

**UKRAINE HUMAN DEVELOPMENT REPORT 2001**

**THE POWER OF PARTICIPATION**

**UNITED NATIONS DEVELOPMENT PROGRAM**

**KYIV, UKRAINE**

## FOREWORD



Ukraine had some of the best natural and human resources of any of the transition countries at the time of independence. Although many new opportunities and freedoms came with independence, the people of Ukraine saw their living standards fell dramatically during the past decade, and millions of people fell below the poverty line.

Today, despite physical and human capital resources and knowledge of right policies that could support relatively high standards of living, one quarter of the people in Ukraine cannot even afford to purchase the food needed to meet minimum caloric requirements.

What explains this combination of abundant resources, knowledge of right policy options and severe poverty? Now that Ukraine has finally put itself squarely back on the path of growth, how can it close the gap as quickly as possible with living standards in the European Union while eradicating absolute poverty?

In both cases, the answer is Good Governance.

The need for good governance is by no means unique to Ukraine. As Kofi Annan has declared, “Good governance is perhaps the single most important factor in eradicating poverty and promoting development.”

This National Human Development Report (NHDR) for Ukraine, the sixth since the first report was issued in 1995, begins a series that will, over the next four years, explore in detail the reasons why Good Governance is so important to Human Development and to eradicating absolute poverty. These reports will also examine what needs to be done to improve the quality of governance in its many dimensions in Ukraine.

This and subsequent National Human Development Reports on Ukraine will explore different dimensions of the participatory processes needed to create a consensus on the future path that Ukraine may want to follow as it develops into a contemporary European nation. Topics such as decentralization and regional development, jobs and employment, corporate governance, delivery of social services, and administrative reform might serve as appropriate focal points for such reports. However, in keeping with the participatory message of this report, we encourage readers to post their own suggestions for future NHDR reports and comment on this year’s NHDR on the UNDP/Kyiv website at <http://www.un.kiev.ua:8080/hdr/>

Strong Partners through Participation is the focus of this year’s NHDR, which examines the important linkages between widespread active participation in governance and the pace of human development. It concludes that participation is vital because it can empower all people in Ukraine to contribute, each in their own ways, to the most efficient use of Ukraine’s resources and adoption of the policies benefiting all in the struggle for accelerated human development.



**Anatoliy Kinakh**  
**Prime-Minister of Ukraine**

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Based on this conclusion and on a careful evaluation of the problems that today limit the effectiveness of participation in Ukrainian governance, this Report recommends major efforts to increase the transparency of information and to improve the mechanisms for participation.

Given the strong relationship seen in other countries between good governance and good human development, I have every reason to believe that the implementation of these measures, together with sustaining and deepening the measures that put Ukraine back on the path of economic growth, all people in Ukraine can look forward to a much brighter future.



**Douglas Gardner**  
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Opinions expressed in this publication are that of the authors and do not necessarily coincide with that of the Government of Ukraine or UNDP.

## ABBREVIATIONS

AR	Autonomous Republic
AUEL	All-Ukrainian Ecological League
CEC	Coordination and Expert Center of Ukrainian Businesspeople
CSO	Civil Society Organization
EBRD	European Bank of Reconstruction and Development
EU	European Union
FSU	Former Soviet Union
GDI	Gender Development Index
GDP	Gross Domestic Product
GEM	Gender Empowerment Measure
GOU	Government of Ukraine
GVA	Gross Value Added
HDI	Human Development Index
HII	Human Impoverishment Index
HIV/AIDS	Human Immunodeficiency Virus/ Acquired ImmunoDeficiency Syndrome
ILO	International Labor Organization
ICT	Information and Communications Technologies
IMF	International Monetary Fund
KIIS	Kyiv International Institute of Sociology
MP	Member of Parliament
MDG	Millennium Development Goals
NGO	Non-Governmental Organization
NHDR	National Human Development Report
PPP	Purchasing Power Parity
SME	Small and Medium Enterprises
STD	Sexually Transmitted Disease
SSC	State Statistics Committee
TACIS	Technical Assistance to the Commonwealth of Independent States
UAH	Ukrainian Hryvnia
UN	United Nations
UNDP	United Nations Development Program
US	United States
USAID	United States Agency for International Development
USD	United States Dollar

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Front Cover: Participants of the Model United Nations  
(MUN) vote on Youth Participation in Governance (UNDP).

Back Cover: Although Bohdanchyk Baras has only recently  
celebrated his fifth birthday in October, he is already a first  
grade student (Ukrinform).

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## BASIC FACTS ABOUT UKRAINE — 2000

<b>Land area</b> (thousands sq. km)	603.7
<b>Population</b>	
Estimated population (in millions), at year end	49.0
Urban (%)	68.0
Female (%)	53.6
Population growth (in thousands)	-419
Natural growth rate (%)	-0.70
Population density (persons per sq. km)	81.2
Age distribution, 1999 (%)	
Under 16	19.4
Working age	57.2
Above working age	23.4
<b>Health</b>	
Average life expectancy at birth (years)	67.9
Male	62.4
Female	73.6
Under-five children mortality rate (per 1,000 live births)	16
Number of physicians, per 10,000 inhabitants	46
<b>Economy</b>	
GDP per capita (current USD)*	653
GDP per capita (PPP, USD)*	3429
GNI per capita, Atlas method (current USD)*	700
Real GDP growth (%)	5.8
Nominal GDP (billion UAH)	173
Consolidated government deficit (% of GDP)	-0.7
Exports (% of GDP)	62.8
Imports (% of GDP)	55.2
Total external public debt service (% of GNFS exports)*	18.1
Annual inflation (year to year, end 2000)	25.8
Budget expenditures (% of GDP)	27.3
Social protection	3.4
Education	4.1
Health	2.8
Defense	1.3
Unemployment (in thousands)	
ILO methodology	2708
Registered	1155
Unemployment rate, (%)	
ILO methodology	11.7
Registered	4.2
<b>Ethnic distribution (% , estimated)</b>	
Ukrainians	73
Russians	22
Others	5
<b>Distribution of employment by sector (%)</b>	
Agriculture	21.8
Industry	19.9
Services	58.3
<b>Human Development Index rank/ Total number of countries</b>	
HDI, 1999	80/162

Source: State Statistics Committee of Ukraine

\* World Bank

# INTRODUCTION

## MODERN HISTORY

The last decade of the 20th Century has brought both hardships and opportunities to the Ukrainian people. Carrying out a triple transition — from a Soviet republic to an independent nation, from a command to a market economy, and from a controlled to a democratic society — proved far more difficult than expected. Ukrainian enterprises faced particularly great difficulties competing in the new environment.

Before independence, Ukraine's enterprises focused mainly on providing goods to the Soviet military-industrial complex. When this market collapsed, they suddenly needed to switch to exporting consumer and other products to the highly competitive European and global markets. During the same period, energy prices increased dramatically, posing a greater challenge for energy-dependent Ukrainian goods in competing. Ukrainian farms and factories also found it difficult to compete domestically with the imported goods that were flooding the local market. Ukraine's combination of low energy efficiency, low consumer product quality, and limited experience in exporting to world markets brought financial ruin for many producers.

The enterprises, which were still largely owned by the State or by state-based "cooperatives," turned to the Government for support. To avoid laying off tens of thousands of workers, the State poured in massive subsidies. Consequently, the country faced high inflation in the early years of independence, and more recently a growing debt burden. When the economic and budgetary costs of subsidies became unacceptably high, layoffs took place anyway.

As the impact of falling production and collapsing sales rippled through the economy, the average Ukrainian family saw their household incomes drop by about 60 percent<sup>1</sup> —

a decline of extraordinary proportions by international standards. Independence brought new freedoms of personal choice, but these were counter-balanced by new restrictions resulting from the loss of income and services previously provided by the State. Criminal activity nearly doubled with the breakdown of state controls and traditional institutions. Life expectancy fell and death rates increased, reflecting the deteriorating health conditions and the growing stress of joblessness. Birth rates dropped during the same period. The human stress during the first 10 years of independence is reflected in the overall decline in Ukraine's population from 51.7 million to 49.0 million between 1990 and 2000, one of the sharpest rates of decline in the world. In short, rather than preventing unemployment, the policies that Government pursued actually reduced the standard of living for the majority of Ukrainians.

Although the Government had halted most explicit subsidies by the mid-1990s, the cost of earlier subsidies, combined with continued pressures on Government to spend beyond its means, created a burden of debt that could no longer be sustained. Ukraine's debt crisis of 1998 was finally triggered by events in Russia, but other countries in the region with better economic policies and thus less debt avoided the forced rescheduling and major devaluation that Ukraine experienced at this time.

The problems that followed independence such as the breakup of trading relations in the Soviet Union and the dramatic increase in energy prices in the early 1990s clearly lay beyond Government's control. However, most of the other countries of the former Soviet Union faced similar problems, but generally managed to recover more quickly. The intensity of the decline in Ukraine was clearly related to the attempts of Government in the early years to avoid unemployment by subsidizing loss-making enterprises. When resources are

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<sup>1</sup> According to official statistics, based on market exchange rates and inflation adjusted market price GDP.

taken from the efficient and given to the inefficient enterprises and the ultimate draining of the banking sector, as seen in Ukraine, economic decline is almost inevitable.

### RECENT DEVELOPMENTS

The debt crisis of 1998 came as a shock to Ukraine, but led to policy changes that provided the basis for the current economic renaissance. The Government is now running an almost-balanced budget. Stimulated by a competitive exchange rate and investments in production facilities, exports are increasing and international reserves are at an all-time high. Since early 2000, Ukraine has had one of the most rapid rates of GDP growth in the world and industrial output is growing even faster. Ukrainian families are at last starting to see real increases in their household incomes.

The standard of living is clearly starting to improve for some Ukrainians, but much remains to be done. The risk of reversal and future economic instability is still substantial, and Ukraine has far to go before attaining the overall income levels needed to join the European Union — or even to restore the standards of living enjoyed just ten years ago.

The improvements that Government has made in managing the budget and the exchange rate were clearly central to stabilizing the economy after 1998, and its efforts to reduce direct controls over production through privatization and deregulation made it possible for producers to respond to the opportunities provided by improved macroeconomic policies.

In short, Government policies clearly played a very important role both in the severity of Ukraine's impoverishment during its early years of independence — and in the country's remarkable turnaround after the crisis of 1998. But what lies ahead?

### CHALLENGES FOR THE FUTURE OF HUMAN DEVELOPMENT IN UKRAINE

As Ukraine moves forward into the 21st Century, government policies will continue to play a central role not only in

the pace of Ukraine's economic recovery — but more importantly, in the *quality* of that recovery as measured by its impact on overall human development. Will economic growth benefit the 25-30 percent of Ukrainians who currently live below the poverty line<sup>2</sup> — or will the benefits of growth go largely to the rich? Will economic growth create a growing middle class by lifting families out of poverty, or will income disparities continue to increase as the rich get even richer? Will the quality of education and health services improve for all people, regardless of their incomes, or will these services go mainly to the fortunate few?

Will Ukraine develop a business climate that facilitates investment, saves old jobs and creates new ones, or will a continuing shortage of private investment force Government to increase taxes on those with jobs and good businesses in order to make welfare payments to those without? Will higher standards of living be sustainable, or will continued environmental exploitation like deforestation of the Carpathian region destroy prospects for sustainable development? Will democratic processes continue to develop so that all Ukrainian's have a voice in shaping their society's future?

The quality of Ukraine's economic recovery and growth — and thus the pace and quality of human development in Ukraine — will continue to depend heavily both on the way Government works with the non-government sectors of society including civil society and business, and on the willingness and ability of the other key segments of society to participate actively with the Government. In short, successful human development depends on Ukraine's "quality of governance."

In a world where the economic and social roles of governments are typically shrinking, should a discussion of human development place so much emphasis on the role of government? The answer is

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<sup>2</sup> According to official statistics. Alternative estimates by the International Labor Organization (2000) indicate an adult poverty rate of 57% (see Annex 3 for more details on poverty lines in Ukraine).



clearly “yes” — particularly for countries like Ukraine that are making the transition from a totalitarian regime to a democratic society and from a centrally planned to a market economy. Perhaps the key difference between a traditional Soviet society and a modern democratic society is the role played by Government. During the Soviet era, the main role of government was **control** — control of ownership, investment, production, pricing, distribution, social services, political processes, the press, and the people. Today the role of government is shifting from control to **facilitation** — assisting civil society and business with the development of private business, protection of the environment, and with the economic, social, and physical development of people. The government can help people by removing itself from sectors that it unnecessarily occupies and by establishing open lines of communication with civil society and the business community.

According to the Ukrainian Constitution, the people are the ultimate source of the power that is exercised on their behalf by Government, and only through effective *participation* in governance can the people make their goals and priorities known to Government. Government needs to establish open lines of communication with society and be willing to respond to the people’s expressed priorities, resisting as necessary the bonds of tradition and vested interests. Business and civil society should become strong and equal partners with government in building a more prosperous Ukraine. A primary focus of this National Human Development Report is to identify ways in which **participation** of civil society and business in governance can be improved.

### **PARTICIPATION — THE KEY TO GOOD GOVERNANCE AND HUMAN DEVELOPMENT**

The focus on “participation” has become very popular. If participation is effective, it can have an important positive

impact on government policies and human development. But many problems can prevent effective participation. To help promote good participation in Ukraine, this Report examines the issue from three perspectives — objectives, organizations, and rules of the game.

#### **OBJECTIVES: WHAT ARE THE KEY GOALS OF PARTICIPATION AND GOOD GOVERNANCE?**

The ultimate objective of governance should be to enhance human development. Government should raise the quality of life for all people living in Ukraine by enabling them to live in freedom from want and freedom from fear, and by enabling them to enjoy the widest possible range of personal choices in terms of work, consumption, and overall style of life. This means, for example, improving incomes, education, health, environmental quality and democracy. As seen from the discussion above, improvements in all of these areas depend heavily on the quality of government policies and programs in Ukraine, and on the way the Government interacts with people from business and civil society.

Experience from Ukraine and around the world demonstrates two main reasons why the quality of governance can be greatly improved through participation: First, participation of civil society and business helps government understand the needs and wants of people and business. Second, participation helps tap into the vast intellectual and physical potential of people in the rest of society so that they can contribute to economic and social development. As this Report highlights, however, participation in governance is most effective when the rest of society is economically, socially, and politically empowered to serve as an equal partner with government.

#### **ORGANIZATIONS: WHO WILL PARTICIPATE?**

Participation is ultimately based on the interactions of individual people. However, in a country as large, complex, and democratic as Ukraine, isolated work by even the most



talented individuals is rarely sufficient to change public policy. People must join together in organizations to be effective. The key organizations that shape governance and that can help accelerate the pace of human development in Ukraine include government, civil society and business.

### **Government**

When we talk about “government,” it is all too easy to think of “government” as a single, monolithic entity. In reality, however, Government in Ukraine is highly complex — so complex, in fact, that assuring adequate participation of all relevant actors from inside government in the decision-making process can be as difficult as assuring adequate participation in policy making of those outside of government. Good communication needs to be developed among the national, regional and local levels of government; among the executive, legislative and judicial branches within each level of government; and among the branches of executive power dealing with education, health, industry, agriculture, public finance and other key sectors.

### **Civil Society**

To effectively engage civil society in discussions on public policies, Government needs to use as many channels of communication as possible. Of these, the most important are non-governmental organizations, the press, political parties, labor unions, and the academic/professional community. These groups can play a vital role in communicating to Government the human development needs and priorities of civil society and in working as equal partners with government to solve a wide range of problems.

### **Business**

The business community is part of Ukrainian civil society, but given its important commercial role in production, business is treated separately in this Report. The key organizations of the business community are the chambers such as those for commerce, industry, and agriculture;

the professional organizations such as those for accountants, consultants, and engineers; and the advisory boards and commissions (often established by Government) such as the one for foreign investment in Ukraine.

Today Ukraine already has a relatively strong governmental structure, especially at the central level. However, largely as a heritage of the decades of Soviet rule during which the non-governmental sectors of society were excluded from playing a meaningful role in governance, the Government of Ukraine lacks the strong partners in civil society and business that it needs to help with accelerating the process of human development. Empowering the civil and business sectors is therefore vital. They need to become equal partners with government in leading — and bearing responsibility for — the process of economic and social development. To become a prosperous industrialized nation, Ukraine needs to tap into the full potential of the entire nation — including not only government, but business and civil society as well.

### **RULES OF THE GAME:**

#### **WHAT PRINCIPLES SHOULD GUIDE THE PARTICIPANTS IN PUBLIC POLICY DIALOGUE?**

International experience has shown that effective public policy dialogue requires all participants to follow the same rules of the game. The key characteristics of a successful system of public participation — most of which are already mandated by the Constitution of Ukraine — include:

- *transparency* — virtually all discussions of public policies should be transparent and available for review by anyone who would like to participate actively or passively in the dialogue;
- *accountability* — all participants in the policy dialogue, and all responsible for implementing public policies, should be held accountable for their actions;
- *equity* — although absolute equality is a utopian dream (as proved by the collapse of communism), the alter-

native extreme — a complete lack of equity — is equally naive and unsustainable. Equity requires a delicate and dynamic balance between those two extremes, and it should be based on equal opportunities for all members of society regardless of gender, age, disability, religion, or ethnic background;

- *human rights* — all Ukrainians should enjoy freedom from want and fear, as well as the freedoms of democracy and self-determination;
- *sustainability* — all policies should leave the nation's physical environment in equal or better condition for future generations. Although Ukraine's Constitution covers most of these issues, the country's actual performance by such criteria is debatable. Progress has been made in many areas, but important objectives remain to be attained.

## STRUCTURE OF THE REPORT

**Chapter 1 — The First Decade of Democracy.** This chapter evaluates the key trends in human development since 1990 as measured by the Human Development Index and examines some of the more detailed indicators of human welfare and prosperity that lie behind the aggregate HDI number. This factual review provides a clear picture of the challenges that the Government of Ukraine faces in developing policies to improve the quality of life for the Ukrainian people.

**Chapter 2 — Governance and Human Development: Measuring the Quality of Governance in Ukraine.** This chapter examines the reasons that successful countries throughout the world have found strong linkages between human development, participation, and good governance. This global experience shows that, if Ukraine wants to attain high levels of human development as measured by the standard measures of economic, physical, intellectual

and social well-being, good governance built on participation is needed to tap into the intellectual and physical energies of all people in Ukraine.

**Chapter 3 — Prosperity through Participation in Ukraine.** Against the background of world experience, this chapter examines the current state of governance in Ukraine from the perspective of each of the key pillars of the nation's development — government, business, and civil society.

**Chapter 4 — Participation: A View from the Grass Roots.** Following this general review of governance and participation in Ukraine, Chapter 4 focuses on the quality of governance and participation from a grass-roots sectoral perspective in areas included directly or indirectly in the Human Development Index such as education, pensions, social safety net, environmental protection, and gender equality.

**Chapter 5 — Powerful Partnerships: Building Governance through Participation.** This Report does not prescribe specific policies that government should take to resolve specific economic and social problems. Instead, it presents recommendations for *participatory processes* that could be used to engage all parts of government, civil society, and the business community as equal partners in discussing the nation's policy options for the future. Implementing the recommendations developed in this chapter regarding mechanisms that can help create an open participatory process of governance based on empowered partners would help assure that the best possible options for Ukraine are identified — and that their implementation is supported by all key sectors of society. A fully participatory decision-making process may be slower at first than the closed-door, top-down approach that once prevailed in Ukraine, but a participatory process will prove to be beneficial in the end because policy choices will be well-considered, enjoy a broad national consensus, and stand the test of time.

### BACKGROUND

Ukraine's first decade of democracy brought important new opportunities and freedoms for the average Ukrainian — but it also brought a dramatic decrease in per capita incomes. This indicator dropped by over 60 percent between 1990 and 1998, an almost unprecedented decline in such a short period. However, the average Ukrainian is considerably better off today than indicated by this traditional measure. The education, social services, housing, production facilities and infrastructure inherited from the past all help explain the difference between official per capita income and the true level of human development in Ukraine.

Although substantial adjustments are made in official statistics to reflect the shadow economy, they still appear to understate significantly output from this source and from own production for household consumption, both of which have been important “shock-absorbers” during the transition period. On the other hand, groups such as single parent families with many children and the elderly who live alone are far worse off than indicated by average per capita income. Hence this simplistic concept is clearly not an adequate measure of human development.

Because the United Nations Development Program focuses on human development, it has developed an indicator that captures more than just its monetary dimension. The “Human Development Index” (HDI) that UNDP has developed more adequately reflects the richness and complexity of the human condition. At the same time, it is simple enough to allow computation and comparison across countries.

The HDI includes income as one of its three components, recognizing that this

indicates not only the financial resources available to people, but also the general level of a country's development and thus of its ability to provide social services to its people. However, to reflect more directly the actual delivery of such services, the HDI also includes indicators of the quality of a nation's health and education services two of the most critical components of good human development. The quality of a country's health services is reflected in its life expectancy, and the quality of its education services in adult literacy rates.

### THE HUMAN DEVELOPMENT INDEX FOR UKRAINE

Based on its performance in the fields of per capita GDP, life expectancy, and literacy, the human development index for Ukraine, like all other countries, is calculated as the simple average of its performance in each of these fields compared to the performance of countries around the world in the same fields.<sup>1</sup> The results are shown in Table 1.1, which contains several important messages:

- Average production and GDP levels declined dramatically because of the sharp economic decline between 1990 and 2000 in Ukraine.
- This economic decline was associated with a very substantial decline in life expectancy.
- The high levels of school enrollment and adult literacy that developed during the Soviet era prevented Ukraine's HDI from dropping at the same rate as per capita GDP.

<sup>1</sup> For further details on the methodology used to calculate the Human Development Index (HDI) and Gender Development Index (GDI), see Annex 1.

**Table 1.1 Falling incomes drove HDI down sharply in the past decade**

<b>HDI for Ukraine</b>									
	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
Life expectancy at birth (years)	69.1	68.4	67.8	66.9	67.1	67.1	67.4	68.1	67.9
Adult literacy (%)	98.5	98.5	98.6	98.6	98.7	98.7	98.7	98.7	98.8
Combined gross enrollment (%)	73.7	72.5	72.4	72.7	73.4	74.1	74.9	75.8	77.3
Real GDP per capita (PPP, USD)*	5,921	5,192	4,097	3,734	3,406	3,295	3,194	3,213	3,429
HDI	0.773	0.760	0.744	0.734	0.731	0.730	0.731	0.736	0.740

Source: State Statistics Committee

\* World Development Indicators 2000 CD-ROM, World Bank

**Table 1.2 Ukraine suffered more than most countries during past decade**

<b>Ukraine's HDI position in the world (% of countries ranking below Ukraine)</b>									
	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	
Life expectancy at birth (years)	49	49	45	40		40	39	44	
Adult literacy (%)	83	84	83	80		80	80	81	
Combined gross enrollment (%)	67	68	65	66		62	66	64	
Real GDP per capita (PPP, USD)*	66	62	51	46	42	42	40	38	
HDI	60	62	53	51		52	51	51	

Source: Global Human Development Reports; no HDR was done with 1996 data

\* World Development Indicators 2000 CD-ROM, World Bank

These key points are reinforced by Table 1.2, which shows the severity of the decline in Ukraine's HDI compared to other countries during this period.<sup>2</sup>

The distribution of natural resources, fixed assets, institutions, and human development efforts from previous years that currently help support the living standards for the people of Ukraine are not equally distributed around the country. As a result HDI levels vary in Ukraine from oblast (province) to oblast (Map 1.1). Poltava has the highest overall HDI rating of any oblast in Ukraine even though Zaporizhia has a higher per capita GDP than Poltava; two other oblasts have higher rankings for education; and nine oblasts have somewhat higher life expectancies. Overall, however, the Poltava oblast seems to offer the best mix in terms of total human development. People there enjoy reasonably good life expectancy (68.7 years compared to a maximum 70.6 years in Lviv), good education (a gross enrollment ratio of 74% compared to 84% in Kharkiv), and good per capita GDP on a PPP basis (USD 4,200 compared to USD 4,500 in Zaporizhia).<sup>3</sup>

<sup>2</sup> Ukraine's HDI index and global rankings would be significantly higher if it were possible to measure adequately the incomes earned in the shadow economy, which is estimated to account for fully half of total real economic activity in the country. Part but not all of this shadow income is reflected in official statistics.

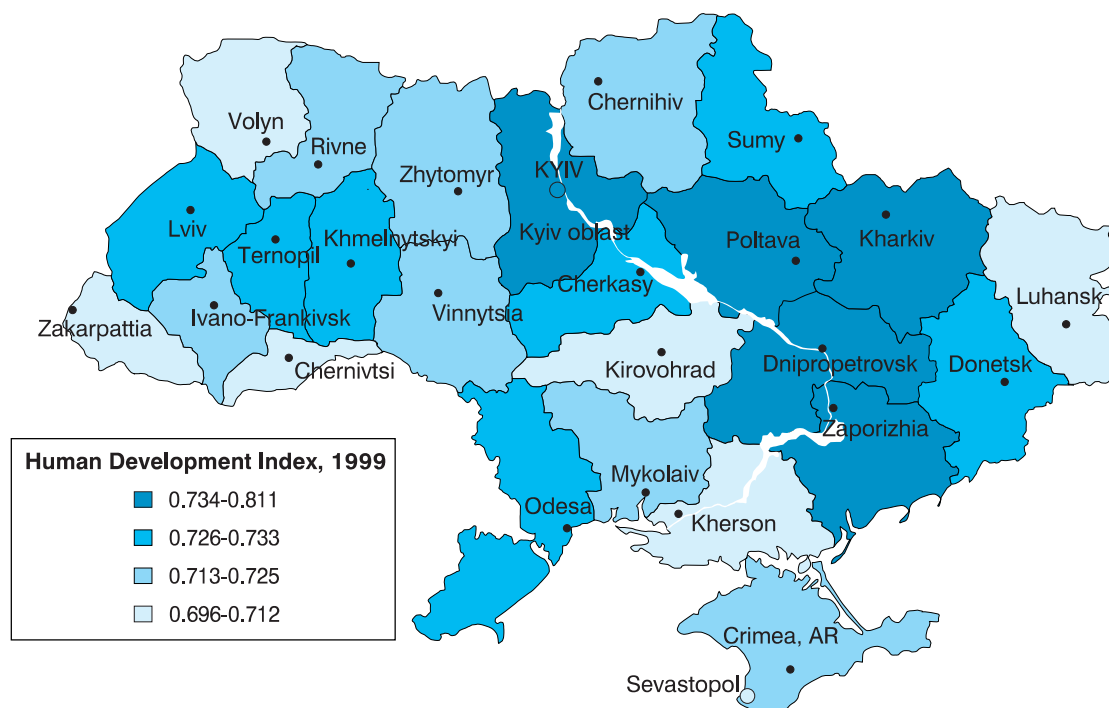
The highest overall HDI rating goes, of course, to the City of Kyiv with a per capita PPP of USD 6,100. Kyiv City also has the highest life expectancy in the country (70.9 years) and the highest gross enrollment ratio (97%). Such concentrations of production and general prosperity in capital cities are in fact common around the world. The challenge is to help other *oblasts* (provinces) develop so that the divergence can be narrowed.

Of the three key components of the HDI for Ukraine, GDP per person varies most significantly between provinces. Zaporizhia, the most wealthy province, has per capita GDP that is 2.6 times higher than this in Zakarpattia, the poorest region. (Map 1.2).

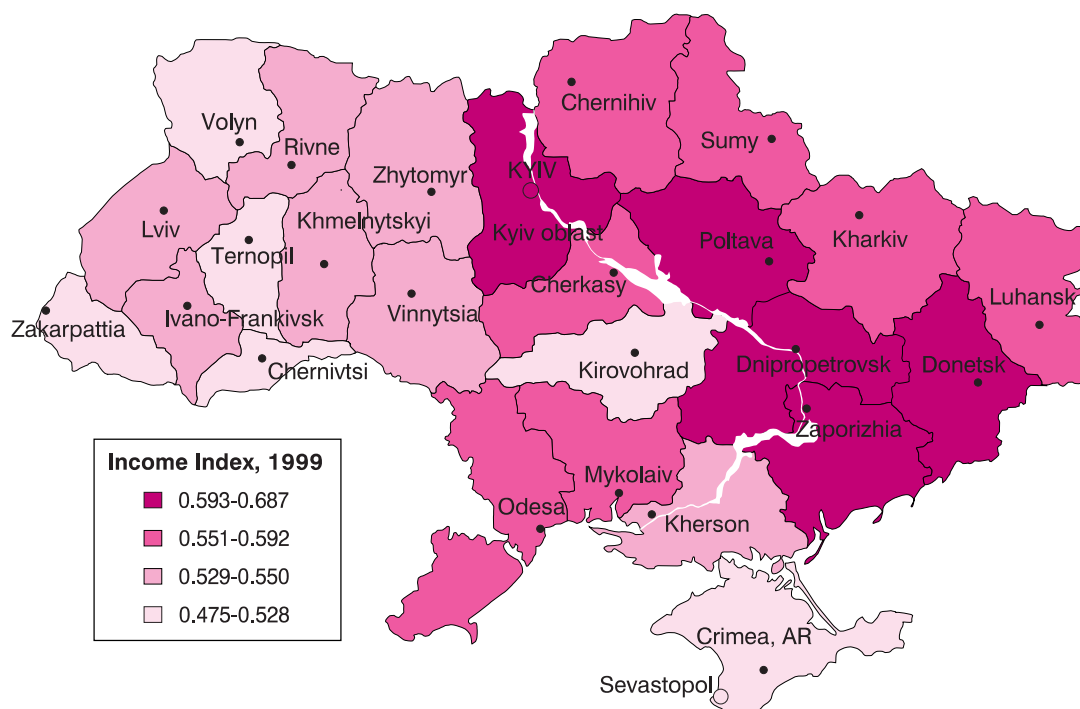
Production and income should not be confused with quality of life. Although they are often highly correlated — and were more highly correlated in 1999 than in 1997, it is important to note that, while Donetsk takes 4th place for production, its overall HDI falls to 8th place because of its low rankings by life expectancy (20th) and education (19th). This reflects the high levels of pollution in the Donetsk region, the relative shortage of good social services, and the highly skewed distribution of GDP per capita, a result of the high concentration of large-scale

<sup>3</sup> See Annex 2 for further details.

**Map 1.1 The level of human development varies widely within Ukraine**



**Map 1.2 Differences in GDP per person is the most important disparity among Ukrainian oblasts**



metallurgical and mining enterprises there. In fact, 15 of the oblasts in Ukraine have a smaller share of people living in poverty than Donetsk does, despite the high level of production per capita in Donetsk.<sup>4</sup>

<sup>4</sup> Based on data from World Bank (2000).

On the other hand, some of the more rural areas of Ukraine have very good rankings in terms of life expectancy that boost their overall HDI values despite relatively low levels of production. For example, Lviv oblast ranks 18th in terms of per capita production, but 1st in terms of life



expectancy and 4th in terms of education, giving an overall HDI ranking of 6th place. Despite its much lower income ranking, Lviv actually has a smaller percentage of people living in poverty than Donetsk — and a higher HDI.

Another example of the importance of income distribution is Luhansk. This oblast lies midway between the richest and poorest oblasts in terms of per capita GDP, but has the worst performance of all oblasts in terms of the share of the population who are “very poor” (people living with less than 60% of the median income, or about UAH 108 per month in 1999). Conversely, Zakarpattia is at the very bottom among oblasts in terms of per capita GDP, but the share of people there in 1999 who are “very poor” (6.4%) is the best among all regions and bettered only by the City of Kyiv (3.6%).

Absolute levels of income are very important, but the manner in which it is distributed is also important in terms of assuring that all people have at least the basic necessities of life. Social programs such as housing subsidies can affect the distribution of income at the margin, but given the very limited resources available for such programs, the most important determinant of income distribution is the nature and distribution of jobs. In Donetsk, for example, unemployment is high due to the decline of most of the traditional industries in the region, and those who do have jobs tend to work for minimum wages in large enterprises. On the other hand, the people of Zakarpattia tend to be involved in smaller-scale enterprises and in subsistence-type agriculture. This pattern of employment does not make people rich, but it keeps most of them out of absolute poverty. In fact, self-employment and production for household consumption is important throughout Ukraine, playing an important role in survival strategies even in more prosperous areas. For example, many families in cities, even those with professional jobs, maintain a garden plot (often associated with the family *dacha* (rural

cottage) where they grow potatoes and many of their other basic foodstuffs.

Although average per capita GDPs diverge sharply across Ukraine, the maximum divergence in education indexes between oblasts is only 8 percent, with Kharkiv at the top and Luhansk at the bottom. The strong and long-standing tradition of educational equity has assured almost universal literacy and relatively high enrollment rates throughout Ukraine. Of all the indicators, the level of education ranks close to income levels as having the highest correlation with overall ranking according to the HDI. This relationship has two-way causality. The higher levels of income make it possible for children to stay in school longer before going to work and for communities to provide a higher quality education to those who are in school. Conversely, higher enrollment ratios and traditions of quality education create a more skilled work force that is able to help raise overall HDI indicators.

Although per capita incomes are no guarantee of a good overall quality of life, they accounted in 1999 for about 75 percent of overall HDI rank position and contribute both to families’ ability to obtain vital nutrition, health and education, and to the state’s ability to collect the taxes needed to support good social programs. Special economic development and income support efforts are needed to help the people of the Carpathian Region, the region of Ukraine with the lowest per capita GDP. Other areas needing special attention include Ternopil and Volyn.

#### OTHER DEVELOPMENT INDEXES

**Gender indexes.** In some countries, the biases against women in terms of their economic, social and political opportunities seriously degrade the overall status of human development. To help focus attention on this problem, UNDP developed a Gender Development Index (GDI). This measure adjusts the Human Development Index downwards depending on the degree of disparities between the status of men and of

women. Ukraine scores well by this index, reflecting a long tradition of equality in the work place that is greater than in many other countries. In fact, in 1997, Ukraine's GDI is essentially equal to its HDI, indicating a reasonably high level of gender equality, and in 1998 its relative ranking among other countries was virtually identical by both measures. Nevertheless, further progress in the area of gender equality is needed in Ukraine. UNDP's Gender Empowerment Measure (GEM) for 1998 put Ukraine in the bottom 25 percent of the world's countries (see section on gender below).

### **MILLENNIUM DEVELOPMENT GOALS**

The United Nations has carried out an intensive global dialogue in recent years to heighten world interest in removing the key barriers to human development. To stimulate worldwide thinking on these issues, the UN system has held a series of global conferences and special meetings of the General Assembly including, for example, the World Summit for Social Development (March 1995, Copenhagen), the Fourth World Conference on Women (September 1995, Beijing), the World Summit for Social Development and Beyond (June 2000, Geneva), and the Millennium Summit (September 2000, New York). In September 2000, the development goals and targets that have come out of such meetings were consolidated into the UN *Millennium Development Goals (MDGs)*. These comprehensive goals, which provide specific targets in all critical areas of human development, cover income poverty, food security and nutrition, health and mortality, reproductive health, housing and basic household amenities and facilities, education, gender equality/women's empowerment, and environment.

Providing the same absolute target for all countries would have created completely unrealistic goals for some countries and goals that presented no challenge to others. Consequently, the goals are generally ex-

pressed in terms of progress with respect to the country's current position. These goals for Ukraine are presented in Figure 1.1. For each goal, the top bar shows Ukraine's current status, and the bottom one represents its goal. In future years, another point will be added to each graph showing how Ukraine is moving from its baseline position towards full attainment of each goal, and thus marking its progress. Ukraine's current situation and challenges for the future in each of these areas are discussed in the remaining sections of this chapter.

### **DEMOGRAPHIC TRENDS** **POPULATION**

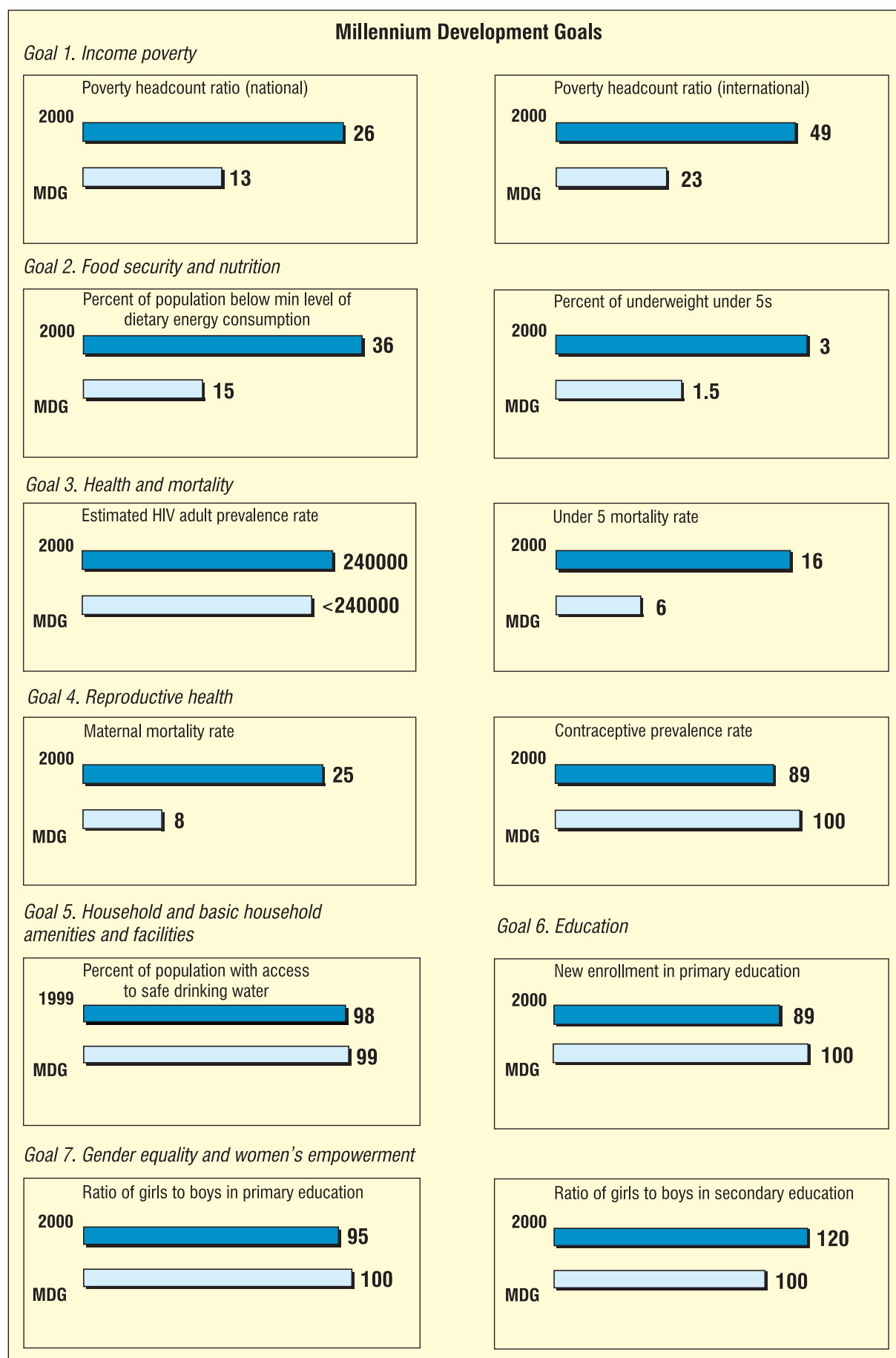
One of the clearest indications of the degree of stress that Ukraine has suffered in the past decade is the sharp decline in population since independence. Considerable uncertainties exist today about the size of the Ukrainian population. Although the figure may well be revised once the forthcoming census is completed, it appears that Ukraine currently has about 49 million people, making it the fifth largest country in Europe. If this number is correct, the total population has declined by over 2 million people since 1990. Some have suggested such emergency measures as heavily subsidized housing loans for young families and birth bonuses to reverse the decline. However, the decline should be seen not as a crisis but as a natural and self-limiting development driven by exceptional circumstances. The main factors are migration, the post-independence economic collapse, and historical factors such as the Second World War. These factors are no longer a driving force. Consequently, the population of Ukraine will almost certainly resume growth. Emergency measures are not needed and could well have adverse effects on population growth.

#### **Migration**

Ukraine was one of the leading Soviet republics in terms of level of income levels, scientific and technical accomplishments,



**Figure 1.1 Assessing Ukraine's progress towards attaining its goals for the new millennium**



and overall quality of life. Many people from other republics came to live and work in Ukraine during this period. After independence, however, life for these emigrants became more difficult — a pattern seen throughout the FSU. Travel to see relatives and enjoy leisure time in other republics became more difficult with the establishment of national customs borders, reduced transport services, increased prices, and falling personal incomes. Efforts to establish Ukrainian as the state official language in place of Russian made some emigrants feel less comfortable. In other cases, people who had been ordered to take jobs in Ukraine by the Soviet government chose to return to their homelands as soon as the barriers were removed. Some people emigrated to the West — the removal of the “iron curtain” in relations with the West during *perestroika* opened tremendous opportunities for emigration to other countries, where the Ukrainians could re-unite with their families or search for better living conditions. As a result, an estimated 2 million people emigrated from Ukraine between 1990 and 2000.

This outward flow was partially offset, however, by immigration to Ukraine. Because of their talents in fields such as science, engineering, and construction, many Ukrainians were working in other FSU republics but chose to return home when Ukraine became independent. Ukrainians serving in the Soviet military forces also returned to Ukraine (a flow partially offset by non-Ukrainian military personnel returning to their own republics). Many previously displaced persons returned to Ukraine. Most importantly, an estimated 250,000 Crimean Tartars who had been forcibly moved from Ukraine by Stalin chose to return to their homeland in Ukraine when offered the opportunity. Resettlement of these people has been a major challenge,

<sup>5</sup> Through its *Crimea Integration and Development Programme*, UNDP has been working hard to help Ukraine accomplish this important humanitarian task.

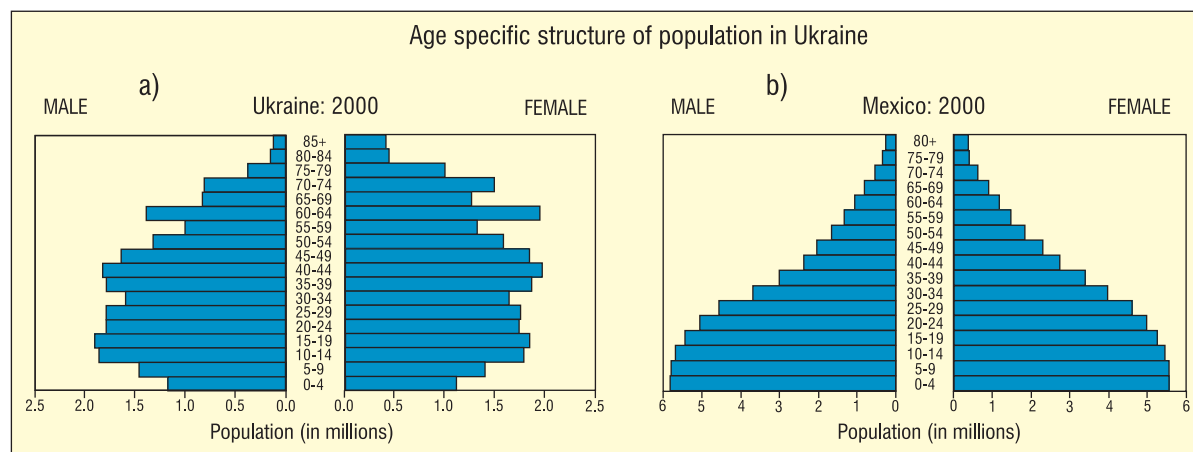
particularly for Crimea, the region most directly affected.<sup>5</sup> Other members of the Ukrainian diaspora have returned from countries in the West where they or their parents had earlier sought shelter and opportunity. In total, an estimated 1.7 million people have come to live permanently in Ukraine since 1992, resulting in a net outflow of about 300,000 people. Net outward migration thus explains about 15 percent of the total population decline over the period.

### **Rising death rates and falling birth rates**

The greatest tragedy of Ukraine’s economic decline since 1990 has been the impact on Ukrainian families. The economic and psychological burden of transition dramatically increased the level of stress in Ukrainian families and contributed to the increase in alcohol abuse, suicides, domestic violence and other domestic problems. Within five years after independence, for example, the life expectancy of the average Ukrainian male fell by over four years, a decline almost unheard of outside of times of armed conflict. Women suffered as well during the same period, losing about two years of average life expectancy. These problems were compounded by the dramatic reduction in health care services as the government struggled to adjust its expenditures to a rapidly shrinking economy and falling tax revenues. With all of these problems, the death rate increased from 12 to 15 per thousand population within the first five years of independence.<sup>6</sup> This factor alone reduced the population by about 700,000 people, a

<sup>6</sup> It should be noted that the death rate per thousand inhabitants is somewhat overstated because of the dramatic decline in the birth rate, and thus a substantial upward shift of the average age of the population. As a result, the share of people most likely to die (e.g. those who are more than 60 years old), has risen from 18 to 21 percent of the total population. Put simply, the number of people dying is being divided by an ever-smaller number of people, thus raising the death rate per thousand of total population. The increase in age-specific death rates has actually been less dramatic.

**Figure 1.2 The missing parents**



Source: U.S. Census Bureau, International Data Base.

figure equal to about 30 percent of the total population decline over the period.<sup>7</sup>

The dire economic conditions prevailing in Ukraine throughout most of its first decade of independence also reduced the birth rate. Many young couples, faced with limited earnings and responsibilities to support parents who lost their savings through hyperinflation and had only meager pensions, knew it would be hard to provide a decent life for their children and decided to postpone having children until economic times improved. As a result, the birth rate dropped from 13 to 8 per thousand. The declining birth rates over the period reduced the population by about 1.8 million people, a figure equal to well over 80 percent of the total decline in population since 1990.

### Historical events

The Second World War also helps explain the falling birthrate and thus the population decline between 1990 and 2000 in Ukraine. Instead of having the overall shape of a Christmas tree like more “typical” population pyramids from countries like Mexico (see Figure 1.2b), Ukraine’s pyramid looks more like a Lombardi poplar tree —

it is cylindrical rather than conical.<sup>8</sup> This reflects a fairly even distribution of population across age groups. More significantly, the pyramid is squeezed in at the bottom, reflecting the dramatic decline in births in the past 10 years as noted above.

Perhaps the most striking feature of the Ukrainian population “tree” is the very short branches at strategic points — for people 25-35 years of age, and for people between 50 and 60 years of age. The relative shortage of people who are 25-35 years old means a shortage of parents — of people in the normal child-bearing range. This unusual feature of the age structure of the Ukrainian population (which is also seen in other Eastern European countries) is important in understanding the dramatic decline in the overall birth-rate since 1990. Depending on assumptions, as much as 50-80 percent of the population decline since 1990 in Ukraine could be explained by the population structure shown in Figure 1.2a.

The shortage of couples of child-bearing age is directly related to the relative shortage of people now about 55 years old. About 30 years ago, these people were also of child-bearing age, and this helps explain the shortage today of parents of child-bearing age — and thus of babies. The shortage of people about 55 years old today is in turn linked to the World War II period, a time

<sup>7</sup> The estimates given here of the impact of rising death rates and falling birth rates are not additive because each is done on an “all other things being equal” basis, assuming continuation of the rates prevailing in 1990. These individual factors help explain the total change in birth and death rates, but the sum of the separately estimated impacts of changes in birth and death rates exceeds the actual change in population because interactions between these and other factors such as migration are not included.

<sup>8</sup> Mexico is chosen as a comparator rather than using another country in the Europe and Central Asia region because the latter countries generally suffered, in varying degrees, the same problem as Ukraine because of World War II.

roughly 30 years earlier when their parents were having children — a time when there was a massive loss of life and absence from home in Ukraine of men at war.<sup>9</sup>

In sum, the rather dramatic decline in the number of people in Ukraine since 1990 is not just a simple problem like a shortage of housing for young families as some have suggested. Pro-natalist policies such as providing subsidized housing loans for young families are not likely to have much impact on the total population of Ukraine in the near future. Indeed, such policies could have a very negative impact on the government budget, and if the resulting deficits were financed through expansionary budgetary and monetary policies, this could destabilize the economy and delay the economic recovery needed to encourage people to have more children. The end result could be the exact opposite of what was intended.

### POPULATION STRUCTURE

**Age:** The average age of Ukrainians has risen from 35 to 37 since independence. Because of the historical factors just noted, especially the very low birth rate in recent years, about 15 percent of Ukrainians are now over 65, one of the highest ratios among middle income countries. Similarly, the dependency ratio — the people outside of the normal 15-64 working age range compared to the population of working age — is 1.0. The global average ratio is 0.6 for middle income countries and 0.5 for high income countries. Instead of having 1.7 — 2.0 workers who can help support people who are too young or too old to work, Ukraine has only one worker.

With such a large elderly population, Ukraine faces special challenges. First, each person's already low average salary must support more people. Consequently, more people fall below the poverty line. Second,

as people get older, they require more health care, and that sector is already facing major financial problems (see below). Third, Ukraine has a high ratio of pensioners to working population not only because of its aging population, but also because its legal pension age is 5-10 years lower than in Western countries. These factors create exceptional pressures on the pension system. Generating enough money to pay the pensions creates heavy burdens on workers, the government, and businesses. As the overall tax burden rises, driven by the need for more revenues to finance the pension system, businesses are less able to invest, improve labor productivity, and create new jobs.

Pension reforms are already under discussion. Although raising the pension age to a level more consistent with world standards and Ukraine's financial capacities appears to be politically difficult at present, consideration is being given to changing the entire financial basis of the pension system. Ukraine expects to gradually move from the current "pay-as-you-go" system, which forces today's workers to pay the pensions of today's retirees, to a fully-funded system where current workers can save for their own future retirement. This would greatly improve the sustainability and adequacy of the pension system. Given the major impacts that such reforms will have on the lives of individual people, on governmental budgets, and on economic growth, active participation of all sectors of society is important in designing the reforms.

**Gender:** The share of women in the total population — about 54 percent — has remained virtually unchanged since independence. Although male life expectancy has dropped sharply, female life expectancy has also declined, and their slightly larger share in total population has muted the effect of the somewhat higher male mortality rate.

**Cultural and ethnic:** Ukraine's cultural makeup is relatively complex. Russian and Ukrainian are understood by most people.

<sup>9</sup> The gap in the population tree centered on those now about 65 years old — a gap about 10 years too early to be explained by the shortage of births during World War II, was probably caused in large part by the mass famine and starvation forced upon Ukraine by Stalin about 10 years before the height of the Second World War.

Official government communications are in Ukrainian. People in the western areas tend to prefer Ukrainian, but Russian is still spoken by about half the families in Ukraine and is dominant in eastern Ukraine. In terms of declared ethnicity, 73 percent of people are Ukrainian and only 22 percent are Russian. Substantial Tartar and Romany populations live in Ukraine. Religion is dominated by the Orthodox Church (including Russian, Ukrainian, and Greek branches), but substantial Jewish and Muslim groups are also found. For the most part, ethnic relations in Ukraine have been handled wisely. Despite the nation's ethnic diversity, tensions have been minimal. In fact, the government's handling of relations with the Autonomous Republic of Crimea, which is dominated by ethnic Russians and Tartars, is considered by many as a model.

### ECONOMIC PROGRESS

#### UKRAINE'S GREAT DEPRESSION, 1990-1998

As noted above, the sharp decline since independence in Ukraine's Human Development Index was driven largely by economic collapse. Compared to the Great Depression of the 1930s in the United States, the economic drop in Ukraine was twice as deep and lasted three times as long before bottoming out and starting to recover. The depression in Ukraine also lasted much longer than in the most rapidly transforming

countries of the FSU such as Estonia (Figure 1.3).

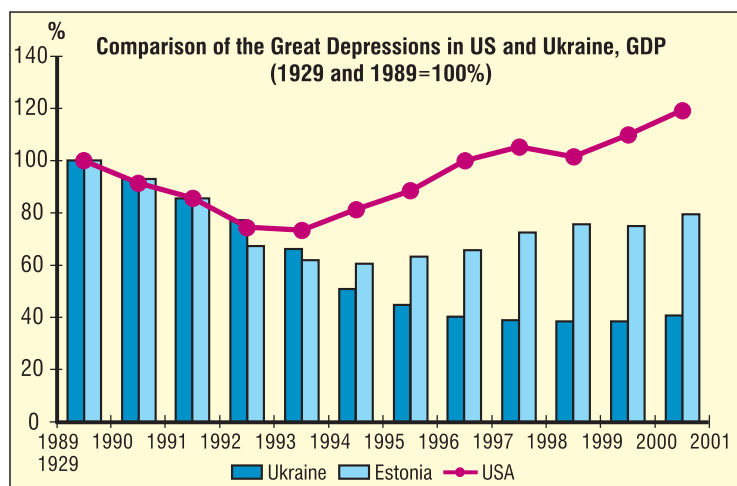
The main causes of Ukraine's extraordinary economic collapse were two fold. First, Ukraine lost its traditional markets within the former Soviet Union. The virtual disappearance of the market for military goods that followed the collapse of the Soviet empire was a particularly hard blow for Ukraine because military production had been such an important focus of Ukrainian industry. Sectors like industrial raw materials, transport equipment, and consumer products were also hard hit because Ukraine's ability to export was sharply curtailed by (a) the lack of demand from other FSU republics who were suffering from their own economic declines, (b) the breakdown in payments mechanisms between republics with the collapse of the Soviet ruble, (c) increasing tendency of the other republics to produce goods themselves or to import them from more competitive global sources, (d) Ukraine's inability to compete within the FSU in certain products where it did not have a comparative advantage, and (e) Ukraine's inability to shift its exports to western markets because of their low quality and design standards and inefficient production.

The second principal cause of Ukraine's post-independence economic problems was energy prices. These increased by 10-20 times when Russia, hard-pressed for cash, began selling its gas and oil at world prices. Like all FSU republics, Ukraine had become

heavily dependent on cheap energy in all aspects of its economy — including factories, farms, housing, and public buildings — so the high cost of energy combined with drastically lower demand for its products drove the economy into depression.

A major share of Ukrainian manufacturing and agricultural enterprises began generating losses soon after independence. The Government, fearing the social

**Figure 1.3 Ukraine's Great Depression**





and political consequences of closing companies and putting tens of thousands of workers on the street, subsidized the continued operation of these facilities. However, rather than fostering economic recovery and sustainable human development, these subsidies soon created even worse economic conditions for people.

At first, subsidies were paid directly from the budget, and this led to budget deficits that, as a percentage of GDP, were vastly larger than the highest levels deemed sustainable by even the richest European countries. As the budgetary cost became unsustainable, the Government began forcing the domestic banking system to lend money to loss-making agricultural and industrial enterprises. This policy crippled the banking system and deprived profitable enterprises of the resources needed for expansion. The aftershocks of this policy are still felt today — the most visible example being the bankruptcy, closure and restructuring of Bank “Ukraina”, the former state agricultural bank which was used heavily by the government to subsidize loss-making farms.

Forced lending to enterprises was financed in large measure through monetary expansion, and by 1992-93, inflation soared to over 10,000 percent per year. Together with attempts to artificially stabilize the exchange rate, which led to an overvalued exchange rate, this destroyed economic recovery prospects. Confidence in both the domestic currency and the banking system was destroyed, thereby discouraging investment in productive activities and making Ukrainian products even less competitive in both domestic and foreign markets.

Not surprisingly, with so many enterprises generating losses, the government found it hard to collect the taxes it needed, so it increased tax pressures on the remaining profitable enterprises. This reduced their ability to invest, grow and create new jobs — and encouraged thousands of enterprises to hide in the shadows away from the tax collectors. Today an estimated 50 percent of

all economic activity takes place in the shadow economy, undermining the rule of law in Ukraine and placing pressure on enterprises that are profitable to join others in the shadow economy to remain competitive.

Largely as the result of trying to prop up failing enterprises, the government continued during the mid-1990s to live beyond its means, spending more each year than it earned through tax revenues. Unable to depend primarily on monetary expansion because of the resulting inflation, it began to borrow heavily both from domestic and foreign sources. By 1997, the government deficit equaled all new credit creation in the banks — and in 1998, the deficit was about 60% larger. As a result, capital became so scarce and expensive that businesses were discouraged from investing. Enterprise modernization and job creation stagnated.

The government also borrowed heavily from abroad, going from almost no foreign debt at the time of independence to about USD 12 billion by 1998. By then, the Government was in a debt trap, borrowing not only to pay its expenditures but also to service debts that had been incurred to cover earlier deficits. It faced prospects of having to spend 100 percent of its revenues on debt service alone by the end of 1998.

Not surprisingly, when economic troubles developed in Russia in late 1998, Ukraine quickly fell into a debt crisis. It was forced to reschedule its debts with both domestic and foreign creditors, and the exchange rate devalued from UAH 1.9/USD to UAH 5.2/USD between the end of 1997 and the end of 1999.

### **UKRAINIAN RENAISSANCE: 1999-2001**

The 1998 crisis forced the Government to make difficult changes in economic policies, of which the most critical were bringing the budget deficit under control and establishing a competitive exchange rate. But these changes provided a solid foundation for the rapid economic progress in the coming years.

By streamlining its organizational structure, cutting back on non-productive expenditures, restructuring its debt, and continuing efforts to broaden the tax base by bringing activities and enterprises out of the shadow economy and into the formal sector, the Government moved from a deficit of almost 7 percent of GDP in 1997 to a small surplus by the end of 2000. By reordering its expenditure priorities, the government was also able to eliminate all debts to pensioners, increase pension payments, and pay off almost all of its wage arrears.

The impact of these reforms has been dramatic. After 10 years of decline, the economy grew by almost 6 percent in 2000 — one of the fastest rates in the world — and industrial output soared by nearly 18 percent. The newly competitive exchange rate had a dramatic impact on trade, profitability, and tax revenues. Exports grew by 26 percent in 2000, while imports grew by only 15 percent. Improved, competitively priced Ukrainian products began driving imported goods out of the domestic market.

Particularly notable was surging availability of high-quality Ukrainian food and other household products. With exports outstripping imports, and lower interest payments on restructured foreign debt, the current account balance moved from a deficit of about USD 1.3 billion in 1998 to a surplus of USD 1.5 billion in 2000. This surplus, together with reduced net outflows on capital, allowed the National Bank almost to double gross international reserves compared to 1998.

Higher enterprise profitability, driven by expanding sales on export and domestic markets, allowed government to collect sharply higher budget revenues in 2000 (UAH 48.4 billion vs. UAH 28.9 billion in 1998). At the same time, the burden of taxes on the economy was reduced from 28.2 to 27.7 percent. Higher profitability also generated a surge in gross investment. After stagnating in 1999, investment surged by over 12 percent in 2000 and by nearly 15 percent in early 2001.

The people of Ukraine now see the benefits of these tough reforms. Past surveys of public opinion have shown that most people felt that the economic situation was going to become even worse in the following year. By September of 2001, however, the mood had shifted, and a clear majority of people believed that the economy would be even better in 2002 than in 2001.

## **LABOR AND EMPLOYMENT**

The officially registered work force in Ukraine totaled about 22.5 million people by the end of 2000, a significant decline from 25.4 million at the time of independence. Part of this decline reflects Ukraine's shrinking population since independence. Some people have simply given up trying to find work because of the difficult economic conditions in Ukraine. Also, many workers have moved from the formal to the informal sector. Some remain registered with their previous employers, but others have dropped off the employment registry entirely. An estimated 50 percent of economic activity is now in the shadow. Since many of the shadow enterprises are relatively small and labor intensive, the share of people involved at least partly in the shadow economy is probably even larger than 50 percent.

Registered unemployment increased from close to zero at independence to 4.2 percent in 2000 according to official data. Unemployment rate measured by the Labor Force Surveys (ILO methodology) is about 12 percent. Other experts use even higher numbers. Whatever the true figure may be regarding those who would like to work but cannot find employment, unemployment in Ukraine is too high. It reduces opportunities for decent standards of living and for human development.

## **SECTORAL DISTRIBUTION**

The sectoral distribution of employment in Ukraine changed dramatically over the first decade of independence. When the Soviet Union broke up, the service sector was accounting for about 30 percent of

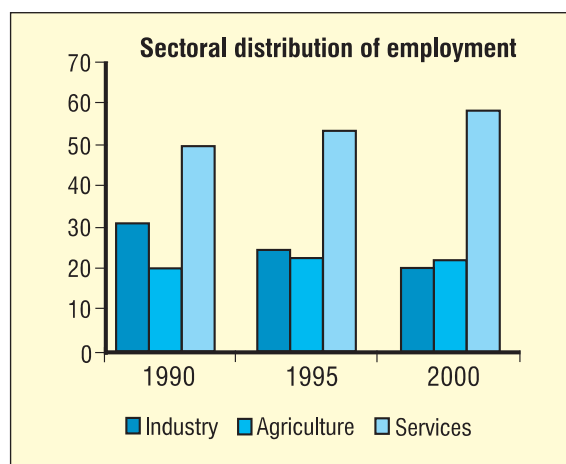


GDP. Since then, the sector has grown dramatically and now exceeds 50 percent of the total. Employment in services has also gone up, but by a smaller percentage, reflecting the strong increases in productivity in this sector, which was very underdeveloped during Soviet times. Conversely, as seen in Figure 1.4, the share of workers engaged in industry has fallen notably over the same period. Ukraine still has a much higher share of the total population dependent on agriculture than other agriculturally rich but more economically developed countries. For example, less than 2% of US workers are engaged directly in agriculture. Ukraine can therefore expect further sectoral shifts as the productivity of agricultural workers increases, although the direction and the magnitude of these shifts are still not clear. In the short run, however, the number of people involved in agriculture will probably not decrease significantly because many people, lacking sustainable employment in industry and services, become self-employed in agriculture.

#### REGIONAL AND GENDER DISTRIBUTION

The regional distribution of labor by sector shows the concentration of heavy mining and industrial activity in eastern Ukraine. As with agriculture, this region

**Figure 1.4 Ukraine's workers are becoming more service oriented**



Source: State Statistics Committee

will go through major changes during Ukraine's transition from "rust belt" type industries with their heavy environmental costs to cleaner and more efficient types of production, much of which is likely to be in services and high value-added industrial production. Given the strong tradition of women's engagement in the labor force in Ukraine and other countries of the region, women's participation rates are already higher than in many Western countries. In fact, women have traditionally made up more than half of the total labor force in Ukraine. However, questions about gender equality in opportunity exist (see the gender section below).

#### POVERTY TRENDS

Although most people in Ukraine have suffered greatly from 10 years of economic decline, those who have fallen below the poverty line — or who were already there despite the Soviet-era social safety nets — are of greatest concern for this report. But just what is "the poverty line"? This topic is hotly debated, and there will never be a single correct answer because definition of the poverty line depends on what is to be measured. As can be seen in Table 1.3, estimates of the number of people living in poverty in Ukraine vary significantly depending on the concept used.

The regional distribution of poverty by these measures correlates closely with per capita GDP distribution shown above in the discussion of Ukraine's HDI (see Maps 1.1 and 1.2 above, and Map 1.3 here).

The poverty shown in Map 1.3 is based on "headcount analysis" — on counting the number of people living below the poverty line, which was UAH 134.3 per month in 1999. Such indicators say little, however, about the *severity* of poverty for those who fall below the poverty line. For example, cash incomes before independence may have been modest, but they were distributed fairly equally. As a result, when the national average income dropped after independence because of the sudden decline in total economic activity, a substantial

**Table 1.3 Poverty depends on your perspective**

**Ukraine: Population living in poverty, 1999**

	Poverty line, UAH per month	Poverty headcount, % of population	
		SSC	WB**
Very poor (60% of median equivalent expenditures), 12 months	100.1	14.2	
Very poor (60% of median equivalent expenditures), 9 months	107.5		15.7
Official poverty line, expenditure based	118.3	37.0*	21.6
\$1/ day	125.6	45.2*	
Poor (75% of median equivalent expenditures), 12 months	126.0	27.8	
Poor (75% of median equivalent expenditures), 9 months	134.3		30.2
Cost of minimum consumption basket	134.9		30.5

SSC = State Statistics Committee

WB = World Bank

\* Different methodology is used for those two numbers; see Annex 3 for more details

\*\* WB report is based on survey data for the first three quarters of 1999

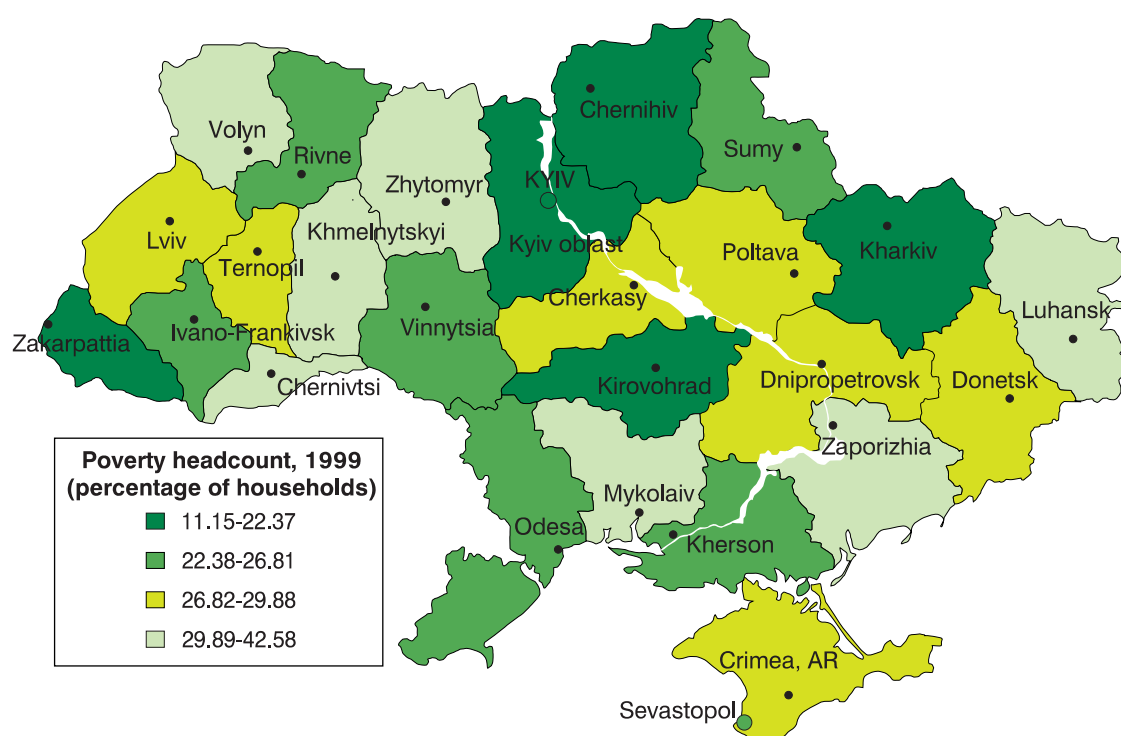
share of the total population moved rather quickly below the poverty line. However, this was relatively “shallow” poverty — most of the people were just below the poverty line, and a small increase in average incomes could have brought them back above the poverty line.

Poverty in Ukraine, however has “deepened” in the intervening years. The people who were least able to adjust to the new market environment and who lacked access to an appropriate safety net fell deeply

into poverty. The average shortfall between the expenditures of the poor and the poverty line has increased significantly since independence. This shortfall, commonly referred to as the “poverty gap” now stands at 23 percent of the poverty line.

Another useful view of income distribution is obtained by comparing the share of total income received by the rich to the share received by the poor. In Ukraine, the top 20% got 41% of the income while the bottom 20% got only

**Map 1.3 Poverty headcount in Ukraine, 1999**



8.6%, a ratio of 4.8 : 1. By way of comparison, the ratio is 4.7 to 1.0 in Germany and 5.3 to 1.0 in Poland. This analysis shows that, despite post-Soviet developments, Ukraine still has a remarkably equitable distribution of income.

The most serious problem in Ukraine today is not income inequality but income inadequacy. The total volume of economic activity and thus of personal incomes is simply too low to provide most Ukrainians a good standard of living. The poverty problem in Ukraine cannot really be solved by redistributing poverty with tax and welfare mechanisms. While social safety nets will always be important, the poverty problem can ultimately be resolved only through pro-poor economic growth which assures that the benefits of economic growth are distributed equally, thus providing more income for all.

As sociological surveys indicate, economic growth has led to some positive changes in people's financial situations. Data in Table 1.4 testify to the fact of certain stabilization in the financial condition of households in the last three years. There is the decrease in the number of the poor families and some increase in proportion of better off categories.

Significant measures must be taken to assure that the additional income is distributed so that the poor get a large enough share of the growth to lift them out of poverty. Pro-poor economic policies that

encourage employment by avoiding biases in favor of excessively capital intensive approaches are critical to attaining this goal. With a rapidly growing economy and fundamentally sound socio-economic policies, the government will have a strong revenue base and can implement social safety net programs that are large enough and focused enough to provide the help needed by the truly poor.

## FOOD SECURITY AND NUTRITION

Among the Millennium Summit Development Goals, Ukraine should score well on the food security and nutrition targets. The nation has abundant agricultural resources — rich black “chornozem” soil, a temperate climate, and adequate rain. However, Ukraine's failure to implement meaningful reforms in a timely manner has taken a serious toll on the agricultural sector. Commercial agricultural production declined dramatically between 1990 and 1999. This reduced the volume of wheat and other products available for export — and thus the incomes of those working on large collective farms. Production on household plots was stable and even increased in some areas. In fact, one of the keys to the survival of the Ukrainian people in the past 10 years is the strong tradition, even among families living in cities, of maintaining rural gardens (dacha plots) to grow potatoes and other basic foodstuffs. However, those without

**Table 1.4 Households' financial condition, 1995-2001 (% of respondents)<sup>10</sup>**

Statement that best correspond to the financial condition of a household:	1995	1996	1997	1998	1999	2000	2001	
							May	October
We do not have enough money even for food	49.3	52.8	46.3	47.9	40.9	45.0	34.7	25.0
We have enough money for food, but it is hard to buy clothing or footwear	45.3	40.6	44.2	42.3	47.6	41.5	46.9	48.2
We have enough money for food, clothing and savings, but it is not enough to buy a TV or a refrigerator	4.0	5.1	6.7	5.8	8.5	10.1	13.5	19.3
We can buy some expensive goods (a TV or a refrigerator), but we can not afford anything we want	0.9	0.8	1.9	1.9	1.9	2.4	4.6	6.7
Difficult to say; I don't know	0.3	0.7	0.9	2.1	1.2	1.0	0.2	0.7

<sup>10</sup> KIIS Surveys in 1995-2001.

access to such plots, or who lacked the physical ability to cultivate them, suffered severely.

As a result, hunger is now common despite the country's abundant agricultural resources. The average intake per person of calories and proteins dropped by about 30 percent between 1990 and 1998. By 2000, an estimated one third or more of the people in Ukraine could not obtain enough food to meet their basic caloric needs. Although parents commonly suffer to assure adequate food for their children, about 15 percent of the children under five in Ukraine are undernourished in terms of height for age — they have been stunted by malnourishment over an extended period of time.

Ukraine could easily provide more than enough food for all of its citizens and still have a large surplus for export. To attain this, radical agricultural, economic, and social reforms are needed. The old collective farm system in Ukraine is being abolished and replaced by private farms and collectives — and this has contributed significantly to the sector's growth since 2000. However many crucial problems still need to be solved including land titling, normalization and decontrol of input/output markets (including export markets), access to credit for working capital and fixed asset investments, and most of all, normalization of land markets. These measures will increase the productivity of the sector as a pre-condition of broader

social protection programs, such as expanding school feeding programs, subsidized or free breakfasts and lunches for poor students. The cost of such programs is negligible, but their impact on basic food security will be significant, both for the children receiving food and for their families, who will have more money available for food and other expenses.

## HEALTH AND MORTALITY

### MORBIDITY/MORTALITY INDICATORS

Ten years of economic decline have taken a heavy toll on the health of Ukrainian people. As seen in the HDI discussion above, life expectancy has dropped sharply, especially for men. Tuberculosis has become a major and growing health problem in Ukraine, with incidence rates rising from 32 per 100,000 in 1990 to 56 per 100,000 today.

The other main health problems are cardiovascular and respiratory diseases, alcohol-related problems, and accidents. To a large extent these illnesses are associated with lifestyle choices related to diet, smoking, drinking, and exercise. Despite various anti-alcohol campaigns, alcohol consumption in Ukraine remains high compared to international averages. The spread of HIV/AIDS in recent years has been dramatic, and Ukraine now has one of the highest infection rates in all of Europe (see Reproductive Health and HIV/AIDS section below).

Although the Chornobyl catastrophe took place several years before independence, the full impact of its effects on people's health is still felt. The most serious consequences of Chornobyl today in terms of human development are the increased incidence of respiratory illnesses, childhood thyroid cancer, and very importantly, psychological problems.

The patterns of illness in Ukraine also reflect in part the focus of the Ukrainian health care system, which has traditionally been on curative rather than preventative care. Until recent years, little focus was given to public health and to educating society about lifestyle choices regarding diet,



**Elderly Woman**

Source: UNDP



smoking, and exercise. Anti-drinking campaigns go back to the Soviet days but still have not had the desired effect; alcohol consumption remains high by international standards, especially if the widespread consumption of homemade alcoholic beverages is added to the official statistics.

The healthcare system of Ukraine is still dominated by public sector institutions. This pattern, which was established during the Soviet era, has been preserved in part by the Ukrainian Constitution which provides that state-owned medical facilities shall provide medical services without charge to the public. Private medical facilities and healthcare insurance are allowed, but have developed slowly. The share of the public budget going to healthcare is about the same now as it was at the time of independence, but the sharp decline in GDP has meant a drop by over 60 percent in the real level of expenditures. Of Ukraine's total expenditures on healthcare services, less than 25 percent comes from the private sector.<sup>11</sup> Although total expenditures as a share of GDP are about the same as for the average middle income country, the share contributed by the private sector, which is less than 25 percent of the total, is far below the average level of 45 percent in other middle-income countries according to World Bank data. In absolute terms, Ukraine spends about \$180 per person per year in PPP terms compared to \$384 in the average middle income country.

One of the main reasons for Ukraine's relatively low private sector contribution to total healthcare costs is the Constitutional provision noted above. This provision puts the Government under tremendous public pressure to provide healthcare without charge and makes it hard for privately owned facilities to operate profitably. The existing law does not prohibit state-owned institutions from charging for some services (which they do, commonly on an unofficial, under-the-table basis), and it does not guarantee *unlimited* free healthcare from public healthcare institutions. Also, it explicitly allows privately owned facilities to operate and charge for their services. The

government is now working on policies that would allow introducing some degree of cost recovery for some healthcare services. Consideration is also being given to establishing a government-run health insurance system with subsidized premiums for the poor. Such a program would allow across-the-board cost recovery in both public and private institutions, thus increasing their efficiency and financial sustainability. It would also assure that the poor have access to adequate health care at an affordable cost.

The negative impact of the sharp reductions of expenditure since 1990 on the quality of healthcare has been aggravated by the system's rigid, inefficient structure, which is burdened by heavy fixed costs. Of these, the exceptionally large numbers of big, energy-inefficient hospitals and other medical facilities in the public sector are of special concern. Ukraine has 11.8 hospital beds per 1,000 population compared to an average of 4.3 per 1,000 in middle income countries. Even high income countries have an average of only 7.4 beds per thousand. With so many beds available, heating costs alone for hospital buildings can absorb up to a third of an institution's budget, leaving inadequate funds for wages, medical supplies, and modern diagnostic equipment. The high ratio of hospital beds per 1,000 people reflects a variety of factors including Ukraine's role as one of the front line states during the Cold War and the need for long hospital stays for observation because of the shortage of modern diagnostic equipment.

The efficiency of the health system and thus its ability to provide quality health care with a limited budget is also reduced by the traditionally large number of doctors and the focus on curative rather than preventative health care. Ukraine has 4.5 doctors per 1,000 population compared to

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<sup>11</sup> Private health expenditure consists of direct household (out-of-pocket) spending, charitable donations, private insurance, and direct service payments by private corporations. Public health expenditure includes recurrent and capital spending from government budgets, external borrowings and grants, and social (or compulsory) health insurance funds.

1.8 and 1.9 in middle- and high-income countries respectively. Closely related is the high degree of specialization among doctors. In Western countries, people seeking medical assistance generally go first to a generalist who can often resolve the problem, but in Ukraine, initial contacts are commonly through a specialist who in turn often refers patients to other specialists — a time-consuming and costly process. Recent efforts to develop a tradition of general practitioners and family doctors will bring important efficiencies to this part of the medical system in Ukraine (see Box 1.1).

In brief, the Ukrainian healthcare system has a large basic infrastructure, but much can be done to improve its efficiency and effectiveness, thus enhancing human development.

### REPRODUCTIVE HEALTH AND HIV/AIDS

One of the most important reproductive health problems today in Ukraine is HIV/AIDS — a problem closely related to drug use in Ukraine (contaminated needles among injecting drug users accounts for nearly three quarters of total HIV infections).

Other sexually transmitted diseases (STDs) are on the rise in Ukraine. Between 1985 and 1990, for example, the incidence of syphilis was stable at under 10 cases per 100,000 people. By 1996 it had risen to about 150 cases per 100,000. Among adolescents, the trends are equally disturbing. For example, between 1993 and 1997, the incidence of syphilis increased by almost 6 times among boys and by over 7 times among girls. The increased incidence of STDs appears to be related to problems in families associated with the post-independence economic depression and stress, to the collapse of after-school and weekend activities, and to the increasing sense of personal freedoms, including the so-called “sexual revolution.”

The maternal mortality rate, after remaining close to 30 deaths per 100,000 live births for many years, dropped suddenly to 25 in 1997 and has remained around this level since then. Although this is one tenth or less of the maternal mortality rates in low income countries, it is about five times the rate found in high income countries and remains an important healthcare issue in Ukraine. About one fourth of maternal deaths are due to abortions or complications resulting from such, underscoring the need for better access to and use of contraceptives. Increased attention to preventative as compared to curative healthcare could make a major contribution to reducing maternal mortality, for protecting the health of mothers depends on good pre-natal care as well as on appropriate delivery room procedures.

### HOUSING

The availability of decent housing is central to the quality of family life and thus to the health of society. In addition to an

#### Box 1.1 Doctors for families

Global experience shows that family doctors can provide full medical help to 70-90 percent of patients. In Ukraine, barely more than 10 percent of the doctors treating adults in urban areas are generalists, but they have to handle about 40 percent of initial patient referrals and care. In response to this situation, Danylo Halytskyi Medical University initiated a family doctor program in Lviv, which has proved to be a success in various ways. As a result of the program, family doctors came to treat 40 percent of cases that were previously treated by specialists. Patient hospitalization decreased by 3 to 4 times and home care increased by 1.5 times. And the death rate for program patients was 25 percent less than that for the Lviv region as a whole. As family doctors regularly provided vaccinations and various preventive inspections, there are now almost no cases of neglected tuberculosis and oncological diseases among patients.

adequate physical structure, good housing requires access to safe drinking water, sewerage, and electricity. In countries with relatively cold winters like Ukraine, it also requires energy-efficient heating.

Despite the economic collapse during the 1990s, Ukraine has had few problems with homelessness — a reflection of the substantial stock of housing built up prior to independence. However, Ukraine does have problems in terms of the adequacy of the

### Box 1.2 Living with HIV

Natasha

When my son Maxim was four months old, I learned that his father was HIV-positive. We used to share the same needle. I was frightened like hell and didn't want to have a test. I talked myself into having my blood tested, for my own comfort, or that's how I convinced myself...

I first had my blood tested half a year before my pregnancy in a drug treatment clinic, and they didn't find antibodies. That was then. I continued using drugs for some time afterwards, but three months before conceiving I stopped using drugs because I wanted nothing more than to become a mom. I became the happiest mother alive with a little baby boy. With my son, my caring parents and a job, I was truly living... until that day when my baby's father told me the news.

When I had my blood tested again, the doctor told me that I was HIV positive. My baby's father and I roamed around the city for three hours after that, and he did his best to cheer me up, telling me that it was not the end yet, and people may live with this for 10-15 years. I was thinking of my son. He didn't do anything wrong. I knew little about transmission of HIV from mother to baby and had no idea if he was infected.

I attended a conference and met other people like me. I realized there that I wasn't alone, and that I could have a meaningful life. Now I work for „Doctors Without Borders“ (MSF, Holland) with the „Prevention of HIV Transmission from Mother to Child“ Project. I can't explain what I feel when I see the eyes of an HIV-positive woman when she learns she can have a healthy baby. The probability of having an HIV-positive baby is only 30%, while the risk of transmission may be reduced to 5% if preventive measures are taken such as antiretroviral medications, no breast-feeding, and birth via Cesarean section.

When Maxim was 18 months old, I took him for an HIV test. My boy is healthy! Now I am peaceful and happy.

*Editor's Note:* Natasha has recently fallen in love and married. Her husband is HIV-negative.

space and the quality of the structures. The average space per person is only 20.2 square meters. This is about the same as in Poland, but considerably less than in central European countries such as Bulgaria (25), Czech Republic (25), and Hungary (30). As a result, young couples are often forced to live with their parents, putting strains on all concerned. Providing adequate housing for young families has become an important social issue in Ukraine.

The physical condition of much of the housing in Ukraine is substandard. Most people in urban areas live in multi-family dwellings, and many of the individual apartments have been privatized and

renovated. However, the legal and institutional mechanisms needed to assure proper maintenance of common areas and the building's envelope have not been developed adequately, and condominium agreements that obligate all owners to share in the buildings maintenance are often not in place. As a result, roofs often leak, risking serious structural damage to entire buildings, and common areas such as entrances and stairwells, and mechanical systems such as electrical supplies and boilers/heat exchangers are often poorly maintained.

Energy efficiency is an equally large concern. Most of the residential buildings were built during a period when Ukraine had subsidized energy supplies. Consequently, the buildings fall far short of today's standards for energy efficiency, and high energy costs have direct impact on the real incomes of people in Ukraine and their quality of life. Innovative programs to increase energy efficiency in homes and public buildings are now being launched and deserve continued support as part of the human development effort.

Communal services other than energy are also a major issue in terms of the average Ukrainian's quality of life. Of top priority for most is the quality of water. Even in large metropolitan areas, piped water is often unsafe to drink. As a result, people spend valuable time and money purchasing bottled water, going to wells to collect water, or sterilizing their own at home. Even in some of the larger cities, the physical availability as well as the quality of water can be a serious problem. In Lviv, for example, some districts only have access to water for a few hours each day, and in smaller villages, piped water may not even be available.

In essence, improving the quality of housing and housing-related services in Ukraine could make a major contribution to quality of life and human development. Accelerated work in this area, particularly the renovation of existing dwelling space to improve energy efficiency and overall quality, could also create many job oppor-



### Box 1.3 Installing gas

The Center for Public Initiatives in Zakarpattia (CPIZ) is another example of a CSO bringing together public efforts. This CSO managed to help citizens of Perechyn get gas in their village.

CPIZ started by contacting leaders of the local street committees — two construction engineers and a school director. These people helped mobilize the rest of the village community. Street committees dealt with collecting money from public and businesses and with organizing „tolocas“, or joint public works. The money was used for preparing technical documentation, buying pipes, and paying for installation. Although the citizens showed high interest in the project (UAH 30 thousand were collected in 1998 and two tolocas were organized for laying pipes under the main street and square), the resources for completing it were lacking. CPIZ then arranged a lobbying campaign with the regional government that produced an additional UAH 5,000 for the project.

As a result of this program, 600 running meters of low-pressure pipes as well as a gas pressure reduction station were installed. This allowed for 500 families obtain gas in their homes.

tunities at relatively low cost given the labor intensive nature of such work. Agreements between government, private sector, and individual people will be required for success, indicating the need for a participatory process.

## EDUCATION

Ukraine has a long history of high standards and accomplishments in education. Enrollment rates today exceed those of most middle-income countries and are comparable in some cases to those of high income countries (Table 1.4). Adult literacy is almost universal, and the share of people with advanced degrees is as high or higher than in many countries with considerably higher GDP per capita.

**Table 1.5 Ukrainians go to school**

**Ukraine: Educational enrollment rates, 1993**

Gross school enrollment	Primary	Secondary	Tertiary
Low income countries	102.6	46.8	4.7
Middle income countries	102.5	66.8	23.0
<b>Ukraine</b>	<b>86.8</b>	<b>91.2</b>	<b>40.6</b>
Poland	99.3	93.9	27.4
Slovak Republic	101.3	88.6	17.1
High income countries	103.1	105.2	56.1

Source: World Development Indicators 2000 CD-ROM, World Bank

Although the standard indicators for education in Ukraine look good, the system is under stress and urgently needs reform. Teachers and administrators are being paid neither well nor on time. Energy costs are eating up the education budgets. Schools lack the supplies, computers, Ukrainian language books, and other materials needed to support high quality education. Too many students still graduate with textbook knowledge but without the practical skills needed to compete successfully for jobs in Ukraine's rapidly changing economy and society. This creates a risk of growing resentment and unrest among this politically important segment of society.

The main challenges facing the education system in Ukraine today are (a) paying employees adequate wages on time; (b) attracting young professionals and retaining top quality experienced teaching professionals; (c) adjusting curriculums throughout the educational system to assure that graduates will have necessary life skills and the professional training needed to obtain employment in Ukraine's new market-based, globally-integrated economy; (d) providing the teaching materials and equipment (including computers and internet access) required to support a modern curriculum; (e) assuring the financial viability of the educational system (including the possibility of partial cost recovery, especially at the university level); (f) streamlining and increasing the efficiency of the institutions responsible for training and supporting teachers and school administrators; and (g) improving the physical efficiency of the educational system by increasing energy efficiency and decreasing the number of structures that must be maintained so that more resources are available to support higher quality education.

## GENDER EQUALITY AND WOMEN'S EMPOWERMENT

Ukraine generally earns high ratings in terms of gender equality. As noted in the first part of this chapter, the UNDP Gender Development Index is almost as high as



**Elderly Man by Well**

Source: CIDP

the HDI, an indication of basic gender equality. However, the country scores less well by the Gender Empowerment Measure (GEM). This reflects the more limited participa-

tion of women in senior management positions, in Parliament, and in regional legislative bodies.

Thanks to a long-standing tradition of women's involvement in the labor force, the female labor participation rate (almost 49%) is among the highest in the world and significantly exceeds averages for any group of countries. In fact, more than half of the total labor force is made up of women in Ukraine.

Ukraine's performance is quite good in terms of the UN Millennium Summit Development Goals. In primary education, the ratio of girls to boys is essentially one to one, and at the secondary level, girls exceed boys by a considerable margin.

Although the overall situation in terms of gender equality is quite good in Ukraine, improvements are still possible, as indicated by the Gender Empowerment Measure. In 1994, only 43 percent of the staff in administrative and management offices were women. This had risen to nearly 50 percent by 1997, but the share of women actually

holding managerial positions in these offices is still considerably smaller. Although there is generally equal pay for equal work, the average wage of women is about 30 percent lower than that for men, reflecting the generally lower average level of their jobs. Also, while the share of women in Parliament has doubled in the past 10 years, it is still a decidedly low 8 percent of the total.

## ENVIRONMENTAL QUALITY

Perhaps as a result of the Chornobyl catastrophe in 1986, Ukrainian environmental consciousness and concern is very high. To Ukrainians, the importance of environmental protection is next only to health, crime, poverty and food prices. Twenty-one percent of those surveyed think that the quality of environment is very bad and 39 percent consider it somewhat bad. The most commonly mentioned environmental problems were air pollution (86%), unsafe drinking water (83%), nuclear safety (83%), solid waste disposal (81%), and deforestation (81%).

In terms of the MDGs, Ukraine has already met the goal of having an environmental strategy. In fact, the country has a complex set of inter-related strategies focusing on specific components of environmental quality including water, air, land, biodiversity, coastal waters, and the like. Cutting across all these areas are strategies for "green tourism" based on maintaining and developing the high quality environments enjoyed by many parts of the

### Box 1.4 Education in detention camps

During years of transition, a lot of schools in detention camps were closed. For that time, the schools were under the jurisdiction of the State Department for Execution of Punishments. As the money for maintenance of convicts decreased while the number of convicts grew, the Department economized by closing schools.

As of September 2001, there were 19,300 convicts in 107 camps without completed secondary education, of which 9,200 were 28 and older. Of those without completed secondary education, 4 percent did not finish primary school and 23 percent had not completed basic secondary school.

The CSO called Donetsk Memorial was one of the organizations worrying about this situation. The absence of school certificates made it hard for those who had served their time to get jobs, thus impeding their reintegration into society. The CSO organized a lobbying campaign for bringing schools into the detention camps under the jurisdiction of the Ministry of Education and Science. That activity resulted in opening educational consultation centers in about 70 institutions. In 2001, 441 convicts obtained secondary school completion certificates in correctional camps and 271 juvenile convicts obtained them in reformatory camps. During 2001/2002, 5,700 convicts in 90 correctional camps and 2,500 juvenile convicts in 11 reformatory camps were studying in secondary schools.

country where natural environmental assets are complemented by manmade historical and cultural assets.

**Water.** Ukraine has two major water environments — the Dnipro River and the Black Sea. The basin of the Dnipro, one of the largest rivers in Europe, drains an area covering most of Ukraine as well as important areas within Belarus and Russia. The Black Sea, though now severely degraded by over-fishing and pollution, is still one of the richest and most biologically diverse seas in the world. Ukraine is an active member of an international group of countries around the Black Sea seeking to preserve and restore its quality. The interfaces between the rivers Dnipro and Danube and the Black Sea provide environmentally valuable wetlands that Ukraine is working with international organizations to preserve. Special attention is also being given to reversing the ecological damage done to Ukraine's water resources by ill-advised Soviet era water diversion and canalization projects. (Box 1.5).

The Dnipro and its tributaries provide water to 60 percent of Ukraine's population. Ten years ago, inadequate sewage treatment facilities, direct discharge of industrial wastes, and runoff of excessive fertilizers and untreated animal wastes from pig "factories" and similar facilities made the water undrinkable in many areas. Runoff from areas contaminated by the Chernobyl disaster also polluted the river system. Substantial progress has been made since independence towards cleaning up the river. Part of the progress has been the inadvertent result of the post-independence economic collapse, which dramatically reduced industrial discharges and runoff from fertilizers and animal waste. Additional progress has been the result of conscious efforts to control fixed point sources of pollution. But much remains to be

done before Ukraine can enjoy a river of safe water running through its heartland.

**Air.** Major contributors to the air pollution in Ukraine are emissions from energy-intensive heavy industries, power stations and motor transport. Emissions of pollutants from fixed sources have decreased by nearly 50 percent since 1990. Air quality, especially in cities, has been improved by the ban on selling leaded gasoline. Efforts to reduce emissions from district heating plants and electricity generation plants are helping, as are efforts to shift from high-sulfur coal to cleaner fuels including gas.

**Land and radiation.** Significant parts of the northern part of Ukraine's territory remain contaminated from the Chernobyl disaster; about 15 percent of Ukraine's forest land and 5 percent of its agricultural land were affected. Given the high cost, significant additional cleanup is unlikely under current economic conditions. Of higher priority is assuring that no further damage be caused by the Chernobyl facility itself. An important step in this direction was taken on 15 December 2000 when the last reactor was permanently closed. Substantial risks remain, however. The cover on the burned-out fourth unit only partially seals

**Box 1.5 Blocking the flow — barriers to restoring the Sasyk Estuary**

In the early 1970s, the Soviet government built channels connecting the Danube, Dnieper and Dniester Rivers to expand agriculture. The first step was to dam the Sasyk estuary. The project failed miserably. The water behind the dam accumulated agricultural run-off, and household and industrial waste, becoming highly saline and stagnant. Attempts to use the water for irrigation transformed 75,000 acres of rich farmland into sterile wasteland within a few years. Twenty years of contamination turned a region once known for its abundant wildlife and natural beauty into an environmental disaster. Life expectancy and fertility have fallen, the number of children with birth defects has increased, and an entire ecosystem is disappearing. Thousands of villagers have been forced to leave their homes because they can no longer use their water for irrigation or household purposes. Local residents had occasionally voiced concern about the deteriorating conditions, but it was not until two teenagers died from leukemia that the citizens took action. The deaths prompted a group of local doctors to join with community members to form Vidrozhennia in 1996. Group members began by trying to obtain the results of environmental research commissioned by local officials, but they found that data was marked „for official use only.“ Today the fight goes on as the NGO seeks to build public and government support for restoring the flow in the Sasyk estuary.

the remains of the reactor and could be seriously damaged by earthquakes, terrorist activity, or even high winds. If this happened, Chornobyl could again spread contamination across northern Ukraine and perhaps beyond. Radiation pollution is also the result of uranium mining and nuclear power generation. Over 60 million cubic meters of radioactive water is held in reservoirs in the Kirovohrad and Dnipropetrovsk mining regions, posing threats in particular to aquifers in the region.

The most important aspect of the Chornobyl disaster, however, is the human and social impact. Thousands of people have been forced to leave their homes in the exclusion zone and find work elsewhere. With the final closure of Chornobyl, thousands more will eventually have to leave the Chornobyl/Slavutych area as jobs there come to an end. Nationwide efforts to foster economic growth, job opportunities, and labor mobility should be given highest priority.

**Forests.** Ukraine has very limited forests and these are endangered. In addition to the problem of forests contaminated by Chornobyl, Ukraine faces massive deforestation, especially in the Carpathian Mountain region. This region, one of the poorest in Ukraine, is also one of the most biologically diverse. Due to a long history of poor environmental practices in the forestry sector, the region has been plagued by environmental disasters.

Unsustainable forestry practices have altered the landscape in the Carpathian Mountains so that now the upper watershed areas are not protecting the mountain slopes and basins from storms and their consequences. Fast growing trees with shallow roots were planted in place of felled hardwoods such as oak, thus reducing soil and water retention. Consequently, the region has experienced natural disasters over the last few years including landslides, mudflows and flooding. In 1998, the winds blew down thousands of shallow rooted trees and exposed large areas of unprotected topsoil. As a result, major mudslides and flooding hit the Tysa and

Latorytsia river basins, destroying over 1,000 buildings and flooding 100,000 hectares of arable land. The economic loss to the area was estimated at USD 80 million. In 2001 this sequence of events occurred again, forcing the government to carry out emergency measures.

A strong consensus exists in Ukraine regarding the importance of environmental protection. The challenge now is to convert this concern into increasingly effective measures throughout the country to reverse earlier problems.

## NATIONAL AND DEMOCRATIC DEVELOPMENTS

During the past decade, Ukraine has made massive strides towards becoming a modern European democracy. Just over ten years ago, the country was firmly in the grips of the Communist-dominated Soviet system. Officials in Kyiv essentially took orders from Moscow. Elective offices existed in the Ukrainian Socialist Soviet Republic, but the power of those elected was more fictional than factual. Though elected by the Ukrainian people, they ultimately served their Moscow masters.

Since independence, Ukraine has established functioning governments at all levels of authority and has put in place virtually all the other requisites of an independent democratic country. This is no small accomplishment for a country with no previous experience as a modern democracy and for one that has been in the throes of catastrophic economic and social problems during most of its life as an independent nation. In 2001, major advances including a new Budget Code and a Law on Local Self-Governance were implemented, assuring greater decentra-



**Employment Center Opens  
in Slavutych**

Source: Ukrinform



lization of power and responsibility to people throughout Ukraine.

During this same period, thousands of civil society organizations (CSOs) have been established for many different purposes — all with the common goal of providing individuals with an effective mechanism for the kind of collective, democratic action needed to bring about changes in society and in its system of governance. In the past year or two, CSOs have been showing a sharply increased interest in working together in coalitions for the common good rather than jealously trying to protect their own turf.

The large number of Ukrainian political parties (more than 130) demonstrates the country's low level of political consolidation. The political party system is gradually maturing, however. The requirement that parties must represent at least four percent of the total number of deputies in parliament before they can have a voice as a recognized faction has forced many disparate political interests to coalesce, reducing from dozens to eight the factions now officially represented in Parliament. The system of electing representatives from party lists as well as from majoritarian mandates has helped increase interest in forming disciplined parties within which individuals can subordinate personal ambitions to the higher goal of political consensus. Coalitions still form and break up with distressing regularity, but the situation is improving.

Substantial progress has also been made in streamlining the executive branch to improve governance. The number of ministries and agencies has been sharply reduced, and with the conversion of the Aparat of the Cabinet of Ministers into a Secretariat, line ministers are now directly responsible both for initiating proposals to be considered later by the Cabinet of Ministers and for implementing agreed policies. Cabinet meetings have become more disciplined in terms of preparation, attendance, and focus of discussions than in the early years of independence. Also,

relations among key parts of the executive branch, including with the President's Administration, seem to have improved.

Serious concerns remain about the freedom of the press and the independence of the court system. Much still needs to be done to focus the role of central government on facilitating rather than controlling the development of the private and civil sectors, as well as the work of local governments. But

#### **Box 1.6 Elections of the Parliament of Ukraine**

The Verkhovna Rada of Ukraine (national parliament — is the highest legislative branch and contains 450 seats. It is chaired by the Speaker (Chairman) and two Deputy Speakers. According to the electoral law, adopted in 1997, the parliament is elected according to a mixed electoral system where half of the Verkhovna Rada seats are allocated on a proportional basis to those parties that gain 4% of the national electoral vote. The other 225 members are elected by popular vote in singular mandate („majoritarian“) constituencies.

Ukraine is moving in the right direction in terms of democratic processes.

### **CONCLUSIONS**

By stabilizing the economy and restoring growth, Ukraine took one of the most important steps towards accelerating the pace and assuring the sustainability of human development.

The challenge ahead is to engage the broadest possible participation from civil society, business, and government in deciding what kind of country Ukraine wants to become. Many viable models exist — East Asian Tigers, South Asian Tigers, European social democracies, and North American market democracies. Each represents a different working consensus on economic and social development — but each is potentially sustainable and each can make major contributions to human development.

Regardless of the model, successful countries avoid building up excessive debts. Like individuals, they must live within their means to remain sustainable over the long term and to avoid crises that can impoverish future generations. Ukraine has already met this challenge successfully. Now it can chart its own path into the future for growth and human development.



# GOVERNANCE AND HUMAN DEVELOPMENT: MEASURING THE QUALITY OF GOVERNANCE IN UKRAINE

As seen in the previous chapter, the sharp decline in the Human Development Index (HDI) for Ukraine over the past decade was closely linked to the breakup of the former Soviet Union (FSU) and, perhaps more importantly, to the manner in which the government of Ukraine responded to these events.

The people would have been considerably better off today if governance in Ukraine had been more like that in Central Europe where countries achieved higher rates of economic and human development. Fortunately, the situation in Ukraine has now improved significantly, and since the latter part of the 1990s, better governance has played a major role in the economic and social renaissance now under way.

But what is governance, and why is good governance important to human development? How can the quality of governance and participation be measured? And why is participation so frequently mentioned as essential to good governance?

This chapter looks at these basic questions from an international perspective. The following chapter will then evaluate past and current trends in governance and participation in Ukraine in terms of global experience and in terms of the Ukrainian public's perceptions of the quality of governance.

### WHAT IS GOVERNANCE?

The basic concept of governance is simple. As the dictionary says, "governance is the manner in which power is exercised in the management of a country's economic

and social resources for development."<sup>1</sup> Governance is not the same as government. Although government is usually the greatest single source of power over resources and the lives of people, business is also a very important source of power. And when people come together in civil society organizations (CSOs) to work for change, they too become a major source of power and a part of the Governance system.

All three of these key sectors — government, business, and civil society — are the key organizations exercising power in any system of governance.

### WHAT IS GOOD GOVERNANCE?

All countries have a system of governance. All manage power in some manner. But only countries with good governance get good results. But what is "good governance?" In the view of UNDP, a governance system is good if it, "addresses the allocation and management of resources *in a way that* responds to collective problems, and is characterized by participation, transparency, accountability, rule of law, effectiveness, and equity."<sup>2</sup> Another international organization says that good governance produces "stability in broad policy directions, flexibility in responding to market signals, and discipline in sticking with measures necessary for meeting long-term objectives despite short-term difficulties."<sup>3</sup> In short, good governance is

<sup>1</sup> Webster's New Universal Unabridged Dictionary, London Dorset & Baber 1979.

<sup>2</sup> UNDP op cit

<sup>3</sup> Asian Development Bank, 8/1995 p. vi

a system of exercising power in a manner that provides the conditions needed for human development — stability, security, and a good business climate that fosters investment, growth, jobs, and higher standards of living for all people living in society.

### WHY IS GOOD GOVERNANCE IMPORTANT TO HUMAN DEVELOPMENT?

Good governance is central to human development because, without it, power will almost certainly be used in ways that do not maximize overall human development. The next section will discuss the problems of measuring the quality of governance and will use empirical studies to compare systems of governance in countries around the world, but first we should see why there is such a close link between human development and governance.

In the past, development was widely believed to depend primarily on the pace of investment. People believed that, if a country invested a lot of money in farms, factories and services, it automatically would enjoy more production, better jobs, and higher family incomes. We now know that this is not necessarily true. For example, the USSR invested heavily but got little or no growth after the early 1970s (Figure 2.1).

To make matters even worse, the Soviet authorities had to reduce sharply the goods and services available to consumers in order to make these investments, and this led

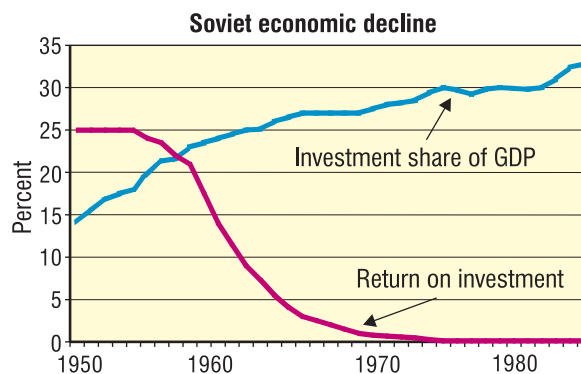
directly to the bread lines and shortages of other consumer goods that plagued the Soviet Union during its final years. Even worse, the investments that were made commonly led to environmental destruction, making development unsustainable. In brief, despite supposedly good intentions, inefficient government policies caused the living standards of the average Soviet citizen to drop sharply.

Poor results from investment were by no means unique to the USSR. Low investment productivity has been a widespread problem around the world throughout this century. For example, a study of 30 years of investment in Africa shows a statistically significant and positive correlation between investment and growth in only 20% of the countries. Of these countries, only 6% performed within the normally expected range of investment efficiency.<sup>4</sup> Even worse, nearly half of the countries showed negative growth over the period *despite substantial new investments*. Factors other than investment clearly have to be considered when trying to explain economic growth and human development. We conclude from these and other studies that low investment efficiency and slow human development are almost always associated with bad policies, and that these are usually the result of bad governance.

Why are some governments so much more successful than others in achieving good governance, high investment efficiency, and rapid human development?

*Participation based on personal empowerment is the key.* Economic growth and human development are maximized by assuring the most efficient and effective possible use of resources. Nothing should be wasted on objectives and approaches inconsistent with human development. By allowing people to participate in the decision

**Figure 2.1 Investment inefficiency and the collapse of the Soviet Union**



Source: Easterly and Fischer (1995)

<sup>4</sup> Dollar and Easterly, 1999, p. 6. It is commonly thought that the incremental capital output ratio, the traditional measure of investment efficiency, would be between 2 and 5, where a ratio of 5, for example, indicates that the rate of investment as a percentage of GDP needs to be five times as high as the expected increase in GDP. Thus, for a growth of 5%, investment would have to be 25% of GDP.

### Box 2.1 Crimean Tartars community helps itself and its neighbors

For the last nine years, the Crimea peninsula accommodated about 300 villages of previously deported Crimean Tartars. Most villages lack lighting, roads, water, first-aid posts, schools, and other basic social establishments. A powerful model was developed by Crimean Tartar communities to resolve their problems through collaboration.

For example, Village Bile 5 needed a better road to the outside world; even ambulances could not get to the village in emergencies. The mountainous villages of Ak-Mechet and Novoromanivka needed to bring chornozem (rich black soil) to their villagers' yards. At the same time, the state farm „Salhyrsk irrigation system“ faced a threat of houses on riverbanks crumbling away because the deposits of gravel that had built up in the riverbed could not be removed. Finally, the organization of private truck-owners Yardym Ltd. faced financial difficulties and needed any work that would at least cover costs.

NGO „Integration corps“ calculated that it would pay for Yardym Ltd. to take the chornozem from the road building site in Bile-5; sell it at a low price to the Ak-Mechet and Novoromanivka villagers; use a power shovel to clear gravel from the riverbed of Salhyr; and take the extracted gravel to Bile-5 to surface the roads.

One road at Bile-5 is already covered with gravel, a job that would have been far more expensive if done with state funds. Other villages joined the project, and roads in Khoshkeldy, Kamyanka, and Chukhurcha have been surfaced. The riverbed of Salhyr is being cleared, and villagers in the mountainous rural communities are improving their vegetable gardens. The project continues.

making process, good governance empowers them to help maximize the efficiency and effectiveness of the nation's production, consumption and investment activities in terms of this fundamental objective.

The Soviet system failed in large measure because it concentrated almost all important decision-making powers in the hands of a very small number of party leaders. The average person just carried out orders. In fact, under the Soviet system, entire republics were effectively excluded from participating in policy decisions and were limited primarily to carrying out orders from Moscow. In a land as vast and increasingly sophisticated as the former Soviet Union, it was physically and intellectually impossible for a small group of people to acquire and process the enormous amounts of information needed to maximize the efficiency with which that basically rich country used its human and natural resources.

One of the most important reasons that governance system of the USSR collapsed and disintegrated was its exclusion of the vast majority of its people from participating effectively. The result was bad governance and failure to sustain human development.

The Soviet empire was not alone in its lack of participation and good governance. Throughout the modern history of human-kind, the societies that have been most successful in diffusing power have enjoyed the

most rapid rates of economic and human development. Conversely, societies that have concentrated power in the hands of the few have had the slowest pace of development.<sup>5</sup> Economic growth and higher standards of living are directly correlated with the degree to which society devolves decision making to the lowest possible levels of society, thereby including as much human talent as possible in the process of nation building.

Economic and human development depends on efficient decisions regarding investment, production and consumption. The central government should not be expected to handle these decisions alone. It needs strong partners throughout all levels of government, civil society, and business. Effective empowerment requires enabling the lowest possible levels of government and broadest possible cross-section of civil society and business to take responsibility for the necessary decisions. At the same time, effective empowerment requires establishing the rule of law so that decisions by individual government agencies, people, organizations, and businesses always respect the rights of others.

Good governance allows society to identify the most important barriers to accelerated human development, agree on the best solutions to these problems, and implement them in the most efficient

<sup>5</sup> Powelson, 1994, *Centuries of Economic Progress*

manner. Without good governance, a serious risk exists that those responsible for administering resources of the state may be unaware of true needs of the people, that vested interests will be vocal in assuring that state knows what they want, and that, through ignorance or by design, resources of state will be diverted to serve the interests of the powerful rather than those of the people of Ukraine at large.

The vast majority of people in any country are highly intelligent and know what is best for themselves. This is particularly true in countries like Ukraine where people are much better educated and considerably more sophisticated than in the average low income country. As discussed in chapter 1, the long tradition of good education in Ukraine has assured that virtually all adults are literate and that most have had basic if not advanced levels of formal education. Although additional specialized education related to participatory methods in a democratic society may be needed, this can be provided at low cost — and this is exactly what is going on throughout Ukraine today as the result of efforts by government and CSOs to educate all people in Ukraine about the demands and opportunities of participating in a modern democratic society.

## MEASURING THE QUALITY OF GOVERNANCE

### CONCEPTUAL CONSTRAINTS

The concept of good governance is easy to understand — but hard to measure. The key characteristics of good governance such as empowerment and trust are largely intangible aspects of relations among people rather than physical phenomena like hospitals or schools. Because good governance is basically intangible, direct measurement is virtually impossible.

Another problem of measuring governance is the large number of variables involved. Governance is normally regarded as good if it is participatory, inclusive,



**Community Gathering in Crimea**

Source: CIDP

empowering, responsive, equitable, bound by rule of law, transparent, consistent, accountable, honest, results oriented, effective, efficient, respectful of human rights, and sustainable from economic, social and environmental perspectives. Measuring any of these is hard enough. Measuring all of them and developing an aggregate score that assigns agreed weights to each component is virtually impossible. Furthermore, even if these aspects of good government were measured only for organizations and all individual interactions were ignored, the total number of relationships that need to be evaluated would quickly reach hundreds if not thousands. Direct measurement and aggregation is clearly impossible. However, as shown below, pragmatic techniques have been developed that provide useful indicators of good governance.

### PRAGMATIC APPROXIMATIONS

The two most common approaches to assessing the quality of governance involved measuring *inputs*, and measuring *results*. Through such techniques, cross country comparisons of quality in governance have been made, and they demonstrate beyond doubt that good governance matters. You may not be able to see good government, but you can sense the difference in the results.

*Input evaluations* typically look at the number, size, or growth of indicators such as NGOs, public hearings, councils and



advisory groups, publications by public interest groups, hot lines, and web sites because these are relatively easy to quantify and aggregate. Also, while the correlation between good governance and any one of these indicators is subject to wide variations, when aggregated such indicators provide a reasonably good picture of governance quality.

*Results-based evaluations* are generally preferable to measuring inputs. Inputs may be good, but if other parts of the governance system breaks down, the results may be bad. However, if results are good, the governance system is almost certainly good. The exact reasons why the system is good may change from one country to another and will probably change over time in any given country. But in the end, the results are what count.

One of the most important results-based measures of governance is the Human Development Index (HDI) that was discussed in Chapter 1. Since the ultimate role of government is to assure a decent life for all people in a country, the HDI is particularly relevant. However, like all results-based indicators, the actual level of the HDI for any given year may be driven more by historical events than by the current quality of governance. For example, governance has improved greatly in Ukraine over the past four years. However, the Human Development Index for Ukraine today is lower than the estimated value at the beginning of the 1990s, and it is lower than the HDIs for other countries in the region. To gain a good understanding of the current quality of governance from results-based indicators like the HDI for any given country, the indicator should be examined over time. If the trend is improving, governance is relatively good — and the trend for Ukraine for the past few years is certainly positive.

Other results-based indicators that have proven useful in measuring the quality of governance within and across countries include macroeconomic performance (especially economic stability, growth, and

sustainability); foreign direct investment (FDI), integrity (anti-corruption), social conditions such as education and health performance, poverty gap and income distribution indicators, gender equality, political stability, democratic transitions, and environmental quality. The cross-country results reported below are based largely on the aggregation of data based on such indicators.

Consumer satisfaction surveys that show the degree of people's satisfaction regarding the quality of the partnership between themselves and key actors — especially government — also provide a very useful indication of the quality of governance. Such surveys in the case of Ukraine, for example, include the KIIS Survey on Governance that was done for this Human Development Report, the Democratic Initiatives Fund political surveys, the Gallup/Socis surveys of public opinion, the People's Voice Surveys of the quality of municipal service delivery, and the annual IFC Survey of business conditions in Ukraine. The results of these detailed surveys for Ukraine are reported below. But first, how does governance in Ukraine compare to governance in other countries around the world?

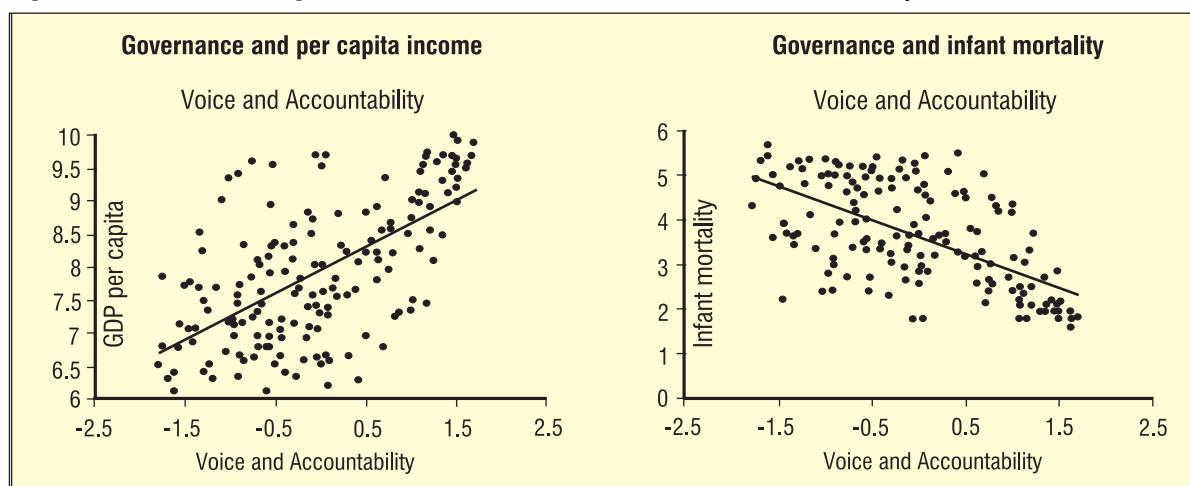
### CROSS COUNTRY COMPARISONS

The World Bank has done a major study of the impact of governance on the lives of people in 150 countries. Using a database that included more than 300 different indicators, the authors developed six summary indicators of governance quality including voice and accountability, political instability and violence, government effectiveness, regulatory burden, rule of law, and honesty (control of corruption).

A sample of the results of this work based on voice and accountability is reflected in Figures 2.2 and 2.3. These figures demonstrate the importance of this indicator of good governance both for per capita incomes and for infant mortality — two of the key components in the Human Development Index. The other five indicators of good governance show a



**Figures 2.2 and 2.3 Good governance is vital to both economic and human development**



Source: Kaufmann et al (1999)

similarly high impact on per capita incomes and infant mortality.

Each of these indicators of the quality of governance turns out to be strongly related to the quality of life in the countries surveyed. For example, an improvement in the rule of law from the low level prevalent in Russia to the “middling” level in the Czech Republic — or a reduction in corruption from the very high level prevalent in Indonesia to the lower level in Korea — would help to increase per capita incomes by 2-4 times, lead to a similar decline in infant mortality, and improve by 15-25 percentage points a country’s level of literacy.<sup>6</sup>

This study is outstanding because of the scope of its coverage in terms of the number of countries, years, and indicators included. However, other studies show similarly strong evidence that good governance is directly linked to many key aspects of human development. For example, one of the most important determinants of human development as measured by the HDI is per capita incomes, and the single most important determinant of per capita incomes is the quality of a nation’s business environment — a key factor determining the level of investment and production, the number and quality of jobs, and the household income of families. Business climate quality depends heavily

on governance quality and is, in turn, one of the most reliable indicators of good governance. Studies such as those done by the IFC and the EBRD provide striking evidence of the strong links between strong economic growth and the quality of the business climate — and this translates directly into evidence that good governance determines the pace of human, social and economic development.

### HOW DOES UKRAINE’S GOVERNANCE COMPARE INTERNATIONALLY?

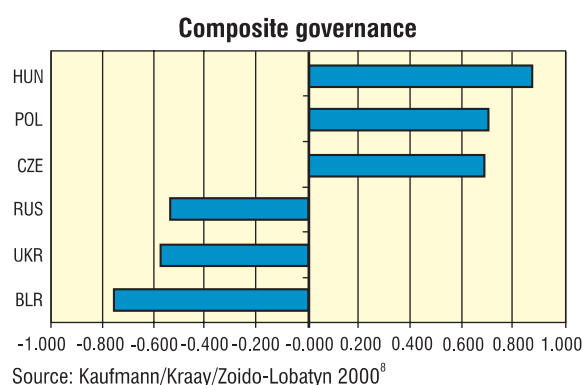
Measuring the quality of governance in a country is difficult, and measuring it in ways that allow meaningful cross-country comparisons is even harder. The most successful effort to date is almost certainly the study reflected in Figures 2.2 and 2.3 above. The data used to generate those figures was used as the basis for Figure 2.4 below, which shows a composite indicator of governance performance for Ukraine and selected comparator countries in the region.<sup>7</sup>

Experts might quibble about the exact numbers, but the overall ranking of countries by these composite scores for governance performance seems to follow very closely the general impressions held by knowledgeable people about the relative human development performance of countries like Hungary and Poland compared to that of countries like Ukraine and Belarus. The good news in this chart is that, if the quality

<sup>6</sup> Kaufmann et. al., (2000).

<sup>7</sup> Kaufmann et. al., (1999).

**Figure 2.4 How does Ukraine's governance compare to its neighbors'?**



of governance in Ukraine is improved by implementing the policies and mechanisms outlined later in this Report, the pace of human development should accelerate considerably.

Analyzing the key components of Ukraine's overall governance score reveals the areas of relative strength and weakness in the nation's current system of governance (Figure 2.5). Although only average on a scale that ranges from -2.5 to +2.5, Ukraine scores best in the areas of voice (0.0) and stability (-0.2). Concerns exist about freedom of the press, the fairness of elections, and the opportunities for participation in public policy making, but Ukraine does relatively better than many countries in terms of giving the public "voice" — a chance to participate in the governance process. Similarly, while the stability of laws is still a problem and sustained macro stability is still somewhat at risk, Ukraine has made excellent progress in these areas. With continued efforts, Ukraine should have positive scores on these indicators in the near future.

On the other hand, improvement is urgently needed in the areas of Integrity (Control of Graft) and Government Effectiveness (both -0.9). Ukraine is still widely perceived, both inside and outside of the country, as having greater problems than the majority of countries in the world in controlling graft and corruption despite the considerable progress that has been made.

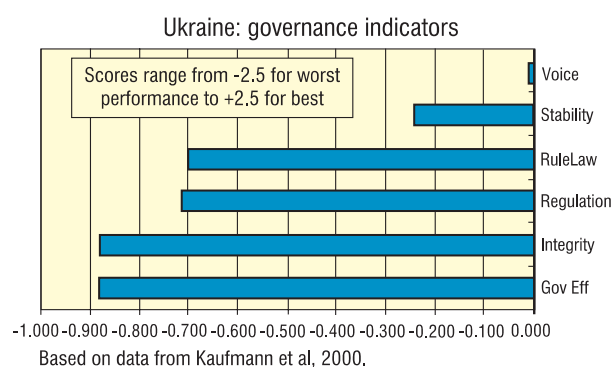
<sup>8</sup> The data are available at <http://www.worldbank.org/wbi/governance/datasets.htm>. The composite indicators presented here are simple averages of the scores for the six core indicators for the countries shown in the chart.

Other useful indicators of Ukraine's performance in areas relevant to governance and human development come from surveys focused on the business climate in general and on corruption in particular, both of which are very good indicators of a country's quality of governance. For example, Transparency International's latest *Global Corruption Report 2001* places Ukraine in 83rd position out of 91 countries in terms of problems in controlling corruption. In contrast, Poland and Bulgaria are near the midpoint of the same scale. Similarly, the survey of transition performance done each year by EBRD shows Ukraine lagging significantly behind its neighbors to the west.<sup>9</sup>

Finally, a study developed by Sigma Bleyzer for the President's Foreign Investment Advisory Council gives Ukraine a score that is at least 75 percent lower than the scores attained by the best-in-class country (usually Poland or Hungary) in the areas of financial sector development, legal environment, reduction of corruption, governmental business promotion, and business liberalization.<sup>10</sup>

Ukraine competes with all of these countries for investment and thus for the growth needed to raise standards of living for all Ukrainians. It competes not only for "foreign investment" but also for the money of Ukrainian investors. Legally or illegally, Ukrainians regularly take their

**Figure 2.5 Governance challenges for Ukraine**



<sup>9</sup> EBRD (2000). Transition Report 2000: Employment, Skills and Transition

<sup>10</sup> SigmaBleyzer (2001)

**Table 2.1 Satisfaction from visiting institutions, (% of respondents)\***

Institutions:	Social welfare department	Militia	Employment center	Municipality	NGO	Other
Yes, I was satisfied	38.1	17.1	18.4	46.8	25.4	36.6
I had to wait in a long line	22.0	5.0	15.8	1.2	3.3	7.1
Officers were not polite	4.6	10.4	1.7	11.6	3.8	5.8
There was a need to bribe	2.6	5.6	4.0	3.0	2.5	7.3
It has taken more time than it needs	21.6	16.1	19.2	9.1	33.1	11.6
My problem was not resolved	27.8	65.9	63.0	39.0	39.5	44.0
Other	2.3	1.7	-	-	-	7.3
Difficult to say, I don't know	1.4		1.1	-	-	1.3

\*The total is more than 100% as respondents could choose several answers.

Source: KIIS study „The Quality of Governance in Ukraine“

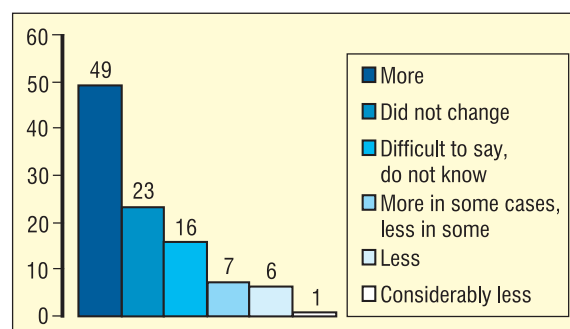
money out of the country to invest in countries with a better business climate. This leaves Ukraine without the resources required to accelerate the pace of human development. Ukraine needs to improve its competitiveness in the fight for new jobs and higher standards of living by establishing a transparent, low-corruption system of governance.

### HOW UKRAINIANS PERCEIVE THE QUALITY OF GOVERNANCE

In October-November 2001, the Kyiv International Institute of Sociology surveyed “The Quality of Governance in Ukraine” for this Report. Respondents gave the lowest ratings to government services such as highways, health care, heating and hot water supply; while the highest ratings went to communications and gas supply. The respondents observed significant deterioration in the quality of roads (60%), heating and hot water supply (52%), and health protection (63%) over the last 5 years. On the other hand, people saw improvements in telephone communications (24%) and postal services (20%) in the same period. In assessing the quality of other services provided by the state, the respondents were particularly dissatisfied with the quality of public safety. More than two thirds of the population disagreed with the statement that “The state efficiently protects me in person, my family and my property from criminal actions.”

On average, the people of Ukraine do not perceive the Government as a useful source of assistance. Within the last 12 months, about two thirds (67%) of Ukrainians did not turn to municipal, police, social welfare departments, or employment centers. Among these government institutions, the citizens of Ukraine most frequently sought help from social welfare departments (13%), employment centers (9%) and the police (8%). It is evident from *Table 2.1* that about half of visits to government institutions did not help respondents to resolve their problems. However, the percentage of visits that were not useful differs significantly by institution. People were most unhappy after visits to militia and employment centers (over 60%). The lowest rate of disappointment came from visits to social welfare departments (28%) and municipalities (39%).

Almost a half of the population of Ukraine believe that the problems of communicating with civil servants has increased over the last five years. Only 7%

**Figure 2.6 Problems in communication with civic servants in the last 5 years (%)**

Source: KIIS study „The Quality of Governance in Ukraine“

**Table 2.2. Assessment of corruption and bribing prevalence by % of respondents and rating**

	No or insignificant corruption (A,%)	Significant or extreme corruption (B,%)	Difference between corruption assessments (B,%-A,%)	Rating based on corruption index	Rating based on bribing prevalence	% of those who gave bribes*
Traffic inspection	5.8	53.1	47.2	1	2	19.0
Customs	4.9	48.6	43.7	2	4	4.7
Militia	8.4	50.2	41.8	2	4	7.2
Prosecutor's office	6.1	42.6	36.5	4	8	1.6
Tax authorities	9.4	47.1	37.7	4	4	7.2
Health institutions	20.7	38.4	17.7	6	1	48.0
Education institutions	21.2	30.3	9.0	7	2	21.1
Telephone service	45.3	9.7	-35.6	8	8	1.6
Utilities	43.7	10.8	-32.9	8	4	9.1

\* The total of fractions exceeds one hundred, as respondents could chose more than one answer alternative, N=1263

Source: KIIS study „The Quality of Governance in Ukraine“

of the population saw improvements in such relationships (*Figure 2.6*).

In evaluating transparency and openness of the system of governance, over half of all Ukrainians did not agree that preparation of the State Budget is open and transparent, that the level of professionalism is the determinant in civil service recruitment, or that the process of government decision-

making with respect to contracts and agreements is understandable. In the last twelve months, every fifth Ukrainian citizen has given bribe to facilitate resolution of some issues. According to the respondents, public utilities and telephone services are the least corrupt while tax and customs authorities, prosecutor's office and traffic inspection are the most corrupt (*Table 2.2*).

The close links between governance and human development, together with the relatively low governance scores seen in Chapter 2, indicate that Ukraine has much room for improvement in accelerating human development by bringing the quality of its governance closer to the levels of neighbors to the West and to expectations of the average Ukrainian. Improvements are needed within government, civil society, and business organizations.

### GOVERNMENT ORGANIZATIONS

As indicated in the previous chapter, “governance is the manner in which power is exercised in the management of a country’s economic and social resources for development.” In Ukraine, this power is exercised largely by the central government, and within the central government, by the executive branch. This section examines the process of governance and participation in each of these branches of government. Facilitating the participation of other branches of government and civil society in governance will depend primarily on providing mechanisms for sharing information that will make informed participation possible. Some of the mechanisms that can help to create a more participatory system of governance are discussed here. In Chapter 5, these recommendations for improved processes will be expanded and summarized following the review of Ukrainian experience in individual sectors in Chapter 4. Suggestions are also provided here regarding possible improvements in the internal efficiency and effectiveness of government, a primary concern given the scores noted above.

### CENTRAL GOVERNMENT

#### Executive branch

Power in the executive branch of the Government of Ukraine is divided between the Cabinet of Ministers and the President’s Administration. In theory, the other two branches of central government power — the legislative branch and the judicial branch — counterbalance the power of the executive branch. In practice, the executive branch exercises considerable control over the composition and operation of both the legislative and judicial branches. Control of the legislative branch is exercised primarily through the use of “administrative resources” to support the campaigns of “desirable” candidates during elections. Control of the judicial branch is exercised primarily through control of the judiciary’s budget by the Ministry of Justice. Consequently, neither operates as independently as in Western European democracies.

The structure of the Executive Branch at the time of independence reflected the high degree of centralization of power under the Soviet structure. A particularly good example of this is the Aparat of the Cabinet of Ministers, a body similar in ways to the Secretariat of the old Politburo. Until recently, the Aparat answered directly to the Prime Minister and assumed most of the policy making power normally assigned to the individual ministries in mature democracies.

The ministries themselves were structured to carry out the role of government in an economic system dominated by centralized ownership and



### Box 3.1 Bringing reforms to Ukraine's key administrative structures

UNDP's project „Support to Economic, Social and Administrative Reforms in Ukraine“ facilitates the government's economic, social and administrative reform program by providing timely and effective expertise for developing and implementing reform initiatives. Policy advice is provided to the Government on strategies for (a) Public Administration Reform in central government; (b) Regulatory Reform designed to ease the regulatory burden on enterprises; (c) Privatization and Business Development; (d) Economic and Financial Sector reform; and (e) Legal Support to Economic and Administrative Reforms. The project also builds consensus on economic, social and administrative reforms issues through activities that enhance public awareness of the impact and benefits of the proposed reforms. A sustainable institutional capacity for strategic planning and for monitoring the impact of reforms is being developed within the Cabinet of Ministers and within individual ministries.

control. “Branch ministries” existed for each of the major economic sectors and were responsible for corporate governance within the state-owned production facilities. After independence, these branch ministries remained and, in addition to managing state enterprises, lobbied the core economic ministries and the Aparat for resources on behalf of their respective sectors.

These ministries had little role in analyzing or formulating policies. As a result, the ministries felt little responsibility for assuring success of policy decisions made by Cabinet, and those policy decisions were often flawed because the system effectively dis-empowered hundreds of skilled analysts within the ministries, many of whom knew far more about the problems than was known by the limited circle of officials in the Aparat.

**Recent progress.** Substantial progress has been made since the late 1990s with implementing administrative reforms designed to improve the efficiency of the ministerial side of the Executive Branch (Box 3.1). In accordance with decrees of the President of Ukraine from December 1999, the government has:

- consolidated ministries and government agencies;
- reformed government decision making by turning the Cabinet of Ministers into a more collegial body;
- made ministers politically accountable for the activities of their sectors;
- established the position of State Secretary through the Presidential Decree of May 29, 2001;
- reformed the functions of the Aparat, now called the Secretariat of the Cabinet of Ministers;

- established Cabinet Committees to streamline decision making;
- took first steps towards changing the system of intergovernmental finance;
- prepared a strategy for implementing administrative reform in Ukraine; and
- curtailed the proliferation of regulatory acts and instruments, and undertook deregulation of many sectors of the economy.

The number of Minister-level positions has been reduced sharply by eliminating some ministries and state agencies and, more commonly, by combining units under a single ministry. For example, the current Ministry of Economy and European Integration includes the former Ministry of Economy, the Ministry of Foreign Economic Relations, the National Agency for Ukrainian Development and European Integration, and lesser state agencies.

Under the Administrative Reforms program, the Aparat was abolished and replaced by a Secretariat to the Cabinet of Ministers. The Secretariat of the Cabinet of Ministers began to incorporate a functional approach, a significant shift from the



**Building of the Cabinet of Ministers of Ukraine**

Source: Ukrinform

industrial/sectoral approach standard for the old governance model.

The primary responsibility of the Secretariat is not to make decisions, but to facilitate the flow of information between the Cabinet of Ministers and the Ministries, and to facilitate consensus on policies that will be recommended to the full Cabinet. The Ministries are now directly responsible for initiating policy recommendations and for implementing them.

The Cabinet meetings have been converted from relatively unstructured forums involving large numbers of people to smaller, well-structured meetings attended primarily by the policy-making ministers themselves. The process of governance has also benefited from training that has improved the quality of the policy documents being presented for consideration by the Cabinet (Boxes 3.2 and 3.3).

Governance has also been strengthened by establishing State Secretaries, whose responsibility is to manage the operations of ministries, to strengthen sectoral development and implementation of policy, and to free ministers to perform their political functions more effectively. Since the secretaries are appointed for a period of five years and may not be dismissed in the case of government's resignation, this contributes to administrative stability.

**Challenges for the future.** Open availability of accurate information on government processes is critical to effective participation, good governance, and sustainable balance among the key actors in

#### Box 3.2 Policy training

A project for „Creation of Policy Analysis Groups and an Information Resource Center in the Government of Ukraine“ has been implemented by the International Center for Policy Studies with support from the Soros IRF and the Canadian CIDA agencies to provide training in public policy analysis for officials from a variety of government bodies. The participants learned to draft policy papers, create policy proposals, and prepare and implement policy decisions. An Information Resource Center was created to support the training and the work of the Secretariat of the Cabinet of Ministers.

society. Consequently, most of the measures that need to be taken to improve the quality of governance and thus prospects for accelerated human development in Ukraine relate to transparency. Participatory governance in Ukraine could be greatly improved, for example, by introducing codified procedures for accessing information on institutions activities at all levels. This will provide the basis for a meaningful dialogue between the Executive Branch, other parts of government, business, and civil society.

Measures also need to be taken to provide the mechanisms that will facilitate participation. Based on experience in other countries, public hearings, advisory councils, policy research teams, conferences, seminars, round-tables and workshops, ad hoc special advisor positions, administrative appeals, and judicial appeals could be effective. These and other recommendations for improving governance are discussed in more detail in Chapter 5.

In addition to facilitating participation with easier and legally guaranteed access to information, the effectiveness and efficiency of governance could be improved by making further reforms in government's internal modes of operation and by continuing the administrative reforms

#### Box 3.3 Building capacity and consensus for reforms

As part of its effort to prepare the Economic and Social Development Program (ESDP) for 2002 on a participatory basis, the Ministry of Economy launched a project that includes both capacity building in policy analysis skills and a major public economic education campaign to build consensus for the reforms. Television talk shows and radio programs have been developed and broadcast nationally to highlight key social and economic development issues. Popular brochures on these issues have been written, tested with focus groups, and distributed throughout the country. And the government is now actively involved in a nation-wide „Road Show“ campaign of public debates on economic and social development. These debates, which bring senior officials from the ministry of economy face to face with a broad cross-section of public society in regional centers throughout the country, have generated wide-ranging two-way debates about human development in Ukraine, helping people throughout the country participate in economic and social policy governance.

discussed above so as to reach ministries and processes not yet reformed. Such reforms should provide them a clear vision of their role in a market democracy, a streamlined structure and mandate focused on newly-defined functions, clear goals consistent with these new functional objectives, and the training and skills needed to attain these goals.

The *civil service* is another priority area for reforms in the Executive Branch. Government efficiency because of low pay, problems in attracting and retaining high quality staff, and excessive numbers of staff. The latter is a particular problem given the more modest role of government, as central planning is no longer the basis for economic activity. Some of the staff have strong vested interests in retaining the old approaches to governance, thus blocking reform efforts. Other problems include inadequate information technology equipment and inadequate training to upgrade existing employees.

By reducing the number of organizational units, the number of staff, and the number of tasks no longer needed, administrative reform can free up financial resources that can be used to pay higher salaries within the same budgetary envelope, thus facilitating the recruitment and retention of better staff. Resources can also be freed up to provide access to information and communications technologies (ICT) as well as other support needed to make remaining staff more effective. Administrative reform alone is not enough, however. It should be integrated in the context of the reduction of the state's involvement in spheres where CSOs can be more efficient in terms of public services delivery. It also means reducing excessive administrative involvement in the economy such as licensing and registration. Such regulatory activities, which are often time consuming, also provide "rent seeking opportunities" that contribute directly to the abuse of discretionary administrative power and to corruption.

Reforms are also needed to define job requirements more precisely. Current civil service recruitment processes are often non-transparent and provide substantial room for corruption. New recruitment and other personnel policies are needed so that, on a competitive and transparent basis, Government can attract and retain top quality staff, and can promote existing staff.

The effectiveness of government could also be improved by treating other parts of government, business and civil society as partners rather than as adversaries. Numerous examples can be cited of cases where, instead of working together to define and seek common objectives, more traditional methods of control are used. The forced resignation and replacement of certain local level officials after the 1999 elections is a case in point. The process of partnership building could be significantly enhanced if the executive branch of government were to place less emphasis on controlling other key bodies within society and more on helping them to achieve jointly held objectives.

**Summary.** Creating a system of good governance within the Executive Branch of Government will greatly enhance prospects for human development in Ukraine. Among the reforms that would help attain the goal of good governance are (a) internal administrative and civil service reforms designed to make government more efficient, (b) concerted efforts to improve and guarantee access to information needed to increase accountability of government to the people, and (c) continued efforts to work together as partners towards the common goal of human development. Such an approach corresponds to the long-term interests of Government, for it would mobilize massive support from others at no cost to Government, thus helping Government accomplish its objectives, and it would reduce political pressures on Government. Instead of standing alone to face criticism for the slow progress of human development in Ukraine, Government would be standing shoulder to shoulder with

representatives from throughout civil society, all of whom would be equal partners in the development of quality of life for all people in Ukraine. Complementary reforms designed to facilitate the participation of other parts of society in policy-making processes are discussed in Chapter 5.

### **Legislative branch**

The Verkhovna Rada, Ukraine's national parliament, generally operates in a more open and transparent manner than the executive and judicial branches. Regular elections, the most powerful of several important checks and balances that the Constitution has established on the power of members of parliament (deputies), are held every four years. With parliamentary elections in 1998, eight political parties and electoral coalitions entered the parliament: the Communist Party of Ukraine, the Narodny Rukh of Ukraine, a coalition of the Socialist and Peasant Parties of Ukraine, the All-Ukrainian "Hromada" Association, the Green Party of Ukraine, the Social-Democratic Party (united), the People Democratic Party, and the Progressive Socialist Party of Ukraine. Under the Ukrainian electoral system, 50 percent of the deputies in parliament are elected on the basis of majority votes in their respective districts, and 50 percent are selected from previously-determined party lists based on the percentage of votes received by each party in the majority-based voting. This system appears helpful for developing stronger political parties and reducing the influence of "administrative resources" being used to strengthen the power of those already holding office.

In addition to facing periodic elections, checks on the performance of deputies are enhanced by the fact that they are expected to work regularly in their districts where they must face their electors. The parliamentary fractions issue their own performance reports, and voting records plus detailed analysis of voting patterns are published by the press and various CSOs. For example, the CSO Laboratory F4



**Ukrainian Parliament at Work**

Source: Ukrinform

regularly publishes some very interesting maps of the voting patterns of each faction. The public participates in the law-making process with the parliament through the following mechanisms:

**Parliamentary hearings** are held frequently, offering experts and other people an opportunity to participate openly in the Committees sessions, present their own approaches, and maintain an on-going dialogue with the legislature.

**CSO analytical centers** regularly work directly with parliament. These think tanks are producing increasingly high quality analysis that plays an important role in assuring informed debate among MPs. CSO reports also provide useful checks on the work of parliament, analyzing the draft laws and assessing their impact, thus making the legislature more accountable to the public at large.

**Freelance consultants** work regularly with parliamentary committees. These committees turn to such outside experts, sometimes on an ongoing basis, for technical inputs to their deliberations — and more could be done to take advantage of the growing body of expertise outside of government in these areas. The Fiscal Analysis Group that was created to help the work of the Budget Committee is a very important example of technical assistance to the work of parliament.

**Internet** makes it possible for people to read the bills tabled in the parliament on the Verkhovna Rada's website ([www.rada.kiev.ua](http://www.rada.kiev.ua)), at the site of the Center of Political



and Legal Reforms ([www.zakon.gov.ua](http://www.zakon.gov.ua)), and the site supported by the Information and Analytical Center “Liga” ([www.liga.kiev.ua](http://www.liga.kiev.ua)). At the latter two sites, people can express their opinions on bills and obtain legal expertise from specialists at the sites. Today less than 2 percent of Ukrainians have direct access to internet, but these websites enable the mass media to obtain information and keep the Ukrainian public at large informed about the operations of parliament.

#### ***Future challenges for Parliament.***

Ukraine’s election laws are incomplete and vague regarding responsibility in cases of violation, limitation in applications of administrative and financial resources. The scheme for appealing against rulings made by election committees is overly complex. According to the Head of the Central Election Committee, the law on the election of the President of Ukraine “reeks with various limitations and bans, which make no provisions regarding responsibility by election process participants, neither under this nor other laws.”<sup>1</sup> Multiple instances have been reported of ballots being supplied in excess of real needs—thereby creating conditions favorable for abuse and manipulations. According to various analysts, administrative resources have unlawfully been used during elections. Regrettably, those responsible for the violations have not been called to account. Appropriate changes including specific penalties in case of violation have not been introduced to the election law, nor have the legislative tools needed to implement it.

The degree to which wealthy business people can influence or control governmental decision-making processes to assure decisions favorable to the interests of their businesses is another serious problem. As in every country, money plays a large role in Ukrainian politics. Those with strongest financial backing are best positioned to gain seats in parliament — and to assure that legislation is consistent with their business

interests. A substantial share of parliamentary seats today are held by people with a background in business.

Adequate representation of the business community in parliament is obviously important, but there is a risk that businesses may have attained excessive levels of influence on Government — either directly through participation in parliament, or indirectly through campaign contributions and through outright bribery. This increases the risk that parliamentary decisions will be made based on the interests of individual businesses without due consideration for the common good. Although the situation appears to be improving, “crony capitalism” remains a problem in Ukraine. The country commonly gets relatively poor scores regarding “state capture” — the degree to which the State’s decision-making processes have been “captured” by specific business interests. For example, Transparency International’s “capture index” for Ukraine is among the highest among the CIS countries — equal to that of Russia and exceeded only by Azerbaijan and Moldova.

Good elections and thus good governance in Ukraine depend on transparency. Data on deputies’ background, sources of financing of election campaigns should be available to the public. Increasing the *freedom of the press* in Ukraine can play a particularly important role in improving transparency. This freedom is required to assure the flow of information needed so that people outside of government can help create a good system of checks and balances on the power of government. Improvements are urgently needed. During the presidential elections in 1999, for example, opposition parties found it difficult to get air time on major television and radio stations, and some stations were closed for technical violations and other reasons that were not entirely convincing, especially given their timing. Various print publications also encountered problems.<sup>2</sup> With very few limitations,

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<sup>1</sup> Tyshchenko Y (1999), p.11.

<sup>2</sup> Committee for the Protection of Journalists, 1999.



freedom of expression is guaranteed by the Constitution of Ukraine. Good governance depends on making this freedom real. Chapter 5 discusses ways in which this can be done.

### Judicial branch

Compared to the Executive and Legislative Branches of Government, the Judicial Branch in Ukraine is underdeveloped, and this seriously weakens the system of checks and balances. The judicial system has inadequate financial resources, professional competence, independence, and facilities. Accusations of biased proceedings in court cases are common. As a result, public confidence in the court system is low. A recent survey showed that less than 50 percent of the people trust the court system fully or even largely, a figure that falls to about 25 percent for local courts.<sup>3</sup>

#### Box 3.4 An appealing proposition

In 1991 only 372 public appeals against authorities and officials' wrongful deeds were filed. In 2001 the number had risen to 23,000. Of these cases, 85 percent were resolved in favor of the public. But more could be done to make this an effective avenue for citizen participation in the governance process. In Poland and Bulgaria, for example, such cases number 300,000 - 400,000 per year.

Even in its currently weak state, Ukraine's court system plays an important role by allowing Ukrainians to appeal government decisions, actions or failures to act by the state authorities (Box 3.4). A new Law on Courts is being considered that should bring important improvements to the Ukrainian court system. Donors are working closely with the government on various rule of law projects, including efforts to improve the judiciary in Ukraine. But more must be done to develop the highly professional, independent judiciary that Ukraine needs as a key pillar of a good system of governance. As detailed in Chapter 5, giving the judiciary a budget that is under direct control of the full Parliament and



**Constitutional Court of Ukraine**

Source: Ukrinform

subject to open review would be an important step forward.

### SUB-NATIONAL GOVERNMENT

The primary levels of government below the central government in Kyiv are the oblast administrations and local governments (raions, municipalities, territorial communities, villages, etc.) Until the past couple of years, all local governments were heavily controlled through a non-transparent, discretionary system of budgetary allocations by the oblast administrations, allocations that were in turn directly controlled by the President's Administration. The structure was known as the budget "*matreoshka*" because, like the classic Russian wooden doll, a series of increasingly smaller budgets, one inside another, were all hidden within the large overall budget. The entire system was wrapped in a veil of discretionary power, and the use of this power was often motivated more by personal and political benefit than by the real needs of people at the local level.

### Recent developments

Today the situation is improving. A Law on Local Self Government was passed in 1997 that provides a sound legal basis for elected mayors and city councils. With support from USAID and other donors, community development programs have been set up that help Ukrainian cities establish citizen advisory councils; improve

<sup>3</sup> IFES, 2001. p 4.A.4

accounting and reporting practices; and develop strategic development plans and partnerships with local businesses. These partnerships have helped to promote economic growth and jobs at the local level. Some cities have also established hotlines to provide information and to get citizen input. Others have published booklets helpful to businesses and the people (Box 3.5).

In mid-2001, the Verkhovna Rada approved a new Budget Code which broke open the budget *matreoshka*. Individual budgets are now allocated by the Ministry of Finance to 169 individual Ukrainian communities on the basis of a transparent set of formulas.<sup>4</sup> For the first time, cities have a stable, predictable revenue base upon which they can plan their development programs for the future — including projects for clean water, better schools, and improved medical facilities that contribute directly to human development.

### Challenges for the future

Developing the regional and local governments of Ukraine is extremely important for human development. All important physical services such as health, education, public transport, housing and communal services are delivered at the local

#### Box 3.5 The power of partnership

During Soviet days, the City of Berdyansk was an important center for Russia as well as Ukraine for tourism, industry and shipping on the Sea of Azov. With the erection of customs barriers between Ukraine and Russia after independence, the city faced an economic and social crisis. Businesses were closing and people were losing their jobs. Instead of taxing the businesses heavily to protect the city's budget, the city government created a partnership with the business community. These two key players, together with people from the community, developed a strategic plan for the city's economic renaissance. The business representatives stressed the importance of creating a favorable climate so that small businesses could develop and grow without hiding in the shadows. The city, with its own money, wrote and distributed a booklet to all businesses telling them how to deal with the tax collectors. Within a year, the number of registered businesses and the volume of tax revenues had grown dramatically. And such are the power of partnership and transparent rules of the game!

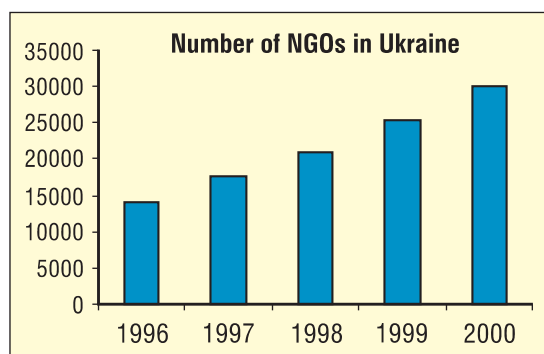
level because this is where all people live. Many important financial services such as pensions and social protection payments are also provided by government offices at the local level. All jobs are created by businesses that work, in the first instance, in an environment created by authorities at the local level. As discussed earlier, the decentralization of power from the central government to the local communities is an absolutely essential part of the transition to creating a modern, democratic society in Ukraine with appropriate checks and balances, and this can only take place if people at the local level are empowered to participate actively in the process of governance.

### CIVIL SOCIETY ORGANIZATIONS RECENT DEVELOPMENTS

The Constitution of Ukraine states that the people are the “bearers of sovereignty and the only source of power in Ukraine” (Ch. 1, Art. 5). Like the notion that all people are created equal, this is fine constitutional language, but in reality, individuals have little power unless they work together in organized groups. The rapid development of civil society organizations (CSOs) since independence is thus very welcome news for the participation of civil society in good governance in Ukraine (Figure 3.3).

These civil society organizations serve and represent a wide range of clients and

Figure 3.3 The NGOs are growing!



Source: State Statistics Committee of Ukraine

<sup>4</sup> The figure of 169 refers to the „cities of oblast significance“ that are covered by the direct formula-based fiscal transfer program under the current Budget Code.

### Box 3.6 Civil society organizations? NGOs?

CSOs include non-governmental organizations, trade unions, cooperatives, consumer and human rights groups, women's associations, youth clubs, the media, neighborhood or community-based coalitions, religious groups, academic and research institutions, grassroots movements and organizations of indigenous peoples.\* Organizations such as advisory boards and commissions, although officially established by government to facilitate participation of civil society in governance and government decisions, are considered to be part of civil society because their role is to serve as a voice of civil society, not as an instrument of government. Likewise, although labor unions are closely associated with the business community and with business activity, especially when they are negotiating wages for their labor services, they primarily serve as representatives of the interests of people in civil society who are workers. Since our focus here is on participation in governance processes in general, we treat labor unions here as civil society organizations. By the above definitions, it should also be clear that CSOs or NGOs are not civil society, but only representatives of certain groups within civil society.

\* CSOPP Documents: UNDP and CSOs — Building Alliances for Development,  
<http://www.undp.org/csopp/CSO/NewFiles/docbuildall.html>

members and provide the people of Ukraine with the voice that they need to become effective participants in the process of governance (Box 3.6). In order to serve and represent the interests of their clients and members, CSOs utilize such instruments as social service provision, advocacy and lobbying campaigns, legal representation, children and youth programs/campaigns, distribution of humanitarian aid, and training.

### KEY CHALLENGES FOR CIVIL SOCIETY

CSOs need to be developed as an effective voice for organized groups, as a partner in human progress with government agencies and business, and as an instrument to provide effective checks and balances. CSO development in Ukraine is constrained, however, by (a) the inadequate legal framework for CSO operations, (b) specific legal barriers to CSO financial self-sufficiency, (c) the lack of clients for their potential services, (d) shortages of qualified staff, (e) fragmentation and lack of cooperation, (f) adverse political pressures, (g) lack of high professional standards of good governance within the sector, and (h) the overall economic situation.

Of problems still requiring resolution, the legal framework for CSOs is probably the most urgent. Current laws fail normal tests of good governance. The laws are

subject to frequent changes, are scattered in different places, and sometimes inconsistent with each other. For example, there are two registration laws and a variety of different taxation schemes for NGOs. As such, the laws are neither transparent nor predictable.

Although non-profit CSOs are allowed to generate tax-exempt income through the activities that are in line with the charitable purpose stated in their charters (provided that all income is allocated for the organization's charitable purposes), the law does not allow sale of goods and services, which are really the main ways in which CSOs can generate income. The law creates a legal paradox — generating tax-exempt income is legal, but there is no legal way to

### Box 3.7 Effective collaboration of three sectors overcomes legislative limitations

Donetsk Fund for Social Protection and Charity (DFSPC) has developed a viable model for giving help to those most in need. After a law was passed prohibiting commercial activity by public organizations, the Fund recruited the business sector, CSOs, and local authorities to help with transporting, storing and distributing humanitarian aid to poor people. The DFSPC finds foreign donors who provide food, clothing, medical equipment, etc. The funds for transporting the items to Donetsk as well as for unloading and customs clearance are raised from regional businesses in exchange for publicizing their contributions. Furthermore, the Donetsk executive authority provides storage facilities and a truck for delivering the humanitarian aid to target groups. Finally, the databases of local CSOs such as councils of families with many children, veteran councils, and disabled people unions are used to identify recipients. In return for providing aid to their members, the CSOs are required to distribute Fund's applications for financial support among business firms.

This approach has proved to be very successful. In 1999, 225 tons of humanitarian aid was distributed among more than 200,000 people; 7,820 free dinners were served; and 750 food packages were given to veterans and orphans on holidays.

do so. In order to survive in the face of this adverse legal framework, some non-profit CSOs follow practices regarding cost recovery that are not fully in line with the law, and this opens them to the risk of political harassment and even closure. Another set of problems hindering the process of CSO development deals with the issue of implementation of law. CSOs face arbitrary enforcement of laws, corruption and incompetence when, for example, tax laws may be differently interpreted by inspectors within the same office.

The Government could greatly assist the development of a professional, viable CSO sector by making the legal environment — particularly the tax regime — more favorable for CSO development. The legal framework can be improved based on close consultations with the representatives of the CSO community. These and other recommendations for changes that could improve the process of governance in Ukraine are discussed in Chapter 5.

## **BUSINESS ORGANIZATIONS**

The problems faced by the business sector after independence were central to the collapse of living standards and will be central to future human development. The hyperinflation, exchange rate volatility, debt crises, economic decline, and other indicators of macroeconomic distress were directly related to government's efforts to prevent closure of enterprises that could no longer compete. The future growth of employment, wage levels, and standards of living for Ukrainian families depends directly on restoring the competitive health of Ukraine's business community on a new market-based foundation.

### **Public enterprise participation**

In the early years of independence, public enterprise managers participated in policy decisions, but with largely negative results. The directors of the failing Soviet-era enterprises put heavy pressure on government for subsidies, grants, loans, special procurement contracts, tax exemptions, tax write-

offs, and many other forms of preferential treatment. They argued that these privileges were needed to preserve jobs — but their own jobs often seemed to be of greatest interest. By the mid-1990s, Government's focus had shifted from subsidization to privatization. Again the managers of the old plants participated heavily in the governance process, but not in an open, transparent manner. Their participation often focused on securing the right to lease the plants on conditions that would allow these managers and their associates to accumulate enough capital at the expense of the plant to eventually purchase it for themselves at a very nominal cost. Although this kind of "asset redistribution" has been quite common in transitional economies, Ukraine has particularly serious problems with "crony capitalism."<sup>5</sup>

Conversely, the focus of some public enterprise managers has been to *prevent* the privatization of their enterprises — especially in cases involving outside investors who would almost certainly want to install their own management team. In such cases, the "strategic interests of the state" are often used to argue for keeping enterprises off the privatization lists. But this argument rings hollow. The greatest strategic interest of the state today should be economic recovery and growth based on active private sector investment in Ukrainian enterprises, a process essential to accelerated human development.

Much needs to be done to improve the dialogue between public enterprise business and the government regarding the future role of public enterprises. The public at large, with the help of well-informed CSO think tanks and advocacy groups, should also participate actively in seeking to complete the transition of these old enterprises to a more modern status. Specific recommendations are given in Chapter 5.

### **Private enterprise participation**

Private sector participation in governance has faced its own set of problems, but

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<sup>5</sup> Transparency International, 2001



some progress has taken place. Government's focus on control when dealing with the private sector remains a major problem. The negative effects of this approach, which is based on subordination and instruction rather than on participation and dialogue, have been exacerbated by a lack of transparency, predictability, and equity. The rule of law has often been overruled by the bureaucrats who control licenses, approvals, and inspections. In too many cases, their decisions were influenced by graft and corruption. Many private enterprises have responded in kind — falsifying their accounts, cheating on their taxes, and hiding their enterprises in the shadow economy where Government cannot find them to tax. In short, a most unsatisfactory situation — the antithesis of good governance.

Today the situation is better. Government launched an active campaign in the latter half of the 1990s to reduce the regulatory burden on businesses, especially those in the small and medium enterprise (SME) sector. Tax compliance was simplified by introducing a single tax — and for very small enterprises, a single flat tax. The number of government agencies that could inspect enterprises was reduced sharply, and their power to close enterprises for alleged violations was curtailed. Curbs were placed on the timing, frequency and duration of control visits. Government made it possible for the private sector to participate actively both in the design and implementation of the reform of old legislation, and in preventing harmful new regulations from being implemented (Box 3.8).

Similar efforts are being made to build a public-private partnership and dialogue regarding policies in the agricultural sector. CSOs like My Land, and quangos<sup>6</sup> like the Agricultural Policy Group in the Cabinet of Ministers have worked with technical

#### **Box 3.8 Stamping out bureaucracy — a case of public-private cooperation**

In 1998, fourteen business associations created the „Coordination and Expert Centre of Ukraine's Business Associations“ to focus on analysis and advocacy regarding regulatory legislation. The Centre now has over 40 members and has become a highly effective participant in the governance process. For example, the Centre organized wide-ranging campaigns (including demonstrations) against the introduction of stamp duty in 1999 and against the requirement of VAT-recording cash registers for small businesses in 2000. Both campaigns were successful and resulted in canceling harmful government decisions.

assistance from abroad to build a consensus for agricultural reform and the legal foundations for a modern agricultural sector. During the latter part of the 1990s, state monopolies on the supply of agricultural inputs and on the transportation and storage of grain were gradually abolished. In December 2000, the government issued a decree that abolished all collective farms and ordered the distribution of land titles. Despite strong objections from the Communists, the Verkhovna Rada adopted the Land Code in October 2001 that permits the sale and purchase of land starting in 2005. Today, thanks in large measure to the participation of private farmers, CSOs, regional authorities, and representatives of all branches of central government, the foundation for a modern agricultural sector has been established. Private farmers will be able to use their land as security for the investments needed to increase productivity, thereby bringing jobs, prosperity, and accelerated human development to the rural areas of Ukraine.

#### **CHALLENGES FOR THE FUTURE**

Much progress has been made in developing a better system of public-private cooperation for improving the business climate for all sectors including, for example, agriculture, manufacturing, services, and transportation. However, major challenges lie ahead. Despite the national laws regulating business activities throughout Ukraine, the actual business environment is largely determined by administrators and inspectors at the local level. Consequently, the quality of the business climate varies greatly from one city to another (Box 3.9).<sup>7</sup>

<sup>6</sup> Quasi-non-governmental organizations.

<sup>7</sup> IFC (2001).



### Box 3.9 Avoiding misunderstanding with tax officials on VAT payment

Implementation of the project „Sustaining Women-farmers in Ukraine“ started in June 1999 in co-operation with UNDP, State Committee of Ukraine for Entrepreneurship Development and public organization Council of Women Farmers of Ukraine. In the framework of the project, a network of information centers was established for women farmers through branch offices of Council of Women Farmers in eight oblasts of Ukraine.

Thanks to information found in the Internet, the „Nectar“ farm headed by Halyna Skarha was able to avoid misunderstandings with tax officials. The farm had been growing cereals for many years. Proceeds from the sale of grain in 1995-1997 reached the farm's account only in June 1998.

For two years, Ms. Skarha had run her business of operating a small farm. This year, tax officers came to the farm to carry out a scheduled audit of her papers. They imposed a heavy fine for her farm's failure to pay the value-added tax in 1998. Ms. Skarha was confident, however, that she complied with all legislative requirements and did not violate the law.

Evidence to support her claim was found at the Ministry of Agro-Industrial Complex web-site that stated: „Enterprises which sold grain to the state on state order prior to October 1, 1997 are exempt from the value added tax.“

Systems of corporate governance are still very weak in Ukraine, especially in public enterprises past and present. The rights of minority shareholders in corporations are widely abused. Development of a good business climate and thriving business sector that can create the good jobs needed by Ukrainian workers depends heavily on developing a better system of corporate governance. Finally, although a balanced budget and basic macro stability has done much to improve the overall economic environment in Ukraine, more needs to be done to develop a business environment that attracts the investment that Ukraine needs to generate better jobs and higher living standards. Central to increasing investment will be reducing taxes, and this can only be accomplished if the government can encourage enterprises currently hiding in the shadow economy to

move into the formal sector and share the burden of taxation. With all enterprises paying their fair share, the burden on each will be much lower, making investment more attractive for all.

### THE IMPORTANCE OF CHECKS, BALANCES, AND PARTICIPATION

Throughout this chapter's analysis of the status of governance in Ukraine runs a common theme — the need to change the role of Government so that people from all parts of society can participate as equals to the process of governance. Governance cannot be left to Government alone. The burden is too huge, and the political consequences of failure too great. Government cannot meet the needs of society by itself. There is much truth in the old saying, “A government that is large enough to give you everything you want is large enough to take everything you have.” Government needs strong partners who share the burden of building a better society. Participatory governance is the best vehicle for building these partnerships.

In addition to needing partners in the struggle to accelerate human development, Government needs partners in the quest for social justice and the rule of law. All societies depend on controls to prevent some offices, organizations, and individuals from abusing the rights of others. Under the Soviet system, these controls were applied through a

### Box 3.10 No participation? No checks. No balances

The links between good governance and a good system of checks and balances are reasonably clear, but what is the connection between these and participation? Put simply, one is impossible without the other. Checks and balances cannot work unless people from each of the three main groups — government, business, and civil society — get involved in the governance process. Ukraine could set up world-class participatory institutions like web sites and public hearings, for example, but such institutions will make do absolutely nothing to help create good governance if people do not go to the public hearings, log onto the web sites, and start participating in governance. Conversely, unless mechanisms are put into place that allow business and the public at large to check on what government is doing, it will be impossible to participate meaningfully in the process of governance. Without access to information, the non-governmental pillars of society will never obtain enough political and economic power to make their voices heard — or to serve as a countervailing balance of power to government.

### **Box 3.11 Power and the Constitution of Ukraine**

In their wisdom, the authors of the Constitution which Ukraine adopted on 28 June 1996 made explicit provisions that create rules of law needed for good government in Ukraine. Chapters I and II address the following issues:

State to Serve the Individual (not vice versa):

- The State is answerable to the individual for its activity. To affirm and ensure human rights and freedoms is the main duty of the State.“ (Art. 3)
- The people are the bearers of sovereignty and the only source of power in Ukraine. The people exercise power directly and through bodies of state power and bodies of local self-government. (Art. 5)

Right of Participation in Governance:

- Citizens have the right to participate in the administration of state affairs, in All-Ukrainian and local referendums, to freely elect and to be elected to bodies of state power and bodies of local self-government. (Art.38)
- Everyone is guaranteed the right to challenge in court the decisions, actions or omission of bodies of state power, bodies of local self-government, officials and officers.(Art. 55)

highly centralized structure based on the ultimate authority of the Politburo of the Communist Party. Well-functioning democratic societies avoid the potential abuses of centralized power by establishing a system of checks and balances based on the rule of law. Under this system, all pillars of society participate as equals to assure that rights of all are protected without centralized controls (Box 3.10). Like competition in a well-functioning market economy, the actors in each pillar of society help keep the others honest and assure that they play by the rules of the game.

The central Government of Ukraine is not yet supported by strong partners in business, civil society, and sub-national governmental structures. An adequate system of checks and balances does not yet exist among the key pillars of society in Ukraine. The Constitution of Ukraine states that the people are sovereign and that all powers of state derive from the people (Box

3.11). By extension, the state can only do what the people allow it to do, and the people can do whatever they want as long as it does not infringe on the rights of others. However, the power of the business community and the people at large is still too limited to establish the balance envisioned in the Constitution, the balance needed for a well-functioning democratic society based on partnerships.

Establishing a good balance among the key pillars of society is complicated by the fact that, with some notable and very welcome exceptions, the operations of government are still hidden to a degree that makes it hard for business and civil society to participate effectively in governance.

The lack of transparency in Ukraine is partly due to the continued tradition of “state secrets” and partly to the very normal human tendency to avoid sharing information because information is power, and power is the ultimate trump card in the game of bureaucratic survival. Equally important is the simple fact that institutions for transparency were essentially unknown (and unwanted) in the old system — and such institutions take time to establish. By now, however, sufficient time has passed and the job should be completed.

In sum, because of Ukraine’s strong tradition of centralized control, the other key pillars of the nation — sub-national government, the business community and civil society at large — have not had the opportunity to develop as strong partners in the struggle to accelerate the nation’s pace of human development. Through the proactive measures that will be outlined in Chapter 5, however, the central government can help strengthen these other key actors by providing the information and opportunities needed for effective participation as equal partners in the process of governance.

## CHAPTER 4

# PARTICIPATION: A VIEW FROM THE GRASS ROOTS

Previous chapters discussed the links between participatory approaches and good governance. This chapter examines how participatory mechanisms can improve human development as seen from the bottom up. Approaches to creating a system of governance based on participation are analyzed from the perspective of sectoral case studies. Although the focus is sectoral, the conclusions address broader systemic issues regarding participation and human development.

### BUDGETING, PARTICIPATION AND HUMAN DEVELOPMENT

#### BACKGROUND

Article 95 of the Constitution of Ukraine describes the budget process as a system based on the principles of a “just and impartial distribution of social wealth among citizens... .” Citizens have the right to know the legality, effectiveness, and efficiency with which their taxes have been used. They also have the right, directly or via their elected representatives, to influence the way these funds are collected and allocated.

The Budget Code of Ukraine was adopted in June 2001. It clearly defines all stages of the budget process such as planning, approval, execution, accountability, and monitoring. Article 7 of the Budget Code states that public openness and transparency are the principles upon which the Ukrainian budgetary system is built. According to these principles, the Verkhovna Rada and the local Radas approve the State Budget of Ukraine and the respective local budgets. The Verkhovna Rada and the local Radas formulate decisions on budget implementation as well. In sum, the approval of budgets and their implementation review are exclusively vested

with authorities elected by the citizens of Ukraine, that is, by Parliament and the local self-government bodies.

The Parliament of Ukraine controls the public funds use through many mechanisms including, in particular:

- adoption of the Law on the State Budget for the relevant fiscal year and approval of the Report on the State Budget Implementation;
- control over executive authorities spending the allocated funds and over the distribution of funds allocated by the Law on the State Budget;
- control over the targeted and efficient use of state budget funds and tracking cases of failures to implement the Law on the State Budget.

Through these mechanisms, the Supreme Rada approves the State Budget and exercises control over the use of the State Budget. The Supreme Rada Committees and the Peoples’ Deputies participate in preparing the Draft Law on the Budget of Ukraine through parliamentary hearings. They also prepare and discuss reports regarding process for controlling and reporting on the state budget performance.

Peoples’ Deputies accept applications from constituents and CSOs, undertake measures to implement their proposals, and support their lawful demands including those dealing with the process of budgeting in Ukraine. A Peoples’ Deputy enjoys the right to participate directly in examining inquiries forwarded by him to the state authorities, and to take the floor on issues of the activities of deputies.

#### GOOD GOVERNANCE IN BUDGETING

To achieve transparency and integrity, a mandatory professional audit of public

funds on behalf of a representative body elected by citizens is conducted. Audit findings must be forwarded to members of the Parliament, and the mass media report the findings to the public at large. Public hearings on audit findings are also commonly held.

In line with Article 98 of the Constitution of Ukraine which stipulates that: “The Accounting Chamber exercises control over the use of finances of the State Budget of Ukraine on behalf of the Verkhovna Rada of Ukraine,” the audit of the State Budget is conducted by this state body, which is independent from the other state authorities in Ukraine and accountable exclusively to the Parliament.

The Supreme Council of the Autonomous Republic of the Crimea, along with regional, district, city, rural and village *radas* independently develop, approve and implement their respective budgets. Local budgets, however, do not have the status of law. Therefore they are made public only in terms of “basic indicators” which are not regulated by existing laws.

Preserving the old system of non-transparent, non-participatory mechanisms of decision-making when the overwhelming majority of taxpayers and even elected officials do not have direct access and a role in the local budget formation and implementation process may negatively affect human development. To protect the integrity of budget formation and implementation, two separate but closely connected tasks need to be addressed: (a) developing participatory mechanisms at the sub-national level that allow the public to participate in formulating budgets and monitoring their implementation; and (b) delegating more budgetary power to local levels to make possible deep involvement of local communities in the budget process. Success in these steps will help assure that resources are directed to human development needs.

#### **PUBLIC PARTICIPATION IN BUDGETING**

As stipulated by the Budget Code, more authority and responsibility for budget

making and implementation should be shifted to the local level. Until now, budgetary relations at local level have been characterized by direct subordination of villages, towns and cities to the *raion* (district) and *oblast* (region) centers — a top-down system with clearly Soviet roots. According to the Budget Code, 686 local budgets are ultimately to be formed and managed in direct collaboration with the center, bypassing the oblasts and raions. Fiscal decentralization is enhanced by developing a comprehensive formula-based transfers from the center to local governments.

The local budgets finance such major areas as social sphere, health service and schools. Local budget expenditures on these important activities are financed from various sources including personal income tax, state duties related to local budgets, license fees for business activities, penalties imposed by the executive bodies of local *radas* and transfers from the central government. The budget making mechanism will become more transparent when, under the new Budget Code, the central authorities (a) allocate funding to local budgets by assigning to them a fixed share of state and local taxes, and (b) make direct transfers from the state budget according to previously-agreed formulas.

Despite the introduction of principles of decentralization in the Budget Code, the effective implementation of these laws depends on public participation, and this can be successful only with equal and open access to budgeting information. According to a special article of the Budget Code on “Accessibility of Information on the Budget”, budget information must be made public. For example, the Draft Law on the State Budget must be made public by the Ministry of Finance and published in the newspaper “Uriadovyi Kurier” not later than seven days after being submitted to the Supreme Rada of Ukraine — that is, not later than September 23.

Despite improvements in the laws regulating the budget process in Ukraine,



implementation problems remain. In 2001, for example, the Draft Law of Ukraine for 2002 was not made available to the public. This may be explained by various factors such as unwillingness to reveal the amount of money allocated for certain programs and the Soviet tradition of viewing the budget as a top state secret. In any case, this incident demonstrates how difficult it may be to implement in practice the participatory approaches envisaged in the law.

Significant improvements in designing and enforcing participatory approaches in budgeting can be achieved by engaging CSOs in the budgeting process, and the recently adopted norm of the Budget Code that obligates authorities to make budget information public will empower CSOs to participate much more actively in the budgeting process. There are positive examples of CSOs' efforts to become involved in budget formulation. For example, the all-Ukrainian NGO "Public Control," along with other CSOs, is seeking to assure transparency of local budgets for citizens by launching the initiative "To Civic Society via Transparency of Local Budgets." If successful, this initiative will build an effective participatory mechanism to help assure that budgets reflect the actual human development needs of the people of Ukraine.

There are also good examples of how the adoption and development of participatory approaches in budgeting have led to better human development outcomes at the local level in Ukraine today. The City Rada of Kamianets-Podilskyi and its Executive Committee place municipal budget information on the Internet and publish draft budgets in the local press. With this information available, a wide circle of city inhabitants became involved in the process of town management, thereby assuring identification of the most urgent needs and the allocation of resources to meet these needs.

Over 600 citizens have taken part in public hearings on draft budgets. In addition

to discussing the budgets, participants fill out questionnaires to help the authorities define priorities. Once the results of questionnaires and public hearings are analyzed, budget proposals are drafted. The Finance Department and the Mayor then take these proposals to standing committees of the city council for review, and finally to the full city council for approval in an open session. Through this mechanism of public engagement, the contradictions between the authority's and people's priorities are identified and resolved.

The budget of Kamianets-Podilskyi contains detailed data that make it easier to assure that budgets are actually implemented in line with agreed priorities. For example, the budget line for "maintenance of government bodies," which is a one line item in the overwhelming majority of town budgets in Ukraine, is expanded in Kamianets-Podilskyi budget to allow everyone to monitor and control the effectiveness and efficiency of budget resource use in detail.

A participatory approach like this is especially useful when the community's needs dramatically exceed the funds available. For example, the calculated financial needs of Kamianets-Podilskyi for 2001 totaled UAH 78 million, while only UAH 23 million were available, making it impossible to meet all needs. Under such conditions, it is important that responsibility for making hard choices be diffused to as broadly as possible. On the one hand, this allows for developing a commonly agreed budget that reflects the interests and needs of all citizens. On the other hand, nobody can accuse the local leadership of being biased or of trying to conceal information on the use of funds from public scrutiny.

Today in Kamianets-Podilskyi, the business community, non-governmental organizations, the mass media, the public at large, and every individual with access to the Internet can get updated information on the city's budget and can participate in the city's governance. As a result, major



improvements are being made in the services available to the people; the physical appearance of the city is greatly improved; and businesses are growing.

## SMALL AND MEDIUM ENTERPRISES

### BACKGROUND

Human development in Ukraine depends heavily on accelerating the growth of the nation's small and medium enterprises (SMEs).

First, a good job is the best possible "social safety net." With millions of people living in poverty because they have low paying jobs — or no jobs at all — creating as many good jobs as rapidly as possible is a very high priority for Ukraine. SMEs generate more jobs per hryvnia of investment than any other branch of business because relatively little capital is required to create each job as compared to what is required in heavy industry or other large-scale activities. Given that capital is scarce and relatively expensive in Ukraine, promoting SME development offers the absolute best way to reduce poverty and to accelerate sustainable human development.

Second, growth based on SME development tends to be pro-poor and therefore highly compatible with human development. In capital-intensive enterprises, much of the value added (the share of revenues not needed to pay for purchased inputs) goes as profits to the managers and to the relatively rich owners of the enterprises. In SMEs, however, the major share of value added usually goes to the workers as wages. In fact, the entire value added may go to small owner/operators who are working hard by themselves just to stay out of poverty, and in Ukraine, a substantial share of small enterprises are run by a single person or family without employees. For these reasons, SME development can make a bigger contribution to reducing poverty than large-scale enterprises,

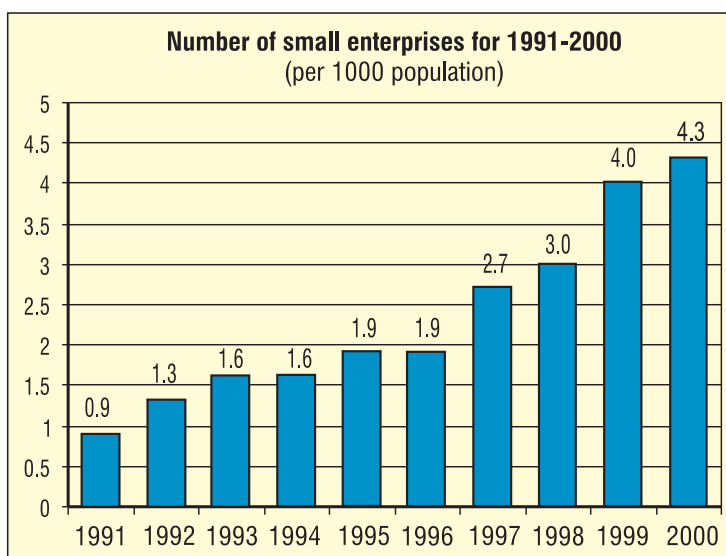
despite the latter's prestige and political attractiveness.

Third, SMEs commonly deliver goods and services such as bread and public catering that benefit ordinary people in their daily lives. As the supply of these goods and services increases with the growth of SMEs, costs tend to decline, improving people's standards of living, particularly at the lower income levels.

Despite the many problems created until recently by heavy taxes and intrusive inspections, SMEs in Ukraine are developing rapidly. In 1991 there was less than one small medium enterprise per thousand citizens. Today, according to field surveys, there are over four SMEs per thousand citizens (Figure 4.1). Although this growth is impressive, comparisons with other countries indicate how much more needs to be done to realize the full potential of SMEs in Ukraine. In the United States, for example, there are over 70 SMEs per thousand citizens. Yes, that highly industrialized, large-scale nation has more than 15 times as many SMEs per thousand citizens as Ukraine does.

Leaders in developing and transition countries often have a strong bias against SMEs, favoring instead grand factories

**Figure 4.1 SMEs Started Growing Rapidly in Ukraine after 1996**



Source: State Statistics Committee of Ukraine

loaded with the latest fancy equipment imported from abroad. Some people regard

SMEs as low-tech, even primitive. However, as just seen, the richest and most sophisticated countries on earth have very high concentrations of SMEs per thousand citizens. This reflects not only the success of such countries in providing a good environment for SME development, but also their success in creating an environment that fosters the growth of larger and internationally competitive companies that depend heavily on SMEs to supply a wide range of critical inputs.

### **SMEs PARTICIPATE IN GOVERNANCE THROUGH ORGANIZATIONS**

Because of heavy taxes, invasive controls, shortages of capital, and lack of market experience, SMEs grew very slowly for the first five years of Ukraine's independence (Figure 4.1). After that point, SME growth has accelerated considerably, due in large measure to the increasingly effective participation of SMEs in sector governance—in establishing the rules and regulations affecting operations in the sector. Such participation has been facilitated by enabling national legislation, and Ukrainian SMEs have now developed various types of organizations through which they participate in sector governance:

- Public associations and unions of entrepreneurs set up on the basis of the law “On Citizens’ Associations” (individual entrepreneurs and business managers are the primary members of such organizations).
- Associations set up on the basis of the law “On Enterprises in Ukraine”

(these associations, whose members are legal entities, advocate the interests of enterprises with government).

- Trade unions (these work with business people and hired labor to promote business in Ukraine).

In addition to its own organizations such as the CEC, the SME community also participates actively through organizational mechanisms set up by government. Examples include the Public Board of the State Committee of Ukraine on Entrepreneurship Development, the National Council of Entrepreneurs under the Cabinet of Ministers of Ukraine, and the Business Associations Council under the Government Economic Growth Committee. The selection process for the bodies operating at the central level remains non-transparent and the government usually picks up the members of these organizations. At the regional and local level the degree of transparency varies and depends on a wide range of factors such as willingness of the local administration to promote transparent mechanisms, strength of SMEs and local traditions. Although the organizational mechanisms set by the Government have their shortcomings, they set as a norm public participation in public policymaking process.

These organizations played an important role in improving the environment for SME development. The State Committee of Ukraine on Entrepreneurship Development, for example, has been very active in promoting the development of small and medium enterprises. Its Public

#### **Box 4.1 CSOs play an important role in enterprise governance**

Of the organizations that allow enterprises to participate in the governance process, a leader is the coalition Coordination and Expert Center of Ukrainian Businesspeople (CEC). CEC is a union of 41 organizations of different types representing the interests of their business members and has industry associations as well as analytical centers as members. Within the CEC structure, General Assemblies are the major vehicle of direct participation for the members. Between these meetings, the CEC Analytical and Expert Group — the organization's permanent operational body — carries out research and advocacy on behalf of the members, organizing round table discussions and work groups, public hearings and similar events. The Analytical Group of CEC publishes the bulletin *Public Arguments* through which it shares with members its views on pending draft laws. This publication is also disseminated among the Peoples' Deputies of the Supreme Rada of Ukraine. When urgent issues demanding a quick response arise, analytical background notes and proposed responses are communicated via e-mail, by telephone, or in person, thereby assuring that the full CEC membership has the information needed for effective lobbying and participation in governance related to the SME sector.

Board, which helps guide the work of this important committee, includes 60 individual members and representatives of the leading national organizations of business owners and associations, regional representatives of the State Committee, academicians and entrepreneurs. The purpose of the Board is to assure wide public discussion of state policies affecting business in Ukraine. Its major activity is formulating proposals regarding the design and implementations of State policies on business, with a special focus on business regulation, business licensing, and the incorporation of businesses. The other major organizations listed above have similar mandates for research, dissemination of information among members and policy makers, and advocacy of policies favorable to business development in Ukraine.

In addition to these national level organizations, the SME sector also participates in sectoral governance through a variety of regional and local organizations. Examples include designation of special spokesmen (ombudsmen) to improve cooperation between authorities and businesses at the local level, Regional Public Boards for business development, and Coordination Councils on Business Development. The latter are responsible for coordinating the activities of local executive authorities, local self-government bodies and public organizations of business owners to secure uniform state business regulation, a better business involvement and support for SME development in the region.

### **SME PARTICIPATION BRINGS RESULTS**

The growth of SMEs per 1,000 population since the mid-1990s and the parallel growth of SME organizations facilitating the participation of SMEs in sectoral governance was no coincidence. These organizations have been instrumental in helping to create a better environment for business, growth, and the creation of new jobs in Ukraine. Specific accomplishments have included successful campaigns (a) to cancel the law that introduced a burdensome



**Medium Light Industry Enterprise Provides About Three Hundred Employees with Decent Salary**

Source: Ukrinform

stamp duty on domestic transactions in 1999, (b) to stop requirements for stringent reporting forms for basic accounting documents, (c) to decrease the minimal required statutory capital of limited liability businesses, and (d) to stop requirements that very small businesses have to purchase and use electronic cash machines with built-in capacity to calculate and record value added tax liabilities.

### **GETTING BETTER RESULTS FROM SME PARTICIPATION**

Through the participatory organizations that they have helped create, SMEs have had rather remarkable successes in working with Government to create a better legal and regulatory climate. Nevertheless, much remains to be done to attain the level of SME development found in more developed countries. On the basis of SMEs per 1,000 population, Ukraine still has only a fraction of the number found in Poland, Great Britain, or the US. To realize the full potential of SME development for improving human development in Ukraine, the SME sector and the government both need to take important initiatives and to work together even more closely as partners.

Business people need to overcome their relative apathy regarding membership in associations and unions. According to surveys, only 10-20 percent of business owners considered themselves to be

members of organizations designed to defend their rights as business people. Many of the CSOs that try to represent businesses are still very weak. They do not raise the financial resources needed to assure a continuing ability to present the interests of their members in professional manner. Too many operate in a firefighting mode, coming into action only to fight the latest legislative or regulatory crisis. They commonly lack the skills needed to prepare, in a professional manner, the arguments needed to have a real impact on the authorities' decision making process, and they fail to establish cooperation with analytical centers that could strengthen their arguments. Because they do not understand the procedures employed by authorities in decision making, they waste their efforts doing the wrong thing in the wrong place at the wrong time. Also, some of these business CSOs have strong political backing, and their political bias undermines trust and respect.

The Government could do much to improve the efficiency and effectiveness of SME participation in SME sector governance. Business associations require ready access to the draft laws that are under consideration, but government officials commonly restrict such documents to a narrow inner circle, thus preventing a meaningful public dialogue. Some officials seem to fear that making this information readily available for public debate would undermine the financial benefits they derive from the current system of lobbying by vested interest groups. Authorities rarely carry out cost efficiency analysis of proposed policies. As a result, they fail to understand the heavy costs that such policies may impose on business. Cost benefit analysis should be required for virtually all legislative initiatives.

Although the SME sector faces barriers to effective participation and development, the good news is that most of barriers can be overcome without major expense. Large capital expenditures are not required. All that is needed is a willingness to change on the

part of those who currently have the power to make decisions that affect the lives of the millions of Ukrainians who depend on the SME sector. These changes could be facilitated by implementing the recommendations presented in Chapter 5, suggestions that are designed to improve governance through greater information transparency and more effective mechanisms for participation.

## **BRINGING SOCIAL POLICY TO THE PEOPLE**

### **BACKGROUND**

As seen in Chapter 1, the triple transition during the past decade inflicted high costs on the people of Ukraine. Economic decline, hyperinflation in the early 1990s, and payments crises in the pension and other social funds impoverished millions of people who had previously enjoyed a decent middle-class life by Soviet standards. Although shadow economy and household production protected people's consumption more than revealed by official statistics, there is no doubt that consumption fell sharply. According to official statistics, during the last ten years the consumption of fruits was down by 1.6 times, eggs by 1.7 times, milk and dairy products by 1.9 times, and meat and fish by 2.1 times. Transition also led to social problems that were previously almost unknown such as unemployment, homeless people (including many children), a dramatic expansion of



**Seventy Percent of Registered HIV/AIDS Affected Persons in Ukraine are Intravenous Drug Addicts**

Source: UNAIDS/Victor Mishchenko



#### **Box 4.2 Through Hardships to Olympic Medals**

In the Soviet system the age-old stereotypes regarding the handicapped dominated. People with disabilities were not seen on the streets, and they were isolated from normal social life. Transition imposed significant economic hardships on the disabled, but it also provided them with an opportunity to have their voices and concerns heard. The achievements of the disabled people in the area of sports are impressive — showing what can be done if people unite to achieve their goals. International experience shows that sports help people with physical disabilities return to a full life. The development of the disabled sports movement in Ukraine began in 1989, when sports and recreational clubs for the disabled were created. These clubs and associations formed the basis of the national Federations of Sports for Disabled. Through these non-governmental organizations, the disabled actively strove for public recognition of the importance of disabled sport movement and for adequate state support. As a result of these activities, a unique state system of recreation and sports for disabled was developed. It provides recreation and sports service for people with impairments through its 27 regional branches. More than 20,000 disabled take recreational and sports classes in 25 sports. Ukraine's leading disabled athletes gain awards in the most prestigious international events, winning 37 medals in the XI Summer Paralympic Games in Sydney in 2000.

dangerous diseases — particularly HIV/AIDS, and a sharp decline in life expectancy.

Through social policy analysis, Ukraine's key social problems are being identified; solutions are being found; and appropriate decisions are being implemented. The government is designing policies to address problems arising, for example, from economic inequalities, health problems, unequal access to education, and environmental degradation. Social policy affects everyone. The poor receive social benefits and information on new job opportunities. The physically challenged are provided with special resources and assistance. And the rich help those who are less fortunate by paying taxes. To select the best possible policy options for human development, participatory approaches should be utilized widely.

Although Parliament and Government continue declaring the social orientation of their economic policies, a clear social strategy within the economic transformation process has not been developed. Promises made by the State have not always been backed up by the necessary financial resources.

In the early years of transition before participatory approaches assuring equal access to decision making processes began to be introduced, social policy decisions were largely made in response to the pressure from the most powerful interest groups such as miners, Chernobyl victims, the handicapped, and war veterans. Their collective action demonstrated the power of

public participation in social policy formulation, but these efforts failed to produce comprehensive and broadly accepted social policies for all socially vulnerable and marginalized groups.

#### **SOCIAL PROGRESS THROUGH CSOs**

Introduction of institutionalized participatory approaches improved the situation, allowing CSOs and businesses to take part in social policy making. A wide range of CSOs focusing on social issues have developed in Ukraine since independence, and some of those that existed even during the Soviet era have become more effective in the new environment, which makes participation easier by providing the necessary mechanisms and information.

Although the business community is often not regarded as an instrument of social policy, its role both through production and through participation in CSOs has become very important to social development in Ukraine. As noted in the previous section, small and medium enterprises are particularly effective in providing jobs and incomes to lower and middle income people. Through their non-profit organizations, businesses are also beginning to have an important impact on social policy and human development.

#### **SOCIAL CSOs IN PARTNERSHIP WITH GOVERNMENT**

In 1998-1999 representatives of various civil society organizations were incorporated



into interagency working groups under the Cabinet of Ministers of Ukraine to work on pension reform, a Draft Program on Poverty Eradication, and a social budget. The CSOs widely utilized participatory mechanisms such as round table discussions, seminars, public hearings in discussing burning social policy issues. Peoples' Deputies of Ukraine — together with top managers and specialists from the President's Administration, the Secretariat of the Cabinet of Ministers, ministries and agencies-also participated.

For example, expert reviews and public hearings on implementation of the Government Action Plan were held in December 2000 and in April 2001. The government's social policy was widely discussed with extensive involvement of CSOs such as the Institute of Reforms, the Razumkov Ukrainian Center for Economic and Political Studies, the Agency for Humanitarian Technologies, the Institute of Civic Society, the Institute of Competitive Society, the Institute of Politics, the International Center for Policy Studies, the Union of Leaseholders and Entrepreneurs of Ukraine, the Ukrainian Union of Manufacturers and Entrepreneurs, and the Center for Anti-Crisis Studies. As a result of these extensive discussions, a set of specific proposals with respect to mechanisms for raising the population's living standards were developed and eventually considered by the Government.

These proposals are now reflected in government decisions covering areas such as elimination of the adverse effects of inflation on the real income of people with fixed incomes, settlement of arrears in payments to families with children and low income families, eliminating practices that make the population pay for energy waste in industry, and raising the level of pensions.

Despite the significant strides made in introducing participatory approaches in social policy formulation, the dialogue

#### **Box 4.3 Taking Care of the Homeless in Odesa**

In the last decade, the number of the homeless has increased considerably. As a result of this, the epidemiological and criminal situation in Odesa has worsened: sexually transmitted disease (STD) and tuberculosis cases have increased. To help these people, the Fund for Rehabilitation and Social Adaptation of the Homeless has been organized. This Fund is able to provide resources — especially volunteers — that are badly needed to supplement the limited resources of the local government.

Together with city and regional public health care services, the Fund keeps the homeless under epidemiological supervision to monitor the dynamics of contagion. Through collaboration with public health care services, the homeless were able to get treatment in city hospitals which were previously closed to them. Nearly 400 homeless people have been hospitalized. Through partnership with Odesa Railways, the homeless can return to their home towns and visit relatives free of charge (about 500 persons have used this program).

Collaboration between the Fund and the business sector takes several forms including fundraising. The business sector is also involved in joint commercial activity with the Fund. Using facilities and premises of the Fund, entrepreneurs train the homeless in woodworking and sewing, and the products are distributed through established trading networks. Profits are split between the parties. The Fund also has a rehabilitation center for 50 persons, and those living there are required to participate in the Fund's work. The Fund has an arrangement with some industrial enterprises, according to which it directs its clients to work in exchange for production of the enterprise.

between the government and CSOs should be even better. More work is needed to institutionalize the participatory approach in social policymaking.

#### **SOCIAL CSOs AND THE PEOPLE**

Participatory approaches can make a difference in improving effectiveness and efficiency of services provided by the state at the local level. When the process of increasing rent and utilities tariffs was initiated in 1995 as part of a move towards full recovery of the cost of housing and communal services, a heavy economic burden landed on Ukrainian families. To help the poor to pay their utilities and rent bills, the Rent Subsidies Program was introduced. Despite this program, the debt of population for rent and utilities had risen to UAH 6.9 billion by October 1, 2001. It is now evident that, even with rent subsidies, cost recovery alone is not enough; additional energy efficiency must also be attained.

Various CSOs have emerged to monitor the performance of service providers at the local level. These include, for example,

foundations, advisory committees, councils, unions, and “Our House” associations of consumers. These CSOs focus on protecting the rights of consumers in housing and utilities, monitoring the quality of those services, and controlling the level of tariffs and accruals. They are engaged in local level activities such as planning the development of communal services infrastructure and making decisions on locating retail outlets. They also deal with a wide range of social service provision tasks such as assisting disabled and retired people, children and low-income families. They also monitor the effectiveness of using budget funds. Significant experience of this kind has been accumulated in Mariupol, Berdiansk, Cherkasy, Khmelnytskyi, Ivano-Frankivsk, and Zhytomyr and other towns.

In some municipalities, state providers of social services to pensioners and single disabled citizens realized that CSO participation can improve the effectiveness and efficiency of service delivery. They are therefore starting to work more closely with groups such as the Red Cross of Ukraine, the Council of War Veterans Organizations, the Foundation for Social Protection of Invalids, the Foundation for Charity and Health, and social service provision volunteers. Members of these organizations examine living conditions of individual citizens, determine their needs, and provide the relevant social services or assistance on a permanent basis.

## **GENDER AND GOVERNANCE**

### **BACKGROUND**

Any society that prevents certain segments of society from sharing equally in the power to participate in the process of governance dis-empowers all members of society. Failure to give full democratic access to participating in governance slows the pace of human development and risks creating tensions of inequality that could bring ruin to the entire society. As emphasized throughout this Report, strong democratic partnerships among equals always have been and always will be the



**Female Farmer Hanna Pirich Rears Some 200 Goats at Her Farm**

Source: Gender in Development Project, UNDP

ultimate key to sustainable human development and lasting prosperity. In no area is this more true than in gender equality.

From the perspective of the right to work and basic human development, gender equality is a relatively minor issue in Ukraine. Women make up over half of the work force and as indicated by the virtual parity of the Human and Gender Development Indices discussed in Chapter 1, women and men share almost equally in terms of the basic indicators of overall human development.

However, gender equality becomes an issue in the home and in the workplace. Although wives are just as likely as their husbands to hold jobs, the share of work in the home is distributed unequally, with wives spending a considerably higher percentage of their time on average doing household tasks than their husbands do. Outside the home, although Ukraine’s record in terms of equal pay for equal work seems to be relatively good, women on average hold jobs requiring lower levels of skill (which helps explain the average pay discrepancies between men and women). Of greater concern is the fact that, in higher-level management positions, the share of women falls off sharply, reflecting the lack of equality in access to positions of power.

Gender equality becomes a particular issue for Ukraine in the areas of governance and participation, a reflection of the unequal sharing of power between men and women. The strongest evidence of this inequality is in the Verkhovna Rada where only 8 percent of the People’s Deputies are women. This

inequality, together with the inequalities in the presence of women in administrative/technical and in management/supervisory positions, combined to give Ukraine a Gender Empowerment Index of only 0.421 in 1998, placing it in the 21st percentile worldwide for this indicator, compared to its 51th percentile ranking in terms of the overall Human Development Index.

To maximize the effectiveness of the struggle for higher levels of human development for all, Ukraine needs to take measures that will give women greater equality with men in terms of political power and economic opportunity. This message is highlighted in a recent landmark study of gender in Ukraine by UNDP *Gender Analysis of Ukrainian Society*. And as seen throughout this National Human Development Report, democracy of power helps build strong partners, thus accelerating the pace of human progress. This is by no means a new problem, and as seen in the following sections, efforts are already underway to improve the situation.

#### ORGANIZATIONS THAT EMPOWER WOMEN TO PARTICIPATE

Throughout its history, Ukraine has benefited greatly from the skills and hard work of many exceptional women. Outstanding Ukrainian women of the past include Anna, the daughter of Yaroslav the Wise who married the Henry I, the King of France in the 11th century; and Roxolana, who became wife of the Sultan of Turkey in the 16th century. In more recent times, Ukraine has produced some of the world's great leaders including Golda Meir, one of four Israeli Prime Ministers of Ukrainian origin. However, much more needs to be done through CSOs and governmental organizations to empower the average woman in Ukraine to make her full potential contribution to human development.

#### CSOs

Civil society organizations focused on the rights and interests of women date back at least to the beginning of the past century;

women's charitable organizations were active even before the Revolution of 1917. During Soviet times, women's organizations functioned, but they were tightly controlled by the Communist Party.

Today more than thirty women's CSOs are active at the national level in Ukraine, with hundreds more active at the local level. Nearly 170 women's organizations in Ukraine are now members of the NIS-US Women's Consortium. Some of the women's organizations now working in Ukraine include:

- ***Union of Ukrainian Women.*** The U UW has worked to restore the national identity and appreciation of the cultural heritage of Ukraine.
- ***Zhinocha Hromada.*** This organization, which has seen as its task the renaissance of the Ukrainian nation, has taken a special interest in the development of women. For example, it has worked with TACIS support to establish a training school for women in small businesses, and it has been involved in various anti-AIDS activities. Zhinocha Hromada has also been directly engaged in giving women a voice in politics by sponsoring, for example, the Ukrainian Congress of Women's Organizations before the 1994 elections, and the Bloc of Women's Organizations in 1996 to support the new Constitution of Ukraine.
- ***All-Ukrainian Women's Society.*** This society has focused mainly on cultural issues, but has been active in giving Ukrainian women a voice and chance to participate in international conferences on women's issues.
- ***Political Parties.*** Since 1997 the following women's political parties have been operating: the *All-Ukrainian Party of Women Initiatives*, the party *Women of Ukraine*, *Women Peoples Party (united)*, the party *Solidarity of Ukrainian Women* and the *All-Ukrainian Association "Women for the Future"*.

- ***Socially oriented women's organizations.*** These include, for example the *Soldier's Mothers of Ukraine*, *Ecofem*, *Child and Environment*, and *Daughters and Mothers*.
- ***Business-oriented women's organizations.*** These now include, for example, the *Kyiv Federation of Businesswomen "Lybid"* and the *Credit Union "Women's Mutual Assistance"*. Service-focused CSOs have also been developed specifically to help women entrepreneurs. An excellent example is the system of *Women's Business Support Centers*, a project of five Ukrainian women's CSOs in partnership with Women's Economic Empowerment (WEE), a project being implemented by Winrock International with funding from USAID.

### **Governmental Organizations**

The Government of Ukraine has taken an active interest in seeking to assure that the women of Ukraine have the rights, opportunities, and support needed for them to become equal partners with men. In addition to trying to give women equal access to all government programs including public education, health, business development support, and the like, the Government has also established special groups to recommend actions that can be taken to address specific concerns and problems of women. For example, it has established at various points since independence,

- Sections within government departments on issues of women, family, maternity and childhood protection (1993-1999);
- The Ministry on Family and Youth Matters (1996-1999), which was reorganized into the State Committee on family and youth matters (1999-2000);
- The Committee of the Verkhovna Rada of Ukraine on issues of health, maternity and childhood protection (1998-2002).

A more complete list would underscore the fact that many such committees, agencies, and ministries have come and gone over time. Some allege that many of women-oriented efforts have been taken around the time of elections simply to gain political support, and that the country lacks a consistent and targeted approach to providing sustainable guarantees of gender progress in Ukraine.

### **WOMEN'S ORGANIZATIONS BRING (SOME) RESULTS**

Progress in the area of gender equality in Ukraine since independence has been slow for two reasons. First, Ukraine started its life as an independent nation with a far better record than many countries. Consequently, there was less room for dramatic leaps forward in gender equality than otherwise would have been the case. Second, gender inequality has very deep social roots in family relations and traditions. Changing these cannot be done by passing laws or issuing decrees. Instead, it will require years of education and reinforcement. A generation or more of efforts through the schools and workplace may be required to bring major changes.

Nevertheless, some progress has been made by women's organizations that have been participating in the gender governance issues. For example, when the Draft of the Constitution of Ukraine was discussed in 1996, women associations successfully launched an initiative to add Article 24, which fixes the equality of rights and opportunities of women and men. More generally, civic associations of women made specific proposals related to the Family, Criminal and other Codes of Ukraine, to legal acts on child rights, on political parties, civic associations, etc., and these recommendations have regularly been taken into account in work on laws in parliamentary committees and have affected the final shape of many pieces of legislation. Implementing the measures suggested in Chapter 5 for empowering CSOs in general as they seek to participate in governance



processes would be of equally great help to those focused specifically on gender issues.

## **TOWARDS A BETTER ENVIRONMENT THROUGH PARTICIPATION**

### **BACKGROUND**

Volcanic eruptions, droughts, and other natural disasters do not threaten Ukraine's environmental quality. Quite to the contrary, Ukraine's natural environment is exceptionally good on average. The deep "chornozem" soil of the rolling steppes, the adequate rainfall, the temperate weather, and the Black Sea are riches that bless human life in Ukraine. However, the country has serious environmental problems — virtually all of them man-made. Ukraine's environmental problems are largely the result of bad resource management — and thus of bad governance.

Chornobyl is perhaps Ukraine's most noted environmental problem. It was clearly the result of bad governance — the result of bad decisions regarding the choice and use of technology. However, in terms of direct threats to human health, biodiversity, water quality, air quality, cultural and historic preservation, Chornobyl is but one of Ukraine's many environmental problems.

If the nation's environmental problems are the result of bad governance, good governance is needed to solve existing problems and prevent new ones. Since most environmental problems affect specific places, mechanisms need to be established that allow the people, businesses and governmental authorities in these locations to participate in solving the problems.

The legal basis for public participation on environmental issues in Ukraine already exists. It is envisioned, for example, in the Law on Environmental Protection, the Law on Ecological Expertise, the Water Code, and the Law on the Use of Nuclear Power and Radiation Safety. The latter law explicitly requires that individuals and public associations participate in formulating policies regarding nuclear power (Article 5). These legal foundations for participation are fully consistent with best practices in the

West — but have had too little effect. The problem now is to involve people throughout Ukraine in meaningful ways in improving environmental quality, thereby turning legal possibility into reality.

### **ENVIRONMENTAL ORGANIZATIONS FOR A BETTER UKRAINE**

Even before independence, environmentally-focused civil society organizations existed in Ukraine. The more open environment for public discussion since independence, combined with increased environmental awareness and possibilities for action, have stimulated their sharp expansion at the national and local levels, and to some extent, government has helped encourage their growth.

#### **Organizations and Coalitions**

At the national level, the All-Ukrainian Ecological League (AUEL) has played a major role in stimulating a dialogue on environmental issues — including parliamentary hearings. The Coalition for Energy Safety, Awareness and Civil Rights, which now unites 28 organizations, has been actively engaged in issues of energy and environmental policy since November 1998. Oblast AUEL organizations cooperate closely with local self-governments bodies. Some of these organizations and their success through participatory governance are summarized below. Other environmental CSOs involved at the national level include the National Ecological Center of Ukraine, the All-Ukrainian Ecological League, the All-Ukrainian Children's Association "Ecological Guard", the Ukrainian Ecological Association "Green World", the All-Ukrainian Charitable Foundation "Parostok", "Geoeko - XXI," and the Ukrainian Environmental Protection Association.

### **GOVERNMENTAL SUPPORT FOR ENVIRONMENTAL CSOs**

The Environmental Policy and Natural Resources Ministry has supported the creation of a "Public Council" including representatives of national environmental



organizations. The council was established to expand public participation in decisions on environmental issues. Its main tasks include:

- stimulating formation of a conscious and active public position regarding environmental policy development in Ukraine, and supporting public initiatives in this process;
- organizing the exchange of environmental information between the Ministry and the population;
- contributing to development and implementation of a system of environmental control and monitoring.

### **PUBLIC PARTICIPATION BRINGS ENVIRONMENTAL RESULTS**

#### **Local level**

In the *Luzanivka district of Odesa*, families suffered for years from sewage flooding their homes, making them dangerous and unfit for occupation. Individuals, frustrated by 10 years of failure to get the problem corrected, took matters into their own hands and created the District Committee for public self-government. With legal assistance from EcoPravo-Kyiv, the committee applied to the courts for support. Mass media's wide coverage of the court proceedings prodded the authorities to seek solutions. Once alternatives were identified, joint lobbying by local authorities and public organizations put pressure on the Verkhovna Rada and Cabinet of Ministers to help. The Reserve Fund of the Cabinet of Ministers of Ukraine ultimately allocated UAH 14 million to complete construction of the sewage pumping station needed urgently to prevent sewage from flooding the Luzanivka homes. The homes are now safe.

In the *Sumy Oblast*, public environmental groups, working jointly with the State Department of Environmental Safety, achieved a number of environmental victories including (a) a ban on constructing a plant in Sumy to make protein and vitamin concentrates based on oil paraffin; (b) a ban on constructing a road using phosphoric gypsum alongside the Psel river, (c) a sharp

reduction in casting activity at the local ironworks plant, (d) closure of the foundry at a local agricultural machinery plant — without reducing production; and e) a moratorium on processing cattle from the Chornobyl zone at the Sumy Meat-Packing Plant.

In other oblasts, civic action groups have brought environmental improvements by participating in the governance of environmental quality. For example:

- In the *Dnipropetrovsk* Oblast, based on numerous appeals of local AUDEL, the Oblast Department on Environmental Safety suspended construction of a riverside gas station to avoid pollution.
- The *Sumy* Oblast AUDEL, with support of the Department on Environmental Safety and the Department on Family and Youths Affairs, is organizing ecological education camps for children who will also participate in practical environmental activities such as collecting medicinal plants, making hay for wild animals, and planting cane.
- The *Kharkiv* Oblast AUDEL participated in a city workshop on the drawing up of a Concept of Social and Economic Development of Kharkiv on the initiative of the Department on Public Associations Affairs of the Kharkiv City Executive Committee.
- The *Poltava* Oblast AUDEL, with the assistance of the Ministry of Ecological Protection, suspended operation of an urban ore site at the village of Stasivka (Dykanka District).

#### **National level**

The All-Ukrainian Ecological League (AUDEL) has worked hard to facilitate public discussions with the Verkhovna Rada on environmental policy issues. In December 1999, the League initiated efforts to hold hearings in the Verkhovna Rada on ecological themes, but the parliament showed no interest. However, the AUDEL persisted. It identified individual deputies who were willing to champion the cause and worked with them to build support. In

September 2000, a decision was made to hold formal parliamentary hearings.

To assure success, the AUEL launched an intensive, nationwide effort to prepare for the hearings. Representatives of twenty public organizations and eighty scientific institutions involved in environmental issues from all regions of Ukraine were asked to participate in preparatory seminars. Jointly with the Peoples Democratic Party in the Verkhovna Rada, seminars were held on a number of topics such as ecological legislation, ecological auditing, ecological insurance, ecological and economic rationing, sustainable development, development of biodiversity, business activities on protected natural territories, conservancy, ecological monitoring, nuclear power, problems of utilization and toxic refuse reclamation, soil and subsoil monitoring, research and minimization of harmful influence of mining industry on the environment, and energy saving in Ukraine.

Based on this work, the Verkhovna Rada held formal hearings on 29 November 2000 entitled “On Compliance with Environmental Legislation in Ukraine: Ways of Realization and Improvement of Environmental Policy.” The League is now seeking to assure appropriate follow-up.

### **Environmental Education**

Mass media play an important role in educating the public about environmental issues. Local print and electronic mass media help public environment organizations communicate with the local people. The Charitable Information and Publishing Center “Green Dossier,” an environmental CSO, improves public awareness of ecological questions by printing the *AUEL Bulletin* as well as periodicals such as “Ridna Pryroda” (Home Nature), “Zeleny Svit” (Green World), “Oikumena” (Ecumene), “Parostok” (Sprout), “Ecological Physiology and Noospherology”.

Environmental CSOs disseminate ecological information electronically, placing it on their sites. For those interested in doing further research, some environmental CSOs make their databases of ecological

information available in electronic form. Plans are underway to create an electronic Ecological Library on the Internet.

The Center of Ecological Education and Information works to enhance ecological awareness and supports ecological education by regularly disseminating environmental information. Most of the national-level CSOs listed above also have active environmental education programs.

### **GETTING BETTER RESULTS FROM ENVIRONMENTAL CSOs**

Environmental CSOs suffer from the problems common to all CSOs — an unclear legal environment, and inadequate human and financial resources. In addition, the environmental CSOs face particular problems related to lack of information, lack of access to decision makers, lack of feedback mechanisms, and lack of accountability mechanisms.

As has been stressed throughout this Report, information that is accurate, relevant and timely is an essential foundation for effective participation in governance. The lack of information transparency is particularly serious in the environmental area because of the long standing tradition of state secrecy regarding environmental information — especially on nuclear and industrial pollution. The measures recommended in Chapter 5 regarding freedom of information would therefore be particularly valuable for environmental CSOs.

The lack of access to decision makers, of feedback mechanisms, and of accountability mechanisms are closely related to the issue of empowerment. Despite remarkable progress in the past decade, decision-making power is still relatively concentrated at the central levels of authority. Because of this traditional concentration, not enough has been done to assure that those holding the power are accountable to the public at large for their decisions — including decisions made with respect to recommendations on environmental protection received from the general public.

Full endorsement of the concept of freedom of information, together with mechanisms for effective consultations with the general public on all important environmental issues, would create an atmosphere of greater accountability. If reinforced by appropriate requirements for reporting to the public as outlined in Chapter 5, this would lead towards better feedback regarding the status of recommendations for action made to government by the public.

In sum, a combination of transparent information and appropriate mechanisms for consultation and participation would make a major contribution to improving environmental governance in Ukraine.

## EDUCATION BACKGROUND

As seen in Chapter 1, Ukrainians are well educated with essentially 100 percent adult literacy and gross enrolment ratios comparable to many high-income countries. At the time of independence, a national Ministry of Education was established, and the Verkhovna Rada passed basic educational laws providing the basis for educational activities of state and non-state institutions. These laws call for:

- increasing educational activities to protect and develop children;
- assuring access to basic education for all;
- developing student outcome objectives and curriculum standards;
- developing new curricula, particularly in the humanitarian subjects;
- reducing adult illiteracy, and assuring equal literacy for men and women;
- expanding basic education and skills training for all youth; and
- expanding opportunities to obtain the skills and knowledge needed to improve the quality of life of individuals and families.

Economic difficulties did not allow the central government to implement these mandates in full. Funding was reduced by approximately 60 percent in real terms during

the first few years of independence as the nation's economy collapsed, and even relative to GDP, funding fell from nearly 5 percent to about 4 percent. From 1990-99, preschool enrollment declined by 60% and the number of schools decreased by 30% as state enterprises closed their pre-school facilities in the face of privatization and financial distress.

Schools and universities have now begun to find additional sources of financing. In the primary and secondary schools, parents have started working closely with the teachers in some schools to provide improved educational resources for their children by mobilizing additional resources, including direct contributions and fees from parents. At the university level, Ukraine has begun to adopt a system of partial cost recovery. Starting with the 1998/99 academic year, more than 50 percent of students contributed to the cost of their education. However, these measures have not been sufficient, and Ukraine continues to fall short of the goals listed above.

## GOVERNANCE AND THE EDUCATION SECTOR

In addition to suffering from the nation's general economic difficulties, the education sector has governance problems that make it almost impossible to assure high quality and equal access to education. The education sector suffers from a variety of different problems.

**Limited funding transparency.** Preschool and general secondary education is mostly decentralized — 70 percent of the total public education budget is spent regionally and locally. However, these funds come from national sources, and in the past, the mechanisms for allocation and transfer have not been transparent. Education is financed largely from tax revenues collected by national authorities working at the local level, then redistributed both through categorical grants and through equalization grants that are intended to help compensate for local income inequalities. The budgeting process in education does not create incentives for the most effective and efficient

use of resources allocated. For example, the “normatives” system inherited from Soviet times uses factors such as the number of square feet of building space when calculating budgetary “requirements,” thus encouraging communities to keep schools open even though they are grossly underutilized, and to maintain separate schools when consolidation would make possible higher standards of education for the children. Also, the current system does not provide a stable basis for planning for the future. Local people have limited voice in setting policies for mobilizing and allocating funds for education, limiting the system’s efficiency and effectiveness in the local context.

***Inadequate focus on key educational issues.*** The Ministry of Education controls policies in most areas of education throughout Ukraine. Its policies focus on procedures for student advancement such as exams and grades instead of focusing on effective school management. Existing policies retain high staffing levels that are not necessarily consistent with high quality education. The ability of communities to participate effectively in improving local schools is limited by centralized policies.

***Poorly coordinated decision making.*** At the central level, different ministries supervise different segments of the education system. In the absence of clearly developed mechanisms for intra-governmental co-ordination and for participation in educational governance by people and organizations at the local level where the

educational services are actually delivered, sub-optimal outcomes are almost inevitable.

In short, the government is not able to provide adequate education services from its budget, nor can it effectively control the delivery of education at the local level. The major responsibility in assuring affordable and accessible education for all is therefore borne by the local level. But local authorities usually can not provide sufficient financing. Local resources barely cover teachers’ salaries, leaving almost nothing for the remaining costs of education.

### **PARTICIPATORY APPROACHES CAN MAKE A DIFFERENCE**

How can the problems of governance related to the education sector be resolved? Is the central government capable of being a sole voice in setting policies for education? How can high quality and equal access to education services be assured?

Participatory approaches can play a major role by bringing all stakeholders — local education authorities and parents — into the dialogue on a continuing basis. At the local level, committees consisting of parents, teachers, and local authorities can be created. They can decide how to utilize mechanisms such as subsidies, insurance schemes, voucher systems and tax credits to finance education and to monitor the effectiveness and efficiency of resource use.

Positive examples exist of communities using participatory approaches to address the issues of school financing. For example,

#### **Box 4.4 Post-Independence Education: New Opportunities — and New Challenges**

„When I was young, my parents were very concerned that I get the best possible education,” says Elena, now the mother of a young daughter in a Kyiv secondary school. „That has not changed with independence. Today I worry about my daughter’s education. But the choices today are so much more complex — and so expensive. When I was young, the State determined the curriculum, trained the teachers, and provided standard materials throughout the Soviet Union. When my parents moved from Ukraine to Kazakhstan, I found that studying in my new school was very much like studying in my old one. Today, tremendous differences exist between one school and another even within Kyiv, and things change so fast that teachers have trouble keeping up. Outside Kyiv, things are even more different. My best friend lives in a small village. Her children have to share old Russian textbooks with their classmates, and several different grades all study in the same room. Thanks in large part to the work that we have done through the parent association at my daughter’s school, the children there have new Ukrainian text books, and for a few hryvnias each month, our children can get training in foreign language with special tutors and work on computers at a nearby technical institute. Also, my daughter is not forced to attend those awful propaganda sessions that I was forced to attend every week. The new system is better than the old one — but only if you have money, are willing to work hard as a parent to help organize special classes, and can stand the confusion.”



financing problems are resolved in some schools by establishing school boards that not only raise financial support from parents and communities but also encourage them to take part in monitoring and making decisions with regard to allocation of the funds raised (Box 4.4).

Participatory approaches can play a significant role in formulating education policy. A draft National Doctrine on Education Development was recently prepared on a participatory basis. Social scientists, teachers, trade union of educators, rectors of the Universities, business people and a wide range of NGOs and educational authorities took part drafting the document. Through extensive discussions, all stakeholders decided that pressures on the national government should be reduced, and that more responsibility should be given to civil society, the business community and society at the local level for making key decisions on education.

Once the draft had been widely discussed, a Teacher's Congress was held in Kyiv in October 2001. Nearly 2,000 delegates and around 500 guests from throughout Ukraine participated. Teachers were able to communicate their concerns and suggestions on the draft doctrine directly to the President, the Prime Minister, the Deputy Prime Minister for Humanitarian Issues, the Minister of Education and Science and many other senior officials. All suggestions and recommendations developed during the drafting and during the Congress were carefully reviewed, analyzed and integrated into the final draft policy document.

### FINDINGS AND RECOMMENDATIONS

As the sectoral analysis conducted above illustrates, the adoption and improvement of participatory approaches can bring significant positive outcomes for human development. On the one hand, participatory approaches allow the government to delegate more authority in decision making to other actors, thereby reducing pressures on the state to provide directly so many of public goods and services. At the same time, this



**Tatar Becomes the Language of Instruction in Crimean Schools**

Source: Ukrinform

creates opportunities for sustainable privately-led economic growth. Participatory mechanisms provide disenfranchised and marginalized social groups with access to economic and political opportunities.

Finally, broadly-based participatory approaches help reduce the government's monopoly on executive power, building broader partnerships for progress among equals in the field of human development. However, the majority of national and local authorities are still reluctant to adopt participatory approaches that put human development priorities at the core of all governmental activities.

Continued work is needed to change these attitudes because:

- Participation expands the resources available for human development by mobilizing resources including money, labor, state-owned facilities, and information that are currently underutilized by the government.
- Participatory approaches can increase efficiency and improve the effectiveness of policies and of resource allocation, thus enhancing human development.
- Participatory mechanisms and public engagement help achieve consensus for policies that are more oriented to human development. By building consensus on specific policy issues, broad constituencies supporting reform programs can be developed.



# POWERFUL PARTNERSHIPS: BUILDING GOVERNANCE THROUGH PARTICIPATION

### CHALLENGES FOR THE FUTURE

As Ukraine moves forward with efforts to build a system of governance capable of accelerating the pace of human development, it can draw on the experience of countries around the world which have found that participation is critical to good governance and to higher standards of living. Participation makes it possible to draw on the broadest range of human talent and to assure a socially and politically workable consensus on the direction and pace of reforms. Meaningful participation diffuses power throughout society, empowering people to participate, and creating a viable system of checks and balances. Such checks and balances help assure that no one pillar of society — government, business, or the people — can develop a monopoly on power that invites abuse.

Ukraine needs mechanisms such as clean elections, honest courts and open public hearings as foundations for good governance and human development. Broad participation in governance requires not only participatory mechanisms but also information transparency and power diffusion. For example, public hearings on next year's budget would be useless if the organizations and people who want to testify have no access to relevant information. This chapter examines practical ways in which governance can be improved in each of the key pillars of Ukrainian society — government, civil society, and business.

### GOVERNMENT — FACILITATING HUMAN DEVELOPMENT

Since independence, the role of government in Ukraine has been changing

significantly — from the old Soviet role of control to the democratic role of facilitation. Government is working to facilitate the efforts of business and civil society to bring prosperity through economic and social development. It is selling off its controlling interests in enterprises and is creating an environment that helps private enterprises produce more efficiently so that they can generate the highest possible incomes for the people of Ukraine.

Government is replacing the rule of personal and party power with the rule of law. Through initiatives such as the Tax Code and the Budget Code, Government is creating transparent rules of the game that help to provide equal opportunities for all. Through improved administrative and judicial procedures, it seeks to enforce the rule of law so that businesses, people, and the government live by agreed rules and respect the rights of others. The central government is fostering the development of regional and local governments by giving them more direct control over their resources. It is facilitating the development of private enterprise by keeping its budget deficits to a minimum, thereby leaving more banking system credit available at lower interest rates for investment in private sector production. The government is also assisting human development by reducing the share of national income that it takes through taxes and by focusing its own reduced share on activities such as public health and communal services that support people and private sector activity. However, much remains to be done to establish good governance within government.

This chapter focuses on measures that the Government of Ukraine can take to help establish a better balance of power and quality among the key partners in society by increasing both information transparency and opportunities for participation. Both are essential for a good system of governance that maximizes Ukraine's pace of human development.

### INFORMATION FOR PARTICIPATION

Without access to good information, the average Ukrainian will find it impossible to participate effectively in resolving the problems facing the country. Since information is power, establishing the equitable distribution of power needed for strong partnerships and an effective system of checks and balances requires that information *be available, relevant and reliable*. Establishing good governance and accelerating the pace of human development depends on improvements in all of these areas. However, achieving such improvements can be difficult. Those who now hold information have the power to control access to it, and since giving access means giving up power, they will resist doing so. Consequently, reforms in information sharing are difficult to achieve. Considerable pressure from civil society, the business community — and even other parts of government — may be required to achieve results.

In Ukraine there are good reasons to hope for success. For example, Ukraine has already improved considerably the availability of information regarding legislative proceedings of the Verkhovna Rada. As noted earlier, such information is now readily available on several different websites. Although the average Ukrainian does not have access to the web, the mass media generally do and can make the information available to the public at large. The Executive Branch of government is also making progress. For example, the Ministry of Economy placed a wide range of information regarding drafts of the *Economic and Social Development Program*

*for 2002* on its website, and during the document's preparation, the Ministry launched public debates on economic and social development priorities to distribute information and stimulate discussions on the program in regions throughout Ukraine.

A wide range of measures that can be taken to improve the public availability of information — measures which also assure that the information is *relevant* to the most important issues facing Ukraine. These measures, which deserve careful consideration in Ukraine as mechanisms for promoting participation, good governance, and human development, are summarized in Box 5.1.

It is almost impossible to determine in advance what information is going to be relevant in the future to policy discussions. Universal transparency should therefore be the operating rule. With a very few exceptions such as national security issues and individual personnel records, all information held by the government should be available to any person who requests it.

#### Box 5.1 Information — supporting participation

Make information available ON:

- Drafts of all policy documents scheduled for consideration by Cabinet of Ministers or Parliament
- Drafts of all regulations scheduled for consideration by the Ministries
- Agendas for Cabinet Meetings and summary minutes of the conclusions
- Strategic plans, and priorities for policy research and development
- Budgets, both proposed and actual, and audited accounts of operations

Make information available TO:

- All Ministries, President's Administration, and Parliament
- Regional and local government administrations
- Business and academic communities
- Public interest NGOs, think tanks, advocacy groups, research organizations
- Mass media, political parties, labor unions and the general public
- Donor community

Make information available THROUGH:

- Publications, press releases, and web sites
- Conferences, seminars, round-tables and workshops
- TV and radio programs, and public debates
- A Freedom of Information Act (see text for details)

After all, according to the Ukrainian constitution, the people are sovereign and the Government derives its powers from the people. To assure that the information needed for people to serve as an informed “board of directors” to the Government is readily available, Ukraine should enact a ***Freedom of Information Act*** that, with limited and clearly defined exceptions, would allow any citizen of Ukraine to request and receive any desired information from any government office. Depending on the complexity of the request, the information should be provided within 15-30 days. To avoid abuse of the system and to prevent it from becoming an unsupportable burden on administrative resources, the person or organization requesting the information would have to pay a fee based on pre-established rates that reflected the cost of collecting and copying the information. The act should make provisions for an appeals process in the event that the request for information is denied or is offered at an unreasonable price.

The Freedom of Information Act in the United States, for example, has made this approach routine for nearly 40 years, and similar laws are in effect in many states and local jurisdictions.<sup>1</sup> Passage of such a law in Ukraine would have a powerful impact on the availability of information needed to support active and informed participation in governance by business and by the general public. Such a law would greatly improve the integrity of government officials who would know that their actions could well be subjected to public review. It would also spread power more democratically among the key segments of society, thus empowering effective participation, good governance, and more rapid human development.

To assure that information from a broad range of perspectives is readily available to the people, and to assure that the mass media can provide an effective system of

checks and balances on the power of government, Ukraine also needs to develop a more effective system for protecting freedom of the press. As noted in Chapter 3, the press in Ukraine today face a variety of politically-motivated constraints on the free dissemination of information and views despite provisions in the Constitution of Ukraine and passages in various laws which guarantee freedom of the press.

Since Ukraine already has in place the basic constitutional and legal guarantees for freedom of the press, what is needed now is an independent judiciary to enforce these legal provisions. The present judiciary system cannot be independent because it gets its budget from the executive branch of government, and this gives the Cabinet and the President instruments that can be used to influence the judicial process. The lack of financial independence undermines the checks and balances between the main branches of government found in all democratic countries. Authority for the judiciary’s budget should be shifted from the Executive Branch to the Legislative Branch. This would not automatically create an independent judiciary, but it would be a major step in the right direction. Parliament, as an elected body that represents a wide range of political interests, has built-in self-policing checks and balances that would make it very difficult for Parliament to bias the judicial process in accordance with specific political interests.

In addition to being available, information needs to be *reliable*. People participating in public policy debates need complete and accurate information. Ukraine has taken important steps in many areas towards assuring such reliability. For example, it is adopting international standards for data definition and classification in many important areas such as government financial statistics, and data on employment and the labor force. Accounts for banks and large companies must now be based on International Accounting Standards (IAS). The State Statistics Committee is taking advantage of support from inter-

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<sup>1</sup> US Justice Department (1996).

national donors in making these changes. Freedom of the press should be assured and encouraged so that people have access to as many points of view as possible. This will help assure that the views of journalists can be challenged by their peers, thus reducing the risk that the views of certain corrupt or biased writers might go unchallenged and wrongly influence the opinions of the public at large.

To the extent possible, information about current policies should be *predictable* over time. This means less frequent changes in government policies. The public consultation processes suggested here may appear cumbersome and time-consuming, but they will actually improve the situation. First, the consultation processes will slow down the pace of change, bringing greater stability to policies. Second, the consultation process will identify potential problems in advance, resulting in higher quality legislation that requires fewer corrective changes — a key reason for the all-too-frequent amendments in Ukrainian laws in the past.

#### INCREASING OPPORTUNITIES FOR PARTICIPATION

Measures that increase the availability of information can simultaneously increase opportunities for participation. For example, public hearings also make information available to those who participate. However, additional measures are needed to create opportunities for participation. For example, a ***Law on Public Consultation*** could be introduced that required governments at all levels to:

- *announce in advance* any proposed decree, law, or other legislative action that is under consideration so that non-governmental participants can decide whether or not to take part in discussing the topic;
- hold well-publicized *public hearings* for all actions defined by law as “*Initiatives of General Public Interest*” including annual budgets, strategic plans, major capital expenditure projects, changes in land use and

other regulations with a direct impact on personal and property rights, and changes in policies regarding provision of public services such as public transportation routes which also have a direct impact on people’s lives;

- organize broadly participatory *advisory boards*, either on a fixed term or permanent basis, to work with government on the most important “*Initiatives of General Public Interest*,”
- establish special participatory *review boards* to review government performance on specific government programs and projects, and to make recommendations for future action.

In addition to these legally mandated activities, the law could require Government to provide other mechanisms for public comment such as: (a) offices where people could enter their remarks in a “*Book of Public Comment*,” (b) both electronic and postal addresses for sending written comments, and (c) a web page with a guest book for comments.

To assure adequate follow-up, such a “*Law on Public Consultation*” should require that any government agency proposing the legislation must report how comments received have been handled, thereby assuring that comments are not simply ignored. Failure to provide adequate mechanisms for follow-up on comments received would seriously undermine the credibility and effectiveness of participatory mechanisms.

Governments at all levels should develop ***Good Governance Participation Programs***. In these programs, which would reinforce the suggestions listed above regarding the provision of information, government bodies would publicly commit themselves to providing mechanisms for participation on a regular basis. The mechanisms, which would take into account the level of government and the resources available, might include:

- *contracts with CSO think tanks* to prepare studies on issues of special



public interest including, for example, budget priorities, strategic plans for social and economic development, capital investment projects, land use plans, and plans for improved delivery of public services including, for example, water, transportation, and electricity;

- **advisory boards** that enable citizens, business community, specialists, and government officials to advise on issues of major importance to economic and social development;
- **public hearings** to get citizen input on all important issues of the kinds listed above;
- **performance reports** that allow the public to monitor government's performance according to previously approved plans and budgets; and
- **support for professional associations** that are able to provide networks for the exchange of information and for dialogue on important government policies.

### INCREASING SKILLS

Good information and good opportunities for participation are vital to good governance — but information and opportunities are not enough. Training is also needed. Government agencies need to know how to provide improved opportunities for participation and better quality information, and CSOs and other groups from business and civil society need to know how to participate more actively in public debates. Government-supported training programs can contribute in important ways to the skills required for good governance:

- **Policy analysis training.** The quality of public dialogue on policy will be much higher if the government officials responsible for supporting this dialogue know the principals of policy analysis in a democratic market-based

society — a skill essentially unknown during the Soviet era.

- **Financial management training.** Standards from the Soviet era for financial reporting present information on government and business operations in ways that make it hard to evaluate the entity's performance. Especially at the regional and local levels, people lack skills in preparing financial plans and reports according to contemporary western standards. Such skills can easily be taught and can make major contributions to the quality of governance (Box 5.2).

- **Public relations training.** Public relations skills were highly developed in Soviet days — as seen by the numerous propaganda campaigns designed to build support for various government programs and priorities. Campaigns to build public understanding and support are still needed, but the messages have changed and the required skills relate to information rather than indoctrination. The task is no longer to prod people to meet plan targets out of party loyalty. Today the task is to help people help the government design and implement the policies needed to tap the power of a democratic society and a free market. Training is needed to help government offices develop the skills required to communicate effectively with the public in new ways. At the same time, CSOs, business associations, and other key actors within civil society need skills in building public support for their positions in dealing with government.

- **Twinning.** A training device that has been used very successfully in Ukraine is "twinning." At the local level, twinning

#### Box 5.2 Building management skills at the local level

Communities like Ivano-Frankivsk were controlled directly by mayors appointed by the Central Government until the 1997 Law on Local Self-Government. The officials of Ivano-Frankivsk had never realized that their community was like a private business that needed a business plan and good financial accounts to support the plan. Thanks to a USAID community development project designed to build modern management skills at the local level in Ukraine, towns like Ivano-Frankivsk can now prepare their own financial accounts and business plans according to western standards. And because these accounts are transparent and shared not only with people of Ivano-Frankivsk, but with other communities in the project, the citizens can now see how well their communities are being managed compared to others in the region. As a result, the quality of city services and general governance has improved significantly.



typically involves linking a community in Ukraine with a community outside of Ukraine so that they can work together on issues such as strategic planning, financial management, or service delivery. Representatives from abroad come to work with the Ukrainian communities, and representatives from Ukraine go abroad to their “sister city” to see how problems similar to their own such as strategic planning and public transport design have been handled in another environment.

Although much of the twinning done to date has involved North American and West European communities, interest is growing in twinning arrangements with communities in Poland and other Central European countries where the problems and resources are much more similar to those in Ukraine. Twinning arrangements are possible at higher levels of government as well — between agricultural extension agencies, state statistical offices and national banks, for example.

## CIVIL SOCIETY — EMPOWERING PEOPLE

### BACKGROUND — EMPOWERMENT AND PARTICIPATIONS

Empowerment of civil society is central to good governance. In the past, key areas of society were disempowered by the excessive concentration of power in the hands of central authorities. One of the key challenges in transition has been the “democratization of power.” UNDP believes that this process is central to human development: “*Empowerment* is the expansion of women’s and men’s capabilities and choices. It increases their ability to exercise those choices free of hunger, want and deprivation. It also increases their opportunity to participate in, or endorse, decision-making affecting their lives.”<sup>2</sup>

<sup>2</sup> Governance for Sustainable Human Development, A UNDP Policy Document, United Nations Development Program, January 1997



**Children are Especially Happy About a Cleaner  
Sea of Azov, Now that Dumping of Domestic  
Wastes Has Been Stopped**

Source: Ukrinform

Civil society is the direct beneficiary of many of the government actions recommended above related to information and opportunities for participation, so these measures will not be repeated here. This section will focus instead on mechanisms needed to empower civil society organizations so that they can and do respond to opportunities for participation.

### MECHANISMS OF EMPOWERMENT

Empowerment in civil society involves empowering individuals, but this is generally done most effectively by empowering the civil society organizations through which people participate in the governance process. In Ukraine, CSO empowerment requires attention to improving the legal environment for CSOs, training in conducting public hearings and other meetings, assistance with coalition building, and work in building partnerships with other pillars in society.

**Legal environment.** Ukrainian CSOs will be able to participate much more actively and productively in good governance once their legal environment has been brought into line with conditions enjoyed by their counterparts in European and North American countries. Perhaps the best way to sweep away the current fragmented and

occasional contradictory web of legislation would be to develop a comprehensive “*Legal Code for Civil Society Organizations*.” This should be done in close cooperation with the CSO community in Ukraine, drawing on external donors for information on the experience of other countries.

Such a code would provide, in a single, transparent, and internally consistent document, the rules of the game for CSO development and operation. The code would clarify legal terms relevant to CSOs in order to reduce legislative confusion governing the CSO sector. The document would incorporate a “Code of Conduct” for CSO operations, thereby setting universal standards of behavior to which all CSOs could be held accountable. Separate chapters or annexes should be incorporated to provide appropriate guidelines for fundamentally different types of CSOs such as think tanks, advocacy groups, charities, religious organizations, labor unions and political groups. The code would establish a charitable donation tax status, consistent with EU standards, to encourage corporate and private donors to support eligible CSOs. Accounting rules should be simplified in line with the scale of NGO operations, much as has been done for small enterprises.

A distinction should be drawn in the law between cost recovery for goods and services rendered and profit. Too often, current CSO laws turn non-profit organizations into dead organizations. Peculiarities of the current legal framework gravely weaken this important sector of society. Without adequate provisions for cost recovery, the effectiveness of CSOs is severely limited. They lose their independence by becoming excessively dependent on donors or political parties for grants; and they may entirely lose their long-term viability.

In short, legal reforms should create an enabling rather than controlling environment for CSOs, making it possible for them to make their contributions to public dialogue without facing undue regulatory burdens

regarding accounting requirements, financial restrictions and the like provided they operate *in the spirit* of a non-profit organization and otherwise adhere to the rule of law.

***Conducting Public Hearings and Other Meetings.*** The above discussion recommended that Governments hold public hearings to foster participation and partnerships. Many should be conducted directly by the relevant government organizations. However, a strong case can also be made for encouraging these bodies to contract with CSOs to hold public hearings, conferences and seminars on important public policy issues. This would create a win-win situation. Government would benefit because CSOs are often better prepared than government offices in important areas such as access to suitable conference facilities, databases of names and coordinates of people who should be invited to attend such meetings, staff familiar with the logistics of setting up large public meetings, ability to prepare and reproduce materials for distribution, and experience in preparing follow-up action reports on the conclusions of the meetings. Government would gain credibility by allowing reputable CSOs to take the lead on important issues, an approach that would make sensitive issues less political. Having the CSO rather than the Government take the lead in running the meetings would depoliticize the process and focus attention on solving the problems rather than defending political positions.<sup>3</sup> The CSOs would also benefit from this approach. Taking responsibility for the sessions would stimulate CSO staff to do the best possible work in preparing the sessions, would elevate the profile, stature, and

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<sup>3</sup> In Ukraine today, a large share of the population pays little attention to the CSO sector. Consequently, participatory mechanisms can be captured more easily by the state authorities or people's deputies. The state authorities can create their own CSOs or have their employees to register CSOs so that, on the one hand, they can demonstrate their „wholehearted support“ of CSO involvement in the process of decisionmaking and, on the other hand, they can maintain their control over the actual process of decisionmaking. Some local deputies, while in office, may create CSOs to obtain funds from the local administration as well as to increase their role in decisionmaking process. To avoid these potentially dangerous developments, the process of CSO involvement should be transparent.

visibility of the CSOs, and would provide them with badly-needed income.

**Coalition building.** As noted in Chapter 3, one of the major developments in the past two years has been the increased willingness of individual CSOs to work together. The effectiveness of the Freedom of Choice Coalition, which brought together a broad range of CSOs from throughout Ukraine to work on voter education prior to the 1999 Presidential Campaign, demonstrates the importance of coalition building. More needs to be done to help CSOs find partners with common interests, to develop effective structures for co-operation, to ensure transparent management and activities, and to increase the efficiency with which such coalitions use their funds. Government programs for CSO development, implemented with the technical and financial assistance of donor agencies, could make important contributions to this objective.

**Partnership building with other pillars.** Coalition-type partnerships among CSOs should be complemented with partnerships between civil society organizations, governmental offices, and the business community. In addition to contributing directly to participatory action and good governance, such partnerships empower CSOs by giving them an important role in work with other powerful segments of society.

**CSO training.** Despite ten years of independence, many of Ukraine's CSOs are still in an early stage of development and lack the basic skills needed for success in areas such as strategic and operational planning, management of financial and human resources, media relations, team building, proposal writing, and fundraising. These are all learnable skills and could be included in the government-donor CSO coalition development project activities mentioned above. Twinning programs can also be used effectively here. For example, if more developed think tanks in Europe and elsewhere are twinned with individual think tanks here in Ukraine, both sides will gain from the experience. These and other ideas for training in both civil society and in government are presented in Box 5.3.

#### AREAS OF SPECIAL FOCUS AND EMPOWERMENT

The measures outlined above that are designed to strengthen civil society organizations are of high priority now for attaining Ukraine's goals of accelerated human development through good governance. Individuals working alone have little hope of bringing fundamental improvements to the process of governance in Ukraine. Nevertheless, certain segments of civil society are particularly powerless and need assistance in working together to improve their status and in finding support

**Box 5.3 Training activities**

Civil society training	Government training
Train citizens in policy skills to enable them in public participation.	Train public servants in public policy, working with and creating policy documents relevant to their present mandate and according to EU standards.
Increase citizen awareness of EU standards and the benefits/problems of alignment concerning governance and human development, through public consultations and IT.	Provide public servants with concrete training in public consultation procedures and conflict management. Increase their capacity to handle differing points of view, actively listen and facilitate citizen need.
Promote policy discussion of what sectors/spheres are the areas that people want CSO involvement and develop that area.	Develop education policies, at the university level, for courses and departments in public policy that enable public servants to achieve government goals.
Provide between-election training in citizen responsibility for monitoring and assessing government performance.	Provide public servants with customer service management and training skills
Increase citizen capacity to utilise IT resources through providing training, workshops, and investment in public IT facilities that provide free access to the Internet.	Develop IT capacities in government through infrastructure building and training to bring Ukrainian practices into line with EU standards, and also, develop the information capacity of government web-sites.

among civil society organizations. Groups with particular empowerment needs include, for example, women and children, families with many children, minority groups such as the Romany and formerly deported persons like the Crimean Tartars, and those infected with HIV/AIDS.

The measures mentioned above designed to strengthen CSOs in general can also be used to strengthen organizations with a particular interest in helping these groups. Such CSO development efforts should be pursued vigorously because they can help assure that the benefits of economic and social progress reach all people in Ukraine. Groups such as faith-based, community-based, and business-based organizations can be particularly helpful in assisting these at-risk groups. In turn, such groups can benefit from cooperation with national-level organizations with similar interests and with foreign donor organizations, who might well be able to facilitate twinning arrangements with similar organizations in other countries.

The ability of civil society to participate in governance processes can also be strengthened through neighborhood activities ranging from organizing petition campaigns on key community issues to organizing social events such as special neighborhood holiday activities. Social events, for example, bring together people living in a neighborhood who might otherwise remain strangers. Once friendships are established and common goals are recognized, the people are empowered to work together for better governance in their local communities. Such work might include, for example, neighborhood and streetscape beautification, lobbying for better public transport, water supplies or educational programs, or forming neighborhood watch groups to help the police to create a safer community.

According to the Ukrainian Constitution, people are the source of all power in Ukraine, and civil society organizations are the mechanism by which people gain the power and voice needed to participate effectively in good governance. Im-

plementing at least some of the approaches discussed here could therefore make important contributions to good governance and human development in Ukraine.

## **BUSINESS — THE FOUNDATION OF PROSPERITY**

Business, which is every country's system of organizing economic activity, is central to human development. Business generates the incomes that people consume directly, and it generates the tax revenues that government uses to provide "public goods" including social services and protection for the poor -that are central to human development.

Although business is treated here as a single entity, it is actually a highly complex structure. For purposes of this Report, however, we do not need to focus on these complexities. In fact, the following discussion of empowerment and governance focuses on only two key dimensions of business — the enterprise, and the worker.

### **EMPOWERING BUSINESS ENTERPRISES**

Measures that facilitate the development and participation of civil society organizations will help empower business enterprises to participate and contribute to good governance. Steps that strengthen business-based CSOs are particularly important because the business community is most effective when enterprises operate through business and professional organizations rather than as individual enterprises. In fact, encouraging enterprises to work openly through such organizations rather than lobbying privately for their own interests is essential if Ukraine is to reduce the "state capture" that currently plagues decision-making in the economy.

Business-oriented organizations can be quite effective in seeking change for the common good. A good example is the success of the Coordination and Expert Center of Ukrainian Businesspeople in getting a simplified tax system for small enterprises and in defeating proposals to introduce value added tax registers for small





**A Village Kindergarten with a Computer Class, Ballet Studio, and Swimming Pool was Built by an Agricultural Enterprise**

Source: Ukrinform

enterprises (ref. Chapter 4). Similarly, associations of export-oriented manufacturers have been instrumental in encouraging Government to shift from targeting a stable exchange rate to seeking a competitive exchange rate; this, along with a much-improved budget balance, was central to the resurgence of economic growth in Ukraine since 2000.

The business community has a special interest in economic development, which is of course central to fighting unemployment and raising living standards. The business community can work through its own organizations to lobby for changes that improve the business climate at the national, regional or local level. But it can be particularly effective when it works in partnership with the other key pillars of society. Boards, commissions and advisory

councils are excellent ways for Government to tap into the skills of the business community. The business community can be especially helpful in improving the local situation in collaboration with government and civil society because business are part of the same community and share common interests with civil society and local government in its success.

The central government could stimulate further efforts along these lines by establishing a program of grants that cities can use for special community development programs like the “Community Development Block Grant” (CDBG) program in the United States (Box 5.6).

### **EMPOWERING PEOPLE THROUGH DEVELOPMENT OF SMALL BUSINESSES**

Special emphasis should continue to be given in Ukraine to facilitating the growth of small and medium enterprises (SMEs) as a means of empowering people at the local level and encouraging participation in governance. Large enterprises are obviously very important, but in this Human Development Report, SMEs deserve special attention for at least three reasons.

First, SMEs generally require less capital per working place created because they tend to focus on activities in services, construction, transportation, and light manufacturing — sectors that require

<sup>4</sup> For a more complete story on CDBG programs, see <http://www.hud.gov/offices/cpd/communitydevelopment/programs/cdbg.cfm>.

#### **Box 5.4 Granting success to the people**

Some urban areas in America are very poor. Over the past several decades, numerous industries have abandoned the Snow Belt in the north for the Sun Belt in the south. As a result, many northern cities lost the enterprises that had provided jobs to a large share of their workers. The communities needed help. A high priority of the United States Government is to stimulate economic development and assure prosperous cities throughout America — and it is willing to use part of its very considerable financial power to make this possible. At the same time, it is sensitive to the need to delegate as much power as possible to the communities, for they are in a much better position than the central government to know what they really need. The US therefore set up the Community Development Block Grant (CDBG) program. Each year, communities across the country receive billions of dollars in total from the CDBG program as grants for their development. They can decide what to do with these blocks of money, but they must make the decisions on a participatory basis using a transparent set of rules. The decisions must be made by a CDBG committee composed of representatives of the people, the businesses, and the government of the community. These grants have had a tremendous impact on American communities, helping the key pillars of society work together in partnerships to improve housing, schools, hospitals, water systems, streetscapes, vocational training programs, and the local business development climate. Ukraine could do the same.<sup>4</sup>



relatively little investment per worker compared, for example, to metallurgy and chemicals production. Consequently, in a country like Ukraine where capital is relatively scarce and many people lack good jobs — or any job at all, SMEs offer the best hope of economic empowerment for the greatest number of people in the shortest period of time within the limited investment resources available. We will return to this point in a moment in the context of empowering workers.

Second, SMEs are generally more flexible than large enterprises and can quickly shift to more profitable lines of business when opportunities arise. The risks associated with SMEs are also less. When failure comes to an enterprise, fewer people are thrown out of work, creating less of an economic, social and political burden on the community than when a single large factory must close. Government is far less likely to be placed in the position having subsidize the failing enterprise, and this makes it easier to maintain macro stability and to keep government resources focused directly on helping people instead of helping producers.

Finally, SME development tends to be the most democratic and to make the biggest contribution to good governance because of the large numbers of people involved. As people gain economic empowerment through jobs generated in the SME sector, they gain the self-confidence needed to participate effectively in governance through elections, public hearings, council meetings, and all the other mechanisms that work only when empowered people participate.

Measures can be taken at all levels of government to stimulate the development of small and medium enterprises. Some measures require central government action — such as maintaining modest levels of taxes and keeping budget deficits to a minimum so that more capital is available at lower costs for investment. Other measures require action at the local level — such as minimizing the number of

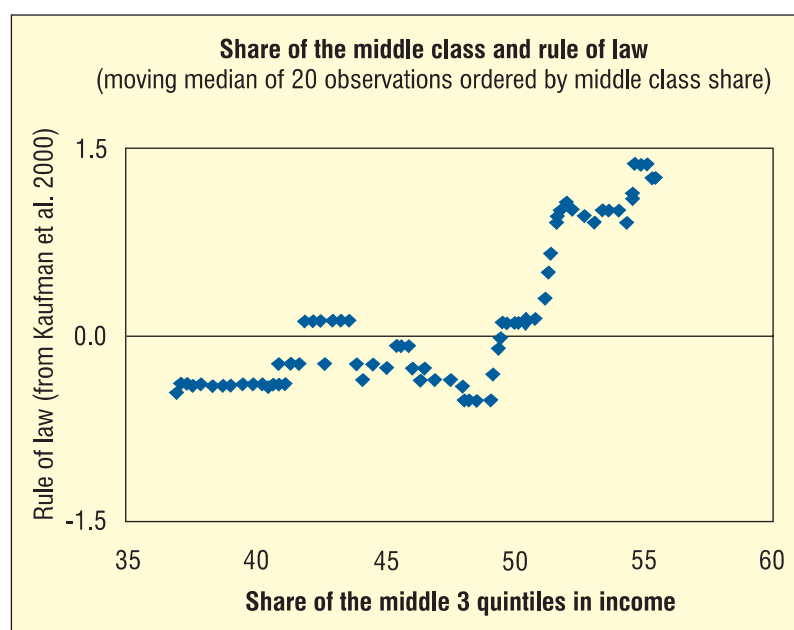
inspections and making suitable land and premises available. Suffice it to say here that SMEs thrive when there is a good business climate, and a good business climate reflects good governance — transparency, stability, equality of opportunity for participation, and adherence to the rule of law. In fact, if appropriate rules of the game are established and enforced, what is good for business is good for governance and is good for human development. With the help of government policies, business can work hand-in-hand with government and civil society to bring prosperity to all people in Ukraine.

### **EMPOWERING WORKERS — THE IMPORTANCE OF A STRONG MIDDLE CLASS**

Earlier in this chapter we discussed ways of empowering people as *consumers* in the process of good governance — as consumers of government-provided public services such as education, health, public safety, and environmental quality. This section focuses on empowering people as *producers* — as participants in the production processes managed by business. The production dimension of people's lives is very important in any discussion of creating an environment of good governance. Workers rights such as non-discrimination on the basis of factors such as age, gender, or nationality; equal pay for equal work; the right to due process in the event of dismissal; and the right to safety in the work place are best assured by good governance.

At a more general level, the issue of empowering workers is important because this is directly related to a key theme underlying this entire Report — the need for strong partners throughout Ukrainian society as the foundation for good governance. Only strong, empowered partners will be able to provide knowledgeable participation and meaningful checks and balances. As the sociological survey conducted for this Report demonstrated, people over 40 with average income, with university/college or special secondary school education exhibited the

**Figure 5.1 Rule of law and the middle class**



Source: Ritzen, Easterly and Woolcock (2000)

highest level of interest towards oblast Rada decisions, while the poorest and the most wealthy pay relatively less attention to oblast Rada activities.

Perhaps the best indicator of effective economic empowerment of individuals is their pay, be it from salaries, wages, or profits as entrepreneurs. And the best indicator of effective economic empowerment of society at large is the existence of a strong middle class. Many definitions of the “middle class” have been proposed, but for our analysis, perhaps most useful is the one put forward in a recent study by Ritzen, Easterly and Woolcock.<sup>5</sup> They define middle class as those in the second through fourth income quintiles—the 60 percent of people who are neither in the poorest nor the richest 20 percent of the total population.

Their study, which looks at reasons why basically good politicians often pursue bad policies, finds that countries with the highest degree of social cohesion (consensus) generally have the best policies for economic and social development. They explore various indicators of social consensus, but the one most relevant here is adherence to the rule of law (this concept was used among others in Chapters 2 and 3 to measure the quality

of governance in Ukraine and in other comparator countries). Their study finds that countries with a strong middle class — countries where the middle 60 percent of the population has at least 50 percent of total income, rank dramatically higher in terms of respect for the rule of law than those where the middle class is smaller and weaker (Figure 5.1). The findings of these studies lead to a logical conclusion: Given that respect for the rule of law is closely related to good governance and thus to human development

(as shown in Chapters 2 and 3), efforts to increase the size of the middle class by improving the quality of participation and governance would make a major contribution to Ukraine’s human development.

Improving the quality of governance by implementing the recommendations made earlier in this chapter would contribute to building a stronger middle class in Ukraine. Participation of a larger and stronger group of middle-class people in governance would help assure that policy decisions reflect the interests of people at large as consumers and as producers.

According to the KIIS’ sociological survey conducted for this Report, a positive attitude towards private business sector now prevails in Ukraine. The better a respondent’s financial position, the more often he or she sees the sector in a positive light. Ukrainians not only have a generally positive attitude towards private business. They also want to participate. Almost half of the Ukrainians surveyed would like to invest significant capital (should they have it) into their own private business. About one third of respondents would keep any capital that they saved at home in Ukraine. Less than 10 percent of respondents would prefer to save their capital abroad.

<sup>5</sup> Ritzen, Easterly and Woolcock (2000)

## SUMMARY

Ukraine has made very substantial progress in the past ten years in its triple transition. It has successfully established itself as an independent nation. It has largely replaced the explicit controls of the former centrally planned economic system with competitive market mechanisms. And it has moved from a totalitarian system of political controls to a largely democratic system.

In the process, the system of governance — the system of using power in managing Ukraine's economic and social resources for human development — has evolved along similar lines. It has moved from centralized power to more decentralized systems of governance based increasingly on the rule of law and on checks and balances. The central role of Government is no longer to control economic and political activity but rather to facilitate private sector initiatives by creating an enabling environment where businesses and civil society can operate effectively, and to provide public goods like social services as efficiently and effectively as possible to civil society.

The direction of change is right, and much has been accomplished. The new challenge is to lift out of absolute poverty the millions of Ukrainians who still cannot obtain the necessities of life required for basic human decency. Economic growth has now been restored and seems to be sustainable — though probably at reduced rates given global economic conditions. Such growth will lift many people out of poverty more or less automatically.

However, this “trickle-down” effect will not be sufficient. Special efforts are needed to improve the *equity* of the distribution of the fruits of this growth so that all of the poorest Ukrainians can be lifted out of absolute poverty as quickly as possible, and that an increasing share of the poor can move into a growing middle class. These are the most important objectives of human development in Ukraine.

World experience indicates that the quality and pace of human development depends heavily on the quality of governance. Good governance is characterized by participation, transparency, accountability, rule of law, effectiveness, and equity. This Report has focused on measures that can improve the quality of governance in Ukraine by empowering people from all of the key pillars of society to participate more actively in governance, thus providing central government with stronger partners in the struggle to improve the conditions of life for all people in Ukraine.

Improving the quality of participation through empowerment will require increasing the quality and timeliness of information available to potential participants in governance, improving opportunities and mechanisms for participation, and providing training to individuals and organizations to help them participate more effectively in governance.

Timely implementation of these measures would help assure more rapid human development and a better life for all people in Ukraine. The challenges are great, but the potential rewards are even greater.

# ANNEX 1. COMPUTING THE INDICES

## The human development index

The HDI is based on three indicators: longevity, as measured by life expectancy at birth; educational attainment, as measured by a combination of the adult literacy rate (two-thirds weight) and the combined gross primary, secondary and tertiary enrolment ratio (one-third weight); and standard of living, as measured by GDP per capita (PPP USD).

### Fixed minimum and maximum values

To construct the index, fixed minimum and maximum values have been established for each of these indicators:

- Life expectancy at birth: 25 years and 85 years.
- Adult literacy rate (age 15 and above): 0% and 100%.
- Combined gross enrolment ratio: 0% and 100%.
- GDP per capita (PPP USD): \$100 and \$40,000 (PPP USD).

For any component of the HDI individual indices can be computed according to the general formula:

$$\text{Index} = \frac{\text{Actual value} - \text{minimum value}}{\text{Maximum value} - \text{minimum value}}$$

If, for example, the life expectancy at birth in a country is 65 years, the index of life expectancy for this country would be:

$$\text{Life expectancy index} = \frac{65 - 25}{85 - 25} = \frac{40}{60} = 0.667$$

### Treatment of income

Constructing the income index is a little more complex. Income enters into the HDI as a surrogate for all the dimensions of human development not reflected in a long and healthy life and in knowledge — in a nutshell, it is a proxy for a decent standard of living. The basic approach in the treatment of income has been driven by the fact that achieving a respectable level of

human development does not require unlimited income. To reflect this, income is discounted in calculating the HDI according to the following formula:

$$W(y) = \frac{\log y - \log y_{\min}}{\log y_{\max} - \log y_{\min}}$$

## Illustration of the HDI methodology

The construction of the HDI is illustrated with two examples — Ukraine (2000) and Ireland (1998), a low-income and a high-income country.

Country	Life expectancy (years)	Adult literacy rate (% age 15 and above)	Combined gross enrollment ratio (%)	GDP per capita (PPP USD)
Ukraine	67.9	98.8	77.3	3,429
Ireland	76.6	99.0	91.4	21,482

### Life expectancy index

$$\text{Ukraine} = \frac{67.9 - 25}{85 - 25} = \frac{42.9}{60} = 0.715$$

$$\text{Ireland} = \frac{76.6 - 25}{85 - 25} = \frac{51.6}{60} = 0.860$$

### Adult literacy index

$$\text{Ukraine} = \frac{98.8 - 0}{100 - 0} = \frac{98.8}{100} = 0.988$$

$$\text{Ireland} = \frac{99.0 - 0}{100 - 0} = \frac{99.0}{100} = 0.990$$

### Combined gross enrolment index

$$\text{Ukraine} = \frac{77.3 - 0}{100 - 0} = 0.773$$

$$\text{Ireland} = \frac{91.4 - 0}{100 - 0} = 0.914$$

### Educational attainment index

$$\text{Ukraine} = \frac{2 * 0.988 + 1 * 0.773}{3} = 0.916$$

$$\text{Ireland} = \frac{2 * 0.990 + 1 * 0.914}{3} = 0.965$$



### *Adjusted GDP per capita (PPP US\$) index*

$$Ukraine = \frac{\log(3,429) - \log(100)}{\log(40,000) - \log(100)} = 0.590$$

$$Ireland = \frac{\log(21,482) - \log(100)}{\log(40,000) - \log(100)} = 0.896$$

### **Human development index**

The HDI is a simple average of the life expectancy index, educational attainment index, and adjusted GDP per capita (PPP USD) index, and so is derived by dividing the sum of these three indices by 3.

Country	Life expectancy index	Educational attainment index	Adjusted GDP (PPP USD) index	Sum of the three indices	HDI
Ukraine	0.715	0.916	0.590	2.221	0.740
Ireland	0.860	0.965	0.896	2.721	0.907

### **The gender-related development index**

The GDI uses the same variables as the HDI. The difference is that the GDI adjusts the average achievement of each country in life expectancy, educational attainment, and income in accordance with the disparity in achievement between women and men. (For a detailed explanation of the GDI methodology see technical note 1 in *Human Development Report 1995*.) For this gender-sensitive adjustment we use a weighting formula that expresses a moderate aversion to inequality, setting the weighting parameter,  $\epsilon$ , equal to 2. This is the harmonic mean of the male and female values.

The GDI also adjusts the maximum and minimum values for life expectancy, to account for the fact that women tend to live longer than men. For women the maximum value is 87.5 years and the minimum value 27.5 years; for men the corresponding values are 82.5 and 22.5 years.

Calculating the index for income is fairly complex. Values of per capita GDP (PPP USD) for women and men are calculated from the female share ( $s_f$ ) and male share ( $s_m$ ) of earned income. These shares, in turn, are estimated from the ratio of the female wage ( $w_f$ ) to the male wage ( $w_m$ ) and the percentage shares of women ( $ea_f$ ) and men ( $ea_m$ ) in the economically

active population. When data on the wage ratio are not available, a value of 75% is used. The estimates of female and male per capita income (PPP USD) are treated in the same way as income is treated in the HDI and then used to compute the equally distributed income index.

$$\text{Female share of the wage bill} = \frac{(w_f / w_m) * ea_f}{[(w_f / w_m) * ea_f] + ea_m}$$

Assuming that the female share of earned income is exactly equal to the female share of the wage bill,

$$s_f = \frac{(w_f / w_m) * ea_f}{[(w_f / w_m) * ea_f] + ea_m}$$

If it is now assumed that the total GDP (PPP USD) of a country ( $Y$ ) is also divided between women and men according to  $s_f$ , the total GDP (PPP USD) going to women is given by ( $s_f * Y$ ) and the total GDP (PPP USD) to men by [ $Y - (s_f * Y)$ ].

Per capita GDP (PPP USD) of women is  $y_f = s_f * Y / N_f$ , where  $N_f$  is the total female population.

Per capita GDP (PPP USD) of men is  $y_m = [Y - (s_f * Y)] / N_m$ , where  $N_m$  is the total male population.

Treating income the same way as in the construction of the HDI, the adjusted income for women,  $W(y_f)$ , is given by:

$$W(y_f) = \frac{(\log y_f - \log y_{min})}{(\log y_{max} - \log y_{min})}$$

The adjusted income for men,  $W(y_m)$ , is given by:

$$W(y_m) = \frac{(\log y_m - \log y_{min})}{(\log y_{max} - \log y_{min})}$$

The equally distributed income index is given by:

$$= \left[ \frac{\text{female population share}}{\text{adjusted female per capita PPP USD GDP}} + \frac{\text{male population share}}{\text{adjusted male per capita PPP USD GDP}} \right]$$

The indices for life expectancy, educational attainment, and income are added together with equal weight to derive the final GDI value.

## Illustration of the GDI methodology

We choose Ukraine (2000) to illustrate the steps for calculating the gender-related development index. The parameter of inequality aversion,  $\epsilon$ , equals 2.

### *Population (millions)*

Total	49.037
Female	26.284
Male	22.753

### *Percentage share of population*

Female	53.6
Male	46.4

## STEP ONE

### *Computing the equally distributed life expectancy index*

#### *Life expectancy at birth (years)*

Female	73.6
Male	62.4

#### *Life expectancy index*

Female	$(73.6 - 27.5)/60 = 0.768$
Male	$(62.4 - 22.5)/60 = 0.665$

### *Equally distributed life expectancy index*

$$= \left[ \frac{\text{female population share}}{\text{female life expectancy index}} + \frac{\text{male population share}}{\text{male life expectancy index}} \right]^{-1}$$

$$= \left[ \frac{0.536}{0.768} + \frac{0.464}{0.665} \right]^{-1} = 0.717$$

## STEP TWO

### *Computing the equally distributed educational attainment index*

#### *Adult literacy rate (percent, age 15 and above)*

Female	98.8
Male	98.8

#### *Adult literacy index*

Female	$(98.8 - 0)/100 = 0.988$
Male	$(98.8 - 0)/100 = 0.988$

### *Combined gross enrolment ratio (percent)*

Female	79.3
Male	80.6

### *Combined gross enrolment index*

Female	$(79.3 - 0)/100 = 0.793$
Male	$(80.6 - 0)/100 = 0.806$

### *Educational attainment index*

2/3 (adult literacy index) +
1/3 (combined gross enrolment index)
Female $2/3(0.988) + 1/3(0.793) = 0.923$
Male $2/3(0.988) + 1/3(0.806) = 0.927$

### *Equally distributed educational attainment index*

$$= \left[ \frac{\text{female population share}}{\text{educational attainment index}} + \frac{\text{male population share}}{\text{educational attainment index}} \right]^{-1}$$

$$= \left[ \frac{0.536}{0.923} + \frac{0.464}{0.927} \right]^{-1} = 0.925$$

## STEP THREE

### *Computing the equally distributed income index*

### *Population (millions)*

Total	49.037
Female	26.284
Male	22.753

### *Percentage share of the economically active population*

Female ( $ea_f$ )	48.5
Male ( $ea_m$ )	51.5

### *Ratio of female non-agricultural wage to male non-agricultural wage (wf/wm): 0.627*

### *GDP per capita: \$3,429 (PPP USD)*

*Total GDP (PPP USD): \$3,429 \* 49.037 million = \$168,126 million (PPP USD)*

$$s_f = \frac{0.627 * 0.485}{0.627 * 0.485 + 0.515} = \frac{0.304}{0.304 + 0.515} = 0.371$$

*Female total GDP (PPP USD) = 0.371 \* \$168,126 million = \$62,418 million (PPP USD)*

*Male total GDP (PPP USD) = \$168,126 million - \$62,418 million = \$105,708 million (PPP USD)*

*Per capita female GDP (PPP USD) =*  
 $= \$62,418 / 26.284 = \$2,375 \text{ (PPP USD)}$   
*Per capita male GDP (PPP US\$) =*  
 $= \$105,708 / 22.753 = \$4,646 \text{ (PPP USD)}$

$$W(y_f) = \frac{\log(2,375) - \log(100)}{\log(40,000) - \log(100)} = \frac{1.376}{2.602} = 0.529$$

$$W(y_m) = \frac{\log(4,646) - \log(100)}{\log(40,000) - \log(100)} = \frac{1.667}{2.602} = 0.641$$

*Equally distributed income index*

$$= \left[ \frac{\text{female population share}}{W(y_f)} + \frac{\text{male population share}}{W(y_m)} \right]^{-1}$$

$$= \left[ \frac{0.536}{0.529} + \frac{0.464}{0.641} \right]^{-1} = [1.013 + 0.724]^{-1} = 0.575$$

#### STEP FOUR

*Computing the GDI*

$$1/3(0.717 + 0.925 + 0.575) = 0.739$$

#### Note

Calculations based on the data given in the annex may yield results that differ from those shown because of rounding.

## ANNEX 2. STATISTICAL PROFILES

### Human Development Profile

	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>Inputs for HDI calculation</b>									
Life expectancy at birth (years)	69.1	68.4	67.8	66.9	67.1	67.1	67.4	68.1	67.9
Adult literacy (%)	98.5	98.5	98.6	98.6	98.7	98.7	98.7	98.7	98.8
Combined gross enrollment (%)	73.7	72.5	72.4	72.7	73.4	74.1	74.9	75.8	77.3
Real GDP per capita (PPP, USD) *	5921	5192	4097	3734	3406	3295	3194	3213	3429
<b>Components of HDI</b>									
Index of life expectancy	0.735	0.723	0.713	0.698	0.702	0.702	0.707	0.718	0.715
Index of education	0.902	0.898	0.899	0.900	0.903	0.905	0.908	0.911	0.916
Index of real GDP per capita	0.681	0.659	0.620	0.604	0.589	0.583	0.578	0.579	0.590
<b>HDI</b>	<b>0.773</b>	<b>0.760</b>	<b>0.744</b>	<b>0.734</b>	<b>0.731</b>	<b>0.730</b>	<b>0.731</b>	<b>0.736</b>	<b>0.740</b>
<b>Rank</b>	69/174	66/174	82/175	85/174		84/174	85/174	80/162	
<b>Inputs for GDI calculation</b>									
Women, life expectancy at birth (years)	74.2	73.7	73.2	72.7	72.7	73.0	73.5	73.7	73.6
Women, adult literacy (%)	98.5	98.5	98.6	98.6	98.7	98.7	98.7	98.7	98.8
Women, combined gross enrollment (%) **								78.9	79.3
Women, real GDP per capita (PPP, USD) ***								2216	2375
<b>Components of GDI</b>									
Gender index of life expectancy	0.735	0.725	0.714	0.700	0.702	0.707	0.718	0.720	0.717
Gender index of education								0.921	0.925
Gender index of real GDP per capita								0.564	0.575
<b>Gender Development Index (GDI)</b>								<b>0.735</b>	<b>0.739</b>

\* World Bank

\*\* Council for Studying Productive Forces of Ukraine

\*\*\* Calculated from WB and CSPFU data

## Demographic profile

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>General and urbanization</b>											
Estimated population (thousand people)	51690	51802	51989	51859	51474	51079	50639	50245	49851	49456	49037
Female (%)	53.6	53.6	53.6	53.6	53.6	53.4	53.4	53.5	53.5	53.5	53.6
Urban (%)	67.5	67.8	67.9	67.9	67.9	67.9	67.8	67.9	67.9	68.0	68.0
Population in largest city (as % of urban)	7.50	7.60	7.50	7.6	7.6	7.6	7.6	7.7	7.8	7.8	7.9
Population in cities of more than 1 million (as % of urban)	21.7	21.6	21.5	21.5	21.4	21.5	21.5	21.5	21.6	21.6	21.6
Annual population growth (decline) rate (%)	0.21	0.22	0.36	-0.25	-0.74	-0.77	-0.86	-0.78	-0.78	-0.79	-0.85
<b>Age related</b>											
Dependency ratio (%)	79.1	79.4	79.5	79.7	79.7	79.4	79.1	78.6	78.1	76.8	74.9
Population aged 60 and over (%)	18.3	18.7	18.8	18.7	18.5	18.4	18.5	18.9	19.5	20.1	20.7
Life expectancy at birth (years)											
Male	65.4	64.7	63.9	63.3	62.5	61.3	61.6	61.9	62.7	62.7	62.4
Female	74.9	74.3	74.1	73.4	73.0	72.6	72.8	73.0	73.5	73.7	73.6
Life expectancy at the age of 60 (years)											
Male	15.4	15.0	14.6	14.5	14.3	14.1	14.0	13.8	14.2		
Female	19.7	19.3	19.2	18.6	18.4	18.5	18.4	18.2	18.5		
<b>Birth/ mortality</b>											
Number of live births (thousand people)	657.2	630.8	596.8	557.5	521.5	492.9	467.2	442.6	419.2	389.2	385.1
Number of deaths (thousand people)	629.6	669.9	697.1	741.7	764.6	792.6	776.7	754.2	719.9	739.2	758.1
Natural growth (decline) of population (thousand people)	27.6	-39.1	-100.3	-184.2	-243.1	-299.7	-309.5	-311.6	-300.7	-350.0	-373.0
Child mortality (children under 1 per 1000 born)	12.8	13.9	14.0	14.9	14.5	14.7	14.3	14.0	12.8	12.6	11.9
Child mortality (children under 5 per 1000 born)	17.3	18.5	18.7	19.9	19.6	19.9	19.4	18.9	17.3	17.5	16.0
Maternal mortality rate (per 100,000 live birth)	32.4	29.8	31.3	32.8	31.3	32.3	30.4	25.1	27.2	25.2	24.7
<b>Social</b>											
Share of children born by single women (as % of total)	11.2	11.9	12.1	13.0	12.8	13.2	13.6	15.2	16.2	17.4	17.3
Registered marriages (thousands)	480.8	493.1	394.1	427.9	399.2	431.7	307.5	345.0	310.5	344.9	274.5
Registered divorces (thousands)	192.8	200.8	222.6	219.0	207.6	198.3	193.0	188.2	179.7	175.8	197.3
<b>Migration</b>											
Immigration to Ukraine (thousands)			556.4	356.6	202.7	182.8	129.5	129.1	71.8	65.8	53.7
Emigration from Ukraine (thousands)			268.3	307.0	345.9	277.5	260.6	203.6	165.4	110.6	100.3
Migration balance (thousands)	79.3	148.4	288.1	49.6	-143.2	-94.7	-131.1	-74.5	-93.6	-44.8	-46.6



## Macroeconomic profile

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>General</b>											
Real GDP annual growth (decline) (%)	...	-8.7	-9.9	-14.2	-22.9	-12.2	-10.0	-3.0	-1.9	-0.2	5.8
Real GDP per capita annual growth (decline) (%)	...	-8.9	-10.2	-14.3	-22.6	-11.5	-9.3	-2.2	-1.2	0.6	6.7
CPI (1996 – 100) *	0.001		0.024	1.175	12	55	100	116	128	157	202
Inflation rate (yoy)	-	290	2000	10156	401	181.7	39.7	10.1	20	19.2	25.8
<b>National accounts</b>											
Total GDP (1990-1995 billion krb., 1996-2000 million UAH)	167	299	5033	148273	1203769	5451642	81519	93365	102593	130442	172952
Production structure (% of GVA)											
Industrial production	36.0	42.3	43.5	29.9	39.0	34.6	31.0	28.4	29.8	32.8	33.9
Agricultural production	25.5	22.7	20.3	21.6	16.0	14.9	13.3	13.9	13.7	13.6	13.5
Consumption structure (% of GDP)											
Private consumption	54.8	52	42	44	44.3	49.7	53.3	54.2	56.9	54.7	55.8
Accumulation of capital (including buying durables)	23.0	20.0	27.1	24.3	23.5	23.3	20.7	19.8	19.6	19.3	19.0
<b>Balance of payments</b>											
Exports (% of GDP)	27.7	26.1	24.0	25.9	35.4	47.1	45.6	40.6	41.9	52.0	62.8
Imports (% of GDP)	-28.7	-23.9	-22.0	-26.2	-38.6	-50.2	-48.2	-43.7	-44.2	-48.9	-55.2
Foreign trade balance (% of GDP)	-1.0	2.2	2.0	-0.3	-3.2	-3.1	-2.6	-3.1	-2.3	3.1	7.6
Foreign direct investments in Ukraine (millions of USD)					484	897	1438	2064	2811	3282	3866
Official exchange rate (average annual, UAH/USD)			208	4539	31700	1.47	1.83	1.86	2.45	4.13	5.44
<b>Budget</b>											
Budget expenditures (1992-1994 billion krb., 1995-2000 million UAH)			1920	57249	630647	24303	34183	34313	31196	34821	47280
Budget expenditures (as % of GDP)			38.1	38.6	52.4	44.6	41.9	36.7	30.4	26.8	27.3
Social protection			7.1	12.2	5.8	6.1	5.0	6.0	4.1	3.2	3.4
Social and cultural spending			10.0	9.6	11.6	11.5	10.2	11.0	8.9	7.4	8.1
Education	3.8	4.6	4.8	4.5	5.3	5.4	4.9	5.4	4.4	3.6	4.1
Health care	2.6	3.1	3.7	4.0	4.8	4.7	3.9	4.2	3.5	2.9	2.8
National economy			14.2	9.4	17.4	4.3	4.2	4.7	6.9	5.5	4.1
Administration and Justice			1.3	2.0	2.5	2.6	2.8	3.2	1.3	1.2	1.9
Defense			2.1	1.9	1.9	1.9	1.5	1.9	1.4	1.2	1.3
Pension Fund			-	-	7.4	7.6	8.9	-	-	-	-
Chornobyl Fund			2.3	1.3	1.9	1.7	1.9	1.9	1.4	1.1	1.1
Other expenditures			1.0	2.2	3.9	8.9	7.4	8.0	6.4	7.2	7.4
Budget deficit (% of GDP)											
GOU definition		7.1	13.7	5.1	8.9	6.6	4.9	6.6	2.2	1.5	-0.7
IMF definition **			29	9.5	8.0	5.0	2.5	5.5	2.8	2.5	1.2
<b>Productivity</b>											
GDP/workers (1990-1995 thousand krb., 1996-2000 UAH)	7	12	205	6204	52338	230027	3514	4131	4601	5984	8007
GDP/gross investment	5.4	6.0	5.8	5.1	5.3	5.8	6.5	7.5	7.4	7.4	8.9
<b>Energy consumption</b>											
Electrical energy (billion kWh)	270	264	247	228	202	191	181	178	142	139	136
Coal (million ton)			142	126	89	85	69	65	61	63	63
Natural gas (billion cubic m)			110	96	84	78	81	76	71	72	68
Mineral oil (million ton)			30	18	18	15	14	13	14	13	9
GDP per unit of energy use (PPP \$ per kg of oil equivalent)	1.31	1.25	1.41	1.39	1.29	1.16	1.08	1.11			

\* Calculated from UEPLAC data

\*\* International Monetary Fund

### Communication profile

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Radios per 100 households *	281	285	282	276	256	239	220	196	165	152	128
TV sets per 100 households *	331	347	350	339	310	234	209	186	156	136	103
Annual cinema attendance (per person)	11	9	4	2	1	1	0.3	0.1	0.1	0.01	0.01
Annual museum attendance (per person)	0.6	0.4	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Newspapers (copies per 100 people)	48	52	46	76	38	40	44	67	94	78	97
Book title published (per 100,000 people)	13.6	11.2	12.2	9.7	9.1	11.9	12.0	12.6	14.2	12.6	15.7
Letters posted (per capita)	28.6	26.1	20.3	16.4	13.6	12	8.9	7.1	6.5	5.8	6.1
Telephones per 100 households	29	30	32	33	32.3	33	35	37	39	39	39
Motor vehicles (per 100 people)	8.6	6.5	7.0	7.8	8.3	8.7	9.4	9.7	9.8	10.3	10.4

\* Retail trade data

### Land and natural resources profile

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Land area (thousand of sq. km)	603.7	603.7	603.7	603.7	603.7	603.7	603.7	603.7	603.7	603.7	603.7
Arable land and permanent cropland (as % of land area)	55.6	55.4	55.4	55.2	55.2	55.2	55	54.2	54.4	54.4	54.4
Forest and wooded land (as % of land area)	16.9	17.1	17.1	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2
Irrigated land (as % of arable land)	7.7	7.7	7.8	7.8	7.8	7.8	7.6	7.5	7.5	7.5	7.5
Population density (people per sq. km)	85.9	86.2	86.5	86.3	86.3	85.7	85.0	83.9	83.0	83.0	82.0
Internal renewable water resources per capita (cubic m per year)	1.0	1.0	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.1
Annual fresh water consumption (cubic m per capita)	582.0	544.5	517.9	469.9	451.9	394.6	365.2	308.2	275.1	288.8	264.9
Emissions of selected pollutants (1000 t)											
Sulphur anhydride	2783	2538	2376	2194	1843	1639	1293	1132	1023	1029	977
Nitrogen oxides (NOx)	761	709	637	550	501	424	374	370	333	333	320
Volatile organic compounds, incl. hydrocarbons (VOC, incl. HnCn)	462	509	622	565	550	548	493	462	427	440	444
Carbon monoxide (CO)	3274	2941	2601	2069	1859	1479	1306	1371	1279	1237	1231

### Population's incomes and expenditures profile

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
	krb.			thousand krb.			UAH				
Average income per person per month	176	326	3781	100	865	43	66	82	90	103	146
Average money expenditures and savings per person per month	177	310	3039	82	763	40	64	79	88	99	141
Average annual income per person (PPP, USD) *	6372	6001	5921	5192	4097	3734	3406	3295	3194	3213	3429
Ratio of incomes of 20% richest to 20% poorest			5.9**	3.6	4.2	4.7	4.8	4.0	3.8	3.2	2.7
Official poverty lines (UAH) ***											
Poverty	...			...				...		126	156
Extreme poverty			...		...	...	...		...	100	125
Share of people (%) living in ***											
Poverty		...				...	...		...	27.8	26.4
Extreme poverty		...	...		...		...			14.2	13.9
Poverty gap (%) ***											
Poverty		...		...	...		...		...	23.3	23.8
Extreme poverty	...				...		...		...	20.5	20.6
Expenditures and savings of people											
Buying goods and services	78.2	74.9	80.8	86.0	84.7	81.3	70.5	66.5	65.3	70.3	71.5
Mandatory and voluntary payments	10.7	8.6	10.8	7.9	7.9	8.7	10.1	10.9	10.5	11.3	14
Savings in banks and securities	10.8	16.4	6.9	5.1	4.1	1.5	6.2	5.4	4.7	7.7	6.3
Buying foreign exchange	0.3	0.1	1.4	0.9	3.3	8.1	12.6	16.2	18.0	8.2	4.8

\* World Bank

\*\* Fourth quarter 1992 data

\*\*\* SSC survey data

### Employment/ unemployment profile

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Labor force (million people)	25.4	25.0	24.5	23.9	23.0	23.7	23.2	22.6	22.3	21.8	21.3
Industry	7.8	7.8	7.4	7.0	6.3	5.8	5.3	4.9	4.7	4.4	4.3
Agriculture and forestry	5.0	4.9	4.9	4.9	4.8	5.3	5.1	5.0	5.0	4.9	4.7
Construction	2.4	2.3	1.9	1.8	1.6	1.5	1.4	1.2	1.1	1.0	0.9
Transport and communications	1.8	1.8	1.6	1.6	1.5	1.5	1.4	1.3	1.3	1.2	1.2
Trade and catering	1.9	1.9	1.8	1.7	1.6	1.6	1.5	1.5	1.4	1.5	1.5
Health and social care	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.4
Education, culture, science, and art	3.0	3.0	2.8	2.7	2.7	2.6	2.5	2.3	2.3	2.2	2.2
Management	0.4	0.5	0.6	0.6	0.7	0.7	0.7	0.8	0.8	0.8	0.8
Other spheres	1.6	1.3	1.5	1.6	1.5	1.5	1.5	1.4	1.4	1.4	1.4
Other areas of economic activity	0	0	0.5	0.5	0.8	1.7	2.3	2.8	2.9	3.0	3.2
Total (%)	100	100	100	100	100	100	100	100	100	100	100
Industry (%)	30.8	31.1	30.2	29.3	27.1	24.3	23.0	21.6	21.2	20.2	19.9
Agriculture and forestry (%)	19.8	19.3	20.4	20.6	20.9	22.5	21.8	22.0	22.5	22.5	21.8
Other spheres and areas of economic activity (%)	49.4	49.6	49.4	50.1	52.0	53.2	55.2	56.4	56.3	57.3	58.3
<b>Unemployment (end of the year)</b>											
Unemployed persons (thousand people)											
ILO methodology, October*			-	-	-	1437	1998	2330	2937	2699	2708
Registered			70.5	83.9	82.2	126.9	351.1	637.1	1003	1175	1155
Unemployment rate											
ILO methodology			-	-	-	5.6	7.6	8.9	11.3	11.9	11.7
Registered			0.3	0.3	0.4	0.4	1.2	2.5	3.7	4.3	4.2
Unemployment benefits expenditures**			7.2	5.0	4.3	6.6	28.1	65.3	63.3	64.4	65.0
Incidence of long-term unemployment (%) ***											
ILO methodology			-	-	-	28.0	32.7	32.3	37.0	40.4	63.5
Registered			..	..	..	14.8	14.1	22.8	30.3	34.5	33.2
Regional unemployment disparity (%)											
ILO methodology			-	-	-	1.6	2	1.9	1.8	1.7	
Registered			4.6	8.6	7.1	4.7	3.1	2.5	2.6	3.6	
Number of unemployed graduates from secondary school versus number of unemployed graduates from higher levels											
ILO methodology			-	-	-	5.4	2.5	2.4	2.2	2.6	
Registered			1.8	2.1	1.5	1.5	1.6	1.7	1.9	2.7	

\* Data from the survey on households' economic activity

\*\* Share of expenditures on unemployment benefits in total sum of State Unemployment Center outlays

\*\*\* Exceeding one year

## Education and science profile

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Gross enrolment ratio	76.6	75.3	73.7	72.5	72.4	72.7	73.4	74.1	74.9	75.8	77.3
Tertiary gross enrolment ratio	14.0	13.9	13.0	12.6	13.4	13.6	13.9	14.8	15.2	15.5	17.4
Tertiary full-time equivalent gross enrolment ratio	9.0	9.2	8.8	8.7	9.9	10.1	10.2	10.1	10.3	10.5	11.7
Number of educational institutions											
Secondary (thousand)	21.8	21.9	22.0	22.1	22.3	22.2	22.2	22.1	22.1	22.2	22.2
Professional training	1246	1251	1255	1185	1177	1161	1146	995	989	977	966
Higher I-II accreditation level	742	754	753	754	778	782	790	660	653	658	664
Higher III-IV accreditation level	149	156	158	159	232	255	274	280	298	313	315
Number of students/pupils per 10,000 people											
Secondary	1364	1357	1362	1357	1377	1391	1402	1402	1394	1379	1372
Professional training	127	127	125	122	111	108	106	105	106	106	106
Higher I-II accreditation level	146	142	138	131	125	120	117	104	101	101	107
Higher III-IV accreditation level	170	168	164	159	172	180	192	220	242	258	285
Number of scientific institutions	1400	1344	1350	1406	1463	1453	1435	1450	1518	1506	1490

## Healthcare profile

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Mortality from diseases of circulation system (% of all cases)	52.9	52.1	51.6	55.1	56.5	56.8	57.5	59.2	60.3	60.7	61.2
Mortality from neoplasm (% of all cases)*	16.2	15.7	15.2	14.1	13.7	12.9	12.8	12.9	13.6	13.3	12.9
AIDS: number of registered HIV-positive						1569	6504	15087	22307	26146	29775
number AIDS patient people out of HIV positive						54	124	218	433	718	917
died by the end of the year						12	70	88	172	295	516
Population per doctor (number of people)	228	225	228	225	227	222	221	222	220	217	217
Registered absolute alcohol consumption (liters per adult)	4.1	4.1	3.6	3.3	2.0	1.6	1.0	1.2	1.2	1.3	1.4
Tobacco consumption (billion items)	...	...	...	...	...	10.4	7.0	7.3	10.2	13.5	14.3
Malnutrition prevalence, weight for age (% of children under 5) **											
Underweight										3.0	
Severely underweight	-	-	-	-	-	-	-	-	-	0.5	

\* Neoplasm and malignant tumors

\*\* UNICEF - SSC survey data

## Weakening social fabric

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Prisoners (per 100,000 people)	176.0	181.8	204.4	233.6	259.8	303.1	327.2	322.1	311.1	336.0	347.5
Juveniles (as % of total convicted)	12.1	10.5	10.2	9.7	7.9	7.9	7.9	7.7	7.8	7.9	8.7
Rapes and attempts on rape (reported cases)	2661	2351	2369	2078	2061	1947	1752	1510	1334	1288	1151
Rapes (reported cases per 100,000 women of age 15-59)	16.7	14.7	14.7	11.5	12.9	12.0	10.9	9.5	8.4	8.2	7.4
Drug and related crimes (reported cases)	7236	11028	14720	25268	28316	38181	38258	38348	39940	42823	45748
Drug related crimes (per 100,000 people)	14.0	21.2	28.3	48.6	54.6	74.2	74.9	75.7	79.4	85.8	92.4
Suicides by men (per 100,000 men)	34.6	34.9	38.2	40.9	46.1	49.8	52.9	51.6	51.3	50.3	50.4
Premeditated murders and attempts to murder (reported cases)	2823	2902	3679	4008	4571	4783	4896	4529	4563	4624	4806
Number of arrested and sentenced in investigation ward /prison	...	...	31353	38948	40659	43845	45101	44348	43039	44683	46211
Number of detained serving their sentence in prisons and camps	91322	94554	106583	121899	134895	156208	167234	163317	156475	167682	172039



## Regional HDIs, 1999

	Life expectancy at birth (years)	Combined gross enrollment	Adult literacy rate	Estimated GDP (PPP USD)	Life expectancy index	Education index	Income index	HDI
Kyiv city	70.9	0.967	99.0	6139	0.765	0.982	0.687	0.811
Poltava	68.7	0.736	99.8	4194	0.728	0.911	0.624	0.754
Kharkiv	68.1	0.838	99.8	3440	0.718	0.945	0.591	0.751
Zaporizhia	67.6	0.716	99.7	4498	0.710	0.903	0.635	0.749
Dnipropetrovsk	67.1	0.717	99.3	3973	0.702	0.901	0.615	0.739
<b>Ukraine</b>	<b>68.1</b>	<b>0.758</b>	<b>98.7</b>	<b>3213</b>	<b>0.718</b>	<b>0.911</b>	<b>0.579</b>	<b>0.736</b>
Kyiv oblast	67.7	0.679	99.1	3706	0.712	0.887	0.603	0.734
Lviv	70.6	0.746	99.3	2398	0.759	0.910	0.530	0.733
Cherkasy	68.7	0.725	99.5	2978	0.729	0.905	0.566	0.733
Donetsk	67.1	0.675	99.1	3809	0.702	0.886	0.608	0.732
Khmelnyskyi	69.3	0.741	98.2	2675	0.739	0.901	0.549	0.730
Sumy	68.0	0.698	99.8	3122	0.716	0.898	0.574	0.729
Odesa	67.1	0.746	98.5	3222	0.702	0.905	0.580	0.729
Ternopil	70.2	0.781	98.9	2080	0.754	0.919	0.507	0.726
Ivano-Frankivsk	70.4	0.701	98.5	2373	0.756	0.890	0.529	0.725
Chernihiv	67.9	0.721	98.8	2878	0.715	0.899	0.561	0.725
Vinnytsia	68.7	0.705	98.9	2588	0.728	0.894	0.543	0.722
Rivne	68.9	0.711	97.3	2611	0.732	0.886	0.544	0.721
Zhytomyr	67.9	0.717	99.2	2545	0.715	0.900	0.540	0.718
Krym AR/ Crimea	68.4	0.698	99.3	2351	0.724	0.895	0.527	0.715
Mykolaiv	66.7	0.688	98.0	2896	0.694	0.883	0.562	0.713
Volyn	68.6	0.707	99.1	2180	0.726	0.897	0.514	0.712
Luhansk	67.0	0.654	98.7	2804	0.700	0.876	0.556	0.711
Chernivtsi	70.4	0.698	97.2	1909	0.756	0.881	0.492	0.710
Sevastopol city	69.3	0.719	98.7	1856	0.739	0.897	0.488	0.708
Kherson	66.2	0.713	98.6	2480	0.687	0.895	0.536	0.706
Kirovohrad	66.8	0.692	98.2	2322	0.696	0.886	0.525	0.702
Zakarpattia	68.7	0.654	99.8	1725	0.729	0.883	0.475	0.696

Source: All regional data obtained from Council for Studying Productive Forces of Ukraine

## ANNEX 3. POVERTY LINES IN UKRAINE

A **poverty line** is the level of income or expenditure below which an individual is considered to be living in poverty. Many different poverty lines commonly exist for any given country because of many different definitions of “poverty” exist. In addition to poverty lines based on income and on expenditure, they may also be based on absolute versus relative measures.

**Absolute poverty measures** involve defining a “minimum” consumption basket sufficient to provide the necessities of life. Such consumption baskets range from those adequate for physical survival (enough food to stay alive) up to baskets that provide enough food, shelter, clothing, and other amenities of life to give a person “the minimum needed for human decency.” The difference between physical subsistence and a decent existence can be quite large, resulting in very different poverty lines. Also, the point in time when the poverty line was established can also be very important. Absolute poverty lines become particularly hard to interpret over time when inflation is relatively high and has differential effects on individual items within the overall consumption basket.

In addition to absolute poverty lines defined on the basis of nationally-based consumption baskets, international organizations such as the UN and the World Bank use universal absolute measures such as one US dollar per day for comparing poverty across countries and for building international support for the fight against poverty. As useful as such measures may be for such purposes, they are considerably less useful for measuring poverty within any given country. This is due to the differences between countries in the cost of key items in the appropriate consumption basket; in the composition of these baskets due, for example, to climatic differences between tropical and sub-arctic countries; and in exchange rate distortions that make it difficult to convert dollar-based standards

into equivalent amounts of domestic currency. The use of “purchasing power parity” exchange rates to translate domestic income and expenditure into dollar terms helps resolve this problem but is a far-from-perfect solution.

A variant of the absolute poverty line is the share of income spent on food. The poorer that people are, the more they spend out of their total income on food. Thus the share of income spent on food is a good indirect indicator of the degree of poverty.

**Table A3 Households’ expenditures on foodstuffs**

Households	Very poor	Poor	Non-poor	All
Number of households, 1000	2,399.3	4,741.0	13,030.5	17,771.5
Average size of households, people	3.23	3.15	2.64	2.78
Ratio of foodstuffs in total expenditures, %	72.7	71.6	65.5	67.1

**Relative poverty measures** avoid the problems of defining an “appropriate” consumption basket by measuring poverty in terms of average income levels in the country. For example, a person who lives on less than 75 percent of the national average might be considered “poor.” This approach has considerable technical advantages in that it takes into consideration actual current conditions in the specific country. It also makes sense in that people commonly regard themselves as rich or poor not in any absolute sense, but in comparison to the standards of living by which they are surrounded.

While avoiding the consumption basket problem, this measure nevertheless suffers from other problems (which also affect the absolute measures). First, consumption requirements for the same basic quality of life are different for rural and urban areas. Second, “economies of scale” exist in families — two people living together can live more cheaply than if they live separately and can still enjoy the same quality of life.

Likewise, children commonly require less income/expenditure per person than do adults because of lower caloric intake and similar factors. The strong possibility that it is wrong to set the same poverty line for all members in a family raises the issue of “family member equivalency”, which is discussed in more detail below specifically for Ukraine.

These uncertainties and ambiguities should be kept in mind when interpreting data on poverty. It is all too easy to overstate or understate the incidence of poverty in a country and thus come to wrong conclusions about the policies needed to improve the situation. For this report on Ukraine we have used data on poverty from two basic sources, the State Statistics Committee (SSC) and the World Bank (WB).

Both SSC and WB use the 1999 *Ukrainian Survey of Income and Expenditure* (SIE) for their calculations. The SIE is conducted yearly by SSC. The sample of 9,435 households is representative of Ukraine and drawn from 195 sample towns and 190 rural districts. The territorial composition of the sample is changed every 5 years.

While developing its methodology, the SSC tested different poverty lines: absolute poverty, based on caloric and minimum consumption baskets; relative poverty, and food shares or structural. In Table 1.3, we present both absolute and relative poverty lines. For analytical purposes, relative poverty line of 75% of median expenditures for poor and of 60% of median expenditures for very poor was chosen as national poverty line. Thus, Map 1.3 is based on the relative poverty line of 75% of median equivalent expenditures for three quarters of 1999 (134.3 UAH).

Assumptions about family member equivalency and economies of scale influence results of study as well. Traditionally, SSC of Ukraine has used equivalency scale of (1; 1; 1), which means that first adult in the family, the second and subsequent adults, and all children are weighted equally. This simplistic assumption is generally not true for developed market economies, where children under 15

consume less food than prime-age adults. It may not hold for developing countries either. For example, the cultural values in Armenia put children above all others in the family. Consequently, World Bank analysts did not find evidences of widespread gross child malnutrition (wasting) and little indication of prolonged child malnutrition (stunting<sup>1</sup>) in Armenia during armed conflict with Azerbaijan (1992-94). At the same time, widespread weight loss among elderly Armenians was documented.

Economy of scale adjustments take into consideration the effect of family size on shared goods such as housing and heating, in which the cost of each additional family member is marginally less or negligible. In Ukraine, the regulation “On Provision of Targeted Social Assistance to Low Income Families” (in force since February 1999 till February 2001) stipulated the following scale:

- First adult (and Group I and II disabled) — 1.0
- Second and subsequent adults — 0.7
- Children (regardless of age) — 0.5

Except for the separate designation of persons with disabilities, these criteria are equivalent to the OECD scale, which is also used by the WB to analyze household consumption and to measure poverty. SSC uses scale (1; 0.7; 0.7)<sup>2</sup>.

The scale traditionally used in Ukraine gave each individual a weight of 1.0 regardless of age, and that explains higher poverty headcount ratios for official poverty line and \$1 a day indicators in Table 1.3. In general, the lower the weight used for additional household members, the lower the median equivalent expenditures and the less people fall behind the poverty line<sup>3</sup>.

<sup>1</sup> In Ukraine, 15% of children under 5 years old are stunted; the figure is even more striking for children of age 12-23 months — 19% (SSC and UNICEF study, 2000)

<sup>2</sup> Starting from 2000, Verkhovna Rada adopted law „On Approval of Subsistence Minimum for 200X“, whereby subsistence minimum for children of 6 to 18 years old was 3 to 5% higher than for working persons.

<sup>3</sup> Different equivalency scales have been used in other transition countries. Several equivalency scales were investigated for Ukraine as alternatives to the one selected. For example, British consultants recommended a scale in which subsequent adults and children received a weight of 0.7. In an Estonian poverty study by the UNDP, subsequent adults and children were assigned a weight of 0.8.

## ANNEX 4. METHODS OF EVALUATING THE HUMAN DEVELOPMENT IN UKRAINE'S REGIONS

Starting in the 1990s, the UN began publishing its annual Global Human Development Report. An integral part of these reports is statistical tables that contain comparative data on the level of human development in all countries covered by the report. The basis for these comparisons is the Human Development Index (HDI), which is calculated the methodology developed by UNDP specialists and reflects the status of health, education and economic wellbeing of the population in each country.

In addition to the Global Human Development Report, National Human Development Reports are also prepared. Since 1995, such reports have been prepared for Ukraine. In fact, Ukraine was the first country in the Central and Eastern Europe and CIS region to join this project. The Human Development Index that was developed for the global reports was used in these national reports as well. However, mechanical usage of the standard UNDP system may be suboptimal for Ukraine considering the information that it has available.

**First**, because a rather limited number of indexes that it uses, the UNDP system does not give a complete picture of the level of human development in the country. The international system uses only information that can be collected in all countries. The statistical base available in Ukraine makes it possible to consider many additional factors that are important to human development.

**Second**, the human development indexes proposed by the UNDP are somewhat depleted by considering only positive characteristics (stimuli) of human development (characteristics where the higher the index, the better is the level of human development). At the same time, negative indexes of social development such as the levels of crime and unemployment are

not considered. As negative indicators also contain valuable information about human development, their consideration is appropriate for Ukraine.

**Third**, such an important and universal social development index as the Human Development Index should be as robust as possible, which is a guarantee against its distortion towards over- or underestimation. The human development level is calculated using only four indexes; consequently, *an error in any one of these can substantially influence the position of a given region in the overall list.*

The above-mentioned arguments in favor of increasing the number of indexes used in calculating the human development index encouraged the development of Ukraine's own system for calculating the HDI. The new system can be modified to accommodate changes or amendments to reflect changes in the social and economic situation in the country, or in methods of collecting statistics. The technique for determining the contribution of the selected criteria to the overall regional human development index enables us to make such adjustments without difficulty.

In order to adjust the global ideas of estimating human development to the concrete circumstances of Ukraine, we have developed a system of forming the regional indexes of human development that enables us to avoid the problems mentioned above and to determine the rating of each region by the general level of human development, as well as individual components. The existing information base makes it possible to significantly expand the number of indexes compared to the limited number in the international system..

The second principle difference compared to the international system of calculating the human development indexes lies in rejecting the hypothesis of equivalence

**Table A4.1 Weights of components in regional human development index**

Demo-graphic develop-ment	Labor market develop-ment	Material wellbeing of the population	Living condi-tions	Education level	State of the health-care system	Social environ-ment	Funding of human develop-ment	Environ-mental situation
0.107	0.095	0.121	0.122	0.129	0.114	0.108	0.089	0.113

of individual elements in calculating the human development index in the region.

At the conceptual level the proposed system of calculating the regional human development index envisages:

- The systemic analysis of the problem, its structuring, and presentation in a hierarchical form, where each of three levels is presented according to the integral index of human development, general indicators of each of nine main human development aspects, and basic indexes;
- The quantitative evaluation of priorities in the hierarchical system, which enables to determine the contribution of each component into the final result;
- The formation of data bases;
- The calculation of composite indexes of the regional human development.

The main indicators of regional human development in Ukraine are the following: demographic development, labor market development, material well-being of the population, living conditions, education level, state of the healthcare system, social environment, funding of human development, and the environmental situation.

Therefore, unlike the international system for calculating the human development index, the national system uses an intermediate stage that reflects the relative importance of each of the main dimensions of human development at the regional level. This makes it possible to avoid an excessive informational load in the main index. This approach is also complex enough to reflect the regional specifics of human development and to minimize the influence of incidental circumstances.

### **HIERARCHICAL SYSTEM OF INDEXES**

The characteristics of each dimension of regional human development in Ukraine

is based on the use of general and composite indexes. In their turn, composite indexes are taken from two groups:

1) Indexes which directly participate in calculating the general index — main indexes;

2) Indexes which determine the profile of human development — profile indexes.

For selecting indexes we use *the method of factor analysis*, which makes it possible to determine not only the connection between individual aspects of the studied object, but also the importance of this connection. The most important distinction between factor analysis and other methods of estimating the connection lies in the possibility of determining not only direct connections, but indirect ones as well. In addition to determining the connection between indexes, factor analysis makes it possible to build presumptive (latent) factors. Based on observing numerous variables, or rather on observing their co-variations, factor analysis allows determining the most essential reasons, as well as systems and structures, which underlie diverse phenomena. Due to this, factor analysis demands fewer preliminary hypotheses compared to other methods of estimating the connection: the most general hypothesis regarding the existence of certain distributions in the studied object is enough — the systemic characteristics of regional specifics of human development levels.

Considering the fact that almost every human development index is a denominate quantity, the necessary procedure of the method is the preliminary valuation of the selected indexes, which ensures comparability and juxtaposition of the formed information base. Values are calculated by using different formulas for index-stimulants and index-destimulants. This is necessary in order to unify the



components by which the ranking is effected between maximum and minimum values, and those by which this ranking is done in the opposite direction.

Indexes are calculated by the following formulas:

• **Indexes-stimulants which are in positively correlated with the human development index**

$$y_{ij} = \frac{Z_{ij} - Z_{j\min}}{Z_{j\max} - Z_{j\min}}$$

where

$Z_{ij}$  — value of i index in j region;

$Z_{j\min}$  — minimal value of i index in j region;

$Z_{j\max}$  — maximal value of i index in j region

• **Indexes-destimulants which are negatively correlated with the human development index**

$$y_{ij} = \frac{Z_{j\max} - Z_{ij}}{Z_{j\max} - Z_{j\min}}$$

Integral indexes  $I_{ij}$ , which characterize individual aspects of human development, are calculated by the following formula:

$$I_{ij} = \sum_{k=1}^{n=27} y_{ik} W_{ik}$$

where

$y_{ik}$  — standardized i index of human development in j region;

$W_{ik}$  — value with which i index is considered while calculating the integral index.

The regional human development index  $I_j$  is calculated considering integral indexes of its individual aspects by the formula:

$$I = \sum_{j=1}^{l=9} I_{ij} W_{ij}$$

In theory, there are many methods of calculating the value of indexes considered in the integral index. Three methods were used — calculation by elements of a pair correlation matrix, by factor capacity, and by results of pair comparison of expert evaluations. The most effective in calculating value was the method of factor capacity.

Arguments in favor of this approach are based on applying the factor analysis for

building presumptive indexes and logical usage of the universal methodical provision for resolving the complex task. The main idea in calculating values lies in determining the contribution of each factor into the general dispersion (by all factors including latent ones), which equals 100%.

The algorithm envisages three main steps:

1) Calculate the factor capacity margin  $|f|_i$  and a part of general dispersion which it explains  $d_i$ :

$$q_i = |f|_i d_i$$

2) Calculate the sum of the received margins by all factors:

$$\sum_i q_i$$

3) Calculate the contribution of each factor into the determined sum, in fact, value of i factor (human development aspect) in the general model:

$$F_i = \frac{q_i}{\sum_i q_i}$$

As any other model, the Human Development Index is a simplified mirror of reality. Nevertheless, its calculations make it possible to build a unified scale where all regions in Ukraine are presented in rank order. Concrete values of the composite index (or indexes which characterize individual aspects of human development) do not have direct economic significance; their important lies in the place of each region on the unified scale for Ukraine.

The most powerful factors determining the place of a region on the unified scale of human development indexes are the level of education, the living conditions and the material well-being of the population. The least significant is the degree of labor market development. This probably reflects the fact that the impact of the labor market on the human development index for the region is realized indirectly through material well-being and, to a lesser degree, through living conditions.

According to 1999 and 2000 data, Kyiv takes the first place by the majority

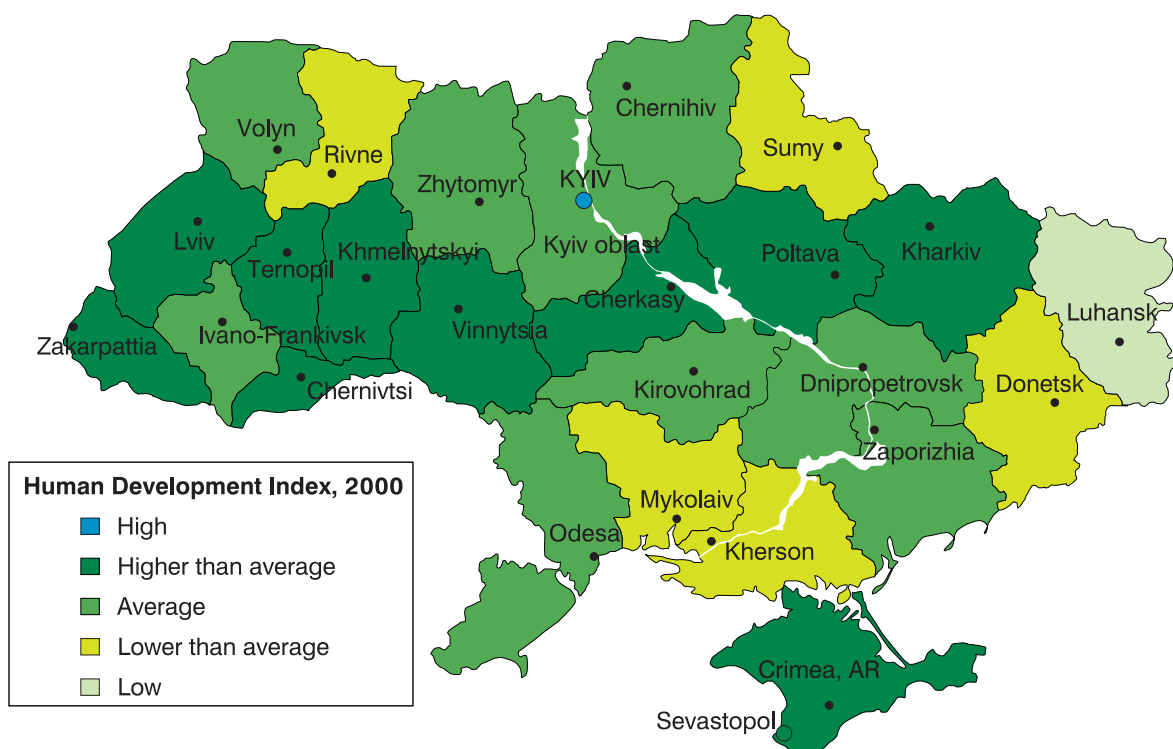
of human development aspects, followed by Vinnytsia and Poltava regions. However, domination of the latter two is not that significant as that of the capital. The Donetsk region is at the opposite side of

the scale. Unfortunately, both Donetsk and especially Luhansk regions lag significantly behind the majority of Ukraine's regions in terms of their human development indexes.

**Table A4.2 Regional human development indexes in Ukraine in 1999-2000**

Regions	Human Development Indexes		Rank of the region	
	1999	2000	1999	2000
The Autonomous Republic of Crimea	0.512	0.518	16	7
Vinnytsia	0.565	0.531	4	2
Volyn	0.510	0.473	18	17
Dnipropetrovsk	0.496	0.453	21	21
Donetsk	0.431	0.409	26	26
Zhytomyr	0.503	0.465	19	19
Zakarpattia	0.538	0.518	10	6
Zaporizhia	0.518	0.453	15	22
Ivano-Frankivsk	0.539	0.494	8	15
Kyiv	0.545	0.494	7	14
Kirovohrad	0.481	0.480	24	16
Luhansk	0.431	0.383	27	27
L'viv	0.538	0.506	9	11
Mykolaiv	0.471	0.438	25	25
Odesa	0.487	0.467	22	18
Poltava	0.570	0.529	2	4
Rivne	0.534	0.457	12	20
Sumy	0.482	0.450	23	24
Ternopil	0.560	0.514	5	8
Kharkiv	0.520	0.508	14	10
Kherson	0.497	0.450	20	23
Khmelnyskyi	0.553	0.513	6	9
Cherkasy	0.565	0.519	3	5
Chernivtsi	0.535	0.503	11	12
Chernihiv	0.512	0.501	17	13
City of Kyiv	0.663	0.640	1	1
City of Sevastopol	0.531	0.530	13	3

**Map A4 Human Development Index calculated under alternative methodology, 2000**



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