

Annex 2 - Annual Action Programme 2012 for Ukraine, part 2

5. IDENTIFICATION

Title/Number	<i>Community Based Approach to Local Development – CBA Phase III</i> <i>ENPI / 2012 / 024-267</i>		
Total cost	EUR 23.8 million <i>EU contribution: EUR 23 million</i> <i>UNDP joint co-financing: EUR 0.8 million</i> Indicatively, up to 50% co-financing of the micro-projects by municipalities/communities		
Aid method / Method of implementation	Project approach –joint management with the United Nations Development Programme (UNDP)		
DAC-code	15112	Sector	Multi-sector aid

6. RATIONALE

Sector context

During the last decade, several programmes have been launched to overcome the legacy of the Soviet Union of a highly centralised system of policy, planning, budgeting and decision-making that is not geared towards accommodating the needs and priorities as perceived by citizens and local authorities. These programmes tried to actively involve citizens in local development. The responsibility for delivery of energy-related services and addressing local development problems has been given to self-governing local bodies in the spirit of the European Charter on Local Self-government. But lack of human and financial resources within these local authorities, especially those in remote/rural areas, makes it difficult to implement this new approach.

According to the national census of 2001, the share of population of Ukraine living in villages and small towns of less than 50,000 inhabitants constitutes 45% of the population of Ukraine. Over the past years, however, the Ukrainian government has not paid much attention to the problems of rural Ukraine. Ukrainian rural areas are experiencing a systemic crisis which manifests itself in a variety of issues, such as:

The central level policy and legal frameworks do not provide clear mandates, resources and division of responsibilities of local governments in the area of public service delivery

Despite their major role in allocating financial resources, local governments have only a limited ability to determine spending structure and reallocate expenditures within sectors. Local civil servants lack capacities in designing local development strategies, planning allocation of resources and reporting to local communities.

One of the fundamental reasons for the slow local self-governance development in Ukraine is the dominant role of the central government. The government authorities at all levels are not used to engaging the society in local decision-making processes. Furthermore, neither local authorities nor local communities are sensitised on the importance of involving

other stakeholders such as private sector, civil society and media into local development processes.

The issue of decentralisation and local government reform has been under discussion for several years and relevant draft legislation is being elaborated. Recent initiative of the President of Ukraine on Constitutional Assembly may put the emphasis on local governance reform.

Although some public participation mechanisms are already part of the legislation, they are not being applied fully. Consequently, most community members cannot exercise their right to participate in decision making, in particular in the process of debating local policy issues.

Limited resources available on the local level

Ukraine's taxation system is overly centralized, with most taxes accumulated by the central government and then redistributed to local governments. The majority of cities and districts rely heavily upon financial transfers from the state budget. In fact, up to 90% of village council budgets are made of transfers from the central government. Local budgets are formed mainly out of national fees and taxes, such as personal income tax which are fully regulated by the state. Other than land taxes, local governments have few opportunities to influence the total volume of revenues from taxes and fees. As a result, the share of local budget revenues is critically small and there is little interest among local governments to raise tax revenues across the board. The allocated public funds are not sufficient to finance all public services that should be available to citizens, as defined by the Ukrainian constitution and Ukrainian law.

Growing poverty and unemployment among the rural population

The current level of unemployment in villages and small towns is approximately 27%. Half of the entire rural population use their private gardens and household plots for subsistence. Due to a generally low level of rural development, small plot sizes, lack of financial assets, lack of mechanization, high unit costs for factor inputs (e.g. seeds, stock acquired in small quantities), poor quality of infrastructure and lack of market access, small holdings fail to generate surpluses and to enter a positive cycle of savings and investment. Where small surpluses are produced, the bulk of value added is appropriated by intermediaries, processors, wholesalers and retailers. Furthermore, 60% of the rural areas are mono-functional, where the economy is characterised only by one or two sectors (e.g. mining, metallurgy, military production).

Deteriorating living standards in rural areas, declining social services infrastructure, and reduced access to social services

According to the State Statistics Committee (2009), only 30 % of households in rural areas have access to centralized water supply and sanitation, compared to 83 % of urban households. Hot water is available to 30% in rural areas compared to 88% of urban households; gas supply is accessible by 50 % of rural households versus 84% of urban households. More than 20% of the boilers at community heating facilities have been in use for more than 20 years, of which 38% are obsolete and extremely inefficient. About 32% of the pipes in heating networks and 30% of heating facilities need replacement. Overall, the quality of services provided in rural areas remains poor and inefficient (e.g. heating is provided at a very high cost due to the wasted energy, and water leakage)

Inefficient use of energy

The amount of energy consumption of the Ukrainian households is 3-7 times higher than the average in the EU. One of the key reasons is that most of the equipment in use is obsolete as it has been installed during the soviet times without any requirements for energy-efficiency. Since energy costs now constitute more than half of all residential service costs, any increase in energy prices will lead to a significant increase in the cost of providing these services.

The CBA III will make a critical contribution towards consolidating the process of participatory governance and democracy at local level, bottom-up planning, sustainable local development and promotion of local governance initiated with CBA I and CBA II, will ensure wider dissemination of the knowledge of community based approach.

Moreover, it will contribute to Eastern Partnership Priorities (EaP) such as governance, energy security and energy efficiency and to Association Agenda priorities, namely 1) Cooperation in Energy through the promotion of energy efficiency on the community level, 2) Rural development by offering activities on development of rural communities and awareness raising in local authorities on modern community development models; 3) Regional development through facilitation of the dialogue between the regions, promotion of community development and decreasing the imbalance in development of the regions. With its Component 2 Support to small economic initiatives in rural communities the project will also contribute to priorities of the ENPARD.

Lessons learnt

CBA I (2008 – 2011) was evaluated as part of UNDP's global thematic evaluation of UNDP's contribution to decentralisation and local governance (2000-2009) conducted in 2010. The evaluation concluded that the project had made a concrete difference to the services delivered in the project areas resulting in improvement of the quality and the quantity of services in the project locations. In terms of local self-governance and participation, the co-financing model adopted in the CBA project created a platform for the community organizations (COs) to engage in dialogue with the rayon and municipal authorities. This dialogue has resulted in the COs reporting increased trust and co-operation between the local authority and themselves. The local development strategy has created a dialogue practice between the local authorities and local citizens, and there is an early indication that these forums are being used beyond the scope of the project remit.

By August 2010, the CBA project partnered with 24 regional authorities, the government of Autonomous Republic of Crimea (ARC), 209 rayon authorities and 1136 village/city councils with the population of less than 10,000 people. It mobilized 1,165 communities which got organized into 1,154 COs. With the support provided by the CBA Project, COs and local authorities undertook a joint planning process thus enabling the COs to undertake initiatives addressing basic needs in the area of energy, water supply, public health, environment and school transportation.

A total of 1,324 community projects were supported with the total amount of \$ 24 million cost-shared between COs (7.2%), CBA Project (46.4), local authorities (45%) and the private sector (1.4%). It is estimated that 1.1 million people benefited from these projects and 12,000 community members and 3,500 local/regional officials received training in subjects related to

institutional development, financial management, participatory planning, community project management, participatory assessment, and decentralization.

CBA II signed in 2011 builds upon the experience of CBA I by means of:

Expansion and replication of community based approaches;

Building institutional capacity of local communities and local and regional authorities;

Sharing best practices and lessons learnt among local/regional/national level governance structures;

Involvement of educational institutions to utilize the knowledge generated by CBA I.

Taking into account high demand for energy efficiency actions in CBA I and CBA II, the third phase would expand its operation for towns up to 50 000 inhabitants, at the same time contributing to capacity development on the small towns level.

CBA Phase III component 2 – Support to small economic activities in rural communities will act in line with ENPARD concept and provisions and build upon experiences gained by UNDP under “Economic Development component of Crimea Integration and Development Programme” and relevant outputs on establishing and running agricultural cooperatives of the EU financed project Support to Sustainable Regional Development.

Complementary actions

A number of donor projects have been initiated in support to the Ukrainian efforts to address the issues targeted by the action. Some of the most relevant are:

"Ukrainian Social Investment Fund (USIF)" is a non-profit organization created to support socially vulnerable groups and initiatives of local communities and NGOs. It invests funds of international donors in social activities and pays special attention to modern technologies in energy efficiency.

“Municipal heating reform in Ukraine” is a **USAID** Project, which purpose is to assist the reformation of the heating sector on central level – that is the legislative and regulatory framework, on local level – to enhance the municipal capacity to plan, manage and fund the development of the heating systems. Since a substantial part of the problems with the municipal heating lie with the end users (30% of the gas consumption wastes attributed to the buildings), part of project activities are focused on condominium associations and provide support to pilot energy improvement renovation of buildings:

- developing of incentives for establishment of homeowners associations (by proposing changes in the relevant laws and by-laws),
- developing the legal basis for energy efficiency in buildings by means of providing support in developing the draft law of Ukraine on energy efficiency in buildings submitted to the government of Ukraine, as well as other respective by-laws;
- implementing pilot energy efficiency projects in condominiums (in total 10 residential buildings managed by associations in 6 cities will be renovated, 5 projects are already in progress) on the basis of energy audits and respective recommendations. The financing modality foresees up-to 50% subsidy provision from USAID and 10% from the homeowners. The rest needs to be insured from other source.
- Creation of condominium information support centers is within the project objectives as well.

“Energy efficiency in buildings in Ukraine” is a technical cooperation (GIZ) project between the Ukrainian and German governments. It aims to contribute to the efforts of the Ukrainian Government for improvement of the national and local energy efficiency policies and practices for new and existing buildings. To achieve this objective, the following tasks for assistance at national and municipal levels have been identified:

- development of concepts, strategies and implementation instruments;
- capacity building and training;
- establishment of information and awareness-raising campaigns in four selected cities;
- pilot renovation on 4 buildings via ESCO companies.

The financing modality involves a requirement for 10% co-financing contribution on the part of the homeowners. ESCO companies have been supported to receive access to low interest rate (below 10%) credits from Dutch Housing Associations.

The gravest problems that have been faced throughout implementation and have led to some project delays are related to:

- unwillingness of the utilities companies to allow an intermediate in between (the ESCO) with the consumers (the individual households).
- the necessity to find co-financing source for provision of subsidy to the homeowners’ associations (the ministry has undertaken commitment to ensure it within this year).

IFC “Ukraine residential energy efficiency” project, implemented in partnership with the **Swiss Confederation** is designed to create an effective legal and institutional platform to support local Ukrainian homeowner associations and housing management companies in obtaining access to financing the energy efficient modernization of multifamily buildings.

The project approach envisages a focus on activities related to development of legislation and increase of awareness about residential energy efficiency.

Within the project’s goals is to work with Ukrainian banks to develop and market financially viable energy efficient housing loan products, targeted at homeowner associations and housing management companies for the purpose of energy efficiency renovation of multifamily buildings. Those are planned for later period.

Recently, the project has started to develop a leasing scheme that can be used for easier access to energy efficiency equipment purchases e.g. metering devices, thermostats, etc.

UNDP “municipal governance and sustainable development programme” (MGSDP) is active in 29 municipalities from 12 Regions of Ukraine. The programme activities are related on one side to development of local communities’ competence to solve local problems and on the other – to strengthen capacity of municipal governments for better service delivery. The creation of associations of co-owners of multi-apartment houses (ACMHs) is being supported including strengthening their capacities to organize repair works of multi-apartment buildings. The project encourages cooperation between the ACMHs and the city councils in relation to housing renovations and energy improvements on the basis of community-led development approach and cost sharing principle. The ACMH are covering at least 10% of the necessary funding, the rest being financially matched with local governments and UNDP funds. Municipal support units have been created with the aim to mobilize local communities and support their development projects. Through the programme, the living conditions of more than 125,000 urban citizens have been improved through 270 community projects.

The E5P initiative (Eastern Europe Energy Efficiency and Environment Partnership) was launched in 2009 under the Swedish presidency and an E5P fund was set up in the framework of the European Neighbourhood Policy / Eastern Partnership. The main aim of this initiative is launching projects that would help to reduce energy use in district heating sector. The E5P Fund will provide resources to be used for investment grants and technical assistance. The concrete proposals for financing are developed by the participating international financing institutions (European Bank for Reconstruction and Development EBRD, European Investment Bank EIB, Nordic Investment Bank NIB, Nordic Environment Financing Corporation NEFCO, World Bank Group (International Bank for Reconstruction and Development IBRD and International Finance Corporation IFC)) together with a Ukrainian partner. The E5P Fund will finance part of the costs.

The Ministry of regional development, construction, housing and communal economy (MRDCHCE)³ applies the state policy in the area of housing and communal services in Ukraine. However, due to persistent budgetary constraints, the energy efficiency measures are being very insufficiently financed. In 2010 the government has allocated EUR 18 million for financial support for repair works in the housing sector, out of which EUR 15.5 million has been utilized for those purposes. For 2011 the government is planning to spend up-to EUR 15 million on housing repair and another EUR 4 million on pilot projects, promoting energy efficiency in the housing sector.

The local governments are taking care of the maintenance of the common parts in multi-apartment buildings in which homeowners associations have not been established yet. They are doing so through the old time municipal specialized housing exploitation organizations (ZHEKs). Determination of their functions and approval of the tariffs for their services is carried out by the local authorities. The tariffs include charges only for management and maintenance, major repairs are not foreseen. Setting of tariffs is not based on market principles. The level is typically dependent on the economic strength of the local authorities and is vulnerable to political considerations, rather than economic. Regardless of the confused multi-apartment housing maintenance practice, it should be noted, that as the UNDP project shows, the local governments have been cooperative and have financially supported (with direct subsidies of 45% of the cost of investment and more) local initiatives and energy improvements in buildings, managed by homeowners associations.

In summary of the above described, a conclusion can be drawn, that the necessity for reforms and energy efficient housing renovation is acknowledged by the government (national and local) and donors. However, all donor projects are implemented at the level of pilots. There is not yet a functioning model to allow a sustainable process of large scale renovation of multi-apartment buildings.

Donor coordination

The recent Commission-funded donor mapping study, which included the CBA I project, offers a clear overview of activities undertaken by international partners in the area of local development. The study also recognizes CBA's comparative advantage (large geographic coverage) and its advanced methodology (participation of citizens and authorities) which reduces duplication and builds synergies with other donors. As a part of two working groups on the regional development and reform of housing and communal services led by MRDCHCE CBA II continues to take into consideration ongoing activities of bilateral and

• ³ This is the current name of the Ministry after the last administrative reform

multilateral donors to ensure complementarity, to share information, and to support partnerships among international donor organizations and the Ukrainian government.

This applies to community based approaches in small villages as well as to energy efficiency in small municipalities.

7. DESCRIPTION

Objectives

Overall objective:

To promote sustainable socio-economic development at local level by strengthening participatory governance and community-based initiatives throughout Ukraine.

This objective will be achieved by pursuing the following **specific objectives**:

(1) To promote community based approach to local governance and sustainable development by:

- strengthening the capacity of local communities, local authorities and universities in applying community led development;
- integrating participatory mechanisms for local planning and public service delivery into the day-to-day practices of local governments;
- supporting community-based initiatives for sustainable rehabilitation, management and operation of basic social and communal infrastructure; and
- promoting small economic activities (cooperatives) development in rural areas.

(2) To enhance energy efficiency at local level by:

- building capacity of local communities and local authorities in energy planning and efficient energy use;
- supporting innovative community initiatives in efficient energy use; and
- raising public awareness on energy efficiency based on grassroots level best practices

(3) To support the creation of the locally owned and managed repository and network of good practices and knowledge on community mobilization and participatory governance by:

- documenting and codifying lessons learnt and institutional arrangements established during the CBA implementation
- establishing a network of knowledge hubs for the creation, analysis, and sharing of innovative approaches to community based development
- supporting academia and other educational institutions in curriculum and capacity development for promoting community based approaches to local governance and development

Expected results and main activities

The project will further widen the scope of the on-going Programme CBA II and, using its team and existing capacities, will introduce new components for action. It also covers the extension of the on-going components for 18 months.

Expected results of the proposed measure are:

Component 1: Promoting community based approach to local governance

- Increased public monitoring of decision-making structures and procedures at local level;
- Enhanced advocacy and lobbying skill and capacity among (community-based) civil society organisations and local authorities;
- Institutionalised dialogue between relevant players with a view to ensuring sustainable social, economic and environmental development at the local level;
- Improved delivery of key communal services at local level including in the area of health, energy efficiency, water supply and environment;

Component 2: Support to small economic initiatives in rural communities

- The Component 2 will further elaborate activities and economic development in rural areas and contribute to the inclusive growth policy as defined by ENPARD principles. The stakeholders and implementation methods of the Component 2 are the same as in Component 1. However, economic initiatives are presented in a separate element, as they require more intensive preparatory activities and should focus more income generating activities in the rural areas.

- In this sense, to promote organised community cooperatives and other types of associations or groups of small farmers may provide for income generation and employment creation, in order to improve the quality of life and the autonomy of people in rural areas. Training, advisory services and small grants provided to rural communities willing to establish cooperatives in order to support small economic initiatives in line with ENPARD provisions on transfer of know-how and working methods are focused. Selection of the communities interested in the creation of cooperatives is done according to general CBA criteria, proven during the implementation of the *“Economic Development component of Crimea Integration and Development Programme”*.

Component 3. Community-based approach to improve urban housing

- Established and strengthened homeowners associations capacities as the self-governance bodies to jointly maintain condominia.
- Comprehensive technical solutions developed and applied in the area of municipal housing
 - Replicable community mobilisation model for building retrofitting developed and tested in practice.

Component 4 Introduction of innovation activities and new technologies at Local Level

- Increased public awareness on the potential of innovation activities and new technologies at local level;
- Enhanced skill and capacity among local communities and local authorities to identify and use innovation activities and new technologies to increase the living standards of the population;
- Improved innovation activities and new technologies use in public sector institutions and community services on the local level;

- Policy recommendations on efficient use of innovation activities and new technologies based on practical experience at the grassroots and at local government level.

Risks and assumptions

Assumptions:

Ukraine pursues its development objective in line with the spirit of European Charter on Local Self-government;

The government continues cooperation with the European Union and pursue its efforts to improve energy efficiency

Ukraine will go on with its reform process, thus reinforcing the process for good governance and improved communal services which will win public trust, confidence and cooperation

Risks:

Traditional mindset among stakeholders may cause slowdown and low level of acceptance of the project approach making CBA methodology to be less effective than expected. However, this risk has proven to be less materialized than expected in the previous and on-going experiences.

Political instability may continue in the country, causing less than full cooperation from the elected/government authorities in the region.

Global/national financial crisis may continue causing difficulty in cost-sharing from the local partners.

Mitigation of risks can be achieved through:

sharing of information about success stories of CBA I and CBA II promotion of direct contacts between communities (highlighting the previous CBA success cases), peer-peer learning through study visits, ensuring effective functioning of Local Development Forums and Oblast Coordination Councils (OCCs);

intensive cooperation with local authorities on oblast level as well as involvement of members of the Steering Committee representing central structures on national level;

flexibility in setting co-financing percentage for micro-grants;

Sustainability:

Sustainability of CBA III is ensured if the communities and local governments continue to use a participatory approach in their decision making.

Communities will have been trained to actively participate in local decision making. Local authorities will have experienced the advantages of active involvement of their communities. During implementation of CBA I and II local governments and community organisations have repeatedly expressed their interest in continuing with this approach. Best practices are spread and create new demands. Many oblasts and community organisations intend to apply CBA methodologies independently or incorporate them in their development programmes in the future. CBA already demonstrated high ratio of sustainable communities, operating without EU funding.

Cross-cutting Issues

Good governance and human rights: The implementation of the project shall lead to ensuring transparency, accountability and equity at local level. Community based organisations, founded on the elements of good governance, will observe ‘inclusion’ in core of its development activities. Participatory governance, through institutionalised dialogues between citizens and local/state authorities will ensure transparent decision-making in a bottom-up fashion. By achieving this, it will contribute to ongoing process of territorial reform, establishing a system of ‘joint decision-making’ and promoting local democracy and active political participation of citizens at local level.

Gender balance: The measure will focus on gender balance in participation, planning and management thereby contributing to women empowerment. Gender streamlining will be taken into account in both components.

Environment: The measure will support quality water supply and environmental agenda (e.g. improvement of energy efficiency and saving, waste management) at local level as identified priorities for ENP action plan implementation.

Stakeholders

The key stakeholders will be the community based non-government organisations, local authorities (village/city/district/regional councils), academic institutions state authorities at all levels. The proposed measure will impact first and foremost on local communities and institutions (local/regional councils, district/regional state administration) involved in local development. A constant preoccupation will be the coherence between planning and local budget execution and control. However, enforcement of EU-compliant procedures should rapidly lead to increased involvement of the civil society in the project. While the focus and activities of the country’s civil society organisations are broad and diverse, civil society is still in the early stages of development in Ukraine, especially in the rural areas. The projects will mobilise communities, support and develop civil society on the local level, and facilitate a collaborative relationship between communities and local authorities.

8. IMPLEMENTATION ISSUES

Method of implementation

Joint management through the signature of a standard contribution agreement with UNDP in accordance with Article 53d of the Financial Regulation. The international organization complies with the criteria provided for in the applicable Financial Regulation and is covered by a framework agreement signed with the Commission (FAFA – Financial and Administrative Framework Agreement of 29 April 2003).

UNDP has an extensive experience in implementing this kind of programmes in Ukraine and, more generally, all over the world. This phase constitutes the third support programme of similar nature, with new components on energy efficiency in small urban areas, the promotion of cooperatives and other forms of small farmers organizations, and the promotion of innovative methods of local governance.

The change of management mode constitutes a substantial change except where the Commission "re-centralises" or reduces the level of tasks previously delegated to the beneficiary country, international organisation or delegate body under, respectively, decentralised, joint or indirect centralised management.

Procurement and grant award procedures

All contracts implementing the action are awarded and implemented in accordance with the procedures and standard documents laid down and published by the relevant International Organisation.

Budget and calendar

The operational duration of this action is indicatively 48 months. Indicative signature date – first half 2014. The indicative breakdown into components is as follows:

Component 1: EUR 6 million

Component 2: EUR 2.4 million

Component 3: EUR 13 million

Component 4: EUR 2.4 million

Total: EUR 23.8 million (including UNDP contribution of EUR 0.8 million)

The funds may be used for evaluation, audit and visibility activities.

Local communities/local authorities will contribute to the programme by providing indicatively up to 50% co-financing for the micro-grants.

Performance monitoring

The monitoring of the project will follow standard procedures, based on benchmarks to be agreed during the preparation of each of the components in co-operation with the Ukrainian government and other stakeholders.

The project will be monitored throughout its implementation by results-oriented monitoring (ROM) system of projects and programmes of external co-operation. For overall monitoring of the CBA, it is envisaged to set up a steering committee, to involve all national stakeholders and donors, as well as all relevant project representatives and civil society.

Evaluation and audit

As in the previous phases of the CBA mid-term and final evaluation will be envisaged. The project shall be subject exclusively to the internal and external auditing procedures laid down in the Financial Regulations, Rules and Directives of UNDP. Where applicable, the provisions included in the framework agreement will apply.

Communication and visibility

To ensure visibility of EU and UNDP, communication activities will be carried out under the framework of the ‘Joint Visibility Guidelines for EC-UN actions in the field’⁴. The visibility and communications strategy, developed and applied during the CBA I project, will be re-visited and updated. Communication materials will be produced and disseminated among stakeholders at all levels. Donors, media and partners will be provided with up to date information on project activities through periodic progress reports and newsletters. The CBA project website will be maintained to give partners an easy access to resource materials and information on the project activities. Additionally, information campaign will be undertaken to raise community awareness on cross-cutting issues like gender, climate change, and good governance.

• ⁴http://ec.europa.eu/europeaid/work/procedures/implementation/international_organisations/other_documents_related_united_nations/document/joint_visibility_guidelines.pdf