

New Approaches to Public Policy in Ukraine

**Lessons Learned from New
EU Member States**

Executive Intern Program
analytical reports and policy papers

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This publication contains internship reports and policy papers written by participants of the Executive Intern Program initiated by the National Democratic Institute (NDI), USA, with the support of the Cabinet of Ministers of Ukraine and the Secretariat of the President of Ukraine. Two types of program participants (interns and employees of government institutions) completed month-long internships in the ministries and agencies of Latvia, Lithuania, and Poland. They then wrote internship reports with recommendations to the Ukrainian government based on experiences of the EU member states in which they studied.

During their subsequent four-month internships in corresponding Ukrainian government institutions, participants used the techniques of policy analysis to recommend (through policy papers) a course of action to specific Ukrainian institutions and policy players. Intern policy papers focus on the issues of public administration and its efficiency and the formulation of public policy especially in the field of EU integration.

This book is a compilation of those intern reports and policy papers and is intended for public servants and policymakers working for central government and local authorities; for representatives of NGOs and think tanks; for researchers and lecturers; and for MPA students and students who specialize in economics, political science, and law.

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The Executive Intern Program

Eroding the Barriers to Reform

In early 2005, Viktor Yushchenko was inaugurated president of Ukraine with a mandate to reform the ways in which his country was governed. The new government had inherited a sprawling bureaucracy, characterized by what one government minister labeled a “Soviet face.” Many of the structures, policies, and governing procedures had functioned largely unchanged for years and continued to serve as major barriers to reform.

As a result, the new government approached the National Democratic Institute’s (NDI) office in Ukraine for assistance in recruiting, training, and monitoring a new generation of civil servants who would be schooled in Western governance standards and would be committed to transparency and accountability within the Ukrainian government.

In response, NDI in cooperation with the Cabinet of Ministers and the National Academy for Public Administration of Ukraine (NAPA); the governments of Latvia, Lithuania, and Poland; and the United States Agency for International Development (USAID) implemented its Executive Intern Program in mid-2005. The program consisted of five phases:

- **Recruitment:** Drawing from a pool of new employees from the Cabinet of Ministers and capable candidates from around Ukraine, NDI convened a board of representatives from host countries, NGOs, and the Ukrainian government to select a group of talented young people for training, exchange, supervision, and policy development.
- **Training:** Upon selecting a group of interns and newly hired employees of the Cabinet of Ministers, NDI and NAPA began civil service trainings focused on increasing the effectiveness of the government, fighting corruption, and developing innovative policies and procedures in the various ministries.
- **Exchange:** Participants in the program were then sent to one of three new European Union member states Latvia, Lithuania, or Poland to work alongside their counterparts in corresponding ministries for one month. During their placement, participants observed the day-to-day workings of governments that meet Western governance standards. They gained a deep understanding of open and transparent government, as well as formulated policy ideas to assist the work of the Ukrainian Cabinet of Ministers.
- **Internship:** After the completion of their exchange to the above-mentioned countries, participants spent four months either returning to their posts at the Cabinet of Ministers or beginning their internships therein. This work was supervised by Ukrainian government officials, representatives from NAPA, and NDI.

- **Policy Reports and Papers:** During their supervised internships, participants developed policy ideas generated by their time abroad. The program then paired the interns with experts in their chosen policy field. Interns, consulting with these experts, compared and contrasted Ukrainian policies with those of the new EU member states and crafted the policy reports and recommendations (papers) for the Ukrainian government that are contained in this book.

What follows is a compilation of Executive Intern Program policy reports and papers written by a new generation of civil servants schooled in Western governance standards and committed to transparency and accountability within the Ukrainian government.

The experiences that interns gained in the ministries of new EU member states are already being applied to the ministries of Ukraine. All participants who were not newly hired civil servants of Ukraine secured jobs with the civil service (or at NGOs in their related fields) following their internships in the nation's ministries.

Through efforts such as the Executive Intern Program, a spirit of reform is eroding the old Soviet structures, policies, and governing procedures and putting a new face on the government of Ukraine.

David Dettman
Resident Director
National Democratic Institute Ukraine

Acknowledgements

The National Democratic Institute initiated a pilot Executive Intern Program in the summer and fall of 2005, following requests for assistance made by the Ukrainian government. The program was to identify a young and talented group of Ukrainians either currently serving or planning to serve in the nation's civil service. After a long and competitive application process, we were pleased to select an excellent group dedicated to moving Ukraine forward in its democratic transition and integration with the European community.

The selection of policy papers found in this book represents each participant's final product following a series of trainings and workshops in Kyiv; one-month internships in either Poland, Lithuania, or Latvia; and post-deployment internships or continued work in Ukraine's Cabinet of Ministers and individual governmental ministries.

While we are very pleased with the pre- and post-deployment trainings and the cooperation provided by the ministries in Kyiv, I believe the key to this program was the deployment of participants to new EU member countries. From the start of this program, the various governmental bodies in Latvia, Lithuania, and Poland were enthusiastic about hosting a group of young Ukrainians and provided us with all necessary access and assistance. Furthermore, the Latvian, Lithuanian, and Polish embassies in Kyiv provided key support throughout the program and offered valuable contacts in their home countries.

In particular, I would like to thank the Parliament (Saeima) of Latvia and its EU Information Center. The Center and the Saeima's European Affairs Committee played a key role in designing and conducting the introductory training for the Latvia-based interns and provided continuous consultation and assistance throughout the program. Also, the direct support given by the prime minister and other ministers in Latvia was integral to the program's success. In Poland, we received assistance and cooperation from the Warsaw-based European Institute for Democracy, which coordinated the placement of interns in Polish governmental structures and provided guidance throughout the program. In Lithuania, we were helped by a number of ministers and deputy ministers, and, specifically, the Ministry of Foreign Affairs.

Timothy Fairbank
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Program Participants

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Bohdan Moysa was born in Lutsk. He obtained his master's degree in history from Lesia Ukrayinka Volynsky State University. He managed several projects dealing with employment opportunities for the visually impaired. In Latvia, his internship was organized by the Ministry for Social Protection. In Ukraine, he was an intern with the Department for Disabled and Elderly People, Ministry of Labor and Social Policy, where he was offered a job after the internship and is currently the leading specialist.

Svitlana Matus is from Kyiv. She studied environmental management in the Netherlands and took courses in environmental affairs in Slovakia and Portugal. She has a master's degree in environmental science from the National Kyiv Mohyla Academy. She worked for the environmental NGO MAMA-86. Her internship programs were provided by the Ministry for Environmental Protection, Latvia and Ukraine.

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Volodymyr Shcherbachenko was born and lives in Luhansk. From Taras Shevchenko Luhansk State Pedagogical University, he obtained an M.A. in history; he specialized in world history as an advanced degree student. Later in Warsaw, he completed a course in human rights protection provided by the Helsinki Foundation. He was a participant in numerous seminars and conferences in Ukraine and abroad. His internship programs were provided by the Ministry of Education, Latvia, and the Higher Education Development Department, Ministry of Education and Science of Ukraine.

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Part I
Internship Reports

Oleksiy Gayevskiy

Tax Policy of the Republic of Poland

Internship Report

(Ministry of Finance and Ministry of Economy, Poland)

1. Issues (examined during internship)

During my internship in the Polish Ministry of Finance and Ministry of Economy, the following issues were considered:

1. Tax policy;
2. The taxation system and its principles;
3. Institutional structures;
4. The main taxes that form budget revenues, including:
 - Profit tax;
 - Tax on goods and services (VAT), excise tax;
 - Income tax;
 - Property tax;
5. Agreements on the elimination of double taxation;
6. Adoption of EU standards to the Polish tax legislation.

2. Scope of the examined issues

2.1. Scope of the problem

In Poland, the taxation system includes profit tax (including foreseen tax concessions) paid by enterprises (legal entities); tax on goods and services (VAT) and excise tax; income tax paid by individuals; and property tax. Moreover, a number of civil law actions are taxable. For example, sales contracts, change of property rights, rent and lease contracts, credit agreements, company agreements, and powers of attorney. The basis of the current tax policy is a step-by-step reduction of income and profit tax with a simultaneous restriction of existing tax concessions/benefits and deductions.

2.2. Background of the problem

General principles of the tax system are defined in tax legislation that was put into force on January 1, 1998 (V.Z. № 137, prim. 926, with changed art. 142 of the law as of July 24, “On changes to certain laws that define competency framework of public administration bodies.” V.Z. № 106, prim. 668) [3]. Tax legislation, in particular, standardizes tax liabilities, tax information, tax actions, and tax control. This law relates to taxes, fees, and other non-tax deductions to the central and local budgets.

2.3. Particularities of institutional environment

The institutional structure of the system includes three levels and consists of tax departments, tax chambers, and the Ministry of Finance. Local compliance of tax bodies is defined either according to place of residence or to place of registration of the taxpaying legal entity. The tax law obliges taxpayers to fill in and keep tax books and account documents for five years, and determines that tax payment obligations lose their validity after a five-year period (calculated from the end of the calendar year during which the last taxes were paid).

3. Stakeholders

Stakeholders in the public sector include:

- Cabinet of Ministers of Poland;
- Ministry of Finance of Poland;
- Ministry of Economy of Poland;
- Tax Chamber and tax departments of Poland.

Organized stakeholders (outside public sector):

- Entrepreneurs;
- Citizens.

4. Existing approaches to solving the issue

Profit Tax

As of February 15, 1992, the law (with further amendments), regulates taxation of enterprises (legal entities). Taxpayers obliged to pay profit tax can also include groups of at least two enterprises/companies that have business relations. Taxable capital groups include exceptionally limited liability companies or joint stock companies that have an average fixed capital of not less than 1 million Złt. Companies that form a capital group must have notarized and registered agreements for a period of at least three years and must meet a number of additional requirements set by the abovementioned law.

The tax year coincides with the calendar year. If activities begin during the year, the tax year lasts from the beginning of activities until either the end of the calendar year or the last day of the separate tax year, but would not last longer than 12 consecutive months.

The basis of assessment is that profit that does not include grants for purposes defined in Article 4 of the law as of April 24, 2003. This includes activities related to public utility and organizations that perform public tasks determined by this law. Overall deductions from this method of assessment cannot exceed 10% of profit. Grants for religious needs can decrease the assessment basis to 10% of profit, but the total tax from the two items cannot exceed 10% of the total amount. Deductions are not applied to presents and gifts to indi-

viduals, legal entities, and organizational units (offices) that are not registered as legal entities, or that perform their activities in the electro-chemical industry, fuel industry, tobacco and spirit production, winery, brewing industry, alcohol production (strong drinks 1.5% of alcohol), or fine jewelry.

In 2004, the profit tax rate was 19%. Legal entities that have their offices or enterprises in Poland are obliged to pay taxes according to the previously mentioned profit tax rate [5]. On the other hand, if the taxpayer's office is located abroad, the profit tax should be deducted from the part of profit gained in Poland. Profit tax from dividends and other revenues from legal entities that are located in Poland is 19% as well. However, this tax can be deducted from the profit tax paid on overall economic activities.

In 2000, new more flexible rules for amortization deductions were implemented. Those deductions lower profits. Primary fixed funds that are subjected to amortization deductions were increased to 3,500 Złt. Those deductions should be made in the current or following month. Since 2004, taxpayers have had the right to choose an appropriate method of amortization deductions from fixed funds. Methods of amortization that are allowed and corresponding rates are described in Article 16h of the law [1].

Subjects that invest in agriculture and perform in special economic zones have the right to apply for profit tax remissions. In case financial remission has been approved, the law allows the taxpayer to share the remission over the period of the next five years, but the maximum amount to be paid in a particular year should not exceed one half of the total remission [5].

According to the law, tax administrations are obliged to identify profit through its recalculation of cases where there is a suspicion of profit minimization. In order to recalculate profit, the comparative methods of noncompetitive price, resale price, or the so-called rational margin method can be used.

Direct taxes, including profit tax and income tax, are not harmonized in all EU member states. Thus, during the EU accession process, Poland was not required to take the corresponding steps to harmonize the tax rates. As the profit tax rates vary between EU member states and in general are near 30%, the profit tax rate of 19% in Poland is quite attractive to entrepreneurs [2].

Tax on Goods and Services (VAT) and Excise Tax

On January 8, 1993, a sales tax on goods and services sold in Poland, known as VAT, was introduced (V.Z. № 11, as of 1993, prim. 50 with corresponding changes). The objects of taxation in this case are the goods and services provided in Poland, export or import of goods, and cash purchases of goods in the EU member states. The sale of an enterprise or institution (unit) (that has its balance is not subjected to VAT [5].

Since January 1, 2001, taxpayers whose sales of goods and services (including export operations) in the current fiscal year came in under 10,000 euros are excluded from VAT payment. Tax liability appears in the moment of provision, handing over, changing, and granting goods and services. Before the first day of action that is taxable, payers are obliged to present a cor-

responding registration certificate to the tax administration. All invoices and supply documentation must include the tax identification number. Tax declarations should be sent to tax departments within a one-month period. The law "On VAT" foresees the following VAT rates: basic rate 22%, reduced rate 7%, 3%, and 0%. The 0% rate relates to exported goods and services in which a corresponding audit was conducted and in which a certificate that proves the fact that those goods and services exported were received. In the case that goods were exported to EU member states, the VAT rate is 0%.

The list of goods and services that are excluded from VAT payment and those with reduced VAT rates are in the addendum to the law (as of March 11, 2004 "On Tax on Goods and Services." V.Z. № 54, prim. 535) [1]. The types of goods and services that are subjected to certain tax rates can vary. Thus, in concrete situations, it is necessary to consult valid regulations.

A list of goods subjected to the reduced tax rate of 7% is as following: dairy products, natural honey, horticultural products, fishing products and fish processing products, hunting products, construction materials and services, chemical fertilizers, pesticides, pharmaceutical products, certain types of light industry products, and head-dresses for children. Services in the area of health and social care, research and development activities, and educational services are excluded from VAT. The taxpayer has a right to decrease taxes on purchased goods and services.

As of January 23, 2004, the law "On excise tax" (V.Z. № 29, prim. 257) introduces tax liability in the form of excise tax. Excise taxes are paid from production of harmonized excise goods excluding harmonized excise goods from the tax base selling excise goods on the country's territory, export and import of excise goods, purchases and supply within the EU [1].

Excise goods and services specifically include mineral oil and chemical liquid fuel, electro-technical equipment of general use, gas and hunting weapons, alcohol and tobacco goods, wine and beer, perfume, slot-machines and electric slot-machines, sailing vessels, motor boats, yachts, cars, furs, salt, polystyrene packaging, gas for cars, and tourist goods.

Excise tax rates are fixed in either percentages or quotas. The excise tax rate in percentage is defined as a percent of the asking price or the import customs value. The excise tax should be revised and published as an addendum to regulations of the Ministry of Finance (It can be revised during the current calendar year). On behalf of the corresponding ministry and according to public finance goals and current legislation, the Minister of Finance can reduce excise tax rates on certain goods or exclude certain goods from the list of excise goods.

While importing goods subjected to excise tax, the tax base is the customs value defined according to the main rate. If the main customs rate is not defined, an autonomous rate will be used. Export of excise goods is not subjected to excise tax, excluding those goods already marked by excise documentary stamps. The Ministry of Finance sets the conditions and procedures of excise taxation on export.

Before EU accession, the Polish system of indirect taxes (VAT + excise tax) was adapted to the EU legislation requirements pretty well (keeping in mind tax rates and charge methods). Thus, the list of goods that should be revised in terms of tax charge due to the EU accession of Poland is not that long, but includes items that are substantial in a household's budgets. For example, it is necessary to increase the VAT rate on goods for children, construction materials, and main services (i.e., construction, food, and some legal services), and increase (or introduce) excise tax on fuel and cigarettes and other tobacco products. However, the impact of such an increase will be eliminated by transition periods negotiated with the EU [3]. The transition periods are listed below:

- By the end of 2007, 7% VAT on primary homebuilding and on construction and renovation services (including construction materials);
- By the end of 2007, 0% VAT on books and specialized magazines;
- By the end of 2007, 7% VAT on gastronomical services;
- A four-year transition period for use of super-low 3% VAT on certain means of agricultural production, agricultural products, and services;
- Transition period until 2008 for a step-by-step levying of a minimal excise on cigarettes that is now introduced in the EU;
- A one-year technical transition period for 0% excise tax on ecological components and a low tax rate on ecological fuel (with the possibility to extend the term of those tax rates).

Moreover, the EU has set for Poland main tasks (within a timeframe) to levy minimal excises on fuel related to the EU energy tax: on diesel oil by the beginning of 2012, on lead-free petrol by the beginning of 2009, on reduced fuel oil and black oil for heating purposes by the beginning of 2008, on coal and coke by the beginning of 2012, on different kinds of aviation fuel and fuel for vessels by the end of 2006. Poland is free from an excise tax on natural gas until the beginning of 2014, at which time the gas consumption will exceed 25% of national energy consumption.

Income Tax

In 2004 there were three tax rates, including the changed system of tax privileges and deductions. However, tax ceilings have remained the same over the past four years (since 2001).

The average income tax of 19% covers dividends and other income as a part of other legal entities' profits. Since March 1, 2002, a 19% tax is imposed on dividends and other interest accrued on deposits owned by a taxpayer, as well as on any other forms of savings done by a subject of taxation who is eligible to do those operations on the basis of certain regulations.

Tax Base, Zlt.		Tax rate
From	To	
	37,024	19% of the base minus 518.16 Zlt.
37,024	74,048	6,516.40 Zlt. + 30% of surplus exceeding 7,024 Zlt
74,048		17,623.60 Zlt. + 40% of surplus over 74,048 Zlt.

Individuals living permanently in Poland or those who stay in the country longer than half a year are subjected to income tax. Also, those who live abroad but have an income source in Poland are subjected to pay income tax.

The law foresees different types of tax privileges for individuals. Those privileges are calculated from the taxation base, in other words from income and accrual tax. Grants and gifts for scientific, educational, and cultural purposes or for healthcare in low-income households are not subjected to taxation. However, the total value of gifts and grants must not exceed 10% of the total income. The total value of grants and gifts for religious purposes also cannot exceed 10% of income. Since 1999, the taxation base has been defined using income forecasts from the social insurance system.

Property Tax

Levying property tax in Poland consists of three parts: property tax, agricultural tax, and forest tax. According to the law, as of October 30, 2002, "On changes to the law on local taxes and fees," the Council of Gmina sets the property tax rates. In 2004, it could not exceed 0.51 Zlt. per 1 m² of houses, 17.31 Zlt. per 1 m² of houses used for household purposes and 5.78 Zlt. per 1 m² for other purposes. The Council of Gmina has a right to lower those rates or introduce tax exemptions. Individuals, legal entities, and organizational units that are not registered as legal entities are subjected to pay property tax [3].

The tax base for agricultural tax is the quantity of calculation hectares and the variety of agricultural land on the basis of four tax districts. For example, one real hectare of agricultural land of the 1st class in a 1st tax district is equivalent to 1.95 calculation hectares.

The agricultural tax is applicable only to agricultural households which are larger than one hectare and agricultural land that is larger than one calculation hectare. At present, the agricultural tax rate from one calculation hectare is equivalent to 2.5 centners of rye, which is calculated according to the average purchasing price of rye during the first three quarters of the year prior to the tax year.

Land of the lowest quality is not taxable. In Poland they also use temporary tax exemptions (ranging from 1 to 15 years) and reduced tax rates (in mountainous regions).

In 2004, according to Article 4 of the law, as of October 30, 2002, "On forest tax," the forest tax from one re-calculation hectare has a monetary equivalence of 0.220 m³ of lumber calculated using the average asking price of lumber in the forestry enterprise over the first three quarters of the year prior to the tax year.

Agreements on the Elimination of Double Taxation

Poland signed agreements on eliminating double taxation with more than 60 countries. According to OECD samples of those agreements, there was a rule formulated that stated profit tax paid by an enterprise is applicable only in the country where its office is registered. The weak point of this rule is that, if an enterprise has its offices in a partner country, it can be subjected to profit tax on profit that was made in those representative offices. There is also a tax exemption in cases where the income was generated through an international transfer [6].

The majority of the agreements signed by Polish authorities set a maximum tax rate of 5% to 15% on dividends. Reduction of this tax rate to 5% is possible only in cases when the foreign recipient owns capital in an enterprise that has at least a minimal office in Poland (10% or 25%) [5].

Some of the agreements foresee an exemption of taxes near the "source of income." This means that such taxation is applicable only in the country where the individual resides. Other agreements mainly set a 10% tax rate. Agreements signed by Polish authorities on the elimination of double taxation allow taxes in the form of licenses [3].

5. The relevance of experience to Ukraine

The most promising ways to develop the tax policy in Ukraine include:

- Adopting a Tax Code;
- Drafting clearly defined trends of tax policy;
- Ensuring tax policy is investment and socially oriented;
- Eliminating tax exemptions;
- Establishing transparent and understandable rules of taxation for taxpayers;
- Setting a 0% VAT rate on export operations (the reimbursement of which depends on the country of destination and the VAT in the particular country);
- Adopting a Property tax.

6. Conclusions

In May 2004, Poland became one of the EU member states. EU enlargement will have a huge political and economical impact on the country. The joint economic environment of the EU and the access to additional EU development funds will further stimulate Poland's business and economic development.

It is necessary to stress that, over the past decade, Poland made a big step forward but still lacks certain reforms that are focused on increasing the living standards in the country.

The primary goal for the future is to eliminate economic inequality between EU member states. The main tasks to be resolved in the Republic of Poland's tax policy are:

- Adopting EU standards in tax legislation;
- Increasing competitiveness in the international arena;
- Eliminating tax gerrymandering and efficiently resolving other breaches in this area;
- Ensuring conformity of national taxation system and its compliance with the goals of the EU in order to proceed to economic and monetary union.

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Olena Galenko

Centralized Test for Secondary Education Certificates as an Education Quality Indicator and a Mechanism of Equal Access to Higher Education

*Internship Report
(Ministry of Education and Science, Latvia)*

1. Issues

Analysis of Latvian secondary and higher education in the early 1990s revealed drawbacks in the approaches to and procedures for assessing quality of education. Indicators used to evaluate the educational system failed to provide accurate information on learning efficiency. The competency levels of secondary school graduates were so wildly divergent that it was next to impossible for the young people as education service consumers and for higher education institutions as service providers to choose a suitable further education program for graduates as a whole. As a result, secondary school graduates had a poor chance as university applicants, while university graduates were uncompetitive on the labor market. The situation called for radical and immediate reform in order to avoid shortage of qualified professionals and to prevent stagnation in the national economic, political, and social spheres.

2. The scope of the problem

The Latvian Republic regained its independence from the Soviet Union in May 1990. The transition from authoritarian, undemocratic principles of public administration to open, flexible, and democratic ones affected all sectors, including education. Up to the mid-1990s, Latvia had no uniform mechanism for controlling the quality of education. At the end of their final year of schooling, students took a state examination. Teachers defined the examination contents for their subject, administered the exam, and evaluated students' performance. That resulted in a biased and subjective evaluation and lack of a uniform scale for measuring students' knowledge and skills. Higher educational institutions, enrolling students with different levels of competency, wasted one or two years just trying to raise learning levels of the underperformers. All post-Soviet countries were faced with a similar challenge.

Under new conditions, Latvia was to earn an international reputation for its versatile educational history and traditions that guarantee fundamental and applicable knowledge to its youth. The country needed a highly qualified labor force with a solid theoretical background and practical skills that would allow Latvia to promote people's welfare and improve the country's political, economic, and social standing in the world.

First and foremost, the national legislation was reformed: laws “On Education,” “On General Secondary Education,” “On Higher Education,” etc. were adopted and a Concept Paper for the Education Development was elaborated upon and approved. The transition from the centralized, rigid discipline of the syllabi to a set of National Educational Standards revolutionized the educational system. The focus shifted from teaching for the sake of process to the development of every schoolchild’s learning ability. Most European countries pursued this approach.

Latvia integrated the Scottish educational model in 1994, having adapted it to the country’s regional, economic, political, and cultural context. By 1999, the National Standards were developed and recognized by all education institutions. However, these guidelines are not carved in stone; they are regularly revised, fine-tuned, and approximated to the Western European ones. In Ukraine as well, the development of national standards in all academic subjects is underway; they are gradually introduced and tested in secondary schools.

A different situation is observed in Lithuania, which has two types of examinations: state and school-based ones. The state examinations are administered in local examination centers and offer uniform questions based on the advanced school program to all students. Student performance at the state examinations is assessed on a 100-point scale in a centralized fashion. Lithuania applies a normative assessment model to this type of exam (i.e. once the examination statistics are ready, a special committee convenes to establish the examination’s passing threshold or minimum standard). Students whose performance is below the threshold have a second chance at the school-based examination.

The school-based examination also uses uniform questions and tasks based on the basic school program prepared by the testing center. In this case, student performance is assessed on a 100-point scale against the criteria set in the guidelines issued at the central level. Each candidate can take up to five examinations, including one mandatory (in the Lithuanian language) and several optional tests. In order to receive the certificate of secondary education, one has to pass optional exams in at least three out of 21 school subjects.

Examination results allow students to both obtain the certificate of secondary education and to apply to higher educational institutions. Universities assign a certain weight to every examination. For example, if an applicant plans to major in chemistry, the specific weight of the examination result in this subject will be bigger than that of an exam in, say, mathematics. This approach facilitates specialization in education. Universities are entitled to offer additional entrance examinations that are not required by other institutions (music, arts, etc). Examination results are also used for assessing the quality of education. They characterize overall trends in quality, dynamics of improvement/decline in quality.

Some other countries (e.g. Denmark, Sweden) have combined final secondary school examinations and university entrance examinations. The combined exam is administered by the Independent Testing Centre. In the Netherlands, the quality of education is assessed on the basis of students' academic attainment. Test results serve as a key indicator of overall school efficiency, as they are believed to reflect the teachers' performance and the effectiveness of the school management. Students prepare for the final examination over their last two years at school (preparation takes three years if a student plans to enter a university). The greater part of lessons at this time is allocated to the tested subjects.

Typically, there are two types of final examinations in the Netherlands: school-based and centralized. The centralized examination is universal; it embraces students from all types of educational institutions, which means that all Dutch graduates answer the same examination questions in mandatory disciplines and electives. The centralized examination has three stages: the first held in May, the second in June, and the third in August. If a student does not appear for the exam for a valid reason, or is dissatisfied with the examination result, he/she can try again. The school-based examination is prepared by the school teachers, with the ministry designating the relevant subjects.

The Dutch secondary education system is learner-centered. Students are encouraged to develop their creativity and learning aptitude in a supportive environment and receive a certificate that best mirrors their level of attainment. The purpose of education is viewed as helping young people prepare for their future professional careers and social lives as citizens, who will contribute meaningfully to the nation's development.

Latvia's solution was to introduce a set of centralized examinations. Ukraine is presently piloting a new system of independent assessment in some of its regions. In the near future, all Ukrainian secondary and higher educational institutions should start using this system. However, since Ukraine covers a much larger territory than Latvia, it will encounter greater challenges in the administration of the centralized examination.

3. Stakeholders

Government: There are numerous stakeholders in the policy process pertaining to this issue. On the governmental side, the key stakeholder is the Ministry of Education and Science of Latvia. The Centre for Curriculum Development and Examinations (CCDE) moderates communication between government representatives and educators on the ground. District School Boards can lobby their interests with regional working groups that define the contents of the National Educational Standards and design questions and tasks for the centralized examinations. Furthermore, the centralized examination results are used as a tool in evaluating teaching quality, and teacher performance.

Institutes of higher learning: Latvian higher education institutions are autonomous in that the state does not intervene into the academic process. Thus, the institutions benefit from the improved quality of university applicants' secondary education; their candidates are better trained, accomplished, and prepared to continue their education at the tertiary level. On the other hand, the centralized examination system is an effective anti-corruption lever that provides young people with more equal access to higher education.

The centralized examination allows for the reduction of funds allocated for entrance exams: no money is to be spent today on establishing entrance examination boards, developing databases of test questions and entrance examination syllabi, or on holding examinations. The above does not apply, however, to narrowly specialized areas of education, such as arts, journalism, theatrical production, etc. In this case, higher educational institutions are entitled to run an additional entrance examination in a respective subject not provided for in the centralized examination.

Student associations and unions: Student parliaments organized in many schools can provide comments on education policy through city councils that are fairly influential and proactive local bodies of power. To students, the centralized examination is an effective self-evaluation tool and a key component of the open and transparent mechanism for entering higher educational institutions.

Parent Boards: Thanks to the centralized examination, parents have an opportunity to conduct a formative evaluation of their children's academic attainment in the course of question piloting. As the parent boards are in charge of forming school funds, they can require that the school administrations invest in upgrading teaching materials and aids, manuals and textbooks, teachers' professional development, and the like.

4. Existing approaches to solving the problem

At their last ministerial meeting, EU ministers of education agreed upon 2010 goals for expediting the interests of all EU member-state citizens, in particular:

- to improve the quality and efficiency of education and training systems in the EU countries;
- to ensure equal access to education for all;
- to open up more education and training opportunities.

When developing its Education Strategy for 1998-2005, Latvia took on board recommendations of the Lisbon Convention, as well as expertise and best practices of the EU countries in both improving their existing education systems and setting new education priorities.

The Ministry of Education and Science of Latvia defined the main aim of developing education as creating a well-balanced system of education that would advance a democratic and coherent society based on knowledge economy and life-long learning; improving the competitiveness of the Latvian population and the national economy; harmonizing the national education system with that of other EU member-states, while preserving and nurturing Latvian culture and traditional values.

In line with the above aim, the Centre for Curriculum Development and Examinations, a unit of the Ministry of Education and Science, developed the National Educational Standards. The document enabled education authorities to standardize and better regulate the academic process and define minimum required competencies for a student's exit. It is up to the teacher and the student to decide the most suitable methods of forming and developing those competencies within the framework of certified syllabi in relevant academic subjects. By following this approach, more attention is paid to the development of students' creative thinking since neither teachers nor students are restrained by rigid, state-approved syllabi. Also, teachers are encouraged to use innovative methodologies and approaches, which facilitate their own professional development and stimulate students' creativity in non-standard learning situations.

This system is conducive to the comprehensive development of Latvian youth as creative personalities competitive on the local and international labor market. At the same time, there are still issues to be addressed in the system of education, in particular:

- Some teachers still need to learn how to work outside the commanding system of education and in an environment where the educational authorities set the ultimate goals and objectives and leave it to the teacher to choose the best suitable methodologies and aids. One way to transition teachers into this new system could be through in-service trainings, especially in how to introduce new National Education Standards into the daily academic process.
- Principles of continuity, recycling, and growing complexity are not always observed in available teaching materials, including textbooks. Curriculum and material designers typically focus on the contents and teaching methodology applicable to only one particular year of schooling at a time. In each successive form (year of studies), teachers have to work with materials and curricula designed by different authors. Therefore, it could be feasible to revise and amend the regulations on accreditation of curricula and textbooks.

By and large however, Latvian education policy with respect to examinations, assessment, and evaluation of students' academic attainment is both effective and efficient. In order to bridge the gap between the secondary and tertiary education, to avoid inconsistencies in the contents and forms of final school examinations and entrance exams, the Centre for Curriculum Development and Examinations designed a test that would evaluate objectively student's academic attainment. In fact, this test is a centralized examination.

Test questions and tasks in every subject are developed by a working group that consists of school teachers, university lecturers, officials of the Ministry of Education and Science. Trilateral representation allows the working group to have a multidimensional perspective and to consider the quality of secondary school assessment in alignment with its relevance to the higher education institutions' admission requirements and the National Educational Standards.

The efficiency of the educational process is defined on the basis of statistical methodology and is graphically depicted as the Gauss Curve (See Annex). The curve allows for quantifying the qualitative indicators of education. The horizontal axis shows the levels of education. The vertical axis shows the number of students examined on each level of education. Mean quality indices are calculated with the use of relevant statistical patterns. The actual examination results are compared with the mean indices to assess the quality of every student's knowledge and skills. The curve also enables teachers to assess the quality of the educational services they provide. Juxtaposition of graphs developed for different schools can be useful for measuring the level of respective faculties' professional development and performance.

A positive impact of the centralized examination is evident and rapidly achieved:

- a subjective or biased attitude toward students during the evaluation process is excluded, as is the influence of personal relations between teachers and students;
- educators can assess the quality of their own work;
- both students and teachers can compare their attainments;
- the obtained results can be correlated and compared with those of other test papers (at the formative assessment stage, for example);
- corruption is curbed (if not weeded out) with regard to entrance to institutes of higher learning;
- graduates admitted to universities and colleges are those with the best academic attainment and capable of becoming highly qualified professionals upon graduation.

Nevertheless, there remain some issues that should be addressed as soon as possible, including:

- a) the quality of examination materials needs improving;
- b) training programs for test writers and evaluators need funding;
- c) institutional issues, such as providing offices for working groups and allocating funds for remuneration of teachers who mark examination papers, need addressing.

5. The relevance of experience for Ukraine

Profound transformations in Ukraine's national economy, social, and political spheres have touched education as well. The country's aspirations to become integrated into European structures and a common educational network call forth a radical change in approaches to education quality control. Latvia came to realize this necessity in the mid-1990s, while Ukraine did so only recently. Education reforms in Latvia are at their final stage, while in Ukraine they are at the very beginning.

One of the key features of educational reforms, both in Latvia and in Ukraine, is that they were not conceived at the top. Nor are they being imposed by central educational authorities or government. The need for reform is felt at the grass-roots, community level by students, teachers, parents, and educators alike.

Ukraine inherited a dual examination system from the Soviet Union: students take final state examinations in a number of school disciplines, and later those who choose to go to universities have to take entrance examinations in almost the same subjects. This results in:

- subjectivity in assessment and evaluation of students' knowledge and skills in the absence of dependable comparative data on their academic attainment;
- dissimilarity of forms and contents of entrance examinations in different higher education institutions;
- lack of continuity, consistency, and progressive development in complexity of materials at the point of transfer from secondary to tertiary education;
- corruption associated with the admission to universities;
- a faulty system of preferences to certain categories of candidates;
- doubled budgetary allocations for administering examinations at schools and universities.

The Latvian experience of implementing a drastic change in the examination system is most appropriate for Ukraine, as in the mid-1990s that country had very similar problems. It had to pilot several models that function successfully in other European countries before it could design its own assessment methodology and techniques. Those have proven effective, although innovations continue.

Ukrainian educators and public policy makers should rely on the Latvian experience and lessons learned as a guideline for blueprinting their own educational reform. They are fully aware that no other country's model can be transplanted onto Ukrainian soil without due regard of the national cultural and educational traditions. Besides, the country's size, geography, and uneven population density should be taken into account. In view of the above, it seems expedient to set up a Centre for Education Quality Assessment in Kyiv that will fulfill coordinating and administrative functions, whereas regional testing centers would be put in charge of day-to-day operations.

Considerable preparatory work should be done on the ground, including informational campaigns to raise the awareness of local communities, students, parents, and university managers about the practicality and inevitability of introducing independent external examinations. The national government should allocate funding for developing high-quality test questions and tasks and the pre- and in-service training of educators, building the capacity of educational institutions for independent evaluation, and enhancing the relevant infrastructure.

6. Conclusions and recommendations

Educational reform in any country triggers conceptual changes on all levels of the national education system. Latvia decentralized its education system by replacing rigid, state-approved programs with the National Educational Standards. This enabled the country to devise a new system of assessment and evaluation in education that enabled it to join the unified European educational network.

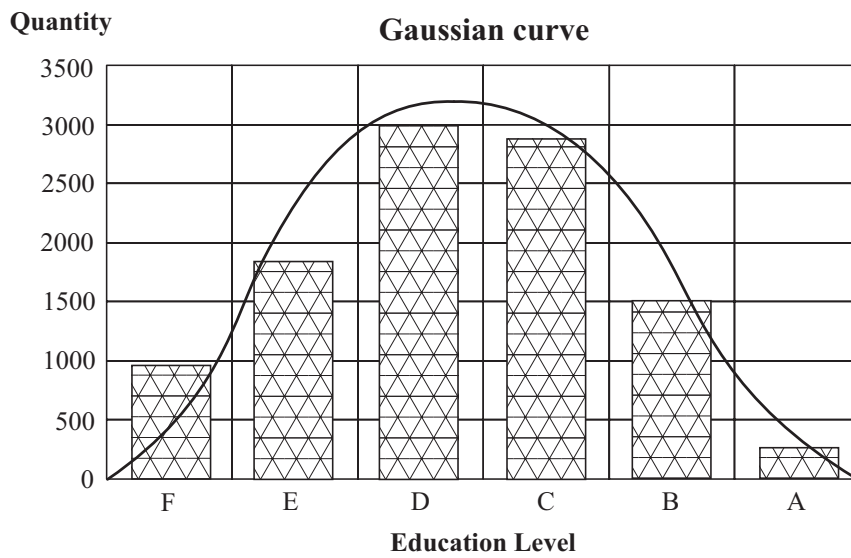
Latvia introduced the nationwide centralized examination that is instrumental in objectively measuring students' academic attainment, conducting an in-depth analysis of educational policy, gauging the level of students' knowledge and skills in specific subjects against the national standards, monitoring the quality of education, and building a bridge between the secondary and tertiary levels of education.

In Ukraine, this process is underway. Therefore, the experiences of other countries where such reforms have come to completion, thoroughly analyzed for best practices and lessons learned, will prove very helpful and valuable.

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Annex 1

Dmytro Gapeev

Creation of a Favorable Institutional Environment for Foreign Investors

*Internship Report
(Latvian Investment and Development Agency and
Ministry of Economy, Latvia)*

1. Issues (explored during internship)

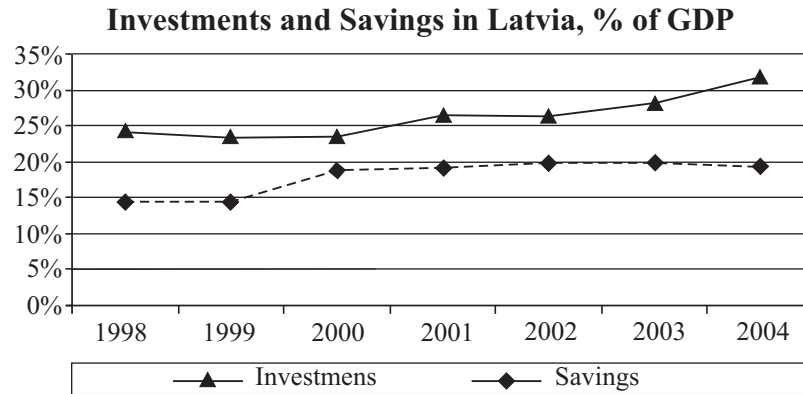
1. importance of foreign investments in modernization and growth of national economy;
2. level of cooperation with foreign investors;
3. reasons to invest in a country, competitive investment advantages of one country over another;
4. measures to ensure a country's investment appeal.

1.1. Importance of foreign investments as a factor of modernization and economic growth in Latvia

Modern economic growth theories tout the role of investments in the social and economic development of a country through a combination of factors and measures that ensure progress and increased living standards. However, there is no consensus as to the necessity of investment resources (private savings of a nation's residents, government savings, foreign investments, etc.) and the ratio set between them. Views on public regulation policy in the area of investments vary as well. The experience of most countries proves the necessity of combining domestic and foreign investment resources. The ratio between them depends upon a country's social, political, and economic system; resource potential; and environment (geographical location, participation in economic processes, and political blocks).

Latvia and Ukraine, having common economic development priorities, differ in the methods of their implementation. Comparing the two countries in the area of investments confirms that the bigger the country (in terms of area and population), the more important the internal development factors are. The converse is true as well: the smaller the country, the more heavily it relies on external factors of development. In Latvia, domestic savings are not enough to restructure and modernize (upgrade) the economy (see Chart 1). Thus, the country relies on foreign investments to a large extent, eliminating in this way a gap between investments and savings.

Chart 1

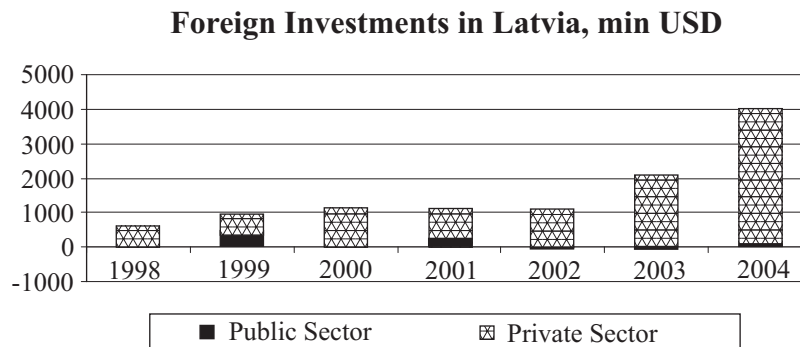


Source: [7].

1.2. Cooperation with foreign investors

Latvia has wide experience in cooperation with foreign investors due to a number of factors. Firstly, it is close to potential investors in western and northern Europe that possess greater capital. Secondly, at the beginning of transformation in 1991-1992, Latvia passed through rapid liberalization of its economy as a whole and its financial flows in particular. Since 1998, in Latvia the dynamics of investment inflows from abroad has been consistently positive (excluding 2001). This is shown on Chart 2.

Chart 2



Source: [7]. Investment value is determined in USD in accordance with current inter bank exchange rate LVL/USD at the end of corresponding period.

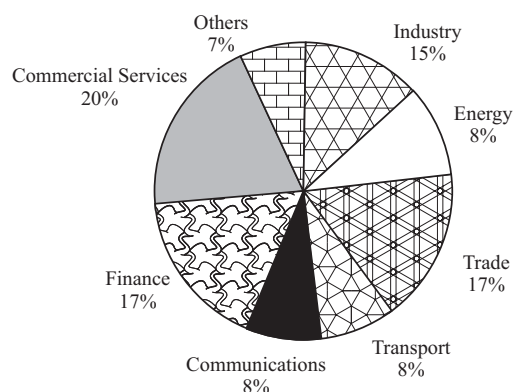
The years 2004 and 2005 presented impressive figures, with drastic improvements in the institutional environment and a growing trust in Latvia (current official statistics not yet available). Growth rates of foreign investments to the country in these years were very high. As will be shown, Latvia has been improving its business climate since 1998.

In analyzing cooperation between Latvia and foreign investors, it is important to stress several representative facts. Firstly, keeping in mind the structure of foreign investments, the lion's share belongs to the category of "Others" (investments that cannot be classified as either direct or portfolio investments; in 2004, this was more than 76%). This is illustrated by such financial operations as commercial loans and similar forms of credits, cash inflows, and deposit inflows to Latvia. On the one hand, it reflects the Latvian banking system's level of development. On the other hand, it does not show tendencies peculiar to developed economies in which direct and portfolio investments prevail.

Secondly, while considering the structure of foreign direct investments, the lion's share belongs to reinvested incomes (more than 38% in the overall structure compared to 37% of new share capital). It proves the high trust investors have in the country, a willingness to develop long-term commercial projects there, and continuous improvement in the business environment reflecting the success of measures undertaken by Latvian leadership to improve the nation's institutional environment.

Thirdly, it is positive that Latvia managed to evenly spread incoming foreign investments across economic sectors (depicted on Chart 3). As a result, foreign investments modernize each sector and do not distort the natural structure of the economy, which has been shaped by a historical division of labor based on competitive advantages.

Chart 3



Source: [7].

At last, the distribution of foreign direct investments by countries of origin in Latvia is interesting and representative. Since receiving EU membership in May 2004, almost $\frac{3}{4}$ of all investments to Latvia have come from EU member states, particularly from neighboring countries (Estonia, Denmark, Sweden, Finland, Germany, and The Netherlands). Keeping in mind Ukraine's strategy on obtaining EU membership, a similar tendency can be expected in the future.

1.3. Reasons to invest in the country, investment competitive advantages of the country

The competitive advantages of investing in Latvia are ensured by a sustainable macroeconomic and financial environment, high marks on the investment climate given by independent rating agencies, and a number of government actions to support and foster investments. Moreover, a certain role is given to external starting conditions that do not depend upon institutional structure and changes.

Sustainability of the macroeconomic environment has resulted from the Latvian economy being built on market principles combined with a certain degree of government regulation (creation of institutional base of the national economy, legal framework for fortifying “rules” needed for the economy to function).

High agency ratings of the investment climate is confirmation of Latvia’s level of development, as well as a sound signal for further investments into the economy and encouragement for reinvestments of gained profits.

Some external (less regulated) competitive investment advantages of Latvia are as follows:

- geographical location favorable to developing transit trade and corresponding services;
- cheap and qualified labor force;
- natural resources needed to develop entrepreneurship capacities of investors (for example, Latvian timber for Finnish paper industry);
- traditions and gained experience of cooperation with Latvia (particularly for Scandinavian countries).

1.4. Measures to ensure high investment attractiveness of the country

The highly developed investment processes in the Republic of Latvia are a direct consequence of active cooperation between stakeholders looking to ensure the investment attractiveness of the country. In Latvia, a number of measures have been undertaken. They include:

- policy and strategy for creating a favorable institutional environment for foreign investors;
- legislation, rules, and procedures;
- organizations that manage the process are responsible for results, disseminate and obtain authorities.

The list of concrete measures will be considered further in the subsequent paper.

2. The scope of the problem in the country of internship

2.1. Scale of the issue

Measuring all costs and benefits of attracting foreign investments remains a priority in Latvia. A small economy like that of Latvia needs to ensure a sufficient level of internal investment (particularly in renovating and upgrading the research and technical capabilities of main production facilities) to all sectors of the economy all over the country. In some depressed regions, the problem of attracting investment is more than just urgent (such as in Daugavpils, Rezekne, and others in the Latgalskiy region in eastern Latvia). Incentives are needed to push investment flows to these regions.

During my internship, I studied not self-motivated inflow of capital, but rather goal-oriented government actions focused on initiation, support, and maintenance of capital inflows from abroad for national economic growth. I studied the historical creation of a favorable institutional environment for investors in Latvia in the following regards:

- rules and procedures for foreign investments, formal and non-formal restrictions;
- organizations that promote foreign investment inflows, methods, and experience;
- policy (development rules, procedures, and restrictions and a study of the disadvantages in order to eliminate them in the future).

2.2. Background of the issue

Before 1998, there was no program strictly oriented toward investment project management in Latvia. As a result, Latvia faced the institutional problems typical to less developed countries. There was no consistent supervision on the impact of administrative and regulatory procedures on the business climate. Foreign investors and domestic entrepreneurs complained of problems they faced when conducting their business activities (for example, no clearly defined immigration procedures for foreign employees, high cost of land ownership transfer, difficult and unmotivated company audits, too much permission required to initiate a contract, etc.).

In order to resolve those problems, the Ministry of Finance of Latvia and the Latvian Agency for Investments and Development (at that time called the Latvian Development Agency) called for research into the administrative barriers to investments. The Foreign Investments Advisory Service (FIAS) of the World Bank conducted the research. In its report, the World Bank experts criticized many problems related to employment and immigration, tax and customs systems, mortgage purchasing and construction, inspections, and other important issues related to entrepreneurship.

For public consultation on the issues discussed in the report, the Latvian Development Agency invited representatives of enterprises and leaders of the ministries to participate in a presentation draft project of the FIAS in January 1999. In order to resolve the problem, a working group was created.

Taking into account recommendations provided by the research, as well as recommendations of thematic sub-groups of the working group, an Action Plan for improving business activity was developed. The Cabinet of Ministers approved the first Action Plan in May 1999. Actions foreseen in the plan will be considered in further detail in this paper.

At present, according to the country's World Bank investment rating [8], Latvia is among the top 30 countries (№26) having the most favorable institutional environment for foreign investors (as of early 2005). This is remarkable given that reforms started just 10 years ago. Moreover, improvement in the situation in Latvia during 2005 is not depicted in the rating statistics. As for the EU, before gaining membership in May 2004, Latvia won CC BEST (Candidate Country BEST) recognition for its actions, as a candidate country, focused on creation of a favorable business climate [3]. Thus, Latvia offers one of the most successful examples for nations looking to create a favorable institutional environment for foreign investors.

2.3. Aim of resolving the issue

The aim of resolving the issue is maximal simplification and facilitation of the foreign investment capital inflow process for the studied economy. In this way, we will be able to obtain the highest efficiency of capital for the recipient country.

2.4. Specificity of institutional environment (compared to Ukraine)

- Smaller scale of the country, higher income per capita.
- Greater focus on achieving clearly defined and formulated goals, existence of widely advertised national "idea" (program) of economic development.
- Higher capacity to work (because of higher living standards) and better secondary education.

3. Stakeholders

Stakeholders in public sector:

- State represented by authorized government body responsible for investments (in Latvia, the Latvian Agency for Investment and Development).
- State represented by the Tax Administration, government bodies that register new enterprises, and those government bodies whose financial inflows change as a result of a fluctuating number of enterprises, including those created on the basis of foreign investments.
- State Placement Service that focuses on lowering the unemployment rate in the country and, thus, follows creation of new workplaces due to foreign investments and is responsible for resolving unemployment problems caused by foreign investments of new technologies (which computerize and crowd out human labor from the production process).

Organized stakeholders (outside the public sector):

- Unions of goods and services consumers concerned with dynamics of prices on corresponding goods and services that may change in accordance with foreign investors' activity.
- Foreign investors both through the Council of Foreign Investors and in person.
- Domestic investors (as competitors to foreign) represented by collegial bodies.
- Financial institutions (including central bank of the recipient country) concerned with dynamics of financial resources costs, which vary in accordance with the available capital inside the county; the central bank concerned with the exchange rate of national currency that depends on foreign investment flows (due to capital inflows, as well as to outflow of foreign investors' profits).

The above list notes main stakeholders. However, in the process of identifying main obstacles to foreign investments in Latvia and studying methods of possible resolution, I discovered more and more stakeholders. Indeed, to a certain degree, all ministries and national and independent associations are stakeholders.

4. Existing approaches to solving the problem

4.1. Conceptual framework and specific policy measures and tools undertaken

As mentioned above, in 1999 the Latvian Cabinet of Ministers approved the Action Plan to improve business activity. Each political measure within the plan is supported by generalized policy issues, objectives, responsible institutions, and terms of execution and performance indicators. The Latvian Development Agency supervises the plan's implementation and conducts a dialog between entrepreneurs and government bodies.

The Action Plan defines a reform cycle: 1) problem identification; 2) dialog between entrepreneurs and government bodies; 3) decision making; 4) monitoring and policy impact evaluation. The plan proposes amendments and addendum to legal acts, revision and facilitation of administrative procedures, improvement of coordination between different bodies, drafting and publication of information, and training of public servants. The plan is a living document because new measures are regularly supplemented, just as already passed steps are crossed out.

Simultaneously, in order to eliminate administrative barriers to investments, the Council of Foreign Investors of Latvia [6] includes managers of foreign enterprises that do business in Latvia. Once a year, it organizes joint meetings with government officials to discuss implementation of the Action Plan.

A general summary of the Latvian Action Plan, with all periodic changes, can be seen in the following table (see Table 1).

Table 1*Measures to improve the business climate in Latvia (1999–2005)*

Sector	Typical disadvantage of the business climate	Measure to improve the business climate
Development of highly qualified human capital	Too much theoretical education without the development of practical knowledge and skills.	Reform of higher education, implementation of principles of Bologna Declaration, active financing of higher education and research in private sectors, dissemination of information on financing opportunities (webpages, brochures), dialog between academics and private sector.
	Lack of financing of research.	Dissemination of information (for private sector on investment opportunities and for research institutions on potential investors) and creation of fiscal incentives to invest in research.
	Need for retraining and in-service training of the unemployed and others.	Private sector financing focused on trainings for specific needs.
Tax policy and tax administration	Lack of independent institution for resolving tax cases.	Creation of pre-court discussion of tax cases with interruption in sanctions for the period of the discussion.
	Double meanings in tax legislation, biased and selective use of tax legislation, contradictory requirements of legal acts.	Simplification, unification of procedures, preparation and publication of clear interpretations, and objectivity in the use of legal acts.
Transport infrastructure, customs, crossing the borders	Difficult customs procedures, declaration of goods and services.	Unification of procedures and their interpretation, creation of free-of-charge "hotlines," systematization and dissemination of information of all customs procedures in brochures and webpages, exchange of customs information with other countries (Baltic countries, EU), implementation of simplified declaration procedures for certain types of goods.
	Sanitary requirements that diverge from those in other countries.	Unification of sanitary and other technical norms with corresponding EU standards.
	Delays in customs offices.	Simplification of customs procedures for all and certain goods.
	Low quality of roads.	Reconstruction of roads, placing new traffic signs.

Corruption	Tax abuse of power.	Propaganda of <i>honesty</i> .
	Biased court decisions.	Propaganda of <i>objectivity</i> .
Finances	Lack of long-term loans.	Targeted lowering of interest rates by encouraging competition between financial markets and intermediaries.
	Imperfection of export crediting system.	Drafting clear and understandable procedures for crediting export activities.
Administrative barriers	Bureaucracy of labor legislation	Simplification of procedure for obtaining job permission.
	Lack of information.	Dissemination of information on administrative requirements in a brief and understandable format.
Public service	Low velocity and inefficiency.	Switch to electronic document circulation, dissemination and transparency of information on procedures and processes.
	Low quality of dialog between government and business.	Transparency, publications, meetings.

It is worth mentioning the important role of the Latvian Agency for Investment and Development in improving the business climate. We do not have any similar institution in Ukraine. In Latvia, this institution is responsible for helping investors and entrepreneurs to develop the national economy. The agency provides information to investors and entrepreneurs free of charge and in line with national interests.

4.2. Assessment of measures

The dynamics of attracting foreign investments to Latvia is depicted in Chart 2. It confirms the efficiency of the measures that have been taken to increase the investment rating of the country and improve the welfare of its citizens. There are no negative impacts of program implementation. Although there are some negative external realities related to foreign investors' activities, they are not connected with the topic of this report.

4.3. Has the issue been resolved to date?

In Latvia in 2002, an evaluation of achieved results was conducted for the first time since 1998. With the assistance of FIAS experts, the Latvian Development Agency conducted a so-called self-assessment analysis of the impact of administrative procedures on the business environment (including progress observed in 1999). Research results were presented in 2003 and identified existing administrative obstacles and other problems complicating entrepreneurship.

After official data and informal points of view had been summarized, self-assessment results adequately reflected the business environment in Latvia and helped to define further priorities. At present, self-assessment is conducted annually and the results are presented and published. Work ac-

According to this scheme is an ongoing process. At the beginning of 2005, 143 objectives mentioned in the First Action Plan (1999) were planned, among which 135 were completed.

4.4. Effectiveness and efficiency of the policy

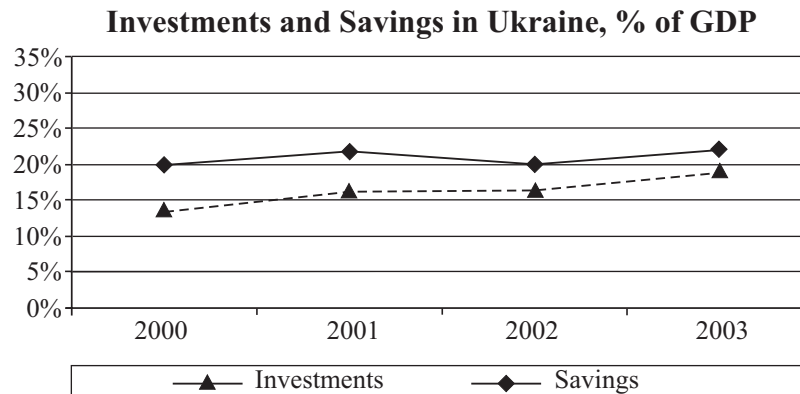
Statistical data, as well as the experience of the Latvian Agency for Investment and Development, show public policy to be effective and efficient. Latvia offers a shining example of economic policy measures that create a favorable institutional environment for foreign investors. However, it is necessary to underline the fact that this policy is good for implementation only under the conditions of a small economy.

5. The relevance of experience for Ukraine

5.1. The degree of correspondence of social, physical, economic, and political environment between Ukraine and country of internship

Statistical data on savings and investments in Ukraine shown on Chart 4 confirm the fact that the GDP portion that belongs to savings is higher than corresponding investments into capital assets. Thus, strictly speaking, Ukraine has enough internal financial resources to achieve a desirable level of investments.

Chart 4



Source: own calculations on the basis of [1] and [5].

Indeed, overall investments (as GDP ratio) are not sufficient for development (2003: in Ukraine less than 20%, in Latvia more than 27%¹). Moreover, domestic investments cannot always ensure (in Ukraine, they cannot) technological upgrading of the economy and increased labor productivity. Thus, for Ukraine the problem of attracting foreign investments is urgent, although not as critical as for Latvia.

¹ Minimal share for balanced development is 23–24% GDP.

In 2002, Ukraine's net foreign direct investment (FDI) growth was more than 600 million USD [2], in Latvia only more than 250 million USD [7]. At the same time in Ukraine, FDI per capita was only 111 USD [2], while in Latvia it was more than 1400 USD [7]. In other words, in Latvia, FDI has a bigger impact on development of the national economy than it does in Ukraine. Thus, conscious use and increase of FDI potential in Latvia has greater importance. This is clearly understandable for the Latvian political elite and became an important incentive for efficient use of foreign investments in the national economy. It is this set of actions experience in its drafting and implementation that is of a great interest to Ukraine.

5.2. Assessment of applicability of policy approaches used by the above countries in Ukraine in general, as well as occasional measures (policy tools)

The Latvian experience in creation of a favorable institutional environment for foreign investments is of urgent interest to Ukraine not only because of its strategy for EU membership (the way that Latvia has successfully and rapidly passed through), but also because this can drastically improve the internal economic situation regardless of foreign economic policy focus.

Ukraine is not so interested in the EU's experience in this area, but more in the experience of the country that has managed to overrun other EU competitors for foreign investments. Maybe Ukraine will never get EU membership, as Latvia appeared in the proper place at the proper time, but experience in attracting investments will be useful in any case. In the case of obtaining competitive advantages, EU membership is not an end in itself, but rather by our own independent policy will we be able to achieve the same results as EU member states achieve jointly. In a world where foreign investments exist in each country and capital is very mobile, greater importance is given not to absolute but to relative changes in the environment.

5.3. Foreseen outcomes from application of the above approaches or separate policy tools in Ukraine

Measures that form the basis of the Latvian experience are universal for all post-Soviet countries. Even with the particularities of the Ukrainian environment, lessons learned from Latvia's positive experience can be used in Ukraine. Moreover, reforms made under the same conditions will have an even greater positive impact.

On the other hand, a bigger conflict of interests is likely in Ukraine given local institutional particularities. Ukrainian society in general is less optimistic about foreign investors and big business. And any move toward improving the environment for foreign investors (although equally treated as internal investors) will cause resistance from national financial and industrial groups the main competitors of foreign investors. Those groups do not always work according to market principles.

6. Conclusions and recommendations

In creating a favorable institutional environment for foreign investors, Latvia achieved sound results recognized by international financial organizations and supported by trust in the national economy. This positive result can be considered an effect of the focused and coordinated efforts of Latvian ministries and agencies, as well as those of private and institutional investors.

The Latvian Agency for Investment and Development leads the work to improve the business climate in Latvia. It develops Action Plans with further self-assessment and performance evaluation, works on identification of obstacles and disadvantages in the already existing institutional environment in order to eliminate them in the future. All those efforts hold great interest for Ukraine, should be studied, and can be implemented without any adjustment. Problems in the Ukrainian business climate are almost the same as those in Latvia seven to eight years ago.

In order to examine the problem, the Latvian experience was not considered in the context of EU integration. The Latvian experience is valuable as that of a country that professionally creates conditions to use external factors of economic development (foreign investments). It does not matter where the country wants to go due to an increase in foreign investments. The main thing is that it will increase national income and living standards, upgrade the economy, and lower unemployment. It is this that is the aim of development, and not just EU accession. With foreign investments, the country can not only get closer to the EU, but can also become its competitor.

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Andriy Zayika

Mechanisms for Coordinating European Policy in the Process of EU Accession

*Internship Report
(State Chancellery, Lithuania)*

1. Issues (explored during internship)

During my internship, I studied Lithuania's mechanisms for coordinating European policy on its road to full EU accession. Particular areas of interest included the country's implementation of EU *acquis communautaire* (the body of common rights and obligations that bind all the member states together within the EU); its adoption of common legal instruments; and its formation, implementation, and control over programs for adaptation in Lithuania.

2. Scope of the problem

2.1. Scale of the issue

Accession of any country to the European Union is partly determined by a country's ability to meet the EU criteria (economic as well as political) and approximate its legislation to that of the European Union. Lithuania adopted the decision on accession to the EU by signing the Europe Agreement on June 12, 1995. This decision was backed by submission of the official application for EU membership in late 1995. According to Article 69 of the Europe Agreement, Lithuania acknowledged the harmonization of its law with that of the EU as a necessary condition of its integration into the European Communities.

How closely the country met the EU criteria was a decisive yardstick in evaluating its preparedness for EU membership. This is outlined in the EU "White Paper: Preparation of the Associated Countries of Central and Eastern Europe for Integration into the Internal Market of the Union," crafted by the European Commission in 1995.

In 1997, the European Union adopted "Agenda 2000" by which it outlined a reinforced strategy of candidate country preparation that obliged candidates to fully adopt EU law by creating conditions for its implementation before EU accession. Priorities and tasks for Lithuania were outlined in an Accession Partnership document. Given the scale of the problem, it was obvious that, in order to properly address it, a rational organization of activities and proper planning of the adaptation process would be needed.

2.2. Background of the issue

Harmonizing Lithuanian legislation with *acquis communautaire*

Until the middle of 1999, the process of harmonization moved forward according to several programs. In September 1996, the government adopted a National Law Harmonization Program. This program envisaged the transfer to Lithuania's legal system the White Paper's norms on regulation of the EU single market. In 1997, a program of integration into the single market was prepared that determined the directions of integration, as well as the legal and administrative means of putting them into effect. The shortcomings of both programs were that a) they failed to include any plans for funding the foreseen work and b) the priorities chosen did not always correlate with EU recommendations made after evaluating the situation in Lithuania.

Upon the recommendation of the European Commission in 1998, the National Program for the Adoption of the Acquis (NPAA) was adopted. It encompassed the entire EU legal system and showed the financial, human, material, intellectual, and other sources required for the harmonization of the national legislation with EU law.

The existence of several programs and the replication of functions and activities of the separate institutions in charge of sectorial adaptation in Lithuania incurred additional expenditures and brought about uncertainties in their implementation and monitoring.

The financing provided by the budget for the NPAA implementation in 1999 was 17 times greater than in 1998 and accounted for approximately 2.8 billion litai. This growth of expenditures was partially explained by the behavior of institutions seeking to maximize their budgets. It should be noted that, at that time in Lithuania, there was no methodology to calculate the necessary financing of government institutions focused on NPAA implementation.² This inefficient policy had an impact on government reform linked to EU accession. A failure to effectively control the use of budget financing meant that disbursement was determined in a struggle between different institutions vying for budget funding.

Another shortcoming was the separation of NPAA measures planning from budget expenditures planning. The possibility of linking NPAA implementation with budget planning was limited due to: 1) absence of a detailed integration program; 2) failure to provide an efficient system of control; 3) absence of a comprehensive strategy of EU accession based on a cost-benefit assessment of membership.

² At that time, there were no criteria elaborated according to which one could determine the types of measures that could be implemented by officials, paid from the standard expenditures of organizations, and which needed the assistance of consultants to be implemented.

For these reasons, a new National Program for the Adoption of the *Acquis* encompassing all previous legislation was approved on May 31, 1999. This program coordinated all processes of Lithuania's integration into the EU, and funded its measures ahead of time in the national budget. The program envisaged that the overall adaptation to EU law would be carried out in 2003–2004.

In accordance with this program, the government of Lithuania drafted an updated version of Lithuania's EU Accession Program for the years 2000–2003. It was approved by the Governmental European Integration Commission on May 11, 2000, and more than 40 governmental institutions at various levels contributed to the drafting of the program. The European Committee was in charge of coordinating its activities and the presentation of the final document.

The structure of the program (Chapters 1–2) was as follows: Overall description and the outline of two action plans. The descriptive part dealt with the planning of integration activities related to political and economic criteria, as well as to the criteria regarding Lithuania's ability to assume the obligations of membership. For each sector of the program, a brief description of the legal and institutional framework in a certain field was detailed, along with mid- and long-term priorities, an outline of programs for approximation of legislation and institutional development, and an indication of financial needs. Besides, the two Annexes contained detailed measures on implementation of the *acquis*, which became the instruments for programming and monitoring.

The Law Approximation Action Plan specified each implementation measure and pinpointed the responsible government institution and the dates by which the legislation had to be adopted. The *Acquis* Implementation Plan set out organizational tools required to fully implement the *aquis communautaire*.

Yet this version of the program was not the final one. An updated and adjusted version of the document for the period until January 1, 2004, when the accession of Lithuania and other candidate countries was expected, was adopted by the Governmental European Integration Commission on June 13, 2001.

The structure and features of NPAA was similar to those of Lithuania's Government Program Implementation Measures: both were based on a broader strategic document (in the case of NPAA, it was the Accession Partnership); both outlined implementation measures, responsible institutions, and dates by which the measures had to be put into effect. Such a similarity between the two documents emerged due to fact that general issues, as well as EU integration issues, were addressed in a single institutional environment.

The essential difference between these documents was that NPAA envisaged the elements of institution building. This was a reflection of the EU's concern to create necessary preconditions for the implementation of the *acquis*. Another difference was a more detailed planning of NPAA measures that

determined the administrative, institutional, and financial means necessary for implementation of the different NPAA measures. This allowed for more effective planning and implementation of different programs and created conditions for more efficient control over their implementation.

Euro-institutions of Lithuania in the pre-accession period

The first system of Euro-institutions in Lithuania was created in 1995. At that time, the Governmental European Integration Commission was created, which was ineffective until it was reorganized in 1998. Between 1995 and 1998, the commission met rarely and had no formal competence to adopt decisions (these had to be approved at the government's sitting). The domination in this commission of the Ministry for Foreign Affairs, which naturally was attributed the leading role in conducting European policy, should also be taken into account.

In 1996, after the parliamentary elections, the system of Euro-institutions was complemented by the Ministry of European Affairs. For two years. The newly created ministry competed with the Ministry of Foreign Affairs until it was reorganized into the European Committee under the Government of the Republic of Lithuania.

Between 1995 and 1998, events occurred that had a crucial impact on the further progress of Lithuania's integration into the EU. In March 1997, the necessary organizational measures aimed at preparing for Lithuania's accession were taken. The Governmental European Integration Commission was completely reorganized. Chaired by the prime minister, it instituted Lithuania's EU Accession Delegation, consisting of 38 representatives of different institutions and ministries.

However, it did not provide the required result: at the Luxembourg summit of the heads of EU member states in December 1997, Lithuania was not allowed to start membership negotiations due to the slow progress it showed in meeting EU criteria. This decision was seen by Lithuania's political establishment as some kind of a "cold shower" and made them realize the danger of being left out of the enlargement process. Finally, all this brought about the transfer of EU affairs management from the exclusive competence of the Ministry of Foreign Affairs, as well as the re-alignment of Lithuania's Euro-institutions which resulted in creation of the European Committee under the government of Lithuania.

The committee performed functions of the Secretariat of the Governmental European Integration Commission. At the same time, it controlled the implementation of the commission's decisions. The European Committee was also empowered to coordinate all internal measures on preparing Lithuania for EU membership, namely controlling implementation of national EU integration programs.

The Ministry of Foreign Affairs was generally responsible for the integration process and concentrated its efforts in the fields of: a) preparation of the EU accession negotiations; b) implementation of the Europe Agreement; c) political cooperation; d) trade; e) coordination of technical assistance, including assistance provided under PHARE.

Generally, the committee was responsible for carrying out the internal preparations for the EU accession, while the Ministry of Foreign Affairs was in charge of the external dimensions of the integration process. From 2000, the EU accession negotiations were coordinated by the Ministry of Foreign Affairs until, in 2001, the head of the European Committee was appointed as a Chief Negotiator with the EU.

The re-alignment of the system of Lithuanian Euro-institutions was marked by clear centralism, despite the deeply entrenched principle of institutional autonomy in the Lithuanian governmental system. Transfer of the coordination center to the central executive power body (Cabinet of Ministers) raised the status of the integration process and strengthened political responsibility of the ministries for implementation of the government's decision. The coordination became more vertical than horizontal.

As a result, the aforementioned Governmental European Integration Commission obtained the formal right to adopt decisions, its meetings were held more frequently, and the functions of its Secretariat were performed by the European Committee. The issues concerning the NPAA implementation were usually considered at commission's sittings. The sittings were chaired by the prime minister, and naturally provided the opportunity to engage the highest political leadership in the adaptation process.

At that time, the commission adopted several essential documents by arguing the importance of Lithuania's accession to the EU. One of these documents, "Outline of impact analysis of Lithuania's accession to the European Union," created preconditions for a further deep cost-benefit analysis³.

Different from the Cabinet of Ministers, the Governmental European Integration Commission was less restricted by the inefficient bureaucratic procedures that required projects of legal acts presented to the Cabinet of Ministers to be coordinated with the interested institutions. Due to this advantage, the commission was able to resolve the issues of inter-institutional coordination of European policy and to adopt decisions that obligated the separate institutions to take specified measures on the road to EU membership.

Another important facet of the institutional environment was the procedure of inter-ministerial and government operation. In Lithuania, political coordination was generally based on central control. The Chancellery of the Lithuanian government and the staff of the prime minister only formally con-

³ Apparently such a deep consolidated cost-benefit analysis of Lithuania's accession to the EU was never conducted.

trolled the implementation of tasks by separate ministries and paid little attention to the quality of performance. A firm principle of institutional autonomy limited the intensity of interactions between the ministries and the exchange of information. The method of inter-institutional consultations in policymaking was not effective because, if an agreement between different organizations was not reached, the resolution of the questions was passed on to government consultants in the prime minister's staff who had to help reach a compromise. However, this method often did not work either because of the weak capacity of the Cabinet of Ministers to settle such conflicts.

The situation changed with introduction of the European policy coordination institutions. Earlier, the institution empowered to coordinate European policy was only allowed to transmit to the ministries the tasks set by the European Commission or the EU Delegation. But later, the respective coordinating institution was responsible for implementation and became interested in the quality preparation of documents and programs and an increased operational efficiency of concerned bodies.

It should be noted that the development of inter-ministerial coordination with a hierarchical component at the Government Chancellery sparked an active institutional development in Lithuania. Institutional structure of the European policy was developed differently than it had been in the "old" member states, which usually based it on a reinforced role of the Ministry of Foreign Affairs in policy coordination.

Significant changes in Lithuania's European policy coordination system finally resulted in a more perfect coordination system than established by the "old" member states, something considered true even now⁴. These transformations should be explained as a response to the pressures and dynamics of the EU accession process.

The latest enlargement of the EU was conditioned by the requirement that candidate countries carry out necessary reforms ("positive conditionality" principle), which resulted in institutional changes in these countries that had an even more "Europeanizing" impact than accession had on the old' member states.

3. Stakeholders

Stakeholders in public sector:

- European Committee
- Ministry of Foreign Affairs
- Committee of European Affairs of the Lithuanian Seimas

⁴ This evaluation stems from the EU reports on implementation of the EU directives, as well as from the interviews with servants of the Lithuanian Government Chancellery.

Organized stakeholders (outside the public sector):

- non-governmental organizations
- associations of economic agents by fields (industry, agriculture, etc.)

4. Existing approaches to solving the problem

The institutional dimension of Lithuanian European policy coordination has gone through several waves of reforms, which ended in the creation of a government office-based central coordination system. This model differs from the one operating in the “old” member states.⁵

The trend of centralization of the Lithuanian system of Euro-institutions may be explained by the domination of a logic of efficiency for a certain period of time. However, scholars suggest that better efficiency of centralized models, de-centralized especially for the long-term, can hardly be proved. Often a fragmented system is even better for the unpredictable and floating EU decision-making process than a centralized one. Moreover, the centralized system lacks flexibility and can limit or restrict the activity of the ministries. Finally, the majority of analysts agree that a centralized model seems more efficient at least in the short-term.

Considering the increasing fusion of EU policies and internal policies of the member states, the coordination should be perceived as a mechanism for achieving stakeholder consensus on a domestic policy position. This understanding is important not only for the implementation of the *acquis*, but also for democratization of the political process at the EU level. Coordination systems that take into account the views of parliament may require more time to achieve consensus but, at the same time, are likely to decrease the gap between EU policy and the citizens of member states.

A system of coordination that allows for quick decision adoption may not reflect the interest of actors in the domestic arena. However, accession preparations require the adoption of a large number of *acquis* within a limited time frame, and that is why this period was dominated by the requirements of quick transposition of *acquis* to the national legislation.

In Lithuania, the shift to the centralized system of coordination headed by the prime minister started in 1998 and ended in 2000. The introduction of this model of coordination was determined through an understanding that EU accession cannot be provided only by diplomatic efforts. Under the pressure to demonstrate economic and legal transformations, Lithuania smoothly conducted the institutional reforms.

⁵ Such a model envisages coordination by one ministry rather than by the Cabinet of Ministers.

5. Relevance of the experience for Ukraine

The main factor that unites Lithuania and Ukraine is their common Soviet past. However, being annexed by the USSR in 1940, Lithuania suffered a smaller impact of “Sovietization.” It is in the Soviet past that one should seek the roots of administrative and governance tradition that both countries shared in the early 1990s. It should be noted that the way these countries gained their independence was rather different. While Lithuanian independence was more the result of an active struggle in the late 1980s, Ukraine gained its independence as a result of coincidence. This may explain further consolidation of Lithuanian elites around essential direction of statehood development, namely Euro-Atlantic integration, while dispersed Ukrainian elites cannot achieve consensus over key external and domestic policy priorities. The definition of European integration as the only possible development strategy of Lithuania no doubt played a crucial role in reforming the state and administration.

An important factor of Lithuanian success was the ability of the executive branch and the parliament (Seimas) to embrace the key tasks of the EU integration agenda. A similar situation seems unlikely in Ukraine, since, for example, the Verkhovna Rada of Ukraine tends to be an arena for the struggle of economic interests between large industrial and financial groups unable to quickly achieve a consensus.

In general, the features of Lithuania and Ukraine are rather different (see the data presented in the table below). Therefore, government systems have different requirements and objectives to meet. However, the similarity of starting positions in terms of administrative traditions points to a positive effect of applying Lithuanian experience to Ukraine.

Criteria/country	Lithuania	Ukraine
Population (2006)	3,585,906	46,710,816
GDP (2005)	\$50.12 billion	\$319.4 billion
GDP per capita (2005)	\$13,900	\$6,800
GDP per sector (2005)	Agriculture — 5.7% Industry — 32.4% Services — 62%	Agriculture — 22.5% Industry — 33.2% Services — 44.3%

Source: CIA World Factbook

Ukraine would benefit from following the Lithuanian experience in drafting, implementing, and monitoring of the national adaptation programs. Besides, it would be expedient to use the already verified model of institutional provision, namely the creation of the government-based centralized system of European policy coordination.

6. Conclusions

The first system of Euro-institutions in Lithuania was created in 1995. The Governmental European Integration Commission and the Ministry of Foreign Affairs, with its Department of European Affairs, played a key role in this system.

Between 1998 and 2000, the system for coordinating European policy was re-aligned. As far as the accession process was oriented more on domestic policies, the features of coordination changed as well: the function of coordination was transferred from the Ministry of Foreign Affairs to the sectorial ministries, while the role of chief coordinator was attributed to the special institution that operated in the executive branch the European Committee.

The committee performed the function of the Secretariat of the Governmental European Integration Commission. At the same time, it was in charge of implementation of the commission's decisions. The European Committee was also empowered to coordinate all internal measures on preparing Lithuania for EU membership, namely control over implementation of national EU integration programs.

After the conclusion of membership negotiations, Lithuania debated the system of coordination starting with its accession to the European Union on May 1, 2004. Finally, in the middle of 2003, it was decided to re-organize the European Committee, transferring the majority of its staff to the Government Chancellery, which from that day was in charge of European policy coordination. Nevertheless, the Ministry of Foreign Affairs reserved power in this field, and sectorial ministries gained enough autonomy to solve the issues within their competence.

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Svitlana Matus

Developing Renewable Energy Sources as a Means of Meeting Kyoto Protocol Objectives

*Internship Report
(Ministry of Environmental Protection, Latvia)*

1. Issues (explored during internship)

During my internship, I dealt with environmental issues and researched the use of renewable energy sources in Latvia and Ukraine in order to achieve the goals of the Kyoto Protocol.

Traditionally, the use of any type of energy source and production of electricity results in numerous water and air pollutants. Excess emission of pollutants (that belong to a group of greenhouse gases) is a reason for the changing climate on Earth. According to forecasts, the increase in concentration of the above gases in Earth's atmosphere may, in the next century, result in a 2°C to 5°C [9] rise in temperatures. The effect would be especially felt in the coastal zones: some of the territories may disappear all together, soil erosion will intensify, floods increase, etc. As a result, humidity will increase in some regions and droughts will prevail in others. This is sure to have an impact on people's daily lives.

Therefore, the logical question is whether the use of fuel and production of energy must always be accompanied by devastation of the environment. What measures are currently being taken to reduce the anthropogenic burden on the ecosystem?

During my internship in the Ministry of the Environment of the Republic of Latvia Department for Climate and Renewable Energy Sources, I examined the situation in Latvia and focused on the steps taken by the department to resolve the problem of climate change and to expand the use of renewable energy sources.

2. The scope of the problem

2.1. The issue and its scale (in temporal, territorial, sectorial dimensions)

Today, the problem of climate change and the search for renewable energy sources that have a less damaging effect on the ecosystem than the traditional ones is an urgent issue for Latvia and for humanity in general.

The world economy is constantly developing and its growth is based, to a significant degree, on the development of the energy sector. Electric power is a significant component of the world energy sector and economy. About

80% of electric power is produced from organic fuel. In the 20th century, thermal power stations mainly used steam cycle for energy production, with an average efficiency ratio of about 30% (for the century). To date, accessible natural resources have mostly been depleted and hundreds of billions of tons of environmentally hazardous substances emitted into the air. As a result, massive negative processes started to unfold, one of which is climate change.

In the last decade of the previous century, people started to realize the threats of using traditional sources of energy and began to look for and develop renewable energy sources.

2.2. The history of the issue

Development of civilization is directly linked to the increase in consumption of energy. People have always used for fuel organic substances, such as wood, straw, etc. With the development of industrial technologies, people began to more intensely use (in industry, aviation, and housing) liquid and gas energy sources like oil and its carbon product and gas. While in 1860, world consumption of energy equaled 557 million conditional tons of fuel (mainly in the form of wood and, to a lesser extent, coal), in the last decade of the 20th century, consumption of energy sources increased more than 10 times. If in the previous centuries, energy sources were used for heating, in the 20th century they started being used for energy production.

Intense burning of fossil fuels has a significant impact on the climate and state of the ecosystem. The by-products of burning are CO₂ (one of the greenhouse gases) and other hazardous by-products including carbons, sulfur oxides, hard particles, and more.

By the end of the 20th century, it became clear that higher concentrations of greenhouse gases in the air result in climate change. The issue became a point of debate between scientists all over the world with the World Environmental Program: In 1988, the UN General Assembly established the Expert Group on Climate Change that analyzes and assesses the existing scientific, technical, and social-economic data on anthropogenic changes in the Earth's climate.

In 1992, the conference was held in Rio de Janeiro, with the participants from 156 states. During the conference, a Framework Convention on Climate Change was signed. In 1997, the Kyoto Protocol to the Framework Convention formulated specific and significant quantitative limitations on emissions of six greenhouse gases (CO₂, methane, etc.) The essence of the Kyoto Protocol is as follows: all developed nations and countries under transition that ratified the document are obliged to reduce and limit the emission of greenhouse gases by 2008–2012. The allowed level of emissions is identified for each state and defined based on 1990 indicators. As a result, world emission of CO₂ must be reduced by 5.2%.

In 1997, the European Commission approved the White Paper [5], which aims to double the portion of energy produced from renewable sources from 6% in 1995 to 12% in 2010. Considering the availability of renewable energy sources in EU member states, the European Parliament increased the target for 2010 by 15%.

To achieve the goal of the Kyoto Protocol, energy conservation programs are being developed and implemented, the search for more efficient energy sources continues, and new energy sources that have a less hazardous impact on the ecosystem are being developed. The Kyoto Protocol to the Framework Convention on Climate Change, agreed upon in 1997, was enacted on February 16, 2005.

2.3. The specificity of institutional context (compared to Ukraine's)

The territory of Latvia is 64,589 square kilometers, an area which is nearly ten times smaller than Ukraine. Approximately 39% of Latvia's territory is used for agriculture, and 44.4% of the country's territory is covered by forests. Forest and timber are the most important natural resources for Latvia. Like Ukraine, Latvia also has rich hydro resources. The population of Latvia is 2.5 million people, while in Ukraine there are 48,457 million inhabitants based on 2001 data.

Latvia's energy sector uses local resources (wood, hydro, peat, wind), as well as imported resources (oil products, natural gas, and coal). Favorable geographic conditions, the vicinity of the Baltic Sea, sea ports (Venstpils and Liepaya), and well-developed railway and automobile infrastructure provide good conditions for the development of the Latvian transportation system.

Latvia takes part in the global process of climate change prevention and, like many other countries, joined the Kyoto Protocol to the Framework Convention on Climate Change. The first document on greenhouse gas emissions was developed in Latvia in 1995. It ratified the Framework Convention on Climate Change on February 23, 1995, and it signed the Kyoto Protocol on December 11, 1997.

The protocol foresees three mechanisms for reducing greenhouse gas emissions, two of which are applicable for Latvia. Those two mechanisms are Joint Implementation (developed countries, together with countries in transition, may implement joint projects on reducing emissions in their territories) and Quota Sales (if a country does not use 100% of the allowed quota for greenhouse gases emissions, it can sell the remainder to another country).

Transition to market economy started in Latvia in 1991 when Latvia began to seek membership in European and international organizations. (It joined NATO in April 2004, and beginning in May 2004 Latvia became a member of the EU). These developments brought about significant changes in all sectors of the national economy and resulted in reduction of greenhouse gas emissions after 1990.

Today, Ukraine participates in the global process of climate change reduction and, like Latvia, is a signatory of several international instruments. Ukraine signed the UN Framework Convention on Climate Change in 1992, and the Verkhovna Rada ratified it on October 29, 1996 which allowed Ukraine to become a party to the UN Framework Convention on Climate Change on August 11, 1997. Besides, Ukraine is a party to Annex I to the convention. Ukraine signed the Kyoto Protocol March 15, 1999 and ratified it on February 4, 2004 [6].

3. Stakeholders

In Latvia, solutions for problems connected with climate change reduction of the greenhouse effect; investigation into the impact of climate change on environmental, social, and economic systems; and the search for renewable energy sources are developed by public institutions, research institutes, consultancy companies, NGOs, international organizations, and businesses. The most influential stakeholders among the above groups are the following:

Stakeholders in the public sector:

- Ministry of Environmental Protection and Regional Development
- Latvian Development Agency
- Latvian Environmental Agency
- Public environmental agency Vides Projekti
- State Hydrometeorological Board

Organized stakeholders (beyond the public sector):

- Academic institutions: University of Latvia (LU), Riga Technical University (RTU), Latvian Agrarian University (LUA)
- Research institutes: Latvian State Research Institute of Forestry (Silava), State Forest Inventory Institute, Institute of Physics and Energy, Institute of Microbiology and Biotechnology, and others
- R&D companies and consultancy groups
- Civil society: including NGO Local Environment in a Global Context, journal *Vides zinas* (Environmental Bulletin), the think tank Public Policy Institute (financed mainly by the George Soros Foundation)

Currently, Latvia hosts the offices of numerous international organizations focusing on climate change that implement joint projects. The World Wildlife Fund (WWF) and the Coalition for a Clean Baltic Sea are among the most influential. One of the most important initiatives is a joint project between the Latvian Green Library, the Polish Environmental Club, and the Hungarian National Union for Environment Protection.

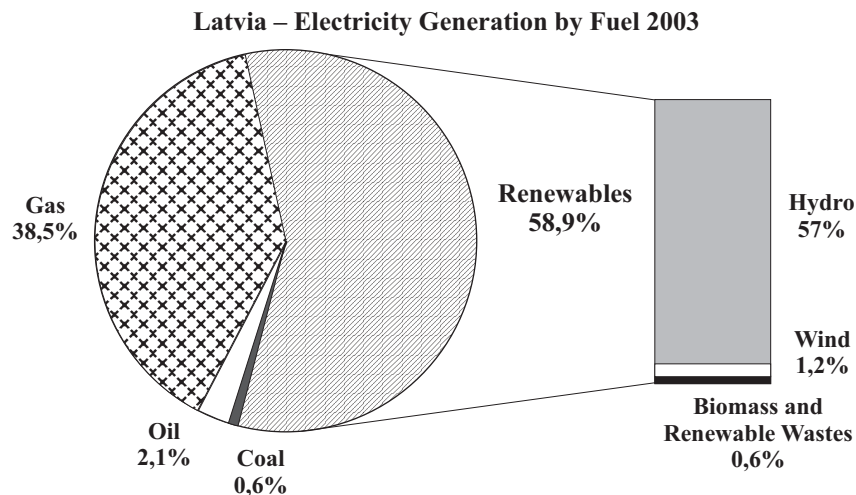
A significant part of the research on climate change and the development of renewable energy sources in Latvia are integrated with national or international research or monitoring programs that are funded from several different sources:

- Internal: from the state budget (grants from Latvian Research Board), PIP (Public Investment Program), Latvian Foundation for Environmental Protection, and funding from the budget of Latvian companies like LATVENERGO.
- On the one hand, the Latvian Research Board provides grants to fund different types of research on a yearly basis, some of which directly or indirectly may deal with reduction of the greenhouse effect. On the other hand, it allocates funding to specifically examine the issues linked to alleviation of harm from climate change.
- For example, PHARE funds the pilot stage of joint implementation projects. One example is a research program on the reduction of harmful climate change effects in the Netherlands and Latvia [1].

4. Current approach to solving the problem

In 1997–1998, Latvia's Ministry of Environmental Protection and Regional Development developed the Action Plan on Climate Change. It contains goals and requirements of the Kyoto Protocol, including a 92% reduction of greenhouse gas emissions in the period of 2008-2012 from the 1990 level [3].

One way to achieve the above goals and to increase energy efficiency and energy savings in Latvia is to develop renewable energy sources and co-generation. In 2003, the percentage of renewable sources of energy used in Latvia amounted to 58.9% (drawing 1).



Source: IEA Energy Statistics

Among the key measures for implementing climate change policy are:

1. Wide-scope use of biomass
2. Restoration of small hydropower stations
3. Wind energy

4.1. Use of biomass (0.6% from total renewable energy sources)

a) Wide-scope use of biomass, specifically waste from wood processing, as fuel for central heating

Wood is the most popular type of fuel and occupies a significant part in the fuel balance of Latvia. Wood cut in the forest and waste from wood processing are used as fuel in individual, neighborhood, and centralized heating stations. Every year, the portion of waste from wood processing increases. The technical capacity of wood biomass use equals 700,000 tons per year. Heating stations that use wood generate fewer pollutants compared to those that consume oil products or coal.

The first heating station that used wood processing waste appeared in 1993 in Malpils as a gift from the Government of Denmark, the second in Balvi within the framework of the Swedish Government EAES Program. Today, Latvia has more than 120 heating stations that use wood processing waste. Local governments are responsible for installation and refitting.

b) The use of bio-diesel in co-generational units (and/or for vehicles)

Currently, Latvia is making initial steps in bio-diesel use. As bio-fuel, rape oil, is used. Bio-diesel can be used in vehicles, as well as in co-generational units.

Government support is necessary to ensure further use of this energy source and its competitiveness with traditional types of fuel. Latvia has the National Program on Production and Usage of Bio-Fuel [2]. Organization of bio-fuel production and its use in diesel generators by 2010 is one program priority.

The Delta-Riga company is planning to produce diesel fuel from rape oil and alcohol. Initially, the target is 2,500 tons per year, later to be increased by 7,500 tons.

One of the major advantages of bio-diesels is reduced air pollution with greenhouse gases and the processes insignificant waste of sulfur compared to traditional types of fuel.

4. 2. Restoration of small hydropower stations

Hydro energy comprises about 57% of all energy sources in power production in Latvia (see drawing 1). Latvia has three big hydropower stations and more than 150 small stations. In the early 1990s, the intense restoration of small power stations began (Table 1).

Table 1*Number of hydropower stations restored per year*

Year	Number	Total capacity, kWt
1995	6	1447
1996	9	1175
1997	5	367
1998	14	1347
1999	20	1552
2000	18	2690
2001 (January-February)	17	3114
Total	89	11692

According to LATVENERGO statistics, by 2001 Latvia had 89 small hydropower stations. In 2005, there were more than 150. Today, only 65% of the hydro potential of the country has been realized. Hydropower stations with the capacity of less than 2 MWt are supported according to the law, and the total capacity of small hydropower stations equals 5–10 MWt per year. [8] With regard to greenhouse gas emission reduction, hydropower stations generate energy with zero emission of greenhouse gases.

4.3. Use of wind power

Wind energy started to develop in Latvia in the 1990s. Today, wind power is used insignificantly and its portion in general energy production amounts to 1.2%. [7] In 1999, with the financial support of the Global Environmental Foundation, the UNDP initiated the Regional Baltic Wind Power Program that, until now, has remained the most efficient project on investigation of wind power capacity in Latvia. The project included the impact analysis of political, economic, meteorological, energy, and other aspects of the use of wind power in Latvia.

Today, the largest wind power stations are in Anaza (launched in 1995) and in Uzhava (launched in 1999). For the future, more wind power stations have been planned. Construction of Anaza wind power was funded by the Government of Germany (60%) and LATEMENERGO (40%). Other wind power stations are to be financed from public monies.

The development of wind energy in Latvia is encouraged by the following factors:

- For wind power generation, greenhouse gas emissions equal 0%
- There is an opportunity to integrate wind power stations with the hydropower stations of the Dvina Cascade
- Wind power station construction is supported by the state
- Riga Aerospace Institute is involved in design and testing of wind turbines and their components

4.4. Can the policy toward solving the problem be regarded as effective and efficient?

Current policy solutions found in Latvia are quite effective. The process of developing renewable energy sources is intense compared to similar efforts in Ukraine. Still, it is advisable to diversify energy sources. Also, more attention should be paid to the usage of such energy sources as hydrogen, which is being discussed in Latvia currently. In spite of research in this field, on the political level the attitude toward hydrogen as an energy source is very reserved.

5. The relevance of experience for Ukraine

5.1. The degree of correspondence of the social, physical, economic, and political environment between Ukraine and the country of internship

In some aspects, Ukraine is similar to Latvia, which allows us to study its experience and the possibility of its application in Ukraine. Yet, Ukraine is 9 to 10 times larger than Latvia in territory and 20 times larger in population. Besides, it is very heterogeneous in its social attitudes, has a different climate and relief conditions. Therefore, the Latvian experience should be used with great caution in Ukraine.

5.2. Assessment of applicability of policy approaches used by Latvia for Ukraine in general, as well as appropriateness of selected policy measures

The necessity and possibility to develop and use renewable energy sources in Ukraine is determined by the following factors:

- Ukraine joined the Kyoto Protocol
- Ukraine suffers from a deficit of traditional sources of energy
- Ukraine has a favorable climate and meteorological conditions for the use of renewable energy sources
- Ukraine has the necessary industrial capacity for production of equipment required in generation of renewable types of energy

The Latvian experience is interesting and may be of use for Ukraine. But it is worth mentioning that Latvia has chosen those types of renewable energy sources that are most suitable for Latvia.

The most important thing to emphasize in Latvia's approach is that the problem is being solved with the involvement and participation of all stakeholders: public institutions, research centers and institutes, consultancy companies, NGOs and international organizations, and representatives of the business community in a situation which unfortunately is not typical of Ukraine's approach to problem solving.

6. Conclusions and recommendations

During my internship abroad, I examined the issue of developing renewable energy sources in order to achieve the goals of the Kyoto Protocol. At present, the problem of climate change and the search for renewable energy sources (which have a less hazardous impact on Earth's ecosystem than do traditional ones) is an important but not a priority issue for Latvia. Nevertheless, Latvia takes part in the global process of reducing climate change and, like many other countries, joined the Framework Convention on Climate Change and signed the Kyoto Protocol to it. In 1997-1998, the Ministry of Environmental Protection and Regional Development developed the Action Plan on Climate Change.

In Latvia, the issues connected with climate change (reduction of the greenhouse effect; research into its impact on environmental social, economic systems; development of renewable energy sources) are being dealt with by public institutions, research institutes, consultancy groups, NGOs, international organizations, and businesses.

Development of renewable energy sources and co-generation is one of the ways to reduce greenhouse gas emissions and increase energy efficiency and energy savings in Latvia. Currently, hydro energy and bio-diesels are actively developed in the country; potential for increased use of waste from wood processing is being created; and further opportunities for the use of wind power are being researched.

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Bohdan Moysa

Employment for the Visually Impaired

Internship Report

(Ministry of Education and Ministry of Social Protection, Latvia)

1. Issues (explored during internship)

The internship was organized by the Latvian Ministry of Education and the Latvian Ministry of Social Protection. The intern researched the issue of employment for the visually impaired — blind or partially sighted people. But for a comprehensive investigation, it was necessary to a) look into Latvian public policy regarding the education of this societal group; b) examine the existing alternatives for obtaining secondary (high-school) education, vocational education and training, and higher education; and c) understand whether the government cooperates with civil society groups in ensuring the right to education for the visually impaired. It also was necessary to learn how responsibilities for this education are divided between the two ministries.

With regard to the policy issue per se, it was important to outline the conceptual approaches for solving the problems of visually impaired people, the existing mechanisms for achieving goals, and the way these mechanisms operate in practice. In addition, it was necessary to find out if participating civil society organizations have the capacity to provide assistance and/or proficient expert advice.

2. The scope of the problem

2.1. The situation in the EU

One of the conventions of the European Union of 2001 declares a prohibition on discrimination in the areas of education and employment and guarantees equal opportunities for all. To achieve this standard, people with special needs had to unite into civil society groups, or NGOs, in order to influence authorities and propose different mechanisms to expedite problem solving. These mechanisms differ from country to country. Quite often, NGOs, in addition to lobbying, take on the responsibility of implementing government decisions: for instance, to create jobs and establish employment centers for partially impaired people.

The European Blind Union was established to assist visually impaired people. It became a research center and problem solving think tank geared toward finding solutions for this group of disabled people.

To monitor the employment of visually impaired people, in 1995, the Union established the Commission on Rehabilitation, Vocational Training and Employment. Several European countries were selected to carry out research: Croatia, Cyprus, Denmark, Finland, France, Greece, Hungary, Ireland, Latvia, Luxemburg, the Netherlands, Norway, Poland, Spain, Sweden, and the United Kingdom. The countries were selected because of the different approaches they employ in defining the disability and dealing with the challenges of this group of disabled people.

The Commission prepared a report in March 2001 based on its survey that encompassed 17 countries and 433,750 blind or partially sighted individuals (100,000 of them were unemployed). The indicators differ for different countries. For instance, in the countries of Northern Europe more than 60% of visually impaired people of productive age are unemployed (69% in Denmark, 55% in Finland, 68% in Norway, 87% in Poland); Sweden is the only exception, with the number of unemployed at only 5.5%. The situation in Germany is no better: 72% [2]. In Spain, the number of visually impaired people is only 4.2%. Evidently, the situation depends upon the lottery campaign organized by the Spanish Organization for the Visually Impaired [7].

In Hungary, the level of unemployment among visually impaired people is as high as 77%. This replicates the situation common in countries of Central and Eastern Europe: employment for disabled people under socialism was provided by special enterprises. With the transfer to a market economy, these enterprises did not survive the competition and did not meet the requirements of an open market economy [2].

Among major hindrances to employment for visually impaired people, the survey lists different factors: eye conditions and general health conditions (Hungary, UK, Spain), social insurance (pension) (Luxemburg), high general unemployment (Croatia, Finland, Germany, Latvia, Poland), low professional qualifications and lack of experience (France, Greece), employers' attitude (Cyprus, Sweden), and lack of legal regulation or family matters and others reasons [2].

2.2. The history of the issue in Latvia

Before 1991, Latvia was part of the Soviet Union, which influenced its social policy. Visually impaired people were united into the Blind People Society, and the majority was employed by the company owned by the Society. Only blind people who graduated from universities or special vocational schools stayed outside of this type of employment and held jobs according to their professional qualifications. For this group of disabled people, the government had to provide an assistant.

Every republic of the Soviet Union had its Blind People Society that was not united into an all-union organization. The Society was chaired by a board, and the management system included departments for production and sales. They were responsible for providing employment to visually impaired people.

The Blind People Society obtained contracts in two ways:

1. Government order (public procurement): a public planning agency ordered Blind People Society goods (mainly consumer goods like brushes, sockets, spins, etc.). When produced, these goods were sold to consumers' unions. This system had very little economic rationale and was oriented toward providing jobs for disabled people. Quite often, goods did not leave the warehouses and were stocked at the Blind People Society Company itself or stockpiled at the consumers' union.
2. Cooperation system: The Blind People Society Board or its company signed contracts with heavy industry companies (mainly metallurgical) for production of certain engineering goods as components to the equipment and machinery that the company produced.

Visually impaired people obtained secondary (high school) education in special boarding schools, where they also obtained vocational training and developed skills necessary for further employment at the Blind People Society Company. The public policy, in fact, foresaw the isolation of people with disabilities from the public at large: after finishing a special school, disabled citizens were locked into the special Blind People Society enterprise (with the exception of those who obtained higher education or special vocational education and remained outside Blind People Society).

After the fall of the USSR and transfer to a market economy, traditional economic ties were ruined. Under socialism, Blind People Society companies in Latvia mainly cooperated with companies in the Russian Federation. But in 1992, the Russian Federation declared economic obstruction to the young Latvian state. Under the circumstances, most of the companies of the Latvian Blind People Society ceased operation, which resulted in a crisis that forced the Society to sell two of its companies that had gone bankrupt.

Today, the Blind People Society of Latvia is a nonprofit civil society organization that provides social rehabilitation services to visually impaired people and is funded from the state budget.

2.3. The scale of the problem in Latvia

The population of Latvia is 2.4 million people, among them 116,306 are disabled. Following the data of the Ministry of Social Protection, the number of disabled people aged 16 to 60 amounts to 67,565, and among them 10,167 of those are employed. There are 8,000 visually impaired people. The Blind People Society is not involved in providing jobs for visually impaired people as its companies cannot stand competition under a market economy and even tax privileges cannot help them survive [1].

Among 8,000 visually impaired people, 5,000 belong to the Blind People Society. Among these, 3,000 are elderly [7].

In Latvia, the needs of disabled people are dealt with by the Ministry of Social Protection, its Departments for Social Services and Social Assistance, the Department for Social Insurance, and the Employment Department (in charge of employment centers). In the Ministry of Education, a Special Education Unit within the Education Department is responsible for education services, while the Professional Education Department is in charge of providing vocational training and accreditation of vocational training programs for disabled people. The Integration Center is responsible for integrating people with disabilities into society.

The National Council on Disability is a representative body; it is made up of the ministers of the above ministries, other government officials, and CEOs or chairs of NGOs that deal with disabled people. Officially, decisions taken by the board are of an advisory nature, but most of them are then reflected in the legislation or by-laws. The decisions are made via voting, and each member of the board (a minister or an NGO leader) has one vote.

At the local level, the needs of disabled people are dealt with by those in the local government. They determine the amount of social pension to be received by a disabled individual based upon the minimum set by the central government.

After independence, Latvia rejected some of the benefits guaranteed to people with disabilities under the Soviet Union (admission to universities and special vocational school without contest, significant social allowances, and social pension). Currently, the minimum social allowance to unemployed disabled people equals 24 lats (about 48 to 49 USD). The state does not separate disabled people from other groups of socially disadvantaged people, like low-income people, victims of political repression, and Chernobyl victims. The law "On Social Protection of Disabled People" was adopted in 1992, and today the issue of its amendment is on the agenda [6].

When Latvia joined the EU, it became a signatory to legal instruments dealing with special needs people. For instance, Directive 2000/78 oversees equal employment opportunities. The Directive was incorporated into Latvian legislation that reads: "Every individual has equal rights to employment, remuneration, protection, and safe working conditions" [6].

The situation of disabled people in Latvia improved in 2003, the year that was proclaimed by the UN as the Year of Disabled People.

3. Stakeholders

Stakeholders in the public sector:

Public institutions look at the issue of employment of the visually impaired in the context of combating unemployment in general. The state decided to cut annual benefits and allowances and substitute them with opportunities that may be much more proficient, on condition that existing mechanisms operate effectively.

Organized stakeholders (outside the public sector):

- **The Blind People Society** is the most influential civil society institution that represents the interests of visually impaired people. As one of its leaders indicated, “The priority of the Blind People Society is to work toward making national legislation more favorable for visually impaired people” [4]. One of the regional branches of the Blind People Society is currently working on setting the proper conditions that would allow visually impaired people to obtain higher education. The Society is a member of the National Council on Disability and takes an active part in developing legislative drafts dealing with disability issues.
- **The European Blind Union** is a key organization that protects visually impaired people in the EU. The Blind People Society of Latvia is a member of the Union and takes part in the Union’s lobbying process.
- **The European Disability Forum** is an umbrella organization for European disability NGOs. Under pressure from civil society organizations, the European Commission adopted the European Union Disability Strategy. The document outlines possible ways of cooperation between NGOs working for and with disabled people and EU institutions. One of the directions the Strategy proposes is integrating disabled people into networks and involving them in formulating and monitoring public policy. This document also identifies specific steps of cooperation between the Commission and social partners. In 1999, the Commission initiated and mediated the adoption of a Joint Declaration on Employment for People with Disabilities [2]. Another example of cooperation between the Commission and social partners is the project EQUAL 2000-2006 focusing on involvement of all interested parties in fighting inequality and discrimination in employment and creating fair conditions for all in the labor market [6].

4. Current approaches to solving the problem

4.1. Conceptual framework and specific policy measures being used

As already noted, EU legislation on the employment of people with disabilities must be incorporated into national legislation of EU member-states. The European Union Disability Strategy, adopted in 2002, indicates that anti-discrimination employment policy (access of disabled people to jobs and provision of adequate conditions to meet special needs) has to be reflected in the National Action Plans of the member-states [3].

The National Action Plan of Latvia took the form of the Concept Paper “Equal Opportunities for All.” This document is rooted in the following legal instruments: UN Universal Declaration on Human Rights of 10.12.1948, UN Declaration on Disabled People of 09.12.1975, UN Standard Rules on the Equalization of Opportunities for Persons with Disabilities, Recommendations of the Council of Europe № R (92)6 (on consistent policy for reha-

bilitation of disabled people), and others. The national law “On Health Care and Social Protection of People with Disabilities” of 29.09.1992, which guarantees employment assistance to disabled people, was also considered by the Concept Paper.

The Concept Paper identified several factors that hinder employment of disabled people:

3. lack of effective mechanisms for encouraging disabled people to work, as well as low level of their qualifications;
4. defects in the system that motivate employers to provide jobs for people with disabilities;
5. deficit of financial resources to create jobs specifically for disabled people;
6. lack of professional orientation training;
7. insignificant difference between the earned salary and social pension provided by the state.

To combat the above hindrances, the Concept Paper proposed:

1. to establish agencies for professional orientation or to introduce such services in the existing institutions. Professional orientation, when provided, would take into account the level of knowledge, competencies, capability, and wishes of disabled people, as well as demand of the labor market;
2. to establish agencies responsible for creating proper working conditions for people with disabilities, considering work safety and special needs;
3. to develop group and individual programs for disabled people stimulating them to work, as well as special programs for adapting the workplace to meet special needs of disabled people;
4. to develop a mechanism for motivating employers to employ disabled people, as well as provide proper working conditions for this group of employees;
5. to open special employment centers that would offer jobs at companies and enterprises, as well as individual employment (at home);
6. at the regional and national levels, to involve employers, trade unions, chambers of commerce, NGOs working with and for disabled people in creating jobs for and providing employment to disabled people;
7. to develop programs stimulating self-employment and entrepreneurship among people with disabilities [1].

Concrete steps to achieve the goals set forth in the Concept Paper were taken in 2003. The Ministry of Social Protection introduced the system of *subsidized working places*. The essence of this approach is as follows: the state pays to a disabled person a minimum salary during the first year of employment and 80% of minimum salary during the second year. The employer

pays payroll taxes, as well as extra payments depending upon performance or extra hours. During 2003–2004, due to this approach 700 disabled persons were employed, among them 30 visually impaired people. After the subsidy period came to an end, 20–25% of disabled employees retained their jobs. Today this system is still in place, though quite often after the subsidy period is over, the employer dismisses disabled employees [6].

Certain measures were taken to *adapt the workplace to the special needs of disabled people*. A Technical Support Center was established to provide the equipment necessary for the functional needs of disabled people, and the necessary funding is to be provided by the state. Yet, considering the needs of the visually impaired, Latvia will start to produce its own software next year. Therefore, it is difficult to fully discuss adaptation of the workplace for this category of disabled people in Latvia at this time.

Positive steps toward *professional orientation* were made. Employment centers provide opportunities to obtain qualifications, depending upon individual desires and demands of the labor market. Besides, in employment centers disabled people can obtain a new vocation. One of the mechanisms applied in the area of professional orientation was transferring the professional orientation function to NGOs. For instance, Blind People Society was contracted to train their client in a vocation (knitting), but after the first training course was completed it was realized that this vocation is no longer in demand.

Also, the *Integration Center* was established. It is a professional training institution in which disabled people can obtain vocational training or upgrade their qualifications. It will start providing services to blind people in the next academic year; special training programs for this group of disabled people are currently being developed [6].

Also, the state has declared it a priority to provide *education to disabled people in ordinary secondary schools*. The major problem here is to create the necessary conditions that would enable disabled children to visit ordinary schools. To this end, the government is using national resources and EU funding. Currently, as the target cannot be achieved 100%, special schools will be retained.

4.2. Assessment of measures (policy tools)

Employment for visually impaired people in Latvia remains a problem, in spite of the fact that great effort was made to resolve it. By the end of 2006, special software for this group of disabled people will be developed. New vocations for visually impaired people will be provided through training in the Integration Center.

For the year 2015, provision for assistants to the blind is planned. This is indicated in the Program for Combating Disabilities for the Years 2006–2015. Currently, several different mechanisms for doing this are being examined:

1. Paying an extra pension to a visually impaired person would allow him or her to hire an assistant.
2. Assistants could be hired via social centers.
3. A blind person could be paid a check that the assistant can turn into cash at the social center.

The issue of companies operating under the Blind People Society has not been resolved. Officially, the government cannot interfere as the Society has the status of an independent non-governmental organization, and the companies are the property of the Society. In its turn, the Blind People Society Board does not find it necessary to seek assistance from the state. Evidently, if the situation remains unchanged, the Blind People Society will not survive the crisis. To avoid this, more flexible public policy should match with a flexible mind-set of the Society Board.

4.3. Can the current policy be regarded as effective?

Currently, it is practically impossible to assess the effectiveness of the existing policy as the measures undertaken are only being tested. At the same time, it is clear today that new opportunities for employment and the motivation of employers will contribute to solving the problem. Hopefully, education of visually impaired people in general secondary schools will not only contribute to their societal integration, but also will widen opportunities for employment. The possibility of blind people obtaining an assistant is definitely a positive step.

5. Relevance of the experience for Ukraine

5.1. The degree of correspondence of social, physical, economic, and political environment between Ukraine and Latvia

While comparing the state of affairs in Latvia with the current situation in Ukraine, some aspects need to be taken into consideration. In proportional measurement, the number of disabled people in Latvia is similar to that of Ukraine. In Ukraine, there are about 2 million disabled people; among them some 100,000 are visually impaired. Unlike in Latvia, disabled Ukrainians form a distinct social group, different from other citizens that require social protection. There is a Department for People with Disabilities in the Ministry of Labor and Social Protection of Ukraine, and in regional state administrations special units take care of this group of population. In addition, the Fund for Protection of Disabled People has been established to provide proper working conditions for people with disabilities and assist them with employment and rehabilitation. In addition, there is a Commission for Disabled People's Companies, NGOs, and Community Groups that makes decisions on providing financial support from the Fund for Protection of Disabled People. Adaptation of the workplace to the special needs of disabled people is paid for from the Fund in the form of a zero-interest-rate credit granted to the employee.

5.2. Applicability of policy approaches used in Latvia for Ukraine in general, as well as appropriateness of selected policy measures (policy tools)

Currently, disabled people in Ukraine are granted significant privileges like admission to university without contest or zero income tax for disabled entrepreneurs. The government is making a decision whether to retain a high social pension for this group of people or to provide them with employment opportunities.

Their employment is regulated by quotas: a company or organization is expected to have 4% of disabled people among its staff.

The political environment in Ukraine facilitated adoption of legislation that cannot be enforced in practice.

For Ukraine, it is better to eliminate privileges that do not help much, but rather establish a system of positive discrimination. Under such an approach, the state takes full responsibility for a social category that is capable of taking care of itself. As the case of Latvia demonstrates, by eliminating privileges, the state creates new opportunities. At the same time, elimination of privileges and allowances cannot be instantaneous: it has to happen by a step-by-step process in which a privilege is replaced by a new opportunity. When privileges are annulled for disabled university students, they would come to university to seek knowledge, not to obtain a diploma. Privileges granted to Ukrainian Blind People Society enterprises, accompanied by a subsidy, do not solve the problem: most of the companies continue to generate debt.

The system of quotas seems viable. Also, subsidies can be recommended. An employer should be given a chance to put to the test qualifications of a disabled employee. On the contrary, compulsion (instead of incentives) under a market economy results in defiance and scheming, cheating, or fraud. Using quotas together with subsidies seems a very good option.

Anyway, it is evident that the system of opportunities is better than the system of privileges.

6. Conclusions and recommendations

Until 1991, both Latvia and Ukraine belonged to one societal system and pursued similar social policies. After the fall of the USSR, Latvia abandoned many of the state-awarded social advantages. It advanced to a market economy and eradicated the social support system for disadvantaged groups of the population. The abandoned social support system was replaced by the system of opportunities. The process of replacement was accelerated by membership in the EU; many EU approaches and best practices were borrowed. Latvia's objective was to provide socially disadvantaged groups with opportunities to be active citizens and expect support from the state only when they really need it. At first glance, visually impaired people are not

embraced by public policy (bankruptcy of Blind People Society companies, limited opportunities for obtaining education or finding employment). But, in fact, Latvia is making slow but persistent steps to close the gaps. Now, the outcomes depend more on a client than the policy, not on the government. For Ukraine, it is as an important lesson as it still must find a harmonious way to unite privileges with opportunities.

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Mykola Netyaga

Effectiveness of Anti-corruption Activity

*Internship Report
(Service for Special Investigation, Lithuania)*

1. Issues (explored during internship)

My internship included study of all Service for Special Investigation of the Republic of Lithuania (the “Service”) departments and divisions and their specific activities. During my internship in the Service, I studied the following issues:

- The Service as an effective anti-corruption tool in Lithuania;
- Political preconditions for establishment of the Service;
- Functions and authorities of the Service according to the legislation of Lithuania;
- Normative basis and mechanisms for Service functioning;
- Problems and challenges facing the Service’s development.

2. The scope of the problem

2.1. The issue and its scale (in temporal, territorial, sectorial dimensions)

Anti-corruption activities in Lithuania are addressed by the Program of the Republic of Lithuania “Anti-corruption Plan 2010.” This program helps coordinate the efforts of all agencies that deal with anti-corruption issues according to the laws of Lithuania and ratified international agreements on prevention of corruption. The program is based on three components universally recognized as a basis for anti-corruption activity: prevention of corruption, investigation of corruption crimes, and anti-corruption education for citizens.

It is worth stressing that positive results will be achieved only if all three components are working simultaneously. To prevent corruption and address the causes of this negative social phenomenon, the law-enforcement system was strengthened, close cooperation between public and non-governmental organizations was encouraged, public awareness was raised, and public resistance to corruption was encouraged. Corruption cases in the public and private sectors disrupt democratic, economic, and legislative systems. Thus, activities developed to fight against corruption should have a logical, comprehensive, and long-term character.

Specifically, stress should be placed on prevention of corruption, anchoring the principle of accountability for illegal actions, strengthening of social rejection of corruption, and development of international cooperation in anti-corruption activity. The program's actions correspond with social problem solving and prevention of current and anticipated factors of corruption. Also, the planned actions guarantee protection of declared rights and freedoms and do not violate presumption of innocence.

Anti-corruption initiatives should satisfy every citizen's and the whole society's expectations. Closer cooperation between government, non-governmental, and international organizations as well as with private persons should be promoted. The idea of social non-acceptance of corruption is taught in secondary school and is included as a special course in other academic programs.

2.2. The history of the issue

In 1997, the Sejm (parliament) of the Republic of Lithuania established The Service for Special Investigation, mandated to fight corruption at all levels of public administration. However, the Service did not have independent status during its first two years. As part of the Ministry of Internal Affairs, the agency was unable to act independently to the full extent. Creating the Service within the organizational chart of the Ministry of Internal Affairs was a coercive step, since the ministry would not agree to delegate its operation and investigation functions to a separate agency. Nevertheless, in 1999, it relinquished authority and the Service started functioning independently. On May 2, 2000, the Sejm adopted the law "On Service for Special Investigation of the Republic of Lithuania," which founded the Service and outlined its objectives and functions.

The Service's activities are governed by the abovementioned law and international agreements. The Service is charged with reducing the threat of corruption through prevention and investigation, coordinating anti-corruption efforts by national and local agencies and organizations, improving anti-corruption mechanisms and encouraging public participation in anti-corruption initiatives.

The Service's history demonstrates Lithuanian leaders' commitment to overcoming the high level of corruption in the country. Nevertheless, the independent status of the Service is a tool for manipulating public opinion used by a certain circle of officials, because there are still no evaluative criteria for the Service's activities. The director of the Service reports annually to the Sejm, but the criteria to measure the Service's success have not been developed yet. This allows political forces pressure the Service indirectly and restrict its authority and financing. Today, the Service is the only government agency where its workers are prohibited from getting a bonus in addition to wage raises.

In the future, the Service will be considered an independent agency which watches the law, has a high level of public trust, and can investigate any kind of corruption crime. To reduce the corruption level in the country and increase corruption control effectiveness, the Service should reach the following three strategic objectives:

- to investigate corruption crimes effectively;
- to prevent corruption systematically;
- to ensure anti-corruption educational for citizens.

2.3. Specificity of institutional context (compared to Ukraine)

Lithuania is considerably smaller than Ukraine, which will affect the implementation of anti-corruption programs. For example, establishing the Service costs less in Lithuania than a similar organization would in Ukraine. Another important factor is the strong political will of Lithuanian parliamentarians, who unanimously supported the creation of the Service and gave it the authority to operate, investigate and conduct educational activities absolutely independently. In contrast, from the very first steps of the Parliamentary Working Group on the Anti-corruption Fight (created in November 2005) in Ukraine, it became obvious there is not the same level political will and willingness to share authority with the new agency.

Establishing similar agency in Ukraine will require significant financial resources and consensus among political parties. The first important step should be the signing of a declaration by all the parliamentary political parties in which the threat of corruption to the state will be recognized and a fight against it made a priority.

The next step should be developing an anti-corruption program to be approved by the government. The third step should be creation of the agency within the framework of the Program on the Anti-corruption Fight. Such a mechanism was successfully demonstrated in Lithuania. The process there was complicated, however, because, with the permission of a public prosecutor, the Service is allowed investigate Sejm members and government representatives besides the President of Lithuania. This adds to the agency's power and weight among executive power authorities. Because of that, political parties try to influence the agency's activity by accusing it of incompetence and inability to resolve the corruption issue.

3. Stakeholders

Stakeholders in the public sector:

- Executive power authorities: Cabinet of Ministers of Ukraine, Office of Public Prosecutor, Ministry of Internal Affairs, Intelligence Service of Ukraine.

Due to the decrease in corruption in public agencies and local self-governance authorities, the state's image will be enhanced and public trust in public servants will increase.

Organized stakeholders (outside the public sector):

- Public organizations (enterprises with all forms of ownership besides state ones).
- Private entrepreneurs who have trade, service delivery, and manufacturing businesses.

4. Existing approaches to solving the problem

4.1. Conceptual framework and specific policy measures and tools undertaken (activities, policy instruments)

During the years of independence, many orders and other legislative acts that strongly condemned the disgraceful phenomenon of corruption have been adopted in Ukraine. As a result, signals of initial success came from the regions: dozens of militia sergeants were fired or given dismissal notices, hundreds of public servants of local governments and self-local authorities, tax administrations, and others who were destroying the image of Ukraine on the international scene lost their jobs.

Because these anti-corruption activities have been targeted at fighting corruption symptoms rather than causes, they have not been systematic. They can hardly achieve the desired outcomes.

Such a situation is caused by the fact that all social preconditions of corruption have not been studied yet; the activities regarding restriction and neutralization were not undertaken. Slow democratic and economic reforms abet corruption. The strategy for corruption prevention and resistance has not been developed. Anti-corruption activity was not a priority for many government agencies. It is being carried out without a systematic approach, information support, or through a division of functions and responsibilities.

4.2. Assessment of measures (positive and negative factors)

Ukraine has already realized the need to establish an institution to deal with corruption. Recently, a working group in the Ukrainian parliament started creating an institution similar to the Lithuanian one. The main bottleneck is similar to the one Lithuania experienced: lack of political power of all political parties in the parliament. This is because the first thing to be done is for all parliamentary political parties to demonstrate the will to address issues of corruption and start fighting against it by signing a declaration.

Shortcomings in the Ukrainian criminal and procedural codes that limit such the agency's performance are other obstacles in this process.

One more impediment is the unwillingness of the Ministry of Internal Affairs to delegate functions to an agency which is not subordinated to it. This problem has already arisen during the first meeting of the Parliamentary Working Group.

The Lithuanian's experience establishing the Service will be valuable for Ukraine. This is because Lithuania employed the best world practice to establish such an agency. Moreover, the preconditions in Lithuania were similar to those Ukraine has today.

4.3. Has the issue been resolved to date?

In Ukraine, corruption permeates all public administration structures and spreads out into the whole of society. It is very important to realize the essence of corruption because this predetermines the development of anti-corruption strategy and tactics. There are many definitions for "corruption," starting with qualifying it as a crime such as taking bribes, and ending with a general formulation without certain criminal evidences/features. That is why a clear definition of corruption will allow clear identification of this phenomenon, and most important, infuse it with clear judicial meaning. Existing legislation does not clearly define corruption. Moreover, some of its explanations in the press are uncertain, unclear, and biased. This makes additional problems when corruption cases are taken to court.

4.4. Does the chosen policy seem effective and efficient?

A number concrete anti-corruption legislative acts were adopted in Ukraine starting in 1993. They are:

1. Law of Ukraine "About anti-corruption fight" of October 5, 1995, # 356/95-BP;
2. Order of the President of Ukraine "About conception on anti-corruption struggle for 1998–2005" of April 24, 1998, # 367/98;
3. Order of the President of Ukraine "About primary tasks on legalization of economics and anti-corruption resistance" of November 18, 2005, # 1615/2005;
4. Order of the President of Ukraine "About the system of activities to demolish preconditions and circumstances, which cause corruption" of March 3, 2004, # 266/2004;
5. Order of the President of Ukraine "About primary tasks on intensification of struggle with organized crime and corruption," February 6, 2003, # 84/2003;
6. Order of the President of Ukraine "About the national program on anti-corruption struggle," April 10, 1997, # 319/97;
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8. Decree of the President of Ukraine "About activities on intensification of struggle with corruption and organized crime" of February 10, 1995, # 35/95-пп;

9. Order of the Ministry of Transport and Communication of Ukraine “About activities on intensification of anti-corruption struggle” of September 30, 2002, # 697;
10. Order of the State Tax Administration of Ukraine “About strengthening of departments dealing with anti-corruption struggle of State Tax Administration” of July 28, 1997, # 258.

The question has arisen: why is Ukraine, in spite of all these legislative acts and activities, still among the most corrupt countries in the world? The answer to this question is hidden in the systematic character of the corruption phenomenon. To understand the features of this systematic character of corruption, one should explore its historical preconditions and causes, which “promote” its “flourishing.” Only after that is it possible to define the strategy and tools to decrease the level of corruption in Ukraine.

5. Relevance of the experience for Ukraine

5.1. The degree of correspondence of social, physical, economic, and political environment between Ukraine and country of internship (regarding the issues examined)

The first thing that should be stressed is the strong political will of members of the Lithuanian parliament to recognize the threat of corruption to national interests. All effective anti-corruption activities should have a national character. Thus, the issue of corruption should be recognized at the legislative level as a threat to national interests.

Ukrainian Parliamentarians have no such political will, which is the main impediment to taking serious steps in the anti-corruption fight. The issue of corruption is not a priority in the Ukrainian political environment. Instead, it is a slogan of a political fight. Corruption has become a systematic element of public administration; its negative influence on the political, economic, and social sphere has a predetermined character.

5.2. Assessment of applicability of policy approaches used by the above countries in Ukraine in general, as well as occasional measures (policy tools)

An effective anti-corruption fight in Ukraine must be based on the three universally recognized principles of criminal prosecution, corruption prevention, and anti-corruption education for citizens. Positive results can be reached only when these elements are employed simultaneously. The objectives of an agency should be corruption prevention, destruction of this negative phenomenon, extermination of the roots of corruption, institutional strengthening of remedial authorities, cooperation with the non-governmental sector, enhancing public awareness, and strengthening public opposition to corruption.

5.3. Foreseen outcomes from application of the above approaches or separate policy tools in Ukraine

Corruption is entrenched in the upper echelons of power; government, parliament, etc. In other words, private corporate interests such as manufacturing and trade are realized through legal structures. It might be that public officials do it out of ignorance. But there is no guarantee that this initial innocence will not transform in their deliberate lobbying of corporate (instead of national, social) interests with its further institutional strengthening.

Given the situation in Ukraine, creation of an agency similar to the Service of Special Investigation in Lithuania will not be easy. Nevertheless, it will have a positive result for national and private interests.

6. Conclusions and recommendations

An effective anti-corruption fight at all levels of public administration is one of the priorities for the European Union. Only two EU member states, Lithuania and Latvia, have agencies responsible for the struggle against corruption among low-level public servants and government members alike. The issue of corruption is urgent not only for EU countries, but also for other developed countries.

The need for an anti-corruption fight in Ukraine is obvious. Ukraine's EU integration policy anticipates the establishment of an agency similar to the Service of Special Investigation of Lithuania. But financial and political factors are obstacles.

Even if another implementation option is chosen, the need to establish a similar service will remain urgent. An effective anti-corruption fight on the national level is possible only when three components are centralized in a single agency: criminal prosecution, corruption prevention, and anti-corruption education for citizens.

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Oleksiy Stolyarenko

Legal Entities and the Registration of Their Commercial Names

*Internship Report
(Ministry of Justice, Lithuania)*

1. Issues (explored during internship)

- Low accessibility, clarity, and transparency of services for legal entities registration.
- Low accessibility level to information regarding legal entities registered within the territory of the country.

2. Scope of the problem

2.1. The issue and its scale (in temporal, territorial, sectorial dimensions)

At issue is the different systems for registering legal entities within the EU. All differ not only by names, types, and amounts of subdivisions, but also by the information they possess, procedural rules they follow, cost of services they offer for registration, and overall effectiveness.

All registers in EU countries fulfill a publicity function, i.e. provide information to the public about the existence, activity, location, and legal status of legal entities. After publicity comes control of information within the register, to ensure that information corresponds with reality so that the public is not misled.

In theory, the state provides registration services and updates information. In practice, however, different EU countries take different approaches. In one group of countries, NGOs are responsible; in other countries, self-governed state organizations are responsible; and in some, a governmental body for instance, in Austria it is the courts is responsible.

The way organizations provide registration differs as well. For example, in Germany it is done by decentralized management; in the United Kingdom by centralized management. Sometimes local registers can be linked electronically.

Harmonization within the EU has not progressed far because EU directives set up only minimum data to be put into registers. In some countries, the list of documents and data necessary for registration of legal entities has been long-established.

In all EU countries, the registers are public, which means any person can gain access to them for any reason. Also, the public can use the internet to extract information from the register.

The cost of registration services in each country is different. It depends on the degree to which the registration procedure is formal. It must undoubtedly cover the expenses of the register.

In summary, all registers are different not only in terms of organizational structure, but also in terms of national legal bases, activity they carry out, and working principles. Due to the fact that they are all different, it is difficult to evaluate their performance as a whole. Verification of documents and a factual check of data increase time for registration and raise prices, thus it is necessary to choose the optimal model. This will simultaneously prevent practices that contradict business principals and burden businesses with unreasonable revision procedures.

2.2. The history of the issue

The issues of legal entities registration in Lithuania began with the proclamation of independence in 1990 and continued up to January 1, 2004, when the power to provide registration was transferred to the Center of Registers. Previously, the situation was as follows:

1. Ministry of Culture, Ministry of Health, Ministry of Education and Science, Ministry of Justice, Ministry of Economy, Bank of Lithuania, Statistical Department of Lithuanian Government, ten governmental administrations, and six municipal institutions were all responsible for registration.
2. Every organization used its own application forms and the procedure was inconvenient for users.
3. A special institution, the Patent Bureau of Lithuania, was responsible for registration and expertise of commercial names, creating additional difficulties.
4. About 70% of registrations of existing legal entities were under question because there was no data regarding their activity.
5. The first EU Directive implementation demanded all countries introduce electronic registration to increase effectiveness by 2007.
6. The document verification process for legal entity registration took much time and required optimization.

2.3. Specificity of institutional context (compared to Ukraine)

In Ukraine, the law “On state registration of legal entity and physical persons — entrepreneurs,” as of July 1, 2004, implemented an electronic registration and data recording system for legal entities through a Single State Register and instituted a Public Registrar, which has several drawbacks:

1. Electronic data transmission from the registrar to the Single State Register does not work.

2. The data on political parties and civil organizations is not included in the Single State Register.
3. The Internet system to provide access to registration information, through access to the Single State Register, has not been established.
4. Control mechanisms for information objectivity in the Single State Register have not been created yet.

Lithuania's history of electronic registers began in 1992. Now, there are 10 electronic registers in Lithuania, all of which are administered by two organizations: the Center of Registration and the Central Mortgage Institution.

The Center of Registration administers:

1. Registration of real estate;
2. Cadastre of real estate;
3. Estimation of real estate;
4. Registration of addresses;
5. Registration of legal entities.

The Central Mortgage Institution administers:

1. Central mortgage register;
2. Registration of arrested property acts;
3. Registration of wills;
4. Registration of marriage agreements;
5. Registration of agreements.

There are also other state registers, such as:

1. Register of civil aviation;
2. Register of domestic ships;
3. Register of naval ships;
4. Institutions for registration of tractors and agricultural machinery.

All these registration lists are exchangeable and well organized by means of an electronic communication system. The Center of Registration and the Central Mortgage Institution are state-owned but operate autonomously within a legislative framework and internal needs. They have separate accounts, earn money through public delivery of information services, are self-financing, and contribute to the state budget. These organizations are interested in operating effectively since the more information services they can offer, the more needs they will be able to finance.

Lithuania is not a large country. A population of no more than 3.5 million people occupies a territory of 65.3 thousand square kilometers. Nevertheless, it possesses a leading position among the Baltic States and produces 49% of GDP. To compare, in Estonia it is 23% and in Latvia it is 28% of GDP. The rate of growth of the Lithuanian economy is impressive; in 2003 GDP grew by 9.7%, in 2004 by 6.7%, and in 2005 by 7%. A high level of competitiveness and export-oriented production made it possible for Lithuania to increase exports by 21.4% in 2004.

Clearly, Lithuania is focused on implementing modern electronic technologies in government institutions. These improve the investment climate and attract foreign investments. Lithuania develops appropriate infrastructure for investments maintenance in different legal forms, makes accessible such services through the Internet, and, thus reduces paperwork in government bodies and increases investments.

3. Stakeholders

Stakeholders in the public sector:

1. Center of Registers
2. Ministry of Culture
3. Ministry of Healthcare
4. Ministry of Education and Science
5. Ministry of Justice
6. Ministry of Economy
7. Bank of Lithuania
8. Statistical Department of Lithuanian Government
9. Ten governmental administrations and six municipal institutions

Government bodies (from 2nd to 9th item) which were involved in registration of legal entities gave up the power to keep registers because it burdened their other activities. Since it is financed from payments for services delivered, the Center of Registers is interested in making the process of registration more effective and transparent,

Organized stakeholders (outside the public sector):

Consumers of legal entities registration services are:

1. Confederation of Lithuanian Industrialists
2. Association Chambers of Commerce and Industry of Lithuania
3. Union of Entrepreneurs of Lithuania
4. Union of Junior Entrepreneurs of Lithuania

All abovementioned unions are interested in positive development of the legal entities registration system because:

- a) Public policy transparency attracts investors
- b) Market transparency is achieved by publishing data about businesses and all types of legal entities and the conditions under which they operate (liquidation, reorganization, merger etc.).
- c) The international commercial rating is raised.
- d) Simplified procedures for running a business decreases time, costs, and bureaucratic burden on businesses.

4. Existing approaches to solving the problem

4.1. Conceptual framework and specific policy measures and tools undertaken (activities, policy instruments)

In order to streamline systems for registering legal entities, the Government of Lithuania took the following actions:

1. The problem was identified and consultations with stakeholders were conducted.
2. Experience in solving similar problems in other EU countries was researched
3. The most successful and effective ways of implementing electronic legal entities registers were analyzed.
4. Sweden's experience was chosen for adaptation.
5. The Swedish Legal Act on Functioning of the Register was adapted to Lithuanian conditions.
6. Swedish experts were contracted to develop and implement an electronic registration system.
7. The responsibilities for running the register were transferred to an authoritative government institution.

In order to create a more effective legal entities registration, all powers and obligations for registration were transmitted to the Center of Registers which was established in 1992. It has a diversified network of branches throughout the country and tremendous experience in applying electronic technologies to the registration of legal entities and their commercial names. Other key moments in reform include the following:

1. The number of organizations engaged in document verification was decreased to three.
2. The state refused to conduct documentation verification on legal entities registration and transferred these powers to notaries. By doing so, the registration procedure was simplified and the possibility of abuse by state officials was reduced.
3. Bodies responsible for registration of commercial names and for registration of legal entities were combined.
4. An internet database provides access to the legal entities registered within Lithuanian territory.
5. A website that allows users to check whether a certain commercial name already exists saves time for the user and the Center of Registers.
6. Commercial name verification is conducted formally through the electronic database. If a commercial name differs by at least one letter from the existing one, it can be registered. The responsibility for solving disputes concerning the use of unfair competition remains at the courts' disposal. The Center of Registers does resolve such issues.

4.2 Assessment of measures (positive and negative factors)

Positive factors

1. The registration process becomes more convenient and automated, and the process of preparing documents for registration transfers to notaries. It is more convenient for users and the registration procedure is simplified.
2. Electronic forms and information accessible through the Internet make the system more transparent and stable.
3. The Center of Registers has no authority to resolve disputes over legal entity registration. It is almost impossible to pressure the Center, which allows it to remain indifferent to politics.
4. There is a database of full, trustworthy, protected, and updated data regarding registered legal entities.
5. Quick access is provided to the information database of government bodies and local authorities, within the framework of acting legislation of enterprises, institutions, organizations of all forms of ownership, international organizations, international physical persons and legal entities and persons without citizenship.
6. Official information about the activities of economic agents provides protection for third parties (especially those with limited liabilities) and limits illegal (fictitious) activity of economic agents.
7. Data transmitted from the register to statistical bodies, the state tax administration, and social insurance foundations include or exclude legal entities from the register.
8. Operative issuance of extracts from the register is possible.

Negative factors

1. Fee increases for commercial legal entity registration because of the introduction of the notary (though some compensation occurs due to reduction in tariffs for commercial legal entity registration in the register).
2. Increased court disputes over fraudulent use of someone else's commercial name (or something similar).
3. Misleading consumers and potential investors with a large number of similar names.

4.3 Has the issue been resolved to date?

The issue has been resolved partially. The Lithuanian register of legal entities is characterized by high reliability, accessibility, and simplicity for both those who register entities and those who use the information system as well as the government bodies that rely on registration.

Nevertheless, the issue of "dead records" in the register has not been resolved yet. The Center of Registers can only begin to liquidate an enterprise or a legal person after five years pass since records were entered to the register. To my mind, this is not a very effective method.

The issue of registered enterprises during the Soviet times also remains unsolved. Such enterprises are de-facto registered but are not searched during the verification of commercial names. It creates the threat of double enterprises creation.

4.4. Does the chosen policy seem effective and efficient?

In my opinion, such policy is efficient because:

1. A high-tech, transparent, and accessible system of legal entities recording has been created;
2. Some of the responsibilities were delegated to the non-governmental sector;
3. The work of government authorities was simplified, and most important, services became more accessible for citizens and potential investors;
4. Public management of registration of legal entities and their data circulation became more accountable and efficient.

5. The relevance of experience for Ukraine

5.1. The degree of correspondence of social, physical, economic, and political environment between Ukraine and country of internship (regarding the issues examined)

The political, economic, and social situations in Ukraine and Lithuania are very different. Lithuania is a NATO and EU member, has stable politics, sustainable economic development, and well-developed infrastructure. But it is worth mentioning that it was a post-Soviet country with typical post-communism problems. To solve those problems, Lithuania has been employing best practices and experiences of EU member states. The positive experience of Lithuania should be considered by Ukraine.

5.2. Assessment of applicability of policy approaches used by the above countries in Ukraine in general, as well as occasional measures (policy tools)

The Lithuanian government's approaches can be appropriate for Ukraine. But the socio-economic peculiarities of Ukraine should be considered. Tools used by the Lithuanian government are recommended for Ukraine:

1. Consultations with stakeholders;
2. Study of foreign experience;
3. Involvement of international experts;
4. Introduction of modern technologies for data transmission and processing.

5.3. Foreseen outcomes from application of the above approaches or separate policy tools in Ukraine

1. Increased accessibility, simplicity, and transparency of services for legal entities registration;
2. Increased public accessibility to information regarding legal entities registered within the territory of the country;
3. Improvement of investment climate;
4. Increase of entrepreneurs' confidence in the state;
5. Decline of corruption due to the transfer of document verification to non-governmental organizations (e.g., notaries).

6. Conclusions and recommendations

Although registration and data recording systems for legal entities implemented in the EU countries are varied, all of them meet the requirements of accessibility, simplicity, transparency, efficiency of inquiry processing, and flexibility of the legal entities functioning system. Having studied the positive Lithuanian experience in implementing an electronic registration and data recording system for legal entities, I conclude that as far as the electronic registration and data recording system for legal entities is already functioning in Ukraine according to the law "On State registration of legal entity and physical persons-entrepreneurs" as of July 1, 2004 it is advisable to:

1. Establish the electronic data transmission from a registrar to the Single State Register.
2. Create access to the registration and data recording system for legal entities through the Internet by means of access to the Single State Register.
3. Create mechanisms of control on information objectiveness in the Single State Register.
4. Develop a mechanism for gradual delegation of functions on registration documents preparation to non-governmental organizations (e.g., notaries).

Such activities, in this author's opinion, should resolve the issues of limited access to services and information on legal entities and accelerate business activity on the Ukrainian market.

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Olexiy Khmara

Improving the Railway System's Management Quality

Internship Report

(Ministry of Transport and Construction, Poland)

1. The issues (explored during internship)

In Poland, the internship program was organized with the Railway Department within the Ministry of Transport and Construction. The following issues were researched: Polish experience modernizing railway infrastructure; strategy development for railway transport upgrading; internal cooperation within, Polish railways; Polish experience in privatization of the national railway carrier — the company Polskie Koleje Państwowe.

2. The scope of the problem

The railway company Polskie Koleje Państwowe (PKP) was established in mid 1930s; today, it retains a monopoly in the railway transportation system of the Republic of Poland, even after the first round of reforms. The process of company transformations started in 1992, yet until 2003 the railway remained under the Ministry of Transport and Construction and continued to be funded from the state budget. In spite of significant expenditures that were made by the state to support the company, even during the reconstruction stage, the overall management of PKP can be regarded as ineffective. For instance, during the period of 1990 to 2000, the number of passenger trips decreased by 36% and cargo operations by 50%. [1]

Analyzing the existing state of affairs, Polish specialists as well as EU experts emphasize the ineffective management system characteristic of PKP from the times when Poland lived under the aegis of the Soviet Union. Such a management system is characterized by excessive centralization of the decision-making process, which results in its inability to quickly respond to constant challenges. With this in mind, experts proposed to remove the company from the public transportation sector and transfer it to a more flexible model of management. This proposal met with significant resistance from those individuals who belong to the company management. They referred, among other things, to considerable risks that might accompany the privatization process: increase of tariffs for the population, threat to national security and territorial integrity of the state, mass dismissal of employees, reduction of revenues to the state budget, and others.

This and a other obstacles hindered transformations until 2000, in spite of the fact that the first attempts to reform the sector were made in 1992, when Poland ratified the First Railway Pact. [2] Restructuring of the sector intensified once Poland officially declared the course for EU membership, and as a result, approximation of its legislation to the EU standards. Intense reforms were launched with the adoption of the law “On Commercialization, Restructuring, and Privatization of a Public Company PKP” [3], that separated out three functions of PKP property management: railway infrastructure (railways, repair workshops, technical maintenance of tracks), passenger transportation and cargo transportation. Further on, more innovations were made that brought Poland closer to unified European standards in transportation. The essence of these reforms will be further discussed in this paper.

In the preliminary analysis of railway transportation reform outcomes, experts emphasized effectiveness of the chosen approach. In a short period of time, Poland managed to significantly improve the quality of services (namely, passenger transportation), as well as reduce the tariffs. This became possible after correctly defining the major problem of the railway sector — an ineffective management system. However, starting from 2005 reforms slowed down, first of all due to the creation of potent lobby groups formed by persons not interested in the further restructuring of PKP. Stakeholders’ analysis is provided further in this report.

The current state of affairs in Ukrainian railways is the mirror image of the processes that characterized the Polish sector before reforms. Therefore, the Polish experience in this field is extremely useful and practically relevant for Ukraine.

3. Stakeholders

- Lobbying groups of entrepreneurs that operate in the Polish market of automobile transportation — their attitude toward any reforms of PKP is strongly negative. The reason for this is their unwillingness to have powerful competitors in the transportation market. They express their position via forming an automobile industry lobby in parliament that blocks legislation connected with the railway.
- Railway trade union demonstrates reserved positive attitude toward PKP restructuring. This can be explained by railway workers’ willingness to follow European standards at work. Yet, there are fears that the package of social benefits will be reduced in the course of reforms, as well as that massive layoffs may occur. Their position is revealed in the agreement on social guarantees and protection of company employees signed between PKP management and the railway trade union.
- The PKP parliamentary lobby operates in the national and EU parliaments. They resort to different methods to support PKP restructuring in accordance with the EU transportation standards. Parliamentarians do

this either because they have a personal interest in the railway sector, or the political power they represent is oriented toward this type of electorate. It is worth mentioning, though, that the above lobbying groups do not have enough influence in the national parliament due to their insignificant size. They have more leverage in the EU Parliament. They demonstrate their attitude to the problem through the submission to the legislature draft laws that adapt the Polish legislation to the EU standards of the railway sector.

- In the Ministry of Finance, there is overall understanding of the necessity of PKP restructuring. Yet due to the specificity of this institution, cooperation with it is rather problematic. The reason for this is that a large amount of money is necessary to fund the reforms, which may result in an extra burden on the state budget. This position reveals itself in higher supervision and inspection of financial requests from the Polish Ministry of Transport that deal with restructuring of the railway sector.
- Polish *Woewodstwa* (regional administrations) have no specific position on PKP reforms. On the one hand, *Woewodstwa* are interested in improving the quality of railway transportation within their borders, but on the other hand, they are unwilling to pay for this. Their attitude reveals itself in versatile hindrances to central government initiatives that foresee the modernization of railway infrastructure in the regions at their own expense.
- Private railway carriers generally demonstrate a positive attitude toward PKP reforms. They welcome creation of an environment that is favorable to free competition. Yet, this group has a specific opinion on access to public funds for the purchase of railway transportation services. Their position is expressed via the agreement on fair competition signed between the PKP management group and private railway carriers.
- Think tanks that prepare project proposals and applications for EU Structural Funds in the railway sector have a positive attitude toward PKP restructuring. This is because restructuring opens opportunities for raising significant EU funds to reform PKP system of management, and because there is a lack of competitors in the public sector capable of preparing high-quality project proposals. Their attitude is demonstrated via comprehensive support of reforms and the simultaneous unwillingness to share with others their experience and expertise in preparation of high-quality project proposals for EU Structural Funds.

4. Existing approaches to solving the problem

Table 1

Impact of the program of actions undertaken to eliminate the existing problem

Conceptual framework — implementation of the program for commercialization, restructuring, and privatization of a public company PKP				
Step/measure as a component of the conceptual framework	Form of realization	Time period	Positive impact from implementation	Negative impact from implementation
Division of centralized PKP accounting office into separate accounting offices for the company's passenger transportation sector, cargo transportations, as well as infrastructure management and maintenance	Adoption of the law "On Commercialization, Restructuring, and Privatization of a Public Company PKP" [3]	law adopted	Comprehensive audits of company's performance, building a wareness and influencing public opinion in favor of reform of the railway sector	Information unknown
Division of PKP into three major components: transportation department "PKP CARGO," infrastructure management and maintenance department "PLK," and passenger transportation department "PKP INTERCITY"	Adoption of the law "On Railway Transport" [4]	The law adopted on 28.03.2003.	Significant improvement in quality of railway infrastructure management	Considerable possibility government interference in company's operations, especially during emergency situations
Removing railway transportation from the general structure of the Polish Ministry of Transport	Transforming PKP into an open joint stock company	December 2003.	Emergence of private railway carriers, better quality of passenger transportation	90% of shares were bought by the state; Not truly independent from state

Restructuring overall system of organization of railway transportation in Poland	Division of operations into regional, inter-city, and trans-European	Occurred in 2003, though EU directive was adopted in 2001	A transfer to a distinct specialization that allowed companies to significantly upgrade their services	Most worn-out and depreciated assets were handed over to the poorest carriers (as a rule, regional companies)
Launching the mechanism for licensing companies that operate on the railway transportation market	Establishment of a public licensing institution "Railway Department" [5]	The law adopted on 28.03.2003.	Setting EU standards and norms in organizing railway transportation, upgrading the railway system safety	Protectionism in issuing licenses to public carriers, a certain degree of declarative character of licensing process in general
Establishing the public fund for modernization of Polish railways	Resolution by the Council of Ministers	February 2004	Opportunities open to all Polish carriers to upgrade their assets for public monies	Protectionism in providing support to public carriers
Raising EU Structural Funds for modernization of Polish railway sector	Preparation of project proposals and applications for EU Structural Funds	Starting from 2001	Raising significant amount of foreign investments	The need to seek services from special type of organizations due to the lack of experience in application process
Establishing Ministry for Regional Development of Poland	Removing the relevant department from the Ministry of Economy	Starting from December 2005	Upgrading the quality of project proposals and meeting the deadlines in their preparation	Lack, within the institution, of specific expertise and knowledge in "railway" projects

To date, the issue has not been solved fully. The comprehensive solution of the issue, i.e. establishing in Poland the system of private railway carriers, is possible only under the condition of upgrading the railway to contemporary EU requirements. These include: the track capacity to stand extra high-pressure per linear meter; railway capacity to stand high-speed trains; expansion of railway tracks network; absence of technical barriers at national borders. As long as the above impediments exist, private carriers with limited access to public funds are unable to fairly compete with public carriers that are supported by the state.

Table 2

Examination of efficiency and effectiveness of the program of actions undertaken to eliminate the existing problem

Implementation of the program for commercialization, restructuring, and privatization of a public company PKP		
Public policy focusing on solving the above issues (step by step)	Policy efficiency	Policy effectiveness
Division of centralized PKP accounting office into three separate accounting offices	The measure is efficient. It allowed the reduction of current outlays by 1/3.	The measure is effective. It psychologically prepared employees for further restructuring of the sector.
Division of PKP into three major components: "PKP CARGO," "PLK," and "PKP INTERCITY"	This is a low-efficiency measure. It made necessary the establishment of new and liquidation of old institutions.	The measure is effective. It set the demarcation line for the responsibility of each section within the company.
Removing railway transportations from the general structure of the Polish Ministry of Transport	The measure is efficient.	The measure is effective. It set the demarcation line for the responsibility of each section within the company.
Launching the mechanism for licensing companies that operate on the railway transportation market	The measure is efficient. The state received extra budgetary revenues as fees for licenses.	The measure is effective. Overall quality of railway companies' management improved.
Establishing the public fund for modernization of Polish railways	This is a low-efficiency measure due to cost of this project.	The measure is effective. It allowed significant renovation of the assets (vehicles) of regional carriers.
Raising EU Structural Funds for modernization of Polish railway sector	The measure is efficient. It resulted in considerable investment inflows to the country, with minimum financial expenditures.	The measure is of low effectiveness due to high competitiveness of other new member-states.
Establishing Ministry for Regional Development of Poland	It is impossible to assess the result.	It is impossible to assess the result.

5. Relevance of the experience for Ukraine

It is possible to conclude that, on the whole, social, physical, economic, and political contexts in present day Ukraine and in Poland on the eve of reforms are similar. This makes discussion about applicability of the Polish experience and approaches for Ukraine possible.

Table 3

Probable consequences of implementation of above program of actions in Ukraine

Implementation steps/measures	Possibility of application in Ukraine	Probable consequences of application in Ukraine	
		positive	negative
Division of centralized PKP accounting office into three separate accounting offices	Quite possible	Reducing the shadow sector of economy for this field	Significant opposition from the stakeholders
Division of PKP into three major components: "PKP CARGO," "PLK," and "PKP INTERCITY"	Quite possible	Improving the system of management within each component	Reduction/ dismissal of employees working for the sector
Removing railway transportations from the general structure of the Polish Ministry of Transport	Partly possible with high degree of probability that the state (government) will retain management and control over railway infrastructure	Setting the condition for free competition within the sector	Partial or complete loss of control over the sector by the government
Launching the mechanism for licensing companies that operate on the railway transportation market	Quite possible	Unification of operations and standards for the sector	Opportunities for officials to resort to corrupt practices
Establishing the public fund for modernization of Polish railways	Partly possible	Establishing a transparent mechanism for allocation of resources	Impossibility for non-public companies to obtain funding
Raising EU Structural Funds for modernization of Polish railway sector	Next to impossible; there are no similar programs that are open for Ukraine	Reducing the costs that are to be covered from the state budget of Ukraine	Lack of specialists experienced in preparation of high-quality project proposals
Establishing Ministry for Regional Development of Poland	It is impossible to forecast the results for this measure		

6. Conclusions and recommendations

The railway company Polskie Koleje Panstwowe currently monopolizes the railway transportation system in the Republic of Poland. Before the reforms, the management of PKP was viewed as unviable. Polish and EU experts assessed the existing centralized management system as inefficient. Accordingly, they proposed to remove PKP from the public transport sector and transfer to a more flexible management model.

Intense restructuring started in 2000 with the adoption of the law “On Commercialization, Restructuring, and Privatization of a Public Company PKP,” with which the function of PKP asset management was divided into three components: railway infrastructure (railways, repair workshops, technical equipment of tracks), passenger transportation and cargo transportation. Later, more innovations were introduced that brought Poland closer to EU transportation standards. During a short period of time, Poland managed to significantly improve the quality of transportation services (including passenger transport) and reduce tariffs thanks to the accurate definition of the problem — ineffective management of the Polish railway system.

The given report examines the process of PKP restructuring and sums up difficulties that occurred during the reform process. It also contains stakeholders’ analysis of groups and individuals that are interested in accelerating or impeding the reforms and notes the motives behind their behavior. The current situation with Ukrainian railways reflects developments that were characteristic of the Polish railway sector before the reforms. Therefore, this inquiry looks into the possibility of applying a similar reform agenda for the national railway carrier Ukrainian Railways and notes the probable consequences of such reforms.

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Volodymyr Shcherbachenko

Student Involvement in the Formulation and Implementation of Public Policy for Higher Education

*Internship Report
(Ministry of Education and Science, Latvia)*

1. The issues (explored during internship)

During my internship with the Latvian Ministry of Education and Science, I researched student involvement in the formulation and implementation of public policy in the sphere of higher education; the most effective methods and forms of student participation; and the possibility of using Latvia's experience in Ukraine.

2. The scope of the problem in the EU and Latvia

2.1. The issue and its scale

The level of civil society participation in forming public policy is one of the EU's most important policy assessment criteria. Latvia, which only recently became a member of the EU, is recognized for its achievements in the reform of higher education and student participation in policy making and implementation.

Latvia has a well developed network of higher education establishments. In 2005, there were 36 higher educational establishments (HEE) with 130,693 students (overall population of the country is 2.306 million). The number of students per 10,000 people in Latvia is 556, making the student population of Latvia, per capita, the second highest in the world. (In Canada the number is 580, in the U.S. 520, and in Ukraine 470). This fact alone raises the issue of how best to consider students' opinions as a social and professional category regarding policy process, its formulation and implementation.

In Latvia, involvement of students into formulation and implementation of public policy for higher education takes place on two levels:

1. National, via the Council of Higher Education, Commission for Accreditation of Study Programs, cooperation with the Parliament of Latvia and the Ministry of Education and Science;
2. Primary (HEE), via students' self-government (SSG) and participation in HEE collective governance bodies.

2.2. The history of the issue

The issue of student participation in the formulation and implementation of public policy for higher education was a focal point of higher education reform that unfolded within the framework of wide-scope, social-economic

reforms in the late 1980s and early 1990s. First steps toward student involvement in policy making were made at that time: in 1991, the first self-government bodies were established; the same year, the University of Latvia adopted a new constitution containing a provision that allowed student representatives in the University Senate to veto student-related decisions. In 1994, SSGs united into the Latvia Students' Union (LSU).

The next step of student involvement into formulation and implementation of public policy was enactment in 1995 with the "Law on Higher Educational Establishments." This legal act provided for rights and obligations of different professional groups working for HEE and allocated quotas for students in HEE collective governance bodies. The law confirmed the status of SSG as an inherent component of the university governance system; acknowledged the right to student's veto for all universities; made provisions for establishment of the Council of Higher Education as the national collective advisory body and identified quotas for students' representatives within it.

Over the years, the system of student participation expanded and progressed. In 2000, amendments to the "Law on Higher Educational Establishments" expanded the students' right to veto. Representatives of students were granted this right in University Assembly (an all-university convention), in the Senate and Departments' Councils. In 2006, parliament is planning to adopt a new "Law on Higher Education" with the provision to fund SSG from the university budget.

2.3. Specificity of institutional context

Institutional contexts in Latvia and Ukraine are different. To a large extent, the different size of the two countries' populations impacts their university systems. For instance, the total number of students in Ukraine is 2.7 million, while in Latvia it is 130,000; and the HEE numbers are 345 and 36 respectively. Yet, the institutional environment of the two countries has more similarities than differences. Namely, a two-level model of student involvement into higher education policy making is used in both countries.

The major institutional differences are as follows:

1. In Ukraine, students-activists are represented by three major civil society groups: student NGOs, student trade unions, and self-government. They operate at the national and local levels.
2. In Latvia, there are no student trade unions; student unions that operate in Latvia's universities represent a form of student self-government. Also, there are no student civil society groups that operate beyond the university level. Except for Latvia Students' Union, there are no other national student NGOs. This approach makes the process of student involvement easier: at the national level, government bodies cooperate with the Latvia Students' Union and its management bodies; at the primary level they cooperate with university self-government.
3. Student self-government in Latvia has the status of a legal entity, unlike in Ukraine where the status of student self-governing bodies is not defined. In Latvia, SSGs enjoy the status of autonomous bodies, more

independent from university administration that in Ukraine. This and other factors considered (quotas for SSG representation in university collective governance bodies, the right to veto, etc.), student self-governments in Latvia are an independent influential player, a partner to public institutions and university administrations in the formulation and implementation of higher education policy.

3. Stakeholders

Organized stakeholders:

- HEE administrations,
- HEE faculty, their elected representatives in university collective governance bodies,
- student self-governments,
- political parties.

Stakeholders in the public sector:

- Ministry of Education and Science,
- Ministry for Children and Family Affairs.

SSGs are the most active proponents of student participation in the formulation and implementation of policy for higher education. They are actively supported by political parties. Similar to “adult” political parties, young activists form parties within SSGs and actively compete for seats in SSGs. Political parties’ positive and supportive attitude to student self-government is revealed via the backing of legislation dealing with university life and SSGs. Among parliamentarians, the main advocates of university self-government are former student activists.

The opponents to SSG growth and influence are university administrations, faculty, and quite often government officials responsible for public policy in this field. The attitude of university administrations and faculty may vary considerably from university to university.

4. Existing approaches to solving the problem

4.1. Conceptual framework and specific policy measures and tools

In Latvia, the conceptual framework for the problem is outlined by requirements of the Bologna process, declared by the education ministers of 29 participating countries in 1999 to establish a “European area of higher education” by 2010 (with different national systems using a common framework).

Though the democratization of higher education in Latvia and student participation in the policy-making process started before the launch of the Bologna process, today their advancement is facilitated by Bologna requirements. The European position on student participation in educational policy making is as follows:

1. Students are full-fledged members of the higher education community, and they must take part in making decisions and determining the organization and content of university education;
2. Student organizations play a fundamental role in shaping the European Higher Education Area;
3. Facilitation of student participation in higher education management is fundamental.

In accordance with the above principles, the working and supervisory body for the Bologna process accredited ESIB (the National Unions of Students in Europe) as its advisory member.

Constructing the European Higher Education Area on the principle of partnership is a distinct and approved position of all participants of the Bologna process. Involvement of organized representatives of students, faculty, and employers into formulation and implementation of public policy for higher education allows for the coordination of societal, governmental, and higher educational goals.

4.2. Concrete measures, activities, policy instruments

In Latvia, student participation in policy making is organized at the national level (parliament, government) and primary level (university). At each level, specific policy instruments and mechanisms are involved.

At the primary level, participation is facilitated via student presence in SSG, their membership in university collective governance bodies, and application of veto as a special “influence” tool.

At the national level, the policy for higher education is realized through the Council of Higher Education, cooperation with parliament and the Ministry of Education and Science, and student participation in the work of Commission for Accreditation of study programs.

Primary Level

Higher educational establishments in Latvia function in accordance with the “Law on Higher Educational Establishments” adopted in 1995, amended in 2000. This law defined universities as self-governing, independent institutions that are governed by their personnel. According to the law, HEE personnel consists of faculty, students, and other personnel (administrative and technical).

HEE self-governing bodies are elected from representatives of the above categories in accordance with a University Constitution (statute). The law defines minimum representation from each category: the Constituent Assembly (upper representative body) is made up of 60% faculty and 10% students and the Senate consists of 75% faculty and 10% students. Students’ self-governing define the mechanisms for delegating their representatives into university governing bodies themselves.

Though students are granted representation in university governing bodies, the latter are controlled by the faculty. Therefore, the right to veto faculty decisions as an instrument to protect and represent student interests was introduced. The right to veto is granted to the university rector (president) and students only. In practice, student participation in university governing bodies is organized via student self-government.

Student self-government operates in accordance with the “Law on Higher Educational Establishments.” SSGs and their national union are registered as NGOs that operate for the public good (which provides certain tax benefits). To date, their functioning has been funded from university subsidies (the amount was determined by each university individually). According to the new draft law on higher education (now in parliament), universities will have to allocate 0.5% of their annual budget for the needs of SSGs. This innovation will contribute to SSGs’ independence and their capacity to stand by student interests.

Protection of student interests and rights is one of the basic objectives of self-government, and to accomplish this, SSGs are entitled to the following privileges and rights (articles 53, 54):

1. The right to be represented in all decision-making bodies of a higher educational establishment;
2. The right to demand and obtain from all university bodies and departments information that deals with student issues;
3. The right of SSG representatives to be present during tests and exams as observers (if this right is foreseen by a university constitution);
4. The right to veto. This last right is atypical of university education in many European states⁶.

Student representatives’ right to veto appeared in Latvian higher education for the first time in 1991. Since 2000, student representatives have been entitled to use this right in Constituent Assemblies, Senates, and Departments’ Councils.

The legislation rules that the right of veto provides the legal basis for protection of students’ rights and interests. Veto does not annul the decision completely, but rather it can postpone enactment of a decision and initiate negotiations and a search for consensus among interested parties. After the decision is vetoed during the assembly or meeting, the body in charge rules the formation of a conciliation commission (half of its members are students) that looks for optimal options. Once the conciliation commission has a draft decision, the new assembly (meeting) is convened. For the decision to be

⁶ The analysis of the veto right and its application based on the paper by Jānis Stonis and Juris Pūce, Students with veto rights in senate: reality, presented to the Annual Forum of the European Higher Education Society, EAIR, Prague, 2002.

taken, it has to obtain two thirds of the votes. Until 2003, student representatives used their right to veto decisions 15 times in university Senates and more than 10 times at Departments' Councils. Veto was never applied to cancel decisions of Constituent Assemblies.

The use of veto in University Senates of Latvia is as follows. In 2000, the veto was used in Latvia to rule out a decision that did not approve of SSG statute. During the negotiations the parties reached an agreement and the statute was approved with minimum changes. In 2001, the decision to transfer to new budgetary principles was vetoed. This decision aroused students' concern as it threatened to rapidly increase educational fees. During the conciliation process, interests of both sides were coordinated and a new decision was approved. Quite often, veto can guarantee that students' opinions and interests are not ignored in the decision-making process.

National Level

At the national level, students are represented by the Latvia Students' Union, an umbrella NGO. In 2005, it was formed of students' self-governments from 29 higher educational establishments that united 98% of all students. Except for the Latvia Students' Union, there are no other students' NGOs with national status. Therefore, the Latvia Students' Union acts as the main representative body of Latvia's student community⁷. The head of the union represents Latvian students in collective governance bodies (the Council of Higher Education and the Commission for Accreditation of study programs) that formulate public policy for higher education and make decisions on its implementation.

Council of Higher Education develops a strategy for higher education development and submits recommendations to the Ministry of Education and Science; makes decisions on accreditation of universities; and develops recommendations, expresses opinion, and provides consultations to the ministry on all issues related to higher education. It is comprised of 12 members that represent the Latvia Students' Union, Academy of Sciences, Latvian Rectors' Council, Confederation of Employers, Trade Union of Workers of Education and Science of Latvia, etc. Members are approved by the parliament on submission from the ministry. The composition and operation of the council are regulated by article 9 of the law.

⁷ In 2005, the Latvian student movement was shaken by a conflict. SSG leaders from University of Latvia — the largest establishment in Latvia — yearned for a management position within the Latvia Students' Union; after they failed, they refused to recognize the newly elected Latvia Students' Union. For some time, for the government and public institutions it was difficult to cooperate with the union, as legitimately it has to represent all students of the country. With time, the conflict was reconciled.

Commission for Accreditation of study programs (active since 2001) consists of representatives of the Latvia Students' Union, Council of Higher Education, Rectors' Council, representatives of the Ministry of Education and Science, etc. all in all, seven permanent members. Student representation in the above bodies is compulsory and equipped with levers of influence (student representatives make up one out of 12 and one out of seven members in the collective bodies). As members of the decision-making panel, student representatives not only participate in consultations and formulation of proposal, but also they are directly involved in the decision-making process that has a direct impact on higher education.

Summing up, in Latvia student involvement into formation and implementation of public policy for higher education is possible due to:

- students' self-government bodies in higher educational establishments;
- conditions that make student representative bodies independent and equal partners in policy-making process (granting them the status of a legal entity, compulsory funding for university budget);
- legally defined quotas for student membership in public institutions and collective bodies that make decisions and set policies for higher education;
- the right of student representatives to veto decisions.

4.3. Assessment of measures

The majority of mechanisms and policy instruments used to facilitate participation of Latvian students in public policy formation and implementation are recognized as the model and standard for the majority of European states⁸. Their overall assessment is positive because:

1. Students take part in the decision-making process.
2. Policy making is coordinated and considers the interests of different social and professional groups.
3. Participants in the policy process better understand each other, which is beneficial for societal dialogue.
4. There are institutional mechanisms allowing for coordination of interests and conflict resolution.

⁸ Among the measures recommended, the right to veto is one of the most controversial. To explain the rationale for its application, Jānis Stonis and Juris Pūce note in their paper: "The introduction of veto right to the student representatives plays an important role in further democratizing the governance of the higher education establishments. The authors are confident that this legal institute is substantial for the system of governance. Of course, sometimes the application of veto obstructs some decisions necessary for the development of the establishment. However, in most cases the application of veto shows lack of information and conversation about the respective decision. The authors do not recommend that all countries introduce the system of veto, although the introduction of such a system will not weaken the system of governance in any of the higher education systems."

5. Students feel more trust in public institutions and government.
6. The democratic foundation of higher educational establishments is strengthened, and their activities become more responsive to societal needs.
7. Public policy in higher education is synchronized in accordance with Bologna process standards and requirements, which contributes to European integration and a better image in the international arena.

The negative impact from the application of the above mechanisms and policy instruments are as follows:

1. The process of policy formulation and decision making takes longer or gets more complicated.
2. The decision-making process and communication during the search for consensus may result in animosity and ill feelings.

4.4. Has the issue been resolved today?

Currently, the problem of student involvement in formation and implementation of public policy for higher education in Latvia has been resolved. This statement is confirmed by existence of legislation, best practices and evidence from real life, working mechanisms for involvement, and effective policy instruments. Besides, the Latvian approach to student involvement is highly evaluated by external experts.

4.5. Does the existing policy seem effective and efficient?

The analysis undertaken allows us to assess the existing policy as effective (it produced expected positive results) and efficient (its implementation does not require any additional funding; social outcomes generated by the policy are significant; its positive impact is revealed through economic indicators).

5. Relevance of experience for Ukraine

5.1. The degree of correspondence of social, physical, economic, and political environment between Ukraine and Latvia

The social, physical, economic, and political environment of Ukraine is similar to Latvia's at the end of the 1990s. Therefore, the Latvian experience of student involvement in the policy-making process can be successfully applied in Ukraine. However, quantitative differences between higher education systems in Latvia and Ukraine need to be taken into account.

5.2. Assessment of applicability of policy approaches used by Latvia for Ukraine

From the spectrum of policy instruments and measures used in Latvia, the following can be applied to advantage in Ukraine:

- Measures that grant student self-governments the status of autonomous and equal partners in the process of policy formulation and implementation (making SSG a legal entity; their funding from university budgets compulsory; granting student representatives the right to veto);
- Procedures and quotas that ensure membership of student representatives in advisory bodies that take part in policy making for higher education and university collective governance bodies.

5.3. Foreseen outcomes from application of the above policy approaches or separate policy tools in Ukraine

Application of the recommended measures and policy instruments would have the following positive effects:

1. Facilitate higher education reform, its democratization, adjustment to societal requirements and needs;
2. Fine-tune public policy for higher education to requirements and standards of Bologna process, best European practice; facilitate Ukraine's European integration;
3. Increase students' trust of authorities;
4. Upgrade decision-making process, make it more coordinative and considerate of students' interests;
5. Facilitate improvements in the system of higher education (reduce corruption, upgrade the level of educational services, reduce violation of student rights);
6. Set institutional mechanisms for coordinating interests and conflict resolution (within separate universities and/or professional groups) and accordingly lessen the pressure on central authorities to coordinate different interests and regulate conflict resolution.

At the same time, application of the above measures may:

1. Arouse opposition among university administration and management groups, rectors;
2. Require extra efforts of behalf of university administrations;
3. Make decision-making process longer and more complicated.

6. Conclusions and recommendations

Over the last 15 years, Latvia has achieved significant progress in democratization and reform of its higher education system. Namely, considerable advancement was made toward ensuring student participation in the formulation and implementation of public policy for higher education. The analysis undertaken during this internship allows me to conclude:

1. The Ukrainian government is taking the necessary step to ensure student participation in public administration. At the same time, public policy with regard to student involvement in decision making requires upgrading and adjustment to European best practices. Many of the policy instruments used in Latvia can be applied successfully in Ukraine.

2. Drawing from Latvia's approach to legal regulation of activities of the Council of Higher Education and the Commission for Accreditation of study programs, the Ministry of Education and Science of Ukraine is to develop and enact a special directive that would regulate activities of the Civic Council on Higher Education (currently the activities of several civic councils under the Ministry of Education are regulated by one directive). A new directive is to distinctly define the powers, organizational structure, and composition of the Civic Council (and contain a quota for student representation).
3. The Ministry of Education and Science of Ukraine is to facilitate the first and further readings of the draft law "On Student Self-Government in Ukraine." The draft contains several provisions that are to expedite development of students' self-governments as democratic and independent institutions. Like in Latvia, a Ukrainian legislative draft foresees quotas for student representatives in university collective governance bodies, granting SSGs the status of legal entities and its funding compulsory from university budget and other measures.
4. The Ministry of Education and Science of Ukraine is to make the necessary amendments in the above draft law that would grant student representatives in university collective governance bodies the right to veto.

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Part II
Policy Papers

Oleksiy Gayevskiy

Improvement of Ukraine's Taxation System

Policy Paper Summary

Policy problem: *Ukraine's current taxation system obstructs business activity. According to survey results, entrepreneurs say the main problem in doing business in Ukraine is frequent changes in tax legislation and administrative procedures. Inconsistent and contradictory tax legislation characterized by selective application of norms and a varying set of exemptions burdens the economy, is costly, distorts economic incentives, and is unfair/ inequitable.*

One way to increase the Ukrainian taxation system's efficiency is to substantially increase its invigorative impact on the economy. First of all, it is essential to create valuable economic agents and overall market infrastructure i.e., a competitive environment. So, the basis for resolving financial problems and the main precondition for social, structural, and innovative reorientation of the economy is financial strengthening of economic agents, other legal entities, and individuals [1].

Changes that minimize the percentage of operational funds an enterprise pays in taxes are urgently needed to encourage sustainable economic growth. Investments that are closely connected to accumulation of innovative material and production technology should be given a leading role in the development strategy of economic agents.

Client: Ministry of Finance of Ukraine

Stakeholders: Cabinet of Ministers, Ministry of Finance, State Tax Administration, Ministry of Economy, Budget Committee of Verkhovna Rada, Association of Taxpayers of Ukraine.

Goal in solving the problem: Ensuring sustainable economic growth, which increases the investment attractiveness of the economy in particular and the country's image as a whole.

Objectives:

- Minimizing enterprises' percentage of operational funds dedicated to taxes;
- Decreasing tax burden;
- Encouraging investment activity of economic agents;
- Increasing national budget revenue;
- Increasing profitability of enterprises.

Policy options:

1. Continue current policy (status quo);

2. Tax reform: during the period of 2006-2010, decrease profit tax rate to 15%, VAT rate to 15% with compensation to national budget with introduction of a new tax a real estate tax with a rate from 0.1% to 0.5%).

Recommendations: We recommend implementing option two. In order to ensure sustainable economic growth, the reduction of tax rates, and the elimination of tax concessions, taxation should proceed incrementally. Tax increases are offset by a simultaneous broadening of the overall tax base.

Policy Paper

Identification of policy problem

The Ukrainian system of taxation restrains development of production because of the heavy burden it places on economic agents. Such a taxation system has resulted in essential contradictions that are reflected in an increased shadow economy and in tax avoidance.

Ukraine stands at a critical point in its economic and social development and real measures need to be taken. Particularly, those steps should be made in regard to government regulation in order to speed up economic growth. One of the most important government regulation tools used in a market economy is a system that both increases budget revenue and encourages economic growth. One of government's main functions is redistribution of financial resources through taxation. It, in turn, leads to contradictions between aims of social equity and economic efficiency.

The current tax system has used up its ability to positively impact economic processes and its fiscal orientation has become an obstacle to further economic development. Thus, it has become necessary to study fundamentals of tax reform implemented within a legal and democratic framework in civilized relations between government and economic agents defined by the rule of law.

The current taxation system of Ukraine is considered a substantial obstacle to business. Entrepreneurs cite frequent changes in tax legislation and administrative procedures as the main problem to doing business. Inconsistent and contradictory tax legislation, characterized by selective application of norms and exemptions, burdens the economy, is very costly, distorts economic incentives, and is unfair/inequitable. Thus, comprehensive tax reform, particularly reform of certain taxes (VAT, profit tax) is needed.

The taxation system should possess a couple of clearly defined economic features. In general, an ideal system is economically neutral: it does not distort the economy, incentivize for economic growth, or place obstacles to certain types of business. Sometimes governments use the taxation system to either encourage economic growth or restrict usage of certain types of resources. However, those functions are not primary functions of a taxation system and are used only when other methods or policy tools cannot be applied [3].

Rationale for government intervention

To increase the Ukrainian taxation system's efficiency, its expansionary impact on the economy must be substantially strengthened through the creation of efficient economic agents and overall market infrastructure. By creating a competitive environment, Ukraine can implement effective economic decisions. A taxation system should focus on production that encourages its growth. The key to tax reform is understanding the urgent need for financial stabilization on the microeconomic level and for the creation of a microeconomic background for economic development. This is because resolving the government's financial problems the main basis for social, structural, and innovative reorientation of the economy. First of all, it depends on the financial strengthening of economic agents, other legal entities, and individuals.

Changes that minimize the percentage of operational funds an enterprise dedicates to taxes are urgently needed to encourage sustainable economic growth. Investments that are closely connected to accumulation of innovative material and production technology should be given the leading role in the development strategy of economic agents. Today, the existing taxation system encourages "consumption" of fixed funds and, *de facto*, punishes enterprises that make long-term investments.

Consultations (analysis of stakeholders)

The following Ukrainian stakeholders are most concerned with tax reform:

- Cabinet of Ministers,
- Ministry of Finance,
- State Tax Administration,
- Ministry of Economy,
- Budget Committee of Verkhovna Rada,
- Association of Taxpayers of Ukraine.

Problem simulation

Goals include:

- Ensuring sustainable economic growth in order to improve investment attractiveness of the economy in particular and country's image in general;
- Ensuring sustainable economic growth using taxes as very important tools of government regulation of social and economic development;
- Creating favorable conditions for further development of domestic entrepreneurship, activation business, and investment activity;
- Resolving problems of tax incentives for investment;
- Eliminating possible losses from reduction of taxes.

Analysis of policy options

We propose the following policy options:

1. Continue current policy (status quo)
2. Tax reform: during the period of 2006-2010, decrease profit tax rate to 15%, VAT rate to 15% with compensation to national budget with introduction of a new tax a real estate tax with a rate from 0.1% to 0.5%.

Option 1: Continue current policy (status quo)

As a result of fruitful cooperation between the government and parliament (Verkhovna Rada of Ukraine), tax legislation reform has been implemented. Reforms included: reducing the profit tax rate (from 30% to 25%); fixing the income tax rate (at 13%); increasing the share of indirect taxes (increasing excise tax rates); and, increasing rental deductions (increase rental fee on oil). In other words, the President's and Cabinet of Ministers' main goal of decreasing the tax burden in a way that will diminish the shadow economy and broaden the basis of assessment was achieved.

Domestically, those trends are positive and mean integration of the Ukrainian fiscal system into the European and world fiscal systems, as well as fulfillment of national and local budgets.

However, a lot of problems remain, namely:

- Eliminating tax concessions that discourage economic motivation;
- Resolving problems in relations between taxpayers and government in the area of in-time and full payment of corresponding taxes, that simultaneously lead to both increase of arrears and increase of non-reimbursed VAT;
- Improving VAT, profit tax, and excise tax administrative mechanisms;
- Closing loopholes in current legislation that allow tax evasion;
- Improving profit tax mechanisms, including calculation of negative object of taxation in future periods, revising amortization deductions;
- Equalizing tax burden across economic sectors;
- Introducing a real estate tax.

Tax reform is vitally needed to create further incentives for production and investment and to diminish the shadow economy.

Pros:

- This policy option does not need any additional administrative, financial, and legislative resources;
- There is no risk of uncertainty in budget revenue.

Cons:

- Low level of paid taxes;
- Inequality and irregularity of tax burden;
- Taxation system is overloaded with indirect taxes;

- High centralization of tax proceeds to national budget compared to proceeds to local budgets;
- Legal loopholes that allow tax avoidance and tax evasion;
- Non-sustainability of tax legislation;
- Current taxation system does not encourage the development of national economy;
- Big part of shadow income/profit;
- Rather big tax burden.

Option 2: Tax reform. During the period of 2006-2010, decrease the profit tax rate to 15%, VAT rate to 15% with compensation to national budget with introduction of a new tax a real estate tax with a rate from 0.1% to 0.5%

Pros:

This policy provides a step-by-step reduction of the tax burden over the next five years. In particular:

- *The profit tax rate will be gradually reduced to 15% (with the spacing of two percentage points).* The first stage of profit tax reform took place in 2004, when the profit tax rate was reduced from 30% to 25%. The next year, according to State Statistics Committee data, the share of profitable enterprises increased by 7%. We consider that, to a big extent, this can be explained by a decreasing share of the shadow economy.

Many countries reduced their profit tax rates in order to reduce tax avoidance incentives. For example, Poland, Slovakia, Latvia, and Lithuania have recently reduced their profit tax rate to 19%, while Estonia has totally abolished the tax. However, experience has shown that total abolition of the tax can be possible only under certain circumstances. The reason for this is that abolition of profit tax creates additional incentives for individuals to avoid income tax and VAT on capital. Thus, in our opinion, profit tax rate should be reduced to 15%. The same rate of capital gain tax and profit tax will eliminate the incentive to redistribute cash flows in production in order to avoid taxes.

Besides, substantial reduction of tax administration costs and tax avoidance will reduce capital outflows to offshore zones and countries with low tax rates. Introducing a real estate tax and broadening the basis of profit/income assessment can compensate budget revenue losses. At the same time, primary efforts should be made to simplify profit/income tax administration and include clear definitions that meet European standards in corresponding tax legislation. The biggest discrepancy is that Ukrainian tax legislation limits the list of payments that are allowed. A better way of resolving the problem would be listing costs that are not allowed to be reported on as payments while reporting to tax registration offices. All other costs should be allowed. Current amortization policy does not encourage investment and need maximal liberalization.

- *The VAT rate will be reduced (with spacing of one percentage point) to 15%.*

In transition economies, indirect taxes (VAT and excise tax) play an important role in ensuring budget revenue because it is harder avoid those taxes compared to direct taxation. In contrast, developed economies with their developed tax systems and high tax culture rely mainly on direct taxes. Setting efficient VAT rates should become a subject of deep analysis. In the majority of sectors of the economy, reduction of VAT rate will lead to an increase in profitability in enterprises that will accumulate funds previously deducted as VAT. These changes lower the entry level for newly registered enterprises because higher profitability will let new enterprises invest bigger funds in production facilities. In turn, it must lead to development of a competitive environment for market of goods and services. Minimal VAT rate in the EU member states should not be less than 15% [2]. Since Ukraine wants to join the EU, we have to consider those requirements.

Expediency of either reduced or 0% VAT rates is a question for discussion. As a rule, reduced (0%) VAT rates are used to reduce prices of social goods and services. However, VAT reduction does not necessarily lead to reduction of prices on goods and services. Moreover, reduction of tax rates causes reduction of tax payments made by all social groups and not just by the submerged tenth.

When considering introduction of 0% VAT on goods and services, it is worth remembering that, according to WTO norms and standards, the same reduced rates should be used for imported goods as well. This requirement is an element in ensuring the so-called "national regime" and is one of the key principles of WTO. Thus, such support of a national producer automatically extended on foreign suppliers will be very costly in budget terms. In this connection, current procedure of VAT payments by agricultural producers should be revised in order to harmonize current legislation with requirements set in WTO agreements.

- *To reimburse losses of budget revenue, we propose introduction of a real estate tax that equals 0.5% of balance value (see Addendum 1).*

A real estate tax is very interesting because it encourages efficient use of living and commercial quarters. This tax exists in almost every country in some form and is an annual percentage of the market value of the real estate. Regardless of its simplicity, this tax is one of the most difficult ones in terms of administration because it is not easy to define what is "market value" and it is more difficult to conduct an assessment on practice. Despite all these difficulties, transition countries like Poland, Estonia, the Czech Republic and Russia have imposed a real estate tax and receive substantial revenues from it. For example, in Russia this tax provides 9% of total budget revenue.

Market value can be defined by: a) metric area of the building/real estate; b) location in Ukraine; and c) location in the city. Such rules are clear and transparent and, thus, can be easily used for decision making; they do

not let bureaucrats be subjective; and, taxes are easy to administer. Enterprises, institutions, and organizations of all types that own real estate and buildings, as well as households owning real estate without any tax exemptions, are subject to the tax. Taxes should be registered and paid on an annual basis. As for households, it is worth determining the basis of assessment as a metric area of the real estate that exceeds a certain standard. This standard can be set as quantity of family members living in the same building multiplied by a certain number a fixed social standard of living area.

In addition to the incentive to use real estate efficiently, the tax has the following attractive features:

- It is simple and transparent in administration. Revenues from so-called commercial operation taxes can be reviewed only by reviewing corresponding documentation and thus can be easily manipulated. This is not the case with real estate.
- In the short term, this tax is fixed and does not distort economic incentives.
- It allows for the efficient taxation of shadow (unofficial) activity. Levying real estate tax diminishes motivation for profit minimization.
- It encourages redistribution of funds from a less efficient to a more efficient owner. This has great importance in Ukraine, which went through far-from-transparent and highly inefficient property distribution in the privatization processes.
- It ensures better assessment of enterprises' owned assets.
- To a certain degree, it may withdraw monopolistic income.
- It ensures relatively stable budget revenues.

According to our calculations, with a gradual reduction of the tax burden (to 29.5% of GDP in 2010), economic growth will increase on average 0.5% due to the diminished shadow economy and the release of investment funds. Generally speaking, such an effect will take place due to an increase in demand for investment (enterprises will have more funds). Practically, such a reduction of the tax burden has a positive impact on all economic sectors. When the real estate tax is introduced in 2006-2007, the tax burden will be bigger. However, in the long run, reduction of tax rates will lead to gradual decrease in the tax burden. It is also important that, for a more "soft" levying of the real estate tax at the very beginning, the corresponding tax rate can be fixed at 0.1% and be gradually increased to 0.5%. However, such a scheme will decrease investment incentives over the long term. At the same time, one-time levying of a fixed real estate tax will cause economic shock, which may have a negative short term impact.

Table 1*Forecasted macroeconomic indicators*

		2005	2006	2007	2008	2009	2010
GDP	change,%	3,1	5,5	6,4	6,6	6,4	6,4
Home demand	change,%	12,6	7,6	7,6	7,5	7,0	6,5
Private consumption	change,%	14,8	10,6	10,5	9,9	9,1	8,4
Gross capital accumulation	change,%	-2,1	5,2	7,4	7,2	6,7	6,8
Industry (surplus value)	change,%	1,6	2,9	5,5	6,4	5,7	5,9
Market services (surplus value)	change,%	3,6	7,8	8,0	7,3	6,4	5,9
CPI	%	13,2	10,2	8,3	4,8	4,5	4,1
Current account balance	% GDP	2,7	0,9	0,7	0,1	-0,2	-0,2

Source: own calculations on the basis of data of State Statistics Committee of Ukraine

In our opinion, a gradual reduction of taxes, declared in advance, is preferable to a drastic reduction of taxes all at once. The latter approach will likely raise doubts about its substantiality and irreversibility of the public policy.

Cons:

It is obvious that, with any reduction of the tax burden, the real estate sector will grow faster than in the case of constant tax rates. However, reduction of profit and income taxes leads to losses in budget revenue. Our assumption that reduction of taxes will lead to a decreasing share of the shadow economy may appear incorrect and, thus, the basis of assessment will not increase automatically. So, levying new taxes should compensate/reimburse losses of budget revenue.

Recommendations and implementation

Comparative analysis of *pros* and *cons* of the proposed options, according to seven criteria, is shown in *Table 2*.

Table 2*Evaluation of options*

	<i>Option 1</i>	<i>Option 2</i>
Effectiveness	2	4
Efficiency	2	3
Equity	2	4
Political feasibility	3	2
Administrative feasibility	1	3
Total	10	16
Rank of the option	2	1

Effectiveness is defined as the degree to which a goal is achieved. Efficiency is defined as the probability of economic growth. Equity is defined as the degree to which the option takes into account interests of all economic agents. Political feasibility is defined as the likelihood of support from legislative and government bodies. Administrative feasibility is defined as the positive impact of the option on economic growth.

Elimination of systematic defects in tax policy requires gradual tax reform. First of all, tax reform in Ukraine should be a fiscal policy instrument but not its goal. Tax reform should be considered an essential element of a coordinated transformation policy and should ensure acceleration of economic growth. Complete implementation of the proposed policy option is a gradual process (during 2006–2010).

To implement the second option, we recommend the following actions; they are essential to making changes in current tax legislation and implementing a gradual tax code:

1. Introduction of a mechanism for combining both the fiscal and regulatory functions of taxes;
2. Identification of the dynamics of gradual reduction of existing taxes that will ensure necessary transformation in the structure of the tax burden;
3. Use of exemptions (0% rate, reduced rates) in levying VAT on investment;
4. Transition to real estate tax on the basis of market value (assessment will be done according to a unified method);
5. Clear definition of terms and conditions of tax concessions in order to encourage investment;
6. In order to increase efficiency of Ukraine's taxation system, while developing and justifying tax policy instruments, it is necessary to make an estimation on how those instruments will impact the system in general, keeping in mind the fact that it should correspond to legislative requirements.

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Addendum 1**Real Estate Tax**

In Ukraine, capital assets are the base in which consolidated budget revenues of 0.5% real estate tax are forecast. Data on capital assets are based on balance value, which is reported by enterprises in their standard reports to the State Statistics Committee. In 2002, total capital assets value equaled 965.8 billion UAH. Taking into account the fact that housing, building, and allotment values was about 69.5% of all fixed assets, consolidated budget revenue from the above mentioned tax will be 3.35 billion UAH. However, we have to assess value of capital assets in 2004. For this type of assessment, we will use weighting by GDP deflator because we do not have a real possibility to assess adequately the loss of capital assets (capital investment growth rate is not available). Also, we assume that the share of real estate in capital assets is constant since 2002. Thus, value of capital assets in 2004 should not be less than 1205.9 billion UAH, and consolidated budget revenue would be 4.2 billion UAH.

Table 3

Evaluation of budget revenue from the real estate tax

		2005	2006	2007	2008	2009	2010
Assessed value of fixed funds	bln.UAH	1278,2	1354,9	1422,7	1493,8	1568,5	1646,9
Budget revenue from tax on assets	bln.UAH	–	–	–	–	–	–
0,1% rate	bln.UAH	0,89	0,94	0,99	1,04	1,09	1,14
0,2% rate	bln.UAH	1,78	1,88	1,98	2,08	2,18	2,29
0,3% rate	bln.UAH	2,67	2,83	2,97	3,11	3,27	3,43
0,4% rate	bln.UAH	3,55	3,77	3,96	4,15	4,36	4,58
0,5% rate	bln.UAH	4,44	4,71	4,94	5,19	5,45	5,72

Source: CASE Ukraine[3].

Olena Galenko

Certification of Secondary School Graduates

Policy Paper Summary

Policy problem: *How to ensure equal access to higher education for all and introduce a uniform mechanism for assessing secondary school graduates' academic attainment. The existing system of quality control in secondary school education does not offer effective ways of obtaining objective comparative information on students' academic attainment. Nor does it provide a transparent and fair procedure for entrance examinations in institutions of higher learning.*

Client: Verkhovna Rada Committee for Science and Education.

Stakeholders: Ministry of Education and Science of Ukraine, higher educational institutions, teachers' boards, parents' boards, students' associations.

Goal in solving the problem: To provide all Ukrainian citizens with better life-long learning opportunities and a higher quality of education.

Policy options:

1. Maintaining the status quo (preserving the current dual model of education quality assessment);
2. Introducing mandatory external certification at the level of completed secondary education;
3. Combining state summative examination and the III-IV accreditation level entrance examinations (to institutions of higher learning) using an independent external assessment.

Recommendations: Policy option three is the most preferable as its implementation will be conducive to resolving the problem and mitigating its adverse impacts.

Implementation: The recommended solution is fully in line with the key tasks of Ukraine's public policy in education. In order to successfully implement the recommended policy, the client should attach top priority to the following:

1. Making the Ukrainian Centre for Education Quality Assessment and its regional divisions operational with clearly defined powers and responsibilities;
2. Launching awareness-raising campaigns in local communities;
3. Training educators in proper administration of independent external assessment;
4. Amending relevant legislative and regulatory frameworks.

Policy Paper

Defining the problem for policy analysis

High-quality education is universally regarded as an indicator of advanced living standards, and as a means of achieving societal and cultural harmony and economic growth. One of the gravest problems of the Ukrainian educational system is the absence of an effective mechanism for objectively gauging the level of students' academic attainment. Such a mechanism would align the government's intentions with societal interests, and would increase the transparency of candidates' selection to higher educational institutions both of which preclude the application of democratic principles in the country.

The situation with education and subsequent employment seems paradoxical because, on one hand, there is a surplus of certified specialists with higher education on the domestic labor market but, on the other hand, employers complain about a labor force shortage. The situation is not going to change until the system of education shifts its focus from relying on student knowledge and memory to developing practical student skills, and from training specialists who possess a certain scope of information to teaching them to use this information in the workplace [4].

All post-Soviet states faced similar problems in the development of their educational systems. The strategy used to improve the quality of education in the late 20th century now prevails in the educational policy of most FSU countries, including Ukraine. Resolution #1095 of the Cabinet of Ministers of Ukraine dated August 25, 2004, approved the procedure for transferring to a new model of secondary education quality assessment due to be completed by 2009 [2]. Having adopted "Millennium Development Goals: Ukraine" in September 2003, Ukraine committed itself to creating a comprehensive system of high-quality, life-long education that would meet international standards by 2015.

The first attempt to introduce a universal assessment of students' academic attainment in different subjects on a national scale was a "placement test" designed to check the students' knowledge at a specific point in time. However, the test failed to provide valuable data to researchers and educators. The methodology of administering the test and processing its results proved imperfect due to the invalidity and unreliability of statistical tools. Thus, it did not yield the expected result of objectively comparative data on the actual level of Ukrainian school students' knowledge and skills. One should also bear in mind that the study of designing and administering tests is a young pedagogic branch just emerging in the Ukrainian educational environment. So far, instructions regarding the development of specific test tasks/questions were viewed as a mere set of general recommendations, rather than a way to construct a reliable assessment tool.

The above research did, of course, produce certain results: reports were written, conclusions drawn, and lessons learned. Yet those results did not show a large and objective picture of the performance of the existing educational system and its components; consequently they were not instrumental in the planning of further policy initiatives. What they did reveal was the inefficiency and ineffectiveness of the current public policy in education, particularly in the context of new educational technologies and trends.

Therefore, it is critical to modernize the national education system to make it more sensitive and responsive to potential weaknesses, and to develop a strategy for further evolution of education at all levels: national, regional, and institutional.

Rationale for government involvement

The existing educational system is self-contained. In other words, the system monitors and controls its own performance and assesses its own results. An important and integral part of the system involves trust. It implies people's traditional trust in a well-established and, for its time, fairly effective system of education with traditional values and emphasis on a child's socialization. It implies trust in the teacher as a wise, experienced mentor and a source of knowledge. It implies trust in the system of assessment that involves only the student and the teacher.

No external assessment was ever practiced in secondary education. Upon graduation from secondary school, children are assessed using internal criteria at school, but when entering the tertiary educational institutions they are assessed using external ones. Students and their parents, for the most part, trust internal school-based assessment systems, but not the external assessment used at the entrance point of university. This lack of trust is offset by informal relations, useful family connections, backdoor influences, and other corruption schemes. All players involved in the process depend on the network of non-institutional informal relations.

State-provided educational services do not meet society's demands and fail to provide equal access to higher education or objective information on the quality and level of students' academic attainment. Further application of these outdated principles and methods of education management serve only to restrain the dynamics of social development.

Consultations

The stakeholders whose interests are most affected by the lack of equal access to higher education and a unified mechanism for education quality assessment are the Ministry of Education and Science of Ukraine, institutions of higher learning, teachers' boards, parents' boards, and students' associations.

The government, through the Ministry of Education and Science, manages education and develops relevant public policy and the strategy for the advancement of the national education system based on the current legislative framework.

Higher educational institutions, as a rule, “profiteer” from the existing entrance arrangements. Therefore this stakeholder group can be expected to put up the strongest resistance to change. Yet if the faculty of institutions of higher education are actively involved in the design of the testing system and have confidence in the assessment mechanism, they can become interested and develop into true proponents of the reform.

In theory, teachers and other secondary school educators support the introduction of a unified mechanism for measuring their students’ academic attainment. At the same time, they are reluctant to accept a system that would also assess their own performance, and then compare and publish the results of such assessment.

Parents advocate changing the mechanisms and procedures by which their children’s skills and knowledge are assessed. They believe a new mechanism will provide a level playing field for all and a chance for children from lower-income families to enter prestigious universities.

Students represent the stakeholder group most open to change. Working with this group, policy implementers should focus on raising students’ awareness of the advantages of the new assessment system, presenting the opportunities it offers them, and explaining technical aspects of testing.

Modeling the problem

The general educational paradigm toward democracy and fostering the personal development and professional training that would enable students to contribute to the country’s economic growth, competitiveness, and political independence should envision the introduction of an education quality assessment model capable of:

1. Measuring secondary school graduates’ academic attainment in an objective and unbiased fashion;
2. Providing fairer access to higher education based on democratic and transparent procedures of candidate selection to institutions of higher education;
3. Reducing psychological stress on secondary school graduates and university candidates;
4. Ensuring continuity between secondary and tertiary education;
5. Urging educational authorities at all levels to improve the quality of academic processes [3].

The main goal is to ensure equal access to high-quality, life-long education to all interested citizens. Criteria for achieving policy objectives are:

1. Decreasing the number of students flunking out of schools;
2. Combating corruption in higher education institutions.

The main risks and impediments to obtaining positive results are:

1. Chronic lack of funding in the educational system;
2. Lack of qualified testing experts;
3. Lack of trust in authorities: the prevailing public sentiment is that any government-initiated innovations will change the situation for the worse and not improve the lives of the people.

Options for solving the problem

1. Maintaining the status quo (preserving the current dual model of education quality assessment);
3. Introducing mandatory external certification upon completion of secondary education;
4. Combining state summative examination and the III-IV accreditation level entrance examinations (to institutions of higher learning), using an independent external assessment.

Option 1: Maintaining the status quo (preserving the current dual model of educational quality assessment).

There are currently two unrelated procedures for assessing the quality and education level of secondary school graduates. One procedure is the state's final assessment at the completion of secondary education and the other is the entrance examinations conducted by institutions of higher learning. Examination procedures have been evolving for years, so the relevant methodology and techniques are well-established and time-tested.

The teachers who work with students for several years assess their academic performance at the end of their schooling. Examination results are not recognized by institutions of higher learning, which hold their own independent entrance examinations. Thus, the assessment effort is duplicated and public funds are spent inefficiently.

Advantages of this policy option:

1. Individual approach to every student in the course of final examinations;
2. The examination grade encompasses not only competency demonstrated in the process of state examination, but also the students' progress over their last years of studies;
3. Final examination replicates the form of formative/thematic assessment tests.

Disadvantages of this policy option:

1. Absence of a unified methodology for conducting university entrance examinations;
2. Lack of continuity between the secondary and tertiary education;
3. Enabling environment for corruption;
4. Lack of objective tools for measuring the actual level of students' academic attainment.

Option 2: Introducing mandatory external certification upon completion of secondary education.

The implementation of this policy option will ensure objective certification reflecting an actual level of secondary school graduates' academic attainment and providing equal opportunities for them to continue their education. The independent external assessment will serve as a policy tool under this scenario.

If a student fails the first test or is dissatisfied with the test result, he/she should be entitled to a second try. A relevant mechanism should be designed to operate on a commercial basis, thus allowing for an effective use of public funds and additional incentives for candidates. The regulatory framework should provide for the terms, timeframes, and cost of re-examination. Candidates should be admitted to higher education institutions based on their certification results. Given that the content of learning in school subjects is constantly upgraded and updated, certificates should be valid for three years each. If the certificate holder has not entered a higher education institution within this term, he/she will have to take another examination and pay for it out of pocket.

A Center for Education Quality Assessment should be set up under the Ministry of Education and Science, along with regional units. Both the center and its regional divisions should be funded from the state budget, rather than from local budgets, in order to exclude any influence on the certification procedures and outcomes brought to bear by local authorities [6].

Advantages of this policy option:

1. Objective assessment of knowledge that will imbue young people with confidence and a belief in justice;
2. A second chance for students to improve their examination result (particularly important in view of the "life-long learning" approach);
3. Use of certification results for admission to institutions of higher learning.

Disadvantages of this policy option:

1. Psychologically traumatic experience for graduates with low-, middle-, and merely sufficient-level academic attainment;
2. High costs;
3. Absence of an established network of regional centers for education quality assessment and testing.

Option 3: Combining state final examinations and the III-IV accreditation level entrance examinations (to institutions of higher education), using an independent external assessment.

Independent external assessment as a synthesis of final and entrance examinations for those secondary school graduates who plan to continue their

education in universities and colleges of the III-IV accreditation levels will allow a set of interrelated tasks topical at the present stage of educational reforms to be addressed. The state final examinations can be preserved to assess the level of mastering the state educational standards by those students who do not intend to enter higher educational institutions of the III-IV accreditation levels. Results of the state final examination can be used for entering educational institutions of the I-II accreditation levels, together with the grades indicated in graduation certificates. Should students decide to continue their education while studying in the institutions of the I-II accreditation levels, they would be entitled to undergo the independent external assessment on an equal footing with other university candidates.

Institutions of higher education need to improve the quality of their educational services. They have to admit more young people with creative, inquisitive minds and a thirst for knowledge. The independent external assessment will be conducive to this end, as it will toughen candidate requirements and help to categorize them by their level of academic attainment. Some applicants will be offered state-funded scholarships, others will have to pay tuition fees, while still others will need to get better prepared and take the examinations again in a year. Therefore, tests should include both multiple-choice and open-ended questions [1].

The quality differentiation methodology should be used to analyze certification scores in detail. The computing of the proportion of correct answers and completed tasks that involve various types of thinking and learning styles will enable higher educational institutions to select candidates for certain specializations more purposefully. Students with analytical, abstract, semiotic, and logical thinking will be more successful majoring in mathematics, engineering, philosophy, linguistics, and the like. Students with imaginative, spatial, visual, or synthetic types of thinking would major in literature, journalism, arts, design, etc. At the same time, institutions of higher learning should have the right to hold a specialized examination for such departments as arts, journalism, sports, choreography, etc.

In order to avoid the “carrying-over” of results between subjects, a minimum score in each subject should be defined for the entrance board to consider together with the set of application documents.

If a candidate wishes to study at an institution of higher learning but his/her certification results are too low to qualify for a certain specialization, the candidate can be offered a second choice of specialization with less strict requirements. Another option is to get better prepared and undergo certification in another year.

The Center for Education Quality Assessment and its regional divisions should be placed in charge of administering the examination, i.e. of designing examination materials, training teachers, issuing certificates, etc. Re-examination mechanisms and funding procedures should be thoroughly developed as described in option two.

Advantages of this policy option:

1. Restored and/or enhanced public trust in objective assessment of students' competencies;
2. Medium costs;
3. Use of the independent external assessment results as a reference point for admission to higher educational institutions;
4. Reduced psychological burden on secondary school graduates who will not have to sit for entrance examinations.

Disadvantages of this policy option:

1. Poorly informed public and potential social tensions;
2. Lack of trained experts in theory and practice of designing and administering tests for independent external assessment;
3. High probability of information leak (low security of tests).

Recommendations

In order to recommend the best policy option, the alternatives should be comparatively analyzed on the basis of five universal criteria.

Table 1

Comparative analysis of policy options

<i>Criteria</i>	<i>Assessment of policy options</i>		
	<i>Option 1</i>	<i>Option 2</i>	<i>Option 3</i>
Effectiveness	1	2	3
Efficiency	1	2	3
Equity	1	2	3
Political feasibility	1	3	3
Administrative feasibility	3	1	2
Score of the option	7	10	14

Effectiveness characterizes the extent to which all set objectives have been achieved. The low rating of Option 1 can be explained by its low probability of accomplishing all objectives. The market can hardly be relied on for providing better access to higher education on the basis of democratic and open procedures of candidate selection. The implementation of Option 2 will place an additional psychological burden on secondary school graduates with low, middle, and merely sufficient levels of competencies and will undermine their confidence and self-esteem if they gain poorer results than they expected. Option 3 is graded the highest under this criterion as it ensures the quickest way to achieve objectives, provided 100% funding is available.

Efficiency is determined as a ratio of public benefits to costs in implementation of each policy option. Option 1 can hardly be seen as efficient: for one thing, the state presently bears the double costs of final and entrance examinations; for another thing, the system of non-institutionalized relations accounts for students with a poorer academic record ending up in institutions

of higher education. The choice of a further education program becomes more problematic, which has an adverse impact on the quality of tertiary education in general. The state pays the additional cost of human and time resources needed for bringing weaker students up to the average academic level. The implementation of Options 2 and 3 will entail substantial budgetary expenses to create the infrastructure, train qualified personnel and testing experts, and carry out a massive awareness campaign. The costs are justified as the funding of education is not an expense, but rather is an investment.

Equity is the key criterion for selecting the best policy option in this case. It shows the extent to which each of the proposed options guarantees equal and fair treatment of all population groups. At this juncture, the implementation of Option 1 provides higher education access to wealthy candidates alone. Options 2 and 3 will enable young people from different social groups, regardless of their financial or occupational status, to receive high-quality tertiary education.

Political feasibility's high ratings for Options 2 and 3 are explained by the priority the Ukrainian government and society attach to educational reform and to harmonizing the national educational strategies and practices with the European and international ones.

Administrative feasibility in the implementation of Option 1 (with the highest rating) will not require any additional effort or resources. Option 2 has a low rating because of limited financial resources for its implementation and lack of a relevant regulatory framework. Option 3 has a middle rating, as financial resources and regulatory changes associated with its implementation will be smaller than for Option 2.

Based on the above key criteria, Option 3 "Combining state summative examination and the III-IV accreditation level entrance examinations (to institutions of higher education) using an independent external assessment" can be recommended to the client as the best one.

Policy implementation

The recommended solution calls for a principally different policy approach to education management, both at the national and regional levels, as it implies a paradigm shift from trust in traditions to trust in institutions. The introduction of a new institutional paradigm is associated, at least in public opinion, with the duty of the state to clearly define the functions of all public administration bodies and to require proper delivery of their services. The major challenge to the introduction and viability of the independent external assessment is its high cost. Nevertheless, almost all developed European countries have been using various forms of certification exams for some time or are working toward introducing them.

In order to successfully implement the recommended policy, the client should attach top priority to the following:

1. Making the Ukrainian Center for Education Quality Assessment and its regional divisions operational with clearly defined powers and responsibilities;
2. Launching awareness campaigns in local communities;
3. Training educators in proper administration of independent external assessment;
4. Amending the relevant legislative and regulatory framework [5].

Sources

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Dmytro Gapeev

Creating a Unified and Consistent Government Policy Regulating the Investment Activities of Residents and Non-Residents in Ukraine

Policy Paper Summary

Policy problem: *The absence of a unified policy and a clear Ukrainian government program for regulating the investment activities of residents and non-residents in Ukraine. The lack of a unified and legally approved strategy, double meanings within current legislation, and selective and inconsequent use of legal rules and procedures governing investments accounts for absence of investment into the Ukrainian economy, a low efficiency of capital investment in the private sector, and an inability to get the maximum positive economic effect from foreign investment.*

Client: Ministry of Economy of Ukraine.

Stakeholders:

- Verkhovna Rada;
- President of Ukraine;
- Cabinet of Ministers;
- Ministry of Finance; Ministry of Foreign Affairs; Ministry of Social Policy; Ministry of Science and Education; Ministry of Transport and Communication; Ministry of Environmental Protection;
- State tax, customs, registration, and licensing offices: State Tax Administration, State Customs Service, State Commission for Securities and Stock Exchange;
- State Property Fund;
- Antimonopoly Committee;
- National Bank;
- State Committee of Ukraine on Regulation Policy and Entrepreneurship;
- Council of Entrepreneurs, Cabinet of Ministers;
- Ukrainian Association of Consumers;
- Unions in different economic sectors;
- Influential political parties of Ukraine: Our Ukraine (Nasha Ukrayina), Party of Regions, BYuT, Socialist Party, Communist Party.

Goal in solving the problem: Increasing the welfare of Ukraine through technological progress due to continuous investments.

Policy options:

1. Continue current policy;
2. Ensure equal investment opportunities for all domestic and foreign investors;

3. Implement privileges for domestic investors or full foreign investment flow separation;
4. Implement privileges for foreign investments.

Recommendation: We recommend implementing the second alternative ensuring equal investment opportunities for all domestic and foreign investors. This requires changes in the current system of investment incentives (while in certain sectors foreign investments are encouraged, in others they are prohibited or limited) that will lead to creation of a market system of investment incentives in which all investors have the same privileges, terms, and conditions. It is proposed that number of investment privileges will directly depend upon requirements that are defined based on the country of origin.

Policy Paper

1. Policy problem identification

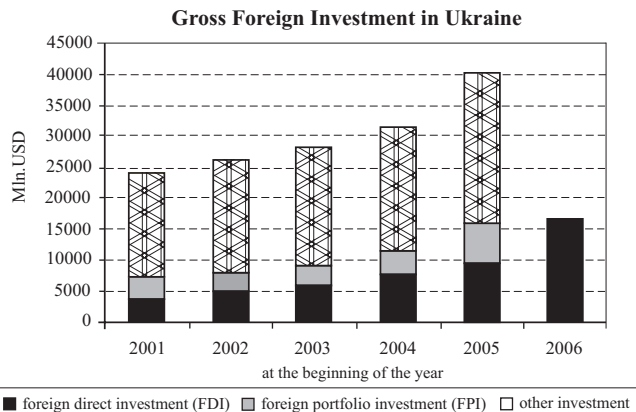
1.1. Symptoms of the problem

Sustainable development is a key idea in the socially-oriented market economy that is supported by the majority of political parties in Ukraine. It foresees efficient management of society’s gross capital in order to maintain and multiply the opportunities of each person. The need for investments is conditioned on the need to expand production to meet growing demand and modernize existing low-efficiency production facilities. Without investments, it is impossible to ensure long-term progress of the country and, thus, social welfare growth cannot be ensured.

At the same time, the country has not yet decided on its approach to foreign investments. The government’s economic policy is uncertain and, thus, foreign investors cannot count on the Ukrainian market as a sound target for foreign capital investment.

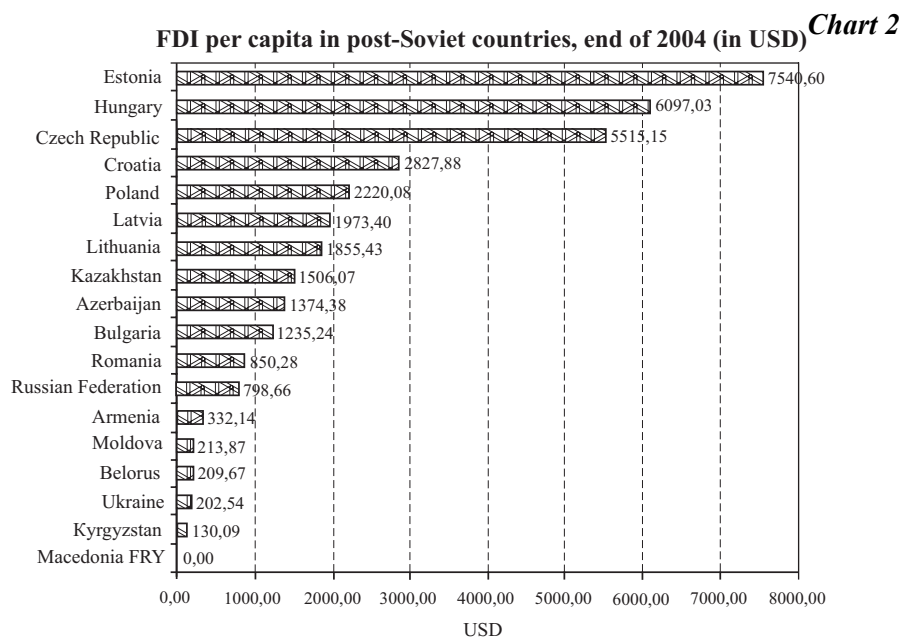
Gross foreign investment in the Ukrainian economy is shown on Chart 1.

Chart 1

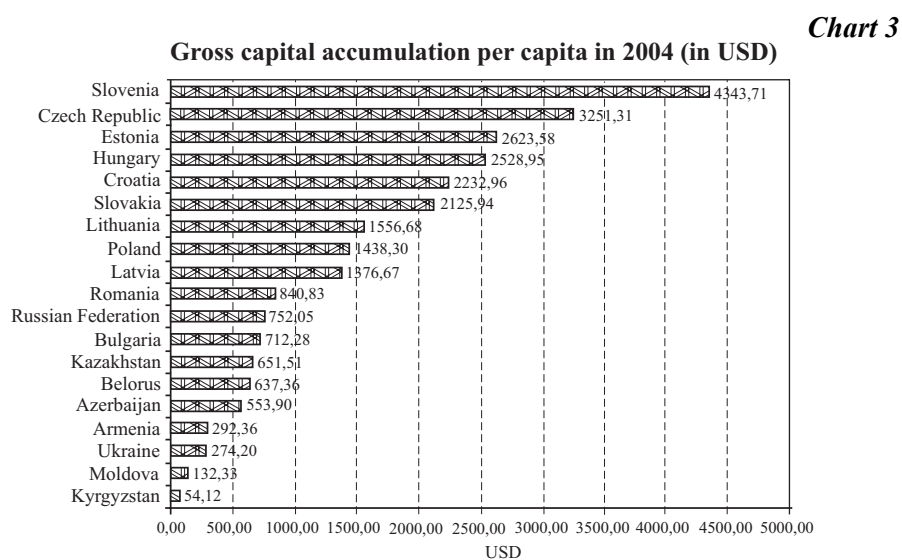


Source: [1], [3]. On the 1st of January 2006 only statistics on FDI were available.

The increase in foreign direct investment (FDI) in Ukraine between 2001 and 2005 was due to including Ukraine into the system of agricultural relations. At the same time, compared to FDI per capita in post-Soviet countries, transformation of economic systems in Ukraine shows a very low share of foreign investment in development financing. Chart 2 represents Ukraine's FDI per capita in comparison with other countries.



Source: calculated by the author on the basis of [6].



Source: calculated by the author on the basis of [6].

Activities of certain government bodies in the sphere of investments are contradictory and inconsistent. Some central government bodies encourage foreign investors, while others block implementation of these decisions in certain economic sectors, cases, and regions. Mainly, such cases appear as a result of the overall uncertainty of foreign investors. Lack of a strategy and frequent changes in conditions are restricting factors for foreign investments and give negative signals to foreign capital markets. As a result, one can observe Ukraine's low investment rating and its enterprises' relatively small share of foreign capital in national assets.

As is shown in Chart 3, Ukraine remains behind other similar countries in terms of internal capital accumulation per capita. Between 1996 and 2004, the rate of savings in Ukraine was on average 22%. This is typical for countries similar to Ukraine and, thus, gross capital accumulation in Ukraine is minor due to national income; in other words, due to the low social welfare.

So, statistics have shown that Ukraine has:

- (a) Low FDI per capita,
- (b) Small gross internal fixed capital accumulation;
- (c) Typical distribution of gross national income on current consumption and savings (exceptionally low investment activity and obvious lack of investment in sustainable development are taking place).

1.2. Legal basis

At present in Ukraine, various legislation regulates investment activity. This legislation represents a system of so-called official restrictions. In general, the current legislation encourages investors and includes:

1. Civil and Economic Codes that describe investment policies and regulate essential issues of investment activity.
2. Ukrainian laws "On Entrepreneurship," and "On Economic Associations," and other legal acts that regulate activities of enterprises. Those legal acts include types of entrepreneurship that are allowed to set up business in Ukraine, as well as corresponding restrictions of these activities.
3. Ukrainian laws "On Investment" and "On Foreign Investment Procedures" that describe the main rules of investment for both residents and non-residents.
4. Ukrainian law "On Profit Tax" and other tax and customs legislation that set rules and procedures for compulsory payments.
5. Decree of the Cabinet of Ministers "On the System of Currency Regulation and Control" and other legal acts, which regulates currency circulation. It impacts enterprises with foreign investments and other enterprises' foreign trade operations.
6. Ukrainian laws "On Protection from Unfair Competition" and "On Protection of Economic Competition." They set the legal framework and define such terms as economic competition, monopolization, violations, and legal responsibility.
7. Ukrainian law "On Registration of Legal Entities and Individual Entrepreneurs" determines entry barriers to the Ukrainian market.

1.3. Scope of the problem

The policy issue covers the whole country and all social groups. The investment strategy should be viewed in both the short-term perspective (through consumption and current production) and the long-term perspective (ensuring conditions for economic growth and increasing social welfare).

1.4. Novelty of the problem

The problem of developing a policy on investment activity of both Ukrainian residents and non-residents is not new in Ukraine. Actions and decisions to date are incomprehensive and improperly implemented.

1.5. Background of the policy issue

Since the very beginning of market transformation in Ukraine, it was declared that the government should regulate investment activities, particularly related to foreign investments. At the same time, in legal terms, those issues remained open and were not defined clearly. In practice, it meant that investors made personal privilege agreements with government bodies. Later a couple of free economic zones were created. The main goal of those zones was to ensure equal distribution of investment resources. Until now, those zones functioned as offshore zones in order to optimize the tax burden. In recent years, the government's inconsistency has become an obstacle to the declared principles. Also, there is a lack of political will to make the business environment more competitive. There is no general strategy: privileges granted to and restrictions on investors have been determined by government bodies responsible for each particular case.

1.6. Current policy tools

There are certain government bodies and agencies which develop rules and regulations, register, monitor, and control investment activity in Ukraine. These include: the State Property Fund, the Antimonopoly Committee, the State Tax Administration, and the National Bank of Ukraine all of which are directly involved in the registration of investors in different economic sectors, implementation of legally set rules and procedures, and control.

When talking about attracting investment, statements made by senior government officials and policy programs of regulatory bodies determine investment policy and provide signals markets and stakeholders.

In addition to the typical tools for the implementation of policy, it is necessary to highlight specific institutional factors that impact the efficiency of all current government regulation. A list of main institutional features placing informal restrictions on business and investment activities in Ukraine is shown in Table 1.

Table 1*Institutional features of business environment in Ukraine*

Institutional factor in business and investment environment	Institutional features that create informal restrictions	Effects of informal restrictions
Legislation	Contradictory legislation: (a) contradictions within one legal act, (b) contradictions between different legal acts that are approved by different government bodies on different government levels; unclear formulation of legal acts that allow alternative versions and free use.	Continuous risk of changing the rules; abuse of power and high level of corruption. Consequences for entrepreneurs: (a) increasing the costs of doing business, (b) lack of market competition.
Regulatory government bodies and their performance	Sluggishness in reacting on entrepreneurs' appeals. Speeding up the process may require informal payments to bureaucrats. Although bureaucrats from regulatory government bodies are responsible for protection of market rules, they violate those rules by their bribe-seeking behavior.	Substitution of official (formal) and registered payments for making business and services of public administration bodies by informal and undetermined. Consequences: increased costs of doing business and larger shadow economy.
Politics	Contradicting political statements, lack of unified investment strategy give mixed signals to markets.	Cautious and reserved investments, incomplete use of positive effect of private entrepreneurship; underinvestment. Effectiveness of official political statements as a signal to markets is devaluated by continuous changes and contradictions with current legislation.

1.7. Effectiveness and efficiency of current policy

Creation of corresponding conditions for fostering investment should result in implementation of a comprehensive strategy developed on stable principles, values, and priorities. Conditions under which (a) efficient investment (needed for sustainable development) is observed and (b) maximal economic effect from investment is ensured are considered as corresponding. Efficiency of the policy is determined by growth in social welfare (stable growth of national income and employment).

1.8. Urgency of the problem

A number of macroeconomic indicators and social progress in general depend on the policy decision and implementation of a successful and stable investment strategy. Implementation of decisions will speed up investment activities and maximize all possible investment sources in order to ensure sustainable economic development and growth in social welfare.

1.9. Client

Ministry of Economy of Ukraine.

2. Rationale for government intervention

Since the market is unable to distribute investment resources efficiently, government intervention is needed to ensure a balanced level of investment across all economic sectors.

3. Consultations

3.1. Stakeholders (policy coordination)

Central government bodies. At present, the Verkhovna Rada, Cabinet of Ministers, and the president favor speeding up investment activity and support for foreign investors. However, none of those government bodies has the authority or will to impose its action plan. The final decision depends on the ratio of political parties. Those bodies are authorized to declare policy and insist on its implementation, have the legal initiative, and are able to raise questions for discussion and voting.

The Council of National Security and Defense analyzes risks related to foreign investments, proposes requirements to foreign investors, and generally is positive to foreign investors.

The Ministry of Finance is very concerned about increasing the number of private investment projects in Ukraine, increasing capital inflow into the country and widening the Ministry's influence over investment and financing matters.

The Ministry of Labor and Social Protection supports foreign investments and active domestic investment activities because it anticipates the increasing number of workplaces and increasing social deductions. In turn, investments allow the Ministry to reform more efficiently. The Ministry is also concerned with increased unemployment caused by new owners taking over and new labor-saving technologies being introduced.

The Ministry of Transport and Communication is very interested in foreign investments that finance infrastructure projects and using foreign experience to develop transport and communication systems.

The Ministry of Environmental Protection is interested in foreign investments that use advanced resource-saving and ecologically safe technologies. It verifies concepts that allow foreign enterprises to buy land resources. The Ministry oversees leasing and renting rules for foreigners.

Tax, customs, registration, and licensing services are direct beneficiaries of official payments made by entrepreneurs in Ukraine. This group oversees procedures that regulate their relationships with enterprises. They will probably resist any unification of procedures that limit or reduce their

authority, such as decreasing number of registration procedures, single taxes and registration window, etc. At present, the State Tax Administration has broad taxation authority that goes beyond just withdrawing corresponding payments and deductions. This administration wants to maintain and broaden its authority.

The State Commission for Securities and Stock Exchange encourages cooperation with foreign investors, noting that special attention should be paid to the development of financial infrastructure to ensure efficient circulation of securities (stock market operation should be intensified). The commission favors increasing the number of joint-stock companies and, thus, further privatization.

The State Customs Service is interested in fostering cooperation with foreign investors because it will increase foreign trade operations that are subject to customs duties.

The State Property Fund has an interest in efficient management of public property and, regardless of the strategy, will insist on broadening its authority (privatization permissions, tenders on selling public property). At present, it is not concerned with privatization, but in cases of privatization tries to get the highest price.

The Antimonopoly Commission ensures competition in the Ukrainian market and monitors cases of monopolistic power. It favors a unified strategy and clear “rules of the game,” a part of which belong to antimonopoly regulation. Rationale for its involvement is tied to increasing foreign investment inflows to the country, particularly in cases where powerful multinational corporations buy Ukrainian assets. In this case, multinational corporations, due to their experience and potential, may displace small competitors from the market and establish a monopoly. Thus, the committee will have to work out adequate rules that are consistent with government strategy for limiting monopolistic power.

The State Committee of Ukraine on Regulation Policy and Entrepreneurship supports any actions focused on improving conditions for doing business in Ukraine. It works out recommendations that protect the interests of business and stand for its liberalization.

The National Bank of Ukraine has a substantial impact on foreign and domestic investment flows through its monetary mechanism. The National Bank is an open, independent, and democratic organization that performs according to market principles and now tends to encourage investments by residents and non-residents of Ukraine. The National Bank will have a wide scope of tasks and responsibilities in any strategy supporting its aim through changing the refinancing rate, reserve requirements, and conducting open market operations.

3.2. Organized stakeholders (policy consultations)

Institutionalizes groups of entrepreneurs: Council of Entrepreneurs of Ukraine, the Cabinet of Ministers of Ukraine, and other associations of Ukrainian entrepreneurs that favor improving the business environment in Ukraine and represent the stakeholders that will be affected by changes in the investment sector. Entrepreneurs support freedom of choice between current production and consumption and investment, as well as seek favorable amortization rates and low tax burdens. At the same time, domestic enterprises, especially those that have merged with huge Ukrainian financial and industrial groups and have entrenched themselves in the power elite, resist foreign investment and want to have formal and informal privileges.

Competition between foreign and domestic investors for Ukrainian assets is far from perfect and big Ukrainian financial and industrial groups lobby for government decisions that violate market principles and block access to items of privatization. As a result, we do not use market mechanisms of the best investment strategies and most perspective business plans. This position held by big Ukrainian enterprises can be explained by their failure to remain competitive under unified rules for business of residents and non-residents in Ukraine. Ukrainian financial and industrial groups do not want to improve conditions for foreign investors. At the same time, institutionalized groups of entrepreneurs will advocate for all possible ways to liberalize business in Ukraine. The impact of these stakeholders is essential and is related to its concern about the results of the strategy, as well as with oligarchic feature of Ukrainian politics that lobby interests of big Ukrainian financial and industrial groups.

Institutionalized groups of investors (formal and informal councils of investors) consider any improvement of the environment for foreign investors as a threat. Councils of foreign investors favor equal conditions for domestic and foreign investors in general and possibilities of special privileges to foreign investors in certain cases. Councils of domestic and foreign investors always support liberalization of the business and investment environment and, more importantly, they favor of unified investment rules and freedom in command profit.

Unions of Consumers Goods and Services (Ukrainian Association of Consumers) concern is for the dynamics of prices on goods and services, which may vary with foreign investment. This group of stakeholders does not have significant influence on the issue, however.

Unions in different economic sectors have an interest in increasing wages and benefits for employees and stand for ensuring good working and rest conditions. Empirical data [5] shows that enterprises with foreign investment may offer higher wages. Thus, foreign investors' activity is encouraged. At the same time, unions are concerned about lay-offs that take place at enterprises which are owned by foreign investors.

Financial institutions are concerned with the dynamics of prices on financial resources. Those prices depend on change of the capital availability.

Influential political parties of Ukraine (such as Nasha Ukrayina, ByuT, Party of Regions, Socialist Party) stand for encouraging entrepreneurship and improving the business environment. The Communist Party of Ukraine is more cautious (favors restriction of private property and increase in number of public enterprises; limitation of non-residents' access to Ukrainian market, and minimizing their participation in investment projects in Ukraine; gives advantage to FSU investors). The Socialist Party and similar, less influential parties believe in limited privatization, limited access to the Ukrainian market by investors from developed countries etc. Political "trade of election voices" between political parties will shape the opinion of a number of government bodies and other stakeholders. At the same time, the leaders who lobby the interests of big domestic financial and industrial groups will determine the position of the party. In such an environment, big political conflicts are likely.

4. Problem simulation

4.1. Aim of problem resolution and policy objectives

Aim of problem resolution lies in increasing the welfare of Ukrainian population through technological progress due to continuous investments. In order to achieve the aim, a number of objectives were defined:

1. To ensure efficient level of investment needed to support sustainable economic development in the country.
2. To ensure maximal efficiency of investment.

The decision should include an action plan to fulfill the tasks.

4.2. Criteria of achieving the goal

To ensure stable and gradually growing households' net income (after taxes and deductions) while consumption-saving ratio in national income is kept constant.

4.3. Restrictions

Restrictions that may appear in implementation of selected policy option:

1. Resistance of certain political forces and their political base of support.
2. Financial resource constraint.
3. Lack of human capacities for policy implementation or high costs of training human resources.
4. Unfavorable institutional environment (bureaucracy, government inefficiency in general).

5. Alternatives

We propose the following policy options to resolve the problem:

1. Continue current policy;

2. Ensuring equal investment possibilities to all domestic and foreign investors;
3. Implementation of privileges for domestic investors or full foreign investment flow separation;
4. Implementation of privileges for foreign investments.

5.1. Option 1: continue current policy

Current policy is characterized by inconsistency. On the one hand, the importance of attracting investment was declared and a system of tax incentives was created for foreign investors. On the other hand, dispersement of tax privileges and incentives is not done on a competitive basis, but rather on a discriminatory basis due to the above mentioned institutional factors. According to current legislation, preferences are given to domestic investors (and *vice versa*). Obtaining the right on this or that privilege by an investor or performing under specially set requirements is done chaotically and is not legally regulated and, thus, leaves space for abuse of power.

Pros:

1. Traditional nature, bureaucrats know style of work.
2. No cost for changes.

Cons:

1. High access barriers to the market (long and unclear procedures to register new enterprise, many licenses and permissions for doing business).
2. High cost of doing business in Ukraine (corruption, many inspections and audits of enterprises).
3. Noncompetitive character of regulation. Government has too many rights to regulate the market; absence of effective incentives that depend on quality and amount of investment; competition between enterprises is based not on quality of goods and efficiency of production, but rather on who can best exploit weaknesses in Ukrainian legislation).

Expected results of continuing current policy: Continued uncertainty in the area of investment, unjustified spending by investors without any guarantee of revenues to national budget. It is the case that in Ukraine, many studies have been done on reforming the business environment and the various aspects of bringing laws and practices rules into accordance⁹. By implementing those recommendations, current policy can be improved with minimal additional costs. (There is already a developed Action Plan, a list of inconsistencies and ways to eliminate them. There is no need to change current legislation totally. It will be sufficient to bring it into accordance with current policy).

⁹ See, as an example, comprehensive studies conducted by OECD researchers [4].

5.2. *Option 2: ensuring equal investment possibilities to all domestic and foreign investors*

The incentive system for investors needs to be changed to become a market system that proposes equal opportunities to all investors who meet basic requirements. We propose that investor preferences (regardless of the country of origin) should directly depend upon the following standards: (a) amount of investment; (b) economic sector; (c) investment in infrastructure; (d) investors' contribution to social protection measures, etc. In this case, investors that can afford to spend additional sums to meet the government's requirements will get access to more perspective projects and finance them in a proper way. It will encourage maximal efficiency (maximum profit) and equity (fulfilling conditions of socially-oriented economy).

Pros:

1. Market distribution of objects among investors and access to optimal amount of investment.
2. Shifting some of the burden of social transfers and infrastructure maintenance from the national budget to private sources that finance social payments, infrastructure projects, etc.
3. Send positive signal to world investment markets of: proposed market (competitive) mechanism of distribution will be an additional stimulus to increase foreign investment inflow.

Cons:

1. Big scope of legislation work and, thus, its high cost.
2. Financial resources should be spent for development "requirements-privileges" model (continuous monitoring of governments' needs and search of possibilities to provide investors with additional privileges).
3. Resistance from national financial and industrial groups.
4. Loss of control on the bigger share of public assets (as a result, in the short-term, home domestic investors will not compete with foreign ones).
5. Additional spending should be devoted to promoting new approach on the international market.

Expected result of implementation: Clearly set and stable rules in the area of investments.

5.3. *Option 3: Implementation of privileges for domestic investors or full foreign investment flow separation*

The alternative foresees either total restriction of enterprises with foreign investment or higher tax rates and higher registration fees for those enterprises.

Pros:

1. Better control over public assets.
2. Political support of the most radical “leftist” social forces.

Cons:

1. Small amount of available investment resource and, most probably, essential deficit of those resources, particularly in the short-term.
2. Possible protection of unprofitable enterprises due to low level of technical development of Ukrainian enterprises.
3. Insularity of the country, negative signal to international markets.

Expected results: Deficit of investment resources, worsening of economic situation in the country.

5.4. Option 4: Implementation of privileges for foreign investments

This alternative foresees low tax rates and zero or lower registration fee for those enterprises.

Pros:

1. Access to large foreign investment resources.
2. Increased efficiency of production and productivity of internal resources due to export of new technologies in production.
3. Activation of foreign trade.
4. Positive signal for international markets.

Cons:

1. Loss of control over national assets.
2. Possibility domestic capital outflow.
3. Possible increase in unemployment (due to more intensive use of labor-saving technologies and recruiting of non-residents in foreign enterprises).

Expected result: Threats to national security and stability of financial markets.

6. Recommendation

A comparative analysis of policy options according to five universal criteria (effectiveness, efficiency, equity, administrative feasibility, and political feasibility) is shown in Table 2. Evaluations are done by expert method.

Table 2*Comparison of proposed policy options*

<i>Criteria</i>	<i>Policy option</i>			
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
Effectiveness	2	4	1	3
Efficiency	2	4	1	3
Equity	3	4	2	1
Administrative feasibility	3	1	4	2
Political feasibility	4	2	3	1
Evaluation of policy option	14	15	11	10
Rating of policy option	II	I	III	IV

Each policy option should ensure efficient level of investment in the country (effectiveness). In its implementation policy option should give benefits greater than costs (efficiency). It should treat all social groups equally. It should be politically and administratively feasible.

Comparative analysis of policy options recommends the second policy option (ensuring equal investment possibilities to all domestic and foreign investors). It is this policy option that we recommend for implementation.

7. Implementation

Implementation of the chosen policy option should be started with approval of a National Concept Paper on Investment. This Concept Paper should be based on equal treatment of all investors, regardless of their country of origin. This Concept Paper should be actively promoted abroad because, by itself, it is a big investment incentive.

After this, it is necessary to start step-by-step work on bringing current legislation in accordance with the approved Concept Paper, as well as to launch a system of privileges and requirements to investors.

It is important to eliminate administrative imperfections mentioned earlier in this paper. The work in this area should be done in the framework of public administration reform.

Sources

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Andriy Zayika

Coordination of the European Integration Process by Executive Power Bodies

Policy Paper Summary

Policy problem: *Institutional support for the European integration policy. The existing system of coordination has been developed on principles which did not imply Ukraine's EU membership, but rather restricted interaction between Ukraine and the EU exclusively to the Partnership and Cooperation Agreement (PCA) and the European Neighborhood Policy EU-Ukraine Action Plan implementation. The PCA and the Action Plan are valid until 2008. Apparently, a reinforced agreement between Ukraine and the EU will replace these instruments and will require a more universal and perfect system for coordinating executive power bodies in charge of implementing it.*

The current institutional framework for European integration is rather fragmented and does not guarantee the implementation of priority measures that aim to bring Ukraine closer to meeting EU membership criteria. It is reasonable to shape this model in a way that would allow for improvement when Ukraine gains candidate-country status.

Client: Secretariat of the Cabinet of Ministers of Ukraine.

Stakeholders:

1. *Within the government:* Ministry of Foreign Affairs, Ministry of Economy, Ministry of Justice, other central executive power bodies; the Secretariat of the President of Ukraine, the Verkhovna Rada of Ukraine (SPU).
2. *Organized stakeholders:* civil society represented by NGOs, branch associations of entrepreneurs and economic agents awaiting rapid adaptation to EU standards

Goal in solving the problem: To ensure the operation of an efficient system for coordinating executive power bodies responsible for fulfilling EU membership criteria.

Policy options:

1. Leave the existing system of coordination unchanged.
2. Entrust the coordination of executive power bodies responsible for European integration to one of the operational ministries (Ministry of Economy, Ministry of Foreign Affairs, or Ministry of Justice).
3. Create a new Ministry within the horizontal structure of executive power bodies that would horizontally coordinate European policy.

4. Create a permanent institution (European Integration Commission or Committee) attached to the Cabinet of Ministers and chaired by the prime minister. The functions of its secretariat shall be performed by the relevant unit of the Secretariat of the Cabinet of Ministers, enhanced and reinforced in terms of staffing.

Recommendations: We recommended implementing option four; it is necessary to improve the institutional framework of Ukraine's integration into the EU by creating the centralized model of coordination on the basis of the Cabinet of Ministers of Ukraine.

Policy Paper

Definition of the problem

Integration into the European Union is defined as a strategic goal of the foreign and domestic policy of Ukraine. Achievement of this goal requires efficient interaction between the government bodies so programs for legal and economic adaptation are implemented effectively.

Accession of any country to the European Union is partly determined by a country's ability to meet EU political and economic criteria and approximate its legislation to that of the European Union.

Obviously, the process of integration of Ukraine into the EU will be prolonged and intense, as Ukraine currently can hardly meet EU criteria at this time. A flexible and efficient system for coordinating executive power bodies and state authorities in order to meet EU criteria and implement the documents mentioned above is needed. It is reasonable to shape this model in a way that would allow for further improvement when Ukraine gains candidate-country status.

It is worth noting that "classical" Copenhagen criteria (1993) were complemented by an "administrative capacity" variable at the Madrid EU Summit (1997). "Administrative capacity" means a professional civil service, a well-developed system of accountability, a clear administrative structure, and adequate functions of horizontal management. The general perception is that administrative capacity means the effectiveness and transparency (accountability) of state authorities and must ensure a country's readiness to interact with new supranational agents after EU accession.

Therefore, formation of an efficient and effective model for European integration policy is a precondition for Ukraine's preparation for (a) an intensive process of adaptation to EU standards, and (b) meeting the EU membership criteria.

Description of the problem

The existing coordination of executive power bodies responsible for fulfilling EU membership criteria. Currently, Ukraine is neither a candidate-country, nor an associate country, and therefore cooperates with the EU

within the instruments usually offered to third countries through the Partnership and Cooperation Agreement (1998) and the European Neighborhood Policy EU-Ukraine Action Plan (2005).

1. The PCA between Ukraine and the European Communities and member states envisaged the creation of bilateral EU-Ukraine institutions: EU-Ukraine Cooperation Council and Committee, and EU-Ukraine Parliamentary Cooperation Committee.

The Ukrainian part of the EU-Ukraine Cooperation Council is chaired by the Prime Minister and encompasses the Deputy Prime Minister (who shall coordinate the activity of executive power bodies responsible for European integration according to assigned functions; currently, the First Deputy Prime Minister serves this function), the Minister of Finance, the Minister of Foreign Affairs, the Minister of Economy, and the Minister of Justice (who perform the functions of Deputy Chairmen of the Cooperation Council). Other members of the council are ministers, head of the Committee for European Integration of the Verkhovna Rada, head of the National Bank of Ukraine, and heads of other executive power bodies. Functions of the secretariat are performed by the Department of European Integration of the Secretariat of the Cabinet of Ministers¹⁰.

The Ukrainian part of the EU-Ukraine Cooperation Committee has been created as a supportive institution to the Ukrainian part of the EU-Ukraine Cooperation Council and is chaired by the Minister of Economy. The Ukrainian part of the committee is composed of the deputy heads of executive power bodies responsible for different aspects of Ukraine's integration into the EU. Functions of the secretariat are also performed by the Department of European Integration of the Secretariat of the Cabinet of Ministers.

Seven subcommittees have been created within the EU-Ukraine Cooperation Committee. These subcommittees are chaired by:

1. Sub-Committee on Trade and Investments — Deputy Minister of Economy
2. Sub-Committee on Economic and Social Issues, Finance, and Statistics — Deputy Minister of Economy
3. Sub-Committee on Enterprise Policy, Competition, Regulatory Cooperation — Deputy Minister of Economy
4. Sub-Committee on Energy, Transport, Information Society, Nuclear Safety, and Environment — Deputy Minister of Fuel and Energy
5. Sub-Committee on Customs and Cross-border Cooperation — Head of State Customs Service
6. Sub-Committee on Justice, Freedom, and Security — Deputy Minister of Justice

¹⁰ Resolution of the Cabinet of Ministers of Ukraine from March 3, 2005 No. 174

7. Sub-Committee on Science and Technology, Research and Development, Education, Culture and Public Health — First Deputy Minister of Science and Education

2. The Institutional framework of Ukraine's European integration

is also determined by the Strategy of Ukraine's Integration into the European Union approved by Decree of the President of Ukraine No. 615 issued on June 11, 1998. According to this strategy, the list of central executive power bodies, organizations, institutions, and officials in charge of implementation of tasks set by the strategy shall be defined by the president following the recommendation of the Cabinet of Ministers. In accordance with the decisions of the president, the institutional framework of European integration consists of the following elements:

A European and Euro-Atlantic Integration Commissioner, who is in charge of coordinating the activities and measures aimed at ensuring European and Euro-Atlantic integration. (As a matter of fact, this institute is non-operational, though the respective Decrees of the President of Ukraine No. 169 (2003) and No. 573 (2003) are still in effect). The commissioner shall be appointed and dismissed by the president following the recommendation of the prime minister.

The European and Euro-Atlantic Integration Governmental Committee is to shape and implement state policy under the strategy defined by the Cabinet of Ministers. The committee's activities take the form of sittings convened by the chairman (Minister of Foreign Affairs).

Inter-institutional coordination of the EU integration process is directed by several ministries according to their competence as defined by decisions of the president:

1. **Ministry of Foreign Affairs** shall undertake measures as to the provision of political relations between Ukraine and the EU and coordination of activity of executive power bodies in foreign and security policy¹¹;
2. **Ministry of Economy** shall provide inter-institutional coordination of social and economic cooperation between Ukraine and the EU¹²; the ministry is in charge of economic integration and trade between Ukraine and the EU, regional and field cooperation, and organizational provision of integration process¹³;
3. **Ministry of Justice** is in charge of coordinating the central executive power bodies as to the approximation of Ukrainian law to that of the EU;

¹¹ Decree of the President of Ukraine from February 24, 1998 No. 148

¹² Decree of the President of Ukraine from February 24, 1998 No. 148

¹³ Regulation of the President of Ukraine from June 27, 1999 No. 151-p

4. **Other central executive power bodies** responsible for implementation of tasks defined by the Strategy of Ukraine's Integration into the European Union¹⁴;

The structural European integration units within the central executive power bodies have been created to implement the decisions of the Cabinet of Ministers. Thus, the existing system of coordination has been developed on principles which did not suggest Ukraine's EU membership, but rather restricted the interaction between Ukraine and the EU exclusively to the PCA and EU-Ukraine Action Plan implementation. The PCA and Action Plan are valid until 2008. Apparently, these instruments will be replaced by a reinforced agreement between Ukraine and the EU, which would require a more universal and perfect system for coordinating the executive power bodies responsible for implementing it.

The current institutional framework for European integration is fragmented and does not guarantee implementation of priority measures aimed at bringing Ukraine closer to fulfillment of the EU membership criteria.

Consultations

Besides the Cabinet of Ministers as a client, the stakeholders in solving this problem are the Ministry of Foreign Affairs, Ministry of Economy, Ministry of Justice, and other central executive power bodies. The resolution of this problem may be influenced by the Verkhovna Rada and the Secretariat of the President of Ukraine (SPU). Given the recent redistribution of power under the amended constitution, continued interest of the SPU toward European integration and the influence it still exerts on the Ministry of Foreign Affairs may change. Civil society represented by NGOs, branch associations of entrepreneurs and economic agents awaiting rapid adaptation to EU standards also play a role.

Modeling the problem

- **Main goal:** to ensure an efficient system for coordinating the activities of central executive power bodies aimed at meeting the EU membership criteria.
- **Tasks:** implementing the PCA and national programs for adaptation and establishing measures for implementing the EU-Ukraine Action Plan in 2005 and 2006.
- **Indicators:** first, compliance with the "administrative capacity" criteria according to evaluation of international organizations (SIGMA, Transparency International, etc.) and second, EU evaluation of the EU-Ukraine Action Plan implementation in 2006 ("progress in implementing the Action Plan").

¹⁴ Regulation of the President of Ukraine from July 6, 2000 No. 240

Options for solving the problem

1. Leave the existing system of coordination unchanged;
2. Entrust coordination of executive power bodies responsible for EU integration to one of the operational ministries (Ministry of Economy, Ministry of Foreign Affairs, or Ministry of Justice);
3. Create a new Ministry [*of European Integration*] within the horizontal structure of executive power bodies that would provide horizontal coordination of European policy;
4. Create a permanent institution (European Integration Commission or Committee) attached to the Cabinet of Ministers and chaired by the prime minister. The functions of its secretariat shall be performed by the relevant unit of the Secretariat of the Cabinet of Ministers, enhanced and reinforced in terms of staff.

Option 1: Leave the existing system of coordination unchanged.

In this case, coordination will remain unbalanced, decentralized, and therefore inefficient since the current system lacks the capacity to make rapid decisions and provide a flexible response to problems arising during implementation of EU membership criteria. The overall responsibility for the implementation of these measures is quite vague (though the responsibilities are formally assigned to certain ministries) as far as adaptation processes are inter-sectorial and may concern several ministries at once. This may often lead to institutional conflicts.

Besides, the PCA and EU-Ukraine Action Plan are valid until 2008, at which point it is likely that a new reinforced agreement will be concluded. Given this idea, the linking of European policy coordination exclusively to these instruments does not seem efficient, since the system would not be a universal one. On the other hand, the advantage of this option is that it allows Ukraine to avoid additional budget expenditures.

Option 2: Entrust coordination of executive power bodies responsible for EU integration to one of the operational ministries (Ministry of Economy, Ministry of Foreign Affairs, or Ministry of Justice).

Such an approach may result in less attention to one or several sectors of integration. Naturally, the ministry charged with coordination would tend to focus on its own priorities rather than take a broad perspective. In this case, the central executive power bodies would be eager to get involved in bureaucratic conflict stemming from their perceptions about the essence and instruments of European integration (what is primary: economic or political integration?). It is likely that the chosen ministry (Ministry of Economy, Ministry of Foreign Affairs, or Ministry of Justice) would lack capacity to deal with issues which do not traditionally belong to its competence.

The advantages of option two is that it would save budget funds and would clearly define one entity, or EU “contact point” responsible for implementing the policy of European integration.

Option 3: Create a new Ministry [of European Integration] within the horizontal structure of executive power bodies.

No doubt this option would strengthen the psychological effect domestically and in relations with the EU and would give European partners a clearer perception of Ukrainian policy. Besides a net psychological effect, the newly created ministry could successfully coordinate the implementation of inter-sectorial measures.

However, the work of the ministry would depend upon loyalty of other horizontal ministries. (The experience of other countries proves that efficiency of such a ministry would be rather low in the countries with post-Soviet administrative traditions). At this stage, the ministry also would be the “incubator” for training staff in the field of European integration.

At the same time, the creation of another ministry would hardly facilitate the system of decision-making within the government, which currently does not make decisions rapidly or efficiently. Other problems connected to logistics and funding of the newly created government institution seem obvious: undoubtedly the budget would be overburdened by large expenditures to fund activities of the new ministry.

Option 4: Create a permanent institution (European Integration Commission or Committee) attached to the Cabinet of Ministers and chaired by the prime minister.

The functions and coordination of its secretariat shall be performed by the relevant unit of the Secretariat of the Cabinet of Ministers, enhanced and reinforced in terms of staff. Attributing coordination functions to the respective structural unit of the Secretariat of the Cabinet of Ministers will influence the general agenda of the executive power and therefore define issues linked to meeting EU membership criteria as a priority.

It is necessary to provide the commission/committee with increased control and coordination power. However, the proposed system may become efficient under the following conditions: (a) European integration receives the status of a development strategy to which other priorities of domestic and foreign policy shall be subjugated; (b) political responsibility of government institutions concerned with EU implementation measures, is strengthened, particularly regarding responsibility for implementing the adaptation programs. Such a system seems hierarchical and rather centralized, but it is reasonable if one would follow the logic of efficiency which is needed to be reached within limited timeframes.

Option four will probably lead to moderate budget expenditures (for example, funding will be needed to cover staffing increases within the relevant unit of the Secretariat of the Cabinet of Ministers). At the same time, implementation of option four requires development and improvement of the relevant legislation.

Table 1*Comparative analysis of policy options*

<i>Criteria</i>	<i>Option 1</i>	<i>Option 2</i>	<i>Option 3</i>	<i>Option 4</i>
Effectiveness	2	4	1	4
Efficiency	2	4	1	4
Equity	3	4	2	4
Administrative feasibility	3	1	4	3
Political feasibility	4	2	3	4
Score of the option	14	15	11	17
Option rate	3	2	4	1

Recommendations

1. It is necessary to adopt a new strategic document (“Strategy”) on European integration which would be adequate for the current situation and would subdue domestic and foreign policy to the goal of EU membership.
2. It is necessary to improve staffing.
3. It is necessary to improve the institutional framework of Ukraine’s EU integration by creating the centralized model of coordination on the basis of the Cabinet of Ministers of Ukraine.

The most reasonable option seems to be the development of an institutional framework with the following features:

1. The management of European integration shall be performed directly by the Cabinet of Ministers of Ukraine and personally by the prime minister. This would correspond to the strategic importance of the integration process and strengthen political responsibility of the heads of executive power bodies in charge of implementation of national integration measures.
2. Convert the European and Euro-Atlantic Governmental Committee into a permanent institution (European Integration Commission or Committee) chaired by the prime minister that would encompass the heads of central executive power bodies. The functions of the commission’s secretariat shall be performed by the relevant unit of the Secretariat of the Cabinet of Ministers of Ukraine. This way, it will have the capacity to set the agenda of the commission or committee and, therefore, define the importance and priority of issues to be considered by this institution.

3. Give the relevant unit of the Cabinet of Ministers power to coordinate and control the implementation of internal measures by the relevant central executive power bodies, namely the implementation of the national programs for adaptation.
4. Ensure the continuity of work of the abovementioned commission or committee with participation of the heads of the central executive power bodies.
5. Strengthen the role and staffing of the European integration units within the structures of all central executive power bodies.

Implementation

The proposed changes may be implemented through adoption of an updated Strategy of European Integration, the law of Ukraine “On the Cabinet of Ministers of Ukraine,” and new Rules of Procedures of the Cabinet of Ministers of Ukraine.

Sources

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2. EU-Ukraine Action Plan (21 February 2005)
3. Resolution of the Cabinet of Ministers of Ukraine from 14 October 2005 No. 1020
4. Resolution of the Cabinet of Ministers of Ukraine from 3 March 2005 No. 174
5. Program of Integration of Ukraine to the European Union (Decree of the President of Ukraine from 14 September 2000 No.1072)
6. Regulation of the President of Ukraine from 6 July 2000 No. 240
7. Regulation of the President of Ukraine from 27 June 1999 No. 151-p
8. Strategy of integration of Ukraine to the European Union (Decree of the President of Ukraine from 11 June 1998 No. 615)
9. Partnership and Cooperation Agreement between Ukraine and the European Union (14 June 1994)
10. Decree of the President of Ukraine from 29 November 2005 No. 1661/2005
11. Decree of the President of Ukraine from 24 February 1998 No. 148
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Svitlana Matus

Prospects for the Realization of Kyoto Protocol Goals in Ukraine

Policy Paper Summary

Problem for policy analysis: *At present, there is an incompatibility between the Fuel and Energy Complex's (FEC) continued use of coal, oil, oil products, and gas and Ukraine's achievement of the Kyoto Protocol emission and energy production goals. The recent signing and ratification of the Kyoto Protocol should force Ukraine to revise the concept of its fuel and energy complex which, nowadays, is the primary polluter in the country.*

Client: Cabinet of Ministers of Ukraine

Stakeholders:

- Ministry of Fuel and Energy of Ukraine;
- Ministry of Environment, State Inspection on Energy Saving;
- Ministry of Economy;
- State Committee on Building, Architecture, and Housing Policy of Ukraine;
- Non-governmental organizations (ARENA-ECO, VEGO MAMA-86, VEL, GO Energy of Environment);
- International organizations and programs (World Bank, European Bank of Reconstruction and Development, Global Ecology Fund, UN programs, TACIS programs, USAID).

Goals for solving the problem:

1. To ensure the sustainable development of the country;
2. To slow down undesirable climate changes.

Policy objectives:

1. To set the FEC priorities that are the most suitable to the defined goals;
2. To reduce the man-made burden on the ecosystem.

Alternative options:

1. Status quo;
2. Priority development of nuclear energy;
3. Priority development of alternative energy sources (solar, wind, geothermal energy, mini GES, biomass conversion etc.);
4. Introduction and priority development of hydro power.

Recommendations: The best possible option, according to its effectiveness and efficiency characteristics, is the priority development of alternative energy sources (option two). To define the best types of alternative energy

sources, it is recommended that experts from different spheres conduct detailed analyses of the ecological, economic, and social feasibility of every type of regional energy production and then present the results in a series of public hearings.

Policy Paper

1. Defining the problem for policy analysis

1.1. Symptoms of problem situation

To date, on a global scale, accessible natural resources have been mostly depleted and billions of tons of environmentally hazardous substances have been emitted into the air. One of the consequences of this has been climate change. The negative effects are: change of wind circulation, redistribution of atmospheric precipitation with drought in some areas and too much precipitation in others, and a rise in sea levels.

1.2. Legal and institutional basis (including the current policy)

Ukraine participated in the global process of climate change reduction and, like many other countries, is a signatory of several international instruments:

- Ukraine signed the UN Framework Convention on Climate Change in 1992 and the Verkhovna Rada ratified it on October 29, 1996.
- Ukraine signed the Kyoto Protocol on March 15, 1999 and ratified it on February 4, 2004 [3].

1.3. The scope of the problem

Today, the problem of climate change and the search for ways to stabilize it are urgent matters for humanity in general.

1.4. Novelty of the problem

To date, accessible natural resources have been mostly depleted and billions of tons of environmentally hazardous substances have been emitted into the air. As a result, massive negative consequences have started to unfold, one of which is climate change.

1.5. Background information

By the end of the 20th century, it became clear that higher concentrations of greenhouse gases in the air have resulted in climate change. The issue has become a point of debate for scientists all over the world and, through the World Environmental Program, the following actions were taken:

- 1988: The UN General Assembly established the Expert Group on Climate Change.
- 1992: During the Rio de Janeiro Conference, a Framework Convention on Climate Change was signed.

- 1997: The Kyoto Protocol to the Framework Convention was signed, formulating specific and significant quantitative limitations on emissions of six greenhouse gases.
- 1997: The European Commission approved the strategic document, the White Paper, [7] that set a target to double the portion of energy produced from renewable sources.
- February 16, 2005: The Kyoto Protocol to the Framework Convention on Climate Change, agreed upon in 1997, was enacted.

1.6. Description of policy tools and mechanisms for implementing existing policy

To achieve the goals of the Kyoto Protocol, energy conservation programs are being developed and implemented, and the search for more efficient energy sources that will have a less hazardous impact on the ecosystem continues.

1.7. Assessment of policy effectiveness and efficiency

As of today, the policy in Ukraine on the issue discussed in this paper cannot be considered either effective or efficient. The FEC supports the use of traditional energy sources that are accompanied by the emission of greenhouse gases and do not provide sustainable development.

Ukraine does not have a proactive and clear policy for energy conservation. There is a shortage of financial support for the development of more efficient and ecologically clean energy sources. Also, there is no accurate system for accounting depleted energy resources and no work is being done to raise public awareness of these issues. Finally, there is no minimum level of input to effectively and efficiently reach the desired outcomes regarding energy conservation in Ukraine.

1.8. Severity of the problem and finding a solution

As it turns out, Ukraine is in a more favorable situation in comparison to other countries, following the Kyoto Protocol. That is because, in 1990, the year that defined the allowed level of gas emission, Ukraine's maximum level of fuel and energy resources consumption and electric energy production was low. As a result of the economic crisis during the following years in Ukraine, the emission of greenhouse gases from Ukraine was reduced. According to the quota given to Ukraine by the Kyoto Protocol, the country has a greenhouse gas emission level of 300 million tons less than is allowed [2].

Due to this fact, the question of ratifying Kyoto Protocol goals is not a pressing issue in Ukraine. However, it is recommended that the country consider the problem of future greenhouse gas emissions and whether it will be able to maintain the set goals with its current rate of development. It is necessary to remember that Ukraine participates in the global process of climate change prevention, which becomes more and more critical every year. Coun-

tries should consider not only the division of emission amounts between them, but also should act independently to reduce greenhouse gas emissions and to support sustainable development.

1.9. Policy analysis client

The Cabinet of Ministers of Ukraine

2. Grounds for governmental intervention

Inability of a self-regulating market to operate efficiently

Electricity production leads to toxic discharges and environmental pollution causing harm to the general population and losses to those sectors of the economy which require a clean environment. In other words, there are negative external factors, which, if not considered, provoke the excessive production of electricity, more than the efficient amount, from traditional sources. According to the structure of energy production in Ukraine in recent years, the biggest sources of energy were natural gas, oil, and coal [6]. There is a need for the government to intervene in the energy sector because of these external factors.

Non-competitiveness of relevant electricity markets

Some of the relevant electricity markets have features of natural monopolies where the presence of competitors is economically unreasonable because it leads only to an increase of electricity production costs. Without government intervention, monopolists will set up non-efficient operations with over-priced products.

Tariffs and prices on energy sources do not correspond to production costs

Regretfully, government intervention into pricing (which is objectively needed to eliminate market weaknesses) is inefficient because of the imperfect political processes of energy sector regulation. Over the last 10 years, fuel and energy prices in Ukraine have not reflected real production costs. The environmental component of energy prices, which is distributed across the whole society today and will continue to do so in the future, is not included in the electricity prices and is connected with environmental pollution produced by energy generators.

Direct social losses related to the negative impact of energy generation which include diseases and reduced life expectancy; heavy expenditures on healthcare services; industry losses; reduced crop production; expenditures on reforestation; and a need to repair buildings damaged by air, water, and soil pollution constitute about 75% of the world's energy and fuel prices [5]. In other words, these are expenditures that the whole society bears. One way to share this fairly would be through an "environmental tax," which is paid by people as a consequence of the imperfection of energy production tech-

nologies. This tax could be incorporated into the costs of energy production and used to build up a national fund for energy conservation that could promote the rapid development of environmentally friendly energy production technologies that will be financially competitive.

3. Consultations (stakeholder analysis)

3.1. Interested governmental authorities (coordination)

The central executive Ukrainian governmental agencies involved in these issues are: the Ministry of Environment, the Ministry of Fuel and Energy, the State Committee of Ukraine on Energy Saving, the State Inspection Board for Energy Conservation, the Ministry of Economy, the State Committee for Construction, and the Architecture and Housing Policy Committee of Ukraine.

Government officials stated that the main aspects of solving this issue are energy conservation and the priority development of nuclear energy, as explained by Ukraine's Prime Minister Yuri Yekhanurov on February 8, 2006 during the public hearings on issues of efficient energy resource consumption in Ukraine [12].

3.2. Organized stakeholders

Non-government organizations engaged in resolving the climate change problems are: ARENA-ECO, VEGO MAMA-86, VEL, and Energy of the Environment (which was among the first Ukrainian NGOs to begin exploring opportunities for hydrogen energy generation in Ukraine). Almost all NGOs engaged in these issues agree that possible ways to resolve the problem include energy conservation and the development and utilization of alternative sources of energy.

International organisations that focus, among other priorities, on climate change, include: the World Bank, EBRD, the Global Environmental Fund, UN programs and organizations, EU TACIS programs, and USAID.

4. Modeling the problem

4.1. Objectives of the problem resolution and policy tasks

The objectives of problem resolution are as follows:

1. promote the sustainable development of the country;
2. reduce the rate of negative climate changes.

To reach these objectives, it is necessary to fulfil the following policy tasks:

1. to define priorities in the fuel and energy complex (FEC) development, which are the most relevant to the objectives;
2. to reduce the level of human environmental impact.

4.2. Criteria for fulfilling the tasks (reaching the objectives)

1. Even with further economic development of the country, the greenhouse gas discharge will not exceed the 2006 level;
2. Equal ratio of economic, environmental, and social factors (1:1:1) is present.

Regarding the support of sustainable development, it is important to understand that the FEC does not sanction conditions under which any environmental, economic, and social factors become constraining. There are many crucial indicators for each of the factors. In this work, we present generalized data in which the author's opinion forms the most relevant parts of the study.

Environmental factors:

Indicators and rating scales:

- Levels of environmental pollution in the process of energy generation: radioactive, chemical, thermal, noise pollution, water contamination, soil contamination, etc. (1 — high level, 2 — medium level, 3 — low level);
- Large consumption of natural resources during normal FEC operations: large volumes of water, vast parcels of land for construction of energy generators, utilization of large quantities of mined natural resources, etc. (1 — large, 2 — medium, 3 — low);
- Negative impact on living organisms in case of accident (1 — high, 2 — medium, 3 — low);
- Level of danger from toxic wastes (1 — high, 2 — medium, 3 — low).

Economic factors:

Indicators:

- Costs of energy production: fuel, construction and equipment, transportation, maintenance, waste management, etc. (1 — high level, 2 — medium level, 3 — low level);
- Energy losses during production, transportation, and consumption of energy (1 — high level, 2 — medium level, 3 — minimum level);
- Possibility of decentralized energy supply which promotes development of regions located far from the centralized energy supply (1 — impossible, 2 — possible);
- Level of guaranteed energy security (dependence on unlimited fuel supply) (1 — low level, 2 — medium level, 3 — high level).

Social factors:

Indicators:

- Negative impact on health of people residing near energy-generating installations (1 — substantial impact, 2 — moderate impact, 3 — weak impact);
- Level of public acceptance of FEC directives (1 — low, 2 — medium, 3 — high).

4.3. Limitations

- Absence of substantial investment into FEC may become an obstacle to achieving the objectives;
- Resistance from powerful political forces and financial and industrial structures interested in continued intensive use of traditional energy sources (gas, oil and coal) can slow down changes in the structure of the FEC and the transition to “cleaner” energy sources. Development of alternative energy generation is possible only with full governmental support.

5. Analysis of options for solving the problem

The following are options for solving the problem:

1. Status quo;
2. Priority development of nuclear energy;
3. Priority development of alternative energy sources (solar, wind, geothermal, mini hydropower plants, biomass, etc);
4. Introduction and priority development of hydrogen energy generation.

5.1. Option 1: Status Quo

Major policy measures in this case are:

- To continue intensive use of traditional energy sources;
- To construct new facilities to substitute for those which will soon be decommissioned;
- Moderate development of alternative energy sources;
- Stabilization of nuclear energy facilities.

Potential benefits of option 1:

- Ukraine has a well-developed infrastructure of traditional energy sources;
- Full support of present political forces and financial and industrial structures interested in intensive use of traditional sources of energy (gas, oil, coal);
- Understanding and acceptance among public of traditional fossil fuels.

Potential disadvantages of option 1:

- Large volume of greenhouse gases produced;
- Substantial environmental impact;
- Dependence on fossil energy sources supply, primarily oil, and gas;
- High level of depreciation of main assets, primarily of FEC enterprises and energy consuming sectors [9];
- Serious increases in the price of organic fossil fuels and the depletion of world reserves.

5.2. Option 2: priority development of nuclear power

The main policy measures are:

- Modernization and restoration of main equipment and systems of NPP;
- Construction of new facilities and substitution of those which are due to be decommissioned, raising efficiency of nuclear fuel use;
- Moderate development of alternative energy generation;
- Reduction of the use of traditional energy sources.

Potential benefits of option 2:

- Minimal discharge into air of suspended particles: 2-6 grams of CO₂ per kW/hr [8];
- Extremely high concentration of fuel energy: 1 kg of Uranium is equivalent to 20 tons of coal [8].

Potential setbacks of option 2:

- Risk of disastrous accidents;
- High radioactivity of fuel wastes;
- People are quite cautious about nuclear power development as shown by the analysis by NGOs in Ukraine and certain opinion polls in Russia [11]).

5.3. Option 3: priority development of alternative energy sources

Main policy measures are:

- Implementation of pilot projects;
- Construction of new facilities;
- Increased scope for the use of alternative energy
- Introduction of amendments to legislation aimed at creating favorable conditions for alternative energy development;
- Moderate development of alternative energy;
- Reduction in use of traditional energy sources;
- Stabilization of nuclear power facilities.

Potential benefits of option 3:

- No discharge of greenhouse gases;
- Low maintenance costs;
- No fossil fuel component (natural mined resources);
- Ukraine has huge potential in terms of all alternative energy sources.

Potential disadvantages of option 3:

- Low density of flow, which makes it necessary to have energy-generating capacities of a large size (area of solar cells, windmill size, etc.);

- High start-up costs;
- Fluctuations (for example, solar and wind energy discharge depends on weather conditions, though one should not forget about permanent energy sources, such as geothermal facilities and those which utilize biomass conversion);
- Difficulty in storing large quantities of electricity.

5.4. Option 4: introduction and priority development of hydrogen energy generation

This option may be regarded as viable today, but to implement it in Ukraine it is necessary to have a long period of active preparation involving a lot of resources and support by the state and society, which are not yet ready for such an option.

The major policy measures are:

- Development of a hydrogen energy generation vision in Ukraine;
- Including hydrogen as a source of energy in Ukraine's energy strategy;
- Analysis of Ukraine's capacity in terms of hydrogen energy generation development;
- Action plan/strategy development on transition to hydrogen energy generation;
- Development of legislation and standards on production and use of hydrogen;
- Stimulation of research and implementation of pilot projects;
- Powerful educational and public awareness campaigns;
- Analysis and defining a starting point for hydrogen energy generation in Ukraine;
- Introduction of hydrogen technologies in the market;
- Development of hydrogen infrastructure;
- Attraction of foreign investment.

Potential benefits of option 4:

- Zero discharge of greenhouse gases;
- Low levels of environmental pollution;
- Possibility to store energy from alternative sources;
- Possibility of decentralized energy supply;
- Guaranteed energy security as hydrogen conversion can be produced from various primary sources and allows for infrastructure development depending on existing resources.

Potential disadvantages of option 4:

- Hydrogen production is, at present, quite expensive;

- Energy consumption is high during processing of hydrogen. However, some of the initial energy output could be directed toward the production process with heat and energy as the products;
- Heavy financial commitment to establish hydrogen energy generation in Ukraine: train personnel, set up infrastructure, media campaign, etc.

6. Recommendations and implementation

The described options were assessed according to the sustainable development indicators (Table 1). On that basis, they were also compared with each other according to the following universal criteria: effectiveness, (based on ecological factors), efficiency (based on economic factors), equity (based on social factors), political feasibility (based on economic and social factors), and administrative feasibility (based on economic factors) (Table 2).

Table 1

Comparative analysis of options based on sustainable development factors

<i>Indicators /Options</i>	<i>O1</i>	<i>O2</i>	<i>O3</i>	<i>O4</i>
Level of greenhouse gases emission	1	2	2	2
Ecological				
Level of environment pollution in the production process	1	2	2	3
Level of land resources use	1	2	3	3
Level of harmful effects on humans in case of accident	2	1	3	3
Level of emission harmfulness	2	1	3	3
Economic				
Level of energy production costs	2	2	2	1
Level of loss in the process of energy production, transmission, and consumption	1	2	2	2
Possibility of centralized energy consumption	2	1	2	2
Level of guarantee for energy security	2	2	3	3
Social				
Level of harmful effects on the health of people living close to the energy plant	1	2*	3	3
Level of acceptance by public	3	1	2	1
Total:	17	18	28	27
Option Rate:	IV	III	I	II

*points of view differ; the author chose the average meaning

Chart 2

Comparative analysis of policy options based on universal criteria

Criteria	Assessment of the policy options			
	A1	A2	A3	A4
Effectiveness	Low (1)	high (3)	high (3)	high (3)
Efficiency	Low (1)	high (2)	high (3)	high (3)
Equity	medium (2)	medium (2)	high (3)	high (3)
Political feasibility	medium (2)	high (3)	medium (2)	low (1)
Administrative feasibility	High (3)	high (3)	medium (2)	low (1)
Score of the option	9	13	13	11
Rate of the option	III	I	I	II

Effectiveness. Comparative analysis of options based on the declining level of greenhouse gas emissions proves that all three suggested options are effective. (The first option, “status quo,” was defined as the one which cannot solve the problem from the beginning).

Efficiency. A comparative analysis of the options based on sustainable development factors: ecological, economic, and social, demonstrates that development of alternative energy resources is the best option for Ukraine from the point of efficiency. Development of hydro power is also efficient but, as was mentioned during the option study, it can not be considered a current priority. Nuclear energy development is unattractive because of its numerous risks and the input of huge resources needed for operation. As was mentioned, option one, the status quo, which makes intensively inefficient use of traditional energy sources, is not an appropriate option for Ukraine.

Equity. The third option has the highest level of equity because people expect greenhouse gas emissions to decline and expect to see the promotion of sustainable development. The first and second options are less favorable because they are both known to be harmful to human health and do not ensure the objectives of achieving sustainable development.

Political feasibility. Option two has the highest rating because the government is ready to prioritize the development of nuclear energy.

Administrative feasibility. Option one has the highest rating because nothing has to be adjusted. The second option was only slightly lower because most of the infrastructure for nuclear power development is already in place. The third and fourth options are ranked lowest because they both require serious changes in the FEC.

In summary, the second option the priority development of alternative sources of energy is recommended for implementation. Developing alternative sources of energy and hydrogen conversion can be the basis of the future fuel and energy complex. Nuclear energy development carries high risks and is not acceptable to the public. It requires high operational costs that compare well to the initial financial outlay for alternative energy implementation. To further

define the priority energy sources for Ukraine, a detailed feasibility study should be undertaken. It should include a detailed comparative analysis of the ecological, economic, and social factors affecting or controlling the implementation of various types of regional energy production. The results of this analysis can then be presented through a series of public hearings.

The main policy implementation measures for every option include:

- Implementing a pilot project;
- Building new capacity;
- Broadening the scales for the use of alternative energy sources;
- Amending the legislation dealing with the creation of favorable conditions for alternative energy development;
- Gradually developing alternative energy sources;
- Enacting policy targeted at reducing the use of traditional energy sources;
- Enacting policy targeted at stabilizing nuclear energy power production.

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Bohdan Moysa

Employment for the Visually Impaired

Policy Paper Summary

Policy problem: High unemployment among the visually impaired.

Symptoms of the problem:

1. **Economic** — a perfunctory approach to the fulfillment of the 4% quota regulating employment of disabled people and the unprofitable companies owned by the Ukrainian Blind People Society;
2. **Social** — preferences for disabled people interferes with free competition on the labor market;
3. **Psychological** — low motivation of disabled people due to the system of privileges and state support.

Client: Department for People with Disabilities in the Ministry of Labor and Social Protection of Ukraine

Stakeholders:

- Ukrainian Blind People Society,
- Civil society organizations providing employment for visually impaired people,
- The Union of Industrialists and Entrepreneurs,
- The Verkhovna Rada Committee for Pensioners, War Veterans, and Disabled People,
- Fund for Protection of Disabled People,
- Interdepartmental Commission for Disabled People's Companies, NGOs, and Community Groups.

The goal of solving the problem: To create favorable conditions ensuring that potentially capable people can exercise their right to work and to reduce the pressure of privileged groups on the State Budget of Ukraine by providing opportunities to potential taxpayers.

Policy options:

1. to continue current policy;
2. to provide targeted support and create employment opportunities for the visually impaired;
3. to improve mechanisms of governmental social support.

Recommendations: The third option involves a) improvement of the mechanisms of governmental social support; b) development of a positive incentive program for employers; and c) an increase in the motivation of disabled people. Thus, this option is recommended for implementation.

Policy Paper

1. Defining the problem for policy analysis

1.1. Symptoms of the problem

The Ukrainian constitution guarantees the right to work to all Ukrainians, regardless of their status. People with disabilities, however, have difficulties exercising this right since they require special conditions. Providing employment for disabled people remains a problem in developed countries, and current research shows that the European Union member states are still far from solving it. In Ukraine there are the following three symptoms of this problem:

1. **Economic** — Generally, disabled people are a dead weight for the development of a state. Therefore, they are either involved in producing public goods or are turned into consumers of these goods. The first scenario involves serious investment, which usually does not pay for itself. In the second scenario, people who work support the disabled people and, as a result, the remuneration for their efforts is reduced. The 4% quota of disabled employees imposed on companies and organizations is frequently not met. Companies owned by Ukrainian Blind People Society are unprofitable and, despite state subsidies, cannot overcome the crisis. As a result, there is an urgent need to solve their problem.
2. **Social** — Unemployment among disabled people is part of the bigger problem of unemployment in general. By granting employment preferences to disabled people, we do not make them more competitive on the labor market, but rather deprive able-bodied people of employment opportunities.
3. **Psychological** — Social allowances to visually impaired people (543 hryvnias or about US\$100 to people suffering from visual impairments of the first group since childhood [1]) encourages a passive attitude. As a result, they are reluctant to work and are quite satisfied with their small income. It has become a common practice among the disabled to lease their employment documents to companies so that the latter can meet their 4% quota. Education privileges for the disabled do not serve as an incentive; the beneficiaries merely spend time waiting for their diplomas.

1.2. Legal and institutional basis

Formally, Ukrainian legislation has settled the issue of disabled people. The law “On Fundamentals of Social Security of Disabled People in Ukraine” is the baseline document. Among other things, it specifies that disabled people in Ukraine enjoy the full range of civil rights provided by the Ukrainian constitution [2].

The law defines a disabled person as a person with lasting bodily impairments as a result of disease, injury, or birth defect, limiting his/her vital functions and creating the need for social support and protection.

According to Article 14 of the law, NGOs for disabled people have the right to set up companies and organizations. Such companies are eligible for government contract work. They enjoy various tax privileges and preferences granted by the Interdepartmental Commission for Disabled People's Companies, NGOs, and Community Groups. The commission also provides financial assistance by way of repayable and non-repayable loans to the companies owned by disabled people's NGOs. In addition, it assists with setting priorities for governmental orders and providing employment to disabled people [2].

Employment, education, and vocational training of disabled people are regulated in section 4 of the law, which imposes a 4% quota of disabled employees for all types of companies. Article 22 of the law grants privileges to disabled people during the admission process of educational institutions. The Fund for Protection of Disabled People is set up by this law to provide financial assistance to the companies owned by disabled people's NGOs, to finance rehabilitation of disabled people, and to provide costs for the creation of workplaces for people with disabilities [2].

Thus, Ukraine has a rather diverse system of institutions supporting disabled people. It includes the Department for People with Disabilities, which is a unit of the Ministry of Labor and Social Policy of Ukraine coordinating state policy of social protection of persons with disabilities, Fund for Protection of Disabled People subordinated to the Labor Ministry, and Commission for Disabled People's Companies, NGOs and Community Groups.

1.3. The scope of the problem

In Ukraine, there are about 100,000 visually impaired people who account for about 0.33% of the total Ukrainian population. Fifty percent of them are pensioners. More than 50,000 visually impaired people are members of the Ukrainian Blind People Society, the only national organization protecting the interests of the blind with governmental support.

Following are statistics provided by the Ukrainian Blind People Society [3]:

Total members	51000
People with disabilities:	50893
Total number of the employees at the enterprises of the society	16109
People with disabilities:	9665

About 59% of the employees at the companies owned by blind people's societies are visually impaired [3]. Blind and partially blind people holding a higher education degree are in an even worse situation. Only 25% of college and university graduates have jobs according to their professional qualifications, based on the findings of the project, "Creating Favorable Social and Civil Environment for Youth with Visual Impairments".

1.4. Novelty of the problem

This problem is not new. However, mechanisms proposed for its solution under the previous system do not operate effectively in a market economy. According to classification of the European Blind Union, Ukraine belongs to the group of Eastern European states in which the problem arose as a result of transition to a market economy and non-competitiveness of specialized companies [4].

1.5. Background information/history of the issue

In Soviet times, visually impaired people were united in the Ukrainian Blind People Society and the majority of members were employed by companies owned by the society. Only blind people who graduated from universities or special vocational schools and had a job according to their professional qualifications operated outside the society. For blind teachers, the government had to provide an assistant. The Ukrainian Blind People Society was the most influential of all the similar organizations in the Soviet republic. It was headed by a Central Board, its management system included departments for production and sales, and it was responsible for providing employment to visually impaired people.

Companies owned by the Blind People Society obtained contracts in two ways:

1. **Government order:** A public planning agency ordered certain goods (mainly consumer goods, like brushes, sockets, clothes pegs, etc.) from the Blind People Society. When produced, these goods were sold to consumers' unions. This system had very little economic rationale and was oriented toward providing jobs for the visually impaired. Quite often, goods did not leave the warehouses at the Blind People Society Company or remained stockpiled at the consumers' union.
2. **Cooperation system:** The Blind People Society Central Board or its company, signed contracts with heavy industry (mainly metallurgical companies) for production of engineered components of the equipment and machinery that the company produced.

After Ukraine's switch to a market economy, companies owned by the Blind People Society lost their contracts, were stuck with outdated equipment, and lost money. Businesses were not interested in disabled university graduates. According to the Blind People Society, it owns 76 companies producing electric goods, crowns, metal lids, brushes, etc.

1.6. Policy instruments and mechanisms of existing policy

The following mechanisms are currently used to resolve the problem of visually impaired people:

- **System of quotas** — 4% quota of disabled employees for all companies and organizations;

- **Tax privileges** — income tax privileges for companies owned by the Ukrainian Blind People Society, zero value added tax (VAT), privileges for land use and other tax and due privileges;
- **Subsidies** — non-repayable financial assistance and zero-interest loans paid from the Fund for Protection of Disabled People for creation of working places and the technical upgrading of the companies owned by Blind People Society;
- **Preferences in education** — admission privileges for visually impaired people, payment for education from the Fund for Protection of Disabled People, provision of the appropriate facilities by the state;
- **Professional orientation** — at present, massage therapy is the only profession in which the blind are in demand. Most costs are allocated for mastering this profession.

1.7. Effectiveness and efficiency of existing policy

First, compulsory employment of disabled people by companies and organizations is an effective measure, but it requires positive incentives. Quite often, there is a perfunctory approach to this rule. Companies would rather pay fines than employ disabled people. Moreover, the law of Ukraine “On the 2006 State Budget,” prohibits imposing fines on state-funded organizations.

Second, tax privileges are only possible for companies that have developed feasible and justified programs. If a company is competitive on the market, its privileges could be revised. The same rule applies to subsidies.

Third, preferences or privileges in education are superfluous. Blind people are not mentally impaired. As for professional orientation, very soon the market will be overcrowded with blind massage therapists. Even now, some of them go to retraining.

As for efficiency of the existing policy, there is no notable increase in the number of workplaces for the visually impaired in spite of the fact that the Fund for Protection of Disabled People receives significant resources from fines.

1.8. Severity of the problem

Thus, the underemployment of visually impaired people remains a problem, in spite of all the efforts made to resolve it. Unemployment levels among visually impaired people with higher education degrees are increasing; the percentage of the blind employed by specialized companies is extremely low. There is a pressing need for conceptual change. It might be necessary to take unpopular measures; yet, one way or another, the situation has to change.

1.9. Policy analysis client

In view of the above, Ministry of Labor and Social Policy and the Department for Disabled People as a body, which works out strategy of state support of disabled people, should address this problem.

2. Grounds for government interference

As a rule, people with disabilities consume public goods and only a few of them can produce these goods. Disabled people are a vulnerable category of the population requiring special care of the state. Unfortunately, this care fails to lessen their dependency on the state. By taking economically unfeasible measures, the state is losing potentially capable citizens.

In Ukraine, currently there are 2.6 million disabled people, who make up 5% of total population. Thus, if the government takes unpopular measures, it will certainly lose this percentage of voters.

The business community is rather critical of the system aimed at solving this problem. First, companies failing to meet the quota have to pay fines. Moreover, they have to look for disabled employees themselves. Second, there is a system for certifying workplaces for disabled employees. Fines are also imposed if such workplaces do not pass certification, or if the certifying commission finds certain violations. Thus, providing employment to disabled people has many risks.

3. Consultations (stakeholder analysis)

3.1. Stakeholders within the public sector

1. *The Verkhovna Rada Committee for Pensioners, War Veterans, and Disabled People* authored most of the laws establishing the legal framework for employment of disabled people. Yet, in spite of a significant number of laws, their enforcement is stalled by limited resources.
2. *The Fund for Protection of Disabled People* is interested in preserving the existing system. Its budget is made up of the accrued fines paid by companies failing to meet the 4% quota. These funds are supposed to be allocated for the creation of workplaces. The more workplaces are created, the fewer fines are imposed and, consequently, the less money the fund receives, which naturally affects its budget. That is why the Fund for Protection of Disabled People is interested in maintaining the status quo.
3. *The Interdepartmental Commission for Disabled People's Companies, NGOs, and Community Groups* was set up to confirm tax benefits and preferences to the companies created by the NGOs of disabled people. It also defines the advisability of financial assistance to such enterprises from the Fund for Protection of Disabled People. The need for such an institution and its functions has been repeatedly questioned, since the law provides for tax benefits to such companies anyway. Nevertheless, the law "On Fundamentals of Social Security of Disabled People in Ukraine" outlines the terms of reference of this commission.

3.2. Organized interested groups (outside the public sector)

1. *The Ukrainian Blind People Society*, an all-Ukrainian organization with a more than 70-year history is the most well-organized civil society group. Providing employment to visually impaired people is one of its goals. Unfortunately, it failed to come up with any new ideas under new conditions. According to its statute, the boards of its local companies are directly subjected to its Central Board, which means that people working at its companies have little control over it. Enterprise management leaves much to be desired. In fact, the Blind People Society is interested in maintaining the status quo.

It enjoys considerable state support. In addition to the state subsidies provided to the society's companies, the government finances its non-productive sphere. It covers the costs of the society's research departments and sets its research goals based on available resources, rather than on current demand. Support given by the society to blind students is limited only to adaptation of small amounts of informational sources.

2. *Local organizations*, which were created independently of the Blind People Society, are trying to solve the employment problem in a different way. They are mostly youth organizations, and they support the idea of substitution of privileges with opportunities. They, however, cannot claim state financial support due to the absence of the system of monitoring by the Ukrainian Blind People Society as well as mechanisms for involvement of the organizations outside of Blind People Society into the state-funded programs.
3. *Entrepreneurs* are currently not interested in the system created in support of people with disabilities. The private sector has a negative attitude toward the existing system, due to which the new parliament may raise the issue of its readjustment. In particular, the Association of Industrialists and Entrepreneurs will lobby such readjustment.
4. As far as *mass media* goes, journalists mostly view people with disabilities as unique subject matter. They regard their every effort, which is a regular thing for healthy people, as an achievement. That is why the media should be involved in an information campaign to promote the proposed measures.

4. Structuring the problem

4.1. Policy goals and objectives

- *The goal of the policy* is to create favorable conditions, ensuring that potentially capable people can exercise their right to work.
- *The policy objective* is to reduce the pressure of privileged groups on the state budget by providing opportunities to potential taxpayers.

4.2. Indicators that signal the achievement of the goal

Criteria of policy effectiveness:

- The number of visually impaired people placed in jobs,
- The degree of social adaptation of disabled people,
- The degree of dependency of disabled people on the state.

Criteria of the attainment of the goal:

- Increased employment of visually impaired people by 25% over five years,
- Decreased expenses of the state and local budgets spent on support of people with special needs,
- Increased allocation of funds for solving the unemployment problem that stems from decreased expenses spent on the administrative machinery.

Indicators of the fulfillment of the task:

- Reduced state budget expenses spent on the administrative machinery to provide employment to disabled people,
- Increased costs of state and local budgets allocated for the needs of disabled people.

4.3. Restrictions

First, there may be a deficit of resources needed to implement the proposed measures, due to excessive social allowances. Meanwhile, reduction of allowances can cause opposition among the target audience. Second, the Blind People Society may resist the settlement of the problem of its unprofitable companies, since they are its property.

5. Analysis of policy options

The following three options for a solution to this problem are proposed:

1. To continue the current policy;
2. To provide targeted support and create employment opportunities for visually impaired people;
3. To improve mechanisms of governmental social support (to develop a positive incentive program for employers and to increase the motivation of disabled people to work).

5.1. Option 1: To continue the current policy

Advantages:

1. Legal support for 4% quota;
2. State subsidies to companies that have feasible development programs;
3. No resistance by blind people's civil society organizations;
4. The system of preferences on conditions of its quality implementation;
5. Provision with facilities.

Shortcomings:

1. Perfunctory approach to meeting the 4% quota;
2. Huge administrative machinery needed to solve the problem;
3. Inefficient use of state budget costs allocated to Ukrainian Blind People Society;
4. Preferences, which do not provide incentives to disabled people.

5.2. Option 2: To provide targeted support and create employment opportunities for visually impaired people

Targeted support means providing payments directly to a visually impaired person to create proper working conditions for him/her. This, in turn, involves the following measures:

1. To liquidate the Fund for Protection of Disabled People and the Interdepartmental Commission for Disabled People's Companies, NGOs, and Community Groups.
2. To give the released money to visually impaired people so that they can use it for education, retraining, adaptation of the workplace, or for hiring an assistant. There are two possible mechanisms for this:
 - a) To increase social allowances to visually impaired people so that they can decide how to spend this money themselves.
 - b) To give visually impaired people cards for cashless payments. This can be implemented through amending law "On Fundamentals of Social Security of Disabled People in Ukraine" and the law "On State Support to People with Disabilities Since Childhood and Disabled Children."
3. To award annual subsidies to companies owned by the Ukrainian Blind People Society, to set up a task force to decide their future, to reject funding for non-productive activities, and to reject state funding of social services provided by civil society organizations so that visually impaired people buy them with the money additionally provided to them.
4. To annul the existing system of preferences in education. A visually impaired person will pay for education with the additional money provided to him/her, which is possible in case of amendment of the law, "On Fundamentals of Social Security of Disabled People in Ukraine," and the law, "On Higher Education."

Advantages:

Release of state budget costs, initiative of visually impaired people in finding employment, increased value of disabled students as a result of annulment of privileges.

Shortcomings:

1. Unpopularity of the proposed measures and possible opposition by Ukrainian Blind People Society;
2. Increased number of unemployed among able-bodied people as a result of liquidation of specified state institutions;
3. In view of the current level of motivation of disabled people, their increased passivity in the case of the first mechanism of allowance increase and a merely formal solution of the problem in the case of the second mechanism.

5.3. Option 3: to improve mechanisms of governmental social support.

Improving the mechanisms of state social support involves implementation of a better incentive program for businesses and the increased motivation of disabled people. This will be achieved through the following measures:

1. To limit the authority of the Fund of Protection of Disabled People to only collection of fines and to charge Employment Centers with job placement of disabled people and the Department for People with Disabilities with their rehabilitation.
2. To cut social allowances to employed blind people and release costs for retraining programs (to be implemented by Employment Centers and educational institutions), for adapting workplaces to those with special needs, and for hiring assistants; and to pay minimal wages from the state budget to employees with visual impairments during a certain time period.
3. To sell research and social services of public organizations, including the Ukrainian Blind People Society, to the state on a tender basis.
4. To grant tax privileges and preferences to money-losing enterprises if they have feasible programs to overcome the crisis, and to suspend some of the privileges of profitable companies owned by civil society organizations of disabled people.
5. To suspend privileges of disabled people for professional training.

Advantages:

1. Increased resources for the solution of the problem;
2. Increased motivation of potential workers;
3. Subsidies to newly accepted workers;
4. Actual adaptation of workplaces to the special needs of disabled persons.

Shortcomings:

1. Increased tension due to reduction of social allowances;
2. Opposition by Ukrainian Blind People Society over suspension of privileges and preferences.

6. Recommendations and implementation

Table 1 shows the results of comparative analyses of the three alternatives according to five universal criteria (effectiveness, efficiency, equity, administrative, and political feasibility).

Table 1

Comparative analysis of the policy options

<i>Criteria</i>	<i>Option 1</i>	<i>Option 2</i>	<i>Option 3</i>
	<i>Assessment of policy options</i>		
Effectiveness	low 1	medium 2	high 3
Efficiency	medium 2	medium 2	high 3
Equity	medium 2	High 3	high 3
Political feasibility	medium 2	medium 2	medium 2
Administrative feasibility	low 1	low 1	medium 2
The score of the option	8	10	13
Option rating	3	2	1

Effectiveness and efficiency of work were assessed by qualitative growth of indicators without the increase in resources. In options two and three, resources would be raised through redistribution.

According to the results of the analysis, shown in the table, option three is the most appropriate. It consists of improving mechanisms of governmental social support and provides for implementation of an effective incentive program for businesses and the increased motivation of disabled people.

To implement the recommended option, the following measures need to be taken:

1. Amend the law, "On Fundamentals of Social Security of Disabled People in Ukraine," and other by-laws in order to regulate activities of the Fund for Protection of Disabled People.
2. Amend the law, "On State Support to People With Disabilities Since Childhood and Disabled Children," in order to adjust allowances to employed people with disabilities.
3. Change the budget code on funding the NGOs of disabled people.
4. Amend several by-laws in order to introduce providing an assistant to blind professionals.
5. Set up a task force of representatives from the executive government and the Ukrainian Blind People Society in order to solve the problem of the society's unprofitable companies.
6. Create new enterprises which meet market demands and that utilize abilities of visually impaired people.

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Mykola Netyaga

Implementing Measures to Effectively Fight Corruption in Public Administration

Policy Paper Summary

Policy problem: *To decrease the level of corruption in Ukraine.*

Client: Committee for National Security and Defense of Ukraine.

Stakeholders: Verkhovna Rada Committee Against Organized Crime and Corruption; Cabinet of Ministers of Ukraine; Ministry of Internal Affairs; National Security Office; the General Prosecutor's Office; NGOs engaged in anti-corruption affairs.

Goal: To improve the investment climate in Ukraine.

Objectives:

- To assess the feasibility of combining all the elements of an effective fight against corruption (including targeting criminals, prevention, and anti-corruption education) in one government body modeled on the Special Investigations Service of the Republic of Lithuania;
- To assess the implementation of the corruption-risk analysis method as an anti-corruption instrument at the national level, which will contribute to coordination of enforcement agencies.

Options:

1. Do nothing;
2. Institute a special procedure for corruption-risk analysis for national government bodies, local government, and non-government agencies;
3. Establish an agency with special status to combat corruption modeled on the Special Investigations Service of the Republic of Lithuania.

Recommendations: A review of the proposed alternatives led us to recommend option 3.

To implement the third option, it is recommended that:

- The Cabinet of Ministers should establish an agency with special status to combat corruption modeled on the Special Investigations Service of the Republic of Lithuania.
- The General Prosecutor's Office should evaluate legislative loopholes that foster corruption and monitor the criminal prosecution of corruption in local courts.
- The Ministry of Internal Affairs should provide government employees, local government, and NGOs with corruption prevention techniques and oversee the implementation of anti-corruption measures determined by the Cabinet of Ministers.

- The Office of Defense should design a corruption-risk analysis program for government employees, local government, and NGOs; following the results of the analysis, it should identify special measures needed; it should maintain control over and review the performance of the General Prosecutor's Office and Ministry of Internal Affairs and respond to corruption at senior level in executive bodies.

Policy Paper

1. Definition of the problem for policy analysis: lowering the level of corruption in Ukraine

1.1. Symptoms of the problem

In 2005, an international audit of corruption in 159 countries ranked Ukraine 113th. Recent sociological research indicates that 88% of Ukrainians consider their country to be corrupt. The majority of respondents said they had given bribes. Corruption existed before and will continue to do so in the future. Any country (even the most democratic and market-oriented) creates thousands of opportunities for “classic corrupted circles” and regularly entices high-ranking administrators.

However, the high level of corruption in Ukraine needs government intervention. And only through the cooperative efforts of authorities, constituencies, and the press can we help the country overcome the crisis. The Committee for National Security and Defense of Ukraine has authority over this issue. Anti-corruption must include legislative initiatives and innovative, theory-based approaches.

1.2. Problem description

Senior public servants have spoken for many years about corruption as a phenomenon in Ukraine. Starting in 1993, many decrees, acts, regulations, guidance and other documents have been issued, but this phenomenon has not been defeated [2-11]. The question remains: why, in spite of all these actions, is Ukraine still among the most corrupt countries in the world?

Here is the text from the Decree by the President of Ukraine, “On the concept of the fight against corruption 1998–2005,” as of April 24, 1998 #367/98 [3]:

Despite legislative measures taken against corruption, the scale of corruption has not decreased. Because some of the key measures identified in the national program for the fight against corruption were neglected, there has not been a significant decrease in the amount of corrupt acts.

The social causes of corruption have not been addressed yet and anti-corruption measures have not been taken seriously. The delay in democratic and economic transformations has facilitated corruption. Administrative reform was not designed. An anti-corruption strategy (even a conceptual one)

has not been defined. For the majority of government bodies, the anti-corruption fight has not been a priority and has not been methodical. There has been no accountability. Efficient information support was not in line with the principle of shared responsibility.

Law-enforcement bodies are hampered in the fight against corruption by the lack of laws and methodological approach. The process of looking for information on corruption diagnosis is not penetrating high managerial circles. Measures to improve anti-corruption legislation are fragmented. Resources in the fight against corruption are spent responding to particular corrupt acts but not to the causes and conditions of corruption.

We can provide a systemic approach to and effective organization of anti-corruption measures if there is a complex, scientifically-based approach.

We see from this that the anti-corruption agenda was missed in Ukraine and actions were not systemic and lacked coordination. There was no centralized mechanism to oversee anti-corruption measures.

International experience can inform this agenda, particularly the experience of the Republic of Lithuania. In 1997, the Special Investigation Service was established in Lithuania as a totally independent agency. It combined three main elements of the effective fight against corruption: targeting criminals, corruption prevention, and anti-corruption education.

1.3. Description of policy tools and mechanisms for implementing existing policy

In the Countries Corruption Index (at the end of 2005), Ukraine holds the 113th position among 159 countries in worldwide. Each country's Corruption Scores can be derived from the Corruption Index ranking table developed by Transparency International [15].

The problem of corruption is very topical in contemporary Ukraine. It threatens the overall functioning of society and even national security. At the current level of development, especially during the last year, when the political and social life of the country underwent drastic changes, "Implementing Measures To Effectively Fight Corruption," the perception of anti-corruption techniques has changed. Objectives regarding the fight against corruption are now viewed as a priority at the national level. The fight against corruption is no longer theoretical. It is a subject for the regular attention of the government and of NGOs, thanks to greater media freedom and the heightened civic awareness of Ukrainians.

Organizational changes have occurred in government bodies engaged in the fight against corruption. The Coordination Committee Against Corruption and Organized Crime was dismantled by the Ukrainian President on August 2, 2005 (#208/2005) and its responsibilities were transferred to the Committee for National Security and Defense of Ukraine.

Since August 2005, the Committee for National Security and Defense of Ukraine (following the creation of the Division for the Fight Against Corrup-

tion and Organized Crime) has acted as national coordinator and administrator of measures laid out by the Istanbul Plan. The Committee for National Security and Defense of Ukraine would, on regular basis, co-ordinate and maintain an information exchange with representatives of anti-corruption networks, government representatives engaged in this area, the Prosecutor General's Office, and the President's Office

The Division for the Fight Against Corruption and Organized Crime has maintained communications with the anti-corruption network representatives and has begun a common project to study progressive international experience in establishing and developing special bodies for anti-corruption investigations. Joint sessions between a high-level working group from the Interagency Committee on Reform of Law-enforcement Agencies, Anti-corruption Network, and the American Bar Association were held. Projects have also begun on reform of law-enforcement agencies. The Committee for National Security and Defense of Ukraine created the National Service for Investigations on September 5, 2005, whose objective is also to fight corruption.

The Interagency Committee on Reform of Law-enforcement Agencies worked throughout 2005 and created a similar committee on judicial reform. All of these bodies, developed in accordance with Chapter 14 of the Law of Ukraine, "On Committee for National Security and Defense of Ukraine," must resolve issues of corruption. Among those issues are: reform of law enforcement and judicial areas, implementation of democratic and civilian control over the actions of law-enforcement and military bodies, and creation of a national anti-corruption committee.

The Committee for National Security and Defense is responsible for information and analytical and organizational support for the Committee and its agencies. To provide accountability, an expert civilian board will be created as part of the Committee for National Security and Defense. The board will consist of authoritative representatives from its constituency, advisors, etc. NGOs are collaborating with the committee on anti-corruption issues to provide information on corrupt acts and make recommendations to eliminate corruption.

1.4. Severity of the problem and exigency of solution

The following shortcomings in the fight against corruption must be addressed:

- *The absence of a common national anti-corruption strategy.* Currently, there are two projects developed by the Ministry of Justice and the Verkhovna Rada Committee Against Corruption and Organized Crime. Experts believe the existence of two competing projects is a weakness, which slows down the development of a single national document. Since anti-corruption measures should be performed by executive bodies, this project, logically, must be developed by government. Anti-corruption strategies containing special measures have been adopted in Kyrgyzstan, Armenia, Azerbaijan, and Georgia.
- *The absence of a single government body responsible for corruption prevention.* Taking into consideration the opinions of stakeholders, this body must

monitor efforts and have enough power to perform preventive measures. Those measures should reduce the decision-making powers of public servants, improve the transparency of decision-making procedures, provide public access to information and encourage civic participation.

- *Inadequate legislation.* Ukraine signed the European Committee's convention on anti-corruption measures. The notion of corporate responsibility must be included in national legislation, especially the responsibility of different agencies for corrupt acts, e.g. for bribe-taking or bribe-giving, of both civil servants and private sector employees. The term "corruption" or "corrupt act" requires thoughtful definition. It is required to widen the circle of parties who have criminal responsibility by including in this circle the range of civil servants or employees who serve different government agencies, managerial staff in the private sector, international organizations, and foreign governments.

The paramount objective is to ratify the UN Convention on Corruption, Criminal Convention of Europe Against Corruption and Additional Protocol, and to make necessary amendments to legislation. Revenue confiscation should apply to all kinds of corrupt acts. The value of the confiscation or financial penalties should be in accordance with gains from corrupt acts. A disadvantage is the absence of a national witness protection program, which is a big obstacle to administration of justice.

- *The absence of an ethical Code for Public Servants.* Currently, the proposed Ethical Code developed by the Ministry of Justice is in the approval stage. The procedure of bringing individuals to disciplinary responsibility, the system of internal investigations, and the gift-receiving procedure must be in accordance with international standards. A special agency (possibly within the Main Office of Civil Service of Ukraine) should deal with complaints of corrupt acts by civil servants.

1.5. Client:

Committee for National Security and Defense of Ukraine.

2. Grounds for government intervention

Government intervention is necessary in order to improve the investment climate in Ukraine. In a corrupt environment, market mechanisms cannot effectively encourage investment to achieve the long-term development of all economic sectors.

3. Consultations (stakeholders analysis)

Stakeholders: Cabinet of Ministers, the General Prosecutor's Office, Ministry of Internal Affairs, National Security Office, and Verkhovna Rada Committee Against Organized Crime and Corruption.

Stakeholders from the non-government sector: NGOs engaged in corruption issues.

4. Structuring (modeling) the problem

4.1. *Policy goal*: To improve the investment climate in Ukraine.

4.2. *Objectives of the identified strategy*:

- Prevent corruption by eliminating the opportunity for public servants to be in direct contact with a client.
- Assess the feasibility of combining the main elements of an effective fight against corruption (targeting criminals, prevention of corruption, and anti-corruption education) in one government body, modeled on the Special Investigation Service of the Republic of Lithuania.
- Assess the implementation of the corruption-risk analysis method as an instrument in the fight against corruption at the national level, which will help coordinate the work of enforcement agencies.

To solve the issue of corruption in Ukraine, effective and accurate mechanisms to control actions of government bodies, local government, and NGOs need to be developed. The essence of this mechanism has to be based on the special regulation of activities performed by an agency. In some cases, the area of agencies' expertise creates opportunities for corrupt acts. Therefore, the agency may have significant control over the area of expertise.

5. Analysis of problem solving options

1. Do nothing;
2. Institute a special procedure for corruption-risk analysis for national government bodies, local government, and non-governmental agencies.
3. Establish an agency with special status to combat corruption modeled on the Special Investigations Service of the Republic of Lithuania.

Option 1: Do nothing

This option will not decrease the level of corruption in Ukraine and will do nothing to increase public trust. While there is a system of anti-corruption legislation in Ukraine, it consists of many legislative acts designed to create an ethical system as well as target a particular sector of the economy or sphere of the social system. There is also a web of regulatory-legal acts, all adopted at different times and by different bodies, in some cases spontaneously, non-systemically, and without a theory-based approach. All those factors lead to contradictions and collisions.

Weaknesses in anti-corruption legislation are caused by imprecise definitions and inconsistency. Current anti-corruption legislation is very fuzzy and the same act of corruption can be qualified as a minor violation of the law and as a serious crime at the same time. Leaving the existing anti-corruption mechanism as it is, without changes, is not an option.

Option 2: Implement a procedure for corruption-risk analysis for national government bodies, local government, and non-government agencies

This option has to evaluate loopholes in legislation that foster corruption in public and private agencies (following the Lithuanian example). Corruption-risk analysis is a process in which national and local government bodies and NGOs provide information in accordance with special evaluation forms to identify the area of their activity.

Corruption-risk analysis means analysis of anti-corruption actions undertaken by national and local government bodies and NGOs, performed according to law. It also means making recommendations in regard to anti-corruption projects and to the complementary anti-corruption actions in local and national government bodies and the non-governmental sector. During the process of corruption-risk analysis, areas of the economy most susceptible to corruption should be identified.

The stakeholders in charge of identifying those areas must be following:

- Managerial staff of national and local government agencies, and non-governmental establishments;
- Divisions and subdivisions of the latter or administrators responsible for control and prevention of corruption.

The area of expertise can be defined as susceptible to corruption if it satisfies the following conditions:

- Corrupt acts have taken place;
- The main activity of the agency is administration;
- Absence of shared responsibility in the decision-making process;
- The activity of the agency is to empower another organization;
- Decisions made by the managers of the agency do not require approval of higher government bodies;
- Agency accesses information which is a national secret;
- Cases of independent, unaccountable behavior were determined previously.

Analysis and identification of areas susceptible to corruption must be performed at least once a year. Responsible bodies have to report to the government on those areas. Ministers have to review this information and prepare a report at the end of the identification period.

The Lithuanian model is quite efficient, as it helped move Lithuania from 88th position to 44th on the Transparency International ranking [15] and by the significant changes in public perception.

Advantages:

1. Direct control by the managerial staff of executive bodies over corrupt acts in government and the non-government sector.
2. Relatively inexpensive implementation.

3. Opportunity to identify the most corrupt areas of activity in executive bodies and economic sectors and to perform purposeful measures to combat corruption.
4. Application of a single method of corruption-risk analysis for all agencies will help to effectively assess the level of corruption.

Disadvantages:

1. Possible bureaucratic obstacles.
2. Lengthy implementation period needed to ensure effective and transparent analysis.

Option 3: Establishment of an agency with special status to combat corruption (following the example of the Special Investigations Service of the Republic of Lithuania)

The issue of effectively fighting corruption at all levels of public administration is one of the priorities of the European Union. Among European Union countries, only Lithuania and Latvia currently have unified agencies with the authority to combat corruption among public servants and government members.

In 1997, Lithuania was 88th in Transparency International's corruption ratings [15]. This diminished its prospects of joining the European Union. The Special Investigations Service was created to help meet the goal of joining the European Union. The main directions and mechanisms were derived from the most successful similar agency in the world in Hong Kong. The experience of Lithuania in combating corruption is very valuable for Ukraine.

However, we must take into account that Lithuania is a much smaller country than Ukraine. That is why the creation of the service there was less expensive than it would be in Ukraine. This fact is also applicable to the agency's structure and the greater number of personnel and scale of administrative support. Another important difference is the strong political will shown by Lithuanian Parliamentarians, who supported the creation of the agency unanimously. The new agency received legal status to conduct operational, investigative, and educational actions independently without external interference. In Ukraine, from the first steps of the working group on independent agency creation, we have seen a lack of political will from enforcement agencies to share responsibility with a new agency.

Creation of an agency similar to the Special Investigations Service in Lithuania requires substantial financial recourses and the unanimous support of different political parties. The first important step to be taken is for all political parties to sign the declaration in which the threat of corruption and desire to eliminate this phenomenon are identified. The second step is to develop the program to fight corruption; it should be approved by the government in accordance with the signed declaration. The third step is creation of

the agency. The mechanism of the agency's creation proved its efficiency in Lithuania (though the process of creation was difficult because the agency has the right to open investigations against the Seimas and government, except for the President of Lithuania, once it has the sanction of general prosecutor). Given this feature, the agency is seen as influential among executive bodies. Therefore, different political parties try to influence the agency by blaming it for incompetence and inefficiency.

Even with an agency with a special status to fight corruption, the corruption fight will be effective only if the agency focuses on three universally recognized components: targeting criminals, prevention of corruption, and anti-corruption education. Positive results will be achieved only when these issues are addressed simultaneously. The object of the agency is radical corruption prevention, eradication of the root causes, improvements in law-enforcement agencies and other public agencies, encouragement of communications with stakeholders and NGOs, improvement of civic participation, and increasing the level of public rejection of corruption.

An agency should be independent, follow the letter of the law, be highly reputable, and have the capacity to investigate corrupt acts. To decrease the level of corruption in the country and increase efficiency in corruption control, an agency has to achieve the following strategic goals:

- Effective diagnosis and investigation of corrupt acts;
- Systematic corruption prevention;
- Anti-corruption education.

In Ukraine, the main obstacle to establishing an agency similar to the service in Lithuania is lack of political will among the political parties in parliament. The first step is for all political parties to sign the declaration that will prove their political will to recognize the issue of corruption and to start fighting it.

Another obstacle is the shortcoming of criminal and criminal-procedural codes of Ukraine, which can significantly limit any agency's ability to perform. Yet another obstacle is that enforcement agencies will delegate their power to an agency that is not under their control. This problem was the first one that the working group on the creation of an agency faced in the parliament. Conflict with the Ministry of Internal Affairs occurred at that time because the ministry did not want to delegate its operational function to another agency.

The existence of such an independent agency in Ukraine may face resistance from some political parties that may oppose its existence or seek to politically influence the agency in order to advance private interests.

First of all, we have to develop an effective mechanism to maintain proper performance of such an agency in Ukraine, to provide the legal basis for the agency's existence, and prevent external interference in the agency's functioning.

Advantages:

1. All three components to effectively combat corruption (targeting criminals, prevention of corruption, and anti-corruption education) are combined in one agency. Currently those components are divided among different bodies in Ukraine, making them inefficient.
2. An agency provides independent analysis of opportunities for corrupt acts and alters legislation by submitting recommendations to the Verkhovna Rada.
3. A review of candidates to be appointed to managerial positions will take place.
4. Opportunity to centrally develop regional anti-corruption program and projects will be created.

Shortcomings:

1. Creation of an agency will be costly because it will have to cover the whole territory of Ukraine.
2. Lack of political will by parliamentarians who will obstruct the special status of an agency. The agency must have special status to maintain its independence.
3. Shortcomings in the Ukrainian criminal and criminal-procedural codes will threaten the agency's performance.
4. The Ministry of Internal Affairs will not delegate an operational-investigation function to an agency.

6. Recommendations and implementation

Table 1

Comparative analysis of policy options

<i>Criteria</i>	<i>Assessment of policy options</i>		
	<i>Option 1</i>	<i>Option 2</i>	<i>Option 3</i>
Effectiveness	1	3	2
Efficiency	1	2	3
Equity	1	3	2
Political feasibility	2	2	3
Administrative feasibility	2	1	2
The rank of an option	7	11	12
Effectiveness	3	2	1

According to the table, we can conclude that it is feasible to apply the third option in order to significantly decrease corruption in Ukraine. To implement the third option it is recommended that:

- The Cabinet of Ministers establish an agency with special status to combat corruption modeled on the Special Investigations Service of the Republic of Lithuania.

- The General Prosecutor's Office evaluate legislative loopholes that foster corruption and monitor criminal prosecutions of corruption in local courts.
- The Ministry of Internal Affairs suggest ways of combating corruption to government employees, local government, and NGOs; promote corruption prevention techniques; and oversee implementation of anti-corruption measures determined by the Cabinet of Ministers.
- The Office of Defense design a corruption-risk analysis program for government employees, local government, and NGOs. According to the results of the analysis, it should identify special measures needed, maintain control over and review the performance of the General Prosecutor's Office and Ministry of Internal Affairs, and respond to acts of corruption at the senior level in executive bodies.

Sources

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Oleksiy Stolyarenko

Intellectual Property Rights Protection

Policy Paper Summary

Policy problem: *How to extract a royalty payment from the importers of recording materials (CDs, tapes, etc.) and equipment that can be used for domestic copying of copyrighted and other protected objects.*

Ukrainian legislation and international treaties ratified by the Ukrainian Parliament (Verkhovna Rada) contain a provision that copyright holders and holders of other related rights are entitled to a royalty payment for reproduction of their intellectual property. One type of reproduction is the domestic copying of intellectual property for personal use (hereafter referred to as “the product”).

At the moment, there is no effective system in Ukraine for collecting royalties from importers of recording materials and equipment. These imports constitute a violation of authors’, performers’, and owners’ intellectual property rights.

Client: State Department of Intellectual Property

Stakeholders:

- Organizations for collective management of copyrights and other related rights.
- Importers of recording materials and equipment that can be used for domestic copying of copyrighted objects.
- Trade unions that unite copyright and related rights holders.

Goal in solving the problem: Property rights protection for copyright and related rights holders.

Policy options:

1. **Continue the current policy.** The current policy requires importers to pay the copyright royalty after the product has crossed the border of Ukraine. The current legislation does not assign any penalty for non-payment, nor does it impose sanctions against the producer, which makes enforcement of such payment virtually impossible.
2. **Equip organizations responsible for the rights of copyright holders with oversight of payment.** World practice follows this model and enables such organizations to not only exercise supervision, but also to audit importers when they suspect someone is avoiding payment.
3. **Demand a certificate noting “royalty paid” when the product crosses the border of Ukraine.** The State Customs Service will demand an additional document, which will certify that the product is legally crossing the border and that the copyright holders’ rights have been respected.

Recommendations: I recommend implementing option three. It is necessary to introduce changes to the list of compulsory documents that must accompany a product crossing the border of Ukraine.

Policy Paper

1. Defining the problem

How to extract a royalty payment from the importers of recording materials (CDs, tapes, etc.) and equipment that can be used for domestic copying of copyrighted and other protected objects.

According to Part 2 of Article 25 of the law, “On Copyright and Related Rights” [10] (hereafter known as “the law”), artwork and audio- or video-recorded performances and their copies are allowed to be domestically reproduced exclusively for personal use or for the use by a family without permission from the author (authors), performers, record and video producers, etc., though under the condition that they pay them a royalty. The royalty payment is described in detail in Part 4, Article 42 of the law and should be made by way of a percentage deducted from the value of the recording materials/equipment by producers and/or importers of the recording materials/equipment used in the domestic reproduction of intellectual property. Currently, a specific deduction is set by the Cabinet Resolution “On the Amount of Deductions Made by Producers and Importers of Equipment and Material Recording materials That Can Be Used for Domestic Reproduction of Artworks and Performances Captured by Phonograms and/or Videograms” of 06.27.2003 № 992 (hereafter known as the resolution). [11]

As the title of the resolution indicates, deductions are to be made from recording material and equipment that can be used for “domestic reproduction of artworks and performances captured by phonograms and/or videograms” which is somehow different in content from definitions of “private copying royalties,” which is used in Canada, and “fair use,” which is used in the United States. The difference is that, in the Canadian definition, the purpose of reproduction is fixed and, in the Ukrainian version, the deductions are to be made from recording materials and equipment that can be used to make domestic copies. The possibility of industrial or/and commercial reproduction with this material/equipment has not been taken into consideration and, hence, may be subjected to deductions as well.

Both approaches are valid. On the one hand, the Ukrainian version is simpler because all recording materials and equipment brought into Ukraine or produced in Ukraine are accounted for, and the percentage is deducted according to the kind of product. On the other hand, this approach contradicts the concept of “private copying royalty” because it does not take into account its objective and does not contain exemptions, such as a waiver of the payment if the product is made for export (Canada), which is quite logical. Also it does not take into account a waiver of payment if copyrighted

material is recorded following a direct agreement with a copyright holder (France). It is the case, however, that implementation of exemptions in Ukraine may lead to a multitude of abuses.

Collection of deductions in France, the Czech Republic, Hungary, Germany, Canada, and other countries is done by submission to collective management organizations, within a term defined by law (most often it is a month) of information about delivery of recording materials and equipment and simultaneous payment of defined deductions to the accounts of collective management organizations.

In Ukraine, the procedure is similar. The deduction procedures (hereafter, “the procedures”) followed by producers/importers of any recording materials/equipment that can be used for domestic reproduction of copyrighted artworks and performances was approved jointly by the Ministry of Education and Sciences of Ukraine, State Committee for Regulatory Policy and Entrepreneurship, and the State Tax Administration Order N 780/123/561 of 24.11.2003 (hereafter, “the order”) [12]. According to Item 7 of the procedure, during entry of recording material/equipment onto the customs territory of Ukraine, importers according to the amount of deductions set up in the Cabinet Resolution N 992 of 27.06.2003 transfer to the authorized organization’s deducted sums and a certificate signed by the importer’s manager noting payment of the deduction.

But the procedure of collecting deductions for private copying for private use in Ukraine has serious drawbacks, which prevents the copyright system and related rights protections from functioning normally:

- According to the law, importers are obliged to make payments for importing the product described in the resolution, but there are no provisions regarding procedures of payment, terms of payment, and penalty for non-payment.
- The procedure requires submitting a certificate to organizations of collective copyright management during entry of the product (described in the resolution) on the customs territory of Ukraine, but there is no responsibility for submitting such a certificate and no possibility for organizations of collective copyright management to supervise and check importers’ operations on delivery of the product.

1.1. The scope of the problem

The problem concerns all authors and copyright and related rights holders in Ukraine and impacts one of the most valuable social groups, the creative elite.

1.2. History of the problem

The growing popularity of tape-recorders caused serious harm to the property rights of record producers, singers, and song writers who, without delay, referred to Article 9 of the Bern Convention, in which it states, in

Paragraph 1, that authors of literary and artistic works, who are protected by the Convention, have an exclusive right to permit reproduction of those works “by any means and in any form.” It goes further to say: “any sound or visual record is recognized as a reproduction for the purposes of this Convention” [1].

Regretfully for copyright and related-rights holders, Paragraph 2 contains a provision that “the EU member states legislation preserves the right to permit reproduction of such works in certain special circumstances under condition that such reproduction does not harm normal use of the work and does not touch, in any ungrounded fashion, legal interests of an author” [2]. See: National Legislation.

As it was almost impossible to limit and, more importantly, to ban “private copying” of audio works, the only possibility was to introduce changes into national legislation that would call for compulsory deductions for the benefit of copyright holders. West Germany was the first country which, in 1965, managed to develop provisions and adopt a law which set up a system of compulsory payments in case of “private copying.” That law, in Article 53.1, mentions “reproduction for private use and other types of internal use” [3]. In France, such a law was adopted in 1985 and was later included, almost in its entirety, into the Intellectual Property Code. Article L. 122-5 of the French Intellectual Property Code includes a provision about “copying or reproduction for exclusively private use of a copier” [4]. In Ukraine, such a provision has been in the law since 2001, but payments as a mechanism of compensation for copyright and related rights use was introduced only in 2003.

At first, the deductions were made from audio-cassettes and tape-recorders, later from video-cassettes and VCRs. The tariffs on recording materials were based on duration of a record which could be made on that recording material. For recording equipment, a fixed or percentage rate was established. When new digital recording materials and devices emerged, it became difficult to tell the difference between the original product and the copy. Two compensation mechanisms for digital recording materials were then introduced: fixed monetary deductions from separate recording materials (Canada) or percentage of the value of a recording material itself (Ukraine); the system of deductions from reproducing equipment remained unchanged.

At the same time, the right to make private copies is not absolute and can be limited. For example, Article 5/2 of the EEC Directive № 91/250 of May 14, 1991 limits the right to reproduce computer software by only one back-up copy and only when making such a copy “is necessary for such use” [5], and Articles 6.2.a and 9.a of the EEC Directive № 96/9 of March 11, 1996 allow those within member states to make a private copy “if it goes on electronic databases to be used by one person” [6] which itself precludes the possibility of electronic reproduction of databases for private use.

Collection of private copying royalties is administered by organizations of collective copyright and related rights management, which have been set up and function as nonprofit organizations. In most countries, the collection of this payment for use of copyrighted objects is done by specially established organizations of collective management, like Canadian Private Copying Collective, French SORECO (responsible for royalties for private copying by means of sound recording), and COPY France (responsible for collection of royalties in the area of audiovisual artworks) [7].

Implementation of private copying royalty as a deduction from recording materials is almost the only simple and affordable way to secure payment of a royalty to copyright and related rights holders. It is a priority task in more than 40 countries that have introduced such a system of payments. Thirty-nine million dollars in 2004 [8] was collected by the Canadian Private Copying Collective, and more than 60 million dollars over the last three years was awarded to more than 65,000 copyright holders [9].

1.3. Policy analysis client: State Department of Intellectual Property.

2. Grounds for government intervention

Grounds for government intervention in this case are imperfection of legislation and collection procedure for “private copying royalty,” which allows importers to avoid paying it.

3. Consultations (stakeholder analysis)

Stakeholders in this case are:

- **Organizations of collective rights management for copyright and related rights holders.**

These organizations, operating under agreements signed with copyright and related rights holders, represent their property interests and must receive and distribute royalties collected according to the law, having compensated the authors the right to permit use and reproduction of their intellectual property. Organizations of collective rights management for copyright holders retain a percentage from these funds as a compensation for managing authors’ rights, and therefore they are interested in the growth of such revenues.

- **Importers of recording materials/equipment for domestic copying of copyrighted objects.**

Importers of recording materials and equipment are negative stakeholders because they are not interested in such a mechanism. However, they may also be positive stakeholders interested in the efficient collection of royalties, with minimal obstacles

- **Trade unions of copyright and related rights holders.**

Artists’ trade unions are also interested in the protection of authors’ rights and the increased financial revenue of their members.

- **Interested authorities.**

State Department of Intellectual Property, Culture Ministry.

4. Structuring (modeling) the problem

A plan for extracting a royalty payment from the importers of blank recording materials/equipment should employ a collection mechanism that will preclude avoidance of such payments.

The objective of solving the problem: To protect property rights of copyright and related rights holders.

1. The mechanism should include an oversight mechanism over such payments.
2. The mechanism should provide for sanctions for non-payment.

Therefore, the major tasks aimed at ensuring the payment of royalties is as follows:

- Setting up an effective mechanism for collecting royalties from imported products.
- Setting up a streamlined and efficient mechanism that will prevent royalty payment evasion.
- Defining an institution responsible for supervising royalty collection.
- Defining an institution responsible for application of sanctions in cases of non-payment.

The criterion of a resolved problem is 100% compliance with royalty payment for the product which crosses the border, as defined by the law. The judgment of 100% compliance with royalty payment shall be made by comparing State Customs Service information on products crossing the border and on Ukrainian Agency for Copyright and Related Rights information (this agency functions as an organization of copyright and related rights collective management with regards to collection of royalties for the product).

5. Options for solving the problem

1. To continue current policy.
2. To give organizations of collective rights management for copyright and related rights holders the power to supervise the payment of royalties by importers.
3. To demand a certificate of royalty payment when the product crosses the border of Ukraine.

Option №1. To continue current policy.

If the current policy is continued, it will lead to serious violations of intellectual property rights, depriving artists of compensation for use of their intellectual property. Such a policy will lead to the underfunding of the creative elite, which will be unable to continue creative work. There are serious drawbacks in the legislation:

- According to the law, importers are obliged to pay royalty for import of products defined in the resolution, but there are no provisions for procedure of payment, terms of payment, and penalty for non-compliance.
- According to the procedure, there is an obligation to submit a certificate of royalty payment to organizations of collective rights management for copyright and related rights holders if the product crosses the border of Ukraine, but there is no provision for responsibility for non-compliance and for the right of the organizations of collective rights management to supervise and check import operations of product importers.

This continuing development will lead to the legal nihilism of businesses, violate intellectual property rights, undermine a system of copyright protection, and breach Ukrainian legislation and international treaties ratified by the parliament (Verkhovna Rada) of Ukraine.

Option № 2. Giving organizations of collective rights management for copyright and related rights holders power to supervise the payment of royalties by importers.

Based on the experience of Canada, where such royalties are effectively collected, the problem may be resolved by giving organizations of collective rights management for copyright and related rights holders power to supervise the payment of royalties (on products imported to the territory of Ukraine) and to audit importers suspected of avoiding such payments with paying arrears through court procedure.

Benefits:

1. There is no need to request additional documents when the product crosses the border.
2. Law enforcement and supervision of copyright compliance is placed on public institutions, which promotes rule of law and civil society development.
3. Organizations of collective rights management for copyright and related rights holders receive substantial enforcement power.
4. Granting substantial powers will promote self-regulation of relations in the area of civil law.
5. State expenditures are minimal because administration is the responsibility of a non-governmental organization.

There are big differences between Ukraine and Canada, however, because in Canada “private copying royalty” is collected by an NGO, which is a public institution and belongs to a well-developed and efficient system of NGOs of collective copyright management with years of successful operations in this area. Therefore, it may be premature to borrow and implement the best practices of Canada or any other country with highly developed institutions of pub-

lic control in Ukraine, where such royalty is collected and distributed by a state enterprise, the Ukrainian Copyright and Related Rights Agency, and underdeveloped public control institutions. For these reasons, import of foreign best practices into Ukraine may have negative consequences.

Drawbacks:

1. Supervision over royalty payments will be exercised only after the product has crossed the border, which does not preclude various schemes to avoid payment of royalties by importers.
2. It will require legislative development and giving organizations of collective rights management for copyright and related rights holders broad powers to supervise economic entities. It will be necessary to develop procedures of auditing, allocation of funds, and protection of economic entities from abuse by organizations of collective rights management for copyright and related rights holders.
3. Giving such an organization the right to supervise economic entities may set up serious obstacles for those economic entities. Auditing operations of such entities may be suspended and suffer serious financial losses.
4. Finding a judicial remedy in the case of an importer's royalty payment arrears may not be effective due to Ukraine's overloaded courts and the high cost of judicial proceedings.

Option №3. Demanding a certificate of royalty payment when a product crosses the border of Ukraine.

Based on peculiar features of the Ukrainian concept of royalty payment for private copying, a centralized system of collection and distribution by the State Enterprise Ukrainian Copyright and Related Rights Agency, one more option may be offered. This is the introduction of a certificate of royalty paid to the account of the collective management organization into the binding list of required documents which should be submitted when the product defined in the resolution crosses the state border of Ukraine.

Benefits:

1. Royalties will be paid before entry into Ukraine, which makes compliance easier to enforce.
2. The certificate is a rational, simple, efficient, and effective tool for supervising importers and copyright holders' protection.
3. Implementation of such copyright protection will promote timely payments.
4. There will be no need for judicial protection of intellectual property rights, cost of royalty collection services will be reduced and transparent, and a simple mechanism of supervision will be introduced.
5. It will require minimum changes to the regulatory acts of Ukraine.

6. There is no need to give supervisory powers, develop mechanisms for their realization and introduction, or set up another supervisory authority over economic entities and amend the legislation.
7. Demanding a “royalty paid” certificate will not substantially increase the State Customs Service’s work load on customs offices.

Drawbacks:

1. A need to introduce an additional obligatory document to be produced when the product crosses the border.
2. Increase of bureaucratic pressure on businesses overseen by the State Customs Service.
3. Possible abuse of powers by the State Customs Service.
4. Importer has to pay a royalty before the product enters Ukrainian territory and before it is sold, which makes the payment of royalty for the product actually sold difficult.

6. Recommendations

The public policy’s efficiency depends on a ratio between the cost of royalty collection services and amount of royalties collected. It also depends on the share of product from which a royalty has been paid of the total amount of product that crossed the Ukrainian border.

<i>Criteria</i>	<i>Option №1</i>	<i>Option №2</i>	<i>Option №3</i>
Effectiveness	Low (1)	High (3)	High (3)
Efficiency	Low (1)	Medium (2)	High (3)
Equity	Low (1)	High (3)	High (3)
Administrative feasibility	Low (1)	Low (1)	High (3)
Political feasibility	Low (1)	Medium (2)	Medium (2)
The score of an option	5	11	15
The rating of an option	3	2	1

In conclusion, priorities for development of a system of intellectual property protection in Ukraine have been regulated by Cabinet Resolutions, “On Approval of the Concept of National System of Legal Protection of Intellectual Property Development” N 321-p of June 13, 2002 [13], where, in Paragraph 3, Item 1, it is said that improving the legislation and development of efficient mechanisms of intellectual property rights protection is an important factor for research and development capacity in Ukraine for international exchanges and expansion of trade and business.

Option one is the least efficient. Option two has serious benefits; the problem will be resolved with the participation of the society itself, which will stimulate public institutions (though from an administrative standpoint, it is quite complicated and requires detailed revision of the legislation and a high level of development of civil society institutes). Option three is based on administrative influence on economic entities and creates additional bureaucratic obstacles, but it is the most realistic option in view of high efficiency and effectiveness levels.

7. Implementation

I believe it is reasonable to implement option three: demanding a “royalty paid” certificate when a product crosses the border of Ukraine. This should be done by means of joint order issued by the State Department of Intellectual Property and State Customs Service of Ukraine and introduction of a “royalty paid” certificate into the list of obligatory documents required before a product can cross the border.

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Olexiy Khmara

“Daddy School” as a Mechanism for Preventing Divorces Among Young Ukrainian Families

Policy Paper Summary

Policy problem: *Young married men, in particular, are ill-prepared for family life in Ukraine. Following the 2001 Census of Ukraine, the divorce rate among men under 35 years of age was 25%. RAGS bodies cite the following reasons for divorce among young families: conflicting understanding of family life, psychological incompatibility, domestic violence (as a rule against the woman), abuse of alcohol or drugs, and others. In more than 60% of cases, young couples that divorce have children. Most divorced men are fathers with children under seven. Evidence testifies that young men and women in Ukraine are unready and ill-prepared for family life.*

Client: Ministry for Family Affairs, Youth, and Sport under the auspices of the State Social Service for Family, Youth, and Children.

Stakeholders:

Stakeholders in the public sector: departments of the Ministry for Family Affairs, Youth, and Sport; maternity houses; centers for reproductive health; women’s clinics;

Organized stakeholders outside the public sector: creative center Optimal Development of an Individual (Kirovohrad regional NGO), Men Against Violence (Vynnytsia municipal NGO), other civil society groups that disseminate gender ideas to the male population, mass media in the regions where “daddy schools” are already operative, and the national media.

Policy options:

1. continuing existing policy;
2. creating a network of “daddy schools” under the Social Centers for Family, Youth, and Children;
3. opening the position of a family consultant for men at the Social Centers for Family, Youth, and Children.

Recommendations:

The optimal strategy for solving the problem of poor awareness of and ill-preparedness for family life among young married men in Ukraine is to establish a network of “daddy schools” under the Social Centers for Family, Youth, and Children (option 2). This option scores the highest according to the criteria of *equity* and *political feasibility*, which means that this option will have the maximum support of society. Establishing the network of “daddy schools” under the Social Centers for Family, Youth, and Children foresees:

- Building teams of consultants recruited from men who already have fatherhood experience and have been trained for family life and parenthood;
- Disseminating information materials among representatives of the target group and via the network of partner organizations;
- Providing training, on a voluntary basis, to future fathers during the two months before the birth of a child;
- Steering graduates of “daddy schools” to maternity houses to participate in partner nativity programs;
- Providing consultations to the families of “daddy school” graduates in case there are problems after the birth of a child.

Policy Paper

1. Definition of the problem for policy analysis

1.1. History of the issue, symptoms of a problem situation

Following the 2001 census, the percentage of divorced men, measured against the entire male population of Ukraine, was 6.8% (and, compared to divorced men and women, 3.11%) [1]. Meanwhile, in 1989, the number of divorced men against the entire male population of Ukraine amounted to 4.6% (and, compared to the whole divorced population of Ukraine, 2.17%). The numbers are provided in more detail in Annex 1. According to official statistics, 80 men out of 100 become fathers between the age of 15 and 30. At the same time, this category comprises 11.5% of all divorced men. Meanwhile, men ages 30 to 34 (who are usually parents of children under 7 years of age) constitute 13.4% of all divorced men. Summing up, young men under 35 who most commonly have children less than 7 years of age show the divorce rate of 25% (see Annex 2).

Among major reasons for divorce, RAGS cites the following: conflicting understanding by each partner of family life, psychological incompatibility, domestic violence (as a rule against the woman), and alcoholism or drug use by one of the family members. In 60% of cases, split families are young families with children [6].

To state that the above problems cause a massive number of young family divorces is a fallacy. They are only the expression of the problem, which is the ill-preparedness of young men and women for family life. This problem has become especially sharp within the last 15 years as family relations were affected by many external factors, including: lack of social protection for young families, overall economic situation in Ukraine, and the absence of a state program for encouraging childbirth.

At the same time, while the state regards a family as the foundation of society, its functions very often are limited to registration of marriage and divorce, as well as, in case of divorce, property settlements. Under such an approach, the majority of problems that emerge in family relations remain beyond the attention of governmental bodies. [21]

1.2. Policy instruments and mechanisms of existing policy

In Ukraine, a developed network of bodies has been established that deals with family issues. Among them, the Ministry for Family Affairs, Youth, and Sport and the State Social Service for Family, Children, and Youth under the auspices of the above ministry are just few.[20] The major directions of activities for these institutions are:

- Social inspections (observations) of families
- Social support to disadvantaged families
- Search for disadvantaged families
- Educational, informational, and awareness-building services to children, youth, and different categories of families
- Preventing rejection of newborns
- Preventing family violence and child abuse
- Social support to children living with HIV
- Training for foster parents and staff working in family homes
- Rehabilitation for children from socially deprived families.

Over the last three years, special attention has been given to foster parents and families with many children. With the support of numerous national and international organizations, several projects are being implemented that focus on the reform of state orphanages and reduction of social orphans in Ukraine. These programs usually focus on prevention.

1.3. Legal (and institutional) basis

The activities of the mentioned institutions are founded in a series of legislation that sets the strategy for family policy in Ukraine. Among them, the Decree by the President of Ukraine “On Additional Urgent Measures for Strengthening Morality in Society and Facilitating Healthy Lifestyle” № 258 of March 2002, the Laws of Ukraine “On Prevention of Family Violence” № 2789-III of November 15, 2001, “On Social Services” № 966-IV of June 19, 2003, “On Amending Some Legislation of Ukraine” № 2353-IV of January 18, 2005, Resolutions of the Cabinet of Ministers of Ukraine “On Measures to Improve Social Work with Families, Children, and Youth” № 1126 of August 27, 2004, “On the Program “Ukrainian Family” №243 of March 14, 2001, and others (the full list is cited in the sources section) [7-21].

1.4. Effectiveness and efficiency of existing policy

The current trends in social work with young families testify that government efforts qualify as reactive, rather than proactive measures. The state, through its responsible bodies, interferes only if the family is facing a crisis and there is a threat either to society at large or to its individual members. Therefore, in the majority of cases, the government’s policy is ineffective, though it is efficient in that it does not require raising additional funds. [16]

1.5. The scope of the problem

The divorce problem is especially acute among young urban fathers. According to statistics, the rate of divorces is especially high among young families with children from birth to one year of age, as well as those with children aged five. If the latter case can be explained by the psychological crisis faced by a young family, the reasons for the former situation — a freshman father leaving his family — can only be explained by his immaturity and ill-preparedness for family life. What the government proposes in such a case is that the couple wait an additional month to make a final decision. During this time, the young family should consult a family psychologist or other expert at a family crisis center. As was mentioned before, these measures are inefficient and largely ineffective.

1.6. Novelty of the problem

The issue of divorces among young families is not new. Divorces have been a national problem since the 1980s, but the problem became especially acute over the last several years. Before, it did not attract much attention because the rate of divorces among young men did not exceed between 5% and 7% and was considered a normal indicator. That resulted in a passive attitude and inertia on behalf of the government.

Therefore, the problem for analysis is the absence of a government program to prepare men for family life, and especially for the birth of a child.

1.7. Policy analysis client

The Ministry for Family Affairs, Youth, and Sport under the auspices of the State Social Service for Family, Children, and Youth.

2. Grounds for government intervention

Men's stereotypes about marriage and their role in family life usually reflect the roles played by their fathers. This trend is usually accompanied by asocial behavior and permanent conflicts in the family. The problems are aggravated after the birth of the first child. At that time, men are more concerned with earning money for the family, rather than in participating in its daily life. With time, psychological and emotional contacts between family members wane and the threat of divorce emerges.

Existing government programs aimed at preventing family violence, enforcing gender equity, and improving reproductive health have not produced much effect. Consequently, there is a need to introduce alternative programs. Here it is worth mentioning "daddy schools," in other words, schools for young fathers. Their major objective is to encourage young men to take a more active and gender-balanced role in bringing up their children through special trainings that prepare them for family life and the birth of the first child.[3]

“Daddy schools” have proven effective, gauging first by the number of fathers willing to take part, and second by a reduction in the divorce rate (within this social category) by 5% (based on an experiment in Kirovohrad).

Considering the significant positive effect of “daddy schools,” the initiative, and its support by the society, we propose applying this method all over Ukraine. This can be done only with the introduction of a national program for training young fathers to be prepared for family life.

3. Consultations (stakeholder analysis)

3.1. Stakeholders within the public sector

- State Social Service for Family, Children, and Youth.
- Regional departments of the Ministry for Family Affairs, Youth, and Sport’s attitude to the national program is indistinct. On the one hand, regions where “daddy schools” are already in place will likely be supportive; on the other hand, regions where such schools are unknown will be indecisive or oppose the initiative.
- Maternity House №1 in Kirovohrad will demonstrate a positive attitude to the national “daddy school” program because it has for some time been practicing labor partnering in which a father’s preparatory program is compulsory. It will take an active position and send future fathers to attend “daddy school.”
- Maternity houses in general have mixed attitudes. Those maternity houses that practice labor partnering and are interested in having prepared fathers will support the program; others that exercise traditional labor will be unwilling to support it.
- Centers for reproductive health, women’s clinics, and health institutions in general will show a positive attitude toward the national “daddy school” program. The reason for this is their desire for more active involvement of men into future parenthood programs while taking part in a reproductive health treatment program. They express their support through comprehensive support of the local authorities that try to organize “daddy schools” in the district/region.

3.2. Organized interested groups (outside the public sector)

- Creative center Optimal Development of an Individual (Kirovohrad regional NGO), Men Against Violence (Vynnytsia municipal NGO), and other civil society groups that disseminate gender ideas among men have a positive attitude toward a national program for training young fathers. They are willing to disseminate their positive experience and best practices all over Ukraine. Their positive attitude will be expressed via organization of pilot “daddy schools” in certain regions of Ukraine and expansion of their experience into other regions.

- All-Ukrainian Civic Society Union of Ukrainian Women and other women's NGOs have a mixed attitude to solving the problem. On the one hand, they are expected to support the initiative that focuses on reduction of violence against women; on the other hand, they may be reluctant to lose support from the state budget. The attitude of women's NGOs may take the form of official open support but passivity in promoting and lobbying for the program.
- Regional media in the regions where "daddy schools" will be launched will be supportive, as this initiative will allow the media to shape public opinion with regard to stereotypes of the roles of men and women in the family. Their support will take the form of regular publications that promote active fatherhood and public service announcements about the issue.
- The national media's attitude toward the national program is unclear. On the one hand, the media is interested in disseminating positive parenthood experiences and new knowledge among their target audience; on the other hand, some journalists demonstrate conservatism and biased attitudes toward gender issues. Their attitude may be expressed through occasional articles on active parenthood.

4. Structuring the problem

4.1. Goals in solving the problem:

The goal is the reduction of divorces among young families in Ukraine and minimizing family violence in problem families.

Policy objectives are:

- to launch a general program preparing men for family life;
- to establish institutions capable of providing such training;
- to develop a procedure for constant monitoring of the effectiveness of training institutions;
- to launch the national program of joint (partner) nativity;
- to propagate among men the possibility of obtaining child care leave.

4.2. Indicators that signal the achievement of goals and objectives

- adoption of the State Program for Gender Change, with a special section on the initiation of the program preparing men for family life;
- annual 10% growth of institutions preparing men for family life;
- requirement that institutions which train men for family life test their capacity to deliver trainings;
- annual 10% increase in the institutions that practice joint (partner) nativity programs;
- annual 5% increase of fathers who take leave from work to take care for their newborn children;
- annual 1% decrease of divorces among young Ukrainian families.

4.3. Restrictions

The factors that can significantly affect the achievement of goals are: the absence of the legal basis necessary for the program; absence of a body ready to take the responsibility for gender changes in Ukraine; and unwillingness on behalf of the Social Centers for Family, Youth, and Children to introduce training programs for men.

5. Analysis of options for solving the problem

There are several options for solving the problem:

1. continuation of the existing policy;
2. establishing the network of “daddy schools” under the Social Centers for Family, Youth, and Children;
3. opening the position of a family consultant for men at the Social Centers for Family, Youth, and Children.

5.1. Option 1: continuation of the existing policy

Advantages associated with option 1:

- well-developed system of cooperation between different public institutions involved in resolution of family conflicts;
- no need to reorganize the existing institutions;
- no need to allocate additional funding to implement a new policy.

Shortcomings of option 1:

- the work focuses on the consequences, not the causes of the problem;
- weak support for this policy on behalf of the population.

More detailed analysis of option 1 is provided in Table 1.

Table 1

Analysis of option 1

Step / measure as a component of the conceptual framework	Form of realization	Advantages of implementing the option	Possible shortcomings of the option
Training program for future mothers	Preparation of future mothers through the system of women’s clinics	Growing awareness among women about birth and post-birth period	Low percentage of men involved in such programs
Work with problem families	Opening the position of family psychologist at Social Centers for Family, Youth, and Children	Better opportunities for families to ask for professional help from family consultants	Futile efforts on behalf of consultants in families where conflict is acute

Prevention of family abuse	Establishing rehabilitation centers for victims of family violence	Rehabilitation of victims and return to normal life	Efforts focusing on consequences, not the causes of the problem
Consultations to families that are going to divorce	Settlement of property issues and parenthood issues	Satisfaction of property rights and social rights of each family member	Low percentage of families willing to continue living together

5.2. Option 2: establishing a network of “daddy schools” under the Social Centers for Family, Youth, and Children

Advantages of option 2:

- High societal support for the policy option;
- Focus on narrow target group;
- Preventive character of measures.

Shortcomings of option 2:

- The need to reorganize the existing institutions;
- The need to provide additional funding for the selected policy option.

More detailed analysis of option 2 is provided in Table 2.

Table 2

Analysis of option 2

Step / measure as a component of the conceptual framework	Form of realization	Advantages of implementing the option	Possible shortcomings of the option
Building a team of consultants	Building a team of consultants among men who have parenthood experience and have been trained for family life and parenthood	Trained experts capable of conducting training in “daddy schools”	Difficulties with finding proper candidates
Dissemination of information on “daddy schools”	Dissemination of information materials via the representatives of a target group and a network of partnership organizations	Establishing the database on potential clients	Partners’ unwillingness to assist with dissemination of information, high costs of information campaign

Training future fathers	Training, on a voluntary basis, to young men expecting a child is provided during the two months before the birth	Fathers are provided with practical information on the birth of a child and the possible changes in the psychological environment in the family	Expenditures on honoraria to consultants and rental of premises
Participation of men in partner nativity	Steering graduates of “daddy schools” toward taking part in partner nativity	Improvement of psychological and emotional environment in families of “daddy schools” graduates	Maternity houses are unprepared to run partner nativity programs
Visits of “daddy schools” graduates’ families	Consultants visit the families of “daddy school” graduates in order to provide practical information and help with problems that emerge after childbirth	Early assistance with conflict resolution	Expenditures on honoraria to consultants and visits

5.3. Option 3: opening the position of a family consultant for men at the Social Centers for Family, Youth, and Children

Advantages of option 3:

- Policy orientation toward problem prevention;
- Insignificant costs of policy implementation;
- Administrative feasibility of policy option.

Shortcomings of this option:

- Low effectiveness due to existing stereotypes among men;
- Potential disregard of the program by the representatives of the target group.

More detailed analysis of option №3 is provided in Table 3.

Table 3

Analysis of option 3

Step / measure as a component of the conceptual framework	Form of realization	Advantages of implementing the option	Possible shortcomings of the option
Building a team of consultants	Building a team of consultants among men who have parenthood experience and have been trained for family life and parenthood	Trained experts capable of providing consultative services to men	Men may be unwilling to come for help and discuss their problems
Dissemination of information on consultants and their services	Dissemination of information materials via the representatives of a target group and a network of partnership organizations	Establishing the database on potential clients	Partners' unwillingness to assist with dissemination of information, high costs of information campaign
Face-to-face consultations to men	Husbands/future fathers visit consultants	Professional help from a trained consultant	Expenditures on honoraria to consultants and rental of premises
Consultants' visits to problem families	Consultants visit families to assist with problem solving and settlement of conflicts	Early assistance with conflict resolution in families of "daddy school" graduates	Expenditures on honoraria to consultants, families' unwillingness to seek help of consultants

6. Recommendations and implementation

Comparative analysis of policy options based on five universal criteria [22] is represented in Table 4.

Table 4

Comparative analysis of policy options

<i>Criteria</i>	<i>Assessment of policy options</i>		
	A.1 Continuation of the existing policy	A.2 Establishing the network of “daddy schools” under the Social Centers for Family, Youth, and Children	A.3 Opening the position of a family consultant for men
Effectiveness	2	2	1
Efficiency	2	2	2
Equity	2	3	2
Political feasibility	2	3	2
Administrative feasibility	3	2	2
The score of the option	11	12	9
Option rating	2	1	3

Table 5 provides the grounds for assessment of policy options according to effectiveness and efficiency criteria.[2]

Table 5

Assessment of efficiency and effectiveness of policy options

Option №1 Continuation of the existing policy	Public policy focusing on solving the problem (step by step)	Efficiency	Score	Effectiveness	Score
		Training for future mothers provided through the system of women’s clinics	A rather efficient step. The training program is provided by healthcare institutions.	3	In general, this step is not very effective because the percentage of men covered by such training programs is very low.
	Opening the position of a family psychologist within the system of State Service for Children, Family, and Youth	An efficient step. The position is already included in the staff list of Social Centers for Family, Youth, and Children.	2	An effective step as it opens the opportunity for problem families to seek professional help.	2
	Establishing rehabilitation centers for victims of family violence	This is a low-efficiency step. Rehabilitation centers can be found only in few regions.	1	On the whole, this step is not effective as it focuses on the consequences of the problem and does not address its causes.	1

	Settlement of property issues and parenthood issues	This is a rather efficient step. The program is implemented through institutions within the system of justice and judiciary.	3	An effective step on the whole as it allows family members to preserve their property rights.	2
	Average score	2.25 (rounded to 2)		1.5 (rounded to 2)	
Option №2. Establishing the network of «daddy schools» under the Social Centers for Family, Youth, and Children	Building a team of consultants from men who have parenthood experience and have been trained for family life and parenthood	An efficient step that does not require significant additional funding	3	On the whole, it is an effective step, though it may be difficult to find proper candidates.	2
	Dissemination of information materials via the representatives of the target group and the network of partnership organizations	An efficient step, though it requires additional funding	2	An effective step on the whole, but there is a risk that information materials will not meet the requirements of the target group.	2
	Training on a voluntary basis to young men expecting a child provided during the two months before the birth	An efficient step, though it requires additional funding for honoraria to consultants	2	A rather effective step, on the whole	3
	Steering graduates of “daddy schools” toward taking part in partner nativity	An efficient step that does not foresee additional resources and funding	3	A rather effective measure, though there is a risk that maternity houses are not ready to run partner nativity programs	2
	Consultant visits to the families of “daddy school” graduates in order to provide practical information and help with problems that emerge after the birth of a child	An efficient step on the whole, but requires additional expenditures to pay honoraria to consultants	2	On the whole, a rather effective step	3
	Average score	2.4 (rounded to 2)		2.2 (rounded to 2)	

Opening the position of a family consultant for men	Building a team of consultants from men who have parenthood experience and have been trained for family life and parenthood	On the whole, an efficient step that does not foresee additional resources or funding	2	The effectiveness of this measure is rather low because men may be unwilling to openly discuss their problems	1
	Dissemination of information materials via the representatives of the target group and the network of partnership organizations	An efficient step on the whole, but requires additional resources	2	This is an effective measure, but the information materials may not meet the requirements of the target group	2
Option №3	Husbands/future fathers visit consultants	On the whole, it is an efficient step, though it requires additional funding to pay honoraria for consultants	2	This step may be of low effectiveness because men may be unwilling to discuss their problems with consultants	1
	Consultants visit families to assist with problem solving and settlement of conflicts	On the whole, it is an efficient step, though it requires additional funding to pay consultants for their services	2	In general, this step may be of low effectiveness as families may be unwilling to seek professional help and invite consultants	1
	Average	2		1.25 (rounded to 1)	

Based on the results of comparative analysis, we may conclude that the optimal strategy for solving the problem (lack of awareness/ill-preparedness of young men for family life) is the establishment of “daddy schools” under the Social Centers for Family, Youth, and Children (option 2). This option, as can be seen from Table 4, has the highest rating. In addition, it obtained the maximum score according to equity and political feasibility criteria, which means implementation of this option will have the highest support among the population

To implement the preferred option — establishment of “daddy schools” under the Social Centers for Family, Youth, and Children — the following course of action is recommended:

- to build teams of consultants, recruiting them from men who already have fatherhood experience and have been trained for family life and parenthood;
- to disseminate information materials among representatives of the target group and via the network of partner organizations;

- to provide, on a voluntary basis, training to fathers during the two months before the birth of a child;
- to direct graduates of “daddy schools” to maternity houses to participate in partner nativity programs;
- to organize visits by consultants to the families of “daddy school” graduates to provide advice and consultations in case there are problems after the birth of a child.

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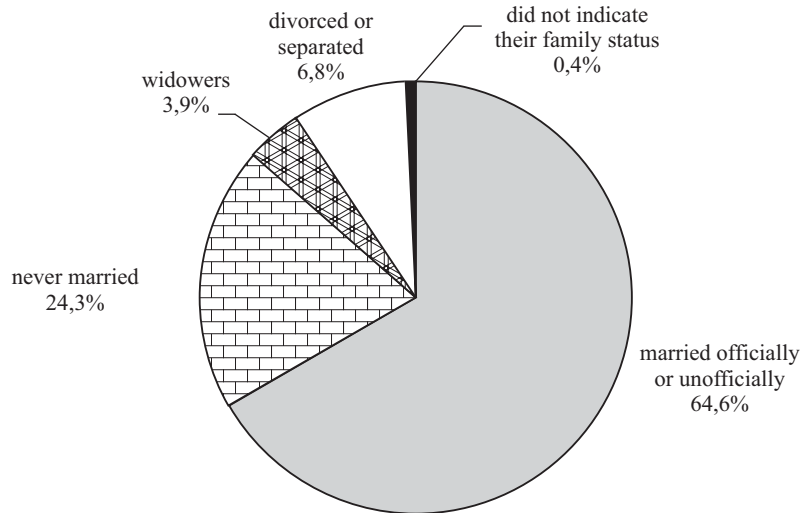
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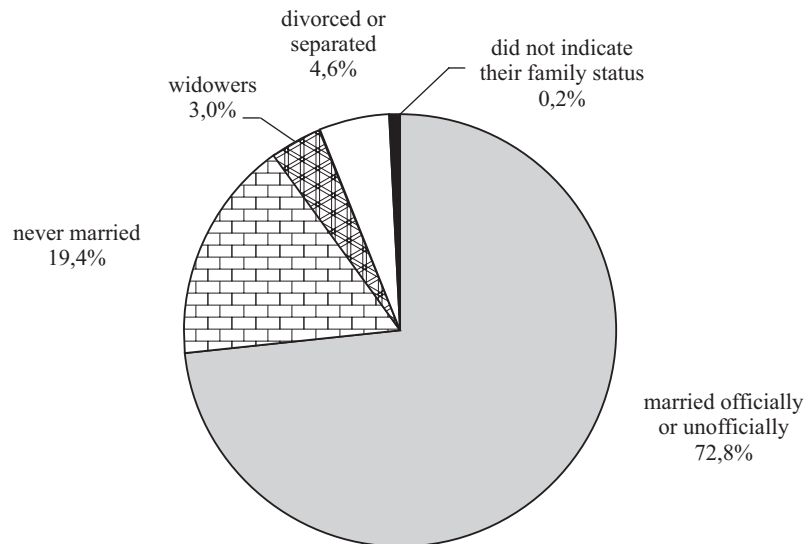
Annex 1

MEN DIVIDED ACCORDING TO FAMILY STATUS

Following the results of All-Ukrainian 2001 Census

**MEN DIVIDED ACCORDING TO FAMILY STATUS**

Following the results of All-Ukrainian 1989 Census



Annex 2

Population of Ukraine according to family status, sex, and age

Age groups	Total	including persons who are			
		married officially (unofficially)	have never been married	widows/widowers	divorced (separated)
1	2	3	4	5	6
Total Population	40291039	23686069	7984415	4943686	3529113
Men	18241611	11782847	4433406	714163	1239880
Women	22049428	11903222	3551009	4229523	2289233
15-19	3891568	160004	3713328	457	7819
Men	1989538	20652	1962406	64	1046
Women	1902030	139352	1750922	393	6773
20-24	3489588	1267128	2079280	5210	119861
Men	1766985	438199	1290794	468	28434
Women	1722603	828929	788486	4742	91427
25-29	3402010	2226794	821096	16814	322919
Men	1700516	1034482	544424	1825	112538
Women	1701494	1192312	276672	14989	210381
30-34	3204103	2397063	342986	33256	417679
Men	1586043	1187940	221103	4293	166164
Women	1618060	1209123	121883	28963	251515
35-39	3417079	2652903	215737	62530	470104
Men	1660397	1323655	133366	8555	187184
Women	1756682	1329248	82371	53975	282920
40-44	3828331	2994454	176549	115431	529372
Men	1833438	1502058	102593	16838	205939
Women	1994893	1492396	73956	98593	323433
45-49	3470419	2684209	129904	174044	470913
Men	1623194	1349319	67288	24903	176076
Women	1847225	1334890	62616	149141	294837
50-54	3182588	2408098	97826	270312	395648
Men	1454550	1225575	43685	39234	140734
Women	1728038	1182523	54141	231078	254914
55-59	2062711	1488651	55185	297300	214739
Men	892852	757854	20159	40699	70712
Women	1169859	730797	35026	256601	144027
60-64	3364050	2251067	86438	738287	281157
Men	1398332	1174488	24615	111164	85005
Women	1965718	1076579	61823	627123	196152
65-69	2158171	1316845	65255	644788	127432
Men	868633	720382	10856	100362	35450
Women	1289538	596463	54399	544426	91982
70 and older	4800761	1835562	200550	2585115	171336
Men	1457430	1046600	11957	365715	30540
Women	3343331	788962	188593	2219400	140796

Annex 3

Population of Ukraine divided according to family status

	Share of persons with the following family status among the age group, %							
	Men				Women			
	Married officially or unofficially	Have never been married	Widows / widowers	Divorced (separated)	Married officially or unofficially	Have never been married	Widows / widowers	Divorced (separated)
Permanent population aged 15 and older	64,6	24,3	3,9	6,8	54,0	16,1	19,2	10,4
15–19	1,0	98,6	0,0	0,1	7,3	92,1	0,0	0,4
20–24	24,8	73,1	0,0	1,6	48,1	45,8	0,3	5,3
25–29	60,8	32,0	0,1	6,6	70,1	16,3	0,9	12,4
30–39	77,4	10,9	0,4	10,9	75,2	6,1	2,5	15,8
40–49	82,5	4,9	1,2	11,1	73,6	3,6	6,4	16,1
50–59	84,5	2,7	3,4	9,0	66,0	3,1	16,8	13,8
60–69	83,6	1,6	9,3	5,3	51,4	3,6	36	8,9
70 and older	71,8	0,8	25,1	2,1	23,6	5,6	66,4	4,2

Volodymyr Shcherbachenko

Participation of Students' Self-Governments in the System of University Self-Governing Bodies

Policy Paper Summary

Policy problem: *Students are “full-fledged members of the higher education community.” Yet, when public policy for higher education is being developed, their interests are often not considered. This happens because existing mechanisms for involving students into decision-making are not effective. The 2,700,000 young people studying at Ukrainian higher educational establishments are deprived of the ability to participate in the formulation of higher education policy.*

Over the last several years, the government has made important steps toward improving the situation, but these have not yet solved the problem. So far, Ukraine lacks a viable system of independent students' self-governments that represent students' interests. Students' NGOs and, to a large degree, students' trade unions are excluded from the higher education policy-making process. To improve the situation, decisive and consistent measures to involve student representatives in the decision-making process at both the university and national level are necessary.

Client: Ministry of Education and Science of Ukraine.

Stakeholders: University administrations, faculty, students' self-governments, students' NGOs and trade unions, other NGOs interested in development of civil society and self-government within universities, political parties, media.

Stakeholders within the government: Ministry for Family Affairs and Youth.

Goal in solving the problem: Increased participation by students as “full-fledged members of higher education community” in formulation of higher education policy.

Objectives: To improve the system for involving students in higher education policy formulation:

- at the national level;
- at the primary level (university).

Policy options:

Option 1: Status quo of limited participation due to weak student self-government.

Option 2: Government-authorized student governments serve as the main representative of the student community.

Option 3: Students' self-governments, trade unions, and NGOs as active participants in the policy-making process.

Recommendations: After comparing the three options, option three has the highest score and is most appropriate for implementation. It has a lower administrative feasibility grade due to its innovative character, but it has the highest grades for effectiveness, efficiency, equity, and political feasibility. Its principles are in accord with innovative and democratic changes promoted by the president of Ukraine, the government, and the Ministry of Education and Science.

Policy Paper

1. Defining the problem for policy analysis

Though students are "full-fledged members of university community," their interests are not always considered in formulating higher education policy because the existing system for involving students into the process is ineffective.

1.1. Symptoms of a problem situation

1. Complaints by NGOs and the media about the lack of consultative and advisory organizations representing students' opinions about the higher education system.
2. Lack of a legislative basis for involvement of student representatives into the process of higher education policy formation.
3. Opposition by some in the educational establishment to university self-governance.
4. Current university self-government bodies, students' trade unions, and NGOs have a poor record of representing students' interests. As a rule, they have been unable to effectively solve problems in higher education such as corruption, low quality of educational services, social-economic difficulties faced by students, and political pressure on student activists that belong to opposition parties or are "disobedient." In many higher education establishments, students' self-governments and trade unions do not hold open and democratic elections and/or are unaccountable and non-transparent to members.
5. Mass student protests in 1994-1996 in Sumy, Rivne, and Kirovohrad and demonstrations by medical students testify to the lack of effective mechanisms for conflict resolution and harmonization of interests among students, government structures, and university administrations.
6. Executive bodies such as the Ministry of Education and Science are overburdened by the conflicts that emerge in different universities and lack the ability to resolve them. Partly, this situation is a result the lack of strong student self-government system.

1.2. Legal and institutional basis

The Constitution of Ukraine provides a legal basis for student participation in the creation of higher education policy, namely articles that grant citizens civic and political rights, as well as those clauses that define Ukraine as a constitutional, legal, and social state. In addition, the above issues are regulated by the bylaws of the Cabinet of Ministers and the Ministry of Education and Science¹⁵. This provides the legal basis for the Civic College and Civic Board on Higher Education within the Ministry of Education and Science. However, student participation in these advisory-consultative bodies is inexcusably limited. For instance, the Civic Board on Higher Education is comprised of 24 members, yet none are students¹⁶. Though the head of the All-Ukrainian Students' Council is a member of the board, he is no longer a student¹⁷.

The All-Ukrainian Students Council is, in fact, the union of students' self-governments and has the status of a consultative-advisory board; it provides the institutional framework for student involvement into public policy formulation.

Students' self-government is regulated by the Ukrainian laws "On Population Self-Organization Bodies," "On Education," "On Higher Education," and other legal and regulatory acts. Two draft laws focusing on development of students' self-government have been submitted to the Verkhovna Rada. Despite the considerable amount of legislation regulating (indirectly, in the majority of cases) students' self-government, legal provisions underlying students' self-government in Ukraine are still inadequate. For instance, the current law, "On Higher Education," enacted in 2002 does not account for any student participation in the system of university self-governing bodies. The drafts submitted to the Verkhovna Rada still require significant amendments. Some clauses of the draft law, "On Amending the Law of Ukraine On

¹⁵ On Additional Measures for Involving Citizens into Public Administration and Management of Government Affairs. Resolution of the Cabinet of Ministers of 18.05.2005 №356; Directive on Civic Councils under the Ministry of Education and Science of Ukraine. Annex № 2 to the Order of the Ministry of Education and Science of Ukraine № 318 of 26.05.2005.

¹⁶ The composition of the Civic Council on Higher Education under the Ministry of Education and Science of Ukraine. Annex № 3 to the Order of the Ministry of Education and Science of Ukraine № 318 of 26.05.2005.

¹⁷ For comparisons: among 12 members of the Latvian Higher Education Council, one member has to be a student; in the Central Council on Higher Education in Poland, among 50 members, 5 are students' representatives. Sources: Law on Higher Education Establishments // http://www.aic.lv/rec/Eng/leg_en/LV_lik/HE_law_en.htm; Higher education in Ukraine and Bologna Process: Textbook / Ed. by V.Kremen // M.Stepko, Y.Bolyubash, V.Shynkaruk and others. — Ternopil: Navchalna Knyga Publishers, 2004. — P.60.

Higher Education,” in fact, subordinate students’ self-government to university administration¹⁸. This inadequate legislation limits students’ ability to participate in self-governance.

Another serious concern is that neither current law nor the drafts submitted to the Verkhovna Rada provide mechanisms for the involvement of students’ NGOs and trade unions in the higher education policy-making process. Representatives of influential student organization bodies are not involved as partners in the work of the All-Ukrainian Students’ Council or students’ self-governments within universities.

1.3. The scope of the problem

This issue affects the 2.7 million students that study at Ukraine’s 345 higher educational establishments. Increasing student participation in higher education policymaking is an important reform component and the key to democratization of the whole higher education system. Indeed, a broad circle of actors beyond just students (academia, future employers, students’ relatives, etc.) are affected by it.

1.4. Novelty of the problem

This problem has persisted for the 15 years since democratization, despite significant social and political changes within the former Soviet Union that have inspired citizens to actively participate in formulating education policy.

1.5. Background information

In a limited form, students’ involvement in formulating and implementing higher education public policy existed under the Soviet Union. The legal foundation for current activity action was laid by the laws of independent Ukraine, “On Education” (1991), “On Higher Education” (2002), and a series of by-laws adopted in the early 2000’s.

Students’ self-government as a mass movement within Ukrainian universities took root in the last ten years. By agreeing to adhere to the principles of the European Union’s Bologna Process initiative, Ukraine was obligated to begin integrating students into higher education policymaking¹⁹.

¹⁸ Draft Law on Amending the law of Ukraine “On Higher Education” with regard to students’ self-government and their participation in university affairs // http://www.rada.gov.ua:8080/pls/zweb/webproc4_1?id=&pf3511=1940.

¹⁹ The states participants in the Bologna Process recognize students as full-fledged members of a higher education community who “have the right to participate and influence the organization and content of education in universities and higher educational establishments.” The recognition of the “fundamental role of students’ organizations in the development of European higher education space” and the need “to increase the real students’ participation in managing higher education” are critical. Cited from: “To European Higher Education” (Communiqué of meeting of

On the national level, students' participation in advisory-consultative bodies did not exist in Ukraine until 2005. The state superficially encouraged student representatives to participate in official public institutions, but it was largely window-dressing and they had little influence over the policy-making process. An example of such an approach is the President's All-Ukrainian Students' Council, established in 2001.

After the political changes that took place in Ukraine at the end of 2004, serious steps were taken to ensure a citizen's right to take part in public administration, including student participation in the higher education decision-making processes. As a result, the Civic Council on Higher Education and the Civic College were established by the Ministry of Education and Science, along with the newly formed All-Ukrainian Students' Council. Since then, the Ministry of Education and Science has started to pay more attention to students' self-government. Over the last year and a half, students' influence on policy making in higher education has increased significantly, although the effectiveness of such participation is still minimal and needs improvement.

1.6. Policy tools and mechanisms for implementing the existing policy

In Ukraine, the student community can theoretically involve itself in higher education policy formulation on two levels: national (parliamentary and government structure responsible for policy for higher education) and primary (university).

At both levels, there are specific mechanisms and policy instruments. At the national level, the advisory-consultative bodies on higher education, in cooperation with the students' civil society groups and central government institutions are the mechanisms. At the primary level, involvement takes place via students' self-government, participation of students' representatives in university self-governing bodies, and cooperation between the university administration, students' NGOs and trade unions, etc.

1.7. Effectiveness and efficiency of existing policy

Student involvement in the decision-making process is currently inefficient, as the symptoms described above testify. The overall effectiveness is poor and resources are spent inefficiently.

European ministers responsible for higher education. Prague, May 5, 2001), "Formation of a single European space of higher education" (Communiqué of conference of ministers, responsible for higher education (19-20.-8.2003, Berlin) // "Bologna process in facts and documents (Sorbonne-Bologna-Salamanca-Prague-Berlin)" / Ed. by: M.Stepko, Y.Bolyubash, V.Shynkaruk and others — Ternopil, 2003.

1.8. Severity of the problem

Delays in government intervention will aggravate the existing negative trends and will impact all other sectors of public life and society.

1.9. Policy analysis client

The Ministry of Education and Science

2. Grounds for government intervention

If students' interests are not taken into consideration when higher education policy is created, the following will result:

- Reduced trust in government institutions and increased social tension;
- Hindered EU integration in higher education (the Bologna Process, part of which encourages Ukraine to adapt its system of higher education to European standards by 2010);
- Negative developments in higher education such as corruption, low quality of education services, and violation of the civic-political and social-economic rights of students;
- Extra pressure placed on government institutions, forcing them to involve themselves in conflict resolution within individual universities;
- Hindrance of higher education reform;
- Slower democratization of Ukrainian society.

These negative trends demonstrate that involving students in the development of higher education policy will increase policy effectiveness and upgrade it to meet European best practices.

3. Consultations (stakeholder analysis)

3.1. Stakeholders within the government: Ministry of Education and Science, Ministry for Family Affairs and Youth.

3.2. Other Stakeholders:

- University administration;
- Faculty, represented via lecturers' trade unions and university self-governing bodies;
- Students' self-governments, students' NGOs, and other NGOs interested in promoting self-government in education establishments;
- Students' trade unions;
- Political parties;
- Media.

Students' self-governments, students' NGOs, and other NGOs interested in promoting self-government advocate on behalf of student participation in higher education policymaking.

University administrations, especially in those higher educational establishments where “dictatorship of an individual manager or group”²⁰ is evident, tend to oppose this reform because student self-government will lead to more democratic decision making, increased student influence and reduced influence of university administration or rectors.

Representatives of students’ trade unions may regard students’ self-governments as their competitors and oppose strengthening of their role and granting them more power.

Media and political parties have the ability to influence the issue via publications or drafting and adopting the necessary legislation. In the majority of cases, their attitude is positive, though sometimes neutral. The media’s position, as well as political parties’, is very often influenced by civil society groups with which they closely cooperate.

4. Structuring the problem

4.1. Goal in solving the problem

Participation of students as “full-fledged members of the higher education community” in formulation of higher education policy.

4.2. Objectives of the identified strategy

To improve the system for involving students in higher education policy formulation:

- at the national level;
- at the primary level (university).

4.3. Indicators that signal achievement of goals

New legislation and/or amendments to existing legislation for civil society groups that represent students’ interests should be adopted, including the following provisions:

- Students’ self-governments are granted legal status;
- Funding is allocated from the university budget;
- Mechanisms for transparent and democratic elections for students’ self-government bodies;
- Student self-governments are given power to influence higher education policy (quotas for students’ representation on advisory bodies and university self-governing bodies should correspond to European best practice of 15% of the total number of representatives);

²⁰ Improvement of efficiency in higher education — a considerable factor of national social-economic capacity. Materials for the Report of the Minister of Education and Science on the final Board of the Ministry of Education and Science of Ukraine (February 23, 2006, Kyiv)// Education of Ukraine. — # 13 (706). — February 17, 2006 p. — pp.3,7.

- Students' self-governments have veto power²¹;
- A model for effective cooperation between students' civil society groups and government institutions/university administrations is developed and put into action, which allows it to involve in policy formulation all major representatives of students' organizations, NGOs, trade unions, and other civil society groups;
- Students' and representatives' advisory-consultative bodies operate effectively, with regular sessions in which issues important for students are discussed, and proposals are developed and submitted to government institutions/university administrations or collective governing bodies;
- Students' representatives are recognized by government institutions/university administrations.

4.4. Restrictions

Obstacles that may hinder student involvement in higher education policymaking include:

- Opposition from university administrations, rectors, or public servants;
- Competition among representatives of students' trade unions, NGOs, and self-governments for influence;
- Students' self-governments' lack of experience with transparent and democratic elections;
- No legal basis for enforcing student involvement in policy formulation;
- Lack of interest in the problem by Verkhovna Rada deputies.

5. Analysis of Solutions:

5.1. Option 1. Status quo, or limited participation due to weak student self-government

Major activities:

- To leave the status of students' representation within advisory-consultative bodies under the Ministry of Education and Science undefined and insignificant.
- To continue to pay lip service to the idea of students' self-governments while limiting their real influence on the issues.

²¹ Following the law of Latvia "On Higher Educational Establishments" enacted in 1995, we propose to grant students' representatives in university collective bodies the right to veto the decisions of the above bodies in case they do not account for students' interests. The veto of students' representatives does not annul the decision; it just postpones it and obliges start of the process of negotiations and settlement of interests.

- Maintain student self-government structures under the All-Ukrainian Students' Union while ignoring cooperation with students' trade unions and NGOs.
- Support Verkhovna Rada draft law that maintains the status quo.

Advantages:

- Speed-up the decision-making process without delays caused by consultations and negotiations with student representatives.

Shortcomings:

- Continued reform and democratization of higher education are at stake while public aspirations are ignored.
- The Bologna Process and Ukraine's international obligations are violated.
- Students' mistrust of government institutions increases.

5.2. Option 2. Authorized students' self-governments act as the main student representative organization

Major activities:

- Facilitate adoption of the law, "On Students' Self-Government in Ukraine."
- Amend the draft law, "On Students' Self-Government in Ukraine," that grants representatives of students' self-governments the right to veto.
- Develop and adopt a directive regulating the activities of the Civic Council under the Ministry of Education and Science that distinctly sets the powers, structure, and composition of the council and establishes a quota on student participation.
- Develop and launch educational programs notifying students of the rights and powers of students' self-governments, their representative functions, and the need for open and democratic elections.
- Ignore students' trade unions and NGOs.

Advantages:

- Facilitates higher education reform and democratization; serves the public interest.
- Brings Ukrainian higher education policy closer to Bologna standards, facilitates Ukraine's integration into EU.
- Increases students' trust in the government and its bodies.
- Accounts for students' interests in the decision-making process, making it more cooperative and coordinative.
- Facilitates struggle against corruption, low quality of educational services, violation of students' rights, etc.

- Builds institutional capacity for conflict resolution within each university and shifts the burden of these tasks away from the central government.

Shortcomings:

- Provokes antagonism between students' self-governments, trade unions, and NGOs.
- Does not broaden the decision-making process to include students' trade unions, and NGOs.
- Provokes opposition on behalf of university administrations and some rectors.
- Makes decision-making process longer.
- Requires additional administrative efforts.

Option 3. Students' self-governments, trade unions, and NGOs — active participants of policy-making process

Major activities:

- Facilitate the adoption of the law, "On Students' Self-Government in Ukraine."
- After broad public consultations, develop and implement a mechanism to involve all student-related civil society groups in the decision-making process, allowing them to represent the students' community in advisory-consultative bodies at the national level and in university self-governing bodies.
- Amend the draft law, "On Students' Self-Government in Ukraine," that grants student representatives in university governing bodies the right to veto.
- Develop and adopt a directive placing the Civic Council under the Ministry of Education and Science; define the powers, structure, and composition of the Council and set a student representation quota of no less than 15%.
- Develop and launch educational programs informing students of the rights and powers of students' self-governments, their representative functions, and the necessity to have open and democratic elections.

Advantages:

- Facilitates higher education reform and democratization; serves the public interest.
- Brings higher education policy closer to Bologna standards, facilitates Ukraine's integration into EU.
- Increases students' trust in the government and its bodies.
- Takes student interests into consideration during the decision-making process and gives all representatives of organized students' movement the opportunity to express their views.

- Facilitates struggle against corruption, low quality of educational services, violation of students' rights, etc.
- Builds institutional capacity for conflict resolution within each university and within/between different professional groups. Shifts the burden of these tasks away from the central government.
- Reduces competition and opposition among students' self-governments, trade unions, and NGOs that could emerge if the government officially favors one group over another.

Shortcomings:

- Raises opposition among university administrations and some rectors.
- Lengthens decision-making process.
- Requires additional administrative efforts.

6. Recommendations and implementation

Table 1

Comparative analysis of policy options

<i>Criteria</i>	<i>Assessment of policy options</i>		
	<i>Option 1</i>	<i>Option 2</i>	<i>Option 3</i>
Effectiveness	1,5	2,5	3
Efficiency	1,5	3	3
Equity	1	2	3
Political feasibility	2	2	2
Administrative feasibility	3	3	2,5
The score of the option	9	12,5	13,5
Option rating	3	2	1

The comparative analysis of policy options was conducted on a three-point score, where 3 stands for high score, 2 for medium, 1 for low.

6.1. Assessment of policy options

Effectiveness: Defined as the capacity of government agencies and institutions to involve students in policy formulation for higher education, as well as correspondence to European best practices. Current policy (**Option One**) only provides for minimal student involvement, which is insufficient in view of the challenges faced by higher education and Ukraine in general. **Option Two** encourages further development of students' self-government as independent and influential representatives of students' interests. However, this option excludes some student groups (trade unions and NGOs) from the decision-making process. **Option Three** encourages the development of a model that effectively involves all types of students' self-governments (trade unions, NGOs) in policy formulation and implementation.

Economic efficiency: All options do not require additional funding from the state budget. In the long term, implementation of options two and three would considerably improve the state of affairs in higher education. Reducing corruption, increasing competitiveness and making universities more attractive to students, including foreigners, all would increase economic efficiency indicators. Funding can be raised from international donor assistance or private funds for design and implementation of options two and three. Later, for further implementation of options two and three, funding should be provided by higher educational establishments (following the widespread practice of European states). This funding scheme is already foreseen by the draft law, “On Students’ Self-Government in Ukraine.”

Equity: Option three has the highest score according to this criterion as it encourages maximum student involvement in decision-making and takes into consideration the broadest possible number of opinions.

Political feasibility: Each of the options has a rather high political feasibility score. For option one, political feasibility is lower than the maximum. Given Ukraine’s international obligations and the growing civil society movement, it is next to impossible to avoid more active student involvement in the decision-making process. To implement options two and three, opposition by the most conservative groups within university administrations and among rectors must be overcome.

Administrative feasibility: None of the options require specific conditions for their implementation and all have a high degree of administrative feasibility. The rating for options one, two, and three show that options two and three are most appropriate. In our opinion, option three is the best: though it has a lower grade for administrative feasibility due to its novelty, it has the highest grades for the rest of the criteria. Its innovative and democratic character is in accord with innovative and democratic changes promoted by the president and government.

6.2. Implementation

To implement the recommended option, the following measures need to be taken:

- Facilitate the adoption of the law, “On Students’ Self-Government in Ukraine.”
- Amend above draft law to grant students’ representatives in university collective governing bodies the right to veto; involve representatives of students’ NGOs and trade unions into formation of students’ self-governments by granting them quotas in university representative bodies or via introducing a two-chamber structure of students’ self-governments, following the example of some universities in the US.
- To organize a broad public debate on the above mentioned draft law.

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- To develop and adopt the directive regulating operation of the Civic Council on Higher Education under the Ministry of Education and Science and designating powers, structure and composition of the council, as well as quotas for students' representation, in accordance with European standards.
 - Together with the Ministry for Family Affairs and Youth, interested NGOs, civil society groups and donor organizations, develop and ensure implementation of education programs notifying students of the rights and powers of students' self-governments, their representative functions, and the need to conduct competitive elections to students' self-government bodies, in accordance with the principles of openness and transparency.
 - Recommend that the All-Ukrainian Students' Council introduce changes into its statute that anticipate participation of representatives of students' NGOs and trade unions.