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UKRAINE ASSESSMENT VISITS

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Municipal Finance and Management Project

Trip Report Ukraine Assessment Visits

**Lviv
Ternopil
Kharkiv
Donetsk
Odesa
Mykolaiv**

(1) November 8 through 19, 1993

(2) January 23 through February 5, 1994

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MUNICIPAL FINANCE AND MANAGEMENT PROJECT TRIP REPORT
UKRAINE ASSESSMENT VISITS
NOVEMBER 7-20, 1993
JANUARY 23-FEBRUARY 5, 1994

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MUNICIPAL FINANCE AND MANAGEMENT PROJECT TRIP REPORT

INITIAL UKRAINE ASSESSMENT VISIT

NOVEMBER 7-20, 1993

JANUARY 23-FEBRUARY 5, 1994

SUMMARY

An AID/RTI team conducted the first MFM project visits to Ukraine for the purpose of selecting and recommending two cities for participation in MFM project activities.

This phase of the selection process involved two stages. First, the team spoke with USAID staff in Kiev as well as other U.S. Government, donor agency, and contractor staff to develop a "short list" of cities that had good potential as project sites. The cities initially selected for visiting at this time were Lviv, Ternopil, and Kharkiv. On a second trip, Donetsk, Odesa, and Mykolaiv were visited.

In addition to city selection, the team worked to plant seeds of interest and potential commitment in those cities emerging as likely selections. Firming up these commitments and examining city priorities for project assistance in more detail will be a continuing process, including a follow-up visit within three months to the cities selected for project activity.

Key criteria for city assessment were 1) a reform orientation, 2) effective local autonomy and authority, 3) a supportive attitude toward the private sector, 4) openness to management innovation, 5) the likelihood the city can serve as a model for other municipalities, 5) potential links to other donor activities, and 6) local ability to contribute resources to the project. In addition, the team felt, and USAID indicated agreement, that it is important to balance project activities between an Eastern, more Russian, city and a Western, more Ukrainian, location.

While circumstances differ considerably, each of the three cities visited on these trips offers potential for MFM project involvement. A full discussion, keyed to the criteria, is contained in the body of the report. *We recommend that the project begin its Ukraine involvement in Lviv (with Ternopil as a "satellite" city), Kharkiv, and Mykolaiv.*

The team also interviewed three institutions to identify areas of collaboration for training resources, logistics assistance, and other support. An important aspect of training under MFM is developing materials and training skills in partnership with local institutions that will continue long past the term of the current project. Two institutes in Kiev, the Association of Democratic Councils and the Institute of Public Administration and Local Government, and one in Lviv, The Lviv Institute of Management, have potential as collaborating institutions for training.

To move forward with the MFM Program in Ukraine, the following activities are planned ("fast-track" dates indicated in parentheses): 1.) Finalization and approval of city selection by USAID (February), 2.) Return to selected cities for detailed assessment and planning for mobilization (February-March), 3.) U.S. Study Tours (April-May), and 4.) Mobilization of advisors (April-May).

INTRODUCTION

Purpose of the Trip

Ted Priftis (USAID Project Manager for the Municipal Finance and Management Project [MFM]), Jerry VanSant (Director of the Center for International Development at RTI), Kennedy Shaw (RTI Senior Municipal Management Specialist), and Hazel Ryon (RTI Municipal Training Coordinator) conducted the first MFM project visits to Ukraine for the purpose of selecting and recommending two cities for participation in MFM project activities. (For a summary of the MFM Project, see Annex 1).

This phase of the selection process involved two stages. First, the team spoke with USAID staff in Kiev as well as other U.S. Government, donor agency, and contractor staff to develop a "short list" of cities with potential as project sites. Key criteria were 1) a reform orientation, 2) effective local autonomy and authority, 3) a supportive attitude toward the private sector, 4) openness to management innovation, 5) the likelihood the city can serve as a model for other municipalities, 5) potential links to other donor activities, and 6) local ability to contribute resources to the project.¹ In addition, the team felt (based, in part, on the recommendation of State Department officials in Washington), and USAID indicated agreement, that it was important to balance project activities between an eastern more Russian city and a western more Ukrainian location. Numerous cities were discussed, including Kharkiv, Dnipropetrovsk, Zaporizhzhia, and Donetsk in the east; Odesa and Mykolaiv in the south; and Lviv, Ternopil, Ivano-Frankivsk, Uzhhorod, Rivne, and Chernivtsi in the west.²

An early choice was made to visit Kharkiv, a city with a progressive mayor and a successful base of complementary USAID activity, including Office of Housing programs working with the city administration. Because, like Kharkiv, the southern Ukrainian cities are considered to be quite "Russian," the team decided to look west for a second candidate city. We eventually chose the Lviv area, including potential visits to another city or two in the region. Once in the area, the limits of time and active reception provided by Lviv and Ternopil led us to limit our inquiry to those two cities. In a second trip in early 1994, the team visited Donetsk, Odesa, and Mykolaiv.

In addition to city selection, the team worked to plant seeds of interest and potential commitment in those cities emerging as likely selections. Firming up these commitments and examining city priorities for project assistance in more detail will be a continuing process, including a follow-up visit within three months to the cities selected for project activity.

Approach and Itinerary

The team began in Kiev with a detailed and helpful discussion with Amy Osborn of the USAID Mission. This discussion covered the situation in Ukraine, USAID Mission projects and priorities, key people to see to gather more information, the goals, strategies, and resources of the MFM project, and city selection issues. Agreement was reached on the cities to be visited and on a general MFM project timetable for Ukraine. Through Ms. Osborn, we were put in touch with representatives

¹ City selection criteria are detailed further in Annex 5.

² Ukrainian spelling is used for all city names in this report

of the American consulting firms PADCO and CFED, actively working in Ukraine on issues of housing and commercial privatization respectively. Other information resources included U.S. Treasury Department, Peace Corps, and various NGO personnel. Because of PADCO's several months involvement in Ukraine, especially Kharkiv, the team met a second time with Matthew Glasser of their Kiev staff who was very helpful providing background information and suggestions of other people to interview. (For a complete, annotated list of contacts made and a list of potential contacts not seen on this visit, see Annexes 2 and 3.)

The team also used the initial days in Kiev to begin arrangements for visits to other cities. Unlike the MFM assessment visit to Russia, target cities in Ukraine had no advance knowledge of the project or of our arrival, in part because the cities had not been pre-selected.

An additional Kiev agenda was to identify potential collaborating institutions in Ukraine to provide training resources, logistics assistance, or other support. We visited two such organizations in Kiev, the Institute for Public Administration and the Association of Democratic Councils. We also learned of the existence of the Lviv Institute of Management and enlisted their valuable assistance for the visit to western Ukraine. These institutions are discussed in more detail in Section 3.

After two days in Kiev, the team traveled west to Lviv for four working days. For two of these days, two team members traveled to Ternopil. In both cities, the team met with the Mayor and with deputies responsible for such areas as administration, finance, housing and communal services, and municipal property. During the discussions in each city, the team:

- briefed city officials on the background, scope and contractor resources of the MFM project and the purpose of the visit,
- outlined the three major components of the project: long- and short-term technical assistance, training, and computer hardware and software systems for municipal financial and information management.
- listened to descriptions of the local government structure and depictions of local problems, plans, resources, and priorities,
- evaluated local interest in and willingness to contribute to the project,
- described the local contributions of counterparts, facilities, and staff support required to move forward with implementation, and
- made preliminary identification of potential key counterparts for advisory and operational roles.

An assessment guide, used to prepare for and conduct the city visits is provided in Annex 4.

In Lviv, there was opportunity to hold discussions with the Lviv Institute of Management which also provided excellent logistics and interpreter support for the team. We also met with several Peace Corps volunteers in the area, one of whom, Chris Morrill, is a former Savannah, Georgia budget office staff member working with the Lviv city government on management issues.

After visiting Lviv and Ternopil, the team returned to Kiev for a day of meetings that included a midway briefing for the USAID Mission and follow-up meetings with the IPA and Association of Democratic Councils. Arrangements were made for the overnight trip to Kharkiv.

A full schedule for the two days of meetings in Kharkiv was organized with the assistance of PADCO, which has resident staff working on housing privatization in the city. The agenda in Kharkiv included a visit with the Mayor, the budget and finance chief, the head of the municipal government information center, and leaders responsible for municipal services, including water and sewer enterprises. We met with several leaders of one of the nine districts in the city of Kharkiv. The general agenda for the Kharkiv discussions was similar to that described for Lviv and Ternopil.

Finally, the team returned to Kiev for a final briefing with the USAID Mission Director, Terry McMahan, and a conversation with representatives of the European Community to set the stage for future coordination in municipal finance programs in Ukraine. Mr. McMahan advised Mr. Priftis that the Mission would request another assessment visit to additional cities before any municipalities were formally selected for the MFM program.

The second visit took place in late January to early February, 1994. The team began by attending a two day USAID workshop in Kiev on Ukraine Urban Strategy Preparation. The workshop participants included representatives from the various contractors conducting USAID funded projects in the urban sector in Ukraine and volunteers working in Ukrainian cities. The first day of the workshop presented profiles of the cities based on experiences of those working within them, current and proposed USAID activities, and a general discussion of urban strategy. An executive committee drafted a strategic framework which the larger group reviewed the second day. The outcomes of the workshop are an urban strategy proposal for the USAID Mission, targets and priorities for the current and proposed assistance, and a improved working relationship among U.S. funded groups. Annex 6 contains the summary strategy recommendations and a participant list.

The next three days the team met with city officials in the city of Donetsk. The discussions followed the outline of the November trips with the team briefing the officials on the MFM project, outlining the three components, and evaluating the situation and contribution of the cities.

The team traveled to Odesa over the weekend and spent Monday and Tuesday in meetings with city officials, private sector bankers and business leaders, and staff from the CFED contractor team.

The team drove to Mykolaiv for meetings Wednesday and Thursday. The mayor was unavailable but we met with a wide range of city officials.

The team returned to Kiev on Friday to debrief Terry McMahan and Amy Osborne of USAID and the U.S. Ambassador. Tentative agreement was reached on the initial cities to enter the project and a schedule for upcoming activities. These cities are Lviv (with Ternopil as a "satellite" city), Kharkiv, and Mykolaiv. This selection needs to be confirmed by USAID.

1. MUNICIPAL GOVERNMENT IN UKRAINE - AN OVERVIEW

In the three years of Ukrainian independence, there has been significant structural change in local government. There also are many new, reform-minded municipal leaders such as those we met in the six cities we visited. But the magnitude of institutional change required and the lack of a clear mandate from the national government has retarded widespread change. Although new local government and budget system laws in 1991 and 1992 gave local governments new budgeting and finance powers in theory, a lack of specific implementation authority and the administrative practices of the national government limit the practical impact of the new policies. Freedom of action remains severely curtailed due to central government mandates regarding wage levels, local service fees, and budget norms. Revenue uncertainty reduces budgetary autonomy by reducing the opportunity to forecast, plan, and act independently of the Ministry of Finance. The effect is to make local governments function more as deconcentrated agencies of the center than as autonomous units. The process is arbitrary and lacks transparency. Increased local government authority to raise and retain revenue is essential if city governments are to achieve real efficiency and accountability.

For example, most utility prices and rents (for households) are still fixed or, at least, capped at the national level, severely limiting local budget planning flexibility. In Kharkiv, Odesa, and Donetsk, for example, we were told that rents cover only 7-11 percent of housing costs. Donetsk officials noted also that fares recovered less than seven percent of transport costs. In Odesa the financial drain of transport subsidies is over \$1.25 million per month. Moreover, the state still controls allocation of most tax revenues³. Assignment of taxes and fees from city enterprises, for example, are allocated on average 55.1 percent to the state, 31.7 percent to the region, and only 13.2 percent to the city. Thus, while there is some administrative flexibility at the local level, there is little financial room to move.

The experience of those working in Ukraine, however, is that despite slow movement at the central policy level, a focus on training and on facilitating changes in attitude and approach at the local level can pay off. In Lviv, for example, a deputy mayor seeking to bring about real management reform is working with a Peace Corps volunteer to introduce management know-how, including a creation of a city "management team" and a departmentally-focused total quality management program (TQM).

In short, as we were told consistently, the impetus for reform in Ukraine is local, not central. This contrasts with the situation in Russia where there is a strong impetus for reform at the center. The hope in Ukraine is that successful local reform will influence the national government.

Local governments face major systemic hurdles, however, including their place in a complex, multi-tiered structure of government. Results include confused and inconsistent patterns of powers and responsibilities within these tiers, particularly as regards the ownership and control of state assets. Historically, there has been no independent local government structure. Administratively and financially, each unit was part of the next higher unit in a hierarchical structure.

Other hurdles include deteriorating infrastructure and the lack of viable financing mechanisms for municipal services or infrastructure. Meanwhile, legislative decentralization has increased the burden on local government without compensating revenues. Many cities such as Donetsk do have

³ As an indication of what he called "discrimination" against municipalities or, at least, Lviv, a deputy mayor of that city noted that while the state budget of Ukraine increased eight-fold between 1992 and 1993 (in inflated currency), the city budget increased only 4.9 times.

significant capital assets with productive potential. Typically these assets are underutilized and may require additional investment and restructuring if they are to contribute to available municipal resources.

Local financial management is further constrained by the current runaway inflation in Ukraine. This forces a move toward a very short-term planning horizon as distinct from a more strategic approach. In fact, the team heard that cities may be required to prepare quarterly instead of annual budgets. There is little systematic capital budgeting process and no mechanism for private financing of infrastructure. There is some short-term city bank borrowing in Kharkiv, but at rates between 45 and 190 percent. The absence of a budget forecasting capacity at local government levels reinforces reliance on higher levels and weakens their negotiating position. The large use of off-budget funding is a further constraint to accountability and effective fiscal planning.

Formal revenues available to Ukrainian cities average something less than half from local income (personal and business) and land taxes, user fees, and miscellaneous local taxes and charges ("fixed" revenues) with the remainder allocated by the national government from value added, state enterprise, and excise taxes ("regulating" revenues). The allocation of regulating revenues is made by the Ministry of Finance to oblasts (regions) based on the central ministry's judgement of competing needs and resources. Oblasts, in turn, allocate these funds to municipalities. The obvious effect of this top-down system is to provide a disincentive to local tax collection since, as local revenues increase, regulating revenues are reduced. This reality is a particular concern to cities like Donetsk with a potentially strong industrial tax base.

Cities in Ukraine have a wide range of service obligations including municipal facilities maintenance⁴, housing (only a small percentage of housing has yet been privatized) transportation, heating, health services, social welfare, education, and culture. Water, sewer, and solid waste usually are provided by city- or Oblast-owned enterprises with highly subsidized fees collected in conjunction with housing rents. Housing and related services represent, of course, a major service and financing problem. Lviv, for example, manages 10 million square meters of housing (180,000 apartments in 11,000 buildings) yet still has 66,000 persons waiting for new housing.

To cope, cities make significant use of non-budget accounts for socio-economic development, cultural, and certain other activities. One source of extra-budgetary revenue is the sale or lease of communal property. Another mechanism is to charge industrial enterprises high prices for utilities. In Kharkiv, for example, industry uses 13 percent of the water supply but pays 89 percent of the collected charges. A third source is various local fees for parking, dog licenses, advertising, and other small revenue sources.

Virtually no municipal record-keeping is computerized in the western cities we visited beyond an occasional database developed for single-purpose use. Kharkiv has moved somewhat farther in this regard but, even there, the city's tax inspectorate has only six staff and five computers. Donetsk had made more progress; record keeping is computerized in most finance departments. We saw little evidence of any overall information management, analysis, and use strategy. Budget execution monitoring and audit at the local level are weak or nonexistent. Automation seems to be viewed as a purely technical, not strategic issue. As one municipal official noted, information systems have not changed much in 45 years.

⁴ For example, in Kharkiv, 40 percent of the city budget is used for maintenance of institutions of education, medical services, social welfare, culture, and sports.

Little training is available to Ukrainian municipal managers. Universities are not geared to public administration and such seminar programs as exist for management training focus on business management concerns or technical issues. In 1993, the Institute of Public Administration and Local Government graduated the first class of 100 with a Master's of Public Administration. This is a much needed beginning but the number of government officials exceeds the training capacity of one institution.

Local government processes are reasonably open. City Council meetings in many cities are televised. Investigative journalism is permitted. But the exigencies of daily life lead to extensive public apathy and some people think that interest in governmental processes actually has waned since the early days of independence.

2. CITY REPORTS

We discuss city selection for project participation below in terms of the criteria developed during the initial MFM Russia field trip in August, 1993, adapted somewhat for the Ukrainian setting. These criteria are detailed in Annex 5.

City of Kharkiv

Introduction

The city of Kharkiv has a population of 1,500,000 and is located in the northeastern section of the Ukraine, approximately 300 miles east of Kiev. It is an important industrial and scientific center and is the seat of the Oblast or regional government serving a total of 3,500,000 people. The city is the site of 21 higher education institutions including the oldest Russian-speaking university.

The city has an area of 2,400 square kilometers. The population is predominately Russian speaking. The city is divided into nine districts or raions. Each raion is governed by a 100 member representative body and the city itself has a governing body of 250. The city council elects the mayor.

As is typical in Ukraine, municipal services are provided by governments and enterprises at each of these levels as well as the national government⁵. Also, at each level, there is a complex relationship between the appointed city government leadership and the elected Council or Rada. Some officials in the city administration, for example, also serve on the Executive Committee of the Rada or as elected members of it.

Reform Orientation

The mayor of Kharkiv is a strong spokesman for reform of the local government system and for increased autonomy from the state. One of the central aims of the Kharkiv city government is to attain the same type of reputation for national and regional excellence that is enjoyed by its engineering and scientific community.

The mayor recruited a new management team to help achieve the city government's goal of excellence. The USAID/RTI delegation observed key city management personnel working into the evening hours in an effort to improve the city's operation, something not often observed in western countries, including the United States.

The mayor is working to restructure the executive committee of the city council so that it is made up solely of himself and city department heads. This will enable the executive committee to serve as an effective cabinet in the coordination of city activities. The mayor and his staff give the privatization of housing and city enterprises a top priority in Kharkiv.

⁵ In Kharkiv, for example, housing, parks, trams, and lighting are subsidized from the city budget; solid waste is subsidized from the Oblast, heat is subsidized from both city and Oblast budgets, sewer services are provided by the city; water is provided by an Oblast enterprise.

Local Autonomy and Authority

As mentioned earlier, local government in Ukraine still lacks many of the powers which would place it in a stronger position to deal with the responsibilities and problems which the national government has happily delegated. The theoretical powers assigned by the new constitution have not been implemented by accompanying regulations and procedures. Local officials probably have more powers than they are currently utilizing. However, because of the confusion and lack of information and also because of the natural tendency of local officials to be conservative in the use of ill-defined authority, Ukrainian local officials are finding it difficult to deal effectively with increasing responsibilities.

In 1992, the national government created a Tax Inspectorate for the purpose of collecting all taxes - national and local. Sufficient funds were not made available and as a result the cities have had to supplement the tax inspectorate operations with staff and equipment to insure satisfactory results. It is interesting to note that in Kharkiv as well as several of the other cities visited, the nationally salaried financial staff considered themselves to be municipal agents and were critical of the centralized approach. The Chief of Budget and Finance⁶ realized that the Ministry of Finance was not willing to adequately provide for its staff in the city finance office and in the tax inspectorate. She requested that the city set aside a percentage of the budget to be used for improving the technical facilities (office furniture, equipment, and computers). Given the percentage, she did not have to request funds each year and she had an incentive to audit and manage the budget. The Chief made it quite clear that she perceives her success closely linked to the success of the city.

In the case of Kharkiv, the mayor nominated one of his key aides to head the national tax inspectorate effort in the city and as mentioned, contributed substantial city resources in order to make the essential tax raising activities more successful. In at least one instance, the city refused to turn over funds which it believed to be unfairly claimed by the national government. The national government has so far declined to overrule the vote of the 250 member city council.

The mayor and his staff have tackled their problems in an aggressive, business-like way. They continue to call for increased autonomy for the city government so that it can operate effectively. The city staff cited an example of the current patchwork situation wherein Kharkiv is responsible for the trolleys and trams while a national organization is responsible for the operation of the city busses and taxis.

Active, aggressive city administrators like those in Kharkiv who take actions designed to meet serious financial and programmatic problems demonstrate the result of an increase in the power and authority of municipal government in the Ukraine. Such cities do so in spite of slow-moving, reluctant, central government officials.

Facilitation of the Private Sector

Kharkiv is a leader among Ukrainian cities in terms of implementing privatization of housing and enterprises. City officials estimate there are 15,000 enterprises of all types in the city. In 1993, the city has received 20,000 applications to purchase housing units and has approved 15,000. The city is

⁶ In Kharkiv, as is typical in Ukraine, the Chief of Budget and Finance is an employee of the national Ministry of Finance, from which he or she receives compensation. Nonetheless, these personnel in all the cities we visited were very much a part of the city administration, functioning and fully accepted as such.

considering giving away apartments in mixed ownership buildings in order to completely privatize the building and avoid disparate use of subsidies. Many of the applicants tend to be older citizens who want to be in a position to leave something behind for their children. One strategy used is to turn over old housing stock to commercial enterprises for upgrading. This has the effect of privatization with the benefit of unloading a potential liability.

The city created a one-stop organization to facilitate the privatization process called the Privatization Fund. The city claims to be able to process urgent cases in seven to ten days time. USAID operates a housing privatization program in Kharkiv and, with the technical assistance provided, the city held a land privatization auction in January.

In spite of inadequate and confusing laws on privatization, the city of Kharkiv is moving ahead with attempts to privatize enterprises and housing units. The city officials recognize the drain on city resources to operate and maintain the housing stock (the Department of Housing and Communal Stock has 30,000 employees). The officials realize that the city can practically give away the housing and over the long term benefit financially. Therefore, Kharkiv is in the forefront of the housing privatization movement in the Ukraine.

Priority for Moving Ahead on Financial Management Systems and Policies

Data Processing:

The city set clear priorities for improvement in financial management systems. In spite of the initial reluctance of the City Council, the mayor and his staff obtained approval for the creation of a public information or data processing department. The new department has a director, a microcomputer with a 486 processor complete with scanner, modem and HP printer. The new department is designing a local area network for the city government and hopes to have a modem link with the National Parliament allowing the city to quickly monitor new legislation. In addition, the city is planning a uniform data processing systems in the nine raions to ensure a common database.

The department hopes to have an analytical group in place within the next six months and enough computer capacity to create electronic archives. The Chief of Budget and Finance stated that once the city has a computerized network, information should be readable at city hall for the rank and file citizen. The city has access to data processing experts from the various scientific institutes though none has experience with municipal information systems.

Increasing Revenues:

The Chief of the Central Administrative Board of Budget and Finance devotes a great deal of time and effort to increasing revenues of the city. She stated that much can be done even under the current system. The city wants to analyze and improve the distribution process for national revenues being transferred to the municipalities, with particular emphasis on predictability. She is interested in continuing efforts to computerize the tax collection process and increase the percentage of payments. Computerization would allow closer monitoring of enterprises to prevent tax evasion, an issue that becomes increasingly important as new enterprises are added to the list. The unit has five networked microcomputers with a modem connection to the oblast. Within the next year, she hopes to have 60 networked microcomputers in the tax inspectorate office with a modem connection to the Ministry of Finance in Kiev.

The tax collection staff lacks training and equipment to increase their efforts. The chief estimated that she could increase tax collections between 10 and 15 percent if she had the proper resources at her disposal.

Fee Supported Services:

The city has identified the need to reduce subsidies and rationalize the pricing structure for its fee supported services such as water, sewer, district heating, gas and solid waste. The General Director of the nationally-owned, oblast-based water system estimated that the present pricing structure which does not reward conservation, results in as much as a 60 percent loss of water. The water company is trying to encourage the start-up of a meter manufacturing facility in order to ensure an adequate supply. Similarly, the city owes as much as 40 billion coupons to the Gas Company because of the inability of industrial firms to pay their high bills, which are designed to subsidize the residential users. Although industrial firms only use 13% of the water produced, they are charged for 89% of the cost. Unfortunately, nationally established ceilings for residential use limit the ability of the various utility companies to improve pricing structures. Although sewer bills are based on water usage, separate bills are sent out by the city sewer company and the water organization, rather than on a cooperative, contractual basis.

Rapidly increasing subsidies, high cost of replacement equipment, market place cost of energy, lack of interest in conservation by the residential users, all point to the need on the part of the city (and the national government) to rationalize the pricing structure before the systems begin to break down. The head of the water company in Kharkiv argued that uniform water pricing at the current industrial level would yield the city an income of 100 billion Koupons (\$4 million) per month! Resolving this problem, he said, is the key to addressing the Ukrainian inflation problem and spurring economic development.

Qualified Accountants and Auditors:

One serious problem facing the city is the lack of qualified accountants and auditors. Trained accountants are in great demand by privatized businesses and the salary levels are increasing, making it difficult for the city to recruit. The city allocated funds for independent audits of several city companies in hopes of increasing business tax collection. However, the firm selected was not able to identify qualified senior level auditors to do the work.

Expenditure Reduction:

Another priority area for the city government is the reduction of expenditures in the various city departments and enterprises. Under the new local government law, the city is responsible for the control of enterprises which previously came under various national ministries. The city now has 91 employees controlling the subsidies paid to enterprises where there used to be ten. The personnel need training in their new responsibilities if the city is to reduce its expenditure level.

Conclusion:

In summary, Kharkiv is run by a tough-minded, able management team with a clear set of priorities. The city administration understands the value of the Municipal Finance and Management Project (MFM) and is in a position to utilize the available technical assistance and training resources immediately.

The City as a Model

Kharkiv has established a reputation as a progressive city administration, led by an able mayor, and is recognized as such by a wide range of Ukrainian and international agencies including USAID, the World Bank, the European Community, the European Bank of Reconstruction and Development, the Ukrainian Institute of Public Administration and Local Government and the Association of Democratic Councils of Ukraine.

Because of the number of scientific and educational institutions in the city, Kharkiv is looked to as a center of intellectual activity in Ukraine. The city leads the way in privatization with results closely observed by other municipalities and national government agencies. There is little question that improvements in municipal management implemented in Kharkiv would receive wide attention, not only in the eastern portion of the country but throughout Ukraine. The mayor is interested in having the city lead the way in new methods of effective municipal management.

Overlap with Other NIS and Donor Funded Programs

USAID has a Shelter Reform Project under the direction of a full-time resident advisor in Kharkiv . The program involves a complimentary component with regard to national government financial policies impacting municipal efforts towards housing privatization. In addition, the European Bank of Reconstruction and Development has selected the city as the site for one of its projects. The USAID/RTI Evaluation Team identified the mutually supporting relationship with the housing privatization project as an advantage in selecting Kharkiv as one of the MFM sites in Ukraine.

City's Ability to Contribute Local Resources

The mayor and his staff were enthusiastic regarding participation in MFM and indicated a willingness to contribute local resources including naming a project coordinator and advisory committee. The mayor indicated his intention to name Ludmila V. Yacenko, an able economist who heads the Central Administrative Board of Budget and Finance, as the Project Coordinator if Kharkiv is selected. The evaluation team observed at least one instance where she had immediate access to the mayor making her selection quite valuable to the project.

The city indicated that it could provide office space for the project, a bilingual secretary and a car and driver as required during working hours. The evaluation team believes the city has identified the project as important to Kharkiv and is more than willing to make a significant contribution to ensure its success.

Potential MFM Focus

City officials suggested the following issues as particularly opportune possibilities for MFM focus in Kharkiv:

1. City/regional financial relations is both an information management task and a management/organizational development need.

2. Improved tax information to support more effective tax collection (an opportunity for automation assistance to increase capacities in the Tax Inspectorate and to develop data links between city departments, to the Ministry of Finance and to banks.
3. Training and technical assistance for staff in finance, especially persons filling new positions. There is a particular shortage of accounting skills in view of competition from several thousand new enterprises

City of Ternopil

Introduction

Ternopil is a city of 230,000 people located approximately 140 kilometers east and slightly south of Lviv. It serves as the seat of an Oblast or regional district. The population of the region approaches 1,200,000. The city has a total area of 3,939 hectares. Ternopil is governed by a 120 member elected city council which in turn selects the mayor. The city has nine colleges and technical schools, two museums, three hospitals and a total of 13 libraries. The city is primarily Ukrainian speaking.

The current city budget totals 17 billion Koupons but because of inflation and other financial problems, the current level of expenditure is 26 billion Koupons.

Reform Orientation

Following the breakup of the Soviet Union, Ternopil along with the cities of Lviv and Ivano-Frankivsk, led the movement toward municipal reform in western Ukraine by bringing in new, young, reform-minded management teams. The mayor and several key members of the city management team are active participants in the Association of Democratic Councils of Ukraine which is in the forefront of pushing for local government reforms. Ternopil was the first city in Ukraine to create a position of Chief of Administration and to eliminate the executive council. The latter action separated the legislative and executive arms resulting in a faster decision-making process. The city supports legislation before the Ukrainian Parliament to allow the direct election of the mayor.

Local Autonomy and Authority

The Ukrainian local government scene is still highly centralized in spite of potential changes provided in the Constitution but not yet implemented by the national government. As a result, local officials often feel frustrated, waiting for national government decisions and the promulgation of implementing "home rule" regulations and procedures.

Some local governments like Ternopil take a liberal interpretation of unclear laws and move ahead in an effort to deal with their problems. Believing that there is sufficient latitude in the new local government laws to allow it to proceed independently, the city has taken steps to reorganize its structure without seeking national government approval. The city assumed responsibility from the

Oblast for operation of the water company as well as the electric transportation company to improve their operations.

Facilitation of the Private Sector

The Ternopil city administration strongly believes the answer to economic development in the city is privatization. The city has identified pieces of land in the center of the city which it is offering to private developers willing to construct badly needed office space.

The city developed an overall approach to privatization though it is a legally cautious one. Ternopil offers several categories of land and buildings for sale including unfinished housing (on leased land), small businesses and a shoe manufacturing and repair facility. The city expressed a willingness to lease manufacturing equipment that it owns to private firms wishing to get started.

Although there are legal questions concerning the practice, the city loaned funds at interest rates exceeding inflation to local businesses trying to get started.

Currently, Ukrainian law provides that funds received from privatization activities be turned over to the national government. Ternopil is currently supporting legislation before the Parliament to permit the local government to retain the funds for further privatization activities.

Priority for Moving Ahead on Financial Systems and Policies

Management Training:

One priority of the city administration is to improve management skills of the administrators of newly created departments. The city is exploring management training opportunities with a local institute and the mayor is interested in identifying additional training resources such as MFM might provide.

Data processing:

The city recently established a computer center with a four person staff and five stand alone microcomputers. The computers are used largely to store databases on the budget, housing stock and waiting list, information of privately owned enterprises, salary and wage listings, privatization project records and a land cadastral program. The databases are not interactive or linked to each other.

The mayor told the evaluation team that he places a high priority on the development of management systems in the city. However, Ternopil does not currently have access to individuals with experience in developing municipal management systems.

City Reorganization:

The mayor is interested in the restructuring of the city agencies as well as the governing body beyond the steps already taken. He views the MFM as a valuable resource in terms of bringing comparative technical assistance experience to the continuing city reorganization process.

Fee Supported Services:

The Chief of the Finance Department identified increasing subsidies for utility services as one of the city's most serious financial problems. He reported that the residential users of the district heating system pay only 5% of the total operational cost. Although a national employee, he saw the need for the local government to be given authority over the pricing structure to reduce the size of the subsidies.

The General Manager of the water company also indicated the shortcomings of the pricing structure. He reported that low residential rates result in at least a 30 percent water loss because of indifference to conservation on the part of residential users. Water and sewer rates for industrial enterprises, which account for only 18 percent of the water consumed, are set very high to subsidize the extremely low residential rates. Metering is inadequate and the nine member collections unit prepares the bills by hand.

The city provides a six billion Koupon subsidy for the water and sewer operation representing 60 percent of the current water and sewer operation and maintenance budget. The subsidy, in turn, comes to 23 percent of the current city estimated spending level. Because of the magnitude of the subsidy problem and in recognition of the willingness of some national officials to provide increased flexibility to the municipalities for pricing decisions, the fee supported enterprises present a target of opportunity.

Conclusion:

Although lacking formal local government management training, the young team members assembled by the mayor, including a medical doctor and three engineers, are aggressively identifying management goals for the city and attempting to reach them with the limited resources available. They were quite frank in their desire to have the city selected by the evaluation team and they see MFM project resources as a way to keep the management improvement momentum going.

The City as a Model

Being a smaller city, Ternopil presents an environment in which it is easier to work and to see results of the municipal management improvement program. Ternopil also offers the opportunity of examining problems faced by medium-sized cities, a classification represented by 20 of the 52 cities with populations over 100,000 in Ukraine.

In addition, Ternopil is the central city for a region including several smaller cities which could benefit from a pilot demonstration within their region. The city is recognized as being in the forefront of progressive changes in the western part of the Ukraine. The city leadership is active in the Association of Democratic Councils of Ukraine. For all of the above reasons, Ternopil is well positioned to serve as a model for medium-sized Ukrainian cities.

Overlap with Other NIS and Donor Funded Programs

Ternopil is not one of the large, well-known cities in Ukraine therefore has not been selected as the site for an international donor program. The city administration without outside assistance has achieved significant gains in management improvement and in implementing privatization.

Inasmuch as it is located less than two hours by automobile from Lviv, Ternopil is in a position to benefit from the developments in municipal management and privatization taking place in Lviv and efforts in the two cities can be mutually supportive.

City's Ability to Contribute Local Resources

The mayor and his management team expressed strong interest in having the MFM select Ternopil as one of the Ukrainian sites. Mayor Negoda stated his willingness to appoint a key member of his staff as the Project Coordinator and to select an advisory committee to work with the MFM resident advisor. The city is also prepared to provide office space and furniture, a bilingual secretary, a car and driver during working hours.

The high priority city officials assign to improvement in management processes and the absence of assistance from other donor agencies convince the evaluation team that Ternopil is very anxious to be one of the sites selected and will provide the program with strong local support.

Potential MFM Project Focus

Management Training

In the event that Lviv and Ternopil are selected, a joint management training effort would address the needs of both communities. Such an effort might involve local training resources such as the Lviv Institute of Management and the Institute of Public Administration and Local Government (out of a Lviv branch office).

Data Processing

Technical assistance from MFM can assist the city in developing a strategic plan for a city management information system. The plan would stress a step-by-step approach to the process so that each discrete stage is completed, tested and in operation before going to the next stage. The process should be confined to one or two departments initially, perhaps the city water and sewer company. The development of a water and sewer MIS will, upon its completion, allow the city to begin making changes in the company, with particular regard to the pricing structure, the single biggest obstacle to reducing subsidies.

City Reorganization

After the resident advisor is in place, he or she will be in a position to provide technical assistance to the mayor and the city council in city reorganization. This type of TA can be provided relatively easily on the basis of using short-term specialists with comparative international local government experience.

City of Lviv

Introduction

Lviv, with a population of 800,000 people, is the largest city in western Ukraine. It is located 450 kilometers west of Kiev and 80 kilometers from the Polish border. It serves as the seat for a regional district or Oblast. The city is made up of five raions and two villages. It is governed by a elected council of 150 members which in turn elects the mayor. The city is primarily Ukrainian speaking. The city has a great many schools and institutes of higher education and is an active cultural center for music, dance and theater.

The city has a budget of 27 billion kourons, but because of the high inflation, the actual expenditure rate is estimated to be 88 billion.

Reform Orientation

To quote from a pamphlet published by the Lviv Institute of Management, "A well known center for liberal thinking in Ukraine, Lviv has a reputation for always being on the cutting edge of changes". The Ukrainian independence movement was centered in Lviv.

Lviv is headed by a new team of managers brought into the city's service by the mayor and given a mandate to change the way the city is operated. The mayor wants the city to serve as a leader in western Ukraine to encourage and show the way for other cities in the area. The city is already recognized as an innovator in the municipal finance area according to the Director of the Lviv Economics Department.

The city council monthly meetings are televised on the local television station. Several key city administrators are active in the Association of Democratic Councils of the Ukraine. The approved budget is published in the local newspaper.

Local Autonomy and Authority

Lviv, like other Ukrainian cities, suffers from the lack of clear laws and regulations which would provide the necessary autonomy to make timely decisions and deploy the necessary resources to solve city problems. The mayor believes that it is possible for Lviv to develop effective demonstration programs which can be utilized to achieve changes in the national laws and regulations. He sees the MFM as a way to accomplish the demonstration projects.

The mayor and his staff have not waited for instructions from the national government but have moved ahead aggressively, in cooperation with the city council, to begin a privatization program and to reorganize the city structure.

Facilitation of the Private Sector

The city began its privatization program in April 1990 and to date approximately 11,000 housing units have been transferred to private owners under the auspices of the Housing Privatization Director. This figure represents 5 1/2 percent of the city's 200,000 housing units located in 11,000 buildings. The program has been hampered by the unclear privatization laws. In addition, the city has been faced with returnees from Siberia who attempt to reclaim their old properties.

The IFC is working with the city on privatization of housing and enterprises. Though the process appears to have slowed down somewhat, the city continues to show a high interest in the program. The housing privatization department was selected by the deputy mayors as the focus for management improvement as discussed below.

Priority for Moving Ahead on Financial Management Systems and Policies

Management Training:

Eight months ago the Mayor recruited an energetic, young professional from one of the city institutes for higher education to serve as the Deputy Mayor for Administration. Shortly after he assumed office, the Deputy Mayor heard about a Peace Corps volunteer with extensive experience in municipal budgeting and training in public administration and obtained his services for Lviv.

The city places a high priority on management training for top administrators. With the assistance of the Peace Corps volunteer, the Deputy Mayor organized weekly lectures for the top managers. As a result the city established a quality team in the housing privatization department to implement total quality management (TQM) procedures.

The Deputy Mayor attended a training seminar conducted by the University of Nottingham and the Lviv Institute of Management. The Institute of Public Administration and Local Government in Kiev expressed interest in opening a branch office in Lviv and is discussing joint training efforts with the city. The city requested the services of a short-term training specialist from the Canadian Public Administration Institute for three months in early 1994 to augment the management training efforts. The city views the MFM as a major resource for the training of the top management team.

Data Processing:

City officials realize the need to move forward in municipal information systems and recently purchased 30 microcomputers for offices and departments. The acquisition is so recent that several of the microcomputers were still in boxes set to the side in offices the team visited. Though realizing the importance of Management Information Systems, Lviv does not have a strategic plan for the establishment of effective information system or the introduction of microcomputers. The information system in place for the last 45 years is basically statistical information collected and published at the oblast level on an annual basis.

The city is considering an agreement with the Lviv Polytechnic Institute Department of Computer Programming to provide hardware support, train city staff in software use and to develop management information systems. The city realizes that the Institute staff does not have experience in local

government systems and that their training experience is in computer programming but does not have a better alternative.

City leadership expressed a strong interest in providing software and computers for the city's finance and budget operations. At the present, the Finance Department has two microcomputers, one is used for financial reporting and the other for an administrative database. The Mayor identified a need for data processing to control the city's housing stock and to improve the operation of the communal functions.

Fee Supported Services:

Like most of the Ukrainian cities, Lviv faces severe subsidy problems with fee supported services such as water, sewer, district heating and solid waste. The lack of a rational pricing structure and the resulting lack of conservation leads to water shortages. Currently, sections of the city have water only six hours a day. This lack of conservation is in turn leading to proposals to construct unnecessary water producing and pumping facilities. To subsidize residential users and the lack of conservation, the rate for industrial enterprises is 500 percent higher than for residences.

Collection of user fees is difficult. Many individuals pay late and enforcement is lax. Placing the fee supported municipal utilities on a business-like basis with rational pricing structures appears to the evaluation team to be a priority objective in Lviv and other Ukrainian cities.⁷ A demonstration project in Lviv could lead the way for other cities.

Conclusion:

The evaluation team believes that Lviv presents an excellent opportunity for demonstrating the values of the technical assistance and training available under MFM. Lviv new management team is already implementing management training for its staff and is poised to develop management information systems, even though technical MIS capacities in the city are limited. There is no question that the city has made management systems and training a high priority.

The City as a Model

As stated earlier, the city has a reputation as the leader in western Ukraine, particularly in the area of municipal finance. In addition, the mayor articulated a strategy to implement demonstration projects which can be utilized to convince national government officials to change existing laws and regulations to provide greater flexibility to local officials to meet their needs.

The association the city is building with the Institute of Public Administration and Local Government in Kiev and the reputation it enjoys with the Ministry of Finance will also facilitate its role as a model for other cities.

⁷ We recognize, however, that Ukrainian cities will have to move forward gradually toward this objective. Income levels will for some time make full-cost pricing of services not feasible.

Overlap with Other NIS and Donor Funded Programs

Lviv is the site of an IFC sponsored privatization project. The Peace Corps volunteer currently assigned to the Deputy Mayor for Administration has 12 months remaining in his assignment. With an MPA degree and several years of experience in the budget office of the City of Savannah, Georgia, he is in a unique position to make a valuable contribution to the city and to complement the efforts of MFM. In addition, the Lviv Institute of Management is interested in working with the city on technical assistance and training projects.

City's Ability to Contribute Local Resources

Upon hearing the MFM project description, the mayor asked what the city could do to obtain the services of the project. He indicated in the initial meeting his readiness to appoint a project coordinator and an advisory committee. He named city officials with whom he thought the team should meet and insured that the team had meetings with them during the following two days. The Deputy Mayor for Administration to whom Mayor has given the key role for improving the city's management practices would likely be the project coordinator.

In addition, the city agreed to provide office space, a bilingual secretary and a car and driver during the business day. The evaluation team believes that the city will provide strong support to the program if Lviv is selected as one of the sites.

Potential MFM Project Focus

The mayor indicated the MFM project coordinator would be the deputy mayor of city administration. Though the citywide administration needs assistance to utilize the microcomputers purchased, the major focus of the deputy mayor is improved management skills. The evaluation team believes that MFM is in a position to make a major contribution to the city of Lviv at this particular time as it begins developing new approaches to management information systems. Not only could MFM assist the city, the project could provide technical assistance and training to the Institute with which the city plans to work. The result would be long term MIS consulting expertise in Lviv.

A second focus may be the water enterprise. MFM needs to select limited areas in which project resources can have significant impact. The water enterprise is critical in Lviv as described above and is important in many Ukrainian cities.

City of Donets'k

Introduction

Donetsk is a major industrial city in far eastern Ukraine with a population of 1.2 million. It is the largest city in Ukraine in terms of geographic spread (and was second only to Leningrad in the old Soviet Union). Donetsk consists of nine raions (districts) and has administrative responsibility for three additional small cities outside Donetsk proper. It is the central city of the Donetsk Oblast with a population of 4.4 million. Fitting its status as a locus and, in many cases, owner of major industries such as coal mining, metallurgy, steel making, chemicals, and construction materials, Donetsk faces the challenge of industrial transformation and revitalization in order to maintain its status as a center of technical and scientific leadership.

The city directly employs 35,000 people and another 350,000 in city-owned industries. City administration absorbs 1.8 percent of the city budget. The city-owned coal mines employ 110,000 and city-owned steel producers employ 16,000. In addition, the city manages six collective farms. There are 40 banks in the city, mostly state run or linked to enterprises though some of the latter are in the process of privatization. One bank is owned by a foreign investor. In the prevailing atmosphere of runaway inflation in Ukraine, credit availability is largely limited to short-term trade financing (average term two months at interest rates over 300 percent per annum). A large portion of these loans are in default or delayed payment status.

As in most Ukrainian cities, an elected mayor presides over the city administration and serves as the chair of the Executive Committee of the City Rada (Council). Deputy Mayors, who comprise the membership of the Executive Committee, are appointed by the Mayor. Many of the current Deputy Mayors have served in previous administrations.

Reform Orientation

Patterns of city organization and finance reflect the old Soviet system but there is an awareness of the need to change and some steps have been taken. Many of these are seen as necessities in view of the collapse of key economic connections with the old state system. Donetsk leaders emphasize the need for new beginnings in each Republic of the former Soviet Union but feel somewhat trapped by their link to the whole budget process of Ukraine which remains very command oriented. As such, city leaders recognize the lack of a "real budget" in either the Ukraine or Donetsk at this time. The mayor emphasized the need to work from the bottom up in rationalizing both expenditure and revenue management and bringing them into balance. The commitment to change seems cautious, but genuine.

As noted below in the discussion of privatization, the actions of the city of Donetsk speak loudly of its commitment to movement toward reform in this area. Of the cities visited by this team, it has moved farthest and farthest in both small enterprise and housing privatization. The focus appears to be on effectively implementing these activities within the current legal framework rather than trying to push the envelope of reform for its own sake.

Local Autonomy and Authority

Donetsk is an historically powerful city due to its industrial significance. It is overly represented in positions of power in Kiev. The former mayor is now prime minister of Ukraine and an enterprise leader from Donetsk is a deputy prime minister. Donetsk provides 47 deputies to the Supreme Soviet. City officials feel this provides an essential line of communication and influence. In addition, as an industrial center, Donetsk provides a disproportionate share of the national budget from taxes on state enterprises in the city, 80 percent of which flow to the national government. Donetsk, not surprisingly, is struggling to increase the share of these taxes retained locally and has, for example, proposed to the national government that 75 percent of taxes be retained locally, an amount that would cover the costs of essential services⁸. Many of these services are now "free" to users, including garbage collection, and other infrastructure maintenance, and consume 30 percent of the expenditure budget. The city also favors more local control over service fees but recognizes that under current patterns of revenue sharing, increasing this revenue stream would result in a corresponding decrease in other transfer revenues.

The deputy mayor of budget feels the city should update land registration and collection of land fees since the city can retain all revenue from this source. The revenue from new taxes and from the auctions goes into off-budget accounts so that the city retains the full amount of the revenues. He also stated that the city wants to establish a municipal bank.

Facilitation of the Private Sector

City leaders cite several examples of successful collaboration with the private sector, including housing construction, road maintenance and construction, and the privatization of small shops and enterprises. There have been monthly auctions of communal property with 26 successful privatizations of relatively large shops, restaurants, and service enterprises in 1993⁹. The city hopes to have privatized 60 percent of all communal property by the end of 1994. Since the start of land auctions in July, 1993, 20 lots have been sold. These auctions recovered 23 billion coupons (over US\$ 600,000) for the city. In terms of the city-owned industries, the next step in privatization depends on the city. City leaders pointed out that it is difficult to privatize losing operations such as the coal mines.

Housing privatization has proceeded at an unusually rapid pace with one-third of the city's housing stock already privatized, mainly to residents and, in some cases, to other persons with the legal right of occupancy in the apartment¹⁰. The property on which the apartment building stands remains the

⁸ This compares with 26 percent retained now. Of the 1.3 trillion coupons (US\$ 34 million) in local taxes collected in 1992, 17 percent remained in the city and 83 percent went to Kiev, 9 percent of which was returned in transfers.

⁹ These privatizations typically include facilities, fixtures, and a lease but not the land which remains the property of a state agency or enterprise.

¹⁰ Donetsk city controls 8 million cubic meters of housing in 175,000 apartments. This is about 40 percent of the city's total. The remainder is the property of cooperatives and associations. Of the 175,000 apartments, 65,000 have been privatized.

property of the state and is leased. Thus owners of privatized apartments continue to pay a monthly fee for maintenance (which remains highly subsidized -- payments cover only 10 percent of the maintenance cost) and the lease, similar to their payment before privatization¹¹. Owners do have the right to sell their apartment at a market determined price. One fear of potential buyers is that the city will impose a property tax that will have the effect of substantially increasing monthly payments by being higher than the current rent.

City officials attribute the success of privatization efforts to an aggressive media campaign including a weekly television show on privatization plus the widely perceived benefits of private ownership. Another factor is the efficiency of the process. The city publishes a newspaper explaining the process and offers a service (costing 100,000 coupons) to prepare the documents. In other cities visited the correct completion of documents and people's lack of knowledge about the process were cited as major problems. Thus Donetsk processes applications in a month, far less than other cities visited, with the result that they have avoided backlog problems.

The atmosphere for private sector activity in general is similar to the rest of Ukraine. There is not yet a great deal of private activity and most of what there is is confined to small production and service enterprises. There is no local Chamber of Commerce or similar association. Both the prevailing financial situation and the slowness of the national government to make decisions that would improve the environment constrain private sector growth. On the other hand, Donetsk, as an historically wealthy city, has a relatively high level of private property in the form of cottages, cars, and the like. Such entrepreneurs as there are have a reputation of relative dynamism.

Priority for Moving Ahead on Financial Management Systems and Policies

Financial Concerns

City leaders emphasize financial problems and give high priority to solving fiscal problems. The current budget has 388 billion coupons in expenditure and only 267 billion coupons in receipts. The balance is to be covered from bank deposits and a variety of off-budget local taxes, several new to Donetsk. There exists particular interest in developing structures for borrowing and otherwise attracting capital for local infrastructure. The 1994 budget is not set for the city or the nation. The city leaders stated that the city pays tax revenues to the national government on schedule but the national government does not return the city's share in a timely manner.

We heard some specific financial woes described by the director of the tram and trolley service. This services provides transportation to 1.2 million passengers a day (a count of rides, not people so that a two-way commute counts as two passengers). Trams have come mainly from Czechoslovakia, trolleys from Russia. With the breakdown in the old economic relations within the COMECON bloc, unavailable hard currency is required to purchase spare parts. While Ukraine is developing a trolley manufacturing capacity and spare parts manufacture as well for both trams and trolleys, the current state of equipment is poor with no financing to repair it, let alone add the 100 new trams or trolleys the city estimates are needed for adequate service. The nominal fares cover only five percent of operating costs. The 95 percent subsidy has risen from 50 percent just two years ago. There are 40 legally-mandated categories of free passengers.

¹¹ City leaders say that when whole buildings are privatized, maintenance arrangements will change. Among other things, there will be a greater opening for private sector maintenance service options.

At present, the city has no control over nationally-established fares. There is legislation pending, however, that would yield some rate setting discretion to Donetsk and four other Oblasts in Ukraine.

Data Processing

Most evident at present is the priority that Donetsk has given to automation of its financial functions, including revenues, expenditures, and tax records. The city has moved farther than other cities visited in developing and using customized database programs for maintaining records and producing reports on financial data. The finance department has a two station network for shared access to data by various finance officials. A local area network is planned and staff are working on modem connections to the nine districts (also computerized), to the Oblast, and to banks. While there does not seem to be much in terms of analytical use of this capacity or a true *management* information system, the base for this is well established and the MFM project would be able to move rapidly in this regard. The hardware systems would require upgrading from 286-based microprocessors to make the expanded network practical.

The tax inspectorate has computerized the tax roles and the department of communal stock has computerized list of apartments and occupants. Rent and utility billing also is computerized. There is as yet no automated system for maintaining records of overall housing stock or maintenance records.

Training

The finance department works closely with the finance faculty at a local university for in-service training. The Ministry of Finance offers courses for financial executives. The Ministry of Education has recently opened an academy of management. But the quality of training is not viewed as high and there is interest in better opportunities. In general, training investment is up to department heads. The finance department staff received training as part of the computerization effort.

City as a Model

Donetsk is one of six cities in Ukraine with over a million in population. It is a leading industrial center and, as noted above, is disproportionately represented in the national leadership. The city possesses many attributes which would make it an important model for other cities, especially the several similar eastern industrial centers.

The city is a member of the Association of Cities at the Basic Level of Ukraine and supports that association's recommendation that local jurisdictions remit a *fixed* amount of funds to the national government, leaving the remainder for local need. Such an arrangement would provide an obvious incentive for more aggressive local revenue collection.

Overlap with Other NIS and Donor Funded Programs

Under a task order to the Center for Financial Engineering in Development (CFED), the USAID-funded Privatization project is in a startup phase in Donetsk and plans to soon work with the city to support private sector bus transportation. There is also the possibility of the USAID-funded Shelter Reform project expanding assistance for land privatization in the city.

City's Ability to Contribute Local Resources

The Mayor and other city leaders expressed high interest in the MFM project. While we did not discuss city commitments in detail, we were told by one department head that providing office space, a counterpart from the city administration, an advisory team from the city, and other support would not be a problem. From everything we saw and heard, this seems credible.

Potential MFM Project Focus

There are several areas where the MFM project could make a valuable contribution in Donetsk. These include:

1. Managing the process of housing maintenance privatization. As Donetsk move forward rapidly with housing privatization, the opportunity arises for a competitive housing maintenance service sector. While it is not the role of the MFM project to support the development of the private sector, assisting the city government with the essential management task of regulating newly privatized service enterprises is.
2. Building a true *management* information system capacity on top of the current automated record keeping capacity. While Donetsk has moved forward relatively quickly with the installation of microcomputers for a variety of financial record keeping, there seems little awareness of these systems as a tool for analysis and for decision-oriented reports to various levels of managers.
3. Tax administration and record keeping in the wake of rapid privatization of communal property and housing. As Donetsk moves forward with privatization of both communal property and housing stock, it will face the task of developing a fair and efficient property tax system.
4. Internal audit procedures to build accountability and transparency. We saw little evidence of attention to this issue which will become increasingly important as democratic systems evolve at the municipal government level.

City of Odesa

Introduction

Odesa is a city of 1.2 million residents, strategically located on the Black Sea in southern Ukraine. The city possesses the largest (in geographic scope) deep water port in Europe. Like most port cities, Odesa is relatively cosmopolitan and open to outside influences, both for better and for worse. In May the city will become a free trade zone. The city is celebrating its 200th anniversary this year.

Reform Orientation

Other USAID contractors working in Odesa consider the climate for change to be good and the city regime to be progressive though the contractors have a limited basis for comparison since they have not had the opportunity to observe other Ukrainian city administrations. The mayor discussed the need to push the limits of the current local government legislation. While the legislation limits powers of local governments, loopholes do exist that Odesa attempts to use. The mayor recognizes the need for the national government to equalize across regions and proposes that a percentage of financial transfers be assigned on the basis of population, with the remainder left to each city's discretion.

Local Autonomy and Authority

Odesa is an important city but, like all Ukrainian cities, has limited freedom of action (see below). In relative terms, it seems to be moving aggressively within those boundaries to address its problems and create opportunity. The free trade zone initiative, approved in a voter referendum, should advance the unique economic role of Odesa in Ukraine and, perhaps, more widely in the NIS.

Facilitation of the Private Sector

The city's attitude toward the private sector is opportunistic. The city is supportive of other USAID-supported programs in housing, transport, and communal property privatization. fifteen billion coupons were raised in 1993 from small privatizations and 40 properties are presently slated for auction. With U.S. consultant assistance, initiatives are beginning to privatize larger enterprises to citizens who have vouchers provided by the national government¹².

Odesa is moving forward with housing privatization. Each district and the city as a whole has an office to process privatization requests and these are handled with relative efficiency. 30,300 apartments of a total of 171,000 under city control have been privatized in the seven months of the

¹² Each citizen received vouchers worth 1 million coupons (\$28) to invest in privatizations. In this way, the government intends to spread ownership of large enterprises widely among the population.

housing privatization program¹³. Other communal property will be included in the program but is administratively more complex due to authorities needed from the entities having current ownership of the apartments. As we found in other cities, there are no apartment complexes that are fully privatized so that the opportunity for new maintenance arrangements involving choice in the service provider and reduction of subsidies remains a future prospect.

Odesa city engages in profit sharing arrangements with certain profitable enterprises such as casinos and is even investing in such activities as juice production and resorts, usually in cooperation with foreign partners. The city on its own funded a water purification facility, the output of which is sold in bulk to bottlers and to ships using the Odesa port. City officials express interest in attracting foreign partners for additional municipal investment in such enterprises as pipe manufacturing, brick making, printing, and water supply.

In some ways, these activities seem motivated less by a commitment to market reform than an entrepreneurial grasp at opportunities seen as revenue sources. In fact, the city's entry into businesses that are unrelated to normal municipal services and its eagerness to tax any profitable enterprise may turn out to displace initiatives from the private sector and create disincentives to true private sector activity. Furthermore, there is the risk of establishing "protected" public-private monopolies in a wide range of business where competition is more appropriate. In short, there is a very real risk of city government choosing to play the roles of economic planner, entrepreneur, and manager, while incorporating a large array of economic activities into the apparatus of government. At best, this may become a distraction from the real business of governance. At worst, if the investments and joint ventures founder, it may become a financial drain, repeating the experience of the Soviet period. The historical record here and elsewhere demonstrates convincingly that governments tend to be poor economic entrepreneurs and even worse managers of economic enterprises.

The most active area of new private sector investment in Odesa is hotel and office space construction, an arena which should offer opportunity. There also is a relatively large amount of private cottage construction outside the city on land allocated to citizens. There is an active private sector construction and building materials sector to serve this demand.

Priority for Moving Ahead on Financial Management Systems and Policies

Financial Concerns

City leaders are occupied with familiar financial woes, primarily an alarming gap between budgeted expenditures and revenues. The 1993 expenditure budget was 341 billion koubons against revenues of 297 billion koubons. The 1994 budget, currently under consideration by the City Rada (Council) projects expenditures of 3,312 billion in inflated koubons. Revenue estimates reveal a deficit of 1,733 billion koubons in the year, a nearly 50 percent shortfall. Due to the problem of planning in an hyperinflationary environment, the city has moved to quarterly budget calculations. The gap

¹³ The buyer of a "privatized" apartment pays only for processing (currently 196,000 koubons - about \$5.00). The new owner possesses the apartment, not the land under it and common property is the responsibility of a tenants association or cooperative. Subsidized "rent," utility and maintenance arrangements remain virtually unchanged, at least until the entire building is privatized and owners are collectively free to execute new maintenance agreements. Behind the concept is the old Soviet idea of a person's "right" to housing. Privatization thus enables occupants to take "ownership" of what is already rightfully theirs. Thus there is less to the process than meets the eye.

between planned expenditures and budgeted revenues for the first quarter of 1994 is 459 billion coupons (nearly US \$12 million).

Like other cities, Odesa's resources are drained by subsidies to money-losing city services. The tram and trolley service, for example, is losing 16 billion coupons (US\$410,000) per month. An exception is the water company which, though saddled with a highly subsidized rate structure for households, is able to compensate with high charges to enterprises that the company can negotiate for itself. Apart from the problem of late payments from ailing enterprises (the current cumulative arrearage is 50 billion coupons - \$1.28 million), the water company is self-sufficient financially. The flip side of high enterprise utility charges is a growing burden on these financially-strapped companies. One business owner to whom we spoke said that utility charges had risen from seven to 40 percent of his costs in just the last year.

The city is grasping at every possible means to raise revenues. In addition to the business investments noted above, the city has increased fees on municipal and private enterprises (these now constitute 19 percent of city revenues), introduced a municipal lottery, and engaged in borrowing from commercial enterprises. The city plans to raise new revenues through land sales, apartment auctions, and a bewildering variety of municipal taxes and fees.

Data Processing

The city seems behind others we visited in the application of automation to municipal financial management. The city has purchased few computers, most of which are not installed. The Department of Economics (responsible for "off-budget" financial issues) has one computer. The Finance office (responsible for the city budget) has eight to serve the city office and eight districts. The only operation computerized is payroll records in the finance department. The department does not have a functional management information system nor is there a design or concept for one. Staff do not know how to use the computers and we did not hear of a plan to install the computers and train the staff.

The city does not have a central internal or external computer center to guide computerization strategies or applications. City officials cite the need to "change the mentality" of municipal staff to increase awareness of computer information systems.

By contrast, the city water company owns over 60 computers, has a two year old internal computer center, and has automated billing and other operations.

Training

The city has no regular retraining program for its staff. For special needs, the city contracts with local institutes, mainly it seems for economists to work as consultants. The only training that takes place is by the staff observing what the consultants do. Though we were told that the training of these contracted experts is not much different than that of the municipal staff and there is a lack of new ideas and perspectives.

Structural Change

The mayor of Odesa is a member of the governing board of the Association of Mayors of Cities at the Basic Level. Through this mechanism and directly, the city has made proposals to Kiev officials regarding changes in the allocation of taxes to the city¹⁴. The Association has gone so far as to prepare draft legislation for national consideration. City officials emphasized the difficulty of budget forecasting in an environment of highly uncertain fiscal transfers. More broadly, as noted by the Mayor, the city has doubled its former responsibilities without the freedom to make changes that would match revenues to those increased responsibilities. The city, he said, needs the freedom to set taxes and duties according to the city's needs. The present system is arbitrary and has the effect of penalizing efficient municipal administration by transferring resources to poorly run cities with even greater deficits.

City as a Model

Odesa is the major city of southern Ukraine but its status as a major national port city makes it fairly unique with more economic opportunity than most Ukrainian cities. The city is more cosmopolitan but also suffers from more serious crime and corruption problems for the same reason.

Overlap with Other NIS and Donor Funded Programs

Under a task order to the Center for Financial Engineering, the USAID-funded Privatization project is active in Odesa in the area of small enterprise privatization and is working closely with the city to support private sector bus transportation alternatives. The USAID-funded Shelter Reform project may expand assistance for land privatization in the city. MFM Project assistance could dovetail nicely with these activities.

City's Ability to Contribute Local Resources

The mayor of Odesa confirmed city readiness to provide office space, counterparts, and other staffing and logistical support in accordance with normal MFM project parameters. One high-level city official, however, expressed doubt about the utility of a program such as the MFM Project in the absence of massive financial and budget stabilization assistance. In the current environment he felt that USAID assistance programs were "not applicable" and "not needed." The result of training, he feared, would be to syphon capable people from municipal roles to more profitable activities outside of government. At the same time, he also indicated that highly-focused, problem-solving oriented cooperation could have benefit if tailored carefully to a city's specific needs.

¹⁴ Currently 87 percent of tax collections are sent to the national budget, exclusive of purely local taxes and fees.

Potential MFM Project Focus

The MFM project could make a valuable contribution in several areas in Odesa. These include:

1. Financial system computerization across the board. Virtually all current systems for city administration are manual and outdated.
2. Assistance with the legal and contractual basis for joint-venturing and for more sophisticated enterprise valuation capabilities. This should not be done with the intent of maximizing city involvement in business enterprise but rather in a context of helping the city understand criteria for appropriate and productive public-private partnership.
3. Financial forecasting and budgeting. Concurrently with systems development, the city needs to move from a focus on stopgap deficit financing to longer term revenue and expenditure planning.

City of Mykolaiv

Introduction

Mykolaiv, a closed city in the former Soviet Union, is located in southern Ukraine at the point where the Bug and Dniiper rivers meet before flowing into the Black Sea. The major industry for the city's 517,700 residents is shipbuilding in three shipyards. Seventy-five industrial enterprises closely connected to the shipbuilding industry such as manufacturing of gas turbines, machine tools, and metal cutting machinery are also employers in the city. The Mykolaiv Alumina Plant is the largest non-shipbuilding enterprise and is one of the largest aluminum plants in the former Soviet Union. Due to the city's concentration of the naval defense industry, there are four institutions of higher learning and a highly educated populace.

Reform Orientation

The deputy mayors met with the team the first day in Mykolaiv. The deputy mayors demonstrated an easy working relationship that indicated openness with each other and visitors. Each of the deputy mayors willingly answered questions and discussed issues. There is the impression that people are eager to welcome foreigners after years as a closed city and as a highly educated populace welcome new approaches. It is true that the major industries are not easily privatized due to the nature of their work therefore, privatization is proceeding slowly. However finding markets for naval aircraft carriers is not an easy task! One of the smaller shipyards did operate without deficit last year so the manager has been moved to a larger shipyard to repeat his success with the idea that industries not operating at a loss are easier to privatize.

Local Autonomy and Authority

The first question asked by one of the deputy mayors was the degree of independence the project has from the Oblast and national levels of government. The relations between the Oblast and city

government are not good though the two governments are housed across from each other and separated only by Lenin's Square. The fact that the project does not work with the oblast or national government is positive as far as the deputy mayors are concerned.

The city realizes the value of operating in hard currency when possible and set up a Foreign Economic Links and Industry Department. One task of the department is to manage foreign currency funds to purchase hospital equipment and supplies. The staff stated that they must constantly look for the loopholes that allow them to carry out this task. While this is not an authority given to the city, it is not an authority denied the city.

Facilitation of the Private Sector

Mykolaiv's major shipbuilding enterprises are difficult to privatize particularly the shipyard building aircraft carriers and specific defense related equipment. Therefore, the city emphasizes privatization of small enterprises such as shops and restaurants. The city has privatized 19 businesses. The deputy mayors stated that the greatest need in privatization is training for private sector management. The city does not have a privatization plan for 1994 because the deputy mayor feels the prospects for privatizing depend on external factors including the possibility of new national laws. The most recent auction of 11 businesses was advertised on local television and in newspapers resulting in 47 applications.

Mykolaiv contained 40,000 private residences throughout the Soviet period. The city is privatizing 300 apartments per month though people are hesitant to privatize because the real estate tax could be imposed at a rate that is a heavier burden than the current rent. The waiting list for housing is 42,000 families. The city built five 100 apartment buildings last year using funds from enterprises that requested more apartments. During the same period 200 private single family houses were built.

The city established a Foreign Economic Links and Industry Department to assist private businesses to find joint investment partners in other countries. The department helped set up 79 joint ventures last year with investments ranging from US\$30 to US\$300,000. As a result, Computerland and Apple Computers have representative in Mykolaiv.

Priority for Moving Ahead on Financial Management Systems and Policies

Financial Concerns

The Finance Department has 30 employees working in four sections: Section of State Income, Section of Enterprise Incomes of Local Government, Section on Budget and Section on Bookkeeping. The Section of State Income is computerized. The budget was updated four times last year in accordance with increases in the minimum wage. As a result, the budget ended up four times the original amount. When the city could not make payments, the oblast or state provided interest free loans that in fact were grants. The city implemented new revenues through market fees, parking fees, kiosk fees, and land use fees. These revenues went into off budget accounts which are one tenth the amount of the city budget.

The executive council has a finance committee responsible for long term planning of a capital budget. The Finance Department works closely with the committee to produce the capital budget. The plan covers two years.

The city also has a Bookkeeping Office separate from the Finance Department. The Bookkeeping Office has 5 employees and two computers to monitor the expenditures of the city both from the city budget and the off-budget funds.

Data Processing

The city of Mykolaiv is the most advanced city visited in terms of computerization. The city hired a director and two staff members for an information center. The three are responsible for a 27 station Novel network. Each department in the city administration has at least one station on the network. Support and training are assigned to one person within each department therefore, the first line of support is close by and the demands on the information center's staff is manageable. The network software includes databases from the national government on current legislation and a control system that allows the mayor to assign and monitor tasks of the deputies. A modem connection is used to update the legislative database on a regular basis. The network has a local database on newly registered private businesses.

Training

The city does not have a training program. Employees of the Ministry of Finance that are in the Finance Department attend training and receive certification from the MOF. City bookkeepers attend courses taught by the State Tax Inspection Office. The computer center assigned a person in each department to train staff within the department. The assigned person usually has background in computers and was trained on the city software by the information center staff. The training plan for computerization appears to have been a good allocation of scarce resources.

City as a Model

Mikolaiv with a population of 517,700 is in the size category of 20 other cities in Ukraine. The issues that Mykolaiv faces as an industrial city that has lost the market for its products are the same issues faced by numerous eastern industrial cities. While the city may not be as well known as Odesa or Kharkiv, the MFM project could publicize successes in Mykolaiv that would be relevant to other cities.

Overlap with Other NIS and Donor Funded Programs

During the current visit, PeatMarwick completed a task to publicize business auctions. The CFED project plans to expand to Mykolaiv with the bus route privatization program.

City's Ability to Contribute Local Resources

The city hall building was inherited from the communists after independence. The building has more office space than needed by city administration. The deputy mayor gave her full support to the project and asked what the city could do to "win" the project giving indication that the city could meet the project needs.

Potential MFM Project Focus

There are several areas where the MFM project could make a valuable contribution in Mykolaiv. These include:

1. Building on the current information center work to provide analytical reports from the networked system. The department heads have computers therefore designing analysis that would assist them in decision-making would be a natural progression.
2. The Finance Department with the executive finance committee realize a need to plan for a multi-year capital budget but are hampered by inflation and unpredictable national government transfers. Assisting the city in budgeting and strategic planning may be a focus of project activity.

3. LOCAL INSTITUTIONAL RESOURCES

The project team interviewed three institutions to identify areas of collaboration for training resources, logistics assistance and other support. An important aspect of training under MFM is developing materials and training skills in partnership with local institutions that will continue long past the term of the current project. Previous experience indicates that training institutions also provide logistics support to projects. Therefore, we looked primarily at training institutions for collaboration. The institutions are introduced below followed by discussion of the benefits to MFM, benefits to the organization and an assessment of the collaboration.

Association of Democratic Councils

The Association of Democratic Councils (ADC) is a voluntary organization of democratic councils organized to facilitate communication, establish standards and norms, assist deputy mayors to improve professionalism, and to draft proposals to Parliament that reflect the common interests of local democratic councils. The ADC, founded in 1990, represents approximately 50 councils, has a coordinating council of 15 people, and a three person staff. It remains, however, an embryonic organization with an excellent agenda but very limited resources to carry it out.

Activities of the ADC include:

- seminars or training on local self-government, housing privatization, self-government and the constitution, self-government and parties, and economic and legal issues for local council deputies;
- proposed legislation on privatization issues relating to rent, property, and business; and
- promoting meetings with various international experts, cities, and local government representatives.

As a self-supporting organization, ADC has worked with the League of California Cities, the National Democratic Institute for International Affairs, and the National Forum Foundation.

Benefits to MFM

The ADC is the organization networking the MFM audience - cities and city officials. The organization also maintains contacts with the national parliament and is active in the constitutional issues related to cities. Therefore, the ADC is a natural for identifying participants for MFM and for disseminating success stories. The goal of the ADC to develop professionalism among city officials translates into training activities. The project can benefit from ADC identification of training sites, participants, and resources. The assessment of training needs and evaluation of training delivered could be institutionalized within ADC. The ADC is currently conducting its first survey of cities which includes questions on training needs.

Benefits to ADC

The project benefits the ADC by offering increased visibility and recognition for its role as an organization of cities. If training needs identified by the survey match training needs of MFM, the

project may implement training with the ADC. The ADC recently received a grant to publish several issues of a newsletter. As MFM develops success stories, its funds may be used to publish additional issues reporting the project activities thus fulfilling the goal of dissemination of information.

Assessment of collaboration

The ADC is an organization that the project should use as a resource since both MFM and ADC could benefit in ways that further their respective goals. Given that MFM can not offer support to the ADC for additional staff or office space, the project should be careful not to overwhelm the limited resources ADC has available. The MFM training specialist should provide to ADC copies of training materials developed by the project; consult ADC on questions of training sites, topics, and participants when seminars are aimed at a larger audience than the project cities; and review project priorities, workplan, and activities. As project activities are completed, the MFM staff should work with ADC to publish an issue of the ADC newsletter which highlights successful financial management in Ukrainian cities. The MFM staff would support the newsletter by writing articles and MFM funds could be used to print and distribute the issue of the newsletter.

Institute of Public Administration and Local Government

The Institute of Public Administration and Local Government (IPA) was established in March 1992 by presidential decree. The mission of the IPA is to train civil servants and conduct policy studies to improve the machinery of government. The IPA is attached to the Cabinet of Ministers with a governing board of representatives from Parliament, the President's Administration and the Cabinet of Ministers. The IPA is fully funded by the government with leadership appointed by the Cabinet.

The IPA has graduated the first class of 100 with a Master's in Public Administration. Students accepted into the twelve month program receive a salary and are required to work in the government for five years following graduation. The IPA Centre for Continuing Education offers short-term courses and had 3,000 elected or appointed officials as participants in 1992. The IPA has a Centre for Policy Studies and a Centre for Privatization, Investment, and Management.

The IPA and the city of Lviv are beginning a collaboration that will result in training programs for the city. A meeting was held on November 19 to assess the training needs of the city.

Benefits to MFM

The IPA is an established training institution with a clear mandate and support of the government. It has training facilities that include classrooms, lodging, libraries, and support staff for translation. The IPA is already conducting training in relevant topics for the project audience. Working with IPA is working with the premier institution for public administration in Ukraine. The IPA has a foundation of support that looks promising over the long term.

Benefits to IPA

The IPA is building a library of books and training courses to form the basis of Ukrainian public administration. While government funding is available, the task exceeds the resource. The current short-term courses are introductory while the IPA goal is to develop short-term courses based on adult learning techniques and to develop a base of Ukrainian trainers who have completed training of trainers. MFM training courses can meet that need. The IPA was created by the Cabinet to be outside the political control of any one ministry. However in terms of local government, the IPA is sometimes seen as a creature of the central government. In fact, some city officials stated that the IPA was for state and oblast officials. Identification with MFM may increase the IPA's accessibility to local governments.

Assessment of collaboration

The goals of the project and the IPA are an excellent basis for collaboration. The IPA is a strong institution with a well defined agenda. Unlike the other institutions, IPA does not need support from MFM but would welcome cooperation in areas of overlapping interest. The collaboration between IPA and MFM would be largely information sharing. MFM should consult IPA prior to developing training materials to determine whether some materials might already be available. According to national law, IPA conducts all work in Ukrainian.

Lviv Institute of Management

The self-supporting Lviv Institute of Management (LIM) was founded in 1990 as a program of the University of Lviv. The goal is to educate managers and businesses to adapt to the new conditions of a market economy. LIM provides education, training, and consulting through an MBA program, the Management Training Center, Methodological Training, and Business Services Center. The international supervisory council has nine members and LIM has 30 staff members. The MBA program has graduated over 100 students who have returned to their funding enterprises or become employees of LIM. The team learned during the interview at ADC that LIM is one of several management institutes loosely affiliated in the Kiev Institute of Management.

LIM recently collaborated with the University of Nottingham to deliver a short term training course to officials from ten cities (including officials' from Lviv and Ternopil). The ten day training seminar resulted in the officials drafting a letter to Parliament. The letter detailed the city officials' concerns about budget and taxing policies and called for local autonomy.

Benefits to MFM

LIM has experience handling logistics for training courses, provides business services including translation and transportation, and has training facilities including a computer lab and library. The staff are familiar with adult learning techniques and look for opportunities to develop training of trainers type skills. LIM has the resources to conduct data collection for case study development through the graduate program.

Benefits to LIM

As a self-supporting institution, LIM benefits from activities that support staff such as the Business Service Center. LIM expressed interest in broadening their scope from management in private sector to add management in the public sector. Working with the project would increase the staff skills and increase visibility of the organization.

Assessment of collaboration

The project team benefitted from the skills of the Business Service Center which arranged logistics for the visits in Lviv and Ternopil with a one day notice. LIM has demonstrated experience arranging logistics for short term training. Though traditionally the private sector is more likely to fund training, LIM expressed a strong interest in public sector training and in this opportunity to broaden their experience. In part the interest is a result of collaboration with the Deputy Mayor of Lviv and a recent successful training course for cities.

4. NEXT STEPS

To move forward with the MFM Program in Ukraine, the following activities should be planned and undertaken. They are listed with recommended timing in parentheses.

1. Confirmation of City Selection

Based on the completion of the second assessment visit, the MFM Team will recommend two cities for project activity and present the reasons for that recommendation. It will be the responsibility of USAID/Washington and USAID/Kiev to agree on the city selection.

4. Formal notification to cities of selection (February)

Formal notification should be made by USAID/Kiev to the Mayors of the selected cities.

5. Follow-up visit (February-March)

An MFM team will visit the selected cities for purposes of

- more detailed assessment of needs, priorities, and potential project interventions
- identification of key counterparts in the city administration
- firming up commitments by city officials to the project and to city responsibilities
- arranging a U.S. study tour for selected city leaders (who will become counterpart and advisory board participants)

6. Preparation of a Memorandum of Understanding (March)

7. Selection of long-term advisors (March or earlier)

RTI will identify the long-term advisors who will prepare to relocate to the selected Ukrainian cities. These advisors will participate in preparation and implementation of the study tour.

8. U.S. Study Tour (April)

This tour will allow city leaders to visit selected U.S. cities that have successfully addressed related priorities. The tour will end with a workshop at which preliminary workplan development will take place.

9. Mobilization of advisors (May)

ANNEXES

1. MFM Project Summary
2. Annotated Contact List
3. Other Potential Contacts
4. Ukraine Assessment Guide
5. City Selection Criteria
6. Summary Recommendations of Local Government Finance and Administration Workshop in Kiev, Ukraine

ANNEX 1

MUNICIPAL FINANCE AND MANAGEMENT PROJECT

The Municipal Financial Management (MFM) Project is sponsored by the United States Agency for International Development (USAID) and is being carried out by a consortium of US organizations led by the Center for International Development at the Research Triangle Institute (RTI).

The purpose of the MFM project is threefold:

- (1) Introduce municipalities in Russia and NIS countries to the best available techniques and systems for municipal budgeting, finance, and management in the context of democratic local governance and a free market economic system.
- (2) Design and install the necessary computer based systems (hardware and software) to carry out this kind of local municipal management and governance; and
- (3) Establish and conduct training programs locally and in the United States to orient counterparts to the techniques and skills needed to make the systems work.

The program will include work in up to eight municipalities selected from candidates in Russia and other NIS countries. Moscow and Nizhny Novgorod are the first two cities and the remaining cities will be selected by mid 1994.

The project will place teams of long term advisors in the selected cities. The teams will be composed of very senior US municipal management experts and local professional staff. The first US field team will consist of a senior city manager as Team Leader, a municipal finance expert and a training advisor. This team will cover Moscow and Nizhny Novgorod and will work collaboratively with Russian staff. The field team will be supplemented by short term advisors from the US, training activities, and computer system development. Additional field teams will be backed by a project management team in Washington and a consortium of outstanding US institutions. The consortium includes Georgia State University, American Management Systems, Price Waterhouse, Management Systems International, Andersen Consulting, the University of North Carolina, the University of Pittsburgh, the Lincoln Institute of Land Policy, Government Finance Group, and the International Association of Assessing Officers.

The project calls for close collaboration and teamwork between Americans and counterparts in each of the municipalities participating in the project. It is hoped that the management and finance systems developed in each of the participating cities and the training programs will help other cities develop more effective and democratic approaches to their management and governance.

ANNEX 2

Annotated Contact List

Kiev (country code 7; city code 044)

Contact	Address	Phone	Fax
Terrence J. McMahon Director	USAID/Ukraine, Belarus, Moldive 19th floor 8/10 Kuibysheva str 252023, Kiev	220-5589	
Amy Nolan Osborn First Secretary	USAID/Ukraine, Belarus, Moldive Embassy of the U.S.A.	office 220-5589 home 220- 9965	220-7079
Matthew Glasser Resident Advisor	PADCO bul. Lesya Ukrainka, 26, room 304 252133, Kiev	office 295-6377 home 228- 7407	295-1039
Robert Krachuk Resident Budget Advisor	Ministry of Finance 12/2 Grushevsky St. 252008, Kiev	office 293-6387 home 290- 4095	293-6387
Natalia Shymanska Executive Director	Association of Democratic Councils 98, Chervonoarmiyska St. 252005, Kiev	269-0864 268-6275	269-0864
Don Croteau AVID Volunteer	Association of Democratic Councils 98, Chervonoanniyska St. 252005, Kiev	269-0864 268-6275	269-0864
Dr. Bohdan Krawehenko Director	Institute of Public Administration and Local Government 20 Eugene Pottier 252057, Kiev	446-4258	296-1360
Sviatoslav "Slava" Guse Principle Translator	11 Suvorov St. #239 Kiev	290-6000	

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STRATEGY OUTLINE

LOCAL GOVERNMENT FINANCE AND MANAGEMENT

1. BACKGROUND

Among the problems and trends affecting this sector are:

- a. There is a lack of reform orientation at the central government level.
- b. Corruption and criminal influence is widespread
- c. Crippling hyperinflation continues, and there is no clear monetary policy
- d. Much infrastructure is deteriorating from lack of maintenance, or has always been substandard (as in the case of telecommunications)
- e. There are no viable financing mechanisms for city services or infrastructure (financing was previously from central planning and central budgeting)
- f. Historically, there was no independent local government structure. Administratively and financially, each unit was part of the next larger unit.
- g. Legislative decentralization has increased the burdens on local governments, without compensating revenues to cover the costs.
- h. Current laws seem to authorize broad powers for local governments, but:
 - i. there is a profound lack of experience and skills on budgeting, accounting, financial controls, etc.
 - ii. There is a reluctance to act without mechanisms being spelled out in detail
- i. Local governments do not have stable revenue bases: they depend on "regulating revenues" allocated at whim of center. Policies for sharing these revenues actively discourage raising meaningful local revenues.

On the other hand, Ukraine is increasingly visible on the world stage, and therefore has improved access to resources of the US and other donor nations. In addition, as presented below, there are significant opportunities for market reform and democratization, especially on the local level.

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2. GOAL AND OBJECTIVES

The goal of the USAID effort in Ukraine is to increase the authority, competence, and responsiveness of municipal governments in order to support the transition to democracy and a market economy.

Functions which are inappropriate for municipal governments should be transferred to the private sector. Urban infrastructure and services should be maintained and improved where possible. Revenues of local governments should be stabilized and expanded and matched to expenditure planning. Citizen participation in the processes of government should be expanded. Intergovernmental relationships, particularly in periurban areas, should be better defined.

3. CHALLENGES AND OPPORTUNITIES

a. Among our major challenges are the following:

Centralization:

- i. There is a strong tradition of centralized management, command and control -- local administrators continue to look to Kiev and oblasts for direction and approval
- ii. The existing structure is designed to facilitate ratification of central decisions, rather than to facilitate local implementation of local decisions.
- iii. The central government is not supportive of decentralizing powers and responsibilities
- iv. Local governments are viewed as, and operate as, part of a hierarchical, central structure, rather than as independent units

Structural and cultural obstacles:

- v. There are structural and cultural disincentives to initiative and responsibility
- vi. Citizens do not trust their governments at any level.
- vii. Corruption is widespread -- people in a power to benefit from their "toll-gate" positions do not want change.
- viii. Corruption is socially accepted and institutionalized
- ix. Western traditions of team work, information sharing, and rule of law are weak or missing
- x. There is a tradition of secrecy, and hoarding of information

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Lack of information and skills:

- xi. The population has not bought into the processes of democratization, privatization, and creation of a market economy
- xii. There is a lack of information about alternatives to the ex-Soviet system
- xiii. There is a lack of basic management know-how

Social support system:

- xiv. The old social support systems have failed, and need to be reinvented with an eye to systems appropriate to a market economy
- b. However, the current situation does present significant opportunities:

Potential strengths of local governments:

- i. Local governments have broad potential powers, even under current legislation
- ii. The paralysis of the central government opens the way for local government experimentation
- iii. Because mayors are elected, they are potentially accountable.
- iv. Cadres of reform-minded leaders exist in many cities

There is an emerging constituency for market reforms:

- v. People are anxious for solutions -- they recognize that the old system doesn't work
- vi. There is a small but growing segment of the population that can afford choices, increased service levels, and will want to protect their rights.
- vii. Appreciation of American culture opens the door for transferring American values, systems, and procedures
- viii. A market system is starting to manifest itself

Other opportunities:

- ix. We are working with a number of well-informed, capable counterparts
- x. Ukraine is small enough that parallel national/local efforts can succeed
- xi. There is a high level of technical education
- xii. There are independent, accessible media, at least at the local level.
- xiii. The cities have significant capital assets, which are currently under utilized.

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4. OVERALL STRATEGY -- GUIDING PRINCIPLES

General principles:

- a. A policy framework and policy agenda should inform current USAID efforts and should guide selection and implementation of new USAID efforts.
- b. The focus should be on the local level.
- c. Windows of opportunity at the national level should be pursued.
- d. The transformation of Ukraine should be viewed as a high-priority, long-term investment.
- e. Assistance will generally be delivered as technical assistance and training, rather than as capital assistance.

Collaboration and cooperation:

- f. Collaboration of all US efforts is important.
- g. Collaboration and cooperation with other foreign and donor agencies should be pursued where possible.
- h. Continued presence through resident advisors (including the Peace Corps) is a key to continuity and viability of reform efforts.

Approach to local governments:

- i. Local government autonomy, accountability, and transparency should be increased.
- j. Local governments' reliance on central government and on dead-end industries should be decreased.
- k. Urban infrastructure and service delivery should be maintained and improved.
- l. Development and operation of public/private partnerships and fully private operations should be supported where appropriate, for functions currently performed by municipalities.
- m. Revenues of local governments should be expanded
- n. Revenue-sharing arrangements should be stable and predictable.
- o. Forecasting, budgeting, and planning should be integrated to match revenues and expenditures.
- p. Citizen participation in processes of government, especially local government, should be fostered.
- q. National and local level counterparts should be selected based on commitment to reform.

Demonstration projects and technical assistance:

- r. Focus cities should be identified based on following criteria:
 - i. geographical distribution should be pursued to achieve political/linguistic/cultural balance

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- ii. reform oriented local government (including at least mayor, deputy mayor, and department head with jurisdiction)
- iii. relatively high degree of local autonomy
- iv. facilitative attitude toward private sector
- v. appropriateness as a model (status, reputation)
- vi. ability and willingness of city to contribute resources to effort
- vii. the fit with other AID and donor agency programs should be considered. A balance should be struck so as to achieve the maximum impact through focusing efforts, while not overtaxing a city's absorptive capacity
- s. Practical demonstration projects are more important than theory
- t. Successful demonstration projects should be quickly and widely replicated
- u. Successes and failures should be evaluated with sufficient frequency to improve the process, and lessons learned therefrom should be widely disseminated.

Strengthening local capabilities:

- v. Substantive and leadership training, including study tours, seminars, internships, and other information transfer opportunities, is important to help create Ukrainian leaders capable of, and interested in, sustaining the momentum of reform.
- w. The use and training of Ukrainian experts should be maximized.
- x. The professional competence of local government councils and administrators should be increased.
- y. Viable national and local institutions and programs which support the implementation of this strategy should be developed.

5. IMPLEMENTATION -- CURRENT AND PROPOSED WORK

There are three basic areas in which assistance can be effective. These are:

- National policy and institutional reform, including legal reform and fiscal policy
- Technical assistance and demonstration projects at the local level
- training, education, human resource and organizational development

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a. Current (or imminent) work:

- i. Local government management and public administration (RTI)
 - (1) budgeting
 - (2) financial planning
 - (3) systems for financial management
 - (4) building management capabilities, management systems, and processes
 - (5) performance monitoring

- ii. Local government privatization (CFED)
 - (1) transport
 - (2) how to manual/contract documents
 - (3) contracting-out of municipal services
 - (4) privatization of municipal services
 - (5) post-privatization support

- iii. Local government finance (PADCO)
 - (1) national level policy formulation and institutional reform
 - (2) work on revenue sources, impact fees, and user charges
 - (3) housing and communal services pricing
 - (4) ZhEK privatization
 - (5) urban infrastructure and service provision, including financing, cost recovery, and privatization
 - (6) working toward access to private capital markets
 - (7) related land and housing markets
 - (8) social assistance program design

- iv. Local government political work (NFF, NDI)
 - (1) potential associations of city councils
 - (2) potential association of mayors
 - (3) campaigns

- v. Business consulting services (Peace Corps)
 - (1) enterprise valuation
 - (2) credit analysis
 - (3) business plan development
 - (4) feasibility studies
 - (5) management training

- vi. Education and training:
 - (1) in-country seminars for national and local officials, national conferences, and observational tours to US (PADCO, RTI)
 - (2) seminars for local government officials and candidates (NFF)
 - (3) working with and strengthening existing institutions (Kravchuk, RTI, PADCO)
 - (4) development of new curricula (Kravchuk)

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- (5) legal and service sector-specific training (CFED)
- (6) internships in the US (RTI, NFF)
- (7) citizen training and media efforts (NDI, USIA, IMC, PW)

b. Proposed additional work (holes that need to be filled):

- i. A policy agenda and framework should be developed to inform current USAID efforts and to guide selection and implementation of new USAID efforts.
- ii. National work relating to local governments:
 - (1) intergovernmental structural and fiscal reform
 - (2) local government legislative reform
 - (3) restructuring of social support services (cf. World Bank efforts)
 - (4) constitutional reform
- iii. education, training, and public awareness:
 - (1) much more media work should be done not only to publicize successful programs, but also to build underlying support for market economy, privatization, and local government autonomy
 - (2) an effort should be made to create pressure from below, i.e. create popular demand and enthusiasm for reform
 - (3) additional skills and leadership training should be provided for public and private sector managers, both of the current crop and of the next generation
 - (4) experiential training should be provided to current managers
 - (5) wide-spread basic education on civics, democracy, economics, and other pre-requisite topics should be provided. We should develop widespread curriculum inputs.
- iv. additional local government political work:
 - (1) local government associations should be encouraged, and supported with US professionals and decreasing levels of USAID subsidies
 - (2) A municipal advocacy, training, and communication resource center should be supported
 - (3) focus groups of mayors or other municipal officials could be useful in refining our

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strategy, and could be the core of a coalition for local government reform

- (4) coalitions should be built with local chambers of commerce, manufacturers' associations, and other interest groups for economic and business development, and for leadership training

v. nationwide training resources should be available "on-call" to support local resources, such as Peace Corps volunteers. A resource inventory is necessary. Incoming short term advisors should be encouraged to plan training opportunities along with their substantive assignments

vi. other work

- (1) fiscal analysis units (cf. European Community work and US CRS work)
- (2) modernization of budget system
- (3) tax administration

6. IMPLEMENTATION ASSIGNMENTS AND TIME FRAMES

In general, the work described under "current work" above will be performed by the contractors and organizations shown.

The proposed additional work will be performed by these contractors or others to be identified.

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ANNEX 3

Other Potential Contacts

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ANNEX 4

Ukraine Assessment Guide

1 Points of Inquiry in Field

1.1 Local Revenue Sources

1.1.1 Central levies (Tax sharing)

1.1.1.1 Enterprise income tax

1.1.1.2 Individual income tax (derivation basis)

1.1.1.3 VAT

1.1.1.4 Excise taxes

1.1.2 Negotiated transfers and subventions

1.1.3 Local taxes

1.1.3.1 Land or property (personal and enterprise) taxes

1.1.3.2 User charges

1.1.3.3 Land and asset sales (privatization)

1.1.3.4 Other local tax options

1.2 Local Revenue Authority

1.2.1 Revenue adequacy (assignment versus expenditures - actual and needed)

1.2.2 Revenue administration arrangements (centralized/decentralized)

1.3 Local Expenditure

1.3.1 Expenditure assignment

1.3.1.1 Municipal enterprise subsidies (public utilities and housing)

1.3.1.2 Social/Cultural institutions

1.3.1.3 City administration

1.3.2 Expenditure efficiency (service benchmarks)

1.3.3 Capital investment

1.4 Structure of City Government (especially finance)

1.5 Budget Execution

1.5.1 Planning Environment (certainty, independence, etc.)

1.5.2 Calendar

1.5.3 Revenue and Expenditure forecasting/estimation/modeling

1.5.4 Capital budgeting

1.5.5 Participants in budgeting process - levels of responsibility

1.5.6 Accountability (reporting and its utilization)

1.5.7 Computerization and fiscal information systems

1.6 Performance Monitoring

1.6.1 Information systems

1.6.2 Fiscal planning and analysis

1.6.3 Evaluation and audit

1.6.4 Criteria and benchmarks

1.6.5 Information "clients"

1.7 City Priorities for Financial Systems Application

2 Key Visits in Cities

- 2.1 Finance Office (Finance Director and Deputy)
- 2.2 City Council Member with finance responsibility
- 2.3 State Tax Service (role in local tax collection and information management)
- 2.4 Oblast/Krai Finance Office
- 2.5 Municipal Operating Departments (non-finance)
- 2.6 Protocol Visits (Mayor's Office, Council, Oblast)

3 Outputs of City Visits

- 3.1 Providing MFM project overview
- 3.2 Assessment of local problems, plans, resources, and priorities
- 3.3 Identification of potential collaborating institutions and counterparts
 - 3.3.1 League of Municipalities or equivalent
 - 3.3.2 Training
- 3.4 Securing commitments and local contributions to project (in selected cities)
 - 3.4.1 Full-time counterpart from municipal staff
 - 3.4.2 Advisory Committee from municipal staff
 - 3.4.3 Office space for advisor(s) and local staff
 - 3.4.4 Secretary and interpreter
 - 3.4.5 Local transportation
 - 3.4.6 Communications support
- 3.5 Indication of training needs and priorities

4 Planning Issues

- 4.1 Selection of approach to cities visited
 - 4.1.1 What commitments to give and get
 - 4.1.2 Arranging second design visits
 - 4.1.3 MOU initiation?
 - 4.1.4 Ukraine-specific issues in preparing for RA selection and mobilization
- 4.2 City Selection Criteria (see attached annex from Moscow/Nizhny field visit)
 - 4.2.1 Reform orientation
 - 4.2.2 Local autonomy and authority
 - 4.2.3 Supportive attitude toward private sector
 - 4.2.4 Priority given to financial management systems and policies
 - 4.2.5 City a potential regional model for replication of systems in other cities
 - 4.2.6 Beneficial overlap with other donor-funded programs
 - 4.2.7 Ability to contribute local resources
- 4.3 Role of USAID Mission
 - 4.3.1 RTI responsibilities to
 - 4.3.2 Task Force responsibilities to
 - 4.3.3 Mission responsibilities to project
- 4.4 Potential e-mail links?

ANNEX 5

City Selection Criteria

- A. REFORM ORIENTED LOCAL GOVERNMENT WITH DYNAMIC AND PROGRESSIVE LEADERS (INCREASINGLY DEMOCRATIC SOCIETY AND FREE MARKET ORIENTATION.)

PRIVATIZATION OF STATE OWNED ENTERPRISES UNDER LOCAL CONTROL

PRIVATIZATION OF GOVERNMENT SERVICES

LIFTING PRICE CONTROLS AND RESTRICTIONS

SETTING PRICES FOR SERVICES AT COST

LOCAL GOVERNMENT COLLABORATION WITH AND SUPPORT OF THE PRIVATE SECTOR

LOCAL PARTICIPATION SUCH AS ELECTIONS, LOCAL REFERENDUMS AND INCREASINGLY TRANSPARENT PROCEDURES FOR THINGS LIKE LOCAL PLANNING AND ACTIONS. ARE THERE ANY MECHANISMS FOR LOCAL INPUT, SUCH AS PUBLIC POSTINGS, LOCAL RADIO, ETC..?

RELATIVE INDEPENDENCE OF LOCAL NEWS MEDIA.

- B. A RELATIVELY HIGH DEGREE OF LOCAL AUTONOMY AND AUTHORITY.

DO WE HAVE EVIDENCE OF DE FACTO LOCAL AUTHORITY OR AUTONOMY OR DOES THIS JURISDICTION STILL BEHOLDEN TO HIGHER LEVELS OF GOVERNMENT OR TO MILITARY AUTHORITIES.?

- C. DOES THE CITY ADMINISTRATION HAVE A FACILITATIVE OR SUPPORTIVE ATTITUDE TOWARDS THE PRIVATE SECTOR OR DOES IT TRY TO RESTRAIN IT.

ACTIONS BEING TAKEN TO PRIVATIZE MARKET -- LAND, HOUSING STOCK, BUSINESSES, SHOPS, ETC. WHAT IS THE CITY'S RECORD ON THESE THINGS.? IS THE PACE OF THESE ACTIONS ACCELERATING.?

ARE THERE STILL UNREASONABLE RESTRICTIONS ON LOCAL PRIVATE ENTERPRISE.? WHAT IS THE CITY DOING ABOUT THOSE THAT ARE UNDER THE CITY'S CONTROL?

- D. FINANCIAL MANAGEMENT SYSTEMS AND POLICIES ARE A PRIORITY FOR THE CITY LEADERSHIP.

ACTIONS BEING TAKEN TO IMPROVE THE QUALITY OF THESE SYSTEMS (RATIONALIZING SYSTEM, COMPUTERIZATION, TRAINING OF STAFF, ETC.).

EVIDENCE THAT THE CITY IS MOTIVATED TO IMPROVE THESE SYSTEMS. AND HAS PRIORITIES FOR DOING DO SO OR IS INTERESTED IN DEVELOPING SAME.

- E. LIKELIHOOD THAT THE CITY CAN SERVE AS A MODEL FOR OTHER CITIES SUCH THAT MFM INITIATIVES CAN BE REPLICATED IN OTHER MUNICIPALITIES, INCLUDING REPUTATIONAL ASPECT.

STATUS AND REPUTATION OF THE CITY IN THE REGION..

IS THE CITY ENOUGH LIKE OTHERS TO BE RELEVANT OR IS IT A SPECIAL CASE. WHICH WOULD BE A CONSTRAINT TO IT SERVING AS A DEMONSTRATION?

- F. OVERLAP WITH OTHER DONOR FUNDED PROGRAMS.

THERE ARE PLUSES AND MINUSES HERE. THE PEACE CORPS SEEMS TO BE A CLEAR ADVANTAGE. HOWEVER IF TOO MANY DONORS ARE INVOLVED THEY CAN DILUTE THE ATTENTION THAT OUR PROGRAM RECEIVES. TRULY COMPLEMENTARY PROGRAMS ARE BETTER THAN OVERLAPPING.

- G. SENSE OF ABILITY TO CONTRIBUTE LOCAL RESOURCES TO THE PROJECT.

Annex 6

Summary Recommendations of Local Government Finance and Administration Workshop in Kiev, Ukraine

January 23-24, 1994

**with
Participant List**

Municipal Finance and Management Strategy Session Participants
Kiev, Ukraine 23-24 January, 1994

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