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IMPLEMENTATION COMPLETION AND RESULTS REPORT

ON A

LOAN

IN THE AMOUNT OF US\$ 50.0 MILLION

TO

UKRAINE

FOR THE

PUBLIC FINANCE MODERNIZATION PROJECT

June 29, 2015

Governance Global Practice
Europe and Central Asia Region

UKRAINE: GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of April 15, 2015)

Currency Unit = Hryvnia (UAH)

USD 1 = UAH 21.04

UAH 1 = USD 0.0475

Abbreviations and Acronyms

APST	Administration and Procurement Support Team	MoE	Ministry of Economy
CAS	Country Assistance Strategy	MoF	Ministry of Finance
CEM	Country Economic Memorandum	MTBF	Medium Term Budget Framework
CoM	Cabinet of Ministers	M&E	Monitoring and Evaluation
CPS	Country Partnership Strategy	OBI	Open Budget Index
CRPD	Company Risk Profile Database	OPRC	Operational Procurement Review Committee
DFID UK	Department for International Development	PBB	Performance Based Budgeting
DPL	Development Policy Lending	PAD	Project Appraisal Document
ECA	Europe and Central Asia	PDO	Project Development Objective
EU	European Union	PEFA	PEFA Public Expenditure and Financial Accountability
FMIS	Financial Management Information System	PEIR	Public Expenditure and Institutional Review
FY	Fiscal Year	PFM	Public Financial Management
GDP	Gross Domestic Product	PFMP	Public Finance Modernization Project
GFS	Government Finance Statistics	PFMS	Public Financial Management System
GoU	Government of Ukraine	PFR	Public Finance Review
IBRD	International Bank for Reconstruction and Development	PHRD	Japanese Policy and Human Resources Development Fund
IFO	International Financial Organization	PIU	Project Implementation Unit
ICB	International Competitive Bidding	PPB	Performance Program Budgeting
ICR	Implementation Completion and Results Report	PTM	Program-Target Method
ICT	Information and Communication Technologies	QAG	Quality Assurance Group
IFRs	Interim unaudited Financial Reports	SFIU	State Financial Inspection of Ukraine
INT	Department of Institutional Integrity	STU	State Treasury of Ukraine
IPSAS	International Public Sector Accounting Standards	STSU	State Treasury Service of Ukraine
IT	Information Technology	SUs	Spending Units
KRU	State Control-Revision Service of Ukraine	TF	Trust Fund
LA	Loan Agreement	TS	Treasury System

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Data Sheet

A. Basic Information

Country:	Ukraine	Project Name:	Public Finance Modernization Project
Project ID:	P090389	L/C/TF Number(s):	IBRD-48820
ICR Date:	May 14, 2015	ICR Type:	Core ICR
Lending Instrument:	Specific Investment Loan	Borrower:	Ukraine
Original Total Commitment:	USD 50.00	Disbursed Amount:	USD 3.94M
Revised Amount:	USD 3.94M		

Environmental Category: C

Implementing Agencies: Ministry of Finance of Ukraine

Co-financiers and Other External Partners: TF- 90722

B. Key Dates

Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review	12/16/2005	Effectiveness:	01/31/ 2008	10/23/2008
Appraisal:	09/04/2007	Restructurings:		04/26/2012 04/04/2013 10/21/2014
Approval:	01/08/2008	Mid-term Review:	06/15/2010 03/14/2011	03/19/2012
		Closing:	06/30/2013	12/31/2014

C. Ratings Summary

C.1 Performance Rating by ICR	
Outcomes:	Unsatisfactory
Risk to Development Outcome:	Negligible
Bank Performance:	Moderately Unsatisfactory
Borrower Performance:	Moderately Unsatisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)

Bank	Ratings	Borrower	Ratings
Quality at Entry:	Moderately Unsatisfactory	Government:	Moderately Unsatisfactory
Quality of Supervision:	Moderately Unsatisfactory	Implementing Agency/Agencies:	Moderately Unsatisfactory
Overall Bank Performance:	Moderately Unsatisfactory	Overall Borrower Performance:	Moderately Unsatisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	Indicators	QAG Assessments (if any)	Rating
Potential Problem Project at any time (Yes/No):	Yes	Quality at Entry (QEA):	NA
Problem Project at any time (Yes/No):	Yes	Quality of Supervision (QSA):	NA
DO rating before Closing/Inactive status:	Unsatisfactory		

D. Sector and Theme Codes		
	Original	Actual
Sector Code (as % of total Bank financing)		
Sub-national government administration	65	5
Central government administration	35	95
Theme Code (as % of total Bank financing)		
Public expenditure, financial management and procurement	100	100

E. Bank Staff		
Positions	At ICR	At Approval
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F. Results Framework Analysis

Project Development Objectives (from Project Appraisal Document)

The development objective is to strengthen public financial management in terms of operational efficiency and transparency.

Revised Project Development Objectives (as approved by original approving authority)

The objectives were not changed.

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator #1: Increased strategic alignment of the budget with the public policy priorities.				

	Existing budget formulation methodologies are not conducive for the use of budgets as a policy instrument.	Fully functional PFMS in use during the execution of 2012 budget.	2016 State Budget and Forecast for MTBF periods (2017-2018 RR) are prepared by using PFMS.	<u><i>Not Achieved</i></u> Guidelines on preparation of budget requests were introduced in 2012. However, MTBF could not be fully implemented. Budget was partially aligned with economic and social development programs and national target programs. However, the end of project target of preparing 2016 State Budget Forecast using PFMS was not achieved as PFMS was not installed.
Indicator #2: Reduction of 20% in time required to get necessary information for managerial decisions through the use of an integrated management and information platform.				
	Decision-making processes are delayed because information is fragmented among several systems and cannot be accessed efficiently	Minimum of 20% reduction in average time for accessing information by key decision makers as measured by follow-up survey	20% reduction in average time for accessing information by key decision-makers as measured by follow-up survey	<u><i>Not Achieved</i></u> No baseline survey was conducted at the start of the project. A time study was carried out in 2012 and 2013, which did not reveal any reduction in the time taken for accessing information. There was no survey at the end of the project to measure progress after 2013.
Indicator #3: Increased transparency and reliability of public sector financial reporting through compliance with international accounting standards and alignment with EU accession requirements.				
	Public Sector accounting is not compliant with ISA or EU accession requirements	Certification of compliance with international accounting standards	National accounting standards are in use (via new PFMS).	<u><i>Partially Achieved</i></u> Nineteen national accounting standards based on IPSAS accrual standards have been prepared and approved. However, only nine of these standards have been introduced in transition to accrual accounting including reporting of financial assets and liabilities. The Government plans to implement all of the standards from the budget of FY2016 onwards. The Budget is classified according to administrative unit, program, and economic classification. A functional classification is used in budget preparation and reporting, but is not used for budget execution control. The economic classification is equivalent to a 4-digit GFS economic classification, but not fully compliant with GFSM2001. The timeframe for the full implementation of national accounting standards via the PFMS is not clear as the new PFMS has not been installed. Ukraine has only recently signed an association agreement with the EU, and it is still in its early stages to become a candidate for the EU accession.

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator #1*: The MTBF and budget plans are prepared using a realistic macro-fiscal framework.				
	Implementation of MTBF documents in budget process in progress.	New MTBF in use.	Dropped	
Indicator #1: The local budgets are based on program-target method (PTM) and all relevant budgetary program passports are managed with the new PFMS.				
	Program budgeting at local budget level is optional (pilot impl).	NA	Budget preparation for all 692 local budgets is based on PTM, supported by PFMS (about 20,000 prog).	<u>Not Achieved</u> Recommendations on PTM were made. PFMS not installed thus budgetary program passports were not managed by the new PFMS.
Indicator #2: Budget data and policy assumptions published in greater detail on the MoF web site.				
	Summary proposed budget and budget execution published on Internet.	Detailed budget reports published regularly on the web portal.	State budget execution performance is published in detail from PFMS database (monthly).	<u>Partially Achieved</u> Budget data and policy assumptions published, but the quality of such information has changed only slightly since the start of Project. PFMS was not installed, but in accordance with Article 28 of the Budget Code of Ukraine, information on state budget execution was published on the web-page of the MoF on a monthly basis.
Indicator #3: Budget execution: Improving the system of PFM by means of modernizing accounting system and reporting standards in public sector.				
	Accounting and financial reports not unified in public sector, not aligned with the IPSAS.	2012 budget executed through PFMS using new budget classification and unified chart of accounts.	PFMS is operational based on new national accounting and reporting standards.	<u>Partially Achieved</u> Accounting system is compliant with IPSAS and partially compliant with GFS 2001. However, the PFMS is not yet established/operational.
Indicator #4*: Internal financial control system is in line with international standards				
	Current system is not aligned with int'l standards.		Dropped	
Indicator #4: MoF, STSU and SFIU staff, and spending units (SUs) are trained on new legislation & process changes				

	MoF staff is not familiar with new PFM legislation.	NA	2 workshops for SUs (200 participants) Training of 200 staff.	<u>Achieved</u> 2,456 staff of the MoF, the STS, and SFIU was trained on the new methodology and features of the PFMS. The topics of the training included: suppression of fraud and corruption in PFM sector; automation of the control and revision work planning process on the basis of the evaluation of risks of financial violations by controlled institutions; accounting reform and modernization; major risks in the performance of local; public sector accounting modernization training; structure and contents of the chart of accounts in the public sector; performance of internal audit in ministries and other central executive bodies; public internal financial control; and, support to change management.
Indicator #5: Public Financial Management System (PFMS) established and functioning.				
	Current PFM information systems are fragmented.	PFMS system fully operational. New budget codes and unified chart of accounts are used in PFMS. Staff and specialist training completed.	PFMS go-live in Jan 2015.	<u>Not Achieved</u> PFMS could not be installed.
Indicator #6: MoF, STU and KRU staff trained in PFMS functionality and operations.				
	Basic training in PFMS operations for Central MoF, STU and KRU staff. Local Treasury staff and spending units aware of main function of integrated PFMS.	All staff training completed.	PFMS training and change mgmt completion report prepared.	<u>Not Achieved</u> PFMS not installed and therefore no training delivered.
Indicator #7*: Internal business processes improved.				
	Some outline procedures defined.	Improved automated Business processes in use.	Dropped	
Indicator #7: Timely and comprehensive fiscal management reports produced from PFMS data warehouse.				
	Currently financial reports are fragmented.	Timely fiscal reports produced during 2012 Budget execution.	Data warehouse is fully operational as a part of integrated PFMS platform for online queries; and timely, comprehensive reporting.	<u>Not achieved</u> PFMS not installed and so PFMS data warehouse did not become operational.

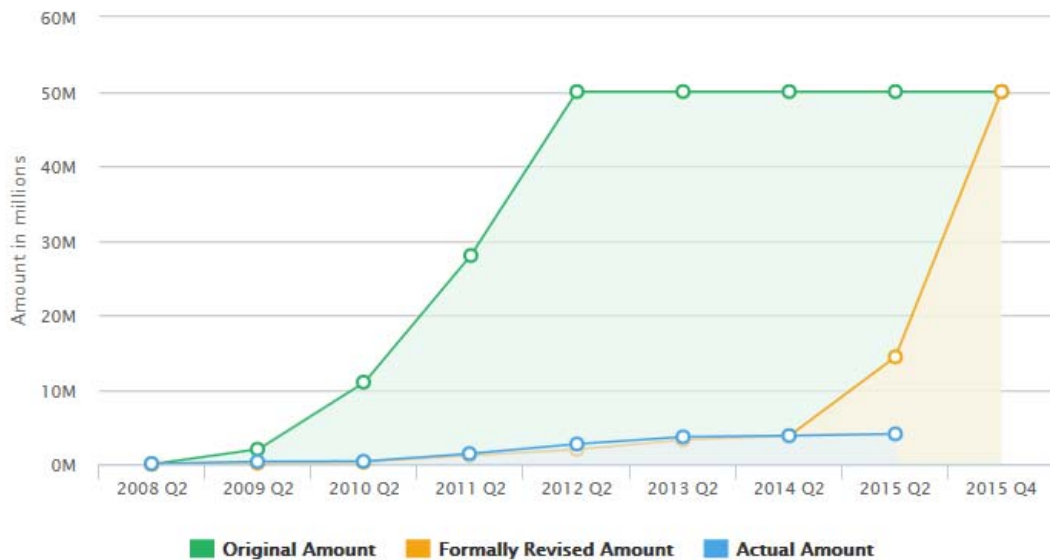
G. Ratings of Project Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	06/23/2008	Satisfactory	Satisfactory	0.00
2	01/06/2009	Satisfactory	Satisfactory	0.14
3	09/09/2009	Satisfactory	Moderately Satisfactory	0.14
4	10/26/2009	Moderately Satisfactory	Moderately Unsatisfactory	0.14
5	05/21/2010	Moderately Satisfactory	Moderately Unsatisfactory	0.90
6	12/11/2010	Moderately Satisfactory	Moderately Satisfactory	1.17
7	07/05/2011	Moderately Satisfactory	Moderately Unsatisfactory	1.94
8	01/24/2012	Moderately Satisfactory	Moderately Unsatisfactory	2.47
9	05/17/2012	Moderately Satisfactory	Moderately Satisfactory	2.70
10	03/04/2013	Moderately Unsatisfactory	Moderately Unsatisfactory	3.42
11	05/17/2013	Moderately Unsatisfactory	Moderately Unsatisfactory	3.42
12	12/18/2013	Moderately Unsatisfactory	Moderately Unsatisfactory	3.59
13	06/07/2014	Moderately Unsatisfactory	Unsatisfactory	3.82
14	12/01/2014	Moderately Unsatisfactory	Unsatisfactory	3.82
15	12/30/2014	Unsatisfactory	Unsatisfactory	3.82

H. Restructuring (if any)

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
04/26/2012	No	MS	MU	2.70	Altering the activities under the second component and closing date extension.
04/04/2013	No	MU	MU	3.42	Defining a new timetable for the second component and introduction of new dated covenants into the Loan Agreement.
10/21/2014	No	MU	U	3.82	Canceling the undisbursed loan amount of \$46.1 million due to project implementation delays and changes in Government priorities in mid-2014.

I. Disbursement Profile



Executive Summary

The Ukraine Public Financial Management Project (PFMP) was approved in January 2008 with the objective of improving operational efficiency and transparency of public financial management in Ukraine. PFMP followed a successful Treasury Modernization Project which closed in 2004. The Government had requested an IBRD loan of \$45 million for a second Treasury Project. However, following institutional reforms bringing State Treasury under the Ministry of Finance through a Presidential Decree in 2005 and the formation of a new government in 2006, the Government's priorities changed. In consultation with the Bank, the Ministry of Finance requested the Bank to develop an integrated Public Financial Management System (PFMS), instead of modernization and upgrading of State Treasury system.

PFMP had three components: strengthening institutional capacity and operational effectiveness; development of an integrated PFMS; and project management. The project cost was \$65 million, of which, \$50 million was IBRD loan and \$15 million was Borrower's contribution. Of the total project cost, \$61.2 million (95 %) was allotted to development of integrated PFMS. The original project period was five years, anticipating closure on June 30, 2013.

PFMP was restructured three times. The first restructuring in 2012 extended the loan by two years until June 30, 2015 and changed the PDO indicators, linking their end of project targets to the implementation of PFMS, and altering some project activities. The second restructuring in 2013 amended the loan agreement to include covenants which provided for termination of the project in the event that procurement deadlines for PFMS were not met. The third restructuring in 2014 cancelled the portion of the loan related to the acquisition of the FMIS amounting to US\$46.06 million and revised the project closing date from June 30, 2015 to December 31, 2014.

When PFMP closed in December, 2014, the major result expected from the project – the development of an integrated PFMS – had not been achieved. Total disbursements were just \$3.94 million: 6 percent of the original project cost.

Project start-up was delayed because the Ministry of Finance wanted to complete improvements in PFM business processes under the first component before starting procurement of the PFMS. At the urging of the Bank's task team, the authorities eventually agreed to implement both PFM reforms and the acquisition of the PFMS in parallel.

Progress in implementing the PFMS then stalled owing to the failure of three separate attempts at procurement. The first attempt was cancelled by the Bank, on the advice of senior management, following an anonymous complaint about the technical compliance of bids, despite OPRC approval and in the absence of a specific allegation of corruption. The second attempt sought to use of single stage bidding process to recover time lost through cancellation of the first attempt. This failed when all of the technical bids were rejected as unresponsive. The third attempt was making good progress when a change in Government and policy priorities in early 2014 led the authorities to request cancellation of the procurement process and the undisbursed portion of the loan.

Alongside the failure of the procurement processes, project implementation was affected turnover of key counterparts in Government and tensions between Treasury and the Ministry of Finance. Treasury's lack of commitment to the PFMS option may have undermined project implementation. Indeed, Treasury continued to upgrade and modernize its system using government resources alongside the project and has successfully launched an upgraded e-Treasury.

Notwithstanding the failure of the PFMS, the Project has made a modest contribution to strengthening of institutional capacity and operational effectiveness of Ministry of Finance. Technical assistance provided by the project supported the design of new business processes which were regulated through the promulgation of new Decrees. The budget department developed new budget preparation instructions that included a mid-term budget framework, linked the budget to the economic and social development program and introduced budget-performance indicators. The project also helped the authorities make progress in accounting and financial

reporting. Budget execution data was published on the State Treasury website regularly. The State Treasury developed the Unified Chart of Accounts which was compliant with IPSAS and GFS 2001. The State Financial Inspections Department used the Risk-Based Planning Methodology to improve efficiency of their inspections.

Progress against PDO indicators was unsatisfactory. This is partly because key PDO indicators were linked to implementation of the PFMS. When alternative indicators are used – such as changes in Ukraine’s PEFA ratings over the period 2005 to 2010, progress in Open Budget Index, compliance with IPSAS and GFS2001 standards, use of financial inspections – it is possible to offer a slightly more generous assessment: modest progress was in some areas of operational efficiency and transparency.

An important lesson learned for project design is that the PDO Indicators for PFM reform projects should focus on the PFM outcomes that the project seeks to deliver rather than the IT solution. PFM reform outcomes can be achieved by improving the regulatory framework, business processes and institutional capacity independently of the IT-enabled FMIS solution adopted. While an effective IT-enabled FMIS will support improvements in business processes, it is not a necessary condition for successful reform. Following this approach, PFM reform projects can achieve satisfactory outcomes even if the IT-solution fails.

PFMP also illustrates that projects supporting FMIS can mitigate the risk of IT failure by keeping the IT options open during project implementation. If PRMP had supported Treasury in the continued development of the e-Treasury system during project implementation, pending the final delivery of the PFMS solution, the project would have contributed to the development of a partial IT solution even if PFMS failed. This would have given continuity to Treasury modernization efforts and could possibly strengthened Treasury engagement in the project and reduced institutional resistance.

1. Project Context, Development Objectives and Design

1.1 Context at Appraisal

1. **Country context.** Ukraine is a lower middle income country with a population of 46 million. In 2006, during preparation of the Public Financial Management Project (PFMP), Ukraine's Gross Domestic Product (GDP) per capita was US\$1,940. From 2000 and until 2005, Ukraine had enjoyed a strong economic recovery, with growth at around 7.5 percent per year on average, among the highest in Europe at that time. Foreign direct investment and bank lending flowed into the country and, together with strong improvements in the external terms of trade due to high steel prices, sustained double digit growth in domestic demand. Rapid economic growth facilitated a sharp decline in poverty, which fell sharply from 31 percent in 2001 to 8 percent in 2005. However, public satisfaction with their material well-being remained low. Structural change had started but remained incomplete and Ukraine continued to lag behind the European Union (EU) accession in terms of economic reform.

2. **Sector Context.** A Public Expenditure Financial Accountability (PEFA) assessment was undertaken in 2006 and published in March 2007. This assessment argued that Ukraine had in place the fundamental PFM systems for managing macro-fiscal policy, some elements for enabling strategic allocation of resources and a few tools for improving operational efficiency. This reflected the relative emphasis in a first round of reforms that had put in place the Treasury and improved budget processes. Second generation reforms were beginning to grapple with strategic allocation of resources, operational efficiency and accountability. While the budget and financial reports were quite comprehensive, the absence of an automated commitment control system, inconsistent integration of pension financial reports into the consolidated reports, the weak governance and oversight framework for state-owned enterprises were identified as significant gaps. Rudimentary tools for targeting spending to government priorities were in place, such as Cabinet involvement in setting budget guidelines, targeted programs and a program-based budget, but the absence of a medium-term expenditure framework, integrating targeted programs, capital spending, and recurrent spending into a coherent macro-fiscal framework, posed a risk to overall fiscal discipline, hindered strategic resource allocation and limited pressure for improved efficiency.

3. **Sector Policy.** The Government of Ukraine (GoU), in office since August 2006, had continued its commitment to PFM reforms in support of improvements in service delivery and governance paving the way for accession to the European Union. Institutional reforms brought the previously independent Treasury under the Ministry of Finance. The Ministry of Finance (MoF) developed a PFM Reform Strategy from the more detailed strategies and action plans of the major players within the PFM system. GoU committed to implement reforms aiming at greater transparency, accountability and efficiency and started to introduce performance-based budgeting (PBB), public financial control and accounting reforms. In line with this emerging broad PFM Reform Strategy, the MoF developed a PFMS Modernization Strategy to guide the development of the information technology supporting reforms. This was approved by the Council of Ministers (CoM) as Resolution No. 888 dated October 17, 2007. This strategy proposed the development of an integrated PFMS information system that would serve as a backbone to all public expenditure management processes and linked to the revenue collection systems. The PFMS would bring together the budgeting cycle under a single platform and facilitate the implementation of improvements in fiscal planning, budgeting, treasury, debt management, accounting and auditing. The PFMS was to capitalize on the existing core treasury system and provide an integrated platform for approximately 8,500 internal users in the MoF, State Treasury of Ukraine (STU), State Kontrol-Revision Service of Ukraine (KRU) offices, central line ministries and other government agencies, as well as around 50,000 external system users.

4. **Rationale for Bank's assistance.** The World Bank had supported the GoU's PFM reforms through the Treasury Systems Project between July 27, 1999 and December 31, 2004, financed by the Bank (Project ID: P049174) at a project-cost of US\$ 27.24 million. The project assisted the Government design and implement a fully functional, automated Treasury system that would serve as an effective instrument for budget execution and cash management. Reform measures included the design and implementation of the underlying legal framework, the setting up of the organizational arrangements for treasury-based payment and receipts processing and design of the associated systems and procedures. These measures enabled Treasury to monitor budget execution closely, collect and provide the MoF comprehensive reliable and timely information required for the management of government expenditure and significantly improved the capacity of the Government for fiscal management. The overall objectives of the project were successfully accomplished and the achievement of objectives is rated satisfactory.

5. In 2004, the government had requested the support of the Bank to design and finance the second phase of the treasury modernization project. However, in 2006 and during project preparation the orientation of the project shifted in line with Government policy, reflecting the integration of Treasury under the Ministry of Finance and the adoption of a strategy that sought to introduce an integrated PFMS covering all Ministry of Finance functions. The Bank was well-placed to support these reforms, mobilizing international experience and building on extensive country analytical work.

6. The new project's objectives were consistent with, and supported, the 2002 Public Expenditure and Institutional Review (PEIR), the 2003 Country Assistance Strategy (CAS) for Ukraine covering the period 2004-2007, the 2004 Country Economic Memorandum (CEM), the 2005 CAS Progress Report, and the 2006 Public Finance Review (PFR), all of which acknowledged accomplishments in Treasury development, highlighted the need to strengthen fiscal discipline and improve PFM and raised concerns about the fragmented fiscal management. PFMP was also linked with the Development Policy Lending (DPL) program, which supported better public governance by implementing policy and institutional reforms across three overlapping areas of improving the investment climate; better public administration and public finance management; and, broadening of social inclusion.

1.2 Original Project Development Objective (PDO) and Key Indicators

7. The development objective of the Project (PDO) was to strengthen public financial management by improving operational efficiency and transparency. This was to be promoted through an integrated PFMS and support for the MoF's urgent reform program. The Key Indicators used to measure performance were as follows:

- Increased strategic alignment of the budget with the public policy priorities through higher integration of the planning and budgeting processes and improved information for budgetary debate and analysis in Parliament, public hearings, and society at large;
- Reduction of 20 percent in time required to get necessary information for managerial decisions through the use of an integrated management and information platform; and
- Increased transparency and reliability of public sector financial reporting through compliance with international accounting standards and alignment with EU accession requirements.

1.3 Revised PDO and Key Indicators

8. The PDO remained the same throughout the project. However, PDO Indicator no. 2 was partially revised and the end-of-project outcome targets for PDO Indicators no. 1 and 3 were changed during the project's first restructuring on April 30, 2012. The restructuring also extended the loan by two years, until June 30, 2015 and changed activities under the second component to enhance PFMS functional and technical requirements in line with the latest regulations, reform actions, and advances in technology; include new PFMS modules to support additional needs that

emerged within the last two years; replace two major International Competitive Biddings (ICBs) with a single-stage combined ICB package to shorten the procurement period for remaining activities; and strengthen the qualification requirements to ensure the participation of only experienced and well qualified suppliers during rebidding

Original PDO Indicator as per PAD, 2007	Revised PDO Indicator	Original End-of-Project Outcome Target as per PAD, 2007	Revised End-of-Project Outcome Target as per Restructuring in April 2012
1. Increased strategic alignment of the budget with the public policy priorities through higher integration of the planning and budgeting processes and improved information for budgetary debate and analysis in Parliament, public hearings, and society at large.	Increased strategic alignment of the budget with the public policy priorities.	Fully Functional PFMS in use during execution of 2012 budget	2016 State Budget and Forecast for MTBF periods (2017-2018 RR) are prepared by using PFMS.
2. Reduction of 20 percent in time required to get necessary information for managerial decisions through the use of an integrated management and information platform.	Unchanged.	Minimum of 20% reduction in average time for accessing information by key decision-makers as measured by follow-up survey.	Unchanged.
3. Increased transparency and reliability of public sector financial reporting through compliance with international accounting standards and alignment with EU accession requirements.	Unchanged.	Certification of compliance with international accounting standards.	National accounting standards are in use (via new PFMS).

9. PDO indicator no. 1 at the time of appraisal was *“Increased strategic alignment of the budget with the public policy priorities through higher integration of the planning and budgeting processes and improved information for budgetary debate and analysis in Parliament, public hearings, and society at large”*. The emphasis at this stage was on *higher integration* of planning and budgeting processes and providing *improved information* for budgetary debate and analysis in Parliament, public hearings, and society at large. The PDO indicator was revised as *“Increased strategic alignment of the budget with the public policy priorities”*. The emphasis on *higher integration* and *improved information* was removed. This revision was inconsistent with the PDO of improved operational efficiency and transparency; integration of planning and budgetary processes would have positively contributed to improving operational efficiency; and improved information for budgetary debate and analysis would have contributed to improved transparency.

10. The end of project target for PDO indicator number 1 at the time of Appraisal was ***“Fully Functional PFMS in use during execution of 2012 budget”***. This was revised during Restructuring as ***“2016 State Budget and Forecast for MTBF periods (2017-2018 RR) are prepared by using PFMS”***. The target was thus revised to cover the extended project period until 2016 budget preparation; and link PFMS not only with Budget but also the MTBFs. This revision would not have impacted the achievement of PDO. The interim yearly targets at the time of Appraisal were *‘approved budget laws consistent with approved Medium-term Budget Frameworks (MTBFs)’*. These were revised also during Restructuring to *‘preparing State Budget and Forecast for MTBF periods based on economic and social development programs, and national target programs’*. This revision strengthened the linkage and alignment between plan and budget. However, this came very late in the project implementation period.

11. The PDO indicator no. 3 was *“Increased transparency and reliability of public sector financial reporting through compliance with international accounting standards and alignment with EU accession requirements”*. This indicator was unchanged during the restructuring. However, its end of the project target was revised. At the time of Appraisal, end of project target was *“Certification of compliance with international accounting standards”*. At restructuring, this was revised to *“National accounting standards are in use (via new PFMS)”*. The revised target was more challenging to achieve requiring not only application of the standards but also the application using the PFMS. This change was made at a time when the procurement process of the PFMS had been cancelled and it was to be re-started using upgraded technical specifications and revised procurement method. The intention was to motivate the government to develop and use the PFMS within the agreed time frame.

12. In addition to changes in PDO indicators, changes were made in the Intermediate Outcome Indicators and the end of project targets. These changes are summarized in Annex 2. Under Component 1 on strengthening institutional capacity and operational effectiveness, two intermediate results indicators were dropped and two indicators were added. At Appraisal stage, one out of four Intermediate Indicators were linked with PFMS. After restructuring two out of four Intermediate Indicators were linked to the PFMS. Under Component 2 on development of integrated PFMS, one out of four indicators was dropped and the remaining three were revised to enhance the level of end of project targets in relation to functionality of the PFMS.

1.4 Main Beneficiaries

13. The MoF was the beneficiary of the Project. Project activities were also designed to assist STU and KRU substantially to strengthen treasury and internal audit operations and support reform needs in addition to urgent MoF requirements while developing an integrated information system.

1.5 Original Components

14. The original components of the Project were as under:

- **Component 1: Strengthening institutional capacity and operational effectiveness (US\$2.581 million):** The purpose of this component was to assist the MoF in selected institutional capacity building activities for PFM reforms, functional review of the MoF, business process re-engineering, and design of ICT solutions, as a part of broader PFM reform agenda (2007-2011). Enhancement and optimization of the functions and operational efficiency of the MoF, KRU and STU were other important objectives. Assistance in strengthening the institutional capacity was to be limited due to existence of adequate donor funding (grants) available for the GoU to implement PFM reforms.
- **Component 2: Development of an Integrated Public Financial Management System (PFMS) (US\$61.195 million):** With the completion of the Bank's first Treasury project in December 2004, a well-functioning Treasury System (TS) was already in place. The reform agenda now required the integration of key PFM modules to create a single, integrated centralized information system that would serve as a backbone to all public expenditure management processes and link with the revenue collection systems.
- **Component 3: Project Management (US\$1.224 million):** This component was to ensure timely and efficient allocation of resources, to carry out project procurement, financial management, and audit activities, to monitor and evaluate the implementation and to interact with all local and international entities involved in project execution.

15. The first component was to build institutional capacity and improve business processes in budget preparation, budget execution, cash management, internal financial controls, and transparency in budget planning and public expenditure. The second component was to integrate key PFM modules and create a single, integrated centralized information system. Together, these

components would contribute to improved operational efficiency and transparency leading to strengthened public financial management.

1.6 Revised Components

16. There were no revisions in the components.

1.7 Other Significant Changes

17. ***Second Project Restructuring in April, 2013.*** During the course of implementation in 2013, it was felt that there was a risk that the Project will not achieve its PDO by the closing date of June 30, 2015, because of delays in the procurement of the PFMS solutions. The implementation of the PFMS was indispensable to the attainment of the PDO and the bulk of the remaining disbursements (90 percent of the total loan). A low level of disbursements was expected before the completion of the PFMS contract. To mitigate this risk, the Bank and the Borrower agreed to amend the Loan Agreement (LA) to include key covenants and dates for another bidding process (single-stage) based on a mutually agreed timetable. Delays or failure of the Borrower to comply with the new covenants and meet these target dates would jeopardize the Project.

18. ***Third Project Restructuring in October, 2014.*** Progress on the project had been very slow in respect of acquisition of the FMIS. Other components of the project had proceeded satisfactorily. However, procurement of the FMIS had failed twice. A third attempt to acquire a Financial Management Information System (FMIS) was underway and was progressing well using a two-stage bidding process when the Government changed course following the change of Government in March, 2014. The project was restructured in April 2013 with a series of covenants which provided for termination of the project in the event that procurement deadlines were not met. In view of the political and economic developments in the country, which had created severe fiscal pressures, the Government reviewed its priorities and requested that the project be scaled down and closed. The Ministry of Finance decided not to pursue the option of a customized off-the-shelf FMIS. Instead, they decided to upgrade the hardware and add to the functionality of the existing Treasury system. As a result, as per Government's request, the Bank cancelled a portion of the loan related to the acquisition of the FMIS amounting to US\$46.06 million and revised the project closing date from June 30, 2015 to December 31, 2014.

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design and Quality of Entry

2.1.1 Soundness of background analysis:

19. The Bank funded *Treasury System Project*, completed in December 2004¹, had assisted the GoU in setting up the new treasury function, modernizing treasury operations and upgrading its capacity for fiscal management. The Treasury was capable of monitoring the budget execution closely and collecting and providing the MoF with comprehensive, reliable and timely information for effective public expenditure management. The GoU had requested the Bank's assistance for the second Treasury project (Treasury II), through their letter dated August 12, 2004 (attached as Annex 4), with following objectives: to improve the scope and functionality of the system of public finance management and associated legal framework and procedures developed under the first Treasury project; and to enable the system to become a better instrument for budget allocation and technical efficiency, better execution, audit and control, and further improved cash management. A PHRD Grant² was approved and became effective in January 2005 for the

¹ Loan Agreement #4285-UA, September 15, 1998.

² TF054609.

preparation of Treasury II project. However, due to a changed political scenario in 2005, State Treasury became subordinate to the MoF through a Decree of the President³.

20. The MOF requested immediate advisory support from the Bank for its reorganization, identification of information needs and establishment of EU compatible functionality. Following discussions with the MoF, Treasury and other stakeholders, the Bank and the MoF decided that the Treasury-II project should be converted into an integrated PFMS project incorporating additional functional modules and providing linkages with other systems in and outside the MoF. This reflected Ministry's understanding of its information system needs and the new institutional arrangements after State Treasury became subordinate to the MoF (by Decree of the President in 2005, followed by the formation of a new government in August 2006). The Bank agreed to activate the PHRD grant for the Treasury to assist in preparation of the new PFM project and to advise the MoF and STU on reorganization and integration issues. The focus shifted to preparing the integrated PFMS project. While the Treasury was actively involved in the development of the PFMS solution and the project at the design stage and while the relationship between Treasury and the MoF fundamentally changed, it is not clear that all stakeholders were committed to the process of institutional integration or the decision to abandon the e-Treasury system in favor of an integrated PFMS solution.

2.1.2 Assessment of the project design:

21. **Objectives:** The PDO was to strengthen PFM by improving operational efficiency and transparency. This was achievable within a 5-year project time-period and the government could be held accountable for it.

22. **Components:** The Project had three components - strengthening institutional capacity and operational effectiveness; development of an integrated Public Financial Management System (PFMS); and, Project management. Considering that Bank-financed 'Treasury Systems Project' was satisfactory and the government had requested support for that in the form of Treasury II project, the Project could have included a fourth component to support continued support and upgrading for the e-Treasury. This would have allowed the project to support system improvements and provided a safeguard in case of delays or failure of the integrated PFMS solution. The Quality Assurance Group (QAG) in their report of 2009 wondered 'whether the integration of Treasury into the MoF overloaded Ukraine's politically volatile circuits, particularly when resistance of the civil service, and, government changes, had been identified as a substantial risk. It consumed significant Government and Bank effort and attention that might have been better focused on improving data systems'. Inclusion of a component to support the Treasury modernization could have reduced the tension and reduced the risk of institutional resistance from the Treasury. During implementation, the project restructuring in April 2012 provided an opportunity to include a component to support treasury modernization. This option was not considered despite the failure of the PFMS procurement process and the proposed restart of procurement process with upgraded technical specifications of PFMS. In the absence of support from PFMP, the State Treasury used its operations and maintenance budget to continue upgrading of e-Treasury system on its own.

2.1.3 Adequacy of government's commitment

23. The Project was prepared with support from the PHRD and Dutch Grant over a two year period. The project design was informed by the organizational review of the MoF undertaken in 2005, the PEFA assessment in 2006, and the White Paper on Internal Audit and Control of 2005. This supported the integration of Treasury under the MoF and the use of an integrated IT solution to help Treasury become more responsive to the information and control needs of the MoF. Government ownership and commitment was flagged as a substantial risk during preparation, notably vested interests by civil servants and others, as well as government changes. One of the implementing agencies, the State Treasury, lost its independence and much of its authority while

³ Decree#676 dated June 2005.

the MoF gained power and influence. State Treasury now had to report to the Cabinet through the MoF rather than directly. Thus, while MoF was fully committed to the project design and KRU was generally supportive, it was not always clear that the State Treasury was fully committed. Indeed, at times Treasury officials appeared to highlight problems and raise issues in a manner that hindered effective implementation of the project and the introduction of a new integrated IT system. While MoF and the Bank chose not to support the upgrading of the e-Treasury through PFMP, focusing instead on the development of an integrated system, Treasury continued to support e-Treasury system using the meagre state resources earmarked for its operations and maintenance from 2009. Treasury continued to view the e-Treasury system as a viable alternative to the PFMS throughout project implementation. Indeed, in the closing months of the project, when the authorities were exploring options for scaling back the project, Treasury proposed to use part of the funds to scale up the IT capability and create modest additional functionality in the e-Treasury system.

2.1.4 Assessment of Risks

24. Risks were adequately assessed at the Appraisal stage. The risk to the PDO was identified as *“loss of the Government commitment to public financial management reform”*. This was quite accurate. While PFM projects are often presented as technical programs of PFM modernization with no political ramifications, they are not neutral programs of financial modernization, as they take away an important lever of central political control, changing the way in which public finances are managed, from discretionary central sanction to a more automatic rule based system of decentralized spending of authorized appropriations. In this case, there was a significant shift of power from the State Treasury to the MoF. This inevitably caused resentment and possibly generated passive and active institutional resistance to reforms.

25. To succeed, this project needed sustained political commitment, strong technical capacity and a change management strategy that addressed the institutional tensions between winners and losers of the reforms. While the project was supported by several successive governments during preparation and ratified by the Parliament by almost 300 MPs such initial agreement at the highest levels of government, although important, was not sufficient to ensure continuity or depth of ownership. This is particularly true in an environment such as Ukraine with frequent government changes. Most importantly, high level political support did not address let alone overcome the underlying tensions between MoF and the State Treasury. Perhaps, the planned risk mitigation measure (*Bank to closely monitor the Government commitment and continue to maintain dialogue with the MoF on key PFM issues*) could have contributed to a resolution of this tension if a serious effort had been made to explore how to meet Treasury’s needs and concerns (such as by including a component upgrading e-Treasury). However, the solution adopted was to enforce implementation of the integrated solution rather than explore options and open dialogue between the various stakeholders.

2.2 Implementation

26. Project implementation is deemed unsatisfactory because the project’s main outcome—a new installed PFMS which supposed to substantially improve the automation of business processes by supporting improved financial control, higher quality and timeliness of information flows, and larger transparency—was not achieved.

27. Most of the activities under Component 1 were implemented as planned. These activities supported PFM system reforms and developed new business processes, including: instructions on preparation of budget requests; a methodology for the evaluation of budget program efficiency; a performance program budgeting system; establishment of budget performance indicators; optimization of number of budget programs; agreement of norms of sectoral fiscal capacity; systems for monitoring and evaluation of effectiveness authorities exercised by local self-government; a new system for risk-based planning of financial inspections; and, strategic

alignment of budget and MTBF with policy priorities are a few such institutional changes that are going to remain with the government and strengthen their management public finances.

28. None of the activities foreseen under Component 2 were implemented and as result the PFMS was not delivered. Failure to deliver the PFMS did not have a direct negative impact on PFM system performance but it did significantly delay the implementation of an integrated IT solution. Fortunately, State Treasury had continued to implement and upgrade its e-treasury system, which almost fully covers functionality of the Treasury module envisaged in the PICB-4. Implementation of an integrated PFMS is still an important issue for the MoF which wishes to automate budget processes. Preparation of a new project on building a modern PFM system and e-governance development remains an important reform agenda for the MoF, the State Treasury and the SFI. The factors that led to the failure of Component 2 and the project as a whole are reviewed below.

29. **PFMS start-up delay.** The MoF did not want to start the procurement of the PFMS until the PFM business processes were improved under the project's first component. The task team argued that PFMS software would be flexible enough to adapt to any changes in the business process of PFM and so there was no need to delay PFMS procurement. Eventually, after a delay of eight months MoF agreed to implement the first and second components both in parallel rather than sequentially.

30. **Failed Procurement of PFMS.** The project's success or failure hinged on timely procurement. The Project had initially planned two ICB packages for software (ICB1) and hardware (ICB2) respectively to be undertaken through two-stage procurement processes. Procurement proceeded smoothly until an anonymous complaint was received in respect of ICB1 stating that not all bidders had complied with the technical requirements and that Oracle licensing conditions were not in the best interests of the project. The task-team referred the complaint to the INT which initiated investigations. Since complaint was not against any particular company and did not allege corruption, INT took some time in gathering information on possible of collusion and corruption. While the investigation was ongoing, the matter was referred to OPRC for a decision. OPRC, after careful review of facts, noting that an INT investigation was ongoing, approved the selection based on the lowest cost method. Meanwhile, in view of the ongoing INT investigation and possibility of corruption, Senior Management directed the task team to cancel the procurement process. The task team complied accordingly and cancelled the procurement process under both ICB1 and ICB2. Senior Management's intervention in the process of providing a 'no objection' in a procurement decision led to the cancellation of a potentially successful procurement process. Subsequently, INT reported that one of the companies in the consortium that had bid the lowest cost under ICB1, was found guilty of corruption in another project of another sector and that it had been temporarily suspended. That company could not, therefore, be granted a Bank-contract from the date of its temporary suspension.

31. After the cancellation of procurement process under ICB1 and ICB2, the Project adopted single-stage procurement process under ICB3. While a two-stage procurement process is usually followed for procurement of technically complex IT systems, to allow bidders to acquaint themselves with the technical requirements in the first stage, the risk of technically unresponsive bids was considered to be relatively small given that the market had already been consulted in the earlier – failed – ICB1 and ICB2 processes. However, firms failed to provide technically responsive bids and ICB3 process had to be cancelled. This delayed the procurement of PFMS significantly.

32. After the failure of ICB3, ICB4 was re-launched as a two-stage process in 2013. This process was going relatively smoothly with first stage nearing completion, when the political situation changed in early 2014. The Government indicated that priorities had changed, decided to cancel the procurement process and requested that the Bank cancel the remainder of the loan and project activities terminated.

33. **Institutional Leadership.** Implementation of reforms was hampered by frequent changes in the project leadership at various levels. Following the resignation of Minister of Finance in early 2009, the January 2010 Presidential elections led to a appointment of a new Minister of Finance provided a firmer basis for political leadership. At a more operational level, implementation was hampered by eight changes in the Project Leader during the project implementation period. This contributed to a lack of focus and continuity of priorities. The shortcomings in project leadership were aggravated by differences in views among component managers as well as between the key institutions involved. This hampered effective decision making, prevented decisive action and contributed to delays in project implementation and ultimately to the cancellation of the PFMS procurement procedure.

2.3 Monitoring and Evaluation (M&E) Design, Implementation, and Utilization

34. **M&E Design:** The indicators used were not effective in measuring the impact on the PDO of improving ‘efficiency’ and ‘transparency’ of PFM. All of the PDO indicators suffered significant limitations.

35. PDO indicator #1: ‘increased strategic alignment of the budget with public policy priorities’ would have positively impacted the ‘effectiveness’ of PFM, but not its ‘efficiency’. However, ‘improving ‘effectiveness’ of PFM’ was not part of the PDO. The end of Project target at the time of Appraisal was kept as ‘fully functional PFMS in use in the execution of 2012 budget’. This was neither ‘necessary’, nor ‘sufficient’ condition for ensuring a strategic alignment of budget with public policy priorities. While PFMS would be a tool for budget management, the strategic alignment of plan priorities and budget has to happen outside the IT system before PFMS can the process in the IT environment. The focus should have been on addressing the problem identified in diagnostics at the time of project preparation: preparing budget forecasts based on economic and social development programs and national target programs. At appraisal stage, budget provisions were to be linked to the MTBFs.

36. PDO indicator #2 sought to measure efficiency in terms of: ‘reduction of 20 % in time required to get necessary information for managerial decisions through the use of an integrated management information platform’. While the PFMS could have contributed significantly to time-savings, the PFMS was not a necessary or a sufficient condition to achieve this outcome. PFMP financed functional reviews and business-process reengineering, which could have contributed to time-savings independently of the PFMS. An alternative measure of operational efficiency could have been the PEFA indicators. There was a PEFA assessment conducted in 2005, from which, scores on a few relevant indicators and dimensions could have been used as a baseline. There was a repeat PEFA assessment was conducted in 2011, and a PEFA assessment is now planned in 2015. Thus, the project could have an objective, evidence-based, and a third-party assessed baseline, mid-term, and end of project measure of operational efficiency.

37. PDO indicator #3 sought to measure transparency in terms of: Certification of compliance with international accounting standards. While compliance with international accounting standards would have allowed budget ‘provisions’ and ‘actuals’ data to be reported with a more detailed set of classifications, the classification system is not a sufficient condition for transparency. A more effective measure of transparency would be the indicators underlying the Open Budget Index (OBI) which assesses the government publishes key budget documents: the focus is on availability of information for citizens to analyze, question and debate budget provisions and expenditures. PEFA Indicator-10 is also a good measure of budget transparency. So, while the indicator so designed would allow reporting of budget data in a more detailed set of classifications, it would contribute to transparency only if the budget data is published in a more effective and timely manner to allow greatest possible citizen’s access.

38. **M&E Implementation.** On PDO indicator 1, the baseline and achievements have not been precisely drawn. The baseline reads: “existing budget formulation methodologies are not conducive for the use of budgets as a policy instrument”. There is no measure of the ‘extent’ and ‘direction’ of deviance between budget and policy. Similarly, the progress reported is that budget

and MTBF forecasts are based on the forecast of economic and social development program, action program of council of ministers, and national target programs. Again, there is no attempt to actually measure the degree of alignment.

39. On PDO indicator 2, there was no baseline information at appraisal. Consequently, it is not clear whether 20 % reduction was adequate or over ambitious. The baseline study was conducted in 2012, which is close to the original project closing date. The repeat survey was conducted only in 2013, not at the end of the project. Thus, this indicator, both by design and measurement, failed to measure impact on operational efficiency.

40. On PDO indicator 3, there were two main sets of targets – first to fully develop and approve national accounting standards for public sector, and second, to ensure that those accounting standards were in use via the new PFMS. These indicators were well understood and measurable.

41. **M&E utilization.** Due to design flaws, the M&E framework could not contribute satisfactorily to project management. There is very little evidence that the M&E framework were actually used as management tools to guide project activities, resource allocations or supervision activities.

2.4 Safeguards and Fiduciary Compliance

42. The Project had a continuous “Satisfactory” rating for the Financial Management and “Moderately Unsatisfactory” rating for the Procurement Management. There were no major operational issues related with financial management and disbursement: disbursements were only 5.6 percent of the original project cost due to the failure of procurement of integrated PFMS which amounted to about 95 percent of the total project cost.

43. Shortcomings of the project procurement were reviewed above in section 2.2. ICB1 and ICB2 procurement processes were cancelled on instruction from Senior Management owing to perceived risk of corruption. ICB3 was conducted using a single-stage bidding process, in expectation that qualified bidders from the cancelled ICB1 and ICB2 would have applied and there had been adequate market consultation during these process. This assumption proved mistaken: the bids received were all technically unresponsive and ICB3 had to be cancelled. ICB4 was launched and making good progress but could not be completed owing to a change in Government priorities in early 2014.

44. None of the project activities triggered social safeguards. The Project provided funding for institutional reforms and did not include new construction, land acquisition, or any other activities that raise social safeguard issues. The project operation was limited to provision of technical assistance in support of the Government’s strategy for public financial management reform. No negative environment impact arose from implementation of this Project. There were no deviations or waivers from the Bank safeguards/ fiduciary policy procedures.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation

- **Relevance of Objectives: Substantial**

45. The PDO was to strengthen PFM by improving operational efficiency and transparency. At the time of loan approval, this objective was consistent with the Country Partnership Strategy (CPS) for the fiscal years 2008-2011, the second pillar of which, sought to improve public services by targeting greater efficiency in spending, and using improvements in public sector financial management as an entry point into public sector reforms. This objective continues to remain relevant today in light of the CPS for fiscal years 2012-2016, the first pillar of which, supports the

sustainability and efficiency of public finances and a more transparent and accountable use of public resources. The objectives were relevant to the DPL program, at the time of loan approval, as it supported better public governance by implementing policy and institutional reforms across three overlapping areas: improving the investment climate; better public administration and public finance management; and broadening of social inclusion.

46. Ukraine is still emerging from the 2009 economic and financial crisis with serious structural weaknesses left unaddressed. Fiscal imbalances remain significant and large social transfers, inefficient public services and significant quasi-fiscal subsidies threaten sustainability. Over the past decade, Ukraine's authorities have shied away from addressing the challenges of state capture and corruption, and public trust in the state has been undermined. This in turn has created public resistance to necessary but painful reforms of social transfers and public services.

47. In light of this situation, CPS 2012-16 aims to assist Ukraine in overcoming implementation bottlenecks identified in the Presidential Program and thus help to make progress in the declared ambitious reform and EU integration agenda. It will support efforts of the authorities to improve relations with civil society and business; to turn social distrust into support for reform and make government both more accountable and more effective. The Bank's support is organized around two pillars, both emphasizing the importance of improved governance for sustained socio-economic progress in Ukraine. Pillar I specifically supports deepened relations between government and citizens, focused on improving public services, sustainability and efficiency of public finances, and a more transparent and accountable use of public resources. The objective of strengthening public financial management through improving operational efficiency and transparency therefore remain relevant even today.

- **Relevance of Design: Modest**

48. While the PDO of improving operational efficiency and transparency was relevant to the country and sector context and also to the country partnership strategy and development programs of the country, the project design was not fully consistent with these objectives. The PDO indicator#1 of increased strategic alignment between budget and policy priorities, for example, contributed to improving effectiveness of the PFM, but not to efficiency and transparency. The PDO indicator#2 of reducing time taken in decision-making was not being contributed to by any project activity specifically. The PDO indicator#2 on improving transparency was simply based on improving accounting standards for better reporting rather than publishing the key fiscal data on public domain.

49. During Restructuring in 2012, several outcome indicators were linked with the PFMS. This decision was taken despite the fact that the first PFMS procurement process had failed and the project and the risks to involved in the timely completion of the procurement process of PFMS. Linking outcome indicators to the operationalizing of PFMS significantly increased the risk that the project would have and unsatisfactory outcome.

50. The design of the project components and activities were relevant. The component 1 on strengthening institutional capacity and operational effectiveness and component 2 on development of integrated PFMS were both designed to contribute to operational efficiency and transparency. The decision to opt for an integrated PFMS system was highly relevant given the integration of the State Treasury into the MoF and the pressing need for MoF to gather timely information across the full range of PFM functions. Given the long lead time to the completion of the PFMS and the high risks of system integration, the project have mitigated these risks by providing modest support for the continued upgrading of the e-Treasury system. In the end, the Treasury funded upgrading from its own resources and this has allowed continuity in service.

- **Relevance of Implementation: Modest**

51. Project activities remained relevant through implementation. Delays in project start-up occurred after ratification by the Parliament owing to the authorities' preference to strengthen

business processes of PFM under component 1 before starting the development of the PFMS. Ultimately the authorities agreed to proceed with both components simultaneously, after a delay of approximately eight months. Thereafter, implementation of component 1 proceeded largely as planned up to the point of development of the supporting PFMS. These activities complemented support from the European Union's 'Effective State Budget Management'; DFID's Regional Strategic Budget Planning (including PFM); and French Treasury's "Treasury Reform, Internal Audit and MoF & MoE Reform Projects". In contrast, activities under component 2 never started owing to the failure of the ICB1 and ICB2 and subsequent ICB3 processes and the cancellation of ICB4.

3.2 Achievement of Project Development Objective

52. Progress against the elements of the development objective of the project – operational efficiency and transparency – are reviewed in turn below, drawing on information from project monitoring, supervision reports and third party sources.

- **Improving Operational Efficiency: Partially Achieved**

53. The PDO indicator to measure improvement in operational efficiency was a reduction of 20 percent in the time required to get necessary information for managerial decisions through the use of an integrated management and information platform. No assessment was undertaken during preparation or the early stages of implementation to define a baseline. No assessment was undertaken at project closing to assess progress against the target. However, the Project Implementation Unit (PIU) did conduct specialized surveys of four business processes to determine the time required to take managerial decisions in 2012 and 2013. The results of this assessment are presented below. Details of time taken in different sub-activities of each of these business processes are provided in Annex 13. The results suggest that there was virtually no change in the time required to get necessary information for managerial decisions between 2012 and 2013 and on this basis, there is no evidence of improvement in operational efficiency over this period.

Business Process Indicator	Business process	Unit	Number 2012	Number 2013
1. The amount of time required to provide services to spending units and make other payments by STSU departments	Business Process 1	hours	3.34	3.25
2.1 The amount of time required to prepare a report on execution of State Budget	Business Process 2	hours	1.07	1.07
2.2 The amount of time required to prepare consolidated reports on execution of State Budget	Business Process 2	hours	4.33	4.33
2.3 The amount of time required to prepare reports on execution of State Budget for certain areas	Business Process 2	hours	8.16	8.16
2.4 The amount of time spent on the formulation of revenue forecasts in preparing the budget by the Ministry of Finance;	Business Process 3	person/days	190	190
2.5 The amount of time required for planning of control and auditing measures by the State Financial Inspectorate of Ukraine	Business Process 4	person/days	2937	2991

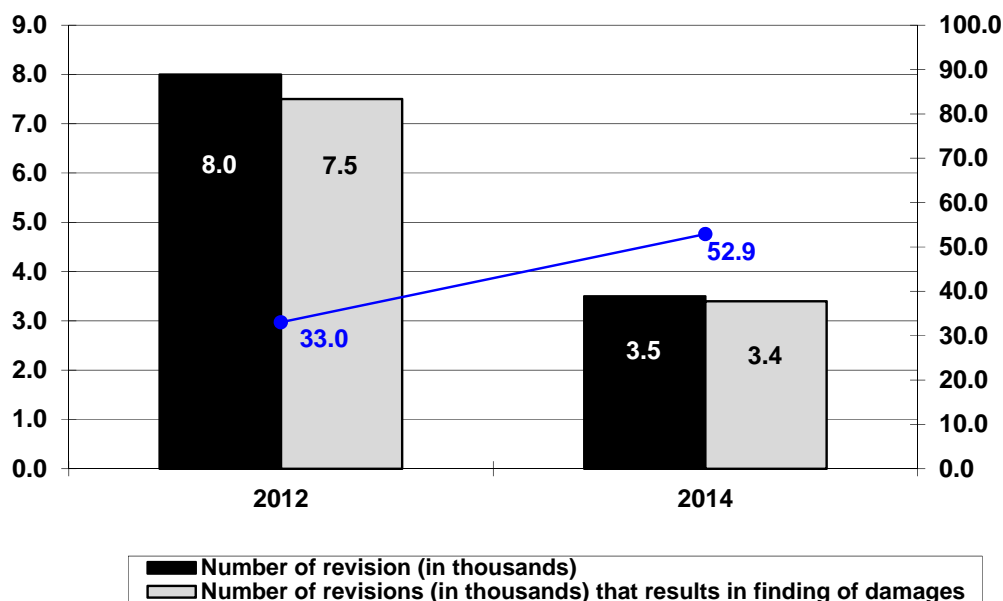
54. **Alternative Indicator – PEFA.** An alternative approach to the assessment of operational efficiency could draw on the PEFA assessments conducted in 2005 and 2010. The comparison of relevant 20 PEFA dimensions is presented below. This points to improvements in: linkages between investment budgets and forward expenditure estimates; the extent to which cash flows are forecast and monitored; scope of reports in terms of coverage and compatibility with budget estimates; quality of information in budget reports; and, completeness of the financial statements between 2005 and 2010. Amongst these, improvements in the extent to which cash flows are forecast and monitored and completeness of financial statements were substantial. While these indicators do not support conclusions regarding operational efficiency as measured by reductions in time taken for business processes, they do point to improvements in the integration and operational efficiency in terms of delivering the desired outcomes over part of the project period.

Sl. No.	PEFA Indicator	Relevant Dimensions	PEFA Score 2005	PEFA Score 2010
1	PI-4 Stock and monitoring of expenditure Payment arrears	(ii) Availability of data for monitoring the stock of expenditure payment arrears	B	B
2	PI-7 Extent of Unreported government Operations	(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports	A	A
3	PI-12 Multi-year perspective in fiscal planning, expenditure Policy and budgeting	(i) multi-year fiscal forecast and functional Allocations	C	C
4		(iv) linkages between investment budgets and forward expenditure estimates	D	C
5	PI-16 Predictability in the availability of funds for commitment of expenditures	(i) Extent to which cash flows are forecast and monitored	D	A
6		(ii) Reliability and horizon of periodic in-year information to Line Ministries on ceilings for expenditure commitment.	A	A
7	PI-17 Recording and management of cash balances, debt and guarantees	(ii) Extent of consolidation of the Government's cash balances	B	B
8	PI-20: Effectiveness of internal controls for non-salary expenditure	(i) Effectiveness of expenditure commitment controls	B	B
9	PI-22. Timeliness and regularity of accounts reconciliation	(i) Regularity of bank reconciliations	A	A
10		(ii) Regularity of reconciliation and clearance of suspense accounts and advances	A	A
11	PI-24 Quality and Timeliness of in-year budget reports	(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	A
12		(ii) Timeliness of the issue of reports	A	A

Sl. No.	PEFA Indicator	Relevant Dimensions	PEFA Score 2005	PEFA Score 2010
13		(iii) Quality of information	B	A
14	PI-25 Quality and timeliness of annual financial statements	(i) Completeness of the financial statements	D	B
15		(ii) Timeliness of submission of the financial statements	A	A
16		(iii) Accounting standards used	C	C

55. **Alternative Indicator – Financial Inspections.** The Risk-based Planning Methodology developed with the Project’s assistance was adopted by the State Financial Inspection’s Methodology Council in 2012. Selection of objects/units for the state financial revisions (inspections) was based on 16 indicators for the budget entities and on 22 indicators for the state enterprises. Objects/Units were classified as per three levels of risks: high, medium and low; and, only “high risk” objects (budget units or SOEs) were included in the Audit-plan. Since PFMS was not developed, the list of objects/units, their budgetary provisions and data to measure potential risks was entered manually. The improved Risk-Based Planning Methodology helped the Financial Inspections Directorate increase efficiency through better focus and control. First, the number of violations detected increased as a percentage of the number of inspections. In 2012, the State Financial Inspection Directorate conducted about 8,000 planned inspections, detecting 7,500 financial violations at a rate of 94 percent. However, after use of improved Risk-based Planning methodology, State Financial Inspections Directorate conducted only 3,500 “high risk” inspections which identified 3,400 financial violations at a rate of about 98 percent. Thus, with risk-based planning methodology, in 2014, number of inspections was reduced by 56 percent in comparison to number of inspections carried out in 2012, thereby putting lower pressure on staff and resources, while the detection of financial violations rose from 94 to 98 percent. Second, and increase in the percentage of referrals to law enforcement agencies. In 2012, 33 percent of violations detected were referred to law enforcement agencies for prosecution. In 2014, this increased to 53 percent. This suggests an improvement in the quality and follow-up to inspections. Summary performance data from before and after adoption of risk-based planning methodology in the State Financial Inspection Directorate are presented in the below Figure 1.

Figure 1. Results of State Financial Inspection work.



Source: State Financial Inspection.

Improving Transparency: Negligible

56. The PDO indicator for improvement in transparency was ‘compliance of public sector financial reporting with international accounting standards and alignment with EU accession standards’. The end of project target was – ‘national accounting standards are in use (via new PFMS)’.

57. **Compliance with IPSAS: Modest.** With the assistance of the World Bank, 19 new public sector accounting standards⁴ have been developed and adopted based on the International Public Sector Accounting Standards (IPSAS) accrual standards. On December 31, 2013, the MoF issued Decree#1203 approving Unified Chart of Accounts compatible with the IPSAS. The government has committed to transition to accrual accounting. National public sector accounting regulations (standards) came into effect from January 01, 2015, and annual financial statements of fiscal year 2015 will be produced on the basis of these accrual standards. Despite the requirements of the CoM resolution, it is not realistic that accrual accounting will be fully adopted during 2015. Ukraine certainly has made great progress in the transition to accrual accounting. The current reporting regime includes some of the elements required in an accrual regime, such as reporting of the stock of certain financial assets and liabilities, including arrears. However, current practices hinder progress toward full accrual accounting, notably: weaknesses in the accounting systems; the budget execution focus of reporting; lack of capacity for accounting for the use of assets, liabilities and inventories; and lack of coverage of all controlled entities in the accounts. Furthermore, while IPSAS requires consolidated reporting on all of the entities under the control of the government it is simply not possible to include State-Owned Enterprises and non-budgetary operations of the social welfare funds in the short run. Despite ongoing enhancements to the current system in place in the STU, there remain significant weaknesses in its capacity to support accrual accounting. The current Treasury system is designed to track movement in cash deposit accounts and to control and

⁴ Public Sector Accounting System Modernization Strategy for the Years 2007-2015” (Resolution by the Cabinet of Ministers of Ukraine #34 dated January 16, 2007), and the “Strategy of Applying International Financial Reporting Standards in Ukraine” (Decree by the Cabinet of Ministers of Ukraine #911-p dated October 24, 2007) were approved.

report against cash based budget appropriations. This system does not support transactions in nonfinancial assets, nor does it record non-cash balances such as accounts payable or receivable.

58. **Compliance with Government Finance Statistics (GFS): Partial.** An IMF report of September 2014⁵ notes that the Budget is classified according to administrative unit, program, and economic classification. A functional classification is used in budget preparation and reporting but is not used for budget execution control. The economic classification specified is quite detailed, equivalent to a 4-digit GFS economic classification, but not fully compliant with GFSM 2001. The new unified chart of accounts does bring Ukraine into partial compliance with GFSM 2001. Additional alignment measures are to be introduced with effect from the budget of fiscal year 2016.

59. **Alternative Indicators – Open Budget Index and PEFA.** As explained in Section 2.3 above, the PDO indicator does not fully measure the efficacy of the PDO of enhanced transparency. The ICR team, therefore, referred to the Open Budget Index (OBI) as an independent assessment of PFM Transparency in Ukraine during the project period. OBI measures the amount, level of detail, and timeliness of budget information published made publically available. Countries are scored between 0 and 100. In 2012, Ukraine's score was 54 out of 100, which is a little higher than the average score of 43 for all the 100 countries surveyed but is lower than the scores of its neighbors Bulgaria, the Czech Republic, Poland, Russia, and Slovakia. Ukraine's score declined from 62 in 2010 and 55 in 2008. On the basis of this assessment, there little to suggest that budget transparency improved during the project period. A similar conclusion can be drawn from the PEFA assessments of 2005 and 2010. Scores for Performance Indicator 10 on Public Access to Key Fiscal Information remained unchanged at "B" in both assessments.

60. **Intermediate Results - Budget data and policy assumptions published in greater detail on the MoF website.** The end of project target was publishing state budget execution performance from the PFMS database on monthly basis. Notwithstanding the failure of the PFMS, in accordance with Article 28 of the Budget Code of Ukraine, the MOF publishes this information on state budget execution on a monthly basis on its website. This includes data on general and special funds on revenues, expenditures and loans and credits. Draft laws on annual budget are published with broad list of policy assumptions right after its presentation in the Parliament. A book on Budget Execution report which included some analytical comments is also published on the MoF website, but only for the FY2013. State and region (oblast) budgets execution reports by functional, economic and program classifications are published monthly and quarterly on the State Treasury web-site. However, in the absence of the PFMS, the quality of such information has changed only slightly since the start of Project. For example, there are no details about state budget programs performance in regular budget reports. Some of the key spending units publish such information periodically. Available local budget database is aggregated by regions only and it is not disaggregated by type of local budgets. Also, it is not possible to see an economic structure of the budget expenditures by sectors and by units. So, a huge mass of dry statistics is published, but there is an absence of illustration and explanation. In addition, the budget data base has not been published on the Parliament's website for already several years. When the project was designed, such data was published on the Budget Committee's web site regularly. Consequently, despite the increase in volume of information published, the quality of information in the context of the budget transparency is still insufficient and the information is not user friendly for general public.

61. **Intermediate Results - Timely and comprehensive fiscal management reports produced from PFMS data warehouse:** The end-of-Project target was a fully operational data warehouse as part of integrated PFMS platform for online queries and, timely and comprehensive reporting. Since integrated PFMS could not be established, no progress could be made in respect of this indicator.

⁵ Public Financial Management Overview, by Brian Olden, Dimitar Radev, Kris Kauffman and Deg Detter of Fiscal Affairs Department of International Monetary Fund

- **Improving Effectiveness: Modest**

62. This ICR considers improvements in effectiveness even though this was not specifically part of the PDO because PDO indicator#1: “increased strategic alignment of the budget with public policy priorities” would have contributed to this objective. The PAD noted in the Results Framework, that at the baseline, existing budget formulation methodologies were not conducive for the use of budgets as a policy instrument. The project aimed at preparation of annual budgets and forecasts for MTBFs on the basis of economic and social development program and national target programs. At the end of the project, it was envisaged that 2016 State Budget Forecast for MTBF periods (2017-2018) would be prepared using the PFMS. While the end-of-project target could not be achieved due to failure to establish PFMS, the project did made progress on increasing strategic alignment of budget and policy priorities. However, overall the outcome of the measures taken in terms of improving strategic alignment is considered modest.

63. Guidelines on the preparation of budget requests by the key spending units were adopted by the MoF’s order in 2012. According to these Guidelines, budget request form included two year forecasts of expenditures needs. Since the MTBF was fully implemented, the budget request forms were used for annual budget preparation. It is worth mentioning that according to the Budget Code of Ukraine (Art 21), the Council of Ministers has to adopt a two years’ budget forecast in a month after the Parliament’s approval of an annual budget law. During the project life, there was only one time in 2012, when medium-term budget framework was adopted by a separate Government’s resolution. This Resolution showed budget prognoses for 2013 and 2014 budget years was broken down by the key types of revenues and expenditures. However, this Resolution included only the list of budget programs aimed at implementation of public investment projects financed by IFO and did not show clear links to strategic documents such as the State Performance Programs.

64. Some steps towards improving links between budgeting and strategic planning have been taken. The State Budget 2015 was prepared in line with the Council of Ministers’ Strategic Program and the 2015 State Budget and Forecast for mid-term periods (2016-2017) were based on the forecast of economic and social development of Ukraine for 2015 and key macro-economic indicators of economic and social development of Ukraine for 2016 and 2017, the Action Program of the Council of Ministers of Ukraine, and National Target Programs took account of tax, budget and social sphere reforms. However, goals and objectives of this Program had mostly declarative character that reduced its value for policy based budget planning. In addition there was a practice of creating so called State Performance Programs which had been inherited from the Soviet time and this practice had not fully integrated into the budget process. As a conclusion, the budgeting is still not fully in line with strategic planning. At the same time, implementation of the MTBF and improvement of strategic policy planning is still in the priority list of PFM improvements.

3.3 Efficiency: Low

65. The Project was essentially a technical assistance/capacity building operation, which, as such, did not lend itself to an economic and financial analysis. Similar to other World Bank-supported projects of this nature, the PAD did not contain a Net Present Value/Economic Rate of Return or cost effectiveness calculation. However, other proxy measure of efficiency can be used as indicators of efficiency of implementation, such as an assessment of time overruns, cost overruns and the operating costs.

66. A summary of original Approved Cost, Expenditure, and original and actual implementation period is presented below. While the project implementation period was increased by 140 %, the actual expenditure was only 5.6 % of the original project cost, indicating that allocation efficiency for the project as a whole was very low. However, the results vary by component. The low efficiency rating is largely due the failure of Component 2 on ‘Development of an Integrated Public Financial Management System (PFMS)’, where the actual expenditure was only 0.3 % of the original allocated cost. Under Component 1 on ‘Strengthening Institutional

Capacity and Operational Effectiveness', actual expenditure was 103 % of the original allocation and most of the planned activities under this component were completed. Under Component 3 on 'Project Management', the actual expenditure was 66 % of the original allocation despite an increase of 140 % in the original project implementation period. This reflects efficient use of resources as one would usually expect that project management expenditure, which primarily comprise of PIU staff salaries and project operating costs, would correspondingly increase with increase in the project implementation period. The major problem was that under Component 2 on 'Development of an Integrated Public Financial Management System (PFMS)', the actual expenditure was only 0.3 % of the original allocated cost, whereas this component had been assigned 95 % of the original allocated cost and was the backbone for strengthening PFM through improving efficiency and transparency.

Component	Original (\$ million)	Actual (\$ million)	% of Original
1. Strengthening Institutional Capacity and Operational Effectiveness	2.58	2.65	103
2. Development of an Integrated Public Financial Management System	61.20	0.18	0.3
3. Project Management	1.22	0.81	66
Total	65.00	3.64	5.6
Project Implementation Period (Number of Months)	60	84	140

67. A summary of achievement of end-of project targets of key performance indicators is attached as Annex 3. Since the integrated PFMS could not be developed, most of the end-of-project outcomes could not be attained. Since most end-of-project outcomes could not be achieved and only 5.6 % of the original cost could be utilized, Efficiency is rated "Low".

3.4 Justification of Overall Outcome Rating

Rating: Unsatisfactory

68. Overall Outcome Rating is assessed as Unsatisfactory taking into account the extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The PDO of strengthening PFM by improving operational efficiency and transparency was and remains relevant in the context of the country challenges and priorities, country partnership strategy, and ongoing development programs supported by the Bank and Donors. The project's design, however, was not fully relevant to the PDO as some activities did not directly contribute to achievement of PDO, while project could have included additional activities – notably on-going support to the e-Treasury system – that would have directly and significantly contributed to the achievement of the PDOs and mitigated some of the risks identified at the design stage.

69. Of PFMP's three PDO indicators, two were not achieved and one was only partially achieved. Two of these indicators were explicitly linked to the development and operationalizing of integrated PFMS and the formulation of the third implicitly assumed that efficiency gains would come from the IT solution. Similarly, all but one of the seven intermediate indicators was linked explicitly to the implementation of the PFMS. Annex 3 demonstrates that four of these intermediate indicators were not achieved, two were partially achieved, and one was achieved, with progress made in implementing reforms up to the point when the PFMS was required to generate system outputs. Consequently, the project's unsatisfactory rating is largely due to the failure of PFMS procurement process.

70. Unfortunately, use of alternative indicators to assess progress towards the project objectives does not lead to a more favorable assessment. A comparison of 2005 and 2010 PEFA assessments does point to improvements in a number of areas of cash management and financial reporting but these are not directly attributable to the project. The modest improvements in strategic alignment of budgeting occurred after the most recent PEFA assessment and so are not captured. The PEFA and OBI assessments undertaken during the project implementation period suggest that there has been no significant improvement in operational efficiency and transparency. Indeed, the only area where it is possible to demonstrate an improvement in performance using quantitative indicators relates to the area of internal controls as reflected in the performance of the State Inspection Department.

71. Similarly, at the level of inputs and outputs performance was unsatisfactory. The project disbursed only 5.6 percent of original allocation in 140 percent of the originally allocated time. While activities under component 1 on “Strengthening Institutional Capacity and Operational Effectiveness” were largely implemented and made a modest contribution to reforms, the most important output for the project, the PFMS, was not delivered.

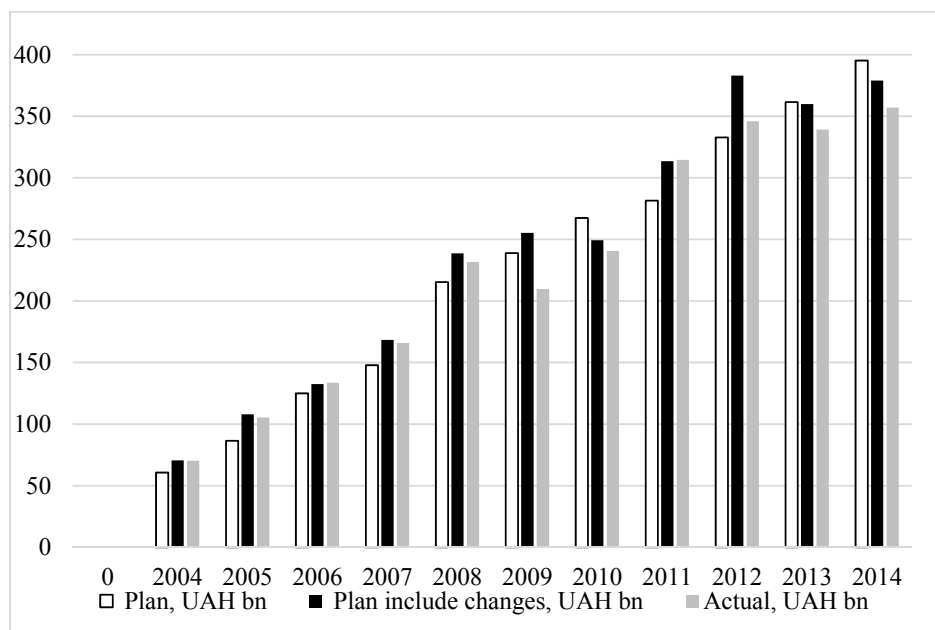
3.5 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender aspects, and Social Development:

72. The project contributed to improvements in strategic alignment between budget and policy priorities. State Budgets and forecasts for the MTBF periods were based on economic and social development programs and national target programs. A system of monitoring and evaluation of budget performance, based on Performance Program Budgeting (PPB) method, was developed in 2010. A group of indicators: resources, outputs, effectiveness and quality (outcomes) were used by the MoF. These indicators sought to align budget allocations with the Economic and Social Development Program. Guidelines on evaluation of budget program effectiveness were introduced in 2011. The PPB methodology was used for the local budgets as well. To the extent that Economic and Social Development Program was aimed at poverty reduction and social development, this will have helped allocate resources to those programs having an impact on poverty and social development.

73. An assessment of actual poverty, gender and social development impacts is beyond the scope of this ICR. The aggregate data presented in Figure 2 shows the deviation between the original plan, revised plan and actual outturn. This suggests that improvements in PBB budgeting have not necessarily been translated into improvements in budget outcomes though the extent to which priority, poverty reduction programs and social sectors have been protected from these in-year adjustment is unclear.

Figure 2. Original Plan, Revised Plan and Outturns during 2004-2014



(b) Institutional Change/Strengthening:

74. The project contributed to institutional change and the strengthening of the PFM system. New business processes were developed. These include: instructions on preparation of budget requests; a methodology for the evaluation of budget program efficiency; a performance program budgeting system; establishment of budget performance indicators; optimization of number of budget programs; agreement of norms of sectoral fiscal capacity; systems for monitoring and evaluation of effectiveness authorities exercised by local self-government; a new system for risk-based planning of financial inspections; and, strategic alignment of budget and MTBF with policy priorities are a few such institutional changes that are going to remain with the government and strengthen their management public finances. New national accounting standards were developed that confirm to international public accounting standards and will enable better reporting on budgetary expenditures and revenues. In addition to these system reforms, the project established a PIU as a unit of professional staff that is committed to reforms. It will act as a well-equipped unit to facilitate any future reforms in the area of public financial management.

(c) Other Unintended Outcomes and Impacts:

75. Following the MoF and Bank decision not to support further upgrading of the e-Treasury system, State Treasury decided to continue with this activity using state budget resources. Progress has been made independently of the project. The State Treasury System is now linked to all state treasuries enabling them to collect daily expenditure and revenue information. It has now functionality in terms of improved commitment controls, cash management and accounting based on unified accounting system largely compliant with GFS 2001 and IPSAS. The system still constitutes that main financial management information system for all levels of government.

4. Assessment of Risk to Development Outcome

Rating: Negligible

76. The risk to the development outcome as expressed in the PDO is negligible given that the PDO was not achieved. The improvements in PFM business process that were achieved have been

embedded in regulatory framework, internal operating procedures and budget routines. Consequently, these achievements are considered relatively robust. Whilst this progress is sustainable, MoF has not yet developed the internal capacity to sustain the reform process and continues to rely on external technical assistance to support the design and implementation of its reforms. Ironically the failure of the PFMS procurement process has strengthened capacity in this area, giving MoF staff and leadership a greater appreciation of the risks and challenges in implementing a complex PFMS system. This experience will be valuable when the MoF proceeds with the development of its PFMS capability.

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry : Moderately Unsatisfactory

77. The project was well aligned with the strategic priorities of the Government and the World Bank as defined in the 2002 PEIR, the 2003 CAS for Ukraine covering the period 2004-2007, the 2004 CEM, the 2005 CAS Progress Report, and the 2006 PFR. Implementation of a modern integrated PFMS that would serve as a backbone to all public expenditure management processes and interlinked with the revenue collection systems was essential to the MoF's PFM reform agenda at the time of preparation of this Project. The project's implementation arrangements were designed to be flexible and well integrated with the client's administrative structure.

78. However, significant shortcomings in the project's design adversely affected implementation and monitoring. The PDO did not fully reflect project activities aimed at improving the 'effectiveness' of PFM and the M&E framework was weak with PDO indicators that did not adequately measure the PDOs, lacked key baseline and targets, and, the final outcome and intermediate outcome indicators were not always well linked with each other and project activities. The project design would have benefited from a more thorough stakeholder assessment and political economy analyses, examining the impact of then recent changes in the institutional arrangements in the sector. In particular, the project would have benefited from an assessment of the risk associated with the exclusion of the existing treasury systems in the definition of components and activities. A more thorough risk assessment and a more flexible approach to the project might have led the MoF to include the upgrading of the treasury system as a risk mitigation measure, pending the delivery of the integrated PFMS in end of 2012 as originally planned.

(b) Quality of Supervision: Moderately Unsatisfactory

79. Technical supervision was strong throughout the implementation of the Project. The task team was knowledgeable and provided sound advice on technical specifications and international best practices for the integrated PFMS and the PFM business processes. It provided high quality and intense support during implementation with 13 supervision/implementation support missions between February 2008 and October 2013. Missions were supplemented by 40 video-conferences held during the project period to monitor progress and remove implementation bottlenecks. In addition, the Senior Economist based in the Country Office in Kiev provided on-going guidance to the PIU and the MoF. The supervision of financial and procurement aspects of the project was carried out in a timely, diligent and thorough manner and were supported by local staff that maintained a day-to-day dialogue. Most stakeholders noted the high quality support and responsiveness provided by the Bank Task Team with an adequate mix of skills.

80. Shortcomings in supervision relate to the limited use of the results framework for monitoring, decisions related to the PFMS procurement process and inadequate consideration of alternative designs in the face of implementation failure.

81. The results framework was not used as an instrument for project monitoring and management, and monitoring was inconsistent. PDO indicator # 2, for instance, in respect of 20

percent reduction in time required to get necessary information for managerial decisions, did not have a baseline and target values at the start of the project and it was not monitored throughout the project. The first survey was undertaken in 2012 close to the original closing date. Since the results framework was not used as a monitoring, the deficiencies of the framework were not identified. When the results framework was amended during the 2012 restructuring, the changes tied the results to implementation of the PFMS system. Presumably this intended to create further leverage on the authorities for successful completion of the PFMS procurement process. This decision was misguided. The authorities have felt little accountability for the implementation of PFMS.

82. Supervision decisions may have contributed to the failure of the procurement process for PFMS. ICB1 and ICB2 proceeded smoothly through a two-stage process until an anonymous complaint (attached as Annex 12) was received in respect of ICB1. This stated some bidders had not complied with the technical requirements. The complaint did not allege corruption. Nonetheless, the task team referred that complaint to the INT. Even if all facts averred in the complaint were true, the task team could have advised the PIU to evaluate the bids keeping those facts in mind and had the right to withhold the 'no objection' if the bid evaluation was not proper. OPRC approved the procurement process with full knowledge of the on-going INT investigation. However, senior management intervened and instructed the team to cancel ICB1 and ICB2 even though INT had not concluded its investigation. INT subsequently found that there was no corruption in this procurement process. However, one of the partners in the consortium that was the lowest bidder was found guilty of corruption in another project in another sector, leading to its temporary suspension. Had the task team not referred the matter to INT on that anonymous complaint and contract awarded to that consortium, the work could have started. During the course of contract implementation if the temporary suspension would have come its way, necessary legal action could have been taken but the project would have moved on.

83. Subsequently, the Bank and the authorities adopted single-stage procurement process for ICB3. This decision was motivated by the limited time left under project and considered to be moderate risk given the recent market consultation which had allowed firms to acquaint themselves with the technical requirements. However, the risk did materialize, all bidders submitted unresponsive technical bids because of a lack of understanding of the authorities' requirements and the procurement process had to be cancelled. ICB3 was introduced during the Restructuring in 2012 when the project was extended by 2 years. The team could have extended the project for a longer period to allow for the procurement, supply and installation of FMIS following another two stage process in order to minimize procurement risks.

84. Finally, the Bank had ample evidence of the continued resistance from the Treasury with regard to project design and its impact on project implementation but did not explore options as to how the project could address Treasury's concerns. The Bank realized fairly early on in implementation that the Treasury had taken its own initiative to continue work on modernization of the e-Treasury system resources. However, this was seen as a threat to the project and resisted rather than an opportunity to mitigate implementation risks. When the project was restructured in 2012, but the Bank focused exclusively on efforts to procure PFMS and made no attempt to provide parallel support to the modernization of the e-Treasury system, a system originally developed with World Bank support. In the end, the project delivered neither support to treasury modernization, nor an integrated PFMS.

(c) Justification of Rating for Overall Bank Performance : Moderately Unsatisfactory

85. Considering the shortcomings in project design and supervision, the overall Bank Performance is rated **Moderately Unsatisfactory**.

5.2 Borrower Performance

(a) Government Performance: Moderately Unsatisfactory

86. The Ministry of Finance made some progress in implementing reforms during the project period using the technical assistance provided by the project. The Budget Department succeeded in developing new budget preparation instructions including preparation of mid-term budget framework; linked the Budget with economic and social development program and PTM; and, issued budget-performance indicators. The State Treasury developed the Unified Chart of Accounts which was largely compliant with GFS 2001 and IPSAS and published the budget execution data on the State Treasury website regularly. The State Financial Inspections Department used the Risk-based Planning Methodology to improve efficiency of their inspections despite the project's failure to deliver the integrated PFMS.

87. Shortcomings in Government performance relate to the management of inter-departmental and inter-governmental relations.

88. Undoubtedly, the factor that most affected the project was the differences in perspective between the Ministry of Finance and the State Treasury. There was inherent tension between these institutions regarding the appropriate approach to Treasury modernization, Treasury's role, degree of subordination to the Ministry and authority to take independent decisions and the relative merits of the e-Treasury and proposed PFMS systems. These differences have not been fully resolved; Treasury continues to operate with an unusual degree of autonomy considering its formal integration in the Ministry structure. Treasury pursued development of the e-Treasury in parallel to the proposed PFMS from 2009. When the Ministry explored alternatives to project closure in mid-2014, Treasury proposed that part of the funds should be allocated to further investments in the e-Treasury system and supporting hardware. From Treasury's perspective e-Treasury remained a viable system that met most of their functional requirements, while Ministry of Finance still regarded e-Treasury as meeting only part of the institution's information system needs and unable to deliver functional integration that the project was intended to achieve.

89. The Ministry of Finance has made some progress in strengthening its engagement with other Government institutions, notably through improvements in the budget process. As per Council of Ministers' Resolution # 61, the Ministry of Economy should prepare macro-economic forecasts, on the basis of which, the Ministry of Finance should prepare the macro-fiscal framework, and the Revenue department should prepare its revenue projections. However, the Ministry of Finance continues to work independently of key central institutions, using its own analysis macro-economic analysis as the basis for its macro-fiscal framework and MTBF rather than the estimates of the Ministry of Economy. This undermines the role of the Ministry of Economy and hinders effective linkages between planning and budgeting functions.

(b) Implementing Agency or Agencies Performance: Moderately Unsatisfactory

90. The Ministry of Finance failed to provide strong leadership through the appointment of a senior official authorized to make all project-related decisions until fairly late in project implementation. When a first Deputy Minister was finally appointed as Project Director in 2013, the Deputy Minister was unable to devote adequate time to project management issues. Project management was characterized by lack of continuity, differences in views and lack of understanding among component managers, all contributing to delays in project implementation. The Project Manager changed eight times during a five year period due to political transitions and the reorganization of Ministry of Finance in 2011, which saw changes in the project team including coordinator, tender committee and component managers.

91. Project start-up was delayed because the Ministry of Finance wanted to complete improvements in PFM business processes under the first component before starting procurement of the PFMS. At the urging of the Bank's task team, the authorities eventually agreed to implement both PFM reforms and the acquisition of the PFMS in parallel. After this slow start, reasonable

progress was made until implementation was interrupted by the cancellation of the ICB1 and ICB2 and subsequent failure of ICB3. Procurement Management was rated moderately unsatisfactory in the second half of the project because of these failures. Financial Management was rated satisfactory throughout the project with timely submission of IFRs and audit reports. Unqualified Audit Reports were submitted by auditors who did not raise any issue on internal control or accountability issues. However, other project management functions were moderately unsatisfactory with performance deteriorating over time. Periodic progress reports were submitted regularly but there were delays in measuring key performance indicators and key baseline information was never collected. There is little evidence that the monitoring information was used to guide project implementation. Overall the performance of implementing agency is rated Moderately Unsatisfactory.

(c) Justification of Rating for Overall Borrower Performance: Moderately Unsatisfactory

92. In view of the performance ratings of the government and implementing agency, the overall Borrower performance is rated as **Moderately Unsatisfactory**.

6. Lessons Learned

93. This assessment focuses on the lessons learned that are specific to the design and implementation of projects supporting public financial management reforms and the development of complex integrated public financial management information systems.

94. **Projects implemented in the context of institutional restructuring should address change management requirements of such reforms.** The implications of the integration of the State Treasury and Ministry of Finance were not adequately addressed in the project design or implementation arrangements. An assessment of the risks of institutional resistance would have helped the authorities identify mitigation measures and develop an appropriate change management strategy. At the very least, explicit treatment of these issues would have focused attention on the behavior of the stakeholders, facilitated dialogue and provided as basis for monitoring of progress in the integration process.

95. **Projects supporting the implementation of complex integrated financial management information systems can mitigate the risk of IT failure by keeping the IT options open during project implementation.** If PRMP had supported Treasury in the continued development of the e-Treasury system during project implementation, pending the final delivery of the PFMS solution, the project would have contributed to the development of a partial IT solution even if PFMS failed. This would have given continuity to Treasury modernization efforts and could possibly strengthened Treasury engagement in the project and reduced institutional resistance. There were several opportunities to integrate support for the e-Treasury system. The original project design could have included a small e-Treasury component when it was clear that the e-Treasury system would have to continue in operation for four years even in the most optimistic scenario for the development of the PFMS. An e-Treasury component could also have been included in 2012 during the project restructuring when it was clear that the delivery of the PFMS solution would be delayed by two to three years and procurement risks had already materialized. Future projects should consider how to maintain IT options open during project implementation, thereby avoiding putting 'all the eggs in one basket' and mitigating the risks of project failure.

96. **The procurement method for complex IT systems should be designed to minimize the risk of procurement failure.** A single-stage bidding process was selected for procurement of PFMS in ICB3 to expedite completion of procurement process in the face of significant delays in project implementation. This coincided with project restructuring when the project duration was extended for two years. At this point it would have been relatively straightforward to extend the project by three years or more to accommodate a lower risk but longer duration two-stage bidding process. Where a single-stage bidding process is used, particular attention should be given to

mitigation of the risk that bids will be technically unresponsive, such as through detailed specifications and market consultations to ensure that prospective bidders are well informed.

97. **PDO Indicators for PFM reform projects should focus on the PFM outcomes that the project seeks to deliver rather than the IT solution.** PFM reform outcomes can be achieved by improving the regulatory framework, business processes and institutional capacity independently of the IT-enabled FMIS solution adopted. While an effective IT-enabled FMIS will support improvements in business processes, it is not a necessary condition for successful reform. Following this approach, PFM reform projects can achieve satisfactory outcomes even if the IT-solution fails. For example, publication of the relevant documents on a website, information centers and primary service delivery units can enhance budget transparency significantly even if this data is not accessed directly from an integrated IT system.

98. **The sequencing of project activities should be agreed during preparation and made explicit in project documentation.** In the case of PFMP, the Ministry of Finance's decision to postpone the start of procurement process for PFMS under Component 2 until changes in PFM business processes under Component 1 were completed led to an eight month delay in project start-up. This could have been avoided if the sequencing of project activities had been agreed with the authorities during preparation and appraisal.

7. Comments on Issues raised by Borrower/Implementing Agencies/Partners

99. The Borrower has submitted its Implementation Completion Report, a summary of which is placed at **Annex 8** to this report. The Borrower's ICR does not raise issues that require a response here.

Annex 1. Project Costs and Financing

Project Cost by Component (in USD Million equivalent)

Components	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Strengthening Institutional Capacity and Operational Effectiveness	2.581	2.654	103%
Development of an Integrated Public Financial Management System	44.210	0.186	0%
Project Management	1.224	0.821	67%
Total Baseline Cost		3.661	8%
Contingencies	1.860	0.00	0%
Front-end Fee	0.125	0.125	100%
Total Financing Required	50.000	3.786	8%

Financing

Source of Funds	Type of Cofinancing	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Borrower		15.00	0.023	0.2%
IBRD Technical assistance/investment loan		50.00	3.786	7.6%
Total		65.00	3.809	5.9%

Annex 2. Changes in Intermediate Results Indicators during Restructuring in 2012

Intermediate Results Indicators*	Core	D=Droppe d C=Continu e N= New R=Revised	Baseline	Cumulative Target Values	
				Original End of Project Target (Per PAD, 2007)	Revised End of Project Target (Per Restructuring 2012)
Component 1: Strengthening Institutional Capacity and Operational Effectiveness					
<i>Intermediate result indicator #1:</i> The MTBF and budget plans are prepared using a realistic macro-fiscal framework.	<input type="checkbox"/>	D	Implementation of MTBF documents in budget process in progress.	New MTBF in use	-
<i>Intermediate result indicator #1:</i> The local budgets are based on program-target method (PTM) and all relevant budgetary program passports are managed with the new PFMS.	<input type="checkbox"/>	N	Program budgeting at local budget level is optional (pilot impl).	-	Budget preparation for all 692 local budgets is based on PTM, supported by PFMS (about 20,000 prog).
<i>Intermediate result indicator #2:</i> Budget data and policy assumptions published in greater detail on the MoF web site.	<input type="checkbox"/>	R	Summary proposed budget and budget execution published on Internet.	Detailed budget reports published regularly on the web portal.	State budget execution performance is published in detail from PFMS database (monthly).
<i>Intermediate result indicator #3:</i> Budget execution: Improving the system of PFM by means of modernizing accounting system and reporting standards in public sector.	<input type="checkbox"/>	R	Accounting and financial reports not unified in public sector, not aligned with the IAS.	2012 budget executed through PFMS using new budget classification and unified chart of accounts.	PFMS is operational based on new national accounting and reporting standards.
<i>Intermediate result indicator #4:</i> Internal financial control system is in line with international standards.	<input type="checkbox"/>	D	Current system is not aligned with int'l standards.	Gradual implementation of adoption documents.	-
<i>Intermediate result indicator #4:</i> MoF, STSU and SFIU staff, and spending units (SUs) are trained on new legislation & process changes.	<input type="checkbox"/>	N	MoF staff are not familiar with new PFM legislation.	-	• 2 workshops for SUs (200 participants) • Training of 200 staff
Component 2: Development of Integrated Public Financial Management System					
<i>Intermediate result indicator #1:</i> Public Financial Management System (PFMS) established and functioning.	<input type="checkbox"/>	R	Current PFM information systems are fragmented	PFMS system fully operational. New budget codes and unified charts of accounts are	PFMS go-live in Jan 2015.

				used in PFMS. Staff and Specialist training completed.	
Intermediate result indicator #2: MoF, STU and KRU staff trained in PFMS functionality and operations.	<input type="checkbox"/>	R	None currently trained.	All staff training completed	PFMS training and change mgmt completion report prepared.
Intermediate result indicator #3: Internal business processes improved.	<input type="checkbox"/>	D	Some outline procedures defined.	Improved automated process in use.	-
Intermediate result indicator #3: Timely and comprehensive fiscal management reports produced from PFMS data warehouse.	<input type="checkbox"/>	R	Currently financial reports are fragmented.	Timely fiscal reports produced during 2012 budget execution.	Data warehouse is fully operational as a part of integrated PFMS platform for online queries; and timely, comprehensive reporting.

Annex 3. Outputs by Component

Table 1 below depicts the results achieved by the Project as measured by the Output Indicators stated in the PAD [Annex 2].

Table 1: Status of Intermediate Outcome Indicators by Output, Component and Subcomponent

Intermediate Results Indicator	End of Project Target	Achievement
Component 1: Strengthening Institutional Capacity and Operational Effectiveness		
1. The local budgets are based on program-target method (PTM) and all relevant budgetary program passports are managed with the new PFMS.	Budget preparation for all 692 local budgets is based on PTM, supported by PFMS (about 20,000 programs).	<u><i>Not Achieved</i></u> The end of project target could not be achieved because PFMS was not installed. However, methodology for program-target method (PTM) in regard to local budgets was prepared. However, PTM could not been implemented in the local budgets and its implementation has been postponed from 2015 to 2017 because of an absence of PFMS.
2. Budget data and policy assumptions published in greater detail on the MoF web site.	State budget execution performance is published in detail from PFMS database (monthly).	<u><i>Partially Achieved</i></u> The end of project target was publishing state budget execution performance from the PFMS database on monthly basis. Since, PFMS could not be established; the end of project target was not attained. However, in accordance with Article 28 of the Budget Code of Ukraine, on the web-page of the Ministry of Finance, information on state budget execution was published on a monthly basis. It contained indices of general and special funds on revenues, expenditures and loans and credits. Draft laws on annual budget were published with broad list of policy assumptions right after its presentation in the Parliament. A book on Budget Execution report which included some analytical comments was also published on the MoF website, but only for the FY2013. In addition, the State and region (oblast) budgets execution reports by functional, economic and program classifications are published monthly and quarterly on the State Treasury web-site. But since PFMS was not developed, the quality of such information has changed only slightly since the start of Project.

Intermediate Results Indicator	End of Project Target	Achievement
3. Budget execution: Improving the system of PFM by means of modernizing accounting system and reporting standards in public sector.	PFMS is operational based on new national accounting and reporting standards.	<u>Partially Achieved</u> Accounting system is made compliant with IPSAS and partially compliant with GFS 2001. However, the PFMS is not yet established/ operational, and therefore, these standards could not be utilized by the same.
4. MoF, STSU and SFIU staff, and spending units (SUs) are trained on new legislation & process changes.	•2 workshops for SUs (200 participants)	<u>Achieved</u> 2,456 staff of the MoF, the STS, and SFIU was trained on the new methodology and features of the PFMS. The topics of the training included: suppression of fraud and corruption in PFM sector; automation of the control and revision work planning process on the basis of the evaluation of risks of financial violations by controlled institutions; accounting reform and modernization; major risks in the performance of local; public sector accounting modernization training; structure and contents of the chart of accounts in the public sector; performance of internal audit in ministries and other central executive bodies; public internal financial control; and, support to change management.
	•Training of 200 staff	
Component 2: Development of an Integrated Public Financial Management System		
5. Public Financial Management System (PFMS) established and functioning.	PFMS go-live in Jan 2015.	<u>Not Achieved</u> PFMS not installed
6. MoF, STU and KRU staff trained in PFMS functionality and operations.	PFMS training and change management completion report prepared.	<u>Not Achieved</u> PFMS not installed and therefore no training imparted
7. Timely and comprehensive fiscal management reports produced from PFMS data warehouse.	Data warehouse is fully operational as a part of integrated PFMS platform for online queries; and timely, comprehensive reporting.	<u>Not Achieved</u> The end-of-Project target was a fully operational data warehouse as part of integrated PFMS platform for online queries; and, timely and comprehensive reporting. Since integrated PFMS could not be established, no progress could be made in respect of this indicator.

Annex 4. Government's request for Treasury II Project



МІНІСТЕРСТВО ФІНАНСІВ УКРАЇНИ

252008, м. Київ-8, вул. М. Грушевського 12/2, тел. 293-74-66,
факс 293-82-43

12.08.04 № 31-42000-01-15/14852

На № _____

Пану Луці Барбоне
Регіональному Директору по
Україні, Білорусі та Молдові
регіон Європи та Центральної Азії
Світовий банк

Стосовно отримання гранту на підготовку
"Проекту системи казначейства-II"

Шановний пане Барбоне,

Цим листом нам приємно підтвердити, що Уряд України здійснює підготовку наступного проекту по реформі Державного казначейства, "Проекту системи казначейства-II". Метою проекту є розширення інституційного потенціалу та функціональних можливостей казначейської системи, відповідної нормативної бази та процедур, розроблених в рамках першого "Проекту системи казначейства", з метою удосконалення системи, яка повинна стати кращим інструментом для виконання бюджету, здійснення контролю та управління бюджетними коштами. Підготовка цього проекту буде здійснюватись спільно з відповідними зацікавленими відомствами через Державне казначейство України та в тісному співробітництві зі Світовим банком.

Ми передбачаємо, що цей проект буде частково фінансуватись позицією Світового банку з можливим фінансуванням з боку донорів, які також задіяні в реформуванні установ державного сектору в Україні. Уряд та Банк домовились, що наступний Проект-II буде побудований на досягненнях "Проекту системи казначейства" і розширить інституційний потенціал та функціональність казначейської системи. Існуюча система є централізованою казначейською системою. Нова система дозволить отримувати більш легкий доступ до інформації, обробленої Держказначейством для інших учасників процесу виконання бюджету, таких як Міністерство фінансів України та головні розпорядники бюджетних коштів. Така система також запровадитиме досконалий аналітичний інструментарій для здійснення інформаційного аналізу з метою забезпечення кращого управління бюджетом на всіх стадіях, а саме. підготовки бюджету, виконання бюджету, контролю та управління грошовими потоками. З метою полегшення вступу України до Європейського союзу в середньострокові терміни, одним із завдань Проекту-II є розробка національних стандартів бухгалтерського обліку для державного сектору на базі міжнародних стандартів, та впровадження їх і державних установах, які фінансуються з бюджету.

Проект повинен забезпечити фінансування : а) технічної допомоги для розробки дизайну вдосконаленої системи та пов'язаних з нею стратегії, нормативної бази та процедур; б) закупівля технологічної платформи, необхідної для впровадження такої системи; в) навчання персоналу Держказначейства, Міністерства фінансів та галузевих відомств щодо користування нею, та г) для здійснення управління проектом. Попередня вартість проекту складає 45,0 мільйонів дол. США.

Через Світовий банк ми звертаємось до Уряду Японії з проханням надати грант для фінансування технічної допомоги на підготовку Проекту-ІІ. Витрати, які будуть покриватися за рахунок гранту, складатимуть 673 500, 00 дол. США та включатимуть технічні консультаційні послуги для: а) розробки повних функціональних вимог до нової казначейської системи; б) підготовка технічних специфікацій для технологічної платформи нової системи; та в) підтримка управління грантом та аудит.

Ми би хотіли висловити свою щирю подяку Уряду Японії та Світовому банку за їх підтримку у процесі реформування головних державних фінансових установ та бюджетного процесу в Україні в цілому.

З повагою,

**Перший Віце-прем'єр-Міністр
Міністр фінансів України**



АЗАРОВ М.Я.

Голова Державного казначейства України



ПЕТРАШКО П.Г.

(Unofficial translation)

MINISTRY OF FINANCE OF UKRAINE
01008, Kiev-8, Hrushevsky Str., 12/2, phone 253-20-44
fax 253-82-43, e-mail: infomf@minfin.gov.ua

August 12, 2004

Mr. Luca Barbone
Country Director
Ukraine, Belarus, Moldova
Europe and Central Asia
World Bank

Re: Obtaining of Grant for Preparation of the "Treasury System Project II"

Dear Mr. Barbone,

Through this letter I have the pleasure of confirming that the Government of Ukraine has launched the preparation of the proposed second Treasury Systems Project, the "Treasury Project II". The objective of the project is to improve the scope and institutional capacity of the Treasury system and the associated legal framework and procedures developed under the first Treasury project to enable the system to become a better instrument for budget execution and control and cash management. The preparation of this project will be carried out in a participatory manner with relevant stake holders, through the State Treasury of Ukraine, in close partnership with a World Bank team.

We expect this project to be financed, in part, though a World Bank Loan with possible financing from other donors who are also involved in reforms of public sector institutions in Ukraine. The Government and the Bank have agreed in principle that the follow-on project would build on prior work done under the first Treasury systems project and extend the scope and functionality of the Treasury system. The current system is Treasury centric. The new system will enable easier access of information processed by the Treasury system for other partners in the budget execution process, such as the MOF, the main budget fund administrators. It will also implement improved analytical tools for information analysis to enable better usage of the information provided by the Treasury system in all phases of budget management, namely, budget preparation, budget execution and control and cash management. The project would also pursue the introduction of International Accounting Standards across public sector entities financed from the budget to assist Ukraine in its transition to the EU over the medium term.

The project would provide financing for: (a) technical assistance for the design of the enhanced system and associated regulatory framework, policies and procedures; (b) procurement of the technology platform required for its implementation; (c) training Treasury, MOF and line agency staff in its use and (d) for project management. The project cost is expected to be about \$45 million.

Through the World Bank we would like to kindly request a project preparation grant from the Government of Japan to finance the needed technical assistance to prepare the project. The activities the grant would cover are estimated to cost about \$550,000 and include technical consulting services to: (a) develop the overall functional requirements of the new Treasury system; (b) develop technical specifications for the technology platform required for the implementation, of the new system, and (c) support to grant administration and audit.

We would like to express our sincere thanks to the Government of Japan, in cooperation with the World Bank, for their support to the reform of key public finance institutions and procedures in Ukraine.

Sincerely,

First Vice Prime Minister
Minister of Finance

(signature)

Azarov M.Ya.

Head State Treasure of Ukraine

(signature)

Petrashko P.G.

Annex 5. Economic and Financial Analysis

The Project was designed to support public sector financial management reforms and related capacity building. Advisory support and investments envisaged under the Project aimed at improving performance of key government institutions at the central and local levels in implementing specific public finance management, execution, accounting, auditing as well as human resources management tasks. Therefore, return of investments under the Project was, to a large extent, in the form of better performing public institutions capable of employing financial and human resources in an effective, transparent and accountable way.

Major benefits of the Project, in providing the means to ensure effective prioritization and implementation of budget allocations and greater transparency in government's financial management, also in strengthening instruments of fiscal control, are more difficult to quantify and measure.

Implementing the integrated PFMS and streamlining budget preparation and execution procedures would result in efficiencies in government budgetary transactions. This would also enable better control on the targeted use of government financial and human resources. Better cash management would reduce idle balances in government accounts. More efficient execution of budgetary transactions would reduce delays in payments and would eventually reduce the cost of goods and services to the government.

Most of project's outcomes heavily depended on the development and operationalizing of integrated PFMS. However, that could not be achieved due to failure of procurement process. The end-of-project targets for indicators of operational efficiency and transparency of PFM could not be achieved. From analysis of independent assessments like the PEFA and OBI, it was revealed that there was no improvement in operational efficiency and transparency. The evidence rather suggests that there was no change at all. The only change that occurred was in the area of internal controls as reflected in the performance of the State Inspection Department.

The project could disburse only \$3.94 million, which was only 5.6 % of original allocation. This too was achieved in 140 % of the originally allocated time. This was due to failure to install integrated PFMS for which, 95 % of the original project cost was allocated. While activities under component 1 on strengthening institutional capacity and operational effectiveness were largely implemented, the last mile connectivity to the PFMS could not be established, thereby not allowing those activities to produce desired outcomes.

In view of the fact that only 6 % of projected investments could be made and the major outcome of the installing PFMS was not achieved, which resulted on 2 out of 3 PDO indicators and 4 out of 7 intermediate outcome indicators 'not achieved', the economic rate of return (ERR) of the project would be deemed to be 'very low'. The ICR team didn't dwell upon calculating the exact ERR, as it was not estimated at the appraisal stage at first place, owing to the complexity of the project design.

Annex 6. Bank Lending and Implementation Support/ Supervision Processes

Project supervision was strong and effective, throughout the implementation of the Project. The task team was highly knowledgeable of the required technical specifications and international best practices for the integrated PFMS and the PFM business processes. They provided excellent technical assistance to the government team during implementation. The intensity of supervision and technical assistance was ‘very high’ with 13 supervision/implementation support missions held during February 2008 and October 2013. These were supplemented by 40 video-conferences held during the project period to monitor progress and remove implementation bottlenecks. In addition, the Senior Economist based in the Country Office in Kiev provided necessary guidance to the PIU and the MoF. The details are as under:

(a) Task Team Members:

Names	Title	Unit	Responsibility/ Specialty
Lending			
Irina Babich	Sr Financial Management Specialist	GGODR	
Svetlana Budagovskaya	Senior Economist	ECSP3 - HIS	
Oleksii Balabushko	Public Finance Specialist	GGODR	
Mark S. Davis	Senior Economist	ECSPE - HIS	
K. Migara O. De Silva	Senior Economist	GGODR	
Cem Dener	Sr Public Sector Spec.	GGODR	Task Team Leader
William Leslie Dorotinsky	Adviser	GGODR	
Sara Gonzalez Flavell	Special Assistant	IEGDG	Legal
Ali Hashim	Consultant	GGODR	
Tetyana Komashko	Program Assistant	GGODR	
Galina S. Kuznetsova	Sr Financial Management Specialist	GGODR	
Craig R. Neal	Consultant	GGODR	
Ruslan Piontkivsky	Senior Economist	GMFDR	
Mario F. Sangines	Sr Public Sector Spec.	ECSP4 - HIS	
Siew Chai Ting	Lead Finance Officer	WFAFO	
Sanjay N. Vani	Lead Financial Management Spec	OPSOR	
Antonio Velandia-Rubiano	Lead Financial Officer/Sovereign Debt	FABDM	
Anna L Wielogorska	Senior Procurement Specialist	GGODR	
Virginia S. Yates	Program Assistant	GGODR	
Supervision/ICR			
Arun Arya	Sr Public Sector Mgmt. Spec.	GGODR	ICR Task Team Leader
Irina Babich	Sr Financial Management Specialist	GGODR	
Oleksii Balabushko	Public Finance Specialist	GGODR	
Ivor Beazley	Sr Public Sector Spec.	GGODR	Task Team Leader
Svetlana Budagovskaya	Senior Economist	ECSP3 - HIS	
Cem Dener	Sr Public Sector Spec.	GGODR	Task Team Leader
William Leslie Dorotinsky	Adviser	GGODR	Sector Manager

Adrian Fozzard	Practice Manager	GGODR	
Tetyana Komashko	Program Assistant	GGODR	
Tetiana Kovalchuk	Team Assistant	ECCUA	
Hunt La Cascia	Sr Procurement Specialist	GGODR	
Knut J. Leipold	Lead Procurement Specialist	GGODR	
Mario F. Sangines	Sr Public Sector Spec.	ECSP4 - HIS	
Iryna Shcherbyna	Public Sector Specialist	GGODR	
Irina Shmeliova	Procurement Specialist	GGODR	
Rajeev Kumar Swami	Lead Financial Management Spec	GGODR	
Antonio Velandia-Rubiano	Lead Financial Officer/Sovereign Debt	FABDM	
Zhanybek Ybraiym Uulu	Public Sector Specialist	GGODR	
Anna L Wielogorska	Senior Procurement Specialist	GGODR	
Virginia S. Yates	Program Assistant	GGODR	

(b) Staff Time and Cost:

A total of 196 staff weeks was provided for implementation support and supervision during project period. It peaked in FY2010 with 42 staff weeks, when the team was providing support under Component 1, dealing with issues related with procurement of PFMS, and sorting out differences with the Treasury. It tapered off slowly thereafter, and reached its lowest in FY 2013 when things were not moving on the procurement front of PFMS.

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY05	10.36	52.672
FY06	31.87	173.339
FY07	47.69	145.634
FY08	34.93	131.954
Total:	124.85	503.599
Supervision/ICR		
FY08	20.48	64.170
FY09	33.24	95.755
FY10	42.19	114.171
FY11	25.07	85.672
FY12	26.45	82.184
FY13	17.93	66.245
FY14	22.59	103.065
FY15 (as of Feb 23, 2015)	8.45	32.844
Total:	196.4	644.106

(c) List of Implementation Monitoring Visits Held:

There were 13 following supervision/implementation support missions held during the project period as follows:

Dates	Mission members
February 19-22, 2008	Cem Dener, Svetlana Budagovskaya, Mario F. Sangines, Antonio Velandia-Rubiano, Oleksii Balabushko, Yulia Kuznetsova
October 27-31, 2008	Cem Dener, Bill Dorotinsky, Svetlana Budagovskaya, Oleksii Balabushko, Irina Babich, Irina Shmeliova, Virginia Yates and Tetyana Komashko
July 27-28, 2009	Martin Raiser, Pablo Saavedra, Cem Dener, Svetlana Budagovskaya, Oleksii Balabushko, Anna Wielogorska, Tetyana Komashko
August 8-13, 2009	Martin Raiser, Pablo Saavedra, Cem Dener, Svetlana Budagovskaya, Oleksii Balabushko, Anna Wielogorska, Tetyana Komashko
October 29-30, 2009	Cem Dener, Svetlana Budagovskaya, Oleksii Balabushko, Tetyana Komashko
April 26-30, 2010	Cem Dener, Svetlana Budagovskaya, Oleksii Balabushko, Tetyana Komashko
October 21-22, 2010	Cem Dener, Svetlana Budagovskaya, Oleksii Balabushko, Tetyana Komashko
June 20-21, 2011	Cem Dener, Rajeev Swami, Oleksii Balabushko, Tetyana Komashko
November 3-4, 2011	Cem Dener, Svetlana Budagovskaya, Knut Leipold, Oleksii Balabushko, Tetiana Kovalchuk
February 20-21, 2012	Cem Dener, Svetlana Budagovskaya, Oleksii Balabushko, Tetiana Kovalchuk
March 19-23, 2012	Cem Dener, Svetlana Budagovskaya, Oleksii Balabushko, Irina Shmeliova, Irina Babich, Tetiana Kovalchuk
February 25-March 1, 2013	Cem Dener, Svetlana Budagovskaya, Hunt La Cascia, Knut Leipold Irina Shmeliova, Irina Babich, Tetiana Kovalchuk
October 21-25, 2013	Ivor Beazley, Cem Dener, Svetlana Budagovskaya, Iryna Shcherbyna, Tetiana Kovalchuk

(d) List of Progress Monitoring Video Conferences Held:

There were following 40 video-conferences held during the project period to monitor progress and remove implementation bottlenecks:

Dates	Participants
22 January 2008 (Donor Coordination Meeting)	Ministry of Finance (MoF), State Treasury of Ukraine (STU), Embassy of the Netherlands, EC Delegation, DFID, ADETEF, CIDA, US Treasury, USAID, WB
27 May 2008 (Progress Monitoring and Donor Coordination Meeting)	Ministry of Finance (MoF), State Treasury of Ukraine (STU), GTZ, Embassy of the Netherlands, EC Delegation, ADETEF, Embassy of Sweden, WB
8 October 2008	MoF, STU, Control and Revision Office (KRU), WB
6 November 2008	MoF, STU, WB
5 December 2008	MoF, STU, WB
3 February 2009	MoF, STU, WB
3 May 2009	MoF, STU, KRU, WB
10 June 2009	MoF, STU, KRU, Ukrainian Association of the Certified Accountants and Auditors, Federation of Professional Accountants and Auditors of Ukraine, WB
7 July 2009	MoF, STU, KRU, WB
3 September 2009	MoF, STU, KRU, WB
16 October 2009	MoF, STU, KRU, WB

1 December 2009	MoF, KRU, WB
20 January 2010	MoF, STU, KRU, WB
11 June 2010	MoF, STU, WB
22 July 2010	MoF, STU, WB
10 August 2010	MoF, STU, WB
24 November 2010	MoF, STU, KRU, WB
18 February 2011	MoF, STU, KRU, WB
8 April 2011	MoF, STU, KRU, WB
27 May 2011	MoF, STU, WB
8 July 2011	MoF, STU, WB
19 July 2011	MoF, STU, State Fiscal Inspection (SFI, former KRU), WB
29 August 2012	MoF, STU, SFI, WB
7 September 2011	MoF, STU, SFI, WB
21 October 2011	MoF, STU, SFI, WB
2 December 2011	MoF, STU, SFI, WB
1 February 2012	MoF, STU, SFI, WB
2 July 2012	MoF, STU, SFI, WB
7 May 2012	MoF, STU, SFI, WB
28 January 2013	MoF, STU, SFI, WB
17 April 2013	MoF, STU, SFI, WB
22 May 2013	MoF, STU, SFI, WB
26 June 2013	MoF, STU, SFI, Ernst & Young, WB
11 July 2013	MoF, STU, SFI, Ernst & Young, WB
17 September 2013	MoF, STU, SFI, Ernst & Young, WB
26 November 2013	MoF, STU, SFI, Ernst & Young, WB
19 December 2013	MoF, STU, Ernst & Young, WB
3 February 2014	MoF, STU, SFI, Ernst & Young, WB
25 March 2014	MoF, STU, WB
10 July 2014	MoF, STU, WB

Annex 7. Beneficiary Survey Results

There was no Beneficiary Survey conducted.

Annex 8. Stakeholder Workshop Report and Results

A Stakeholder Workshop was organized on June 17, 2015 at the World Bank office, from 1:00 pm to 4:00 pm, to hold consultations with stakeholders on the ICR findings and lessons learned. A copy of the Implementation Completion and Results (ICR) Report was shared with government officials and other stakeholders from donors and civil society ahead of the Workshop. The Bank team was led by Mr. Qimiao Fan, Country Director, and was attended by Mr. Arun Arya, Senior Public Sector Specialist and the ICR Team Leader; Ms. Iryna Shcherbyna, Public Sector Specialist; Ms. Lalita Moorthy, Program Leader; Ms. Svetlana Budagovskaya, ex-Senior Economist and a member of the task team. Mr. Oleksii Balabushko, Public Sector Specialist, joined the workshop through audio connection from Washington DC. The Government's side was led by Deputy Finance Minister; who was joined by representatives of the Budget department, State Fiscal Inspections Unit, Local Budget Department, Revenue Department, Project Implementation Unit, Treasury Department, and Tax and Customs Department. Donors or Civil Society representatives did not participate in the workshop despite invitation.

At the opening of the workshop, the Country Director, Mr. Qimiao Fan said that ICR is an important document for internal accountability in the Bank, which will be evaluated by the Independent Evaluation Group of the Bank as well. We expect feedback from the government and stakeholders in the ICR document to reach an agreement on findings and lessons learned. The Project could not procure PFMS, but achievements are to be recognized. The PFM remains important reform area and the World Bank remains ready to support that. The Bank would continue to provide technical assistance on PFM. On whether there will be a new PFM project, we want to hear from the government and will then review it formally. It has to be reviewed in terms of the Country Partnership Framework, which will be launched in the next couple of months.

The Deputy Finance Minister thanked the Bank staff at the country office and headquarters who had worked hard towards preparing the ICR. He highlighted project's achievements despite the fact that the main objective of installing PFMS was not achieved. He cited examples of preparation and implementation of Unified Chart of Accounts, Risk-based Planning of State Financial Inspections Unit, Medium-Term Budget Framework, and Coordination with World Bank, EU, and KfW on PFM reforms, etc. He said that this report will help in developing efficient system of PFM and also other aspects of PFM like the budget decentralization.

The Country Director further intervened to say that what did not work and why it did not work should inform future. We need very clear commitment from the government to make changes in business processes to improve efficiency. We focus far too much on details of project design. We should rather focus on the larger picture and political commitment. We intend to use lessons learned from Ukraine and Moldova in Belarus. We need to focus on how to minimize risks by using, as much as possible, "commercial off-the-shelf" software, rather than "custom-built" software.

Thereafter, a PowerPoint (attached) was presented by Mr. Arun Arya, ICR Team Leader on the ICR findings, ratings and lessons learned from the Project. This was followed by a session of questions, comments and suggestions from participants. After detailed deliberations, following agreements were reached. It was agreed that with following changes, the ICR will be deemed to have been concurred by the government.

1. There was an agreement on all ICR ratings in regard to Outcomes, Risk to Development Outcomes, Bank Performance, and Borrower Performance.
2. In respect of PDO Indicator # 3, while there was agreement on the assessment of "Partially Achieved", the government recommended change in the text on assessment. This indicator was worded as *"Increased transparency and reliability of public sector financial reporting through compliance with international accounting standards and alignment with EU*

accession requirements". The end of project target was that *"National accounting standards are in use (via new PFMS)"*. The assessment text recorded that *"Nineteen national accounting standards based on IPSAS accrual standards have been prepared and approved. However, only seven of these standards have been introduced in transition to accrual accounting including reporting of financial assets and liabilities"*. The government representatives pointed out that following nine, instead of seven, national regulations (accounting standards) in the public sector became effective from January 1, 2015, and were in use:

- (1) 121 *Fixed Assets* (MoF Order Nr. 1202 as of October 12, 2010);
- (2) 122 *Intangible Assets* (MoF Order Nr. 1202 as of October 12, 2010);
- (3) 123 *Inventory* (MoF Order Nr. 1202 as of October 12, 2010);
- (4) 125 *Changes in Accounting Estimates and Error Correction* (MoF Order Nr. 1629 as of December 24, 2010);
- (5) 127 *Impairment of Assets* (MoF Order Nr. 1629 as of December 24, 2010);
- (6) 128 *Liabilities* (MoF Order Nr. 1629 as of December 24, 2010);
- (7) 130 *Effects of Changes in Foreign Exchange Rates* (MoF Order Nr. 1022 as of August 8, 2011);
- (8) 132 *Employee Benefits* (MoF Order Nr. 1798 as of December 29, 2011);
- (9) 133 *Financial Investment* (MoF Order Nr. 568 as of May 18, 2012).

The text of assessment of PDO indicator # 3 will be modified accordingly.

3. In respect of Intermediate Outcome Indicator # 4, it was argued by the government that it should be assessed as "Achieved", instead of "Partially Achieved". This indicator required that *"MoF, STSU and SFIU staff, and spending units (SUs) are trained on new legislation & process changes"*. The end of project target for this indicator was:

- 2 workshops for Spending Units (SUs) (200 participants)
- Training of 200 staff

This indicator was rated as *"Partially Achieved"*, on the assessment that while SFIU staff was trained in risk based planning methodology, the staff of MOF, STSU, and SUs were not trained. However, during the workshop, it was clarified by the Manager, Project Implementation Unit (PIU) that:

"2,456 staff of the MoF, the STS, and SFI was trained on the new methodology and features of the PFMS. The topics of the training were as follows: Suppression of Fraud and Corruption in PFM Sector; Automation of the control and revision work planning process on the basis of the evaluation of risks of financial violations by controlled institutions; accounting reform and modernization; Change management in the context of the SFI Reform; Practical implementation of the control and revision work planning process on the basis of the evaluation of risks of financial violations by controlled institutions; planning of the control and revision activities; Major risks in the performance of local budgets and their impact on planning control and revision work; Public sector accounting modernization training; Structure and contents of the chart of accounts in the public sector; Operation of a database for the aggregation of risks of probability of financial violations and its use for planning of risk-based control and revision activities; Practical aspects of performance of internal audit in the system of ministries, other central executive bodies; public internal financial control; Support to change management—organization of seminars, study tours and training courses".

This has been recorded in the Government's ICR as well. In view of the fact that 2,456 staff was provided the desired training on new legislation and process changes, this indicator will be considered as **"Achieved"**.

4. In Para 89 of the ICR, following text is recorded:

"The Ministry of Finance has made some progress in strengthening its engagement with other Government institutions, notably through improvements in the budget process. However, the Ministry of Finance continues to work independently of key central institutions, using its own analysis macro-economic analysis as the basis for its macro-fiscal framework and MTBF rather than the estimates of the Ministry of Economy. This undermines the role of the Ministry of Economy and hinders effective linkages between planning and budgeting functions".

The representatives of the Budget department pointed out that as per Council of Ministers' Resolution # 61, the Ministry of Economy prepares Macro Economic Forecasts, on the basis of which, the Ministry of Finance prepares its Macro-Fiscal Framework. The Revenue department too supported this assertion that their revenue projections were based on the macro-economic assessment prepared by the Ministry of Economy. The ICR team asked them to provide evidence in terms of a Macro Economic Assessments sent by the Ministry of Economy for 2-3 years in the project duration and explain how they were aligned with the Macro-Fiscal Framework prepared by the Ministry of Finance. The Budget department of the Ministry of Finance has since not been able to provide the desired evidence. Nevertheless, the text of Para 89 will be amended to acknowledge the existence of Council of Minister's Resolution # 61 to this effect and its possible lack of compliance.

5. In Annex 9, Summary of Borrower's report, following text is recorded regarding use of risk-based audit planning by State Financial Inspections Unit (SFIU) on Page 44 of the ICR:

"Risk-based Audit Planning Methodology was developed and approved by the State Financial Inspectorate. In order to enable the Methodology an automated database was created, and the necessary procedures were introduced into the business processes of the Inspectorate".

The representatives of the SFIU pointed out that an automated database has not yet been created for the risk-based audit planning methodology. It was agreed that this text will be accordingly amended.

6. In reference to Section 2.1.3 on 'Adequacy of Government Commitment' and Section 2.1.4 on 'Assessment of Risks', as contained in Para 23 and 24 of the ICR respectively, the representative of the Treasury Department pointed out that Treasury and the Ministry of Finance have very good relations now and the former considers itself a part of the Ministry of Finance. The Treasury's initiative to build e-Treasury system should not be viewed as going against the wishes of, or working in parallel with, the Ministry of Finance. It was for imperative upon the Treasury Department to upgrade an obsolete system which was putting its operations to risks, and it was done with funds provided by the Ministry of Finance. It was agreed to reflect these sentiments of Treasury department in the Annex 8 Stakeholders' Workshop Report and Results. However, this won't change the narrative of the ICR Report that there was a significant shift of power from the State Treasury to the MoF during project implementation, which together with inability of the Project to directly support the Treasury's modernization efforts, inevitably caused resentment and possibly generated passive and active institutional resistance to reforms.

Annex 9. Summary of Borrower's ICR and/or Comments on Draft ICR

Donor:	The World Bank (WB)
WB Credit Amount:	50.0 million USD
The Financial Terms of the Credit	Variable Spread, U.S. Dollar Loan, with repayment period of 17 years, including a 5 year grace, and level repayment of principal, at six-month LIBOR for USD plus variable spread for Variable-Rate Single Currency Loans.
Signing Date:	25 March 2008
Effectiveness Date:	23 October 2008
Closing Date:	31 December 2014
Executing Agency:	Ministry of Finance of Ukraine
Disbursements made as of 31 December 2014	3.76 million USD
Cancelled Amount:	46.06 million USD

I. Project Management:

1. From the World Bank's Side

During the preparation and implementation of the project there were two TTLs of project. Since preparation of the project till October, 2013 Mr. Cem Dener has been the TTL of the project. Since October 2013 till the end of the project Mr. Ivor Beazley was the TTL of the project. During preparation and implementation of the project there have been regular monitoring activities conducted to follow the project progress and all stakeholders were involved into the process.

2. From the Ministry of Finance of Ukraine

The MoF assigned a Deputy Minister of MoF lead the project. There were eight Project Directors during the project lifetime. Also, in order to implement the project, there were established an Inter-agency Working Group and an Administrative Management and Procurement Support Group (AMPSG) were established. An Action Plan on Implementation of the PFM System Modernization Strategy was approved by a Joint Order of the Ministry of Finance, the State Treasury and the Main Control and Revision Directorate #25/13/18 dated January 16, 2008.

3. Project Delays

Extraneous factors affected implementation path of the project which resulted in delays in implementation of the project. The factors were as follows:

- ratification process of the Loan Agreement by the Verkhovna Rada⁶ of Ukraine took seven months;
- clarification of the initiative of the State Treasury of Ukraine on updating its IT infrastructure that was not aligned with the project objectives took four months;
- two restructuring took place due to an INT investigation and low quality of submitted bids resulted in extension of the project deadline.

⁶ The Parliament of Ukraine

II. Project Achievements

1. Component 1 - Strengthening institutional capacity and operational effectiveness.

a. Methodology on mid-term budgeting for key spending units of the state budget was developed and piloted in two ministries. The methodology was approved by the MoF's Order #687 dated June 6, 2012, and it has been utilized by main spending units for mid-term forecasting.

b. Methodological Recommendations for evaluation of Budget Program Efficiency was developed. Main spending units can apply the Methodological Recommendations to evaluate the efficiency of budget programs.

c. Analysis of local budgeting was conducted. Based on the findings, proposals were made on the following area:

- the methodology on defining the norms of sectorial fiscal capacity;
- the practical elaborations to improve a formula on inter-governmental transfers distribution.

The developed Methodology was in line with the norms of the new versions of the Budget and Tax Codes.

d. Public Sector Accounting was aligned with the international accounting standards. Recommendations on the following areas were developed:

- implementation of public sector accounting reforms in line with IPSAS standards;
- development of new forms of financial statements of budget-funded institutions and budget performance reports;
- development and practical implementation of unified chart of public sector accounts in accordance with requirements of international standards and the IMF GFSM 2001 harmonized with the budget classification;
- development and implementation of the Public Sector General Ledger.

Manual on application of national public sector accounting policies (standards) was developed. Based on the recommendation a new economic classification, which is largely aligned with requirements of IMF GFS 2001, was approved by Order of the MoF #1738 dated December 26, 2011. In 2012, the public sector accounting policies (standards) were approved by the MoF's Order, and the Public Sector Chart of Accounts were approved by MoF's Order #1203 dated December 31, 2013.

e. Analysis of budget revenue forecasting system was conducted, and Methodology on Budget Revenue Forecasting was developed. The Methodology incorporated legislative changes envisaged in the new version of the Budget Code. The Methodology improved accuracy of revenue forecasting, and allowed identify interrelationship of certain economic indicators, permitted to monitor linkages between macroeconomic indicators and budget revenues.

Due to the improved accuracy of the revenue forecasting, a decision was made to apply the gained knowledge to improve eleven tax revenue forecasting methods. As a result, MoF is working on improvement of the developed methods.

Due to the project delays and potential overlap with another project, a decision was taken to annul the project activities on debt management system. Finally, the MoF developed a methodology of debt management and legislation changes with support of technical assistance projects financed by other donors.

f. Risk-based Audit Planning Methodology was developed and approved by the State Financial Inspectorate. In order to enable the Methodology an automated database was

created, and the necessary procedures were introduced into the business processes of the Inspectorate.

g. Format of a report on internal audit results, manual on its compilation, and structure of the analytical information of the report were developed.

h. Methodology on documenting results of control measures to document non-receipt of revenues by budget was developed. Proposals were made on the automation of the process of formation, consolidation and summarizing the status of budget receipts.

i. 2,456 staff of the MoF, the STS, and SFI was trained on the new methodology and features of the PFMS. The topics of the training were as follows: Suppression of Fraud and Corruption in PFM Sector; Automation of the control and revision work planning process on the basis of the evaluation of risks of financial violations by controlled institutions; accounting reform and modernization; Change management in the context of the SFI Reform; Practical implementation of the control and revision work planning process on the basis of the evaluation of risks of financial violations by controlled institutions; planning of the control and revision activities; Major risks in the performance of local budgets and their impact on planning control and revision work; Public sector accounting modernization training; Structure and contents of the chart of accounts in the public sector; Operation of a database for the aggregation of risks of probability of financial violations and its use for planning of risk-based control and revision activities; Practical aspects of performance of internal audit in the system of ministries, other central executive bodies; public internal financial control; Support to change management—organization of seminars, study tours and training courses.

2. Component 2 - Development of an Integrated Public Financial Management System.

a. ICB-1 and ICB-2 procurement process was launched in mid-June 2010. However, in 2012 due to the Bank's investigation in another project, and uncertainties related to the timeframe of the investigation, the Bank informed the MoF that it was unable to endorse the ICB-1 evaluation results. Moreover, in order to avoid the risk of implementing an obsolete system due to longer than expected ICB processes and considerable legal and institutional changes that took place over 2010-2011, a joint decision was taken to cancel the ICB-1 procurement procedure, and undertake a second-level Project restructuring - without altering Project objectives. In order to avoid further delays due to unforeseen circumstances, the restructuring revised key activities under the component by merging two ICBs into one, and re-announcing the ICB-3 procurement process in the form of single-stage bidding.

b. An International Consultant was hired to assist the MoF in preparing documentation of the ICB-3. ICB-3 development process was launched simultaneously with the Project restructuring in April 2012. The ICB-3 combined software development and hardware installment into one package. The procurement procedure was launched in early August 2012. The evaluation of the received bids revealed substantial deviations between the received bids and technical and functional requirements of the bidding documents, and the non-compliance of bid proposals with the required qualifications. It was confirmed by the international consultant that the quality of received bids were low, and there were substantial risks related to the inability of the bidders to implement the contract. In late January 2013, the Bank accepted MoF's decision to reject all three bids based on the information provided in the Bid Evaluation Report dated January 2, 2013.

c. In March 2013 a joint decision was made to restructure the Project again to enable implementation of an FMIS by launching another ICB exercise (ICB-4). In line with restructuring conditions to continue the project, a consultancy firm to support ICB-4 procurement process was

hired to assist the MoF in improving functional and technical requirements of the bidding documents, particularly the firm assisted the MoF in eliminating discrepancies between the MoF requirements and capacity of proposed standard FMIS software, and in assessing bid proposals.

d. Taking into account the lessons learned as a result of ICB-3, and in order to properly evaluate proposed ICT solutions, and to ensure visual demonstration of the proposed software solutions ICB-4 should have been a two-stage bidding procedure. In order to provide more flexibility to bidders, the country-specific qualification requirements should have been lifted at the bidding stage. A section of bidding documents on technical requirements was published on the MoF's web site as an invitation for potential bidders to provide comments and proposals on project specifications at the beginning of development of the updated bidding documents. It was expected that this exercise would reduce the number of complaints and delays for clarifications. The procurement procedure started in mid-August 2013. A refined First-stage Bid Evaluation Report was updated according to the Bank's comments, and sent to the Bank in February 2014. In early March 2014, in order to avoid the risk of unforeseen customization issues after the contract award, the Bank provided comments on the second-stage bidding documents in terms of clear formulation of the off-the-shelf software package definition which could have resulted in delays and increased costs of the contract. In March 2014, when the first stage bidding was almost completed, the procurement process was suspended. It was associated with several letters from the State Treasury Service on potential overlaps between the E-Kazna system commissioned into the commercial operation by the Treasury Service and the treasury module envisaged in the bidding documents of the ICB-4. Therefore, in order to utilize the existing domestic solutions, several options were considered including: reduction of the ICB-4 scope at the second stage of the bidding process; initiation of a new ICB-5 process; and initiation of a new project.

In mid-April 2014 due to the complicated economic situation in Ukraine, and the urgent need to cut state budget expenses, the MoF requested the Bank to reduce the amount of Loan, and submitted a proposal on restructuring the current project or initiating a new project. Both proposals were associated with waiving of the off-the-shelf software solution, and relying on the existing treasury system with some upgrades. The first option proposed by the MoF was on partial cancellation of the loan with reduction in the amount of \$20 million, and investment of the remaining \$26 million into the large-scale upgrade of the existing treasury system. The second option was associated with implementation of a \$11.8 million project involving less ambitious upgrade of the treasury system. The Bank considered both options, and in late July 2014 the Bank informed that none of these two proposals could be supported by the Project, because the proposed solutions were insufficiently aligned with the Project Development Objectives. The Bank stated that there were only two options: either to proceed with the ICB-4 procurement process, or to cancel the balance of the loan and close the Project. Since the ICB-4 process could have substantially exceeded the lifetime of the project, making it impossible to utilize the project funds, in October 2014 the MoF initiated a partial cancellation of the Loan and closure of the Project.

On October 28, the Bank notified the MoF on the amendment to the Loan Agreement and partial cancellation of the loan in the amount of \$46,056,830. On October 31, 2014 the amendments to the Loan Agreement and the partial loan cancellation were signed by the MoF

3. Component 3 - Project Management

a. The purpose of this component was to ensure timely and efficient allocation of resources, to carry out project procurement, financial management, and audit activities, to monitor and evaluate the implementation and to interact with all local and international entities involved in project execution. For these purposes several consultants were hired, who became members of the AMPSG. Three translators were hired to ensure translation of bidding documents from Ukrainian into English. The project financial reports were audited by an independent audit. Seven MoF staff participated in training in Turin on the World Bank consultant's selection rules and practical skills in preparing requests for proposals, bidding documents, consultants' bid evaluation methodologies.

III. Comparison of Target vs Actual Performance Indicators

Positive achievements are associated with the Component 1 indicators - strengthening of the institutional capacity of the MoF, the STS, and the SFI.

IV. Evaluation of Financial Resources by Source

Several Donors co-financed project preparation activities. The Government of Japan (TF 054609) provided grant funds in the amount of \$673 500 to assess institutional capacity and functional efficiency of the PFM agencies, and develop a Concept Note of the project, and a System Design Document, and Detailed Functional Requirements of the integrated PFMS. The Government of the Netherlands (TF090722) provided grant funds in the amount of EUR 177,056 for proper completion of the Project preparation and covering the Project needs during the delay in effectiveness.

According to the World Bank's Project Appraisal Document, the Project's budget was \$65 million, including \$50 million provided as a loan by the Bank and \$15 million co-financed by the Government of Ukraine.

V. Evaluation of the Project Impact on the Social and Economic Development of Ukraine and the Relevant Sector or Region

Adoption of new versions of the Budget and Tax Codes in 2010 contributed in strengthening the MoF's institutional capacity. The Budget Code introduced a new mechanism of mid-term budget forecasting focused on strategic priorities. According to Article 21 of the Code, the MoF based on the Government's Programs, and economic and social development forecasts, and state special-purpose programs, with the participation of the Ministry of Economic Development and Trade, the National Bank of Ukraine, and main spending units shall develop budget forecast for two budgeting periods following the planning period.

Implementation of the performance budgeting (PTM) was an important issue in ensuring the efficiency of the use of budget funds over the last years. The Code identified budget programs, their implementing agencies, passports and results indicators as PTM components. The Code also paved the legislative way for the implementation of the program-target method and mid-term budget planning at the local level.

Reduced role of the central state in providing regions with funds for their development and simultaneous creation of opportunities for independent revenue generation, and efficient and balanced development of regions has become an important achievement of the fiscal and tax reforms for local authorities.

In order to make public sector financial statements transparent and accurate, national public sector accounting and financial reporting policies (standards) were developed in accordance with requirements of IPSAS standards.

Under Article 28 of the Budget Code, the MoF shall publish information on monthly, quarterly and annual performance of the state budget on its official web site, while the State Treasury Service shall publish monthly, quarterly and annual reports on the state budget execution on its official web site. In addition, local state administrations and local self-government bodies shall publish information on local budgets, including decisions on local budgets and quarterly reports on their performance. The information about the performance of the State Budget and local budgets (other than budgets of villages and towns) must be published in certain newspapers by March 1 of the year following the reporting year.

Main spending units shall disclose and publish information about their budget at the level of budget programs and indicators according to the format approved by Order of the MoF #1489 of December 1, 2010, “On Approval of Requirements for, and Forms of, the Public Presentation of the Budget Information by Main State Budget Spending Units”.

Development of internal financial control system in accordance with international standards is pursued in accordance with the State Internal Financial Control Development Concept. The SFI is one of the authorized bodies to implement European models of the internal control and internal audit. The priority activities of the SFI during years 2010 and 2011 according to the Concept focused on development and approval of regulatory framework harmonized with European standards for subsequent implementation of domestic internal control and internal audit state authorities. While small amount of funds spent on this issue, the Project impact on Ukraine’s social and economic development is quite substantial.

Considering further improvement of PFM legal framework as well as the necessity to implement certain EU Directives on accounting, audit, taxation, customs issues, and trade promotion the prospective to implement a modern integrated FMIS still remains relevant.

However, the main objective of the Project—building a modern integrated PFM system being the core element of all public spending management processes and merging the entire budgeting cycle on a single information platform under a single system of control, and supporting the fiscal planning, budgeting, State Treasury Service, debt management, accounting and audit improvement measures—was not achieved. As a result, this slowed down implementation of measures related to strategic items of the modernization and development of the PFM system, and forced the MoF to search new sources of funds to develop a modern information system or to develop dedicated systems to support efficient and sustainable public finance planning and management.

In order to implement the PFM reform activities the implementation of the Project was focused on the following reform areas:

- consolidating the PFM by improving operational efficiency and transparency by means of strengthening institutional capacity of the MoF, the State Treasury Service and the State Financial Inspectorate;
- development of new methodology and procedures in the field of the PFM;
- improvement of the public finance management system on the basis of state-of-the-art solutions in the field of ICT.

Unfortunately, the main objective of the Project defined as building an integrated public finance management system on the basis of state-of-the-art solutions in the field of information and communication technologies has not been attained.

The Project implementation was affected negatively not only by factors beyond MoF’s control, such as the Bank’s internal investigations or low quality of bidding documents, but also by frequent Project Leader replacements (8 project leaders over the implementation period). Differences in views among component managers and lack of understanding among them also contributed to delays in project implementation and resulted in the cancellation of the FMIS procurement procedure.

Success of such projects requires MoF’s ownership, particularly regular and ongoing attention of a Minister during implementation of the project, and appointment of a responsible officer authorized to make all project-related decisions. In addition, establishment of a dedicated project implementation unit which reports directly to the project leader would also contribute to more efficient project implementation.

In general, the Project implementation is deemed unsatisfactory, because its main outcome—a new installed FMIS which supposed to substantially improve the automation of business processes by supporting improved financial control, higher quality and timeliness of information flows, and larger transparency—has not been achieved.

The Project cancellation had a minor negative impact on the STS operations, as it implemented E-Kazna solution, which almost fully covers functionality of the Treasury module envisaged in the ICB-4. Implementation of an integrated FMIS is still an important issue for the MoF, which will enable automation of many budget processes. Therefore, preparation of a new project on building a modern PFM system and e-governance development remains an important reform agenda for the MoF, the STS and the SFI.

VI. Evaluation of the Work (Measures) Implemented under the Project at the Expense of the International Technical Assistance

The Project preparation was funded with grants of the Government of Japan (USD 673,500) and the Government of the Netherlands (EUR 177,056). The project preparation stage included important Project development activities, including the functional analysis of the MoF, the identification of changes required to improve the national system for the implementation of reforms in the field of PFM, including development of system design and technical specifications.

MoF coordinated donor assistance in the field of the PFM to avoid duplication of technical assistance, and deliver the highest result for the Government of Ukraine with limited resources. A Donor Assistance Coordination Group was established as one of the Project implementation mechanisms to co-ordinate activities of the Project with other technical assistance projects.

VII. Evaluation of Environmental Protection Measures Implemented under the Project

No environmental protection activities (measures) were planned within the scope of the Project implementation.

Annex 10. Comments of Co-financiers and Other Partners/Stakeholders

There were no other Co-financiers or partners in this project.

Annex 11. List of Supporting Documents

1. Project Appraisal Document, Report No. 40503-UA dated November 20, 2007
2. Loan Agreement, Loan Number 4882 UA dated March 25, 2008
3. Restructuring Paper, Report No. 68408 v1 dated April 24, 2012
4. Restructuring Paper dated April 1, 2013
5. Restructuring Paper, Report No. RES14468 dated October 16, 2014
6. Amendments to the Loan Agreement dated April 5, 2013
7. Amendments to the Loan Agreement and Partial Cancellation of Loan Proceeds dated October 28, 2014
8. Progress Report for Public Finance Modernization Project implementation for 2010 prepared by the Ministry of Finance of Ukraine
9. Progress Report for Public Finance Modernization Project implementation for 2011 prepared by the Ministry of Finance of Ukraine
10. Progress Report (Annual) on the results achieved within the components of the Project for 2012 prepared by the Ministry of Finance of Ukraine
11. Progress Report (Annual) on the results achieved within the components of the Project for 2013 prepared by the Ministry of Finance of Ukraine
12. Implementation Status and Results Report No. 1 dated June 23, 2008
13. Implementation Status and Results Report No. 2 dated January 6, 2009
14. Implementation Status and Results Report No. 3 dated September 9, 2009
15. Implementation Status and Results Report No. 4 dated October 26, 2009
16. Implementation Status and Results Report No. 5 dated May 21, 2009
17. Implementation Status and Results Report No. 6 dated December 11, 2010
18. Implementation Status and Results Report No. 7 dated July 5, 2011
19. Implementation Status and Results Report No. 8 dated January 24, 2012
20. Implementation Status and Results Report No. 9 dated July 30, 2012
21. Implementation Status and Results Report No. 10 dated March 4, 2013
22. Implementation Status and Results Report No. 11 dated May 17, 2013
23. Implementation Status and Results Report No. 12 dated December 18, 2013
24. Implementation Status and Results Report No. 13 dated June 7, 2014
25. Implementation Status and Results Report No. 14 dated December 1, 2014
26. “Diagnostic and Analytic Report of ICT Systems of State Treasury of Ukraine” prepared by Deloitte within the framework of the Japanese PHRD Grant for the preparation of “Public Finance Modernization Project” in 2007
27. “Public Financial Management Overview” by Brian Olden, Dimitar Radev, Kris Kauffmann and Dag Detter, Fiscal Affairs Department, International Monetary Fund.
28. Ukraine Country Partnership Strategy, FY2008-2011
29. World Bank – Ukraine Cooperation Program 2008-2010
30. Ukraine Country Partnership Strategy, FY2008-2011- Progress Report
31. Ukraine Country Partnership Strategy, FY2012-2016
32. Program of Cooperation between World Bank and Ukraine 2008-2010
33. 2008 Open Budget Index Report for Ukraine
34. 2010 Open Budget Index Report for Ukraine
35. 2012 Open Budget Index Report for Ukraine
36. Project Appraisal Document of Treasury Systems Project
37. Implementation Completion and Results (ICR) Report for Treasury Systems Project
38. Ministry of Finance Letter dated August 12, 2004 request Grant for Treasury Systems Project II

39. Aide Memoirs of Bank missions from 2005 to 2014.
40. Investment Project Financing Economic Analysis Guidance Note, OPSPQ, October 2014
41. ICR Guidelines, May, 2011
42. IEG Guidelines for reviewing World Bank ICRs, November 2013
43. Memorandum of Understanding between Bank, STU, MoF, KRU regarding implementation of PFMP, August 12, 2009
44. Anonymous complaint against the procurement of PFMS (ICB1)

Annex 12. Anonymous complaint on PFMS Procurement (ICB1)

World Bank Director for Ukraine, Belarus
and Moldova
Martin Raiser

«Ukraine Public Finance Modernization
Project» World Bank Team Leader
Cem Dener

World Bank procurement Specialist
Irina Shmeliova

Copy: Minister of Finance of Ukraine
Fedir Yaroshenko

Deputy Minister of Finance of Ukraine
Sergey Rybak

Deputy Minister – Chief of Staff of the
Ministry of Finance of Ukraine
Yuriy Shevchenko

Secretary of the Ministry of Finance Bid
Evaluation Committee
Victoria Kolosova

Re: procurement #ICB-1, Supply and Installation
of Information Systems, Development of Application
Software for PFMS and Installation of Central Servers

Dear ladies and gentlemen!

In order to ensure fair competition and transparent evaluation of bids submitted under procurement procedure **#ICB-1, Supply and Installation of Information Systems, Development of Application Software for PFMS and Installation of Central Servers** we consider it proper to draw your attention to the following.

Under the abovementioned procedure some bidders submitted their proposals with suggested use of license **Oracle «Enterprise SM Operating Budget»**. When reviewing the Bid Evaluation Report and Recommendation for Award of Contract we would like to ask your specialists to pay undiverted attention to the type of license proposed by the bidders.

This type of license (Oracle «Enterprise SM Operating Budget») covers only Application product (Enterprise Planning and Budgeting; Asset Lifecycle Management; General Ledger; Assets; Cash Management; Accounts Payable; Accounts Receivable; Treasury; Advanced Collections; and Lease Management etc) without possibility of its' modification **and doesn't cover Technology Products** (Database, Application Server etc). If modifications to Application product are appropriate, for instance when Ukrainian legislation changes, they **will require**

additional expenses for procurement of license for Technology Products that will result in substantial increase of system possession cost.

In the same time the bidding document for procedure ICB-1, Supply and Installation of Information Systems, Development of Application Software for PFMS and Installation of Central Servers clearly states that bidders have to provide licenses for «DBNS engine (perpetual license for Database Servers)» and «DBMS development tools (named users)» and «ASW must provide a set of tools required for the development of additional functionality, e.g., tools to create additional database tables, transactions, reports, screen forms, printed forms, and interfaces» (requirement C.4 C.4 Application Software Specifications, C.4.1 Requirements to the Application Software, C.104, Section VI Technical Requirements of the bidding document). We think that license «Enterprise \$M Operating Budget» is not enough to fulfill the abovementioned requirements.

You can check these Oracle conditions in the easy accessible documents: «OracleSoftwareInvestmentGuide» pages 31, 35-37 and «application-licensing-table-070571» page 3.

The answers to the Ministry of Finance inquiry letters regarding compliance with GCC/SCC 16.1 (a) (iv) of the Bidding Document that were provided by bidders who proposed products based on Oracle «Enterprise \$M in Operating Budget» provide incorrect information and as a result will result in (1) considerable rise in price, (2) deviation from special conditions of licensing of the application software and (3) licenses will have an expiry date and adjustable varying price.

It is also important that price **for license «Enterprise \$M Operating Budget» is determined based on annual operational budget of the Client** (in our case Ministry of Finance of Ukraine). At the same time estimation of budget has to be annually carried out by an independent audit company. Conduction of this audit will in its' turn definitely result in additional expenses to be carried by the Ministry of Finance. This fact will also increase cost of system development and possession.

In connection with this we consider rational to **reject bid proposals submitted by bidders** that propose to use type of licenses for products Oracle «Enterprise \$M in Operating Budget» as **not corresponding to requirements of the Bidding Document**.

We are sure that your approach to the evaluation of bids will be impartial and unprejudiced,

Committee for Fair Bidding

Директору Мирового банка по Украине,
Беларуси и Молдове
МАТИНУ РАЙЗЕРУ

Руководителю проекта «Модернизация
государственных финансов»
ДЖЕМ ДЕНЕРУ

Специалисту по закупкам Мирового
банка
ИРИНЕ ШМЕЛЕВОЙ

Копия: Министру финансов Украины
ФЕДОРУ ЯРОШЕНКУ

Заместителю Министра финансов
Украины
СЕРГЕЮ РЫБАКУ

Заместителю Министра – руководителю
аппарата Министерства финансов
Украины
ЮРИЮ ШЕВЧЕНКУ

Секретарю Тендерного комитета
Минфина
ВИКТОРИИ КОЛОСОВОЙ

Про конкурсные торги МКТ-1, поставка и установка
информационных систем, разработка прикладного ПО
для СУГФ и инсталляция центральных серверов

Уважаемые господа!

С целью обеспечения честной и прозрачной оценки конкурсных предложений в рамках торгов **МКТ-1, поставка и установка информационных систем, разработка прикладного ПО для СУГФ и инсталляция центральных серверов** считаем должным обратить ваше внимание на нижеследующее.

В рамках вышеупомянутого тендера несколько участников торгов в своих конкурсных предложениях предложили использовать тип лицензий **Oracle «Enterprise SM Operating Budget»**. При проведении вашими специалистами проверки Отчета об оценке конкурсных предложений и рекомендации

присуждения контракта просим вас обратить пристальное внимание на некоторые особенности данного типа лицензирования.

Данная лицензия распространяется только на Application product (Enterprise Planning and Budgeting; Asset Lifecycle Management; General Ledger; Assets; Cash Management; Accounts Payable; Accounts Receivable; Treasury; Advanced Collections; and Lease Management, и т.д.) без возможности модификации и не распространяется на Technology Products (Database, Application Server и т.п.). При необходимости внесения каких либо изменений в Application product, связанных, например, с учетом изменений законодательства Украины, потребуется дополнительные затраты на закупку лицензий для Technology Products, что в итоге может значительно увеличить стоимость владения системой.

Вместе с тем в требованиях тендерной документации МКТ-1, поставка и установка информационных систем, разработка прикладного ПО для СУГФ и инсталляция центральных серверов четко указано, что необходимо предоставить лицензии на «Ядро СУБД» и «Средства разработки СУБД», а также обеспечить «набор средств для разработки дополнительной функциональности, например, средства создания дополнительных таблиц БД, транзакций, отчетов, экранных форм, печатных форм, интерфейсов» (требование С.4 Характеристики прикладного программного обеспечения, С.4.1. Требования к прикладному программному обеспечению, С.104, Раздел VI Технические требования тендерной документации). На наш взгляд лицензии «Enterprise \$M Operating Budget» будет недостаточно для выполнения указанных требований.

Вы можете удостовериться в таких требованиях Oracle в легкодоступных документах: «OracleSoftwareInvestmentGuide» на стр. 31, 35-37 и «application-licensing-table-070571» на стр. 3.

Полученные же ответы от участников конкурсных торгов, которые предложили продукты на базе Oracle «Enterprise \$M in Operating Budget», на запросы Министерства финансов Украины про соответствие условиям ОУК/СУК 16.1 (а) (iv) тендерной документации предоставляют неверную информацию и в результате приведут к (1) значительному удорожанию закупки, (2) отклонению от специальных условий лицензирования ППО и (3) лицензии будут с определенным сроком действия и ценой, которая меняется.

Также немаловажным является и то, что стоимость лицензий «Enterprise \$M Operating Budget» определяется исходя из годового

операционного бюджета Заказчика (в данном случае Минфина Украины). При этом оценка бюджета должна будет ежегодно проводиться независимой внешней аудиторской компанией. Проведение такого аудита в свою очередь несомненно повлечет дополнительные финансовые затраты для Министерства финансов Украины, что вызовет увеличение стоимости разработки и владения системой.

В связи с этим, считаем целесообразным отклонить конкурсные предложения участников тендера, которые используют типы лицензий на продукты Oracle «Enterprise \$M in Operating Budget», как несоответствующие требованиям тендерной документации.

С уважением и уверенностью в объективный и непредвзятый подход к оценке тендерных предложений,

Комитет честных торгов

Annex 13. Measuring Operational Efficiency through Time Study of Key Business Processes

Business process #1

Providing services to spending units (recipients of budget funds) and making other payments.

Objective.

Determine the amount of time required to make managerial decisions in providing services to spending units (recipients of budget funds), other customers, and making other payments.

Brief description of the business process.

One of the main functions carried out by the STSU is cash and settlement servicing of spending units (recipients of budget funds) (hereinafter, the "SU(RBF)". The services are provided to spending units according to the Operations Process Regulations. Generally, the process of providing services to the spending units includes several interrelated technological processes.

Results of measurements in 2013.

During the 2013 settlement servicing administrators (recipients) budget funds were carried out based on the Software AS "Budget - Expenditures." The determination the baseline time to make settlement services spending units in 2012 was also carried out based on of this software.

At the same time, in December 2013 SCSU completed upgrading the software and implemented AS «E-Budget». Commercial operation at SCSU and its territorial bodies AS «E-Budget» was launched January2, 2014. As a result, the amount of time to perform settlement services SU has started to decrease. The actual results of the implementation of AS «E-Budget» and their influence on the amount of time taken by the various business processes in SCSU will be determined by results of 2014.

The results of measurements characterize the average amount of time spent at 2013 in the STSU departments to open accounts and perform settlements for one weighted average client. It was assumed that the said client operated properly observing the budget legislation. Thus, in determining the amount of time required to provide services to and make payments of spending units (budget funds recipients), the amount of time required to perform operations/actions stipulated by the effective legislation in the event the SUs(RBFs) are found not to comply with the legislation was not taken into consideration.

The results of the survey are summarized in Appendix A. The amount of time for an operation in para. 3.1. is defined as a maximum value, but it can be reduced as the case maybe depending on different numbers of supporting documents provided by the spending units.

Appendix A

Providing services to spending units (recipients of budget funds), other customers, and making other payments

No	Business process stage name	Unit	Number (2012)	Number (2013)
1	2	3	4	
1	Opening accounts to provide services to spending units (hereinafter, the “SUs(RBFs)”) in the STSU	hours	1,32	1,25
1.1.	Verification of documents to compile a file on account legal arrangements	minutes	12	12
1.2.	Entering into Agreement on cash and settlement services	minutes	50	50
1.3.	Opening/closing an account	minutes	17	13
1.4.	Generating and sending a message on opening/closing an account to tax authorities	minutes	5	2
1.5.	Notifying SU(RBF), other customer on opening/closing an account with a Treasury body	minutes	8	8
2.	Display in accounting of the indicators of territorial distribution and budgets and plans of allocations	minutes	30	30
2.1.	Display in accounting of the indicators of territorial distribution	minutes	10	10
2.2.	Display in accounting of the budgets and plans of allocations	minutes	20	20
3.	Opening budget liabilities and/or budget financial liabilities of the SUs(RBFs)	minutes	1	1
3.1.	Opening budget liabilities and/or budget financial liabilities of the spending units	minutes	1	1
4.	Registration budgeting and financial obligations of the SUs(RBFs)	minutes	35	35
4.1.	Examination of registers of budget liabilities and / or budget financial liabilities and supporting documents of the SUs(RBFs)	minutes	34	34
4.2.	Registration of budget liabilities and / or budget financial liabilities and supporting documents on the AS “Kazna”	minutes	1	1
5.	Processing documents for settlements of the spending units (recipients of budget funds) in the STSU departments	hours	1.20	1.20
5.1.	Verifying settlement documents of SUs(RBFs)	minutes	2	2
5.2.	Verifying an application for cash payment and transfer funds on deposit accounts	minutes	16	16
5.3.	Verifying a certificate of proceeds in kind submitted by spending units	minutes	6	6

No	Business process stage name	Unit	Number (2012)	Number (2013)
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	
5.4.	Verifying an application order for expenditures in foreign currency provided by spending units	minutes	56	56
5.4.1	Verifying an application order for expenditures in foreign currency provided by spending units	minutes	7	7
5.4.2	Verifying an available balance in the foreign exchange account, opened on behalf of STSU with a banking institution, and the respective UAH equivalent	minutes	8	8
5.4.3	Preparing a settlement document to transfer funds from STSU foreign exchange account and submitting it to the banking institution	minutes	33	33
5.4.4	Processing a statement and a settlement document from an authorized bank of the operation, notifying spending units about the need to refund a UAH equivalent of currency transferred	minutes	8	8
6.	Performing settlements of spending units by STSU departments	minutes	16	14
4.1.	Importing and registering, preparing settlement documents for transferring, crediting, and accounting for cash in AS “Kazna”/ importing DBF-files/ affixing signatures	minutes	3	3
4.2	Display of operations on accounts in the AS “Kazna-B”	minutes	8	6
4.3	Printing and developing statements of customer accounts, stamping “Paid” on the settlement documents, processing statements from foreign exchange accounts	minutes	2	2
4.4	Transferring registers of settlement documents, the first copy of settlement documents to the documents of the day	minutes	3	3
	TOTAL	hours	3.34	3.25

Business process #2

The time necessary for carrying out of one transaction for preparation of reports (consolidated reports) on execution of the state budget, consolidated budget and consolidated reports of key spending units.

Objective.

Determine time required to conduct a single operation when preparing reports.

Brief description of the business process.

Reporting on the execution of the State Budget of Ukraine (the budgets of the government-funded institutions) includes financial and budget reports.

Budget reporting reflects the progress in budget execution and contains information in terms of budget classification.

Financial and budgetary reports on execution of the State Budget of Ukraine are based on aggregates derived from the main offices of the State Treasury Service of Ukraine in the Autonomous Republic of Crimea, oblasts, cities of Kyiv and Sevastopol, and reports and information received from independent subdivisions of the State Treasury Service of Ukraine, as well as individual data on the reports of spending units (recipients of budget funds). The forms of financial and budgetary reports are approved by the Order of the Ministry of Finance of Ukraine # 1774 dated 12.28.2011.

The procedure for drafting reports on the execution of the state budget, frequency and general requirements for the reporting disclosures are determined by the regulations of the State Treasury Service of Ukraine developed under the provisions of the Budget Code of Ukraine, the Provision on the State Treasury Service of Ukraine, and other effective regulations.

Reporting on execution of the State Budget of Ukraine shall be operating, monthly, quarterly, and annual. Currently, the State Treasury Service of Ukraine prepares operative reports on daily, weekly, and monthly basis, as well as each decade.

The reports on execution of the consolidated estimates are submitted by the key spending units to the State Treasury Service of Ukraine. Consolidated financial and budgetary reports of the key spending units (presently, 93 spending units) contain information on all business transactions performed that were accounted for.

Calculation of the time required to conduct a single operation to create reporting forms for reporting or verify one report of a key spending unit is provided in Appendix B.

It should be noted that depending on the complexity of forms or issues that arose during the preparation of reports, the time to be spent can vary greatly.

The results of the measurements in 2013.

Whereas the preparation of annual reports on budget execution will take place in February and March 2014, during the inspection it was carried out by measuring the time operations are performed in the preparation of monthly, quarterly reports (summary reports) on the state budget and consolidated budget summary reports main spending units, and timely reporting of budget execution.

According to the results of the survey and implementation of measurement should be noted that the compilation of the above statements shall be subject to the requirements of existing regulations on the use of existing software and as a result, the amount of time to complete a transaction when forming accountability has not been changed.

Appendix B

The time necessary for carrying out of one transaction for preparation of reports (consolidated reports) on execution of the state budget, consolidated budget and consolidated reports of key spending units (*hereinafter* KSU)”

N	Name of business process stage according to its Process Regulations	Unit	Time
<i>1</i>	<i>2</i>		<i>3</i>
1	Preparation of a report on execution of <i>State Budget (hereinafter SB)</i> in terms of revenues	minute	16
2	Signing reconciliation acts	hours	3
3	Preparation of management reports based on the STSU Main Office data	minute	11
4	Reporting on execution of State Budget	hours	1,07
5	Signing reports and transferring files and submitting reports as appropriate	minute	38
6	Preparation for consolidated reporting	minute	63
7	Processing SU STSU Information	hours	1,5
8	Preparing consolidated reports on execution of SB	hours	4,33
9	Logical and visual control	hours	1,53
10	Notifying SU STSU and receiving a corrected document	hours	1,33
11	Verifying reported data by SU STSU and endorsing thereof	hours	2,0
12	Processing files of DB consolidated reports	hours	5,70
13	Preparing consolidated reports on execution of SB and consolidated budget	hours	5,13
14	Logical and visual control	hours	1,43
15	Correction of errors	hours	1,78
16	Preparation of reports on execution of SB for certain areas	hours	8,16
17	Preparing to drafting management reports based on the SU STSU data	minute	31
18	Preparing to receive KSU reports	hours	75,2
19	Reception, visual and automated inspection of KSU reports	minute	15
20	Error analysis	minute	17
21	Meeting special service conditions for KSU	minute	17
22	Analysis of consolidated KSU reports, preparation of analytical materials, preparation of review letters	hours	376
23	Preparation of annual consolidated KSU reports under forms	hours	5,0
24	Drafting management reports based on the SU STSU data	minute	45

N	Name of business process stage according to its Process Regulations	Unit	Time
1	2		3
25	Signing reports and transferring files and submitting reports as appropriate	minute	21
26	Printing annual reports on execution of the SB under complete budget classification	hours	2,67
27	Signing annual reports on execution of the SB under complete budget classification	hours	4,0
28	Preparing a set of report on compliance with the Law on SBU for the respective year	hours	6,33
29	Keeping archive	hours	1,12

Business process #3.

Planning of control and auditing measures by the State Financial Service of Ukraine.

Objective.

Determination of the time required to make a decision on the selection of sites for the formation of a plan of the main guidelines of control and revision work of Ukrainian SFI.

Brief description of the business process.

Planning of control measures involves compiling of the following:

- plan of the main guidelines of control and revision work of Ukrainian SFI and its territorial bodies prepared for a calendar year (hereinafter, the “Plan”);
- plans of control and revision work of SFIU and its territorial bodies prepared for each quarter (hereinafter, the “Plan for a quarter”).
-

The SFI prepares and, in agreement with the MoF, submits, by December 1 of the current year, to the Cabinet of Ministers of Ukraine the draft plan of the main guidelines of control and revision work of SFI and its territorial bodies. The plan is approved before December 20 of the current year.

Based on the Plan of the main guidelines of control and revision work, quarterly Plans of control and revision work of SFI and its territorial bodies are developed; those plans include other issues regarding the control and revision work within the competence of SFIU.

The main grounds for the inclusion of activities to the plans of control and revision work are:

- a) the laws, regulations and orders of the President of Ukraine, the Cabinet of Ministers of Ukraine, orders of the Ministry of Finance that do not require immediate execution without being included in the plans;
- b) law enforcement agencies, businesses entities and individuals addressing regarding the audits and inspections that could be performed routinely;
- c) proposals of the Accounting Chamber, Ministry of Finance, Ministry of Economic Development, STS, State Customs Service, and Treasury adopted by the SFI for execution;
- g) initiative sowed by the SFI and its territorial bodies based on the different criteria.

To form the draft annual plan of the main guidelines of control and revision work, the SFIU prepares requests sent to all stakeholders involved in the public finance management, including the Ministry of Finance of Ukraine and central executive authorities (State Tax Service, State Customs Service, State Service for Financial Monitoring, State Treasury Service of Ukraine, etc.).

The plan is formulated by the Department of planning and analysis of control and revision work of the Department of organizational work of the State Financial Inspectorate based on proposals received by the SFIU from the concerned central executive bodies, as well as based on the suggestions of the relevant sectoral SFIU departments generated with reference to the legislatively established criteria.

After preparation, the draft Plan is submitted to the sectoral departments of the State Financial Inspectorate (6 departments, overall) and the audit department for processing and suggestions. After receiving the responses from these departments regarding the draft annual plan of the main guidelines of control and revision work of the SFI and its territorial bodies as required by the legislative drafting technique, the draft act of the Cabinet of Ministers of Ukraine on approval of the Plan is prepared, which is submitted to the Ministry of Finance of Ukraine for further submission to the Cabinet of Ministers of Ukraine for approval.

The Department of planning and analysis of control and revision work of the Department of organizational work of the State Financial Inspectorate, formulates a quarterly Plan of control

and revision work of the SFIU with reference to the proposals of the relevant sectoral SFIU departments.

Proposals for the formulation of the quarterly Plan are submitted for approval of the sectoral departments and audit department.

With reference to the proposals of the SFIU, the draft quarterly plan is submitted to the SFI in the regions (27 regional SFIs) to formulate their own quarterly plans and update the lists of entities by topics communicated by Ukrainian SFI units.

Based on information received, the SFIU structural units specify the list of entities subject to inspection when changing the topic of a control measure.

The results of the measurements in 2013.

The process of planning of audit activities of public financial service of Ukraine takes place in accordance with regulatory laws. Fundamental changes in the planning process in 2013, compared to the previous period have not taken place.

At the same time, it should be noted that in 2013 a qualitative change in the process of planning control and auditing work has begun. These changes are associated primarily with the introduction of a new approach to planning control and revision work and selection of control objects.

The methodological framework for the implementation of the new approach was developed in 2010 in the framework of the component "Improving coordination of public internal financial control" The objective of this component was to develop proposals to improve approaches to planning control and revision work by introducing a mechanism for selecting control objects for inspection and audit risk-based probability assumption of financial irregularities. According to the results of its implementation of a draft methodology storage was developed, mixing and use of information for risk assessment and planning of the State Financial Inspection SFIU risk-based.

Based on this methodology the State Financial Inspection concept was developed risk-selection control objects to control and plan revision work of State Financial Inspection of Ukraine and its territorial bodies, that was approved by the Methodological Council Meeting Minutes SFIU on April 23, 2012 № 7. According to the approach to planning control and revision work and selection of control objects based on financial risk assumption violations was implemented.

The appropriate approach provides a preliminary analysis of financial - economic activity of control objects by results of which only in case of a significant amount of risk operations decisions are taken on the inclusion of the entity to the relevant plan. The respective approach can reduce the number of ineffective conducting audits to control objects with a low risk. The result of these concerted attempts SFIU has become the reduce number of inspected objects. However, reduce the number of control measures while the orientation of state financial control to cover most risky areas for large volumes of financial flows increased the effectiveness of control measures conducted by SFIU and its territorial bodies. As a result, the amount of identified financial irregularities that led to the loss per each tested object has increased.

Thus the process of selecting objects for monitoring risk-based employees of the department of planning and analysis of control and revision work is carried out by SFIU with manual processing of materials using existing software capabilities. In this context, the quality improvement of planning control and auditing activity of SFIU did not affect the reduction of the amount of time during this activity.

At the same time, in accordance with paragraph. 1, article 2 of the Decree of the President of Ukraine 05.24.2013 № 307/2013 "On measures to ensure the implementation of local state administrations of executive power in the relevant territory". Project Plan Control and audit

activities should be coordinated with the local administrations that have affected the completion time of its formation.

The results of measurements of time are given in Appendix C. The amount of time spent on the planning control and auditing activity of SFIU per each quarter is given.

Results

Planning of control and auditing measures by the State Financial Service of Ukraine.

	Actual time spent (person-days)	
	calculation	Quarter
Formation, agreement, and approval of the Guidelines of Control and Revision Work of the State Financial Inspectorate and its territorial bodies		
Sending by SFIU request letters to third-party initiators to provide suggestions regarding the Guidelines	Once a year: Department of Organizational Operations – 3 employees 5 working days 3X5	15
Formulation and submission by the regional SFIs to the SFIU suggestions regarding the draft Guidelines	Once a year: 27 regional SFIs – 1 employees per unit 2 working days 27x1x2	54
Processing third-party initiators' proposals to the draft annual plan of the main guidelines of control and revision work of the SFI and its territorial bodies, provision of relevant proposals	Once a year: Department of Organizational Operations – 3 employees 5 working days 6 sectoral departments and audit department – 4 employees 5 working days 3 x 5 + 7 x 4 x 5	155
Formulation of SFIU own proposals to the draft Guidelines	Once a year: Department of Organizational Operations – 2 employees 3 working days 2X3	6
Preparation of written justifications of reasons due to which the issues proposed by the third-party initiators were not included in the draft Guidelines	Once a year: Department of Organizational Operations – 1 employ 5 working days 6 sectoral departments and audit department – 2 employees 2 working days 1 x 5 + 7 x 2 x 2	33
Summary of proposals to the draft Guidelines	Once a year: Department of Organizational Operations – 3 employees 3 working days 3X3	9
Preparation and consideration of draft Guidelines at a meeting of the SFIU Methodological Council and SFIU Board	Once a year: Department of Organizational Operations – 3 employees 3 working days 3X3	9
Formulation of the Draft Act of the Cabinet of Ministers of Ukraine with reference to the requirements of the legislative drafting technique and its agreement with the Ministry of Finance, Ministry of Economy and the Ministry of Justice	Once a year: Department of Organizational Operations – 3 employees 5 working days 3X5	15
Formulation of documents and submission of the Draft Act of the	Once a year: Department of	15

Cabinet of Ministers of Ukraine to the Ministry of Finance to forward them to the Cabinet of Ministers for approval	Organizational Operations – 3 employees 5 working days 3X5	
Support of the project before its adoption by the Cabinet of Ministers of Ukraine, making the necessary corrections, amendments or additions	Once a year: Department of Organizational Operations – 3 employees 5 working days 3X5	15
Amendments to the Guidelines in order to refine and adjust thereof	Once a year: Department of Organizational Operations – 3 employees 5 working days 3X5	15
Total		341
Formation and Approval of the Plan of Control and Revision Work of the Ukrainian SFI		
Formulation of proposals to the quarterly plan	Quarterly: 6 sectoral departments and audit department – 4 employees per unit 5 working days (6+1) x 4 x 5	140
Formulation by the regional SFIs the lists of entities by topics communicated by Ukrainian SFI units	Quarterly: 27 regional SFIs – 4 employees per unit 10 working days 27 x 4 x 10	1080
Analysis of risks of operation of the controlled entities within the SFIU network	Quarterly: Department of monitoring of brave operations and state purchases- 3 employees 5 working days 3x5	15
Formulation of: the list of enterprises, institutions and organizations subject to conducting inspections, agreed with a unit responsible for monitoring risk operations; the list of regional SFIs to be involved in the audit	Quarterly: 6 sectoral departments – 2 employees per unit 2 working days and 27 regional SFIs – 1 employee per unit 2 working days 6x2x2+27x1x2	78
Formulation of the draft quarterly plan and the order for its approval	Quarterly: Department of Organizational Operations – 1 employee 2 working days	2
Agreement of draft quarterly plan with Deputy Heads of SFIU, heads of SFIU structural units, and its approval	Quarterly: Department of Organizational Operations – 1 employee 3 working days	3
Submission to the regional SFIs indicative programs of control measures stipulated by a quarterly plan	Quarterly: Department of Organizational Operations – 1 employee 2 working days	2
Specifying by the Ukrainian SFI units the lists of entities upon changes in the topic of a control measure	Quarterly: 6 sectoral departments and audit department – 2 employees per unit 15	210

	working days (6+1) x 2 x 15	
Formation, maintenance and updating of controlled entities network	Quarterly: 6 sectoral departments and audit department – 4 employees, 2 working days to prepare requests and 3 working days to update the network (6+1) x (2 + 3) x 4	140
Total		1650
Formulation and approval of plans of control and revision work of regional SFIs and territorial inspectorates		
Formulation of proposals to the quarterly plan	Quarterly: 27 regional SFIs – 2 employee per unit 2 working days 27x2x2	108
Analysis of the number of enterprises, institutions and organizations to conduct inspections and the number of audits to be conducted under centralized assignments of SFIU with participation of regional SFIs	Quarterly: 27 regional SFIs – 4 employee per unit 2 working days 27x4x2	216
Submitting to SFIU: Calculating the number of the controlled entities that can be audited (inspected) by the SFIU for a quarter Calculating the number of audits (participation in audits) which can be conducted by the SFI for a quarter	Quarterly: 27 regional SFIs – 2 employee per unit 2 working days 27x2x2	108
Analysis of risks of operation of the controlled entities within the SFI network	Quarterly: 27 regional SFIs – 1 employee per unit 2 working days 27x1x2	54
Formulating the list of enterprises, institutions and organizations subject to conducting inspections, agreed with a unit responsible for monitoring risk operations;	Quarterly: 27 regional SFIs – 1 employee per unit 2 working days 27x1x2	54
Agreeing draft quarterly plan with the Deputy Head of SFI in the regions, heads of SFI business units	Quarterly: 27 regional SFIs – 1 employee per unit 2 working days 27x1x2	54
<i>Approval the draft plans with the local administrations in accordance to par. 1 p.a.2 of the Decree of the President of Ukraine 05.24.2013 № 307/2013 "On measures to ensure the implementation of local state administrations of executive power in the relevant territory"</i>	<i>Quarterly: 27 regional SFIs – 1 employee per unit 2 working days 27x1x2</i>	54
Submitting quarterly plans to SFIU for approval	Quarterly: 27 regional SFIs – 1	54

	employee per unit 2 working days 27x1x2	
Analysis of draft plans of SFI in the regions by the SFIU structural units and providing the Department of Organizational work with a written opinion regarding their approval or reasonable grounds for amendments or additions	Quarterly: 6 sectoral departments and audit department – 2 employees per unit 2 working days (6+1) x 2 x 2	28
Approval SFI plans in the regions by submitting letters stating changes or amendments that shall be considered before the approval of plans	Quarterly: 27 regional SFIs – 1 employee per unit 2 working days 27x1x2	54
Changing or amending the plans of SFI in the regions, formulation of the final version and the order on its approval. Approval of plans	Quarterly: 27 regional SFIs – 1 employee per unit 1 working day 27x1x1	27
Introducing changes to the plans in order to refine and adjust them	Quarterly: 27 regional SFIs – 1 employee per unit 2 working days 27x1x2	54
Formation, maintenance and updating of controlled entities network	Quarterly: 27 regional SFIs – 1 employee per unit 2 working days to prepare requests and 3 working days to update the network 27x1 x (2 + 3)	135
Total		1000
Total for all activities		2991

In 2012 the amount of time spent to plan the implementation of conducting control activities by State Financial service of Ukraine 2937 man-day.

Business process #4

Formulation of revenue forecasts in preparing the budget by the Ministry of Finance.

Objective.

Determine the amount of time required to make managerial decisions in forecasting revenues of the state and consolidated budgets.

Brief description of the business process.

The initial basis and an important element of budget calculations are reasonable macroeconomic and macro-financial projections, in the absence of which, first of all, in terms of income and expenses, the budget cannot be accurately prepared. The peculiarity of the modern budget process is that, in accordance with Art. 21 of the Budget Code, the Ministry of Finance of Ukraine provides drafting the state budget for the next year and formulating budget forecast for two budget periods following the planned one.

Revenue forecast is prepared in several versions: baseline scenario, which assumes the continuation of current fiscal and budget policy for the medium term, as well as optimistic and pessimistic scenarios involving tax and budget reforms, including significant internal and external risks. Revenues of draft budget are developed based on budget, tax and other legislation. Revenues are generated by each code of budget classification and in terms of sources (general and special funds).

The basic stages and amount of time required for each stage of preparation of the forecast of the state and consolidated budget revenues are presented in Appendix D.

The results of the measurements in 2013.

The amount of time to preparation of the revenue forecasts in the budget by the Ministry of Finance has not been changed in 2013.

Formulation of revenue forecasts in preparing the budget by the MoF

	Stage	Maximum amount of time (days)
	Formulation of the preliminary indicators of the forecast of draft state budget revenues	130
1.1.	According to the Action Plan of the Ministry of Finance to ensure drafting of the State Budget for next year, preparing separate authorization to provide by the MoF units the preliminary revenue forecast in terms of funds and revenue sources with detailed calculations and substantiation, signing and providing directly to the departments of the Ministry of Finance	3
1.2.	Preparing the necessary information by the MoF Departments on options (optimistic and pessimistic) for forecasting revenues in terms of codes, funds, and budgets (local, State, Consolidated)	120
1.2.1	analysis of indicators of the preceding periods	30
1.2.2	forecasting revenues for the next period	80
1.2.3	input (manually) information and formulate relevant information for its further transfer to the Revenue Forecasting Office	10
1.3.	Formulation of consolidated (in terms of codes, funds, and budgets) revenue forecast (in the manual input mode)	4
1.4.	Verifying information, comparing it with the data of previous periods, making appropriate adjustments (if necessary) and providing a basic version of forecast	3
2	Preparing proposals, in terms of revenue forecast, to the Draft State Budget	60
2.1.	Consideration by the departments, in the revenue forecast, legislative changes made by Verkhovna Rada of Ukraine for the 1st half-year	30
2.2.	Developing proposals to the Draft Law on State Budget in terms of codes, funds, and budgets with relevant appendices under the Budget Code (in the manual input mode)	30
3	TOTAL	190

Annex 14. Map of Ukraine

