

What facilitates community-based development in Ukraine?

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Abstract

Community-based and participatory approaches are being increasingly adopted by development agencies in Post-Soviet countries, thus providing an opportunity for community members to be directly involved in local public policy and development efforts. Despite a number of well-recognized advantages, some challenges may be undermining the sustainability of community-based development efforts. This study attempts to single out some salient issues of the community-based organizations (CBO) and discuss them in light of the local organizations' sustainability. The first issue to be examined is how the relationship between CBOs and local governments may affect CBOs' long-term sustainability. Second, we discuss potential reasons for members' low motivation to contribute resources towards community development funds. And finally, the current design of the community-based interventions by development agencies is challenged by discussing the role of external funding and facilitation for the CBOs. We address these issues empirically, utilizing data from a battery of semi-structured interviews with development experts and Ukrainian officials, along with several community case studies in two target regions in Ukraine. The results suggest that one of the crucial overarching policies related to the three issues under consideration is fostering competition between local communities for grant funding with sufficient information flow among them, along with the implementation of awareness-raising and educational measures.

Keywords: *Community-based development; governance sustainability; local public goods; community-based organizations; Ukraine*

Zusammenfassung

Was unterstützt eine gemeinschaftsbasierte Entwicklung in der Ukraine?

Entwicklungsagenturen in Ländern der ehemaligen Sowjetunion wenden zunehmend gemeinschaftsbasierte und partizipative Ansätze an. Auf diese Weise werden für Mitglieder der lokalen Gemeinschaften Möglichkeiten geschaffen, direkt in die lokale öffentliche Politik und Entwicklungsbemühungen involviert zu sein. Trotz zahlreicher wohlbekannter Vorteile können einige Herausforderungen die Nachhaltigkeit von gemeinschaftsbasierten Entwicklungsbemühungen untergraben. Dieser Artikel arbeitet bedeutsame Probleme von gemeinschaftsbasierten Organisationen (CBO) heraus und diskutiert sie mit Bezug auf die Nachhaltigkeit lokaler Organisationen. Als erstes wird untersucht, wie die Beziehung zwischen CBO und lokalen Regierungen die Nachhaltigkeit der CBO beeinflussen könnte. Als zweites diskutieren wir mögliche Gründe für eine geringe Motivation der Mitglieder, eigene Ressourcen in Gemeinschaftsentwicklungsfonds zu geben. Drittens wird die gegenwärtige Gestaltung der gemeinschaftsbasierten Maßnahmen der Entwicklungsagenturen hinsichtlich der Rolle von externer Finanzierung und Förderung für CBOs hinterfragt. Diese Fragen werden empirisch untersucht. Hierzu nutzen wir Daten aus halbstrukturierten Interviews mit Entwicklungsexperten und ukrainischen Staatsvertretern. Die Ergebnisse weisen darauf hin, dass einer der entscheidenden Ansatzpunkte bezüglich dieser drei Aspekte die Förderung des Wettbewerbs zwischen den lokalen Gemeinschaften um Finanzmittel ist bei gleichzeitigem, ausreichendem Informationsfluss. Zudem ist die Umsetzung von sensibilisierenden und befähigenden Maßnahmen wichtig.

Schlüsselwörter: *Gemeinschaftsbasierte Entwicklung; Nachhaltigkeit der Governance; lokale öffentliche Güter; gemeinschaftsbasierte Organisationen; Ukraine*

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1 Introduction

Local development has been revolutionized by community-based and participatory approaches during the last two decades. The literature predominantly indicates that various forms of community members' engagement in local development processes have significantly improved local governance in numerous institutional contexts across the globe (e.g. Besley et al., 2005; Boulding and Wampler, 2010). Development agencies also use these approaches in the transition context when designing projects dealing with local governance. The paradigm of community-based development (CBD) in the rural context was first pioneered by Coirolo et al. (2001). Issues relating to the poor governance of rural institutions were addressed by community members' involvement in local decision-making processes, thus creating a platform for participatory governance structures, that is, community-based organizations (CBOs). Since then significant amount of literature has examined the benefits of CBD across the world. It has been argued that participatory governance may introduce elements of competition in the provision of local public goods (Besley and Ghatak, 2003; Chavis, 2010), improve local government monitoring (Reinikka and Svensson, 2005), and reduce inequality of access to public services (Bardhan and Mookherjee, 2006). Despite the apparent benefits of this approach, there is a growing body of research outlining its weaknesses and pitfalls (Banerjee et al., 2010; Bernard et al., 2008; Mansuri and Rao, 2004). This motivates the discussion on how effective donor aid and dispensing public funds is for administering state grant programs involving community-based and participatory elements. Moreover, it is not clear to what extent these programs are effective in transition or post-communist countries. Are there certain circumstances when participatory interventions fail in the transitional context? What facilitates these initiatives? Is there a CBD project design that would be particularly suitable for the transition context? How to ensure the sustainability of local participatory initiatives? Answering these questions may help to improve these programs' efficiency and consequently save public and donors' funds.

This paper attempts to identify some of the conditions under which CBOs create a functional local governance arrangement leading to effective public goods provision within a community. The focus is on the Ukrainian context since local institutions still find themselves in transition after the beginning of restructuring the collective farms that were responsible for local public goods delivery. Rural infrastructure has been deteriorating since the collapse of the Soviet Union due to transitional processes (World Bank, 2008). The current public finance system cannot effectively cope with these serious fiscal pressures and calls for private or third-party capital involvement, as suggested by Bennett and Iossa (2010). Rural areas in a transitional context may introduce additional costs in public goods provision due to recipients' geographical dispersion, insufficient demand and higher risks. Because of these circumstances, private firms are reluctant to invest or enter into a concession-type relationship with local governments. As a result, public-private partnerships

and the concession-type delivery of local public goods may not be viable at this point in rural Ukraine. Considering this, local development agencies (increasingly central governments as well) see local CBOs as potential partners in public goods delivery. This way, public goods recipients have the possibility to directly participate in the delivery process along the lines of Besley and Ghatak (2003). In general, CBOs are widely considered to have the capacity to contribute to moving local development forward (Hansmann, 1988; Opstal and Gijssels, 2008). However, our data indicates that existing local governance arrangements often do not perform well, and a number of factors may determine the success or failure of the CBO effort.

We examine how selected factors embedded in the discussion about CBD sustainability may influence the effectiveness of local participatory governance arrangements. All of the issues considered are at the center of attention of the development agencies implementing CBD initiatives, as well as of scholarly debate (Mansuri and Rao, 2004). We first examine the relationship between the village council and the CBOs. Following Young's (2000) typology, we analyze whether the CBOs "substitute", or "complement" the government, or are in an "adversarial" relationship with it. We look at these relationships in Ukraine and try to understand the dynamics in the community that lead to specific outcomes of public goods provision. Secondly, the study analyzes the willingness of local communities to finance the provision of local public goods. A number of development agencies in Ukraine recommend establishing local community development and maintenance funds based on inhabitants' regular financial contributions. The data indicates that in rare cases when the communities manage to establish the funds, they need a certain push factor to overcome initial frictions. Finally, we look at the moral hazard problems arising within the communities due to "startup" and external funding. It may be that the CBOs have weaker long-term strategic vision of their mission if they were established in response to a call of a donor agency, as suggested by Adhikari and Goldey (2010). Moreover, external donor funding may crowd out internal funding because of elite capture of the external funds (Gugerty and Kremer, 2008). Even though it is very difficult to obtain any conclusive evidence, expert interviews and case studies from Ukraine provide a solid empirical foundation for our arguments.

The rest of the paper is organized in the following fashion. Section 2 sheds light on the institutional context of public goods delivery in Ukraine. Section 3 presents a theoretical framework. Section 4 then briefly describes the data utilized within the study. Section 5 provides a discussion about the results. Finally, Section 6 concludes.

2 Institutional Context

The governance of Ukrainian rural areas finds its roots in the former Soviet Union, when collective and state farms were responsible for providing villages with basic public services (OECD and World Bank, 2004). Village councils played more of a

coordinating role since most of the funding came from the collective farms. After the collapse of the Soviet Union, the responsibility for local public services was shifted to local governments. Healthcare, water supply, education, etc., were then funded out of the budgetary funds via the village councils. Considering the difficulties the country was facing with the budgetary processes at the time, public goods were severely underfunded. Years later, this underfunding has been continuously contributing to the deterioration of rural infrastructure and exacerbating the problem with financing. Many of the inefficiencies in the public infrastructure of the Soviet system have led to the incapacity of the public system to cope with arising needs. World Bank (2008) has estimated that 29 billion USD should be invested in the aging local infrastructure over the next decade in order to avoid further deterioration of rural infrastructure.

The current public finance system cannot cope with the fiscal pressures arising due to these enormous needs on the local level. First, structural challenges call for administrative reforms, for example eliminating existing vast inefficiencies in the public finance sector that were inherited from the Soviet regime. The network of public services and goods is in need of optimization, and incentives for officials to deliver these services and goods need to be aligned with the recipients' interests. Secondly, a long tradition of corruption on all tiers of the government represents another serious inefficiency and requires respective reforms.

The centralization of power and budgetary resources leads to very limited capacities of the local governments in Ukraine. Village councils have an extremely narrow set of instruments (defined by the existing legislature) to move local development forward. Moreover, a large part of the scarce tax revenues from those few enterprises existing within the municipality cannot be retained locally due to existing budget legislation (World Bank, 2008). Thus, village councils are left with very few resources to deal with arising local issues. Despite the fact that international development agencies call for involvement of the private for-profit sector in public services provision (public-private partnerships, concessions, etc.), business is reluctant to work with existing government. Thin markets, high transaction costs in rural areas, along with high risks associated with having government as a partner, hinder the possibility of a for-profit provision. Transaction costs associated with the rural areas call for non-profit delivery of public goods by the third sector organizations (TSOs) – non-profit non-governmental organizations.

The third sector in Ukraine is very young but is developing rapidly. The concept of community participation is getting incorporated into the population's mental models and introduces a new stakeholder on the local level. It is often the case in Ukraine that a community's interests are represented by some sort of informal democratic self-governing institution. However, these informal initiatives are becoming more and more institutionalized in the form of civic or charitable organizations representing community interests. Numerous donor organizations implement projects with the aim of facilitating development of the CBOs. According to Coirolo et al. (2001), a CBO is "normally a membership organization made

up of a group of individuals in a self-defined community who have joined together to further common interests". Missions of these organizations could range from a targeted delivery of a concrete public good (e.g. water) to implementation of a local development strategy. Partnership between the CBOs, local government, and the private sector is among the principles of CBD (UNDP, 2007). However, the efforts of development agencies appear to have had limited effect on the rates of CBO establishment, and even if the CBO is established, the success of public goods delivery is not guaranteed (Wong, 2012). Several of the most salient CBD conditions will be further discussed below.

3 Theoretical Framework

3.1 Relationship with local authorities

There is a long history of debate in the literature about the origins of the third sector organizations (Lewis, 1999; Salamon and Anheier, 1998; etc.) that eventually transformed into a more contextual discussion about the role of these organizations locally (Bernard et al., 2008). Understanding the nature of the third sector and incentives of the CBOs' leaders is essential for finding the right local governance structure, thus leading to better public goods outcomes. As a result, this knowledge may give us a better idea about how to improve the sustainability of community-based efforts. It is not clear whether the third sector arises in rural areas as a response to the failures of the local government or as a partner in local development efforts. In order to systematically approach this challenge, we refer to a seminal work of Young (2000), who developed a theoretical framework classifying different types of TSOs based on the nature of their relationship with the government. In particular, Young (2000) identifies three major types of CBOs: 1) working autonomously and supplementing governmental provision of public goods (supplementary relationship); 2) partnering with the government for public goods provision (complementary relationship); and 3) engaging in an adversarial relationship with the government (adversarial relationship). We apply this framework to a relatively narrow class of TSOs – rural CBOs. Categorizing existing relationships between local governments and CBOs will help us understand the incentives of each of the parties in local governance arrangements in rural Ukraine. Whether a relationship is competitive or cooperative may to a great extent determine the effectiveness of local collective action.

Despite all the attempts to explain the origins of the third sector, the literature has been relatively vague in answering this question. Going back to the seminal work of Salamon and Anheier (1998), who attempted to test different theories explaining the third sector, we see some evidence on the international scale about the prevalence of cooperation between the government and the third sector. These authors refer to such cooperation in their "Interdependence Theory", which suggests that nonprofits are largely in cooperative relationships with the government. However, New Institutional Economics follows the line of an argument that the third

sector may be a response to the policy and institutional failures of the government (Young, 2000). Thus, Campos et al. (2004) suggest that the Pakistani Aga Khan Rural Support Program has helped substitute for failed governmental development efforts to disburse credit to small farmers. However, the Aga Khan Foundation is a large player in the non-profit world and it may be difficult to draw parallels with small local CBOs. On the other hand, Besley and Ghatak (2003) argued that TSOs may facilitate competition by matching motivated (mission-oriented) public goods providers (local TSOs) and customers (public goods consumers). Accordingly, the CBD approach may ensure community gains from having alternatives to state approaches to local development, and this in turn may discipline and motivate local authorities to pursue more innovative local policies. Similar to the reasoning of Bennett and Iossa (2010), nonprofits may introduce substantial innovations in local public goods delivery, suggesting a complementary or to some extent adversarial relationship with local authorities. On the other hand, there is a danger that local TSOs weaken local government's willingness and capacity to deliver services (Haque, 2004). It may, however, be context-dependent. In the post-Soviet setting, Frohlich (2012) finds that Russian disability NGOs may be able to implement innovations in local delivery by maintaining a close relationship with the state.

3.2 Community development fund

Most Ukrainian municipalities have challenges with funding local public services (World Bank, 2008). The vast majority of these municipalities rely on equalization transfers from the rayon governments (NUTS 3) that only cover current expenses like salaries for the village council's staff and utility bills. Within the current budgetary system it is very difficult to imagine Ukrainian village councils having available funds for any capital investments (Lukovenko, 2003). This leads to a situation where local public goods (healthcare, schools, water supply systems, etc.) are severely underfunded, and thus suffer from underprovision and insufficient quality. Considering these enormous fiscal pressures, involving local TSOs in fundraising efforts should be very attractive for the municipalities. Numerous development agencies have recommended establishing community development funds, that is, separate funds based on regular membership fees and operated by local TSOs (EU, 2006); there could be several reasons for this. First, a community development fund could serve as a buffer against adverse events affecting local public goods like repairs of a water supply system, etc. Secondly, with a sustainable flow of funds it is possible to save and plan expenditures, and thus deal with capital investments, at least partially.

The literature identifies local CBO's ability to maintain a fund for some purpose as a key to its sustainability and successful development. Ostrom (1990) identifies formal financial management of a TSO, including mobilizing funds from local communities as one of the criteria for its successful development. Furthermore, successful local fund maintenance could be seen as a result of higher levels cooperation and trust within the participating community members (Datta, 2005).

Finally, scholars repeatedly underscore the importance of a sense of ownership of local public goods as a necessary condition for local development. This could be achieved by direct participation with monetary contributions towards common community goals (Marks and Davis, 2012; Whittington et al., 2009). Bardhan and Mookherjee (2006) argue that user-fees are an efficient and non-coercive way of funding local public goods leading to minimal cross-subsidization between community elites and non-elites. Having an option of non-participation for the community members indirectly creates competition in the sense of Besley and Ghatak (2003). These authors argue that matching mission-driven public goods suppliers (CBOs) and customers, which is a competition-based notion that they use, leads to efficiency gains in public goods provision.

Understanding the dynamics among local community members' willingness to contribute financially towards local maintenance funds may shed light on the general sustainability of the CBD development efforts in Ukraine.

3.3 External funding

The literature is not clear about the effect of external funding on the long-term sustainability of local collective action (Banerjee et al., 2010; Gugerty and Kremer, 2008; Mansuri and Rao, 2004). In particular, it is not fully understood to what extent should development interventions facilitate the process of CBO establishment (Adhikari and Goldey, 2010). Arguably, donor agencies may directly facilitate establishing local CBOs, and as a result undermine their sustainability. The availability of initial "startup" funding may introduce a moral hazard for local leaders. For instance, they may establish a short-lived CBO with the aim of obtaining "seed" funding for some specific project, not caring about an organization's longer-term activity. Moreover, a "foreign" agenda introduced by somebody who intervened in the community from the outside may be in dissonance with local priorities and, as a result, undermine CBD's efforts sustainability.

On the more general level, external funding may also adversely affect CBOs' sustainability. We refer to external funding as any resources coming from the government and donor contributions, whereas internal funding is referred to as the resources raised by the members of a CBO. These organizations utilize external funding for implementing medium-sized and large scale local development projects. Often capital investments required for public goods like water supply exceed the capacity of the local population to fund them via membership fees (EU, 2006). On the other hand, external donor funding can deal with larger local needs like a water supply system or school renovations. However, it may be highly contingent on fundraising capabilities of the local leadership and donor availability. As the CBOs have to invest substantial efforts to obtain the funding, it is far from being sustainable as opposed to contributions levied from the organization's members. As a result, a continuous flow of funds into a maintenance fund may reduce communities' planning uncertainties and improve development efforts sustainability.

4 Empirical Strategy and Data

The study utilizes qualitative data from a field trip to Ukraine. The interviews were conducted in the mid-2011 and could be categorized into two types: experts and local stakeholders of interest. Two regions were selected: Kyiv oblast and the Autonomous Republic Crimea¹. The former region was selected to examine examples of salient local CBOs that have good access to funding and information on management and maintenance of non-profits. Proximity to the capital may provide these opportunities. On the other hand, the latter region was interesting as it generally is ridden with problems of water supply and is rather heterogeneous with respect to its population. Prior expectation was that saliency of these issues in Crimea may have given rise to a respective third sector.

The experts were almost exclusively interviewed in Kyiv and Simferopol, the capitals of both regions. On the other hand, the focus of the local stakeholder interviews was on rural areas. The choice of the local stakeholders was deliberate and guided by consultations with development experts. In particular, six municipalities were selected based on a criterion of being a recipient of the grants from the CBA and DesPro Projects². In the Kyiv region, three rural and one semi-rural municipalities were selected; Crimea was represented by only two rural municipalities. All of these communities could be characterized by a relatively high amount of civic activity by local inhabitants, a similar fiscal situation, and established local third sector organizations that could be classified as CBOs. Apart from these common features of the municipalities, no efforts were invested in achieving representativeness of the cases among Ukrainian rural municipalities. One of the data limitations that should be pointed out is a possible selection bias that limits the number of selected communities with adversarial relationships between local authorities and CBOs. However, it is equally important to point out that this study considers only those organizations that have public goods improvements as statutory aims, and does not account for advocacy-related civic organizations (e.g. lobby or interest groups), which tend to be established in more urbanized areas. Thus, we are interested only in CBOs aiming to improve the local public infrastructure and quality of local life in general. They may in principle be in an adversarial relationship with local authorities and receive grants from the donor agencies.

The respondents were mayors of rural municipalities and chairs of different types of nonprofit organizations. The range of organizations interviewed included all possible legal registration forms: rural civic organizations, charitable foundations, service and agricultural cooperatives, and local self-governance bodies. In total, 18 semi-structured interviews were conducted. All the interviews were recorded,

transcribed and subsequently analyzed. The analysis was guided by a framework-based qualitative data analysis strategy suggested by Richie and Spencer (1994) that stipulates generating a framework to help distill relevant qualitative information via classification and mapping of a raw data. In particular, the process of analysis is divided into five distinctive steps. During the first stage, one becomes familiar with the data with the help of transcripts, along with basic abstraction and conceptualization. Then, a thematic framework embedding the literature review in the existing data is developed. Based on the thematic framework, the data is indexed and subsequently charted (indexed data was rearranged with the framework's guidance). The final stage stipulates data mapping and interpretation.

Interview guides were developed after consultations with the development experts from the CBA and DesPro, and based on the results of the literature review. Experts were interviewed on a broad range of issues related to rural public goods, rural governance arrangements, public finance, and the implementation of participatory approaches in local development strategies. The interview guides for the public officials dealt with the following categories of issues: 1) municipality characteristics including fiscal issues; 2) public goods and services (education, healthcare, infrastructure and entrepreneurship support); and 3) civil society within the municipality. On the other hand, representatives of the CBOs were interviewed about their experiences with establishing and running their organizations. Respective guides dealt with the following categories: 1) vision at the time of CBO's establishment and local needs; 2) management; 3) funding portfolios; and 4) cooperation with other stakeholders. All of the interview guides were personalized for each of the respondents. All the respondents were given enough space to sufficiently elaborate on each of the issues and identify most salient issues that were of concern at the time of the interviews.

The information collected is qualitative. However, it provides a good idea about the selected issues that communities may face in their efforts to move local development forward. The obtained data was also used for preparing a subsequent quantitative survey in Ukraine.

5 Results

5.1 Relationship with local authorities

First, interviews with the development experts reveal that a number of major nongovernmental donor organizations in Ukraine fund local development initiatives. Many of these organizations represent pilot projects attempting to demonstrate to the government certain effective models for development efforts. One can observe emerging state-funded grant programs after the pilot ones have been implemented by the CBOs funded through organizations such as the World Bank or UNDP. For instance, UNDP's program "Community Based Approach to Local Development" (UNDP's CBA Project) directed at improving social infrastructure have "inspired" the government to launch similar

¹ In early 2014 Crimea was annexed by the Russian Federation in a violation of international law, and has become de facto a territory of Russia that is not recognized internationally.

² The former is the project titled "Community-Based Approach to Local Development" implemented by UNDP Ukraine, whereas the latter is conducted by the Swiss Cooperation Office. Both of the initiatives provide funding for eligible rural CBOs for local development projects.

programs, for example on water supply, "Drinking Water", or on school transportation, "School Bus". A community development specialist from a Kyiv-based development agency indicated the following:

"Based on our experience, many rayons and oblasts have launched their own grant programs using our approach. They provide UAH 5-10 thousand and support local initiative," (Interviewee No. 1³)

Thus, the government appears to follow recommendations that replicate suggested models of the national and international donor organizations. This means that there may be some degree of supplementary or even adversarial relationship on the initial stage, as the third sector introduces innovative approaches to local development and governance. However, in the long run there may be more features of complementarity in the government's and the third sector's efforts on the larger scale.

All six case studies (representing the cases with most successful CBOs) suggest that the local Ukrainian third sector is still rather underdeveloped. Examined communities appear not to have the necessary levels of human and social capital for an effective collective action. Development experts indicate that most of the communities require extensive facilitation in order to establish a functional CBO. This is reflected in the fact that the initiative to establish a CBO very rarely comes from the community, which undermines the basic bottom-up principle of the CBD. As a consequence, missing stable goal-oriented incentives of the local leadership lead to the outcomes with low sustainability of the CBOs. Many of them stop activities after initially implementing a project, which may be incepted by the development agency. For instance, a quote from a deputy-mayor who is also a chair of a CBO demonstrates a lack of vision for longer-term community development:

"We just need a leader for this organization. When everybody wanted, it all worked and now there is some passiveness and it doesn't work somehow. ... Well, I can tell you that this civic organization is needed only from time to time. If there is an issue we resolve it," (Interviewee No. 4).

Four of the communities under examination were exposed to external donor facilitation when establishing their CBOs. This means that representatives of the donor organization (in these cases UNDP's CBA Project) came to the region and promoted the participation of selected communities in an initial project. Interviews with the CBO chairs demonstrate that in such cases the CBOs are usually established by the staff of the village council, and the leadership is usually very close to the village council. Other key informants have testified that a widespread situation in Ukraine is when the village councils create so called "pocket organizations" that they can use to attract external funding into the community. In this case, the relatively flexible legal form of a CBO is utilized by local

governments to receive funding. Although it may provide an additional source of funds for local governments, this undermines to original vision of the CBD development efforts to establish sustainable CBOs.

On the other hand, we examined two case study CBOs⁴ that were established based on the communities' initiatives and which represent bottom-up initiatives. Structurally and operationally, these CBOs are much more functional than the ones externally induced by the development agencies. They both have a group of highly committed leaders devoting significant time to the organization's management, and both have a clear division of labor and responsibilities. These organizations appear to be much more independent from the local authorities in terms of staff affiliation and decision-making. For instance, CBO leaders organize separate member meetings and all of the decisions on external fundraising were assumed by the CBO's staff. This differs dramatically from the rest of the cases with donor-facilitated CBOs. In those cases, CBO leaders are very often local government representatives. In such cases, independent decision-making is undermined, making it nearly impossible to implement any innovative approaches to local development processes.

The two cases of internally-induced CBOs demonstrated rather sophisticated fundraising portfolios. Both of the considered organizations devote much more significant resources to fundraising and search for innovative projects and initiatives. Activities appear to be more community-oriented and are based on constant fundraising efforts, unlike the ones externally-induced and implemented by the village councils. CBOs in both of the cases initiated and implemented local infrastructure projects (water supply system, school building renovation and targeted road repairs) in close collaboration with local authorities. One of the key innovative approaches introduced by these CBOs is fundraising techniques: they involve state and entrepreneurial funding, as well as substantial one-time monetary contributions from the local population. In addition, these techniques managed to mobilize local inhabitants for regular monetary contributions in order to create community development funds. As a result, relationships between internally-induced CBOs and local authorities are well-established and could be characterized as supplementary. Both of the latter CBO chairs indicate that good relationships have been built over time by proving that CBOs can move local initiatives forward and achieve positive results by adopting new development approaches. Both of the successful CBOs under consideration could be considered as trendsetters for the local governments that partially adopt their approaches over time.

As a result, local internally-induced CBOs could be seen as organizations supplementing government's public goods provision by introducing innovation in the delivery process. In particular, innovations in this context could be seen as the adoption of new funding schemes (e.g. user-fees, co-funding, etc.) and the instigation of new local governance arrangements involving CBOs and local authorities. However, a supplementary relationship appears to take place

³ Please see Appendix A for a full list of the interviewees.

⁴ These are cases No. 1 and 4 in the Appendix B.

only in the short run when we can observe innovation-inducing competition between the TSO and the government. In the long run, the relationship between local government and a TSO appears to rather follow Young's (2000) complementary type.

5.2 Community development fund

In principle, the CBOs can obtain funding from three different sources: local governments, donor organizations and enterprises, and membership fees. The first source appears to be irrelevant in the Ukrainian context given the local budgetary situation. The second type of funding usually represents one of the main motivations for Ukrainian communities to establish CBOs. Most of the CBOs among the case studies considered investing significant efforts to obtain donor funding⁵. However, most of them do not have a relevant capacity to establish long-term and strategic relationships with the donors. Bad access to information (printed media, Internet, etc.) along with low human capital contribute to very poor fundraising capacity of the CBOs. One of the practical and functional options is levying membership fees from the community members.

Four communities that considered establishing a community fund reveal that membership fees may be very difficult to collect. In particular, initially persuading community members appears to be extremely problematic. The major challenge appears to be the fact that there is a prevailing mental model among the population that social services in rural areas are supposed to be provided by the government. A development expert in Crimea pointed out:

"...Mentality is important. Soviet Union has taught people to live today and not think rationally about the future. People still don't have the understanding that they need to plan. We try to change the mentality of the people within our projects," (Interviewee No. 13).

These beliefs stem from the Soviet past when collective farms delivered local public goods. Development experts call this phenomenon a "consumerist mentality", referring to the local population's inertia to engage in public goods delivery, and thoughtless consumption due to a lack of a sense of ownership. These experts argue that community members have grown accustomed over the years to expect local authorities to show all the initiative in the public sphere, whereas community members are not active in the public arena at all. In other words, local inhabitants appear to have a path-dependent belief that only the government should provide local public goods.

However, the interviews suggest that there are few communities that manage to overcome initial difficulties in fighting mental preconceptions of the membership fees and are successful in levying the necessary funds for the organization's activities and operation. So what helps these communities with this task? First of all, the interviews reveal that success

stories motivate communities to a large extent. Local inhabitants often have ex ante negative predisposition towards voluntary monetary contributions because of relatively frequent news about fraud or corruption. However, experts point out that there is very little credibility to these concerns in a community setting due to CBO leaders' proximity to the community members. In other words, the news about CBO-related fraud cases comes from more urbanized settings where CBO leaders are often detached from the members. On the contrary, our data suggests that hearing about other examples of successfully levied membership fees and consequent transparent expenditure fosters trust towards this model of cooperation within the community. All interviewees agree that local success stories are a powerful factor motivating people to cooperate. Secondly, local norms of cooperation may play a decisive role in people's willingness to contribute. Mayors of the communities where establishment was possible describe their communities as more cooperative compared to the neighboring village or the rest in the rayon. However, the causation direction is not clear. We observed two instances (out of all the organizations examined) when development funds were fully established within the community organization. However, according to the development experts, these examples are very rare and are more of an exception. Based on the mayors' and CBO chairs' testimonies, it is clear that people's motivation to contribute improved drastically after the first year of the fund's existence. Community members realized that each of them was able to make a difference through a minimal financial contribution, and they had been able to see the results. All the interviewees indicate that there had to be an initial push or some sort of facilitation (external donor/development organization) to overcome the initial skepticism and non-cooperative behavior. In the first community (case study No. 4 in Appendix B) with an established development fund, a local charismatic farmer started providing waste collection services, initially free of charge. Service fees were then promoted as a long-term funding mechanism for a certain period of time until a critical mass was achieved and user-fees were agreed upon on community-wide. In the second community (case study No. 1 in Appendix B) with the established development fund at the time of the interviews, a critical role was played by the donor agency that firmly conditioned "seed" funding on the establishment of a development fund. According to both the mayor and the CBO's chair, external facilitation played a decisive role. The initial situation with low trust and no cooperation could be seen as a prisoners' dilemma, that is, the optimal strategy is not to participate because of the risk that others will not either. The perceived risk of others' non-participation could be mitigated by greater levels of social trust. If these initial frictions are resolved, further incentives to cooperate are supported by monitoring and sanctioning the deviating behavior. These results are in line with the findings of Banerjee et al. (2010), who suggest that collective action needs to be learned over time.

Finally, the two cases where the communities were able to overcome initial friction and establish community development funds have a much clearer vision about strategic

⁵ The exceptions are cases No. 3 and 5 in Appendix B.

development and priorities. The fund may create a feeling of responsibility for local public goods among the community members and foster better incentives for involvement into community life. For instance, a head of a rural agricultural cooperative that was trying to collect funds for street lighting (who failed to establish the fund, however) reports that:

"There were some people who gave more money and there were also the ones who were not members and still gave the money. However, in general not that many contributed: only 69 persons. But those who did they have a different attitude towards the value created," (Interviewee No. 9).

In sum, having a predictable flow of funds may help medium- and long-term planning. Moreover, a feeling of ownership fostered by the user-fees drastically improves communities' attitudes towards public goods (Marks and Davis, 2012). Naturally, better management and maintenance enhance delivery efficiency.

5.3 External funding

Our data suggests that the timing of obtaining external funding is crucial for a CBO's sustainability. Those CBOs that obtained significant "start-up" funding (grants or donations immediately before or at the time of the organization's inception) from external donors are less likely to operate sustainably in the future. Case studies indicate that initial funding, along with the parallel donor's facilitation, may distort the community's incentives by shifting the focus away from the original purpose of the CBO. In particular, the risk is that after initial project implementation the CBO ceases all activities and practically exists only on paper.

"There are many organizations that support their activities, but there are also some "one-time" organizations that were created specifically for the project and will be forgotten about after the project's implementation. If the community doesn't get engaged the organization will just fade away," (Interviewee No. 1).

As pointed out by Adhikari and Goldey (2010), the transition period after the CBO's inception is the most critical for its further sustainability. Among the cases considered in this study, there is only limited awareness about this among the development agencies in Ukraine. The problem is that "planting" new CBOs from scratch may create a situation of a moral hazard for the local leadership. In this case, local elites signal their compliance with the sustainability requirements of the donor agency to obtain initial funding. However, in the second stage when the CBO is expected to invest efforts into sustaining its activities, the costs of action appear to outweigh inaction. As a result, the funding that is originally intended as "seed funding" (encouraging the organization's

development) achieves precisely the opposite. There are a number of donor organizations working exclusively with well-established CBOs who have proven their functionality. Yet the problem is not in the seed funding itself, but in the design of the donor's start-up facilitation.

As an alternative to the "startup" facilitation on the ground, donor agencies can invest in promoting their programs to create a competition for funding among local communities (Chavis, 2010). This way only those communities with enough capacity will participate in the competition, thus weeding out the communities with lower capacity and giving them incentives to develop. In order to achieve higher capacity, community-wide levels of trust and norms of cooperation should improve, resulting in better collective action outcomes. These community characteristics take time to change (Banerjee et al., 2010) and, as case studies show, "startup" facilitation leads to only slight improvements in cooperation norms, if at all. Development experts suggest that change can be brought about by success stories of other more cooperative communities, existing role models that will motivate launching community-based platforms for those communities which have not yet done so and, finally, strong leadership within a community.

Development interventions with ad-hoc and nontransparent selection of target communities and excessive facilitation of CBO establishment may reduce long-term sustainability of the newly-created organizations. It is necessary that the communities have sufficient levels of norms of cooperation in order to transition to a long-term operation of a CBO. This means that in a community with low levels of trust and a lack of norms for cooperation, "bottom-up" or participatory approaches may not work in the long run. In this case the community will not be able to sustain the initial momentum after a donor's facilitation pulls out. Along these lines, an expert on water supply points out that:

"The community needs to be involved in the governance of an object. People need to meet more often and discuss current problems. Those villages where this works the community looks totally different: they don't have any conflicts, they meet more often, they are proud that they managed to do that. The communities become more independent after that and they stop waiting for something from the government. They decide about the following projects and go ahead and do that," (Interviewee No. 12).

Donors' resources could be invested more effectively into promoting grant programs that would attract most active communities. These programs should be designed in such a way that all the communities have an equal chance of participating, and an applicant must show a specific set and level of skills to apply for funding. However, in order to foster an adequate level of competition between the communities, donor agencies should ensure that the target communities are well aware of the grant programs.

6 Conclusion

This paper has examined several salient challenges of the CBD in the Ukrainian context. In particular, we have examined the factors that potentially determine the effectiveness and sustainability of local collective action. The literature offers overwhelming evidence about the advantages of community-based development. Numerous development agencies invest significant resources into participatory and community-based local initiatives. However, some studies have shown that there are a number of pitfalls questioning the effectiveness of some of the existing approaches (Banerjee et al., 2010; Mansuri and Rao, 2004). Here we use qualitative data from a field work in Ukraine to generate insights about the sustainability of the CBD approaches. In particular, we examine the role of their relationship with local governments, the establishment of a community development fund, and rural CBOs' reliance on external facilitation. Although the results are based on relatively successful and salient cases, the underlying issues related to CBD design may be applicable and relevant in other transition contexts.

The Ukrainian third sector still appears to be underdeveloped, as there are a number of CBOs that cease all activities after the inception project. A small number of communities that managed to sustain operation of the CBOs have a supplementary or sometimes even adversarial relationship with local governments shortly after establishment. CBOs may need a certain degree of decision-making freedom in order to implement local development initiatives utilizing new approaches. However, in the long run they tend to have a complementary partnership-based relationship. As a result, in a short run CBOs introduce some innovations in public goods provision mechanisms, whereas in a long run via partner relationships they encourage local governments to support and adopt these innovations. Thus, TSOs in the Ukrainian context could be seen as hybrids between complementary and supplementary types of Young's (2000) typology. Long-term oriented fundraising is crucial for the sustainability of a CBO's development efforts. In particular, many development agencies see community development funds as an effective instrument for improving the functionality of newly-created organizations. However, it appears to be very difficult to establish the fund initially due to the static frictions represented by local distrust and prevailing community-wide mental models about the role of the government in public goods provision. Nevertheless, there may be ways to foster the establishment of community development funds. First, higher levels of trust and norms of cooperation appear to be closely related with the probability of a fund's establishment. Secondly, success stories along with strong local leadership may also improve the odds of establishment. Finally, this may be one of the few examples when external facilitation contributes to a CBO's sustainability. Strategies like conditioning grant funding on the fund's establishment along with accompanying awareness-raising activities may increase the likelihood of establishment.

Finally, development interventions with excessive facilitation of CBO establishment may lead to moral hazard problems among local elites, and as a result undermine the long-term sustainability of newly-established organizations. The design of the grant programs should focus on promoting competition among the communities for funding opportunities. Current practices of selecting communities based on the needs principle (or any other criteria) and pushing community leadership to implement development projects (and thus establish CBOs) creates a moral hazard problem. This only reinforces the local population's beliefs about the role of the government in local public goods provision, and does not help to enhance the internal norms of cooperation, as the projects are often implemented on the level of local government without community involvement. Campaigns with extensive usage of media and local information channels help to sort and identify communities with better norms of cooperation. These communities will be more likely to sustain their development efforts after implementing the initial project. Sufficient information flow about the grant programs and accompanying success stories is necessary to foster incentives to improve cooperation within nonparticipating communities, and as a result, to generate competition among them.

The results of this study suggest two policy implications discussed in the literature. First, the debate about external facilitation of CBO establishment (Adhikari and Goldey, 2010; Mansuri and Rao, 2004) should deal with the program design in a specific context. On the one hand, strategies like conditioning "seed" funding on community development fund establishment may give an initial push to overcome a community's cooperation frictions. We presented an example of a community that managed to improve contributions towards the community development fund with the help of external facilitation. On the other hand, donors' grant programs should incorporate basic principles of competition into their initiatives along the lines of Chavis (2010) instead of using other criteria for recipients' selection. As was demonstrated, the nontransparent selection of communities and excessive initial facilitation may generate a moral hazard problem undermining the sustainability of local community-based development efforts. Second, in order for the competition-based design to work, a free flow of information is required, which appears to be a problem in rural Ukraine. Transparency and an information-rich environment are not only important for communities to be aware of fundraising opportunities, but also to enable success stories to be freely shared between nonparticipating communities and those with CBOs. Thus far, substantial donor resources have been invested in local institution building. Even though it may be a legitimate goal, this study suggests that educational and awareness-raising activities are equally important for fostering higher levels of participation within a municipality, and thus to ensure CBOs' sustainability. These measures should also directly target critical beliefs about the role of the communities and the government in the provision of local public goods that seem to prevail among the local population.

Appendix A. List of the interviewees

No.	Position	Organization/Area
1.	Community Development Specialist	Development Agency/Kyiv
2.	Senior Projects Coordinator	Development Agency/Kyiv
3.	Director	Think Tank on Civil Society/Kyiv
4.	Deputy Mayor and Chair of a CBO	Semi-rural municipality/ Kaharlytskyi rayon, Kyiv region
5.	Director	High school/Kaharlytskyi rayon, Kyiv region
6.	Deputy Mayor and Chair of a CBO	Rural municipality/ Ivankivskyy rayon, Kyiv region
7.	Chair	Association of Multi-Flat Building Owners/ Kaharlytskyi rayon, Kyiv Region
8.	Mayor	Rural municipality/ Tetiyivskyy rayon, Kyiv region
9.	Chair	Agricultural Service Cooperative/ Tetiyivskyy rayon, Kyiv region
10.	Deputy Head	Rayon (NUTS3) Administration/ Ivankivskyy rayon, Kyiv region
11.	Mayor	Rural Municipality/ Pereyaslav-Khmelnytskyi rayon, Kyiv region
12.	Expert on Water Supply	Development Agency/Symferopil
13.	Regional Program Coordinator	Development Agency/Symferopil
14.	Regional Program Manager	Development Agency/Symferopil
15.	Senior Official	Crimean Tatar Representative Body/Symferopil
16.	Chair	Agricultural service cooperative/ Saksyy rayon, Crimea
17.	Expert and Chair	Development agency and rural CBO/ Saksyy rayon, Crimea
18.	Chair	Rural CBO/ Dzhankovskyy rayon, Crimea

Appendix B. List of the case studies

No.	Case	Location
1.	Semi-rural municipality with established Union of Multi-Flat Building Owners and a civic organization	Kaharlytskyi rayon, Kyiv region
2.	Rural municipality with an established civic organization	Ivankivskyy rayon, Kyiv region
3.	Rural municipality with an established agricultural service cooperative	Tetiyivskyy rayon, Kyiv region
4.	Rural municipality with an established civic organization	Pereyaslav-Khmelnytskyi rayon, Kyiv region
5.	Rural municipality with an established body of self-governance	Dzhankovskyy rayon, Crimea
6.	Rural municipality with established agricultural service cooperative	Saksyy rayon, Crimea

Note: Statutory activities of all the civic organizations and bodies of self-governance interviewed included improvements in provision of local public goods (education, healthcare, water supply, etc.).

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