

# ICPS newsletter<sup>®</sup>

## Political reform and its impact on making and carrying out party policy

**After Ukraine switched to a parliamentary-presidential form of government and proportional elections, the main agents in formulating policy at the national and local levels became those political parties that won in the elections, formed the Verkhovna Rada and local councils, and established a majority. Today, state and local policies come out of party policy. And the actions of an executive branch formed by those party structures across the entire chain of command mostly depend on the political will of these parties and their regional organizations**

As part of the "Impact of NGOs on the Formation and Implementation of Political Platforms" project, International Centre for Policy Studies experts Andriy Zelnytskiy and Petro Udovenko have developed a model that demonstrates the transformation of party policy into state and local policies (see Chart).

The main elements of this model are:

- voters, including interest groups, NGOs, think-tanks, and so on;
- the election platforms of political parties, party events, statements, and information about these provided to the public;
- political parties and blocs who participated in the election process (election winners, those that passed the 3% barrier and formed the elected body; political parties and local party organizations that did not pass the 3% barrier);
- party factions and groups in these councils (the majority; the minority (opposition));
- state and local policy implementation: (adopting a socio-economic development program; making day-to-day decisions; adopting a budget; managing change).

The various elements of this model are interrelated and operate as an integral system. The result of this kind of interaction is the transformation of party policy into state and local policy.

### How does this model work?

With the help of election platforms, campaign promises, statements, events, and other information, political parties influence voters in order to gain victory at the elections and implement their party's priorities. Voters can influence the

formulation of party policies, the improvement of platforms, and the inclusion of their own concerns, interests and wishes, and regional or municipal issues in party platforms mostly through public organizations and interest groups. This impact is the key point. The more inclusive party platforms are at the formulation stage, the more effective party and local policies will be.

By voting, citizens express their support for a particular party or bloc. Based on the results of elections, representatives of the parties that passed the 3% barrier form elected bodies according to their party lists.

Once seated on the council, parties establish factions and groups according to their number of elected deputies. As a rule, factions and groups representing several political forces will join forces to establish a majority in the given council.

The majority develops a socio-economic development program (action plan) on the basis of the various election platforms by reaching certain compromises. The final action program is approved by the local council. The council also approves the budget developed by this majority, which guarantees the implementation of the program.

Political forces that passed the 3% barrier and did not join the majority can submit their proposals and support this action program, the budget and other proposals of the majority or declare themselves an opposition.

Those political forces that did not pass the 3% barrier analyze the causes of their defeat, continue their party activities, influence public opinion on the implementation of party and local policies, and prepare for the next elections.

### By the way...

- Over 4–12 November 2006, ICPS specialist Volodymyr Hnat visited the United Kingdom as part of an educational program called "Community Funds: How to set them up and operate them. European experience." This exchange was organized in the UK for representatives of local government and community leaders from Ukrainian cities participating in the People's Voice–2 project.
- Consultations with stakeholders as part of the "Public Consultations on the EU–Ukraine Free Trade Agreement" project are continuing. A roundtable called "Reforming the System of State Regulation for the Safety and Quality of Food Products in the Context of the Ukraine–EU Deep Free Trade Agreement" took place on 7 November 2006. A discussion of Ukraine's environmental policy in the context of this Deep Free Trade Agreement took place on 3 November 2006.
- As part of the People's Voice–2 project, a studying tour went to Canada over 21–28 October 2006. The goal was to familiarize mayors, deputy mayors and local council secretaries from participating cities with the best practice of municipal management in Canada, mechanisms for monitoring the quality of services provided to the population, and the role of local governments and NGOs in community development. Over these eight days, the project delegation familiarized itself with the best of municipal management in Toronto, other cities in Ontario, and Halifax, Nova Scotia.
- Over 17–27 October 2006, ICPS economist Ildar Gazizullin also visited Canada, along with representatives of the NBU and Derzhkomstat, to study the experience of the country's government and non-government organizations in using benchmarking instruments and evaluating potential output. This study tour was organized as part of the "Socio-Economic Performance and Potential Analysis Capacity" (SEPPAC) project.

NGOs, think-tanks and interest groups monitor, analyze and evaluate the effectiveness of party and local policies and work to influence their improvement.

## Public policy-making is the most effective approach

The success of party and local policies mostly depends on the use of specific

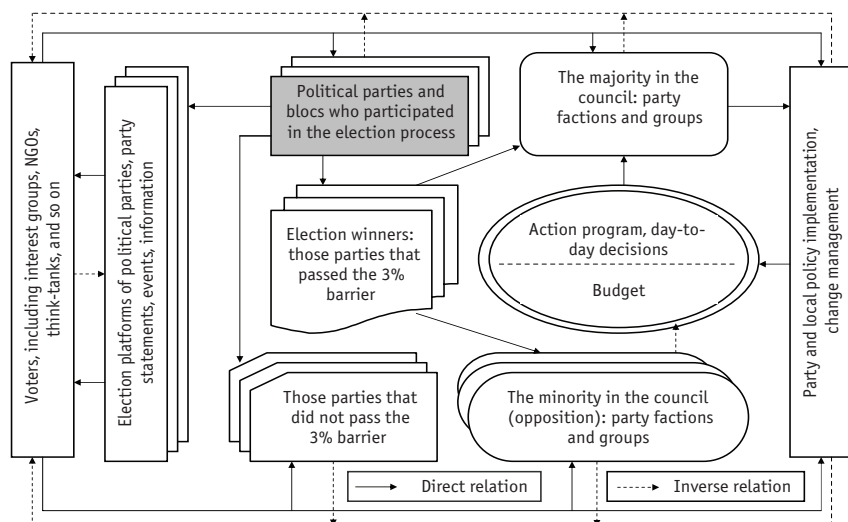
policy-making methods and the adoption of programs. The most effective of these is public policy and the agents of policy implementation can be non-government organizations and think-tanks with relevant knowledge and skills.

But voters must be the main agents having an impact on the formulation and implementation of socially significant decisions by political parties and the

government. They have to induce the latter to open and public actions by ensuring systematic monitoring, oversight and cooperation.

One of the ways that this impact can take is social dialog: public hearings, discussions and debates, roundtables, and so on. These interactive events make it possible to discuss urgent policy issues and identify the positions of various stakeholders. The results of such events are then taken into account in developing and implementing policies. ■

### Transforming party policy into state and local policies: a model



ICPS is implementing the "Impact of NGOs on the Formation and Implementation of Political Platforms" project with the support of the Institute of Sustainable Communities (ISC) and the Ukraine Citizen Action Network (UCAN). The goal of the project is to engage NGOs and voters in four regions of Ukraine and to prepare them to have an effective impact on the development and implementation of party platforms; to raise the institutional capacity of NGOs to analyze party platforms; and to organize dialog with political forces.

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## New gas prices and their impact

In 2007, the final price of industrial gas, including taxes, transport and delivery costs, could actually reach US \$180/1,000 cu m. This opinion was expressed by ICPS economist Ildar Gazizullin in a comment for *Dyelo*, a newspaper.

Unlike the Ukrainian–Russian agreement on gas supplies signed in early 2006, the consequences of price hikes for imported gas in the 2007 agreement will have more serious economic implications. The interesting thing is that, unlike earlier this year, energy-intensive enterprises, specifically metal companies, are not protesting the new prices. There are at least three reasons for this.

Firstly, the stormy reaction of industrial companies in early 2006 was due to radical changes in the scheme for supplying Russian gas and changes in the rules of the game on the domestic gas market. Today, only prices are changing. Secondly, the current coalition Government mainly represents the interests of Ukrainian industry. So there is no serious reason—or desire—to publicly criticize the Yanukovich Government. Finally, the last rises in the price of gas coincided with an unfavorable situation on global steel markets. That is, steel prices were shrinking, while gas prices had to go up and, most importantly, there was no information about the scale of these rises. This year, steel prices are fairly high and the future price of gas is known.

Mr. Gazizullin says the new price for gas will not have disastrous consequences for Ukrainian enterprises. On one hand, a decline could be registered in some energy-intensive sectors. However, there will be incentives for investing and modernizing. There is a likelihood that owners will change, which is not principally important for economic development. According to Mr. Gazizullin, the country can also expect a certain decline in profit margins in the most energy-intensive industries, compared to 2005 and a corresponding reduction in tax receipts for the State Budget.

Unfortunately, it is impossible to provide an exact evaluation of the impact of the new gas prices, as statistics on corporate financial performance indicators are extremely unreliable. Many companies use a variety of schemes to minimize taxation one way or another. This means that official figures showing that an operation is unprofitable do not constitute real evidence of a crisis at the enterprise.

The steel industry, which is the largest of the energy-intensive sectors, has a considerable margin of strength. In fact, steel makers could work with profits close to zero for several years, simply by suspending the operation of the most unprofitable facilities. Financial and industrial groups have significant financial resources because of the favorable situation in the past, as well as access to loans to upgrade or build new, energy-efficient production facilities. Finally, the share of gas in the production costs of the steel industry is not as dramatic as in other sectors, such as the chemicals industry, which is likely to see a decline over the next year.

Lately, there has been talk about the Government possibly compensating owners of metal and chemical enterprises for losses resulting from higher gas prices, largely through tax exemptions. Mr. Gazizullin says the option of providing direct support to specific sectors is not a viable one for Ukraine. If the Government introduces tax breaks in, for instance, the steel industry, it will lead to penalties in the form of anti-dumping probes and new quotas on Ukraine's steel products. According to Mr. Gazizullin, steel makers themselves are not interested in this kind of Government support. It would make more sense for the Government to change its policies and establish more favorable conditions for capital investment and faster depreciation. This would have a definite positive impact on all businesses.

This comment was published in *Dyelo* on 2 November 2006, <http://delo.ua/ru/news/11852.html?PHPSESSID=a0ed17ad9d2fc3c0ecc00bfacabd1667> (in Ukrainian).

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