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Participatory Budgeting in Ukraine: Current Practices and Implications for Their Advancement

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Summary

This is a study of efforts to increase citizen participation in local budgeting in Ukraine, with the aim of providing practical recommendations for scaling up public engagement in budgetary processes. The paper examines three case studies - the town of Komsomolsk (Poltava oblast), the town of Kolomyia (Ivano-Frankivsk oblast) and the raion of Bakhchisarai (Autonomous Republic of Crimea). It presents findings with regard to practices of public engagement that directly or indirectly impact local budgets.

The three case studies demonstrate a number of tried and potential channels for citizen participation. These evolved under different budgetary circumstances and with different local societal and political dynamics. The experiences show that participatory initiatives can be driven by local authorities as well as by civil society actors.

Participatory mechanisms may vary in the mode of participation (delegated or direct), type of decision-making (consultative or binding), and the scope of decision-making (narrow, i.e. concentrating on particular or sectoral issues, or broad, focusing on general budget). The variety of forms of public participation that have a potential bearing on local budgeting include: participatory strategic planning; citizen engagement in developing programs and performance indicators under the Program Performance Budgeting tool; public budget hearings; citizen satisfaction surveys and public opinion polls; public advisory and supervision committees; citizen involvement in service self-provision schemes; community residents' general assemblies, and independent budgetary analysis.

Each of the above-mentioned mechanisms on its own may not be able to produce an effect on the budget but in combination they hold the potential to secure budgetary accountability. Transparency and public access to accurate, comprehensive and timely information proves to be a precondition for constructive citizen engagement in the budgetary processes.

The study concludes that citizen participation in budgetary process to a large extent depends upon the capacity of local civil society to engage in governance issues, as well as the local government's willingness to open budgets to the public and its ability to manage the participatory process. Its success is also determined by factors such as the availability of budgetary funds that can be spent at the discretion of municipalities, the degree of institutionalisation of participatory mechanisms, and the quality of participation they generate.

Greater public involvement in local budgeting processes and services provision can have a number of benefits and create win-win opportunities for government, civil society and the local business community. In a resource deficit situation it can help to improve local investment policies, find patterns of more efficient and effective use of scarce resources, attract external resources, and mobilize resources available from local communities.

Citizen engagement in the budgetary decision-making process can have manifold advantages for the government. It can: help to build a base of political support among the society; share responsibility for making decisions (particularly about unpopular reforms) and gain public support in implementing them; increase the level of public understanding of government spending constraints and a degree of trust in local
authorities, and find unconventional ways of solving problems and cost-efficient means for delivering services. Participation also contributes to the emergence of an active citizenship, promotes transparency, and reduces corruption.

Citizen engagement in the budgetary process also has a number of potential risks. Among others, these include the erosion of legitimacy among existing elected institutions in favour of less accountable civil society organizations; the capture of participatory processes by local elites, specifically the most vocal or organized groups or activists with narrow agendas; and raising participatory expectations beyond a sustainable level in the context of limited resources or deficient local government discretion over decision-making on budgetary issues.

Further promotion of participatory budgeting in Ukraine will require profound capacity building both vertically, among different levels of government (delineation of tasks and fiscal/budgetary competences), and horizontally, among different actors at the local level (legislature, executive, civil society organizations, communities of citizens, media, etc.)
Introduction

This report is the result of field research commissioned by the Environmentally and Socially Sustainable Development (ECSSD) group of the World Bank Institute. The purpose of this research is to study practices of public involvement in local governance issues linked to budgeting process, identify entry points for citizen influence over local budgets, and provide recommendations with regards to wider application and scaling up of mechanisms that increase government accountability to citizens in the budgetary decision-making process.

This report looks at the experiences of two small urban communities, the town of Komsomolsk (Poltava oblast) and the town of Kolomyia (Ivano-Frankivsk oblast), and one rural locality, the raion of Bakhchisarai (The Autonomous Republic of Crimea). After consultations with national and international organizations active in the area of local governance in Ukraine, these sites were identified as places with increasing experience in citizen participation relating to budgetary decision-making. In choosing these communities an attempt was made to ensure geographic representation from the areas selected and the different modes of citizen participation practiced.

The research was conducted by a team composed of an international researcher specializing in issues of citizen participation in local governance and two Ukrainian local budget specialists.

The research methodology included desk study and field research components. It proceeded with a review of available materials (publications, evaluations, periodical project reports, etc.) related to citizen involvement in the budgeting process in Ukraine in general and in selected municipalities. During the course of the field research in each location a series of semi-structured interviews and focus group discussions were conducted with key informants in local executive, local councils, civil society groups, business community and mass media. Field research allowed compilation of a wide variety of materials that were studied simultaneously.

This report presents the research findings starting with a general introduction into the local budgeting process in Ukraine and a short overview of channels through which citizens can influence government decision-making at the local level. Its main part contains three case studies that look at peculiarities in terms of budget structures and challenges, the wider contexts in which budgetary decisions are taken, and the concrete experiences of citizen engagement in local decision-making and service provision linked to public budgeting in three different municipalities. The final chapter of this report suggests some key conclusions and recommendations pertaining to general entry points and concrete mechanisms of citizen engagement in budgetary process at the local level, as well as to the changes required at the national level for securing spaces for effective participatory inputs at the local level. It also draws general lessons from the three case studies for extending mechanisms of citizen involvement in budgeting to other municipalities in Ukraine.
1. Local Governance and Budgeting in Ukraine

1.1 Regional and Local Governments

Ukraine is a unitary state with a republican style of government. The state is headed by the president, and ruled by the Supreme Council (Verhovna Rada), the main legislative body. The Cabinet of Ministers represents the executive branch and the Supreme Court the highest judicial branch.

The country has a multi-tier governmental system organized along its administrative-territorial division. The regional level is represented by the Autonomous Republic of Crimea (ARC), 24 oblasts (regions) and 2 cities with special constitutional status: Kyiv and Sevastopol.

While the ARC has its own Parliament and Cabinet of Ministers, each oblast and the two cities with special status are governed by an elected council (rada). The executive functions in these bodies are delegated to local state administrations. Currently the president appoints the heads of these administrations.

The lower level of government is comprised of rural raions (provinces), cities and towns, and rural settlements and city districts. At this level local self-government institutions are usually represented by publicly elected councils (radas) and council executive committees. The government system of cities with special status slightly differ from the general model as it combines features of both regional and primary levels of government.

Territorial village, settlement and town communities are the primary subject of local self-governance and the principal bearers of local self-government authority and functions. The organization of local self-government is regulated by the Law on Local Self-Government of 1997, which defines the following fundamental principles of local self-government in Ukraine: rule by the people; rule of law; transparency; collegiality of decision-making; unity between local and state interests; representation based on direct elections; legal, organizational and financial independence in the framework of local governance jurisdiction defined by existing legislation; responsibility and accountability of local government institutions and officials vis-à-vis respective territorial communities; state support and rights guarantees to self-government, and judicial security of local self-government rights. Since 1997 various amendments have been introduced, and the latest version of the law is dated 21.04.2005.

By joining the Council of Europe in 1995 and ratification of the European Charter of Local Self-Government Ukraine committed itself to a reform process that pursues common European values in the organization of a local system of governance. The Council of Europe constantly monitors progress in advancing local and regional democracy.

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1 Small settlements (less then 500 inhabitants) can delegate executive functions to the head of their respective council instead of creating a full-fledged executive committee.
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Since 1997 a number of laws and regulations have been adopted to support the local government reform process. However, some criticize the law-making process for its top-down nature and lack of wider consultation.

Local government reform is still underway. One of the major challenges is financial empowerment of local governments and a meaningful fiscal decentralization. The situation is complicated by the fact that previously little synchronization existed between political decentralization, and administrative and budget reforms.

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1.2 Overview of Local Budgets

Currently, the public budget system of Ukraine is comprised of:

- the budgets of two cities of special status, Kyiv and Sevastopol;
- the budgets of ARC and 24 oblasts;
- 488 raion budgets;
- 175 budgets of cities with oblast and raion status, and 92 city district budgets;
- 279 budgets of town of raion significance; and
- 786 settlement budgets and 10,233 village budgets.

The adoption of the Budget Code in 2001 laid the groundwork for budgetary system reform in Ukraine. It decentralized expenditure responsibilities by re-assigning them to different government levels, assigned fixed revenue sources to local budgets, introduced formula-based calculations for transfers along with a clearer system of targeted transfers, and stipulated terms for municipal borrowing. With the introduction of the Code the system of hierarchical dependency of local budgets (the so-called "matryoshka" system) was abandoned.

Since 1999, local budget funds are grouped in two broad categories, general and special. Special funds include particular revenues or targeted transfers to finance specific types of expenditures (e.g. proceeds to state-targeted funds, like fees to curb environmental pollution that go to the Environment Protection Fund), as well as grants and contributions for funding of specific types of expenditures (e.g. self-generated income of institutions and organizations funded from the public budget). General funds of local budgets include all other revenues that are generally used to cover ongoing or recurrent expenditures. Furthermore, within both special and general funds expenditures are sub-divided into capital and operational expenditures, and revenues are classified as tax-receipts, non-tax receipts, receipts from capital transactions, targeted funds, official transfers from other budgets, transfers from foreign governments and international organizations and transfers from other budget parts. Non-tax receipts refer to proceeds from property and business activities, administrative fees and levies, penalties and fines paid to government institutions and local authorities.

Currently, financing responsibilities funded from local budgets are divided into expenses for state responsibilities that can be passed to ARC and local governments with the aim of increasing the effectiveness of their implementations in accordance with the subsidiarity principle, and expenses for the responsibilities of ARC and local governments that are of a local character and defined by the law. All these expenses are funded from local budgets that include transfers from the

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\(^3\) Previously, not only the way of defining intergovernmental transfers to each oblast, but also the list of taxes and shares allocated to the local budgets at all levels were calculated on an annual basis. This, coupled with non-transparent criteria for granting subsidies, deprived local authorities of the ability to forecast revenues, which made budget planning at the local level virtually impossible. This also promoted the practice of underestimating projected incomes and local authorities overestimating actual budgetary needs.
state budget. The Budget Code of Ukraine distinguishes between different incomes and expenses in different budget types, and includes those that are considered in calculation of inter-budgetary transfers and those that are not. Taxes and fees assigned to budgets of local self-governments and which are considered in the calculation of inter-budgetary transfers comprise the so-called "income basket."

Responsibilities for expenditures delegated to local governments at the municipal and raion level and considered in calculation of inter-budgetary transfers include education, health, social security, culture and sport. Local budget expenditures that are not considered in the calculation of inter-budgetary transfers include expenses for local fire service, non-school education, social programs of local significance targeting children, youth, women and family; as well as expenditures for funding local social programs in the area of social protection, development of housing and communal infrastructure, beautification of public spaces, culture and art, sports, construction, repairs and maintenance of local roads.

Generally, inter-governmental transfers can entail the following:
- Equalization transfers for diminishing the shortfall between the expenditure needs and revenue capacity of different territorial-administrative units;
- Additional transfers;
- Grants for implementation of investment projects (issued from state budgets directly to local budgets, or from one local budget to another based on prior agreements);
- Grants for the implementation of social protection programs (issued from state budget to local budgets of ARC, the cities of Kyiv and Sevastopol, and oblast budgets), from which further resources are transferred to the budgets of raion and cities of republican (i.e. of the ARC) and oblast significance in accordance with subsidies to be issued to the population;
- Grants from the state budget for compensation of local self-government incomes lost due to tax privileges defined by the state for the implementation of its own responsibilities;
- Transfers between local budgets for the maintenance of public property or for the liquidation of negative consequences caused by the use of public property (on the basis of prior agreement);
- Transfers between local budgets for the implementation of local responsibilities of territorial communities (villages, settlements, towns and their unions) based on prior agreement;
- Other grants, and
- Resources transferred to the state budget of Ukraine and local budgets from other local budgets.

Calculation of the equalization transfers allocated by the State Budget to the budgets of the ARC, oblasts, the cities of Kyiv and Sevastopol, the cities of the ARC, oblast and raion jurisdictions to compensate local budgets for fiscal shortfalls (or to extract surpluses, in opposite cases) are based on the difference between the calculated index.
of the expenditure amount (expenses not considered in inter-budgetary transfers) and the forecasted index of budget revenues (income not considered in inter-budgetary transfers) accumulated in a given territory, with the use of an equalization ratio.\(^4\)

According to the Budget Code of Ukraine the levels of transfers from the state budget are calculated directly for budgets of ARC, the cities of Kyiv and Sevastopol, cities of republican (ARC) and oblast significance, oblasts and raions. Thus, the state budget directly interacts with 686 budgets down to the raion level through transfer payments.

Figure 1 presents the hierarchy of the distribution of transfers to local government budgets.

\[ T_i = a_i (V_i - D_i) \]

The calculated expenditure index for local budgets of ARC, the cities of Kyiv and Sevastopol, cities of republican (ARC) and oblast significance, and oblast and raion budgets is defined on the basis of the expenditure norms of the budgetary provision for each specific expenditure type (education, health, culture, social care and local government administration, etc.) calculated within the limits of predicted resources for each type of expenditure (generalized for Ukraine). For most expenditures, population figures or the total number of public service users are used as the basis for the calculation. The forecasted index of budget revenues (revenue basket) is calculated on the basis of the data on actual tax revenue and budgetary fees for the last three budget periods (reference period) before the planned budgetary period. For local budgets that transfer their funds to the State Budget an ai equalization ratio is used, with individual values from 0.6 to 1.0 depending on the average annual growth rate of the income basket of the budget of the administrative-territorial unit i for the years used for the basis of the calculation of the index of relative taxability (see the Decision of the Cabinet of Ministers of Ukraine "On approval of a formula for distribution of inter-budgetary transfers (equalization transfers and resources transferred to the state budget) between the state budget and local budgets" from September 2001 #1195 (with changes and amendments); and Yilmaz S., etc., 2003: 141-142).
The local budgets represented in the middle row benefit from direct financial relations with the State Budget, while those from the lowest ones do not enjoy this privilege. By treating oblast, city and raion governments as independent local budgetary units that receive transfers directly from the State budget the Code does not go as far as regulating transfers from state budget to the budgets of towns with raion of significance, villages and settlements. This explains the continued use of old revenue distribution system that concentrates the financial and administrative power at the level of raions and limits decision-making powers of lower government levels. At the end of 2004 the Cabinet of Ministers of Ukraine has approved a formula for distribution of inter-budgetary transfers (equalization grants transferred to relevant local budgets) between the raion or municipal budgets of Sevastopol, cities of republican (ARC) or oblast significance which have in administrative subordination other towns, villages and settlements, and the budgets of territorial communities of villages, settlements and towns and their unions.

Expenditures considered in inter-budgetary transfer calculations constitute the principal part of local budgets. Local governments in Ukraine have little flexibility in assigning budgetary inflows. Additionally, the annual state budget of Ukraine defines so called "protected" budget items that can not be excluded or reduced, namely wages in institutions funded from the public budget, the purchase of medications and food items, subsidies to individual citizens and transfers to lower level budgets.

The revenue basket, which includes taxes and duties (obligatory payments) taken into consideration in the calculation of inter-governmental transfers, is composed of the proceeds from personal income taxes, state duties, licensing fees for certain trade activities, fees for state registration of entrepreneurs, trade patent fees for certain types of entrepreneurial activities (except those levied on petrochemical sales sites), administrative fines and individual taxes collected from small business entities. The major source of income for local budgets in the first basket is personal income taxes.

The second revenue basket, comprising resources not taken into consideration in the calculation of transfers, consists of: land usage fees; local taxes and duties (market

5 Among the underlying reasons for this shortcoming is a need for consolidation among small territorial-administrative units and a lack of information about their real fiscal abilities.

6 The budgets of ARC and oblasts receive 25 % of land taxes and personal income levied on their respective territories; the budgets of raions and their associations receive 50% of personal income taxes and 15% of land taxes collected on the territory of respective settlements, villages and towns of raion significance; the budgets of cities of republican significance (ARC) and of oblast significance retain 75% of personal income taxes and 75% of land taxes collected on their territory; the budgets of towns of raion significance, settlements, villages and their associations receive 25% of personal income taxes and 60% of land taxes collected on their territory.

7 In 2004 personal income tax was reformed: the progressive scale of PIT ranging from 10% to 40% of personal income was replaced by a 13% flat rate with the hope of increasing PIT collection due to expected income legalization.

8 100% is retained for the budgets of Kyiv and Sevastopol; 75% is retained for the city budgets of republican (ARC) and oblast significance; 60% is retained for the budgets of villages, settlements and towns of raion significance and their unions.
duties, communal property profit taxes, hotel room taxes, advertising taxes, parking duties, duties on the use of civic trademarks, resort fees, etc.); fees from private vehicle owners; handicraft duties; fees for environmental polluters; incomes from the sale of communal property; fixed taxes on agricultural commodities; payments from rented communal property; the incomes of public budget institutions; communal property income taxes; fees for the use of natural resources of special local significance, and other incomes foreseen by the law. Only in a few cases do local taxes, fees and duties exceed 10 percent of local budget revenues. The margins for local taxes are defined at the state level and local authorities can often only influence the variety of taxes assessed locally. ⁹

According to the Budget Code, the ARC and city radas are granted autonomy in entering internal borrowing arrangements (except when issuing local bonds) for the funding of capital investments. However, the number of municipal governments that may borrow from external creditors is limited to cities with a minimum population of 800,000. Irrespective of the source of the loan, restrictions exist on general debt servicing costs not exceeding 10% annually of general fund expenditures of any relevant municipal budget in the course of a given budget period within which the debt is being serviced.

The State Treasury can also issue short-term loans to municipal budgets for covering temporary cash deficits that occur in the course of implementation of general budget funds. Besides this, local councils can arrange short-term (three-month) loans with financial and loan institutions within the framework of the current budgetary period, as well as independently decide on the organization of local lotteries as a source of additional income.

Clear-cut and more transparent budgetary rules created with the introduction of the 2001 Budget Code clearly contributed to the development of local self-government. However, a number of important issues still need to be addressed in order to advance a meaningful decentralization process in the country. Increasingly, further steps in the development of local self-governance are being connected with the need to reform the current territorial-administrative system.

Recently, the Cabinet of Ministers of Ukraine prepared a draft law on territorial-administrative reform. The proposed reform attempts to resolve a number of problems simultaneously. Firstly, it suggests new territorial divisions that more properly reflect the current economic and political realities of the country. Increasingly, further steps in the development of local self-governance are being connected with the need to reform the current territorial-administrative system. Secondly, it would introduce a new law on local self-governance. Finally, it would propose a way to improve inter-budgetary relations.

⁹ In theory local authorities may cancel local taxes of issue privileges but they rarely use this opportunity since resources available in basket two are already scarce and these taxes do not seem to influence significantly local entrepreneurial activities.

¹⁰ The draft Law suggests a) enlarging primary local self-government units; b) changing the definition of raion to mean communities of up to 70,000 residents (now raions mean communities of 10,000 to 110,000 inhabitants); c) abolishing the raion state administrations and replacing them with executive committees to the raion councils; d) redistributing public service responsibilities and shifting a number of them from the raion to local community level.
Although the necessity of such reform is obvious, the measures proposed are not yet supported by a thorough analysis of the possible consequences and side effects, particularly with regard to the possible implications for the budget system. Ukrainian analysts believe that without elaboration of adequate measures to support the reform on the fiscal side, its outcomes could erode the idea of building independence for local government budgets.
1.3 Mechanisms of Citizen Participation

Citizen involvement in the budgeting process is rather novel for Ukraine. The driving forces for introducing this idea are many. On the one hand, international financial institutions are increasingly paying attention to issues of budget transparency, corruption prevention and social control of budgetary process among their member countries. Democratisation of local governance system and transparency in local decision-making has been intensively supported in Ukraine through various development projects funded by multilateral and bilateral organizations and by international non-governmental organizations (NGOs).

On the other hand, voices are emerging within Ukraine in support of more democratic governance practices at all levels. The majority of initiatives are coming from local NGOs, mainly those with a record of participation in internationally supported projects and with awareness of western democratic practices. With the rise in contacts between local government practitioners in Ukraine and the West, and the establishment of a longer-term partnership, some governmental officials have also become advocates for democratic governance techniques. Local public activists and researchers are increasingly interested in the issues of direct citizen participation in the governance process in general and mechanisms through which interested public actors and the wider population can exercise influence over the regional and local budgetary process in particular sectors. 11

The existing legislation does not provide clear guidance on citizen involvement in local governance and budgeting, although it suggests some vehicles that can be employed to bring civic activism into the local governance process. For example, local territorial communities can initiate the establishment of smaller self-government units, like blocks of houses, streets and the like (in the law these are referred to as "the organs of self-organization of the population"), to which local governments may delegate their authorities and management of finances and communal property.

The means of direct democracy that are foresees in the law as forms of citizen participation in local self-governance beyond election processes include:

- Local referenda, which can be conducted on issues of local importance, the outcomes of which are binding on local authorities;
- General resident meetings of a territorial community (zagalni sbori Hromadyan), which can result in recommendations for local authorities to act on certain matters within their competence;
- Local initiatives (mistsevi initsiativi), namely the right of local residents to initiate closed and open examinations of any issue within local government competence at local council assemblies;
- The right of the electorate to chair a commission (doruchennya vibortsiv) of their council representatives at mandatory semi-annual meetings between the electorate and their elected deputies;

11 E.g. in Kyiv this interest in public control mechanisms is very high in housing and capital investment projects. This interest was sparked by the recent construction boom experienced in the capital.
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- Public hearings (Hromadski slukhannya) that can be conducted on any matters within the local government jurisdiction, including on budgetary issues;
- Advisory committees (doradchiy komitet) with a consultative role attached to the local executive and usually supported by local council regulations, and
- Public commission (Hromadska komissiya) that is established for a shorter period of time than advisory committees, usually to assist local radas in considering a certain issue.

Thinking about how to advance citizen participation in local government in Ukraine and support it within an institutional framework is under way. The Parliament has a special public committee on legal issues in local governance and the third sector, and the Internal Policy Service at the Presidential Secretariat has just set up a separate department to work on the development of civic participation institutions.

Some communities have already accumulated multi-year experience in citizen involvement in budgetary decision-making, but this has not been thoroughly studied yet. There is no robust comparative analysis available with regards to the effectiveness and impact of tried mechanisms. Existing materials are often limited to promotional articles and the activity reports of international projects.

This paper makes an attempt to fill this gap. The following chapter suggests case studies capturing the experience of Komsomolsk (Poltava oblast), Kolomyia (Ivano-Frankivsk oblast) and Bakchisarai in the Autonomous Republic of Crimea.

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12 Some analysis of separate practises exist:
2. Citizen Participation in the Budgeting Process: Three Case Studies

2.1 The Town of Komsomolsk, Poltava Oblast

Introduction

Komsomolsk is a town of oblast significance that, apart from its urban area, encompasses one rural territory, the village of Dmitrivka. The average age of the local population is 35.5 years. The total population totals 54,300, 63% of whom are of working age.

Komsomolsk was founded in 1960 as an ore mining and processing centre. It is a mono-industrial town with the ore mining and processing industrial complex constituting 84% of overall economic output for the town and its principal employer, employing more than 20% of the local population. The town also has two public enterprises active in the area of heating and water supply. As a result of the recent development of small and medium enterprises, and specifically in the trades and textiles sectors, about 6,000 people are employed in the private sector.

Most town enterprises operate at a profit. In 2004, 63% of enterprises increased their production output and their combined income totalled UAH 96 million (before taxes). In the same year the town received foreign investments of USD 13.8 m. Nowadays, judging by major socio-economic indicators, Komsomolsk rates fourth among the best-performing cities and towns in Poltava oblast.

In budgetary terms, Komsomolsk is a donor town. Transfers from the town budget to the upper government budgets in 2004 equalled some UAH 9 m.

The municipal budget income structured according to source in 2003 and 2004 was as follows:
Municipal expenditure structure by sector is presented in Table 2.

Table 1. Komsomolsk budget income structure by source, 2003-2004

<table>
<thead>
<tr>
<th>Total municipal budget income</th>
<th>2003, %</th>
<th>2004, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incomes considered in transfers calculation (basket one)</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Personal income taxes</td>
<td>53.0</td>
<td>42.4</td>
</tr>
<tr>
<td>Fees for petty trade licenses</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Trade patent fees for selected business activities</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Individual taxes from small business entities</td>
<td>3.9</td>
<td>4.4</td>
</tr>
<tr>
<td>Administrative fines and duties</td>
<td>0.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Incomes not considered in transfers calculation (basket two)</td>
<td>42</td>
<td>51.5</td>
</tr>
<tr>
<td>Individual incomes of public institutions funded from the budget</td>
<td>9.0</td>
<td>6.9</td>
</tr>
<tr>
<td>Land taxes</td>
<td>14.8</td>
<td>15.1</td>
</tr>
<tr>
<td>Local taxes</td>
<td>1.6</td>
<td>1.3</td>
</tr>
<tr>
<td>Taxation of natural resources of special local significance</td>
<td>12.4</td>
<td>14.1</td>
</tr>
<tr>
<td>Other incomes</td>
<td>4.2</td>
<td>14.1</td>
</tr>
</tbody>
</table>

In Ukraine Komsomolsk is renowned as a pioneer of innovative town management and governance schemes. It is also known for its outstanding ability to attract external grants, mainly funds from international organizations operating in the country. For this reason, some citizens ironically call themselves “Children of Captain Grant.”

13 A number of innovative projects in the area of local governance funded by donors is being implemented by the Municipal Development Centre (Tsentr Munitsipalnoho Rozvitku) NGO, a government partner.
The town was the first in Ukraine to adopt a municipal statute. The statute spells out a number of channels through which citizens can exercise their right of direct participation in local governance, including community meetings, local referenda, collective and individual appeals, community initiatives and public hearings.

**Actors' Overview**

An important role at the budget formation stage is assigned to the town council (rada) responsible for final budget approvals. Some insist that serious considerations should be given to the opinion of trade unions in sectoral participatory budgeting discussions since they most represent people working in their respective spheres and their interests are less bound to short-term political electoral gains.

Today the town council of 35 deputies is heavily represented by employees of the ore industry and the health and education sectors (ten, nine and five deputies, respectively). Some council members think that in the past, budget drafts were adopted in a hurried manner due to delays in the adoption of the state budget. Scarcity of local municipal resources does not encourage cross-sectoral discussions of budgetary allocations.

Local observers note that oftentimes deputies display little understanding of the concerns of other sectors than the one they understand from a professional point of view. Public activists suspect that many council members have not even taken the time to go through all the programs (about 60) funded from the town budget in 2005.

Generally, the council’s work is organised around six standing committees, including five so-called “profile” (or thematic) committees and the general budget committee. In the process of drafting the budget the head of the financial department has a series of meetings with each of the profile committees. After budgetary discussions in the profile committees, the budget is considered by the budgetary commission.

The town council assembles on a monthly basis. The assemblies are publicly announced in advance as set by law. Apart from the elected council deputies and senior executive officials (department heads), representatives of major local institutions are invited to attend, especially if the issue on the agenda is of direct concern to them. These are, among others, representatives of the police, the public prosecutor's office, and several elected deputies from the oblast council. Most meetings are open for the mass media and public to attend.

The council has introduced the practice of so-called "council members club discussions" for deliberating issues of high complexity or sensibility. The advantage of the council club discussions is that they also allow inter-committee exchanges to take place between sessions.

In their representative function the deputies are obliged to report annually to their electorate through the media, general meetings of the electorate, and by placing brief reports in public places. However, representatives of the mass media suggest that in reality the public lacks mechanisms of viable control which they can use to hold the council members accountable for their decisions and actions, or lack thereof.
Participatory Budgeting in Ukraine

The deputies have their own funds that they can disburse at their discretion (annually UAH 850 per deputy). The council has issued a regulation according to which these funds can be used for assistance to socially vulnerable groups.

There are different opinions with regards to the rather low level of public activism among the town's population. Some think that, although less structured, participation was greater in the early history of the town when problems were more acute; public interest dropped off as people saw their problems resolved. Others tend to assign the recent improvements in services to the actions of the mayor and his team rather than to the impact of participatory mechanisms.

There are also those who attribute the low interest to the general nature of the local population. The town has a short history and its population is comprised of people with family roots in different parts of the former Soviet Union representing a wide variety of regions and nationalities. Some representatives of local civil society tend to use this fact to account for the rather low degree of civic activism and peculiarities of association in the town. Another group of citizens believes that the industrial nature of the town's working force, combined with a very low unemployment rate (by municipal records, less then 1%)\(^1\), and a decent level of income by Ukrainian standards among ore mining and processing industry workers, may be among the factors influencing civil society dynamics on the local level.\(^1\)\(^5\)

Local citizens make a clear distinction between those working in the ore industry and others. The former seem to be less interested in participating in public life. The degree of influence that the industrial elite can still exercise over the local government should not be underestimated. This together with the fact that the industry takes care of some provision of services for its employees (e.g. it has a separate health care infrastructure) influences the way its employees choose to relate to local government. Surveys prove that responses of the ore industry employees may differ considerable from the views of other population groups.

However, the generation of city founders, called the "earliest explorers," is still alive and take pride in their town; many have passed this pride on to their children. Some believe that a period too short for the formation of local cultural and historical traditions may also explain various stories and myths that exist with regards to the peculiarities and iniquities of Komsomolsk.\(^16\)

In organizational terms, civil society in Komsomolsk is represented by 93 NGOs, out of which 39 are societies of garden and garage owners. Since 1994 local NGOs have been involved in the implementation of various donor-funded projects as their main source of financial support. However, according to a recent survey of citizen satisfaction with public service provision, 72% of city residents had never heard about NGOs

\(^1\) There are 150 unemployed persons registered by the town unemployment bureau against a background of 500 vacancies. The government is more concerned with the need to attract a larger working force to the town rather than curb unemployment.

\(^5\) Generally, the average salary level in the town reached UAH 1,200 in the first quarter of 2005.

\(^6\) One of the beliefs quoted by almost every town inhabitant is the fact that activism and talent of some people and the dynamics of the town's development can be explained by the fact that Komsomolsk stands in the centre of a magnetic anomaly. Also, local archaeologists claim to have made a number of discoveries that support this hypothesis.
in the town, and 18% had heard about their existence but never experienced their activities (KIIS, 2004). Some think that the membership base of most NGOs is narrow and their accountability is being diverted from their constituencies to their donors.

The activities of some NGOs are also supported from the municipal budget, with the biggest share assigned to the Pravoporyadok NGO that is involved in providing security services in the town. Besides, a number of youth projects are sponsored from the budget and developed within the framework of a special program with the support of local youth-parliamentary clubs and youth organizations.

The local business community is organized under the aegis of two major organizations, the Entrepreneurship Support Fund and the Union of Entrepreneurs, which are involved in the discussion of annual municipal programs for entrepreneurial support.

On a number of occasions the Planning and Economic Department has invited entrepreneurs to participate in roundtables to discuss problems related to granting licenses and permits, but they seem to be dissatisfied with the untimely and inadequate access to the background materials required for their informed and effective participation. Entrepreneurs are rather sceptical about the degree of influence they can exercise on the local decision-making process and are concerned with being manipulated.

Entrepreneurs seem to be rather frustrated by government policies in the areas of issuing permits, redistribution of communal property and bidding for public contracts. One of the current initiatives that entrepreneurs associate with when talking of a potential breakthrough in simplifying procedures and reducing corruption in the town is the set up of "one-window" service for registration of enterprises.

Local entrepreneurs hope to perform more successfully in the up-coming local elections that their candidates all but lost last time. The disappointment with current government policies also tends to be blamed on the fact that small and medium enterprises are not represented in the current municipal council that allows industrial interests to dominate policy making.

However today the entrepreneurs, together with the council of the town's elderly, are the only public representatives involved in an advisory council to the Mayor. Other participants of the council include heads of the executive departments, the police, the public prosecutor and a director of the local bank.

**Transparency and Access to Budget Information**

The executive authorities pay attention to possibilities of direct communication between individual citizens and municipal officials. Apart from weekly "mayor's open hours," the practice applied in most Ukrainian municipalities, there are monthly TV programs called "Ask the Mayor" and a monthly radio program dedicated to questions addressed to municipal authorities wherein citizens can ask questions of the authori-

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17 The survey was conducted in 2004 by the Kyiv International Sociology Institute within the framework of the People's Voice Project.
18 A council selected by a general assembly of elderly people (pensioners).
ties by phone. Questions that come to municipal officials either through the program (including those who did not manage to ask the mayor directly during the broadcast), or through letters to newspapers, are usually noted, passed along to the relevant officials, and answers are later published in newspapers or reported upon in the next program.

The authorities also believe that open access to information is an important step to effective communication. Most of the local government decision making and budget information is published in the municipal newspaper called "Hromadska Dumka." The majority of town residents receive their information about the activities of local government from local newspapers (86%) and local television (90%) (KIIS: 2004).

Komsomolsk also has a local TV station owned by the ore mining and processing complex that hosts the program with the mayor, one commercial and one governmental newspaper, and a private radio station.

Media representatives say that they enjoy rather good access to primary budget related information but have difficulties interpreting it. They rely mainly upon information and comments received from government officials or professionals from NGO representatives but this does not substitute for analysis. Explanatory notes issued by the executive on budget changes demonstrate alterations in figures but do not provide comments with regards to factors that precipitated the changes. Also, the final budget report does not reflect changes introduced to the budget during the year, which further complicates comment and analysis.

Lack of budget-related analysis, and especially independent analysis, is also mentioned among handicapped persons in the work of the municipal council budgetary commission. While noting the progress made by budget commission members in understanding the budget, municipal financial specialists acknowledge that budget literacy among council representatives still needs to be improved.

In line with transparency and access to information the executive publishes the municipal budget on the town's website. Although the level of connectivity to the Internet in town is estimated at just 7%, many think this is an important gesture.

Public Budget Hearings

The first instance of engagement of citizens in the budgeting process in Komsomolsk dates back to 1997 and is connected to a political conflict between the municipal executive (the team of the present mayor) and the oblast authorities, which impacted heavily on the municipal budget. In the course of the dispute the oblast authorities unilaterally decided to reduce the volume of funding for Komosomolsk to just 23% of its needs, which resulted in the town being unable to pay wages to the employees of budget-funded institutions for five months.

The government of Komsomolsk chose to resist and to call on the support of the local population. A number of public meetings were conducted in organizations and enterprises throughout the town where the problem was explained and citizens were asked to support the government in its efforts to seek justice. Following these meetings, general public hearings were organized in the town hall with the participation of government officials, delegated representatives from local NGOs, political parties, trade unions, town institutions and local enterprises. The public backed the govern-
ment and issued a supporting resolution. Local TV broadcasted the hearings so that all town residents could see them.

The oblast authorities’ decision was an obvious violation of existing legislation and the Komsomolsk government went so far as to initiate legal proceedings against the oblast government at an arbitration court. As a result, the municipality managed to get most of the funding of which they had been deprived.

This precedent was almost unheard of at that time in local governance practice in Ukraine. It was widely discussed, also in newspapers, which encouraged other municipalities experiencing similar cases to follow the example of Komsomolsk and confront oblast authorities. Executive team members and representatives of the public said they were positively surprised and inspired by the success of this initiative.

Problems related to inter-budgetary relations continue, however, and executive committee members provide examples of such paradoxes as overstatement of municipal income by the Finance Ministry with the aim to increasing transfers to the state budget, or continuous short-term loans from the Treasury for reducing temporary cash deficits and fulfilling the expenditure plans on the backdrop of over-implementation of revenue collection plans (as was the case in 2004).

Another attempt to mobilize public support to resist upper-level decisions was made by the Komsomolsk town council at the end of 2003 following a reduction of its share of personal income taxes from municipal incomes (from 53% to 42%). This led to a decrease in municipal revenues generated from personal income taxes from UAH 25 m. to UAH 17 m. The focus of the budget hearings was to review budget implementation in 2003 and discuss the 2004 budget draft.

This year budget hearings were regulated by a temporary regulation on the organization of public hearings in Komsomolsk, which spelled out a procedural protocol. The hearings now were to be lead by an appointed secretariat composed of governmental officials and non-government representatives. A resolution that included proposals made at the hearings had to be adopted by a simple majority through an open voting system. The resolution passed at the hearings was given a recommendation but its consequent consideration by the municipal council was mandatory. The council was also obliged to inform the public about the outcomes of its discussions in the public hearings through the local media.

As part of its preparatory work the executive committee compiled a list of organizations and institutions to be invited to the hearings and defined quotas system to be applied in order to balance between representations of industrial enterprises, educational and health institutions, organizations active in cultural and sports, NGOs, political parties and others. Special considerations were given to the participation of pensioners. About 800 people took part in the event. Observers said that representation of interests was better balanced than in the first hearings, and the audience was more qualified to take part.

The hearings were preceded by an information and awareness-building campaign with regards to the 2004 budget and which included preparatory meetings in organizations and institutions chosen to delegate their representatives. Apart from the draft 2004 budget, the government provided information on municipal financial situation in 2003 and the town’s socio-economic position in comparison to other municipalities in the region as background materials. The information
released about the budgets reflected revenue sources and expenditure items, and demonstrated the amount spent or planned to be spent in each area for each UAH 1,000.

Participants of these hearings think that public hearings are a very important mechanism of budget transparency and means of direct communication between government and the public on budget issues, but hearings alone produced hardly any impact on the budget. Among the reasons quoted in support of this are the following: "Most budgetary decisions are already made when hearings are assembled"; "There are too many people to discuss the issues effectively"; "Those present at the hearings often lack special knowledge and understanding of budget technicalities and regulations"; "Only the council is able to introduce changes to the budget but they have already decided the budget before opening it to the public"; and, "The volume of resources which local government can plan on its own is so little compared to our needs that it is almost clear from the beginning where the money should go."

Apart from issuing the resolution, the result of the 2003 hearings was that a letter was sent to the prime minister where the government was asked to review the system of forming local budget revenues taking into consideration how the recent changes had undermined the local budgets. Yet, budget professionals think that this letter was rather general and did not provide heavy arguments in favour of the case.

Since the hearings of 1997, a number of projects implemented in Komsomolsk with the support of donor funds explicitly aimed at promoting citizen participation in local governance also linked to the municipal budgeting process. Progress in these projects in terms of how they impacted the budget is discussed below.

Participatory Budgeting in Ukraine

Participation in Municipal Strategic Development Planning

In 2000 the city embarked on the process of participatory elaboration of a municipal development strategy for 2002-2006. This process lasted almost two years and involved in general some 200 citizens, 80 of whom were constantly engaged in the process. The strategy was based on a thorough SWOT analysis and suggested strategic directions by sectors for the government to concentrate on and to take into consideration in annual planning.

Its development foresees a combination of various methods. Apart from a survey among the local government members and publication or debates in mass media, the government invited the public to contribute in the framework of consultative meetings and "mini-hearings" conducted by territorial communities and sector-specific working groups.

Also, in the course of the strategy preparation, thematic public hearings were organized in a number of areas (like health or law and order). It has been noticed by many that the hearings and planning events by sector generates a different quality of participation (referred to as "better prepared and more interested audience").

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19 Project supported by the International Renaissance Foundation.
The organizers of the project on the part of the local government say that this process clearly showed them how little citizens are acquainted with the municipal budget content and budgetary process, which had to be compensated by additional awareness building activities.

A special section in the strategy was dedicated to the advancement of local civil society with the aims of addressing the deficit of public engagement in local governance fostering development of civil society organizations. The list of suggested projects included: fostering transparency in local government work; setting up a system for monitoring public opinion, and development of municipal human resources in the area of quality service provision. To the potential projects the following were noted: increasing civic activism in societal and political life; modernization of local self-government methodology; increasing people's awareness of their rights and the law, and boosting the image of local government and the level of citizens' trust in it.

The strategy developed was published in a separate brochure and disseminated to interested organizations and institutions as well as the wider public. When the strategic development plan was ready it was clear that it was over-ambitious. Further implementation of it was endangered by a general deficit of financial resources and the unpredictability of the local budget situation. In order to proceed with implementing the plan and so as not to undermine the gains made in participatory planning, the government decided to introduce measures geared at savings and more effective use of available resources, along with coordination of development initiatives funded from external sources.

As the mayor said, "We also thought in the beginning that the problem is simply a deficit of budgetary resources and if we had more resources we would find ways to solve our problems. But later experience showed that working in the directions of optimization of expenses and capitalization of funds can free certain resources." Some heads of municipal departments mentioned in their municipality that lack of funds to a large extent became one of the main driving forces for reforms in their town.

Participation in a variety of international projects contributed to increased management capacities of the government team through study tours and training sessions and defined areas where optimization of expenditures was possible.

**Public Involvement in Planning and Monitoring of Local Services Reforms**

Among the major initiatives in the area of improving the effectiveness and efficiency of service provision was the development of specific strategic plans for the public water supply company and the heating enterprises for 2004-2008, and the reform of primary health with the introduction of family medicine. Both projects had direct budget implications. They foresaw public participation components and provided the

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20 Supported by the USAID/PADCO project on tariff reform and public enterprise restructuring.

21 At different stages supported by the International Renaissance Foundation, EC and CIDA.
town with an opportunity to try out a number of innovative citizen engagement tech-
iques.

As stated by the head of the Housing and Public Utilities Department, the decision to open spaces for public participation in the sector was connected to the inevitable need to raise tariffs for public water supply and heating services. This participation took place in different forums:

- a chain of focus group discussions (groups of up to 15 interested activists from each of several important social groups, including the elderly and youth);
- a TV debate where different opinions were discussed and which was broadcasted and accompanied by interactive voting by phone;
- a public opinion poll focusing on residents' willingness to pay given their satisfaction with the services, and
- separate public hearings on the provision of water and heating services.

The TV-forum technique, with its interactive voting system, was used previously in the discussion of problems with law and order and the allocation of a reformatory settlement. But the activism of citizens with respect to the tariffs discussion went beyond their expectations. As a result, 700 residents voted against an increase in tariffs, while 1,500 voted for the measure.

The high participation level was explained not only by the high interest of the population to the tariff issue but also by a good organization of the information process. Observers say it was a rare opportunity for citizens to enjoy increased access to the decision-making process.

The process was accompanied by an education and experience exchange component for municipal officials and the leadership of relevant public enterprises with the foci on methods of work with citizens, technical and strategic planning and tariff definition and adoption.

There is a general perception among the population that water supply services have improved since the introduction of the new tariff system. Yet, some representatives of civil society organizations complain that the government manipulated participation regarding the tariffs. This belief was reinforced by a rather frustrating experience of civic activists in the two special public committees, respectively set up to discuss heating and water service provision.

Initially the committees were created in 2003 with the aim of advocating on behalf of the interests of water and heating services consumers (mainly with regards to tariff policies and quality issues), and to mediate between the population and the public enterprises providing these services.

The activism of the committee members did not last long. Some tend to associate this with a lack of institutionalization and a deficient technical and resource base for facilitating the committee's work. One of the committee members said, "We had neither a place where people could come, nor a telephone number they could use to get in touch with us. In order to monitor and advise effectively, apart from a few unpaid volunteers these committees required the support of legal and economic professionals. Such support is vital due to the complexity of the legal and economic issues
involved in the water and heating services, especially when the public utility enterprises do not have the capacity themselves to conduct proper economic analysis of their activities." As a result there are only a few activists currently working on behalf of these committees.

The committees assisted the government in seeking societal agreement on a tariff increase and provided a number of recommendations with regards to services improvements and payment collection, some of which were taken on board in the process of elaborating strategies. Moreover, a draft regulation that would advance the process of institutionalizing the committees and delegating procedures to their members was proposed. Yet, according to committee members, a lack of transparency among public utilities in the process of implementing their new strategies, and inadequate access for the committees to the required financial and accounting information, were among the important factors responsible for the decrease of activism within the committees. Representatives of the public are convinced that a municipal budget can be called transparent if it is transparent at all levels, including in public-owned enterprises.

Despite the failure, the participants are convinced that the committees had an important mandate, lessons could be learned from them, and their ability to function should be restored.

At an earlier stage, initiatives have been under way to involve the public in monitoring primary health care reform at the local level. As in many other Ukrainian towns the health sector used to be among the most poorly funded sectors. A separation between primary and secondary health care in terms of organization of service and budgeting in Komosomolsk was accompanied by giving the status of juridical entities to education and healthcare institutions. The town has also introduced a family medicine scheme in its primary health care services.

Public observers note that since the introduction of healthcare reforms regarding budget allocations, healthcare has been among the most privileged areas due to the leverage of healthcare professionals in the town council. But many in the municipality are disappointed with the lack of improvement in healthcare services provided when set against the background of resources invested in the sector. There is recognition locally that the reform ideas are very progressive but their implementation is not well thought through and the impact on innovations introduced on the quality of services is not obvious. The issues of competition and patients' choice of family doctors, dependency of family doctors on healthcare bureaucrats, and the inability to attract young professionals have been named as key problems of the sector in the municipality.

At the beginning of primary healthcare reform family doctors were seeking public support. They established an NGO, which later specialized in mediating patients' complaints, and monitored service quality and citizen satisfaction.

For monitoring purposes a special public primary healthcare monitoring committee was established. The committee includes individuals from the public and representatives of local organizations with a stake in primary healthcare issues. Among the commission's recent activities were reviews of the work of a local maternity house, a polyclinic and the local healthcare services (or quasi-insurance) fund (bolnichna kasa).

\[\text{22 Called ASIMED}\]
The public committee work has been supported by international donors. As the funds are being exhausted, the committee has applied for assistance from the municipal budget. The town council recently declined this application.

Some recall that earlier the council had obstructed the very idea of establishing a public controlling body in healthcare services. The fact that the leader of this NGO was at the same time a representative of the municipal healthcare services department helped the organization to overcome potential tensions with the government in the past. This person has concentrated considerable powers in her hands and her recent departure from Komsomolsk has left many NGO members concerned with the future of the organization.

In the past the work of the public healthcare committee seems to have been more successful compared to the experiences of the public heating and water services committees. The healthcare committee conducted a number of surveys related to citizen satisfaction and quality of primary healthcare services. Some of these surveys were requested by the executive and, according to local officials, generated useful data that further supported the decision-making process.

Representatives of local NGOs and entrepreneurs played an active role in the committee's work. Most NGOs have a clear specialization and their engagement in local participatory forums is valued by other participants, as "their representatives usually have stronger technical skills than the average participant." Participants from the business community are respected by other activists for their economic knowledge, management skills and legal literacy. Some representatives of the executive branch view them as "participants with which to have an interesting discussion."

Surveys and public polls became actively employed techniques of the municipality for polling citizens' opinions on particular issues of local importance and for monitoring of public service quality. According to civil society representatives, their practical utility for local decision-making was significantly increased when they were dominated with other, more interactive participatory methods such as working or discussion groups with the involvement of decision makers that could follow up on the survey results.

Specialists from the municipal information department are currently trained to organize surveys on citizen satisfaction with public services and to follow up on an initial "report cards" survey. That survey was conducted by the Kyiv International Institute of Sociology, and municipal specialists think that to be able to do surveys independently they require special skills, especially in the area of sampling and correct formulation of questions.

Despite reserves on the part of the public with regards to the direct impact of participation in the budgeting process, there is general agreement with the fact that municipal financial health has improved, not the least due to better planning and calculation of economic effects of the decisions taken. One recent example was connected to the decision of the municipal council to relocate small trade kiosks from main roads to building courtyards. Small entrepreneurs complained

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The initiatives in introducing "report cards" methodology and piloting it in six cities of Ukraine were supported by WB/PADCO/ICPS People's Voice Project
to the mayor that they would lose their clients as a result. A subsequent investigation of the economic effect of this decision conducted by Planning and Economics Department specialists satisfied the council enough to abandon their decision.

Most participatory initiatives in Komsomolsk stem from the government. Observers note that despite the relatively privileged donor support that NGOs receive in Komsomolsk, it is preliminary to talk about a developed and engaged civil society there.

**Participation in Program Performance Budgeting and Service Quality Control System**

Over the last few years the municipality has been included in two other internationally supported projects: introduction of program performance budgeting and introduction of a quality control system service, both of which have a significant focus on public involvement.

The fact that they were conducted as parallel rather than mutually reinforcing processes later brought up a need to synchronize the two systems between themselves and use a strategic development plan. This initiative is timely in the context of an upcoming review of the strategic development plan.

Komsomolsk is one of the rare Ukrainian municipalities that practice a method of program performance budgeting (PPB). According to the government leadership, it provides not only a valuable framework for relating budgetary inputs and funded activities to results and performance indicators, but also serves as a more constructive format for discussing budget-related issues and public involvement at the budget formulation phase.

The PPB method in budget planning was introduced in Komsomolsk in 2004. Participation in the framework of PPB revolves around specific sectors, since it is individual municipal departments that are made responsible for drafting PPB for their sector. The mayor describes the standard participatory planning procedure as follows: "We do such planning by sector by inviting for discussion all relevant institutions (for instance, schools and kindergartens with respect to education), trade unions and civil society organizations (like educational NGOs and parents' committees). From the start we make them aware of what funding has been planned for the town from the state budget. There is not much space for discussing what is to be funded from the delegated responsibilities. Discussions revolves around the formation of programs funded from our own municipal resources."

Those civil society representatives who took part in the process of budget discussions in the program performance format note that this type of planning is better

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24 Within the framework of the Economic and Fiscal Reform Project supported by USAID.
25 With this project the municipality won a competition of innovative local governance projects organized by the Ukrainian Local Self-government Fund with the support of the President and with funding from the Renaissance Foundation. The project is being jointly implemented with the Ukrainian Quality Association.
understood and grasped more quickly by citizens as it brings more logic to bear on the particular issue and makes public monitoring easier.

Although the PPB was also initially conceived as a first step to formulating budgets from the bottom up, it still partially contradicts nationwide practice. For financial specialists it has doubled the amount of their work since they now have to produce two versions of each budget—one according to the old system along functional lines and one according to the PPB system. Some see that the use of two parallel systems reduces the PPB method to just another way of packaging activities funded from the budget. The 2005 budget contains 60 programs and some think that a lack of guidance on prioritizing programs is among the weak points of PPB. Also, government has hardly any flexibility to react if programs in these areas fail to meet PPB performance indicators.

Recently all educational and healthcare institutions in Komsomolsk have acquired jurisdictional status, which entails greater administrative and managerial responsibilities, including those pertaining to budget planning. They now take an active part in formulating the budget using the PPB method. However, the fact that these organizations have accountants but do not have economists still makes the planning process dependant on governmental support.

Another problem with the effective application of PPB raised in Komsomolsk are the lack of regulating norms and standards pertaining to PPB planning and reporting, an extremely wide variety of programs that is interpreted by some as a lack of focus, and a deficit of proven performance indicators in different sectors.

Performance indicators have been actively discussed since an assembly of the town education community convened in April 2004 by the municipal executive with the participation of local council members, oblast council members elected to represent Komsomolsk, the heads of educational institutions, teachers and representatives of trade unions and interested NGOs. The issue of distributing funding to local schools that goes beyond the guaranteed minimum (for obligatory education) was discussed. The problem is that each of the six local schools specializes in a major subject (e.g. English, mathematics, etc.); such specialization is qualified as an "additional educational service," which the town has either to fund from its own resources or to charge parents of school-aged children. Both require a sound system of performance control that need to be developed and integrated into PPB.

In addition to PPB, since December 2004 the Komsomolsk government has implemented a new project to elaborate a quality management system in local self-governance based on the ISO 9001 international standard. The aim of this project is to increase effectiveness and cohesion of local government services, more efficient resource usage, and a focus on service consumers themselves. The processes of quality management that the government is planning to promote foresee a system of feedback and linkages with the population, including constant two-way information flow, a survey of citizen needs, and complaint and redress mechanisms that citizens can effectively draw upon in case of unsatisfactory service provision.

26 The program package for 2005 includes 60 projects and a general description of them alone takes up 125 pages.
By the end of 2005 the municipality plans to synchronize its ISO system with planning and reporting frameworks that were introduced earlier, as well as the PPB and the reviewed strategic development plan.

According to local authorities, international projects and local innovations in terms of engaging citizens in the local governance and budgetary process has significantly changed the attitude of the authorities to civic management and the budget. Representatives of the executive branch say that one of the major benefits of the participatory process from their perspective is an opportunity to make better-informed decisions and to share responsibility with citizens, especially for unpopular decisions.
2.2 The town of Kolomyia, Ivano-Frankivsk Oblast

Introduction

Kolomyia is a town of oblast subordination in Ivano-Frankivsk oblast. The town was founded in the 13th century and has deep historical and cultural traditions for which it is well known in Ukraine. The town was also one of several communities on the territory of modern Ukraine that in the Middle Ages enjoyed the right for self-governance granted to it under the Magdeburg Charter. 

Kolomyia has a population of 62,000, 62% of which are working-aged persons. The town economy has traditionally relied upon diverse industries, including engineering, electrical and metalworking, timber, building materials, food production, printing and tourism. The economic decline of 1992-1998 gave way to short-term growth in 1999-2000. The years 2001 and 2002 registered a new decline of 3.6% and 17.3%, respectively. In 2003 the situation in industries stabilized but due to a reduction in outputs in food production and processing industries, general outputs declined by 6.4%.

Today, the economic potential of the town is represented by 26 industrial enterprises (including branch offices), seven construction companies, two motor and tractor manufacturing enterprises, 233 non-food and 172 food trading enterprises, 90 public catering enterprises, 122 public service enterprises and 12 markets. The town's economy is based on the activities of private enterprises the total number of which amounts to almost 1,000. Alarmingly, in recent years a decrease in the number of registered profitable enterprises and the level of foreign investments committed for 2005 is just USD 1,462 m.

Private enterprises contribute a considerable portion of municipal budget revenues but employ only 10% of the town's population. The general level of unemployment in the town is rather high (15% according to executive officials, although official statistics suggests it is only 3%). A large segment of the local population is migrant labourers. Labour migration is a typical phenomenon for western regions of Ukraine. By some estimates, the number of migrant labourers in Kolomyia is as a high as 25% of the total working population, which implies that these citizens either pay personal income taxes in other places or not at all. By official statistics, the average salary in the town is about UAH 450.

The town budget is subsidized and in 2005 totalled UAH 22 m. The structure of municipal budget revenues is shown in Table 3.

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27 The Magdeburg Charter is seen by historians as one of the most advanced system of self-management and local governance in European towns during the Middle Ages and was associated with limitations on the centralized powers of the state, democratic privileges of citizens and the establishment of such self-governing bodies as an elected magistrate, a tribunal and a ratusha (ratusz in Polish, rathaus in German, and the equivalent of the French hotel de ville, or English Town-hall/Guild-hall). The name originates from the German city of Magdeburg where the system was first established in the 13th century. From the 13th-18th centuries the rights given under the Magdeburg Charter were granted to a number of towns in the territory of present-day Belarus, Latvia, Poland and Ukraine.
Table 3. Kolomyia budget revenues by source including transfers, 2003-2004

<table>
<thead>
<tr>
<th>Revenue sources used for transfer calculation (basket one)</th>
<th>2003, %</th>
<th>2004, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenues</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Personal income taxes</td>
<td>42.6</td>
<td>39.5</td>
</tr>
<tr>
<td>Trade patent fees</td>
<td>2.4</td>
<td>4.1</td>
</tr>
<tr>
<td>Individual taxes from small business</td>
<td>5.9</td>
<td>7.9</td>
</tr>
<tr>
<td>Administrative fines and duties</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Revenue sources not considered in transfer calculation (basket two)</td>
<td>6.7</td>
<td>9.0</td>
</tr>
<tr>
<td>Land taxes</td>
<td>3.6</td>
<td>4.5</td>
</tr>
<tr>
<td>Local taxes and duties</td>
<td>2.8</td>
<td>3.7</td>
</tr>
<tr>
<td>Taxation of natural resources of special local significance</td>
<td>0.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Transfers from the state budget</td>
<td>40.2</td>
<td>37.0</td>
</tr>
<tr>
<td>Other revenues</td>
<td>2.3</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Table 4. Kolomyia budget expenditures by sector, 2003-2004

<table>
<thead>
<tr>
<th>Total budget expenditure</th>
<th>2003, %</th>
<th>2004, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total budget expenditure</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Local self-government</td>
<td>4.5</td>
<td>6.2</td>
</tr>
<tr>
<td>Education</td>
<td>41.1</td>
<td>49.1</td>
</tr>
<tr>
<td>Healthcare(^2)</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Social security and welfare</td>
<td>34.0</td>
<td>27.4</td>
</tr>
<tr>
<td>Culture</td>
<td>3.7</td>
<td>4.8</td>
</tr>
<tr>
<td>Sport</td>
<td>1.2</td>
<td>1.5</td>
</tr>
<tr>
<td>Housing and communal sector</td>
<td>5.4</td>
<td>6.3</td>
</tr>
<tr>
<td>Transport</td>
<td>1.5</td>
<td>2.1</td>
</tr>
<tr>
<td>Mass Media</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Other expenditures</td>
<td>8.4</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Implementation of actual budget expenditures in 2003 and 2004 in Kolomyia reached 80%. This was due to general budgetary problems at the national level and unexpected changes in budget regulations, but also due to an initial overstatement of budget expenditures.

Local revenue collection seems to be problematic. In 2004 it was only 87% of planned (from general funds). Some explain this fact by stressing the area’s rampant

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\(^2\) The municipal budget comprises general and special funds.

\(^2\) Responsibility for healthcare expenditures was transferred by mutual agreement from the town to raion level.
shadow economy and lack of efforts on the part of municipal authorities to combat the problem. Among other reasons for poor revenue collection is the fact that the fixed communal property rental rate is lower than the market rate and a lack of inventory and valuation exists regarding available land resources. Moreover, local revenues were considerably affected by the town council's decision to cancel the 1.5 coefficient factor applied for the rent of land in the town centre.

**Actors' Overview**

The Kolomya municipal council consists of 50 deputies. One fifth of them come from the education sector. There is also a representative group from the healthcare sector, the business community and youth.

The council has an executive committee employing 125 people. The rather large number of government employees for such a small town is often mentioned when the work of authorities is publicly criticized.

The executive committee provides the council with annual and quarterly reports on the budget situation. But some council members complain that their involvement in formulating the budget is often limited to formal approval: “The period between the release of the budget draft and the deadline for its approval is very limited for a thorough understanding of its details or engaging in discussions about it.” Also: “The impression is that the council members are just being informed by the executive about the budget rather than exercising any influence over it”; Some council activists think that the influence of the deputies over the budget to a large extent depends on their ability to understand the issues, degree of background information and a motivation to take responsibility.

Some council members note the growing disappointment among the deputies with regards to the effectiveness of their work. On many occasions, the council assemblies did not manage to gather the required quorum for making decisions. Council activists are disappointed that it does not have the means to stimulate or to penalize those not attending assemblies.

Council members have the right to spend UAH 2,000 each at their own discretion. This year, this portion of municipal resources was used to renovate a kindergarten roof, and now the executive is negotiating with the council about the possibility of using some funds to support summer camps for school children.

Kolomyia is famous in Ukraine for its nationalist, patriotic spirit and political activism of its population, which was demonstrated during the Orange Revolution. There are 45 parties registered in the town with the largest being the Congress of Ukrainian Nationalists (Kongres Ukrayins'kikh Natsionalistiv), the Ukrainian People's Party (Ukrayins'ka Narodna Partiya), the People's Movement of Ukraine (Narodni Rukh Ukrayini), the "Sobor" Ukrainian Republican Party (Ukrayins'ka respublikanska partiya "Sobor"), the Ukrainian Liberal Party (Liberalna Partiya Ukrayini) and the Reforms and Order Party (Partuya "Reformi i poryadok").

Local political activists note that against the background of high political activism the local civil society is not well structured politically. They say that local parties do not build on programmatic lines, and most residents hardly know how they differ from each other. There are multiple cases of people voting for candidates they did not know.
Some recall examples of council members who did not live in the municipality but in the last elections acquired resident permits in order to be elected.

Residents think that the link between the population and elected deputies is rather weak and traditionally becomes active only on the eve of elections. They refer to council members' meetings with the electorate as the major instrument of maintaining such a link. However, council members themselves note this is often not a very constructive avenue for communication as "people use these meetings to solve their individual problems with little understanding of wider community needs and problems."

Popular meetings with the participation of political activists also take place in the public square (vechevoi maydan) after church services, but residents think this is often of a populist nature.

There are more than 100 NGOs registered in the municipality with the most active ones being the Association of the Economic Development of Kolomiyskhina (Assotsiatsiya Ekonomichchnoho rozvitku Kolomiyskhchini), the Society of Entrepreneurs and Industrialists (Hromadske Ob'ednannnya Pidpriemistiv i Promyslovsiv "Bizness Kolomiyskhchini"), the Congress of Ukrainian Intelligentsia NGO (Kongres ukrayinskoi Inteligentsii), the Union of Kolomyia Industrialists and Entrepreneurs (Spilks Promoslovsiv ta Pidpriemistiv mista Kolomyia), the "Youth Movement" NGO ("Molodoy Rukhl"), the Elderly Council of Kolomyia (Rada stareishin Kolomyii), the Union of Ukrainian Afghanist War Veterans (Spilka ukrayinskih Veteraniv Afhanistanu), the "Civic Control" NGO (Hromadskiy kontrol"), the "Route to NATO" NGO ("Slyakh do NATO"), the Education Society ("Prosvita"), the Town Fellowship of the Organization of Ukrainian Nationalists-Ukrainian Insurgent Army (Miska stanitsa Bratstva Organizatsiyi Ukrainskih Nacionalistiv-Ukrayinskoyi Povstanskyi Armii), the Society of Former Political Prisoners and Repressed Persons (Spilka Politv'yaniv i represovanikh) and the "Progress" Society ("Postup").

Noticeably, 16% of local NGOs have political mandates. Another 12% of them are professional associations, 8% are active in the area of culture and 6% in the area of entrepreneurial development. Local analysis of the NGO sector in Kolomyia points to the fact that generally the border between some civil society organizations and political parties in the town is very blurred and that NGOs have a tendency to mushroom in years when national elections are held.

A rather large number of young people are involved in civic activism. Some call Kolomyia "a town of youth" as despite its size it hosts nine higher education institutions and two technical schools.

The generally held opinion is that professional and committed people work with local NGOs but the general public is not sufficiently aware of their activities and their potential role in the governance process. Thus, more than half of the town's population have never heard about NGOs in the town, while some 23% have heard about NGOs but personally never came into contact with their activities and only 0.7% proved to be members of NGOs themselves.

Some local NGOs are co-owners of newspapers: the Business of Kolomiyskhina NGO (Biznes Kolomiyskhchini") is involved in issuing the newspaper Business Newspaper ("Dilova Gazeta"), and the "Green Light" NGO ("Zeleniy Svit") publishes the Human Being and the Environment newspaper ("Lyudina ta Ecolohiya"). Among other mass media in the town are a newspaper co-funded by the government, a private
local TV station and a radio station. Some residents think that talking about plurality or independence of mass media in the town is still problematic.

Among the organizations funded from the municipal budget are mainly those traditionally supported by the town government, such as the associations of veterans and the handicapped. According to public activists, most NGOs enjoy closer cooperation with the business sector than with the authorities.

Most NGOs here have very limited technical capacities, and the Association of the Economic Development of Kolomiyshina makes an attempt to group other organizations around itself while serving as a resource centre and an exchange platform. Today it chairs a coalition of 10 NGOs active in the Kolomiyshchina region.

Most of the initiatives for greater citizen involvement in local governance come from civil society leaders and are implemented through local NGOs. The Association of the Economic Development of Kolomiyshchina is the major driving force in this process. Eight of its members are at the same time members of the municipal council.

The organization has undertaken a number of important initiatives that are directly related to the local budgetary process, among them projects related to public involvement in the definition of socio-economic development priorities for Kolomyia,\(^\text{30}\) citizen participation in budget formation and expenditure monitoring,\(^\text{31}\) and People’s Voice Project support mechanisms for citizen influence on public service provision.

### Transparency and Access to Information

One of the goals of the project meant to enhance citizen participation in budget formation and expenditure monitoring is to increase transparency in the budget and budgetary process. According to recent research conducted in conjunction with the project, most town residents displayed poor awareness about the town budget and mistrust of the authorities. Some 90% of people stated that they do not receive sufficient information on the municipal budget. More than half of all respondents did not have an opinion with regards to the appropriateness of budget allocations and one-third of all respondents thought that the allocations were not fairly distributed. About 27% felt completely uninformed about government activities and about 52% stated that they are not sufficiently informed.

A recent survey of citizen satisfaction with public services there showed general public dissatisfaction with the quality of service provision and the effectiveness of programs undertaken by the government.

More than one third of the population is convinced that available budget resources are not being used efficiently. Many recall the situation with heating services last year, when the government made a decision to invest in constructing new boiler rooms when 80% of the town population were using individual heating systems (with many having switched as a result of the failure of central heating). Some UAH 377,000 (almost one-fifth of municipality revenues) was allocated to the project in 2004.

\(^\text{30}\) Funded by the International Renaissance Foundation

\(^\text{31}\) Funded within the framework of the Freedom House program “Support of Socio-Economic Processes in Ukraine.”
Several council members are concerned with the collapse of the central heating system and the potential environmental impact of individual heating systems. One of them said, "We realized the need to apply longer-term strategies to budget allocations instead of using budget resources for patching up holes as they appear. We might have missed the chance with the heating services but there are other areas which require a careful approach and good analysis and calculations."

Many public representatives regret this perceived lack of strategic vision, managerial approach and team spirit among government officials as much as they regret the unavailability of mechanisms through which citizens can hold government accountable for its actions or inactions. They believe that greater participation may reduce the likelihood of clientelism in resource distribution.

Representatives of the media believe that strikes in the town have become one of the most effective ways of influencing government decision-making. A recent strike by representatives of schools under-funded as a result of a municipal budget deficit made the government take out another short-term loan from the Treasury. Then taxi drivers blocked the municipal building demanding renovation of roads (one of the most pressing problems in Kolomyia). People know that some UAH 460,000 was planned in the 2005 budget for this purpose but only UAH 10,000 was made available. They claim they see neither improvements, nor any intention on the part of the government to implement this project.

The Messenger of Kolomyia ("Vesnik Kolomiyi"), another local newspaper, has been the major channel providing information to the public about government work, but its relations with the authorities has deteriorated after the government rezoned the buildings hosting the editorial team as communal property as collateral for a budget loan from the Treasury.

The newspaper is 50% co-funded by the local government but this funding is never guaranteed. This forces it to reduce its number of pages, increase the advertising component, and curb employee salaries. For instance in 2005 the government budgeted UAH 20,000 to provide information to the population about its activities, but the newspaper's editor-in-chief is still unaware as to what part of this money will go to the newspaper.

The government has also an agreement with the private local TV station to provide information on government activities. A TV representative says that this funding is rather symbolic and has been delayed for more than six months now, but the station still provides information about local government activities as part of its daily local news program, which is widely watched by the town population.

More than 70% of town residents rely on local newspapers and local TV for information on government activities. The mass media in Kolomyia enjoys sufficient access to the work of the local council and participatory events conducted by local NGOs. Yet, some find it somewhat strange that official town newspapers write more about the activities of local NGOs in the sphere of governance than about government initiatives.

At the same time representatives of local media find it rather difficult to contact government leaders. They give as an example the fact that for 3.5 years already the mayor has only appeared four times on local TV.

They also regret that the principle means of the mayor's direct participation with the population is the end-of-year meeting with the public, which does not usually
prove very effective as to ensuring that citizens’ questions are answered. “There are not enough resources in the budget.” is the typical excuse given. Media representatives think that as fewer resources are available the more the issue of their distribution is of interest to the public.

At some point the municipal newspaper team has suggested publishing budget information but the government has not been very supportive of this idea. Yet, the newspaper correspondents think that for budget information to be attractive it needs to be commented upon by government specialists and independent experts.

Municipal representatives themselves mention the problem of trust as one of the challenges in their work with the local population. Some recall a case when the executive appealed to the local business community to lend the government UAH 80,000 for several months to cover a temporary budget deficit but the majority of businesses refused and the government had to take a loan from the Treasury.

Public Hearings

In 2002 the town authorities introduced the practice of public budget hearings. Those who attended them think that it was just an attempt by the government to inform the population about the state of the budget rather than open the floor for true discussions. They also say that such general budget hearings did not generate wide public interest. Specific groups of people come to such hearings, with pensioners being the most dominant among them. They do however acknowledge that there are activists among the elderly who closely follow the council sessions and are well aware of budgetary matters.

Many are of the opinion that hearings on specific issues generate more effective participation since they are more often attended by those whose interests are directly affected (as was the case regarding land title hearings). Local observers say that the success of the hearings to a great extent depends on the format of the hearings and the quality of preparatory work conducted beforehand (e.g. background and support materials, possible problem-solving methods, pros and cons, etc.) Some also note that public hearings organized in the past by the government, although perceived as more legitimate, caused more awareness among the population than those initiated by NGOs.

Kolomyia has not yet adopted a regulation on public hearings. The municipality even lacks a regulating statute. The issue of adopting such a statute has been discussed in the municipal council some years ago, but deputies decided that such a statute might become a limitation rather than an effective framework document, especially given the lack of experience with statutes in Ukraine in general.

Demand for Regulation on Budget Resource Allocations

One of the key ideas currently promoted by NGOs is a special regulation (reliam) that would set clear rules with regards to budget allocations of municipal resources, and the means of monitoring allocations for implementation, including aspects of public control. Work on this regulation has not yet started.
Entrepreneurs' Participation in Business Sector Development

In 2002-2003 local entrepreneurs were involved in the elaboration of a set of local level regulations that would favour business development. The approval of 10 regulations by the town council was preceded by a number of roundtable discussions, workshops and public hearings. Entrepreneurs took active part in the development of the municipal program for small business and tourism development for 2003-2004. These initiatives have paved the way for strengthening cooperation between the local entrepreneurial community and the municipal Department of Socio-Economic Development. The entrepreneurs would like to see an improved investment climate as well as clear strategies and measures taken by the municipality with regards to the advancement of the small and medium enterprise sector as a primary source of municipal budget income.

Entrepreneurs understand that under current fiscal conditions the motivation of local authorities to generate additional revenues and develop economic activity is low despite the fact that today the private business sector is the major contributor to the municipal budget. At the same time, they suggest the local government become active in this area now in order to lay the groundwork for when the national government creates budget incentives for local governments to foster small- and medium-sized enterprise development and the improvement of the local investment climate.

The legalization of business activities is also suggested among potential sources for increasing revenue collection. According to a recent survey, cases of unregistered businesses, the issue of unofficial salaries (so-called "salaries in envelopes"), or undeclared incomes are currently widespread in the town.

Entrepreneurs hope that the benefits from their engagement in local decision-making can go beyond development of the business sector. They believe it can extend to a more efficient use of municipal resources and a reduction of corruption, which manifests itself today through kickback payments for obtaining registrations and permissions, or in bidding on public tenders.

Participation in Priorities Setting and Strategic Planning

For NGO activists the pre-conditions for effective discussion of budget allocations, first of all include a clear vision and strategies for general socio-economic development of the municipality, as well as good awareness of existing resources and real needs.

Recently, the town has established a partnership relations with two Polish towns. Officials and public representatives who went on a study tour to Poland advocated on behalf of strategic planning with citizen engagement also to be applied in Kolomyia.

In September 2003 town NGOs initiated a series of participatory exercises that resulted in the formulation of projects entitled "Conceptual Provisions for the Strategy of Economic and Social Development of Kolomyia until 2011" and "Development...”

32 The study trips was organised within the framework of the People's Voice Project
Priorities of the Municipality of Kolomyia. To assess the current situation five working groups were formed from executive representatives, the local business community, representatives of the social sphere (education, healthcare and culture), NGOs and political parties. The groups were given questions around which they formulated their visions of the current situation and the town's development priorities. Afterwards the groups developed a joint position and agreed that "Kolomyia should become a centre of tourism, small business and education and culture with high social standards," and among pending priority problems to be resolved was to be the reorganization of the housing and communal services sector and the improvement of the local investment climate (Vikonavchiy Komitet m. Kolomyia, 2004a). The elaboration of development priorities was also accompanied by a participatory SWOT analysis for major sectors and a sociological survey of the citizens' opinion on development priorities.

At the end of 2003/beginning of 2004 two other rounds of public discussions (публичне обговорення) specifically dedicated to housing and communal services took place. It was organized in the same format, with working groups represented by executive officials, managers of housing and communal services enterprises, the scientific and research community, political parties and organizations and city residents.

Among the underlying reasons for holding public discussions in communal services sector was an urgent need to ensure that citizens agreed with what was to be an inevitable increase in service fees. Previously the applied rates did not cover the operational costs of the public enterprises providing their respective services, let alone contribution to investment reserves.

Analysis conducted in the public water supply sector with the support of the Rivno State University of Water Economics and the consulting company PADCO resulted in a loan application submitted by municipal authorities to the Ukrainian Municipal Development Fund under a program to develop the municipal loan market. Local specialists think that in many cases municipal communal service enterprises require investments that local budgets are not able to generate, and loans might provide the solution.

The proposal was developed exclusively by technicians and experts. Yet, the head of the public water utility admitted that, despite the technical nature of water supply systems, calculating the social impact and potential social conflicts of investment projects is important. A question of which areas of investment should receive priority and which population groups should benefit and why might need wider consultations to answer.

Within the framework of the same project an independent analysis of housing and communal services policy was conducted later in 2004. Among the measures considered, the analysis suggested establishing an advisory committee with representatives of the executive and legislature branches of local government and civil society with a mandate to provide recommendations to the process of reforming the local housing and communal services sector, monitoring of public expenditures in the sector and

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33 Under the project "Capacity Building of Regional Analytical Centres in Policy Analysis at the Local Level," which was funded by the International Renaissance Foundation and implemented by the Association of the Economic Development of Kolomyia with the support of the International Centre of Policy Studies and the Ukrainian Razumkov Centre of Economic and Policy Research.

34 SWOT stands for strengths, weaknesses, opportunities and threats.
the use of resources by relevant public enterprises. It has also proposed a draft regula-
tion that could serve as the basis for the work of this committee.

Along the lines of greater citizen involvement the analysis proposed to establish
organizations of entire apartment blocks for self-management of housing and infra-
structure, organizations which could exercise influence on further decision-making in
this area. Still, the government has been trying in vain to establish such societies for
three years already, as town residents do not seem to trust the idea and are worried
about the fact that the fees for housing and communal services are no lower than in
the oblast centre though service quality is worse.

Public activists see the following advantages in greater citizen involvement in local
governance: mobilization of additional resources, including human and technical
capacities; decisions made based on the real needs of the population; citizens can sugg-
est alternate solutions to problems that the government might not envision; citizens
will be more responsible in the implementation process if involved in initial decision-
making and planning; the public might acquire better understanding of municipal
problems and challenges faced by the local government; it will contribute to building
trust between authorities and the public, and participation can help to reconcile con-
flicting society interests and find common ground.

Activists also say that most initiatives on public engagement have been coming from
NGOs with a good project record, which now makes them difficult for the authorities
to ignore.

Through international projects some representatives of the municipal government
have had an opportunity to receive training (e.g. in strategic planning, public service
user fees reform, etc.) and become acquainted with the experience of other munici-
palities in Ukraine and in Poland, and this is greatly appreciated. One council member
said, "Even when people in the government understand that changes are inevitable
and should be introduced, they often do not know how some of the innovative ideas
discussed work in practice."

Among recent examples was an initiative put forward by entrepreneurs to establish
a "one-stop-shop" for payment of communal services and collecting information. The
project was supported by the People's Voice Project. The project invited the council
and executive officials, as well as public utilities representatives, to take part in a study
tour to other Ukrainian cities that had had positive experiences in this area.

Public Initiation of Budget Analysis and Assessments of Expenditure Needs

NGO representatives think that engagement of the wider public in the budgetary
process is not likely to succeed if there is no solid background sectoral and budget
analysis supporting this process. According to the Association of the Economic
Development of Kolomyia, the development of the 2006 budget should proceed with
a deeper analysis of the current situation, an inventory of available resources and a
review of their utilization in each sector. Analysis of local budgetary policies should
also be a part of such a review.

Apart from on-going initiatives in small business development, housing and com-
munal services, as well as youth policy, NGOs in Kolomyia are initiating a review of the
situation in education and culture. Public observers and some executive officials con-
firms that there are ways of more effectively using locally generated budget revenues. For instance, today half of such funds go to supporting the education sector. The municipality maintains school infrastructure needs for 8,390 children, while in reality there are only 7,481 children enrolled. There is also a potential to increase self-financing components in educational institutions by providing additional educational and leisure services (like music or sport schools), or by cutting back on kindergarten infrastructure that is not used to its full capacity and financing kindergartens based on the number of children actually enrolled.

Those voicing these ideas realize that undertaking such unpopular decisions requires strong political will on the part of the municipal leadership and meticulous work with teachers and parents. They also doubt that the government will manage to make such decisions in a participatory fashion, since most of the citizen engagement initiatives up to date have been handled by the NGO community.

They also note that, despite the importance of education sector for the town further development, it might be difficult to initiate changes in the sector, also due to a rather strong education lobby in the town rada, and on the eve of upcoming election.

Recently, Kolomyia was included in the state's budget reform program, which aims to introduce a program for performance budgeting methodology. The NGOs hope that participation in this initiative may open new opportunities to increase budgetary effectiveness and efficiency and contribute to the improvement of dialogue between governmental and non-governmental actors.

There is also an understanding among NGO activists and some government representatives that talking about PPB would be problematic before introducing a system of budget expenditure requirements based on real needs.

Public activists complain about the government's passive stance and raised doubts that much could be achieved in the nine months before the municipal elections in early 2006. Some believe that there will be a flow of human capacities from NGOs and the business sector to the government, and the current initiatives should continue and ensure that the new government has an existing base to rely upon. Others said that the results of the elections would depend a lot on the success of public awareness campaigns with regards to a need to elect people with managerial experience.

Survey of Citizen Satisfaction with Public Services

The technique of using opinion polls and citizen satisfaction surveys was introduced in the municipality by NGOs and used within the framework of different projects. Two surveys recently taken - one being a survey on citizen opinions about the municipal budget and the other being a survey on public satisfaction with public services, are expected to have some impact on the elaboration of ideas of greater public control and monitoring of the budgetary process in general and allocations in specific service sectors in particular.

Those who have experience with surveys warn that for the survey to become a solid tool for influencing government decision making it is important to invest in further strengthening of local capacities to develop good quality questionnaires and repre-
sentative sampling, as well ensure that survey results are not being manipulated. Some warned against a danger of surveys being manipulated on the eve of the elections.

While recognizing the value of surveys, local activists also note that surveys cannot compete with other mechanisms since the surveys reflect the static opinion of individuals and do not challenge people's views.

**Public Involvement in Advisory Committees**

NGO representatives perceive the introduction of an advisory committee created by a decision of the town mayor in July 2005 under the auspices of the People's Voice Project and a general commitment of the authorities to cooperate in the area of service improvements as a breakthrough. They hope that the initiative will result in a revision of budgetary issues before the adoption of the 2006 budget. Along with municipal officials the committee includes representatives from NGOs, entrepreneurs, the local scientific community and the mass media. It has 21 members working in two so-called “profile groups,” one concentrating on civil society and the other on local government.

The Association of the Economic Development of Kolomyshchina is currently negotiating with the government about the possibility of establishing advisory committees in several sectors, including communal services, education and culture. Such committees would be responsible for the analysis of the current budgetary situation in a given area and provide recommendation with regards to required changes.

There is the intention to convert these committees into sectoral budget allocation and monitoring boards at a later stage, but some participants are worried that gaining the acceptance of public representatives in these bodies from sectoral authorities might present a challenge. In the past the advice of NGO or council representatives was often sidelined by arguments that they are not specialists in a given area.
2.3 The Raion of Bakhchisarai, the Autonomous Republic of Crimea

Introduction
The raion of Bakhchisarai belongs to the Autonomous Republic of Crimea. Of 92,600 residents, almost 30% live in the town of Bakhchisarai, some seven percent are residents of three nearby settlements (Kuybishevo, Pochtovoye and Nauchniy) and the rest of the population live in 85 villages.

Bakhchisarai is 500 years old and has a rich history. For three centuries it was the capital of the Crimean Khanate. The peculiarity of the raion is its multicultural and multi-confessional population, comprising 54% Russians, 21% Crimean Tatars, 20% Ukrainians and 5% from other ethnic groups.

Agricultural lands occupy 35% of the raion territory. About 20% of the local population is employed in agriculture and 10% in industries (mainly construction materials, light industry, the food industry, flour-milling and metalworking). Although agricultural products (fruits, wine and volatile oils) dominate the gross domestic product of the raion, agricultural enterprises enjoy tax preferences, and most of the raion tax revenues come from industrial enterprises. The largest among them is Stroyindustriya, a producer of cement.

There are nearly 700 enterprises registered in the raion, among which 600 are small businesses and 19 joint ventures. In recent years the enterprises have enjoyed rather stable production growth. Annual economic growth from 2000-2003 was 7.9%. The importance of the sanatoria and health resorts sphere in the raion economy has recently increased. Last year's economic growth was hindered by force majeur circumstances in the agricultural sector.

The raion council does not belong to the level of primary local self-governance. Instead it represents the joint interests of local self-governance units. This is one of the reasons why the raions are less privileged with regards to acquiring its own sources of revenue than other towns. 36 Most of the raion budget revenue comes from transfers, where equalization grants dominate. 37 Between 1995 and 2001 raion budgets in Ukraine have experienced a significant reduction in income (-33%) with only a 16% reduction in expenses.

The Bakhchisarai raion budget is subsidized by the state, with the share of transfers to its budget reaching 68% in 2004. In the consolidated raion budget, the proportion of the raion's own budget is 71%, while 9% is represented by the town budget, 5% by settlement budgets and 15% by village budgets.

In 2004 the budget of the raion amounted to UAH 38.7 m. Table 5 reflects the structure of raion budget revenues in 2003-2004.

36 Only 50% of personal income taxes and only 25% of land taxes were taken in the raion budget (for towns these rates vary between 20 -75%, and between 60-75%, respectively).
37 Lunina I., 2003
Although personal income taxes constitute a considerable part of the local budget the raion experiences a typical problem of so called “satellite areas.” A large segment of its population commutes to work to Simferopol and Sevastopol, where income tax is also levied upon them.

The raion budget expenses have the following structure:

Table 5. Bakhchisarai raion budget revenues by source including transfers, 2003-2004

<table>
<thead>
<tr>
<th></th>
<th>2003, %</th>
<th>2004, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenues</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Revenue sources used for transfer calculation (basket one)</td>
<td>31.7</td>
<td>21.9</td>
</tr>
<tr>
<td>Personal income taxes</td>
<td>26.9</td>
<td>18.3</td>
</tr>
<tr>
<td>Trade patent fees</td>
<td>0.7</td>
<td>0.4</td>
</tr>
<tr>
<td>Individual taxes from small business</td>
<td>4.0</td>
<td>3.1</td>
</tr>
<tr>
<td>Administrative fines and levies</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Revenue sources not considered in transfer calculations (basket two)</td>
<td>9.1</td>
<td>7.1</td>
</tr>
<tr>
<td>Land taxes</td>
<td>3.7</td>
<td>2.9</td>
</tr>
<tr>
<td>Local taxes and duties</td>
<td>1.5</td>
<td>0.8</td>
</tr>
<tr>
<td>Taxation of natural resources of special local significance</td>
<td>3.9</td>
<td>3.4</td>
</tr>
<tr>
<td>Transfers from the state budget</td>
<td>59.2</td>
<td>71.0</td>
</tr>
</tbody>
</table>

Table 6. Bakhchisarai raion budget expenditures by sector, 2004

<table>
<thead>
<tr>
<th>Total budget expenditure</th>
<th>2004, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local self-government</td>
<td>4.7</td>
</tr>
<tr>
<td>Education</td>
<td>32.7</td>
</tr>
<tr>
<td>Healthcare</td>
<td>20.2</td>
</tr>
<tr>
<td>Social security and welfare</td>
<td>16.5</td>
</tr>
<tr>
<td>Culture</td>
<td>3.4</td>
</tr>
<tr>
<td>Sport</td>
<td>0.5</td>
</tr>
<tr>
<td>Public security</td>
<td>0.1</td>
</tr>
<tr>
<td>Public transportation</td>
<td>0.8</td>
</tr>
<tr>
<td>Mass media</td>
<td>0.1</td>
</tr>
<tr>
<td>Debt servicing</td>
<td>1.1</td>
</tr>
<tr>
<td>Resources transferred to lower-level budgets</td>
<td>13.4</td>
</tr>
<tr>
<td>Other</td>
<td>6.5</td>
</tr>
</tbody>
</table>

Most of the raion expenditures go to education. The raion has 5 town schools and 22 schools in rural areas. A considerable part of locally generated resources are dedicated to education. This includes funding of three Crimean Tatar schools established.
additionally on the initiative of the raion government. Besides, the calculation of transfers for 2005 did not foresee funding for bussing children to schools, while the remote location of schools in some rural areas in the raion considerably increased the costs of education per school-aged child. Additionally, grants the raion budget receives do not include compensation for the purchase of medications for war veterans, which is among protected expenditures meant to be funded from the state budget.

The second largest expenditure item is healthcare. The raion budget funds a central raion hospital and three district hospitals in outlying settlements. It also has some 40 outpatient clinics, the funding of which remained a responsibility of local self-governments until 2006. The raion authorities are worried about the fact that expenses are being transferred to the raion level when the revenues remain at the local level. According to hospital management the rise of energy prices at the beginning of 2005 caused a significant increase in the budgeted expenditures of health care institutions in the raion.

A large portion of spending is administered by the Social Security Department of the raion administration. The head of the department considers it rather unfortunate that social spending is mitigated by other budget items. This is especially troubling given that social assistance is not always provided to those really in need. Yet, the social security department has very little flexibility and few powers to define whether people really need the assistance they claim. The number of citizens claiming subsidies constantly grows, which breeds dependency and an exploitive attitude among citizens towards the public budget.

Most capital investments undertaken in the raion today are funded through programs established by the republic. Significant funds are released through the Republican Committee for Nationalities and specifically targets those formerly deported, and this has contributed to inter-ethnic tension in the raion. Crimean Tatars themselves think that it would be more effective to stream these resources through more general programs supervised by the republic or through local investment funds.

The fact that implementation of the raion budget in both revenue collection and spending reaches 95% of the planned level is explained by experts as a result of the passive stance of raion authorities with regards to additional revenue generation. However, the raion administration has prepared economic justifications for assigning the raion the status of a development priority area with the aim of attracting investment and in order to favour application of innovative approaches. But due to a moratorium on the creation of special economic zones and priority development areas enacted by the central government this initiative remains without support. 38

The raion consists of 18 self-governed administrative-territorial units. Local self-governments in rural areas have elected local councils and an executive committee, usually consisting of a chairperson, a deputy, land surveyor and a treasurer.

Of the 18 budgets only 3 are not subsidized (the town of Bakhchisarai, the settlement of Peschanoye and the village of Lugovoe). Expenses of local self-government councils in rural areas typically include the operational costs of an executive commit-

38 Specialists have criticized such special regimes used to favour the rapid development of some large enterprises rather than boost small- and medium-sized business activities as expected.
tee, maintenance of kindergartens and outpatient clinics, support for housing and local communal services enterprises and beautification of public places. These councils derive their revenues from communal taxes, advertisement taxes, permits for location of trade points, market duties, fees for the use of local symbols, hotel room taxes and parking fees.

**Overview of Key Actors**

The raion council consists of 54 deputies - three from each territorial-administrative unit. The chairperson of the council, who is appointed by the President, is at the same time the head of the raion state administration.

Recently the raion administration experienced a change of leadership. The new chairperson is a former vice-speaker of the Crimean Parliament.

Supervision of the implementation of the consolidated raion budget is among the key responsibilities of the raion council, which convenes on a quarterly basis. Observers note that during the budget formulation period council members strive to reserve as much as possible in the budget for their respective areas. The fact that the largest professional group represented in the council represents healthcare sector explains why budget allocations are often made in favour of healthcare institutions.

The composition of the raion population changed at the beginning of 1990s as a result of the return to Crimea of the formerly deported Crimean Tatar population. Bakhchisarai is an important historical location for the Crimean Tatars, which explains why many have chosen to settle there. Shortly after the collapse of the Soviet Union the Government of Ukraine found itself ill-equipped to cope with a rather large influx to the population. As a result settlements of squatters appeared on many lands and to this day many such squatters do not enjoy access to basic infrastructure.

These formerly deported Tatars had to fight for their socio-economic and political rights, which made them unpopular among the ethnic Russian and Ukrainian population. However, as people gain experience of living in neighbourhoods with each other reconciliation has taken place. In some localities there are examples where Russians and Ukrainians have elected Crimean Tatars to local councils and vice versa, a case that 10 years ago no one could have imagined.

Yet, political events in Ukraine and on the Crimean Peninsula have sometime fuelled inter-ethnic tensions. Recently, the "Orange Revolution" and the subsequent repeat run-off vote in the presidential elections added to a polarization of the population in Bakhchisarai, also along ethnic lines. The support for President Viktor Yushchenko in the raion among the local population was just 23%, and mainly owing to Crimean Tatar voters.

Generally, the population of Bakhchisarai does not actively participate in the life of local political parties. Membership for most of the 40 parties registered in the raion is spread very thinly. Among the parties receiving the most support are the Rural Party (Argrannaya Partiya), the People's Democratic Party (Narodno-Democraticheskaya Partiya), the "Women for Future" party ("Zhinki za Maybyntne"), the "Rehabilitation of Seriously Ill Persons of Ukraine" party ("Reabilitatsiya Tyazelobolnih Ukraini"), and the...
Social-Democratic Party of Ukraine (united) (Obyedinennaya Sotsialno-Demokratischey Partiya Ukraini).

There are about 76 NGOs registered in the raion, out of which only one-sixth works actively. Most of these NGOs rely upon the support of international donors. Thus, already by the year 2000, these NGOs had implemented projects in the raion totalling just USD 1 m. Among them a large segment are devoted to ethnic and cultural issues, as well as women and youth organizations.

A newly emerging form of citizen organization in Bakhchisarai is community-based organizations with community development mandates, especially active in settlements with a high concentration of formerly deported people. Many of these organizations began providing services in such areas as water supply, healthcare or education that were traditionally a responsibility of the government.

Blurring the divide between government and non-governmental actors in basic service provision, together with other phenomena such as the shadow economy or commuting workers, impacts the way the population relates to the local government and the public budget.

Transparency and Access to Budgetary Information

The major source of printed information about the activities of raion authorities and the budgeting process is the local newspaper "Slava Trudu," which is co-funded by the raion administration. Its annual budget is UAH 178,000, of which UAH 59,000 comes from the raion budget.

The newspaper prints 4,000 copies several times a week. The raion financial department periodically reports through the newspaper on the implementation of the local budget, but some think that the way this information is provided in the newspaper is not reader-friendly. The newspaper also publishes all the decision of raion council assemblies and periodically includes articles from the auditing office where specialists comment on the results of audits of institutions funded from the raion budget.

According to the newspaper's editor-in-chief, the population shows little interest in the raion budget. Many find it too complex, others see it as an accounting balance sheet rather than a budget since the raion's own revenues are meagre, and people are more interested, if they are at all, in the budgets of local self-governments.

The editor has suggested that interest in the budget should be sparked among entrepreneurs, financially the most literate segment of the population. Others think it would be difficult to make entrepreneurs vocal about budget issues as many businesses today work in the shadow and would not want to “wake a sleeping dog.”

Besides the raion newspaper, there are other local media, such as the Bakhchisarai raion communist party committee newspaper, two private newspapers (which predominantly publish advertisements) and a cable TV station to which mainly the urban population is connected.

Neither the raion, nor its territorial-administrative units hold public budget hearings. In principle, the raion council representatives serve as mediators between the population and the raion government.
**Participatory Strategic Planning**

In 2000 a strategic planning unit created under the UNDP Crimea Integration and Development Programme (CIDP) in Bakhchisarai was transformed into a special division for strategic planning within the Economics Department of the raion administration. It currently employs two persons, who have guided the evolution of the idea of strategic planning in the raion since its conception.

In 2000, supported by the CIDP, the raion administration began elaborating a strategic development plan for the raion through 2010. The process was led by the coordination committee for development planning established by the raion administration.

The initiative has begun in a participatory manner. The strategic planning division organized a series of roundtables with different population groups, including women, entrepreneurs, farmers, war veterans and youth. Special roundtables were conducted for raion council members, settlement and village council representatives and for the heads of sanatoria and health resort enterprises. At these meetings the idea of strategic planning was introduced along with the results of a survey conducted among each of the above-mentioned groups with regards to their vision of current problems and priorities. These problems and priorities were further discussed and each group has delegated a representative to participate in the coordination committee.

Those who experienced the process said that it was a good opportunity to voice public concerns and to know that the government is willing to listen. They also seem to have understood the cautiousness with which the government proceeded:

"Formulating a fully fledged strategic development plan in a situation where the raion administration is not able to secure funding to implement it would be a frustrating experience,"

When the planning specialists realized the potential danger of a strategic plan becoming a declarative paper they searched for information about cases of strategic planning at the raion level in Ukraine. This attempt, however, was unsuccessful as longer-term raion socio-economic development plans almost do not exist.

Further discussions with the local governments, a participatory problem analysis and planning exercises were instrumental in singling out general pressing problems typical of all territorial-administrative units in the raion (such as housing and communal services, or underdeveloped agriculture and tourism sectors). But they also revealed that the development priorities of the town, settlements and villages may differ considerably. A consensus was made to bridge the gap between strategic planning at the raion level and strategic planning at the level of its separate territorial-administrative units.

According to local specialists, implementation of local development strategies could be made operational through various channels, such as annual budget planning by local self-governments, annual and mid-term program package elaborated at the raion level, programs operated by the republic as well as the mobilization of external resources.

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39 Among CIDP donor countries are Canada, Switzerland, Turkey, the Netherlands, Great Britain, Norway, Sweden, Greece and the USA.
The need to develop some guiding principles and regulations with regards to allocating funds for capital investment and to plan annual program packages has been raised on several occasions and entered the agenda of the raion executive committee.

This is a rather innovative idea. Today the allocation of capital investments in Bakhchisarai raion at the settlement and village level is unregulated. In some cases the decisions about such allocations are the prerogative of local councils, while in others these councils make attempts to consult with the population at general community meetings (skhod grazdan).

Currently, a pilot project in strategic planning is being developed by the Kuybishevo council that covers the settlement of Kuybishevo and a number of surrounding villages. The local self-government there created a planning group that, apart from the local self-government officials, includes entrepreneurs, representatives of local civil society organizations, self-organized units of the population and several public activists.

The fact that the working group comprises members with diverse and even opposing viewpoints is perceived as a positive development by the specialists from the raion strategic planning division. They also expect that involvement of citizens at the planning stage will increase the level of accountability of the authorities during the course of further implementing the plan.

To support the work of this group, all departments at the level of the raion were asked to provide their analysis of the situation and give recommendations. Currently, public meetings are organized by villages to discuss with residents their vision of needs and priorities.

Practitioners believe that there is a number of unexplored possibilities for increasing spending efficiency and increasing revenues in local self-government budgets. In some cases local councils needed professional advice and additional expert support to maximize their contributions.

According to new administration board members, greater revenues can be generated by legalizing existing economic activities. Others also point to the possibility of increasing the revenue base by increasing the number of those who pay land taxes. Today up to 60% of settlements/village revenues come from land taxes. But there are multiple cases where local authorities can not exploit this opportunity as the lands they own have not been formally assessed and yet can still be rented out.

The experiment of a land inventory in Kuybishevo has shown that this can contribute to an increase in locally generated revenues. Some representatives of the municipal authorities regret their inability to receive loan credits or grants for projects to strengthen the local government's ability to generate revenue, such as by conducting land valuations or inventorying communal property.

However, among the preconditions for effective economic development here is the motivation of local self-government authorities. A municipal official has said that, "Local self-governments could collect more revenues than planned but it will cost them more work and nerves. Then next year they will get less in grants, and their budget will not gain anything."

Local government representatives have suggested that the ineffective use of available resources might be due to the fact that their revenues are merely collected and not
earned. They are also convinced that much depends on the managerial capacities of the local leadership, and they believe that no more than a third of their current leaders at the settlement and village levels have these skills.

Residents Participation in Services Provision

Most of the schemes for citizen participation in service provision have been introduced in Bakhchisarai with the support of the UNDP Crimea Integration and Development Programme (CIDP). Examples of projects implemented and maintained with the financial participation of local residents include small-scale drinking and irrigation water supply systems, village outpatient healthcare centres, creation of children’s playgrounds, youth and child-care facilities and gravel roads.

All these initiatives have multiple sources of funding. On average, some 15% of all project values stem from contributions made by some form of government (ARC, raion administrations and/or local councils), while some 30% comes from the population and the rest is generated by the program itself. The government’s contribution is used for the preparation of project documentation by relevant project institutions and for obtaining the necessary permits and inspections. Local councils typically also commit the use of machines of local communal enterprises during the course of implementing the project.

In 2005 the Bakhchisarai raion administration planned UAH 94,000 for these purposes. However, the authorities say that such a contribution was possible mainly due to additional revenues obtained by the government thanks to the sale of some communal properties. They are not sure about their capacity to maintain this level of financial participation next year. Some point to the fact that the UNDP CIDP internal planning cycle does not coincide with the local government’s budgetary cycle, which hinders the local government’s ability to secure its contribution.

CIDP funds are used for the purchase of construction materials and equipment (as in the cases of health outpatient or youth centers). The residents, in turn, contribute manual labour.

Upon completion of construction the infrastructure is in most cases maintained either by the communities (such as with water supply systems) or by local NGOs (as is the case with health or youth centres).

The areas supported by CIDP were selected jointly with the help of the strategic planning division, which based its decisions on the acute need in whichever sector that CIDP is active (e.g. water supply, child and youth development, primary healthcare, etc.) One of these territories is in Pochtovoye, which has an ethnically mixed population. It consists of 12 villages and one settlement. It has it’s a new chairperson, about whose work the residents are more optimistic.

The budget of the Pochtovoye council is among those subsidized by the raion budget. The council’s own planned revenue for 2005 amounts to UAH 400,000, but the revenue collected in the first quarter was just 30% of this. The largest enterprise of the territory is the Golden Amphora winery, whose contributions to the council budget are rather modest, since most of its production occurs in other regions of Ukraine. The local budget situation has been further exacerbated by the lengthy procedure for liq-
validating the local collective farms which have gone bankrupt and the indefinite future of these properties, which are decaying or being plundered.

The council members say that almost every council assembly considers budgetary issues. Communal service provision is among the most urgent problems on its agenda. However, they cannot be even partly resolved with the present level of allocations to this sector. In 2005 the council was able to allocate only UAH 10,000 to communal services, while for renovation of existing infrastructure alone more than UAH 4 m is required. A recent salary increase for communal enterprise workers and a rise in energy prices added to problems of cost-recovery. The local communal service provider has a very poor technical base and none of its operations is computerized. Its specialists went to see the best performing and most profitable communal enterprise in the raion, in Skalistoye settlement. The council there made a political decision to increase service fees after wide consultations with citizens and encouraged households to install water meters and pay based on a real consumption level. In contrast, the communal enterprise of the Pochtovoye council has only treasurer, no economist, and has never tried to calculate more effective cost-recovery schemes and investments required for their introduction.

The new chairperson of the Pochtovoye council, while understanding the problem she inherited, wants to conduct an economic analysis that would provide recommendations with regards to investment needs and priorities, areas needing increased expenditure efficiency, and possibly generate additional revenues. She doubts that the council can find funds in its budget to pay for such an analysis but hopes to be able to attract young researchers interested in the topic.

In the situation of a deficit in local resources, the council has welcomed the support of external actors and residents social mobilization that result in financial contributions in the implementation and further maintenance of communal services.

For instance, in the village of Zavetnoye so-called "communities" (soobshchestvo) were created as part of a social mobilization effort through CIDP. The village has three communities that work in a number of directions pertaining to the development of interests of local residents. Community members elect "function groups" (funktsionalniye gruppi) that concentrate on particular issues of community interest.

A community has its internal statute, internal regulations and mechanisms of resources control. Community member-households choose a chairperson, a secretary and a treasurer. All decisions are made through open voting by a simple majority at those general member assemblies, which gather 80% quorum. Complex decisions, as a rule, require several meetings.

The communities in Pochtovoye have been organized around water supply issues, which remain their primary focus. They have the mandate to plan the water delivery project, implement its construction, further ensure full cost-recovery of the local water supply system, and secure maintenance.

After construction, the internal water supply system that currently provides water to 150 households was transferred to the balance sheets of the local council. Furthermore, the council signed an agreement with a private entrepreneur to manage the system. Such entrepreneurship is registered as a private entrepreneurial activity on which a single tax is levied.
Community member-households initially pay a fee for being included into the water supply that, along with a labour component, is the community's contribution to the project. User fees based on actual consumption are administered by the private entrepreneur. Current rates are fixed at the level of UAH 1.2 per cubic meter of water and include tariffs charged by the local communal enterprise at the point of water dispersion to the internal distribution system and operational costs of the self-management scheme. These rates are higher than those charged by the local public communal enterprise from other residents, but community members say they are ready to pay for better quality services. All information with regards to rates and its collection dynamic is placed on an information board in the village centre.

Only 15 households (10% of the local population) have decided not to join the established communities in Zavetnoye. Among them are those who are convinced that it is the government's responsibility to supply water, those who did not trust the idea or did not believe that the new water supply system would be worth the money. Those who finally decided to join the community after the water distribution system was already in place had to pay an additional fee.

The communities do not foresee any concessions for vulnerable families to join. However, very recently they entered into discussions with the Social Security and Welfare Department with regards to direct transfers of subsidies to the community water supply management schemes for water consumed by community-member families entitled to social assistance.

Currently, community members pay into a community fund a membership fee of UAH 5, whereby UAH 3 is used for covering the running costs of the community and UAH 2 is reserved for repairs of the water distribution system. On several occasions communities used the reserves for minor repairs.

A chairperson reports monthly to community members, and community members seem to have put their full trust in the system. However, the fact that a community fund is currently managed through the private account of the chairperson, and the group lacks judicial status, causes other worries. In the beginning this also caused the suspicions on the side of the tax police.

Institutionalization of the communities is currently being discussed. However, opinion on registering these organizations as NGOs is considered by some as a limitation. Some residents have expressed support for the idea of acquiring the status of so-called "organs of residents self-organization" (organi samoorganizatsii naseleniya). The issue of institutionalization was raised on a number of occasions, when communities wished to enter other projects, beyond the scope of CIDP (such as gas supply), and when they needed to interact officially with relevant local and ARC government structures.

The communities are gradually being recognized by the raion and local councils with which the communities have to contact infrequently. Community members who at the same time are members of the council are instrumental in these interactions.

Despite the fact that community projects initially attracted government financial contributions, the communities are not involved in public budgeting issues or the wider local decision-making process. However, they believe that through the organization of self-provisioning schemes their activists obtained access to technical infor-
Participatory Budgeting in Ukraine

Information and knowledge, which fostered improved understanding of water supply issues, including finances and budgeting.

At the same time, the community leadership complains that they are completely unaware of the local council budget. The communities, though, have never initiated their involvement in the budgetary process. They also think that most residents are unaware of the source of local council revenues and see it as being “their budget.” Some regret that local council members are not communicating budgetary information to the population and that the only effective mechanism of publicizing council assembly decisions (namely, placing decision copies on the wall in the central town office) was abandoned.

Six similar water communities are established in different villages in Bakhchisarai raion. The raion council members highlight that these communities provide welcome relief against the background of severe problems experienced by other communal sector enterprises. In addition, CIDP is reporting an improvement in inter-ethnic relations in the areas where such services are operational and serve the needs of the multi-ethnic population.

Community members say that citizen self-mobilization has empowered village residents and made them feel like part of a community. They say that self-mobilization has provided education opportunities that have increased the social consciousness of its members. Still, critics of the self-provisioning model recognize its service improvements benefits but argue that shifting responsibilities for public service provision from government to the communities erodes government accountability to citizens.

A similar co-financing scheme was applied in the project of street lighting in the area of the Kuybishevo council. The problem was identified as one of the most pressing cases in the on-going process of strategic planning. The project won a grant from the Ukrainian Fund for Local Self-Government Development. The Kuybishevo local self-government's contribution was UAH 11,600 (22% of the total project value).

The project is considered innovative as it not only employs a new energy saving system used in the street lighting (the use of automatic switches and low-voltage lamps), but also due to the community mobilization component which maintains the system.

The actual implementation of the project proceeded with a public meeting in each village dedicated to the discussion of the project and seeking support from the population. This engagement of citizens was instrumental for them to assume responsibility in maintaining the system once it was installed. Each village has established “street communities” (soobshhestva ulits) and installed an electricity meter. The community administers payments for the electricity by the households and manages repairs. Some project funds are also used for developing a responsible attitude on the part of citizens to communal property.

Advisory Council of Civil Society Organization Representatives

The municipality is currently working with local civil society organizations to elaborate a regulation for an advisory council of NGOs that was recently set up and attached to the raion state administration. The initiative stems from the intention to engage NGOs in the local governance process, increase local government transparen-
cy, and facilitate dialogue between the local NGOs and the government. Each organization has been properly registered and, acting on the territory of the raion, can delegate its representative to the council.

Some council members are currently creating discussion about the possibility of sub-contracting NGOs for the implementation of certain programs and projects supported from the raion budget. Recently, the Department of Culture has had success with a pilot project to conduct a tender among NGOs for organization of the of 500-year celebration of Bakhchisarai.
3. Conclusions and Recommendations

3.1 Challenges and Benefits of Citizen Engagement in Local Budgeting

The three case studies demonstrate a number of tried and potential channels for citizen participation in the local budgeting process. The channels evolved under different budgetary circumstances and in different local societal and political dynamics.

They also show that, although facilitated by external actors, participatory initiatives can be driven by local authorities as well as by civil society actors. Still, these initiatives are more successful when demand for greater engagement on the public side meets with the political will of local authorities to open governance processes to the public and is coupled with an ability to secure appropriate "spaces and places" for citizen involvement.

The case studies demonstrate that the current challenges of the budgetary process at the local level include domination of executive powers over budgets, insufficient budgetary literacy among local council members and public activists, along with deficient public access to budgetary information.

In involving citizens in decision-making, local governments have to find the delicate balance between the political flexibility they currently enjoy with innovative policy-making and the insufficient discretionary funding available to them for motivating participation in implementing these policies. However, the case studies reveal a potential for citizen engagement in decision-making not only over a municipality's own revenues, but also in seeking ways of better using delegated resources. In the framework of their current responsibilities local governments can optimize spending. Besides, the existing practices prove the potential for merging budgetary funds with resources from residents who they are willing to commit themselves to the improvement of particular services.

Greater public involvement in local budgeting processes and service provision can have a number of benefits for government as well as citizens. The case studies demonstrate that even under current budgetary constraints it can help to improve/develop local policies, find ways for more efficient and effective use of scarce resources, mobilize additional resources, and allow for an active citizenship to emerge.

By applying a participatory mode in budgetary decision-making the government can:

- Build a base of political support among citizens; share responsibility for making decisions (particularly about unpopular reforms) and thus gain public support in implementing them, and foster public learning;
- Increase the level of public understanding of government constraints and develop a degree of trust in local authorities, and
- Find unconventional ways of solving problems and cost-efficient ways of delivering services.

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Citizens can benefit from engagement in local decision-making as it promotes public learning, narrows the gap between public and local authorities, and improves a feeling of security through trust in government. Greater empowerment takes place when participatory inputs translate into budget outcomes and actual service improvements. Finally, the business community can profit from participation in budgeting as they believe it promotes transparency, reduces corruption, and allows contractors to bid in an open and fair system.
3.2 Entry Points of Citizen Engagement in Local Budgeting

Public participation in budgeting and service provision can entail different forms, from which local actors can draw on different engagement forms depending on their purpose (ranging from passive provision of information to negotiation and deliberate forums). Such engagement can also occur at different phases of the budgeting cycle.

In the stage of budget formulation, it is important to ensure that annual budget expenditures and revenue planning reflects mid- and long-term municipal policies, strategies and priorities, and that spending is planned in an efficient way, with clear targets and performance indicators that make monitoring and analysis possible at a later stage.

At this stage, the existence of longer-term visions and strategies for municipal development generally and/or for particular sectors is a precondition for effective annual planning.

In annual and longer-term strategic planning the following participatory tools prove to be most effective:

- Discussion and focus groups by sector, as well as by specific population groups (elderly, youth, women, entrepreneurs, etc.) dedicated to analysis of existing problems and needs, setting priorities and elaborating concrete ways of tackling them. If participants in such groups are delegated and the group is representative, this might translate into stable interest in the issue. Experience shows that the quality of inputs produced by such groups to a large extent depends on the format of the meetings and clarity of tasks. Discussion and focus groups can be effectively used within program performance budgeting.

- Roundtable discussions allowing consultations with different stakeholders, which may lead to working groups set up to concentrate on specific tasks.

- Working groups/advisory committees, usually formed with a mixed representation from local executive, legislature and civil society experts. These are usually representatives of experts from civil society (rather than the general public) who are assigned to such groups/committees. Work in these groups/committees involves a certain level of technical complexity inherent in the mandate, and experts from issue-oriented civic organizations are better equipped to work with government technocrats. These committees can be temporary or standing. In any case, to be effective they need to have a clear mandate, status and rights assigned to them through local level regulation and internal procedures. The availability of technical support and the ability to draw upon professional expertise (internal or external) proves fundamental for the work of such groups/committees.

- Public hearings are an important mechanism for building citizen awareness and ensuring budget transparency. They are often applied when querying general public support for certain general budgetary or specific sectoral issues, as well as for mobilizing public support in resisting unfair budgetary decisions of upper government bodies. Public hearings are less appropriate for considering complex issues or building societal consensus, but they can encourage non-traditional actors to speak out (e.g. pensioners). Thematic hearings seem to be more effec-
tive than others as they attract an informed audience with an interest in the issue. Inviting groups to delegate their representatives to hearings can ensure better representation and greater responsibility of the participants. Hearings can be initiated also by civil society, but their legitimacy in any further government decision-making process is not guaranteed. The mechanisms for hearings are especially effective when institutionalized through local bylaws. The quality of participants’ inputs depends a lot on the level of preparation for the hearings, including the level of analysis of the issue under consideration conducted and the dissemination of background information. Broadcasting of hearings on local TV may increase resonance within the community.

- Public meetings by territorial communities or by enterprises at this stage often serve the same purpose as public hearings. They are often conducted to prepare the public for hearings on some complex issues. They can also be organized on issues of significance for particular localities, or to collect a wide range of ideas and concerns from different communities. Additionally, public territorial community meetings may allow some space for deliberation. The fact that the resolutions of territorial community meetings are assigned legitimacy by law makes them difficult for local government to ignore.

- Public opinion polls and surveys represent a way of collecting valuable information with regards to citizen perceptions of policies, problems, quality of services, priorities, etc. Application of this mechanism requires professional support (to ensure sample representation, correct formulation of questions, focus groups and consultations for adequate and inclusive formulation of questions are conducted, training survey administrators, etc.) and entails some costs. Public opinion polls and surveys provide a sum of subjective individual opinions but their value increases if they feed the work of other more active participatory mechanisms allowing discussions and persuasion.

- Citizen participation in council assemblies and council committee meetings can be important for providing civic inputs into the formal forums where budget discussions and decision-making take place. Civic inputs are more constructive when they are representative and/or based on deliberation, consensus, group work, etc. Participation in council assemblies provides a rare possibility for inter-sectoral discussions with regards to resource distribution.

Outcomes of deliberate participation are more valuable when drawing on the analyses of performance in service provision and budget implementation from the previous year(s).

The budget adoption stage is often the formal approval of a budget draft. This stage provides limited space for participation as spending and resource distribution plans have already been negotiated during budget formation in council committee meetings or through lobbying. However, citizens can still take part in local council assemblies where the budget draft is being approved and ensure that final decisions are in line with previous agreements.

In the budget implementation stage citizens can assist the government by monitoring to ensure that resources are not diverted but are used according to plan, interim budget management is appropriate, public sub-contracting is transparent and fair, and
budget adjustments fit into the policies and strategies negotiated during budget formation. This can be done through the following participatory venues:

- **Public supervision/monitoring committees or boards**, which monitor progress in the implementation of programs funded from the budget, and expenditure control. As in the case with advisory groups, the political leverage of these committees depends on their status, a clear mandate and a certain level of technical support. For the work of such committees, access to additional information and rights to acquire necessary information from relevant government departments and institutions proves to be crucial. These committees can exercise control but also serve as a mediator between the government and public.

- **Public opinion polls and surveys** can be used to monitor interim progress, if needed. Drawing upon this tool is for public monitoring committees to carry out.

- **Civic participation in public procurement committees** (either as full-term members or as observers) is another mechanism. Public procurement of goods and services is an important part of budget management and a potential source of corruption and rent-seeking. Transparency requirements stipulated in public procurement laws alone do not seem to guarantee fairness in the bidding process. Control of public procurement can be also exercised by monitoring committees.

In the course of implementing the budget, citizens can also be involved in actual service provision in a number of ways:

- **Sub-contracting of civil society groups** (usually issue-oriented and professional NGOs) to implement programs or provide services. This form of involvement is gaining popularity in the social sector. However, sub-contracting of NGOs is a form of public service procurement and requires fair competition and transparency. This is clearly a different form of participation: when NGOs become public service providers, they also need public monitoring and control.

- **Self-mobilization/self-organization of the population for self-provision/co-production of services** implies resource inputs from residents (financing, labour, etc.). This mechanism may have potential applications on rural areas where local self-government capacities to deliver services are much weaker than those of larger communities. However, when citizens mobilize to maintain services, it is important to ensure that such self-mobilization takes legitimate institutionalized forms. Where membership in such organizations builds on financial contributions, it would be important to ensure that the poor and vulnerable are not excluded from such services. In addition, for this form of participation to be considered a mechanism of citizen participation in local governance, a connection between citizen engagement in actual provision of services and their involvement in decision-making over the budgetary funds needs to be ensured.

*The stage of budget review and final approval* usually coincides with the formulation of a new budget. The end-of-year budget review feeds into new budget formulation. At this phase, the purpose of civic involvement is to assist the government in assessing performance against planned targets and effectiveness and efficiency of budget spending and revenue collection. Budget review tasks can be combined with budget formation and draw on the same mechanisms as follows:
- Discussion and focus groups can contribute to budget reviews and program implementation;
- Roundtables can be dedicated to discussions of existing problems and corrections of policies and strategies;
- Public opinion polls or surveys are effective tools for assessing citizens’ perceptions of improvements and existing problems. Annual surveys that build on the same indicators of performance can be instrumental in monitoring progress over the years;
- Public budget hearings usually combine reports about previous years’ performances and presentation of the coming year’s draft budget, and
- Citizens can participate in council assemblies and committee meetings where last year’s budget performance is reviewed.

The effectiveness of all these mechanisms increases when good quality budget analysis from different sources is available. This opens another venue for citizen involvement - independent budget analysis conducted by non-governmental experts. This analysis can be general or thematic, but conducting such requires a certain capacity to do so and good access to budgetary information.

Generally, there seem to be a demand for participatory mechanisms at the local level in sectors that typically undergo reforms, like communal services, healthcare or education. A better use of these mechanisms can be made in areas where local authorities have a larger degree of budgetary discretion (again regarding communal services, provision of additional education services or public order).

The above-mentioned participatory mechanisms may vary in the mode of participation (delegated or direct), type of decision-making (consultative or binding) and scope of decision-making (narrow, i.e. concentrating on particular or sectoral issues, or broad, i.e. focusing on the overall budget).

The above may or may not require institutionalization. Institutionalization of these mechanisms through local level regulations and internal rule-bound procedures can be secured from arbitrary rule, manipulation and the impact of political changes. Adherence to budget transparency and citizen involvement can be declared in local self-government statutes and further elaborated in local level regulations. Special clauses might be required for securing the involvement of vulnerable groups of the population that are traditionally excluded.

Each of the above-mentioned mechanisms on its own may not be able to produce an effect on the budget but in combination they hold the potential to secure budgetary accountability.
3.3 **Budget Transparency and Access to Information**

Public access to accurate, comprehensive and timely information on the municipal budget formation process is a precondition for ensuring government accountability and effective civil society engagement in this process. Public awareness about budgetary issues can be built by budget information being provided through mass media, public events and direct contact between the public and government officials and via special bulletins and leaflets, the Internet, etc.

For most town residents the prime sources of information about government activities are local newspapers and TV. However different types of information may require the use of different channels of distribution. Newspapers are reluctant to publish technical budget information, as it generates low interest among readers. Increasingly, local governments have mobilized modern IT technologies for communicating with the public and receiving feedback. Due to the low level of Internet connection (less than 10% in towns and much lower in rural areas) and general lack of experience in this regard it is premature to refer to the Internet as an effective mechanism for public participation in Ukraine. Rather it is an emerging mechanism for disseminating information that mainly the young and urban professionals draw upon.

Opening the budget formation process to public understanding and debate would be possible on condition that the following budget-related documents are made accessible by local governments:

- The executive budget proposal reflecting both the expenditure and revenue parameters;
- A mid-year budget review and monitoring reports 41;
- Budget year-end statements and analytical reports assessing budget performance over the year and in a dynamic way;
- Auditing reports;
- Information provided to the public and the legislative branch of government which makes the budget more understandable (e.g. issuing non-technical summaries of the budget - so-called "citizens budgets," or linking budgets to policy and performance goals), and
- Multi-year planning framework (multi-year programs, multi-year budget and similar). 42

Additionally, budget transparency and accountability proves to be incomplete if it does not involve transparency of public institutions and enterprises funded from the budget.

Transparency can be increased through year-round publication of budget information in the mass media, publication of budget-related decision and widening the range of actors involved in participatory processes.

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41 According to the Budget Code of Ukraine local governments, along with each decision reached on municipal budgets, are meant to provide an explanatory note on budget implementation in a given period (Art. 76).

42 Today, local governments of ARC, as well as at the oblast, raion and city level, are obliged to produce short-term socio-economic development programs along with mid-term socio-economic development forecasts (Law "On State Forecasting and Development of Programs for Socio-Economic Development of Ukraine" from 23.03.2000).
3.4 Requirements for Capacity Building at the Local Level

To improve the responsiveness of decisions on resource allocation and mechanisms of service delivery through participatory budgeting will require the capacity building inputs of all stakeholders.

Government willingness to adopt participatory approaches and its capacity to organize and manage participatory forums needs to be improved. Practice proves that, apart from training, exchanges of experience among local governments in Ukraine and direct contacts with local government colleagues abroad can be instrumental for introducing innovative practices. Budget literacy among local council members also needs improvement. It will require local capacities to be elevated at least to a minimum level that is affordable and practical in terms of implementation.

Another goal of encouraging public participation is to enhance the awareness of civil society actors of their impact on the resource allocation process and their capacities to join in the budgetary process. Civil society actors often lack the skills and experience to engage in constructive dialogue with the government. Moreover, they are discouraged from becoming more involved in budget matters due to the highly technical, abstract and closed nature of the budgetary process. Demystification and simplification of the budget process should be accompanied by an improvement in the public's general understanding of budgetary issues, civic experts' policy analysis abilities and civil society advocacy skills.

There is a demand for training materials reflecting international experiences and best practices in participatory budgeting, but made appropriate for the economic, political and cultural realities of Ukraine. Such training materials should target government as well civil society representatives.

It is equally important to concentrate on increasing the abilities of local media to understand budgetary processes, presenting budget-related information to a wider constituency and conducting professional journalistic investigations of cases involving embezzlement of public funds and corruption.
3.5 Potential Risks in Application of Participatory Budgeting Mechanisms

The observed practices reveal a number of potential risks, some of which have been spotted in other contexts where participatory budgeting was introduced. The risks that need to be observed include:

- An erosion of legitimacy among existing elected institutions in favour of less accountable civil society organizations taking part in participatory budgeting, especially where participation is limited to NGOs;
- The capture of participatory processes by local elites, by the most vocal and better-organized groups or by activists with individual agendas, which can undermine any advances made. When some society groups use participation as an instrument of political control it only weakens civil society;
- The danger of further weakening of fragile accountability lines between the government and citizens by replacing government obligations to provide services with citizen self-provision schemes, and
- Raising participatory expectations beyond a sustainable level, especially in the context of limited resources or deficient local government discretion over decision-making on budgetary issues.

3.6 Requirements for National Level Changes

Despite positive developments in the system of local self-governance in Ukraine, many problems remained unresolved, including securing spaces for effective participatory inputs at the local level. The most problematic issues hindering the independence of local governments include still insufficient delineation between the responsibilities of local and upper levels of government and the ineffectiveness of the system for calculating inter-budgetary transfers. Revenues available to local governments in Ukraine today remain inadequate to the level of responsibilities assigned to them.

To increase independence and self-reliance of local self-governments, the following steps will need to be undertaken:

- A better balance must be struck between local government’s delegated responsibilities and the resources required to fulfil them;
- Resource redistribution must be rationalized within the budgetary system (e.g. by assigning taxes to different budget departments, determining the volume of positive and negative transfers, etc.) in order to create stimuli for local governments to generate more revenues, as much as to ensure the availability of resources to local governments sufficient to fulfil their tasks. The existing system of revenue distribution among the various levels of government does not motivate local self-governments to develop the local economy. Neither does it promote establishment of strong accountability between citizens and local governments through taxation. Solutions often voiced by national experts include introduction of a property tax levied by local governments, increased income taxes benefiting local budgets, etc. When the government lacks financial autonomy, participatory
budgeting remains an educational tool rather than a means for effectively allocating resources;

- Development of a methodology for mid- and long-term budget planning. Multi-year budget projections may require better predictability of the local budget situation but they will help to ensure that the government pursue responsible policies that reflect current and future expenditures and revenues;

- Continual introduction of program performance reviews and reduction of existing discrepancies between program performance budgeting and line-item budgeting. Advancement of PPB will require clearer methodological guidelines, especially in the area of performance indicators by sector, prioritization of programs and reporting. There is a need to improve budgetary planning by closing the gap between budgeting and sectoral planning;

- Minimization of delays in the national budget approval process giving sufficient time to local legislatures to review local budget drafts, which would allow more time for public and legislative scrutiny of budget drafts, and

- Obligations placed on local governments to comply with budget transparency principles, with guidelines provided for introduction of concrete mechanisms through which citizens can hold local self-governments (executive as well as local legislatures) accountable in the budgetary decision-making process. Mechanisms of social control of the budgetary process should be introduced now. Increases in the local government fiscal base will create a demand for these.

Government will be more inclined to introduce participatory budgeting mechanisms if they feel a central government push for greater transparency and accountability in the budgetary process is part of a wider local budgeting reform effort.

Enhancement of participatory budgeting practices requires further research and dissemination of information on lessons learned from existing practices. Issues that may deserve the special attention of researchers include measuring the quality of participation, institutionalization of participatory mechanisms, tracking links between participatory inputs and budget outcomes, as well as links between improved policies and resource allocation and social justice concerns.
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