budget programs on public administration were developed and approved in the city of Kyiv in 2012. MFSI-II experts take part in the working meetings and monitor performance of the developed recommendations.

Implementing PPB in the city has also made it possible to compare budget expenditures for the provision of organizational services in terms of their quality and effectiveness. All the expert groundwork has been incorporated by KCSA in the reform implementation plan.

Discussed at the meeting were such important issues as: allocating funds in the draft Kyiv 2013 municipal budget for implementation of the Law of Ukraine "On Administrative Services"; funding the City Permit Center and district centers of administrative services; mechanisms and special features of service provision, and the need to make coordinated decisions with the administrative service provision entities via the Kyiv administrative service centers.

A protocol resolution was prepared based on the meeting results. It designates the tasks and activities to be undertaken to address the urgent needs and sets the deadlines for their completion as well as the persons in charge.

Accomplished (see "Quarterly Report 01 October – 31 December, 2012")



On **15 November 2012** MFSI-II Experts Took Part in Healthcare System Reform Meeting. The Deputy Prime Minister of Ukraine Rayisa Bohatyryova chaired a meeting with the directors and finance officers of oblast and Crimean health departments, as well as finance officers of health departments of oblast-significant cities. Among other things, the meeting participants considered the issue of Using the Performance Program Budgeting Method: Interaction between the Central and Regional Levels. Also, the participants in the meeting discussed the progress in implementation of programs and activities in the sector of public health in 2012. Thus, according to the Ministry of Health, thanks to realization of budget programs in healthcare, the savings achieved totaled UAH 84.5mn in 2012.

Accomplished (see “Quarterly Report 01 October – 31 December, 2012”)

IBSER is working continuously to strengthen its institutional capacity and is looking for new opportunities of financing its institutional development according to its Capacity Development Plan, which is completed in the second Quarter of 2013.

With this in mind, IBSER took part in the First Capacity Development Forum, which was held in Kyiv on **19 November 2012**. The Forum participants familiarized themselves with the latest tools and trends in the field of the institutional development of NGOs, shared best practices, and learned in greater detail about the activities of NGO Market and the Voucher System.

Accomplished (see “Quarterly Report 01 October – 31 December, 2012”)

On **14 February 2013** the Zhytomyr’s mayor invited IBSER Director General Iryna Shcherbyna and MFSI-II Project Coordinator Andriy Nesterenko (USAID) to attend a signing ceremony of the Guarantee Agreement between the European Bank for Reconstruction and Development (EBRD) and the City of Zhytomyr under the Development of the Zhytomyr City Heating System project. The signing took place at the EBRD Ukraine office.

Thanks to assistance from the Municipal Finance Strengthening Initiative (MFSI-II) Roll-out Project, the city of Zhytomyr had received approval from the Ministry of Finance of Ukraine to incur debt for implementing the Development of the Zhytomyr City Heating System project. Implementing this project will have a significant social and economic impact, among other things, thanks to the improved provision of heating and hot water supply services to city residents through the increased operational reliability of the Zhytomyrteplokomunenergo municipal heating utility.

On **5-6 March 2013** the MFSI-II Project took part in Information Fair 2013, which was organized by the Verkhovna Rada and USAID.

IBSER exhibits at the Fair included items such as printed budget monitoring publications, quarterly reports on the main budget and economic trends. These materials have been created thanks to the methodological groundwork developed under MFSI and MFSI-II projects.

Participation in the Fair provided an opportunity to present the MFSI and MFSI-II projects and their products to a wider community of experts and familiarize MPs and staff of various parliamentary factions with project activities, which would help attracting new partners for future collaboration. The Fair’s visitors had ample opportunity to talk to MFSI-II representatives and receive the materials they were interested in.

The MFSI-II Project took part in a meeting of Ukraine’s municipal finance officers, which was held in Dnipropetrovsk on **14 and 15 March 2013**. The event was organized by the Association of Ukrainian Cities as part of the USAID Development Initiative for Advocating Local Governance in Ukraine (DIALOG) Project.

The meeting was held to identify the ways of strengthening the financial basis of local government and to review legislative drafts to amend budgetary and tax laws.

The Project took part in discussing the following draft laws:

On amending the Budget Code of Ukraine and several other State-level legislative acts regarding the normalization of the list of revenues and expenditures of local budgets;

On amending the Budget Code of Ukraine to improve the mechanism of planning by the Ministry of Finance of



local budget revenues that are taken into account when determining the amount of intergovernmental transfers;  
On amending the Budget Code of Ukraine to improve the State Treasury servicing of local budgets;  
On amending the Tax Code of Ukraine regarding the collection of payments for land;  
On amending the Tax Code of Ukraine and the Commercial Code of Ukraine regarding the normalization of personal income tax payments by separated divisions of legal entities.

As a result of the meeting, proposals will be compiled with regard to amending the legislation as well as the proposals for adjusting the indicators of the Law of Ukraine “On the State Budget of Ukraine for the Year 2013” with regard to local budgets and interbudgetary relations.

On January 31, 2013, IBSEER experts participated in the round table “Immovable property tax” conducted by the Ministry of Finance of Ukraine. IBSEER experts indicated the loopholes of the current provisions of the Tax Code chapter regulating the immovable property tax levying and formulated the possible ways of eliminating these loopholes. The proposals were provided to the representatives of the Ministry of Finance and Ministry of Revenues.

*Result: Preparation and organization of Financial-Economic Forum*

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

*Timeline: February 2013, September 2013*

The Eleventh Financial and Economic Forum on the topic Energy Efficiency of Budget Expenditures: the Road to Economic Prosperity will be held on April 2013.

During the event participants will review and discuss legal and best practice issues related to the implementation of energy saving projects, financial incentive mechanisms that promote the efficient use of energy resources, and alternative funding sources for energy saving projects, as well as how to strengthen the financial capacity of local budgets and improve the investment attractiveness of cities and towns.

A detailed description of this event and developed recommendations will be presented in the next quarterly report.

See folder “Deliverables”

*Result: Preparation and organization of a National Advisory Board*

*Deliverable: Minutes of a National Advisory Board and agenda*

*Timeline: December 2012, March 2013, June 2013, August 2013*

On 25 December 2012, MFSI-II experts organized and conducted a meeting of the National Advisory Board (NAB) on efficient public finance management.

**Meeting of the National Advisory Board (NAB) on efficient management of public finance, 25 December 2012**



During the meeting, the participants discussed the main directions of work and tasks of the experiment on implementation of the Performance Program Budgeting method at the level of local budgets in 2013. Special focus was made on the results of evaluation of the PPB implementation experiment for local budgets. Also, based on the results of the discussion, the participants set out



further ways of conducting the preparatory work required for implementing the treasury servicing of the local budgets formulated according to PPB.

Accomplished (see “Quarterly Report 01 October – 31 December, 2012”)

A meeting of the National Advisory Board on effective public finance management was held on 29 March 2013.

The meeting was attended by the representatives of the Ministry of Finance of Ukraine and the State Treasury Service of Ukraine. The meeting participants discussed the issues of amending the program classification and provisional classification of local budget expenditures. Additional elaboration of the classifications is needed to be used as of 2014 for the formulation and execution of PPB-based local budgets. In particular, to ensure uniformity of the budget process in Ukraine and adapt to the program classification, experts of the MFSI-II Project have proposed to amend the provisional classification of local budget expenditures.

To implement the provisions of the Presidential Program of Economic Reforms for the Years 2010-2014 and Project’s Work plan, MFSI-II experts have proposed and agreed with the meeting participants to make appropriate changes to the treasury reporting forms on execution of local budgets. The proposed modifications will ensure preparation of reliable and transparent reports based on PPB by offices of the State Treasury Service.

Special focus of the meeting was made on discussing the practical aspects of implementation of monitoring and evaluation of efficiency of execution of local budget programs. As the result of the discussion, the participants agreed to test the methodology of evaluating the efficiency of implementation of budget programs in individual pilot regions based on the 2012 data. This will ensure testing of the methodology (developed by MFSI-II experts) and allow to analyze the status of implementation of budget programs.

Implementation of monitoring and evaluation and the methodology in local budgets will make it possible to improve the effectiveness of analysis of local budget execution and transparency of the budget process in Ukraine.

Meeting of the National Advisory Board (NAB) on efficient management of public finance, 29 March 2013



See folder “Deliverables”

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

*Timeline: Ongoing process*

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

News:

all news and events where MFSI-II project experts participated in the period October – December 2012 are written, placed and updated on the site.

Research and Materials:

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

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



All monitored articles published in national and regional media in October – December 2012 have been converted into electronic version, placed on the site and updated on a regular basis (Ukrainian and English versions).

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

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

Accomplished (see “Quarterly Report 01 October – 31 December, 2012”)

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

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

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

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

*Deliverable: Electronic bulletin*

*Timeline: October 2012, January 2013, April 2013, July 2013*

One Bulletin issue (#36-October-December 2012) has been prepared in Ukrainian and English and e-mailed to more than 550 partners. It is also placed on the project web-site in “E-Bulletin” section. Overall, four quarterly Bulletins have been prepared since the launch of the MFSI-II Project.

See folder “Deliverables”

*Result/Deliverable: Publication «Innovative Practices of the Local Finance Management».*

*Timeline: March 2013*



MFSI-II experts have prepared an annual publication of *Innovative Practices: Local Finance Management – 2012 Results*, which provides illustrations of the results of execution of budget programs and energy performance projects, and highlights the successful experience of realization of strategic programs and PPB implementation. 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.



See folder “Deliverables”

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

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

*Timeline: February 2013, August 2013*

A roundtable discussion on the topic *The Initial Results from Implementation of the Performance Program Budgeting Method in the City Budget Process* was held in Kalush, Ivano-Frankivsk oblast, on 21 February 2013. This public event was attended by the representatives of the deputy corps of the City Council, key spending units of the city budget, and representatives of mass media.

In the course of the meeting, the participants discussed the important issues of PPB implementation, characterized by the efficiency of using the budget funds, shared their experience of formulation of budget programs, and outlined the benefits from efficient monitoring and evaluation.

Holding of a public discussion of the said issues made it possible to improve the transparency in execution of the city budget and inform the general public about the results of conducting the experiment of PPB implementation.

See folder “Deliverables”

On 27 and 28 March 2013, within a training seminar for the representatives of the Finance Directorates of the Kharkiv oblast, a public presentation on PPB budgeting took place. Based on the results of this presentation, information was published on the website of the Kharkiv Oblast State Administration. A more detailed information is available at:

<http://kharkivoda.gov.ua/uk/news/view/id/16950/>

*Result: Delivery of training on budget issues for NGOs*

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

*Timeline: January – March 2013.*

On 9 November 2012, as part of the training organized with support from the UNDP program in Lviv, on the topic of *Strengthening Responsibility for Financing of Gender Equality*, MFSI-II experts delivered a training for representatives of non-governmental organizations. There were a total of 18 representatives of non-governmental organizations and representatives of local governments, who took part in the training (see PMP).



MFSI-II experts covered the issues of the gender component in developing and disseminating the Performance Program Budgeting method to local budgets of Ukraine. They highlighted the opportunities offered by the Performance Program Budgeting method, which allow implementing the gender policy in the country in the most successful manner.

This training has helped strengthening the capacity of gender experts, leaders of civil society organizations, and local governments to provide efficient financing to address the problems of gender equality.

Accomplished (see “Quarterly Report 01 October – 31 December, 2012”)