

**Сприяння реформі соціальних послуг в Україні
Facilitating Reform of Social Services in Ukraine**

**FACILITATING REFORM OF SOCIAL SERVICES
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**ASSESSING POLICIES AND REFORMS IN SOCIAL SERVICES
AS PROGRAMMES OF PUBLIC SPENDING:
PUBLIC EXPENDITURE ASPECTS OF**

SOCIAL POLICY AND SOCIAL SERVICES REFORM IN UKRAINE

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Birks Sinclair & Associates Ltd.
Gatehouse Suite
Palatine House
Belmont Business Park
Durham, DH1 1TW
United Kingdom
Phone: 00 44 191 386 4484
Fax: 00 44 191 384 8013
E-mail: Office@Birks-Sinclair.com

Харківське представництво
Пл. Свободи 5, Держпром, 3-й під'їзд,
6-й поверх, к. 192, м. Харків, 61022
тел. +38 (057) 752-30-44
e-mail: Tchernyshova@frssu.co.ua

Київське представництво
вул. Ярославів Вал, 28, кв.13
м. Київ, 01034
тел./факс: +38 (044) 235-48-84
e-mail: Rubashova@frssu.co.ua

Хмельницьке представництво
Готель «Центральний», 2-й пов.
вул. Гагаріна, 5
м. Хмельницький, 29013
тел./факс: +38 (0382) 78-82-79
e-mail: Lyudmyla_bsa@ic.km.ua

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Responsibility for the contents of this paper rests with Stace Birks, FRSSU Project Director.

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ASSESSING POLICIES AND REFORMS IN SOCIAL SERVICES AS PROGRAMMES OF PUBLIC SPENDING

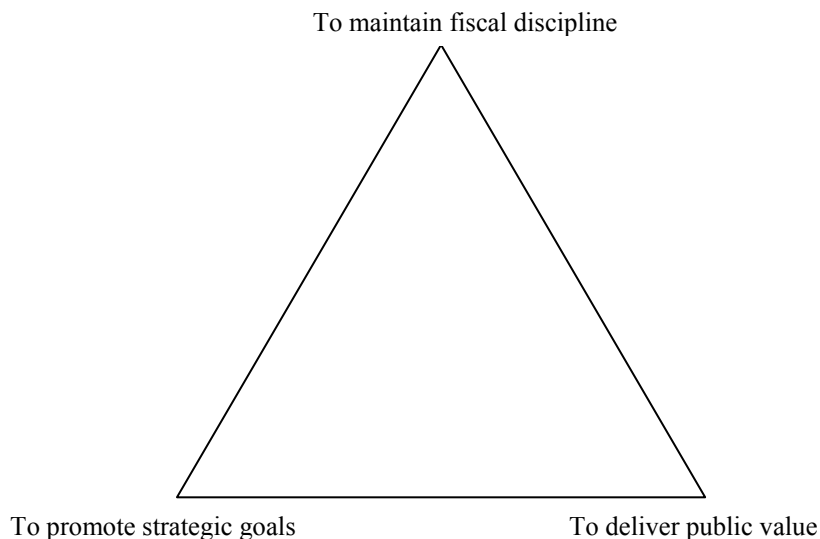
APPROACH

What questions can we not avoid if we want a full, honest picture of how well the government spends public money?

Public Expenditure Management (PEM) and its assessment is a complex process and significantly depends on country contexts. However, the governments whose policies and interventions are largely funded through taxes and who have to report to elected parliaments face three major tasks when they organise their PEM systems:

1. To maintain fiscal discipline (“make sure spending is affordable”); that is, to keep spending within government’s ability to raise revenue and to keep debt within levels that are not prohibitively expensive to service.
2. To promote strategic priorities (“use the budget to achieve certain key goals”); that is, to allocate resources in those areas which make greatest contribution to the government’s objectives.
3. To deliver public value (“maximise net benefits of spending for people”); that is, to aim for the most efficient ways of spending, which deliver highest benefit at the lowest cost.

Therefore, comprehensive assessment of any actions financed through public expenditures (whether these are current programmes or planned reforms) should establish, to what degree such actions are helping or hampering achievement of all the three tasks.



What are the risks of omitting any of these questions in assessing public spending?

Although the three dimensions are interdependent and, ideally, should reinforce each other, in practice this is not always the case. Political, financial and institutional pressures tend to bias attention towards one or another task. This creates risks of achieving isolated short-term usually unsustainable benefits at the expense of significant long-term losses. Examples of such risks include:

- Reforms become misguided as a result of misunderstandings between agencies. Policy makers may develop strategic reform goals in specific sectors without due consultation with financial

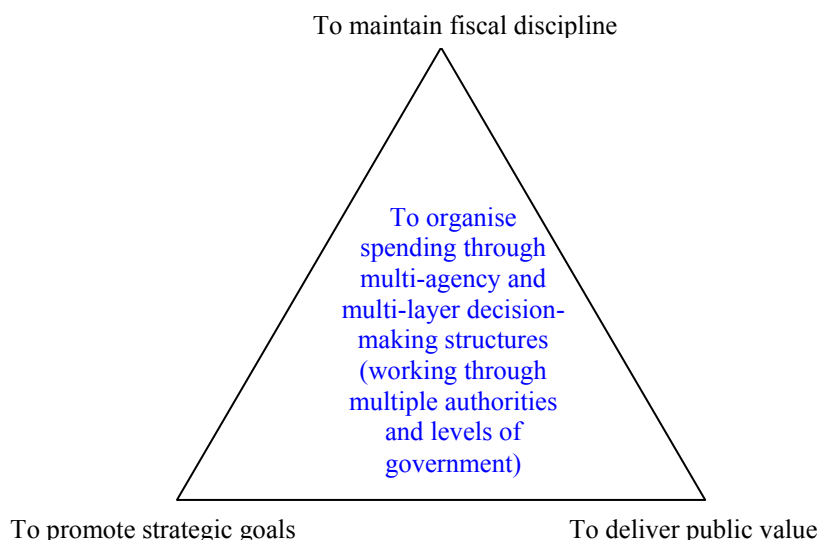
authorities regarding their budgetary implications. In such cases, laudable reform initiatives may meet unnecessary internal resistance. Moreover, practical implementation of such initiatives may be distorted and delayed by financial constraints, creating perverse outcomes and discrediting the reform process. It is important that this also threatens future efforts to address reform failings.

- Short-term fiscal concerns undermining strategic prioritisation and delivery of public value. It is reasonable for the government to strongly focus on fiscal discipline – that is, on matching expenditures to available resources. However, governments often pursue fiscal discipline by myopic methods, overlooking the tasks of making expenditures more strategic and more efficient.

Why and how should assessment take into account decision-making structures used for public expenditure management process?

Division of administrative and financial roles between participants of the public spending process significantly affects the ability of the country in general to manage this process successfully. In particular, pursuing each of the three tasks listed above depends on the specifics of the following interactions:

- Between legislature, executive and judiciary arms and power;
- Between key governmental agencies, including line ministries and the Ministry of Finance;
- Between the multiple tiers of government; and
- Between government, private sector and civil society.



Therefore, in order to accurately assess any policy or reform related to public spending along the dimensions of: (a) affordability; (b) strategic appropriateness; and (c) public value for money, it is important to analyse how the programme delivery will be affected by the division of roles between various authorities and stakeholders from this list.

Moreover, in the multi-layer government systems, fiscal relationships between the different governmental layers usually represent a particularly big complication for understanding public spending and which have to be understood and overcome to sustain funding of reform.

CONTEXT

What elements of Ukraine's current system should be highlighted by such a full-scale assessment of programmes in social services?

Organisation of decision-making structures

Ukraine is a big, complex country with a complex multi-layered, quite decentralised, government system, which continues to change, and evolve quite quickly. To assess current and future initiatives in social service provision, it is necessary to take into account the following aspects of this system, classified under the various lines of administrative and financial relations:

- **Relations between legislature, executive and judiciary power.**

The country is currently at a critical stage of defining its political system and the roles which each of the three major branches of power should play in the decision-making process.

This document does not dwell on these processes directly, but it does provide the technical underpinnings, notes of the speed of these changes at the present time, and points out how this process constrains badly the systematic reform process, especially in the case of social services. As the relative and absolute weights of the legislature, executive and judiciary power change, there will be implications to social service reforms which require a separate further analysis that will be followed up in the next months, later, in a brief form.

The whole assessment of public initiatives in Ukraine today, including those in social services, must take into account at least the general background regarding the current division of roles between the key representatives of the three branches of power. It is also important to acknowledge:

- the conflict lines which complicate cooperation and communication between the GoU agencies involved in reform. Often there is virtually no communication, let alone cooperation and reform directions, initiatives and budget flows conflict,
- the degree of political uncertainty (short term and long term), and
- the capacity of each agency to deliver against its roles and responsibilities, which are often limited in reform and transition context; and
- how these capacities are further stunted by the present instability of the environment.

- **Relations between key individual governmental agencies, including line ministries and the Ministry of Finance.**

According to the current legislation and practice, the roles for strategic planning, spending and regulation for social services in Ukraine are distributed across a large number of institutional structures, both at central and at sub-national levels. This legislation also explains how these agencies should engage into a complex process of strategic planning for social and economic development of the country in general, as well as for social service provision in particular. This is all pretty comprehensive in theory. A detailed analysis of these roles and relations is provided in the FRSSU PEM Resource Papers.

Despite the presence of such detailed legislative frameworks, and their theoretical or abstract adequacy, in practice the current capacity for strategic planning and policy analysis tends to be weak, with the following trends:

- *Uncertainties at the central level.* Given that the outlook of political system and roles of the key stakeholders in Ukraine is not yet firmly defined, the process of strategic planning for the country as a whole also suffers from uncertainties and inability to set a clear direction for development of individual policies. There is a well established process for strategic planning of national economic and social development, which is led by the Ministry of Economy and involves inputs from a number of central government stakeholders, including Verkhovna Rada, Cabinet of Ministers, Presidential administration, central executive bodies, and various working groups. However, this process is not strategic enough, tends to be too detailed and legally driven, sufficiently consultative, lacks mechanisms for impact evaluation, and the content of the documents that it produces is usually a mix of the over general very detailed that is difficult to make operational as a reform strategy, and which lack reliability.

- Considerable institutional fragmentation of responsibilities over policies for social service provision. The MoLSP is but one of the line Ministries which share legislative and administrative responsibility for social services. Other ministries and executive agencies include: the Ministry of Family, Youth and Sport; Ministry of Health; Ministry of Education and Science, and Oblasts, cities, municipalities and rayons. This results in frequent duplication of efforts through processes whereby different ministries are working on similar pieces of policy/legislation at the same time. Thus areas of common interest are seldom adequately co-ordinated, legislation tends to be messy, inconsistent – even contradictory - and of poor quality.
- Lack of robust systems for impact assessment and evaluation of policy or the effects of legislation. Monitoring and control over spending programmes is undertaken at every stage of the budget cycle and is performed by each individual ministry, as well as by the CID and Accounting Chamber as external auditors. However, the Accounting Chamber lacks responsibilities and capacities for auditing programmes delegated to sub-national levels. Besides, monitoring approaches of all agents (internal and external) do not involve substantial analysis of spending efficiency and impact evaluation. This often results in the unintended effects and unexpected financial costs. (See for details, FRSSU’s detailed analysis of the role of the Accounting Chamber in reform of social services)
- The practice of avoiding discussions on policy options and jumping straight into drafting legislation and regulations, rather than set out policy options for analysis (which makes it difficult to ensure that the best policy response to a particular issue is pursued) (See FRSSU analysis Europeanisation of Reform Practices and Processes in Ukraine). Just recently, the LSS has been redrafted as a result of the Council of Ministers’ request. Yet neither CoM nor MoF has approved a policy (“Concept”) for social services reform as has been led by MoLSP. In this sense, CoM is part of the reform problem, not part of the solution, during this period of instability and transition.
- Overall lack of coordination between policy development and budgetary systems. Many – in the case of social services, we can say with certainly almost all - policy and legal developments are not adequately evaluated for cost implications before they are approved, and systems for such financial evaluation are underdeveloped. As a specific example, there is not admittance of financial and budgetary reality in the work on standards of social service provision. Without this standards development cannot be sustainable and implantable to its full effect.

There are also considerable weaknesses in medium-term financial planning to support multi-year projects. Initiatives and innovations thus tend to be staccato, and not funded for the long term as they do not gain medium term budget line.

- Weak capacity in key ministries for scenario planning and risk management. Forward planning for social service provision, including financial planning, does not involve analysis of long-term demographic and social trends, which may have considerable implications for the future service demand and related budgetary expenditures (See the FRSSU Resource papers on the demographic context to social service reform). Legal drafting without a strategic review results and rather than freeing things to evolve in the future bottlenecks and new constraints to reforms are created.
- Overall lack of encouragement and incentives for civil service to pro-actively engage in making recommendations to policy discussions on what their goals should be and how to achieve them.

- **Relations between the multiple tiers of government**

Continued search for a preferred model of intergovernmental relations. Although concepts of decentralisation are central to many programmatic and systemic documents such as Budget Code and the

Law on Local Self-Government, Ukraine is still in the process of defining its vision for a model of relations between the levels of governments. As a result, acting legislation which regulates intergovernmental relations has numerous gaps and inconsistencies. Moreover, lack of such a vision creates uncertainties which complicate planning at all levels and protracts the transition period together with the costs that it creates. Unrealistically proposed diversions into significantly smaller scale units that Rayons of devolved government (which would have tiny revenue raising capacities, and limited administrative and regulatory competence in the face of modern mixed economy and society) have distracted attention from the realities of managing service provision.

Importance of non-financial dimensions of decentralisation. The vision of relations between levels of government has many dimensions, only one of which is transfer of resources from one level to another. Most importantly, various decentralisation arrangements differ in how tiers of government share responsibilities in decision-making; that is, how they share:

- competencies and powers to develop various policies; and
- freedoms in choosing methods to implement such policies;
- And what sharing arrangements exactly to choose dependent not only on political considerations, but also on the readiness and capacity of each government layer to take over such policy functions.

Although the rewards of decentralisation are assumed to be considerable and are frequently taken for granted, in reality decentralisation decisions should be based on careful analysis of their merits and risks as set out in the PEM resource papers. Over decentralisation – in simple capacity terms, forgetting flows of budgetary resources – can result in erosion of abilities to provide services – and there are many examples of this, followed by reverses of decentralising legislation in transition countries.

Implications for fiscal legislation. In Ukraine, although the Budget Code contains a detailed blueprint of financial relations between the four tiers of government, the other intergovernmental dimensions including a clear division of regulatory responsibilities is still lacking. In the past years, discussions about a need for such clearer framework have intensified, including an intention to perform a full-scale territorial-administrative reform. However, all initiatives so far remain hypothetical. Moreover, blurred vision of the overall decentralisation model makes it difficult for the Budget Code and other fiscal legislation to provide coherent incentives for authorities at all levels to use their budgets for social policy purposes in an optimal way. This fiscal legislation is often chaotic, inconsistent and creates numerous incentives for inefficient public spending.

- **Relations between government, private sector and civil society**

Involvement of both profit and not-for-profit providers into public provision of services is generally a novel concept for post-soviet economies. Therefore, such involvement is often limited and institutionally difficult.

In the area of social services, private involvement is still microscopic. However, NGO funding constitutes a significant part of non-benefit related expenditures (mostly dominated by disability and war veteran issues). And although selection of such NGO providers is path-driven, supply-driven, lacks transparency and is rarely related to strategic policy considerations, interest in diversification of types of providers is growing. (FRSSU has now made detailed policy recommendations to enhance the roles of NGOS as social service providers).

Fiscal discipline

Fiscal policy in Ukraine has been particularly successful recently in establishing macroeconomic stability.

This included strong revenue developments backed by impressive macroeconomic dynamics, improved budgeting and increasing budget realism. Indeed, after a decade of severe economic contraction, Ukraine enjoyed six years of consecutive export-led growth. This lowered public debt from 67% of GDP in 1999

to 25% in 2004. Macroeconomic concerns created by fiscal loosening during 2005-2006 are assessed as manageable.

However, despite recent advances, there are still a number of weaknesses and inconsistencies in the current fiscal legislation and practice. Most of them result from lack of integration between policy development and budgetary systems, as well as from lack of vision for relations between central and sub-national governments where most of the social care spending takes place. In particular:

- Methodologies for resource transfer to sub-national layers of government lack clarity and consistency. The transfer formula is excessively complex and reinforces provision of services through residential institutions. Opportunities for marginal revenue raising at the local levels are significantly constrained and the impact of revenues that are raised local upon overall capacity to provide services can be counterproductive.
- The system does not clearly link spending to the expected results, and the calculation of expenditure norms is complicated and is not based on comprehensive economic assessment of unit costs.
- Predictability of the system is still weak as many decisions and details on resource allocation are still left to the annual budgets and separate ministerial resolutions. Moreover, predictability is diminished by weak skills for multi-year and scenario-based planning.
- Policy making functions (and regulatory powers in particular) are over-concentrated at the central level, making it difficult for sub-national governments to optimise spending.

Because of all these weaknesses, it is currently difficult to ensure against systemic under-funding and unfunded mandates across different tiers of government. It is also difficult to fully utilise budgetary arrangements to support the government in achieving either strategic goals or public value.

Strategic priorities: key documents

Ukraine's strategic intentions in the area of social service provision are influenced by three core frameworks.

- The Law on Social Services, approved in 2003, and updated in 2004, and under redraft today, despite the uncertainties that abound and which have been illustrated above, which sets out the key principles of reforming the system, including its overall modernisation, introduction of licensed, contract-based service provision, with due role of communities, and in accordance with specified standards.
- Central government programmatic documents, including State Programme for Economic and Social Development (approved annually), Government Action Programme (approved for the term of authority), and Presidential Address to Parliament (covering the term of authority).
- Local and regional strategies for economic and social development, and for social development in particular.
- European policy frameworks to which Ukraine aspires (European Charter of Local Self-Government and European Social Charter).

Delivery of public value

Establishing and assessing public value is not exact science and always involves some subjective judgements. It also significantly depends on how such value is defined and to what extent it is considered important in developing spending programmes. Ukraine's system of public finance management, as well as its social and political system, is still in the process of shaping these definitions and the degrees of importance. A series of steps could now be quickly taken in Ukraine in relative analysis – this service performs better than that – why? And How? There are many lessons there on how to change things and direct reform - these are quick or would be if civil servants were given incentives to engage on the reform process and to encourage change.

Current programmatic documents (including the Law on Social Services and the Government Action Programme) set out principles for service provision which give high priority to maximising service value for the clients. Moreover, Ukraine's Budget Code explicitly defines efficiency of public spending as a key principle of running the country's budgetary system.

However, any clear financial and administrative mechanisms to promote and control efficiency in spending are effectively missing. There are also effectively no mechanisms to measure public preferences, which are at the heart of delivering public value. Development of these mechanisms is complicated by blurred division of responsibilities between levels of government and fragmentation of these responsibilities between the various line ministries and central agencies.

This results in – by international standards and in terms of Ukrainian public value for money - over-reliance on residential care, poor range of community-based alternatives, and overall dissatisfaction with service quality.

ACTION

How to improve social care policy results using full-scale PEM vision?

Build, and work through, alliances

Because of the complex, multi-dimensional nature of policies in social care, any individual, isolated efforts to improve the system will represent important, but only evolutionary, incremental changes. Fundamental structural changes can be achieved only through packages of different measures, based on joint understanding of issues and joint action by various stakeholders.

Indeed, traditional “enclave approaches” to policy reform become increasingly frustrating, since they repeatedly fail to bring even short-term benefits, while consistently undermining long-term institutional development. Coherent and strategic policy making in a complex modern environment requires all participants of this process to go outside such “enclaves” and reorient towards working in various horizontal and vertical alliances. Such joint efforts should help to increase alignment between the various policy dimensions: decisions, authorities, organisations, individuals, structures and pieces of legislation.

How does it work? Practically speaking, effective policy alliances aim to follow a certain sequence of steps:

1. Designing a shared strategic plan which should:
 - Be clear about goals and priorities of joint action,
 - Be underpinned by deep shared understanding of causes of issues (not their symptoms), trends, opportunities, threats and change scenarios,
 - Be based on realistic understanding of effectiveness of various policy tools and capabilities of institutions
 - Be encouraging and innovative;
 - Be well aligned with all participating actors.
2. Designing and implementing a transition action plan. Such a plan would help to implement envisioned strategic policies in a planned, managed, and systematic fashion. An action plan is a concrete tangible tool based on the principles of project cycle management, such as project logical framework. It is a simple tool which helps to organise collective thinking and to achieve consensus regarding concrete initiatives, a ranked and timed and progressive series of actions within which stakeholders can relate tasks to expected results, to set performance indicators, to allocate responsibilities and to communicate results clearly to others. (FRSSU is providing an action plan for social service reforms.)
3. Linkage to budgeting process. Although some concepts in strategic budgeting recently became more fashionable than others, in reality the ways in which developed countries deal with longer-term

fiscal planning considerably differ. At the same time, any strategic policy-making and structural reforms require a process which would help authorities to set out future budget requirements of future policies and new spending programmes (within a multi-year perspective). And although practices of such a medium-term budgetary framework (MTBF) vary, this framework is generally defined as a transparent budget planning process with a set of key features:

- It should be realistic; that is, the resource envelope should be defined based on realistic macroeconomic assumptions and should be coordinated between levels of government and key line ministries.
- It should take a medium term perspective (3-5 years).
- It should be a rolling programme, annually updated;
- It should be based on realistic cost and revenue estimates; and
- It should contain sufficient detail to inform concrete policy decisions.

Acquire an essential “three-dimensional” toolkit

Delivery of social service policy with equal consideration of all three PEM tasks in our triangle requires decision-makers at relevant levels to utilise specific instruments. For example, in order to provide services which correspond to priorities of the clients and stay within realistic budgets and feasible arrangements for inter-government transfers of funds, decision makers should have:

- Reliable and robust systems for full economic assessment of unit costs of current and alternative types of services. Such assessment should go beyond costs of wages, utility and capital costs, and include all overheads and opportunity costs. (ToRs on Unit Costs and their relationships to policy development have been produced for USIF and the World Bank).
- Methods to aggregate unit cost data to inform policy-making. (A note on information and database management has been circulated with this note).
- Concrete methods and authority to allocate resources between alternative types of care which would be flexible, realistic and responsive to client needs. In European countries this is usually achieved with the help of a model for “balanced service provision”.
- Relationships with service providers which are based on service commissioning, which splits the financing, commissioning and management of social services from the actual provision. This should help to ensure that the government departments focus on developing strategic policy directions and on objective monitoring of service quality, while service providers focus on actual provision.
- Techniques for using demographic data and other social statistics to identify long-term trends in demand for social services and to build alternative long-term policy scenarios responding to this demand and respective financial pressures. A range of FRSSU materials support this analysis.

Improve intergovernmental structures

General goal

As already discussed, intergovernmental power structures have fundamental implications for the process of designing and implementing policies and reforms in social services. Therefore, all actors involved in developing such policies and reforms would benefit from:

- taking intergovernmental issues (and limitations) into account in their work;
- understanding how intergovernmental arrangements, especially financial, effect decisions and reform outcomes at all levels;
- actively help to design and promote changes in intergovernmental arrangements which would help to implement reforms.

Clarifying the vision of intergovernmental division of responsibilities

Seeking and promoting a deeper understanding of issues with spending responsibilities. Absence of robust political decision regarding the strategic vision of how powers should be divided between the tiers of government and what should be the type and degree of the resulting decentralisation makes it difficult for Ukraine to effectively pursue policies through spending programmes which are administered from sub-national levels – and social services are a strong example of such programmes because most of them are financed from local budgets. The ineffectiveness arises from the fact that financing responsibilities of sub-national governments (established by the Budget Code) are not matched with appropriate decision-making powers.

Challenging the declared definition of delegated expenditures. Most of the social services fall under the category of “delegated expenditures”. By logical definition, and based on the way such expenditures are defined in the Budget Code, they include programmes for which the central governments wants to retain some regulatory control (and thus provide appropriate funding), but which are more effectively administered at the local level. For the reasons of such more effective administration, these expenditures are delegated to sub-national governments along with funding in a size sufficient to cover requirements for service provision established by central authorities. However, in order to achieve the intended efficiency using their local knowledge, sub-national governments must also receive some flexibility in administering these services. In Ukraine, this requirement is not met. The central authorities retain the whole range of regulatory powers, leaving sub-national governments with essentially no flexibility to develop local policy decisions (such as decisions on appropriate mixture of types of care, including community-based and residential services).

Restoring the balance, potentially with increased role of regional authorities. In order to restore the balance between financial responsibilities and regulatory flexibilities for delegated expenditures, it is important to define which sub-national levels of government are best positioned and capable of local strategic planning in social services. This capability should include development of a balance of service provision between various types of services and providers on a territory, running of appropriate data managements systems, evaluation local policy impact etc. Initial research concludes that this capacity for policy making is concentrated at the regional (oblast) level, which should receive an appropriate delegated function in its full-scale definition.

Streamlining methodologies for resource transfer between levels of government

Formula for allocation of equalisation transfers

Equalisation formula is a technical instrument which serves the purposes of the decentralisation model adapted by each country. Therefore, the formula itself cannot be blamed for the drawbacks or loopholes in the decentralisation model as such.

Ukraine’s current formula is consistent with the model of decentralisation declared in the Budget Code. However, it suffers from a number of technical weaknesses which could be addressed, and which should not be repeated in the future if the decentralisation model (and thus the formula) would be changing.

In particular, the current outlook of the formula has generated and reinforced biases towards residential social service institutions, which significantly impedes the development of community-based alternatives that are responsive to demand. This is because the formula is based on the number of residents/clients of existing institutions rather than indicators of relative demand for services. The formula is also excessively complex and fragmented, given the fragmentation of responsibilities for service provision between the various line ministries.

Eliminating these weaknesses in the current formula can generate economies of scale, improve efficiency and enable government to respond to demand led need on a more rational basis. This could be done by amending formula to:

- Take account of the need to use demand related information based on the demographic profile and structural characteristics of the population of each local government area;
- Address the systemic weaknesses and inadequacies for estimating the financial needs for social services by developing a single equation for the overall expenditure need for social services of local governments relative to the average national need.

Detailed explanation of these conclusions and recommendations are to be distilled by the PDDT processes to which this paper is a starting point.

Increasing marginal revenue autonomy of sub-national budgets

Providing sub-national governments with sufficient access to revenue sources, which would:

- not only stay in their budgets; but for which
- they would also set the rates,

This is an important element of delegating powers down from the central level. Such revenue autonomy provides sub-national governments with marginal revenue autonomy; that is, with the possibility to backup their local policy decisions with accordingly charging their local tax payers.

However, just as decisions on the degree of decentralisation as such, decisions on revenue decentralisation should be part of coherent vision for relations between the levels of government. In particular, it should be weighed against political and macroeconomic considerations, as well as against the assessment of existing administrative capacity at sub-national levels.

At the same time, if the decision is made to move in the direction of increased revenue autonomy for sub-national governments, the best candidates for such stronger local involvement would be either a form of property taxation or surcharges on the personal income tax. Any arrangement for sharing the central taxes with the local levels of government would be a retrograde step in terms of social services reform.