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# MFM Project

## UKRAINE TRIP REPORT

By  
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Municipal Finance and Management  
Project No. 5656  
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November 7 -- November 19, 1994



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# **Municipal Finance and Management Project**

**Trip Report**

**UKRAINE**

**Eric Chetwynd -- RTI**

**Ted Priftis -- USAID**

**November 7 -- November 19, 1994**

Ted Priftis visited all three MFM cities in Ukraine on an overnight tour, beginning Monday, November 7. He was joined by Eric Chetwynd in Kharkov on Friday, November 11. The itinerary was as follows:

November 7-8	Kiev
November 9-12	Kharkov
November 13	Kiev
November 14-15	Lviv
November 15-17	Ternopil
November 18-19	Kiev

Priftis went on to Moscow and Chetwynd returned to Washington on November 19th. Meetings at USAID were held November 18th with Amy Osborn (Urban Development), Ann Arnes (Democracy) and mission Director, Terry McMahon.

The purpose of the visit was to assess progress in each MFM city and assist the MFM long term advisor with specific issues and questions. Another important objective was to debrief with USAID, discuss critical issues and coordinate on future MFM activities.

This report will be organized around the specific city visits and conclude with a summary of agreements reached with the USAID. A team from RTI headed by Matt Glasse arrived on Friday, November 18th, the purpose of which is to work with long term advisors in each MFM city to produce a final workplan, a draft training plan and a performance monitoring matrix and schedule. Priftis and Chetwynd had an opportunity to meet with Matt Glasse on Friday to brief him on their findings and recommendations. The city discussions follow.

## **KHARKOV**

Newell Cook and his team organized an excellent agenda (see attachment one). We concluded that the Kharkov program is being carefully thought through and is off to a good beginning. An initial Novell network is in place as a demonstration and includes the MFM office and Department of Finance.

**Management Budget Tool.** Work has progressed on a top management budget tool based on mapping the Kharkov budget onto a Quattro Pro spreadsheet. It generates data and graphics that will help the mayor and top staff track key variables and will give them a new decision making and management tool. The Management Budget was developed under Newell's direction and in consultation with key officials by RTI's Valeri Marfitsin and Gordon Cressman on site in Kharkov.

**Financial Efficiency and Revenue.** Newell has a number of interrelated activities, none very extensive, that will improve efficiency in budgeting, audit and revenue generation. These would all seem to fit under a theme such as the one above. The focus is on reducing costs and raising revenue and capital, while simultaneously solving some basic service delivery problems that will serve the people. Traffic ticketing and parking meters are a case in point

- relieving congestion, creating parking equity, improving road safety and at the same time raising revenue.

*Recommendation.* Consider clustering these activities in the work plan to avoid the appearance of over extension and promote complementarity. The whole for these activities can clearly exceed the sum of the parts.

**GIS.** GIS met with Vovk, Anatoly Ivanovich, Head of Land Resources. He made a compelling case for a GIS program which, when completed, will help the city with spatially distributed activities and services such as traffic management, ambulance service, health care facilities, principal employers, industrial and other zones, title registration, driver's license registrations, land auctions, graphics and mapping. Down the line the city can even use these systems for industrial surveys. Newell and Vovk are exploring hardware and software options. The mayor is a strong backer of the programs, was instrumental in establishing this office, and is promoting its use by other departmental heads. Needed for this program are:

- Experts on GIS.
- Hardware (one sophisticated computer is planned).
- Software and license.
- Training in USA (visiting a city or two with an excellent GIS program is planned).

*Recommendation.* Move ahead with this relatively low cost but high impact activity. Work out an implementation plan and next steps. (Note: in Ternopil, we approved use of Ko Barrett for this program. To avoid conflict of interest, she should be hired for this purpose by the RTI Washington office.

**Personnel Department.** This is another new department established by the mayor as part of his "reinventing government" in Kharkov. Department Head Gorbach, Alexander Andreyevich explained that the Communist Party previously took responsibility for all actions. Now, the cities and local governments have this responsibility and must quickly develop the capacity. Gorbach plans competitive hiring for the first time, a training institute, computerized personnel data bases and recommendation of needed personnel legislation. Currently, his department must live with existing laws, but Kharkov has a history of taking a lead role in changing national legislation. Moreover, pilot programs are permissible under current law and Kharkiv could lead the way.

Newell has been working with the mayor and Gorbach on developing a personnel management system for the city from scratch. Both so far are impressed with Newell's recommendation.

*Recommendation.* This program appears to be solid and important. It could have impact beyond Kharkiv. It clearly is assisting the city with a critical transition from the old system. Move ahead with planning and implementation.

**Mayors' Association.** We agreed that Newell's role is advisor to the mayor on the mayor's role as President of the Association. This is not to be confused with the scope of the advice we plan to bring in to assist with the association *per se*. [Note: Chetwynd recommends that Cook and Paul Hoover stay in touch on the Association developments since the Ternopil Mayor is a key officer (Vice President) of the Association.]

We agreed that regionalization of the association would be a real negative and would weaken its ability to lobby at the Federal Level as a cohesive group. Regionalization is a tendency (traditional in Eastern Europe and Ukraine) that will have to be resisted. This would not preclude our putting some resources into helping the mayor do his job for the association from Kharkov.

*Recommendation.* We must await the results of the Mayors' Association U. S. Tour and planning workshop before taking further action within the MFM program. (See also discussion with Amy Osborn of USAID on Mayors' Association, below.) Ted stressed that the key is not the Association *per se*, but the changes the mayors can bring about through collective lobbying.

**Newell's Tour.** Newell expressed his long term interests in Kharkov. Ted offered that a two-year program in Kharkov would seem to make sense -- especially given Newell's effective hands-on style which will tend to keep the overall budget relatively modest while still making a significant impact.

*Recommendation.* Chetwynd recommended that Newell do an eighteen month work plan with an indication of what additional could be done with another six months. He also suggested again that activities be tagged according to what we can finish, what we can start but leave plans for completing and those activities for which we can just stir the pot with some ideas.

**General Discussion.** We met separately with the city's Head of Secretariat, Zorchenko Vladimir Ivanovich and Barbrikov, Vladimir Michaylovich, First Deputy of the Oblast and Rada Head and Kolot, Igor Petrovich, Deputy of the Oblast and Rada Head of Executive Work and Chair of the Committee on Economics and Development. All expressed appreciation of Newell's role and were quite complementary. It was noted that Newell attends the city council meetings and everything is quite open.

It is clear that this mayor is genuinely interested in reforming government. He has restructured his government, appointed top people as department heads and now is upgrading at lower levels. (See Personnel Department, above.) The city is very aware of the short fuse on the MFM program (clock ticking) and wants to get on quickly with priorities.

**Conclusion.** Newell's program is on a solid footing as is his role in the city as an effective long term advisor. The program needs now the definition and presentation it will receive with the assistance of RTI's Matt Glasser, Tom Cook, and Brenda Linton, now in Kharkov.

## LVIV

**Background.** David Bauer has done good survey work, getting a handle on the city's problems and seems to have a very good feel for the city. He has taken care in hiring of staff, extensive interviewing and selection and he has a good and strong staff. He has shown ingenuity in getting city equipment on loan to begin a computer familiarization classes and has regular meetings with key city top managers. All this has been done in the face of a recent election and change in administration and frustration in getting his own computers because of recent changes in AID's Office of Procurement.

He has also zeroed in his work plan on a few areas where he might concentrate, namely: *Revenue Enhancement (through economic development and especially tourism; Information Flow (for strengthening of decision making and policy development; and Financial Management -- accounting, budgeting and auditing. These three fit the MFM program very well and are doable.*

**City Engagement.** We were only awaiting the dropping of the other shoe -- some sign of active engagement by the city. This had been a missing element in the Lviv program during David's tenure. However, there has been what appears to be a major turn around -- perhaps stemming from David's groundwork and/or Matt Glasser's dinner and my brief encounter with the mayor during the Mayor's Association tour in Washington. The mayor volunteered that he would become actively engaged in the program on his return. Meanwhile, just before and during our visit, top city officials seemed to open their doors and have actively recommended some areas for coordination.

For example, in a meeting with First Vice Mayor, Pablo Kuchur, he gave us a list of topics that encompass and substantially exceed David's priorities. Kuchur's list is:

*Water system*  
*Transportation*  
*Preservation of Historic Buildings*  
*Economic Development*  
*Financial Systems*  
*Computer Utilization*

He went on to say that a city project manager will be appointed for each of these designated important issues. This person would be a key contact with the respective department heads (more than one in most cases) and with MFM and the city administration. These people will be selected now to be presented to the Mayor for his approval on his return. It seems also that an overall coordinator will be named, as a counterpart to David. Kuchur indicated that he will not be able to personally devote to this activity the time it deserves.

The plan is for David to work with these coordinators, the first two of whom already have been suggested by name, to examine what, if anything, MFM might do.

*Comment.* The renewed city interest is a plus, however, the scope of what the city is suggesting clearly is beyond our resources and timeline in Lviv. David will have to work with the city to sift and select that which can actually be done. Since this report is being written in the wake of our having come up with a provisional budget for Lviv, the budget constraint should be considered very carefully.

While the notion of a coordinator for the areas in which MFM works is an interesting initiative, we must be careful that it does not isolate us from the very people whose approaches we are trying to influence, namely, the department heads.

**Problem Areas.** We had a discussion with David about the various topics brought up in the meeting and here is where we came out.

*Water system/shortage.* This is a priority problem, and the solution is very complex. Wastage is the major problem -- leaky plumbing is endemic. Quality of fixtures is poor. Maintenance is rare. Water bills go unpaid. There is no legal or technical means of shutting off water to offenders. There are 180,000 apartments and 9,500 buildings in the system. Only the buildings are metered. Underground leakage also is significant. Bringing in of a new well underway may pose a temporary and partial solution. A real solution would have involve metering, reasonable user rates, repair, replacement and maintenance of plumbing fixtures in apartments and buildings. Only a block-by-block approach would seem to make sense, since the solution is a comprehensive one. In this area, MFM could clearly only do a small pilot if selected for inclusion in the program.

This is an area that has the attention of the World Bank. The World Bank representative, Walter Stottman, has cautioned David about MFM involvement in the area as possibly a complicating factor for the World Bank. Ted will set up an appointment with Stottman in Washington to get more information on this position. Meanwhile, MFM probably should not engage in this area.

*Transport.* Here, spare parts is the problem. Much of the city's fleet is down due to lack of spare parts. However, the city does appear to be about to make a spare parts purchase of from \$300,000 to \$1.0 million. David will check into this issue.

It is felt that a transport expert is needed here to see what MFM might do in this area, including the possibility of some spare parts purchase in the context of an improved management and maintenance system adopted with assistance of MFM. David was to do a scope-of-work for a transport expert. It would include such items as maintenance, privatization and routing. Note: The MFM contract would have to amend the commodities

budget items if spare parts are to be purchased under MFM. Ted will explore this possibility. This is also an area in which the World Bank has expressed some interest.

*Finance.* David's idea is to create a capital and operating budget and to work on such areas as auditing and procurement. These ideas make sense and probably should be pursued. One constraint to computerization in this area is lack of electric grounding of the City Hall, due to lack of funding to complete the job. We recommended that this be done by MFM, if need be to break the log jam. The cost will be less than \$3,000. David will explore this possibility. David needs to make the initial assessment of finance and bring in whatever experts are needed. Gordon Cressman will be needed for the computer assessment. The finance department is a good candidate for RTI's MFM course.

*Refuse Disposal.* This subject has not come up in previous discussions and the nature of the problem is not clear. This needs more exploration by David. Also, RTI should send him some information in this subject area, once David learns more about what kind of information might be useful.

*Economic Development - Tourism.* This would seem to be a natural area for job creation and revenue generation for Lviv. However, further development of this area for MFM must await completion of the tourism study now underway under MFM sponsorship.

*Housing.* AID has substantive programs in this area so it probably is not a good subject for MFM attention, unless, for example, to assist with a data base on housing for policy/planning purposes.

*Computer Utilization.* This should be done as a component of other programs and possibly as an element of an MIS program, which now seems to be important to the city. We met with Ivan Fediv, Secretary of Administration, who is responsible for information flow and has been recommended as the MFM coordinator in this area. He pointed out that information flow is manually done now and is very inefficient. This would seem to be a good area to explore for MFM. The assistance of Gordon Cressman will be needed for design of an MIS system for Lviv. He may suggest also additional expertise be brought in. Fediv was also interested in creating a library of modern city management. I suggested for starters, the ICMA collection we use in MFM. A set will be sent out to the city.

*Comment:* Not all of these activities will prove to be appropriate for MFM and there will only be scope in the MFM budget and time span for working with two or three of them. We still like Dave's initial notion of three focus areas, including Finance, Information and Economic Development (Tourism). He will have to sift and sort carefully to come with a viable and doable package. Then the focus must turn to implementation and exactly how and in what time frame the program will be carried out. There are approximately 14 months remaining to get it all done.

*Note:* We were impressed with the forward looking approach to information management shown by Ivan Fediv, Secretary of Administration. RTI committed to sending him the ICMA Library selected by Kennedy Shaw of RTI.

## TERNOPIL

Paul Hoover and senior city staff had just returned from their study tour one week prior to our arrival. Paul was well into the process of developing the work plan for Ternopil with his colleagues, focusing on economic development, transportation and management information, including finance. We participated in that process and through a video developed during the study tour, saw how the study tour was stimulating new thinking among this group. Examples ranged from the way drinking water is processed to roads and interstate highways to financing of public transportation. However, at bottom there seemed to be a conviction on the part of the tour group that Ternopil had to change its mental approach to the city's problems and development.

We soon came in touch with that problem when we visited several factories -- factories the city would like to see reinvigorated as part of the economic development program. Each one was struggling with transition to the free market economy. Each had a backlog of housing it felt should be provided to the workers on the waiting list for company supplied housing. Some were actually investing scarce capital for worker housing construction on a large scale. The struggle for transition and survival reported to us at these plants, it was felt, was understated. We visited a lighting fixtures plant that still seemed to be doing relatively well, a plant manufacturing sugar beet harvesters doing poorly because of slacked off demand and dislocation of the former soviet economy, and a military communications equipment plant seeking gamely to make the transition from military communications to peacetime products, but as yet at only a fraction of capacity. We did not have time to make a scheduled visit to a textile manufacturing plant which was having a difficult time getting raw materials and which never would have been located in Ternopil, far away from cotton supplies, but for the nature of the former Soviet economy.

**Economic Development.** The notion in the workplan of establishing an Economic Development office in the city to work on these and other problems and seek to attract other enterprises to Ternopil seemed a good idea. This office faces a tremendous challenge in what will surely be a long term effort for the city. After a tour of the city's historic places, we came away convinced that Ternopil had promise as a tourist attraction, possibly in combination with Lviv. The beautiful lake setting and still preserved antiquity and central parks and promenades made for a nice package. The city Architect, newly appointed, seems to have a vision for what is possible.

**Transportation.** We spent some time focusing on the transportation problem, which is to be featured in the workplan. The problem that the bus fleet, including electric busses, is only half of what it used to be because the aging stock lacks spare parts and the city lacks the funds to procure them. Paul has proposed a plan with the Transport Department whereby

MFM would capitalize an initial infusion of spare parts and possibly some bus reconditioning. The city would install new management practices effecting maintenance, routing, privatization and cost recovery, including restructuring of fares. Of course, this is all tied together, as fare hikes would only be possible politically if the bus service shows marked improvement.

There were several possible scenarios for bringing more buses into service, including repairing electric busses, some of which need only one or two spare parts, buying new Ukrainian made buses or reconditioning buses in Lviv. The issue is whether MFM funding can be used for spare parts or rehabilitation of buses under the terms of the contract. It appeared that there would have to be an increase in the "commodities" line item in the contract, at minimum, for this to be possible. Ted was to check on this on return and see what could be done. Also, we strongly recommended that a transport expert be brought in to assess the situation as soon as possible.

Ternopil was to be the location for a meeting December 2nd of Matt Glasser, all the MFM Ukraine advisors and USAID's Amy Osborn. At that meeting, the workplans for all three cities would be reviewed.

#### **KIEV -- MEETING AT USAID WITH AMY OSBORN**

On Friday, November 18th, we debriefed with Amy Osborn. A key issue was the Mayor's Association from which a delegation was on tour in the U.S. as we spoke. We agreed that the priority for the Association would have to be lobbying for legislation. Amy noted that the association would also be important for getting information out to the cities. It was further agreed that the advisor to the association should be someone who knows lobbying. The key issue for the Mayors right now is the Self Government law that is being debated in the Supreme Rada.

On Lviv, Amy suggested that David Bauer get in touch with Jeff Martin who is running the CFED bus privatization program in Ukraine.

On Friday evening, we met and debriefed with Matt Glasser, who was just beginning a three city work planning and performance monitoring trip.

Saturday, Chetwynd returned to Washington and Priftis went on to Moscow to discuss MFM issues with the Mission.

## **Contact List**

### **Kharkov**

<b>Ermak, Valentin Victorovich</b>	Head of Department for Public Security and Defense
<b>Gonskiy, Alexei Georgich</b>	Director of the small business enterprise "Minimax"
<b>Taraday, Alexander Michajlovich</b>	General Director, Regional Production Association Kharkovteplocommunenergo; Correspondent member Ukraine's Engineering Academy, Candidate of Sciences (technology), Assistant Professor
<b>Shredits, Konstantin Konstantinovich</b>	Head of Cultural Department
<b>Pogorelova, Vera Alexandrovna</b>	Head of PD for Humanitarian Issues
<b>Vovk, Anatoly Ivanovich</b>	Head of PD for Land Resources
<b>Gorbach, Alexander Andreyevich</b>	Head of PD for Personnel and General Issues
<b>Zorchenko, Vladimir Ivanovich</b>	Head of Secretariat
<b>Baibikov, Vladimir Michajlovich</b>	First Deputy of the Oblast Rada Head
<b>Kolot, Igor Petrovich</b>	Deputy of the Oblast Rada Head on Executive Work, Chairman of the Committee on Economic and Market
<b>Yaremenko, Igor Leonidovich</b>	Businessman

### **Lviv**

<b>Kachur, Pavlo</b>	First Deputy Mayor
<b>Fediv, Ivan</b>	Administration Secretary
<b>Parasuk, Ihor</b>	Deputy Administration Secretary

<b>Kinasevych, Volodymyr</b>	Manager of Water Inspection
<b>Revels, Cathy</b>	Peace Corps Volunteer
<b>McCormick, Angela</b>	PADCO Lviv Project Director
<b>Brusak, Rostislav</b>	Manager of Economic and Social Development
<b>Dnytrak, Miroslav</b>	President of the Western Ukrainian Tourist Association
<b>Pydgajny, M.</b>	Executive of the Ukrzahidvgillia Coal Mining Company
<b>Terнопil</b>	
<b>Chumak, Vsevolod</b>	Deputy Mayor
<b>Avdonin, Sergiy</b>	Deputy Mayor
<b>Osadchuk, Yulian</b>	Director of Economic Department
<b>Chyrka, Stepan</b>	Director of Finance Department
<b>Pivtso, Lyuba</b>	City Clerk
<b>Tkachuk, Mariya</b>	Director of Computer Department
<b>Vilchynsky, Oleksandr</b>	City Council Member, Chief Editor of local newspaper
<b>Musyka, Vasil</b>	Deputy Director of Regional Finance Department
<b>Glushyk, Borys</b>	Deputy Director of Transportation Department
<b>Novoselsky, Zenoviy</b>	Deputy Director of City Finance

## **RTI Lviv Office Staff**

David J. Bauer

Halyna Dzijadyk

Ruslan Gorbliouk

Areta Lutsyshyn

Iryna Nykyforets'

Yuri Sinitsky

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Vasil Zhovka