

ICPS newsletter[®]

Regulatory policy in residential services needs clear and fair rules

Specialists in residential services—building maintenance and utilities—think that the main obstacle to getting this sector out of its crisis is the lack of a well-worked-out government strategy that has been agreed with all stakeholders and has the goal of ensuring a balance between the interests of those who provide residential services and those who use them. According to participants of a recent ICPS roundtable on problems in this sector, reforms could go faster up if a public dialog were established among providers, consumers and government regulators of this market

On 25 June 2004, ICPS hosted a roundtable on “Regulatory Policy in Ukraine’s Residential Services Sector,” the first in a series of debates scheduled under the project “Regulatory Reform in Ukraine’s Residential Services Sector.” The project’s aim is to draft regulatory policy in the residential services sector and increase the regulatory capacity of local, regional and national governments.

The roundtable was attended by representatives of the State Residential Services Committee, the Ministry of Economy and European Integration, the Ministry of Finance, PADCO, a US consultancy operating in the Ukrainian residential services sector since 1994, the Kyiv City Administration, and other stakeholders. The National Electricity Regulatory Commission submitted its proposals in writing.

The entire context of reform is too vague

The reform of the residential services sector has been accompanied by contradictory trends: even as legislative activity has grown more active and regional pilot projects have mushroomed, the government has lacked the courage to take bold steps and is now feeling the result of a strong lack of coordination in policy-making.

According to most participants in the discussion, regulatory activity¹ in the

residential services sector has largely been unsuccessful. The government has failed to achieve one of the key regulatory goals—balancing the interests of different stakeholders—due to frequent political machinations around the socially touchy issue of access to residential services.

Lack of clarity around reform priorities has resulted in chaotic legislative activity. In paying excessive attention to specific points of regulatory policy, particularly the issue of rates, the government has neglected to look for solutions to such problems as defining universal quality standards for residential services, attracting private sector investors, and handling government procurements. Unsatisfactory public relations with new initiatives and changes to legislation have often led to low awareness at the local government level regarding transformations in the sector and their practical implications. Still, most participants welcomed the 24 June 2004 adoption in the Verkhovna Rada of a Law on a general program for reforming and developing the residential services sector for 2004–2010 and a Law on residential services. Yet they also pointed out that this program faces serious risks to implementation because there is not enough of a relevant legislative base, including regulations and standards, in place to support it.

ICPS roundtable reviews NATO summit in Istanbul

On 24 June, the International Centre for Policy Studies hosted a “NATO from Prague to Istanbul: Agenda” roundtable, devoted to reviewing the situation around Ukraine’s relations with the North Atlantic Treaty Organization on the eve of its summit in Istanbul. Representatives of government institutions, NGOs and youth organizations debated ways of improving public awareness and popular attitudes towards Ukraine’s Atlantic integration.

Participants also discussed a report that was delivered at the international Istanbul Pan-Atlantic Student Summit, a mock-summit scheduled at the same time as the official NATO summit. The roundtable also presented the results and the winners of “Aliante–2004. Ukraine,” a contest among high-school students challenging their awareness of international security issues and NATO history and current events.

Initiated by the Youth Center of the Atlantic Council of Ukraine and the Ukraine-NATO Civil League, the roundtable was supported by the NATO Information and Documentation Center in Kyiv.

Stalled reforms aggravate relations within the sector

The eagerness of market participants and the presence of a legal base alone are not enough to successfully resolve the problems in the residential services sector. Most of Ukraine’s reform-oriented programs are faced with the problem limited government resources,

¹ Note that the regulation of residential services in Ukraine involves local administrations, local government agencies and a slew of bodies under the central government, first among them the State Residential Services Committee.

while this sector needs particularly large investments into infrastructure. According to the official from the Kyiv City Administration, the capital alone needs around UAH 10bn.

Dilatory reforms are simply increasing mutual distrust among the key market participants: providers, consumers and regulators. The consumer expects to be provided with high-quality services, but outdated infrastructure makes it impossible for the provider to do so, while regulators cannot raise rates to a level that would cover the necessary costs.

Long-term strategy is more important than putting out fires

The roundtable participants agreed with the formulation that the main aim of regulatory policy in residential services is combining the interests of providers and consumers, and the role of the government supporting laws and establishing mechanisms for ensuring and overseeing their implementation.

They also expressed the conviction that, at the current stage of reforms, formulating a long-term government policy and regulatory approach is possibly more important than developing concrete ways to resolve an accumulation of problems. The participants indicated a number of priority regulatory issues that need to be determined:

- what is being regulated and what kind of regulatory instruments should be applied;
- how the set of regulatory powers should be shared among local and central governments;
- what procedures should be entrenched for regulatory bodies to exercise their powers.

The need to develop a well-thought regulatory approach for the residential services sector—and one which would consider positions of all stakeholders and the sector's specific features—was a top priority, according to participants. The residential services sector includes a long list of industries, and regulatory policy in each of them needs to be different. Although government interference in the

residential maintenance sector could—and should—be restricted because of the competitive nature of the market, natural monopolies like centralized waterworks and heating systems require government regulation. (Here, the discussion is precisely about regulating natural monopolies, not potentially competitive markets.)

When it came to centralizing or de-centralizing regulation in the sector, the majority of participants agreed that moderate de-centralization was acceptable. Some participants also emphasized the necessity to separate the functions of managing and regulating the sector's enterprises. Yet all admitted that determining the ultimate division of regulatory functions between the center and regions was a challenge.

Politicians could help solve the residential services crisis

The push towards further positive transformations in the sector, paradoxical as it seems, could come from the same political element that has so far only resulted in postponing any solution to the problem. Heating and water supplies are critical for every human. At the moment, election rivalry remains an effective instrument of resolving social problems. Most deputies at both the central and the local level understand that rate manipulations won't solve the problems of the residential services sector and don't pacify voters for long. Taking further steps towards reform will require that all parties show patience: for objective reasons reform of this sector will not have an immediate effect. As regional experience has shown, the key to overcoming resistance to painful measures during the initial stages is to involve all stakeholders in the debate and gain support from all sides before launching unpopular transformations. ■

This roundtable was conducted with the financial support of the OSI. To view the materials of the introductory presentation, visit the ICPS site at: www.icps.kiev.ua/library/show.html?3. For additional information, contact Ildar Gazizullin by telephone at (380-44) 236-4477, or via e-mail at igazizullin@icps.kiev.ua.

World Bank calls for deeper reforms

At a meeting co-organized by ICPS, World Bank representatives and Ukrainian government officials jointly discussed a working version of the Country Economic Memorandum of Ukraine on 1 July 2004. The Memorandum reflects the independent views of World Bank experts on the state of the country's economy and the reforms that are imperative.

The World Bank acknowledges the substantial breakthrough Ukraine has managed to achieve since the previous Country Economic Memorandum in 1999. However, in the opinion of the Bank, the process of entrenching market incentives is far from complete. Without deeper reforms, economic growth will slow down as soon as the external situation deteriorates.

"Ukraine needs to switch from being an 'insider' economy based on informal ties, special privileges and a handful of dominant, politicized business groups, to an economy based on the rule of law, transparency and a level playing field," say World Bank specialists.

The 2004 Memorandum draws special attention to a number of issues:

- payment and financial discipline;
- monetization and financial mediation;
- corporate governance;
- competition;
- private sector development in agriculture;
- the role of financial-industrial groups;
- improving the tax system;
- Budget-financed institutions and interbudgetary relations.

The final 2004 Country Economic Memorandum of Ukraine is expected to be published in fall 2004.

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