

# Formation of Local Government in the Industrial Regions of Ukraine

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## ABSTRACT

In this article, it is observed that reforms in Ukraine are realized under conditions that are not mastered by public administration and local government. The importance of an effective self-government for the democratization process in Ukraine is nowadays acknowledged. Local government in Ukraine still exists at an initial stage. Many questions concerning self-government in the new Constitution of Ukraine are still debated.

We describe the features of Dnepropetrovskaya oblast as an attractive market for potential investors. Also, we present some financial problems of local government. We emphasize the need for officials in self-government to transform their way of thinking and describe new roles and requirements set for them. Further, we consider the problem of correlating market and planned approaches in self-government. We also emphasize that planning in local government must be based on a democratic foundation. Strategic methods and strategic market analysis play an important part in planning for local government. We consider some methodological and technological aspects of strategic planning and SWOT-analysis. In addition, we describe a model for a regional plan based on indicative principles. This plan could be used as a base for contracts between region and state. Last, we stress the need for officials in self-government to improve their managerial skills. The role of Dniepropetrovsk Branch of Ukrainian Academy of Public Administration in this process is also described.

## INTRODUCTION

Obviously, the socio-economic reforms in Ukraine are realized under conditions of deficiency in public administration. The changing of Ukraine's public administration system to resemble the one in developed countries should be considered as a precondition for completing reforms successfully and converting Ukraine into a democratic state. The problem is not only how to divide the branches of power in a civilized way, but also how to distribute authority along the vertical, that is, how to create a harmonious sys-

tem of executive power and effective local government.

Experience from around the world has proved that local government is the most reliable support of the state. The joining of Ukraine to the Council of Europe, where a majority of members act according to the European Charter of self-government, requires that a modern democratic system of local government is formed as soon as possible. In discussions concerning the new Constitution of Ukraine great attention is paid to the question of what the local government in Ukraine should be like. There are several basic options suggested by different parties and a consensus has to be reached between the different options. In our country, local government still exists at an initial state, and many questions are now under discussion.

One of the key problems in the state system is the rights and authority of local government in its interaction with public administration. It is one of the social administration fundamental tasks to the state level: how to find a rational balance between centralization and decentralization in a system. This task is always difficult because it is closely bound with division of power. It would not be correct to say, that this problem is solved completely even in the developed countries, because, probably, it may not be possible at all. But Ukraine could learn from the experiences that other countries in Europe and around the world have in self-government. The actual task for the transitional period is to work out an effective model of self-government. A model, which would be sufficiently modern and appropriate for the traditions and conditions in Ukraine.

A typical administrative system in Europe has two or three levels. According to new Constitution (*Конституція України*) local government in Ukraine has two levels: (1); a base level (where the upper boundary is city), and a level which represents the joined interests of municipalities (oblasts and raions). The administrative division of Ukraine includes 24 oblasts, two cit-

ies subordinate to the central government and the Autonomous Republic of Crimea. As administrative units the Ukrainian oblasts resemble the regions of European countries. Thus, in our opinion, it would be correct to consider oblasts and their raions as the regional level of self-government.

The problems of self-government in Dnipropetrovskaya oblast have a special character. Dnipropetrovskaya oblast is a large industrial region, which has significant internal and export potential. The heavy industry – metallurgy, iron and magnase ores extraction, machine-building and metal-working, chemistry, military-industrial enterprises and space-rocket complexes – is especially well-developed. The oblast has a high-capacity electric power base and a well-ramified network of transportation, the water-ways in particular. It is also a major producer of agricultural goods. Dnipropetrovskaya oblast has many well-known establishments of higher education and scientific research institutions, the famous scientific schools. Great scientific, intellectual and personnel potential has been accumulated here. Privatization is constantly increasing in the oblast, although more than fifty per cent of the enterprises in industry, transport and building are still state-owned. The circumstances for ownership are rather developed, and close international contacts with occidental business units and governments are being established in the oblast. All these factors give grounds to think that the regional market of Dnipropetrovskaya oblast could attract foreign investors.

Dnipropetrovskaya oblast is one of the largest producers of added value and makes a significant contribution to Gross National Product of Ukraine. But a considerable part of financial means created and accumulated in oblast is deducted to the central government? budget and distributed to other regions. For example, according to the Budget Law of Ukraine for 1996, 75,8 per cent of state tax and 50 per cent of income tax must be deducted to the central budget (*Закон Украины "О государственном бюджете Украины на 1996 год"*). As a result, there is a serious financial deficit the local government. Taking into account the particular importance of this region for Ukraine and the fact that business is very active here, a special authority to govern state-owned properties and other rights of self-government were delegated to the oblast by a Decree of the President of Ukraine in 1993. Because the unsolved problem of vertical executive power, the lagging Constitution proc-

ess and an economic crisis, this authority has not unfortunately been fully realized. So, we concentrate to describe what we think the self-government system should be in a large industrial region. We would like to see that our views won support in local government.

## THE NEED FOR THE ADMINISTRATORS TO TRANSFORM THEIR WAY OF THINKING

We wish to present an important thesis. The preconditions for moving from a crisis shock to constructive action have already been created in Ukraine. There are still many external reasons which make a normal development difficult for the regions and enterprises. Leading Ukrainian economy out of the crisis will be more effective if state programmes are supported by active policy of self-government to adopt into the new conditions. At present, it is important to concentrate on overcoming the internal reasons for the crisis, and to establish proper management for the local government.

Modern management differs from the traditional administration in the former USSR. Management acts under competitive conditions. In an open system external market environment is taken into account and the marketing function has to be realized. The economic and socio-psychological methods instead of administrative ones dominate in management. Management is oriented towards the interests of personality and assigns a special role for leadership. Management is free from ideology and open to any improvements and innovations (Шаров, 1995). Today, the development of regional economy is the most important source of the means for solving social, and political, problems in the reform process of the whole country. So, management for local government has to create the conditions and infrastructure for attracting investments to the region, developing enterprise, promoting small business, and searching sensible solutions for the interaction of state-owned and private enterprises with the local government.

One of the basic ideas of decentralizing administration and expanding self-government authority is to take the decision-making process to the places where problems arise. As the socio-economic responsibility of local governments has increased considerable, Ukrainian officials have to master their new roles as self-government managers. These roles have to meet certain requirements:

- closed relations with the inhabitants of the municipality, monitoring public opinion and a timely reaction to it;
- orientation to action revealing and solving problems in due time;
- effectiveness (doing the right things) and efficiency (doing things right);
- independence and spirit of enterprise, ability to take risks, creative approach to decision-making in conditions where resources are limited;
- uncreasing self-development of local managers;
- orientation towards a rational self-government structure, minimizing negative bureaucracy, delegating responsibility to departments and personnel.

The previous administrative system acted mostly as a tool of compulsion. It had insignificant elements of creativity and promoted dependant sentiments because of hard guardianship by the state. The result was a certain kind of mentality, weak skills and abilities for real management among administrators. Therefore changing the way administrators think is a special task when the self-government is being formed.

#### **CORRELATION OF MARKET AND PLANNED APPROACHES IN SELF-GOVERNMENT**

In spite of difficulties, it is widely understood that a developed self-government is a precondition for forming real market relations. On the other hand, market conditions increase the responsibility of regions for developing their own territory. They also change the traditional functions of local governments. So, if we want to answer the question of what self-government in Ukraine should be like, we mean that its mechanisms must be adapted to market conditions. At the same time, it should be borne in mind that the transition period is a special period. It would be incorrect to let matters drift in hope that 'the invisible hand of market' will arrange everything. The first experiences of market reforms in East European countries have proved the dangers of such approach. The transition requires a particularly rational combination of administrative-planned methods and market ones. Here, we mean that planned regulation does not replace market mechanisms, but multiplies it by all the means of provisions, background and decision-making of the strategic management. That is why modern planning is a useful and important man-

agerial tool in the market conditions. Planning gives possibilities to substantiate and determine the priorities of actions and the distribution of limited resources. It also reduces the risks of using market opportunities. Planning integrates the interests of different local groups to achieve common aims. It helps the administrators and employees to understand what they are expected. Planning prohibits the administrators' tendency to take into account only today's interests without seeing the consequences in the future. At least the planning sets up indicators for target achievement control (Шаров 1996).

These advantages of planning must be used in a modern self-government system. There are two basic aspects of planning in local government: social and technological. *Social aspect of planning in local government.* Experience from around the world proves that democratic foundation is essential for effective planning in local government (Райт 1994, Фишер 1991, Вон Роджер - Глассер 1994). This means active participation of the community, social and political organizations and representatives of business in the process. The planning also promotes inhabitants' awareness of what local government intends to do. And further, it gives the possibility to reveal problems in the community/municipality and region, allows to expand assumptions concerning future goals and activity. It also guarantees citizens' support when the plans are realized, and promotes co-operation between public and private sectors. It is very important that the democratic rights of people are ensured, and that they are stimulated to participate in the decision-making process concerning the future of their community. In this way, democratic planning becomes a reliable means to reach a consensus. All these factors attract investors, too, because they want to be sure that their investment project will meet the needs of the inhabitants, not only those of the local government officials. Otherwise problems are inevitable in the future.

*The technological aspect of planning. Strategic market analysis.* From this point of view, planning is considered as a system of making planned decisions and preparing necessary information for the process. It stimulates new thinking on alternatives and resources. Strategic planning is emphasized all over the world in managing changes in self-government (Райт 1994, Фишер 1991, Gordon 1993). It provides essential advantages for decision-making in key problems. Strategic planning has been widely used in managing private companies for decades, but it is a

relatively new activity in state establishments and local governments. It is well-known, that strategic planning reveals new opportunities and ensures harmony between the chosen goals, market changes and internal potential of the system. The basic functions of strategic planning are to determine goals, to reveal opportunities and threats of external environment, to analyse the strong and weak sides of organization, to reveal the strategic priorities and to produce a strategic plan. Thus, strategic planning has particular importance in the transition process of Ukraine. Transferring from short-term planning to the strategic approaches offers an opportunity to determine the probable future of the region, perspectives on its development and to realize planning according to scheme *from future to present* instead of scheme *from past to future*. It gives preference to future tasks, orients towards prevision instead orientation to facts and ensures that different alternatives are investigated in time. In the present conditions in Ukraine, there are centrifugal tendencies because the process of decentralization are developed. In this case, strategic planning realizes its most important function in integrating the goals, aspirations and interests of producers in different sectors of economy and citizen groups.

The market economy does not give any guarantees for the future because there are many risks both in external and internal environment. Some regions in Ukraine function already under competitive conditions in order to attract domestic and foreign investments, develop enterprising and increase employment and local budget income. Lack of systematic information on the region and its potential is also a risk factor, particularly for foreign investors. Ability to 'listen to the market' is very important for democratic self-government: at least the decision-makers need information on what the inhabitants – future electors – are expecting and to strive to realize their expectations. Effective policy, particularly during the transition period, depends on a reliable diagnosis of what is taking place in reality.

Thus, the research and analysis of market conditions has a special significance for designing an effective strategy for self-government development. The strategic market analysis (SWOT-analysis: 'strength-weakness-opportunities-threats') meets these requirements completely. One of the essential shortcomings of the present? planning practice of local government is an almost total absence of any kind of analysis of the regional development priorities. From this point

of view, we would like to stress that the actual planning process, which requires market research, is equally important as the result of this process. Strategic market analysis and monitoring the situation makes it possible to reveal the strong and weak sides of the region from a economic-organizational, social, demographic, environmental, and political point of view. It also helps to determine the priorities for development because the weak sides could be considered as the preference spheres for growth and as additional opportunities for attracting the investments (Вон Роджер – Глассер, 1994).

Important methodological questions are: what indicators are the most appropriate to determine the 'strengths' and 'weaknesses' of the region? What factors must be incessantly controlled by self-government? While these questions have been worked out rather well in the strategic planning for private companies, they are open in local government (4). On the basis of world-wide and domestic experience, we could propose a reference list for the integrative indicators that apply to Ukrainian conditions: specialization of enterprises and their economic potential (especially export), experience and traditions of industrial activity, natural and energetic resources, level of employment, qualification level of labour force, quantity and quality of higher educational establishments and scientific research institutes, scientific, technical and innovation potential, demographic characteristics of the region, standard of means of transportation, rate of local taxes, standard of telecommunication systems, and quality of environment.

Obviously the choice for indicators development alternatives should be done in accordance with general goals of the community. The community may prefer to be an industrial or agricultural region, or maybe concentrate on tourism taking into account its local environment, historical and other places on interests. Strategic market analysis enables to weigh the advantages and potential of the region. It directs towards the needs of the local people and entrepreneurs, and helps to understand intentions of the competitors. Therefore, we think that it is necessary to set up a system for collecting and analysing market information at a separate department of the local government. This would ensure a better quality of local government decisions.

## SELF-GOVERNMENT PLANS

Ukrainian oblasts design their own plans for socio-economic development every year. These plans are discussed and confirmed together with oblast budgets by the oblast Council Committee. But, in spite of the changing conditions, planning is mostly realized in an old-fashioned way. This includes mainly gathering data on production, needs of resources in business units, calculating the integrative indicators and transferring them to the Ministry of Economics. As many of the enterprises have already been privatized and need not present their plan to the local government, the compiled data are not complete and therefore of little use. This information can not be used for a well-founded local government budget, either. Even the traditional control is almost impossible. Should this document disappear, practically nobody would notice it. It can not be the means for regulating and integrating the aspirations of businesses in their movement forward. Modern planning in self-government does not correspond to principles of indicative planning, although intentions to implement them have been stated in Ukraine. The plan must be a part of integrated concept of the regional administration. According to French experts, difficulties in organizing and planning that could not be solved at municipality level have been overcome at regional level (Карлсад – Озвда, 1992). Region is a subsystem of the socio-economic system of the whole country. The combination of interests at different levels must be reached in this subsystem. The regional plan must be considered as one of the most important means to ensure that the interests of business are integrated with regional and state priorities.

The system of regional planning has to correspond to the mission of the regional administration. This mission could be defined as follows: to create conditions and infrastructure that stimulates business activity, to attract investments to the region and to expand the financial base for regional development so that the living standard and social welfare is improved. To achieve this, the formation of various markets (finances, goods and services, labour, innovations etc.) must be promoted, small businesses must be supported, privatization must be stirred up and variety of properties must be ensured. The basic principle of solving these tasks is a flexible combination of planned methods and self-organizing market system. Thus, a general task is to create a modern system of management which will use mod-

ern methodical tools, democratic approaches and a well-developed system for analysis and data maintenance.

As an inherent part of such management system, regional planning must chiefly have an indicative character and serve as means for regulating business activity. The essence of such plan is to determine the priorities for regional development recognized by the public and to stimulate goods and service procedures who follow these priorities. Indicative planning enables to co-ordinate the positions of regional power and private business by economic means. Producers plan their production in free conditions and have the possibility to compare their own intentions, priorities and projects with the appropriate one of self-government. In this way, a lack of confidence and probability for making strategic mistakes are reduced for private businesses. Besides, information from self-government on the perspectives for improving regional infrastructure stimulates entrepreneurs' activity. Indicative planning reveals the problems and main intentions of businesses and the region as a whole. Results from strategic marketing analysis, especially the analysis of the strong and weak sides of the region, should be used in this process. The analysed information is then synthesized and the regional priorities formed. A special goal is to reveal spheres where the interests of business and region coincide. This is the base for determining the main directions of development and control indicators. One of the numerous departments of local government should be specialized for this research. This will also require extensive data-maintenance on the planning process.

The following means for stimulating and supporting enterprises can be used in indicative planning: favourable taxation and crediting, ensuring credits by guarantees from the local government, partial or full tax release, targeted subsidies, favourable insurance conditions, patronizing intellectual and industrial property, introducing new products to the market (especially to the foreign market), favourable advertising conditions, promoting a positive image of business in local mass media etc. Regional goal-oriented programmes and investment projects, which have key importance for the region, can also be carried out on the indicative base. The businesses will participate in these projects if their attractiveness is ensured. In these cases administration has a role as an informational and organizational agent. It co-ordinates the participation of enterprises, which are necessary for the success of the

project, provides them contract based orders for products and services during the project and carries out project monitoring. To carry out large projects, it is possible to organize a temporary pool similar to consortium under the aegis of local government. Thus, the regional plan becomes a foundation for tax, budget, credit, investment, price, insurance, and licence policies of regional power structures.

There is a special sphere in regional planning in which regulating planning processes bears much harder character. The aim of this part of planning is to provide the region with the products and resources which are essential for the region to survive during the harsh transition period and to ensure deliveries to the state. For this purpose the regional and state order is used according to legislation of Ukraine. The state-owned and municipal enterprises, enterprises-monopolists also carry out these types of orders without fail. This step is necessary in the present conditions in Ukraine. Other enterprises have the possibility to participate in carrying out these orders voluntarily on a competitive base. So, regional plan takes into account both regional and state priorities and could thus be served as the base for contracts between region and state. Experience of the French on decentralized planning is, in our opinion, useful and rather suitable for Ukraine. It considers a region as an independent unit, which is able to work out and realize projects concerning economic development and land use. In this case contracts are considered to be the main means of co-ordinating and carrying out the general state plan. Contracts for five-year periods are concluded between the Prefect, as the representative of the state, and President of the Regional Council Committee, as the representative of the region. These contracts aim to realize their mutual priorities. Each partner is obligated to ensure the necessary financing for the activities. During forming and confirming the plans, French legislation ensures full freedom for regional governments within their authorities in procedural obligations. Theoretically, this kind of freedom in planning should lead to a discrepancy between national orientations and regional plans. In fact, this danger is limited, because, on the one hand, information is exchanged constantly, and on the other, the procedure of concluding contracts allows to restrict potential drifts (Карлсад - Озапда, 1992). For realizing a similar scheme in Ukraine's conditions, it is necessary to create certain legal preconditions, i.e. to work-out the Constitution determining the forms and methods

for economic and planned activity of the state and its regional subsystems.

### TRAINING CIVIL SERVANTS IN SELF-GOVERNMENT

The indispensable condition for improving the quality of planning is to develop administrators' managerial skills. This concerns especially persons in the decision-making process. The majority of business visitors in Ukraine notice that managerial skills in collective decision-making are nearly non-existing. The task is to learn how to resolve complex problems, which is an important part of management in a change situation. The Dnepropetrovsk Branch of Ukrainian Academy of Public Administration carries out a great work in training civil servants in self-government. For these purposes, it is very important to apply modern management technologies. For the training of decision-making skills in strategic planning process, we use new methodical elaboration and educational material from the United Nations Centre for Human Settlements Habitat (Финчер, 1993). The main advantage of this material is the strong orientation to the practical side of training.

The training deals with the following stages in decision-making process: team-building; group dynamics; revealing the problem and opportunities; problem analysis, which includes defining the problem specifically and determining its 'force field'; planning the actions, which includes generating alternatives by different creative means, assessing the alternatives, choosing the most appropriate ones and producing a detailed plan of actions; and lastly, realizing the activities and evaluation of the results. Each stage of this circle has its own features, and self-government officials must learn them. In order to achieve this goal, intensive methods are widely used: tests, group discussions, case studies, etc. The training follows the principle 'learning by doing'. It includes e.g. working with concrete socio-economic problems in self-government which are then prepared for consideration at the Council Committee Session of the self-government.

### CONCLUSIONS

The great importance of local self-government in the democratization process in Ukraine is already acknowledged. But numerous problems

must be solved in creating an effective system of self-government. First, the political ground and the role of local self-government must be specifically determined in new Constitution of Ukraine. The next step is to develop legislation on local self-government. The legislation has to define their rights and authorities for interaction with public administration in organizational, financial and economic spheres. It is necessary to work out a rational administrative structure to minimize the bureaucratic effects of the traditional administrative system. As for methods of administration, they must combine, in our opinion, flexible market approaches with planned regulation, especially during the transition period.

We have described views on what the system of local government planning should be. It should be based on the principles of indicative planning using strategic planning and strategic market analysis. One of the most important tasks for solving problems of self-government development is to train self-government officials in rational decision-making. We want to emphasize once more, that effective administration and planning for local government have to be realized only on a democratic base. The above mentioned requires that the perhaps most difficult problem is solved first – namely that administrators' way of thinking has to be transformed. And we consider this to be the key moment in realizing the mission of our Academy.

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