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UKRAINE LOCAL GOVERNMENT ASSESSMENT

FEBRUARY 19, 2007

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LIST OF ACRONYMS

ATC	Access to Credit
AUC	Association of Ukrainian Cities
CPP	Community Partnerships Project
DG	Democracy and Governance
DI	Democracy International
EG	Economic Growth
FDI	Foreign Direct Investment
GOU	Government of Ukraine
LED	Local Economic Development
LOE	Level of Effort
MBR	Municipal Budget Reform
MDI	Municipal Development Institute
NGO	Non-Governmental Organization
PPB	Program Performance Budgeting
RTC	Regional Training Center
RTI	Research Triangle Institute
SOW	Scope of Work
USUF	U.S.-Ukraine Foundation

EXECUTIVE SUMMARY

USAID local government development programs in Ukraine, sustained for more than a decade, are contributing importantly to the key U.S. assistance objectives of helping the newly independent country establish a democratic political system and a market economy. Ukraine, however, remains a highly centralized state, and the constitutional and statutory framework needed to support and sustain the stated policy of decentralization is seriously deficient. The Soviet-era centralized system that is still prevalent results in a dysfunctional national-local government relationship.

In a large number of cities, major advances in such areas as municipal strategic planning, budget formulation and execution, citizen participation, investment promotion and public utilities management will not be sustainable in the long term unless the enabling environment at the national level becomes more supportive of local self-governance. The powers and authorities of local governments need to be strengthened and constitutionally protected, especially with regard to municipal taxing and expenditure authority.

USAID's currently defined local government strategy encompasses a two-pronged approach that includes both work at the national level to put in place a legal framework to support decentralization and work directly with municipalities. In practice, however, the Mission has provided far greater assistance for bottom-up support to municipalities than for development of the constitutional and statutory framework needed to support decentralized institutions. The reasoning for this emphasis was a practical one: weak or absent political will at the central level for necessary reforms.

Following the Orange Revolution in early 2005, USAID began to increase activities at the central level in response to the changed political climate. Though the Mission's local government portfolio is now more engaged in helping Ukraine address a range of public policy issues that affect local governments, the Mission's dominant focus continues to be direct support for municipalities. This is based largely on its perception that the Government of Ukraine's commitment to serious national-level changes to the legal framework for local government remains limited.

While we understand the challenges to achieving results at the national level given current political circumstances, we recommend that national-level policy reform activities be made the highest priority, with clearly defined objectives and realistic timelines for achieving them. If reasonable progress is not made toward these goals in the next 24-36 months, we recommend that USAID begin to close out local government programming. In spite of individual project-level successes at the local level, policy reform is long overdue; sustainability depends on it, and USAID cannot wait indefinitely for it to occur.

Clearer definition of the respective roles and responsibilities for public services between the national and municipal governments (not to mention oblasts and rayons), as well as the resource allocations to fund them, is badly needed. This is often referred to in Ukraine as "territorial and administrative reform," a subject of much current debate if not serious policy analysis; but the issue goes beyond that to the question of whether the country wants to embrace decentralization and limit the central government's authority so that cities can enjoy guaranteed "home rule."

Though current USAID local government programming is generally of high quality and achieving planned project-specific results, the portfolio overall needs a changed implementation strategy. We recommend a carefully designed, well articulated strategy of consolidation and "Ukrainization" of the portfolio over the next 18 months, meaning a process in which Ukrainian cities, municipal associations and Ukrainian specialists take over actual leadership and "ownership" of most local government development programs. U.S. technical assistance contractors and grantees by and large should transition to Ukrainian grantees and private sector technical service providers whose capacity has been developed over the course of the last decade.

The demand for such technical assistance clearly exists, but USAID's budget capacity to meet this need will steadily diminish. To keep these services moving forward will require financial subsidies or core institutional development support for Ukrainian organizations and municipal clients during a 2-3 year transition period. Nonetheless, empowering Ukrainian entrepreneurial spirit in both for-profit and non-profit entities can be the foundation for the sustainability of USAID local government programs.

Some Ukrainian cities, especially the larger ones, are moving toward the technical and financial capacity to retain required outside technical consulting services on a market-driven basis (e.g. Kharkiv and Donetsk). This is being driven by a buoyant economy in spite of the still unstable financial condition of most cities. Thus, the process of "Ukrainization" is also a process of "privatization" or "fees for services," which should become a common practice over a 3-6 year timeframe, thereby helping to ensure sustainability of the programs providing essential services to city governments.

Most ongoing technical assistance and training already is being provided by Ukrainian experts identified and deployed by these various projects over the last ten or more years. It is Ukrainian-to-Ukrainian and in that sense is already "Ukrainized" programming. We recommend that USAID go the next step by structuring training and most other assistance to operate increasingly through Ukrainian institutions. This is already the case with the Association of Ukrainian Cities training and the Municipal Development Institute. Other projects should restructure their work plans similarly to put their activities on a "Ukrainization" transitional path once USAID decides on the new architecture for local government programming and the timelines involved.

A restructured, slimmed down, more strategic focus for the current project activities should allow highest priority assistance elements to continue even in the face of declining budget levels. Continued "Ukrainization" will strengthen local capacity and increase the chances of sustainability of local government development after USAID programming ends.

USAID has done quite remarkable local government development work in Ukraine with receptive, capable mayors and cities for more than a decade, in spite of a national policy environment that is badly flawed. In our opinion, however, the current national framework for democratic local government is neither capable of meeting citizens' reasonable service delivery expectations, nor of stimulating private and public sector investments necessary for sustainable economic growth and rising living standards. USAID now needs to clearly define its priority goals and timelines for policy reform at the national level in favor of local self-government.

Our principal recommendations are summarized below:

- Policy reform is paramount – get results or close out programming;
- Revise implementation strategy in order to achieve “spread effect,” not more “waves” and addition of new cities;
- Consolidate portfolio into fewer project units;
- Transition to Ukrainian experts and “fees for services” in place of expatriate technical assistance and donor funds;
- Emphasize depth over breadth in training activities.

1.0 INTRODUCTION

1.1 Context/Scope

This is an assessment report covering USAID/Ukraine's local government program and projects. It covers six current projects in implementation as well as the status of the local government sector overall, and includes recommendations to the Mission on the future of local government programming in Ukraine. The report is written in the context of important recent developments in Ukraine that affect local government programming.

In the political realm these developments include the Orange Revolution in 2004, the presidential administration of President Viktor Yushchenko that followed as a result of new elections in 2004, the collapse of the parliamentary majority coalition, the parliamentary elections in 2006 that led to a new, opposition majority in the Verkhovna Rada and the naming of Viktor Yanukovich as Prime Minister in August 2006.

In the economic realm circumstances have changed considerably in recent years as well. After more than a decade of economic decline following the end of the Soviet era, the Ukrainian economy touched bottom, stabilized and now is rebounding strongly, with record high rates of economic growth. This has a strong impact on local private sector development and on the potential capacity of the public sector to improve service delivery and meet pressing investment capital needs.

For USAID the panorama also has changed. Due to Agency funding constraints, the assistance levels for the USAID/Ukraine program are declining, forcing the Mission into making difficult programming adjustments. Ukraine's improved economic conditions, and to some extent a more stable political environment, also begin to raise the issue of how much longer U.S. assistance will still be needed.

1.2 Structure

Following an Executive Summary, the report is divided into five sections, including this introductory section as Section 1.

Section 2 gives an overview and analysis of the status of local government, defining local government as a "development sector" for USAID programming encompassing both economic growth and democratic development strategic objectives. This is shown as "Component 1 – Local Government Sector Analysis" in the Scope of Work (SOW).

Section 3 evaluates the effectiveness of current USAID local government programs. This covers the six active projects in the portfolio, but the discussion focuses on the performance of the portfolio taken as a whole rather than on the projects individually. This is shown as "Component 2 – Evaluation of USAID Local Government Program Effectiveness" in the SOW. (Appendix A provides greater detail on individual projects).

Section 4 is a special section to highlight the serious constraints that inhibit the effectiveness of current programming and the feasibility of future programming. The section also offers ways to deal with these constraints that feed into the recommendations in the following section.

Section 5 lays out our recommendations not only for future local government programming but also for a revised results framework and strategic approach to current program implementation and any future programming. If accepted, these recommendations will require changes in USAID program structure and management as well as implementing partners' workplans.

1.3 Methodology and Team Composition

The methodology used for this assessment was an initial desk review of relevant program documents provided by the Mission, followed by additional independent research on related topics in order to broaden the knowledge base prior to initiating fieldwork. Several team members participated in meetings at USAID headquarters in Washington with Agency officials, including a USAID local government specialist who would join the team in Ukraine for two weeks.

The team carried out fieldwork in Ukraine for approximately three weeks, from October 9 through October 26, 2006. Week 1 was dedicated to meetings in Kyiv with USAID officers, implementing partners, host country government officials and other local counterparts. Week 2 involved splitting into two separate two-person teams to visit a number of participating cities in western and eastern Ukraine. Week 3, back in Kyiv, consisted of follow-up meetings, an initial debriefing of USAID, team meetings and preparation of an initial report, and a PowerPoint presentation of findings and recommendations for Mission staff on October 25, 2006 prior to departure from the country.

The "Western Team" traveled overland by car and train in central and western Ukraine to the cities of Kamianets-Podilskyi, Chernivtsi, Ivano-Frankivsk, Lviv and Kovel. The "Eastern Team" traveled by car in eastern, southern and central Ukraine to the cities of Kharkiv, Donetsk, Berdyansk and Cherkasy. The teams were accompanied by knowledgeable USAID project managers and interpreters. We estimate that the two teams' trips together covered close to 2,000 miles of travel inside Ukraine, giving us a broad look at conditions in the country outside the capital city.

The principal method used to gather data during fieldwork was that of semi-structured interviews with relevant stakeholders. The interviews used a standard outline of critical questions that responded to the SOW, but respondents were given wide latitude to offer their own opinions and insights as they saw fit. The team shared all information gathered and held periodic team meetings during the course of the fieldwork in order to exchange opinions and to formulate an outline for the oral and written reports.

DI submitted a draft report to the Mission on November 9, 2006. This was followed by a phone conversation between the DI team leader and the USAID CTO, Gary Linden, to discuss content and go over issues while the Mission was preparing its comments. Initial written comments were received from the Mission on December 18, 2006. DI took these comments into account, made revisions to the draft report and submitted a second draft, which was commented on by the

Mission, first in writing and then in a conference call on January 30, 2007. The final report was submitted on February 19, 2007.

The team composition was as follows: Glenn Cowan, a DI principal and expert in democracy and governance with extensive experience in local government, served as team leader; Taras Kuzio, Ph.D., an expert on Ukrainian politics and government, served as country specialist; and Charles Costello, a former USAID senior officer with a specialty in democracy and governance programming and field experience with local government development, served as a subject matter specialist. Michael Keshishian, a local government specialist at Agency headquarters in Washington, became a valuable team member for two weeks of the fieldwork in Ukraine. He bears no responsibility for the report, which is the sole responsibility of DI under the Task Order No. DFD-I-07-04-00229-00 of the Indefinite Quantity Contract No. DFD-I-00-04-00229-00 for Democracy and Governance Analytical Services.

During fieldwork in Ukraine, Ilona Demchenko joined the team as a logistics specialist and interpreter. She traveled with the "Eastern Team," and she arranged and attended many of our meetings. Her strong academic background and work experience with a Ukrainian NGO involved in election monitoring made her a valuable substantive team member as well. The DI home officer manager for the project was Bill Gallery.

1.4 Acknowledgements

The team wishes to acknowledge the support received from the USAID Mission in carrying out our responsibilities as well as the collaborative work approach used with us. In particular, we want to thank Victor Rachkevych and Andriy Nesterenko, project management specialists who traveled with us to western and eastern Ukraine, respectively, and provided valuable insights along the way. Natalia Berezhna, in the Office of Economic Growth, provided valuable data and graphics to the team and graciously handled contacts with the Mission during our stay. We cannot overlook the USAID drivers who tirelessly chauffeured us around the country during our land journeys.

We wish to particularly commend our main counterpart at the Mission, Economic Growth Office Director Gary Linden, for his candid, open-minded approach to the assessment and his objective willingness to engage intellectually with us on the issues raised in our report. We are certain this has led to a higher quality work product on our part. Of course, we are solely responsible for the report's contents.

2.0 LOCAL GOVERNMENT SECTOR ANALYSIS (COMPONENT 1)

2.1 Political and economic context for decentralization

Although most cities remain in dire fiscal shape, Ukraine's local government system and local economic development are no longer in crisis as they were in the early 1990s when USAID first began its local government programming. Without counting the beneficial impacts of USAID-funded programs, we cite six principal factors accounting for these positive changes.

First, economic growth has resumed after an 11-year depression during which Ukraine's economy registered one of the worst collapses of the 27 post-communist states. The Ukrainian economy has seen record rates of growth in recent years, which has contributed to new business formation and higher levels of tax revenues going to local budgets. Small and medium businesses in particular are now contributing larger revenues to city budgets, especially in western Ukraine where small and medium enterprise growth is driving the economy. In eastern Ukraine large businesses, many of them former Soviet military-industrial complex enterprises, predominate and have had serious restructuring problems; but the economy in eastern Ukraine overall is also experiencing high growth rates.

Second, the estimated 2-7 million Ukrainians working abroad are repatriating large amounts of hard currency that is plugged directly into family disposable incomes in their home communities. For example, in the last fifteen years the city of Chernivtsi has obtained some $20 million in foreign direct investment compared to some $100 million in remittances, according to information given during our meetings there. Exposure to Western ways and the workings of the market economy, liberal democracy and local government practices also have an impact when these individuals return home with new "know-how," money to invest in property, and interest in running city councils.

Third, we see a change in political culture and mentalities taking hold, especially among younger Ukrainians who are now moving into leadership positions. Citizens understand better that they themselves, rather than the state as in the days of the USSR, are largely responsible for their own welfare. This continuing evolution from collectivist to individualist political and economic culture has been painful; but it has been relatively rapid, given Ukraine's starting point in 1991 with a collapsed economy and totalitarian political system.

This is also seen by many as a question of standards to aspire to. Numerous times we heard statements to the effect that "we compare ourselves to European standards now." Frequent manifestations of citizen initiative also were striking to us in interviews throughout the county. Combined, these provide a strong impetus to local government attempts to be more responsive to local voters' insistence on better quality governance.

Fourth, citizens no longer expect to obtain communal services such as water or heating from the state virtually for free. Grudgingly, they are coming to recognize that improved services only will come with tariffs that make public utilities into "going concerns." The tariff issue, however, is still easily exploited for populist political purposes. USAID's encouragement of strategic

planning and civic participation has been one important way in which citizens and local councils have worked together to improve utility services, encourage enterprise reforms and raise tariffs to cover costs.

Fifth, growth of a culture of civic participation is building a base of political support for elected local governments. All the USAID programs support greater civic participation, which local mayors and staff have enthusiastically backed in western and central Ukraine. In eastern Ukraine there is also democratic progress since the Orange Revolution in the area of civic participation, although some of the participation is with "friendly" NGOs associated with city officials promoting the processes.

Sixth, the Orange Revolution is considered irreversible. Wherever we went and no matter whom we talked with, everyone agreed that the Orange Revolution had changed the political landscape permanently. People felt the upheaval in the end was not about party or faction but rather about establishing the principle of ultimate democratic accountability of the government to the people. What was strengthened was the democratic system itself. Our interlocutors expressed the view that these events made democratic local (as well as national) government rest on a stronger, more stable foundation as a result.

All of these trends are positive for the strengthening of local government. At the same time, the national political environment might make progress toward greater decentralization more difficult. This is a very serious issue, with implications for the setting of national policy reform goals and the appropriate timeframes for achieving them.

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

Constitutional reforms, hastily adopted in December 2004 as part of a compromise package to end the political crisis generated by the Orange Revolution, left the need for a clearer division of responsibilities between the enhanced powers of the prime minister and the reduced powers of the president. The politics of decentralization tends to get caught in the cross currents between these two competing national political leaders.

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

Overall, the prospects for national-level policy reform, which we see as critical to the long-term success of all of USAID's local government programming, are mixed. It is our impression,

however, that pressure is building for greater decentralization, as expressed through the many proposals for administrative/territorial reform, even though the most recent proposal did not gain legislative approval. Fiscal constraints on the central government, efficiency considerations and demands for local autonomy all point toward some forward movement on decentralization, most likely on an incremental basis. Big-city mayors and the cross-party "mayors bloc" in parliament represent a strong constituency for reform, one that USAID has helped to create.

One very positive development auguring well for the future occurred during our time in-country. The Cabinet of Ministers, acting on behalf of the Vice Prime Minister, Andriy Kluyev, issued a special assignment to five Ministers (Finance, Health, Education, Economy and Labor) regarding budget preparation. He instructed them to introduce Program Performance Budgeting (PPB) into their local budget planning, including program performance measures and a system for monitoring and evaluation, with an action date of November 2006. The ministries have already requested Municipal Budget Reform (MBR) assistance to carry this out, and the MBR team has begun working with them. This may represent significant "top down" change to match MBR's "bottom up" approach (plus its more recent work at the national level) and could possibly lead to high-impact, systemic change of the sort USAID programming needs to generate.

We want to recognize that the Mission in the background section of its SOW for this task (see following paragraph) as well as the last evaluation of local government programs in Ukraine (2004) reached many of these same conclusions about the sector. However, we can claim to have revalidated this thinking with new weighting and to have updated all relevant information and events. We also present new (perhaps more optimistic) analytical insights as well as practical programmatic recommendations about how to modify USAID's local government programming strategy and implementation to meet these challenges.

We consider it worthwhile to cite the following Mission background statements about the sector in the SOW, with which we concur following our research, fieldwork and analysis:

> "The institution of local self governance in Ukraine has emerged, developed, and matured during the past ten years."
>
> "The success of the Orange Revolution in 2004 had many heroes but the alliance of elected reformers at both the local and national levels was a significant contributing factor."
>
> "Despite President Yushchenko's promise in December 2004 to increase decentralization of services to the local level and to make municipal revenues sufficient and sure to support such development, no significant progress has been achieved."
>
> "These missing or inconsistent pieces of legislation [regarding local government] fall into two broad categories:
>
> - Strengthening the organizational and legal basis of local self governance and local democracy development in terms of clearly defining the role and responsibility of local government as compared to the role of the GOU;
> - Strengthening the economic autonomy for local self governance through development of a comprehensive local tax base."

The final two points above track the core elements of our highest priority recommendations for USAID work toward reform of the statutory and policy framework needed to underpin a true system of democratic local self-governance in Ukraine. The critical question thus becomes what USAID will do about these two key issues.

2.2 Legal framework

We agreed with the Mission at the outset that legislative standards and legislative changes would be covered better in policy reform-related sections (see Sections 4 and 5). Specific treatment of the Council of Europe Charter on Local Self-Governance was considered unnecessary at this point as Ukraine does not have near-term prospects for entering into EU accession talks. Were Ukraine now on a path to candidacy, the question of meeting EU standards would take on much greater importance, as the pressure for complying with accession conditions would generate political urgency.

Suffice it to say here that we feel reforms to the legal framework are essential to the future success of democratic local government in Ukraine independent of Council of Europe standards or any movement toward EU accession.

We found no support in eastern or western Ukraine for the new local election law that was part of that constitutional change compromise package. The election law was changed in March 2004 so that both national and local legislative elections are now based on a fully proportional system, beginning in March 2006. The rationale for reforming the election law at the national level was clear-cut. It aimed to support the development of political parties during a transition from a semi-presidential to a parliamentary-presidential system, as a good parliamentary system needs well-established political parties.

The left and right of Ukraine's political spectrum had backed the move to a fully proportional system because during the 1998 and 2002 elections they had gained the majority of their parliamentary seats in the proportional half of the mixed election system. The pro-regime center of the political spectrum felt threatened by the proposed election law changes, as they had traditionally won the majority of their seats in the majoritarian (single member district) half of the elections. The compromise that was struck was to reduce the threshold for representation from 4% to 3%. The irony of this "reform" has been that the party that was lukewarm toward the reform in 2004 -- the then-pro-regime Party of Regions -- benefited the most at the national level by coming in first in the 2006 elections with 32 % of the national vote.

At the local level, the move to a fully proportional system is widely understood to have been a disaster. Local parties were not ready for the reform, being weak, often virtual and lacking members and infrastructure. In addition, no parties are popular throughout Ukraine, meaning that local bases of political parties would be even weaker in areas outside their traditional strongholds (e.g. the Party of Regions and Communist Party in eastern Ukraine and Our Ukraine in western Ukraine). Party lists for local councils were often criticized for being filled by party member "hacks" and those who "purchased" seats by getting high places on the party lists in return for large financial contributions.

The main disadvantage in shifting to a fully proportional system for local elections is the lessened ability of voters to interact with deputies and to choose whom to vote for based on personal characteristics. Local deputies are now more responsible to their parties than to voters in districts, which used to be the case in the single member district system. Voters no longer know who "their own" local representatives are and have no representative district basis to use when turning to them for help with local issues.

2.3 Territorial Division and Administrative/Territorial Reform

Territorial reform of Ukraine's inherited Soviet system of oblasts, towns and rayons is unlikely to take place soon, both because it is technically complex and politically controversial. Rostyslav Pawlenko, head of the Situation Analysis Service in the Presidential Secretariat, complained of too many competing draft proposals on territorial reforms during the course of 2005. He felt the multiple drafts brought down the chance of passage of any of the proposals. He was more optimistic about the President initiating a second stage of constitutional reforms that would lead to some form of decentralization, particularly in the financial field. Other interlocutors were more optimistic about territorial reform, sensing a growing momentum for changes to the current dysfunctional system.

Political conflicts at the national level between the Prime Minister-President and President-Parliament will reduce the ability to obtain cross-party and cross-elite support for a territorial-administrative reform project, which will require a constitutional majority to change the Constitution. Fears of the threat of separatism also prevail within the Presidential Secretariat and within the two main Orange political forces, Our Ukraine and the Tymoshenko bloc, creating a bias against decentralization.

Whether looked at from a political or technical/administrative efficiency perspective, almost everyone we spoke with said that some form of administrative/territorial reform is a necessity at some point if a decentralization policy is to be successful. Rayons have elected local councils, but no elected executive officers. Executive authority locally is unclear and rests mainly with central government administrative officials from the ministries. The governors of the oblasts are appointed by the President, but have limited direct authority over the rayons. Governors exercise considerable informal authority, using their influence over budgetary transfers. Many of the smaller towns and settlements do not have the technical or financial capacity to manage their own affairs and are considered unviable as political units. Consolidation of units is considered desirable, but such a process threatens vested interests almost everywhere. How to best restructure oblasts and rayons is still an unsolved problem.

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

Cities are in a much better position in this respect than "non-city territories." Oblast jurisdiction cities are in the best position of all. Cities are larger units, with stronger financial and economic bases and clearly defined boundaries. Cities are governed more democratically, with elected

mayors and councils both accountable to local citizens. The Budget Code of 2001 also made central government revenue transfers to cities direct and formula-based, whereas previous transfers were passed through oblast governors and staff who exercised great discretion over what funds cities would actually receive.

Administrative reform was viewed very differently. Cities desperately favor changes that would give them more clearly defined relationships with the central government, especially on matters related to revenue transfers, budgeting and staffing. This is the cities' "hot button" issue of greatest urgency, as they feel stifled in governance by central control and the national bureaucratic labyrinth. Of course, it is hard to tell which of these problems can be resolved administratively, without structural changes requiring new laws passed by the Verkhovna Rada.

Once USAID decides what its priority strategic targets will be within this category of issues defined as territorial and administrative, appropriate options for technical assistance can be formulated. For example, USAID could fund economic modeling that would indicate different fiscal outcomes from varying types of economic reforms, or could work with the AUC to forecast the specific consequences of these reforms for individual jurisdictions. However, unless USAID decides to focus strategically on policy reform objectives and the attendant political process as its highest priority, we feel that the Mission should not spend scarce time and money to seek marginal gains with a narrowly defined agenda for national-level administrative changes meant only to support existing project activities. In the recommendations section we do suggest assistance approaches to use to further policy reform programming.

2.4 Municipal Functions

The all-important principle governing effective decentralization and local government autonomy is that: (1) responsibilities for assigned functions and service delivery at the various levels of national and sub-national government need to be clearly defined, and (2) sub-national units need to have fiscal authority to generate own-source revenues that, combined with any revenue transfers from the national government, are commensurate with assigned responsibilities.

In addition, the principle of subsidiarity is often applied. This principle holds that governmental functions and delivery of services should occur wherever feasible at the level of government closest to citizens and most amenable to their control. The subsidiarity principle has a high priority for the Council of Europe in assessing whether states meet the standards of the council's Charter on Local Self-Governance. This is an important European measure of democratic governance, one that is not met in Ukraine.

2.4.1 Municipal Financial Management and Budget

The implications of Ukraine's highly centralized unitary state continue to have stark effects on local government financial management and budgeting. The existing local-national government structure is further complicated by the fact that it is not always clear where some lines of authority lie, and capricious ad hoc decisions are often permitted to stand. It is also uncertain where officials would turn to adjudicate a dispute between levels of government as judicial remedies are not readily available within the current framework, leaving such judgments to the vagaries of politics.

Even with informal attempts at devolution and a movement for legislative relief, local governments continue to exercise very limited control over their finances. Most of their expenditures are centrally mandated and the great majority of their revenues are still derived from national budget flows. The required line item budget system precludes meaningful strategic planning. Even when the PPB methodology is adopted, the legal budget of the jurisdiction must still conform to the national line item format.

Despite a dysfunctional system, the more progressive and wealthier oblast jurisdiction cities have begun to capture a modicum of "home rule" power, even if only informally. This latitude is not available or practical for the small rayon jurisdiction local governments as currently structured, and their future viability remains problematic.

Local democracy has been furthered by PPB, which has afforded more progressive mayors and councils a platform for institutionalizing citizen participation mechanisms into the budget process. Such input has stronger democratic aspects in western than eastern Ukraine, but even in Kharkiv and Donetsk the process, if not yet the full substance, of citizen input to the budget is internalized and being used systematically.

Unfortunately, serious issues of local financial corruption undoubtedly remain, but at least the local government system does appear to have progressed beyond the "state capture" stage. We suspect that most local governments are now sophisticated to the point where audits and other accounting would suggest that the revenue and expenditure books are in order even if the actual procurement processes are subject to abuse and need significant improvement.

Territorial and administrative reforms are both essential if anything approaching a developed economy model of local government is in the future for Ukraine. Administrative reform is under serious discussion and even some modest territorial changes appear possible in the next 12-18 months, depending, of course, on the stability of the current government.

2.4.2 Comprehensive Municipal Tax Base

As the term is commonly understood in developed economies, there is no comprehensive municipal tax base for Ukrainian cities. Actual tax-levying legislative authority rests with the national government in the Verkhovna Rada. Local governments collect a "tax" on the "value" of property (not what we in the U.S. would consider a real property tax) as established by central authorities, but most other revenues are national government transfer payments to cover mandated services. These funds are augmented by a host of fees on business services and licensure and the lease or sale of city property, which together constitute the majority of discretionary monies available to local governments. Rents and property sale proceeds can sometimes be significant.

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

2.4.3 Municipal Management of Currently Devolved Services and Functions

As with the budget and to some degree because of it, the number and scope of truly decentralized administrative functions is very limited. The large cities have begun to exact some control of service management from the central authorities and appear eager to wrest full control, but their success is a matter of politics and personality rather than law. For example, education and health are two areas in which cities have devolved service delivery responsibilities, but almost all the funding and the directed use of funds come down to cities from central government flows and directives.

Unfortunately, even willing and well-intentioned mayors are constrained in the resources they can bring to bear to address the host of problems they face. Their own administrative staffing levels are limited by the center and, as discussed, their revenues and expenditures are controlled as well. The oblast jurisdiction cities seem to have found ways to improve management despite these obstacles, but the small rayon cities as presently structured never will have the critical mass needed to fulfill their current service obligations.

One would naturally expect some conflict in the relationship between oblast and city; but fractious politics at the national level is reflected in the strife between mayors and oblast governors when they are members of different parties, providing a sense of siege warfare to some local governments. In some cities there is an increasing imbalance between the mayor and the elected council, favoring the executive. The newly instituted proportional system for choosing council members has destroyed whatever constituency power base council members once had, without any concomitant power shift to what were supposed to be reinvigorated local political parties.

2.4.4 Communal Services and Infrastructure

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

Given how important communal services are, it is intriguing that they also provide an opportunity for significant local control. Management, staff, services offered, budgets, even tariffs all appear to be controlled locally. There are, of course, political implications and pressures brought to bear in how they are run, but these services are afforded much more local control than the city governments themselves.

Most communal services are at best inefficient and many are not effective at all, failing to deliver developed country standards. Heat is provided (unreliably) but at an enormous cost in wasted energy. Water leakage rates approaching 20% are common. Most worryingly, it seems that almost all of the companies lack the budget to fund the infrastructure improvements needed to maintain current standards, let alone improve them. Most impose tariffs that return less revenue

than required to meet current operational costs even though the tariff reform law calls for full cost recovery. With very rare exceptions, they are not going business concerns and as such cannot readily attract investors or willing lenders for desperately needed capital improvements.

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

2.4.5 Economic Development

Ukraine's oblast jurisdiction cities have economic development assets and opportunities, but it may be that these largely untapped markets will remain underutilized until systemic national economic reform makes investment a more certain proposition. In western Ukraine this has been mitigated somewhat because much of the growth has been in the SME sector, which was able to grow without a need for significant investment capital. Less helpfully for the west, its lack of efficient transportation and communications infrastructure will be disadvantageous for a decade or more. The east's large-scale but outmoded industrial base cannot be reinvigorated without new investments.

The cities have tried a number of strategies, including a significant use of one-stop shops, but even these cannot realize their true potential without national administrative reform that would allow the actual permits to be issued in a uniform manner. Cities are willing to experiment and make land lease or purchase deals but they cannot, for example, experiment on their own with tax incentives or other revenue formulas that would make their projects more attractive.

The banking sector is being rationalized. However, the poor creditworthiness of most cities is a major constraint, and cities will find it difficult to borrow the long-term funds needed to make many of the capital improvements potential developers look for (and can exact from competitor locations in Central Europe and South East Asia). It is unclear whether, under current conditions, the available risk premiums are sufficient to attract the significant foreign funds needed, and Ukraine likely will have to depend in large measure on domestic investment.

2.4.6 Transparency of Local Government Policies and Citizen Participation

Effective citizen participation presumes that the policy decisions to be made can or will be affected by public input. In Ukraine, the opportunity for independent local government decision making is so constrained that there are a limited number of genuine participatory opportunities. Nevertheless, the cities seem to be trying. Public hearings have become common and citizens groups, perhaps formalized as NGOs, are involved in the budget process, communal services management, economic development and other municipal activities. Local officials are quick to point these out, and are seemingly proud of their success in making the process more democratic. In some cases the cities have structured NGO activities as a near-formal part of the deliberative process.

Civil society representatives are somewhat skeptical about the quality and integrity of participation, particularly in eastern Ukraine, but on balance they do not appear disheartened or

on the verge of giving up their efforts to be involved. Quite to the contrary, the Orange Revolution is widely seen as having cemented ultimate democratic accountability and more active and welcome civic participation. Nevertheless, corruption rightly remains a major concern, and citizens are focused on how to bring the rule of law to local government.

2.5 Municipal Associations

The Association of Ukrainian Cities (AUC) is USAID's longtime partner in local government development. USAID has supported AUC since 1993 and can take much credit for AUC's well-recognized institutional development since then. Development research and USAID experience worldwide have demonstrated the importance of AUC-type organizations to successful decentralization programs. AUC now has a three-year "legacy grant" for institutional capacity building for member services, training and advocacy.

By the very definition of its grant as a legacy, AUC is in a phase-out mode for receiving further USAID assistance. The current grant supports training and member services through the 25 regional offices established with funding from earlier grants, especially the newly introduced use of "distance learning" for training modules.

AUC is quite active on its own in legislative advocacy with parliament and the executive, as well as in defense of funding levels for city governments. AUC has demonstrated credibility with national-level political leaders and member cities on municipal issues, especially budget levels. Though cities as entities are officially the members, AUC is most of all an activism platform for mayors on national issues affecting cities.

We treat consideration of means to achieve AUC's programmatic and financial sustainability after the legacy grant ends as part of our overall recommendations for a strategic refocusing of the portfolio, with the sustainability issue front and center for all local government programming. This is in large part based on the notion that at this stage of Ukraine's development, services should transition to a market-based model of "fees for services." Of course, AUC already does fund a large portion of its operating costs through annual dues paid by member cities; but service delivery programs such as training do not recover costs through fees paid. A top-notch policy formulation unit is beyond AUC's current financial capacity and would require subsidy from external donors for some years to come.

There are a number of sub-associations of municipal specialists within AUC. We met with only one, the head of the grouping of municipal finance directors, which operates under the AUC umbrella but with great autonomy. That group has considerable influence with parliamentarians because of the expert opinions they can provide on complex public finance issues. They also have influence with the Ministry of Finance for solving practical local-national budget problems because of longstanding working relationships and detailed knowledge of the intricacies of public financial management.

USAID is interested in whether the current sub-associations are worthy of continued support and whether we have suggestions for additional sub-associations that AUC might consider creating. At this advanced stage of the AUC-USAID partnership and the legacy grant, we do not think USAID should be encouraging expansion activities of this sort. AUC will be hard pressed to

protect the quality and sustainability of current activities. Furthermore, USAID at this point should be getting away from such a detailed involvement in issues of institutional structure inside AUC. Let AUC "Ukrainize" more freely on its own.

However, we do recommend that the level of effort by AUC (and perhaps the level of funding by USAID) be intensified with respect to national advocacy. This is discussed in more detail in our recommendations about the paramount importance of policy reforms to support decentralization (see Sections 4 and 5). We believe that AUC should be the central actor in institutionalizing this reform process and in leading the dialogue about how to achieve the nationwide "spread effect" of best practices and sustainability of Ukrainian institutions supporting municipal development, both non-profit and for-profit.

3.0 EVALUATON OF THE LOCAL GOVERNMENT PROGRAM (COMPONENT 2)

3.1 Relevance of Mission Strategy and Projects in the Local Government Program to Ukraine's Development Needs

There should be no question about the current relevance of projects in the local government program to Ukraine's development needs. The projects clearly are relevant. Our informal "customer survey" with respondents in the capital and other parts of the country showed that counterparts recognize the value of USAID projects to their goals of building municipal governing capacity in a more democratic Ukraine. But simply to confirm the current relevance of the portfolio begs the larger question of sustainability that is the ultimate measure of continuing future relevance. It also does not answer the question of whether other activities might be more relevant.

The issue of continued relevance of Mission strategy and projects is serious. Ukraine's development needs are evolving and USAID's budget capacity to respond to those needs is also changing. It is our view that the Mission's strategy and projects will become less relevant when projected into the future if they lack greater emphasis on national issues, particularly given the Mission's declining capacity to cover individual cities. In our view the Mission's strategy needs to target the key issue – national policy reform – much more strongly in order to remain relevant. Further, the opportunity costs of working in so many different cities with so many different projects (versus national policy reform activities) will be too high, especially given the inevitable fact of declining USAID resources.

In our view, what local governments in Ukraine need most is a supportive policy framework. Unless the Mission's strategy and the local government program address this issue more directly and with some success, the individual projects and the portfolio as a unit, no matter how well implemented, will be incapable of achieving sustainable impact on a large scale in cities across the country. The continued relevance of USAID's involvement will be directly proportional to its level of engagement on key policy issues that represent structural changes underpinning decentralization.

3.2 Effectiveness of the Local Government Program

What is the measure of "effectiveness"? The SOW lists seven criteria: (1) reaching intended beneficiaries, (2) sustainability of results, (3) cost effectiveness, (4) inhibiting constraints, (5) donor coordination/duplication, (6) cross-cutting themes, and (7) quality of implementation. The SOW directs us not to analyze each project against each of these criteria but rather to look at the portfolio as a whole. However, for purposes of analysis, we did examine each project against the listed criteria. That analysis is presented in Appendix A.

Based on our field investigation, we find that all of the projects are performing well individually against most of these criteria, and in that sense they are effective. But in the absence of national policy reforms, we do not think the local government program portfolio can deliver strategic impact; therefore, the program needs to strategically focus the majority of its resources on

national level policy reform. The most essential criteria for effectiveness in the long run can only be met if institutional reforms are implemented.

This major constraint – the seriously flawed national policy framework – is not being addressed aggressively enough by local government programming. Without policy reforms, the prospects for sustainability of results achieved to date through the projects are not good. No strategy of "fall back" to working only at the localized level can overcome these problems caused by the national level conditions.

3.2.1 Reaching Intended Beneficiaries

We found that the portfolio as a unit is doing a good job of reaching intended beneficiaries. Targeted municipalities that we covered uniformly saw all the various projects as useful to them and are applying what they have learned (within the limits imposed by the national policy framework and their own financial constraints). Beneficiaries of the Local Economic Development (LED) project were perhaps the most enthusiastic, but all the projects scored well against this criterion. Some criticisms were made of both USUF and AUC training seminars for being too short (1-2 days) and therefore too superficial, but other respondents preferred that type of training as easier to schedule and offering a good overview of timely topics, especially for new mayors (e.g. duties of a mayor, how to run council meetings, what is PPB, principles of democracy). One project completed several years ago and not even on our list – BizPro and the one-stop shops – was often cited as a continuing success.

Our own preference for utility of assistance was in the projects that offered more sophisticated, hands-on training to city officials over a longer period in areas that are part of their day-to-day job responsibilities. This gives them new, usable technical skill sets that can also change business processes in their organizations if accompanied by "change management" training, for example through the Access to Credit (ATC), MBR, AUC, LED and Municipal Development Institute (MDI) projects.

3.2.2 Sustainability of Results

This was the area we found most problematic across the portfolio. With the exception of AUC (at least as to its basic functions), we do not see a sound strategy in place to assure the continuance of assistance activities (knowledge transfer) after the USAID projects end, or the viability of the entities providing the assistance. AUC is funded by annual dues from member cities, but we were told that USAID assistance still represents a 40% "plus up" for AUC's overall budget and pays for most of its outreach and training. MDI has received a "legacy" grant to try to create a viable successor-provider for communal services restructuring assistance. Its business model (and its non-profit status) is based on free provision of services to client cities, with an external donor supplying funding. This is not sustainable. MDI has established a for-profit affiliate to work on a "fees for services" basis, but it has not generated paying clients yet.

ATC's specialized services, including the $14,000 to $18,000 cost of obtaining a credit rating, have been subsidized by USAID assistance for the cities of Ivano-Frankivsk, Berdyansk and Lugansk. However, the larger, more creditworthy cities could fold these costs into transaction fees of borrowings or use their own staff expertise. The ATC pilot projects have provided a

useful model that can be replicated in large and medium-sized cities well as smaller cities when they become creditworthy.

However, MBR, LED, USUF and AUC (with regard to most training) do not have any built-in mechanisms for recovering costs that might provide a base for sustainability once USAID funding ceases. This is most true in the case of USUF, which is totally dependent on donor funding. Arguably, both the budget function (MBR) and the economic development function (LED) are internalized by beneficiary cities when they establish new or modernized offices for planning and budget and economic development within city government as conditions of having received assistance.

Some extended "knowledge transfer" is already occurring spontaneously as non-targeted cities see what is happening in target cities and begin to initiate USAID local government project-like activities. Many other cities have contacted the implementing partners to ask to participate in project activities. Even if that is the case, predictable institutional sustainability of the knowledge transfer activity will not extend to additional cities after the projects end, thereby limiting the spread effect and nationwide impact, unless the Mission develops new approaches not yet built in to project workplans.

We feel that "Ukrainization," "privatization" and a revised portfolio implementation strategy, combined with policy reform efforts at the national level, are the measures that should be undertaken to improve the odds of future sustainability of local government programming. These are discussed in greater detail in our recommendations on future programming (see Section 5).

3.2.3 Cost Effectiveness

The SOW refers to impact as well as cost effectiveness, both in terms of time and money. It is not possible given the structure of this assessment to measure scientifically the cost factor (quantitative – money) against the results/impact factor (qualitative – impact). The same holds true for the time factor (quantitative) versus the result/impact factor (qualitative). We do not have usable quantitative impact data, nor do we have a baseline to use for measurement, and measuring quantitative outputs is not measuring results.

Nonetheless, we can make some informed judgments about projects based on our research, document review and field work. ATC, through which cities can access desperately needed capital, offers high impact at low cost (to USAID) and a short timeline. It is also easily replicable. The current "Ukrainized" MDI follow-on activity is low-cost (to USAID) and can have high impact on communal services that directly affect citizens' living standards and the economic development climate, but the current business model does not appear viable and in the long run is not cost effective if it is unsustainable.

MBR and LED are high-cost (to USAID) due to expatriate staffing and the unit costs for targeted cities, but both projects offer high impact for improved municipal governance and economic development. Due to sustainability problems as currently structured, we do not consider them cost effective in the long run. If "Ukrainized" and implemented with a greater strategic emphasis on the spread effect, their cost effectiveness will improve considerably.

USUF presents the most serious issue of cost effectiveness. The actual field training activities of USUF's Regional Training Centers provide value but the total project costs are not obviously necessary to support the Ukraine based field offices (see Appendix A). Moreover, the impact of their short-term training is very difficult to measure and, as this project is scheduled to end within 4-6 months, it would appear to be too late for USUF to "Ukrainize" in any significant way.

AUC is unique within the portfolio. As a solidly established Ukrainian institution filling an important advocacy and representational role, AUC has had recognized presence and impact, though this is less true thus far in its training activities. Thus it should be seen as effective, although we should recognize that USAID has assisted AUC since 1993, a large cost investment in both time and money.

3.2.4 Constraints

The major constraints inhibiting local government financial, political autonomy and further legislative reforms are so serious in their effects on the local government portfolio and the achievement of USAID's strategic objectives in EG and DG that we cover them in greater depth in Section 4, which is dedicated solely to constraints and how to deal with them. Recommendations in Section 5 are designed to overcome these constraints.

Briefly stated, we have categorized the principal constraints as follows: (1) a Soviet-era centralized policy framework that results in a dysfunctional relationship between national and local governments; (2) a lack of developed political will to define necessary policy reforms and build a political consensus to carry them out; and (3) internal to USAID, limited impact at the national policy level, leading to a scaled-back strategy for the portfolio and declining budget resources to support future programming.

3.2.5 Other Donor Coordination

The unavailability during our visit of in-country representatives of several other donors working in the local government sector made it difficult for us to assess this factor to our satisfaction. We did not learn of any duplication of other donor activities or failure on the part of USAID or its partners to cooperate with these activities. We did hear on numerous occasions of the interest of the European Bank for Reconstruction and Development and the International Bank for Reconstruction and Development in loan programs to provide investment capital for municipal infrastructure, including communal services. Such engagement would be highly positive, but it is to a great degree dependent on the same national-level constraints that are affecting USAID's program. We also learned that DFID at minimum supports publication of a municipal newsletter, but did not have a chance to meet with its representatives. A number of EU-funded programs are available under its program with neighboring countries, even if Ukraine is not on a track to candidacy for accession.

From what we saw in Ukraine, we do not consider lack of donor coordination to be a critical constraint to USAID programming. It is, however, clear that Ukrainian cities will need massive amounts of investment capital for modernization and that other donors as well as the Ukrainian government and private lenders, not USAID, will be the ones to provide it.

3.2.6 Cross-Cutting Themes

We did not find that USAID has made serious efforts to integrate youth or gender issues into the programs. In fact, at no time during our meetings at the Mission did USAID staff cover these issues at all. In our field visits, questions about these topics did not elicit much in the way of responses. Clearly, a new generation of younger municipal leaders, including some women, are coming to the fore, but strictly speaking we did not see evidence that either youth or women per se are well targeted. USUF does pay careful attention to gender balance in its training programs and has a superior performance in that regard.

Anti-corruption issues receive better attention. The portfolio as a unit emphasizes greater transparency in government operations and broader civic participation. Public hearings, publication of budgets and other official documents and strategic planning exercises that include outside stakeholders all contribute to limiting corruption. In particular, MBR is directly targeted toward improving budget and expenditure planning and implementation.

3.2.7 Implementation

We find that implementation of the activities is proceeding satisfactorily, but in this context we are using the narrow definition in the SOW, which refers to activities being "managed well," assistance being "delivered in a timely fashion," and implementing partners "meeting the objectives and carrying out the project design as stated in each partner's workplan." As stated earlier, we believe the projects individually are performing well and get close attention from qualified USAID staff.

However, looking at implementation of the program as a whole, we feel the portfolio could be better integrated strategically across the projects, as increased coordination will help to generate significant synergies, especially on policy reform efforts. Nonetheless, we should recognize that the Mission does try to coordinate activities in several areas (e.g. drafting of legislation, preparation of training materials, institutional support to AUC and joint participation in major municipal forums).

More importantly, we feel the portfolio needs an aggressive program strategy focused on policy reform, and that it needs to ensure a greater spread effect and sustainability. These steps would guide a revised implementation strategy governed by amended results frameworks and workplans. By this broader definition of implementation, we think performance of the portfolio currently is not maximized, even though the individual projects are meeting present standards.

4.0 CONSTRAINTS AND HOW TO DEAL WITH THEM

Unfortunately, the lack of a coherent national-level constitutional, statutory, policy and administrative framework to support decentralization and vibrant local government will ultimately undermine USAID's efforts to support the sector. Cities cannot forever swim upstream against the current in a country with a long history of highly centralized government.

With this in mind, we think USAID must give greater attention to critical national level policy issues affecting the long-term viability of democratic local self-governance in Ukraine. The current political decentralization framework does not sufficiently empower local governments and must change if Ukrainians are to enjoy local autonomy with its attendant political and economic benefits.

4.1 Centralized Policy Framework and Dysfunctional National-Local Relationships

Ukraine remains a highly centralized state and the constitutional and statutory framework needed to support and sustain the stated policy of decentralization is seriously deficient. The Soviet-era centralized framework results in a dysfunctional national-local government relationship.

A clearer demarcation of roles and responsibilities for public services between the national and municipal governments (not to mention oblasts and rayons), as well as the resource allocations to fund them, is badly needed. This is often referred to in Ukraine as "territorial and administrative reform," but the issue goes beyond that to the question of whether the country wants to embrace decentralization and limit the central government's authority so that cities can enjoy guaranteed "home rule."

Nonetheless, separate from boundary revision issues, legally protected municipal authorities independent from central government authorities are required to give cities some guaranteed local autonomy. Cities should also be able to exercise discretion in the use of sector-type transfers (e.g. health and education) rather than have their uses mandated to the extent that the cities are mere check writers using treasury accounts. Government employees delivering mandated services should be on local payrolls, and local authorities should be able to set staffing levels and hire and fire employees

Major advances in a large number of cities in such areas as municipal strategic planning, budget formulation and execution, citizen participation, investment promotion and public utilities management will not be sustainable in the long term unless the enabling environment at the national level becomes more supportive of local self-governance, especially as to municipal taxing and expenditure authority.

4.2 Lack of Political Will To Undertake Policy Reforms

In the current legal framework the constitution calls for local self-governance but does not specify authorities reserved to sub-national units of government or afford them true fiscal authority. It

also places no limits on the power of the central government versus local governments. In 1997 a law on local self-government was passed that gives a stronger legal basis to local governments, but it cannot be said to have protected local government from whatever actions the central government might choose to take. A major step forward occurred in 2001 with passage of the new Budget Code, which allowed cities to receive transfers directly on a formula-based system, but uneven implementation of the law has limited its fullest scope. A Tariff Reform law in 2004 gave cities greater authority to set tariffs for communal services. It even requires full cost recovery. But, in practice, political pressures and lack of capital investment funding to improve services have made it less effective than hoped.

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

Our interlocutors did not see this happening in the near term, in part because the larger cities at least are not in desperate need of territorial reform and thus are not likely to advocate as strongly for such change. USAID needs to try to help change this dynamic by working with reform supporters who are advocating for a solid, permanent legal foundation for local government.

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

Most importantly, greater fiscal decentralization that gives cities real taxing authority to generate sharply increased levels of own-source revenues and budget expenditure independence is essential. Objective standards that can be used to certify municipal management capabilities should be established so that the national government's stated concerns about local financial accountability for central government transfers can be met.

4.3 Current Reform Efforts With USAID Involvement

Thanks to detailed, highly useful Mission comments on our draft of this report with respect to national level and policy reform activities in the local government portfolio, we have a fuller understanding of USAID's overall efforts in this arena. Our assessment was focused on an analysis of local programs, and as the Mission is in a position to provide a more comprehensive listing of national efforts than we could, we have included that information as Appendix B, "Local Government Activities at the National Level."

It is an impressive list. However, we treat it under this constraints section because it also demonstrates how the Mission needs a strategic focus on clearly defined, highest priority policy

reform objectives. The list is far too extensive, diluting scarce political capital that needs to be concentrated on achieving the most critical reforms.

MBR and AUC appear to have the best developed structures for dealing with policy reform issues, both substantively and in terms of process. MBR and AUC also work together closely on legislative issues. But remember that MBR is a temporary, non-Ukrainian organization and performance based budgeting is not the most important issue in intergovernmental finance.

However, it should be noted that legislative bills creating a much higher own-source revenue base for local governments, use of proceeds from land sales and leases, and constitutional changes to empower local governments more specifically are all either on the table or under consideration. These are the areas that USAID must approach and manage differently in order to change them from constraints to openings for high impact programming and sustainable results. Can USAID say at the present time that these are the issues commanding the most attention of USAID officials and receiving the highest priority in staff time and resource commitments?

4.4 Readiness, Capacity, Scalability and Effective Demand

We certainly found cities "ready" for USAID's assistance in the sense that they see it as valuable, but the extent to which they adopt changes permanently will depend greatly on whether they see the overall system allowing them to reap the benefits. Capacity is a different matter. Larger cities show increasing technical capacity, but smaller cities still have difficulty meeting more modern management standards. Readiness translates into demand, but as discussed below the poor financial condition of smaller cities means "effective demand" (capacity to pay) will require transitional subsidies of some sort. Cost-sharing vouchers may be one way of doing so.

USAID local government programming of one sort or another has reached almost half of Ukraine's 450 cities, but saturation is not a strategy. If USAID consolidates its portfolio and limits the planned number of new cities targeted, the Mission nonetheless needs to seek alternative ways to scale up or "roll out" its key packages to a much greater number of cities. We believe that USAID has to look to Ukrainian specialists and institutions at this stage. There is no way USAID can achieve scale, impact and sustainability objectives using the present programming paradigm.

4.5 USAID'S Results Framework and Portfolio Implementation Strategy

USAID's defined local government strategy encompasses a two-pronged approach that includes both work at the national level to put in place an appropriate legal framework to support decentralized local governments and direct work with municipalities. In practice, however, the Mission has provided far greater assistance for bottom-up support to municipalities than it has for development of the constitutional and statutory framework needed to support decentralized local government institutions. The reasoning for this emphasis was a practical one: the absence of political will at the central level for necessary local government reforms. In fact, this tendency carried over to USAID programs in Ukraine as a whole, in that the Mission substantially reduced its support to the central government during the period 2002-2004 as a result of the GOU'S general lack of commitment to reforms.

In early 2005, following the Orange Revolution, USAID began to increase activities at the central level in the areas of administrative and territorial reform, utilities, construction permits, and a pooled finance facility in response to the changed political climate. Though the Mission's local government portfolio is now more engaged in helping Ukraine address a range of public policy issues that affect local governments, the Mission's dominant focus continues to be direct support for municipalities based on its perception that the GOU's commitment to serious national-level changes to the legal framework for local government remains limited. As stated elsewhere, we do not think that dominant focus is defensible any more.

Though current USAID local government programming is generally of high quality and achieving planned project results, the portfolio needs a new dominant strategic focus. Currently, several related types of USAID projects are aimed at Ukrainian cities from several different implementers. For example, at least three projects offer different types of participatory strategic planning processes and a fourth trains in it. If possible, we highly recommend merging such similar efforts. By consolidating project activities strategically, USAID could continue all its functional areas of assistance in a streamlined package as well as cutting costs. This will require a tricky reengineering of the project portfolio, given Federal acquisition regulations and existing commitments.

What is called for is a carefully designed, well-articulated strategy of consolidation and "Ukrainization" of the portfolio over the next 18 months, meaning a process in which Ukrainian cities, municipal associations and Ukrainian specialists take over actual leadership and "ownership" of most local government development programs. U.S. technical assistance contractors and grantees should transition to Ukrainian grantees and private sector technical service providers whose capacity has been developed over the course of the last decade.

The demand for this technical assistance clearly exists, but USAID's budget capacity to meet the need will steadily diminish. To keep these projects moving forward under the new paradigm will require financial subsidies or core institutional development support during a 2-3 year transition period, but empowering Ukrainian entrepreneurial spirit in both for-profit and non-profit entities can be the foundation for sustainability of USAID programs.

Some Ukrainian cities, especially the larger ones, are moving toward the technical and financial capacity to retain required outside technical consulting services on a market-oriented basis (e.g. Kharkiv and Donetsk). This is being driven by a buoyant economy in spite of the still unstable financial condition of most cities. The process of "Ukrainization" is thus also a process of "privatization," which should become a common practice within a 3-6 year timeframe, helping to ensure sustainability of the assistance programs providing essential services to city governments.

Most of this ongoing technical assistance training already is being provided by Ukrainian experts identified and deployed by these various projects over the last ten or more years. It is Ukrainian-to-Ukrainian and in that sense is already "Ukrainized" programming. We recommend that USAID go the next step by structuring most training and other assistance to operate directly through Ukrainian institutions. As previously noted, this is already the case with AUC training and MDI. Both RTI and Chemonics, contractors for the municipal budget reform and local economic development, respectively, should accelerate the restructuring of their work plans to put

their activities on a faster "Ukrainization" transitional path once USAID decides on the new architecture for local government programming and the timelines involved.

4.6 USAID'S Declining Resources and Uncertain Time Horizon

In view of Ukraine's strong economic performance and political advances in recent years, a phasing out of USAID programs is on the horizon, though with date uncertain. This argues strongly for project consolidation and its key corollaries – "spread effect" and sustainability. Continuing USAID budget constraints alone argue for such consolidation of program achievements rather than any addition of new initiatives or expansion of current project offerings to new cities.

A restructured, slimmed down, more strategic focus for the current project activities will allow high priority assistance elements to continue even in the face of declining budget levels. Greater "Ukrainization" will strengthen local capacity and increase the chances of sustainability of local government development after USAID programming ends.

5.0. RECOMMENDATIONS ON FUTURE LOCAL GOVERNMENT PROGRAMMING (COMPONENT 3)

5.1 Policy Reform Is Paramount – Get Results or Close Out Programming

USAID should make reform of the constitutional, statutory, and administrative and policy framework for local government/decentralization the highest priority in the program and should restructure its results frameworks, local government portfolio and project management accordingly.

USAID should clearly define what policy reform objectives are most important and set results targets and time lines to achieve them. They should fall into two categories (whether or not they carry a label of territorial or administrative reform): (1) a defined and protected set of local government authorities linked to agreed responsibilities to carry out assigned public services functions; (2) intergovernmental finance reform to give cities a protected own-source revenue fiscal base that gives them the ability to tax and carry out their responsibilities without undue reliance on central government fiscal transfers.

USAID should support a revamped, well-structured policy analysis effort with options for decentralization to be undertaken by Ukrainian technical and political process specialists with minimal support input from expatriate specialists. These activities should be coordinated closely with any continuing USAID-funded legislative program. Also in support of this goal, national-level PPB work (currently carried out under MBR) should continue or be augmented. AUC funding should be directed more toward analysis and advocacy on these policy issues in addition to lobbying for immediate local government funding levels.

This effort must be understood as “process management,” in which USAID carefully aligns its human and technical resources behind activities that will lead directly to policy change. USAID needs to give greater emphasis and higher priority to such efforts as its mapping of key stakeholders and their interests, legislative and party strategies, national policy conferences, and cross-party special working groups or policy analysis units within the executive, the legislature, AUC or think tanks. This would also include encouraging (presumably from the Cabinet level) relevant senior government officials to achieve defined reform objectives and to implement them as well. Success will ultimately require strong “Ukrainian ownership.”

Taking into account the political constraints of a pre-election environment, if reasonable progress on identified policy reforms is not made within 24-36 months USAID should begin to close out local government programming. We see dim prospects for sustainability of current achievements in the absence of an improved national policy framework and no rationale for adding new cities or adopting a “fall back” strategy of localized programming objectives after more than a decade of local government programming. Policy reform is long overdue, and USAID cannot wait indefinitely for it.

5.2 Implementation for "Spread Effect," Not More "Waves" And New Cities

USAID should cap the number of cities covered by the existing implementation methodology at the level of current project activities. We would not expand any of the programs to new cities, with the possible exception of Lviv as a special case, or except perhaps on a limited basis to substitute for existing cities that demonstrated poor commitment to reforms. If the programs take on new clients, they likely will not have the funding to complete full implementation cycles with their existing target cities. To the extent LED is seen to serve other important Country Team objectives as well, new cities might be added, but on a "Ukrainized" basis and within the new policy reform strategic framework.

It will be better to do fewer city units completely than more city units partially. No current plans project enough city coverage to reach "full coverage" levels. Programs in new cities under new "waves" will spread knowledge to a greater but still quite limited number of cities, but the opportunity costs of such retail programming will prevent the Mission from giving greater attention and resources to national-level policy issues and the spread effect and sustainability effort through "Ukrainization." The multiplier effect from current programs is already showing some results on its own and can be exploited further. It merits much higher priority and needs to be pursued aggressively through a revised implementation strategy that sets quantitative goals approaching full coverage of Ukraine's 450 cities, but only through Ukrainian-led roll-outs over a multi-year calendar to all willing and able cities.

5.3 Portfolio Consolidation

With a more focused approach on a core package of technical services inputs and a reduced need for "marketing" of individual projects to new cities, USAID will have an opportunity to consolidate the operational aspects of many of the projects and develop a clear strategy and implementation capacity for overall local government programming. LED and MBR, for example, could be merged and operate together if they were not each trying to bring on new cities separately. ATC and LED have some common features that invite an analysis of how they might be combined. MBR and AUC have synergies for both their local and national work that might lead to consolidation into a single project over time. MDI, ATC and LED all have related goals that could be mutually reinforcing within one project rather than three. The training missions of AUC and USUF are an obvious possibility for cooperation and potential consolidation. If USUF is "Ukrainized" as we recommend, the training missions of the two could be clearly distinguished.

The idea is to have a single set of indicators emphasizing goals for spread effect coverage and sustainability that will apply to all critical technical assistance inputs and competencies seen functionally on a consolidated basis rather than as separate project units. The more limited number of cities targeted for the current highly labor-intensive approach will serve as the base for a new multiplier strategy led by Ukrainian entities. The number of projects will drop from six to two or three at most over an 18-24 month period.

5.4 Ukrainian Experts and "Fees For Services" Over Expatriates and Donor Funds

USAID has made a significant investment in the technical capacity of the Ukrainian specialists who work with each project implementer. This asset should be utilized and sustained by "Ukrainizing" and "privatizing" these technical services and training. Ukraine demonstrates higher human capital capability than most other developing countries.

We recommend requiring an "all-Ukrainian LOE" over time (with short-term expatriate technical assistance available) and a phased reduction of USAID funding to be replaced by matching fees for service from program clients. This will require providing funding for marketing and other business management skills during the transition period, but these would be a very good investment in "local ownership" and sustainability of important services to cities. Strong demand for services clearly exists at the city level, but some interim subsidies for cities in order to create "effective demand" will also be necessary.

5.5 Training Depth Over Breadth

USAID should review the utility of short-term training activities of the 1-2 day seminar variety as compared to on-the-job training/mentoring over a 6-12 month period that will establish new business processes within organizations. Introductory seminars on subjects such as budgeting, ethics or mayoral functions should be offered only as modules in more substantive, longer-running training or perhaps as infrequent (e.g. after new rounds of local elections) introductory seminars for newly elected local authorities and newly-appointed professional staff.

Both AUC and USUF training should be directed at identified municipal core competencies and longer-term, in-depth training programs. "Demand-driven" training is a good approach, but an overall training strategy supporting spread effect implementation of municipal "best practices" needs to be articulated. This is a critical element of the needed sustainability strategy for USAID local government programming.

APPENDIX A: PROJECT EFFECTIVENESS

1. Municipal Bonds – Access to Credit Initiative

Relevance

Given local governments' needs for long-term capital investment and the lack of existing financial instruments to provide these funds, it is crucial for Ukraine's economy that municipal bond markets be developed.

Beneficiaries

In the three cities we visited where this program was used the assistance was well received and implemented as planned.

Sustainability of results

In large measure much of the work done to date has already succeeded in educating local governments about the possibilities of long-term finance through the bond markets. Continuing to act as bond consultants to individual local governments is not sustainable with donor funding. These services might be the basis for a self-sufficient business either as a stand-alone focused consultancy or acting in combination with other technical assistance aimed at the same municipal market.

Cost Effectiveness

The direct local government consulting needed to bring one of these projects to completion has not been cost effective measured against other potential demands for diminishing USAID funds. This is particularly true given the general inability of many of Ukraine's local governments to compete for long term loans in a global economy. Further, most of Ukraine's cities do not have the discretionary funds needed to meet the demands of long-term debt and those that do have such resources have figured out how to go to the bond markets on their own.

Constraints

There are significant institutional constraints to the success of any program to create a vibrant market for municipal bonds. These include outmoded and dysfunctional central financial controls, lack of enabling legislation, lack of a modern financial and banking sector, uncertainty about municipal and utility credit worthiness, etc. Each of these is an opportunity for ATC or others to play a significant policy reform role at the national level.

Coordination with Other Donors

ATC consultants appear to have taken advantage of any resources available to their client communal services companies.

Implementation

Regarding the municipal bond portion of the ATC program, it appears they have done good but very limited work due in large measure to the constraints mentioned above and the labor-intensive nature of the work.

2. Municipal Budget Reform (MBR)

Relevance

MBR is highly relevant to Ukraine's development needs. One of the greatest impediments to more effective local government is the lack of budget planning and execution capacity. That lack of capacity is also often cited as a rationale for inaction on decentralization by central government officials and parliamentary leaders. A more strategic approach to budgeting at the municipal level with civic participation greatly helps cities prioritize needs transparently, especially with respect to the discretionary funds at cities' disposal.

Effectiveness

MBR is effective. The cities we visited praised every aspect of their work with MBR and were enthusiastically engaged with its goals of improved finance and citizen participation. Each city was able to speak in detail about the training, and, if at that point, the implementation of the project. They clearly understood the purposes of PPB as a technical matter and as a tool for oversight. They also were aware that the future of PPB was in some measure a function of the national government's adoption of similar PPB budgets.

Beneficiaries

The targeted cities through this stage of the project have received assistance and the ones we visited were quite clear in seeing the MBR package as a useful tool. Though still at an early stage of implementation, the cities are using PPB to tie budget making more closely to strategic program goals and as a way of measuring performance. The need to maintain the old line item budgeting system in relations with the central government limits the usefulness of PPB.

Sustainability

PPB, as the main innovation of MBR, will not be sustainable if the central government continues to use line item budgeting and forces municipalities in effect to use that same system for the great majority of its expenditures, which are funded by transfers from the central government. Although PPB software can translate from one system to the other, the conceptual basis for the two is so different that they will not coexist over time. Either the central government adopts PPB (as is being experimented with now), which would alleviate the problem, or it allows cities to manage central transfers more independently and does not impose budget management constraints on cities' own-source revenues.

Cost Effectiveness and Impact

MBR clearly is having a positive impact, as participating cities tout its merits and are eager to seek its assistance and adopt its recommendations. If the program is not sustainable, obviously it

will not be cost effective. We believe MBR would be more cost effective if a "spread effect" objective is pursued that does not simply involve a greater number of cities to be targeted. Municipal governments are providing resources by setting up planning and budget offices keyed to the PPB mode.

Constraints

The major constraint is lack of an adequate statutory and policy framework at the national level to support decentralization and allowing "home rule" for cities. MBR cannot overcome this constraint solely by work at the local level. Fortunately, the GOU has asked MBR to work with the central government on PPB; but legislative reform will be needed as well as administrative changes. AUC and other advocates for policy reform will need to help create enough political consensus and support in favor of a party-based agreement on new legislation strengthening decentralization.

Cross-Cutting Themes

Gender and youth receive little attention in MBR. Anti-corruption is an important element, as the budget transparency involved with PPB helps to prevent corruption, at least in financial tracking.

Implementation

MBR appears to be implemented in proper fashion. The design and work plan call for successive waves of participating cities, an approach we feel now should be modified. A national-level PPB element has been added to the project. Managers of the project are well aware of the importance of this new element and are giving it special attention.

3. Association of Ukrainian Cities (AUC)

Relevance

AUC is highly relevant to Ukraine's development needs. As an advocacy organization representing municipal interests at the national level, AUC is perhaps the most important voice for policy reform in the sector. Led by mayors, AUC is the strongest, best-organized constituency for reform arguing for decentralization and democratic local self-government. It is also a member service institution providing much-needed training programs to member city officials.

Effectiveness

AUC is highly effective in its advocacy role regarding budget transfer levels from central to local government. It has successfully argued for increases and against cuts. AUC has also played a role in support of reform legislation such as the Budget Code and the Tariff Reform. AUC has been less effective in formulating and advancing other fundamental legislative and policy changes necessary for comprehensive decentralization, often referred to as territorial and administrative reform. AUC's training activities have expanded and broadened out across the country, but it is hard to measure their effectiveness in impact terms. Trainees are generally positive about their training experiences.

Beneficiaries

AUC advocacy activities benefit all cities, but in an indirect sense, as the national legislature and executive rather than the cities themselves are the objects of the work. Training activities are recognized as useful and are being used by beneficiaries, although some see the training programs as too short-term to have major impact.

Sustainability

AUC has been working actively for more than a decade and is a recognized institutional presence in the country. It has perhaps better prospects for sustainability than any other project in the local government program because member cities pay membership dues to AUC that cover much of its operating costs. AUC has Ukrainian leadership and is no longer dependent on external assistance inputs for its core functions. Its training activities are less sustainable at this point, as they are not supported by fees for services and remain heavily subsidized by USAID assistance funds.

Cost Effectiveness and Impact

We consider national policy reform to be the most important issue for local government. AUC is the primary actor in this area. To the extent that reforms and levels of budget support can be reasonably attributed to AUC's advocacy efforts, this assistance has a high benefit-cost ratio. Training effectiveness and impact is very difficult to measure without additional time for study and analysis. AUC generates significant own-source revenues for programmatic activities and therefore is cost effective from USAID's point of view. AUC's prospects for sustainability are good, and this is an indicator of a cost effective investment relative to those with poor prospects for sustainability.

Constraints

The national level statutory and administrative structure is the major constraint to local government financial and political autonomy. AUC is the best performer in attempting to address these constraints. These activities need to receive greater emphasis, with the other USAID projects more closely integrated into the national-level efforts. It is not clear that AUC has the institutional capacity to do serious policy analysis and legislative drafting that should be a part of policy advocacy. USAID needs to help AUC or a private think tank working with AUC or independently generate well-researched studies that can underpin AUC's and others' political advocacy. This will be especially critical to bring central government officials on board and to build a cross-party consensus in the legislature.

Coordination with Other Donors

It does not appear that USAID support to AUC is duplicative of other donor activities. AUC is a natural partner for assistance programs coming from the European Union.

Cross-Cutting Themes

Gender, youth and anti-corruption themes are poorly integrated into the AUC project. No one from AUC or local government beneficiaries or trainees raised any of these themes with us during

interviews. We did not see evidence that these themes are incorporated into project activities or training in any systematic way.

Implementation

Implementation of the project is proceeding well; however, the distance learning component emphasized in the training portion of the current grant is not well understood in the field. It appears to be better suited for technical subjects directed to technical staff who can follow a self-study program more easily. Others, especially, mayors, felt that the social interaction and peer-to-peer learning in face-to-face group trainings was an important part of the learning experience and also served a networking objective better.

4. Communal Services Reform Roll-Out Project - MDI

Relevance

MDI's work to improve communal services certainly meets the USAID economic growth goals, given the importance of utility services to any economic development project. Perhaps more importantly, improvements in these services are crucial to maintenance of a reasonable standard of living.

Beneficiaries

Every MDI target city we visited was very positive about the assistance they received from MDI/PADCO. The strategic planning, financial assessments, technical evaluations, legal analysis, sales and collections assistance and the public participation training were all well received and acted on to good purpose.

Sustainability of results

This type of engineering services consulting, while very effective, does require considerable resources dedicated to each client city. MDI has determined that potential clients must be municipally owned legal entities serving populations between 30,000 and 150,000, and be willing to reform their operations through a process of significant citizen involvement. Even at this relatively small scale the process takes 9-12 months and MDI can only manage ten or twelve such systems a year. This level of assistance is not impacting enough of Ukraine's population, and increasing MDI's budget to permit expansion is unlikely and, given other priorities, unwarranted. Nevertheless, MDI's skill sets are important and initial efforts to privatize and Ukrainize MDI should be encouraged and supported financially in the near term. With marketing and management assistance we think there is demand for MDI's services sufficient to support a financially stable consulting operation.

Cost Effectiveness

Given diminished resources, MDI is not as cost effective a program as others in the portfolio despite its programmatic success. This type of consulting is very labor intensive and the equipment necessary for some of the engineering and loss studies can only be used in one place at a time. If MDI were to target larger cities the engineering work load would increase almost arithmetically, so although there may be economies of scale in working with larger entities on the

strategic planning and citizen participation components, the engineering services demand would grow beyond MDI's current capacity.

Constraints

MDI constraints have little to do with needed administrative or territorial reforms.

Coordination with Other Donors

MDI consultants appear to have taken advantage of any resources available to their client communal services companies.

Cross-Cutting Themes

MDI has used strategic planning and citizen participation mechanisms with all of its clients but its principal objectives are engineering and accounting reforms

Implementation

MDI does good work and in the cities in which they have operated it has made a significant contribution to the well being of Ukraine's citizens by helping the communal services companies to better deliver core utility services.

5. U.S.-Ukraine Foundation (USUF)

Relevance

Training of local government officials through its RTCs is clearly in keeping with USAID objectives. Even though the Community Partnerships Project (CPP) exchange program is no longer a USAID funded project, it is apparent that the relationships established through CPP continue to serve USUF's current training mission.

Beneficiaries

Training programs have been designed and conducted for a wide array of local government officials throughout the country. Essentially every area of local government management and finance has been the subject of one or more sessions over time, albeit not every subject is made available to every participant.

Sustainability of Results

All the training is done by Ukrainians and in that sense the program is positioned to become sustainable. In part due to competition from AUC, it is unclear that a market approach to USUF's training is possible. Many of its trainers also conduct programs for AUC and the overlap between the programs is apparent. Although that competition is good for innovation, we do not think the market is robust enough to support two fee-based local government training institutes. AUC's membership fees provide a good funding base and it is unlikely that USUF can match this other than through donor support.

Cost Effectiveness

Based on figures provided by the directors of two of the four USUF Regional Training Centers (RTCs), the range of costs for the training operations of an RTC are from $50,000 - $75,000 annually. Our inquiries indicated that this was the range of the complete annual budget to support an RTC, including all personnel and administrative costs. Given four RTCs and using the higher figure ($75,000) for purposes of this calculation it would appear that some $300,000 would support the RTC field operations nationwide. It was reported to our team that the most recent annual budget for the USUF program was $1.8m. If this program is continued, it is the team's view that a significantly greater percentage of its total costs should be spent directly on training in Ukraine through the RTCs rather than on other costs.

By way of comparison the AUC's reported costs for its 25 regional centers are about $10,000 each annually. It is true that we did not have the data necessary to calculate a numeric comparison of training costs on a per trainee basis between the USUF's RTCs and the AUCs regional centers. Nevertheless, based on the number of personnel in each center and their reported level of activity it is clear that the AUC is conducting their training much more efficiently. This is true on a per center basis and is demonstrably the case if the total national budget of each is compared.

Implementation and Constraints

As with any local government training program the basic problem for providers is the wide range of possible subjects and deciding how to concentrate on key competencies. USUF appears to have simply avoided this choice by trying to instruct to demand. The requests are too broad and USUF's attempt to cover a great number of subjects has resulted in training that is not nearly deep enough. Each course is more of an introduction to the subject than an attempt to teach the substance of how to actually undertake a set of tasks. This is particularly true in the more complex areas of finance and public works.

Local officials are very busy and their budgets for training are close to non-existent. It will remain difficult for any local government training organization to capture the time and pay the expenses needed to really train local officials in the more complex areas of governance. To some degree this forces USUF to teach only the basics about a range of subjects over a long period of time. Local government officials are simply not going to dedicate the time and energy needed for much of the training they actually need.

6. Local Economic Development (LED)

LED was one of the most popular and well-received USAID projects that we evaluated. In all of the cities we visited it was lauded as a valuable initiative to revive the economic fortunes of towns. The very presence of USAID is enough to attract foreign direct investment into a city, and Strategic Plans often lead to towns being rated. We heard nothing but praise for LED and its Strategic Plans.

In Kovel the head of the Strategic Planning Committee had used his position as a platform to be elected city Mayor in March 2006. In Lviv, where USAID assistance had not been active since 1999, the newly elected mayor and his western educated assistants intensely lobbied for USAID

to now reconsider its decision not to work in the city. Lviv, the largest city in western Ukraine, feels a sense of discomfort and embarrassment that other Ukrainian cities have successfully gained from USAID projects, such as LED.

LED activities rely on local receptivity to U.S. and Western assistance and political will, principally of the mayor but hopefully backed by the council. In many instances, such as Brovary, the mission saw local city councils and mayors who had continued the financing of projects after USAID had ended their financial support (i.e. Bizpro).

LED participation requires that cities deal with the difficult issues of how to repackage themselves as post-Soviet entities through local economic development. City officials are generally aware of their problems and LED provides at least one tactic for addressing urgent needs through a modern democratic process. In Ivano-Frankivsk we saw concrete evidence of this with the entrance of two very large foreign investors who had been attracted by favorable local conditions encouraged by LED. LED has introduced the western concept of brown/green fields or tech parks, which are common in the west but were unheard of in Ukraine until relatively recently.

LED has also played a role in re-modeling the Soviet-style city Economics Departments into modern Economic Development agencies designed to implement the LED Strategic Plans. All of the cities with Strategic Plans are in the process of implementing them. Newly elected mayors particularly like the plans, as they can show a sense of initiative and leadership that will earn them public support.

A major positive aspect of LED is the degree to which the mayors use discussion surrounding the Strategic Plans to improve civic participation. LED's Strategic Plans encourage interaction between NGO's, business groups, the media and local officials in a way unimaginable beforehand. Transparency and openness are encouraged in the LED program, which is then also applied to other USAID projects (e.g. municipal tariff reforms, budgetary issues).

APPENDIX B: LOCAL GOVERNMENT ACTIVITIES AT THE NATIONAL LEVEL

As the assessment recommends that USAID focus its efforts much more at the national level to put in place an appropriate framework for local government, we thought it would be useful for you to see a brief description of what our activities are currently doing at the national level.

Municipal Budget Reform (MBR) Activities at the National Level

The MBR project has activities at both the central and local levels. This ensures a unified, shared vision of budget reform at different governmental levels by various stakeholders. MBR's empirical evidence (which follows) reveals true steps to budget reform implementation.

Revision of the Budget Code of Ukraine and Related Laws and Regulations

MBR experts work directly with top specialists from the Ukrainian Ministry of Finance. A byproduct of this close cooperation is *The Legislative and Methodology Working Group*, which advances the Program Performance Budgeting (PPB) process at the national level and initiation of PPB implementation at the local level. A major Working Group accomplishment is the revised draft to the Budget Code sections on national budget and PPB requirements.

The Deputy Minister of Finance, Ms. T. Yefymenko, personally requested MBR to produce proposals justifying the introduction of PPB in local budgets. The Cabinet of Ministers used these proposals to prepare a special assignment that eventually Vice Prime Minister Kliuyev signed (Letter No. 37917/0/1-06 dated October 10, 2006). The document orders the ministries of Education, Healthcare, Labor and Social Affairs, Economy and Finance to develop typical lists of budget programs and performance measures. Also, the Ministry of Healthcare requested MBR to assist with the development of healthcare sector programs and performance measures.

Support Verkhovna Rada Staff in Legislative Activities

MBR chaired a meeting with staff from the Secretariat of the Verkhovna Rada's Budget Committee and the Ministry of Finance on Budget Code revision. Also, MBR has been participating in Round Tables sponsored by the Secretariat of the Verkhovna Rada's Budget Committee to discuss the 2007 Budget Resolution.

Performance Program Budgeting (PPB) Training at the National Level

Within the past year, MBR has conducted PPB training for nearly 200 staffers from the central government including 54 specialists from the ministries of Economy, Education, Finance, Health Care, and Labor and Social Affairs, 14 officials from the Secretariat of the Verkhovna Rada, 78 specialists from the Ministry of Finance of the Autonomous Republic of Crimea, and 29 officials the Ministry of Finance's Local Budget Department (this was on special request from Deputy Minister of Finance Ms. T. Yefymenko). In addition, MBR trained 20 specialists from the Trade Unions Association of Ukraine.

National Advisory Board

To ensure effective cooperation and coordination among governmental agencies while implementing budget reforms, MBR has created the National Advisory Board (NAB). Members of the NAB include MBR project managers, top governmental officials, members of the Secretariat of the Verkhovna Rada's Budget Committee, members of the Association of Ukrainian Cities, as well as city mayors. The main objective of the NAB is to draw a consensus on PPB implementation on both the national and local levels.

Drafting and Evaluating Budget Legislation and Regulations (of All Levels)

Two important draft laws aimed at increasing local government fiscal autonomy and expanding its tax revenue base have been developed with close cooperation with the AUC:

- Draft Law of Ukraine "on Local Taxes and Fees" (will increase local budgets' "own" revenues by 40-50%, if enacted).
- Draft Law of Ukraine "on Amending the Law of Ukraine "About Land Fees" and other legislative acts" (which will triple local budgets' revenues if adopted)

MBR and the AUC work together developing new national legislation in the following manner:

- MBR develops a first version of a draft law by holding regular meetings with the AUC;
- The draft law is sent for review and comments to the Association of Financial Officers (AFO) and to selected cities – members of a working group on particular piece of legislation;
- The AUC and MBR conduct round tables with stakeholders of the particular piece of legislation;
- MBR edits the draft law based on comments, suggestions, and discussions;
- The final version of the draft law is provided to the AUC and in turn the AUC submits the draft law to the Parliament.

Another piece of legislation, which MBR has developed in collaboration with the AUC, is the Draft Law of Ukraine "On Communal Property". This draft law provides a framework for public protection of communal property rights including state authority responsibility regarding communal property intervention, as well as local governments' responsibility to their respective communities regarding the effective and lawful use of communal property. What is more, this draft law has recently been registered in Parliament and its main aim is to strengthen the rights of local communities and provide mechanisms for effective communal property management.

Budget Monitoring

On a monthly, quarterly and annual basis MBR monitors Ukraine's budget and related legislation. This is done to provide analysis of performance measures for budgets at all levels as well as to evaluate current legislation effectiveness regarding execution of Ukraine's central and local budgets. This analysis is captured in MBR's publication entitled, "Budget Monitoring", which is issued regularly and distributed to the Verkhovna Rada's Budget Committee, the Committee on State Construction and Local Governance, the Secretariat of the Presidential Administration, the Ministry of Finance and Economy, the AUC, the U.S. embassy in Ukraine and other MBR partners.

Budget Resolution

MBR analyze the government published document entitled *Budget Resolution* for a given year. Through this activity, a number of MBR proposals were included into the *Budget*

Resolution for 2006 and 2007, specifically concerning some PPB components and the need of exposing the budget policy to a multi-year perspective.

Draft Law of Ukraine "on the State Budget"

MBR analyzes annually the Draft Law of Ukraine "on the State Budget" and provides recommendations on improving the legal provisions, calculations and other data. To illustrate their acumen in this area, MBR discovered a hidden deficit of local budget expenditures amounting to UAH 3.5 billion when analyzing the State Budget for 2006. Also, when analyzing the State Budget for 2007, MBR identified major issues relating to revenues and expenditures of the state and local budgets, along with inter-budgetary transfers (i.e. the risks of re-introducing tax exemptions for businesses in free-economic zones, changes to the tax legislation through budget laws, and the growing dependency of local budgets on inter-budgetary transfers.

Assessment and Methodology on Macroeconomic Forecasting and Medium-term Budget Policy

Mid-term budgeting and strategic budget planning is an indispensable element of PPB. It is especially important for local governments as it means stable and predictable state budget policies and inter-governmental transfers. That is why MBR, in close collaboration with the Ministry of Finance, developed proposals to the Draft Law "on Amendments to the Budget Code and some other Legislative Acts" in what concerns mid-term budget planning and PPB implementation in local budgets. According to Cabmin's resolution the Draft Law should be submitted to Cabmin by February 10, 2007.

Communal Services Reform Roll-Out (CSRR) Project Activities at the National Level

The Municipal Development Institute (MDI) is responsible for the CSRR project. MDI works at both levels of government, national and local. At the national level, MDI advocates for communal services enterprises regarding legal and regulatory issues, and collaborates with the Ministry of Construction, Architecture, Housing and Communal Services on drafting legislation related to implementation of communal services reforms. At the Ministry's requests MDI staff also reviews draft laws and regulations drafted by other agencies and provides comments.

National Dissemination on Communal Services

MDI supports the Ministry of Construction, Architecture, Housing and Communal Services efforts in disseminating best practices and communal services reform achievements to national audiences through national public information campaigns as well as co-sponsoring annual national conferences related to the communal services issues. MDI staff takes part in and makes presentations at all significant events held by the Ministry.

Requests from the Government of Ukraine (GOU) and various Ministries

Over the past year, a number of national level governmental entities approached MDI with the following requests:

The Ministry of Construction, Architecture, Housing and Communal Services

- To carry out all-round analysis of legislation related to the Housing and Communal Services sector; to develop proposals on making necessary amendments; and to develop missing legislative and normative acts.
- To contribute to the development of the new Housing Code relating to the management of housing stock (condominiums), the settlements between condominiums and service producers (utilities), the settlements between the members of condominiums and the condominium for services consumed, development of contractual basis (sample agreements).
- To review the Draft Law of Ukraine "on particularities of Transferring into Concession Water and Wastewater Installations which are in Communal Ownership".

The Ministry of Labor and Social Policy

- To prepare proposals aimed at amending the regulations on receiving subsidies.
- To develop a model to track the impact of changes on granting subsidies and their costs.
- To assess financial requirements for funding subsidy programs and developing a mechanism to adjust said programs regarding budgetary capacity.
- To develop procedural regulations on granting monetary (in cash) subsidies and to develop tools to calculate the subsidy amount based on social norm calculations.

The Anti-Monopoly Committee

- To prepare a study justifying unreasonable contractual relationships and operational schemes between the district heating enterprises and Subsidiary Enterprise “Gas Heat”

Working Groups

MDI staff has been members of various working groups at the Ministry Construction, Architecture, Housing and Communal Services. Currently this Ministry’s working group is preparing a Draft law “on the Regulation of Tariffs for Communal Services Provided by Natural Monopolies”. MDI staff also participates at the Collegium meetings and Public Board meetings of the Ministry.

The Association of Ukrainian Cities (AUC) Activities at the National Level

Ukraine has an emerging community of local government support organizations such as indigenous municipal associations of which the AUC is the strongest. The AUC enjoys productive working relationships with officials from the Presidential Secretariat and the Cabinet of Ministers. Many of these officials either are former mayors (i.e. Vice Prime Minister Rybak is a former Donetsk Mayor) or have previous local government experience. The AUC provides a forum for direct policy dialogue for mayors with top Cabinet of Ministers officials on specific solutions to problems in local government development, including issues pertaining to social standards, tariff policy, local budgets, and energy efficiency in the utilities sector. The AUC cooperation with the Verkhovna Rada is facilitated by the so-called “Local Government Caucus” consisting of 28 National Deputies who are former mayors.

The AUC's Commitment to Local Government Legislation

The AUC Charter clearly states that legislative advocacy at the national level is a statutory task. The Charter mandates the AUC to represent and protect local governments' constitutional rights from a legislative standpoint (especially during the drafting process). Furthermore, the AUC pushes for the national adaptation of the European Charter of Local Self-Governance.

The AUC realizes that the current legislative framework in Ukraine needs to be drastically improved in order to realize decentralization of public administrations and municipal economical self-sustainability. To this end, the AUC legislative priorities aimed at establishing territorial arrangements for local government powers, strengthening the financial foundations of local governments, identifying the legal status of communal property and settling issues related to the communal land and natural resources ownership. In particular, the AUC has repeatedly pointed out the need of amending the Constitution of Ukraine (Chapter XI "Local Self-Governance") and laws "On Self-Governance of a Territorial Community", "On Local Taxes and Fees", "On Communal Property", etc.

The AUC Legislative Advocacy Components

The AUC legislative advocacy mechanism includes four major components:

- Drafting and lobbying legislation for local governance, strengthening local financial foundations;
- Tracking the progress on draft legislation prepared by AUC experts;
- Drafting model local ordinances and providing technical assistance for local governments in drafting their local regulations;
- Monitoring all draft legislation submitted to the Verkhovna Rada related to local government.

The Concept of Law-Drafting Activities

On December 2, 2005 the AUC passed the *Concept of Law-Drafting Activities of the Association of Ukrainian Cities*. This Concept is designed to accumulate proposals from AUC member territorial communities and local governments while drafting legislation on local and regional development issues. The Concept establishes a legal framework and technical requirements for drafting local government legislation by the AUC, along with other organizations and projects (including USAID LG Projects). This is done by allocating the legal expertise and management responsibilities within the AUC to support the legislative development, and it also introduces a comprehensive local government law-drafting methodology.

AUC Drafting Methodology

The AUC's beliefs on law-drafting activities identify the following as priorities:

- Strengthening organizational and legal framework for local government operations;
- Promoting democracy at the local level;
- Improving the financial and resource foundations of local governments;
- Ensuring sustainable development of local territorial communities.

The AUC draft legislation process adheres to the following steps:

- Forming a working group;
- Drafting the concept of the new legislation, and placing the concept on the AUC web site;
- Holding discussions on the concept of new legislation;
- Drafting the legislation;

- Examining draft legislation in governmental agencies and public discussions of the draft legislation;
- Submitting the draft legislation to the parliament and tracking the progress on parliamentary discussions and passing the legislation.

The main priorities that the AUC address in new legislation follows:
- Constitutional amendments regarding local and regional level powers;
- Local elections;
- The status of territorial communities and the creation of viable communities;
- The delineation of functions and powers between local government bodies and local bodies of the state executive;
- The status of local council members and mayors;
- The training and re-training of local government officials;
- The municipal statutory law;
- Status of local government associations;
- Local budgets and inter-governmental relations;
- Local taxes and fees;
- Solid waste management;
- Utility services and tariffs;
- Strategic planning, local economic development, SME support;
- Local borrowings, municipal bonds, municipal credit unions, etc.

The Center of Law-Drafting Initiatives

Under the USAID grant the AUC has set up the Center of Law-Drafting Initiatives and this entity will develop 15 new draft laws. These activities are in addition to the already mentioned *Concept of Law-Drafting Activities*.

Year One of the Project

- The Law of Ukraine "on Resolving Certain Issues of the Territorial and Administrative arrangement of Ukraine"
  The majority of territorial communities in Ukraine are not self-sustainable as local government bodies cannot provide a full range of local government services.
  The goal of the draft law is to address this problem, suggest how viable local territorial communities can be established, and ensure the required level of administrative and public services to residents of these communities. The goals of the law have also been to realize a rational system to balance the development of Ukraine as a whole territory.

- The Law of Ukraine "on Local Government Militia"
  The Ukrainian Constitution and current legislation delegate law enforcement functions to both state and local government bodies. The Law of Ukraine on "Local Self-Governance in Ukraine" allows local councils to make decisions on local militia squads and how to finance such activities from local budgets.
  The goal of the draft law is to define local militia as a component of law enforcement entity at the local level in terms of functions, tasks and sphere of competence.

- The Law of Ukraine "on Self-Governance of a Territorial Community"
  The Ukrainian Constitution and the 1997 Law "On Local Self-Governance in Ukraine" introduced the concept of a 'territorial community'. A territorial community is defined as citizens who permanently live within the boundaries of a village, town or city, which are independent administrative and territorial units, or as a voluntary union of residents of several villages which have one administrative center.

The goal of the draft law is to further define constitutional rights of territorial communities and to determine a self-governance framework. The draft law will address key problems related to local self-governance, namely: the legal formation of territorial communities and their main functions and powers.

- The Law of Ukraine "on Amending the Law of Ukraine "On Elections of Council Members of the Supreme Council of the Autonomous Republic of Crimea, Local Councils and Village, Town and City Heads"
  The goal of the draft law is to make most of the provisions more detailed and to minimize the opportunities for misinterpretation and improper application of this law and thus prevent falsifications during elections.

- The Law of Ukraine "on Associations and Other Voluntary Local Government Unions"
  The Law of Ukraine "On Local Self-Governance in Ukraine" provides for the opportunity to set up associations and other voluntary local government unions. However, the mechanism for the formation of such unions, their status and types of relationships with the central government bodies has not been defined.
  The goal of the draft law is to create the legal foundations for local government associations and to represent and protect territorial rights. The draft law contains provisions which (1) require state executive bodies to consult with local government associations before making decisions on local government issues; (2) delegate the function of national local government advocacy to associations which have a nation-wide status, and (3) recognize employees of local government associations as public servants.

Year Two of the Project

The following five draft legislation represents the AUC's law making activities for Year Two of the project. However, in view of an unstable political environment, the AUC may revisit these activities and decide on a different set of draft legislation pursuits in order to better address the needs of local government and local autonomy-enhancing laws.

- The Law of Ukraine "on Main Guidelines of National Policy in Decentralization, Local Governance and Strengthening Territorial Communities"
- The Law of Ukraine "on Executing Delegated Powers by Local Government Bodies and Local Bodies of the State Executive"
- The Law of Ukraine "on Accountability in Local Governments"
- The Law of Ukraine "on Regulating Services rendered by Utility Companies"
- The Law of Ukraine "on Leasing/Transferring Water and Heat Companies for Private Management Purposes"

Year Three of the Project

- TBD

In additional to these cited legislative initiatives, the AUC has activities in the area of local government finance and inter-budgetary relations. The AUC pursues these activities by supporting the Verkhovna Rada in local budget legislative initiatives, participating together with other USAID projects in the National Advisory Board's Local Finance activities, collecting information and generalizing local budget needs for municipalities, providing a discussion forum for mayors with the Ministry of Finance officials, and drafting and evaluating budget legislation and regulations.

Local Economic Development (LED) Activities at the National Level

In promoting local economic development throughout Ukraine, the LED project supports the adoption and implementation of national legislation and policy favorable to financial independence and decision-making by local authorities. In doing so, LED works with relevant committees of the Verkhovna Rada, GOU ministries involved in Administrative/Territorial Reform, and other donor implementers such as the AUC and MBR.

LED Activities Related to National Legislation

- LED prepared legal analysis of the Draft Law "on Local Self-Government", and made recommendations on the use of municipally-owned lands. This was done at the request of the AUC.
- LED organized and led a national conference on "Efficient Utilization of Land Investment Potential for Economic Development in Ukrainian Cities" and drafted policy recommendations to make land available for commercial use and investment. Representatives from Goskomzem (the national Ukrainian land agency) took an active role in this conference.
- LED participated in the working group consisting of representatives of the Verkhovna Rada, the State Land Resources Committee, the Ministry of Building and Architecture, and the AUC. This working group drafted laws and regulations governing urban economic development.
- The Verkhovna Rada Committee on Agricultural Policy and Land Relations invited LED to take part in the discussions and ensuing drafting of legislation on municipal land resources and investment attraction.
- LED actively participates in relevant national-level conferences such as the conference on "Ukraine's Potential to Implement Public-Private Partnerships in Infrastructure Development," organized by the Ministry of Transportation and Communications, and the conference on "Development of Civil Legislation of Ukraine: Ways of Negotiation of Code Controversy, " organized by Kyiv Shevchenko National University with participation of judges from the Higher Commercial Arbitration Court of Ukraine and the Supreme Court of Ukraine.
- On a continual basis, LED monitors and assesses new draft legislation on urban land, investment attraction, local self-government, urban planning and construction, and local economic development in order to block any poor legislative ideas that may be proposed and to match future legislation with adjustments to the LED tool kit.
- LED has reviewed and commented on investment-related legal initiatives including:
    - The Law of Ukraine "on General Principles for Creating and Operating Investment Parks,"
    - The DerzInvest (part of the Ministry of the Economy) white paper on "measures to improve investment conditions in Ukraine,"
    - The "Industrial Park Development Analysis" of the WTO Accession Project,
    - The Draft Law of Ukraine on "Industrial Parks Development",
    - The Draft Parliamentary Amendment on "Introduction of changes and additions to the Land Code of Ukraine"

InvestUkraine and Other national-level FDI Efforts

The LED project is helping to establish and strengthen the credentials of InvestUkraine, the country's national investment promotion agency. LED works with InvestUkraine's Director, Ihor Zohlada, and Deputy Director, Olena Hantsyak, to develop a network of local and

regional government entities capable of joining resources in order to market community investment opportunities internationally. LED also trains FDI specialists throughout the country, and maintains an FDI-focused database promoting investment opportunities within Ukraine for foreign investors. More specifically regarding FDI at the national level, LED has:

- Trained and certified two InvestUkraine employees as experts in FDI attraction;
- Organized a short study tour to the Czech Republic for InvestUkraine and the Ministry of Economy officials to learn about the operation of CzechInvest, one of the most successful investment attraction agencies in Europe, and about municipal and private industrial park development;
- Designed and populated a database of investment opportunities, which has been made available to InvestUkraine for servicing prospective international investors;
- Provided consultations to the Foreign Investment Advisory Council on greenfield investments;
- Took part in and presented at events co-sponsored by InvestUkraine such as the Ukrainian PR Forum.
- Shared project-generated analytical knowledge such as the 2005 Business Attitude Survey with InvestUkraine and relevant ministries.

Access To Credit Initiative (ATCI) National-Level Municipal Finance Activities

ATCI mobilizes credit for use by small and medium businesses, prospective homeowners, farmers and municipalities, with the accent on mortgage lending, municipal bonds, and financial leasing. Central activities include developing an appropriate legal environment; building a knowledgeable cadre of financial professionals, and creating appropriate financial products to meet the needs of Ukrainian SMEs, agriculture, and municipalities. The following illustrates how ATCI is working at the central government level.

Municipal Finance Facility

ATCI is developing a municipal finance facility to channel funds from Ukraine's capital market to creditworthy cities and utility companies. Once the Government of Ukraine (GOU) decides to pursue this objective, ATCI expects a large-scale technical assistance effort including business planning and legal reforms. It would require a minimum of one year and a maximum of 24 months from GOU's decision to startup of finance facility operations. Legal reforms are needed to establish the facility itself, and also to improve cities and utilities' ability to pledge strong security, increase locally modifiable revenues, and predict future intergovernmental transfer flows. The finance facility would start operations with initial capital in the range of UAH 100 million. Within a few years, the facility would leverage its capital into a loan pool of more than five hundred million hyrvnia.

Drafting the Law "on Local Borrowing and Local Guarantees"

ATCI is supporting the Ministry of Finance in drafting a Law "on Local Borrowing and Local Guarantees". During the period June 2005 to November 2006 ATCI has participated in seven working sessions led by the Ministry of Finance and attended by several other ministries and city representatives. ATCI staff attorney has become expert on the key issues and provided substantial comments to improve this draft legislation. In addition, ATCI hired two high level legal experts that provided detailed written comments on the draft Law in April 2006.

In June 2006, ATCI experts provided additional written comments in relation to legal changes necessary for establishing and operating a municipal finance facility. ATCI collaborated extensively with the World Bank's late-2006 review of the legal framework for local borrowing. The draft Law on Local Borrowing has been circulating in one form or another for several years, but has never reached Parliament. In lieu of a free-standing Law on Local Borrowing, the Ministry of Finance says it intends to introduce amendments to the Budget Code in the near future.

Helping Cities to Accumulate Annual Budget Surpluses

ATCI is working with Ministry of Finance Director of Department of Public Debt to allow cities to accumulate annual budget surpluses in bank accounts, for bond principal redemption (instead of having to sell land or otherwise raise the entire principal amount in the final year of bond maturity). Surplus amounts would accumulate during the bond term to equal the size of the final-year bond principal redemption. ATCI expects the Ministry of Finance to resolve this question before the end of 2006.

Working with the Securities Commission

ATCI is assisting the Securities Commission to develop implementing regulations for municipal bond-related sections of the Law on Securities. Draft regulations have not yet been posted on the Commission's website, indicating that this work is in its early stages. ATCI is planning to analyze the draft regulations to determine what impact they will have on municipal bond issuance.

U.S.-Ukraine Foundation's (USUF) National-Level Initiatives

This project links 14 U.S. cities with Ukrainian cities to improve local governance by targeting one or more of five focus areas: economic development, budgeting, housing and communal services, transportation and citizen participation. The following highlights the project's activities at the national level.

Roundtables on Legislative Efforts Related to Local Government

USUF works together with Parliamentary Committees such as Budget and Financing, Local Government, and the Secretariat of Verkhovna Rada. USUF will be hosting roundtables to discuss national laws and how they affect local government. At these roundtables, USUF will invite national deputies, mayors, experts, lawyers, and journalists, in order to foster a dialogue on issues related to administrative / territorial reform, public administration, and issues of concern to local communities. Also, white papers will be written and presented, and a resource center containing these will be created.

Mayors' Club

On December 22, 2005, the Mayor's Club was created. It is a professional organization of Mayors, which represent the interests of professional men and women whose career is in City Management. The main activities include: working within the context of increased self-government reform at the local level, safeguarding the supremacy of law and open civil society, deepening the dialogue between the people and authorities, and strengthening the role of non-governmental organizations (NGOs) in developing municipal and regional policies. More importantly, the Club aims at providing a forum conducive to the professional and educational development of individuals in Ukraine who serve as mayors.

Conferences

USUF conducted conferences on an annual basis. These conferences provide a venue for reform-minded government officials to meet, network and share experiences. They also provide regional officials with the opportunity to learn about new resources, to meet people from Kyiv working at national government level, national NGOs and donor projects, which support economic/community development.

APPENDIX C: LIST OF PERSONS INTERVIEWED

USAID and US Embassy

Earl Gast, Mission Director

Gary Linden, Director, Office of Economic Growth

Kevin Sharp, Deputy Director, Office of Economic Growth

Kathryn Stevens, Director, Office of DG

Assia Ivantcheva, Deputy Director, Office of DG

Stephen Fitzpatrick, Chief of Local Government Division

Andriy Mitskan, Senior Project Management Specialist, Financial and Energy Sectors

Andriy Nesterenko, Project Management Specialist, Economic Growth

Oleksander Piskun, Democracy Project Management Specialist

Victor Rachkevych, Project Management Specialist, Municipal Development

Kent Logsdon, Counselor of Political Affairs, US Embassy

Local Government

Valeriy Baranov, Mayor, Berdyansk City Executive Committee

Peter Goncharuk, Deputy Mayor, Berdyansk City Executive Committee

Sergiy Ovcharenko, Director, Cherkasy Water Works

Mykola Fedoruk, Mayor, City of Chernivtsi

Yevhen Prokopets, Vice-Mayor, Chernivtsi City Council

Anatoliy Melnyk, Director of International Relations, Chernivtsi City Council

Victor Moisyeyenkov, Deputy Mayor of Donetsk, Head of Financial Board

Victor Anushkevychus, Mayor, Ivano-Frankivsk City Council

Oleksandr Mazurchak, Mayor, Kamianets-Podilsk City Council

Sergei Babiye, First Deputy Mayor, Kamianets-Podilsk City Council

Valeriy Klymenko, Deputy of City Council, Kamianets-Podilsk City Council

Fazil Abbasov, Mayor's Economic Counselor, Kharkiv City Council

Victor Rud, Head of International Relations Office, Kharkiv City Council

Victor Kovalenko, Head of Department of Foreign Economic Relations, Kharkiv Region

Sergei Kosharyk, Mayor, Kovel City Council

Andriy Sadovyy, Mayor, Lviv City Council

Taras Burhan, Mayor's Counselor, Lviv City Council

Iryna Podolyak, Director of International Relations, Lviv City Council

Andrij Stechiv, Head of Finance & Budget Commission, Lviv City Council

Implementers and Local Partners

Victor Antonenko, Vice President, Association of Ukrainian Cities

Myroslav Pittsyk, Vice President on Executive Work, Association of Ukrainian Cities

Valeriy Mykhaylenko, Grants Manager, Association of Ukrainian Cities (Expanding Training and Advocacy-ETAS)

Angus Olson, Director of Europe and Eurasia, Chemonics

Howard Ockman, Chief of Party, LED Project

Ihor Lepyoshkin, LED Advisor, LED Project

Lidia Volosyanko, LED Advisor, Economic Development of Ukrainian Municipalities (ERUM)

Olga Romanyuk, President, Municipal Development Institute

Ihor Slobodenyuk, Executive Director, Municipal Development Institute

Tetyana Fuley, Coordinator for Administrative Reform Issues, Parliamentary Development Project

Edward Rakhimkulov, Association Field Director, Parliamentary Development Project

Vyacheslav Tolkovanov, International Protocols Coordinator, Parliamentary Development Project

Richard Genz, Senior Advisor, Pragma (Access to Credit Initiative)

Robert Bodo, Chief of Party, RTI (Municipal Budget Reform-MBR)

Eric Bergthold, Chief of Plans and Programs, RTI (Municipal Budget Reform-MBR)

Nadia McConnell, President, US-Ukraine Foundation

Markian Bilynskyj, Vice President, US-Ukraine Foundation

Vera Andrushkiw, Director of Community Partnerships Projects, US-Ukraine Foundation

Kochyev Ivanovich, Director, US - Ukraine Community Partnerships

Marta Kolomayets, Project Director, US - Ukraine Community Partnerships

Juan Campos, Deputy Project Director, US - Ukraine Community Partnerships

Others

Irina Abramova, Executive Secretary, Kharkiv Investment Council

Igor Alipov, Kontsern Saphire

Yuri Bobrov, Executive Director, Association of Donbass Mining Towns

Oksana Fedorovich

Pavlo Goryok

Victor Kulibaba, President, Berdyansk Community Foundation

Alexander Mertens, President, International Institute of Business

Fedorovych Oksana, Managing Director, Optimus Development Consultants Ltd.

Rostyslav Pavlenko, Advisor, Secretariat of the President of Ukraine

Victor Petrenko, Dean of Management of Regional Economic Development, Ivano-Frankivsk National Technical University of Oil & Gas

Yevgen Poberezhny, Executive Director, Committee of Voters of Ukraine

Ivanna Reed, Regional Program Director, Community Connections Program

Emilia Serper, Investment Project Manager, Ardo

Serhiy Skrypnyk, First Deputy General Director, Evolution Media

Gerald Wein, International Consultant

Yuriy Yakymenko, Director of Political & Legal Programs, Ukrainian Center for Economic & Political Studies

APPENDIX D: SAMPLE INTERVIEW QUESTIONS

1. What USAID programs are they familiar with?

2. Have they had direct experience with these programs or is their knowledge based on staff reports, written materials, etc?

3. Were the goals of the program(s) clear?

4. Did the program(s) deliver what was promised?

5. How did the program(s) positively affect local government operations?

6. Would these changes have occurred by other means in the absence of these program(s)

7. Was their a citizen participation component to these programs and if so how did the public react?

8. Would you like to see these programs continued and/or are they still needed and what would the consequence(s) be if the programs were terminated?

9. How would you have improved these programs and/or what would you do differently if they are continued?

10. Have any of your fellow mayors/local government associates commented on these or any other USAID programs?

11. Who else should we speak with?

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