



Victor Chumak and Ihor Shevliakov

Local Government Functioning and Reform in Ukraine

**An overview of analytical studies of
local government system and local
services provision in Ukraine**



Joint Report NIBR/ICPS 2009

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Preface

This report represents the first step in a three-year project collaboration between Norwegian and Ukrainian institutions on local government reform in Ukraine, with funding from the Norwegian Ministry of Foreign Affairs. It summarizes and reviews recent research and analyses of the system of local government in Ukraine, with a special focus on the provision of local public services. The main objective is to provide a shared basis for project participants in both countries for understanding and analyzing the current situation. Given the considerable interest in local government reform among Ukrainian policy-makers and the donor community, we believe that this report also deserves a broader audience. It not only outlines major challenges but also identifies the potential implications of future reform trajectories.

The report was commissioned by NIBR and has been compiled and written by representatives of the International Centre for Policy Studies (ICPS) in Kyiv, which is also one of the major partners in the Norwegian-Ukrainian project. We would like to thank the authors Viktor Chumak and Ihor Shevliakov at the ICPS for their willingness to produce the report within a short time frame. We also wish to thank the other project partners – the Association of Ukrainian Cities, the Academy of Public Administration under the President of Ukraine, and the Norwegian Association of Local and Regional Authorities (KS) – for their contributions in identifying the overall project framework and thereby the focus of the report.

At NIBR, Aadne Aasland and Trine Myrvold are in charge of the project and have initiated and coordinated the production of the report. Thanks are also due to Inger Balberg for her handling of the manuscript. Susan Høivik has provided valuable advice on language and style.

NIBR's role in the project is mainly within applied research to systematize learning and provide feedback to national and local policy-makers. It is our hope that the output may help to inspire much-needed reform efforts.

Oslo, May 2009

Marit Haug
Research Director

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1 INTRODUCTION

This report sums up analyses made by researchers and organizations during the past five years of

- the local government system and how it functions in Ukraine
- provision of local services in Ukraine.

The issues of local government systems and local-level provision of public services have been in focus—on the part of the Ukrainian government and politicians, as well as research and donor communities in Ukraine and abroad. Major international donors active in Ukraine have supported a range of projects and complex programs in this area. These projects have included policy research and advisory components at the central level, policy advocacy and capacity building at central, regional, and local levels. As a result, numerous publications have been produced, varying in size, scope, and format.

The objective of this report is to take stock of the publicly available research on the current status of fiscal, administrative, territorial, public sector, and public services reforms in Ukraine, to determine the main challenges and constraints, and finally to assess potential areas of interaction for joint efforts of Norwegian and Ukrainian partners within the overall context in Ukraine. Here, however, it should be noted that, in view of the enormous complexity of the issue (fiscal, administrative, territorial, and also with regard to sector line ministries' decentralization of functions and resources coupled to the various levels) the authors have been able to touch upon only some of the core issues. Each aspect is in itself highly complex.

Each paper, document, or report included in this study is described in terms of:

- main conclusions/findings of the study
- methodological procedures (e.g. statistical methods, interviews, document studies, etc.)
- empirical area (whether focused on, e.g., certain municipalities, certain regions, certain services)

1.1 Present context

Since achieving independence in 1990/1991, Ukraine has been seriously challenged by multiple transitions, two of which are central for economic and social development as well as for good governance: a) the transformation of the political system from authoritarian rule to democracy; and b) the change from a centralized, state-planned economy to a market-oriented one. The commitment of the country's

political elites to building a system of governance in line with broader European values and standards needs to be reinforced by adequate policies, institutional reforms, and appropriate implementation arrangements. Some changes are already underway, but the development of a comprehensive “transformative strategy” for highly centralized state still lies ahead. How to operationalize and effectively pursue the objectives of building a decentralized democratic governance system is a question that many of the country’s policy makers find difficult to answer. The evolution of the system of power and legal environment in Ukraine has been characterized by controversy, inconsistency, and complexity.

Local governance is represented by a dual system of authorities: state administration and a self-governance council. The president appoints the heads of the executive in *oblasts* and *rayons*. Citizens elect top city officials and heads of local councils. The national constitution does not outline a precise division of labor among bodies at different levels, including administrative bodies such as urban communities, village councils, and township councils. The lack of financial and economic independence for territorial communities presents a problem, owing to the ineffective structure of local budgets, which still largely resemble centralized budgets.

The transition to a parliamentary-presidential system has proven more complicated than envisaged in 2004, when the constitution was reformed. Political instability and jockeying for position at the national level is likely to continue until at least the October 2009 presidential elections, making decisions on policy reforms politically more complicated.

Constitutional reforms, hastily adopted in December 2004 as part of a compromise package to end the political crisis during the Orange Revolution, left a need for a clearer division between the enhanced powers of the prime minister and the reduced powers of the president.

Following the constitutional reform, the duality of Ukraine’s regional self-governance became increasingly evident. On the one hand, regional and local councils, elected by proportional vote, tried to push through politicized decisions above their competences. On the other hand, the cabinet of ministers attempted to gain the key role of appointing the heads of administration for *oblasts* and *rayons* by invoking a constitutional provision that stipulates the president may appoint and dismiss these officials only with the approval of the cabinet of ministers. This situation, however, simply reflected the 2007 confrontations between the president and the cabinet of ministers at the local level. The politics of decentralization became caught in the cross-currents between these two national-level competitors.

The duality of authority at the local level is also apparent in the conflict between the locally elected self-governance authorities and local administrations appointed by the central government. The existing legal framework limits the authority of local self-governance. At the same time, mechanisms guaranteeing that self-governance decisions will coincide with legislation remain weak. Meanwhile, the cabinet of ministers have claimed the need to strengthen the role of local self-government, but without proposing any alternative reform strategies.

Although mayors have unanimously argued for greater decentralization that would allow them to address local issues directly, the perceived regional interests that align

closely with the leading political parties might also make it harder to reach consensus on major issues. The eastern-oriented faction controlling the government until the Orange Revolution was seen as pro-centralist, but after losing the presidential election its focus shifted toward greater regional autonomy. After winning in the 2006 legislative elections and gaining the post of prime minister, its position is not clear. The more central/western-oriented Orange factions supposedly favored decentralization, but took little action to advance it while in control of the government. The president, with weakened executive powers, now has an interest in maintaining the importance of *oblast* governors, as he is the one who appoints them and they report to him.

Administrative and territorial reforms initiated in 2005 have not been implemented, and no new reforms were introduced in 2007. By freezing the discussion on the territorial and administrative rebuilding of the country, representatives of different political forces were able to say that Ukraine had missed its opportunity to make essential and necessary reforms in this sphere.

Overall, the prospects for national-level policy reform appear mixed today. There is an impression that pressure is building for greater decentralization, as expressed through the many proposals for administrative/territorial reform, even though the most recent proposal failed to gain legislative approval. Fiscal constraints on the central government, efficiency considerations, and demands for local autonomy all point toward some forward movement on decentralization, most likely on an incremental basis. Big-city mayors and the cross-party “mayors’ bloc” in parliament represent a strong constituency for reform.

However, territorial reform of the inherited Soviet system of *oblasts*, towns, and *rayons* is unlikely to take place soon—because it is both technically complex and politically controversial. Political conflicts at the national level between the prime minister and the president, and the president and the parliament, will weaken the chances of obtaining cross-party and cross-elite support for a territorial-administrative reform project, which will require a constitutional majority to change the constitution. In addition come fears of the threat of separatism.

2 LOCAL GOVERNMENT SYSTEM

One of the latest publications to discuss the problems of local government system in Ukraine, the reasons behind those problems, and possible solutions in a comprehensive and policy-oriented manner is the **White Paper “Local Government Reform in Ukraine: Report on the Outcome of Public Consultations”** published in 2008. This is the final product of the project “Public consultations on reforming local government in Ukraine and public awareness campaign, Phase 2,” carried out by the Center for Ukrainian Reform Education (CURE) and the International Centre for Policy Studies (ICPS).¹

The report outlines key problems in local government today, describes reform measures proposed for resolving them, and summarizes the positions of various stakeholder groups regarding current problems and the suggested pathways to a solution.

2.1 White Paper 2008: Main findings

The White Paper identifies the main problems as follows:

Inaccessible, poor-quality public services. Local governments are supposed to provide basic social and administrative services: pre-school, primary, secondary, and technical-vocational education; preventive medicine and primary and secondary health care; keeping the public peace; the organization of residential service delivery, public transit, and so on. Today, however, only cities are capable of carrying out all these functions. Most rural communities and even many towns lack the financial and human resources to provide the entire range of public services of adequate quality and quantity.

As a result, most people are deprived of the right to good-quality public services, and the human development gap among regions is considerable.

Gap between government actions and people’s concerns. Being neither accountable to nor overseen by their constituencies, local governments, or local state administrations, yet dependent on the central government, local administrations are driven less by the concerns and needs of the local community than by their own interests, or those of the central government. The budget process itself and the top-down nature of budget planning and execution make it impossible to take the interests of voters into account in the activities of local governments.

¹ www.icps.kiev.ua/library.html?13

There are no workable mechanisms for voters to voice their concerns and to ensure that these are taken into account in the work of the local government. Proportional elections to city, *rayon*, and *oblast* councils have increased the disconnect between deputies and their constituents—and the interests of those constituents.

Priorities in funding local needs depend on politicians and officials in Kyiv. As a consequence, there is little objective need for local representatives of local governments to be open about their work vis-à-vis the representatives of local communities, or to heed voter interests in carrying out their activities. Local governments and local executive bodies are essentially unsupervised and unaccountable in the exercise of their powers. Neither the state nor communities have any working mechanisms for overseeing the work of local governments.

Large disparities in economic conditions and development between municipalities and regions. The unitary model of government in Ukraine today expects public services to be delivered at the same level across all the country's territories. In practice, however, economic development varies greatly from region to region—and this leads to a strong need for highly centralized public financing. In this situation, local governments are effectively deprived of any means of strategically planning their local development. Most communities do not even have development budgets: all resources are directed at covering day-to-day needs.

The problem is that the existing distribution mechanisms are not capable of providing the necessary leveling in public service delivery. Today, only a few regions—more accurately, a few major cities— can provide basically the full range of public services guaranteed by law. Most of the rest have trouble even providing those services necessary for bare survival.

In addition, the current mechanisms for forming and executing local budgets, where local revenues constitute an extremely tiny share, provide little incentive for local governments to develop their local economies. With scant local revenues, local governments cannot provide funding to support even the development of local infrastructure. Migration to faster-growing regions in search of a better standard of living causes business activity and jobs to decline, which leads to even less growth in the tax base and, in the final analysis, to an even lower share of local revenues in the local budget.

Poor coordination and conflicts between state and local governments. Existing legislation paves the way for a whole range of conflicts between the state government and local governments. Up to 80% of the powers of local governments are duplicated by the powers of local state administrations. On the one hand, local state administrations are formed at the top; on the other, they have been delegated by law to function as the executive bodies of the relevant councils. The political status of local state administrators makes it very difficult for them to be objective in their work and is yet another source of conflict with local councils, especially those formed on a proportional basis.

The 2008 White Paper goes on to present the reasons and causes of these problems:

The lowest level of government cannot carry out the necessary functions. The administrative-territorial system inherited from the USSR ensures neither a proper

resource base for territorial communities to govern themselves, especially rural ones, nor does it take into account the impact of the population of these communities and their demographic profile on the type and quantity of public services that need to be provided to local residents.

Ukraine's current administrative system is characterized by a high level of centralization of functions and concentration of resources at the *rayon* and *oblast* levels. The relative size of local budgets in the consolidated state budget is 40%, while that of *oblast* budgets in total local budgets is 38%; the relative size of *oblast*-level municipal budgets is 47%, while that of *rayon* budgets is 15%. The relative size of the budgets of villages, towns and *rayon*-level towns in the consolidated *rayon* budget ranges from 15 to 20%. This means that three times more funds are deliberately allocated to the budgets of *oblast*-level towns than to *rayon* budgets, even though more than 60% of the population of Ukraine lives in villages, towns, and small cities.

In addition, there is an enormous gap in the economic and demographic profiles of communities and *rayons*, with populations ranging from as little as 15,000 inhabitants (as in some *rayons* of Chernihiv Oblast), up to 130,000 (as in Derhachivskiy Rayon in Kharkiv Oblast). This results in objective reasons for the unequal provision of public services to the local population.

The current situation hampers the development of proper local government in villages, towns, and *rayon*-level cities. Most communities cannot provide the full range of public services— not due to legal restrictions, but for lack of resources.

Local governments have insufficient sources of revenue. In general, local government revenues constitute a very small part of local budgets—less than 10% of total income. In addition, some local taxes and fees are difficult to administer, so local offices of the state tax administration are actually not interested in collecting these taxes and fees. This reduces the enforcement of tax payments.

Ukraine still has no property tax, which in many countries is a major source of revenue for local budgets and helps to guarantee their fiscal viability. In addition, the current procedure for distributing revenues from state taxes and fees in excess of the fiscal norms set by the state budget law does not encourage the local governments, even in cities with solid fiscal capacity, to do anything to increase such revenues. Existing legislation provides no incentives for local governments to promote local business development that might, in turn, generate new jobs. The only exception is small and micro enterprises that operate on a single tax system.

Public funds do not cover the state's fiscal obligations. The funding for exercising the powers delegated to local governments are allocated by the Verkhovna Rada during the adoption of the state budget for every following year. However, in determining the ultimate volume of transfers to local budgets, VR deputies do not take into account the financial state of local governments or the range of powers delegated to them. Consequently, the transfers are not always enough for fully financing the delegated powers.

Allocations for the exercise of delegated powers amount to 90% or more of local budget expenditures. A major part of this goes to cover the payrolls of public

institutions. However, funds allocated as transfers from the state budget are sometimes insufficient to even pay these salaries in full.

Cities with substantial revenues of their own can pay for their own capital and current spending, although they could use these funds to develop local infrastructure, such as improvements and social and economic development, instead.

The central government establishes breaks and holidays related to local taxes and fees without paying the necessary compensation to local governments. In addition, new laws often add new public duties on local governments without matching financial support.

Public service standards or costing methodologies are absent. The basis of any cost evaluation should be the state social standards and norms that came into force with the law “On state social standards and social guarantees.” Still, despite numerous calls for enforcement on the part of the Verkhovna Rada, many social standards and norms have still not been developed by the cabinet of ministers, although the law itself entered into force more than five years ago. The old social standards and norms are fragmented into small elements whose sum does not cover the whole range of public services and whose indicators are often outdated. These factors make the old standards and norms unacceptable for calculation, which in turn makes it impossible to come up with a correct assessment of expenditures for real service needs.

The mechanism of budget transfers to local governments is ineffective.

According to the budget code and the law “On the regulation of budget transfers between rayon budgets and the budgets of rayon seats, villages, towns and their associations,” equalization transfers from the state budget are planned only to the *rayon* budget level. Further distribution among *rayon*, village, town, and *rayon* seat budgets is handled by local state administrations and approved by *rayon* councils.

This often leads to abuse on the part of *rayon* officials in terms of how fairly equalization transfers are distributed among the communities in the *rayon*. In effect, this is the traditional Soviet “nested doll” budget system, and it keeps local governments from becoming bodies able to make independent decisions in support of local development.

Only state- or *oblast*-level cities, which have direct ties to the state budget and the Ministry of Finance, have the real rights associated with fiscal independence.

Use of local money, property and resources is inefficient and inappropriate. A system for determining the effectiveness and productivity of public spending has not been worked out, whether at the state budget level or at the local budget level. The existing procedure for preparing budgets based on the previous year’s spending figures does not reflect the impact of these expenditures on the volume and quality of services provided to the local population. This leads to ineffective planning and inefficient use of public funds.

Further reasons for the ineffective use of already limited financial resources include the absence of “management by objectives” planning and scheduled audits that make it possible to monitor the effective use of funds, and the effective absence of external controls including public fiscal oversight of the use of local budget monies..

The existing network of public entities does not reflect the needs of Ukrainian society today. On the one hand, some bodies and institutions that provide specific services to the public do not even have proper premises. On the other, other budget institutions rent out their premises to commercial entities or hang on to premises they have no use for, thus placing extra strain on local or state budgets.

Moreover, there are no working mechanisms to enable communities to join forces on a contractual basis in order to undertake and finance specific functions together. This prevents any optimization of the network of public institutions and organizations. According to Part 3 of Art. 49 of the Constitution of Ukraine, for instance, the current network of healthcare facilities cannot be reduced.

Laws regulating the status of community property and the exercise of delegated powers need improving. The distribution of municipal and state lands has not been completed. Consequently, the material resources available to local governments are used extremely ineffectively. This is particularly true of land belonging to underdeveloped communities that border on major economic and industrial centers, as well as municipal land and property in urban areas.

Voters have no input into legislation to support local development. Effective procedures and mechanisms for coordinating between central and local governments are lacking when it comes to policy decisions that affect the interests of local governments. According to the constitution, local governments, unlike the executive and legislative branch, are not empowered to legislate. Moreover, local government representatives may not appeal to the Constitutional Court of Ukraine, even on matters within their competence.

At the state level, there is no institution that might represent the interests of local governments and have veto powers over the drafting and adoption of bills that violate its rights and eliminate state guarantees. The Secretariat of the President, the Secretariat of the Cabinet of Ministers, the Ministry of Economy, the Ministry of Justice, the Ministry of Finance, and so on, all have departments at the level of administrative sections—at MinFin it is an actual department—that handle local government issues.

Because of this, local government interests are poorly represented and not heard when legislation regulating local government is being drafted.

There are not enough professionals at the local level. Another major factor is the lack of professionals, especially in local government. Not only do local officials sometimes not know how to resolve specific problems, they are often not entirely aware of the scope of rights and powers that the state and the law assign to different levels of local government. This problem has become even more pressing since the 2006 elections, when nearly 80% of elected deputies at all council levels were newcomers.

A further unresolved problem is depoliticizing the civil service at the local level. When bureaucratic positions are politicized, enormous turnover of staff results at the local level after any election. The newly-elected head of a city, town, or village often fires many qualified workers in the executive, who were forced to campaign on behalf of the predecessor, and then hires new, less qualified workers.

There is an urgent need to overhaul the system for training state and especially municipal officials, because it does not satisfy needs of the country or the regions. The current system is oriented mostly towards academic teaching. As to training for local council deputies, there is no such system at the state level. In this situation, it makes sense that the primary training should be organized by political parties when they begin to form their election lists.

The system for local elections is flawed. Often local governments do not represent voter interests based on their composition. With *rayon* and *oblast* councils elected on a proportional basis, many communities are not represented at all, whereas *oblast* or *rayon* centers may be over-represented, sometimes controlling as much as 80% of an *oblast* council.

Proportional elections to municipal and *oblast* councils has led to a situation where these bodies often represent party interests, but not the interests of their electorate. This leads to hyper-politicization of these councils.

The local people have no means of participating in or monitoring their governments. Voter involvement in the making of key decisions depends largely on subjective factors and is not regulated by law. There is no legislation on local referenda that reflects modern conditions.

At the root of the low quality of administrative services is the fact that most such services are the responsibility of executive bodies whose officials do not feel accountable to or monitored by the local community and who are not subject to the oversight of local governments. The centralization of power, the lack of feedback between local governments and their constituencies, and insufficient state attention to the needs and interests of local governments have led to a situation where local governments exercise their powers in a legal vacuum and without any oversight.

Mechanisms to ensure consistent nationwide policy are ineffective. Local state administrations are meant to ensure consistent state policy across the country. Because of the different ways they are formed and their overlapping powers, however, city, *rayon*, and *oblast* councils are often in conflict with both the heads of local state administrations and the central government. On the one hand, the quasi-political status of the head of a local state administration encourages confrontation with the local council if the latter has a majority made of parties in opposition to the central government or the president. On the other, the grounds for calling a vote of no confidence in the head of a local state administration are not specified anywhere, which leads to free-wheeling decisions by local councils or to excessive “flexibility” on the part of local state administrators.

Then again, the central government does not have any leverage over local councils, even if they are in violation of the constitution and the laws of Ukraine. The current mechanism for calling pre-term elections to local councils by the Verkhovna Rada is not very effective—as confirmed by the fact that this provision has not once been applied in nine years. The sole mechanism for settling such conflicts remains the court system. But even in this case, the personal liability of individual local deputies for illegal decisions made by their councils is unclear.

2.2 Proposed solutions

Four options for administrative-territorial reform

Option 1. No change in the current administrative-territorial system and division of powers among levels of government (status quo)

This option keeps the current public administration system at the local level and the existing division of powers, responsibilities and resources.

Pros	Cons
The service infrastructure will remain familiar to the public. Local officials will carry out their customary duties at their posts.	All the noted disadvantages of the existing system will remain, which will hinder serious improvement in public service quality.

Option 2. Re-distribution of powers and responsibilities without enlarging or consolidating communities.

This option presupposes that:

- those functions that the lowest level of government—primarily in rural areas—cannot undertake to a level that can ensure effective performance will be transferred;
- communities that have the capacity will be accorded more public responsibilities, powers and financial opportunities.

Thus, for example, in villages where the councils cannot effectively run the school system, this function will be transferred to the *rayon* level. *Rayon* education departments will run the entire school system in that *rayon*.

Under this option, services will not be remote from consumers because they will be provided through the existing network of budget institutions, such as through the existing school system. However, administrative functions like financial, HR personnel, property, and school bus management, will be centralized at the *rayon* level. The powers of large village councils will include only those that such councils can actually carry out, such as land management, garbage treatment and landscaping.

Pros	Cons
<p><i>Rayon</i>-level administration will offer economies of scale for social networks (schools, medical facilities).</p> <p>A certain quality of public services will be guaranteed.</p> <p>Cities, especially big ones, will be able to independently provide a greater range of public services at their own discretion.</p>	<p>Public services in rural counties will be predominantly administrated centrally.</p> <p>The location of specific services will tend to be remote from the homes and work-places of those needing the services.</p> <p>Opposition from village councils because of loss of influence and resources to the <i>rayon</i> level.</p> <p>Disputes will continue between existing rayon seats and rayon-level cities.</p> <p>Duplication of powers: similar public services will be provided in cities by government bodies and in rural areas apparently by local state authorities. This will also require more complicated budget procedures and more complicated laws.</p>

Option 3. Enlargement through voluntary mergers of communities, and redistribution of functions on a contractual basis

This option avoids some of the disadvantages of the previous option and takes care of an important political issue that can arise from implementing Option 2: the transfer of functions to the *rayon* level might provoke conflict between the existing *rayon* seat and *rayon*-level cities that have a well-developed local government and strong financial base. Such cities consider themselves self-sufficient, prefer to be independent of *rayon* seats, and have a direct link to the state budget.

Pros	Cons
<p>Strengthening the government of certain village councils would enable them to provide more public services at a level closer to their residents—that part provided on the <i>rayon</i> level today or not provided at all—and to improve overall service quality.</p> <p>Conditions can be established for strengthening the participation of community members in solving local issues through public discussion of voluntarily joining forces on a contractual basis.</p>	<p>The passivity of current rural communities, lack of qualified workers in small communities that need to be enlarged could result in an overly slow process of mergers on a contractual basis.</p> <p>Poor legislation regulating voluntary contractual relations among public bodies could lead to conflicts that even the courts will not be able to settle effectively.</p>

The drawbacks of this option can be largely reduced by introducing proper fiscal incentives for voluntary mergers, such as through the allocation of state funds for infrastructure development.

Option 4. Enlarging communities through centralized mergers, including compulsory ones

The main threat facing this option is opposition from both voters and local governments in rural areas in instances of compulsory reform.

The advantage of this option over the previous one is the establishment of conditions for equal service standards throughout the country, across all communities and territories.

Because the lowest level becomes self-sufficient, it should be able to provide a full range of better-quality public services.

Pros	Cons
<p>Lays the foundations for for making community governments better capable of providing more public services closer to their residents (that part provided on the <i>rayon</i> level or not provided at all) and improving overall service quality.</p> <p>The material and financial bases of local governments are reinforced.</p> <p>The ability of local governments to provide public services becomes consistent across the country.</p>	<p>Rural communities and governments will oppose forced mergers.</p> <p>Conflicts could arise in some centralized communities.</p>

This fourth option can also be implemented in tandem with Option 3 as the final stage of local government reform.

Clear division of powers among all levels of government

By setting up executive bodies for *rayon* and *oblast* councils that will focus solely on governing functions, it will be possible to depoliticize the councils themselves and entask them with handling the development of their communities, a typical job for local government. It will also improve the quality of public services, as *rayon* governments will be more dependent on *rayon* residents.

The nature of local state administrations needs to be changed. Once relieved of their economic functions, they will be in a position to monitor the compliance of local governments with the law and public service standards. In this case, the existence of state administrations at the *rayon* level seems pointless.

There also needs to be a fixed set of public tasks that each level of government will be responsible for by law—through a new law “On local government” or two new laws: “On community government” and “On rayon government.” At each level, the delegated powers must be exclusive.

Proposed list of community powers

If the communities are enlarged to capacity level, these tasks could be delegates to them:

- *pre-school education and childcare*
- *secondary education and extracurricular activities*
- *care of the elderly and disabled*
- *preventive and primary medicine*
- *land management*
- *environment protection*
- *housing construction planning*
- *municipal and residential utilities (water supply network, sewage, heating, power and energy conservation)*
- *landscaping; maintenance of local roads, streets, parks, cemeteries, etc.*
- *local transportation*
- *organization of recreation and cultural activities (e.g. clubs, libraries)*
- *health and sanitation*
- *veterinary control and preventive veterinary services.*

Those powers that cannot be exercised by communities should be delegated to the rayon level and those that cannot be exercised at the rayon level should be delegated to the oblast.

Sufficient fiscal basis for local governments. First, the local tax system needs to be reformed, through the introduction of a property or real estate tax and reform of the existing land tax. Such a step may well be unpopular, so any move will need an effective information and promotion campaign. Property tax could be mitigated during the introductory phase by establishing a simplified mechanism for calculating it, and charging relatively low rates.

Second, the major share of state taxes should be earmarked for local government use. That should spur local governments to expand their tax bases. One negative consequence of such a decision could be even greater regional discrepancies in the quality and accessibility of public services. Financially independent regions will be able to provide services of better quality, while underdeveloped regions will not be able to match them. This calls for effective mechanisms to ensure financial leveling, and leveling transfers are likely to be larger.

Third, mechanisms are needed that can motivate the state tax service to collect local taxes and duties. One solution might be to institute of dual accountability on the part of the heads of local tax offices.

Enforcing state and local government fiscal obligations. A workable mechanism needs to be developed and enshrined in law to allow local governments to refuse to take on functions not funded fully by the state budget. They should be able to draw on funds from the state budgets in situations where tax breaks introduced in Kyiv result in lower revenues at the local level.

Gradually, certain delegated powers should become local, funded from local sources of local budget revenues.

At the same time, the central government and the Verkhovna Rada should refrain from impinging on areas of local government authority, especially by offering breaks on local taxes and fees.

Establishing public service standards and means to assess their cost. The standards for administrative and public services need to be updated and brought into line with modern requirements. These upgraded standards should be accessible to service beneficiaries and service providers alike, and become the basis for:

- 1) forming a budget for the entity that is the service provider;
- 2) calculating inter-budgetary transfers;
- 3) effectively controlling expenditures and assessing service quality.

Effective use of funds. The ineffective and inappropriate use of public funds can be resolved through budget reform focused on decentralizing public finance. Four main steps are necessary to achieve this:

- existing legislation should be reviewed, and obligations that can be funded neither by the state nor by local governments need to be removed;
- workable procedures are needed for merging communities and co-financing certain public service functions, especially the possibility of financing of a single institution from different budgets on a contractual basis;
- a system of overseeing and monitoring the effectiveness and efficiency of budget expenditures is needed, including planned audits. In particular, some way of introducing management by objectives should be considered for budget planning and establishing independent public institutions to monitor the legitimacy and effectiveness of local budget use and to conduct regular audits.
- the network of publicly-funded institutions needs to be optimized if public money is to be spent more effectively.

Effective management and intended use of communal property. The status of community property needs to be regulated by law. In addition, the allocation and registration of municipal and state lands must be completed. Finally, there has to be effective, independent public control over how legitimately and appropriately community assets and property are managed and land issues are handled.

Local government participation in making state policy

Any drafts of legislation that will affect local interests need to be coordinated or debated, at the central level, with national associations of local governments and, at the local level, with the government of the relevant level. Such coordination and consultation should be made mandatory by law. According to a statement by the Association of Cities of Ukraine, mechanisms for cooperation between the Association and the Verkhovna Rada have already been developed and implemented. However, cooperation between the Association and the Cabinet of Ministers needs improvement.

Stronger human resources for the local public sector. Like the civil service, service in local governments needs to be professional and apolitical. There should be true competition for jobs and career promotions, and there should be no possibility to dismiss municipal officials for political reasons or other subjective factors. Most importantly, there must be a clear distinction between political and administrative positions in local governments. Salaries for municipal officials should be in sync with salaries in the private sector, in addition to being transparent.

Once *rayon* state administrations are eliminated, it will make sense to encourage those officials to switch over to local governments, especially to the executive committees of *rayon* councils.

It is especially important for local governments to institute mandatory continuous professional development for their officials.

The enlargement of communities is likely to have a positive impact on the quality of human resources for the local public sector, as it will increase competition for jobs in this sector and provide more opportunities for competent people to develop careers.

Change the system of local elections

Local governments must represent the interests of the residents of their community, *rayon* or *oblast*. It might be wise to return to the majority electoral system in cities, and to switch to a proportional system with open lists at all other levels.

With a majority system of elections, elections to *rayon* and *oblast* councils could be held in polling districts whose borders coincide with the boundaries of territories to be represented on the given council. In counties, this means community boundaries; in *oblasts*, it means counties and *oblast*-level cities. This should ensure proper representation of the common interests of *rayon* and *oblast* communities.

Moreover, local and national elections should be held at separate times, to enable voters to devote more time and attention to local elections.

For councils to be able to represent the interests of local communities, a provision could be introduced, making that only residents of the relevant city, *rayon* or *oblast* eligible to run for office at that level.

Public participation in decision-making and overseeing government

Mechanisms are needed that can enable the public to participate in the making of important local decisions. A law on local referenda should be adopted. Administrative services need to be decentralized and delegated to the local government, for better quality.

More consistent state policy countrywide

Local state administrations need to be depoliticized. The posts of local state administrators should be included in the list of civil service postings, and politically neutral professionals should be appointed to those positions. As these individuals will not perform any governing functions, they should not be answerable to the local councils. The law also has to establish personal responsibility for local government officials, including locally elected deputies, for decisions that are in violation of the law.

Local government reform that is clear, reasonable and consistent

Regional government needs to be instituted in Ukraine: that means executive bodies for *oblast* councils and the transformation of local state administrations into coordinating and supervisory bodies to oversee the legitimacy of the work of local governments.. However, if introduced before there is proper local government, it could lead to a certain imbalance in the political structure if reform is implemented simultaneously at all levels. Moreover, there is a risk that political power will then be concentrated at the *oblast* level, hindering full decentralization and the development of meaningful local government. To avoid conflict between *oblasts* and their centers, the status of “urban region” might be assigned to some of the country’s largest cities, and they could be provided with functions and powers at both local and *oblast* levels.

Further, according to the 2008 White Paper proposed solutions to the problems of local government system received the most attention in public consultations. Regional stakeholders shifted the main emphasis from large-scale changes like administrative-territorial reform, budget reform etc., to specific smaller-scale changes that would make a lesser but specific contribution to ameliorating the situation.

According to participating stakeholders, it is possible for local government to evolve on the basis of the existing constitution by adopting appropriate legislation. They said that the potential for local government development afforded by the constitution and current laws, despite their many flaws, was not being fully exploited by local governments, for various objective and subjective reasons. Their proposals were mostly restricted to concrete recommendations as to what requirements should be changed to eliminate these factors.

The idea of administrative-territorial reform did not find support at these public hearings. Reactions to the idea of changing the territorial system and setting up administrative-territorial units (ATUs) with a “scientifically viable minimal population” were particularly negative. Participating stakeholders were opposed on the basis of historical, religious and ethnic regional characteristics, which they felt should be taken into account when planning such reform.

2.3 Methodology of the study.

The 2008 White Paper was based on the original Green Paper prepared during the first phase of this project, as well as other analytical materials prepared by ICPS in this area. The project also included two series of public consultations with stakeholders in seven *oblasts* of Ukraine. The Green Paper was discussed during the first series, and the White Paper during the second.

The key difference between the two is that the White Paper summarizes the reactions of stakeholders to the original contents. The current report makes it clear how changes to local administration need to be undertaken in order to succeed, and indicates which of the proposed changes are priorities for regional stakeholders. Based on the information gathered at the hearings, many propositions from the earlier Green Paper have been expanded and detailed.

The overview of the White Paper presented above included a fair amount of detail needed for better understanding of the findings and conclusions. Further overviews will be briefer, as they mostly reflect the issues touched upon in the White Paper.

3 SDC-UKRAINE REPORT, 2006

Swiss Cooperation, or SDC-Ukraine, prepared a report “**Status of Decentralization in Ukraine**” in 2006. The main findings relevant to the purposes of this report cover the challenges and problems of decentralization issues in Ukraine.

The basic opportunities and constraints regarding decentralization in Ukraine are classified according to whether they relate to fiscal, administrative, territorial, political or regarding sectoral line ministries.

3.1 Political issues:

- **Political parties’ active support for decentralization:** Of the seven main political parties active in the recent elections, four expressly mention decentralization in their election manifestos. The manifestos include statements on decentralizing greater power to the regions, providing a greater share of revenue to the local self governments, etc.
- **There is no clear vision of decentralization** within the present government or the presidential administration. While there are very many different strategies, draft laws and proposals, these are often not mutually coherent. Initiatives abound on various elements of decentralization at both the national and sub-national levels, but they lack the guidance of a clear vision or policy.
- **Low level of political commitment for decentralization:** After the initial euphoria of moving the process of decentralization forward after the Orange Revolution, most notably by the vice prime minister (Roman Bezsmertny) whose responsibilities included administrative and territorial reforms. After Bezsmertny was sacked, the position was renamed: the term “*territorial reform*” was replaced by “*regional development*”. The whole momentum of change with respect to decentralization came to a halt in late summer 2005 and has not been revived since.
- **Inconsistency between new draft laws and normative laws and the constitution:** The new draft laws were submitted to parliament as individual laws and not as a package. Parliament may make amendments to one law that can be contradicted in another law on local self-government. It may vote for one law and not for another one. Moreover, the laws are not well formulated and fail to deal with the interaction between the various levels of local self-government. The laws will need to be tabled as a coherent package.
- The constitution and laws of Ukraine **do not provide firm legal guarantees** for the fundamental principles of local self-government—the legal, financial,

economic, and organizational autonomy of local authorities and the universality of local government

- **Inefficient system of public service and service in local government bodies**, weaknesses in the system and the low level of pay in local government bodies as well as lack of transparency in the activity of local authorities and state executive bodies.
- **Insufficient human resources (in quantity and quality) at the local self-government level** will require huge efforts in training and re-training, introducing new service-oriented approaches for local self-government, upgrading of skills and qualifications in line with the functions they are to perform.

3.2 Administrative / territorial issues:

- **Contradictions in the constitutional provisions that define the territorial basis**, organizational structure and powers of local authorities and local state administrations. This causes significant disproportion in administrative and territorial units and complicates the administration and strategic planning of these territories.
- **Insufficient clarity in the division of powers between** local authorities and the local bodies of state executive power, as well as among the different levels, organs, and officials of local authorities, together with uncontrolled and uncoordinated sub-regionalization of the bodies of executive power on the local level. This means duplication of functions, making local self-government less responsive and less effective in providing the necessary services.
- **Lack of clarity of territorial units and excessive number of divisions:** The territorial areas of the various units of local self-governance are not well defined. The territorial sub-divisions into *rayons*, municipalities, villages, and settlements are often too small to work as effective units for local self-governance. There has been an increase in the number of village councils while at the same time there has been a dramatic decrease in populations living in these territorial areas. From 1991 to 2001 the number of village councils increased by 1052 units to nearly 11,000 in 2005, while in parallel the rural population decreased by an estimated 1.1 million and the total number of settlements also decreased by 153 villages. On average, each village community has only 1500 inhabitants.
- **Often there is a lack of clarity as to the defined boundaries of** administrative and territorial units. Territorial units have often been established without taking into account the local specifics, historical and economic factors as well as the developmental perspectives of the regions and settlements. This regularly gives rise to conflicts as to the competencies within the local self-government bodies and state government bodies, and is especially acute with regard to land and tax issues.

3.3 Fiscal issues:

- **Inadequate financial basis for local self-government**, excessive centralization of financial resources, and absence of a proper tax base (local taxes and charges) that would enable the local authorities to form their budgets independently.
- **The financial viability of most territorial units is also questionable.** Almost all the current local self-governments units can survive only due to the large state subsidies. They lack the financial and economic resources that would allow them to provide the normally required communal, social, and state services in accordance with the standards that have been defined and are to be guaranteed by the state. Maintaining social infrastructure and encouraging economic development in such small self-government units is extremely expensive and almost impossible.
- **Many territorial units simple do not have the necessary financial base to be financially viable.** Viability requires expanding the local tax base, which will mean handing over immovable property taxes, land taxes and as well as PTT taxes while at the same time decreasing the list of local fees that have to be paid. Fiscal equalization between local self-government units has to be based upon mechanisms that can encourage local authorities to increase their revenue collection for the state budget on their territories while at the same time providing improvements in public services.
- **Huge current fixed expenditures leave little room for alternative services:** Today the three largest budget items at the local level are: education (35%), health care (25%), and social protection (24%). If the share of social expenditures of local budgets is more than 85%, the state's contribution to this is often not more than one third. Clearly, the state is shifting responsibility for those expenditures to the local budgets, without considering they are to pay for these expenditures.
- **Excessive dependency of local authorities** on the decisions of local state executive bodies, in particular concerning formation and execution of local budgets and implementation of other delegated tasks.
- **Introduction of proportional representation** brought huge problems for the local self-government system. Elected mayors try to build coalitions among the parties that have been elected to be council members. Mayors are voted out of office by a majority of councilors, who vote along party-lines. The people do not see individual councilors as their representatives. Public accountability has been seriously compromised.

3.4 SDC-Ukraine report: Methodology

This report was prepared by a group of Ukrainian and international experts using other available studies and individual interviews with other experts and representatives of stakeholder groups.

4 USAID REPORT, 2007

The “**Ukraine local government assessment**” prepared by USAID in 2007 focuses on analyzing the current situation, evaluating the effectiveness of USAID participation and support, and offering recommendations for further activities. The assessment deals with largely the same issues as the studies presented above. One valuable feature is that it attempts to analyze the attitudes of stakeholders groups.

4.1 Main findings, USAID 2007 report

Problems identified

1. Legislation on local government is missing or inconsistent, regarding:
 - strengthening the organizational and legal basis of local self-governance and local democracy development in terms of clearly defining the role and responsibility of local government as compared to the role of the government of Ukraine;
 - strengthening the economic autonomy for local self-governance by developing of a comprehensive local tax base.
2. The main disadvantage in shifting to a fully proportional system for local elections is that voters are less able to interact with deputies and to choose whom to vote for on the basis of personal characteristics. Local deputies are now more responsible to their parties than to voters in districts, which used to be the case in the single-member constituency system. Voters no longer know who “their own” local representatives are, and have no representative district basis in seeking help with local issues.

In some cities there is an increasing imbalance between the mayor and the elected council, favoring the executive. The newly instituted proportional system for choosing council members has destroyed whatever constituency power-base the council members once had, without any concomitant power shift to what were intended to be reinvigorated local political parties.

3. Some form of administrative/territorial reform will be necessary at some point if a decentralization policy is to be successful. *Rayons* have elected local councils, but no elected executive officers. Executive authority locally is unclear and rests mainly with central government administrative officials from the ministries. *Oblast* governors are appointed by the president, but have limited direct authority over the *rayons*. Governors exercise considerable informal authority, using their influence over budgetary transfers. Many of the smaller towns and settlements lack the technical or financial capacity to manage their own affairs and appear non-viable as political units.

Consolidation of units is considered desirable, but such a process threatens vested interests almost everywhere. How best to restructure *oblasts* and *rayons* remains an unsolved problem.

The general view of city officials surveyed in the USAID study was that territorial reform would be desirable but that cities could get along with the status quo if territorial reform could be incremental, which is the more likely scenario. This view is based on the opinion that the probability of major changes in territorial structure in the near term was low due to serious political disagreements among leading political actors and parties.

Cities are in a much better position in this respect than “non-city territories.” *Oblast* jurisdiction cities are in the best position of all. Cities are larger units, with stronger financial and economic bases and clearly defined boundaries. Cities are governed more democratically, with elected mayors and councils both accountable to the local citizens. The Budget Code of 2001 also made central government revenue transfers to cities direct and formula-based, whereas previous transfers were passed through *oblast* governors and staff who enjoyed great discretionary powers over what funds the cities would actually receive.

The USAID study found that administrative reform was viewed very differently. Cities definitely favor changes that would give them more clearly defined relationships with the central government, especially on matters related to revenue transfers, budgeting, and staffing. This is the cities’ “hot button” issue of greatest urgency, as they feel stifled in governance by central control and the national bureaucratic labyrinth. However, it is hard to tell which of these problems can be resolved administratively, without structural changes requiring new laws passed by the parliament.

4. Local governments continue to exercise very limited control over their finances. Most of their expenditures are centrally mandated and the great majority of their revenues still derive from national budget flows. The required line item budget system precludes meaningful strategic planning. Even when the PPB methodology is adopted, the legal budget of the jurisdiction must still conform to the national line item format.

5. Many large cities have the property, housing, industrial operations, and retail commerce needed to form the core of a rational tax base, but the existing over-centralized system prevents such treatment of a city’s natural and built assets. Cities need clearly established taxation authority they can exercise independent of the central government. As with almost everything affecting the *rayon* jurisdiction cities, their tax base potential is limited to the point where they are likely to remain wards of a centralized system even after a comprehensive restructuring, unless significant territorial consolidation can occur as a part of that restructuring.

6. The large cities have begun to exact some control of service management from the central authorities and appear eager to wrest full control, but their success is a matter of politics and personalities rather than law. For example, education and health are two areas in which cities have devolved service delivery responsibilities, but almost all the funding and the directed use of funds come down to cities from central government flows and directives.

7. Water supply and wastewater treatment, residential heating, public lighting, mass transit and sanitation are the core services to be provided by any local government. In Ukraine these have been devolved to so-called communal services run by city-owned and state-owned companies. Their success and not infrequent failure are central to the standard of living of almost every Ukrainian. Given the budgets, large number of employees and centrality of services, it can even be argued that the success of these communal services operations is as important as a functioning local government itself, particularly since education, health, and public safety are essentially run from the center.

Management, staff, services offered, budgets, even tariffs of communal service providers are all controlled locally.

Solutions proposed by the USAID report

1. A clearer demarcation of roles and responsibilities for public services between the national and municipal governments (not to mention *oblasts* and *rayons*), as well as the resource allocations to fund them, is badly needed. Aside from boundary revision issues, legally protected municipal authorities independent from central government authorities are required, to give cities some guaranteed local autonomy. Cities should also be able to exercise discretion in the use of sector-type transfers (e.g. health and education) rather than having their uses mandated to the extent that the cities are mere checkbook pen-pushers using treasury accounts. Government employees delivering mandated services should be on local payrolls, and local authorities should be able to set staffing levels and hire and fire employees.

No major advances will be sustainable in the long term in a large number of cities in such areas as municipal strategic planning, budget formulation and execution, citizen participation, investment promotion, and public utilities management, unless the enabling environment at the national level becomes more supportive of local self-governance, especially as to municipal taxing and expenditure authority.

2. Legislative reforms that can provide a solid framework for decentralization can be achieved only by political consensus reached through a party-based process supported by sound technical analysis, especially comparative studies from similarly situated countries in Eastern Europe. Territorial reform—understood to mean redefinition of sub-national roles for *rayons*, *oblasts* and cities, as well as the redrawing of political entity boundaries and possible consolidation—is a complex and controversial topic.

Less controversial and more immediately achievable are administrative reform of the budgetary processes between cities and the central government, and possibly changes to the statutory framework of intergovernmental finance.. Such changes are critically important for maintaining the positive dynamic of municipal development and making local elected officials more responsive and accountable to local citizens, as well as making citizens aware of where their tax money goes.

Most importantly, it is essential to have greater fiscal decentralization that can give cities real taxation authority to generate sharply increased levels of own-source revenues and budget expenditure independence. Objective standards that can be used to certify municipal management capabilities should be established so that the

national government's stated concerns about local financial accountability for central government transfers can be met.

4.2 Methodology, USAID report

The methodology used for the USAID assessment was an initial desk review of relevant program documents, followed by additional independent research on related. The expert team met with USAID officers, implementing partners, host country government officials and other local counterparts. Then the team visited various participating cities in western and eastern Ukraine: Kamianets-Podilskyi, Chernivtsi, Ivano-Frankivsk, Lviv and Kovel in the west and Kharkiv, Donetsk, Berdyansk and Cherkasy in the east.

The principal method of data collection during fieldwork involved semi-structured interviews with relevant stakeholders on a standard outline of critical questions.

5 OPINION POLL, 2004

Trust in local self government as an institution has been studied by various non-government institutions. **A nationwide opinion poll** (covering 21 out of 25 *oblasts* and with a representative sample of more than 1,200 respondents) was carried out in 2004 by the East European Development Institute on Human Rights and Freedoms in Ukraine, focused on issues pertaining to local governance, issues of accountability and human rights. In general, it showed low level of trust and faith in local bodies of power to address issues of transparency and accountability (only 11% believed in the capacity of the local bodies), whereas the level of trust was only 3% when it came to defending human rights. Some 30% of all respondents said they felt no trust at all.

Local government officials or civil servants, when asked about their perception of corruption (taking bribes, justifying acceptance of bribes due to low pay), most (42%) replied in the positive. On the role of the “third sector” (media, political parties and NGOs) in cooperating with the local governments, the answers were negative.

Health care and educational institutions were perceived as the most corrupt, followed by social protection centers, institutions registering companies/NGOs that receive and process complaints, and lastly the private health care centers. The percentages of respondent who think that corruption is never seen in most of these institutions are the lowest. Two other questions dealt with more particular issues of corruption. In the absence of good pay, bribery is an alternative source of supplemental income for the civil servants. There are “agreed” schemes, with behavioral and attitude-based recognitions, alliances, and informal linkages between actors. Usually when a bribe has been taken, or fees paid, the services are provided. However, when asked whether, even after providing the bribe (in the case of state health care, educational and social protection institutions), or the stipulated fee (in case of institutions registering companies, NGOs, institutions receiving and processing complaints and private health care centers) people were turned down, and were not given any explanation, 28% and 34% answered that this had always or often been the case.

6 UNDP REPORT, 2005

The UNDP-supported report, **“New Wave of Reform – Proposals to the President of Ukraine – Blue ribbon Commission report”** was released just after the the presidential elections in early 2005.²

It was prepared by a group of Ukrainian and international experts based on their knowledge and meetings with some key players in the areas covered. In the field of local governance, it recommends the enactment of a territorial-administrative reform to improve the delivery of public services. This would make the lowest administrative levels financially viable, while decentralizing powers and financing from the central government to regional and local governments. To implement territorial-administrative reform, the report recommends:

1. Authority should be devolved from central bodies of executive power to lower levels of government that are closest to the citizen and best positioned to deliver such essential public services as health care, education, and employment assistance. This will require clarification of the respective roles of the different levels of government with a view to determining how to deliver services most effectively—for example, ministries should focus on policy development, the setting of standards for services, and the enforcement of standards and inspections to protect the public.
2. Regional and local governments should focus on the actual delivery of services, as well as considerable reform of the budget system, so as to finance adequately the delivery of services by municipalities.
3. The report makes several drastic policy proposals with regard to sectors affecting the day-to-day functioning of local authorities: healthcare reform (mandatory public medical insurance, using a multi-level approach for healthcare financing that would provide for competition among care providers), cuts in public expenditures (subsidies), and more specifically targeted social transfers. However, as most Ukrainians are in no position to opt for privatized options in areas like health and social care, where the state spending in health as low as 3.3% of GDP, introducing these measures would contribute to a perception of infringement of human rights, reducing the provision of basic needs from fundamental rights to the level of privilege.

Local provision of public services

The existing methods of service delivery may be classified as follows:

- traditional (budgetary organizations or municipal services);

² www.un.org.ua/brc/brci/index.php?page=report

- alternative (contracting out to private companies, concessions or consumer associations);
- joint ventures (cooperating with local governments or partnerships with the commercial sector).

Activities like waste collection, territorial development, maintenance of housing, transportation and communication provide examples of cooperation between local governments and between the private and public sectors. Mechanisms of cooperation depend on the specific service. For example, a local government may sign a contract with a private company for the provision of waste disposal services, in which it specifies the quality and cost of services. These services are paid for by the residents; a special local organization collects payments and transfers them to the private company. In the case of transportation, local authorities issue licenses to private companies to provide services. The license specifies all necessary conditions and privileges, whereas the private company then retains the prerogative to determine service costs and to collect fees. The Law on Local Self-government specifies the competencies of local authorities by sphere of activity. The table below lists all functions of local self-government, grouped by sphere and subdivided into own and delegated responsibilities.

Local Government Responsibilities in Public Service Delivery	
<i>Own Authorities</i>	<i>Delegated Authorities</i>
MANAGEMENT OF COMMUNITY PROPERTY	
Management and charge of community property; establishing procedures and exercising control over the use of revenues	Consultation regarding the nomination of managers of state-owned enterprises
HOUSING, TRANSPORT, COMMUNICATIONS AND COMMUNAL FACILITIES	
Managing and maintaining local facilities Registering inhabitants in need of housing Registering housing construction cooperatives Supplying facilities with heating, gas, electricity and water Waste collection and treatment/utilization, municipal improvement Organizing markets Establishing working schedules for the given services and a community transportation schedule	Supporting the improvement of housing and communal facilities, transport and communications Control over the operation of local facilities Protecting consumer rights Registering housing stock, providing social housing and exercising control over housing registration Registering non-residential property and other real estate objects
SETTLEMENT CONSTRUCTION AND PLANNING	
Organizing construction, renovation	Overseeing maintenance of the land

and repair of community property objects Allocating land for urban planning and development, drafting and approving general urban development plans Issuing construction licenses	cadastral ³ construction and architectural control Preserving historical, cultural and architectural monuments
EDUCATION, HEALTH CARE, CULTURE, SPORTS AND TOURISM	
Managing related local facilities Establishing conditions for childcare,; facilitating secondary and vocational education Providing free transportation for schoolchildren Creating conditions for creative activities, developing handicraft and home industries Organizing medical services and catering in organizations of the social and cultural sphere Ensuring conditions for sports in residential areas	Ensuring that education and medical services are available, free of charge Developing all kinds of services related to education, health care, culture, sports and tourism Providing medicine to special categories of citizens Registering children for pre-school and primary school, organizing work with young people and orphans, ensuring state maintenance for special categories of minors Resolving issues concerning the specific rights of special categories of the population (pensioners, youth, the disabled and students) to use certain facilities
REGULATION OF LAND RELATIONS AND ENVIRONMENTAL PROTECTION	
Determining rates for the land tax and fees for the use of natural resources Approving environmental programs Organizing natural reserves and sanctuaries	Control over compliance with land and environmental legislation Registering land ownership, organizing the land cadastre and resolving land disputes Taking measures to ameliorate the consequences of catastrophes (such as industrial, etc.) and natural disasters Coordinating land development projects Allocating territory for waste disposal
SOCIAL SECURITY	
Establishing additional guarantees Providing assistance to certain categories of inhabitants	Approving employment and social security programs, organizing public works

³ Land cadastre is a term commonly used in Ukraine and some other countries. It refers to a general national registry of land, with regional and local subdivisions. The objective of the cadastre is to register information reflecting the value of land, the natural status of land and the use of land, and to ensure the quality of such information, its preservation and availability to the public.),

Organizing hostels, specific medical services, catering and other services for certain categories of inhabitants	Improving the life and financial conditions of special categories of the population and providing benefits Assistance to victims of natural disasters Control over the provision of social security to workers and employees, registering collective agreements Employment assistance for inhabitants in need of social protection
LAW ENFORCEMENT, MAINTENANCE OF PUBLIC ORDER AND PROTECTION OF RIGHTS AND FREEDOMS	
Establishing a municipal militia Rendering assistance to law enforcement bodies, courts and lawyers	Reviewing citizens' appeals Maintaining public order in times of natural disaster Deciding on the organization of public meetings and demonstrations Reviewing issues on administrative violations Registering acts of civil status, businesses and public organizations (NGOs)

Most communal services today are at best inefficient and many do not function at all. Heat is provided (unreliably) but at an enormous cost in wasted energy. Water leakage rates approaching 20% are common. Most worryingly, it seems that almost all companies lack the budget to fund the infrastructure improvements needed to maintain current standards, let alone improve them. Most impose tariffs that return less revenue than required to meet current operational costs, even though the tariff reform law calls for full cost recovery. With very rare exceptions, these are not viable business concerns and as such cannot readily attract investors or willing lenders for desperately needed capital improvements.

Many managers understand these grave issues and have engaged citizens to begin taking the measures necessary to address them. Tariff increases have been approved through public hearing processes; new budget procedures are being introduced; many are looking into long-term borrowing to meet capital needs; and modern engineering standards are being introduced. Given the importance of these services, their improvement is crucial to both the standard of living and political stability.

Research in the area of local public services covers two main areas:

- Policy analysis and advice on issues such as strategic development of service delivery systems, structural reforms, privatization, regulatory policies;
- Capacity building in areas such as management of public services by local governments, management by service providers, including strategic planning, financial management, quality management, energy efficiency, loss reduction, tariff setting, public sector involvement, etc.

7 ICPS POLICY PAPER, 2005

The policy paper **“Regulatory reform in the residential services sector”** was prepared in 2005 by International Centre for Policy Studies under the “Policy Development Program / Regulatory Reform in the Communal Services Sector of Ukraine” project, a joint initiative of the State Residential Services Committee and the International Centre for Policy Studies (ICPS), implemented under the “Local Government and Public Service Reform Initiative” program with the financial support of the Open Society Institute (OSI).⁴

Part of this report was used to prepare a Concept for State Regulation of Natural Monopolies in the Residential Services Sector, as called for by the Law “On a statewide program for reforming and developing the residential services sector for 2004–2010.”

7.1 ICPS policy paper: Main findings

The paper identifies key problems in this area and provides recommendations for further steps that the government can take to bring about qualitatively new transformations.

Reforming the regulation of natural monopolies in the residential services sector is not possible unless accompanied by several other steps: (1) changing national and local policies on social security and inter-budgetary relations; (2) identifying sources of financing for sector development; (3) establishing mechanisms for regulating rates; and (4) introducing the principles of civil society. Unless the government can tackle these other issues, regulatory reform will either be very limited in its effect, or will progress with great difficulty.

1. The power to regulate residential services has not been clearly divided between elected local governments and local state administrations, which are part of the executive branch. The local government bodies that directly fulfill a regulatory function cannot remove themselves from political influence, which makes effective regulation difficult. Two approaches are proposed: one is to establish a national regulatory commission; the other is to prevent conflicts of interest and more clearly identify regulatory functions within the existing system.

The residential services sector is being reformed in several stages, based on international experience in reforming public utilities: (1) restructuring enterprises; (2)

⁴ www.icps.kiev.ua/library.html?29

incorporating; (3) introducing regulation; and (4) engaging the private sector (see Table below).

Stages of transforming public utilities

Restructuring	Putting companies under the management of local governments; separating secondary production facilities and non-core businesses; merging or splitting up companies by region.
Incorporation	Transforming enterprises into joint stock companies; introducing market principles in the sector and limiting direct government intervention in company activities.
Institutional transformations	Introducing a regulatory system for natural monopolies
Engaging the private sector	Engaging the private sector in owning or operating assets.

The first stage of reforms has largely been completed. Most state-owned water supply, heating, and sewage companies have been handed over to communal ownership, while local governments finance, manage, and set rates in the sector. The process of merging and breaking up companies by region continues, and new companies have emerged that are owned by their communities. However, the next stages of reform—introducing market relations and reforming state regulatory policy—are proceeding very slowly.

The reform of local governments and inter-budgetary relations has a direct impact on the formation of a regulatory system for natural monopolies. Most regulatory powers have already been handed over to local state administrations and local governments.

Given the lack of a consolidated regulatory policy, large-scale private sector involvement in owning and managing residential services assets has been postponed, while regional initiatives are encountering difficulties. The result is a decline in the financial standing of service providers and the quality of their services.

Moreover, there has been no proper division of powers among bodies that:

- manage assets in the residential services sector;
- develop and carry out government and regional policy;
- regulate natural monopolies.

Thus, local governments combine the functions of: (1) property owner, (2) assets manager, and (3) regulator. Combining the first two functions in a regulatory body leads to a conflict of interests when regulatory policy is to be implemented. The local government tries to protect consumers and at the same time to maximize the corporate interests of the companies it owns. It is not always possible to maintain the necessary balance under these conditions. Once water supply and sewage departments and central heating departments were changed into independent

companies and handed over into community ownership, the problem arose as to how state administrations and local governments would be able to work together, especially in regulating rates.

The distribution of powers should be further improved in three main areas:

- local government bodies should set prices and rates in the residential services sector;
- local state administrations should monitor how local bodies adhere to the state legislation and a single state policy;
- the National Electricity Regulatory Commission should establish rates for heating and hot water for commercial consumers that use combined thermo-electric and heating plants with capacities above the limits set by law. The government establishes the licensing of business entities supplying centralized heat, except for those that use combined thermo-electric and heating plants with capacities above the limits established by law.

While reforms are undertaken, the government should:

- develop a concept and a system of regulations on setting prices/rates, standards, norms, procedures, and rules for the residential services sector;
- develop and adopt rules and conditions for the commercial activities of natural monopolies, such as rules for providing water supplies, heating and sewage services to the local population and rules for using heating;
- carry out a systematic revision of regulatory acts that determine consumption norms, costs and losses in supplying water, heating, and sewage services, in order to bring payments for services in line with their quantity and quality.

2. Residential services have a universal nature: they should be of uniform, with standardized quality and broad accessibility. In order to provide residential services to low-income individuals, the government resorts to cross-subsidizing or direct support for parts of the population in the form of privileges (discounted or free services) and cash subsidies:

- **cross-subsidies** through differentiated rates for residential and industrial consumers. On average, water-supply rates for industrial consumers are triple those of residential rates. In effect, industrial customers subsidize services for residential customers;
- **direct support** by providing privileges and subsidies for households to pay for their services, and social assistance to low-income families. With rare exceptions, both privileges and subsidies for residential services are provided in non-cash form: consumers pay a part of the cost, in particular for water supply and sewage, while the rest is covered from the budget. Unlike subsidies, such privileges are not income-based.

3. There are four approaches to financing a renewal and modernization of the residential services sector, where much of the equipment is either outdated or worn out: (1) capital investment from municipal budgets; (2) capital investment from the

providers themselves; (3) outside investors; and (4) loans to providers. Attracting private capital is one of the most obvious ways to increase efficiency in this sector.

The legally established procedure for compensating the costs of water supply and heating providers does not take into account necessary major repairs, reconstruction, and development: for replacing worn-out pipelines, pumping equipment and filtering plants; and for upgrading to modern systems of water purification and disinfection.

Most of Ukraine's water purification plants were built 20–60 years ago, using now-outdated construction standards. The water-purification system currently used, with pipes that draw water from open reservoirs, cannot ensure the necessary quality of water. Overly centralized heating and the use of inefficient and worn-out equipment in boiler rooms, heating junctions, and networks mean significant heat losses and unreliable heating. Service providers also suffer substantial losses because of frequent accidents and large volumes of repairs.

The heating and distribution networks of residential buildings and community facilities like hospitals, kindergartens, and schools, have long since exceeded their standard lifespan. The rate at which worn-out network pipelines are replaced is below norm and does not match reliability standards. As funding shrinks, worn-out heating systems are replaced less and less regularly.

Investment capital for water supply, heating, and sewage plant could come from local budgets, the enterprises themselves, and outside investors. However, the uncertain regulatory environment and inappropriate rate-schedules discourage the commitment of capital from all three sources.

a) Financing through municipal budgets. A city council decision is required in order for the municipal budget funds to go to residential services. This kind of investment is extremely low, mainly because of:

- limited local government resources;
- lack of practice of local borrowing;
- lack of incentives.

b) Investment through company funds. Most fixed investment in the residential services sector comes from the enterprises themselves. However, these funds are extremely limited because of low profitability or even loss-making, due to:

- inefficient use of existing resources;
- huge defaults by consumers for services rendered;
- the failure of residential service rates to reflect all legitimate costs;
- local budgets that do not compensate privileges provided to low-income individuals.

c) Attracting outside investors. The sector is not attractive in terms of investment because it presents various risks for potential investors:

- the current rate policy of local governments aims solely at taking care of the social welfare of the local population, making it difficult to determine the rate of return in a sector that requires large fixed investments;

- taking advantage of the option to stop providing services to deadbeat consumers is limited by the technical nature of water supply, heating, and sewage networks.

Ukraine offers conditions that suit only simple forms of private sector involvement, such as service or management contracts. As these forms do not resolve the issue of capitalizing fixed assets, more complex options might prove beneficial for consumers and government alike.

4. To this day, there is no system for effective rate regulation: the process of rate setting is non-transparent and the way it is done has not been established by a regulatory body; the financial stability of providers is uncertain; and consumers are not properly protected.

Inconsistent distribution of the power to set and regulate rates makes it harder to institutionalize the process of regulating rates. According to the law “On local state administrations,” *oblast* state administrations today have the power to regulate rates for residential services, determine and set consumption norms, and monitor adherence to these norms. However, they have lost the leverage of managing what are now public utilities that have changed owners. Meanwhile, the law “On local government” empowers the duty to provide residential services on municipal, village, and township councils and their executive committees.

There are two sets of problems with current rate regulation methods:

1. There is no model for effective rate regulation.

Cost-plus rates facilitate neither higher operating efficiency nor proper investment planning.

Regulation is not open and public:

- there are no established procedures for public involvement in debating rates before they are approved;
- regulatory bodies do not track contract violations;
- there are no indicators against which to compare the implementation of approved plans.
- Regulatory procedures have not been established by a regulatory body:
- there are no timeframes or procedures for setting or revising rates;
- there is no complete list of documents that need to be submitted to a regulatory body;
- when rates are raised, no effective mechanism is used for indexing specific items.

2. Rate setting is affected by social and political conditions.

An overly high level of cross-subsidies distorts economic incentives for residential and industrial consumers alike. Residential consumers either over-consume cheap services or are forced to opt out of centralized services because these are too costly.

Financial stability is not a priority. In the period 1998–2003, nearly all companies providing water supply, sewage, and centralized heating were operating below the break-even point.

The quality of service remains low. This supports soft budget constraints and reduces incentives for consumers to fulfill their obligations. Consumers do not want to pay for low-quality services, neither are they prepared to pay more, because they do not trust the service providers.

Consumers are not fully protected:

- there are no contracts between service providers and consumers;
- there is no monitoring of service-quality indicators;
- there is no mechanism to take account of service quality in setting rates for services.

5. Since the primary residential services remain natural monopolies, consumer protection is particularly important. Three main options for arranging this protection are: (1) specialized departments under local governments; (2) independent organizations; and (3) community organizations. Different consumer protection institutions may even coexist.

The third option—community organizations and consumer associations—is the most appropriate for protecting consumer rights and interests in Ukraine, because they:

- directly represent the interests of the average consumer (i.e. society at large);
- are not part of the executive and, therefore should be free of the political or commercial conflicts of interests—such as giving preference to state-owned companies—that are inherent to emerging markets;
- already have a legal basis to work on the market.

7.2 Methodology, ICPS policy paper

The policy paper was prepared by a team of ICPS experts using publications by other Ukrainian projects in the area, international experience, and analysis of Ukrainian legislative framework and government initiatives. The paper was discussed with experts and stakeholders at two round-table meetings in Kyiv.

8 WORLD BANK REPORT, 2008

In 2008, the World Bank prepared a report **“Improving Intergovernmental Fiscal Relations and Public Health and Education Expenditure Policy in Ukraine: Selected Issues”**.⁵

8.1 Main findings, World Bank report

1. Ukraine spends a large proportion of its budget resources on health and education, mainly through local governments. These sectoral fiscal envelopes cannot be increased without burdening the economy with an added tax burden. Ukraine’s public fiscal envelope at 43% of GDP is too large for an emerging economy; it is biased towards consumption and current transfers, and is low in public (fixed) capital investments (only 2.3% of GDP in 2006). On the functional front, a significant share of spending involves “social spending” (around 25% of GDP), including health care, education, pensions and other social-protection transfers. In the budget, some 6.3% of GDP is devoted to education and 3.7% of GDP on health. Moreover, out-of-pocket spending (mainly through public facilities) is relatively high at around 1.5 and 2.5% of GDP in education and health, respectively. Substantial social spending has been financed by a growing tax burden on the economy, which, combined with poor service-delivery outcomes, may become a factor in limiting future growth and competitiveness.

2. Despite the sizable resources the budget allocated to services such as health and education, Ukrainians do not obtain good value. Health sector outcomes are quite poor, as shown by various indicators: while maternal and child mortality rates have improved in recent years, life expectancy remains below the pre-transition levels at 67.1 years, and male mortality (currently 61.7 years) has even been worsening. Moreover, the incidence of diseases such as tuberculosis and HIV/AIDS has been growing. On balance, most of the country’s health indicators under-perform those of the new EU member countries. Ukraine scores among the lowest of all transition economies in terms of the quality of health and education services, as shown in the 2007 EBRD-World Bank “Life in Transition” survey.

3. In part, this is due to the acute inefficiency of service provision in these sectors, which generates underspending on quality-enhancing expenditures and investments. In the education sector, Ukraine has extremely low pupil/teacher ratios (at 9.4 for

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<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/UKRAINEEXTN/0,,contentMDK:21062617~pagePK:141137~piPK:141127~theSitePK:328533,00.html>

primary and secondary education, among the lowest ratios in the world), extremely small class sizes, and an oversized network of facilities combined with a low teaching load per teacher (60% of the levels in the USA and 85% of the OECD average). In the health sector, Ukraine has a greater number of health system inputs per 100,000 inhabitants compared to the new EU member states and the EU countries in general, including more hospitals, beds, doctors, nurses, and non-medical staff. This is combined with an inflated average length of stay in public facilities that is associated with low utilization rates. Maintaining such inefficient network sizes and staffing leaves few resources available to spend on the training and re-training of teachers and medical personnel, the provision of adequate educational and treatment materials and medicines, the renovation of equipment and laboratories, and other infrastructure needs.

4. Local governments are essential in providing and financing services such as health and education, and in channeling public investments across the country. Reforms in these sectors need to go hand-in-hand with intergovernmental fiscal reforms. Local governments spend 80% and 64% of the total budgets of health and education, respectively, and provide the bulk of the services in these sectors. Local governments are also important to other sectors in need of reform, such as housing, communal heating, water, sanitation, transport, and social assistance. Furthermore, local governments are key in channeling fixed capital investments across sectors and across the country (spending 55% of the total national budget in this area).

5. Despite their major role in allocating spending, local governments have only limited ability to determine spending structure and allocate expenditures within sectors. The intergovernmental fiscal system did undergo positive reforms in 2001/02, but the reform process remains incomplete. Improvement across the four key pillars of the intergovernmental fiscal framework is necessary to enable the system to receive and allocate resources more efficiently, facilitating the proper financing of local services and infrastructure provision. Some examples illustrate this situation: (i) expenditure responsibilities overlap to some extent, creating inefficiencies and duplication at the local level, and many of the lower-tier government units are too small to deliver basic social services effectively; (ii) incentives to increase local government's 'own' tax revenues are limited, as is revenue autonomy, making local governments over-dependent on shared revenues and transfers; (iii) there is a lack of predictability and transparency combined with negative incentives in intergovernmental transfers that affects the planning horizon of local governments and their predisposition to overcome inefficiencies in service provision; and (iv) the framework for sub-national borrowing is underdeveloped. Moreover, the parallel vertical structure of management of social services like health and education continues to dictate how budgets are formed at the facility level and aggregated at the local government level (mainly on the basis of inputs rather than demand), which dramatically reduces local authorities' budget flexibility for efficiency gains.

6. Fiscal pressures arising from needed investments may overwhelm the fiscal capacity of local governments. This report estimates that public-sector investment needs at the local government level (including in service delivery) will amount to around US\$29 billion over the next 10 years, or roughly 30% of total estimated investment requirements in the country. The private sector is likely to provide only a

minor portion of these investments at the local level, and only if the regulatory framework for public/private partnerships (PPPs) improves significantly. Thus, even considering some private investments, local government spending on (fixed) capital investments would need to grow in real terms by at least 70-90% from its current level. District heating is probably the service with the most pressing needs in terms of physical investments, but water and sanitation services and regional and rural roads (and other transport infrastructure) also require significant refurbishing to avoid further deterioration. Investment needs are significant in social services as well: these needs include the refurbishing of dilapidated schools and hospitals, the purchase of new equipment, laboratories, and the like.

7. What is needed is not more spending in service provision, but better (more efficient) spending. The government needs to improve resource allocation by strengthening its intergovernmental fiscal system and by creating sufficient fiscal savings within the current fiscal envelopes of the health and education sectors, in order to reallocate these savings towards quality-enhancing expenditures and investments within each sector.

Local governments must be granted the power to start the process of rationalizing the network of health facilities. Although the constitutional prohibition of facility closure is an impediment that would be difficult to overcome, a revision should be attempted. In the meantime, the government could begin the process through the “merging” of facilities—which is allowed by the Budget Code. Intergovernmental transfers should fully account for the demand for services and, ideally, should reward efficiency gains and performance.

The existing inefficiency and excess capacity result from an inherited oversized staffing and network system that is perpetuated by regulations and incentives present in the budgeting, financing, and administrative mechanisms of local governments. According to the Ukrainian legal framework, local governments are to be accountable to their local constituents for managing public education (i.e. the levels before higher education) effectively. But because the Ministry of Education and Science (MoES) retains control over most decision-making, local governments are unable to undertake the necessary adjustments. The MoES still has full control over the norms governing staffing arrangements, teaching hours, non-teaching staffing ratios, and class sizes—all based on the oversized school network that dictates how budgets are formed at the school level and, consequently, at the local government level. The current arrangements undermine local accountability, impede opportunities for allocating resources to improve quality, and come at a high cost (with low value) for the country. The constraints embedded in the system make it difficult for local governments to take actions to improve efficiency, such as school consolidation and the re-allocation and restructuring of staffing.

8. Creating fiscal space for local investments across sectors is necessary, but these efforts need to be coupled with a strengthening of the framework for local capital budgeting. The weaknesses of the capital budgeting system at the national level are mirrored at the local level, so that the incentives and the capacity for the planning, evaluation, and selection processes for strategically allocating capital investments are absent.

9 PEOPLE'S VOICE PROJECT SURVEYS

An important effort to introduce mechanisms for measuring the level of people's satisfaction with the quality of public services at local (municipal) level has been the People's Voice Project implemented in Ukraine from 2001 to 2007 by the World Bank together with consultancy company PADCO, with the assistance of the International Centre for Policy Studies. Under this project, surveys of residents were prepared annually and held in six cities: Alchevsk (Luhansk *oblast*), Kolomyia (Ivano-Frankivsk *oblast*), Komsomolsk (Poltava *oblast*), Lutsk (Volyn *oblast*), Makiyivka (Donetsk *oblast*), and Chernihiv (Chernihiv *oblast*).

The main objective of these surveys was to collect quantitative data on the quality, effectiveness, and completeness of municipal services delivery, and to develop recommendations for local government to improve the services they provide to local residents.

Implementation of the main objective included the following tasks:

- Evaluation of services delivered to local residents;
- Determining key areas of concern (services delivered in the least satisfactory manner according to respondents);
- Eliciting opinions on the possible ways of improving services, and
- Evaluation of changes in particular services in comparison with previous periods, as experienced by respondents.

The report **“Municipal Service Delivery Satisfaction Survey: Comparative Summary Report. Cities of Alchevsk, Kolomyia, Komsomolsk, Lutsk, Makiyivka and Chernihiv”** was prepared in 2007. It presented the quantitative survey results and some explanations received during the focus group discussions.⁶

9.1 Main findings of 2007 People's Voice Project report

Housing and communal services

- The worst satisfaction level of communal services delivery was found in the city of Makiyivka (82.4% of respondents held a negative view of such services there). Slightly more than half the citizens of Alchevsk (56.7%) were dissatisfied with the quality of communal services provided, while roughly half

⁶ www.pvp.org.ua/eng/library/surveys/

the residents of Lutsk (48.8%), Kolomyia (50.3%), and Chernihiv (52.6%) declared themselves quite happy with the situation in their cities. Komsomolsk residents emerged as the most satisfied with regard to communal housing services: 72.6% had positive things to say.

- The most problematic sphere within communal services, as reported by the residents of all six cities, was the maintenance of houses and neighboring areas. Respondents in Alchevsk appeared to most dissatisfied with the quality of heating, Lutsk citizens reported garbage collection problems, while in Makiyivka the lowest evaluation was given to water supply, heating, and garbage collection.
- The highest percentage of people who would agree to pay more for improved communal services was found in Kolomyia: 15.1% of the interviewees said they would agree to pay higher rates for improved water supply and another 21.7% would pay higher rent, provided that house maintenance, garbage collection and other related services were improved.
- The preferred option suggested for improving municipal communal services delivery, according to respondents of all cities, was improving public control over the activities of local communal housing authorities (ZhEKs). This idea was supported by between 31.0 and 53.9% of all respondents. Residents of most cities supported the idea of developing competition on the communal services market. Condominiums are becoming increasingly popular, and the proportion of those who support the idea has increased considerably since 2004 in all cities surveyed except for Chernihiv. In Makiyivka this share had increased six-fold (from 4.6% to 30.5%), while in Alchevsk, Komsomolsk, Lutsk, and Kolomyia, this share had gone up 1.5 to 2 times.

Water supply

- Water supply is most efficient in Chernihiv, Komsomolsk, Alchevsk and Lutsk, where between 84.9 and 95.7% of the residents enjoy unlimited water supply, and only 0.3 to 3.0% have no running water at all. Most problems were reported in Makiyivka, where only 10.4% of local residents had unlimited access to running water, while up to 83.0% reported that the supply was restricted from time to time. Certain difficulties were experienced by 31.8% of the respondents in Kolomyia (no running water), but this applied mostly to people living in private dwellings.
- Komsomolsk proved to have the best hot water supply, as 79.6% of respondents reported that their local housing authorities provided this adequately. Most difficulties were noted by the people of Makiyivka and Alchevsk, where the municipal hot water supply hardly functions at all: respectively 65.8% and 37.9% of city residents have no hot running water. Even though Kolomyia has no centralized hot water supply either, 70.1% of respondents have access to hot water from individual heating systems.
- The most common problems of water quality concerned hard water deposits and the color of water. These problems were found in all cities, although respondents from Alchevsk reported to be suffering most (74.7% said they faced these problems on an almost daily basis), with those of Komsomolsk

(62.7%) and Makiyivka (62.4%) not far behind. A certain regional tendency can be observed: those living in the eastern and southern regions of Ukraine mentioned water-quality problems more often than residents of the west and north, which may be attributed to the chemical composition of ground-water as well as the choice of water-supply source. The fewest complaints were reported in the city of Chernihiv.

- The most negative evaluation of local government efforts in solving water-supply issues came from the residents of Makiyivka, while those from Komsomolsk and Lutsk considered such efforts to be quite effective.

Road conditions

- Local road conditions appear to be a major problem for every city involved in the study. A total of 56.9% of the interviewees in Alchevsk and 60.4% in Makiyivka evaluated their local roads as poor, while the best roads were reported in Komsomolsk (41.6% of respondents).
- The largest problem with roads noted in every city was the excessive number of potholes, as stated by 93.3% of the respondents in Makiyivka, 94.6% in Kolomyia and 98.1% in Lutsk. Respondents tended to see lack of repair funding as the main reason.
- Indeed, the efforts of local authorities in road repair received extremely low marks from residents of all the cities studied. This matches respondents' general evaluation of the roads in their cities.
- Street lighting appears most effective in Komsomolsk, where 77.1% of respondents reported the street lighting to be sufficient. The worst situation was noted in Makiyivka, where 65.0% of interviewees said they had no lighting at all. Some 24.9% of the residents of Alchevsk and 22.8% of those in Kolomyia complained about the absence of street lighting in their neighborhoods, but according to more than two-thirds of the population in these cities, the situation has improved somewhat in the past three years.

Transportation

- Public transport was reported as the most popular means of city travel for survey respondents. Yet in Komsomolsk and Kolomyia many people said they did not make use of its services (62.2% and 37.4%, respectively).
- A striking feature of the cities in question with regard to public transport is the gradual change in preference towards minibus taxis (*marshrutkas* or “fixed-route taxis”), while the proportion of residents using municipal transport (buses and trolley-buses) has decreased.
- Local residents are generally positive towards the functioning of public transport in their city. Among the most pressing problems mentioned were the technical condition of the vehicles and the lack of operating schedules for buses. In addition, respondents from Kolomyia and Makiyivka complained about the poor condition of city bus stops.
- The activities of local authorities in improving the public transport situation were evaluated rather positively. Most positive reactions were given by more

than half of Alchevsk and Lutsk respondents, as well as slightly less than half of those from Chernihiv and Komsomolsk. In Makiyivka and Kolomyia, only one third of those interviewed said they were satisfied.

Cleaning and general appearance of the city

- Residents of Komsomolsk see their city as cleanest (that was the claim of 94.9% of its residents). On the other hand, 63.9% of the respondents from Makiyivka considered their city to be dirty, and cite. The main reason given for the dirty appearance of the city was the poor culture of local residents (littering) with few fines imposed on those who litter.
- Makiyivka and Lutsk residents expressed the most concern about garbage collection, which was considered most pressing for private housing districts in both cities. Local experts attribute these problems to the fact that residents of private housing can hardly be charged for this service, whereas those living in communal housing have the charges included in their monthly rent.
- Satisfaction with the quality of street cleaning corresponded to the evaluations of overall city appearance: streets in Komsomolsk and Kolomyia are very well cleaned according to the respondents, while the quality of street cleaning in Makiyivka received poor marks.
- Respondents would like more attention to be paid to teaching younger generations to keep the city and the environment clean. They also wanted certain fines to be imposed on people who litter, and wanted better control over keeping the city clean.
- Most positive changes in the appearance of the city in the last three years were reported by Kolomyia residents. Certain positive changes were also reported from Alchevsk, Komsomolsk and Chernihiv. On the other hand, interviewees from Lutsk and Makiyivka seemed quite pessimistic: around one-fifth of the respondents from both cities complained that the situation had worsened.

Parks and green areas

- Local residents were generally satisfied with the green spaces in central areas of their cities. However, respondents from Makiyivka and Alchevsk expressed the most criticism here, stressing the environmental problems in the highly industrialized Donbas region.
- Most survey participants were satisfied with the number of trees and grassy areas in their parks, but disappointed about safety at nighttime, the absence of public toilets and trash bins, as well as the quantity and condition of park equipment. Lamp posts, public toilets, and trash bins appear to be the most important items needed for city parks.

Education

- Generally all levels of educational services received positive comments. The most positive attitudes were shown by parents in Komsomolsk, Chernihiv, and Lutsk. In Lutsk, respondents evaluated the quality of education the most positively compared to 2004.

- An overwhelming majority of all survey participants rated education services at all levels not only as of good quality, but also as being sufficiently affordable. Komsomolsk and Alchevsk residents reported education to be the most affordable, while in Makiyivka and Kolomyia people considered it to be rather expensive.
- Residents of Komsomolsk, Alchevsk and Chernihiv were very optimistic with regard to the skills of local school graduates, who in their opinion finish school equipped to meet the requirements for continuing education. The most pessimistic views came from respondents in Kolomyia and Makiyivka.
- Best options for improving school education, according to the respondents, are as follows: improvement of moral and psychological climate in schools, correlation of school course content to real-life demands, increasing students' motivation to study, and improving teachers' professional skills.

Provision of social assistance and social services

- The largest number of those who claim to be eligible for at least one type of social assistance or service live in Kolomyia (64.9%), while the smallest number live in Lutsk (41.9%). Kolomyia residents are the most active users of social assistance and services: that during the past 12 months, up to half of the local citizens had received at least one type of social assistance or service. Komsomolsk residents were slightly less active, as roughly one-quarter (26.5%) of them had received some social assistance or service over this period. Three-fourths of the interviewees from Kolomyia claimed to need some type of governmental support. Here it should be noted that the share of those who said they were in need of employment assistance or social services was some 5 to 9 times greater than the current number of actual recipients. Makiyivka had the lowest proportion of residents hoping to receive assistance from the state (32.2%).
- The largest group of those who claim the right to some type of social assistance or service consists mainly of persons entitled to certain benefits—from 17.3% to 44.7% of all respondents. Next come those who feel entitled to some type of governmental support—ranging from 17.5% to 29.7%. About 7.1% to 21.1% believe they have a right to employment assistance, whereas in all cities the smallest group happens to be of those who actually receive such social services—1.8 to 5.7%.
- A quarter to half of all respondents could not evaluate the efforts of the local authorities in solving the social services issue, as the number of those who report such efforts to be effective is almost the same as the share of the residents who claim them to be ineffective. Komsomolsk respondents generally gave more positive feedback than those of other cities.
- The principal sources of information about social assistance and services are mass media and informal communication with friends, relatives, neighbors, and colleagues. However, a considerable share of those interviewed (21.7% in Chernihiv to 36.7% in Alchevsk) said they received no information on the issue at all.

- The most pressing issues in the sphere of social assistance and services are long queues at the offices of the relevant state bodies and the lack of information about such services.

Public safety

- Public safety was seen as a severe problem for the majority of those interviewed. The most positive evaluation of the work and behavior of the local police was given in Chernihiv (21.7% of respondents reported it to be good). Elsewhere, the number of people who found local police activity to be good varied from 4.4% in Makiyivka to 16.9% in Alchevsk.
- Only 18.4% of those interviewed in Makiyivka said they felt safe in their city, as against one-third of those in Alchevsk, Komsomolsk and Lutsk. One-quarter of the interviewees from Lutsk and Makiyivka noted a worsening of the situation compared to 2004. The most positive change in this sphere was reported by residents of Kolomyia.
- The local police seemed to be enjoy most trust among the Chernihiv respondents (34.0%). By contrast, 38.4% of the respondents from Alchevsk and 41.1% from Lutsk said they did not trust the local police, while in Kolomyia and Makiyivka this was the response of almost half of all those interviewed.
- Only 14.7% of the residents surveyed in Makiyivka indicated any willingness to help the municipal police to protect their lives and the lives of other citizens. In the other cities, the corresponding figures vary from 28.7% (Alchevsk) to 38.2% (Chernihiv).

Local government interaction

- Some 24.7 to 49.7% of respondents reported that they had had some experience of contacting representatives of the local government within the past 12 months—mostly communal authorities and social security bodies. The fewest number of people who had had contacts with their municipality was noted in Chernihiv, which also had the lowest share of those who had had some problem concerning municipal services but had not turned to any municipal agency. In Makiyivka the number of people who did not report their problems to the city equaled the number of those who did, or almost half of the city population interviewed. The city mayor of Komsomolsk enjoys the greatest level of confidence among local residents, with 79.0% support. The Kolomyia mayor was also praised by residents there. The mayor of Makiyivka received the lowest marks, with just 7.7% of the local population admitting their support for him. Overall effectiveness of local government activities followed the same trend: the most positive evaluation was given by residents of Komsomolsk (59.9% reported such activities to be effective), while in Makiyivka this figure was only 5.1%.
- In terms of citizens' awareness of local government actions, respondents in Lutsk, Chernihiv, and Makiyivka were the least informed (76 to 83% considered themselves to be poorly or not at all informed). The situation in Komsomolsk was far better, but the proportion of those who said they lacked information had increased from 17% in 2004 to 41% today.

- Major sources of information about local government activities were reported to be the local mass media and informal discussions with friends, relatives, neighbors, or colleagues.
- The perceived level of corruption in the surveyed cities has not changed over the past three years. The greatest proportion of those who admitted to informally paying extra (in cash or otherwise) for some municipal agency service live in Makiyivka (17.2%), as against only 3.5% in Komsomolsk. In Lutsk the share of respondents who admitted having bribed representatives of the local government had been halved, from 15.6% in 2004 to 8.8% in 2007.
- When asked what municipal communal services were most in need of improvement, respondents generally mentioned matters related to communal services delivery and road maintenance. However, the water supply issue emerged as the most problematic for Makiyivka residents, central heating for Alchevsk, garbage collection for Lutsk and Chernihiv and the state of roads for Kolomyia and Komsomolsk.
- Residents of Komsomolsk and Kolomyia seemed the best informed about the activities of NGOs in their city (more than 40% in each), whereas respondents in Makiyivka and Chernihiv were the least informed in this sphere (around 22%).

9.2 Methodology, People's Voice Project report

Citizen surveys were identified as an effective way to systematically gather feedback on public services and corruption, and have since made an impact on building public interest and in exposing issues that require more substantive public debate.

The method of “report cards” used in this survey is a means of monitoring citizen satisfaction with service delivery, and is based upon a model developed in Bangalore, India, by the Public Affairs Center. Report cards are an effective tool when used as part of a local or regional plan to improve services. Institutions undertaking a program to improve services can use report cards to determine whether the changes taking place are necessary and then to further evaluate the impact of these changes.

Through the People's Voice project, report cards were used primarily to establish a benchmark in each city where the project was implemented, and were later followed up to determine the impact of local government efforts to improve service delivery.

In each city, approximately 500 residents aged 18 and older were interviewed between May 12 and 31, 2007. The survey was carried out by means of face-to-face interview based upon a random multi-stage sample. During the first stage of sampling, city post offices were randomly selected. After that, addresses (street, house and apartment numbers) were randomly selected within the territory of each post office (electoral district). In the last stage, specific respondents were selected and personally interviewed within a chosen household. If the selected respondents were not at home, two later visits were made by the interviewer. The obtained sampling data were compared to the data of the National Census of 2001.

The questionnaire contained items on communal housing and related services (including water supply), road maintenance, public transportation, cleanliness and general appearance of the city and its parks and green areas, education, social services, public safety and interactions with municipal bodies, as well as questions about the activities of NGOs and the People's Voice project in each city.

The project also produced some papers and presentations on the **quality of management in public service delivery**. Their findings can be summarized as follows:

- The quality of services delivered by the public authorities in Ukraine is inadequate; it does not meet the requirements of the public today, nor the democratic standards prevailing elsewhere in Europe.
- **Main challenges facing Ukrainian cities concerning monitoring and delivery of services:**
- Inherited bureaucratic attitudes towards customers
- Customer expectations – no research
- Low level of resources
- Low employee motivation
- Traditional management hierarchy
- Communication: top-down, not horizontal
- Weak perception of basic ideas and tools for service management
- The people do not know which services, under what procedures, and with what guaranteed quality they are entitled to receive, or how to protect their rights.
- Officials treat ordinary individuals as if they were begging for help.
- People are dissatisfied with the quality of public services and bureaucrats' work on the whole.
- Non-democratic traditions have persisted in the relations between government authorities and individuals.
- Government officials are not aware of the concept of democratic public administration.
- Instead of focusing on customers, officials are concerned with formal adherence to rules.
- Ukrainian laws do not define the public service as a service provision institute.
- Job descriptions do not define relevant functions.
- Existing approaches to setting professional and qualification characteristics of government officials do not meet modern democratic and professional requirements.
- A large percentage of government officials have never taken part in professional training or re-training programs.

Attempts to solve the problem of service quality:

- Cabinet of Ministers Instruction # 90-p dated February 15, 2006 “On Approving the Concept of Developing a System for Provision of Administrative Services by Executive Authorities”;
- Cabinet of Ministers Decree # 614 dated May 11, 2006 “On Approving the Program for Implement the Quality Management System in Executive Authorities”;
- Ukraine National Standards “Guidelines on Applying ISO 9001-2000 in Local Government Entities (IWA 4:2005, IDT)”;
- Guidelines on developing and implementing quality management systems in executive authorities according to ISO 9001-2001;
- Efforts of the Ministry of Labor and Social Policy of Ukraine in developing standards and systems for managing the quality of social services to vulnerable categories of the population;
- Implementation of quality management systems certified under ISO 9001-2001 in the Main Department of Public Service of Ukraine and city executive authorities of Berdyansk, Komsomolsk, and Makiyivka;
- Similar actions in several other local governments, central and local executive authorities;
- Introduction of a one-stop service approach in provision of registration and permission services based on the Laws of Ukraine “On State Registration of Legal Entities and Individual Entrepreneurs”, “On Permission System in Business Operations”;
- Development and posting on the web site of the Main Department of Civil Service of Ukraine of lists of administrative services provided by central executive authorities, other government bodies, local executive authorities, their structural units, and local governments;
- Adoption in the past of the Laws of Ukraine “On Social Services”, “On Housing and Utility Services” which set forth lists of corresponding services and requirements to provision of these services.

Ways to speed up implementation of quality management systems in local governments

- Introducing local government officials to best (international) practices
- Establishing a ramified network of consulting companies and having them compete with each other
- Establishing a system whereby the Association of Ukrainian Cities will promote implementation of quality management systems, including through targeted grants
- Developing recommendations on model standards of service provision and model lists of services, and making them available in a centralized manner.

Democratic principles should be backed up by standards

- Information on services being offered and procedure for providing these services should be available;

- Information must be complete, accessible, transparent, and clear;
- Service provision processes should be under customer control;
- It is the customer who assesses the service quality;
- The service provider should be held accountable for the qualities of service rendered;
- Provision of a service may be rejected only on reasonable grounds;
- A customer should have the right of appeal, with a pre-defined process triggered by rejection of a service.

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