

Understanding institutional persistence in
Ukrainian water service provision sector

Institutional Change in Agriculture and Natural Resources
Institutioneller Wandel der Landwirtschaft und Ressourcennutzung

edited by/herausgegeben von
Volker Beckmann & Konrad Hagedorn

Volume/Band 62

Nina Hagemann

**Understanding institutional persistence in
Ukrainian water service provision sector**

Shaker Verlag
Aachen 2016

Bibliographic information published by the Deutsche Nationalbibliothek

The Deutsche Nationalbibliothek lists this publication in the Deutsche Nationalbibliografie; detailed bibliographic data are available in the Internet at <http://dnb.d-nb.de>.

Zugl.: Berlin, Humboldt-Univ., Diss., 2015

© Image book cover: Tamara Nuñez von Voigt/inter 3

Copyright Shaker Verlag 2016

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the publishers.

Printed in Germany.

ISBN 978-3-8440-4456-0

ISSN 1617-4828

Shaker Verlag GmbH • P.O. BOX 101818 • D-52018 Aachen

Phone: 0049/2407/9596-0 • Telefax: 0049/2407/9596-9

Internet: www.shaker.de • e-mail: info@shaker.de

Aim and Scope of the Series

„Nothing endures but change“. Heraclitus the Ephesian (ca. 535–475 BC)

Institutions, defined as “the rules of the game”, are a key factor to the sustainable development of societies. They structure not only the multitude of human-human interactions of modern societies, but also most of the human-nature interactions. Poverty, famine, civil war, degradation of natural resources and even the collapse of ecosystems and societies often have institutional causes, likewise social and economic prosperity, sustainable use of resources and the resilience of socio-ecological systems. Agriculture, forestry and fisheries are those human activities where the interdependencies between human-human and human-nature interactions are perhaps most pronounced, and diverse institutions have been developed in history to govern them.

Social and ecological conditions are, however, ever changing, which continuously challenge the existing institutional structure at a given point in time. Those changes may be long-term, like population growth or climate change, medium-term, such as new technologies or changing price relations, or short-term, like floods or bankruptcies, but all of them pose the question whether the rules of the game need to be adapted. Failures to adapt timely and effectively may come at a high social cost. Institutional change, however, face a principal dilemma: on the one hand, institutions need to be stable to structure expectations and effectively influence human behaviors; on the other hand, they need to be adaptive to respond to the ever changing circumstance mentioned above. Understanding stability and change as well as developing adaptive institutions and effective, efficient and fair mechanisms of change are, therefore, of central importance for societies and an ongoing research challenge for social scientists.

If we want to improve the effectiveness, efficiency and adaptability of institutions, it stands to reason that we have to develop a good understanding of the causes, effects, processes and mechanism of stability and change. This is the aim of the series “Institutional Change in Agriculture and Natural Resources,” which attempts to answer the questions “How do processes and mechanism of institutional change actually work? What and who are the main determinants and actors driving, governing and influencing these processes? What are the economic, political, social and ecological consequences? How can adaptive institutions be designed and developed, and what governance structures are required to make them effective?” These are the questions at the heart of the series. The works published in this series seek to provide answers to these questions in different economic, social, political and historical contexts.

Volker Beckmann and Konrad Hagedorn

Ernst-Moritz-Arndt-Universität Greifswald und Humboldt-Universität zu Berlin

Acknowledgement

Working on the dissertation often felt like steering a ship through rough seas. But with the support of many friends and colleagues, I was eventually able to reach a safe harbor. The journey already began at Hamburg University, where Professor Frank Golczewski, the greatest teacher I had during my study times, introduced me to the fascinating world of former Galicia. He inspired me to work in the Ph.D. project connected to this region being located in today's Western Ukraine, which is characterized by so many great people and history that can in several areas still be experienced today.

I am especially grateful for the very helpful and insightful comments and supervision of my Ph.D. thesis by Professor Konrad Hagedorn, Professor Bernd Hansjürgens, and Dr. Christian Schleyer. Without their recommendations, experience and enduring trust in me, reaching the final harbor would not have been successful.

Many friends and colleagues also contributed to this work by discussing with me the research progress, giving me advice and commenting on the thesis. My special gratitude goes to Norman Bedtke and Daniela Siedschlag not only for their comments and long discussions but especially for their time to listen and giving emotional support when progress seemed to be impossible. Moreover, I would like to thank my office mates Paul Lehmann, Sebastian Strunz and Lena Horlemann for creating an atmosphere that encouraged me every day again to make my way to the office and work on the thesis. But also other colleagues supported me in diverse ways, especially Annemarie Müller, Christian Kuhlicke, Matthias Gross, Silke Beck, Katja Sigel, Johannes Schiller, Irene Ring, Ines Dombrowsky, Katrin Prager, Zak Seridarian and Anne Carney who I like to thank for their support.

My special gratitude goes also to Sigrid Heilmann and Ines Jeworski, but also the team of the examination office at Humboldt-Universität zu Berlin, who supported me in all administrative steps and tried to find solutions for all stumbling stones on the way to finally submit and defend the thesis.

There are times when things go out of whack. People that stand by you even during these stormy times are rare and because of that they are very special: The support and endless trust of Heike and Ottmar Möller as well as my best friend Stephan Bartke were the basis for believing that rough seas can be conquered and safe harbors still be reached – thank you for believing in me.

The research was carried out within the research project “Internationale WasserforschungsAllianz Sachsen” (IWAS) funded by the German Federal Ministry of Education and Research (BMBF). The support by the IWAS partners and colleagues, especially Corinna Weigelt and Jörg Seegert, the team of the DREBERIS office in Lviv, the interview partners who provided me with valu-

able insights as well as the BMBF is gratefully acknowledged. Moreover, I would like to thank the Graduate School Higrade for financial support.

Special thanks goes to the editors of the ICAR series, Professor Volker Beckmann and Professor Konrad Hagedorn and the publishers at Shaker Verlag.

Leipzig, March 2016

Nina Hagemann

Table of content

Acknowledgement	vii
Table of content	ix
Figures	xiii
Tables	xv
Abbreviations	xvii
Deutsche Zusammenfassung	xix
1 Introduction	1
1.1 Problem definition.....	1
1.2 Identification of research gaps	3
1.3 Motivation and research questions.....	5
1.4 Structure of the book.....	8
2 Conceptualising the research object	11
2.1 Characteristics of water service provision from a governance per- spective.....	11
2.1.1 Asset specificity in water service provision	12
2.1.2 Uncertainties in water service provision.....	14
2.1.3 Frequency of actions and decisions and (other) physical transaction properties	16
2.2 Rules and norms: What shapes actors' behaviour in water governance?.....	16
2.3 Analytical framework for water service provision	19
3 Unpacking the black box – theories to understand what drives institutional persistence in water service provision	23
3.1 Path dependency or why things don't change.....	23
3.1.1 The interlinkages of technological and institutional path dependencies	24
3.1.2 Overcoming path dependency in a transition context.....	24

3.2	What can be learnt from public choice theories?.....	26
3.3	Fiscal federalism	29
3.4	Property rights theory or who has the right (and duty) to do what and how	32
3.5	The difficulties of defining and re-defining property rights	33
3.6	Mental models and social capital	35
3.6.1	Mental models.....	36
3.6.2	Social capital	37
3.7	An example for prevailing informal rules: Corruption.....	40
3.8	Hypotheses	41
4	Organisation of the research process	43
4.1	The initial starting point of the overall research project.....	43
4.2	Research logic	44
4.3	Case study definition.....	46
4.3.1	The case study approach	46
4.3.2	Characterisation of the selected case studies	46
4.4	The process of data collection.....	49
4.4.1	Literature and document analysis	49
4.4.2	Expert interviews	50
4.4.3	Participation in workshops and seminars.....	52
4.5	Criticism of the methods	53
5	A rough guide to Ukrainian political development since 1991.....	55
5.1	The process of political transition.....	55
5.2	Decentralisation.....	58
5.3	Economic development.....	60
5.4	Relations with the European Union	61
5.5	Implications for the analysis	62
6	The Ukrainian water service provision sector: A problem statement.....	65
6.1	The early years of water service provision infrastructure.....	65
6.2	Technical challenges for water service provision.....	67

6.3	The financial situation of water enterprises	71
6.4	Institutional challenges of water service provision.....	71
6.5	Implications for theory building	72
7	Institutions and governance structures for water service provision at the municipal level.....	75
7.1	Ownership challenges of municipalities	75
7.2	Budget competencies of municipalities	77
7.3	Enterprises and municipalities: A difficult relationship	78
7.4	Economic aspects of operation and maintenance	79
7.4.1	Transaction costs in water meter installation.....	80
7.4.2	Enforcing rules on outstanding payments.....	81
7.4.3	Sources of capital flow for water infrastructure	84
7.5	Rules for tariff setting	86
7.5.1	The procedure of tariff calculation	87
7.5.2	Challenges resulting from deficits in tariff setting procedure	91
7.6	Conclusion and implications for theory building	94
8	Approaches for defining and specifying rights	95
8.1	Policy making and implementation	95
8.2	The role and instruments of civil society engagement	98
8.2.1	Articulating interests and protest	100
8.2.2	The role and influence of non-governmental organisations	101
8.2.3	Influential non-governmental organisations in Ukraine	102
8.2.4	Strategies and influence of non-governmental organisations	102
8.3	Actions enterprises can take to influence procedures.....	103
8.4	Conclusion and implications for theory building	104
9	What hinders institutional change in Ukrainian water service provision?	105
9.1	The institutional vacuum since 1991	105
9.2	Implications from the design and enforcement of rules	106
9.2.1	The decentralisation of ownership and rights of water utilities.....	107
9.2.2	Tariff setting and enforcement.....	108

9.2.3	Criteria for the appointment of enterprise directors.....	109
9.3	Networks and social capital	110
9.3.1	Politicians and administration employees.....	110
9.3.2	Enterprise officials	111
9.4	The role of the Soviet legacy and corruption.....	111
9.5	Conclusion: Factors preventing effective institutional change.....	114
10	Summary and outlook	117
10.1	Further research.....	118
10.2	Outlook.....	119
	References	123
	Legal documents	139
	Annex	141