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**APPRAISAL REPORT ON  
“THE NATIONAL PROGRAMME OF REFORM AND DEVELOPMENT  
OF THE HOUSING AND MUNICIPAL ECONOMY FOR 2007-2011”  
OF UKRAINE**

The present report concerns the proposed amendments to the law on “the National Programme of Reform and Development of Housing and Municipal Economy for 2004-2010”. The bill was adopted by the Ukrainian Government on 22 August 2007. It includes the updated version of the reform programme, i.e.: “the National Programme of Reform and Development of the Housing and Municipal Economy for 2007-2011” and its annexes which are intended to clarify the assignments of tasks for the programme implementation and indicate the related financial forecasts. A statement from the Ministry of Finance on the Programme was added to the file.

The report was prepared by the DGDPA, Directorate of Democratic Institutions, of the Council of Europe, on the basis of the appraisals by Professors Adrian Campbell (United Kingdom), Gérard Marcou (France) and Tamás M. Horváth (Hungary).

Part I of the report examines the institutional context and the relevance of the Programme, and includes an overall assessment. Part II analyses the different sections of the National Programme in relation to the corresponding annexes. It includes specific comments and draft proposals (in boxes and shaded in grey) which follow the appropriate sections of the draft law (reproduced in full).

## I. General remarks

At the 11<sup>th</sup> Ukrainian National Municipal Hearings of Berdyansk (18-20 September 2006), the Government representative remained silent on local government reform, despite the new bill circulated at the end of 2005, and highlighted the Government's desire to concentrate its efforts to overcome the decay of housing and the municipal economy.

For the Government, this is a national priority, much higher on the political agenda than institutional or territorial reform. Nobody with any knowledge of the country could disagree with this priority.

The government of Ukraine has decided to increase considerably its commitment to dealing with the issues of housing and municipal economy: in the Programme adopted in 2004, the financial commitments were in excess of 2 billion UAH until 2010; the new Programme has been increased up to 32 billion UAH for four years (2008-2011). The first section of the new Programme presents a picture of the dramatic situation of the sector that justifies this new step. For example: 16.7 million people live in houses which are unfit for occupancy; fire fighting systems are out of order in 85% of buildings over 10 storeys; 87% of the rolling stock of urban electric transport needs to be replaced.

As the title clearly indicates, the "*Programme of Reform and Development of the Housing and Municipal Economy*" is a national programme. It is led by the central government and executed through regional and local state administrations. Local government only has to contribute to its implementation.

Before giving an overall assessment of the reform programme, it is worth placing it in its institutional context.

### A) *The institutional context*

Housing and municipal economy were a specific sector in the nomenclature of the former soviet economy. It is necessary to clarify what the content of the "housing and municipal economy" is nowadays; later the place of this sector in the budgetary system established by the 2001 Budget Code and in the local government legislation will be considered.

#### 1) What is the housing and municipal economy?

The housing and municipal economy refers to the provision and maintenance of housing and of economic services based on an infrastructure and delivered at the residence of the user, plus urban public transport<sup>1</sup>.

After privatisation, it includes streets and local roads, urban public transport, water supply and sewage, heating networks, but does not include communications. Energy supply for households is part of the municipal economy, but is not managed by municipal authorities,

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<sup>1</sup> According to L.E. Momotyuk, the budgetary expenditure on housing and municipal economy includes the expenses for the housing stock, for municipal departments and enterprises delivering current domiciliary services, under municipal ownership or not. See: L.E. Momotyuk (2001), « Problemy biudzhethnogo zabezpechennia socialnykh garantii naselennia Ukraïny », p.314 in : Ministry of Finance of Ukraine, *Biudzheta reforma v Ukraïny*, Kiev.

and the distribution networks belong to twenty seven distribution companies that were privatised at the end of the 90s<sup>2</sup>.

From the annexes to the National Programme 2007-2011, it would appear that the “housing and municipal economy” includes:

- all assets under municipal ownership, in particular municipal enterprises;
- the heat network and supply;
- the housing stock, including fire fighting ;
- the water supply and waste water networks and plants;
- the urban electric public transport: this includes underground, tramway and trolleybus systems, but not bus transport although this is part of the urban public transport system;
- streets and street lighting;
- children’s playgrounds;
- waste collection (trucks, containers), but not waste disposal.

It appears that **there are problems in the definition of the scope of the National Programme**. In particular, there is no reason to include the electric public transport in the Programme, but not the bus transport: in a city, the transport system is a whole, even if the bulk of the investment is to be concentrated on heavy equipment of the electric transport infrastructure and rolling stock. It is inappropriate to consider waste collection but not at the same time waste disposal and treatment, which require costly investments. **The scope of the National Programme should be adjusted accordingly.**

## 2) Housing and municipal economy in the Budget Code

**A major issue of the housing and municipal economy sector, as understood in Ukraine, is that it is supposed to be funded only from local revenues.** This is a negative consequence of the budget reform of 2001, since the housing and municipal economy is not included in the transfer system established for local functions guaranteed by the state<sup>3</sup>. **Given the level of own local revenues this approach can only result in a shortage of local resources for housing and services of the municipal economy.**

According to article 91.1 of the Budget Code:

*“Expenditures of local budgets that are not taken into account in defining the amounts of inter-governmental transfers shall include expenditures on:*

- 1) *local fire-fighting units; and*
- 2) *extra-curriculum education;*
- 3) *social protection and social security:*
  - a) *programs and activities of local importance to support children, youth, women, and families; and*
  - b) *local social protection programs for certain categories of the population;*

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<sup>2</sup> Marina Chapkina-Poirson (2005), *La déréglementation dans le secteur électrique : la réforme ukrainienne de la fin des années 90*, Thèse, université Lille 3 (not published).

<sup>3</sup> It was already pointed out that this constituted a major risk for the municipal economy sector and deemed to entail increased disparities between municipalities. See G. Marcou (2001), *Local finance in Ukraine*, Council of Europe / Congress of Ukrainian Cities, cf par. II,C,2 in fine.

- 4) *local programs to support the housing and communal sector and provision of amenities in settlements;*
- 5) *cultural/art programs of local importance;*
- 6) *programs to support cinematography and mass-media of local importance;*
- 7) *local programs to support development of physical culture and sports;*
- 8) *standard design; restoration and protection of architectural monuments of local significance;*
- 9) *transport and roads:*
  - a) *regulation of prices for services of metropolitan railways based on decisions of local self-governmental bodies;*
  - b) *exploitation of the road system of local significance (including services provided by specialized assembly/exploitation units); and*
  - c) *construction, reconstruction, and maintenance of roads of local importance;*
- 10) *water-rescue activities;*
- 11) *servicing of local self-government debts;*
- 12) *local environmental protection programs;*
- 13) *management of communal property;*
- 14) *regulation of land-related relations; and*
- 15) *other programmes approved by a responsible Rada consistent with law”.*

The housing and municipal economy is covered by item 4; most of the tasks listed in the annexes of the National Programme belong to this item; the other ones are part of item 9. They probably account for the biggest part of local expenditure.

On average, over a period of ten years, the revenues of the corresponding basket are about 20,5% of the total of local budget revenues, among which<sup>4</sup>:

- capital revenues: 0.2%;
- non-tax revenues: 11.8 %;
- revenues derived from entrepreneurial activities and municipal property: 5.1%;
- local taxes and charges (in 2005): 2,4 %; the local budgets have lost the revenue from the property tax for this basket.

These revenues are increasingly unequal among local budgets, along with increasing regional disparities. Furthermore, the own resources of local budgets are frequently used to cover the needs of current expenditure of key sectors, such as education when the corresponding resources are insufficient.

The National Programme is intended to meet article 87 of the Budget Code. Paragraph 9 provides for:

- “national programmes and activities with respect to children, youth, women, and families; and
- State programmes to support construction (reconstruction) of housing for certain categories of citizens”,

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<sup>4</sup> Alexander Batanov (2007), “Fact Sheet Ukraine”, forthcoming, prepared for UCLG, *First Global Report on Decentralisation and Local Democracy*, Barcelona, under the scientific direction of Gérard Marcou.

whereas paragraphs 11 and 13 provide for:

- “State programs to support regional economic development and high-priority sectors of the economy;
- State programs for development of transport, road sector, communications, telecommunications, and information technologies”.

However, a better long term solution would be to **build a fully-fledged and coherent system of housing financing**.

It is possible to **combine measures to channel long term credit to housing with partial budgetary support through interest subsidies**, as provided in the National Programme (section VI.3); however, this support will be very expensive if there is no **structural intervention on the financial market to collect resources for long term loans directed to housing investments**. Furthermore, these resources should be assigned specifically to social housing.

Many Ukrainians have low incomes and are not able to finance the purchase of an apartment with their own savings and a loan; for this part of the population, it is necessary to **offer apartments for rent with low construction and financing costs**. This issue is not dealt with in the National Programme.

Furthermore, as far as budgetary resources have to be committed in the financing of the programme to reshuffle the housing stock and the municipal enterprises delivering local public services, **the commitment of the central State budget should be supplemented by the reinforcement of local governments’ resources to deal with these tasks**. This would require **vesting local authorities with a tax power**, as contemplated in 2004 with the reform of the property tax, **and introducing at the same time an equalisation system to compensate the unavoidable disparities between tax bases**. Only with such measures, would it be possible to give this sector the basis for a sustainable development.

### 3) Housing and municipal economy in the Local Government Law

The Local Government Law (LGL) of 21 May 1997 is still the legal basis for the participation of local governments in the implementation of the National Programme, since the local government reform bills elaborated at the end of 2005 was finally not submitted to the parliament. The LGL provides in great detail for the extensive responsibilities of local self-government bodies in the fields of housing and municipal economy, although its provisions are sometimes unclear and overlap.

According to article 26.1 of the LGL, local councils have to adopt the socio-economic development programme for their territory (item 22) and the construction plans and programmes (item 42); they have to decide on the part of the profits of municipal enterprises to be channelled into the municipal budget (item 29), on the privatisation of municipal assets (item 30), on joint financing projects involving municipal enterprises and institutions (item 32). According to article 27, local self-government executive bodies have control powers over municipal enterprises: they have to approve their plans and projects (item a, 1) and to coordinate on a contractual basis the participation of all enterprises and institutions in the comprehensive development of the territory (item a,7). According to article 28, they have to establish the fees and rents for housing and for local public utilities within the limits of the law and the local budget appropriations. According to article 30, they manage objects of

housing utility services and transport services in municipal property, they have to allocate housing facilities to citizens in need of social assistance, to promote housing construction by different means including loans and subsidies, and to assist owners in the maintenance of their housing, to ensure waste collection and treatment, to organise public transport by defining itineraries and contracting with enterprises. As delegated powers, they have to support the expansion and the improvement of the network of housing utility enterprises and of public utility enterprises, and to secure low housing rents for citizens in need of social assistance (art.30, b).

According to the annexes of the National Programme, the most relevant functions of local self-government bodies will be to:

- promote the setting up of associations of joint owners of social housing;
- promote the market for housing management;
- improve the efficiency of the management of municipal enterprises, attract investments through leasing or concession agreements;
- compile the list of assets (housing, enterprises) to be privatised or corporatised;
- install meters for individual water and heating consumption, and secure the collection of user charges;
- reimburse economic operators the difference between the costs and charges that are inferior to the costs for social reasons;
- carry out communication campaigns to make users aware of the necessity of the reform and of the benefits expected from the reform.

**However, several additional responsibilities should be recognised, in order to comply with the provision of the Local Government Law:**

- the implementation of the programmes should rely on municipal plans and programmes for land development, land use planning, construction plans and investment programmes for construction and repairs;
- in particular, the development of the housing stock requires the provision of adequate premises with the necessary infrastructure in order to make construction investments possible: this issue seems to have been ignored in the National Programme, but this is mainly a municipal responsibility, subject to the availability of legal instruments and of the necessary funds to develop and sell the land; otherwise investments can hardly take place;
- any decision to privatise municipal assets should be referred to development forecasts of the municipality, in order to avoid short-sight decisions based on financial needs that would result in heavy costs some years later if development plans require new assets to be purchased.

### ***B) General assessment***

**The National Programme of Reform and Development of the Housing and Municipal Economy 2007-2011 is an ambitious and valuable policy programme.**

However, there is here a major institutional dilemma for Ukraine. The persistence of a single tier approach to the local self-government structure means that **a large proportion of the population live in small municipalities that are incapable of dealing with strategic issues such as energy saving and public utilities** which require substantial administrative, financial and professional capacity. Such matters are therefore delegated to state administration at

rayon or oblast level. In the larger cities the resources and professional expertise may be available, but there are other more immediate pressures for scarce budget funds, such as ensuring that services are maintained throughout the winter. This (presumably) means that available funds are directed to emergency repairs and service maintenance rather than to investment which, although strategically essential, will bring benefits only in future financial years.

**For the necessary resources to be directed into the application of energy-saving technologies, action from central government is necessary.** As central government is also unable to finance more than a small proportion of what is required, it needs to operate through the creation of incentives as well as sanctions.

The deadlock of local government reform cannot be an obstacle to dealing with crucial issues of society. However, **change on the scale and speed desired by the Government can only be achieved through systematic joint co-operation between all levels of government** in the framework of the national programme.

The housing and municipal economy sector is a typical responsibility of local government bodies. **The National Programme should help to increase local government responsibilities and not engage in a centralisation process of the management of the municipal economy sector.** Rather than rely on simply exhorting local governments to do more, or sidelining local government altogether, central government needs to create the institutional conditions that will encourage local authorities to attract resources into investment into utilities into their territory, empowering local authorities to take a lead on this issue where possible. In this way, the implementation of the National Programme could prepare better conditions for the local government reform.

The National Programme is basically well structured. However, some improvements in the formulation and content would be required. The presentation of the goals, objectives and principles of the programme is confusing, as the three seem to be mixed together in each list, together with measures that might be taken to support their implementation. Therefore, **the goal, the principles and the main objectives of the National Programme should be reconsidered in order to be better differentiated.** In Part II of the report, the experts attempt to clarify how this might be presented more effectively.

**The National Programme must be further developed in respect of the legal and regulatory framework** which is a basic condition for sound market development. In particular, for housing, regulations on the various activities of the sector and on the protection of consumers against abuse should be foreseen; for utilities, the processing of user claims should also be regulated.

**The financial provisions of the National Programme should include a long term credit system for the financing of housing development;** otherwise interest and capital loan subsidies will be costly and will not be able to reach their objectives. The conditions for benefiting from such advantages should be better worked out.

The housing and financial economy should be better financed through the revision of the Budget Code provisions. This requires **releasing a significant tax power and discretion on tariffs to municipal authorities, and introducing an effective equalisation mechanism** to raise the resources of disadvantaged municipalities to a level which suits their needs.

## **II. Detailed review of the National Programme of Reform and Development of the Housing and Communal Economy for 2007-2011**

### The National Program of Reform and Development of the Housing and Communal Economy for 2007 - 2011

#### I. The Present State of the Housing and Communal Economy

The imperfect system of management of housing and communal facilities and delays in its reform has led to the sector's enterprises being unable to operate efficiently under market conditions and deliver services of the required standard to customers. As of January 1, 2007, accounts receivable in the sector stood at UAH 8.1 bln., and accounts payable, UAH 8 bln., of which UAH 5.5 bln. related to rent payments for utilities. By the performance results in 2006, the enterprises had over UAH 1.6 bln. in negative profit, which is 1.9 times the figure in 2005. One in three residential houses needs capital repairs. 16.7 thou. people live in houses that are unfit for occupancy and they have to be moved out and provided with housing. In almost 85% of high-rise (10 stories and more) buildings, fire fighting systems are out of order or their servicing is not carried out.

Over a third of water and waste water and heat systems, some 30 % of heat supply facilities, over 20% of bridges and viaducts are dangerous to use.

87% of rolling stock of urban public electric transport, 70% of vehicles that are used in the municipal economy, some 40% of pumping plants and boilers, over 20 thou. of elevators, etc. need to be replaced.

The area of natural and man-caused underflooding of urban areas is nearly 11 %. It is necessary to urgently repair or modernize 50% of protective structures of sea coast. 48% of solid domestic waste landfills do not meet sanitary standards. A large number of unauthorized dumpsites emerge every year.

More than half cities with a population of 100 thou. are provided with drinking water according to schedule, not on a 24-hour basis. The poor condition of the water systems causes secondary pollution of drinking water and is the threat of spreading infectious diseases.

The specific consumption of energy resources in the production and delivery of housing and communal services in Ukraine is almost twice as high as in the nations of the EU.

Legislation relating to the housing and municipal economy (particularly the legal and regulatory documents of local state administrations and local self-governing bodies) is not fully consistent with the European Charter on Local Self-Government and the EU Directives, which is not conducive to an attractive investment climate.

The imperfect system of social protection of the population in the area of provision of housing and communal services, lack of public awareness, gaps in legislation regarding regulation of relations between customers and producers/providers of services increasingly makes the population discontent.

The lack of an efficient mechanism for obtaining off-budget funds for reforming and developing housing and communal services and the inefficient implementation by local governments of tariff policies prevent the promotion of an attractive investment climate in the sector, establishment of cooperation with international financial institutions and donors so as



to increase the volumes of foreign investments, grants and loans necessary for developing the communal infrastructure. fundamental

#### *Experts' comments on Section I*

The area of housing and communal services has long been among the most pressing problems for Ukraine, but has now become especially urgent due to increasing energy prices. **The difficulties facing the communal services sector in Ukraine arise from a combination of serious structural (and to some extent intertwined) causes.**

**The energy inefficiency of the infrastructure** inherited from the Soviet period is certainly a primary matter. As Section I of the National Programme states, energy consumption by the sector is still twice as high as in the EU. **In this respect, the experts welcome the Government's emphasis on energy-saving technology** and its desire to bridge the gaps between technology design, production and institutional users, including local and regional government.

A second crucial issue is **the low level of resources available. This calls not only for an in-depth review of public funding mechanisms, but also for the development of new tools to attract investment resources into the sector** (i.e. to raise additional funds other than user charges, as there are clear practical and political limits to the increases of such charges that can or should be made).

A third fundamental setback is **the inefficiency with which financial resources are deployed**, so that even if substantially increased funds were allocated, these would not lead to a proportional increase in the quality or extent of the services received by citizens. **This calls for modernisation and enhanced management practices.**

A fourth element, which complicates any attempt to deal with the previous questions, is **the weakness of the system of inspection and regulation**. This weakness is both numerical, in the sense that there is a shortage of professional inspectors, and institutional, in the sense that there may be an insufficiently strong institutional framework to prevent corruption, either by inspectors themselves or by communal enterprises. Therefore, **there is a need to establish a stronger regulatory structure and also to reinforce accountability.**

**The latter three problems need to be given greater prominence if the programme is to be effective. Therefore, the experts suggest redrafting Section 1 in order to highlight these problems (while also keeping the emphasis on energy savings) and to make it clear that the Government's intention is to deal with them through a comprehensive approach.**

## II. The Goal of the Program and Key Principles of State Policy in Reforming the Housing and Municipal Economy

1. The Program aims to establish the principles of implementation of state policy in reforming the housing and municipal economy, carry out activities for increasing its efficiency and reliability and ensure its sustained growth to meet the needs of the population and the economy for housing and communal services in compliance with established norms and national standards.

2. The state policy of reform of the housing and municipal economy is based on the following principles:

- (1) ensuring the sustained operation and dynamic growth of the housing and municipal economy;
- (2) streamlining the system of management of housing and communal services;
- (3) availability of housing and communal services that meet national standards to all strata of the population;
- (4) adoption of national social standards (norms and rules) in the area of housing and communal services;
- (5) encouraging investment activity in the area of housing and communal services;
- (6) ensuring that human, financial and physical resources are used effectively by producers/providers and consumers of housing and communal services;
- (7) priority of innovative development of vital services that are provided to communities, promotion of scientific and technological advance in the housing and municipal economy;
- (8) publicity, social control, transparency and involvement of the public in decision-making on the issues of reform and development of the housing and municipal economy, provision of information to the public by executive bodies and local self-governing bodies within their jurisdiction on the key principles and objectives of state policy in the area of housing and communal services;
- (9) responsibility of local self-governing bodies for efficient use of a territorial community's property and provision of the population with communal services in accordance with national social standards;
- (10) creation of equal conditions for any business entity in the area of housing and communal services.

*Experts' comments on Section II*

While the ideas behind Section II are generally good, their place and/or formulations are doubtful. The goal of the programme cannot be to "establish principles" and "carry out activities". Principles are pre-existent and the Programme must build on them; activities are carried out by the responsible authorities and other stakeholders, while the Programme puts them into a sound context by defining processes and tools. Few of the items listed in paragraph 2 are actually "*principles*" as opposed to main objectives or general recommendations, although several could be made into principles if re-phrased. Therefore it is suggested to redraft Section II completely, as follows:

***"1. The Program aims at establishing a coherent framework for the state policy of reform of the housing and municipal economy, and at delivering access to decent housing and adequate provision of municipal services, in particular water supply, sewerage and heating, to the Ukrainian population.***

***2. The state policy of reform of the housing and municipal economy is based on the following principles:***

- (1) The joint responsibility of the State – namely through regulation, incentives and technical support – and of the local self-government bodies – namely through their competence for planning and programming the development of housing and of municipal enterprises – for the sound implementation of the reform programme and***

- the effectiveness of the system as a whole, which must be reinforced;*
- (2) Transparency in decision-making, comprehensive communication with customers and responsiveness to customers' requests and concerns;*
  - (3) Universality of provision of municipal services, which must be delivered to all citizens adequately and at affordable rates;*
  - (4) Care for efficiency, in terms of the deployment of financial, human and energy resources, which must be enhanced in all services;*
  - (5) Development of partnership between public authorities and the private sector;*
  - (6) Targeted support to private investment in infrastructure renewal, ensuring equal conditions for all investors;*
  - (7) Evaluation of the performance of public and private local service providers, which must be monitored and compared by central government and independent agencies, seeking to identify best practice and promote quality service delivery.”*

These principles encompass what the reform programme is intended to achieve, indicate where the problems are likely to occur and can guide decisions about the legislative and procedural framework.

The Ukrainian authorities must be aware that, although these principles are not mutually contradictory, there will be tensions between them. For example, Universality and Efficiency are difficult to reconcile without clarification of the specific responsibilities of the different stakeholders through focused legislation. Once universality is established as a condition of efficiency, then these principles will reinforce each other rather than conflict.

Other elements which now appear in Section II could be omitted or replaced in Section III or VI (see below). This applies to innovation and national standards, which however should be carefully considered. There would be a risk that innovation could become separated from efficiency or that national standards could encourage distortions in terms of service outcomes rather than raising them.

### III. Main Objectives of the Program and the Instruments to Achieve Them

#### 1. The main objectives of the Program include:

- (1) organization of efficient management, creation of a system of state regulation of economic agents in the area of housing and communal services;
- (2) stepping up demonopolization of the housing and municipal economy, promotion of a competitive environment on the market of housing and communal services;
- (3) ensuring that communal enterprises' operation is breakeven;
- (4) technical re-equipment of the housing and municipal economy and reduction of consumption of the inputs necessary for the production of housing and communal services;
- (5) attraction of investments and cooperation with international financial institutions and donors;
- (6) enlisting active public support for the state policy of reform and development of the housing and municipal economy.

#### 2. To achieve the objectives of the Program requires:

- (1) legal and regulatory and scientific and technological support;
- (2) managerial support and monitoring of Program performance;
- (3) financial provision.

### *Experts' comments on Section III*

Section III is divided into objectives (paragraph 1) and what needs to be done to achieve the objectives (paragraph 2). Paragraph 2 is just a reference to the following Sections IV, V and VI of the law.

Objectives have to be devised as intermediary and operational targets that make it possible to monitor the implementation of the National Programme towards the goal and according to the guiding principles set out in Section II. **It is suggested to list separately the operational objectives**, e.g. those dealing with the type of service that will be created as a result of the reform, **and the institutional objectives** required in order to bring this about. The current objectives (2) to (6) would belong to the first list; objectives (1) – which should be completed – would belong more to the second one.

### **Operational objectives**

**The objective of “demonopolisation” is misleading.** As a matter of fact, with regard to the services included in the concept of municipal economy, we are in the domain of the so-called *natural monopolies*. It is not possible for users to choose their water or heating supplier (except in the case of individual electric or gas heating, and not without difficulties). There cannot be several water supply pipes or heating pipes in the same building; it is hardly possible to organise waste collection by several companies in competition on the same streets; it is again hardly possible to authorise several transport companies in competition on the same route in inner city public transport; such competitive arrangements would only bring about congestion in the city and higher costs for the users (because of the accumulation of investment – and advertisement – costs by competitors). Therefore, the alternative for municipal authorities is between improving the management and equipment of their own enterprises or contracting out to private companies; this option requires a good and strictly enforced procurement law. There is no *a priori* reason to prefer one solution to the other: the sound decision will depend on the existing situation in municipal enterprises, on their investment capacity, and on the quality and costs of bidders' proposals if a tender is opened by the municipal authority. Furthermore, there are various possibilities for contracting out. Key criteria to choose are: the sharing of risks (financial and commercial), the cost of credit for the initial investment (in western European countries, public borrowing is usually cheaper than borrowing by a private company), the tariff policy that the public authority is willing to apply. Therefore, **the objective here must be to ensure that concessions and contracting out of municipal services are decided on the basis of comparative analyses between the respective advantages of public and private management and after proper tender procedures, which must ensure real competition between different private bidders.**

With regard to housing itself, there are no more monopoly positions in the building industry, and it is easy to see in larger Ukrainian cities the development of private housing for sale or rent, but at rather high prices. The problem is elsewhere: it is to **promote the construction of social housing which is affordable for the majority of people**. The basic conditions for this are : adequate long term credit with low interest rates and a land policy making it possible to

provide premises at reasonable prices even more at very low prices if it is the conversion of premises belonging to public bodies. Credit conditions depend on a legal and financial framework to be created by legislation and by the central government. On land policy, local governments may have the initiative. Then, the implementation may follow through municipal enterprises specialised in social housing or private builders on the basis of tenders based on very strict terms of reference.

It seems possible to infer from annex 4 that at the end of the implementation of the National Programme, all social housing with joint ownership (100%) should be managed by an association of joint owners (AJOAH), and that 100% of social housing should be managed by stewards of housing complexes. These forecasts are ambiguous. First of all, **the social housing for rent seems to be neglected**. The clear perspective of the government is to develop housing ownership; however, it is well known in countries with a higher economic level that this is not sufficient to deal with housing problems. In France and in Spain, for example, one of the reasons for housing difficulties, for young families and for families with low income, is the lack of apartments for rent, and recent public policy decisions are aimed at solving this problem by encouraging investors to offer apartments for rent and by supporting the social housing sector. Secondly, **there is no reason to make it obligatory for all social housing to be managed by a professional steward**: joint owners associations might be able to take over this duty by themselves; in rented accommodation the tenants should also have the opportunity to take over this duty, at least in part, on a voluntary basis.

The other operational objectives in section 1 seem broadly appropriate, although a few draft improvements seem possible.

### **Institutional objectives**

As a starting point, it would be appropriate to separate the objective of establishing state regulations and the objective of establishing an efficient system of management, and explain them better.

Furthermore, there is a need to be clearer on the institutional changes required, i.e. on what kind of system is going to be ensuring the operational objectives and to whom the institutions in this system will be accountable. This in turn will require more detail on how to ensure that the regulatory system does not suffer from the qualitative and qualitative weaknesses that regulatory and inspection regimes in Ukraine have suffered from in the past, and that it has genuine levers of influence over communal service providers, but that this influence is exercised as part of a system of checks and balances at national and sub-national level to ensure that regulatory power is not abused.

The objective of an efficient management refers to the need for public authorities to modernise public sector in housing and utilities. The idea of developing performance management tools could be dealt with here.

Establishing a state regulation is necessary to allow the development of a market sector and to protect consumers from abusive practices: this relates to, for example, conditions of access to the professions concerned, credit conditions, taxation, the regulation of fees, and so on. However, the issue of regulation brings the experts to a problem that is not sufficiently dealt with by the current draft programme: the allocation of regulatory responsibilities between parliament and executive at national level, central and regional executive power, and between

state executive power and local self-government. This is a highly complex matter and it could be that the draft programme cannot be expected to resolve it entirely. It should however be referred to, and a set of principles or guidelines provided as to how the system will work. For example, it could be stated that for services entirely under its control (e.g. housing repairs, maintenance, local environmental services) the local self-government authority will act as the regulator, but will still be obliged to provide data on performance. In other service areas national or regional regulators will carry out inspections directly, but will inform local self-government authorities about the quality of services on their territory.

It is clear that in at least two areas (water leakages and energy efficiency of district heating) radical action is needed to achieve the required results and this might best be achieved by agreeing national targets and providing incentives for local authorities to meet these, rather than trying to by-pass local authorities by setting up parallel structures at local or regional level. In practice, in rural areas district or regional state administration will need to take responsibility for improvements in this field, but towns and cities should be empowered and materially encouraged to progress as far as possible. Positive incentives to local and regional authorities will reduce the administrative burden on central government and enable an (arm's length) regulator to focus on overall statistical results (although there would still need to be an independent inspection by the regulator, to ensure accuracy of statistical returns).

### **Draft proposals**

As a basis for further discussion, it is suggested to consider the following text:

#### ***1. The main operational objectives of the programme are the following:***

- (1) technical re-equipment of the housing and municipal economy sector***
- (2) reduction of consumption of the inputs necessary for the production of housing and communal services;***
- (3) availability of social housing for rent affordable for people with the lowest incomes;***
- (4) modernisation of management, and breakeven operation, of communal enterprises;***
- (5) enhanced policy and practice in concessions and contracting out of municipal services, based on formalised tender procedures ensuring equal access and real competition between different private bidders;***
- (6) enhanced cooperation with international financial institutions and donors***
- (7) high level of domestic and foreign investments attracted;***
- (8) public awareness of, and active support for, the state policy of reform and development of the housing and municipal economy.***

#### ***2. The main institutional objectives of the programme are the following***

- (1) clear definition of roles and allocation of regulatory responsibilities between***
  - a. parliament and executive at national level,***
  - b. central and regional executive power,***
  - c. state executive power and local self-government;***
- (2) Development of the legislative and regulatory framework required to promote development of a market sector and to protect consumers against abusive practices, including, in particular, legislation and regulations on:***
  - a. the fiscal/ financial framework;***
  - b. standards in municipal services;***
  - c. the conditions/requirements for the access to the professions involved in the housing and municipal service market;***

- d. public procurement and tender procedures;*
- e. performance management in municipal services;*
- f. inspection, supervision and auditing;*
- g. protection of users/consumers and treatment of claims.*

#### IV. Legal and Regulatory, Scientific and Technological Support

1. Legal and regulatory, scientific and technological support in achieving the foregoing objectives provides for:

- (1) drafting legal and regulatory documents related to the regulation of relations in the housing and municipal economy;
- (2) development of the statutory base necessary for implementing a new efficient mechanism for funding the sector's development and identifying the strategies of cooperation with international financial institutions and donors;
- (3) harmonization of national standards and other regulations in the area of the housing and municipal economy with the EU directives and standards;
- (4) R&D in the area of tariff policies, identification of economically sound expenditures related to the production of housing and communal services, financial and business activity of communal enterprises, operation and maintenance of housing and communal facilities, urban public electrical transport, provision of amenities to communities, and protection of areas from the harmful effect of waters;
- (5) development and introduction of modern technologies and equipment necessary for technical re-equipment of communal enterprises and reduction of specific consumption of inputs;
- (6) launching the production of new types of equipment for the housing and municipal economy;
- (7) introduction of changes to construction regulations and standards, provision of technical regulation and standardization in the housing and municipal economy so as to actively apply scientific and technological achievements and renewal on their basis of the permanent assets of the sector's enterprises;
- (8) development and implementation of programs designed to encourage the economical use of drinking water and heat energy;
- (9) conduct of systematic sociological surveys on the standard of housing and communal services and the progress of the sector's reform, study of public opinion about the priorities of the reform.

2. The activities related to legal and regulatory, scientific and technological support for achieving the Program objectives are specified in Annex 1.

*Experts' comments on Section IV*

This section is largely about activities that will form part of the implementation, but are not in themselves conditions for the success of that implementation. **There should be an additional section which sets out the institutional requirements of success, how the system will work** to make the improvements brought about by the programme sustainable.

Concerning the section itself, **it does not seem justifiable to put together the legal and regulatory framework** necessary for the implementation of the National Programme **and the scientific and technological support** required for the upgrading of the sector. In some cases the issues to be solved by legal provisions are determined by scientific and technological changes. However, the basic difference is that the matter of legal and regulatory framework is the allocation of responsibilities, powers, rights and obligations for legal subjects, distinguishing public authorities and private law subjects, whereas the scientific and technological support is part of the economic process to deliver goods and services complying with given standards and requirements.

**It would be more relevant to devote one section to the development of the legal and regulatory framework.** In this respect, **item (1) is irrelevant:** it is merely a repetition of the object of this section. **Item (9) is also irrelevant:** conducting sociological surveys has nothing to do with the legal and regulatory framework; this has to be moved to Section V on managerial support and monitoring.

**This new section should be more developed than it is in the present draft.** At present, only four points are really associated with this matter:

- development of the statutory basis for funding the development of the housing and municipal economy sector (item (2));
- harmonise national standards with EU directives and standards (item (3));
- identify the economic basis and establish the legal basis for the tariff policies (item (4));
- modify construction regulations in accordance with scientific and technological achievements.

All this is necessary but not sufficient.

Concerning the **fiscal/financial framework**, the general reference to the establishment of “*the statutory basis for the funding system for the reform of the housing and municipal economy*” cannot be completed only by reference to the **legal basis for the tariff policy**. It should be stated clearly that this also includes the review and development of legislation/regulations on: **fiscal/ financial incentives** (which should be designed to encourage the modernisation of the sector), **direct support from central budget to municipal capital investment** (e.g. through capital matching grants targeted to the required development of the infrastructure), **local government access to capital market and credit conditions** and, last but not least, **property rights of the municipalities**.

Concerning **standards**, it could be further explained that there is a need to establish or update standards **on housing occupancy, energy and water consumption, safety regulations, building materials to be used, quality standards to be respected in delivery of the municipal services**, and so on.

The **harmonisation with EU directives and standards should be subject to a cost /**



**advantage assessment:** due to their high level of requirements in some cases, they might involve costs that are out of proportion with the present economic situation of Ukraine. Together with the development of sound standards, the establishment of **performance management tools** should be considered. However, it is necessary to stress once more that unwise standards or performance indicators may entail distortions. In particular, the problem is that they are not always focused on outcomes or result of the process, but instead often direct attention to measures of inputs, for example how much money is spent on a service per head of population. This misdirects the attention of managers and policymakers away from key problems, such as the inefficient use of resources by the system. If the monitoring of results is sufficiently rigorous, then the only input measure that needs to be monitored is probably the amount of investment – with indications as to how the investment will increase efficiency of infrastructure and personnel.

**A detailed legislation on the various activities involved in the housing market should be developed :** builders, developers, engineers, architects, sellers or traders, the banking sector as regards consumer credit and the protection of consumers in this field; the only clear commitment of the National Programme in this respect concerns services for housing stock management and stewards for housing complexes: this is important but other activities are no less important with the development of a private housing sector;

The rules on **public procurement and tender procedures** applicable to the housing and municipal economy sector should be checked against European standards; this is required to ensure transparency, equal access to the market and competition between bidders, and to avoid mismanagement and corruption.

**Legislation on municipal enterprises must be checked and updated** in order to make it possible to keep them in place when it is justified and preferred by the municipal authorities: the ministry of finance recommends the “*corporatisation*” of these enterprises with the municipal authority keeping 51% of the capital: this option may be justified, but we have to be aware of having private investors under such conditions; in France such companies (about 1,200) generally only have public shareholders; if private investors are sought, the concession (or some form of it) might be preferred on the basis of a concession agreement taking care of the public interest.

**It is also necessary to review and further develop legislation concerning inspection** (namely on the operation of private service providers), **administrative supervision and auditing** (namely on the operation of public entities which provide municipal services).

The **protection of consumers** is not dealt with in the National Programme and, despite the dramatic changes that the reform will entail in the practices that people are accustomed to, there are no provisions on the **procedure for the processing of claims**. At least (assuming that standards to be complied with in the service delivery are defined) each local government body with authority on housing stock and municipal utilities should establish a claim processing procedure with a right for the claimer to be heard; then in case of continuous disagreement a fast track procedure should be organised by the law before the first instance civil judge.

Finally, it is suggested to include the development of the **conceptual and legal framework for the reorganisation of the ownership structure** in the sector (the right to buy, privatisation, clear split of social housing, etc.)

**The different fields of research and development** (that are expected to deliver new goods and processes capable of improving housing conditions and service delivery, with specific objectives for them, and resulting in new standards) **can be presented in a new separate section. This could comprise the elements which appear under paragraph 1 excluding those which belong to the development of the legal and regulatory framework.**

**Activities listed in Annex 1 seem to be coherent with the existing text of Article IV. They should however be checked against the proposals made above. Adding conceptualisation activities should also be considered.**

**Therefore, the experts recommend that the text of the present section and of Annex 1 are reviewed according to the above-mentioned proposals.**

## V. Managerial Support and Monitoring of Program Performance

1. Managerial support for the Program is provided, under their relevant jurisdiction, by the following bodies:

- (1) at the national level: the central executive body responsible for the issues of the housing and communal economy and other central executive bodies within their established limits;
- (2) at a regional level: the units of the Council of Ministers of the Autonomous Republic of Crimea, the oblast, Kyiv and Sevastopol city state administrations that deal with housing and municipal economy issues;
- (3) at a local level: the units/officials of the executive bodies of town, settlement, and village councils;

2. As far as the Program performance is concerned, interaction and organization of activities of government ministries, other central and local executive bodies, local self-governing bodies, enterprises, institutions and organizations, regardless of the type of ownership, shall be the responsibility of the Interagency Committee for the Reform of the Housing and Municipal Economy and the regional committees for the related reform.

3. The Council of Ministers of the Autonomous Republic of Crimea, the oblast, Kyiv and Sevastopol city state administrations shall on an annual basis develop, and submit to the relevant local councils for approval, an action plan for carrying out the regional and local programs of reform and development of housing and communal services based on the previous year's outcomes and taking into account the possibility of their funding.

4. Program performance shall be monitored on an annual basis based on the data of public and sector specific statistical surveys and special research, by the following bodies:

- (1) at the national level: the central executive body responsible for the issues of the housing and communal economy;
- (2) at a regional level: the units of the Council of Ministers of the Autonomous Republic of Crimea, the oblast, Kyiv and Sevastopol city state administrations that deal with housing and municipal economy issues.

5. The forms of public statistical surveys of reform of housing and municipal economy and the relevant guidelines for filling them out shall be developed and approved by the central

executive body responsible for statistics in consultation with the central executive body responsible for the issues of the housing and communal economy. The central executive body responsible for statistics shall set the dates of provision by the territorial public statistics bodies of information as per established from and ensure its summarization.

6. Monitoring results shall be published in the mass media.

7. The activities related to managerial support of achievement of objectives under the Program are specified in Annex 2.

#### *Experts' comments on Section V*

The arrangements given in this section relate largely to the management of the programme. However the programme itself will not manage communal services in the longer term and so there is scope here for **detailing the role of new (or reformed) regulatory institutions in managing and monitoring the programme** as it develops (these institutions in turn being monitored by the inter-ministerial group referred to in this article).

There is perhaps **too much emphasis on the executive vertical in the coordination arrangements for the programme. It would be useful to involve a wider range of partners in managing the programme**, rather than simply recording their views.

**A basic objective for the management of the sector is to bring the tariffs closer to the costs.** This is a basic condition for the modernisation of the sector and to involve the private sector. Therefore, the objective to establish such tariffs, and therefore to equip all apartments with water and heat supply meters is quite justified. However, this needs to be applied in several steps, to be accompanied by social support measures, and to keep price increases under control.

The following recommendations of the ministry of finance need to be supported: 1) the **regionalisation of the main objectives** of Section III; 2) **indicators** have to be elaborated in order to assess the effectiveness of the National Programme (quality of service, net costs, evolution of tariffs...). Furthermore, the principle of **complete compensation of costs for municipal enterprises** needs to be supported by a strategy and instruments to overcome the present situation where there is insufficient compensation and a deficit of the said enterprises preventing them from investing and improving the quality of the service.

Concerning **management tools**, Annex 2 is, to some extent, more relevant than section V as such. However, some of the issues dealt with there appear to be more than simple technical issues. As an example, privatisation can become a misleading managerial technique without a clear policy concept. Also, the preference for associations of joint owners of social housing (AJOAH) is in principle a good idea. A policy issue is, however, whether a wider range of institutional possibilities are not considered at all; different options may be more relevant in different situations.

## VI. Financial Provision

1. The Program shall be financed by using funds of the State Budget of Ukraine, local budgets, funds of enterprises and other sources of financing that are not prohibited by law.

2. Funds of the State Budget shall be directed toward:

- (1) developing regulatory and legal, scientific and technical support;
- (2) carrying out investment projects for renovation and major repairs of housing stock, centralized heat, water and waste water systems as well as for provision of amenities and communal services, development of urban public transport and technical re-equipment of municipal facilities;
- (3) carrying out pilot projects in the housing and municipal sector designed for improving management systems of housing stock, reduction of specific consumption of inputs;
- (4) mobilizing strong public support for the state policy of reform and development of the housing and municipal economy;
- (5) developing the institutional capacity for attracting investments of international financial organizations and international technical aid resources for the purpose of reforming the sector,

3. The Program of Implementation of Investment Projects, including pilot projects in the housing and municipal economy, shall be funded through:

- (1) targeted financing of projects selected on a competitive basis;
- (2) partial/complete reimbursement for interest rates on loans provided for implementation of projects;
- (3) complete reimbursement for interest rates on loans or partial repayment of the principal amount of loans that are extended to small or medium-sized businesses or associations of joint owners of social housing (AJOAH) to implement investment projects for providing residential buildings with heat insulation.

4. Decisions on allocating the funds for the said purposes shall be made where:

- (1) there is a commitment to co-finance the projects from local budgets or other sources of financing, except projects that are carried out by AJOAH, in the following proportion:

for projects that are carried out in the cities of Kyiv, Sevastopol, the capital city of the Autonomous Republic of Crimea and oblast centers – at least 60% of the amount of funds of the State Budget of Ukraine;

for projects that are carried out in cities that are under the jurisdiction of the AR of Crimea or oblasts -- at least 30% of the amount of funds of the State Budget of Ukraine;

for projects that are carried out in *rayon* centers -- at least 10% of the amount of funds of the State Budget of Ukraine;

- (2) there is a commitment to co-finance projects for renovation or major repairs of residential buildings that have AJOAH by owners of residential and nonresidential space in the relevant buildings -- at least 10% of the amount of funds of the State Budget of Ukraine.

5. The procedure for competitive selection of projects for technical re-equipment of housing and communal facilities, designed for reducing the specific cost of consumption of inputs in the production and provision of housing and communal services, provision of amenities, maintenance of urban public electrical transport, renovation and major repairs of residential

buildings, which are funded from the State Budget, shall be established by the central executive body responsible for the issues of the housing and municipal economy.

6. The predicted volume of funding of the activities under the Program from the State Budget is given in Annex 3.

*Experts' comments on Section VI*

Without detailed economic and budgetary data, it is impossible to appraise whether the financial provisions are consistent with the objectives and sufficient to achieve them. However several questions can be raised on this Section.

**The main criticism is that no measures are envisaged for developing a long-term system to finance the housing sector.** Paragraph 3 provides for the reimbursement of interest rates or even the partial repayment of the loan capital by a Programme of Implementation of Investment Projects of the State budget of Ukraine. However, this budgetary support will be costly and not very efficient if the State failed to make long-term loans available by mobilising savings in order to finance housing development. This is the missing link in the Section on financial provision.

**The reimbursement of interest rates, and/or the partial repayment of the loan capital,** to medium-sized businesses and associations of joint-owners of social housing for heat insulation work **should be subject to conditions and to ceilings**, in order to avoid exaggerated counter-redistributive effects. In particular the repayment of the loan capital will be very expensive for the State budget, and is quite unusual in international practice.

**Regarding co-financing projects** by budgetary support, the amount of the State budget commitment is subject to the condition that the local budget contribution and other sources be in excess of a percentage of the State contribution (for example 60% for the cities of Kiev and Sevastopol; 10% for smaller cities under district jurisdiction) (see paragraph 4). This is a difficult ratio to use, because the contribution of the State budget and the contribution of other sources might not suffice to ensure the total financing of the project. It would be more appropriate to **determine the minimum contribution of the local budgets and other sources as a proportion of the total cost of the project as a condition to benefit from support by the State budget.**

There could be more scope for introducing **conditions and criteria for competitions that will create incentives to steer local and regional projects in the direction desired by national policy**, as well as encouraging local and regional experimentation that will help to focus national policy objectives in this field.

Incidentally, as already suggested, further work is required to check, review and develop the legislative and regulatory framework of the financial and fiscal incentives. On the one hand, it would be unwise to try to deal with this very complex issue directly by the present law; on the other, it is necessary to clearly state in this law that this will be done within given deadlines.

## VII. Program Progress Control

1. Control of the progress of this Program and the regional and local programs shall be carried out by the central executive body responsible for the issues of the housing and municipal economy, other central executive bodies, the Council of Ministers of the AR of Crimea, the oblast, Kyiv and Sevastopol city state administrations, and local self-governing bodies.
2. Social control of the Program shall be carried out by civil society organizations whose charters provide for activities in the area of housing and communal services.
3. The central executive body responsible for the issues of the housing and municipal economy shall on an annual basis provide information on Program performance to the Cabinet of Ministers of Ukraine.
4. Control of disbursement of budget funds allocated for the Program shall be exercised under an established procedure.

### *Experts' comments on Section VII*

The impression is that the monitoring of progress in the programme implementation will be organised mainly under the state administration. This approach corresponds to the whole management concept of the program. However, the experts consider that **the role of other stakeholders should be enhanced.**

**The parliament, the local, district and regional councils should be closely associated in monitoring the progress of the Programme,** which is of major interest to the whole of society. The government and, locally, the executive bodies should report to the respective assembly and its commissions. This is missing in the National Programme. **The national audit office should be involved** in progress control of the National Programme. This is also missing in the text of the Programme.

**Stakeholders' and consumers' involvement should be promoted.** Citizens' involvement would increase the wider public's acceptance of the policy implementation.

## VIII. Expected Outcomes

1. Implementation of the Program will make it possible to:

- (1) ensure implementation of the state policy of regional development, above all in the area of housing and communal services;
- (2) complete development of the necessary legal and regulatory documents that will ensure the sustained operation of the sector under market conditions;
- (3) put in place an efficient system of state regulation of activities of natural monopolies in the area of water and heat supply and waste water disposal;
- (4) create favorable conditions for accumulating investment resources for the purpose of technical re-equipment of the sector's enterprises and communal infrastructure development;

- (5) create favorable conditions for attracting off-budget funds for the sector's growth as well as have an efficient mechanism for its further reform by using foreign investments, loans, and funds of individuals and entities;
- (6) accomplish comprehensive modernization and re-equipment of the sector's enterprises so as to reduce the consumption of resources and meet environmental and fire prevention standards;
- (7) reduce the depreciation of fixed assets in the sector to the level of operating safety and cut costs and losses in the production of housing and communal services;
- (8) ensure the phase-out of residential buildings unfit for further occupancy and revamping of communal facilities unfit for further use on the basis of partner financing from the state and local budgets;
- (9) ensure the stable and efficient operation of the sector's enterprises and raise the safety standard of supply systems in communities;
- (10) ensure that the population receives quality housing and communal services in compliance with national standards harmonized with international or regional ones;
- (11) enlist strong public support for achieving the key objectives of reform of the housing and municipal economy.

The major expected outcomes of the Program are given in Annex 4.

*Experts' comments on Section VIII*

This section (and the related annex IV) needs further consideration. It should be **divided into two parts, as with section III, so that the operational outcomes and the institutional outcomes are presented separately.**

It is however not clear whether this section, notwithstanding the title, is really intended to list "outcomes". Most of the outcomes seem merely to open broad perspectives in terms of public policy or they are just a re-formulation of some of the programme objectives (e.g. items 2, 4 to 7, 9 and 10 sound redundant to some programme objectives and are not measurable outcomes).

As examples of what could be measurable outcomes, it is possible to refer to: a definite number of AJOAH to be established by the end of the term; a definite number of houses involved; a definite number of households in which electricity and gas/central heating is metered, etc. Probably, as stated in paragraph 2, the real "outcomes" are to be listed in annex 4.

Incidentally, item 1 established a correlation between the implementation of the National Programme and the effective implementation of State regional development policy: this might be justified, but it appears for the first time in Section VIII: if there is a connection, this should be put forward from the outset.

Item 3 contradicts Section III, paragraph 1 (2) on demonopolisation, since it expects the establishment of a State regulation of natural monopolies. This seems to confirm that, as previously stated, the main objective under Section III is wrongly formulated. The formulation of Section VIII seems better: the objective cannot be to abandon monopolies in the said sectors, it is to allocate exclusive rights for a given period of time through a competitive procedure or to regulate and control the activity of the municipal enterprise.

*Experts' final remarks*

The following are additional remarks that the experts wish to submit for the consideration of the Ukrainian authorities:

- a) It might be useful to analyse the current situation in greater depth. Namely, the data on ownership structure is necessary in the present system description.
- b) Further strategic thinking would also be necessary on the way changes required must be introduced and the in-depth reorganisation of the housing and municipal economy sector achieved.
- c) The programme could be more clearly focused in (sub-)sections in terms of who it is addressed to and what results should be attained. Some parts of the programme should be directed at local government, some at regional government, and so on.
- d) If the aim is to change consumer attitudes and behaviour, then this should be more clearly stated. However the emphasis should be not on propaganda but on incentives: what is needed is a mechanism to encourage implementation on the ground.
- e) The ministry should involve the oblast administrations and local authorities in the search for innovation. In Lviv Oblast, for example, a credit system for energy efficiency was developed by a small team of junior officials and has been introduced successfully by the Oblast administration through regional banks – a relatively simple mechanism based on providing modest subsidies to credits (to individual citizens, firms or public establishments) to invest in schemes to reduce energy consumption in buildings or processes, which leads to reduced costs and financial gain. This was an unusual case of something being done about energy efficiency whereas (as was noted at the IV International Conference of 14-15 November 2007 in Kyiv), there has been a tendency for officials to repeat slogans without finding ways to implement them.
- f) What appears to be missing is an institutional arrangement. Rather than simply demanding that local authorities set up funds for energy efficiency, it might be more appropriate to establish partnerships in each oblast whereby state and municipal authorities will collaborate systematically with private firms and community organisations to agree on practical strategies for improving the efficiency of public utilities from the point of view of both production and consumption. These partnerships could introduce and coordinate new mechanisms for encouraging energy efficiency at all levels and also create conditions conducive to attracting investment, within the framework of central legislation on concessions. In this way, the same broad institutional structure would be able to link central policy objectives to local realities (which vary considerably across Ukraine) and large and small scale initiatives, both of which will be necessary.
- g) A partnership framework based in each oblast and allowing space for local initiatives but with monitoring from national level, would help to encourage progress in innovation and investment attraction, whilst a national regulator would enforce observance of the “rules of the game” whilst working at arm’s length from central government (it might be useful to have the regulatory authority reporting to a board combined with representation of all



stakeholders – regions, cities, consumers, business associations).

- h) Re-arrangement and further elaboration of the time schedule is also necessary. The very wide range of competent bodies involved in the preparatory process so far, should also be preserved for the period of further elaboration and implementation.