

ICPS newsletter®

The Residential Services Sector: Desperately seeking solutions

On 14 March, the International Centre for Policy Studies (ICPS) and the Urban Institute research and analysis center held a roundtable on the topic "How to resolve problems in the residential services sector in Kyiv and in Ukraine." On the eve of the National Residential Services Day, representatives from this sector reported as usual on progress and discussed development prospects. The main conclusion at this roundtable was that without radical reform to the residential services sector, the country could be facing an infrastructure catastrophe

Participating in the roundtable were: VR Deputy Volodymyr Bondarenko; representatives of the Kyiv City Administration; deputies from the Kyiv City Council, including Vitaliy Klitschko, leader of the eponymous bloc, Natalia Novak, Oleksandr Klius, and Dmytro Andriyevskiy; representatives of related ministries, including First Deputy Residential Services Sector Minister Orest Lototskiy and Deputy Director of the Department of Civil Protection under the Emergencies and Chornobyl Ministry Ihor Hasyk; representatives of district state administrations in Kyiv; representatives of homeowners' associations; leading Ukrainian experts and researchers. Unfortunately, our invitation was ignored by the Kyiv City State Administration.

RSS faces a system-wide crisis

Ukraine's residential services sector (RSS) is one of the largest in the economy and one that has a major impact on the daily lives of every individual and on the situation in the country as a whole. Since the time that Ukraine gained independence, this sector has accumulated unresolved problems that today give reason to say that it is in a state of ever-deepening systemic crisis. And this threatens the lives of Ukrainians and the national security of their country.

Over the last year, Ukraine's RSS was able to avoid major accidents, especially given the tragic events in the gas distribution system that took place in Dnipropetrovsk and L'viv. Indeed, the latest round of disruptions with heating supplies in that same Dnipropetrovsk and in Sevastopol and

the systematic lack of hot water in a large number of cities and towns are no longer seen as something exceptional.

Over the last year, the issue of RSS rates became a major issue as well. The latest round of increases in the price for imported natural gas has made it critically imperative that rates be raised, as local budgets simply will not be able to withstand increasing expenditures on subsidies for utility and maintenance providers.

Facts are stubborn creatures

Roundtable participants presented facts that confirm the seriousness of the problems in the RSS. For instance, Deputy Director of the Department of Civil Protection under the Emergencies and Chornobyl Ministry Ihor Hasyk brought up the unhappy results from an audit of VAT Kyivvodokanal, the Kyiv water utility, carried out by his Ministry's specialists at the beginning of 2008.

The final report revealed that at least 22% of the city's water system is physically worn out and needs immediate replacement. Depreciation on the main portions of the water supply system in the capital is as high as 60%. The main city sanitation collector is 100% depreciated—indeed, it is actually impossible to check its condition at this point. This situation threatens to turn into a man-made disaster with catastrophic consequences for both the capital and the oblast, yet City Hall systematically ignores these problems. Mr. Hasyk also said that there were 30 reported accidents with the gas distribution system in 2007, as a result of which 39 persons died and material damages reached UAH 326mn.

How to make things better

Vitaliy Klitschko, Member of Kyiv City Council and the leader of the Vitaliy Klitschko Bloc said that in the last while the government of Kyiv has allowed the system for managing the RSS in the capital to deteriorate. Unless there are radical reforms, there could be an infrastructural catastrophe brewing in Kyiv.

Mr. Klitschko said that the first steps have to be to bring order to the monopolist entities that provide public services and establishing a transparent procedure for determining rates. City Council Deputy Dmytro Andriyevskiy noted that without the necessary funding, it would be impossible to undertake any reforms, yet this issue is not being satisfactorily handled in Kyiv.

Urban Institute Director Oleksandr Serhiyenko expressed conviction that in order to establish normal market relations in this sector, the first that has to be determined is who is the buyer, that is, the customer for these services. For this purpose, the residents of apartment buildings need to formalize themselves as a group. This can be an apartment owners' association or a building committee, but responsibility for providing services needs to be established.

According to ICPS Director Volodymyr Nikitin, three sets of objectives need to be undertaken in parallel in order to resolve the problems with the residential services sector:

- support the efforts of communities and providers at the local level;
- establish a clear regulatory system, including assessing service quality and monitoring the carrying out of service plans;
- develop a policy of channeling and coordinating all interest groups and players on the residential services market in the context of a regional and urban development strategy. ■

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