

**THE FUTURE OF OLD INDUSTRIAL REGIONS
IN EUROPE**

The Case of Donetsk Region in Ukraine



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*„Give the Kosak your hand,
And give him your honest heart,
And let us, again, in the name of God,
Together build the peaceful paradise”*

Taras Shevchenko „To the Poles”

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FROM THE EDITORS

For many years the future of industrial regions in Europe has been in the focus of research and numerous discussions. The difficult process of economic restructuring was undertaken in many countries as long as 30 years ago. In Central and Eastern Europe the inefficiency of economy became particularly clear only at the beginning of the '90s in the process of system transformations. The effectiveness of the recovery process varies from country to country depending on the depth and the consequence of undertaken reforms. Nonetheless, one of the biggest challenges faced by all countries is the restructuring of heavy industry and the overcoming of economic recession in regions with large concentration of mines, steelworks, shipyards etc.

The main aim of the Polish-Ukrainian-German (and, what will also be the French) project „*The Future of Old Industrial Regions in Europe*” is to exchange information on specific problems and respective organisational, legal and technical solutions as well as to initiate international co-operation between regions. The first stage of this long-term co-operation programme is a research project focusing on dilemmas pertaining to the restructuring and development of the Ukrainian Donbas region and of Polish Upper Silesia. The role of the project leader and co-ordinator in Poland will be assumed by the Polish Foundation for Economic Education and, on the Ukrainian side, the Renaissance Foundation („*Widrodzennia*”). However, this project could only be undertaken thanks to significant involvement and financial support of the Friedrich Ebert Foundation (its Office in Silesia and Representative Office in Kiev). This book presents the results of research, analyses, and discussions of Polish and Ukrainian scholars, experts and political decision-makers. An important and noteworthy fruit of the first

phase of the project is the active involvement of the representatives of local governments and local circles of Silesia and Donbas. The persons involved have already undertaken measures to establish specific long-term co-operation between the local governments.

Another interesting outcome of the project has been the application of the results of studies, experiences and regional development programming instruments previously used in North Rhine-Westphalia and successfully applied in Upper Silesia (a joint German-Polish local development project implemented by the Friedrich Ebert Foundation with the assistance of experts from the Foundation for Economic Education).

The outcome of the research phase of the project has been used to prepare a long-term cross-regional co-operation programme with the participation of four important „old” European industrial regions: Upper Silesia, North Rhine-Westphalia, Nord-Pas de Calais and Donbas. We believe that this important initiative will be of benefit to all participants and will serve as an example of co-operation on a truly European scale.

Witold Sartorius, Viatcheslav Koval

INTRODUCTION

This collection of essays is the fruit of the first stage of a Polish-Ukrainian research and consulting programme entitled:

„The Future of Old Industrial Regions”

Commissioned by Warsaw's Stefan Batory Foundation, the first version of the project plan was developed by the end of 1996 and at the beginning of 1997 by Ms. Barbara Gąciarz and me. The project was the outcome of a seminar held at the end of November 1996 in Warsaw, attended by a group of experts and researchers co-operating with the Donetsk Branch of the International Renaissance Foundation („*Widrodzennia*”) and by Polish researchers and experts from Upper Silesia and Warsaw. The original version of the project plan was reviewed and discussed with the management and the experts from the *Foundation for Economic Education* in Warsaw and from the *Friedrich Ebert Foundation* (their Silesian and Kiev Offices). As a result of these efforts we have come up with the ultimate version of the project which takes into account the expectations of all the parties involved. By the end of the first quarter of 1997 the project was accepted for implementation by the *Foundation for Economic Education* and the *International Renaissance Foundation* („*Widrodzennia*”) of Donetsk and with the financial support of the *Stefan Batory Foundation* and the *F. Ebert Foundation*.

The research areas for Phase I of the project were defined in detail in the second half of April 1997 when the Polish and the Ukrainian experts started their research in selected towns and cities of the Donetsk Region. The representatives of the Polish team – 6 sociologists commissioned by the Foundation for Economic Education under my leadership – and the co-ordinators from the Ukrainian side, i.e. **Alexandr Lyakh** and **Yevgeniy Kopat'ko** formulated a number of research plans and

qualitative studies, and one qualitative research plan (the latter focused on households in the Donbas mining areas).

On the Ukrainian side, the research and on-desk work was performed by 13 researchers and experts affiliated with the Donetsk branch of the *International Renaissance Foundation* („*Widrodzemia*”). On-location research was conducted by the end of April and in May and its results were processed by the autumn of 1997. The findings were presented during a seminar held in Gliwice in the Silesian office of the F. Ebert Foundation on 17–19 November 1997.

As is immediately evident, the duration of the implementation of the project entitled „**The Future of Old Industrial Regions**” was very short. The main fruit of the project is this collection of essays. Before inviting readers to perusal, I wish to draw attention to a few issues.

Although our approach to the problems faced by the Donetsk Region focused on a number of aspects and issues, it is far from being comprehensive due to the shortage of resources and time available for on-location and on-desk research. Nonetheless, a careful reader of this volume will find here information and reflections on quite a broad spectrum of issues.

The first two essays (*A. Lyakh*; *A. Lyakh* and *Y. Tkachenko*) present a macroeconomic approach to the Donetsk Region, in particular, to the national economic and political environment of the processes this special region is going through.

The next three studies (*Y. Kopat'ko* and *V. Korshunov*, *A. Mokrzyzewski*, *W. Pańków*) present, unfortunately in a very abbreviated version, the outcome of the aforementioned qualitative research on the living conditions of 600 families in a dozen locations in the Donetsk Region. The essays present information on the internal and external household infrastructure, family budgets, evaluation of working and living conditions etc. I believe there are not many studies of this type presenting the living conditions of post-Soviet republics.

Some of the next few essays make an attempt to diagnose the processes and effects of the transformation of a sample of former state-owned enterprises of the Donetsk Region (essays by: *L. Lohacheva*, *O. Ivashechkina* and *Barbara Gąciarz*, *Włodzimierz Pańków*). Others analyse different phenomena connected with the emergence of a regional labour market, a new employment system, escalation of unem-

ployment, growth of small business, performance of the social care system and the regional social infrastructure (texts by *V. Koval*, *A. Lyakh*, *V. Laschenko*, and *H. Tolmatcheva* and *I. Novak*).

The last group of essays (*S. Ivanow*, *A. Makarskiy* and *Y. Pamazan*, *J. Hoser*, *W. Górecki*, *J. Diatłowski*) analyses different aspects of the regional educational, vocational and retraining systems and presents the related processes against the background of similar processes in other countries (Poland and western countries). On the other hand the essays present the issues related to broadly-understood information and communication as an important factor of regional transformation. I wish to attract your special attention to the text by *J. Diatłowski*, which ends this book. It describes in a very interesting way the problems related to the perception and definition of regional (and other) transformation processes and problems in post-communist countries.

The organising principle applied in this collection was, where possible, to place the essays written by Polish authors after studies prepared by their Ukrainian counterparts. The texts written by Polish sociologists are in a way commentaries on the works of their Ukrainian colleagues whose knowledge of their country and region is, for obvious reasons, incomparably better. In applying such an approach we have tried to initiate a dialogue between the Ukrainian and the Polish researchers.

The short time we had to prepare this collection of essays did not allow us to edit this volume as carefully as would have liked.

Therefore, as we invite you to read this collection, we apologise for any editorial errors that may interfere with its perusal.

W. Pańków

Alexandr Lyakh

THE ECONOMIC, SOCIAL AND POLITICAL SITUATION IN THE DONBAS REGION AND THE AIMS OF THE NATIONAL POLICY

The lack of necessary institutional changes and consistent national structural policy makes Ukraine's transition economy based on Soviet material and technical foundations keep falling back into the patterns of the old system, and this leads to deformations affecting market transformations.

In the development of the general principles of the operation of the Ukrainian economy one can discern region-specific characteristics of social and economic development resulting from the structure of the regional economy and the relative ability of different regional economic systems to adjust to current macroeconomic policies. These specific characteristics refer also to old industrial regions such as the Donetsk Region, which comprises two districts: Donetsk and Lugansk. These are where the bulk of Ukraine's coal mines, steelworks and heavy industry is located. It is of crucial importance that these specific characteristics are taken into account in national policy in the area of the labour market and of the structural and investment components of Ukraine's industrial policies.

The Influence of National Macroeconomic Policy on the Economic and Social Situation in the Donetsk Region

In general, the Ukraine's macroeconomic regulations have preserved a number of features of the old centralised economic system despite the weakening of central management after 1994; it can be seen in the share of GDP redistributed by the consolidated state budget. In 1994 58.8% of GDP (excluding foreign loans) was redistributed through budgets of all levels; in 1995 and 1996 the figure was 46.5 and 41.7% respectively. In accordance with the President's Decree on Tax Policy Reform Methods, as of 1997 the share of GDP redistributed via the state budget should not exceed 45%, although the limit in the first draft of the 1997 budget was 48%. In the first half of this year the number share was nearly 33%. However, the actual weakening of centralised rule resulted, to a large extent, not from the efforts to reduce the influence of state budget fi-

nancing on the economy but from a state budget deficit (in the first half of the year the draft 1997 budget was executed in 28.4% on the side of revenues and 30.9% on the side of expenditures).

The increasing use of bonds to cover the budget deficit leads to the well-known effect of a transfer of internal investment resources to the state budget. At the same time a major part of the structure of budget expenditures is used to meet current needs and only one third is allocated for social benefits and old age and disability pensions. The share of national investments in the economy in budget expenditures varied from 1.5% in 1995 to 1.3% GDP in 1996. In the draft state budget for 1997 national investment outlays were five times lower than in 1996 and constituted 0.28% of the calculated GDP. Thus taking into account significant drainage of the economy from financial resources which could be allocated for private investments and the growth of internal production by the state budget one should expect that the existing budget policy will provide for further reduction of investment activity in the Ukrainian economy.

Budget expenditures supporting the economy, which in 1994 amounted to 21.4% in 1996, were six times lower and constituted 3.7% of GDP. It should be stressed that this budget section combined with the inflation – stimulating method of financing the deficit, the lack of an efficient system to channel budget expenditures and control their appropriate use was one of the principal sources of demand inflation in Ukraine. A high inflation rate in the years 1992-1994, combined with the monopolisation of principal sectors of economy kept increasing its dependence on mines and plants dealing with the initial processing of raw materials.

Since the significant reduction of the impact of the budget factor on inflation, financial stability has been achieved to a large extent at the cost of a relative reduction and withholding of direct budget payments to the public, i.e. through reduction of the final demand. An active role in holding back the symptoms of demand inflation is also played by slow money circulation; it is done (willingly or not) by with holding payments and results in a payment crisis. Irrespective of this, the expenditure inflation factor remains unchanged since practically nothing has been done to safeguard structural changes in the national economy in general and in the industrial potential, in particular.

Current financial stabilisation policy not only failed to reduce structural deformations in the national economy but – on the contrary – has intensified them increasing the share of the principal industrial sectors (orientated at the production and export of raw materials and semi-finished products) in GDP, total labour force and budget revenues. The resulting relative financial balance in the economy is characterised by reduced production and consumption, increasing hidden unemployment, unclear prospects for future growth which, to a large

extent, depend on the situation in global raw material markets and on the raw material import policies of major importers.

Excessive tax burdens imposed on internal producers and unchanged expenditure inflation factor, on the one hand, and reduced final demand, on the other hand, lead to lower production and the growth of a „grey economy“. Formal attempts to reduce the tax burden on the economy by the application of lower tax rates combined with unreformed size and functions of the state budget in fact brings about effects quite opposite to those projected. Due to new tax legislation some expenditures are in fact part of costs and are reflected in profit and hence new (sometimes hidden) taxes are levied, overhead and administrative costs are increased etc. This creates a vicious circle: attempts to supplement the budget at the cost of a higher tax burden lead to lower production and shifting towards the „grey zone“, a reduction in the tax basis and in the final demand and, as a result, to inflation risk in the form of arrears in payments.

As in other Ukrainian regions, the condition of the economy and the social conditions in the Donetsk and Lugansk district is characterised by lower basic economic and social ratios and the fragility of rare positive trends. In 1996 industrial production in Ukraine dropped by 5.1% and by 6.4% and 17.0% in the Donetsk and Lugansk districts respectively. In 1997 production (industrial production in particular) continued to decline despite the relatively long-lasting financial stability: in the first six months of 1997 industrial production in Ukraine dropped by a further 4.5% as compared to the same period of 1996. Similar tendencies can be observed in the Donetsk region although the decline of industrial output in the Donetsk district was lower (-1%) than in Lugansk (-5.3%).

Better figures in the Donetsk district result from the fact that a number of Lugansk enterprises in the principal industrial sectors have lost their local and foreign market share giving way to competitive producers of similar commodities from the neighbouring east Ukrainian regions. Moreover, as a result of geological factors, the condition of the coal industry in the Lugansk district is even worse than in the Donetsk district.

Besides, the region is characterised by specific social and economic conditions which are determined primarily by the structure of its economic system, by past attempts to resolve regional production and social problems and by the inability to adjust its economic complex and social conditions to the existing national macroeconomic policies.

Inflation waves periodically affecting the economy in the years 1992-1994 have gradually decreased the share and the importance of sectors manufacturing finished products and consumer and investment goods in the Donetsk region and have increased its dependence on the so-called basic sectors, i.e. the fuel, energy and metallurgy sector. As shown above, subsequent attempts to combat inflation have kept exacerbating deformations in the regional economy by in-

creasing the importance of the basic sectors of industry (in particular those oriented towards the export of cheap – as compared to foreign prices – raw materials and raw material products) in its structure and budget revenues.

The symptoms that the decline in production in the Donetsk region has slowed are not consistent as the structural crisis continues to intensify, investment activity keeps declining and profitability is still dropping. A ranking of the top 19 most profitable enterprises in the Donetsk district in 1996 shows that, as compared to last year, their profits dropped by 74.9% and profitability which amounted only to 9.33% (i.e. dropped by 82.4%). Although the share of industry in the district's GDP and the national product increased in 1996 and amounted to 78% and 64% respectively, its share in total profit dropped over the period 1991–1996 from 71.3% to 58.5% as a result of lower profitability.

Asset profitability and the share of profits in production costs in industrial enterprises decreased respectively from 25.2% and 22.4% in 1991 to 2.0% and 6.0% in 1996. At the same time the share of profit in such sectors as transport, housing and telecommunications is growing which results from their monopolistic position.

Moreover, statistics show that there are big differences in the rates of the continuing decrease in industrial production in the basic sectors, and raw materials and processing sectors. In the first six months of 1997 the Donetsk district recorded a 1% drop in total industrial production while the drop in the production of general use finished products was almost like an avalanche: 51.2% in light industry, 25.2% in food processing and 33.3% in the production of general consumer goods. In the Lugansk district the figures are not that alarming: in the same period general industrial production dropped by 5.3%, in light industry by 10.4%, in food processing by 20.2% and by 20.0% in production of general use goods. The reliance on raw materials in both economies is also intensified by the breaking of technological connections between the raw material and the processing sectors, by the differing availability of borrowing sources and access to foreign markets, in particular for small and medium-size producers of general use commodities. The above phenomena also result from the initiation of price liberalisation processes and economic contacts with abroad in the entire Ukrainian economy and its old industrial regions followed by the reactions of businesses to stiff monetary regulations and the payment crisis. This results in deformations of the structure of prices which, on the one hand, are oriented towards global proportions and, on the other hand, are determined by the existing natural structure of raw material consuming production and the structure of the effective internal demand.

The condition of investments shows that if the existing proportions and tendencies in this area are maintained, fast technological changes and significant improvement of the technical level of local enterprises will not be possible. The

suppressing of private investments by national borrowing, the concentration of financial resources in the so-called basic sectors and the negligible inflow of foreign investments have resulted in deformations of the investment structure and intensify the deformations of the economic structure of the Ukraine (including its old industrial regions). Although the privatisation process has led to a diversified ownership structure (e.g. in 1996 the share of non-state-owned enterprises in the economy of the Donetsk district was the following: in sales volume – 49.3%, in profit – 57.2%, in the number of labour force – 44.8%) it does not exert any significant impact on the efficiency of the operation and investment activity either of individual enterprises or of the region as a whole. It is not privatisation, but the strengthening diversification of the financial standing of different sectors of the economy and of industry which now plays the more important role in determining the technical advancement of local enterprises.

Although industry's share in the total profit of the region has fallen official average salaries in industry and other sectors of economy are still comparable. This can be observed in the Donetsk district where average salaries in industry in 1996 amounted only to 119% of average remuneration in the district (for comparison – in 1991 the ratio was higher and amounted to 123%).

This situation does not result from salary increases in other sectors of the economy but from lower wages in industry (really low official salaries in trade, catering and public services indirectly indicate that there are significant hidden incomes in these sectors). The above factors point to the decreasing significance of the profits and incomes of the employee of the region's industrial complex in the regional budget.

Nonetheless industry – in particular its basic sectors which export raw and initially processed materials – plays an important role in all levels of the region's budgets. This is mainly in the form of value added tax and customs fees (experts claim these sectors generate approx. 2/3 of budget revenues in the Donetsk district). This all results in a serious dependence of the region's budgets on the situation on global raw material markets and on antidumping policies in developed countries. For example, the real threat of the USA taking antidumping measures against Ukrainian exporters of metallurgical products in summer 1997 to a large extent put all district and local budgets in the Donetsk region at risk. At the same time the reduction of the tax base in old industrial regions now facing depression entails the necessity of finding additional sources of budget revenues, as the potential of unemployment growth is increasing, and in order to maintain the appropriate level of social services and social infrastructure which in past were to a large extent financed by enterprises from the basic sectors and so are the expenditures of local budgets.

In 1996 and indeed steadily over the past four years average real salaries in the official sector and average real old age pensions decreased. In 1992 real

salaries constituted 81.3% of the 1990 level and at the beginning of 1997 – 33.8%. The situation appears even more drastic if we compare average old age pensions to average salaries: in 1990 an average pension was 41.7% of an average salary and at the beginning of 1997 the ratio was less than one fourth. Conclusive statistics on real salaries, social benefits and arrears in these payments show that general standard of living has deteriorated. The data of Ukraine's European Centre for Macroeconomic Analyses show that by the end of 1996 real consumption in households (calculated in 1990 in rubbles) amounted to 1.4 billion and, compared to 43.0 billion in 1992, dropped by 30.7 times. At the same time the part played by unofficial sources of family incomes increases. This means that in this situation it is possible for the young and fit people to make a living either in the official, or in the „grey” sector of economy, whereas old persons or those unable to work and living on official incomes face only drastic deterioration of living standards. The above factors increase the weight of social issues in all budgets and also augment social tensions.

Thus an attempt to preserve the former macroeconomic policy combined with a number of other factors (low budget discipline and weak control over budget expenditures; the institutional deficiencies of the Ukrainian market and, in particular, the financial and lending system; a broad grey zone and criminalisation of economic relations) has led to economic stagnation and the rise of social and political tensions, while the growing inflation has put an already weak financial stability at risk.

Restructuring and Political Situation of the Coal Mining Industry

Efforts to ensure financial balance in the Ukrainian economy at the cost of a reduction of budget expenditures affects the standing of coal mining. Indeed, the sector has for a long time existed only thanks to subsidies from the state budget and a redistribution of financial resources between economically strong and weak enterprises. Such practices lead the sector and the whole economy to a dead end. Furthermore, coal mining directly determines the condition of the fuel, energy, coke, chemical and metallurgical complex of the whole country. Being directly responsible for ensuring the country's economic safety in this way, the sector needs investment outlays for technical development (namely funding from the budget or support from the state to attract modernisation investments).

According to the Coal Mining Ministry data, the resources of active and reserve mines amount to 23.6 billion tonnes of coal which, if 150 million tonnes are extracted per annum, will last 157 years. At the same time mining keeps reducing its output – from 165 million tonnes in 1990 to around 70 million tonnes in 1996. There are many reasons for that. The first factor is a geological one: hard coal deposits concentrated mainly in Donbas are considered the most difficult in the world to extract.

The second reason is connected with the condition of coal mines: 98% of them were launched over 50 years ago and 75% have been operating for 20 years without any reconstruction. Only 27 active coal-mines have been reconstructed since 1970. As a result 103 out of 257 mines supply only slightly more than 1% of total production in the sector. Over 150 mines have low profitability or run at a deficit while 63 mines incur higher operating costs per one tonne of coal than coal prices in global markets.

The third reason – the financial burden on the cost of coal output including expenditures related to the social activities managed by the mines and to social benefits, the specific nature of the payment crisis in the sector, irrational production and management structures, management inefficiency et al. In 1996 the share of barter transactions in total settlements amounted to 78% (in some mines over 90%). However, as the analyses have shown, the value of materials, equipment and other items obtained via barter transactions is 50% higher than the value of the same products paid for in cash.

The critical condition of the coal mining industry gives the Ukrainian government solid grounds for initiating radical reforms of the sector. However, the reform and restructuring of the sector entails a whole range of social, economic, environmental and political problems the solution of which determines public acceptance of the reforms and political stabilisation in the Donetsk region and the whole country. These problems include not only potential environmental consequences of hasty close-downs and inevitable difficulties related to lay-off of mining and on-the-ground workers but also maintenance of the social infrastructure of miners' houses and support for local communities.

One does not need to be a professional analyst to foresee a sharp increase of social tensions in the region if fast and wide-scale measures are undertaken to close down mines without appropriate and long-term social protection measures and adaptation of people affected by such measures.

The coal mining restructuring programme adopted by the Ukrainian government according to the recommendations of the World Bank provides for a closing down of deficit mines without prospects of improvement as the first step in the chain of measures aimed at curing the whole sector. However these measures, at least in their external form, look rather chaotic than comprehensive. At the beginning the pilot project of the Coal Mining Ministry (1995) stipulated closing down 18 mines. Then plans provided for the closing down of 50 mines in 1996. Now, around 30 mines are to be closed over the next few years. A special state-owned company was set up to restructure coal mining (abbr. name – UDKR) which on 1 June 1997 received 29 mining companies employing 8.6 thousand employees including 17 mines in Central Donbas (9 in the Lugansk and 7 in the Donetsk districts).

The first years of sector restructuring showed that the closing down itself frequently takes place before taking any of the preliminary measures which were put forward in the decree of the Ukrainian President „On Structural Restructuring of Coal Mining” as compulsory. There have been cases where mine liquidation proposals were approved only after their physical close-down practically without taking necessary social measures (e.g. the „Zamkovskaya” and „Centralnaya-Irmino” mines from the „Stachanovugol” association in the Lugansk District). In 1996 when 9 mines were closed down only 9.2% of the projected costs were financed while social measures – in particular those aimed at creating new jobs – received the least financing of all. It is common for workers dismissed from restructured mines not to get outstanding salaries, severance pays nor compensation claims, while residents in mining areas are not properly supplied with coal. Even the 1996 pilot project of the World Bank involving closing down three mines in Donbas was financed, as the manager of the UDKP stated at the Donetsk District State Administration meeting, only in 40%.

The miners’ strike in the summer of 1996 which took drastic forms involving blocking railways, led to the dismissal of the management of the district and disclosed a number of disquieting phenomena related to social tensions and the political situation in the mining sector. Firstly, the postulates of the miners were not only of an economic but also of a clearly political nature. Secondly, attempts were made to use the vigorous protest in the fight between the regional and central authorities. However, while in the past miners’ strikes were an asset used by the local political elite, in this case the protest was used to dismiss the head of the District Administration. Nonetheless the situation has not improved since this happened which even more undermines the miners’ confidence in the central authorities and, indirectly, in reforms in general. Thirdly, what is the most disquieting is the fact that the strike went beyond the shape of a „civilised” protest – it became destructive, aggressive and uncontrolled by either strike leaders or trade unions.

Moreover, the complexity of the political situation pertaining to the restructuring of coal mining is conditioned by a number of factors, which include:

- The emergence and politicisation of a regional lobby affiliating the management of big, mainly state-owned, enterprises which fight for the abolition of stringent budget limitations imposed on enterprises, for writing off debts, for subsidies and preferential loans, and for government contracts. The failure of the restructuring programme in the coal mining and other sectors would mean the state could still subsidise and finance enterprises;
- politicisation of trade unions and symptoms of an emerging „strategic association” of trade unions, leftist parties and a mining protest movement;
- The merging of the interests and activity of the aforementioned political forces with the interests and moods of the workers not only in coal mining

but also with the sympathies of those in practically all layers of the region’s community who suffer from arrears in payment of salaries, old age and disability pensions, deterioration of services and the social infrastructure.

Thus if national coal mining reform policies continue to mean limited and hasty sector restructuring measures and the provision of social protection only after mines are actually closed down, rising social tensions will result in emergence of a strong, integral block of opposition against the central government. Such a block will be able to extort changes in the political agenda and course of reforms in Ukraine.

Conclusions

- 1) Overcoming the structural crisis in the Ukrainian economy and in old industrial regions in particular requires changes in the national economic policy aimed at increasing real incomes and the strengthening of general demand based on payment ability. This goal can be achieved through unconventional methods e.g. extending consumer loans to individuals for purchase of domestic goods or housing loans. At the same time it is necessary to undertake measures aimed at overcoming the payment crisis, preventing inflationary „turn-over” of credit resources of the real sector and consumer loans in the financial sector.
- 2) The national coal mining restructuring programme should be reviewed from the perspective of its comprehensive impact on related industries (e.g. the chemical and coke industries, and iron metallurgy as a whole), and its ability to ensure social protection in mining towns and quarters as well as from the perspective of financial feasibility.
- 3) There appears to be an urgent need to develop quite a broad public work programme aimed predominantly at developing production and social infrastructure in the regions under depression and in mining quarters. Apart from stimulating job creation and increasing demand such measures would enhance the attraction of such areas for investors. Growth of public works will to a certain extent mitigate the process of laying off blue collars from coal mines and also enhance demand for construction materials as this sector also experiences a deep stagnation.

Alexandr Lyakh, Yekaterina Tkachenko

LOCAL GOVERNMENT FINANCIAL SECURITY DURING ECONOMIC AND SOCIAL RESTRUCTURING

The reform of the budget system as a whole and of mutual relations between budgets, in particular, should be viewed as an integral part of the far-reaching social, economic and political transformations taking place in the Ukraine. The reform is sure to exert strong pressure on the pace and depth of actions taken in other areas of economic and political reforms, especially on the development of local and regional governments, the development of market structures, the restructuring of enterprises, and privatisation and investment processes.

The outcome of such transformations depends to a large extent on the quality of the model of inter-budget relations, on the effectiveness of the mechanism of levelling out local social and economic disparities and budget imbalances and on the way that the budgeting process takes account of the specific characteristics of the regions suffering from depression and areas which are facing the difficult social and economic aftermath of restructuring. The existing model of inter-budget relations in the Ukraine is a mimicry of the past Soviet system and reproduces the main features of that system. It is obvious that within such a model any significant decentralisation of management and emergence of real local and regional government is out of the question.

Legislative Problems and Inconsistencies in Inter-budget Relations

The inconsistencies in the existing legislation regulating relations between budgets of different levels should be referred first of all to the mechanism controlling the distribution of revenues between central, local and regional budgets. In one place (Art. 140) in the Ukraine's Constitution (1996) local budgets comprise the budgets of villages, settlements, towns and cities whereas in Article 143 they also include the budgets of municipalities and districts, which is in concordance with the Act on „*The Ukraine's Budget System*“ (edited in 1995). In addition to this, the manner of defining local budget revenues stipulated in the Constitution is different from that in the Budget System Act.

In the Constitution (Art. 142 and 143) district and municipal budgets are composed of:

1. funds furnished on a voluntary basis by budgets of lower levels to finance joint social and economic programmes and projects;
2. funds from the state budget to be distributed among local communities.

The above procedure is set out in Art. 61 of the *Act on Local Government in the Ukraine* (1997).

A different mechanism is laid down in the Budget System Act. According to Art. 12 and 13 district and municipal budgets are composed of:

- 1) share in national taxes and charges set in the Budget Act for the subsequent year;
- 2) deductions from income tax, lease revenues, and dividends from municipal enterprises of the respective level;
- 3) revenues from the privatisation of state-owned assets, internal loans and lotteries in the percentage set by the Supreme Council in the Budget Act;
- 4) transfers from the budgets of higher levels;
- 5) other revenues stipulated by the legislation.

In principle the general concept of such changes in the legislation is progressive since they are aimed at increasing the financial independence of the local government. However, the Constitution and a number of bills awaiting approval by the parliament in fact subject the regional level of management to central control since district and municipal budgets will be created by the Ministry of Finance. In this situation district and municipality representative governments deprived of their most important attribute, i.e. financial independence, will change into dummies such as the former „regional self-government“.

Besides certain provisions of the Constitution and the Local Government Act maintain the dependence of local budgets on district and municipal budgets since it will be district and municipal administrations that will define the proportions for distribution of funds from higher levels. Vested with a constitutional right not to transfer their own funds to district or municipal budgets, financially strong areas will prefer to allocate their funds for their own projects while weak areas simply will not be able to do so. However, representatives of local councils which need subsidies (i.e. 10,200 village councils, 800 settlement councils and 444 city and town councils in all Ukraine) and who have a majority in district and municipal councils, are objectively interested in stronger centralisation of budget funds on the district and municipal levels and, indirectly, on the national level.

The central government – the Cabinet of Ministers and the Ministry of Finance – welcomes a situation where most district and municipal councils as well as representatives of these territories in the Supreme Council are interested in stronger centralisation of budget funds in order to be able to redistribute them later on in the form

of transfers. In the absence of either clearly defined and legally binding mechanisms for determining transfers to individual local budgets or direct local relations between lower level councils and the state budget, the central government has the freedom to act at its own discretion in its relations with district budgets and ignore the 1 to 2.33 (30% and 70%) ratio between the central and local budgets set in the budget resolution. It should be also noted that the Local Government Act contains some „loopholes“ (see Art. 63 item 1 and Art. 65) which give the central government an effective free hand in the budgeting process, and also enable it to treat local budgets holding „surpluses“ of budget funds at its own discretion.

It should be stated objectively that the aim of changing the relations between the central and the local budgets into direct ones (bypassing district and municipal budgets) is practically impossible to achieve in the foreseeable future without a clear specification of the competencies of national and local governments, the sources of budget revenues on different levels, and a definition of fixed and transparent regulations and formulas for creating and redistribution of transferred budget funds on the national, district and municipal level. In the present circumstances the implementation of progressive provisions of the Constitution and the Local Government Act clashes with the existing reality as a result of which the structure of interests and political powers facilitates excessive centralisation of relations between budgets.

The Territorial Balancing of Budget Revenues and Expenditures

Despite the decentralisation of the decision-making authority and extension of the role of local and regional governments in regulating economic and social development on the local and regional level, which took place when the Ukraine gained the status of an independent state, the state budget system has retained a number of features of the previous system. What has changed under the cover of budget reforms is not the concept of relations between budgets but merely computing techniques. Although in theory they retain their past autonomy local and regional budgets are in fact subject to central government (The Supreme Council, Cabinet of Ministers, and Ministry of Finance) which determines and rations funds for economic and social development in each region in accordance with central policies. On the one hand, such an approach does not even out local disparities and, on the other hand, frequently makes power decentralisation processes arbitrary and hasty (in particular during election campaigns).

The share of the central budget in consolidated expenditures in 1994 amounted to 61.2%, in 1995 to 61.1% and in 1996 to 65.6%. According to the first draft of the national budget for 1997 the share of the central budget in the revenues of the consolidated budget amounted to approx. 68%. To compare, in unitary market economy countries the average share of central budgets in revenues amounted to

59.8% and in expenditures to approx. 48%. The share of subsidies for regions in the Ukraine's draft 1997 budget amounted to 10.6% i.e. it was two times higher than in the years 1994-1996 (in 1993 the share amounted to 6.7%). It should be noted that transfers from the state budget to individual territories in the Ukraine are in the form of subsidies to finance current budget costs. The share of state budget subsidies in the Ukraine is not only lower than in unitary developed market economy countries but also lower than in most transition countries.

Revenues of regional (district) and local (municipal, urban and rural) budgets are determined by expenditures planned for a given financial year and approved by the Ministry of Finance. Original Budget System Acts (1991) and the Local and regional Government Act (1992) provide that budget expenditures on lower (local and regional) levels should be determined on the basis of the standard budget per capita ratio system.

Subsequent versions of the Budget System Act and the Local Government Act also provide that mutual relations between different levels of budgets should be based on minimum local budget amounts which, in turn, are calculated on the basis of standard budget per capita ratio taking account of the economic, social, and environmental situation in respective territories. However, the Ministry of Finance has not calculated these standard ratios and does not even mention them in the budget approval process. At the same time we have social security per capita standard ratios (housing, social infrastructure, social services) taking account of the local situation calculated by the former Gosplan (Planning Committee). With these ratios it was possible to calculate minimum demand for budget funds in individual territories.

Expenditures of local and regional budgets planned for the coming financial year are determined on the basis of expenditures incurred in individual budget categories in the preceding year and the impact of inflation on such expenditures (the so-called „base method“ used in the former centralised system). Budget revenues for individual regions are determined on the basis of anticipated budget revenues in the given region minus anticipated expenditures. Determining individual standard ratios for redistribution of national (regional) taxes, which constitute a major part of consolidated budget revenues, between the regions and the centre is a matter of computing technique based on the adopted methodology (which is also changed every year). The same procedure is applied by regional government bodies to determine standard deductions from national taxes to local budgets.

In the years 1993 and 1994 the rates of deductions from national taxes for regional budgets were determined separately for each region (only personal income tax played the role of a regulating tax and was used in full by district and local budgets) and subsidies were determined for regions with a low income base. The above structure of mutual relations between budgets has continually

been criticised especially by the representatives of eastern regions – principal contributors to the state budget. The mass media have many times suggested determining district and local budgets on the basis of uniform deduction ratios for all territories or consistent budget expenditures per capita ratios.

In 1994 another revenue redistribution model was adopted. The same rates of deductions from regionally collected national taxes and charges were adopted for all regions: 20% from the collected value added and excise tax and 50% from corporate income tax (collected from state-owned enterprises and organisations) and personal income tax. Four districts generating high revenues (Dnipropetrovsk, Donetsk, Zaporozhe and Poltava) and the city of Kiev were obligated to transfer 4,019 billion karbovanec from their budgets to the state budget (the Donetsk district - 1,472 billion karbovanec). The remaining 20 districts, the Crimean Republic and the city of Sevastopol received state budget subsidies totalling krb 16,533.8 billion. Financial needs in regions were determined as previously „by base“. Such a „reform“ of inter-budget relations burdened some regions with part of the social costs of the state budget without allocating of appropriate funds to cover them and hence met with a very negative response from the contributing regions.

The State Budget Act of 1995 provided that 24 districts would have the same rates of deductions from profit taxes from enterprises of all types of ownership (70%), personal income tax (50%), excise charges (20%). As for the value added tax, different deduction rates were set for regional budgets – from 100% in 13 districts to 46.4% in the Dnipropetrovsk district, 30.7 in Donetsk, 22.9 in Zaporozhe, 24.7 in Poltava, and 20 in the city of Kiev. Moreover, the city of Kiev had to transfer 14,079 billion karbovanec to the central budget. The city of Sevastopol was supposed to retain all its tax revenues in its budget. The state budget for 1995 provided for subsidies amounting to 48,485 billion karbovanec for 13 districts and the city of Sevastopol. In the case of the Crimea, 1995 arrangements stipulated a one-channel system of tax transfer, conventional budgeting for the republic, and transfer of 12,877 billion karbovanec to the state budget for financing general national costs. In the 1995 budget an attempt was made to reduce the number of subsidised districts and to differentiate regions principally on the basis of one tax – VAT. However the heart of the fund distribution method based on last year's regional expenditures remained unchanged.

In 1996 the budgets of the Crimean Autonomous Republic and the city of Sevastopol included all revenues from national taxes collected on their territories (apart from deductions of profit tax on state-owned enterprises in which case the share of local budgets was set at 70%). At the same time krb 13,086 billion was to be transferred from the Crimean budget to the state budget. For the city and districts of Kiev the rates of deductions from tax revenues on state-owned enterprises excise charges and personal income tax for their budgets were set at the same level and amounted to 70%, 20% and 50% respectively.

The principal source of income that was used to account for regional differences was value-added tax – the easiest to collect and the most important item. Budgets of 11 (mainly agricultural) districts received all revenues from this title. Four other districts received over 2/3 of VAT revenues. Industrial districts received the following share of VAT collected on their territories (in %): Lugansk – 72.8, Lvov – 59.6, Odessa – 45.3, Sumsk – 53.1, Kharkov – 44.7. Districts that have always been major contributors to the state budget received minimal VAT amounts: the Dnepropetrovsk district – 24.2%, the Donetsk district – 23.4%, the Zaporozhe and Poltava districts and the city of Kiev 20% each (the latter three including the Crimean Republic were supposed to transfer krb 47,335 billion to the state budget). The draft 1996-state budget provided for subsidies for 11 districts and the city of Sevastopol amounting to krb 81,107.5 billion.

The draft 1997 state budget provides for transfer of 100% of VAT revenues to the central budget (although the Budget System Act stipulates that the rate of VAT deductions to district and local budgets should not be lower than 20%) and the following rates of deductions from national taxes to local budgets: excise taxes – 50%, corporate profit tax – 70% and personal income tax – 100%. The first version of the draft 1997 state budget provided that 10 districts, Crimean AR and the city of Kiev should transfer to the state budget 1,456.7 million hryvnia and 14 districts and the city of Sevastopol would receive state budget subsidies amounting to 1,087 million hryvnia. In the latest version of the 1997 draft submitted by the Cabinet of Ministers to the Supreme Council for second review, the amount of funds transferred by regional budgets to the central budget was reduced by just above 400 million hryvnia, i.e. by 3.6 times. At the same time total funds transferred from the state budget to the Crimean Autonomous Republic (which in the first version of the budget appeared as a contributor and in the latest version changed into a beneficiary) to the districts and city of Sevastopol increased by 2.5 times and amounted to 2,753 million hryvnia.

The above methodological irregularities in the state budgeting process show that there is no consistent and future-oriented regional policy on the central level and no priorities in supporting local development; that central authorities endeavour to reduce central regulation of local development mainly through ad hoc measures and by evening out the social situation in different administrative and territorial units. Therefore there are no precise rules regulating either inter-budget relations or methods of defining transparent procedures of making state budget deductions and receiving central budget transfers on long-term basis. It is obvious in this situation that these unsound practices in relations between budgets on the central-regional level also spread onto lower levels.

The advantages of this model include: savings due to centralised tax collection and the possibility of concentrating significant funds for redistribution to even out social and economic disparities between territories. Nonetheless, the model's major deficiencies, such as excessive centralisation of fiscal functions

and a tendency to use local and regional government bodies merely as vehicles for implementation of central policies, cause the advantages of power decentralisation to fade away. Countries applying such an inter-budget relation model make up for its deficiencies by precise distribution of budgeting authorities between different levels of government, vesting local and regional governments with strong rights in the process of determining their share in common taxes, defining proportions of distribution of common taxes in legislation and creating efficient mechanisms of horizontal levelling of territorial budgets.

The lack of clearly defined inter-budget relations along the whole central-regional-local budget chain makes the state budget politically weak. Namely, in a situation like that more aspects of the budgeting process are „agreed upon” and the possibility of strong regions exerting political pressure, in particular in pre-election periods, increases. On the other hand, planning budget revenues and expenditures „by base” encourages local and regional budgets to hide their budget potentials, and to apply budget execution mechanisms, which lead to a transferring of part of national taxes and charges, which by law are owed to the central budget, to lower levels (by mutual debt write-offs).

Local Budget Preparation and Utilisation in Territories Undergoing Restructuring

The old approach to centralised redistribution of budget funds undermines the influence of local government bodies on restructuring processes in the Donetsk Region and reduces them to mere vehicles for the implementation of central policies. Research on local budgeting principles in e.g. the city of Makiyevka, the city of Stachanov, and the Proletarsky Rayon district in the city of Donetsk has shown that the original draft of the revenue part of the budget is prepared by financial divisions of executive bodies in local Councils of Deputies on the basis of actual execution of the revenue part and rates of deductions from national taxes and charges in the past year and of draft financial plans of enterprises and business organisations for the next year. The expenditure part is prepared on the basis of preliminary lists of expenditures in budgetary units.

It should be noted that in local budgeting in the territories in question none of the levels have taken account of the minimum budget amount per capita as required in the Act on Ukraine's Budget System and in the State Budget Acts for 1995 and 1996.

In 1995 the Donetsk Region adopted a practice involving the approving of draft budgets prepared by financial units in cities in respective divisions of the District Executive Committee. The Lugansk district does not apply such a practice. After the approval of the state budget, executive bodies of higher levels (for the financial division of the Proletarsky Rayon of the city of Donetsk it is

the financial division of the city of Donetsk, for the cities of Makiyevka and Stachanov – financial divisions of the Donetsk and Lugansk districts respectively) supply executive bodies of lower levels with the following figures:

- rates of deductions from regulating sources of revenues and quotas for such revenues;
- subsidies (for the Proletarsky Rayon of the city of Donetsk);
- list and amounts of expenditures scheduled to be transferred from the budget of higher levels to local budgets.

According to budgeting principles of the Donetsk and Lugansk Districts for 1995 and 1996, in the Proletarsky Rayon, the city of Makiyevka and the city of Stachanov, regulating sources of local revenues include: profit tax on state-owned enterprises and organisations, value added tax, land tax and excise charge. From 1996 revenues from excise charges in the city of Stachanov are included in full in the budget of the higher level.

Rates of deductions from „the regulating sources of revenues” – locally collected national taxes and charges and other obligatory payments – are approved once per budget year and are not verified. In practice, however, if the collections of revenues from regulating sources in the local budget are much higher than planned the executive body of the higher level incorporates the „surpluses” in its own budget, which is a breach of the Budget System Act. Rates of deductions from the personal income tax in the Proletarsky Rayon in 1996 amounted to 30%, which violated Art. 14 of the Act which provides that budget revenues in municipalities (districts) in cities encompass personal income tax in the percentage set by the local Council of Deputies of the higher level but at not less than 50% of the total amount.

According to our calculations changes in the rates of deductions in 1996 as compared to 1995 in the city of Makiyevka increased budgeted revenues from regulating sources by 9541 thousand hryvnia, and in the Proletarsky Rayon of the city of Donetsk and the city of Stachanov decreased such revenues by 516.3 and 1730 thousand hryvnia respectively.

It should also be stressed that the financial divisions of the Donetsk and Lugansk Districts and the city of Donetsk supply local authorities in these territories with control ratios (figures) which are excessively high on the revenue side and excessively low on the expenditure side. All this does not stimulate local governments to seek extra sources of revenues for their budgets. What is more, the mayor of the city of Stachanov admits that he tries not to exceed the figures budgeted on the revenue side since higher figures would make the rates of deductions to the budget of the higher level more stringent. Such practices are quite common.

Budgets of the Proletarsky Rayon in the city of Donetsk, the city of Makiyevka and the city of Stachanov are nearly always approved by local Councils of Deputies in the amounts calculated by executive committees of the higher

level in such a way that total revenues equal total expenditures. However, the lack of objectivity in approved ratios on the revenue and expenditure side of the budgets in question leads to a hidden deficit which is one of the main factors contributing to debts incurred to cover current expenditures.

An analysis of the execution of the revenue side of local budgets in the territories in question shows that the main sources of budget revenues in all three areas are deductions from national taxes and charges. Nonetheless although VAT is the biggest item in the revenues of the city of Stachanov (46.6% in 1995, 62.49% in 1996 and 48.16% in the first quarter of 1997) in the Proletarsky Rayon on the city of Donetsk the biggest item is fees for land (1995 - 32.96%, 1996 - 29.17%, and 1 quarter 1997 - 32.71%). In the city of Makiyevka the highest amount in 1995 was contributed by the fees for land (34% of total revenues) and in 1996 the profit tax from companies and organisations (28.40% of total revenues).

In the budgets of the territories in question there is a small share of stable revenues and charges including those set by local Councils. In the budget of the city of Stachanov local taxes and charges amounted to 3.01% of total revenues in 1995, 4.79% in 1996. These amounts from these titles were actually in 105.45% in 1995 and 173.4% in 1996. The city of Makiyevka recorded the same low level of actual collections of local taxes: in 1995 - 79%, in 1996 - 60.92% of the budgeted amount. Thus their share in the budget amounted to 1.73% and 2.14% respectively. In the budget of the Proletarsky Rayon actual collection and the share of local taxes and charges in the year 1995-1996 amounted to 2100.0, 150.0 and 1.69 and 2.14% respectively. Besides, one should note that although the Proletarsky Rayon is one of the most densely populated municipalities in the city of Donetsk it ranks last in terms of the number of industrial enterprises. As a result the budget of the Proletarsky Rayon is subsidised from the city budget. Thus in 1995 the Rayon received 1175 thousand hryvnia from the city budget, i.e. 24% of its total own revenues; in 1996 3587 thousand hryvnia out of budgeted 5564 thousand were collected (32% of total revenues).

In general terms the revenue side of the budget of the city of Makiyevka was executed in 1995 in 118.35%, in 1996 in 80.75% and in the first quarter of 1997 in 68.08%. In the city of Stachanov the execution amounted to 118.9%, 102.7% and 41.98% respectively, and in Proletarsky Rayon to 94.54%, 115.35% and 91.09% respectively. However, a large part of revenues in the budgets in question was ensured through mutual clearing of overdue taxes. And thus total revenues in 1996 in the Proletarsky Rayon amounted to 11260 thousand hryvnia out of which mutual clearings amounted to 1440 thousand hryvnia (12.97%), in the city of Makiyevka: total revenues – 50120 thousand hryvnia, mutual clearings – 6553 thousand hryvnia (33.03%); in the city of Stachanov the figures amounted respectively to: 21517 thousand hryvnia and 13683 thousand hryvnia (63.59%). Such a big share of financial flows outside the banking system significantly decreases the balances on budget accounts of local authorities, which could be used to resolve

actual social problems. Apart from that, mutual clearings affect the revenues of the central budget and can be used to account for irrational expenditures and use of funds not in accordance with their destination.

On the basis of the above data one should state that the main reasons for the shortage of funds available for local governments in the territories in question are:

- continuing decline of industrial production, in particular in sectors generating the basic budget revenues of local authorities;
- unsatisfactory payment discipline among enterprises, and a high percentage of barter transactions, which affects deductions for the budget;
- a low and still decreasing percentage of deductions from national taxes and charges (regulating sources of revenues) and a minor share of stable revenues and charges collected locally;
- lack of objectivity in control figures that executive bodies at the higher level supply to financial divisions at the lower level for preparation of local budgets, which leads to a hidden deficit;
- the securing of a large part of local budget revenues by mutual clearing of due taxes.

In reality local governments in the territories in question do not have so-called growth budgets and their funds are used almost entirely for current expenditures and approximately one third of such expenditures are in the form of social payments (transfers). But even these funds are not sufficient to cover the aforementioned expenditures. In 1996 actual demand for social payments was met in the city of Makiyevka – in 25%, in the city of Stachanov – in 50.8%, in the Proletarsky Rayon of the city of Donetsk – in 32.5%. It should be stressed that this problem can be resolved only if the government verifies its national budget policy, ensures the right of local governments to exercise their initiative and stimulates the interest of local Councils in generating their own sources of funds for their budgets.

It is necessary to seek a compromise in the redistribution of revenues between territories and effective methods of implementing it because the existing redistribution practice has many deficiencies. The most important of these are: unfair distribution of budget funds, an absence of clear criteria either in setting priorities of the state's regional policy or in encouraging consumer approaches in local governments (who receive subsidies or grants from the central budget), and the suppressing of local initiative in the development of their own budget bases.

In a number of contributing districts expenditures per person are lower than in districts subsidised from the state budget. This practice has been in place for a long time. At the same time, as the figures of the Chief State Tax Inspection show, by the end of 1995 45% of local governments had not introduced all local taxes and charges as prescribed in the list of the Cabinet of Ministers. It is

noteworthy that 75% of these local governments receive subsidies (or grants) from higher levels. Districts of high budget potential, however, such as the Donetsk District, are leaders in production and revenues but do not rank high in the standard of living and social infrastructure.

The problem becomes even more complicated when we consider that in the past, as in other transition countries, social services (nursery schools, kindergartens, health service, vocational education, municipal housing, cultural and health care centres) were financed not by the budget but by state-owned associations and enterprises. Such practice was applied to a large extent in industrial regions. For example in the Donetsk District 2/3 kindergartens and cultural centres were provided for by industrial enterprises and so were nearly all sports facilities. In regions with low industrial potential social services are now financed mainly from budget sources, largely from centralised redistribution. It should also be remembered that in present circumstances many heavy industry establishments constituting the „backbone” of old industrial regions are in economic difficulties.

Costs will keep increasing in the budget expenditures of old industrial regions as enterprises give up the maintenance of the social infrastructure. The revenue base should change correspondingly. That is why the coal mining restructuring programme provides for obligatory transfer of all social infrastructure to district and local budgets and ensures that necessary revenue base for the latter. However, in practice local budgets in the territories in question have not received additional sources of revenues to maintain social infrastructure.

Defining the demand of Ukraine's old industrial regions for financial resources one should also bear in mind the they are characterised (especially Donbas) by significant industrial waste and environmental pollution. Health hazardous emissions per square kilometre in the Donetsk District are 4–5 times higher than Ukraine's average. In the district there is an accumulation of over 2.5 billion tonnes of different industrial waste (including 1.5 billion tonnes of coal mining and cleaning waste) which occupy over 2% of the district's territory. The ecological situation in the region requires significant outlays for environmental protection and for improving the health of the community, both of which constitute an additional burden to the local and regional budgets.

Thus the existing condition of old industrial regions as state budget contributors is fairly unstable and one should expect a significant fall in tax potential to take place in these regions in the near future if no investments to modernise their production potential and structural transformation are ensured. Secondly, one should expect a tangible increase in the demand for budget funds, in particular, for the financing of social expenditures.

Conclusions

The main functions of central budget redistribution should be the levelling out of disparities in social development in individual administrative-territorial units to meet set levels and the development of backward or depressed areas. However, the second function should be made the first priority since practice shows that application of only equalising transfers preserves the status quo. The best results are achieved by comprehensive application of different support mechanisms in the troubled regions. The key principles of such support involve:

- obligatory preliminary elaboration of the state's regional policy, which would ensure an optimal combination of national and local interests, based on the existing budget potential. The main priorities of regional policy in the transition period should be stabilisation and general economic growth as well as development of local and regional governments ensuring implementation of such tasks;
- setting up in the state budget a fund for territorial transfers to even out disparities in social and economic growth and support for areas suffering from depression (according to regulations which should be clear, transparent and uniform for all administrative-territorial units, and which should reduce as much as possible any arbitrary approaches or individual arrangements between e.g. the Ministry of Finance and the regional government). Redistribution via territorial transfers should be based exclusively on set rates and clearing ratios (which should be set for longer periods e.g. 4–5 years). Clearings based on the infamous „by base“ method should be precluded from mutual relations between budgets.
- special transfers for troubled areas should be allocated not post factum but as prophylactic support. The granting of special transfers should also be based on specific and transparent regulations, and on clearing formulas, and should involve active central control of the utilisation of such transfers according to their destination;
- for areas suffering from depression which have a relatively sufficient budget base – there should be a temporary application of a special budget system providing for rebates in national taxes and charges to the central budget until they are fully excluded from local budgets of such areas. Such a system, however, should be applied only to a limited number of territories and should be based on specific conditions and social and economic benchmarks which the territories should fulfil by the end of the period during which the system is applied;
- ensuring concordance of all legal acts regulating mutual inter-budget relations in Ukraine and their implementation in practice. It makes sense to maintain the institution of local government and that will require abandoning the total dependence of local and regional budgets on the central budget, ensuring a more clear-cut division of revenues on different levels, increasing the share of local and regional taxes and charges at least to one third, adopting application of long-term ratios of distribution of national taxes and charges among budgets of different levels based on minimum budget per capita ratios.

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HOUSEHOLDS IN DONBAS MINING QUARTERS: PRESENT SITUATION AND PROSPECTS

In May 1997 the Donetsk Information and Analysis Centre commissioned by the *International Renaissance Foundation* („Widrodzennia“) conducted sociological research under the Polish-Ukrainian project „*The Future of Old Industrial Regions*“. A survey was carried out among 600 mining quarter residents in the cities of Donetsk (Proletarsky Rayon), Makiyevka, Stachanov, and Brianka.

The main objective of the research was to identify and analyse social and economic problems in Donbas taking account of social consequences of the restructuring of the coal mining in the region.

The research was diagnostic and aimed at identifying the most acute problems in the region and the impact of economic transformation on the life of communities in the region. The results were presented in the form of tables.

This paper presents a short analysis of the main characteristics of the current social and economic situation of the region's mining community.

The existing social and economic situation in Donbas's mining areas may not be considered satisfactory. It results from a number of factors developing over a long period of time. These factors include such processes as the decline of coal mining production, the reduction of subsidies for production, of social benefits etc.

At present, the initiated coal mining restructuring process involves only mechanical closing down of mines without ensuring any social protection of the community, without prioritising job creation efforts and without ensuring growth prospects for mining towns and quarters.

The enforcement of the extensive mine closing down process stipulated by the national sector restructuring programme, especially in the regions in question – where small mining towns and quarters predominate – has had no analogies elsewhere and has been accompanied by a general decline of production in

other sectors. This process requires a special prophylactic strategy to mitigate its social aftermath. The lack of such a strategy and of specific measures may lead to further deterioration of living conditions in mining communities and even to their ultimate decline.

Besides, coal mining restructuring in the Ukraine is usually associated with liquidation of inefficient enterprises. With such an approach, no efforts are made to forecast job demand or to set up new production facilities. As a result, laying off workers from closed down mines does not entail creating new jobs.

The existing state-owned enterprises are not capable of providing jobs for laid off workers and small business structures able to adapt to the new environment are underdeveloped.

The findings of the research show that at the moment more than half (58%) of those polled do not have a permanent job. The remainders (72%) work in state-owned enterprises. Only a small percentage of the people are employed in private and co-operative enterprises – 10 and 19% respectively.

The data collected in the research show that private business structures which are, to a larger or smaller extent, adapted to the existing environment are underdeveloped. State-owned enterprises, in turn, are mostly in economic difficulties and, as a result of the general decline in production, their future operation is question.

The most complicated situation is in enterprises in Makiyevka: 37% of those polled described their economic situation as unsatisfactory (in Donetsk - 28%, in Stachanov and Brianka - 35%).

Opinion of those polled on the economic situation in enterprises

Donetsk	28%
Makiyevka	37%
Stachanov and Brianka	35%

On the basis of the opinions of those polled we can form an impression of the general situation in the enterprises in the regions in question.

Enterprises whose economic situation is not satisfactory will not be able to change their standing in the near future and their condition in the immediate future is likely to deteriorate. The possibilities of their attracting investments for production growth could which improve their general condition are slim - over one third of those polled have only vague ideas about this issue.

As a result of the above economic processes enterprises have arrears in payment of salaries to their employees. As of today, 80% of enterprises have

some arrears in payment of salaries to their employees and in 63% of these case arrears in salaries exceed four months.

Moreover, payment of outstanding salaries in August 1997 was only exerted by pressure on the part of employees, and therefore should not be perceived as a sign of stabilisation in this respect.

In the towns and cities in question the most difficult situation in the area of payment of salaries is recorded in enterprises of Stachanov and Brianka (in the latter case 50% of the arrears are older than six months).

Arrears in payment of salaries in enterprises exceeding six months

Donetsk	21%
Makiyevka	28%
Stachanov and Brianka	51%

Outstanding salaries in mines are not exceptional in the region. According to the data of the Economic Division of the District Trade Union Council, the increase in outstanding salaries in the Donetsk district for the period of nine months amounted to 54.2%: as of August 1996 the arrears totalled 413.2 million hryvnia and as of 10 May 1997 – 664.8 million hryvnia.

Changing a job cannot resolve the problem of either employment or obtaining one's salary - two thirds of the population does not have this option in practice, since there are no employment alternatives.

What does force people to work in their enterprise despite arrears in payment of salaries

There is no choice	61%
I got used to it	10%
I hope they will pay some time	26%
Other reasons	2%
It is hard to say	1%

Adaptation to new economic conditions is quite painful for the miners. Other countries that have gone through restructuring are characterised by analogical processes but have had the advantage of having a restructuring strategy, of strong worker protection mechanisms and of mitigating measures resulting from the conservatism of miners (not willing to change their main workplace).

A question arises as to within what form of ownership people would prefer to work. It is curious that 44% of those polled prefer state-owned enterprises and only 15% prefer private businesses. These figures show that *over the past decades they have developed a paragon of the state as a guarantor of employment and that this attitude cannot be abolished even by the existing hard social conditions.*

It is natural that unemployment is a problem - only one person out of five is not afraid of losing job

Probability of losing a job by those polled	
Very high	15%
High	23%
Moderate	37%
Low	22%
It is hard to say	3%

Even today the number of unemployed is high. This situation results mainly from retirement (66%) or dismissal as a result of closing down or layoffs (14%). Two thirds of the unemployed polled have been jobless for more than a year. Those interested in finding a job look for it anywhere (22%). It is peculiar that 41% of the unemployed polled do not make any effort to find a job. This can be accounted for by disillusionment and low expectations of finding any job anyway.

In 80% of the cases nobody helps the unemployed to find a job, i.e. they cannot count on any organised help, which can intensify the growing social apathy.

The existing social and economic situation is characterised by the existence of a social help mechanism and a fairly large number of fringe benefits

As of today 86% of those polled receive some social help. However, this does not change the opinion of 4/5 of the population who consider themselves poor.

Therefore there is no point in telling the community that the social help mechanism is efficient. The inefficiency of the mechanism is ameliorated to some extent by the activity of local and regional authorities and social services.

Nonetheless, the numbers show that their efforts are inefficient too: asked if they know of the existence of such organisations 68% of the people said they

did not know of any such organisations and 9% responded that it was hard for them to assess the performance of such organisations. Thus the activity of the existing governmental and social structures aimed at social adjustment and re-training is insufficient and inefficient. A similar situation was identified in all the towns and cities in question.

The general social and economic situation directly affects the life of local communities; in most cases it leads to a deterioration of their material situation.

Ninety percent of those polled said that their material situation had deteriorated and that so had the social and economic indicators in all aspects of the life of the region: health service (80% of those polled claim it has deteriorated), safety of employment (83%), environmental situation (76%).

Analysing family budgets one should first of all identify individual budget components. They include mainly old age or disability pensions (63% of those polled perceive pensions as their budget components) and salaries received for primary employment (60%). In over 50% of the cases family budgets are supplemented by farming activities: 42% of those polled have a garden, 9% a family farm and 5% an allotment. Trade and seasonal and extra jobs help 2-4% of those polled while social benefits are a budget component for 10% of those polled.

The range of family budget sources is quite broad but these sources are not able to meet all the needs of the households: 63% of those polled are not able to provide for their basic needs because they face a shortage of money, one third manage to make ends meet. Only 3% of those polled can afford to save up money (although not regularly).

One of the most important social indicators is housing. As of today, **most of those polled own at least part of their homes** – own a flat (43%), house (26%) or part of a house (29%).

However, analysing the housing situation one has to note rather difficult living conditions in mining quarters: only 6% of those polled assess the condition of their dwelling as good and 36% as satisfactory. 88% of those polled say their flat needs renovation, out of which 20% needs a major repair and 68% minor renovation. The difficult housing situation is also illustrated by the fact that 80% of those polled respond that they need to improve their living conditions. However, necessary as it is, only 2% of those polled have the possibility to improve their housing situation.

On the basis of the findings of the research one can picture the housing unit where most of those polled live. Their dwellings are usually privatised two or three room flats with an area of 45.9 m², where the existing residents have been living for over fifteen years. Despite acute needs the people would not exchange their flats. However such a situation results largely from their awareness that

this is simply not possible for financial reasons. On average half of those polled have such facilities as telephone, sewerage system, toilet, gas heating etc. However, the other half do not have access to such facilities and have practically no prospect of improving their situation. The research showed that over the past three years the only durable goods people have been buying are clothes and shoes, i.e. basic items. The percentage of persons who have made bigger purchases is exceptionally small.

As a result of the existing situation three fourths of the mining population do not expect any change for the better.

Naturally the outlook for the immediate future cannot be optimistic. The predominant feelings among the population are pessimism and anxiety about the future of their housing quarter – 74% of the people are very anxious about it.

Prospects for the life of the housing quarter	
It is hard to say	8%
It will improve	5%
Nothing will change	13%
It will deteriorate	74%

Difficult economic conditions in the region have a significant impact on a number of aspects of the social situation of the community, namely, they hamper social mobility.

At present around one third of those polled (31%) would like to move to another place. Moving to another place is a costly venture, however, one can assume that part of the population would like to leave but that they do not because of the bad financial situation.

As of today, most of those polled assess the prospects for the future as pessimistic. Over two thirds (68%) of those polled believe their living conditions will deteriorate over the next year and 18% believe they will remain unchanged.

One can observe increasing individualistic tendencies, especially on the negative side: society at present – mutual help among people is decreasing. Only one fifth of those polled receive support from their relatives and only 4÷5% can count on support from other sources (friends, neighbours, acquaintances). This can be accounted for by the unsatisfactory material living conditions of the people who, much as they would, are not able to provide support to others.

As a result people count exclusively on their own resources.

In resolving their social problems, 62% of those polled counts on their own resources, 14% on the help of their friends and relatives and 24% do not count on anybody.

Only 2% of those polled count on the Supreme Council, 3% on the President and 6% on the Government. Only 5% count on local and regional authorities.

As we can see, despite attempts to adjust to new living requirements people are not able to cope with the bulk of social problems.

Over half of those polled (56%) admit that they are not able to manage all the difficulties they come across and 33% are not able to cope with some of the difficulties.

Thus one can say that the state's social policy in the region is undergoing a crisis.

The existing situation can be accounted for by the following factors:

- the lack of any strategy of operation in this area – the state resorts only to tactic measures;
- the social development management subsystem has not been incorporated into the general economic development management system;
- mechanical transfer of foreign experiences in the area of social management without taking account of their feasibility;
- lack of forecasts regarding social consequences of the decisions taken by the national and regional authorities;
- insufficient focus of the social policy on protection of the rights and interests of the working population;
- lack of legislation ensuring liability of national authorities for deterioration of the living standards of the population during their term.

Economic transformation in the region brings about mainly negative changes in the living standards of the population.

It is obvious that if the existing restructuring methods are kept in place, in addition to the existing problems, the closing down of mines will bring about a serious social aftermath. This will result from upsetting the population situation, disproportions in the sex and age structure and mass migration of people of working age from regions where mines are closed down which may lead to further deterioration of living standards in mining areas and eventually to their ultimate decline.

Andrzej Mokrzyzewski

FACTORS DETERMINING THE LIVING CONDITIONS IN THE DONETSK REGION

Background

The quantitative survey entitled „*Future of Old Industrial Regions*” conducted in the spring this year in the Donetsk Region has enabled us to carry out a number of comparative analyses which illustrate the living conditions of those polled in terms of: the place of residence, housing conditions (number of square metres per capita, sanitary conditions etc.), employment situation, professional position, education, profession, age, income, marital status, number of persons in the family (household) etc. It has enabled us to carry out a subjective analysis of: the material situation of those polled and their neighbours, their optimism/pessimism regarding the future of their town region, living standards in their homes (assessment of infrastructure), employment opportunities and conditions, environmental situation in the region, performance of social institutions, availability of information etc.

In this paper we set out to answer the following questions:

- What elements differentiate the evaluation of external infrastructure in households?
- What features of those polled differentiate their assessment of the present and future living conditions?
- What social and demographic features differentiate those polled in terms of their debts towards the state (rent, gas, electricity, heating etc.) and what features differentiate the arrears in payment of salaries by employers?
- What features differentiate those polled experiencing poverty and those who do not experience it?
- What are the differences between those who believe they can overcome the existing difficulties and those who declare they cannot?

Answers to the above questions will enable us to find the objective elements which have a significant impact on the public assessment of the infrastructure and to point out other elements which do not affect such assessments (at least in statistical terms) and then to illustrate the views and perception of living conditions by those polled depending on the social and demographic structure of the region.

1. Elements Differentiating How Those Polled Evaluate External Infrastructure

We asked the people surveyed persons to evaluate the performance of different facilities and institutions in their home town or village. The first group of questions pertained to their evaluation of grocery and general use goods shops, schools and kindergartens, outpatient clinics and hospitals, post offices, pharmacies, transportation companies and other social and utility enterprises. The evaluation focused on the changes over the past three years as perceived by those polled. The people were asked whether the performance of the above facilities and institutions has improved, deteriorated or remained unchanged over the past three years.

The second series of questions pertained to changes that have taken place over the past year in the following areas: the material situation of the family, medical care, leisure facilities, the condition of schools, availability of information, possibilities of voicing their views, environmental situation in the region, personal safety, employment safety, protection against law-breaking. This time those polled had to evaluate the situation using a five-degree scale from: „It has improved significantly” to „It has deteriorated significantly”.

The third issue in focus was people's optimism/pessimism regarding the improvement of living conditions over the next year.

The results of the analyses are as follows:

1. People's evaluation of external infrastructure such as the performance of schools, kindergartens, outpatient clinics, hospitals, post offices, pharmacies, transportation and social services varies depending on where they live. This element is important from statistical perspective (χ^2 , Cramer's coefficient).
2. Another factor differentiating people's assessment is employment opportunities (or the lack of them). Depending on whether those polled have a job or not, their assessments of the performance of shops, schools and pharmacies are significantly different from a statistical perspective.
3. The next factor influencing the assessment of shops, outpatient clinics, hospitals and pharmacies is the type of enterprises where those polled work (state-owned, private, leased etc.).
4. Being a member of mining family (or not) does not differentiate those polled except in their assessment of post offices and pharmacies. It should be noted, however, that nearly all objective factors have some impact on the assessment of post offices and pharmacies.
5. The only factor that does not have any significant impact on the assessment is the size of the company those polled work for (obviously, this refers only to persons with jobs).

The assessment of the transformations that have taken place over the past year brought similar results:

1. Assessment of leisure conditions, the situation in children's education, possibility of voicing views and environmental situation of the region is affected by where one lives.
2. Whether one has a job or not influences one's assessment of the material situation of the family, medical care, availability of information, situation in children's education, possibility of voicing views, and employment safety.
3. The type of enterprise in which one works is related to the assessment of the material situation of the family, medical care and the environmental situation.
4. The size of the company those polled work for has an impact on their assessment of medical care and environmental situation.
5. It is interesting that none of the aforementioned factors has any significant impact on the assessment of personal safety and protection against law-breaking.

The last factor considered in this section is optimism regarding the improvement of living conditions over the next year. It appears that the only significant element differentiating the views of those polled is the type of the employer they work for. Such a result points to a strong feeling of uncertainty about the future at least in the case of employees at some establishments in the region.

To sum up, we will just point out that most of the factors we considered, in particular the place of residence, employment and type of employer, are correlated with a number of opinions expressed by those polled. Which town people live in also affects their opinions – e.g. regarding external infrastructure? Also, the social and demographic structure has a significant impact on the perception of these conditions and the assessment of infrastructural changes.

2. Features of Those Polled Differentiating Their Assessment of Existing and Expectations Regarding Future Living Conditions

The assessment of living conditions of those polled and their families included:

1. assessment of monthly family income;
2. assessment of provision of food for the family;
3. arrears in the payment of bills;
4. comparison of the financial situation of those polled with other persons in the region;
5. optimism/pessimism regarding the future of the village, town or city where they live.

We have analysed the correlation's between the above factors and the social and demographic data: their place of residence, age, education, marital status, employment situation, the type of enterprise they work in, and their professional position, and we obtained the following results:

Re. 1) Those polled assessed their monthly incomes according to the following scale:

- Our income is fully sufficient – we can save up money every month;
- We manage to save up some money but not regularly;
- We barely manage to make ends meet;
- We are short of money; money is sufficient only to meet the most urgent needs.

It appears that the assessment of the incomes is to a large extent correlated with age, education and professional position. The remaining social and demographic features (e.g. having/not having a job) do not have any impact on the assessment in this respect. Thus one can say that the elements differentiating the assessment of income are to a large extent connected with the awareness of those polled – with experience, education and professional position.

Re. 2) Those polled assessed the provision of food in their families according to the following scale:

- We eat what we feel like;
- We eat well but we cannot afford „delicacies”;
- We eat modestly, we try to buy cheap things;
- We eat poorly – Food is short.

There is a statistically significant correlation between the assessment of the provision of food in the families and such features as age, education, marital status, and professional position. Thus the results are similar to those obtained during the assessment of income. However, in this case we have additionally a strong correlation with the marital status. Single and divorced persons (i.e. probably alone) displayed more diversification in the assessment their situation in this respect than persons who are not alone. It should be noted that neither of the above features is affected by the place of residence.

Re. 3) Practically all of those polled admitted that they had arrears in paying bills. Twenty five percent of those polled say their arrears are not older than three months. Nearly 40% admit they have not been paying their bills for twenty-five months. The elements, which have an impact on the arrears in paying bills, are the following: place of residence, age, and education. Other social and demographic factors do not have any sig-

nificant impact on this aspect apart from the employment factor, which will be discussed below.

Re. 4) There are strong correlation's between the social and demographic features of those polled and their assessment of their financial situation as compared to most people in the region. The assessment of their position as compared to others (measured according to a five-degree scale) depends on the place of residence, age, education, marital status and size of the enterprise the person polled works in. The last correlation may mean that the differentiation of the financial position of those polled is influenced by the fact that they can compare their situation with others.

Re. 5) The assessment of the future of the village, town or city where the person polled lives was measured in a three-degree scale: life in the village/town/city will improve, will remain unchanged, and will deteriorate. Factors correlating with optimism in this area were only the place of residence and education. The population of Makiyevka displayed the most optimism and the least pessimism. The most pessimism and the least optimism were declared by the residents of the Pravda area. The research showed however that the higher the education of the person polled the stronger the pessimism regarding the improvement of the life in his/her town.

To sum up, the living conditions are perceived by those polled as poor. The people are also pessimistic about the possibilities of improvement of the situation in their towns or villages. These assessments are certainly affected by such features as age, education, professional position and place of residence. Other features have a weaker or stronger impact, depending on the evaluated element.

3. Social and Demographic Features of Those Polled vs. Arrears in Payment of Bills and Arrears in Payment of Salaries by Employers

Arrears in payment of bills to the state by the families in question are huge. Only seven percent of those polled said that their arrears were not older than one month. The remaining ninety three percent have older arrears. It appears that a feature that has an impact the age of the arrears (from one month to over two years) is the place of residence. Another statistically important element is having (or not) a job. Other social and demographic features do not affect this issue.

The opinions on the arrears in payment of salaries by employers depend on the place of residence and the type and size of the enterprise those polled work in. It appears from our analyses that private enterprises pay salaries to their employees much more punctually than other types of employers. It also appears that arrears in salaries do not affect the arrears in payment of bills by those polled. It seems that

the failure to pay bills is a general and socially accepted behaviour. It occurs even among persons who could pay their bills since their material situation is good.

4. Features Differentiating Those Polled Experiencing Poverty

We quoted the questions about the monthly income and the assessment of one's financial position as compared to others in Item 2. Here, however, we viewed these questions as a measure of poverty and well-being. Let us remind that 63% of those polled said that they were definitely short of money and could afford to buy only the most necessary items. 33.5% of those polled said that their monthly income was just enough to make ends meet. Only 5.5% people said they could save up money.

It appears from our correlation's that the assessment of one's income depends on a number of factors: place of residence, having (or not) a job, type and size of the enterprise in which one works, age and education. However, here we should note another factor, namely, the age (and thus the amount) of the arrears in payment of salaries by the employers. We identified nearly the same when analysing the assessment of one's financial position as compared to others. Also in this case we noted an important feature differentiating those polled – having a farm, an allotment or a garden. Persons having such items frequently identified themselves with people in a better financial position.

5. The Impact of Social and Demographic Features on the Opinions of Those Polled on the Possibility of Overcoming the Existing Difficulties

The last questions we asked were as follows:

Does the Donetsk Region population have the feeling of stability and security about their future and the future of their families?

Taking into account the difficult and complex situation does society have a feeling that it will manage to overcome the difficulties or does it feel powerless?

What factors have an impact on the opinion of those polled on the above issues?

Just as in the case of other issues, the place of residence has a significant impact on the answers to these questions. The feeling of security is closely correlated with the type and size of the enterprise the person polled works in. There is a slightly weaker correlation with the family situation – single persons are more anxious about their future.

The opinions on the possibilities of overcoming the existing difficulties also depend on the employment situation, type of workplace, age, education and professional position. It is also important if the person polled or a member of his family works or worked (or not) in a mine. Let me remind you that nearly 72% of those polled believes there is not any possibility of overcoming their difficulties.

Final Comments – Summary

On the basis of our findings we can say that the current and projected system changes in the Donetsk Region are closely connected with the perception of reality of those polled. Reality is perceived in different ways and these differences do not result from political views, ethnic or religious factors. They result from the degree of poverty, employment opportunities, faith in a better future and these factors, in their turn, depend on the place of residence, having (or not) a job, and receiving a regular salary for the job performed.

It appears that the Donetsk Region is very diversified. In the areas where there are some employment opportunities and the prospects for the future are not bleak, the social assessment of the reality and living conditions are more optimistic. Our research carried out in the regions in question, i.e. Makijevka, „Pravda” quarter, Stachanov, and Brianka, confirm this diversification: the place of residence has a significant impact not only on the perception and assessment of the living conditions but also on most of opinions on the so-called external infrastructure. The diversified opinions of those polled on their future also turned out to be connected with the type and size of enterprise they worked in and their education. The mood of persons employed in private companies is much better than of those employed in other sectors.

To sum up, we cannot overlook the common practice of not paying salaries (the same refers to payment of old age and disability pensions) and in payment of bills for municipal services by individuals. Although the analyses do not prove there is a direct connection between these phenomena, undoubtedly there is some correlation. The general practice of not paying the bills irrespective of the availability of money is the response of the public to the employers' failure to pay salaries.

One of the objectives of the research was to capture the differences between mining and other families. It turned out that in most cases there were no such differences apart from the more pessimistic view of their future in mining families.

Włodzimierz Pańków

SELECTED DETERMINANTS OF THE MATERIAL, SOCIAL AND ECONOMIC SITUATION OF THE WORKERS IN THE DONETSK REGION

Background

The findings of the research carried out in four cities in the Donetsk Region shed some light on the material, social and economic situation of the local workers. 251 out of 600 those polled were employed in the region's enterprises. Let us review the factors that have the most impact on their opinions on, and their assessment of, various aspects of their social, economic and material situation as well as the assessment of some selected features of the enterprises they work for.

The enterprises those polled work for are at the outset of economic transformation, which can be seen, for example, in their ownership status. As much as 72.0% of the polled employees work in state-owned enterprises, 9.2% in co-operatives and 0.4% are self-employed. Even if the above numbers do not reflect the real situation faithfully (as the so-called grey zone is a common phenomenon in post-communist countries – from Kazakhstan to Slovenia) one cannot claim that ownership transformations in the Donetsk Region are advanced. The situation in this area is similar as in the nearby Georgia but worse than in the more distant Kirghizia. However, the situation simply cannot be compared with the high standards set in the Vyshehrad countries (the Czech Republic, Poland, Slovakia and Hungary). What is the most striking is the weakness of the process of establishing new small private businesses.

There are no precise numbers illustrating the progress of restructuring processes in state-owned, co-operative or privatised companies. We have determined, however, that only one out of four employees works in the smallest companies (under 100 employees) which dominate the labour market in developed western countries (for example in 1995 in Poland over 2/5 of all employees worked in this category of companies). Besides, the reconnaissance our Ukrainian colleagues and we have carried out in around a dozen big enterprises in Donetsk has shown that there are different, often contradicting, trends in this

respect. Apart from a few cases of changes for the better, we have identified anti-restructuring attitudes, the lack of any changes. Some enterprises, even very big ones, are simply „dying”. In most cases the financial and economic condition of these companies is critical and there are no signs of any optimistic outlook for the future. Most of these phenomena have been captured during the research conducted among the households, in particular those whose budgets depended on the salaries of individual family members still formally employed in these or other companies. It should be noted that such households are a minority in the Donetsk Region. Most families live on old age and disability pensions, benefits or plots of land, allotments, help of relative's etc. Households that do not receive any help in any form are constitute a marginal share of the sample. It is obvious that this situation cannot last infinitely. Nonetheless, the Donetsk Region is just at the outset of the transformations and this means that the processes may bring about an escalation of unemployment, a decline of incomes etc.

What is the situation of the workers in Donetsk companies in light of the results of the research and what are the main factors determining their situation?

Looking for answers to the above questions we will dwell on the outcomes of an extensive statistical processing of the results obtained in household surveys. We have managed to capture the correlation's presented below using the Chi-Squared Coefficient and the Crammer's coefficient.

Social and Economic Situation of the Workers – Main Features

It is common knowledge that people undertake work in different types of businesses mainly to earn money to provide for them and for their families. Undoubtedly, the same refers to the population of the Donetsk Region. However, only one out of five of the employees in Donetsk enterprises claim he does not have problems with collecting his salary. Nearly one third of the employees has not received his salary for more than half a year and 34.3% of the employees for 4 to 6 months.

Looking at the ownership status of the employers who have the oldest arrears in the payment of salaries we have found out that they are mainly state-owned enterprises and co-operatives. These companies have two-month old arrears in the case of three out of four employees. In private companies two thirds of the employees do not experience any problems with punctual payment of salaries. In state-owned company's only one out of ten employees receives his salary without a delay. The problem is, however, that private companies employ a very small share of those polled.

Looking at the size of the companies (measured in the number of employees) that default in the payment of salaries one can notice that such problems occur predominantly in big and medium-size enterprises. As many as three out of four employees who do not receive their salaries on time work in companies employing over 100 people and most of them work in companies with over 1000 employees. Most employees (3/5) who collect salaries in a timely manner work in companies employing less than 100 employees. The problems is, however, that these small companies employ only 28.0% of those polled. If the above data are representative it appears that over 2/3 of formal employment in the Donetsk Region is still concentrated in big and medium-size enterprises which means that the employment structure in the region far from sound.

The answers to our further questions shed some more light on the aforementioned facts. Those polled were asked to assess the economic condition of the companies they worked for.

Let us start with stating that nearly 3/4 of those polled who had a job assessed the economic condition of their employers as unsatisfactory. Only 5.6% of those polled assessed the condition as good and 17.9% as satisfactory. It appears, however, that in private companies only one out of four employees assessed the condition of his employer as unsatisfactory. The same percentage assessed it as good and 37.5% as satisfactory. Nearly 4/5 of those polled employed in state-owned companies and approximately 70.0% in co-operatives (and nearly four out of five in the „other companies” category) considered the condition of their employers as unsatisfactory and only 4.4% of employees in state-owned companies found the situation in their enterprise good.

The correlation between the size of the company (measured in the number of employees) and the assessment of its condition by its employees can be described as „linear”. The percentage of the employees who assess the condition of their employer as unsatisfactory systematically increases as we move from companies with the lowest number of employees to companies with the biggest labour force. The percentage of employees assessing the condition of their employers as satisfactory drops regularly as the number of employees increases. The bigger the company, i.e. the more employees it has, the less percentage of the employees considers its condition as good.

In normal market environment the economic condition of a company should determine its chances to survive and thus to ensure employment for its employees. In our survey the persons polled were asked about the probability of losing their job in the nearest future. The answers were the following: only one out of five persons considered the probability as low, nearly 2/5 as high or very high. The remainder, i.e. nearly 2/5 assessed the probability as average.

As for the factors determining the above opinions, there is a strong correlation with the size of the company where those polled work. The probability of

losing a job was assessed as high particularly in small companies employing 20÷50 employees and medium-size companies (100÷1000 employees). The percentage of those polled with the same opinion in big companies and companies employing 50÷100 employees is smaller by nearly half.

The probability of losing a job was identified as high by the most employees in medium-size (100÷1000 employees), small (50÷100) and very small companies (20÷50). Nearly one out of three, more than one out of five and one out of five employees respectively said the probability of losing their jobs was high. Nearly every other employee in the biggest companies considers the probability of losing his job as average and one out of four considers it low. Such an assessment is interesting since, as we remember, the evaluation of the economic condition of the biggest companies by the same persons was not very good. Apparently the employees believe that big companies cannot go bankrupt.

On the other hand, it is striking that the feeling of employment safety in very small and small companies is high. Nearly 3/5 of the employees in such companies think the probability of losing their jobs is average and low whereas the employees in the smallest companies feel the safest as one out of three employees in such companies believes the probability of losing his job is low. This tendency points to the ability of small companies to adjust to new circumstances and customer requirements and thus to survive or even to expand, which has been proven in market conditions.

It should note that the assessment of the probability of losing a job is not determined by the ownership status of the companies in which those polled work. Thus the paragon of a brutal capitalistic employer who mercilessly sacks his employees has not proved to work in practice. In the eyes of those polled private employers are not different from state-owned employers although one can assume that the decisive factor in this respect is the economic condition of the businesses – a state-owned company has to (or will have to) lay off its employees because of economic difficulties whereas a private employer is not forced to do so since, as we mentioned before, his company is usually in a better economic condition.

The results of the research have also cast some light on different aspects of broadly understood **working conditions**. Those polled were asked to declare their satisfaction (or dissatisfaction) with their (physical) working conditions, with the level of their salaries, safety at work, fringe benefits, protection of their interests and their awareness of the situation in the company. The persons polled were quite satisfied with their physical working conditions, their safety and the information they were receiving on the condition of their companies (54, 52 and 42% of those polled respectively). The most employees were not satisfied with the level of their salaries (79%), the protection of their interests (74%) and the fringe benefits (70%).

The **assessment of physical working conditions** in the workplace depends largely on the size of the company. Apart from the marginal group of self-em-

ployed persons, the physical working conditions were assessed in the most favourable way by those employed in very small and small companies (3/4 and 2/3 of satisfied employees) and medium-size companies (over half of employees). In the above companies only one out of four, one out of three and two out of five employees respectively were not satisfied with their physical working conditions. The employees in the biggest companies declare their satisfaction with physical working conditions the most rarely (one of three employees). In most cases they are not satisfied (nearly 2/3 employees). Shortly speaking, the most difficult conditions are, in the eyes of the Donetsk population, in big enterprises (mainly mines) which are the heritage of „*real socialism*“. The best physical working conditions are offered by small and very small establishments, the biggest share of, which are private.

Satisfaction with the salary level is quite strongly correlated with the ownership status of the employer. Only one out of five employees in state-owned companies declares his satisfaction with his salary level while over half of the employees in private companies (58.3%) are satisfied with their wages. The most dissatisfaction with their salaries is declared by employees in leased companies (100% dissatisfied employees), co-operatives (over 90%), and state-owned (83.4%) companies. It is interesting that the most unfavourable assessments of salary levels are recorded in the „transition“ forms of ownership which have been introduced to replace state ownership and lead towards privatisation. Moreover, it is striking that the assessment of the salaries in private companies is very good.

The salary levels are even more strongly correlated (in a linear way) with the size of the company measured in the number of employees. Every other employee in very small companies (20÷50 employees) and one out of four employees in small companies (50÷100) evaluates his salary as satisfactory, whereas the numbers in the biggest and average-size companies are 8% and 14% respectively. Over 90% of the employees in state-owned companies declare their dissatisfaction with the received salaries (including 82.6% of those who are completely dissatisfied. In medium-size companies as much as 85% employees are dissatisfied and 70.9% completely dissatisfied with their salaries.

Safety at work, just like physical working conditions, is correlated with the size of the company. Four fifths of the employees in the smallest companies, nearly 3/5 of the employees in small companies and one out of three employees in the biggest companies declare their satisfaction with their safety at work. Two thirds of the employees in the biggest enterprises find their safety conditions unsatisfactory. In medium-size companies most of the employees are satisfied with their safety at work (75%) and 38.4% are not. In the smallest companies one out of five employees and in small businesses one out of three employees is not satisfied with the safety situation.

Fringe benefits resulting from the employment in companies are correlated with the size of the employer. It is striking that most employees in big enterprises (3/4) are not satisfied with the benefits they obtain and only one out of ten employees is satisfied. In medium-size companies one out of five employees and in small businesses one out of four employees is satisfied with the benefits. The above numbers undermine the generally accepted paragon of the over-protective big state-owned enterprises. It appears that it is the small (often-private) enterprises that guarantee better and more satisfying fringe benefits.

It appears that also **protection of employee interests** is correlated with the size of the company measured by the number of staff. But also in this case the direction of the correlations abolishes the generally accepted stereotypes. It turns out that only one out of ten employees in big companies (i.e. in enterprises which are meant to have strong and effective representative organisations protecting employee interests) is satisfied with the effectiveness of such efforts. As much as 37% of those polled employed in the smallest companies and 17.2% of those polled from small companies are satisfied with the protection of their interests. Dissatisfaction with the effectiveness of employee interest protection is declared by as much as 85% of employees in the biggest enterprises (including 72.1% who declare definite dissatisfaction). The situation is similar in medium-size companies where 3/4 of those polled are dissatisfied with the effectiveness of the protection of their interests including 2/3 who declare their complete dissatisfaction.

It should be noted, however, that also in small and very small companies the percentage of dissatisfied employees is high (65.5% and 62.1%). The numbers say a lot about the crisis of the representation and the employee protection system in the Donetsk Region, in particular in the biggest enterprises. In practice a huge majority of the employees have been left without any protection which enabled the local and regional administration as well as old and new employers to take arbitrary measures. In this, we can identify one of the main factors accounting for examples of gross negligence in economic transformation processes.

The last element of working conditions, i.e. **the information the employees receive about the situation in their company**, is also strongly correlated with the size of the company. It appears that the size of the company has a fairly negative impact on the awareness of employees of the situation in the company. Nearly 3/5 of those polled in the biggest enterprises are dissatisfied with the information about company matters they receive. Nearly 55% in medium-size companies, around 45% in small companies and 40% employees in the smallest companies are dissatisfied with the information they receive. As could be expected, the most satisfaction in this area is declared by employees in the smallest companies (2/3) whereas over 1/3 of the persons employed in other companies are satisfied with the information on company matters they get. The above

numbers are one more factor against keeping in place big industrial enterprises, which, although dominant in the structure of Donetsk's economy, do not show any advantage over other types of companies.

Summary

Despite the pessimistic conclusion of the above research based on a more thorough analysis of the data collected during the survey carried out among 600 households in the Donetsk Region most of the regularities we identified and described above encourage us to be optimistic. On the one hand, many of the figures indicate that transformation and restructuring processes in Donetsk businesses, in production companies, in particular, are at a very early stage. On the other hand, the above features show that all elements of the economic transformation and restructuring bring good economic, social and psychological results.

A transformation of the economic system involves, among other things, ownership transformations (in particular privatisation) and an increase in the percentage of small, mainly private, companies in the structure of the economy. The results of our research have shown that these small companies emerging in the Donetsk Region as a result of the transformation and restructuring process are **superior** to other businesses in **every way** – starting from arrears in the payment of salaries to their employees through their economic condition and perceived employment safety to all aspects of working conditions. What is urgently required however is an increase in the number of such companies and the restructuring of the enterprises, which do not have the positive features, which our research identified in some of the companies. We wish our findings become a strong argument in the discussions and will help take decisions and measures that will increase the number of small businesses and bring about the expected outcome.

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SOCIAL AND ECONOMIC EFFECTS OF CORPORATE RESTRUCTURING IN THE DONBAS REGION

The economic crisis in the Ukraine has been slowing down the social and economic development of the country. The crisis can be overcome and the economic potential can gradually grow only on the basis of active restructuring policies and of a general strategy for reforming the country's economy.

A successful transition to a new better economy depends to a large extent on the formulation and implementation of a restructuring policy based on scientific premises. Such efforts should ultimately lead to a slowing down of the production decline, efficient utilisation of materials and technical resources, improvement of the financial standing of the companies, improvement of living standards and reduction of unemployment.

The outcome of corporate restructuring depends to a large extent on the success of the ownership transformation. Any evaluation of the transformation potential should take into account: the strategy of corporate development following the privatisation and structural changes; the improvement of the financial and economic standing of companies; the scope of modernisation of production; production competitiveness; and social aspects of the transformation.

Privatisation of state-owned enterprises was started in 1993. According to the data of the Donetsk District Statistical Office as of 1 July 1997, 5952 enterprises have been privatised in the District. 2495 of them (41.9%) were national property and 3469 (58.1%) were municipal. Table 1 presents the number of companies privatised in individual years and the characteristics of the companies from different sectors of industry.

At the outset of the ownership transformation process bulk of the enterprises (as much as 52.3%) was bought out by the Merchants Association. Sixteen percent of the privatised companies found owners through leasing (lease with the option of a gradual buyout). The number of companies privatised through auction increased from 7.8% in 1993 to 14.4% in the first six months of 1997.

One of the forms of privatisation has also been the sale of shares in open joint stock companies.

Table 1. Analysis of the Privatised Enterprises by Sector

	1993	1994	1995	1996	Total from the beginning of privatisation
Total number of privatised enterprises	430	921	2177	2072	5952*
Out of which:					
Industry	66	129	210	136	552
Agriculture	2	9	90	58	168
Transportation	9	16	52	20	98
Construction	42	89	55	56	230
Trading and public catering	235	458	1183	1341	3386
Supply and Sales***	6	9	58	32	114
Social infrastructure	54	157	381	218	837
Other sectors	16	54	148	221	415

* The figures do not include the enterprises with dissolved sale-purchase agreements figures as of 01.07.1997

In the total number of companies privatised from the beginning of the economic reform the share of whole property estates was 49.8%, branch offices and sub-branch offices – 49.5% and buildings which have not been completed – 0.7%.

It is noteworthy that the number of companies changing their ownership status has been decreasing. It means that the ownership transformation process is coming to an end.

Companies that changed their ownership status have started to increase their impact on the economic ratios of the Donetsk District, as can be seen in Table 2.

In the general structure of production, labour and service costs the share of costs incurred by privatised enterprises constitute around 47%.

Outlays per hryvnia of manufactured goods in 1996 amounted to 0.94 hryvnia in privatised enterprises, 0.98 hryvnia in the whole district, and 1.02 hryvnia in state-owned enterprises.

Profitability of production in 1996 in the whole Donetsk District was close to 6.0%, in state-owned enterprises – 4.6%, in co-operatives – 7.2% and in companies held by foreign legal persons – 16.7%.

Analysing the statistics one can notice some general tendencies reflecting the results of the ownership transformation process. However, in order to evaluate the potential and the performance of the transformed enterprises one needs to thoroughly analyse their present social and economic situation.

Table 2. Ownership changes in the Donetsk District (% of total number)

	Years				
	1992	1993	1994	1995	1996
Non-state-owned enterprises	9.2	27.8	35.6	45.8	50.6
Production	18.9	48.2	47.5	44.4	63.1
Income generated by privatised enterprises	12.2.	42.9	56.1	41.5	50.9
Out of which:					
Industry	5.9	44.2	50.5	48.8	61.9
Construction	23.7	37.6	54.4	67.3	78.3
Trading	7.2	68.7	75.5	74.1	100.0
Number of employees in privatised enterprises	23.8	18.0	34.7	36.3	47.7

The research on the restructuring process carried out in May 1997 covered 13 enterprises 9 of which were located in the Donetsk District in the following cities: Donetsk, Makiyevka, Charyczk, and 4 enterprises in the city of Stachanov, Lugansk District.

The research focused on the enterprises from the mining, metallurgical, machine production, chemical, light industry and trading sectors. In terms of ownership status, these were state-owned enterprises, closed and open joint stock companies, and co-operatives.

The analysis of the social and economic situation of the Donetsk enterprises was based on their reports portraying their financial and economic standing, indebtedness, number of employees, salaries, staff qualifications, work time utilisation, and on the basis of their balance sheets for the years 1993÷1996.

The analysis of the enterprises from the city of Stachanov was based on analytical tables portraying their financial and economic ratios, staff number, salaries and work time utilisation.

Since Stachanov's enterprises provided only incomplete information from the past two years, we did not present some of the ratios. Without complete data we

were not able to analyse the performance of the whole sample according to one criterion. Therefore the results of the social and economic analysis of the enterprises in the Donetsk District and the city of Stachanov were presented separately.

Production Level, Costs and Profit

It was difficult to analyse the scope of production, production costs and profits due to the lack of stable prices over the whole year.

It was necessary to use comparable prices because wholesale prices have significantly increased. Price indexes in industry increased by 33 times in 1993, 9.6 times in 1994, 2.5 times in 1995 and by 12% in 1996.

It should be noted that the dynamics of wholesale prices in industry has slowed which signifies an economic stabilisation and a growth of production.

As can be seen in Table 3, the 1996 production level increased in 5 enterprises as compared to 1993. At the same time the production level compared with 1993 dropped by nearly one third in 2 enterprises. In the remaining 2 enterprises the production level in 1996 amounted to 17.7% and 26.3% of the 1993 level.

Table 3. *Production growth (decline) rate (in % as compared to the previous year).*

	1993	1994	1995	1996	1996 to 1993
1. ATZT „NORD”	100.0	102.4	130.7	87.4	101.0
2. AT „Donec” Khirmasz”	100.0	110.1	115.8	145.4	185.3
3. WAT „Charcyzk Pipe Production Plant”	100.0	113.8	227.7	155.2	393.5
4. WAT „Makteks”	100.0	94.1	40.5	80.9	26.3
5. AT „SKIF”	100.0	9.7	109.4	73.5	17.7
6. „Donbas” Coal Mine	100.0	90.4	94.4	128.8	109.9
7. „Donetsk Metallurgical Plant”	100.0	76.1	320.6	121.2	295.7
8. TOW WTF „Kontur”	100.0	92.2	45.2	167.3	70.0
9. WAT „Makiyivskiy KCHZ”	100.0	114.0	132.5	52.0	77.0

The comparison of the production growth rate and the outlays increase rate (Table 4) shows that costs have been growing too fast. The example of „SKIF” shows that such a fast escalation of production costs is sure to lead to the company's bankruptcy.

The share of material, raw material, fuel and electricity costs in the structure of production outlays has increased. The share of amortisation has dropped (the lowest share in 1996 was 1.9% and the highest 5.0%). The share of salaries has also decreased.

Once profitable enterprises incur losses due to a fast increase of production outlays despite increasing their production. As shown in Table 5, a fall in income has become a lasting tendency.

Table 4. *Growth (decline) of production outlays (in % as compared to the previous year).*

	1993	1994	1995	1996	1996 to 1993
1. ATZT „NORD”	100.0	120.2	272.7	91.5	300.0
2. AT „Donec” Khirmasz”	100.0	130.0	362.0	173.3	822.0
3. WAT „Charcyzk Pipe Production Plant”	100.0	107.7	269.5	136.8	397.0
4. WAT „Makteks”	100.0	68.8	74.1	87.1	44.0
5. AT „SKIF”	100.0	22.4	131.5	129.7	3829.0
6. „Donbas” Coal Mine	100.0	82.8	201.0	168.8	281.0
7. „Donetsk Metallurgical Plant”	100.0	88.7	391.0	132.4	459.0
8. TOW WTF „Kontur”	100.0	114.4	57.0	143.7	94.0
9. WAT „Makiyivskiy KCHZ”	100.0	128.0	139.8	70.0	125.0

Table 5. *Revenues*

	1993	1994	1995	1996
1. ATZT „NORD”	51.3	34.8	10.6	6.7
2. AT „Donec” Khirmasz”	151.4	111.3	7.8	4.9
3. WAT „Charcyzk Pipe Production Plant”	35.3	30.9	17.3	24.0
4. WAT „Makteks”	31.0	27.4	-27.4	-30.8
5. AT „SKIF”	12.6	-2.9	-71.5	-72.9
6. „Donbas” Coal Mine	26.5	62.6	19.2	13.6
7. „Donetsk Metallurgical Plant”	55.0	17.4	1.2	-8.8
8. TOW WTF „Kontur”	41.0	25.6	10.4	8.3
9. WAT „Makiyivskiy KCHZ”	28.7	12.5	11.4	-15.7

CHTZ (Charcyzk Pipe Production Plant), which has recorded increasing revenues, is an exception among other enterprises, whose revenues have fallen. CHTZ is also exceptional from the perspective of outlays per hryvnia of manufactured goods. The outlay per production ratio in CHTZ amounts to 0.84 hryvnia and in "NORD" 0.97 hryvnia. In other enterprises outlays per 1 hryvnia of manufactured products vary from 1.08 hryvnia („Kontur") to 0.48 hryvnia („Makteks").

Thus analysing the increase of the production level and the profitability of the enterprises in question we can draw a conclusion that despite some positive changes recorded in part of the companies the production decline cannot be stopped.

Financial Condition and Allocation of Profit

According to the Ukraine's legislation, dues to the state budget (taxes and other payments) are paid by all enterprises irrespective of their ownership status, the type of business or their financial condition.

As can be seen in the annual balance sheets, in 1996 the following enterprises recorded profit: „NORD", „Donc'khirmasz", „Kontur", „CHTZ" and the „Donbas" coal mine. „SKIF", „DMZ", „Makteks" and „MakKCHZ" were running at a loss.

The share of liabilities to the state budget in total production varies from 0.8% to 8.0% and in profit – from 18.5% („Kontur") to 93% („Donc'khirmasz"). Payments to the state budget in „NORD" and „CHTZ" account for 25.9% and 29.3% of their profit. Profit after tax is allocated for the research and development fund, bonuses, replenishing of the reserve fund, and other items. In the group in question only „NORD", „CHTZ" and „Kontur" use their profits to pay taxes and allocate money for their funds. In the remaining enterprises costs are higher than income as a result of which their financial instability is intensifying.

Allocations for the reserve insurance fund were made only by: „NORD" (0.6% of net profit), „CHTZ" (5%) and „Kontur" (4.7%).

In profitable enterprises the share of profit allocated for research and development was 42.6% in „NORD", 30% in „CHTZ", 16% in the „Donbas" coal mine, and 2.4% in „Kontur".

The part of the net profit allocated for social expenditures was bigger than allocations for other items and amounted to 41.4% in „NORD", 39.7% in „CHTZ", 41.2% in the „Donbas" coal mine and 45.5% in „Kontur".

Salaries and bonuses consumed 15.7% of the net profit in „NORD", 12.7% in „CHTZ", 18.6% in „Donbas" and 33.3% in „Kontur".

Practically in all the enterprises in question allocations for social expenditures and incentives were much higher than for research and development.

High social expenditures result from the fact that the enterprises have to take care of the social infrastructure. Bonuses and awards are used to increase employees' incomes as their average salaries are rather low. The above approach to profit distribution, is a type of short-term economic strategy however allocating money for current expenditures than for research and development shows that the enterprises do not have any long-term strategies in place.

Despite ownership changes, the enterprises keep counting on the assistance of and subsidies from the state budget. In the years 1993÷1996 nearly all enterprises (except for „Kontur") irrespective of their ownership status or sector received earmarked subsidies from the state budget. The highest subsidy was received by „DMZ" and the „Donbas" coal mine, and the lowest by „MakKCHZ". The latter is in fact the only enterprise that made appropriate use of the subsidy. The remaining enterprises misused the funds received from the state budget.

The problem of shortage of working capital appeared already in 1994. „NORD", „DMZ", „CHTZ" and „MakKCHZ" made attempts to set up a fund to increase their working capital but their efforts were insufficient to succeed.

The deterioration of the financial condition of the enterprises was caused by, among other factors, a financial crisis and an excessive use of barter transactions.

A surplus of borrowings over payables can be seen in all the enterprises in question. The lowest payables to borrowings ratio is 1:2 and the highest 1:9.5. In outstanding payables 30% is sold commodities and 60% services.

In the structure of borrowings the share of services which have not been paid for amounts to 60%, salaries and related taxes is 20% and the remainder is the debt to the state budget, non-state budget payments, and dues for the purchased materials and raw materials.

As of 1 Jan. 1997 the debt resulted from borrowing in the enterprises of the Donetsk District was 1.4 times higher than outstanding payables. Statistics show that only 7% of total payables and 3.8% of outstanding borrowings are to enterprises outside the Ukraine. The remaining debt results from poor management of the Ukrainian enterprises. This means that the indebtedness problem is exclusively the matter of the Ukrainian economy.

Summing up the discussion on the financial condition and profit distribution in the Ukrainian enterprises one should stress that their poor financial condition results from: their present debts, the lack of an insurance or reserve fund, and the excessive use of barter transactions.

In profit distribution there is a growing tendency to increase current expenditures.

Tax liabilities are a huge burden for all, especially those profitable, enterprises.

Equity

In a number of enterprises the equity comprises old, often fully amortised, machines and equipment. The share of such assets in the average annual value of assets varies from 1.3% in „NORD” to 20% in „DMZ”.

The efficiency of equity utilisation is characterised by the return on equity ratio. The ratio illustrates the level of production per unit of equity.

The value of the ratio over the past two years is presented in Table 6. The decrease in return on equity in 1996 resulted from a number of factors. One then was the use of old equipment. The ratio was also affected by an indexation of equity. However, the main cause was decline of production volume, lay-offs, and reduction of working time.

Table 6. *Return on equity*

Enterprise	Return on equity	
	1995	1996
1. AZTZ „NORD”	5.45	0.89
2. AT „Donec” Khirmasz”	0.35	0.29
3. WAT „Charczyk Pipe Production Company”	2.10	0.70
4. WAT „Makteks”	0.15	0.05
5. AT „SKIF”	0.02	–
6. „Donbas” Coal Mine	–	0.39
7. „Donetsk Metallurgical Plant”	2.90	0.52
8. TOW WTF „Kontur”	1.38	0.30
9. WAT „Makiyivskiy KCHZ”	1.54	0.19

Low ROE ratio is a tangible proof that some of the enterprises (especially „Makteks”, „MakKCHZ” and the bankrupt „SKIF”) have a surplus of equity. However, the surplus cannot be fully used and, until recently, it could not even be frozen; moreover, the companies have had problems with selling it.

In order to resolve the above problem it is necessary to change the management and the development strategy, and to modernise the enterprises.

However, modernisation of the enterprises and their production assets requires tangible funds. The enterprises themselves are not able to rise required financing and investors are hard to find.

Commercial banks offer mainly short-term loans and their terms are unacceptable. The share of long-term loans in total loans is only 18%. Frequent changes in interest rates do not encourage the enterprises to take long-term loans for modernisation.

Moreover, it should be noted that after 1993 none of the enterprises in question has been injected with any foreign investments.

A detailed analysis of equity has proved that the enterprises use old and redundant equipment and production facilities.

With the declining production level, the equity use ratio has been dropping; however, annual indexations have been increasing its value.

Scientific, technical and technological modernisation of the production process requires innovations and investment activity as well as joint local and foreign efforts and outlays, and foreign investments.

Social Infrastructure

The social infrastructure, which for many years has been one of the most efficient incentives motivating the employees and building employee loyalty, in the present circumstances hinders market transformations.

The difficult financial and economic situation of the enterprises is escalated by the procrastination of the transfer of the social infrastructure to municipalities. The transfer of such facilities has been very slow mainly due to a shortage of funds.

The enterprises that have changed their ownership status have not stopped developing flats. The contract of 1997 provides that „DMZ” should complete flats with a total area of 5360 m², „NORD” – 4913 m², „Donec’khirmasz” – 2510 m², „CHTZ” – 4817 m². However „NORD” was the only enterprise to have complete any flats in 1997.

The maintenance of municipal flats exposes every enterprise to losses. Expenditures in this area were 2 times higher than revenues in „NORD” and 12 times higher in „MakKCHZ”. „SKIF” incurred expenditures connected exclusively with the maintenance of housing units.

As compared to 1995, in 1996 the surplus of expenditures over revenues significantly dropped. One of the enterprises („Donec’khirmasz”) generated profit on municipal buildings. „Donec’khirmasz” generated around 60% of its municipal housing revenues on lease fees. Unfortunately, it is the only example of good housing management and of a reduction of maintenance costs.

The enterprises have to incur huge expenditures for the maintenance of the social infrastructure. High housing outlays and a shortage of resources forces the enterprises to transfer individual buildings to new owners or to change their profiles. Ultimately it leads to a decline of the social infrastructure. To prevent this from happening the enterprises try to maintain their houses at all cost.

Level of Employment and Utilisation of Work Time in Enterprises

Over the past few years the number of employees in enterprises has dropped. This process can be seen in the employment increase (decrease) ratios presented in Table 7.

A slight increase in the number of employees in some of the enterprises („CHTZ” and „DMZ”) shows their situation is starting to stabilise. The same is confirmed by the small staff fluctuations and an increase in average salaries (from 140.9 hryvnia to 250.6 hryvnia in „CHTZ” and from 133.2 to 217.5 hryvnia in „DMZ”).

Low average salaries in the remaining enterprises are the main cause of staff fluctuations.

Laying off large numbers of employees is a sign of embarking on production reorganisation and corporate restructuring. Another factor pointing to such processes is the reduction of the number of staff in direct production and other divisions.

A big share of non-production personnel is employed in the social infrastructure (kindergartens, nursery schools, outpatient clinics, and medical staff), housing administration, construction teams. Over the past two years the number of staff in this category has dropped by nearly half (54.8%). The difficult financial situation of the enterprises and the high expenditures on the maintenance of the social infrastructure have led to the winding up of a number of divisions and facilities.

However, in some enterprises („Donec”khirmasz”, „MakKCHZ”) the changes have been quite the opposite. The number of direct workers has been decreasing while the number of other staff has been growing.

The employees in the enterprises in question are mainly middle aged. The only exceptions are „Kontur” (where 59.4% employees are under 28) and „SKIF”.

The increasing share of young people and old age pensioners in the total number of employees in some of the enterprises („Donec”khirmasz”, „Kontur”, „MakKCHZ”) shows that the number of middle-aged experienced specialists is decreasing.

Few workers are being trained to become new specialists. Only the prospering enterprises can afford costly personnel training programmes. The biggest number of retrained employees has been in „CHTZ”, „MakKCHZ” and „Kontur”. These enterprises, as well as „NORD”, are able to pay for the time their employees take off to attend training.

The financial difficulties of the enterprises and the shortage of working capital, in particular, have contributed to the arrears in the payment of salaries. Long-term salary arrears have forced some of the enterprises to reduce average salaries and to undertake certain specific administrative measures aimed at resolving this problem.

It is quite common (much as unpopular) to reduce working hours (provided it does not affect the technological process) and to forcefully grant employees time off for which they are not paid. In some enterprises the number of employees on such „holidays” is quite large (see Table 8) which has affected the utilisation of the working time.

Over the past two years in most of the enterprises the actual working time was as little as half of the total working hours? For a large part of their working time employees were absent from work due to such important reasons as: holidays, temporary inability to work, training, statutory absence.

Our analysis shows that absenteeism approved by the administration is the main cause of low actual working time in all of the enterprises. In most companies the main cause of absenteeism are „holidays” imposed by the administration. Apart from that some enterprises use other methods such as reducing the working time (reducing working days or weeks).

A failure to use working time due to stoppages resulted from: shortfalls of fuel, electricity, production equipment (not delivered as stipulated in the contracts), problems with the sale of products, difficulties in clearings with customers and suppliers et. al.

To sum up, we can draw a conclusion that the economic crisis stimulated the rise of social tensions due to the occurrence of the following factors:

- reduction of the number of staff in industrial enterprises;
- lay-offs;
- a deterioration of professional qualifications of the employees resulting from their long-lasting absence from work;
- a fall in salaries and total incomes resulting in a deterioration of people's living standards.

It should be noted that the above situation has not resulted from the restructuring but, on the contrary, has been the cause of the changes necessary to adapt to market conditions.

The policy of maintaining the existing number of jobs in the enterprises is aimed at preventing mass unemployment and a social crisis in the region. This policy resulted from the general atmosphere of waiting for an improvement of the economic situation, and the shortage of resources to stabilise the employment level: to pay outstanding salaries, to cover the costs of retraining required as a result of the reorganisation of production etc.

On the regional scale, the problem of financing sources cannot be overcome by the enterprises themselves. The implementation of the regional employment programme should be based on the financial potential of the enterprises, local budgets and the assistance from the state and abroad.

On the other hand, maintaining the status quo has intensified the production problems faced by enterprises. In 1996 the average level of employment to total working time ratio was 85–90% in stable enterprises and 4–50% in enterprises undergoing stagnation. Maintaining redundant human resources increases production costs and this, in turn, affects the production level and hinders customer-orientated approaches. The problem of rationalisation of employment in the enterprises is becoming more and more pressing.

Table 8. *Utilisation of working time in 1996*

Ratios	ATZT „NORD“	AT „Dонец“ Khirmasht”	WAT CHTZ	WAT „Mak-tak”	AT „SKIF”	„Don-bas” coal mine	WAT „MakK CHZ”	TOW WIT „Korun”
1. Share of employees taking time off forced by the administration	27.4	—	7.3	42.6	55.5	8.3	12.6	
out of which time for which the employees are not paid	27.4			42.6	43.5	8.3	12.6	
2. The share of actual working time in total working time	57.2	48.9	58.3	20.3	13.9	61.1	51.4	44.5
3. The share of working time unused due to important reasons	9.8	7.8	10.5	4.5	10.3	10.5	11.0	7.8
4. The share of unused time in total working time	1.8	12.1	0.8	43.1	46.6	0.1	4.1	17.5
Reasons:								
Simple reasons	—	36.1	—	—	2.8	2.2	—	
Travel	0.1	0.4	3.4	—	0.4	6.5	0.2	
Absence approved by the administration	99.9	63.5	96.6	100	96.8	58.3	99.8	
out of which:								
Absence on the initiative of the administration	64.8	—	10.3	98.8	7.0	34.1	61.5	

Economic Analysis of the Enterprises in the City of Stachanov

Stachanov has 32 industrial enterprises from different sectors such as: fuel industry, machine industry, metallurgy, construction, woods processing, light industry, food processing and printing industry.

In 1996 industrial enterprises employed 14.5% of the city's population. The main employers were: machine industry enterprises – 46.4% of direct production workers, coal mining – 17.8%, metallurgy – 16.1%, food processing – 7.2%, chemical industry – 5.4% and construction – 4.8%.

As compared to 1995 the number of persons employed in Stachanov's industrial enterprises has dropped by nearly 12% (to 88.2% of the 1995 level). The biggest drop has taken place in the fuel sector where the percentage of the employees has dropped from 27.1% to 17.8%. A slight increase in the labour force in: metallurgy, chemical industry and construction materials show that the enterprises from these sectors have managed to offer jobs for laid off miners.

In 1995 staff fluctuations amounted to 20.7%. In 1996 the fluctuations gave way to structural unemployment since over 40% of the employees was either taking time off for which they were not paid or had to work shorter hours. Absenteeism on the initiative of the administration in 1996 accounted for 84.4% of the total unused working time.

In the 1996 industrial production the biggest share was contributed by heavy industry – 55.4%, machine industry – 17.3%, food processing – 15.5% and coal – 3.1%.

Output of coal has dropped four times as compared to 1995 as a result of the closing down of a number of mines. Production in metallurgy in 1996 dropped to 81.2% of the 1995 level. Production in the machine industry and metal processing dropped to 93.7% and in wood processing to 62.5%. The crisis affected, to a greater or lesser extent, all sectors of the economy. Table 9 presents the production decline in the city of Stachanov over the past 5 years.

The main cause of the production decline recorded by industrial enterprises has been a drop in the demand for their products (the shrinking of the market or insolvency of customers) and the shortage of working capital.

The worst work efficiency was recorded in the fuel production sector. Some chemical industry, light industry, food processing and machine production industry enterprises, which have managed to adjust and to organise their operations in the new environment, increased their productivity in 1996.

Table 9. *Production Increase in the Enterprises in Stachanov (in % of the level from the previous year).*

Sector	Year						1996
	1991	1992	1993	1994	1995	1996	to 1990
Oil industry	78.8	83.3	61.9	63.7	58.3	20.6	3.1
Metallurgy	86.1	72.2	90.6	74.7	101.5	81.2	37.0
Chemical industry	88.4	88.0	60.6	66.5	68.8	106.6	23.0
Machine industry and metal processing	96.2	82.5	105.8	31.4	83.1	93.7	20.5
Wood processing	119.2	58.7	38.8	156.5	91.5	62.4	24.2
Construction material production	104.1	100.1	85.3	42.7	60.1	62.5	14.2
Light industry	72.4	122.2	120.5	93.2	70.5	118.6	83.1
Food processing	89.7	77.8	69.9	66.1	53.5	132.3	22.8
Printing industry	125.7	102.5	136.4	109.3	99.4	96.3	183.3
In the city	89.9	82.2	86.6	57.4	82.3	82.1	24.8

1. A tailor's shop in Stachanov is a good example of the above situation. The business has maintained its potential thanks to a contract concluded with French and American companies for the supply and processing of materials. The execution of the contract mobilised the resources of the company and saved the existing jobs. However, in such circumstances the company has not been able to improve its financial standing.

However thanks to the contract the company has acquired the skills to perform in a market economy, has enhanced its work discipline and quality control, has developed a flexible product range policy (production of a small number of products, development of new products), has found suppliers of valuable raw materials for manufacturing products for the domestic market.

2. „WAT” – Stachanov's rubber and technical product manufacturer has been making efforts to adjust to the new conditions and to secure the existing production potential. In the past the company produced different types of rubber for coalmines.

The shrinking of the market as a result of mine close-downs brought about a 70% decline in production. In 1996 the company's production amounted only to 19.9% of the 1990 level.

The production and technical potential of the company that was preserved as a result of two restructuring exercises over the past 20 years allowed the company to produce high quality products. The main problem the company has faced is the problem of finding sales markets. Potential purchasers of its products include mines and machine producers from the Lugansk and Donetsk Districts. However, their solvency problems have forced the company to look for alternative customers among businesses from the food processing, car, and shoe-making industry.

3. One of Stachanov's biggest enterprises – WAT „Stachanov Railway Carriage Plant” – is undergoing a stage of stagnation and suspension. In the past it used to be the biggest producer of rolling stock and employed 7000 people. The company produced 3000 railway carriages per annum.

The main problems the company has faced are the shortage of working capital, small sales markets, surplus of production facilities, and maintenance of the social infrastructure.

4. The shortage of working capital has been the main cause of the difficult financial situation experienced by the SOZP trading enterprise. Before 1992 the enterprise was the main supplier of all-purpose goods in Stachanov. SOZP handled 95% of all commodities trading in the city. The company employed 3.5 thousand people and operated 130 retail outlets and 81 catering facilities, and support facilities (warehouses, greenhouses, curing houses). Goods were supplied on the basis of contracts with local and regional producers.

From August 1996, SOZP has been operating as a leased state-owned enterprise. The number of staff was reduced to 320. The trading volume in 1996 was only 10% of the 1990 level. The main cause of this decline was a shortage of working capital. A working capital loan contracted in 1996 has not improved the situation noticeably and the repayment of interest has increased the high costs incurred by the enterprise. As a result, in the first quarter of 1997 the volume of traded commodities was two times lower than in 1996. This situation has occurred to a certain extent as a result of the activity of competitive producers who operate their own warehouses.

Over 80% of that employed in production work shorter hours. Salaries are paid with a three-month's delay but even these savings are not able to improve the financial condition of the enterprise which has been running at a loss.

Table 10 presents a general analysis of the social and economic standing of Stachanov's enterprises.

The enterprises in the city undergo transformation in a difficult social and economic environment resulting from the coal mining restructuring processes.

Conclusions

An analysis of the social and economic situation of the enterprises in the Donetsk District and the city of Stachanov in the Lugansk District has confirmed that the enterprises stopped at the first stage of transformation and their transformations are not orientated at meeting social needs.

Despite certain positive changes and some symptoms of stabilisation in some of the enterprises, it has not been possible to stabilise the whole of the region's economy, to increase investment activity, nor to fully adjust the enterprises to perform in a competitive environment.

The enterprises keep counting on the support of the state, use barter transactions, stimulate the increase of hidden unemployment, do not have any efficient marketing or investment policies, and do not embark on any internal transformations.

Table 10. *An Analysis of the Social and Economic Situation in Stachanov's Enterprises in 1996*

Enterprise	Stachanov Taylor's Shop	WAT „Stachanov ZHTW”	WAT Stachanov Railway Carriage Factory”	Stachanov OZP
1	2	3	4	5
1. Production increase (decrease) rate (in % as compared to 1990)	20.0	19.9	30.0	10
2. Profitability – %	21.5	31.3	–21.4	w/d***
3. Payables to borrowings	1:8	1:4	1:3	w/d***
4. Average employment (in % as compared to 1990)	47.7	62.2	78.3	10.5
4.1. Share of employed old age pensioners) – %	13.2	9.6	8.8	5.0
5. Share of part time employees	37.9	38.5	71.5	89
out of which:				
Employees working part time hours	4.8	1	–	14.2
Employees on time off	95.2	99	100	85.8
6. Working time utilisation ratio	0.8	0.75	0.3	0.85
7. Salary arrears (in months)	5	3.5	–	3

The enterprises tend to increase their current expenditures, which leads to their indebtedness and a deterioration of their financial condition.

The economic restructuring and corporate transformation processes are accompanied by social tensions resulting from the decreasing employment, lay-offs, and a decline of incomes and living standards.

Due to the decreasing production and demand for labour force it has become common to force employees to take time off for which they are not paid. As a result the losses in working time keep increasing and the production level is dropping.

Moreover, long-lasting absences from work result in a deterioration of the qualifications and professional skills of the employees.

The restructuring process is especially difficult for small town communities, in particular, when restructuring affects the only employers on the local market. The emergence of new enterprises does not resolve the problem because even then face production decline and lay-offs.

Combating the negative social impact of the restructuring process will be possible only if the technocratic approach to restructuring is replaced by regional market transformation programmes, which take account of the outstanding social problems, and issues related to the transformation process.

Our social and economic analysis and the results of our previous research have pointed to certain obstacles hindering the restructuring process and the further operation of the enterprises in the transition period.

In our opinion, the main factors hindering the corporate transformation and affecting the economic restructuring process in the Ukraine include:

- the lack of stable legislation, contradictions and the lack of coherence in the acts of law;
- undefined timing and principles of the state budgeting process; delays in furnishing the state and local budgets at the beginning of the year;
- underdeveloped market mechanisms – the lack of collaterals for loans and insurance;
- unattractive investment conditions, low innovation and investment activity;
- the lack of scientific and consistent risk assessment analysis and an investment guarantee system;
- the lack of encouraging restructuring projects, insufficient justification of projects, the lack of precise projections regarding the aftermath of the restructuring process;
- the lack of efficient financial crisis remedial measures, the lack of discipline in mutual settlements and repayment of debt.

To overcome the above barriers that hinder the corporate transformation and the economic restructuring process it is necessary to adopt well-balanced

strategies on the central level. Sector management and regional government bodies have to develop mutual understanding and to reach an agreement in the area of corporate transformation and its social consequences

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TRANSFORMATIONS OF STATE OWNED ENTERPRISES IN THE DONETSK DISTRICT: OPPORTUNITIES AND BARRIERS

Introduction

The following study is an attempt to recognise provisionally the problems relating to opportunities in and barriers to the transformation of state owned enterprises in the Donetsk Region on the basis of the qualitative study we carried out. Because of non-scientific reasons, the empirical material gathered by us was comparatively modest and did not fully covered the goals set in the study project. We have managed to carry interviews in 12 companies and not, as we planned, in 20. However, one can find it advantageous that in this number there were companies that were prominent on local labour markets and which employ or have recently employed a significant number of workers. They represent various branches of industry; directly or indirectly connected with coal mining and ones that have come into being as alternatives to the traditional production branches of the Region.

The crucial part of our study focuses on presenting the way of thinking and acting, real or intended, of directors and managers of enterprises. We will be mostly interested in how they perceive and define the standing of the companies they manage and how they react to the situations they have defined. It should be stressed that this study is a preliminary „sociological interview” and the statements contained here are only hypotheses, which need further verification on a representative sample of companies.

General characteristics of the strategic thinking and acting of enterprises' management in the Donetsk Region

The first, crucial characteristic of managerial staffs' way of reasoning is what one could name the „*syndrome of being captivated by the past*”. Idealisation of the past and longing for tremendous amount of production and employment, good welfare services and regular earnings, full shops and absorptive

market are striking features of this nostalgic portrait of the past. In the consciousness of the majority of management staffs, difficulties or almost tragic situation of their companies are connected with the causes that lie beyond their influence and control. Among these are machinations of financial institutions and corporations, which had lead to the decay of the Soviet Union („rozvala” in Russian) or actions of the Ukrainian authorities and government responsible, in their opinion, for the weakness of the integration processes between the former republics of the USSR. It was postulated that the state authorities should facilitate the comeback of the Donetsk district enterprises to the Russian market by making appropriate political decisions. With this kind of approach, factors conditioning the present and future fate of these companies are almost completely beyond their influence and control. This is also conducive to the appearance of passive attitude and feelings of helplessness among the members of management.

Wide range of incoherence or even contradictions in the reasoning and described ways of acting among the management representatives of the studied enterprises were equally common and striking during the research.

Results of the incoherence and contradictions dominating in the managerial reasoning are reflected in equally incoherent organisational and institutional solutions. New elements of organisational structures that are indispensable in the market economy overlap the structures and principles of the past actions. Instead of disappearing or undergoing positive modifications, the latter are frequently the subject to transformations into *kombinat*-like structures typical of planned economy. Instead of simplification of structures and principles of functioning forced by the market mechanisms, we can observe the process of their getting more complicated. Attempts to obtain positive restructuring changes leading to simplification of identity, function and structures of enterprises are made too late, frequently already in helpless situations or under the administrative pressure (e.g. in coalmines). This indicates that the syndrome or complex of gigantomania, the heritage of the former system, is very durable.

We were under the impression that in the way of thinking of our respondents and their co-workers, there appeared most of the features of the so-called „market oriented thinking”, which should be conducive to the rationalisation of their conduct towards the market, production policy, organisational and employment changes, co-operation with the environment etc. At the same time, however, a number of factors; macrostructural, political, economic and other ones, the existence of which we can only guess, causes that the positive „materialisation” of this market oriented thinking happens only in few cases. In many instances, the decisions and action taken by them are openly contradictory to it. We can even talk about the declared domination (and even the declaimed one) of the economic rationality over the realised one. In recent years the management has acquired certain elements of the market oriented thinking but so far

this has hardly influenced the sphere of their practical decisions and action. The incoherence between right diagnoses about, among others, the situation in the companies they manage and practical consequences resulting from them is the most striking of all.

In a number of cases, we observed that our respondents did not feel responsible for the future fate of their companies and their employees even though they declared they cared about the so-called human matters of their subordinates. One can get an impression – though we do not have enough evidence of it – that the emotional and intellectual energy of the Donetsk managers and, broadly speaking, representatives of the local elite is shared between the nostalgic memories of the recent soviet past (presumably a cosy one) and efforts to set themselves up. The care about what is called „the common good”, for instance about the staff of a company, recedes into the far background.

Perception of demand and sales execution as fundamental preconditions for the survival and existence of a company is a positive, almost commonly observed element. The trouble encountered while handling once mass production made the management aware that in the new reality producing of great amount of goods for which there is no demand does not make sense. The customer, consumer-ordering steel has become an important factor in the survival game of companies. This entailed the decision to form within companies adequate departments dealing with development of new products and their quality on one hand and looking for new customers and recognising their expectations on the other. It should be stressed, however, that activities of this kind are in a very initial phase. In Poland, for example, we observed their appearance in 1990 – 1991.

Market and production strategies of companies

For most of the studied companies, the loss of the former soviet market and recent troubles connected with marketing it back in Russia have become their greatest problems. Some companies have also problems connected with obtaining supplies from this market. At the moment they can not find an alternative for it. Most of our respondents from Donetsk are aware that, firstly, the Russian market is protected by an adequate duty system consequently introduced and applied by the authorities, secondly, that it is not always solvent, at least as far as the so called ready cash is concerned, thirdly, that there have appeared a lot of competitors from many countries of the world. Directors of the Donetsk enterprises, however, treat these problems as temporary ones and are convinced that their companies will come back to the market soon. They do not take the fall in demand into consideration, they believe in their good knowledge of this market, effectiveness of their personal connections, habits of Russian tradesmen and customers. They place their faith in the integration processes within the Commonwealth of Independent States.

We can say we deal with a case of „*love that is not returned*”; except for one company, which co-operates with Gaz-Prom, none of the studied companies operates on the Russian market. This „*love that is not returned*”, however, brings about important practical consequences. Other markets, including those of western countries, are treated as the ground of temporary expansion and our respondents do not place too much faith in them. It is noteworthy, that Eastern and Southern Europe do not arouse their interest and only in some cases they are oriented towards the countries of Eastern Asia (Turkmenistan, Azerbaijan, Iran) or the Far East (India, China). The directors of Donetsk delude themselves that the markets of the latter countries, similarly to the Russian one, will make it possible for them to realise their „*giantomaniac complex*” involving mass production and sales, high level of employment and flourishing investments. We are not able to settle the level of feasibility of these aspirations. Beyond any doubt, they are a part of the mental heritage of the past and only in few cases they are to some extent materially justified. They are conducive to strengthening of passive attitudes because all little things are of little interest and not too attractive – one should wait until the situation favouring great investments and production undertakings comes back. It is very likely that most of companies will not arrive at it while keeping the high level of property assets and employment connected with hopes of this kind drives them into increasing troubles.

Apart from these hardly rational attitudes, we have observed in the majority of companies, especially these connected with the local market or the Ukrainian market in general, a number of interesting market strategy projects. Some of them have already become material and organisational facts. Their common elements include: increasing diversification of products, increased concern about the quality and cost of production, adopting the structure and features of these products to the needs of particular customers, development of sales and service networks, founding and developing of marketing departments etc.

Generally speaking, marketing processes in the Donetsk district enterprises are still very poorly developed. Even the most advanced case of such processes – a refrigerator producing company– consists in widening and enriching of what has been done previously and relates to broadly understood household equipment only. We have not found a single case of a company that would put on the market some new, unknown product, which would become a kind of a hit. As we have mentioned before, there are individual ideas of unique, high-tech products but nobody wants to undertake the risk of promoting them. We can characterise the market strategies of Donetsk companies as adoptive rather than inventive– they do not result from some long-term projects– they are rather a passive answer to the threats coming from the market. In some cases it is connected with the fact of having monopolised the local or broader (former USSR, Ukraine) markets. This exempts companies from taking radical efforts to improve their market position.

Finance of companies or market without money

Presenting our observations relating to the financial and economic situation of the studied companies, we base solely on the opinions of our respondents; our Ukrainian colleagues have completed our picture with the elements which can be obtained only using the so-called „hard data”¹.

A number of factors that have been present in the Ukrainian economy for many years have made the so-called ready money a very rare commodity. We can list here the deep country budget deficit causing the insolvency of budget institutions towards numerous categories of their employees; inflation that has lasted for many years and eaten up active assets of the companies and reduced their profitability; reduction of demand from both companies and individual customers caused by the two factors mentioned above; underdevelopment and inertia of the banking system and, broadly speaking, of the financial market etc. Consequently there appeared a lot of „*vicious circles*” strengthening the above state of affairs; breaking them apart without implementation of any radical macroeconomic solutions seems to be the matter of the distant future.

We have found that the financial standing of the studied set of firms is quite diverse. Companies with clearly monopolistic position are in a comparatively stable situation and seem to be solvent to the budget, suppliers and to their contracting parties. But even big and „*reputable*” firms maintain their own collective faems and plants producing milk and meat, which supplement earnings of their employees. All the enterprises, however, experience bigger or smaller financial troubles: they are behind with wages, budget and supplies payments, they are short of the so-called „*start money*” to prepare production and restructuring projects, active assets for current activity and in most of the cases for any substantial investments. There has been an exception of a clothing company that was granted a loan for creating alternative employment for workers of coalmines, which had been closed (administered by a special investment fund).

Coal has become a peculiar tender both in companies directly and indirectly connected with it and, for instance, in a meat factory pretty distant from this branch. These resources are used for making payments for energy and gases supplies, timber, and even for beef and pork livestock that is indispensable for starting the production. The scale of barter exchange is not fully perceptible as some firms' managers conceal dealings of this type because they are not sure to what extent it is legal. Beyond any doubt, the pretty widespread presence of barter disrupts the official reporting of companies and may cause serious difficulties while attempting to make a more reliable analysis of their financial standing. On the other hand, however, it seems that some of the studied compa-

¹ Lohacheva L., O. Ivashchukina: *Socio – economic effects of the restructuring process...* p. 61 + 68.

nies could not be engaged in „normal” production activity or even undertake modest restructuring actions without using the natural exchange. In a coal mining equipment producing company we found an odd example of using the so-called credit card for registering „payments in nature” due to its employees; this shows that there has been created a system of natural exchange.

According to our respondents, relationships between the industry and the banking system are still in their infancy and for the time being do not play any important role in promoting restructuring and development of industry. This applies at least to former state owned companies.

It is worth mentioning that apart from widely advertised foreign assistance directed at shutting down unprofitable coalmines, we have encountered opinions of directors about shortage of financial resources to execute this kind of undertakings both in their technical and social aspects, and particularly to pay the so-called severance payments. Understanding the last matter seems to be very difficult not only in the case of coalmines; directors talk about impossibility of dismissing employees because of necessity of making such payments but at the same time we found examples of mass dismissal or leaving jobs without any compensation and without a declaration of bankruptcy of a company. The arrears of many months that have been mentioned above additionally complicate this picture full of ambiguity and incoherence.

Restructuring of enterprises – contradictory tendencies

Most of our interlocutors are aware that superfluous property assets, both production and social ones, are a great burden for their companies. But at the same time they can not refrain from expressing their delight about their size; the „complex of giantomaniac and megalomaniac” we have mentioned earlier is still alive here. While describing their companies, their directors frequently forget what the aim of a production enterprise is and present their firms as a kind of cultural, educational and recreational combine. The production functions are put in the background. This kind of thinking brings about practical consequences. Almost all companies have retained all their means of production even though they are in some cases totally unproductive. Undoubtedly, among the reasons for such state of affairs one can point to the lack of appropriate legal solutions including tax and institutional ones (e.g. lack of redundant equipment market). It seems, however, that subjective factors play an important role here – it is difficult for the directors to get rid of these material evidence of their past power and influence. It is equally difficult for them to give up their illusions among which the hope for the come back of old good times of mass production and employment going in thousands plays a significant role. It is not unlikely that the last factor plays an important role, especially in the case of great enter-

prises; it can be clearly seen that comparatively small companies wit less than a thousand employees cope much better with the new reality.

In most of the companies their social property was really tremendous though its quality is, on the basis of superficial observations, rather dubious. Only in sparse instances the studied companies partly sold these properties under the external administrative pressure. In most cases numerous social appliances and people employed to keep them work lie in the hands of the companies. They generate general expenses and deteriorate because of the difficult situation of the firms. In rich companies – we have come across two of this kind – there are tendencies to increase the amount of social property which does not seem to be the most rational move, the more so, that they are accompanied by a fall in production and sales.

One can say that in most companies there is something that can be called the „imperialist complex” manifested in the desire to keep, at all costs, their integrity. One of the companies with good financial standing has supplemented its structure with additional units to close the production cycle and make it self-sufficient. These tendencies seem to result from underdevelopment of market connections or at least from the lack of confidence in their effectiveness. The result of such tendencies is obvious: heavy, complicated and hardly controllable structures are and will still be present in the industry.

The only exception we have found is the coalmine we studied in Makijivka, where three independent enterprises have been created on the basis of the property which belonged to its former departments: spare parts production, timber and repair departments. All of them work both for the coalmine and for external customers.

We have signalled above also positive tendencies in changing organisation structures of companies. They consist mostly in introducing elements of the structure, which are conducive to their marketing (trade, sales, marketing, and market research departments) and production restructuring (research laboratories, quality control departments etc). But the opposite cases can also be found: one of the companies shut down its research and development centre thus writing off the opportunity of modernising its products and contributing to the bankruptcy.

It is difficult to find some clear-cut development tendency on the basis of our little sample of enterprises and to evaluate the effectiveness of solutions of one kind or another as far as company management structure and their ownership forms are concerned. One can say, however, that mixed ownership forms dominate in the former Donetsk state-owned enterprises with prevailing collective and institutional owners. Boards of directors, particularly general directors, play the most important role in the structure of management. In some cases they are quite actively supported by trade unions, which do not cause too much trouble to their directors. Owners or their representatives are not clearly institutionalised for the time being and their influence on decision-making processes in enterprises is difficult to grasp and define.

Employment policy – rational and anti-rational tendencies

In the studied set of enterprises we found very diverse tendencies in human resources management.

Most of all, it is striking that big companies supposed to provide employment alternative to the coal mining and sectors connected with it (e.g. electronic and textiles plants), have not passed the market test and reduced employment running in thousands practically to the minimum. Chances to restore the employment in these enterprises to some sensible level, at least to the one planned in the restructuring projects prepared by their directors, seem to be very small. They are determined by market competition, problems with sales and supplies, lack of finance for restructuring projects and / or the depravity of staffs.

As for the studied companies, one of them will dismiss most of its workers in the course of 2 – 3 years, the other one, due to foreign orders, keeps the number of employed at a relatively rational level. It is common knowledge: however, that the decisions relating to the future of the mines are made outside their management and it is difficult to say when the turn will come for the one we studied.

Enterprises of an average size try to reduce employment to the level, which ensures significant reduction of their general expenses hence reducing the prices of products and services they offer. In practice, it means more or less radical workforce reduction cuts and reducing the role of these enterprises on local employment markets.

Three relatively well prospering enterprises increase employment even though neither the production level nor the sales volume do not justify such actions whatsoever. Representatives of these companies are aware of irrationality of the undertaken actions but cite many arguments to justify them, mostly pointing to the pressure exerted by local authorities, loyalty towards employees who have been working in their companies for many years and also to the expected product and market expansion.

Summary

The degree of transformations development in the Donetsk District is relatively small, especially if one takes into consideration the enormity of challenges that the elites and inhabitants already face, and which will intensify in the forthcoming two or three years. These transformations are mainly in their project phase, chiefly in enterprises with little chances for survival. The changes in the strategy and structures of companies observed by us, are most frequently reactions, sometimes irrational ones, to external pressures and not the effect of the execution of long term projects providing for market expansion and keeping up their production and employment level. The activity of and decisions of the

companies' management are excessively burdened with the load of the past: both mentally and materially. Only in a minority of cases one can expect that these enterprises will manage to keep up a significant employment level, production assets and market position, including the employment market. The empirical material gathered in a small sample of companies does not allow forming unambiguous forecasts. The intuition and knowledge of the authors of this study, however, says that only about a half of former state-owned companies possess the staff and material potential that gives them a chance to survive, provided, of course, they make efforts to carry out the prepared projects in future. The chances of developing these projects, however, are limited to a very high degree not only by the factors lying in the companies themselves, but also by the underdevelopment and passiveness of the banking system and financial market: the enterprises in the district are simply short of money.

A considerable number of management members are „*veterans and heroes of socialist work*” looking up to the past, living with illusions and not really able to think rationally about the future of their firms. In many cases, especially in bigger enterprises, leaving them on their positions will cause subordinated companies to drift in a hardly predictable direction. Sooner or later this will threaten them to „run aground” with all the consequences resulting from it.

The passiveness of companies' management observed in some cases soothes the severity of today's unemployment. However, it also makes the economical and financial problems, which have to be solved anyway, pile up within particular companies. Directors of enterprises active on a difficult market will be forced to get rid of superfluous production and social assets and to dismiss unnecessary employees.

The dramatic aspect of the situation consists in that the employees already dismissed from mines and enterprises, just as these, who will be dismissed tomorrow and the day after tomorrow, will find it more and more difficult to find a job. At some moment the practice of transferring the employed and social assets from the closed coalmines to the ones that still work will be halted; the possibility to increase employment in relatively well prospering enterprises will be reduced. Considering the low demand for products and services caused by insolvency or closing of some companies, it is difficult to imagine that the small private business will develop quickly. The sectors of services, trade and small-scale production will not be able to absorb the army of the unemployed dismissed from former state-owned companies. The way the small business has been developing up to now does not look optimistically. Nor it seems that the migration processes, both definite and periodical ones, that have partly relieved the unemployment problems so far, will effectively ease the piling problems of unemployment. Tens and hundreds of thousands of families may face the problem of finding elementary means for survival.

In such situation one can only suggest certain directions for actions that already require that specific decisions be made at the district and central levels. Everything should be done to reduce costs of entering on the market for the people who want to „take their own fate into their own hands”. It would be very useful to find what the factors that caused the downfall of many private companies or prevented them from appearing – the results of such study could contribute significantly to change the present, unfavourable tendencies resulting in appearance of a limited number of small private enterprises.

It is probable that for many tens of thousands of coalminers' families, turning to cultivation of land will be the only chance for survival. It is possible that for a substantial part of the Donetsk District, the post-industrial age will mean a comeback to the agrarian age. It is not unlikely that the efforts of many local institutions should be directed at such transformation of human consciousness, habits and qualifications that will enable the inhabitants of the District to use the resources of the land which have been disregarded and neglected so far.

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THE EMPLOYMENT MARKET AND CREATING A NEW EMPLOYMENT SYSTEM

The transformation of the Ukrainian economy into a market one in the circumstances of structural deformations caused by the old central planning system, negatively affects the employment market. According to the official data, the unemployment level in Ukraine on 1.08.1997 amounted to 1,8%, and was relatively low compared to the total of the jobless.

In five most industrialised districts of Eastern Ukraine (Dnipropetrovsk, Donetsk, Zaporozhe, Lugansk and Kharkovsk Districts) inhabited by one third of the Ukrainian population, 35% of all the employed and 37% of the total number of workers, the official level of unemployment is lower than the country average and is equal to 0,7%. Numerous studies show, however, that the real number of the jobless is much higher. A sociological survey carried by National Institute of Strategic Studies already in 1995, for instance, proved that the real unemployment level in big towns of Ukraine amounted to 8,4% and the real hidden unemployment was at the level of 26%. Strengthening of the resource-oriented character of the Ukrainian economy and dependence of the old industrial regions on the development of the so-called primary branches of industry, complicates the process of the country's adaptation to market mechanisms thus enlarging the potential of the future unemployment.

Changes on the regional employment market during the restructuring process

The processes that have been mentioned above influence the changes of the employment structure in the region. According to the data from district employment bureaux, on 01.08.1997 the unemployment level reached 1,48% in the Donetsk District as compared with 0,91% on 01.01.1997 and, respectively, 1,9% and 1,6% in the Lugansk District. The national unemployment average was at the level of 1,8% on 01.08.1997 and 1,6% on 01.01.1997.

The quoted figures should be increased by adding the number of the hidden unemployment brought about by the production fall and poor financial standing of enterprises and institutions. In 1996, for instance, 20,3% of the total number of the employed in the Donetsk District were on forced leaves and 5% worked less than 8 hours a day.

The value of the cited rates was mostly influenced by such branches of economy as industry – 24,6% and 4,7% respectively; transport – 43,5% and 21,7% respectively; construction industry – 33,5% and 10,2%; science and science services – 25,8% and 12,7%.

On the example of the Donetsk District (Table 1) a change was shown in proportions of people working in various branches of economy. As one can see from the data in the table, a reduction of a considerable number of employees has been made practically in all branches of economy except for the governing organs, loan and finance organisations, insurance companies, and also healthcare, physical education and social protection institutions. The highest level of reduction has been recorded in the industry: 6,9% in the period from 1991 to 1996. During that time the number of people involved in private economic activity under licence (trade, transport, legal, notarial and other services) increased.

Table no. 1 Proportions of the employed (in%) in particular branches of economy. The example of the Donetsk district.

Branches	1991	1996
Industry	42,7	35,8
Farming and forestry	7,4	7,3
Construction industry	9,6	6,3
Transport	7,7	6,2
Trade	8,1	7,3
Living services	1,2	1,1
Collective services (total) including the ones providing maintenance for:	22,8	22,4
Residential and council buildings	4,5	4,2
Healthcare, physical education and social protection	6,0	6,4
Education, culture, arts, science and science servicing	10,4	8,9
Governing organs	1,9	2,9
Loans, finance and insurance protection	0,5	0,7
Individual enterprises*	—	12,8

* people involved in individual activity in small business in various branches of industry

The data shown entirely in the table indicate that the importance of industry in the creating of the employment system, total income of people and – what follows – the amount of taxes paid to local and central budgets from the income of companies and citizens has decreased. This, however, does not refer to the so-called primary branches of industry, which still play an important role in the finance and employment system of the region.

The increase of significance of the so-called primary branches of industry in the structures of production and growth of number of workers employed in industry is presented in Table 2.

Even though the role of industry in providing places of work has generally decreased, the number of employees in the so-called primary branches of industry has decreased by 0,4% only. Growth of production level in heavy industry, especially in the so-called „black“ metallurgy increases its share in the budget due to the value added tax and customs fees. 2/3 of the District's budget income comes from the heavy industry.

Table no 2 Structure of industry in particular branches: production and number of employees, the Donetsk District example.

Branches of industry	Volume of production		Volume of production	
	1991	1996	1991	1996
Primary branches of industry*	54,7	82,3	53,0	61,5
Coal mining	11,3	20,3	33,4	35,7
Metal working and machine industry	18,4	8,1	26,8	23,7
Building materials production	3,1	1,5	4,5	4,0
Light industry	7,4	0,7	6,1	2,8
Food industry	10,4	5,7	4,9	4,9
Other branches of industry	6,1	1,7	4,7	3,1

* primary branches of industry include power, coal and chemical industries and metallurgy.

The data in Table 3, which present the industry of Stahanov show a slightly different picture.

Table no 3 Level of production and number of employees in the town of Stahanov.

Branches of industry	Level of production in comparable prices				Number of employees			
	1995		1996		1995		1996	
	In thousands of hryvnas	%	In thousands of hryvnas	%	In thousands of hryvnas	%	In thousands of hryvnas	%
Petrol industry	32775,2	12,2	6 756,1	3,1	5 757	27,1	3 351	17,8
„Black“ metallurgy	151028,4	56,0	122 653,7	55,4	2 953	13,9	3 016	16,1
Chemical industry	13712,8	5,1	14 613,8	6,6	998	4,7	1 010	5,4
Metal working and machine industry	40950,8	15,2	38 380,4	17,3	9 283	43,6	8 707	46,4
Building materials industry	2 224,5	0,8	1 390,1	0,6	465	2,2	912	4,8
Woodworking industry	211,3	0,07	131,8	0,06	62	0,3	55	0,3
Light industry	2 264,8	0,9	2 685,3	1,22	335	1,6	332	1,7
Food industry	25964,5	9,6	34 363,4	15,5	1 370	6,4	1 352	7,2
Printing industry	355,0	0,1	341,9	0,2	33	0,1	32	0,2
Others	83,9	0,03	49,4	0,02	16	0,1	18	0,1
Total	269 572	100	221 366	100	21 272	100	1 875	100

Even though the „black“ metallurgy has the highest level of production (56%), it is the machine industry that has the biggest number of workers (46,4%). Unlike in the coal industry, which experienced substantial employment drop in 1996 (by 42%), the number of employees in other branches did not decrease – on the contrary, it grew under the circumstances of the absolute fall in the number of employees in industry.

Iron metallurgy, chemical industry and building materials works showed the biggest employment growth. Paradoxically enough, despite the greatest employment growth, the building materials industry experienced the greatest fall in production (by 37,5%). Probably some of the dismissed workers moved to work in other branches of industry.

The changes in the quantity structure of the employed in various spheres of economy are far from these that are necessary or even indispensable. In Table no. 4 a comparison is presented between the changes in employment proportions in the region in 1980÷1990 and the changes that would have to occur in an open market economy in the same period as well as changes observed in 1990÷1996. As one can see, on a stable market, the changes could have a dramatic character and, as a result, the majority of the employed would be moved into a non-productive sphere and would earn much less. It also proves that the more open Ukrainian economy becomes, the more noticeable fall in the number of workers employed in major branches in the region is. The coal industry will suffer from these changes most.

The study carried in May and June of 1997 in three regions that suffered from closing coalmines most (the regions of the Brianka and Stahanov towns of the Lugansk district and the town of Makiyevka in the Donetsk District) revealed the problems connected with getting new jobs and sociological helplessness of people from coal mining areas.

The highest level of registered unemployment in the studied regions was recorded in the Lugansk and Donetsk districts; the hidden unemployment level ranged there from 12,9% to 24,5%.

Data concerning the migration processes in the studied regions show that it is easier for the dismissed to find employment in other regions rather than on the spot. The migration is caused by the decreasing number of workplaces, fall in production, lack of job offers from other branches of industry and a lower level of earnings or not paying them at all.

Because of money shortage in local budgets, practically no public works are organised within the confines of assistance for the jobless, even though they have been very necessary (continuation of the Donetsk underground construction would provide employment for the dismissed miners of the Proletarski district). It is essential to promote active policy on the employment market in these regions. But local employment bureaux are short of financial resources to launch such active policy. It is paradoxical that most of Work Foundation's income that come from regional enterprises and organisations is transferred to the central budget. It should be added that the assets of the Labour Foundation are wasted by allocating them at variance with its needs – over 1/3 of assets is used by the Ministry of Finance for other purposes.

Local authorities of the studied regions count on small business most believing it will help them reducing unemployment. In the employment bureau of the Brianka town a forecast calculation was made of a balance sheet of all people who were able to work in 1997. According to the calculation, the employment in the state-owned sector would drop by 35,2%, and the number of people

Table no 4 *Real and presumed changes in the structure of employment in the Donetsk District.*

Branches of economy in the district	Actual changes in the number of the employed in 1980÷1990 (%)	Presumed changes in the market economy conditions (%)	Real changes in the number of the employed in 1990÷1996 (%)
<i>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>
All branches of industry including:	-5,3	4,0	-4,2
Power industry	-4,2	-27,9	-21,6
Mining	+10,8	-4,7	+61,0
„Black“ metallurgy	-12,6	36,8	+8,5
Machine and metal working industry	+9,8	-7,5	-26,3
Farming and forestry	-6,2	-37,9	-3,1
Transport	-22,3	+14,1	-25,4
Construction industry	+2,0	+22,6	-38,1
Communication industry	-8,3	+11,2	-20,5
Trade and services paid for*	-5,1	+27,2	-12,5
Information services	-4,0	+49,7	-63,0
Non-production services	-9,0	+36,5	-11,0
Healthcare, physical education and social protection	+13,7	+52,0	+0,9
Education and science	-2,2	+48,9	-18,3
Culture and arts	+13,3	+51,9	-9,4
Finance and insurance	+10,8	+21,9	+16,5
State administration	-42,4	+47,1	+50,3

- * including people involved in individual activity, as they are involved in trade and payable services most of all.
- Sources: a) Columns II and IV according to the Donetsk Statistics Office, b) column 3 *Structure and Investment Aspects of Transition to an Open Market*. A.I. Kovalov; *Naukova Dumka*, 1994. p. 23

employed in the private sector would be increased 42 times (!) and would constitute 21,3% of the total of the employed. The present situation in Brianka and in other towns of the region does not even come to a half of this forecast. There are no objective reasons for an equally optimistic prognosis relating to the development of small business. Most of all, there is not any appropriate infrastructure (information and consultation centres), which would support it. There has not been developed a system of credit and tax relief (except for micro – crediting programme from the World Bank). Finally, this sensitive enterprise sector functions, as it does in whole Ukraine, in a more aggressive environment than big companies.

Development of small business and its role in the creation of a new employment system

A small enterprise is one of the active factors in creating additional workplaces and providing jobs for a significant number of people; supplying the market with goods and services; overcoming monopolies; developing competition and strengthening of the economical basis of regions.

Small enterprises in Ukraine do not influence the development of its economy and do not develop vigorously enough to secure a dynamic growth of its potential parallel to the improvement of the economic situation in the country. To achieve fundamental changes in the economy structures, it is necessary to create a real competition environment so that some 400 ÷ 500 thousand of small enterprises employing around 5 million people could soon function in Ukraine.

In the beginning of 1997, there were over 93 thousand of small companies which provided jobs for almost 5% of all the employed as well as 3,2 thousand co-operatives and 1 million individual entrepreneurs. The share of small enterprises in the global country product of Ukraine amounted to almost 10%.

Having inherited the industry orientated mostly towards heavy and energy-consuming production, the old industrial regions of Ukraine can not use their production potential to a full extent. In these old production structures, all resources, including also means of labour, have not been used properly. Therefore it is important that employees can move freely to enterprises where they are properly evaluated and stimulated to work and where their potential can be used most effectively. If such a change does not come across major obstacles, both enterprises and, as a final result, the economy of Ukraine will benefit.

The Donetsk and Lugansk districts are the most urbanised part of the country (1st and 2nd largest number of urban population). The share in the total of employees is also the greatest in the country (2 million out of 5,2 million) and amounts, respectively, to 10,1% of all the employed and to 10,8% of the whole population. According to the quoted indexes, the Lugansk district is also ranked

in the first five leading districts (5,8% and 5,6%, respectively); practically 1/6 of the population and workforce live in these two districts.

Small enterprises are characterised by: close relationships with historical peculiarities of the region, ability to „blend into” already existing structures and looking for possibilities of increasing economic activity. Creation of small enterprises has been the most intensive in the Donetsk district – one of the most developed industrial centres where 13,8% of all small active Ukrainian enterprises are concentrated. The number of small companies per every 1000 people amounts to 4, i.e. more than twice as high as the country average (1,8); in the Lugansk district this index amounts to 1,4.

Industrial towns are the most typical examples, which have been chosen to carry a comparative analysis of employment problems. Due to the economic crisis, a considerable number of companies are closed there causing most severe problems with employees. These are the towns of Donetsk, Makiyevka, Jenakijevo, Shahtiarisk in the Donetsk District and Lugansk, Stahanov and Brianka in the Lugansk District.

The pace of small enterprises' number growth has been significantly decreasing since 1993. In 1995 a recession in the Donetsk District took place – the number of liquidated companies outgrew the number of the newly founded ones. And so, in 1995 in Makiyevka and Shahtiarisk the number of small enterprises decreased as compared with the previous year and fell from 32% to 25,6%. In 1996 a small growth was recorded and the pace of starting new companies almost reached the level from 1994, i.e. 32%.

In Stahanov – a typical town of the Lugansk district – fall and mass liquidation of small enterprises was experienced in 1996. Their number decreased by 32% as compared with the previous year. Such decrease resulted from the general crisis in the urban economic system. 24 out of 31 of industrial works in the town reduced their production output as compared with 1995. The coal yield in 1996 amounted to 18,8% of the one from 1995. The sudden slump in production occurred due to loosening of economic ties between companies – consumers from the Commonwealth of Independent States Countries, financial crisis and due to the problems connected with the introduction of non-cash payments. It all resulted in permanent indebtedness and not paying employees' earnings. As workers were short of cash, they did not buy products of small companies supplying their goods mostly on the local market. The entrepreneurs of Stahanov reduced the sales of household appliances by 31% as compared with 1995.

The comparison of small enterprises development in the towns of Lugansk and Donetsk Districts generally shows that the number of small companies per every 1000 inhabitants amounts to 1,4 (the national average is 1,8). At the same time the indexes of Lugansk and Stahanov surpass the regional and national

ones reaching up to the level of the Donetsk District towns, i.e. 2,1 and 2,0 respectively to 2,7 (the average index of the Donetsk District), 2,3 – Makiyevka, 2,6 – Jenakijevo, 2,1 – Shahtiarisk.

Special attention should be paid to the problems of small business' economical effectiveness. The indexes of small enterprises taking for the realised production per one inhabitant are more or less the same in Donetsk (188,6 hryv.) and Lugansk (160,8 hryv.). The range of the realised production is higher in the Lugansk district – in the town of Lugansk, for instance, the range of realised sales per one small enterprise amounts to 144,3 thousand hryvnas and 69,3 thousand hryvnas, i.e. two times less, in the Donetsk District.

The small enterprises activity structure in 1996 was as follows: 52% of small companies were active in trade, 15% – in industry, 10% in building, 2,2% in science, 1,5% in services, 1,7% in transport, 2,2% in brokerage. More or less the same branch structure of small enterprises can be found in the Lugansk district. In general, the activity of small companies is profitable (in the Donetsk District the profit amounted to 97,1 million hryvnas). The highest profit was generated in trade (24,4 million hryvnas), industry (26,2 million hryvnas) and building (19,6 million hryvnas). But in some branches losses exceeded income, for instance in agriculture, food industry, household appliances industry, healthcare, physical education and social protection. It should be noted that, in the Donetsk District for example, except for agriculture (where the actual losses really exceeded the income from the realised sales), the lack of profits of other branches is artificially created by imposing too high taxes, excise duties and other expenses that are excluded from general income. More or less the same situation can be found in the Lugansk district.

What was the reason for the poor development of small enterprises? The results of sociologic research showed that 50% of the interviewed mentioned the mutual debts of companies as one of the reasons: 50% – too high taxes; 40% – corruption of official authorities representatives and their relationships with criminal groups; 36,7% – breakdown of economic links with the Commonwealth of Independent States countries; 20% – problems connected with non-cash payment and financial crisis; 16,7% – high interest rates for loans; 16,7% – bad customs and trade regulations and other reasons. It is not enough to realise these problems to improve this situation. Appropriate, favourable conditions should be created, especially the ones relating to the essentials on which a small enterprise is based. 63,3% of the interviewed says that the Ukrainian legislation is not conducive to moral development of economic activity, moreover – it is conducive to „washing small business out” of economy and moving it to the background. 16,7% claim that regulations do not prevent the development, 13,3% did not answer.

These were the imperfections of legislative basis, particularly the tough tax regime, which have brought to a stop the development of small business, its losses and its moving to the grey zone. The answers to the following questions are the best proof of it: Do you have to conceal your activity or its part from the official authorities or to settle with your clients or suppliers without bank's help? – 10,3% answered that it was a norm for them; 62% did it rarely; 17,2% every now and then; 6,9% did not answer.

State Tax Administration in the Donetsk District has prepared data about 5406 economic units (just 15% of small companies), that for a long time have not been based under the addresses they stated, have not kept the books and have not paid taxes. According to V. Plazhnykov, deputy prosecutor of the Judicial and Civil Cases Department of District Public Prosecutor's Office, a significant number of small enterprises have been launched to clean dirty money and to conduct illegal operations. All this is characteristic of the negative picture of sociological and economic environment in which small enterprises function.

Small business is very important for the society. The unemployment problem in the regions is connected with many problems of economic nature, economic crisis, loosening of economic ties between companies, fall in production, transformation of industrial structures (particularly in such branches as natural resources mining, heavy and chemical industries), bankruptcies of unproductive companies and shrinking of social protection sphere. In Stahanov, a mass reduction of employment connected with shutting down its mines is planned (some 4 – 5 thousand workers). In total, the number of unemployed in the Lugansk District amounts to 68,1 thousand people, i.e. 5,7% of all able to work. This index is 2,3% higher than in the Donetsk District; the national average is 1,0%.

The analysis of the structure of the unemployed officially registered in the Labour Foundation of Stahanov made from the perspective of small business allows for coming forward with the following conclusions:

- almost 1/3 of the unemployed are young, energetic, below 28,
- over 80% of them received secondary or secondary vocational education,
- almost 1/4 of the dismissed have worked as engineers and technicians in the production spheres,
- more than 1/4 of the unemployed have worked in non-production spheres.

If this group of the dismissed is treated as potential small business employees, it would be possible to create a network of small enterprises just in these spheres and directions in which the unemployed have worked before.

Building of a system of leased or franchised petrol stations along inter-city and international roads (e.g. Charkov – Rostov) with foreign investment assistance would provide employment for the jobless thus reducing the expenses for retraining and specialist training for them.

This kind of approach would be conducive to the development of transport infrastructure in the region. The necessary resources could be borrowed from a bank on collateral of plots of land that will be vacated because coalmines are closed. The programme of small business assistance in Stahanov provides for creating 510 new workplaces. It will be possible due to founding of new enterprises and starting individual entrepreneurship. The program provides for interest-free loans, but the lack of a specific source of financing prevents its execution.

Conclusions

To lessen the tension on the regional employment market and to boost the development of small business the following should be done:

1. The state regional policy should be developed; regional and local authorities should be given more opportunities to take care of their problems with creating new workplaces and take advantage of domestic and foreign investments. This particularly refers to regional and local authorities, which directly face the problems in the regions with the greatest concentration of coalmines. All financial resources coming to the Labour Foundation should be spent in accord with their purpose. The state employment policy should be more active. Funds provided by the state to ensure social protection of coalminers and their families as well as funds for creation of new workplaces for the dismissed miners should be transferred to local budgets; only a necessary reserve for technical protection of the closed mines should be left.
2. Special attention should be paid to the regional specificity of privatisation processes and state's providing for a possibility of management control in big enterprises to solve the problems of the employment market in the old industrial regions. Structures should be created in these regions to support marketing efforts of companies, especially in conditions of severe foreign competition; the already existing trade network should be demonopolised and a new, developed and widespread one should be built; new external markets for the produced goods should be sought after.
3. The legal basis for the development of small business should be really improved to give concrete guarantees that protect and support small enterprises; legal obstacles, which slow down the development of private entrepreneurship should be overcome; appropriate changes should be made to the existing acts on state's supporting small business and on leasing.
4. Attention should be paid to the formation of mechanisms of passing buildings and lots of ground that are vacated as a result of reconstruction, par-

- ticularly in small towns of mining areas. Perhaps, it will be necessary to prepare a special project supporting small business development including international technical and financial assistance of the World Bank and the European Bank of Reconstruction and Development and other international financial institutions.
5. The system of tax relieves for enterprises in the first years of their existence should be improved to create better conditions for the development of small business provided that they create additional workplaces.
 6. The Ministry of Economy and The Ministry of Finance have to control the development of the regional and state projects for small business support more thoroughly and to check how monies designed for specific purposes are spent.

Irene Novak

PROBLEMS OF SOCIAL ASSURANCE OF CITIZENS AND MAINTENANCE OF SOCIAL INFRASTRUCTURE OF THE REGIONS WHICH ARE SUBJECT TO RESTRUCTURING

The process of restructuring of the coal mining industry in Ukraine has been initiated according to The Regulations of the President of Ukraine entitled „The structural changes in coal-mining industry” issued on February 7th 1996. This regulation aimed at restructuring of the coal mining industry in the way so as to create the competitive environment and increase the efficiency of this branch. It was supposed to be obtained by establishing national joint-stock companies and holdings dealing with coal mining and sale, changing the price policy, including the introduction of the rental fares, restructuring the coal mine funds and, finally, ceasing to exploit the non-profitable mines and exposures. However, the process of restructuring taking currently place in Ukraine is mainly limited to mass liquidation of non-profitable and non-prospective coal mines. This liquidation of the mines considerably influences the lives of some social groups (miners and their families, employees of the non-production sector etc.) as well as the inhabitants of the cities and villages where the main industry is the coal mining business. The crisis, which affected all the strata of the Ukrainian society, together with the lack of sufficient legal regulations, financial security and adequate scientific research, lead to serious social consequences, among which poverty and dissatisfaction of people should be emphasised.

The significance of the coal mine industry is reflected in its considerable influence on the development of the region. The majority of coal mine cities and villages have the structure reflecting its industrial potentials and its infrastructure closely related to the coal mining. For many coal mine towns the mines themselves have the town-creative influence and this is why the crisis in the mining industry has the negative output as far as the functioning of the whole region is concerned. As a matter of fact, the mass liquidation of the mines in Donbas will accelerate the existing negative economic and social processes in a short time. Here are some of the results of the mass liquidation of the mines:

increase of unemployment, no possibility to earn the living in other ways, decreasing income of the regional budget, cutting down the social infrastructure developing programmes, etc.

The liquidation of the mines, completed in a short period of time as a part of a wider national programme, carried out without sufficient financial support of the government aiming at creating additional work places, will inevitably lead to the increase of the number of the unemployed in coal mine towns and villages of Donbas. It will result in the emergence of the negative social strains, and consequently may lead to even worse socio-economic situation. It is important to stress that the majority of the inhabitants of the coal mine regions, where the process of coal mine liquidation is conveyed, are completely unprepared for performing any other jobs not connected with exploitation and processing of coal, while the coal mine industry does not have any real effective programmes which could soothe the social pain of restructuring.

The limited possibilities of employment in coal mine regions resulting from restructuring of the coal mining industry will lead to the increase of the number of people living in utter poverty. This is why the most important elements of the social assurance system for the citizens, regarding the specific conditions of the old coal mine regions and the processes observed there, are as follows: providing the work places for the citizens, together with the possibility of specialised training's for the new jobs, social security service, maintaining the social welfare services and centres, including education, healthcare, etc.

Labour market, employment and changes in the qualifications of the human resources

In Ukraine there exists a centralised national Employment Service representing the system of special agencies (Labour Offices) which are responsible for such matters as: organizing the work places for citizens, professional specialisation, employment, and finally social care over currently unemployed citizens. The national Employment Service is subject to the Ministry of Labour and Social Policy of Ukraine and Executive Committees of the local People's Representatives Council regulations.

The funds for social aid in the field of employment were provided since March 1993 from the budget of the Labour Fund managed by the Employment Service of the Labour Ministry of Ukraine.

Sixty two percent of all the financial means of the Fund was provided for active labour policy, 28% for passive policy which included allowances for the dismissed workers, while the remaining part, that is about 10%, was used for administrative costs. These services were financed by a 3% share in the tax paid by the companies for the Fund. Currently this system has been destroyed by transferring

the financial means of the Fund, previously excluded from the budget, to the national budget. It means that this money was used to cover the deficit of the budget. The government plans to create the system of taxing the unemployment but the term when this plan is to be executed has not been specified yet.

All the available data specified in Table 1. may serve as the basis for conclusions concerning the possibilities and effectiveness of work of the local Labour Offices in specific spheres of their activities.

Only a small number of citizens of a particular region apply for some kind of aid to the Labour Offices, for example: in Makiyevka – 1,43% or in Stachanov – 1,09%. For both numbers only 0,16% and 0,3% of all the applicants were people dismissed from work as a result of downsizing or liquidation of the production. The data related to the migration processes in the examined regions indicate the outflow of people, who for different reasons lost their work, to other regions – mainly to the coal mine companies of the Rostov District (Russia).

Despite the fact that the number of people applying for allowances is considerably small, there are even less vacancies for them – 0,5% and 15,5% in relation to their demands. The majority of these vacancies are provided by the currently operating coalmines but people are reluctant to employ there due to the policy of freezing the salaries for the period of up to six months in relation to these posts. The percentage of newly employed people in Stachanov equals 8,1% and in Makiyevka 21,0% (two times lower than the year before). The main reason for such low level of employment is the decreasing need for work force among companies – which in turn results from a smaller production volume. For comparative purposes: in Makiyevka on January 1 1996, the number of vacancies equalled 846 while on January 1 1997 there were only 35 vacancies offered.

Among other towns of Luganski District Stachanov has a medium position according to the indicators of employment. The level of unemployment in Stachanov for May 1 1997 equalled 1.8%. The average level of unemployment in Luganski District for the first quarter of 1997 equalled 1.6%. The level of unemployment on May 1 1997 in Makiyevka equalled 0.92%. The estimated indicator calculated according to employment programme for 1997 equalled 1.07% while considering the planned downsizing – 1.39%.

The structure of unemployment may be characterized by means of the following data: on April 1 1997 there were 1005 people registered in the Labour Office of Stachanov town including: 714 women (71%), 229 juveniles up to 28 years of age (29.8%), 437 workers (43.5%), 556 clerks (55.3%). According to these data women constitute the stratum of the society, which is the most exposed to the problem of unemployment. Even now, when the level of unemployment is still considerably low, the number of unemployed women exceeds to a great extend the number of the unemployed men. The situation in the coal mining regions with its monostructural industry is even more complicated as the

chances of employment for women are much lower than in other towns. The average period of unemployment in Stachanov reaches 5.1 months while the average periods of provided allowances for the unemployed reaches 4.7 months. The tendency to freeze the payment of allowances for the unemployed was not detected in the period when this research was conveyed.

Table 1. Activity indicators for the labour services for May 1 1997

Indicators	Makiyevka Donetsk District	Stachanov Luganowski District	Donetsk Proletarski Suburb
Number of people who applied for aids to Labour Offices	6393	1415	—
including dismissed from work	727	408	—
Dismissed according to the evidence/actual	2801/1157	—	—
Number of vacancies	324	219	189
including clerks/women	9/9	24/20	—
Number of people who found work	978	115	—
Number of the unemployed	2172	1195	1425
including women	1913	714	—
Clerks	1084	556	—
Number of unemployed receiving allowances	1852	725	1012
Number of people appointed for intervention activities	—	2	—
including adults/students	—	2/—	—
Number of people appointed for job trainings	101	20	45
Number of people trained for new jobs	19	20	45
Work provided for people trained for new jobs	19	—	—
Maximum amount of allowances in hryvnia	179.50	154.00	—
Minimum amount of allowances in hryvnia	12.50	12.50	12.50
Average allowance for unemployed in hryvnia	—	36,60	35,40
Onetime allowance amount for unemployed for a child	16.60/8.30	16.60/8.30	16.60/8.30

The number of unemployed people employed for intervention works in fact equals zero. This situation results from the lack of funds in the local budget for covering the costs connected with performing works of a specific profile, although there is a great need for such works in towns (according to the specialists managing the Labour Offices).

The number of people appointed for new job trainings reaches the level of 1.6% of all the people who applied to the Labour Offices in Makiyevka and 1.4% in Stachanov. The number of people trained for new jobs who found work is even smaller. Such a situation is conditioned by the lack of funds for new job trainings (both in the Labour Offices and the unemployed themselves) and by general lack of demand for the work force in a given region.

According to the binding legal regulations of Ukraine companies pay a dismissed worker the salary for the period of one hundred days starting with the day of dismissal. After that period the unemployed has the right to the allowance provided by the Labour Office in the amount of 75% of the average salary (for three months) and 50% for the period of the following six weeks. The allowance may not be lower than the minimum salary specified by the regulations. After that period the unemployed has the right to receive one time allowance.

Allowances for the unemployed are received by: 0.4% of the unemployed in Makiyevka, 0.6% of the unemployed in Stachanov and 0.7% of the unemployed in the Proletarski Suburb of Donetsk. The average amount of the allowance for the unemployed reaches the level of: 36.60 hryvnia in Stachanov, 35.42 hryvnia in Proletarski Suburb of Donetsk which is approximately half of the lowest possible financial means officially provided per one person (70.90 hryvni).

In the towns being the subject to research, there is a problem of „hidden” unemployment. The registered level of hidden unemployment (obligatory holiday leaves including non-paid holidays, not taking into consideration the employees working for the shorter day work time or week time) in Stachanov equals to 12.9%. In the companies in Makiyevka twenty thousand people are currently on obligatory holiday leaves. The process of restructuring of the coal mining industry has a considerable influence on the level of employment of the citizens of the region being the subject of research (Table 2.).

The analysis of the dynamics of downsizing in the four coal mines liquidated on the request of the Ukrainian government in Brianka (Briankowska and Zamkowska coal mines) and in Stachanov (Centralna-Irmyno and im. Illicza coal mines) indicates that the processes of coalmine liquidations constitutes a serious additional social burden for the regions in the sphere of employment. From 35% to 58% of the workers dismissed due to the liquidation of the coal mines apply for aid to the town Labour Offices. It is important to stress that the Labour Offices are not able to provide any active aid for the dismissed coal mine employees who apply for aid (employment, new job trainings, intervention works, etc.).

The reasons for such situations result from the low number of vacancies in the companies located in these towns which in turn is the consequence of the reduced range of production and demand for work force, the liquidation of the coal mines, which leads to significant changes in the industrial structure of these regions because no new work places are established to replace the liquidated coal mines.

Table 2. *Information concerning the dismissal of the employees from the coal mines being subject of liquidation for May 1 1997 (beginning of the year, men)*

Name of the coal mine	Actual downsizing	Registered in Labour Offices	Unemployed	Early retirement
Centralna	68	6	3	2
Im. Batowa	18	6	4	1
Im. Ordzonikidze	72	17	15	—
Czerwonogwardyjska	2	9	6	—
Centralna – Irmino	10	32	28	—
Im. Illicza	17	9	7	1

In such a situation, from 68% to 97% of all dismissed miners decide to apply for aid in the Labour Offices, although they receive only passive aid by being classified as unemployed and being given appropriate allowances. It is important to emphasize the fact that the structure of the work force in Ukraine considerably differs from the one typical of economic systems of the countries representing the high or medium income level of citizens. A bigger part of the workers is employed in industry or agriculture – a smaller one in services. This is why the active market policy in relation to the work force aims at reorientation of about one third of the work force, so that it could find some job in the sphere of services. The policy of providing trainings for new jobs among dismissed workers may increase their chances of finding a new work and lessen the pain related to taking over new posts. The experience of the countries with market oriented economy proves that a fast reaction to mass downsizing may shorten the period of unemployment and accelerate the process of finding the new work places. The programmes of helping the unemployed by establishing small companies may prove useful only for 2 – 3% of all dismissed workers and they are supposed to deal with providing further services and technical support for production, marketing, accounting and management. There is a great need for changes concerning increasing the mobility of the work force and the re-

structuring of the work force itself should start with cancelling the system of permissions for housing registration.

Active policy aiming at establishing the market for the work force should not limit itself to paying out the allowances to the unemployed. Mass downsizing generates the costs for direct payout of the money which constitutes the main social support but, at the same time, does not help the dismissed workers find new work places. The contradiction of these two approaches means that in this case separate system of financing is required.

The analysis of employment

The process of forming the employment strategy in old industrial regions and specifying the methods of searching for new work places impose the necessity of making future plans concerning the prospective work places for the work force dismissed from the liquidated coal mines.

In order to analyse the quantitative and qualitative characteristics of the actual number of work places in the coal mines and to get acquainted with the mechanisms of dismissing miners in the liquidated coal mines and the factors conditioning possibilities of their further work, a special pilot research in the „Pravda” Newspaper coal mine (Proletarski Suburb of Donetsk) and Brazanov coal mine (Makiyevka) was conveyed at the beginning of 1997. The research was conducted by Donetsk Information Analytical Centre with active participation of the author of the hereby article.

The management board of the „Pravda” Newspaper coal mine was cancelled in September 1996 while the coal mine itself was merged with „Ukrwuhler-estrukturyzacja Company” (UDKR – Ukrainian Coal Mine Restructuring Body). Bazanov coal mine was the sampling object used for the purpose of this experiment and it is not going to be liquidated in the near future.

The analysis of the work place number was conducted in two directions: socio-economic and sociological. During the socio-economic analysis they relied on information provided by workers of the specified coalmines in the form of specifically prepared survey. The sampling group reflecting the job structure of the employed in both coal mines was formed of 77 „Pravda” Newspaper mine workers and 71 Bazanov workers (total number of 148 sampled employees).

The results of the research confirmed that the majority of the workers of the surveyed companies represent low interbranch mobility. About 48% of the enquired workers declared that in case of dismissal they would concentrate on looking for another job in the coal mining industry. This single-branch orientation was particularly typical of the majority of „Pravda” Newspaper coal mine employees. This orientation reflects the single-branch of the Proletarski Suburb

as a whole while in Makiyevka vacancies are also available in the companies not related to the coal mining industry.

The availability of the vacant work places in the place of living determines specific behavioral modalities of the employees on the labour market. Despite that, both subjects to survey are characterized by the low potential territorial mobility of the work force. Although the majority of the employees evaluated their chances of getting the new job in their home town as low, only 6% of the respondents of the „Pravda“ Newspaper coal mine and 27% of the Bazanov mine would be eager to change their place of living. The workers of Bazanov are more eager to look for work in their profession beyond their place of living than their counterparts from „Pravda“ Newspaper where there were no workers declaring such a possibility.

The reasons for such a low mobility are both personal and objective and they generally include: the obligation of housing registration, difficulties connected to the process of moving out, financial costs, etc. In the majority of cases the employees live close to the coalmines. If a new company were established in the place of the liquidated coalmine, from 56 to 79% of the respondents would be willing to work for it. According to the respondents it would be justified to establish a construction company, vehicle service company or a food processing company in the place of the liquidated coal mine.

Only 27% of the respondents of Bazanov coal mine and 17% of Pravda Newspaper mine would be willing to attend trainings and apply for new jobs. The maximum training period for the majority of the surveyed employees is six months. From one fourth up to one third of all the respondents accept the necessity of partial financing of the training for a new job. If they have any options in choosing the work place they would rely on the government governed companies. Only 3% of respondents from Pravda Newspaper coal mine and 1% from Bazanov mine declared the willingness to establish their own businesses.

Taking into consideration the results of the research, conveyed before together with the author of the hereby article, the stability of the discussed tendencies concerning the prospects of changes in the job character and place of living of the miners can be taken for granted¹.

The percentage of the workers of Bazanov coal mine qualified to perform additional work not related to coal mining is twice as high as in Pravda Newspaper mine. It is obvious that the workers prepared to perform different jobs have more opportunities on the labour market and it is common that they leave the non-prospective company themselves. The most popular additional quali-

cations are connected to the building – construction profile such as: a stone mason, a carpenter, and others such as: a driver, a tractor driver, a plumber, an electrician-plumber and a car plumber.

The level of qualifications of the workers can be characterized as follows: one fourth of all respondents do not possess satisfactory professional training (they have graduated from grammar schools or courses only), 40 to 50% perform the kind of work they are qualified for, of all the workers with special vocational training only 42 to 61% perform the job related to this training. The work force with a higher vocational education is used in a more effective way in Bazanov mine, especially if they have the coal mining specialisation.

Having summed up the results of the research one can draw a conclusion that the majority of the workers who will be dismissed as the result of the liquidation of the mines are not prepared to adapt the elastic behavioural patterns in such a situation. The number of the mobile reserve work force will not exceed 30 to 35%. The most traumatic situation related to employment issues may occur in the towns of a single branch oriented industry. Taking into consideration conditions of the performed survey and the results obtained, it is significant to emphasize that the possibilities of maintaining the qualitative characteristics of the work resources for the purpose of their further utilization in other branches of industry may considerably grow on condition that they are previously recognized in the existing companies before the process of liquidation starts.

The biggest problems though, are numerous downsizing of the work force in the conditions of the obligatory liquidation of the mines without any prior analysis of the employees potentials. This is why it is the matter of priority while solving the employment problems to create the system of continuous monitoring of the work potentials in liquidated mines and to formulate the system of employment and training of the employees.

Potentially low profession related mobility of the work force requires prior announcements concerning the terms of mines liquidation and possibilities of employment and further training. Experience gained after the liquidation of the Pravda Newspaper coal mine proves that the most common reaction of the employees to the problem of dismissal is confusion resulting from the uncertainty about their future. This is why one of the most basic methods of solving social problems (connected to downsizing) is working out the ways of gradual reduction of work places on all stages of technological process together with natural decrease of the employment level as a result of the retirement, changing the work place or acquiring new qualifications by the employees. One of the most interesting ideas is to establish special social adaptation centres for miners which who counsel with employment problems, provide psychological support etc.

¹ *Social Portrait of a Miner in Context of Employment Problem in Coal Mines of Donbas*. The research was performed by the Regional Public Polling Centre and Region Development Agency – both financed by the Donetsk Section of the International Fund „Recovery“ project, U 94-DO12-983-2.03. December 1994.

It is worth while to stress that the problem of utilizing the work force potentials released from the coal mine companies cannot be solved within one branch of industry and it becomes a multi-branch issue. This is why it is inevitable to find new ways of solving these problems in the aspect of respective regions. Special attention should be paid to the branch-structure diversification problems in the coal mining regions.

One of the possible solutions of solving the employment problem is to create new companies in the areas of the coal mining industry facilities destined for liquidation with the use of the work force dismissed during the liquidation process of these companies. Such a solution may stimulate the restructuring of the economic system of the region.

Social assurance for the citizens

The social assurance for pensioners in Ukraine is executed through the system of social assurance units located in the City Council of the people's representatives. The range of duties of the Community Social Assurance Affiliates includes: taking decisions about pensions for the citizens, payment of the benefits (for children under three years of age, etc.), providing the pensioners with free holiday leaves and sanatorium treatment, supporting the citizens who suffered from the consequences of the Chernobyl disaster, providing aid for the veterans of World War II and co-operation with companies in the range of support for the pensioners. The system of social assurance includes pensions by the right of work or service, disability pensions which are paid out to people supported by the government, and to people unable to work. Current legislation establishes the level of pensions equal to 55% of the salaries in the pre-pensionary period. Pensions are tax-free and they are paid out regardless of any other income sources. Some categories of workers, including miners, may retire after twenty (for women) and twenty-five (for men) years of work. This is connected to the conditions of work of some categories of workers. Currently, due to the decrease of production and holding on the payment of the salaries for the workers in many companies, the debt of those companies in the form of the tax for the retirement fund increases. The data about the debts in the surveyed regions constitute Table 3.

The analysis of the data indicates that the biggest debts come from coal mining companies including the companies liquidated by the Ukrainian Government regulations (Table 4.)

The basic problem concerning the debt of the coal mining companies and the liquidated companies in particular, results from the fact that the liquidation of the coal mines in the majority of cases takes place without appointing the legal successor taking over the company, which would be responsible for its debts

Table 3. *The debt of the companies for the benefit of the retirement fund (specified by specific branches, in thousands of hryvnia)*

Ministry	Stachanov Luganski District	Donetsk Proletarski Suburb
Coal Mining Ministry	3951.52	13710.20
Ministry of Agriculture	3.34	236.65
Ministry of Transport	267.23	—
Machine Construction Ministry	3180.12	—
Ministry of Education	21.04	413.74
Ministry of Environment Protection	483.73	181.13
National Corporation of Ukraine	43.81	—
Others	809.11	963.41
Legal entities	5.00	21.63
Total	8755.90	15526.76

Table 4. *The debt for the benefit of the retirement fund in the liquidated coal mines (in thousands of hryvnia for May 1 1997).*

Name of the company	The amount of debt
Pravda Newspaper coal mine	2093.13
Cenralna-Irmno coal mine	252729.00
Illicz coal mine	711776.00

and liabilities. Ukrainian National Corporation "Ukrwuhłekturyzacja" takes over the financial liabilities, compensation and debts of the company calculated from the moment it was taken over by the supervisory jurisdiction. What happens to the past debts, including the retirement fund, is still unclear. As a result of these factors, the retirement assurance for the citizens of these experimental regions may not be perceived as satisfactory. The data concerning the retirement assurance for the citizens constitute Table 5.

The payout of the pensions for the citizens is delayed by 2 + 3 months. Despite that, pensioners are paid out in two stages: 60% and 40%. If we realise how low the pensions are (for example: the maximum current pension of a miner equals 66.36 hryvnia and is lower than the official minimum social income per capita) it is obvious that practically all the pensioners (30.7% of the citizens of Stachanov, 30.3% of the citizens of Proletarski Suburb of Donetsk and 31.6% of the citizens of Brianka) are sentenced to the existence below the level of poverty.

Table 5. *The condition of the retirement assurance of the citizens (May 1 1997).*

	Stachanov (1995)	Donetsk Pro- vince Sub- urb	Brianka Luhansk Obl. (1995)
General number of pensioners (in thousands)	40	42	22
Pension payout delay (in months)	2	3	3
General amount of the debt on account of non-paid pensions (in thousands of hryvnia)	2100.0	10661.7	3000.4

Social and socio-economical sphere of services for citizens

The condition of the socio-existential services for the citizens in the surveyed regions can be evaluated by the analysis of the structure and the dynamics of the development of the full-paid services for the citizens (Table 6).

The range of the execution of full-paid services per one citizen indicates the direct relationship between the size of the town and the development of the sphere of services for citizens. If for Makiyevka this factor equals 133.3 hryvnia, for Stachanov it equals 119.4 hryvnia, while for Brianka it is only 52.6 hryvnia per one citizen. The analysis of the dynamics of service development in previous year (in comparable prices) indicates the decrease of demand for consumption and full-paid services which, in turn, decreases the range of services. The growing tendency may be observed only for a certain type of services: community transportation (Stachanov), household (Stachanov, Makiyevka), education and nursery services for children (Stachanov), culture (Stachanov), and finally healthcare (Stachanov, Makiyevka). Even this increase is conditioned by the rise of prices for certain types of services, which are usually, related to the energy costs. This is why the increase of demand for certain types of full-paid services may be estimated as relative, especially if we take into consideration the range of services per one citizen of the analyzed towns, in comparison to the previous year, which is generally lower in Stachanov by 8.2%, in Brianka by 34.2% and in Makiyevka by 8.7%.

The data characterizing the chain of companies providing services for the community indicate that Stachanov and Makiyevka have a comparatively developed service infrastructure. In Stachanov, there are approximately two service providing companies per one thousand of citizens while in Makiyevka, there are three such companies per one thousand of inhabitants.

Table 6. *Full-paid services for the citizens in 1996.*

Types of services	Stachanov			Brianka			Makiyevka		
	Range of execution per capita	Speed of price rise comparing to 1995	Structure of services in %	Range of execution per capita	Speed of price rise comparing to 1995	Structure of services in %	Range of execution per capita	Speed of price rise comparing to 1995	Structure of services in %
Services – total	119.4	91.8	100.0	52.6	65.8	100.0	133.3	91.3	100.0
including:									
Existential	6.9	90.7	5.8	3.5	70.7	6.6	7.3	102.2	5.5
Community transportation	15.5	114.1	13.0	2.4	68.3	4.5	16.9	83.9	12.7
Phone and mail	8.8	74.3	7.4	7.8	80.3	14.8	7.4	90.4	5.5
Household	20.1	137.6	16.9	10.0	97.1	19.0	15.2	125.0	11.4
Educational and nursery care	1.2	117.0	1.0	0.6	59.5	1.2	1.7	56.0	1.3
Culture	0.9	108.6	0.7	0.9	58.8	1.7	0.8	50.2	1.3
Tourist- educational trips	–	–	–	–	–	–	0.1	72.6	0.1
School education	0.1	–	0.1	–	–	–	–	–	–
PTU education	–	–	–	–	–	–	–	–	–
High school education	0.1	–	0.1	0.6	–	1.2			
Sport, physical education	0.3	–	0.3	–	–	–	0.1	88.8	0.1
Healthcare	1.1	112.3	0.9	0.2	49.9	0.4	1.8	117.4	1.4
Holidays and sanatoriums	1.3	42.3	1.1	0.1	10.7	0.1	6.3	77.4	4.7
Legal and banking	0.5	68.9	0.4	0.1	32.3	0.3	0.7	87.6	0.5
Other services	2.7	71.9	2.1	0.9	56.0	1.8	2.2	90.8	1.6
Municipal services	60.1	80.1	50.2	25.4	51.4	48.4	72.8	84.6	54.6

Social services

The national system of education and healthcare is followed by the full-paid services in education and medical care. There are still some companies continuously providing kindergartens for children under six years of age, although this system disintegrates very quickly. The government of Ukraine provides financing and basic social services for education and healthcare, though the biggest

problem for today is maintaining the quality of services while decreasing the costs at the same time (to maintain the level from before the crisis in the 1980's). The regulations of the education assume the government financing in the amount of 10% the National Income. According to UNESCO information, the developing countries provide 3.8% NI for education while developed countries – 5.8%. The expenditures for healthcare in 1992 equalled 7.7% NI, of which 2/3 was provided for hospitals. Since then the government reduced the donations for the medicaments, for building and construction from 5.2% of all the expenditures in 1989, practically to zero. Currently the government does not possess any financial means to support healthcare centres.

Education

The system of education in Ukraine refers to nurseries, kindergartens, primary and secondary schools and post-secondary schools and it is comparatively developed in comparison to other countries of Europe. One third of all kindergartens are financed by the Ministry of Education and the Local Authorities, two third are financed by the companies and a small fraction is financed from private funds. In the recent times, the demand for nurseries and kindergartens decreases as the legislation of the Ukraine gives women the right to full-paid extended maternity leave until the child is two and a half years old. The second reason for the decrease of the popularity of nurseries and kindergartens is related to the demographic variations, which are observed in the structure of the Ukrainian society. The number of juvenile groups decreases while the number of old people is getting higher and higher. Despite that, primary schools enrol six-year-olds not seven-year-olds as it was before.

Additionally, these educational centres are no longer financed by the companies due to the decrease of production and the decrease of income in many of them. Currently, the possibility of financing of these centres by the municipal authorities is being discussed. About 28% of all financial demands of the educational system is covered by the budget of the country – the Ministry of Education. Approximately 57% is provided for by the local authorities. The companies are responsible for the remaining 15%.

The Ministry of Education and the Local Authorities devote a significant part of the costs to provide the salaries, maintain the infrastructure and provide municipal services related to it.

In the towns being subjects to research, the students of the secondary schools constitute: in Makiyevka and Stachanov 12.8% of all the inhabitants, in Brianka 12.7% and in Proletarski Suburb of Donetsk 10.1%. One school is built for 609 students, 592 students, 550 student and 700 students living in these regions respectively. It indicates that the lowest level of school equipment is in Proletarski Suburb of Donetsk. The level of use of the nursery and kindergarten

resources is as follows: in Makiyevka 42.3% of the total number of places, in Stachanov 64.1% and in Brianka 68.4%. There are 68 children per one kindergarten in Brianka up to 170 children in Makiyevka. Obviously, there is no need to establish new nursery and kindergarten centres.

Culture

Cultural institutions and centres are financed from the budget of the country and this is why the material assurance of the culture is unsatisfactory in the recent times. In Makiyevka there are 66 libraries, and one library serves 6 800 inhabitants, in Stachanov, this factor is higher – one library serves 4 600 people. Providing the citizens with cultural-educational centres (clubs, cultural centres, cinemas) has the following structure: in Makiyevka there are 358 such places for 10 000 inhabitants, in Stachanov – 208 places and in Brianka 216 places per 10 000 inhabitants. Except for Makiyevka, which has a more developed infrastructure, the access of the citizens to culture is lower than the standard (300 places for 10 000 people).

Healthcare

Here is the present situation concerning the proportion of the number of beds in hospitals for every 10 000 inhabitants: in Makiyevka – 107 beds, Stachanov – 140 beds and in Brianka – 135 beds. These numbers are not much higher than the accepted minimum, which was specified by the Organization of Development and Economic Competition (OWGR) and in fact, only excluding Makiyevka, it equals the average numbers of the whole Ukraine (135.5 beds for 10 000 inhabitants). During one shift of work of the Emergency Department 1.5 and respectively 2.7% of the citizens of Stachanov and Makiyevka can be examined by the doctors.

The number of doctors per 10 000 citizens equals: in Makiyevka – 39, in Stachanov – 41, in Brianka – 27. The number of the intermediary medical personnel is as follows: 118, 106 and 122 people respectively. In comparison, the average numbers for Ukraine equal: 42.9 doctors and 104.2 intermediary personnel per 10 000 people. From this comparison, you can draw a conclusion that the surveyed towns have fewer doctors than the average for Ukraine. The situation, as far as the number of the intermediary medical personnel is concerned, is a little bit better but it must be noted that during the last five years the number of the personnel and the number of beds in hospitals has been constantly decreasing, due to the insufficient financing of the budget. It must be emphasized that such a situation is far from optimistic.

Trade and catering

The analysis of the number of trade and catering centres indicated that during the last five years their number has been diminishing. Only in Stachanov, the number of shops was reduced by 36 units comparing to 1991 and the number of catering centres by 55 units. Such a dynamics completes the picture presented in relation to the analysis of the situation of the services for citizens, which also have diminishing tendencies and prove the decreasing demand of the community for consumption. They are also a sign of the lower standard of living, which is a negative indicator of the development of a particular region.

Housing conditions

The average living space for one-person equals 18.2 square metres and in Stachanov it reaches the level of 20.2 square metres per person. The number of flats in these towns matches the standards of Ukraine and is even a little bit higher. There are also a considerably large number of people who declared the need to improve their housing conditions or even the necessity to possess a new flat. The number of people with such needs equals: in Makiyevka 3.3%, in Stachanov 4.1% and in Brianka 3.7% of the total number of the inhabitants. Approximately 0.4% of the total housing estates in Makiyevka and 0.6% in Stachanov should be renovated immediately. According to the indicators of the standard of living, the housing funds of Makiyevka, Stachanov and Brianka are on satisfactory levels and the majority of flats have running water, sewage system, central heating and gas. The situation of the housing fund of the Proletarski Suburb of Donetsk is different. There are 671 housing estates with the living space of 160 000 square metres in this region. The expenditures of the local budget for the maintenance of the buildings equal 540 000 hryvnia per month while the losses equal 440 000 hryvnia. Many flats represent low standard of living and they should be renovated thoroughly or even pulled down. The biggest problem of the municipal housing are the debts of the tenants which result from freezing of the salaries which in turn results in cutting off the supply of gas and hot running water for the lodgers in debt. For example in Stachanov, during the last eight years, the skyscrapers situated in the centre of the district always lack hot water and there are serious limitations concerning the delivery of water (schedules of water delivery to the buildings). All these examples prove the crisis of social infrastructure and householding in the towns mentioned above.

The performed research reinforces conclusion that it is vital to search for solutions of the social problems in old industrial regions – the problems of employment in particular, on all the levels of the government. It is also important to concentrate social potentials and direct them to solve these problems. While specifying the prospects of development for Donbas, it is important to take into

consideration not only economic criteria but also the social objectives, and the level of tolerance of the hardships among the citizens of the region.

It is clear that this problem of social consequences of coalmine liquidation can not be limited to only one branch of industry and it requires complex analysis with regard to regional principles of development and the approval of the government. This is why the problem of recovering from the crisis of the coal mining industry regions needs common effort of the national regional and industrial government and authorities.

Suggested further reading:

1. The Law of Ukraine *National Budget of Ukraine for 1996*, the Finances of Ukraine – No.5.–1996.–C.90–108.
2. *Our Children, Statistical Annual Report*, Ługańsk, 1996.
3. *The Range of Execution of Full-paid Services for the community of Lugansk District for 1996*. Statistical Annual Report, Ługańsk, 1996.
4. *The Range of Execution of Social Services for the community of Lugansk District for 1996*. Statistical Annual Report, Ługańsk, 1996.
5. *Statistical Report*. Form no. 1c – services, 1– services, 1– services (social network).
6. *Ukraine: Social Sphere of Transitional Period. The Analysis of the World Bank*, Kiev: Osnowy, 1994.

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THE DEVELOPMENT OF THE INFORMATION SECTOR AND THE PROFESSIONAL TRAINING SYSTEM AS A FACTOR IN REGIONAL RESTRUCTURING

1. The role of information in the regional industry restructuring process

The future of old industrial regions is impossible to imagine without the efficient information market whose development depends largely on general economic processes. Simultaneously, information may become a key factor in solving many economic and social problems. In the course of the industry restructuring, information concerning new technologies and production trends, new knowledge of specialist education and training as well as internationalisation of economic relations and information inherent in the process, may prove to be exceptionally beneficial. For example, the projected establishment of an actual co-operation mechanism between Upper Silesia (Poland) and the Donetsk region (Ukraine) appears impossible without a solution to the problem of information exchange. Consequently, in order to carry out successfully social and economic restructuring in the region, it is essential to develop the information market. The timely and effective solution to the problem will also affect the future of security, commodity, labour and services markets as well as the general economic situation of the society. Information itself functions in a variety of ways as a component of the information market in the restructuring period. Below we shall discuss some of them.

Information as an instrument in providing employment

Both state and private agencies are involved in solving the problem of employment. The state structures include local, municipal and regional job centres (in accordance with the Ukrainian Employment Act from 1 March 1995). Their activities are co-ordinated by the local Labour and Employment Office. The Act stipulates that state centres may not be commercial whereas non-state institutions attempt to function commercially. In their activities they make use of

the press, for example „*Rabota dla vsiech*” [„*Work for everyone*”] newspaper, Biznes–Donbas joint stock company, and ‘job fairs’ for both those who look for work and those who offer positions (such fairs are frequently organised by companies which employ students). Other methods are also used, including computer network searches.

There are inherent differences in stimulating operations of representatives of state and non-state agencies. Due to their fixed remuneration, employees of state structures are not directly interested in results of their work. Non-state agencies, which are more operative and more strongly motivated by effectiveness of their work, are ready to utilise new work methods and to accommodate to immediate changes. This leads to the situation in which private market agencies are more active in searching for opportunities of effective employment activity than those state-owned.

The employee training is closely related to the general issues of employment. Consequently, information for vocational centres, higher education institutions, training centres and qualification improvement centres becomes vital. Restructuring of the economic base of the region and development of new forms of ownership and economic activity require a change in the educational system and development of new programmes and syllabuses. In this respect, information processes in education and qualification improvement are closely related to those in other fields of human activity. Accordingly, information concerning the demand for specialists with specific qualifications may constitute a basis for customising educational programmes in such a way as to meet the demand. On the other hand, training people for unprospective jobs (jobs which, as a result of restructuring, may become redundant in the region) should be reduced or discontinued altogether with the simultaneous change in the profile of respective schools.

The following are required in any system of information collection and distribution:

- a sufficient database of existing vacancies,
- a sufficient database of people looking for jobs,
- timeliness of obtained information
- relevant technical capabilities of finding a position or an employee in a relatively short time and without significant expenses.

The employment-supporting information systems, which function in the Donetsk region, do not meet the above requirements. Consequently, there exists no efficient information system of vacant job positions. Furthermore, the employees of the state job centre have observed that companies’ managements are reluctant to pass on the information on existing vacancies.

Concerning technical capabilities, specialists from the employment agencies intend either to design their own programmes of locating vacant positions or to adapt programmes, which have been developed for other goals.

Concerning transmission and distribution of information, the International Renaissance Foundation („*Widrodzennia*”) has funded centres for social adaptation of miners („*Pravda*” Mine Management) and soldiers. Its experience can be used in the process of establishing information systems for the country’s citizens.

Information in the process of fostering market relations and business development

As it is apparent in developed countries with the market economy, in their operations companies and institutions rely to a great extent on information processes. During the research, varied functions of information streams were taken into consideration. The in-house information circulation facilitates general operations of the structure while the external circulation allows for contacts with suppliers, consumers of goods and services, financial and credit institutions, state authorities and other institutions and companies.

The research concentrated primarily on the external information circulation and its functioning as a component of the information market.

The information market is a system of relations established in the process of production, collection, distribution and use of information. In its organisational aspect it is treated as a number of informations centre which exchange information and in this process maintain multilateral contacts.

The information market centres in the Donetsk and Lugań district include:

- stock exchanges (goods exchange, security exchange etc.),
- centres for privatisation tenders,
- chambers of commerce and industry,
- global information network (e.g. Internet) providers,
- providers of local information network services such as Glawinformserwis – a network for the Donetsk and Lugań districts set up by Information Systems Agency and Aist telecommunication company (at the request of the Ukrainian government),
- news agencies.

Statistical offices and relevant departments of state agencies including the national and local government may be also counted among information centres. These institutions are in possession of extensive databases, but access to them is limited.

A fixed price of information is a necessary condition of the functional information market. A value of information may be based on prices of the media which carry it (disks, paper, Internet access costs) or in some other way, for example, by comparing importance and validity of a piece of information in possession with those of a piece for which it is exchanged. The lack of the price determining mechanism is an evidence of the information market’s underdevelopment.

The absence of technical infrastructure, which would connect providers and consumers of information is one of the basic problems of the information market. Those who collect information frequently experience problems with its utilisation while those who need specific information do not know where to find it. Accordingly, in the course of establishing a guarantor, specialists from Goods Exchange in Donetsk must have the economic information concerning the tender participants. Simultaneously, specialists in ZSA 'Biznes-Donbas' and Chamber of Commerce and Industry are in possession of such information. Information network providers could become a link between them. The field inquiry has proved the Internet to be the most desirable solution, but the deficiency of the telephone system continues to be one of the unresolved problems.

On the other hand, the management of Aist, one of the agencies active in the information market, maintains that many consumers are not psychologically prepared for using new means of communication and information transmission.

Information processing and analysis as opposed to its receiving is a relatively new trend in the information market which for the time being remains a virgin territory. Simultaneously, there exists considerable demand for the analysis of the goods market with the special focus on such aspects as the highest and lowest prices, existing trends and economic forecasting verification.

Information as an instrument of direct communication and feedback between national authorities, local government and the society

Accuracy and timeliness of information are important in avoiding social conflicts and unrests as well as in diminishing social tensions. In that respect information circulation should have a two-way character: from people, personnel of companies to structures of the national and local government and vice versa.

Restructuring of the coal industry which usually triggers large-scale redundancies requires informing of new positions and governmental social programmes those who have been made redundant or who intend to change their professions. The deficiency of information concerning the governmental plans to close down the mines remains one of the unresolved issues. Such problems could be solved or alleviated by establishing a direct information channel between governmental agencies and institutions responsible for seeking out job openings, retraining, and training of miners and other workers. Mass media should also play an important role in the process.

On the other hand, the Donetsk region is home to such institutions as Political Science Research Centre, and Donetsk Information and Analysis Centre, which could promptly inform authorities and local governments of public feelings and anticipated protests.

To sum up, the above mentioned problems require the following solutions:

- establishment of information channels between governmental agencies, local government authorities and other institutions,
- creation of new, and efficient utilisation of already existing methods of information exchange,
- organisation of modern information collection and distribution,
- overcoming difficulties (technical and bureaucratic) in access to information; introduction of fees for recipients of information (concerns information not covered by commercial and national security) could prove to be one solution;
- promotion of new communication methods, establishment of educational programmes which would popularise their use;
- establishment of an information system for small businesses, which would cover changes in legislation and provide consulting services.

2. The role of mass media in the public reception of economic and social problems of regional restructuring

Determining the influence of mass media on the attitude of the Donbas inhabitants toward the changes in the coal industry constituted one of the research goals of 'The Future of old industrial regions' project. One difficulty in this task arose from the fact that the number of newspapers and magazines published in Ukraine has significantly increased in the recent years. Currently there are 320 periodicals coming out in the Donetsk region with the total circulation of more than 2,000,000, which makes the average of one copy per household. There are also some 40 television and radio stations active in the region. For the analysis we selected those which at the time of the survey ranked high in terms of their circulation. The analysis demonstrated that printed and broadcast materials (the latter being very few) concerning restructuring of the coal industry fell into one of the three basic groups:

1. those presenting the official position of the government, the Coal Industry Ministry and the Donetsk and Luhán district authorities;
2. those containing criticisms;
3. those which were 'objectively neutral.'

Each of these groups was clearly „associated” with certain publishers while pluralism of opinions within one publication was exceptionally rare.

The materials belonging to the first group were quite naturally printed in newspapers controlled by the local state authorities. These included popular miners' newspapers, trade union publications which supported the official line policy (e.g. Independent Trade Union of Donbas' Miners). In the course of time

the standpoint of these publications on the processes of restructuring changed in exactly the same way as the standpoint of the government on the industry.

The genre analysis of these materials also proved to be interesting. Reports from the meetings with high-ranking officials in the coal mining centres and interviews with them prevailed thus giving the impression that everything possible was being done to alleviate the tension.

Some of the materials could be characterised as „counter-propagandist”. Their authors engaged in polemics against those who thought that the decision to close down the mines was aimed at workers who were employed in them. As main arguments official or convenient for the management explanations were used: there is nothing to worry about, the operation is proceeding as planned, it is not the first time that mines have been closed down so there's no reason for the uproar. Reportedly there were no problems with redundancies either since some mines still had job openings while transportation was being arranged by the companies themselves.

Every now and then there were mentions of „destructive forces” which „*instigated unrests*” and „*strove to achieve their goals by pushing them to protest.*” However, all such publications failed to precise what forces these were exactly and who stood behind them. For example, newspapers did not report who was responsible for the Donetsk protests in July 1996 when workers blocked the roads as well as for other protest actions such as hunger strikes, picketing and local strikes.

As far as the critique found in the materials belonging to this group is concerned, it was notably levelled not only against ‘others’ who did not agree with the industry restructuring, but also against ‘insiders’, in which case it was either the top or the bottom of the faction that was being criticised.

A fair number of publications were devoted to the changes in the industry administration and, more specifically, to the decree of the President of Ukraine on establishing the industry holdings and other state-owned joint stock companies. As a basic positive result of the changes these newspapers cited an increase in the coal output in comparison with the corresponding period of the previous year.

The materials belonging to the second group could be divided into three categories:

1. those strongly disapproving of the reforms (postulating the return to the old *status quo*);
2. those disapproving of the way in which the industry reforms were being carried out (disagreeing with the strategy of reforms);
3. those disapproving of specific solutions within the reform framework (closing down of the Muszkietowskaja mine without final accounting with the workers, irrationality of output restrictions in the Izotow mine).

The materials belonging to the third category constituted the majority within this group.

The dominant forms here were journalists' comments, interviews with the industry specialists, and commentaries on specific events. However, regardless of a number of various problems in the mines, the majority of the materials concerned close-downs exclusively.

What is interesting, the public had very little opportunity to learn of the miners' attitude toward the ongoing reforms. In few cases the mass media presented the viewpoints of people who were affected by the reforms in the first place.

The materials belonging to the third group could be divided into two sub-groups depending on:

1. the place where a given situation was being commented on or analysed,
2. the place where actual events were reported (most frequently management meetings with the emphasis on particular speakers and their points of views).

The majority of these materials were intended for the public with good knowledge of the situation. They appeared in low-circulation publications not intended for the general public (*Negocjant* or *Biznes-Donbas* for businessmen).

As mentioned before, very few programmes devoted to the problems investigated in the survey appeared in television and radio broadcasts. The Donetsk District State Teleradiocompany was the only one that broadcast a special monthly programme devoted to the miners entitled “Mining Horizons” which lasted for 20 to 30 minutes. In terms of its subject matter and standpoint the programme clearly resembled the first group of publications. Generally, both television and radio broadcasts were limited to general news concerning the miners' situation and opinions of relevant authorities.

Journalists stated that it was difficult to obtain objective information on the situation in the mines and the government's plans for the industry. The seriousness of the conflict and problems was downplayed by the scarcity of media coverage and inaccessibility of information. Statistics were frequently outdated or contained irrelevant figures. In the resultant situation, various publications differed in their reports on the number of mines, which were being closed down, and the scale of redundancies. Furthermore, representatives of the judicial branch responsible for the industry-related cases were opinionated in their contacts with media.

Unlike experts with access to a number of publications, average inhabitants of the Donetsk and Ługań districts subscribed to or bought only one title, which usually reflected the person's attitude toward the industry restructuring.

Judging by the above, contemporary press only furthers individual opinions and attitudes without attempting to present other standpoints not as something intrinsically wrong and to explain the basis for such differing opinions.

There is certain regularity in the situation. In our society, which at the moment has reached a crisis, the press has become a crooked image of current social and economic processes.

The results of the survey constitute a solid basis for future solutions to the problem of forming the public opinion as well as in creating a social dialogue between the authorities and the region's inhabitants. The suggestions include:

- periodicals should actively engage in the struggle for their right to information using the existing law and suing directors who withhold information;
- considering the fact that most publications tend to present the general or regional perspective on the industry, they should feature materials concerning the local perspective and opinions of individual people more frequently;
- issues at hand should be presented not only from the authorities' and experts' perspective but also from the point of view of people directly involved in the situation;
- periodicals should encourage materials with discussions concerning the industry issues;
- it would be useful to feature polemics with the way certain publications present the situation in the mining industry as well as to show the whole spectrum of the industry problems;
- it is essential to explain the necessity of the industry's reform to the general public;
- periodicals should feature fewer authority-friendly materials and avoid the patronising attitude toward the public;
- media should present the situation in the Donbas region in a systematic and consistent manner explaining that well-being of the whole industry depends on the situation in the mines;
- media representatives should keep in mind that the general public needs information concerning their local companies and the way in which changes in these companies will affect their lives;
- it is essential to remember that the absence and inconsistency of information result in wrong interpretations of the situation and lead to inadequate actions; biased and inaccurate information may lead to irresponsible behaviour on the part of information recipients.

3. Transformation of higher education and training of the new technological elite for the old industrial region

The programme of restructuring industry in an old industrial region incorporates changes in various spheres of life including education, which constitutes a base for future management in a given region. Transferring certain positions to other places naturally translates into an increase or decrease in demand for certain specialists. This, in turn, is reflected in the structure of the education and training system located in the area.

The following approaches are possible in the process of preparing the list of available specialists and experts:

1. **Progressive** – where the reform in the system of education and a range of vocational positions required is carried out on the basis of an earlier evaluation of possible changes in the region's industrial structure.
2. **Matching** – where education and training of specialists follows the decision to restructure various parts of the industry and the beginning of the process.
3. **Chaotic** – where no clear goal is set while training is oriented toward current demand without any consideration given to further prospective social and economic developments in the region.
4. **Mixed** – which incorporates all three above approaches.
5. **"Stagnant"** – in which the educational system does not adjust to ongoing changes and continues to function in its traditional form.

A group of factors determines the degree of compatibility between the directions and profundity of changes in the educational system, and the processes of adjusting the Donbas industry to new economic conditions or, more specifically, of restructuring the coal industry and other closely-related branches: chemical, metallurgic, fuel and power, and machine industries. The following questions have to be addressed in order to identify these factors:

- is the educational system adjusting to the ongoing changes in Ukraine and the Donetsk region?
- how flexible is education in its changes and to what degree can it be reformed in the present circumstances?
- considering present and future close-downs of companies which in the past were characteristic of the Donbas industrial profile, isn't education contributing to future unemployment by training for obsolete positions?
- to what degree are educational institutions and agencies prepared for retraining and educating new experts capable of making decisions in the changing environment?
- is the preservation of the existing educational *status quo* necessary or is it high time for changes?

In order to answer these questions a number of meetings were organised with representatives of educational institutions in Donetsk, local boards of education, the statistical office of the Donetsk district (the department responsible for education, culture, health service and insurance). Documents prepared by the Ukrainian Ministry of Education, analytical reports of World Bank concerning social problems during the period of transition as well as local press publications related to restructuring and education were also examined.

The educational system in the Donetsk district – statistical data

In the Donetsk district education of experts is conducted by three groups of educational institutions:

1. higher education institutions of the 3–4 level of recognition – universities, academies, institutes, conservatories;
2. higher education institutions of the 1–2 level of recognition – secondary technical schools, colleges, a number of secondary schools;
3. vocational and technical schools which have not been recognised.

Institutions within the first two groups educate specialists of four different categories: junior specialists, bachelors, specialists and masters.

In the academic year 1996/97 the above mentioned institutions included 24 higher education institutions and 2 branches of such institutions of the 3–4 level of recognition, 83 higher education institutions of the 1–2 level of recognition as well as 138 vocational schools. These institutions were attended by 205,213 students, including 81,461 at universities, academies and conservatories, 61,834 in secondary technical schools, colleges and technical schools and 61,918 in technical and vocational school.

Within the last three years there have not been any significant changes in the educational system in the Donetsk district. However, the number of branches of higher education institutions dropped from 5 to 2 as a result of the three becoming independent units. The number of higher education institutions of the 3–4 level of recognition as well as their enrolment have, in turn, increased which balanced the total number of students considering the decrease in the higher education institutions of the 1–2 level of recognition and vocational schools. Compared to the academic year 1992/93 when the number of the 3–4 level institutions was 10 (exclusive of branches), their number has now risen to 24.

The structure of higher education institutions and its changes

Institutions of the 3–4 level of recognition

Technical institutions of higher education constitute a significant percentage of the 3–4 level of recognition institutions, which reflects the economic profile of the Donetsk district. In mid 1997, 6 institutions and 2 branches (out of the

total of 17 institutions and 2 branches) trained engineers for various branches of industry. The state-run institutions included: Donetsk Technical University, Donbas Construction and Architecture Academy, Priazov Technical University, Gorlowsk Institute of Road Construction, Krasnoarmiejsk Politechnical Institute (the latter two being branches of Donetsk Technical University); there was also one private institution (Higher School of Vehicle Industry).

Considering the number of institutions and the student enrolment, it is evident that departments of education enjoyed the greatest popularity. In the academic year 1996/97 12 institutions had 36,355 education students, which constituted 44.6% of the total number. Simultaneously, engineering departments (including training for industry, building and transport) attracted 30,588 students (37.5%). The enrolment in other departments was relatively low: Economics – 4,797 (5.9%), Health Protection – 4,338 (5.3%), and Law – 3,941 (4.8%) (cf. l. p. 22; Tab. 125, 126).

Higher education institutions of the 3–4 level of recognition educate students in approximately 200 fields, of which more than 25% (70) have a distinctly engineering character. Humanities constitute a higher percentage. It is also significant that the Donetsk district institutions do not educate students for agriculture, which can be explained in terms of the predominantly industrial (especially heavy industry) character of the region.

The analysis of the number of students in the 3–4 levels of recognition institutions indicates that the last 5 years have seen a steady increase in the enrolment in the following departments:

- industry (from 25,450 to 26,312 – 3.39% increase)
- transport (from 161 to 537 – 333% increase)
- physical education (from 523 to 811 – 155% increase)
- education (from 20,025 to 36,355 – 181.5% increase)
- arts (from 537 to 631 – 110% increase)
- law (from 2,171 to 3,941 – 181.5% increase).

However, the increase in the enrolment in 'industry' departments does not indicate the increase in the relative participation in the total number of students. Compared to the academic year 1991/92 the industry's participation has decreased from 40% to 32.3%. During the same period the education's participation has increased from 34.3% to 44.6%.

The increase in the number of students in 'industry' departments is explained by the demand for highly-skilled engineers and technicians with expertise related to the Donbas restructuring (this explanation is particularly stress by Prof. A.A. Trojanskij – Vice-President of Donetsk Technical University). Accordingly, educational authorities do not currently plan to close down any 'industry' departments, trying instead to develop them further and improve.

Other departments have generally witnessed a decrease in the number of students, although last year's enrolment in Building, Health Protection and Economics (in both state and private institutions) was noticeably higher. In the case of Economics this was due to the increase in the number of students paying for their education as well as to the increased demand for accounting, auditing and finance specialists triggered by the development of small and medium businesses. A number of institutions have also started to offer new majors such as International Economics, Foreign Trade Management, Administrative Management, Business Management and others. Intensive study programmes for economists (the second trend in the higher education) have also been initiated.

The comparison of the data for the Donetsk district with the data for Ukraine and other countries (see Tab. 1) clearly demonstrates that the district has developed its own specific model of education. It is worth noticing that the district has a significantly high percentage of education students. Their number is twice as high as in Ukraine and from 6 to 4 times as high as in other countries such as Canada, USA, and France (3, p. 9).

High statistics of the education profile can be explained in terms of the continuing demand for schoolteachers, mainly due to the low remuneration this professional group receives. This leads to the situation in which many specialists abandon their positions in education. Simultaneously, due to the low prestige of the teaching profession it is easier to enrol in Education departments than in those of Economics. Finally, regardless of their major many young people do not intend to work as teachers and enter higher education institutions only in order to obtain the diploma.

A positive tendency in the recent years has been the education restructuring and the introduction of new faculties: Economics, Management (these two have been mentioned above), Law, Ecology, Computer Science. Many professions have also started to be perceived positively due to the changes in the state economy. The reform in syllabuses and the introduction of new market-oriented fields of studies have contributed to the improved image.

The number of state and private institutions in the fields of economics and humanities has increased. These compete with one another, which will hopefully lead to the improved quality of education.

The development of the ecological profile appears to be particularly important for the Donbas region. Currently, related courses are offered by 5 institutions in the region: Donetsk State University, Donetsk Technical University and Donetsk Academy of Management among them (7). At Donetsk State University the year 1997 marked the establishment of a chair for "Ecology of a technological region" under the aegis of UNESCO. Lecturers involved in the teaching process will include not only representatives of natural sciences, biologists, chemists and physicists, but also those of humanities and economics.

Tab. 1 Education of specialists (numbers indicate percentage of the total number of students enrolled in the academic year 1995/96) *

Country, region	Profile				
	Education	Humanities	Law and social science	Natural sciences, engineering, agriculture	Medicine
Canada	5	8	21	16	5
USA	7	13	30	17	10
France	3	24	21	19	11
Sweden	15	15	26	29	14
Russia	10	7	20	51	9
Ukraine	19	14	7	52	7
Donetsk district	42.6	1.9	11.2	40.3	3.9

*) Sources: 2, p. 9; 3, p. 9.

One of the most promising institutions is Donetsk Institute of Artificial Intelligence, which was established 4 years ago as a part of Donetsk State University. The Institute trains experts in computer software development. It also conducts research in the fields of image recognition, test software and others. So far the activities of the Institute have proved to be successful, which is reflected by a number of awards which the institution has received at international fairs. The establishment of the Institute has also initiated a new direction in education in the Donetsk district.

The development and improvement of the educational system within the ongoing social reforms (however slow they are said to be) is also reflected by the expanding number of fields of studies. Recent years have seen the introduction of political science, applied and financial mathematics, telecommunications and others. New faculties have been established, including International Relations Faculty at Donetsk State University; a number of institutions (including those which traditionally did not offer courses in economics) have begun to train specialists for market economy and management (11 state institutions, 1 branch of a state institutions and 8 private institutions of the 3-4 level of recognition as well as 30 institutions of the 1-2 level of recognition offer courses in these fields).

Apart from the above mentioned forms of education in institutions of the 3-4 level of recognition, leading universities of the district (Donetsk State University, Donetsk Technical University, and others) have international programmes geared toward the retraining of the military and the development of new fields of studies. In their activities they co-operate with universities in England, Germany, France and other countries.

Institutions of the 1–2 level of recognition and vocational and technical schools

In institutions of higher education of the 1–2 level of recognition the situation is different. The dominant fields of studies (there are 110 of them – Source 6) include Industry, Building, and Transport and communications, all of which have 41,581 students – 67.2% of the total number. Other fields include Economics with 7,105 students – 6.2%, Education with 3,898 students – 6.4%, Health Protection with 3,751 students – 6.2% and Agriculture with 3,192 students – 5.2%. Such proportions clearly reflect the industrial structure of the Donetsk district with the dominant machine, construction and transport industries.

The decrease in the number of students has been observed in all fields of studies except for Art and Cinema and Law although the participation in educating mid-level specialists has remained constant.

The specialisation structure of vocational and technical schools which train for workers' positions in 13 different profiles reflects the character of the region. Individual specialities have the following participation: 17.6% – machine construction, 14.5% – foods industry and commerce, 11.8% – construction industry and 10.6% – mining.

However, for the past three years there have not been any significant changes in the number of vocational and technical schools, the choice of specialities, or the enrolment. A slight decrease in the number of pupils in mining and construction industries' vocational schools as well as in the total number of pupils have been observed. Consequently, it is safe to say that restructuring has not affected the vocational and technical education level in any way.

Educators

Despite the fact that for more than 30 years Donetsk has been home to Centre of Science of Ukrainian Academy of Sciences and many other academic and research institutes, in terms of educator qualifications in higher education institutions the Donetsk district is not the leading one.

The comparison of statistical data for the Donetsk district and Ukraine for the academic year 1995/96 clearly shows that the district has fewer high level academics employed in the institutions of the 3–4 level of recognition (post-doctoral academics: the district – 6.59%, Ukraine – 7.35%; PhD's: the district – 47.3%, Ukraine – 49.3%). On the other hand, the above data do not include academics employed in Ukrainian Academy of Sciences, in academic and research institutes, and other institutions that also lecture in higher education institutions.

In the institutions of the 1–2 level of recognition 97% of educators are university graduates, including many with the doctoral degree. 138 vocational and technical schools employ 4,800 educators, 3,000 of them (63%) having master craftsman certificates in their respective professions.

Generally, the level of qualifications of both academic and vocational educators in the Donetsk district can be estimated as high enough to ensure efficient training and education for such a complex region as the Donetsk district. On the other hand, the system of education has not been affected by the restructuring processes in any major way with retraining courses for educators being practically non-existent.

Technical facilities

The Donetsk district higher education institutions' computing, laboratory, and technical facilities rate them as average in Ukraine. A number of institutions are equipped well enough to be able to conduct instruction efficiently while others require modernisation and new laboratory equipment; this is particularly true about medical equipment. Compared to similar institutions abroad, technical facilities of the Donetsk district universities and institutes are relatively poor and require considerable investments in order to upgrade them to Western standards.

The institutions of the 1–2 level of recognition are equipped sufficiently, the schools belonging to various ministries (Ministry of Machine Industry, Ministry of Ironworks, Ministry of Coal Mining) leading in this respect. However, similar to the above mentioned institutions, successful instruction of specialists for the restructured economy requires upgrading of laboratories and laboratory equipment, particularly in higher education institutions.

The library collections in the district were kept up to date until 1991 and financed from the education budget. Currently, the collections are updated irregularly and rely chiefly on the tuition fees from individuals and institutions.

Retraining and improvement of qualifications

Intensive vocational courses are one of the new forms of training which in various districts are organised in different ways depending on the specificity of a profession involved. Donetsk State University was the first to introduce the method in 1989. The period of instruction ranges from one to three years. The training allows graduates of higher education institutions to take up another profession in the fields of economics, humanities or engineering. This appears to be particularly important during the period of restructuring and helps employees in companies already covered by the reform to retrain or change their position. In the Donetsk district such a method is particularly important as the district has the highest unemployment of the higher education institution graduates in the country (70.9% of all unemployed). (Source 3, p. 8)

The system of retraining and qualification improvement for the unemployed also covers vocational and technical schools, but in 1996 only 18 of all schools were actually involved in such activities (13% of all schools).

During the two years under scrutiny (1995 and 1996) the number of people who were retrained for positions in the mining industry decreased (1.77 times), but the same number in the construction industry increased (2.6 times). The similar decrease (1.76 times) has been also observed in the light industry. Such fluctuations can be easily explained by the changing economic situation in the district and frequently rapid disappearance of whole branches of industry.

The research makes it possible to draw a number of conclusions concerning the state of the educational system in the Donetsk district and its opportunities in terms of modernisation and improvement made necessary by the change of the political and economic situation in Ukraine within the last six years.

The quality of education is generally high, particularly in the light of the World Bank reports (source 8), but the system requires immediate reforms, which would bring it up to world-wide standards and facilitates Ukraine's change to market economy.

The research has shown the existence of two trends. On the one hand, the quality of instruction in state institutions of higher education is better owing to highly-qualified lecturers. On the other hand, however, private institutions find it easier to accommodate to the ongoing changes.

Within the classification presented at the beginning of this section, the educational system of the district can be defined as matching (relatively inert) with the practical programme of the development lacking on both district and national levels. In general, the absence of the education development programme is a result of the absence of any economic development programme for the district (the research was conducted in May 1997).

The structure of education is varied and fully responds to current demands of the district economy (in certain fields, particularly the mining industry, educational 'supply' exceeds demand). However, high statistics of the unemployment of university graduates demonstrate the necessity of restructuring and establishment of the retraining system which, although existent in various forms (intensive courses, retraining of the military, retraining in vocational and technical schools) is far from being efficient.

The current structure of professions should be changed along with the restructuring of the district industry. However, considering a significant number of educators involved in training for restructured companies, it is necessary to establish a system of qualification improvement for educators with the simultaneous change of the profile of educational institutions to the one compatible with the economy of the district and the country.

In order to ensure the qualitative restructuring of the district's economy, it seems essential to establish a special analytical unit, which would be responsible for analyses and strategic planning for the region.

It is also necessary to design the programme of education (as a part of the restructuring programme) which would include:

- development and improvement of education methodologies for specialists during the restructuring of the society;
- introduction of new forms of education and qualification improvement covering those made redundant and intending to change jobs as well as educators involved in educating for the branches which are being currently restructured;
- establishment of the system of continuing education for those involved in the local government structures who are responsible for decision-making during the period of restructuring in order to prepare them for progressive decision-making. Accordingly, the change in the management training system is recommended, which would result in combining education in the fields of economics, sociology, and psychology with technical education depending on the economic specificity of a city/region/district involved. Current Administrative Management programmes could become a foundation for the above system;
- establishment of the professional counselling system for young people in order to prevent the choice of professions 'without future';
- establishment of the system of consulting offices for employees of companies undergoing restructuring, which would help determine the potential of the current position and chances of retraining for a better one. Centres of social adaptation of employees operating in the region and particular companies of the kind already supported by the International Renaissance Foundation ("*Widrodzennia*") might play an important role here.
- establishment of an educational institution devoted to issues of social restructuring (the school of economies in transition) including directions and perspectives of the transformation and its consequences.

The solution to many problems connected with the education programmes may be facilitated by:

- research into and adaptation of experience gained in 'simulation' companies, which are devoted to training experts for work at various positions within a company. Good Polish results in similar structures testify to their high effectiveness;
- establishment of exchange programmes for lecturers, specialists, doctoral candidates and students who are involved in the issues of social restructuring;
- conducting sociological research and expertise of ongoing processes as well as development of recommendations concerning solutions to most serious problems using the experience of similar regions in other countries and local specificity of a restructured region.

As a component of the regional industry-restructuring programme, the programme of education could comprise:

1. establishment of a consulting centre involved in professional counselling for employees of companies undergoing restructuring.
2. establishment of a professional counselling centre for young people.
3. development of advanced courses of decision-making strategies in the period of the social restructuring for employees of local authorities.
4. development of training courses for teachers from technical as well as vocational and technical schools, which are closed down as a result of restructuring.
5. establishment of a centre for social and professional reconversion based on the experience of 'simulation' companies.
6. establishment of a teacher training centre for educators in economics and business programmes.
7. development of the programme of education for trainers (actors) to be employed in professional counselling centres and consulting offices.
8. extension of the educational system on the basis of higher education institutions as well as vocational and technical schools.

Finally, it would be reasonable to establish a centre for strategic development planning in the Donetsk district.

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Jan Hoser, Ph.D.

RETRAINING AND SOCIAL AND VOCATIONAL RESTRUCTURING OF THE REGION. TRAINING OF CURRENT AND FUTURE MANAGEMENT

The following discussion of the issue of retraining and social and vocational restructuring of the region as well as of educating current and future management is related to my short visit to the Donetsk region in Ukraine in May 1997. My main goal was to collect information about possibilities of future co-operation with respect to the creation of a new field of studies and evaluation of its usefulness from the point of view of needs in the Donetsk Region. The project concerned educating personnel for economic management at the town and gmina (the smallest administrative unit) level.

The project of educating personnel for municipal economy management relied on the assumption that to a large extent the latter depends on managing municipal infrastructure and requires extensive knowledge of law, economics, social science as well as certain qualifications in town and country planning, construction, transport, natural environment protection, and finally, land management as well as a number of other issues inherent in the local level management.

The issues of municipal economy management connect with the tendency to develop local level systems of self-government although this aspect does not have to constitute a focus of the project which itself stresses the issues of local infrastructure management.

The experiment of creating a new field of studies devoted to municipal economy management called "Administration" was tried in Poland by Warsaw Polytechnic, an institution with a strictly technical tradition, and met with significant interest on the part of both authorities and candidates. The new field of studies has begun functioning in the structure of a technical institution and promises to develop rapidly preparing management personnel for towns and gminas. The initial idea of the field was brought from the West, where every respectable institution of higher education offers courses (the names may vary - Urban Affairs, Town Management, etc.) preparing for general management of towns and gminas.

It is hard to foresee whether this particular field of studies would prove interesting for a technical university in Donetsk. It is undoubtedly a field of studies which also prepares students for necessary system changes in industry, or even the economic system at large. On the one hand, such changes lead to the necessity of transformations in the workplace and personnel retraining; on the other they impose the duty of managing towns and cities undergoing structural transformations.

Preparation of the local level management personnel constitutes a very important issue in the transformation processes. Naturally, it does not affect the importance of educating production management personnel in the least. Organisation of life in the place of residence is particularly important in the case of old industrial centres in which it is easier to replace technology than the city infrastructure or town and country planning. This is true about regions undergoing restructuring in both developed and developing countries. Accordingly, the statement also applies to the Donetsk region, one of the old industrial zones.

The project of relatively narrow co-operation in the organisation and exchange of experience related to the creation of a new field of studies stems not only from the conviction that the issues in question are valid both academically and practically. Such a narrowly-defined scheme is based on the belief that small, precisely-defined projects which do not necessitate significant system changes are more likely to succeed. Major system projects require considerable financial resources and costly expenditure for preparations while the chances of success remain relatively low. Co-operative programmes require mutual understanding of the language, notions and issues at work. A clearly-defined, small-scale programme allows for better mutual understanding.

The observations made during my visit to Donetsk must necessarily be very superficial, perhaps even dubious. For obvious reasons, certain information essential for an objective description cannot be revealed or does not exist at all. The absence of decisions and forecasts concerning the current state and future strategies is perhaps one of the reasons for the situation. Therefore, the material collected should be treated as introductory information, which requires supplements and verification. The collected data concern primarily the educational systems.

Social and vocational restructuring of the region

The process of social and vocational restructuring may be understood as a process of changes in the whole social structure of the region in question. In the assessment of the process, precise data concerning the social structure are required, but these do not exist. For the sake of further discussion, it can be assumed that in this particular case essential are job position and qualification changes in vocational professions as well as analogous changes in the personnel with higher qualifications. Such an assumption is convenient since it is con-

nected with the educational and training system, both in schools and various courses, which constitutes the basis for the whole process.

Retraining applies primarily to changes in qualifications of the labour force at the level of the primary or basic vocational education. Accordingly, the change in the job position structure may trigger the change in the structure of vocational education as well as the establishment of technical institutions, courses, and counselling centres whose task would be to change qualifications of the personnel and enable them to acquire new ones.

Educating management personnel

Education of current and future management is possible in the already existing educational system or in specially-established systems of management education. In the case of the management personnel, retraining and the change in the social and vocational structure involves primarily those who have graduated from academic or non-academic institutions of higher education. In both cases the current educational system becomes the starting point.

Assessment of the educational system

The general assessment of the educational system is not the goal of this report while already existing analyses and documents may constitute the basis for such an assessment. On the basis of the collected information one can positively state that appropriate analyses and documents exist, but in some cases are not available due to either their confidential status or the lack of access to the institutions which are in possession of such materials.

However, based on the data concerning educational institutions, one can indirectly conclude on the social and vocational structure at the workmen's and management levels.

Polish educational system

The educational system in Poland consists of three basic and diverse levels: compulsory primary schools, secondary and post-secondary schools, and higher education institutions.

The structure of education and the participation of pupils and students is shown in Fig. 1 based on the data of Central Statistical Office (Central Statistical Office; *Institutions of higher education in the academic year 1996/97*; Warsaw 1997). The enclosed diagram presents only basic elements of the system and excludes the pre-school and continuing education. The latter plays an important role in the process of changing qualifications acquired in schools and adjusting qualifications to the job market demand.

The educational system in Poland is undergoing systematic changes. Even though over the last few years the system reform has been repeatedly postponed, significant changes have taken place during that period. The process of taking over primary and secondary schools by the local government administration is the most important one.

Changes are also taking place at the level of secondary education, particularly in secondary schools of general education, as well as in higher education institutions. Training for labour positions is largely carried out in the system of basic vocational schools. Technical personnel at the secondary level are educated in secondary technical and vocational schools; higher education is available in institutions of higher education. The basic task of secondary schools of general education is to prepare pupils for further education at the university level. The educational system is diverse which results in different percentages of graduates passing on to the next level. The system is also diversified territorially with the distinctly disadvantaged education in rural areas. Consequently, the participation of particular social classes in secondary and higher education institutions varies radically.

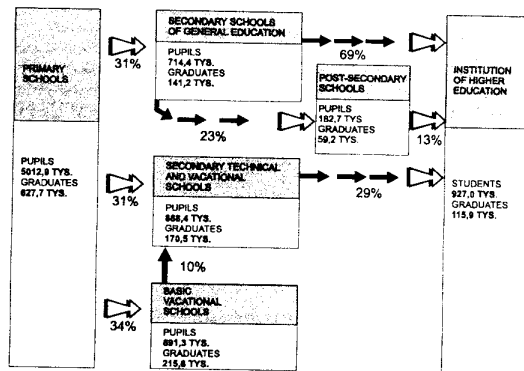


Fig. 1 Enrolment of pupils and students in the educational system. Pupils and students for the year 1996/97; graduates for the year 1995/96

Source: Central Statistical Office, Higher education institutions in the academic year 1996/97

Since 1989 institutions of higher education have undergone significant transformations as an effect of new legislative solutions. Generally, the changes in

higher education include an increase in the number of students, a change in proportions of various fields of studies (with a simultaneous decrease in the participation of the technical education), the introduction of partial tuition (for extramural and evening systems) and the emergence of private educational institutions. Another significant change is ongoing individualisation of study programmes.

The functionality of the educational offer at the level of higher education is determined by so-called scholarisation index: the percentage of students in the group of all people nominally (in terms of their age) belonging to a given level of education. (There is an additional distinction between the gross and net index where the gross rate indicates the number of all studying at a given level and the net rate – the number of students entering higher education immediately after secondary school)

Tab. 1 The scholarisation index in Polish higher education

Category	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Gross	12.9	13.4	15.4	17.6	19.8	22.3	25.4
Net	9.8	10.4	12.3	14.0	15.6	17.2	19.3

Central Statistical Office, Higher education institutions in the academic year 1996/97

The increase in the scholarisation index proves to be very important in comparison with the growth of education in the developed countries. In the 1970s and 1980s they radically increased the scholarisation indices up to 30%, which marks the level of the full utilisation of intellectual resources of each generation. Due to a different definition of a higher education institution and including all people admitted into such institutions, the USA and Canada's scholarisation indices reached approximately 50%. The index itself is modified by the inclusion (or non-inclusion) of post-secondary education and non-academic higher education institutions. In several countries (Finland, South Korea) a rapid increase in the scholarisation index is connected with the development of schools with a shortened period of instruction.

The secondary and higher education in Poland have undergone significant changes during the last few years.

The structure of the higher education has been changing with respect to an increase in the number of courses related to management, law and economics and decrease in the number of technical courses. The tendency is parallel to one in the developed countries, where the number of technical fields of studies is lower (approx. 10%). A high number of technical specialities were a characteristic feature of the planned economy, which was consequently expressed in the high ratio of technical graduates employment. Simultaneously, the research and development funds were lower than in the developed countries while technical personnel's potential was not fully utilised.

Tab. 2 The gross scholarisation index in selected countries (1988)

Country	Level of education		
	primary	secondary	higher
Poland	100	81	19.6
Germany	105	99	31.8
Finland	100	108	40.1
Bulgaria	104	75	25.1
Spain	110	105	31.5
Argentina	110	74	40.8
USA	100	98	59.6

Anna Buchner-Jeziorska: The educational system and modernising potential of the society (based on Central Statistical Office data)

Tab. 3 The net scholarisation index in secondary schools in Poland

Years	secondary schools of general education	technical and vocational schools	basic vocational schools only	post-secondary schools
	age			
	15+18	15+18	15+18	19+24
1990/91	18.6	56.2	34.0	3.1
1991/92	20.2	55.1	32.5	2.9
1995/96	25.9	54.2	27.2	4.2
1996/97	27.0	53.8	25.9	4.6

Source: Central Statistical Office. Schooling and education in the year 1996/97 (selection)

Tab. 4 Students of different fields of studies in the years 1970÷1995 (%) in Poland

Year	Number of students	technical	agricultural	law and social science	sciences and natural sciences	medical	humanities
1970/71	330,789	36.4	8.7	20.1	5.8	9.1	6.9
1980/81	453,652	27.3	11.0	25.2	3.4	10.6	5.4
1985/86	340,709	19.4	7.9	21.2	4.4	13.5	8.5
1988/89	356,419	16.8	6.6	20.7	3.5	16.0	8.9
1990/91	403,800	17.1	5.6	24.9	4.5	14.9	9.5
1994/95	682,200	18.3	4.9	30.5	5.4	5.0	10.6

Anna Buchner-Jeziorska: The educational system and modernising potential of the society

The development of the educational system in Poland in recent years has been the result of changes in the state education policy and related changes in the legislation. Nevertheless, the education expenditure was decidedly too small to ensure significant changes within such a short period. Instead, social aspirations and market pressures have constituted basic factors. The emergence of the job market which strongly favours education as well as the phenomenon of unemployment primarily affecting relatively low-educated social groups have fostered the interest in education as a profitable investment in the current and future professional career. The interest varies in different social groups, but it also allows for the rapid development of private education. J. Rutkowski's report (J. Rutkowski, "Education vs. Job market perspectives," Nauka i szkolnictwo wyższe, 7/96), based on the Central Statistical Office's research, presents the scale of changes in the remuneration system, particularly in the private sector, which favours higher education. The same trend is also reflected in job offers and fairs for graduates organised at various universities, at which both state and private companies present their job offers and recruit students and graduates. Finally, the phenomenon is apparent in numerous job advertisements in dailies and professional publications.

The development of the educational system also has its disadvantages which become a subject of alarming press articles. At the level of primary and vocational education there is a growing gap between rapidly developing regions and those plagued by stagnation and mass unemployment (*Polityka*, No. 47/97, 12.11.1997, Ewa Nowakowska, "School is up the hill").

The results of the research concerning functional literacy ("Functional literacy is an ability to process information essential in using common printed materials in everyday and professional life," *Nauka i szkolnictwo wyższe* 7/96) demonstrate that the level of educational preparation is lower in Poland than in the developed countries, at least at the level of tests used in the research (Hanna Gulczyńska, Ewa Świerzbowska-Kowalik, *Functional literacy – qualifications – work*). The system changes in Poland have also been accompanied by the decline in cultural infrastructure (libraries, centres of culture) in the rural areas, a recession from the previous state. Although the market presence of groups with the minimal education is a phenomenon encountered in the developed countries (in the USA such groups constitute 30% of the total workforce), these countries also have highly-qualified groups with considerable job market preparation. In Poland, a rapid stratification between those prepared very well and very badly can be observed; some research suggests that there are entire areas with the population practically unprepared for the job market requirements.

Another critique concerns significant differences in the educational offer as well as the quality of existing higher education. Reportedly, the popularity of studying combined with the lack of appropriate investments in the system may lead to pathological phenomena (*Gazeta Wyborcza*, 21.10.1997; Monika Piątkowska, "Even students get the blues").

Continuing education

Continuing education is vital from the point of view of qualification restructuring and accommodating one's qualifications acquired in school to the market requirements. It also creates a possibility of customising a fairly stable educational system of the basic level to rapidly changing requirements of the job market.

In the developed countries, continuing education is a permanent element of the personnel policy in major companies and a common means of individual adjustment to the job market. The range of continuing education is so diverse that a full description of the phenomenon proves to be very difficult and cannot be reflected in the statistical data. Some fragmentary information is available in the form of research results, monographic information and handbooks of Human Resources Management. In major corporations, up to 50% of the management and research personnel are covered by various types of continuing education or training.

The emergence of a very wide and diverse educational offer in the field of continuing education in the recent years is one of the characteristic features of the Polish educational system. In as much as the transformation of the primary school system is the best factor in creating a progressive structure of qualifications, the continuing education system appears to be the condition of adjusting already existing qualifications to the job market requirements. This remains true for all levels of education. Education related to the establishment of international institutions, both in the political and economic sector, constitutes one of the areas of continuing education.

Continuing education can be connected with the present school system and institutions established with a view to regulating job market processes, such as the system of job counselling and placement. It can be also created outside the formal education system. It has been estimated that approximately 2.5 million people are involved in continuing education in Poland. The continuing education sector spans the formal educational system, where school and universities offer post-graduate and specialist courses, an extensive number of courses offered by various institutions, foundations and specialised private schools, and a number of rather vague and unverifiable offers (*Wprost*; 9.11.1997, "Career ahead"). Nevertheless, it can be assumed that the system of continuing education is a condition of a large-scale adjustment of the population to the changing life conditions. However, a certain pathology of rapid changes in this field is also to be expected.

THE DONETSK REGION

The problems of education according to the World Bank report

Among the available materials, the World Bank report (*Ukraine, The Social Sectors during Transition*, The World Bank, Washington D.C. 1993) appears to contain the most comprehensive description of problems of the Ukrainian educational system. Even though the report describes the situation from a few years ago, the education structure has not undergone any significant changes since that time and the quality assessment of the educational system still constitutes essential information.

As the World Bank report states, the Ukrainian educational system is sufficient in terms of basic goals educational institutions normally adopt. The good quality of education in the field of sciences, which is comparable to that of the developed countries, is particularly emphasised. The report's conclusion states that Ukraine has a big and diverse system of education, which ranges from the pre-school to university level. High qualifications of educators and a student-to-teacher ratio, considerably lower than in other countries, are also emphasised. However, according to the experts, the system is underinvested and does not promise to continue without wide-ranging reforms, which is the result of limited budget resources of the state.

The World Bank report suggests introduction of a number of reforms and economical solutions with the simultaneous preservation of achievements of the present educational system. In a period of the economic crisis the present system appears to be excessively expensive. The proposals include:

- an increase in the student-to-teacher ratio;
- a reform of technical and vocational educational programmes in order to facilitate the retraining of employees who are forced to change jobs;
- increased emphasis on general education and modernisation of the system to achieve greater flexibility;
- an increase in the tutelary functions of the school considering the decline of companies' patronage.

The economical solutions proposed by the World Bank concern the limitation of scholarships for financially-disadvantaged students and propose the abolition of scholarships for foreign students, the slower rate of Ukrainisation of education, which results in high costs of translations and publications, as well as liquidation of those from among 1,232 vocational schools which will not be able to adjust to the market economy requirements. The report emphasises the

necessity of finding sufficient financial means to establish a system of education for the retraining of employees losing their current jobs.

Generally, however, the report states that the educational system is in a considerably better state than the country's economy undergoing a crisis as a result of difficulties inherent in necessary economic transformations. This is caused by both the conscious policy of protecting education and the inherent autonomy of the system. Consequently, the educational system has not been considerably affected by the crisis resultant from the economic transformations. The transition to the market economy does indirectly affect the educational system, but it does not disturb its structure. The primary conclusion of the World Bank report is that in comparison to the general data concerning the quality of education, the educational system in Ukraine is relatively stable and capable of preparing qualified graduates at each of the three levels (primary, secondary, university). However, this does not mean that the structure of education reflects the current demand and emerging structure of vocations. Considerable difficulties are also connected with the fact that certain parts of the system are controlled by branch ministries and directly depend on companies whose future employees these schools have been training. A number of schools belonging to prosperous production companies have offered high-quality education with technical facilities frequently superior to those in university laboratories, but in the period of crisis and production decline this type of education is quickly disappearing.

The general assessment of the Ukrainian educational system presents it as one closely connected with the planned economy, with the predominantly technical sector and the tendency to educate within narrow fields of studies.

The secondary and vocational education is an area of a particularly strong tendency toward narrow specialisation and subordination of technical schools (particularly secondary technical schools) to the branch ministries, both resulting from the dependence of a part of the educational system on these ministries. Such structuring causes the dependence of education on the complex decision-making system and creates a serious obstacle in the way of system reforms.

The absence of significant pressures to implement reforms and modifications desirable from the point of view of the economic and political transformations is another consequence of a relatively autonomous character of the educational system.

Adjusting the educational system to the market economy has been a subject of discussion; there are also documents discussing possible variants of reforms. From the point of view of accuracy of any proposal, it seems that the materials concerning the initial state are essential. Therefore, existing documents and research should be collected to constitute the foundation for professional consideration. On the other hand, it seems impossible to enter any discussion regarding future reforms of the educational system on the basis of fragmentary infor-

mation concerning both the present state and possible directions of the reform. The World Bank report cites the government analysis of the educational system and reports, which are being currently prepared. Other sources affirm the existence of the project of educational reforms which discusses their variants. The necessity of collecting fragmentary and diffused information concerning the current state of education appears to be the first conclusion of the research.

The report presents the following structure of higher education institutions:

Tab. 5

Type of an institution	Number
natural sciences, humanities, economics, law	104
technical sciences	309
transport and communication	55
agriculture	123
health protection	126
physical culture and sports	6
pedagogic	78
arts	89

Statistically, in terms of quality, the Donetsk region is classified below the average in the country's educational system. Nevertheless, Donetsk remains a strong academic centre.

Tab. 6 The number of students and graduates of post-secondary and higher education institutions, 1995/96.

	Students of post-secondary institutions of the 1-2 level	Number of institutions	Students of academic institutions of the 3-4 level	Number of institutions
total students in the Donetsk district	65,745	82	61,704	21
total graduates in the Donetsk district	19,932		10,679	
Municipality of Donetsk - students	18,373	21	46,936	13
Municipality of Donetsk - graduates	5,402		10,679	

Tab. 7 Students of post-secondary and higher education institutions – fields of studies, 1995/96, the Donetsk district.

Field of studies	students of post-secondary institutions of the 1–2 level	students of academic institutions of the 3–4 level
industry	53.9 %	35.1 %
construction	5.7 %	5.2 %
transport	9.3 %	0.5 %
economics	10.1 %	6.5 %
health protection	6.5 %	5.9 %
physical culture, sports	0.1 %	1.1 %
teacher training	6.0 %	39.6 %
arts	2.6 %	0.9 %
law	0.8 %	5.2 %
agriculture	5.0 %	

As it is apparent from the above table, the Donetsk district has a significant academic potential. With its 21 non-academic and 13 academic institution of higher education, Municipality of Donetsk is an important academic centre which offers retraining programmes at different levels for both management personnel and employees forced to changes jobs and qualifications.

Possibilities of employing the existing educational base largely depend on its structure, the educators' level of competence, and a number of other factors, including investment capability essential in adjusting the existing base to the system transformations.

The significant participation of technical education is a striking feature of the current structure. Table 7 demonstrates that technical fields of studies comprise 68.9 % of students at the non-academic level and 40.8 % at the academic level. Since these reflect the old structure of education in the former Soviet Union, it can be assumed that they also reflect the social and vocational structure of the Donetsk district. Therefore, it is only to be expected that the dominant type of education among the management personnel is the technical one. The proportions also resemble Polish ones from the period before the economic system transformation. However, considering the territorial changes in Ukraine and the limited area served by the regional system of education, it is hard to justify the scale of technical education.

Retraining – workmen

The term 'social and vocational reconversion' applies to individuals with relatively little education who are employed as labour force or at other lower-ranking positions. Retraining understood as a change of acquired qualifications and the acquisition of new qualifications is a purposeful activity and may become one of the key factors in removing unemployment within this professional group. The World Bank report implies that at the time of the report's preparation there were plans of a large system of institutions retraining those made redundant. The system of institutions (training centres) was reportedly established in Ukraine, but the number of people attending retraining courses was very low. In fact, however, it seems improbable that such a system was really established, or at least in Donetsk its operations do not satisfy current needs. The research presented by Irina Nowak (Gliwice, November 1997) demonstrates the complete absence of activity of the system of adaptation and job counselling.

Two of the conditions of success in retraining programmes for the labour force personnel are the knowledge of employment opportunities and adjusting the programme to the job market demand. This, in turn, requires a description of the current social and vocational structure, accurate forecasts of current and future needs of industry, agriculture and services as well as the consideration of many other factors. The close-down of a mine or a big company is a economic decision triggering particular social consequences.

There are no reliable documents determining the number of mines to be closed down and forecasts concerning both the number of employees to be covered by retraining programmes and a possible direction of transformations. There is an experimental retraining centre for jobless miners funded by one of the foundations, but its programme lags behind in the organisational phase while the area of operations remains small. The operations of job centres, job counselling centres, and retraining centres were not the subject of research during this particular visit. Consequently, it seems that the changes in the educational system are the only ones in the social and vocational structure which correspond with the conclusions of the World Bank report.

Management personnel education

In the developed and relatively efficient system of education the issue of the professional adaptation of management involves retraining individuals with relatively high professional qualifications. It can be assumed that in the existing system of education the management personnel completed their education at the higher or semi-higher (primarily technical institutions) level.

Collected data make it impossible to assess the current state in terms of the range of needs in the management education. Statistical data demonstrate a very

high percentage of university graduates who remain unemployed, the rate, which in Donetsk is even higher than in other districts. It is possible that this is mistaken information or that the procedure of registering university graduates as unemployed is different from that for other people. Other research clearly demonstrates bigger job opportunities for higher education graduates while the costs of paid education in the private school of economics and in Donetsk Technical University are covered by companies and economic institutions. Programmes for which tuition is collected bring additional funds to educational institutions while the percentage of paying students is as high as 50% of the total number of students admitted. Consequently, it seems that the higher education provides district institutions with required experts, including those who begin their managerial careers. The success of the private school of economics, which after two years has enrolled 630 students, testifies to the great demand for graduates, particularly ones from departments of economics. Regional Institute in Ługańsk also seems to offer an attractive programme of qualification improvement for management personnel.

The situation is different in old non-academic institutions, most of which continue to offer old study programmes and provide the market with narrowly-specialised, unprepared for the changing job market, graduates. The research did not cover non-academic institutions of higher education (the level of technical schools); we did not also manage to get hold of any document containing a fuller analysis of the profile of these schools from the point of view of the potential in the managerial qualification improvement. It can be assumed though that the current state does not differ from the one presented in the World Bank report. Nevertheless, some of these schools may offer high quality education. The association with a very productive and technically-advanced branch of the industry allowed to maintain well-equipped laboratories. The rector of Donetsk Technical University claimed that some non-academic institutions of higher education were better equipped than the University itself.

It is also apparent, as the rector said, that there exists a serious shortage of engineering personnel in plants and factories due to emigration, job changes and other factors. According to the rector it may become necessary to make those who used free education pay off its costs in the form of working in industrial plants with personnel shortages. Consequently, it appears that in the case of higher education graduates, not only is unemployment non-existent, but there is a perceivable shortage of people with high technical qualifications.

Any attempt to restructure the economy requires highly qualified technical personnel. The collected data fail to show how big the demand for technical qualifications of managerial personnel really is. It is natural that the introduction of the market economy requires new qualifications in the fields of economics, marketing, and management, chiefly due to the fact that the old technical management personnel do not possess non-technical qualifications. The

lack of preparation for work in the new economic system will not only inevitably impede and limit objective actions, but will also affect the attitude of people educated in the old system. The spread of information and training courses in the fields characteristic of the new economic system will certainly play an important role in the functioning of this system.

Technical retraining

The above data indicate that the vocational structure is dominated by the technical education (technical and engineering institutions of higher education and transport). Thus, one can assume that the majority of management personnel is constituted by technical experts who were prepared to solve technical problems in the environment of the planned economy. However, since their level of education is relatively high, they may be able to adjust to new conditions resultant from the introduction of new technologies. They may not be prepared to stimulate technological progress, but they possess sufficient qualifications to adjust to technical novelties.

However, as far as retraining is concerned, the discussion of the technical management retraining is made considerably difficult due to the necessity of accurate forecasts concerning required qualifications, which is even more important than in the case of labour force vocations. The World Bank report suggests the introduction of general education in place of highly-specialised education, which is justifiable in the situation of abandoning old technologies and liquidating certain branches of industry. Basic knowledge of mathematics or physics would be still essential as a foundation of technical professions as such. However, future technological developments are difficult to foresee. Technical retraining of management personnel may be needed in cases of involvement in particular projects in which all decisions are made by people with good theoretical preparation on the one hand and the project 'know-how' on the other. This particular type of retraining is frequently financed by institutions implementing new technologies, which in a way constitutes a consequence of the economic development.

Management education programmes – issues of financing

The change in educational programmes appears to be the best method of changing qualifications of management personnel. In other words, investments in the educational system are a condition of existence of highly-qualified management personnel. The results become tangible after the completion of the educational cycle, which lasts for 3 to 5 years. This is the first method of reconstruction of specialist personnel at large, and technical management in particular.

Another method depends on retraining specialists who already possess high qualifications, which is commonly done within the framework of continuing education.

The interviews have proved that institutions of higher education receive from the state budget financial means to cover personnel remuneration only. Any changes in the educational system require additional resources. Academic institutions, which educate personnel for industry, can raise certain funds, but these still seem to be rather limited. Donetsk Technical University appears to be the most enterprising in that respect organising a variety of courses, including courses of economics for engineering personnel. Non-academic institutions are largely dependent on respective branches of industry with which they are associated.

Retraining of qualified personnel requires special justification and funds. An example of the latter is the fund for the retraining of military officers discharged from the army. Except for Donetsk Technical University, the finances do not appear to be sufficient and will largely depend on budget means allocated for that purpose. Currently, a large-scale retraining of management personnel appears to be impossible due to the scarcity of funds. With a few exceptions, the range of continuing education in Donetsk is relatively narrow, which may inhibit a process of qualification acquisition by management personnel, especially where such programmes extend beyond the existing system of education. This also concerns schools operating in towns around closed-down mines.

Schools in Donetsk

On the basis of conducted interviews, one can say that institutions of higher education operate relatively well in the period of economic crisis. Those offering attractive educational programmes are developing dynamically, as the case is with a private institution called Donetsk Institute of Economics and Humanities. Although its financial situation is difficult, Donetsk State Technical University operates without limiting yearly enrolment and with new courses offered. The university buildings have been recently renovated and the institution provides instruction in didactic, research and international programmes. In general, all higher education institutions give an impression of being well-organised, and capable of educating and, to a lesser extent, conducting research. However, the shortage of financial means hinders the introduction of changes, which require additional funds. All the above makes them rather traditional, but nevertheless efficient educational institutions.

Conclusions

Although the situation of Poland differs from that of Ukraine, the latter still has the educational system capable of educating at all levels. The system of

continuing education appears to be generally little developed. With the exception of such institutions as Donetsk State Technical University (with its programmes of economics), Donetsk Institute of Economics and Humanities or Regional Institute of Management in Ługańsk, the development is hindered not by the shortage of highly-qualified personnel or the absence of demand, but by the lack of the continuing education financing system. For that reason one should not expect large-scale retraining of management personnel or the social and vocational restructuring of the region at the level of labour force positions. Simultaneously, however, the existing system is in many respects open to prospective changes. The project of introduction of a new field of studies may become a foundation for educating future personnel for local, self-government and national organs, without the necessity of major system reforms and financial investments.

Wiktor Górecki

THE ROLE OF INFORMATION IN CREATING MARKET MECHANISMS, ENTERPRISE DEVELOPMENT AND SOCIO-ECONOMIC RESTRUCTURING OF THE DONETSK REGION

All processes, including social ones, have their own information dimension. It can be most clearly perceived in terms of regulation and management. Based on the concept of exchange of commodities, no market could exist without the exchange of information. The logical consequence of such a view is that information itself may become a commodity. Limited, it can be used as an instrument of power; freely available, it becomes a cornerstone of liberty.

The following research was done in response to the dramatic situation in an old industrial region of Donbas. Its future appears to be rather bleak and that is why we decided to address, among others, the issues of information exchange, which we find to be crucial. We would like to deal with the practical aspects of the problem and discuss issues, which affect the quality and directions of the restructuring processes. In our opinion, the emergence of the information market is one of such issues. We have decided to exclude from the study a domain of the mass media (with the exception of press advertisements) which clearly deserves a separate study.

1. Goals

The goal of the research was to determine whether and to what extent information exchange affects the course of restructuring processes as well as to what extent factors obstructing information exchange simultaneously obstruct the latter processes. Secondly, we wanted to determine to what degree the success of these processes depends on the local solutions and central decision-making (e.g. legislative initiatives), on the spontaneous activity (market and competition) and advisory and counselling procedures. Finally, we wished to propose lists of such barriers and suggested countermeasures, which could be used in problem, and prognostic workshops (as a reference point) organised for local

business leaders. Such workshops combine premises of the research and consulting project, which would also comprise the results of our research.

Another parallel and complementary goal was to establish and monitor direct **teletransmission links** between Ukrainian groups involved in the transformation processes and their **Polish** counterparts as well as between companies in both countries. The conclusions drawn from observation of such contacts would serve as an additional research instrument and constitute a basis for the organisation of a **model information and advisory mechanism** operating in the joint Polish and Ukrainian information space.

2. Basic premises

The research as well as the project as such is based on the experience gained in other old industrial regions, for example Silesia. The first assumption is the conviction that restructuring processes are **inevitable** and will be effected regardless of their acceptance on the part of the participants – they are triggered by a loss of dynamism in old social and economic structures.

If **strategic operations** which on the one hand **remove barriers** in the way of such processes and on the other **alleviate their negative effects** are not undertaken, the built-up potential of changes will result in breaking up these barriers and causing social and economic losses which will limit a number of prospective beneficiaries of the changes. Although it is a common assumption that market economy and open society are natural environments of man's economic and social activity, the research is based on the belief that the effects of restructuring are not yet known and that there exists a **threat** of such a course of events which apart from **social unrests** may lead to the emergence of a 'closed' social and economic order. Consequently, the postulated strategic operations may affect not only the quality of the transformation processes, but also their very directions.

Another hypothesis based on earlier experience is that the above mentioned strategic operations, which comprise both formulation of problems and determining of solutions, must be conducted in an entirely new manner: they must be undertaken on the appropriate **local level** – the regional one in this particular case. This stands in clear opposition to the traditional centralised decision-making. Such operations must be also conducted not as a result of authoritative dictates (even if they are formulated by local representatives of central authorities), but as a result of **negotiations among local leaders**. The purpose of such negotiations is not to reconcile conflicting interests of their participants, but to establish new institutions and mechanism characteristic of the new social and economic order (e.g. commercial infrastructure institutions such as a stock exchange), which are to facilitate problem-solving during the period of transformation.

3. Structure of research

The general strategy of the project reflects the above mentioned assumptions. The main goal is to develop for the needs of **local leaders** a list of the **basic problems of the region** related to information processes along with a list of **various solutions**. These would constitute the material to be used in **forecasting workshops** for the leaders. The workshops will have a form of training courses during which the participants will learn how to formulate regional forecasts. The work methods will stress the notions of the local level decision-making and importance of negotiations.

The materials for the workshops were collected during simultaneous quantitative and qualitative research. The following research concerning functioning of information exchange mechanisms in economy, social infrastructure institutions and educational system constitutes a part of the qualitative research.

The quantitative research was conducted in selected locations of the region. Since its results were to supplement and verify the qualitative research, the initial, unfortunately unsuccessful, intention was to conduct both in exactly the same locations. Furthermore, regardless of the problems, which surfaced during both types of research, we established **problem workshops** in which local leaders formulated a list of local problems.

The above mentioned **package of Polish and Ukrainian contacts** initiated during the interviews and developed in their aftermath constitutes an additional instrument as well as a research object. The contacts were established between such institutions as chambers of commerce and industry, enterprise incubators, business clubs as well as individual businessmen and companies. The observation was concentrated on Ukrainian partners' (particularly local leaders') ability to establish contacts with Polish partners and vice versa. Attention was also given to the way in which contacts transform into agreements and contracts and the participation of market and teleinformation infrastructure organisations in the process.

3.1 Method

The research was carried out in the form of open interviews with specially-prepared **guidelines** serving as an auxiliary instrument. The interviews were conducted with people considered local leaders and directors of institutions regarded as involved in the regional transformation as well as with directors and owners of organisations involved in the information exchange processes. The majority of the interviews were recorded on tape. All of them were based on the uniform form within which relevant data are grouped in three blocks: basic data block, subjective data block and objective data block.

The **basic data block** comprises the following items: the name of the organisation, address, name of the controlling authority if applicable, legal status of the organisation, last name, position and telephone number of the person who provided the data and was ready for future contacts. The block also contains information concerning the organisation's field of activity and goals, scale of operations and structure as well as the sources of financing, structure of expenditure, and the organisation's history.

The **subjective data block** comprises information on the impression the organisation made on the basis of the interview as well as other information obtained before and after the interview. It also contains impressions the person providing information made and the description of the circumstances of the interview.

The **objective data block** comprises data concerning the way in which the organisation participates in information exchange processes, which includes: amounts of information received (incoming information) and distributed by the organisation (outgoing information); specifications of information processing technologies; techniques of information management within the organisation; finally, known problems and barriers along with suggested solutions. We also aimed at including the information concerning the position, which the organisation envisioned for itself in the ongoing or expected transformation processes along with existing problems and suggested solutions. Furthermore, we collected information concerning the perceived links between barriers in the transformation processes and those present in the communication mechanisms. Finally, we included the interviewees' opinions regarding the degree of the information market development, the degree to which information functions as a commodity as well as the degree to which information is a commodity or a product within the organisation. In the latter case the price of information and factors, which determine it, were considered important.

The last part of the objective data block concerns the organisation's awareness of its needs, the experience of contacts with Polish organisations, the organisation's capacity and possible experience of participating in the international information market, as well as demand for and ability to use foreign experience in the transformation processes. The practical information serves to verify the credibility of previously exchanged data and to help open co-operation perspectives as a result of the conducted research.

3.2. Interview strategy

The interviews were conducted in three types of institutions: organisations connected with the state administration, organisation belonging to the market infrastructure, and educational institutions. The distinctions were frequently arbitrary since many of the organisations, which we were interested in and which

could be considered leaders combined the above functions. Within the state administration we came across organisational units which supported small business. Directors of these units were associated with local business clubs by virtue of being members of such clubs. Similarly, many market infrastructure organisations, particularly enterprise incubators associated with local management institutes, were involved in educational activities. Crucial in the analysis were those organisations which, belonging to the market infrastructure, were exclusively involved in information exchange. These included Aistnet – a local Internet provider, Biznes–Donbas – a newspaper, and Donetsk Centre for Information and Analysis.

Three basic fields of activity were taken into consideration within each group: activities contributing to the emergence of market economy mechanisms, those connected with enterprise development, and those which constituted a part of the region's social and economic restructuring. In all these fields we analysed inherent information processes.

The guidelines, which we used during the interviews, were treated flexibly and could be changed depending on particular circumstances of each individual interview. This led to variable amounts of data, which were included in the following materials. Generally, the more our interviewees were free of administrative and political dependencies and involved in the market, the smaller the changes that needed to be introduced into the guidelines. The least modifications were required in the case of organisations for which information was a commodity. This was a direct consequence of our focus not so much on the content of information as on the technical conditions of its exchange and, above all, its commercial features.

3.3. Issues of representativeness of the interviewees, sufficient amount of information and its reliability

Each of the three above-mentioned groups is represented by many interviewees. The fields of activity are also mentioned repeatedly, mainly due to the fact that most organisations are involved in at least two of them. We interviewed the majority or almost all local level organisations we were interested in. Naturally, one cannot disregard information, which, for some reason or another, did not reach us, particularly in these cases in which a degree of improvisation was considerable. On the other hand, it is exactly for this reason why we proposed the supporting and monitoring mechanisms for the Polish and Ukrainian information markets.

4. Problems and solutions

The interviews constituted the basis for the following **description of the main problem areas**. They also allowed us to **evaluate the general state of information processes and to compile the problem list**. Our interviewees perceived these problems as standing in the way of their operations and as hindering, sometimes even paralysing, their partners' activities. In accordance with the research topic, the information exchange issues and the information market were our focal points. It was also the perspective of our examination of the perceived problems. Below we present the problem list as well as the recapitulation: **The state of information processes and Suggestions**.

4.1. Information market – underdevelopment

The majority of the interviewees agree that the information market as such does not exist. This means that information does not function as a commodity – an object of standard commercial operations whose price is regulated by the law of supply and demand. This leads to the situation in which creation, processing and distribution of information is hardly associated with the return of expenditure, not to mentioned any real profits. Many information recipients as well as its providers propagate the opinion that information should be freely available. Such a position is both a reason for and a consequence of the information market's underdevelopment. Under the circumstances, the concept of the price of obtaining information or of providing it does not extend beyond the concept of basic material costs and completely fails to address the importance of information as well as its reliability and accessibility – everything that determines its quality. The price of information is therefore considered a loss of money: a result of the belief that one pays for something that with appropriate skills can be obtained for free. In such a situation factors such as supply and demand are simply non-existent while the costs of access to information is primarily understood as the price of telecommunication services provided by the **market monopolist – the state telecommunication company**. According to AIST, Donetsk's Internet provider, the price of the service is decidedly inflated. Simultaneously, the state administration which has its own independent telecommunications system attempts to make it available to the public at significantly lower prices or free of charge as a part of advisory projects developed within the administrative structures. Although well-meant, such intentions are in fact monopolistic too and contribute to the break-up of basic market mechanisms connected with information.

4.2. State administration – the source of and barrier to information

The majority of the interviewees are very critical of the state administration. The administrative structures comprise mechanisms of legislation and interpretation of the law, a large and malfunctioning source of information. **Legal acts and norms, formal administrative procedures** and administrative practice, a system of permits and concessions as well as the instability of the law constitute a major domain of information, which is crucial for business companies. **This is also an information domain which, if appropriately offered, could have a significant (considering the scale of operations) role in the emergence of the information market.** However, it is very hard to access all that information. In a way, such information constitutes another bureaucratic information market, a grey area with now clear procedures of access. Information itself is frequently unintelligible, which makes it hard to turn a legal act into a practical procedure which one way or another depends on administrative clerks.

In a situation in which by means of its multiple structures the state administration pervasively regulates social and economic life, it also monopolises the access to the laws and their interpretation becoming a strategic barrier in the way of the information exchange mechanisms. Furthermore, the state administration is not only one of the main factors in the destruction of 'the information environment', but it also becomes its victim. The disorganisation of information mechanisms translates into the disorganisation of management. The problems, which we experienced while trying to determine who made decisions concerning the Donetsk mines, and miners are the best example of the condition.

The possibility of a self-reform of the administration is very unlikely due to its structure, which is an opinion shared by its representatives. A suggested solution of creating a functional model of the law, its interpretation and execution independent of the administration has therefore a political character and depends on the government. Such a model would emphasise the informative and advisory function of the law with the autonomy guaranteed by the market mechanisms. Consequently, information would start to be treated as something other than an instrument of power and a source of corruption.

4.3. Absence of middlemen – a barrier between information recipient and information

The interviewees partly notice and partly anticipate that the spread of new technology will result in the problem of certain customers of the information market getting lost in the profusion of data, excess of technical accessories essential in accessing information and practical difficulties in co-ordinating information offers with their information demand. Companies involved in transmitting elementary information at a large scale and without in-depth analysis

(Biznes Donbas – short advertisements of companies and their products, AistNet – Internet services provider) have already realised that having overcome the problem of information shortage, their customers face one of its excesses. The common opinion is that **customers are not offered any assistance in entering the information space**. Sometimes they extend their operations to include such services for their own needs, sometimes it is information providers who, wishing to gain more customers, offer assistance at no charge. The interviewees agree, however, that assistance services constitute a separate field of the information market, whose absence seriously hinders the initial phase of the market development.

The assistance in question would include delivery and servicing of customised software tools, selection of information, statistical analysis, editing services, Internet browsers, and processing of information to suit individual needs, for example creating summaries or abstracts of longer messages as well as making legal acts with appropriate procedures.

In as much as the Donetsk district is home to several information wholesalers such as Biznes Donbas newspaper and four Internet providers, including AistNet, there are no retail sellers of information who would meet the wholesalers' expectations, which requires currently unavailable financial resources. Such retail sellers should serve as technical advisors of customers, including assistance in the equipment and software purchase and installation. They should also offer net (particularly Internet) browsers appropriate for their market niche.

The access to processed and prepared information is another issue at work. Such information includes databases with technological and investment procedures, business plans along with administrative procedures and others. The procedures need to be universal, but also translatable into practical applications, which introduces the issue of reliability. In short, they must be authorised and secured. The services must be also flexible: depending on the situation the retail seller must be able to promote trade by means of information and combine information with other types of services which, apart from the traditional advising, include insurance and real estate brokerage, publishing, investments and others. All the above services are supposed to make the customer feel that his perceived information shortage has been eliminated. This, in turn, must be based on the conviction that the adviser has been competent and, having access to all data in the field, chosen the right information.

Unfortunately, such information middlemen do not yet exist. According to our interviewees, the main reason for their absence is time – the processes in question are still in their initial phase while the market environment is not yet developed.

There exists, however, yet another information perspective: one of those who travel between Donetsk and Polish markets and who search for their own

niche between the grey areas of the market and the administrative system. For them the teinformation space is a purely theoretical issue. The knowledge of threats on the part of the mafia and the corrupted administration and of possible protectors in the structures of the underworld and authorities appears to constitute the most important information for them. In the purely information-based terms the situation is as follows. The information, which is available through advertisements, fairs and promotional campaigns, is superficially abundant and attractive. However, information for really strategic and decisive transactions becomes available not prior to but following the entry into economic procedures. The more advanced such a procedure is, the less clear the situation becomes. When it is finally clear which information is crucial, it turns out to be either unavailable or available at such a cost that the feasibility of the whole operation becomes doubtful.

It is then not newly emerging infrastructure institutions, but an acquaintance in the administration, at the border or in the mafia, that becomes the best information, insurance and banking advisor.

Finally, trifle as it may seem, it is a fact that the information concerning such seemingly prestigious events as "1st International Forum 'Donbass-Inwest '97'" does not simply reach the crucial, or those considered to be such, economic information hubs in Poland such as the National Chamber of Commerce or Eastern Institute. Even if it does, it arrives so late the Chamber finds it impossible to organise its participation. It is hard to decide whether it is a sign of disrespect and inefficiency or whether it indicates the existence of other information channels, which are more reliable. Equally surprising are frequent failures of numerous companies and organisations which attempt to establish contacts by means of such tools as electronic mail.

4.4. Financing of information mechanisms

It is obvious that the information market should seek sources for its development in profits generated by information circulation. However, if the information market is in its initial phase of development and one wishes to stimulate it artificially with a view of its crucial role in the market at large, a question arises where financial and organisational support should be applied. The common practice is to establish an institution financed from auxiliary or budget sources, which in return provides information and advises at mark-down prices. This results in information sold below the costs, which brings down its price. Simultaneously, the quality of information products does not improve due to the fact that information providers experience difficulties in accumulating financial means for investments and subsidised companies are not stimulated by the market demand. What emerges is the situation persists in which interested parties have problems with obtaining appropriate information while information pro-

viders find it hard to move their product. The acute condition, which was to be alleviated, persists.

Necessary actions should be undertaken so that auxiliary means do not follow institutions, but rather individual information transfers and not on the side of the provider, but of a purchasing parties. Such dilemmas are common in financing policy of education and health service.

4.5. Educational system – no illusions

The relations between the educational system and the information market are dual. On the one hand, such education is needed which will prepare its graduates to an active presence in the information market. On the other hand, the educational system itself is a potentially large information producer and consumer. Both aspects are interrelated in that they cause and amplify each other. The educational process, which prepares for the participation in the information exchange must be connected with a practical process, which an educational institution's participation in the world-wide information network and the information market undoubtedly is.

The interviewees agree the lack of both practical and theoretical knowledge of computer science hinders the information exchange. Educational institutions are particularly interested in the latter, including foreign contacts. Most frequently, the interviewees demonstrate their interest by showing e-mail addresses on their business cards and declaring their readiness to connecting to Internet.

Simultaneously, however, Postgraduate Education Institute's (for teachers) authorities doubted whether foreign experience was really needed. The idea of using computer networks to co-operate didactically with other schools did not appear, either. In the realm of education and the organisation of education institutions the concept of the technological revolution as symbolised by Internet introducing new quality is non-existent as yet. Accordingly, emerging barriers are not perceived yet either, perhaps with the exception of the financial barrier limiting modern equipment purchases. Disregarding and perhaps cherishing no illusions as to the educational systems, information providers, in their turn, consider education less important than talent, which becomes evident at work.

4.6. Close contacts with Poland – the test of the information space condition

The majority of the interviewees, with the exception of Postgraduate Education Institute where certain difference in opinion could be detected in the management, expressed great willingness to establish links and co-operate with their counterparts in Poland. Organisations of the market infrastructure were

strongly interested in agreements with their counterparts while information providers considered the possibility of new transactions. Close **contacts with foreign companies** (Poland is the most obvious choice) **strengthen the feeling of security** of an organisation, **extend its field of operations and make it independent of local politics** which is still dominated by the government and bureaucratic authorities. In a way, one can speak of a hunger for foreign contacts essential in finding new technologies (small bakery companies), capital, and qualitative changes in commercial sales (stimulating wholesale trade).

Barriers in the way of commercial transactions are naturally not only connected with information. Other obstacles include **underdevelopment of banking and insurance services, mutual distrust, insufficient private contacts** and the fact that the majority of companies and organisation is only now entering the economic circuit. Therefore, they are mostly preoccupied with overcoming **'start-up' barriers** while the issues of information, which are discussed here, appear in their operations for the first time. Organisations belonging to the market infrastructure are also launched on the basis of private contacts and have not yet managed to enter such channels as Internet. They are also in the course of overcoming 'start-up' barriers, the best example being frequently mentioned AistNet.

The great demand for contacts, which surfaced during interviews, resulted in initial declarations already at that stage. Many interviewees expressed their readiness to react to sufficiently reliable signals from Poland with specific commercial offers. They are also ready to receive and use information materials concerning the market infrastructure, the organisational infrastructure of the local government and the educational system. Such spontaneous and improvised economic 'treaties' may come as a surprise considering the open border between the two countries and progressively growing availability of communication means such as telephone, electronic mail, and Internet. They may also suggest the existence of, other than those mentioned above, hidden barriers hampering close contacts. The project of establishing an information mechanism, a laboratory of sorts, which would rely on prospective contacts and already existing information providers could facilitate the research into information processes by participation in them as well as foster closer links between research procedures and anticipated practical effects.

4.7. Mining towns in the vicinity of closed-down mines – telephone as a chance

Interviews conducted in a mining town close to the 'Panfilowska' mine presented a dramatic situation, which has become a plight of many mining towns in the Donetsk region. Poverty, which has always been present in all spheres of life, is now worsened by unemployment. There is no external support while the

town becomes progressively isolated. Naturally, the main task is to restructure the local economy and to create new jobs. Admittedly, there are organisations, which serve such purposes, but miners know hardly anything about them. Thus poverty is also worsened by information deficiency. The nearest telephone is located in the mine's offices. Therefore, it is the telephone, a source of information that can change these people's lives.

The telephone may become a strategic factor in small companies founded by enterprising miners or members of their families. Faxes, computers, modems will follow.

In the case of the above mentioned town one telephone could suffice for each block of flats which houses approximately 25 families; in other places a number of telephones and their localisation should depend on local conditions. Such small companies would provide information, advising and job placement services. Specific solutions should belong to local leaders and constitute a part of their workshop activities based on results of quantitative research. In accordance with our earlier proposal, possible subsidies should be granted not to individual telephone companies, but for the needs of information transfers and specific advising procedures.

5. The state of information processes

The state of information processes is determined by two factors: underdevelopment of the information market and presence of few but sufficiently prepared organisations, which could constitute the basis for the development of the market. The latter include AistNet – an Internet services provider in Donetsk, Biznes Donbas – a publishing house, Norma Press – publishers integrated with Internet, Donetsk Centre for Information and Analysis, Chamber of Commerce and Industry in Donetsk. The presence of these few companies and organisations backed by economic and social circles, certain signs that information technology is starting to develop in higher education institutions, administration and major economic organisations, emergence of competition in the sector of Internet providers (the evidence being three new companies competing with AistNet) – all these do not change that fact that the state of the information market in question can be only described as underdeveloped and almost non-existent. The above-mentioned companies are making first staggering steps in the slow process of the emergence of the information market.

What we are interested in, however, is the decisive potential, something we cannot perceive in the region as yet that would make possible definitive changes in both the information market itself and the whole economic and social system.

At the core of the market's underdevelopment is an underlying embryonic state of the local development institutions such as business clubs, enterprise incubators, schools of commerce, and others; a small number of private compa-

nies in the presence of dissolution of state-owned ones; dominance of the state monopoly in telecommunications, which closes the field before the capital investments and subordinates it to the structural budget deficit; underdevelopment of the local government accompanied by the excessive centralisation of power; legislative inefficiency of the state; instability of the law; administrative interference in economic processes at a very specific level, which unsettles and hinders any economic activity.

Information processes are burdened with undeveloped financing tools of the information market creating the situation in which auxiliary instruments compete with the market instead of supporting it. Notorious is also illegibility and inaccessibility of information created by the administration responsible for legal norms and procedures, administrative decisions and interpretation of the law. Illegibility of information contributes, in a way, which is nothing short of premeditation, to the emergence of a grey area of the 'drawer' information. Simultaneously, the state administration interferes with the information circulation in an authoritarian manner, by means of dictates and prohibitions as well as by providing help as an award and creating obstacles as a punishment, in place of a partner-like convention of information purchasing and selling as well as guidance.

The very same administration stimulates artificial deficiency or underdevelopment of public circulation of information concerning available auxiliary mechanisms, both local and foreign, credit lines, concessions, guarantees and others. Such deficiency is accompanied by deficiency of instruments of information brokerage as well as access tools and data, mainly software, which imposes a serious handicap on few companies and advisory organisations. Even if the latter existed in a sufficient number, such circumstances would preclude them from satisfying the demand for the full access to information made possible by modern telecommunications technologies, even those present in Donetsk.

If one considered the field of information exchange mechanisms so difficult and if the general state of social and economic affairs in Ukraine was as difficult as is always the case at the time of major political changes, one could also leave the course of affairs to itself and let the process of emergence and strengthening of these organisations and companies, which are best prepared for it, run its own course. However, what we are currently facing is even worse than a crisis since the situation appears to be deteriorating all the time. Therefore, one needs to develop such methods, which would be able to revert the situation. I have suggested such a method below.

6. Suggestions – The Information Treaty

The following suggestion relies on the means which are already available to the main participants of the information exchange processes in the Polish-Ukrainian information space. It is not only an attempt to act autonomously in the environment of the bureaucratic administration, but also to free the grey or

vironment of the bureaucratic administration, but also to free the grey or 'drawer' area of information exchange from the latter. Consequently, freely-available information resources would become the basis for the market. The same suggestion may be also applicable in Poland where many of the problems are similar, even though the general conditions are superior. Moreover, it reflects the need, which was formulated as a result of the research in Donetsk, for compiling a certain package of information services which can then be examined in order to verify the conclusions made on the basis of the research.

What I suggest then is the **Information Treaty**, a model organisation which would undertake to develop an organisational scheme as well as to examine its functionality. The task would be accomplished by providing information exchange services whose absence paralyses the information market at large and which cannot emerge spontaneously due to their dependence on disruptive factors. Such functions define a market niche in which the treaty could operate and which can become the source of its profitability.

The Information Treaty would embrace Polish and Ukrainian information and computer companies which are vitally interested in the Polish-Ukrainian information space as well as unblocking the information market in order to achieve not only their goals but also profits. The Treaty could assume a form of a company based on the interest and resources of its participants, which would be able to support itself. The Economic Education Foundation's involvement would be also essential due to its initiative and influence.

The establishment of the **Treaty** depends on its access to (not necessarily as a result of sale – a form of lease or commission is also possible) certain **elementary, initial, critical-mass information resources** as well as a **basic set of tools**. By information resources I understand already existing data, which are difficult to access due to its diffusion, format differences or administrative barriers. The information itself would concern commerce, statistics, technological and administrative procedures. The above mentioned tools would include Internet browsers, database software, tools for monitoring and analysing information processes, advertising and financing procedures which allow to stimulate the market presence of particular data. The Treaty could have only commercial rights to the data and tools, although the equipment could also constitute a contribution of the participants or be an object of lease (given in commission to the Treaty). In addition to serving as a work tool, the equipment could also constitute a part of commercial exhibition.

The Treaty has as its condition and main goal releasing to the market information created and blocked by the administration. In a way, the task has a more political than technical or economic character. Without it, however, the emergence of the information market as well as the very existence of the Treaty will be impossible. In its political aspect, the task may only be suggested here; in the

technical one, regarding tools and procedures, it may be narrowed down to creating standardised procedures of propagating and preparing for the practical use legal norms created by the state and local administrations. This would include applicability of such slogans as 'administrative information should be made public' and 'legal norms should be made public' as well as standardisation and customisation of such procedures as setting up a company, crossing a border, insurance services, bank contracts and others.

Compiling and servicing the above-mentioned **set of Polish-Ukrainian communication needs** as well as monitoring of resultant commercial agreements and contracts could constitute the initial phase of the proposed Treaty. The experience gained would allow to supplement earlier diagnoses of the state of information processes and develop a detailed **information exchange mechanism**. It could also be used in establishing suggested earlier '**Telephone Companies**' for the unemployed in a mining town in the Donetsk region as a model partner for the Information Treaty.

7. Conclusion

The state of the information space is a crucial issue for communities under the pressure of restructuring. In such circumstances full information access appears to be their prime need and the most acute problem for individuals and organisations, which are about to abandon their old roles and assume completely new and unknown ones. Currently, such people are estranged and helpless relying on a kind of information, which we know, as gossip, threatened by panic or random hopes. In cases of the regional restructuring, almost everybody becomes a victim of such conditions: the unemployed, companies which change their field of operations and legal status, individuals setting up their own businesses, local government and educational organisations. The novelty of their situation is most fully reflected in their demand for information. The existence of the information market is a condition of satisfying the demand. It is only within the structure of the information market that a consulting agency can negotiate **individual cases of its customers and the totality of the information space**. Such a market needs to be stimulated, which will also contribute to the stimulation of general transformation processes. **A union of main participants in the future information market**, a company based on its participants' potential, the above-mentioned **Information Treaty**, should be the main tool of such stimulation.

Jerzy Diatłowski

RESTRUCTURING OF THE DONETSK REGION AND INFORMATION PROBLEMS

Whenever information becomes a focus of consideration, regardless of the reasons for it (in this case in connection with problems of old industrial regions), the most fundamental issue at work is how to get information about information.

The first, most obvious, step is to search the mass media: press, radio television. If the data does not appear to be satisfactory, one can try to analyse materials prepared by specialised administrative or academic centres, which are not intended for the public circulation. However, direct contacts with people seem to be the most effective source of information, provided one manages to stimulate sufficient level of openness.

Such theories may be propagated endlessly, but in fact they are not of much help. In Ukraine, suspension of disbelief is natural. The first impression from any Ukrainian market is that one kilogram weighs only 800 grams there. This is understandable, at least to a certain extent. However, the fact that all customers accept it as something natural is surprising. The degree of astonishment grows as one moves westward. What the above means is that 'pure' information does not exist and that it "comes to life" only in the mind of its consumer.

In its information dimension, the notion of restructuring old industrial regions requires the recognition of at least several planes of observation.

First of all, do people who are involved in the phenomenon in question know of its existence? The classical negative example is Moliere's Jourdain who did not know he "spoke prose".

Secondly, do the people in Donetsk and its vicinity know that they live in "an old industrial region"? We assume they do, so we will not dwell upon that. What is more important is whether they know they are to undergo "restructuring"?

Ukraine has its own Ministry of Information and Donetsk is home to its local branch. However, when questioned about the information policy concerning restructuring, the director of the centre did not have much to say. He only in-

formed us that there were approximately 450 periodicals registered in the district with some 200 actually coming out. A former deputy-governor, he openly admitted that his present position was a mere step in his political career. As the position's scope of activity was rather vague, he was not able to implement any information policy. This was not only due to the fact that the central authorities did not know what "to say", but also because he did not know whether his personal views were supposed to be compliant with the official Kiev line or not.

The vice-president of the official Mining Trade Union with more than 800,000 members, is unabashed in stating that his organisation is ready to turn into a political party supporting anybody who will solve everyday problems of the miners. Needless to say, the latter are not enthusiastic about restructuring. They do not have their own vision of transformations either, so they have decided to support the president. If both sides fail to communicate effectively, the miners will find other protectors.

Such open views expressed by many people contribute to the thesis that Ukraine does not have the information market in which information is a commodity used in formulating opinions. Instead, there is quasi-information which serves the interests of the current cabinet and promotes its legitimacy.

Even though the Soviet government used to cherish its information monopoly, the situation in the country was relatively stable. Nowadays, Ukraine is susceptible to serious upheavals in all spheres of life.

Therefore, one can witness the paradoxical coexistence of both certain embryonic democratic mechanisms in the information exchange and the regulation of information by the ruling elite, which conceals full knowledge of financial and economic phenomena. The schizophrenic awareness of many creators of information has not disappeared with the Soviet Union. The press officer of the current governor of Donetsk, who is well aware of the restructuring plans for the mining industry (including plans to close down a number of coal mines), is an author of complacent and optimistic articles in the Kiev press which contain information blatantly contradicting her actual knowledge of the facts. Her articles affect the central government's image of the region in which the truth does not seem to be necessarily present.

Apart from the political elite and the media there are also ordinary citizens whose awareness of the facts was shaped by the previous system and who have not yet learnt how to use their right to know things.

When we were leaving for Ukraine, we knew that the far-fetched restructuring of the coal mining industry, including closing down of more than 100 mines, was a condition of the financial support many international organisations offered to Ukraine. During our interviews with the high-rank political and economic officers the number of mines to be closed down dropped, first to 105, then 75, 53, and 40, only to stop at the level of 28 + 5 (28 mines and 5

branches). Our Ukrainian partners from the Widrozdennia foundation were not able to share any information while emphasising their independence of the state administration. Furthermore, even our potential allies from the Donetsk chapter of the Soros Foundation were withholding from us basic information concerning the region's major problems. To say the least, Polish experts experienced difficulties in contacting companies, government and market institutions, and others although the director of the local chapter of the Soros Foundation had promised all necessary support in a special document.

All the above connect with the lack of political stability and can be explained in terms of subjective factors and ill-will of certain people. These could be easily overcome. What is more important is the objective factors. If quantitative information is just a question of collecting data and willingness to distribute it, qualitative information has an entirely different character.

The coal mining industry restructuring is a good example. Is it possible to be an object of restructuring, even with the knowledge of its mechanisms, if the elementary information concerning the process' reasons and goals is not available? Is it necessary to close down the mines, which are valuable from the point of view of coal mining?

The phenomenon of closing down the mines or individual pit shafts is not new. So far, however, they have been closed for technical reasons. In the Soviet economy, unlimited demand for coal was an inseparable part of consciousness of both the ruling and the ruled. In "*the economy of shortage*", production costs did not constitute a problem for the government while the citizens were not even aware of them. The emergence of capitalism in the post-Soviet Ukraine has not triggered the market consciousness in either group. The conflict between the Dniepropietrowsk and the Donetsk clans is not a dispute over the degree of transformations, but a power struggle. In these circumstances both groups are not interested in the economic education of the society. There is no independent intellectual elite who would consider it their duty to propagate the principles of the free market economy, either. What is more, many potential members of such an elite share the views of ordinary citizens. In Poland Balcerowicz formulated the plan of transformations, Ukraine does not have a leader whose bold economic decisions would trigger essential and irreversible changes, even those coming at a great cost. Nowadays, the lack of such decisions costs even more.

All our interviewees in Donetsk doubted good intentions of the World Bank and International Monetary Fund, which had insisted on the restructuring of the Ukrainian mining industry. The opinion that "*They'll destroy our mines in order to control the price of coal*" was shared both by the uneducated leader of an independent trade union and a sophisticated political science lecturer. It was also expressed by a young journalist in a local newspaper. The argument of

"a capitalist plot" repeats so frequently that it can be considered not only a relic of the past system, but also a common point unifying the authorities and the citizens. Since it is very hard to discern any signs of social concern, it is quite safe to say that the official organs cynically support that view. The situation is also worsened by the fact that only a part of the funds, granted by international financial organisations for restructuring of the mining industry, reaches the country; the payments are also always late. Hundreds of thousands of people whose lives have been ruined cannot understand the situation. Even though the government promises "*something for something*" trades, the latter never come out. The questions about the causes of such a state of affairs remain unanswered. Those who pretend to be better informed claim that hundreds of millions of dollars have been partly embezzled and partly served as a support of the currency and a check on inflation. The proportions of these two explanations vary depending on the speaker's attitude toward the present government.

Consequently, we may conclude that the language in which potential sources of information could express their messages does not exist. This is an objective factor. Let us assume, however, that due to some miraculous intervention such a language emerges and subjective reasons for its non-usage disappear. The situation would not change drastically because there exists another, perhaps the most crucial, factor limiting the information flow. The information sender does not speak the language of the information recipient. This lack of knowledge is naturally only potential since, as we pointed out earlier, such a language has not emerged yet.

The quality of life in "*the old industrial region*" has deteriorated so much that more and more people do not desire information, but bread. Both remuneration and pensions are paid in the form of 60% advances many months late, which contributes to a state of the mind in which information ceases to be a principal necessity. In the case of miners who have been made redundant, this has an additional psychological dimension. The widening gap between the experience and the declarations of institutions responsible for the situation contributes to the "*voluntary helplessness*" which has become the plight of unemployed miners. The socialist system is most responsible for the feeling, but the feeling itself also makes it impossible to function in a young semi-capitalism. However, it is not only the former political system that is exclusively to blame for the situation. It suffices to say that the voluntary helplessness of masses of the socialist society is also characteristic of miners in old Western industrial regions. The struggle with it involved serious financial means in such places as Wales, Westphalia and Pas de Calais. In Ukraine, however, the experience of dealing with this particular problem was not available. Considering the impossibility of satisfying the basic needs of the society, a growing number of self-limiting people who accept such a state of affairs constitutes the major danger threatening old Ukrainian industrial regions.

Hundreds of hungry children in the streets of Donetsk give an idea of the scale of the phenomenon. According to a mining trade union member, the number of people who would use free meals ranges between 70,000 and 90,000 in Donetsk alone.

The Polish S.O.S. foundation offered the very same trade union, Independent Mining Trade Union of Ukraine, support in the form of food required to provide hungry children in the city with 500 portions of soup for 30 days. The foundation also promised money for buying bread. The period of 30 days was supposed to provide knowledge of the scale of needs as well as to test the organisational aspect of the action. Unfortunately, between May and November of 1997, the trade union could not initiate the action, instead observing the experience of a certain German charity organisation. This is but one example of the *mass helplessness*.

Restructuring of an *old industrial region* also has its town-planning dimension. As everywhere, coalmines stimulated the growth of clusters of quarters or little towns whose existence was entirely dependent on the mine. In the socialist economy, industry financed the whole infrastructure of such centres. Blocks of flats, central heating, kindergartens, health service, even funeral bonuses, were all covered by the coal mining company. Nowadays the mines are being closed down. Every time a "*mother-mine*" is closed, within a year such towns start to resemble abandoned Wild West shanty towns. People with tablets saying "*I am collecting money for a funeral*", standing in the streets of Donetsk, are the best testimony of the situation.

We happened to visit (to the great dissatisfaction of our Ukrainian hosts) one such town located in the vicinity of a closed-down mine. It was hard to believe that at one time miners were "*the leading group of the working class*", privileged both materially and morally. There were 23 families living in a one-floor "*corridor-house*", each in one room. Two common kitchens and bathrooms served several dozens of people. Only in 6 families fathers had steady jobs working in the security maintenance of the mine, but their remuneration was irregular. The remaining families lived on a dole and money earned in odd jobs. All households had TV sets, but more than half of these were either out of order or had very poor quality of broadcast, with no money for repairs. Not a single family had current newspapers. Apart from school handbooks, there was only book in the whole house – it belonged to the wife of a trader who sold articles brought from Turkey. Meat appeared on their tables only once a month. The dilapidated building was not formally administered by anyone: many families had not paid a rent for months, but no-one claimed unpaid dues. The nearby school was to be closed the following month and the inhabitants did not know where they were going to send their children. If the authorities do not arrange transportation, the children will not go to school because they have no money for a bus. If free meals were given out in the city, the town inhabitants would not be able to get them for the same reason. The

not be able to get them for the same reason. The only place where they could be given out is the old mine canteen. The people did not keep rabbits or hens because previous attempts had ended up with thefts of the whole livestock. The soil around the town is infertile so it is impossible to cultivate little vegetable patches, which constitute the basis of upkeep for millions of Ukrainians. The town grounds are so wet that the trees died of ... excess of water. Nearby, next to the ruins of a similar building, there was another one, inhabited by a dozen of families, with vestiges of a small shop, several closed workshops and something that resembled a club. The nearest shop, located by the bus's route, was 10 minutes away. The same distance was to the nearest telephone in the post office, which was open only until midday. A bottle of vodka cost less than a dollar and a half.

The official documents of Coal Mining Industry Restructuring Company, which comprise data concerning the situation in consecutive months, contain approximately 15 to 20 % of empty pages due to the lack of information. In human dimensions, they translate into many little tragedies. For these people information is not a prime necessity.

An information centre, which is supposed to help miners find new jobs, has been opened in the vicinity of one of the closed-down mines. The project is financed by one of West European foundations. This is where foreign guests are taken and shown brand new computers. The notice board is full of job advertisements cut out from newspapers. The miners who were made redundant in the mine have been paid all dues in time so that, when questioned, they can attest to the concern of the authorities responsible for the process of restructuring.

The fact that after a year Coal Mining Industry Restructuring Company 'returned' one of the mines it had been given for restructuring with the increased debt only confirms the similarity between the activities of Ukrainian restructuring organs and the tradition of imperial serf villages.

I have presented a basic scheme of the information flow (or rather its absence) between potential senders (the government) and recipients (society) in a sociologically simplified form. In reality, there are many intermediary levels, which both create information and, which happens most frequently, process it. These include the mass media and representatives of institutions that are present in everyday life of the citizens.

Even though I was carefully following the news coverage during my three-week visit to Donetsk, I noticed only one reference to the mining industry. On the eve of one of numerous holidays, the director of a prosperous mine (in which bribery is allegedly the only way to get a job) stated that the mine would be also working during the holiday "because people needed coal." The same opinion was presented to me by a representative of the presidential administration who was responsible for the district mining industry. Asked if companies, which needed coal, had financial means to purchase it, he replied in

needed coal, had financial means to purchase it, he replied in the negative. Nevertheless, he insisted on the necessity of the coal production seeing restructuring as a capitalist conspiracy.

The possibility of formulating an information-focused diagnosis of the old industrial region undergoing restructuring appears to be very little. My November visit to Ukraine and participation in three rounds of workshops in Stachanov, Makijiwka and Donetsk allowed me to adjust the picture I had after my first visit.

Personal contacts with nearly hundred participants who were trying to find the best "strategy of decision-making" allowed me to formulate less 'psychological' remarks which almost resembled quantitative research. The analysis of statements and behaviour of the political and economic authorities of the three Ukrainian cities contained fewer personal and emotional elements than the case was with direct victims of the restructuring. City mayors and their deputies, directors of municipal services, faculty members of local institutions of higher education, trade union representatives as well as students of management, other local officers, and management personnel of local companies did not stimulate spontaneous fondness, which significantly helped to prepare the analysis "sine ira et studio".

If one were to equal the Ukrainian social experience with the behaviour and statements of the workshops participants, a surprising convergence of opinions could be observed. However, even the minimal knowledge of contemporary Ukraine and socio-economic past of the former Soviet Union compels to change the initial impression.

Firstly, the said convergence of opinions appears to be the result of not only common experience, but also notional poverty which, whenever it comes to describing the immediate reality, characterises all participants of the social life in Ukraine. The notional poverty manifests itself in the poverty of the language.

The first hypothesis is that "the new reality has not yet developed its own language." Another is that "the reality is not sufficiently new to necessitate the existence of the new language." Each of the two has its share of the truth.

Let us start with the arguments in favour of the second hypothesis. "Nothing has really changed here". There are fewer elements of the old order: there is no dominant party and "its guiding role". Its structures of power, parallel to the state administrative and economic organs, have also disappeared along with the ideological language in which the orders were formulated. This, however, has not changed in the least vertical structures of dependence and the lack of both economic and territorial self-government. Consequently, the old language is good enough to describe the new reality, or rather the old one minus just one element. The only new notion is 'the head' of the municipal or district administration. This anthropomorphic term is an expression of a persistent, even in the post-Soviet so-

ciety, longing for a leader, individual or communal, to whom people could delegate their right to decide in exchange for the minimal satisfaction of their needs. Economic difficulties have not affected the forms of ownership or even organisational structures of state companies. In individual companies, decision-makers' strategy is to survive not in order to achieve some critical goal, but to wait until somebody at the top, somebody from the outside, makes the decision for them. Instead, the word '*barter*' has become one of the most popular words in Ukraine. The companies have used it as an instrument of survival, generating corruption, which would be unthinkable even in the socialist economy. This attitude marks the disappearance of another factor which, triggers real transformations within companies. 20 % to 40% of the total production capacity is currently used, let alone a preposterous level of hidden unemployment. The apparent normality of the situation does not stimulate new phenomena, which in their turn, do not stimulate the emergence of the new language.

Another perspective is that "*The reality has changed so drastically that people have not managed to follow it with the new language*". If this did happen, they succeed in describing it in the language they used for the old reality. Consequently, they are grossly mistaken since, due to the inadequate language, their linguistic interpretation of events parts ways with the reality creating a completely false consciousness. There are also objective differentiating factors at work here.

One can distinguish several dimensions of the language used by the participants of the workshops in Donetsk. First of all, there is the size of the city whose problems they discuss. Stachanow with the 130,00 population, Makijiwka with the 500,000 population, and Donetsk with 1,5 million inhabitants impress the language describing functioning of the city in different ways. There is also an issue of functions performed by the participants in their cities. The perception of his functioning within the urban infrastructure represented by a mayor is distinctly different from that of the director of municipal services. Yet another, perhaps the most important, factor at play is the Soviet "*experience*". The latter affects one's ability (or its lack) to master the method of analysing the reality by brain-storming. The language of discussion is the best example of such distinctions. Older Soviet Union activists use a typical new-speak which, although devoid of ideological phrases, is still full of meaningless embellishments while former party functionaries or military officers tend to employ moral arguments such as "*social justice*" or "*common good*".

All the above differentiating factors became primarily conspicuous during discussions, or even marginal heated disputes. In writing, arguments, which were reactions to the moderator's questions, appeared to be surprisingly uniform. Could that be the result of the "*official*" character of writing? Both the description of reality and visions of the future were constructed using a poor repertoire of institutions and features of their leaders. If one wanted to assess

the participants' preparation to life in a democratic society on the basis of their written language, the results of qualifying would be negative.

Regardless of the size of the host-city, certain essential notions were never used including: information (!), territorial self-government, self-government in a workplace, economic independence, responsibility (in any context!), international situation, social awareness, and even society as such. These appeared in the statements made by the Polish participants of the workshops. Even if these terms are not used everyday, it is hard to imagine their absence in a serious analysis of the reality, which was exactly the goal of the project. Their conspicuous absence may result from the common abandonment of once overused macroanalytical terms. It is hard, however, to ascribe this diagnosis to those workshop participants who were in their 20s and reached adulthood in independent Ukraine. In their case, the absence may be the result of the blind following of the language of older participants. These, in turn, attempted to create, consciously or subconsciously, a new reality by apparent changes in their language depending on abandoning certain terms without acquiring new ones.

The external observation of the Ukrainian workshop participants leads to the conclusion of excessive helplessness in the perception and description of the reality. The analysis of the local situation in various cities dispensed with such, apparently useless, institutions as the President (not mentioned even once), the Parliament (mentioned only twice), or the government (mentioned a few times). Nobody used such words as 'the capital' or 'Kiev'. The regional differences within Ukraine also failed to be the subject of discussions while the ethnic issues appeared to be a total taboo. Private conversations, in turn, abounded in descriptions of omnipresent corruption. The problem is so big that the US government obliged Ukraine to establish a special anti-corruption institution. (The United States provide Ukraine with financial support, which is second only to amounts given to Israel and Egypt.) Such an institution was established in May 1996, which made it possible to talk openly about the phenomenon. However, why this aspect of the social life did not surface in the public discussions even once remains inexplicable. When asked about corruption by a Polish expert, the participants laughed admitting the existence of the plague, but placing it outside their own environments. They tended to name the governmental level of power, which obviously contradicted everyday experience.

The complete disregard of Coal Mining Industry Restructuring Company, the most important institution established with a view to creating the new positive reality, marked the other pole of the 'social blindness'. The majority of the region's problems was connected with the already executed and planned closed-down of coal mines. Dramatic social phenomena were nothing new to the workshop participants, yet they did not mention the Company as an active part of the socio-economic life in any terms, either positive or negative. What was downright shocking, the Deputy Director of the Company was one of the

workshop participants. It might be, however, interesting to know that the said director is simultaneously the leader of the trade union of mining technicians and engineers. His wife, a representative of the trade union, also took part in the workshops.

Apart from all these observations, it might be worth assessing the instrument itself – the workshops. Many participants proved to be quite interested in them, some even enthusiastic. Such an occasion for intellectual analysis was not commonplace for the local Ukrainian leaders. The presence of the moderator was also intriguing for people used to the authoritarian manner of conducting training courses and workshops. Their active participation in finding strategies and solutions was facilitated by general calmness, an atmosphere of consensus, equal attention and respect shown to all participants, and immediate execution of their ideas. Such 'friendly' relations turned out to be attractive even for the older participants who were used to the party and military drill. The young ones associated the form of meetings with the western liberalism, which constituted sufficient grounds for acceptance.

The word 'liberalism' has not appeared here incidentally. Several local leaders introduced themselves as liberals while one young man described himself as a member of Liberal Party of Ukraine. Moreover, his bold views clearly contrasted with the commonplace opinions of his colleagues. Among several dozens of the participants, he was the only one to understand that old-fashioned machines and equipment did not contribute to the region's potential on which the future of the region was to be built. He was also the only one to contest the others' opinion that the high qualifications and experience of the labour force in companies constituted a valuable reserve. Finally, he was the only one to use the term 'world market price' while speaking of coal and steel. Among senior participants, an engineer from Stachanow differed in his opinions from the majority of economic "apparatchiks". It turned out later that in the past he used to be a dissident. Ukraine could find its chance if a plane of consensus could be found between such people.

I am convinced that in one respect our activity is not to be underestimated. Bringing together local leaders and allowing them to exchange views in a situation far less stressful than a production meeting or a political conference constitutes one of the manners of establishing a democratic society. However, such occasions should be more frequent. Otherwise, our workshops will remain a one-time experience, which only confirms a common conviction of one's country's, region or city's uniqueness.

If such events are to be repeated, it seems that their organisers should ensure greater homogeneity of the group, not necessarily in terms of positions or functions, but rather equality within the social structure. Individuals of similar responsibilities

find it easier to identify problems properly. They are also more willing to discuss if potential disagreements are with a person of the similar standing.

One of the important points of the project is the introduction of the intellectual method of activity, which although undoubtedly theoretical, thanks to the participation of Polish experts and representatives of local governments allowed the Ukrainian colleagues to see practical effects of the decision-making workshops.

Considering the current socio-political situation, it is hard to expect that the Donetsk region will develop a healthy and free market of information in the nearest future. The establishment of a strong international information centre could be one of the ways in which European Union could help the young Ukrainian democracy. Such a centre would collect all data concerning Ukraine, which would be freely available to both individuals and companies. The centre could also publish a periodical report discussing the biggest problems of the country as perceived in the mass media, possibly in the form of paid advertisements. Such a custom would not constitute a bigger interference into the internal affairs of the country than the above-mentioned pressure the United States exerted in connection with corruption.

Another, still untouched, source of information is a great Ukrainian community abroad, particularly in Canada and the United States. It is easy to see tourists-emigrants in the Ukrainian streets, but they seem to be absent in the process of establishing the first in history independent Ukrainian state. The same concerns Ukrainians living in Poland, particularly the young ones, who could easily propagate the Polish experience. The sooner independent Ukraine deals with the widely understood problem of information, the sooner it will become a normal state.

The difficulties in finding essential symbolic references, both facilitating formulation of supraindividual goals and encouraging necessary periodical hardships constitute another problem in the way of the transformation of the Ukrainian social awareness. The embryonic (particularly in Eastern Ukraine) national consciousness does not appear to be such a reference point. However, in my opinion, certain hopes can be associated with the idea of the Ukrainian state as a young European democracy. The symbolic struggle for Ukraine between Europe and Russia may prove helpful in this process, provided the former succeeds. The problem is not in Ukraine being unified with Russia as a threat to Poland although such a scenario is also possible. The point is in Poland's acknowledgement of Ukraine's autonomy, especially considering several centuries of the tempestuous Polish-Ukrainian relations.

The current political situation in Poland does not promise much in terms of such an attitude. There are still certain groups in Poland which tend to express ill sentiments. The former parliament did not decide to condemn the 'Vistula' operation. Therefore, all pro-Ukrainian Polish activities should be strongly en-

couraged; the funds should not only come from western investors. Pro-Ukrainian activities for Polish money will symbolically prove particularly important.

There are many threats in Ukraine itself, too. The young state may seek its internal integration in nationalism: there are certain symptoms of such dispositions. Ukrainisation of the state may prove to be a great obstacle in many educational reforms. Economic problems, especially with energy, may push Ukraine toward Russia. A strong industrial lobby in Ukraine envisions the future of the local production only in association with the Russian consumer market. Social unrests caused by food shortages may also change the positive perspective. The Ukrainian paradox is hard to understand for many Europeans who perceive the country as a potential 'pantry of the continent'.

One could go on enumerating possible difficulties. One could continue to warn against the unknown. Everything is possible in Ukraine.

Including success!

Witold Sartorius

THE DONBAS REGION LOCAL DEVELOPMENT STRATEGIES DEVISED WITH THE UTILISATION OF THE METHOD OF ACTIVE PLANNING FOR STRATEGIES (MAPS)¹

Introduction

„*The future of traditional industrial regions in Europe*” – the joint Polish-Ukrainian inter-regional co-operation project offers a unique opportunity for the Ukrainian representatives of the Donbas Region and their Polish partners from Upper Silesia to share their experience and expertise in the active promotion of economic development on the local level.

The modern approach to the regional and local development was first adopted in Poland on the turn of 1992/1993 with the Polish Government initiating actions targeted at setting up regional political centres. These endeavours were coupled with the emergence of numerous EEC regional and local development schemes and business support projects. Furthermore, the key success factor for all these actions was the positive attitude of local and regional communities.

In the beginning of 1990s Upper Silesia, the major heavy industry centre in Poland, was hit by the turmoil of systemic changes doubled by the industry restructuring problems. Facing the difficulties similar to the ones haunting Donbas today, the Silesian regional authorities launched a search for positive patterns in other regions of Europe. It was no surprise that the areas of particular interest to them in the past and today have been the regions of similar social and economic structures, such as the Ruhr district in Germany or the French Nord-Pas de Calais metallurgic and coal-mining industrial region. Additionally, for

¹ *MAPS* – is a method developed by Foundation for Economic Education specially for the purpose of local and regional strategy development. In the development of the method the elements of other visual moderation methods were used, such as *METAPLAN* and *ZOPP*, together with the experience of the Foundation's experts in their application.

as de Calais metallurgic and coal-mining industrial region. Additionally, for a couple of decades both districts have been co-operating with primary East and Central European metallurgical and coal-mining centres. Yet, only following the collapse of communism in Poland, emergence of the free-market economy and establishment of local governments have the Polish local authorities started taking from the West European expertise in restructuring and promotion of the local communities. Today it is Upper Silesia that offers similar know-how to the Donets Basin at its turning point.

Over three years ago the North Rhine – Westphalia authorities decided to support the restructuring of Upper Silesia. Since that time many German experts have provided extensive consulting services to the Silesian provinces and their governments upgrading the economic development of the region. For example, one of the regional prides of North Rhine – Westphalia and the one that this territory is passing on to its partner districts is know-how in the sphere of favourable settling down local conflicts on the way of multilateral agreements by all the partners. The chief asset of the system lies in the positive motivation of the parties involved to keep up and develop good mutual relations in order to carry out the provisions of the agreements. Co-ordinating actions executed with the participation of numerous independent entities supporting their business and social interests calls for the new management techniques, previously not applied in the regional development.

Methods and techniques of the effective programming of economic development devised in the course of the past 30 years in North Rhine – Westphalia have also proved effective in Upper Silesia where, through the local affiliation of the Friedrich Ebert Foundation, there have been initiated local development projects with the participation of 116 provinces of the region making up the local government. These municipalities established 16 extraterritorial communities. With the assistance of the experts from the Economic Education Foundation, such communities developed the extraterritorial economy development strategies. The strategies determine the directions for the development of the communities, the principles for the co-operation between the municipalities in the achievement of the agreed goals and the priorities, which constitute the basis for the preparation of ventures facilitating the realisation of strategy's goals.

The actions carried out in Donbas within the Polish-Ukrainian extraterritorial co-operation are the continuation of the international co-operation of European regions: Polish Upper Silesia, German Ruhr District and French Nord-Pas de Calais. Using German experiences and combining them with modern management techniques, the Economic Education Foundation developed the **Method of Active Planning for Strategies (MAPS)** which has been successfully applied in the local development projects in Poland (among other in the Upper Silesia) and in other countries.

First actions were undertaken within the Polish-Ukrainian project in order to develop the local development strategy for three cities of the Donbas Region. With the assistance of the experts from the Economic Education Foundation and applying the ASPM method, works have been initiated on the strategies for Makiyevka (workshops 1+2 October 1997), Donetsk (workshops 3+4 October 1997) and Stachanow (workshops 20+30 September 1997).

ASPM based strategic workshops - results and framework

Three cities of the Donbas Region and two Upper Silesia Region – Mikołów and Bytom participate in *"The future of traditional industrial regions in Europe"* project. Although the local administration in the Ukraine has no powers comparable with those of Polish self-governments, decentralisation of government may be observed. One of the project's objectives is to initiate and develop the co-operation on the local level between the participating Polish and Ukrainian self-governments.

In order to present the Silesian experiences to the Donbas partners a strategy development workshop was held, with the participation of the high officials from two Polish cities, including the Mayor of Mikołów and Vice President of Bytom). In this way the Economic Education Foundation was in a position to present in Donbas new methods for strategy development based on local consensus. Simultaneously, the Polish participants contributed their conclusions, comments and presented their experiences, which were discussed and accounted for (or not) in the strategic documents of Stachanow, Makiyevka and Donetsk.

The Method of Active Planning for Strategies (MAPS) is based on the application of strategic workshops technique, which - when appropriately held-ensure systematic group work of the team composed of the officials and local experts as well as invited external experts. A complex and mutually agreed outline of a city's or municipality's development strategy is the result of the series of the workshops. Workshops were held in Donbas, which constitute the first state of strategy development and they must be continued in order to achieve the supreme goal.

The idea of workshops is based on the results of research concerning the motivation to learn and on the state-of-the art management techniques. The main characteristics of this idea are:

a) team work principle

The participant of the workshops are the members of any team (project team, group, division) and co-operate with each other also after the venture. During the workshop, a team may be assisted by the external advisors or represen-

tatives of the government or co-operating institutions. Close co-operation at workshops results in:

- ☐ levelled access to knowledge and information,
- ☐ improved mutual understanding,
- ☐ tighter internal liaisons in the team.

It is imperative that the workshop participants be diversified, i.e. that they represent different businesses and organisations that are interested in working out a common action plan. In each one of the three cities of Donbas this criterion was met. The participants represented the local and regional administration, business (private companies, state corporations), educational institutions and non-governmental agencies. The principal work mode in the teams facilitated exchange of the participants' opinions and arguments. At the end of day two of the first round of workshops positive interactions had emerged among the members of each of the three project teams.

b) Orientation towards practical applications

The Programme is tailored to the individual needs of the participants emerging in the course of their daily professional duties. Such arrangement results in:

- ☐ stronger motivation for studying,
- ☐ participant's identification with results achieved,
- ☐ awareness of the practical applications of the agreed steps and actions.

The three workshops held in Donbas did not have a purely academic character as there had been discussed and studied actual problems of the cities and the teams were trying to come out with the proposals of concrete actions to address the vital issues. In order to present final solutions or suggestions there is a need for additional three 2,3-day workshops in each city. The result of the problem analysis carried out during the workshops proves the fact that the Donets Basin district has dwarfed to the critically low economic level. It is nevertheless interesting that the problem analyses for each of the three examined cities, however similar to one another, resulted in considerable different remedy schemes. The result of the Stachanov case study depicted strong local desire for the greater interventionism of the state and public authorities. The other two cities clearly favoured quick transformation towards the free market economy and entrepreneurial development.

c) Participation

The team members should be encouraged to actively participate in the sessions. They should take advantage of the possibility to share their knowledge,

expertise and experience in the course of case studies and discussions leading to working out common solutions and decision taking. This results in:

- ☐ thoroughly worked out results,
- ☐ greater identification of the participants with the proposed actions,
- ☐ higher level of member's satisfaction.

The MAPS method facilitates project team members' active participation in the sessions. Additionally, participants' good acquaintance with the presented problems triggers high level exchange of opinions. High quality and effectiveness of the common work of the Polish and Ukrainian colleagues were also the result of the good communication as the Foundation for Economic Education experts (moderators and consultants participating in the sessions) had good command of Russian. The lack of communication barriers substantially improved study processes leading to the mutual satisfaction.

d) Interactive learning

The methodology of the workshops was targeted at eliminating passive reception on the part of the participants in favour of the techniques focused on:

- ☐ triggering active participation of all the members (small group tasks, discussions),
- ☐ encouraging the members to exchange opinions and share experiences.

Group moderators utilising the ASPM method were equipped with a set of tools and techniques for settling emerging intra-group conflicts and steering the discussions back to the core points as the members were veering from the primary subjects. After the initial two days of the sessions the Donbas participants expressed their high opinions on the applied methodology, engagement and experience of the group leaders.

e) The visualisation technique

The visualisation technique is one of the key success factors of the workshops as it facilitates engagement and stimulates interest of the group members: concepts are written down, then displayed on the board so that anyone has access to everyone's notes and remarks that are further discussed and analysed. The advantages of the method are following:

- ☐ the materials are not messy,
- ☐ one can hook on and off the course of the discussion freely,
- ☐ participants may remain anonymous if they wish,
- ☐ it facilitates dealing with delicate issues,
- ☐ it triggers concrete discussion.

The visualisation technique, as opposed to traditional conferences, requires the participants to share the command of a common language. While regular seminars can be carried out effectively with the utilisation of simultaneous translating services, the visualisation technique almost entirely excludes such option. As the Polish workshop participants could not communicate in Ukrainian all the members agreed on Russian as the official session language. Normally any arrangements to use Russian as the official language at formal occasions are fiercely opposed to by Ukrainians who perceive their mother language as one of the mainstays of their country's independence. The local participants of the Donbas sessions did not express problems or uneasiness in that area and agreed to the request of the Polish party.

The workshops results were recorded based on the visual materials (in Russian, partly in Ukrainian and delivered to the participants. The Foundation for Economic Education and the International Renaissance Foundation (*Ukr. "Widrodzennia"*) posses copies of the workshops technical reports.

f) Result-targeted orientation

In the course of the workshops there have been discussed vital issues concerning the Ukrainian party. As all the session were result-oriented the teams have come up with common applicable solutions.

All the three sessions constituted preliminary stages of the projects to devise complex development strategies for the participating cities. There is further need for three 2, 3-day workshops for each city in order to agree upon final objectives, tasks and actions.

Continuation of the Project *"The future of traditional industrial regions in Europe"* in the Donets Basin will involve participation of the partners from Upper Silesia, the Ruhr district and Nord-Pas de Calais.

Working out the strategy of region development using Method of Active Planning for Strategies (MAPS), the manager lead the discuss participants through following work stages:

stage 1: THE ANALYSIS OF THE PROJECT'S ENTITIES

- the participants and target groups are subject to the analysis

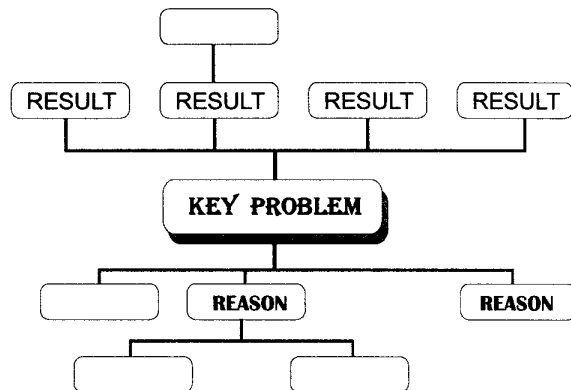
stage 2: PROBLEM ANALYSIS

- the main problem is defined

stage 3: PROBLEMS ANALYSIS

- the reasons and results of the main problem are analysed

Diagram model ("tree") of MAPS problems



stage 4: GOALS ANALYSIS

- the hierarchy of problems is changed into the hierarchy of goals, which are then analysed

stage 5: ALTERNATIVES ANALYSIS

- the alternative solutions to the identified problems are identified here

stage 6: PROJECT PLANNING REVIEW (PPR)

- project summary is developed - logic matrices of the project

stage 7: PPR

- the main assumptions are tested

stage 8: PPR

- the achievement ratios are defined for the assumptions

stage 9: PPR

– description of the sources of information applied in verifying the planning process,

stage 10: PPR

– analysis of the key concepts and risk associated with them; results are utilised in developing the strategy,

stage 11: PPR

– project management verification,

stage 12: PPR

– calculation of the required manpower, costs and timing of each project.

Conclusion

The Polish–Ukrainian inter–regional co–operation project proves that direct exchange of expertise and know–how between the regions facilitates the implementation of desired structural changes in the areas of slow restructuring processes. The Foundation for Economic Education offers extensive assistance for regional development. The Method of Active Planning for Strategies (MAPS) is an especially useful tool devised for programming regional and local development projects. The success of the method is largely the result of close co–operation of the Foundation with Polish and German partners. It is our intention to, based on the Polish expertise in the promotion of local and regional development and close liaisons with EEC partners, offer the acquired know–how to local and regional Ukrainian authorities and perhaps also the ones of other East and Central European districts.

We are very optimistic about the thriving inter–personal contacts and co–operation and hope they are one of most important positive prospects for the future. The Donbas reception that we have experienced was a truly friendly one as one of the ladies participating in the workshops has written in her poem on the occasion of our common venture:

Meeting in Stachanov

*I have waited for a wise Uncle,
to share his wisdom with us,
to help us cross the mighty frontier,
and have confidence in us.*

*And last the life have proved,
beside the many obstacles,
that our time is not just us,
but what we're ready to adopt.*

*The hard times may You give us God,
and bless the wise decisions,
it's us to faithfully adopt,
whatever prompts your reason.*

*Let our Slavic family
boast understanding and reason.
Let fly high free Ukraine
at Poland's thriving surge.*