

RECOMMENDATIONS

OF THE FOURTEENTH FINANCIAL AND ECONOMIC FORUM

PERFORMANCE PROGRAM BUDGETING: FORMATION AND DEVELOPMENT

The Fourteenth Financial and Economic Forum devoted to the topic *Performance Program Budgeting: Formation and Development* was held on 2 March 2017 as part of the Municipal Finance Strengthening Initiative (MFSI-II) Rollout Project implemented by IBSER with support of the USAID.

The event was attended by representatives of the Ministry of Finance of Ukraine and other line ministries, State Treasury Service of Ukraine, Verkhovna Rada Committee on Budget, the oblast, raion, and city administrations, finance departments of amalgamated territorial communities, scientific community, donor organizations, international expert community, and the civil sector.

The Financial and Economic Forum was devoted to discussing the topical issues of implementation of the Performance Program Budgeting (PPB) method at the local level. In the course of discussions, the experience and achievements of PPB implementation in the formation of local budgets of Ukraine at the level of oblasts, cities, and amalgamated territorial communities were reviewed; and the main approaches to the development of comprehensive evaluation of budget program execution were defined. Special focus was made on discussing the introduction of the gender equality principles in the budget process in Ukraine and improving the transparency of using public funds.

Further development of the Ukrainian financial system is impossible without implementing a fully-fledged system of budget planning and result-based performance evaluation, introduction of a comprehensive system of key performance indicators, including performance indicators of efficiency of public services based on the planning and forecasting system.

Another step, which needs to be taken, involves establishing a direct link between the allocated budget funds and the results of their use. This primarily requires a radical change of approaches to the formation of performance indicators, which should reflect the level of service provision and achievement of the goal of a government-funded institution rather than the status of using the budget funds.

Resolution of the discussed issues is meant to increase the efficiency of public spending, strengthen the capacity of local governments, in particular, the amalgamated territorial communities, and is an important step in implementation of the reform of local government and territorial system of government. Taking into account the abovementioned considerations, as well as the fact that improvement of PPB methodology is an important task in the Strategy of public finance management system for the years 2017-2021, the Forum participants provide the following **recommendations**.

1. Improve the PPB methodology for the formation of budget programs (local government budgets) based on the provision of public services to citizen-taxpayers, rather than on maintenance of institutions, and set standards for the provision of such services (2017-2018).
2. Indicate that the PPB method of formation and execution of local budgets has a positive impact on the efficiency of budget spending. However, the PPB methodology needs to be simplified and improved:
 - optimization of budget programs based on service provision rather than maintenance of institutions and setting of service provision standards;
 - quality revision of the performance indicators applied for evaluating the use of public funds.

This would provide for an improved structure of budgets and create unified methodological principles for calculation of performance indicators.

Also, the criteria of service quality should be formulated according to the standards of their provision, and the performance indicators of budget program should reflect the level of achievement of such standards.

3. Conduct regular PPB training for local government staff on an annual basis, taking into account legislative changes. Special attention in this process must be given to training specialists of amalgamated territorial communities (2017-2020).

4. Recommend that IBSER should launch a permanent discussion platform for sharing experience between the representatives of local government and the central authorities for discussing the problems arising in the application of PPB and determining further development of management of budget resources (2017-2020).

5. Establish that the real road towards improving effectiveness of the institutions, which provide public services, is engaging each of them in achieving the planned results of budget program execution (2017-2018).

This would allow to conduct a detailed analysis, compare performance of each institution, and ensure making of effective management decisions, which, in turn, would improve performance of said institutions.

6. The ministries, agencies, and all interested organizations should take steps to implement an effective system of evaluation of efficiency of budget programs (spending of budget funds). This would allow to increase the efficiency of their execution, contribute to an improved transparency of the budget process, and strengthen the link between the PPB methodology and strategic planning (2018-2020).

7. Support the suggestions of Forum participants for improving the automation of PPB-based budget process. Ensure availability of software for budget process participants at different levels, which take part in the formation of budget documents by key spending units. This would ensure improvement of performance of key spending units and quality analysis of budget documents at all stages of budget execution (2017-2019).