

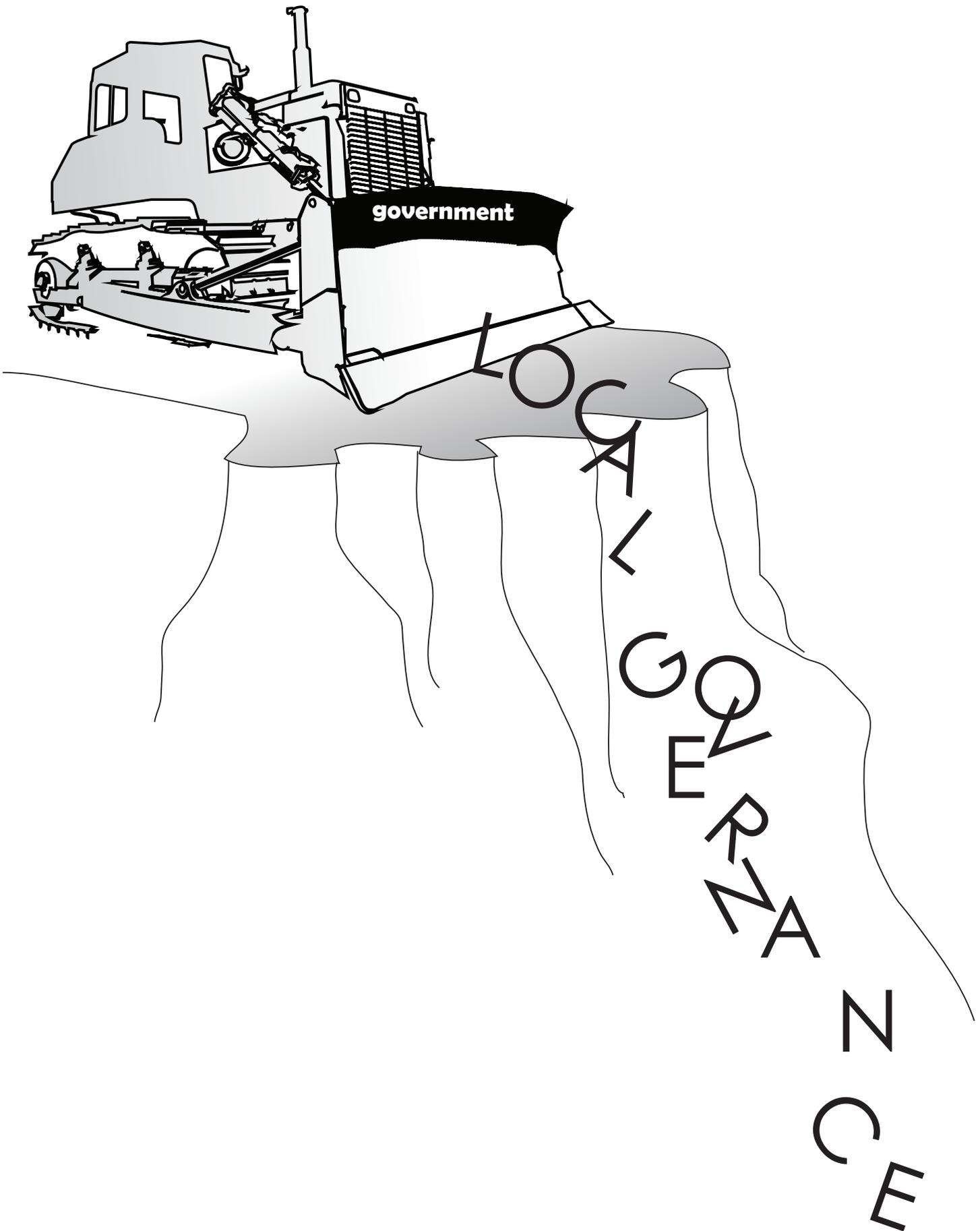


USAID
FROM THE AMERICAN PEOPLE

DEVELOPMENT INITIATIVE FOR ADVOCATING LOCAL
GOVERNANCE IN UKRAINE (DIALOGUE PROJECT)



ASSOCIATION OF
UKRAINIAN CITIES
BY JOINT EFFORTS





USAID
FROM THE AMERICAN PEOPLE

DEVELOPMENT INITIATIVE FOR ADVOCATING LOCAL
GOVERNANCE IN UKRAINE (DIALOGUE PROJECT)



ASSOCIATION OF
UKRAINIAN CITIES
BY JOINT EFFORTS

LOCAL GOVERNANCE IN UKRAINE

2013

ABRIDGED VERSION

THIS PUBLICATION IS MADE POSSIBLE BY THE GENEROUS SUPPORT OF THE AMERICAN PEOPLE THROUGH THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID). THE CONTENTS ARE THE RESPONSIBILITY OF THE AUC AND DO NOT NECESSARILY REFLECT THE VIEWS OF USAID OR THE UNITED STATES GOVERNMENT.

| INTRODUCTION

The report provides an overview of the annual trends of government policy with regard to local governments, how these trends tell on the resources and capacity of local councils, as well as on the quality of services provided to citizens. The document also deals with the condition of the local government reform in the reporting year and the prospects for the implementation of this document repeatedly declared by the country leadership.

The report is intended for local governments, public at large, government authorities, academics, journalists, and all those who are interested in these issues.

1. CURRENT AND TENDENCIES OF BUDGET SUFFICIENCY OF TERRITORIAL COMMUNITIES

In 2013, the discrepancy between the local government authority and the resources available to implement it has deepened. The shortage of financial resources to support the implementation of the authority delegated by the state constituted approximately 30 billion UAH.¹

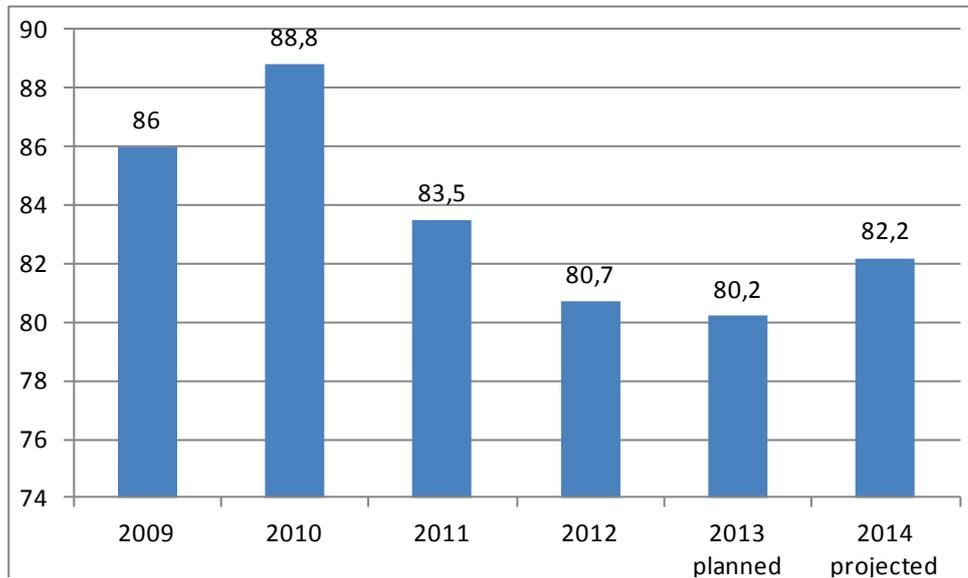


Figure 1. Overall budget sufficiency to support the implementation of the delegated authority, %

In 2009-2011, local governments received only 89-86% of funds actually needed to support the implementation of the delegated authority, whereas in 2013 this number constituted 80.2% (Figure 1).

At the same time, in 2009-2012, local governments had to redirect from 25.6 to 37 % of their own discretionary funds to support the implementation of the delegated authority, whereas in 2013, according to the preliminary calculations, they had to spend almost 39% of such resources. Such things had a negative effect on the housing and municipal utilities sector, transportation networks, local development programs, and the quality of corresponding social services.

As was projected, in October local governments started to delay payments of salaries to the employees in the public sector. The top country leadership shifted the responsibility to local government officials. Nevertheless, the cabinet of Ministers actually managed to find 4 billion UAH and channelled them to local budgets.

In the opinion of many experts, the reason for this situation can be found in the lack of funds in the state treasury, however the poor quality of the budget forecasting by the Ministry of Finance is another reason. In 2012, of 692 local budgets 283 did not meet the projections by the Ministry of Finance by 1,976.0 million UAH, whereas in 2013 local governments met only 93.4 percent of targeted budget revenue indicators. The inherent shortage of financial resources to support the implementation of local government delegated authority increased the local budget debt on medium-term loans and as of December 12, 2013 it constituted totalled almost 7.7 billion UAH. (4.7 billion UAH during the period of 2009-2012, with 2.95 billion UAH for 2013).

¹ More details about the local budget indicators for 2013 are provided in the Articles «ДЕРЖБЮДЖЕТ-2013 – ДЕЖАВІЮ «ПОКРАЩЕННЯ» [National Budget for 2013 – an “improvements” déjà vu] // Галузевий моніторинг. – #10. – <http://dialogueauc.org.ua/sites/all/sites/dialogueauc.org.ua/files/files/mon10.pdf> and «МІСЦЕВІ БЮДЖЕТИ - КРУТЕ ПІКЕ ТРИВАЄ...» [local budgets are still in the steep dive] // Галузевий моніторинг. - #13 - <http://dialogueauc.org.ua/sites/all/sites/dialogueauc.org.ua/files/files/mon13.pdf>

It has been obvious that the artificial shortage of local government financial resources is a happy excuse for the central government to conceal the shortage of the National Budget funds, as the central government, while transferring the authority to the local level without the proper financial support, relieves itself of the considerable scope of responsibilities.

State Treasury administration of local budgets has become a growing problem issue, especially on the background of overall shortage of funds in local budgets. As of October, according to the Association of Ukrainian Cities (AUC) estimates, more than 6 billion UAH remained blocked by the State Treasury. This is more than 1.5 times more than by the end of 2012. At the same time, over the period of May – October, the amount of frozen funds grew three times, with the delays on payments reaching up to 150 calendar days (almost 5 months!) in certain territorial communities.

With the purpose of overcoming this problem issue, the Association of Ukrainian Cities prepared 6 draft laws and submitted them through National deputies to the parliament. However, by the end of the reporting year, none of these draft laws was registered.

The dynamics of the growth of the share of local budgets in the consolidated budget of Ukraine is quite illustrative, the increase of this indicator to 50% could be considered as one of the main indicators demonstrating the success of the inter-budget relations reform, as envisioned by the Economic Reform Program of the previous president Yanukovich.

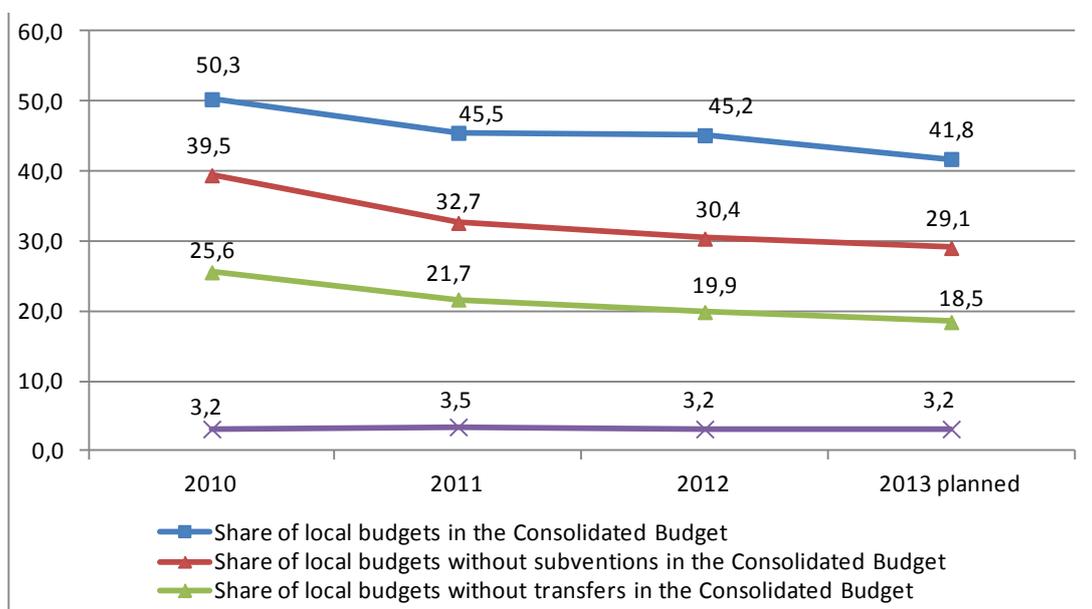


Figure 2. Share of local budgets in the consolidated budget of Ukraine for 2009-2013, %

As one can see (Figure 2), starting with 2010, the share of local budgets in the consolidated budget of Ukraine has been continuously decreasing and in 2013 it decreased to 41,8 %, thus reaching to the lowest level over the last 4 years. With the deduction of the targeted subvention from the National Budget (29.1 %) their share is becoming even smaller, while the deduction inter-budget transfers from this amount makes the share of local budgets quite small (18.5 %). The share of local government discretionary funds in the consolidated budget of Ukraine is even smaller (3.2 %). No indicators mentioned above are capable of bringing the share of local budgets in the consolidated budget of Ukraine to the projected 50 % in the Program of the president.

At the same time, the Cabinet of Ministers and the Ministry of Finance instead of trying to listen to the opinion of local governments has been ignoring the legislation for two years and failed to conduct budget consultations with local governments and their associations. The draft National Budget for 2014 was approved without the opinion of territorial communities.

2. THE RIGHT OF COMMUNITIES TO ELECT MAYORS AND THE CURRENT STATUS

Starting with 2010 and as compared with the previous 4-year period, the number of cases of pre-term termination of village, town and city mayors has grown considerably. Over this 4-year period, there were 803 pre-term elections of city mayors, whereas over the previous period, there were 703² such elections, or 14% less. In most cases, the pre-term mayoral elections were appointed by the Verkhovna Rada in a timely manner. At the same time, the situation with the pre-term termination of authority of mayors and appointing pre-term elections in these 4-year periods looks different.

First, according to the AUC data, over the period of 2010-2013, the authority of 70 city mayors was terminated, or 79% more than over the period of 2006-2009. Except for the transition to work in the central government (election of the National Deputy of Ukraine, appointment as the head of rayon administration, etc. - only 11 cases), which occurred in the previous period, the remaining cases of the termination of authority could be explained by the increased pressure on mayors on the part of both the central government and criminal groups.

Second, over the same period, the number of appointments of pre-term elections mayors not only did not increase, but, on the contrary, it decreased by 84% as compared with the previous period. Thus, of the 70 local communities where the authority of the mayor was terminated the Parliament appointed elections only in 29 cases. The constitutional right of 41 territorial communities to elect their mayor was ignored by the parliament. These cases include Chernivtsi, where the mayoral elections were not appointed for almost three years, and Kyiv with the delay of mayoral elections for almost a year and a half.

In accordance with the legislation, in the event of the pre-term termination of the authority of the mayor, the secretary of the local council who is elected of council members temporarily exercises his authority. At least in most of cities, where the appointment of pre-term elections was ignored by the parliamentary majority, the secretaries of the city councils were members of the Party of Regions.

Thus, during the reporting year and in the previous years, one could observe the take over and illegal detention by the Party of Regions of managerial tools in the cities where the elected mayors were not members of this party. One of the reasons, along with subjective factors, were the drawbacks of the current legislation, which enable a political party that has or controls the majority in the parliament to illegally block the right of territorial communities to choose their mayor.

² Here and further on the data on scheduled early elections were taken from the web site of the Verkhovna Rada of Ukraine

3. CURRENT STATUS OF THE HOUSING AND MUNICIPAL UTILITIES SECTOR AND ITS PROBLEM ISSUES

The main problem of the sector can be explained by the untimely revision of prices/tariffs for its services provided to citizens, as well as by their amount, which does not take into account the actual cost: the average coverage of cost by the tariffs in the reporting year was about 75%. At the same time, the position the state to maintain the fees for municipal services for political rather than economic criteria remained stable and any attempt of local councils attempt to streamline the tariffs were blocked. At the same time, the Cabinet of Ministers and its agencies did not block the constant increase of the tariff components, such as the minimum salary and energy, whereas it failed to take into account the need to adjust the tariffs for housing and municipal utility services. Only 5 of oblast center cities were able to change the tariffs for housing maintenance services in 2013, with 7 having their tariffs approved in early 2012 and the remaining cities having the tariffs approved in 2011-2008.

The same applies to the tariffs whose approval belongs to the authority of the National Commission for the State Regulation in the Sphere of Housing and Municipal Utilities. This agency has not revised the tariffs for district heating over the last three years and has not revised the tariffs for water supply and sewerage services over the last two years.

In the context of such tariff policy, the worst situation was observed in communally-owned district heating companies whose debt for the consumed natural gas to the NaftoHaz Ukrainy National Joint-Stock Company (NJSC) by the end of 2013 constituted 24.8 billion UAH including almost 60% of the debt they accumulated in 2013. By the end of the reporting year, the tariff for the services rendered by these companies covered approximately only 60% of their cost.

The state failed to fulfill its obligation to compensate the loss incurred by municipal utility companies from such tariff policy. In 2012, the actual amount of the subvention from the National Budget to local budgets to repay the difference in tariffs for heating services, and water supply and sewerage services constituted 14.4 billion UAH of the planned 15.9 billion UAH, whereas in 2013, the National Budget envisioned for such purposes only 5.1 billion UAH, allocating, in fact, only 2.0 billion UAH.

One should also mention that the National Budget for 2013 earmarked no funds at all for the preparations for the coming heating season. All the corresponding activities were performed exclusively with the 3.2 billion UAH allocated from the local budgets and financial resources of communally-owned utility companies. At the same time, according to data from city councils, as of late September, approximately 36% of these funds allocated from local budgets for these purposes remained frozen by the State Treasury.

Such tariff policy of the state also had its effect on water supply and sewerage companies. As a result, the average depreciation of water and sewerage systems has exceeded 35%, with leaks and unmetered losses of water in the water distribution systems exceeding, on average, 30.2%. At the same time, of 915 million UAH spent in 2013 by the water supply and sewage companies in Ukraine only 115 million UAH were provided by the National Budget. These funds were spent on the reconstruction and capital repairs of 2.2 thousand km of water supply and sewerage networks. With a pace like this, the replacement of all emergency condition and dilapidated by the end of 2013 networks would take 40 years.

It should be mentioned that water supply and sewerage sectors were the only sectors in the housing and utilities sphere to receive some funds from the National Budget in 2013. At the same time, the remaining four national government programs in the housing and utilities sphere received no funds at all.

Another 2013 event worth mentioning was the enactment of the Law of Ukraine "On Amendments to Certain Ukrainian Legislation on the State Regulation in the Sphere of Utility Services", whereby the authority to approve tariffs recycling and disposal of solid waste was also taken from local governments and transferred to the National Commission for State Regulation in the Sphere of Housing and Municipal Utilities.

4. DEGREE OF CITIZENS' SATISFACTION WITH QUALITY OF HOUSING AND MUNICIPAL UTILITY SERVICES

According to findings of the opinion survey conducted among residents of oblast significance cities and the city of Kyiv ordered by the AUC based on a sample consisting of 1,200 respondents, as of April of 2013, more than three fourths of the polled resided in buildings serviced by municipal entities. 10% of the respondents lived in condominiums, housing cooperatives and used services of private enterprises.

The overwhelming majority of households use solid waste removal services (98%), cold water supply (97%), cleaning of adjacent territories (96%). 88% utilize district heating services and 69% use hot water supply services. 48% of households have elevators in their buildings.

Cold water supply, solid waste removal, district heating services, as well as the level of convenience of paying for the services were the most satisfying. Among the least satisfying services there were hot water supply services, general condition of the housing and performance of emergency services (Table 1).

Table 1

People's satisfaction with certain types of housing and communal services, %

Types of services	Average score
Cold water supply	4.0
Solid waste management	3.8
District heating	3.8
Cleaning of the adjacent territory	3.7
Elevator operation	3.6
Emergency services	3.3
General condition of the housing	3.1
Hot water supply	3.1
Generalised score	3.6

Residents of apartments in condominium associations using privately provided services are satisfied a little more higher degree, with their total assessment equalling 3.9.

With that in mind the attitude of the polled to the principal forthcoming reforms in the sector remains mostly negative:

Table 2

Distribution of responses to the question concerning support of reforms, %

Directions of reforms	Yes	No	Not sure
Establishing condominium associations	29	46	26
Privatizing neighbourhood housing maintenance companies	17	57	26
Privatizing district water supply	15	68	18
Privatizing district heating	14	67	20

5. REFORM OF THE HEALTH CARE AT THE LOCAL LEVEL: ACHIEVEMENTS AND SHORTCOMINGS

If 2011 was the year of development and adoption of regulatory and legal acts on eventual reforms, then by the end of 2013 it was possible to draw certain conclusions and assess steps taken. In particular, the analysis of the statistics data indicates that the shortage of medics at institutions of all levels is defined by the following specialization: general practice – family medicine (staffing level at 79% on average), anaesthesiology (around 80%), phthisiology (around 76%), paediatrics (around 82%), and therapeutics (around 84%).

With the purpose of eliminating the shortage of general practitioners and family medics are being trained at medical institutions, post-graduation departments through on-the-job training of therapists and paediatricians. In 2013, the duration of such on-the-job training was curtailed from 6 to 4 months, which impacted the quality of the training.

In the context of the urgent medical assistance reform, since adoption of the corresponding Law of Ukraine (July of 2012) and during the first months of 2013, the local government agencies have taken steps of scale. Inventory of property was taken and city councils' decision adopted to transfer the property to oblast councils; the newly created oblast structures were staffed with personnel from other divisions; and, conditions were created to accommodate temporary medical stations.

Over the course of 2013, centers of urgent medical assistance and those of disaster medicine were established in all regions. According to the Ministry of Health (MoH), by the end of 2013, 875 stationary and 247 temporary urgent medical assistance units were operative in Ukraine.

Renewal of the motor pool facilitated the improvements of the indicator of timely ambulance arrival on the scene. According to the Ministry of Health, urgent medical assistance crews arrive on the scene in the cities on time in 90% of all cases and outside of cities in 91-92%.

At the same time, there is a problem of lacking the financial support to open new outpatient departments in cities; there is an acute shortage of suitable premises.

The success in the health care reform is directly interrelated with ensuring the proper financial support of the sector. However the level of financial support for the authority delegated to local governments in the health care sector leaves much to be desired. These requirements were financed in 2013 from the State Budget at 81.6% of the real need, which is 1.4% less than in previous year.

The share of local budget general fund expenditures on health care in the expenditures on delegated authority over the last five years is steadily growing. Increase in local budget expenditures is explained by initialization of the reforms in the first tier of the health care system and by allocation of additional resources on re-equipment of the newly created primary assistance centers, procurement of appliances, medicine, etc.

6. PUBLIC OPINION OF THE MEDICAL ASSISTANCE AT FIRST AND SECOND TIER

According to conclusions of the sociological survey conducted among residents of oblast significance cities and the city of Kyiv ordered by the AUC and conducted in April of 2013 based on a sample of 1,200 respondents, three fourth of the polled citizens in these cities (75%) addressed state-owned/communally-owned medical institutions in the course of the last three years. The survey revealed the following levels of citizen satisfaction with the quality of medical services based on a scale of five (Figure 3):

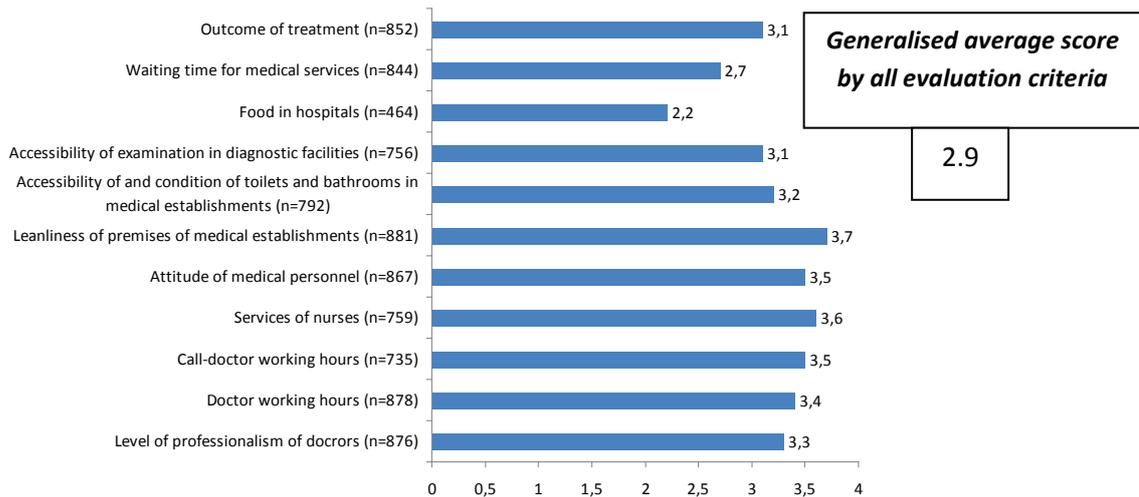


Figure 3. Satisfaction of respondents with certain service components in budget-funded medical establishments, average score

The generalized average score based on all criteria of service components in budget-funded medical establishments amounts to 2.9, which is lower than 3 (satisfactory).

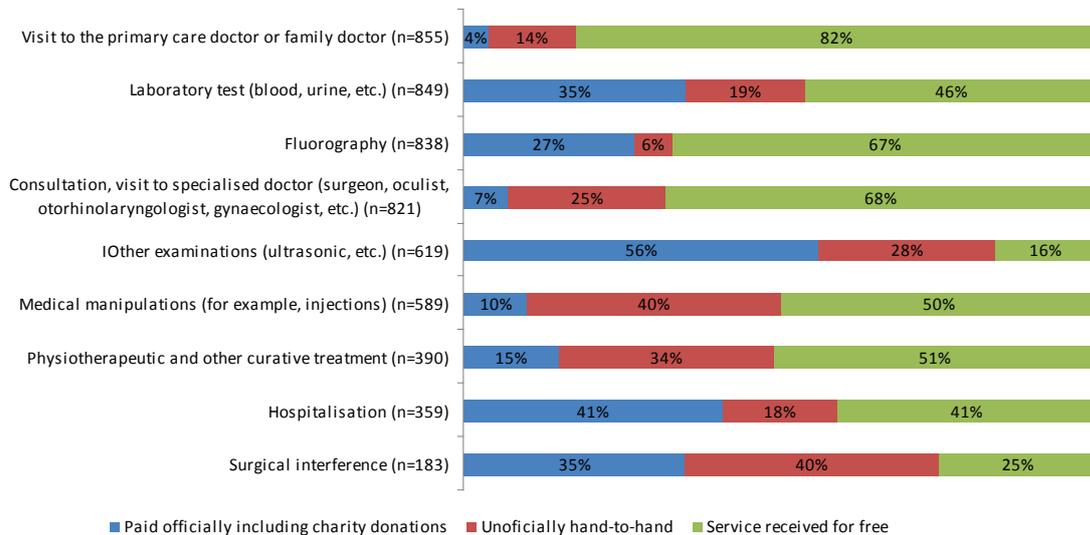


Figure 4. The level of actual payments for services in state-owned/communally-owned medical establishments

In the course of the survey the citizen attitude towards health care reforms was also evaluated. The following results were obtained from this question (Table 3):

Table 3.

Level of support of the proposed lines of reform, %

Sectors	West	Center	North	East	South	Average
Mandatory medical insurance	58	42	50	51	50	51
Family medicine	57	32	50	40	48	43
Minimum set of guaranteed free services and the rest are paid for	47	38	38	37	46	40

7. SITUATION WITH RESOLVING OTHER ISSUES OF LOCAL INDUSTRIES IN SOCIAL SPHERE

While analyzing regulatory and legal documents adopted or prepared during 2013 in the area of social protection, culture, education, and health care, one might draw a conclusion that tendencies in these areas gravitated to shifting the responsibility of proper social services under financial constraints to local government agencies. If education, social protection, health care in 2013 were underfinanced, then one can speak of surviving only without any opportunity for development and improvement.

One of the actions of the Cabinet of Ministers in the beginning of 2013 was an attempt at optimizing the network of public institutions maintained by local budgets. Work groups with participation of the local government associations were created at the ministries of health care, culture, science and education, and social policy. In essence they discussed problem issues related to the shortage of funds to maintain such institutions. However, each of the ministries underscored that it would be impossible to curtail the pertinent network without impacting quality of the services and attention of the Ministry of Finance was drawn to persistent underfunding. No summary documents were approved as a result of the above working groups meetings.

The initiative of the Cabinet of Ministries evoked popular dissatisfaction among wide public and trade unions because of the eventual shutdown of public institutions. At the same time, several draft laws on moratorium on closing/reorganization of social sphere institutions were registered at the parliament.

However, the Minister of Health came up with a suggestion to merge rural medical units with outpatient departments and optimize the medical institutions' network; reorganise small inpatient care departments and hospitals with overlapping functions; develop work load standards for medical personnel; transfer health care institutions to the Ministry's administration. In the course of the year the Ministry of Health has issued several regulatory documents on implementation of the above proposals.

Over the course of 2013, the Ministry of Science and Education progressed towards optimizing the network of comprehensive, vocational and higher educational institutions and establishments, and increasing the number of pre-school educational establishments to deal with deficient capacity. This work was being performed on the background of shortage of funds to provide the financial support for the sector and delays in State Treasury administration of local government transactions. Unfortunately, no changes were introduced to legislation in the area of education that would settle urgent organizational and legal issues.

At the same time, National Deputies registered several draft laws on introduction of the moratorium on closure of educational establishments, complication of the liquidation procedure, etc. Similar measures once adopted would mean curtailment of local self-governance rights since the law ascribes such decisions solely to the exclusive authority of village, town and city councils.

Education underfunding remained a persistent problem issue over 2013. According to the AUC-ordered survey, the actual tuition costs for a secondary school pupil amount to UAH 11,400 a year, whereas the standard budget allocation for the purpose in the country as calculated by the Ministry of Finance in 2013 amounted only to UAH 8,122. With the annual per pupil tuition costs at schools with incomplete classes reaching UAH 20,000, in the cities of around 100,000 people they actually allocate UAH 5,060 per pupil, which is 38% less than the approved financial standard. The difference is covered by either city councils with local budget revenues or by parents.

The reported period was notable for certain activities on the part of ministries in the area of drafting standards for social services. The Ministry of Labour and Social Policy and the Ministry of Health lead the way in the area.

The Ministry of Labour and Social Policy has designed and approved through instructions 5 such standards. However, not a single instruction contains financial and economic substantiation of the service

cost, though such financial and economic justification is a mandatory provision of the document as per one of the orders of the Ministry of Social Policy in 2012.

The Ministry of Education and Science on its part initiated the adoption of the Instruction of the Cabinet of Ministers of June 06, 2013 on approval of the list of state social standards in the area of public education. The resolution also does not provide for calculation of financial cost of the state standards.

Thus, the analysis of the situation in the local social area in 2013 indicates further attempts on the part of the executive power organs to usurp its management at the local level; better realization by authorities of necessity to optimize existing network of health care, public education, cultural establishments in accordance with their actual workload; however actual resolution of the issue is entrusted to the local governments; standardization of social services has started but not systemically, without calculation of the cost, which actually puts the burden of providing the services on local budgets.

8. LEVEL OF SATISFACTION OF UKRAINIAN CITIZENS WITH THE QUALITY OF PRE-SCHOOL AND SECONDARY SCHOOL EDUCATION

The data presented is based on the findings of the sociological survey of residents of oblast significance cities and those in the city of Kyiv conducted in April of 2013 on request of the AUC using a sample of 1,200 respondents. The survey pertained to opinion of relevant age children's parents as to quality of services of pre-school and secondary school education.

The average level of citizen satisfaction with pre-school educational institutions on a scale of 1 to 5 is presented in Table 1:

Table 4

Evaluation Criteria	Average value
Teaching and educational curriculum	4.0
Condition of premises and material/technical base	3.9
Educator's attitude towards children	4.2
Number of children in groups	3.5
Quality of meals	3.6
Convenience of institution's location	4.1
Level of payment made officially	3.7
Level of additional dues collected by parents' committee	3.0
Generalized average value	3.8

Comprehensive Educational Establishments

The average level of people's satisfaction with schools on a scale of 1 to 5 is presented in Table 5:

Table 5

Criteria	Average value
Contents of textbooks and training manuals	3.8
Quality of teaching	4.2
Condition of premises and material/technical base	4.0
Educator's attitude towards children	4.2
Number of children in groups	3.8
Quality of meals	3.1
Level of payment made officially	3.6
Level of additional dues collected by parents' committee	2.7
Generalized average value	3.7

9. ASSESSMENT OF LOCAL SOCIAL PROTECTION INSTITUTIONS BY CITIZENS

Based on the findings of the same survey conducted in oblast significance cities and the city of Kyiv residents conducted in April 2014 on request of AUC using as a sample 1,200 respondents, 23% of interviewees had to address city or town departments for social protection in three recent years.

Table 6

Level of satisfaction of interviewees with their visits to administrations/offices of social protection, among those who addressed the above institutions over the last three years, average score

Criteria	Average score
Accessibility	3.7
	3.7
Convenience	3.7
Information support	3.5
Satisfaction with results	3.4
Total score	3.6

Along with the assessment of interviewees of performance of social protection departments, a public opinion of eventual reforms in this sphere was also examined. In particular, monetization of the social protection system was supported by 49% of the surveyed.

10. LEVEL OF CITIZENS' SATISFACTION WITH SERVICES OF THE LOCAL CULTURAL ESTABLISHMENTS

Based on the findings of the survey among residents of oblast significance cities, conducted on request of the AUC in April 2013 using a sample of 1,200 respondents, the performance of local state and municipal institutions of culture was assessed by citizens at 3.6 scores out of 5.0 (Figure 5).

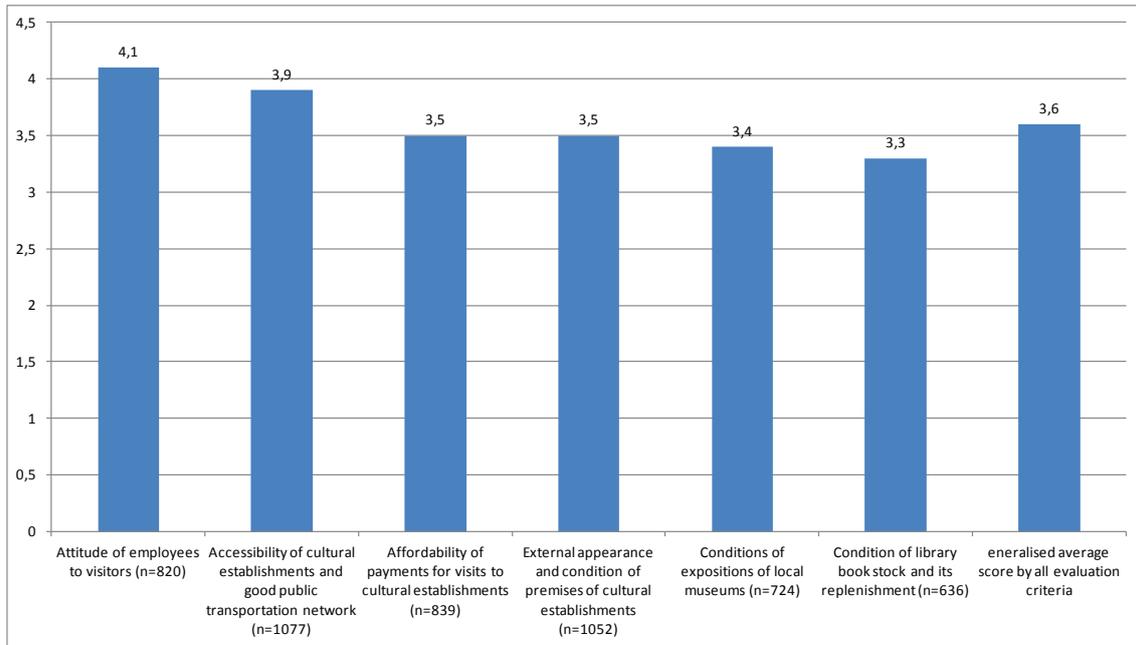


Figure 5. Average assessment of the performance of state-owned and communally-owned cultural establishments, average score

11. LOCAL GOVERNMENT REFORM PROGRAM

In the course of the reporting year, there were no significant steps in terms of the local government reform. The country leadership, actually, held back even approval of the Reform Concept whose draft was prepared under the auspices of Presidential Administration and was ready back in September of 2012. The final version of this document was made public for discussion in February of 2013. Although the draft document in its certain provisions was lacking in specificity and the envisioned implementation timeframe was not quite in compliance with that period requirements the draft was endorsed by the Board of the Association of Ukrainian Cities on March 14, 2013.

Notwithstanding public expectations, there was no rapid approval of the document by the President of Ukraine. Instead, the Council of Regions at the office of the President at its meeting on March 21, 2013 came up with a recommendation for government entities and local government associations to organize a broad-based discussion of the draft Concept. Additionally, it was recommended to the cabinet of Ministers to elaborate the Concept based on the discussion results and to identify directions, mechanisms and resources to support the reforms.

As of end of July, such discussion took place in 458 cities. In June, the draft document was considered and supported as a whole by the 9th Ukrainian Municipal Forum in Yalta, attended by around 300 village, town and city mayors.

In the meantime, a meeting of the Constitutional Assembly took place on June 21 and the draft Concept of amendments to the Constitution of Ukraine was accepted as a basis. The draft document reflected most of the proposals on introduction of amendments to the Constitution of Ukraine submitted by the AUC in 2012, the ones that would create favourable constitutional conditions for the implementation of the Concept of the Local Government Reform. Till the end of the year, the draft Concept of amendments to the Constitution of Ukraine was discussed. The proposed amendments to the sections pertaining to local self-governance found the prevalent support.

As far as the draft Concept of the local government reform is concerned, on October 22 the draft Presidential Decree approving the Concept was sent by the Prime Minister of Ukraine to the Head of the State in obvious sign of completion of the public discussion of the document. The signing of the Decree was expected first by the Summit of the heads of states - EU members in Vilnius (November 29) and then on the Day of Local Self-Governance (December 7). However no signing actually happened.

12. NATIONAL ACTION PLAN FOR 2013: ADVANCE PAYMENTS AND DEBTS

On March 12, 2013, the President of Ukraine approved by its decree the next annual National Action Plan on implementation in 2013 of the Economic Reforms Programs for 2010-2014 called "Prosperous society, competitive economy, efficient state". In the approved document it is envisaged, in particular, to introduce medium-term planning of local budgets; to design and introduce state standards of social services, as well as financial standards on their provision. Line ministries were commissioned with the preparation of draft legislation on cooperation of territorial communities, on citizen self-organisation entities, on local referendum, on consolidation (merging) of territorial communities aimed at streamlining the system of local self-governance in our country. Finally, elaboration of the long expected law on service in local self-governance organs was provided for. The law envisaged, in particular, raising the level of financial remuneration of local government officials.

However, even if certain National Plan objectives have been achieved (like submission to the parliament for consideration of the draft legislation on cooperation of territorial communities, citizen self-organization entities, consolidation (merging) of territorial communities), the analysis indicates that prevailing majority of the planned tasks have not been accomplished by the Government or completed inappropriately. At the moment, one may claimed that the Presidential Reforms Program in 2013 was actually ignored by the Government.

13. DELAYED EUROPEAN PERSPECTIVES OF LOCAL SELF-GOVERNANCE IN UKRAINE

Over the course of the reported year, eventual perspectives and consequences of the announced by the President and the Cabinet of Ministers of Ukraine signing of the “Association Agreement between Ukraine and the European Union and its Members-States” (further referred to as the “Association Agreement”) for national local self-governance were assessed.

As far as the Agreement itself is concerned, it does not contain provisions aimed at the development of local governments in Ukraine. That is why the association would not mean an automatic introduction of European methods in the Ukrainian national system of local self-governance. But the feasible perspective of Ukraine joining the EU that could have emerged with the signing of the Agreement would have served as a catalyst in resolution of financial, institutional and other issues of local governments in our country.

Among the anticipated results of Euro-integration of Ukraine, its economic enlivening upon establishment of the free-trade zone with EU, there is a perspective of overcoming a string of territorial community financial support problem issues. Research results and actual experience of the countries that joined EU lately testify that closer integration of the country with the European Union brings about sizeable positive economic changes. Evaluation can be done by subdividing the EU countries into the so called “New Europe” (post-socialist countries that joined EU in 2004 and later) and “Old Europe” (the remaining EU countries).

Currently local budgets in Ukraine are more dependent on transfers from the State Budget as compared with EU countries and the tendency grows from year to year with expected 55-56% in 2013. In majority of the EU countries this ratio is much lower (e.g. in Germany – 22%, in Switzerland – 34%), which means a much higher level of financial autonomy of local governments. Budget sufficiency of territorial communities in EU countries and in Ukraine differs considerably (Figure 6). Residents in European municipalities are supported with local budget financial resources more than 13 times better as compared with similar municipalities in Ukraine.

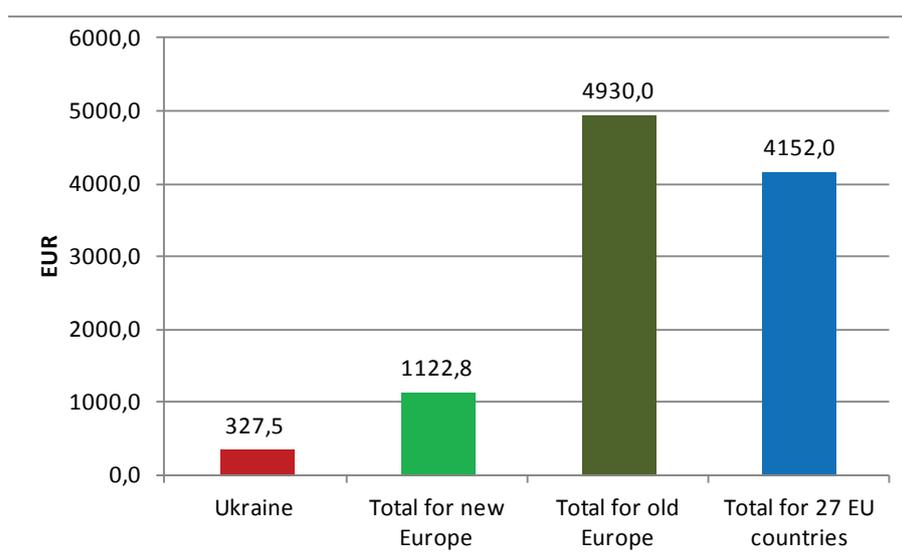


Figure 6. Per capita budget sufficiency in the municipality, 2010, Euros

At the same time, the share of Ukrainian local budget expenditures directed at carrying out the exclusive authority of local governments (housing and municipal utilities, urban improvements, etc.) remains more than three times lower than in EU countries (Figure 7).

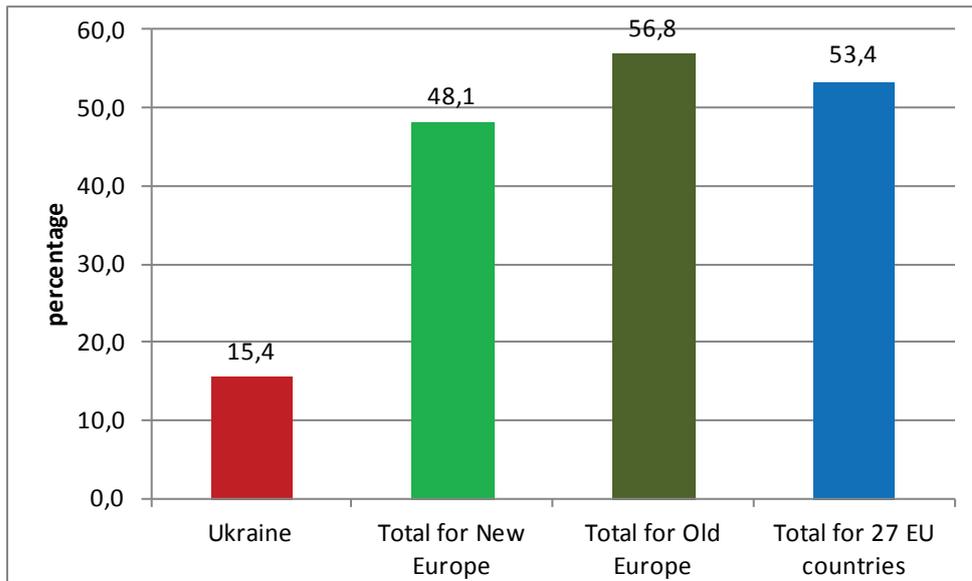


Figure 7. Share of local budget expenditures for municipal utility services in European countries and Ukraine, 2010, %

Allocation of significantly higher share of local budget funds (3-4 times more) on exactly municipal services create that unattainable for Ukrainians quality of life in any European city, town or village.

The share of local government proper funds in total local budget revenues remains negligible. In 2009-2012, it did not exceed 8% (Figure 7). For comparison, in EU countries this indicator amounts to 30-70% (Great Britain – 37%, Germany – 46%, France – 67%).

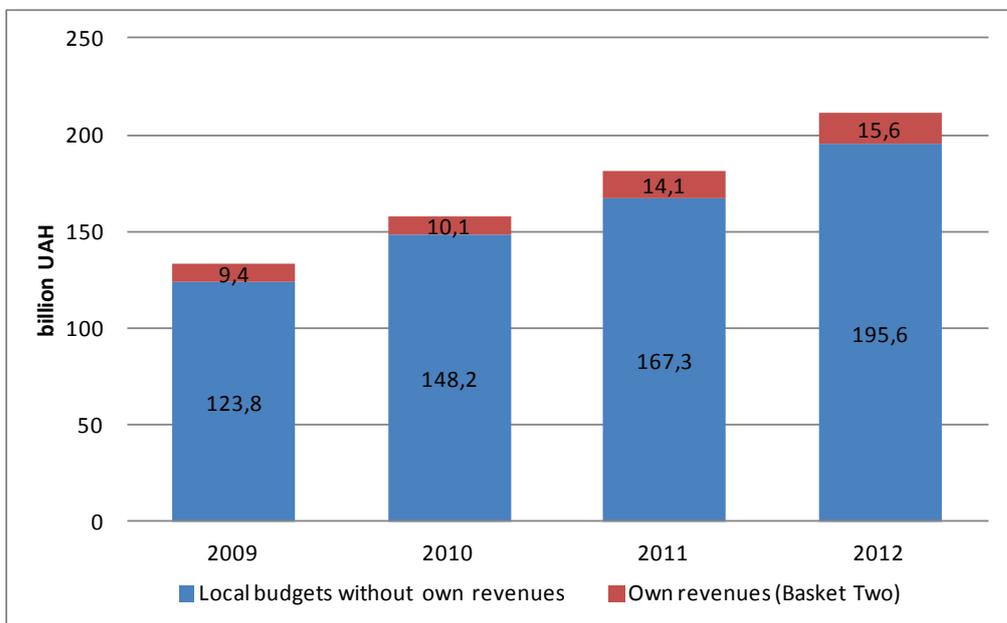


Figure 8. Share of local government own revenues in local budgets of Ukraine, billion UAH, %

The volume of local budget capital spending serves as the indicator of the local development perspectives in EU and in Ukraine. The volume of capital spending per member of European and Ukrainian territorial community differs 18 times (Figure 8)!

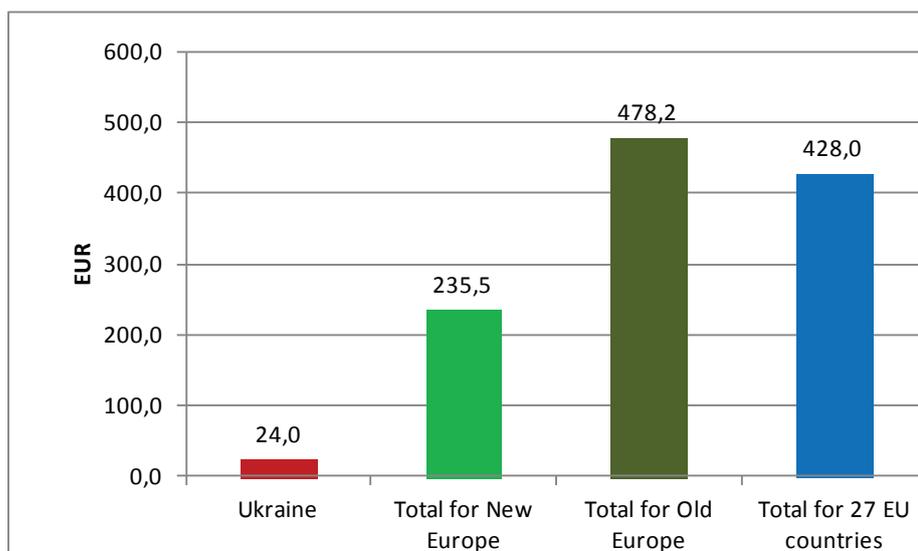


Figure 9. Capital spending of local budgets per one resident of the municipality, 2010, Euro

Unfortunately, in 2013, the signing of the Association Agreement was postponed on the initiative of Ukraine. This decision, as well as further actions around changes in international policy of Ukraine had as a consequence the already widely known reaction of society on the whole and of local governments at various levels and in various regions.