

*Draft*  
Regional Policy Barometer  
HY 1 2019

**Semi-annual assessment of the regional policy state of play, trends and challenges as well as proposals for operational tasks that aim at improving the regional policy design and delivery**

<b>Degree of Urgency</b>	
Low	Green
Intermediate	Yellow
High	Red
<b>State of play</b>	
All key elements and related processes are in place and at least partially functional	Green
Selected elements are in place and partially functional	Yellow
Some of the elements that are in place are not functional	Red
<b>Trend</b>	
The situation is better than six months ago	Green
There are no formalised intentions by relevant public authorities or institutions to change the status quo	Yellow
The situation is worse than six months ago	Red

**Descriptions and challenges**

For each of the Regional Policy pillars, there is in Annex a description of its present state of play and an indication of the general challenges it faces.

Pillar	Challenge	Responsible Actor	Operational Task	Degree of urgency	Status	
					State of Play	Trend
<b>Policy framework and legislation (see Annex 1)</b>						
	<p>Ensure harmony between the new approaches to regional policy (and regional and local development) and decentralisation</p> <p>Develop cooperation and dialogue between regions, rayons and hromadas and between sectors in order that they may create synergies in their development.</p> <p>Verify the extent to which relevant legislation is harmonized with the philosophy of Ukraine’s New Regional Policy as contained in the Law of Ukraine “On fundamentals of state regional policy”.</p> <p>Support and promote amendments to the major RD Policy legislation developed early 2019 to streamline the whole process of RD Policy making and implementation – Law On Fundamentals of State Regional Policy, Law on Stimulation of Development of Regions, Budget Code of Ukraine, Tax Code of Ukraine</p> <p>Verify the extent to which key operational patterns and implementation instruments for the New Regional Policy comply with the</p>	MinRegion	Create an explicit coordination function			
		MinRegion	Organise a programme of small-scale cooperation meetings and visits			
		MinRegion	Prepare an inventory comparing the relevant parts of other legislation to the Law “on fundamentals of State regional policy”			
		MinRegion, all committed stakeholders	Maintain regular and informed communications and dialogue with the Verkhovna Rada to promote New Regional Policy, an enhance awareness of MPs about RD Policy concepts and implementation specifics			

	OECD recommended principles of effective public investment at all levels of governance.		Produce a comprehensive overview policy brief for attention of MinRegion, Oblast State Administrations, Hromadas, and line ministries			
<b>Institution (availability and functionality) (see Annex 2)</b>						
	Develop a clear agreement at all levels of government of development and investment priorities, coordinating particularly in those areas where competences/interests overlap (eg. transport infrastructure; urban development; land use)	MinRegion	Reinforce coordination mechanisms between levels of government			
		MinRegion	Activate and energize the Inter-Service Coordination Commission for Regional Development (ISC)			
		MinRegion	Steer Regional Development Agencies (RDAs) towards the bottom-up development activities in oblasts			
	MinRegion	Create appropriate dialogue platforms, fiscal councils, standing commissions and intergovernmental				
	Clarify the role of each level of government in the different policy areas in order to avoid duplication, waste and loss of accountability, and build coordination mechanisms that enable regular communication, paying special attention to joint responsibilities					

	<p>Subnational horizontal coordination is essential to encourage investment in areas with positive spillovers (eg. Economics od scale; enhanced synergy between policies)</p> <p>Additional resources need to be complemented with human resources capable of managing them, especially in small municipalities</p>	<p>MinRegion</p> <p>MinRegion</p> <p>MinRegion</p>	<p>consultation boards and contractual arrangements</p> <p>Use intergovernmental bodies to manage cross-border (hromada, oblast) responsibilities</p> <p>Consider funding schemes for RDAs that support strategic cross-border activities, thus limiting the possibilities of conflict</p> <p>Provide finance to actively support capacity building for officials in sub-national governance</p>	<p></p> <p></p> <p></p>		
<b>National/RD policy planning framework (see Annex 3)</b>						
	<p>The mutual dynamic between Ukraine’s multi-level governance and decentralisation reforms, the State Strategy for Regional Development (SSRD) and subnational development strategies is a key element in regional and national economic development. This dynamic should be supported by the law on state strategic planning and the National development Plan, which are currently not available</p>	<p>MinRegion</p> <p>MinRegion</p>	<p>Promote and support further development of the law on state strategic planning.</p> <p>Support design and preparation of the National Development Plan, which is the cornerstone of the</p>	<p></p> <p></p>		

		MinRegion	regional strategic planning system. Link sectoral objectives and tasks to national RD objectives in order to streamline top down planning			
		MinRegion	Improve links between regional planning, budget management, and project formulation			
<b>Financing (see Annex 4)</b>						
	The State Fund for Regional Development (SFRD) is the main financing lever for regional development and the most important tool that links policy and resources  But <ul style="list-style-type: none"> <li>– the 1% funding for SFRD in one year has never been observed</li> <li>– There has not been a year when development projects were submitted by Oblasts to Minregion in the current year for funding in the following year as stipulated by law</li> <li>– Funding for national regional development programmes to implement the SSRD2020 has only been made available in 2018. Until this time, the state budget did not provide any funds for this.</li> </ul>	MinRegion	Reintroduce stability into the Fund’s own financing mechanism			
		MinRegion	Return to the original formula for fund disbursement to give (i) subnational government visibility and (ii) available development funds, greater funding certainty and clarity for long-term development planning.			
		MinRegion	Eliminate political representation on the			

	<ul style="list-style-type: none"> <li>There is insufficient transparency in selection of regional development projects by the oblast commissions due to the influence of the heads of the Oblast State Administrations and Members of Ukrainian Parliament.</li> </ul>	MinRegion	<p>project approval committee</p> <p>Consider improvements in the SFRD allocation mechanisms to give greater focus on socio-economic challenges, promote inter-municipal cooperation</p>			
<b>RD projects (see Annex 5)</b>						
	<p>There are insufficient project proposals for SFRD financing coming from subnational governments, as well as a difficulty in identifying clear priorities.</p> <p>The key challenges are:</p> <ul style="list-style-type: none"> <li>most of the regional development projects submitted by the regions for funding from the SFRD are not developmental, do not aim at implementing all strategic objectives and objectives of the regional strategy, but essentially serve as an additional source for the construction, repair and reconstruction of buildings of budgetary institutions.</li> <li>there is a limited understanding of project management at local and regional levels: authorities are accustomed to spending subsidies but</li> </ul>	MinRegion	Eliminate from the project approval phase elements that may carry political bias and favor certain municipalities			
		MinRegion	Seek a better balance in approved projects between “hard” and “soft” infrastructure			
		MinRegion	Identify and address recognized weaknesses in project planning and approval.			
		MinRegion	Continue initiatives to strengthen civil service capacity and			

	<p>have less experience with project-based thinking aimed at economic development based revenue increase.</p> <ul style="list-style-type: none"> <li>–</li> <li>– Funding applications are often solely related to construction of social infrastructure without a needs assessment. Proposals are rarely evidence-based and there is limited capacity for investment projects related to Human Capital or economic development.</li> </ul>	MinRegion	<p>skills in designing presentations and implementing projects</p> <p>Seek to increase the number of integrated development projects in line with strategic plans.</p>			
<b>M&amp;E system (see Annex 6)</b>						
	The Government of Ukraine is working to improve the transparency of regional policy by enhancing data collection, developing evidence-based tools for policy-making, and strengthening performance monitoring	MinRegion	Strategic documents should include initial diagnoses, quantitative indicators to allow the use of continuous monitoring and the development of forecasting models			
		MinRegion	Finance appropriate data collection			
		MinRegion	Ensure that at operational level planning documents include specification for indicator and sources to be used			
		MinRegion				

			Bring flexibility to the current system of indicators defined in Cabmin Resolution documents			
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# Regional Policy Barometer

HY 1 2019

Annex 1

## Policy framework and Legislation

The combined overall purpose and objective of the reforms of regional development policy and decentralization is three-fold – a) secure consolidated and cohesive all-Ukraine space in political, spatial, economic, social and societal dimensions, b) provide for higher living standards and safer environment for all citizens of the country regardless of their place of residence, c) enhance competitiveness of Ukraine's regions and communities for sustainable development.

A whole-of-system approach to multi-level governance cannot occur without the regional level. Stronger regional development outcomes will be critical for mitigating the existing socio-economic inequalities in Ukraine's territorial system and those that may arise from the decentralisation process. Regional-level authorities are in a good position to lead economic and social development as appropriate to their contexts, while also supporting municipal growth. Just as local governments have a better understanding of citizen needs in terms of services, for example, regional governments are well placed to identify their territory's productive and development requirements as well as the unique territorial characteristics that can help fulfil these. Regional governments also have strong links to political, social and economic players in their areas, and thus are well positioned to bring together actors and target key local assets for greater competitiveness.

Ukraine has made significant progress in its approach to and planning of regional development at the national, regional, and local levels. The difficulties often lie in making the shift from paper to practice, and implementation can be a challenge for Ukraine, as it is for many countries. The State Strategy for Regional Development (SSRD) 2014-2020 aligns with broader government objectives by underscoring the need for the decentralisation of state powers and financial resources to the local level and calling for greater coordination between national goals and sector policy priorities (Cabinet of Ministers, 2014). Thus, Ukraine's regional development strategy faces the same problem as its multi-level governance and decentralisation reform: the need to find alternative approaches for full implementation while also building implementation capacity among subnational actors.

Decentralisation empowered hromadas and regions to have more impact on their development and well-being of people. But it brings the risk of enhancing development asymmetries as the result of the incapacity of local elites to change. Decentralisation runs in parallel with regional policy reforms and the two demand strong coordination.

The achievements of regional policy are constantly being challenged. The Government of Ukraine needs to further develop the policy - not revise it

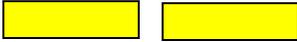
Key achievements:

- The framework Law of Ukraine “On foundations of state regional policy” of 5 February 2015, № 156-VIII, has introduced a systemic comprehensive approach in RD Policy making and implementation
- A dedicated financial instrument made available;
- Principle of “no planning without monies, and no expenditures without plans” has been introduced and partially embedded in the relevant legislation;
- Pre-independent Ukraine paternalistic mentality of the relationship between the center and the regions has been substantially turned around towards the paradigms widely accepted and applied in the OECD countries
- In 2018 Ukraine has formally aligned with the OECD recommendation on the principles of effective public investment at all levels of governance, and has been making some practical steps in converting this formal alignment into policy measures and enhanced tools for economic regional development

## Regional Policy Barometer

HY 1 2019

Annex 2

Institutions (availability and functionality) 

Most of the relevant institutions for regional development policy are in place, but enormous effort is needed to enhance their capacity to deal efficiently with their agendas. A challenging issue remains inter-sector coordination.

The limited co-ordination among and between the levels of government is a significant challenge that impedes the successful implementation of Ukraine's regional policy and decentralisation agenda. Ukraine's multi-level governance dynamic has traditionally been top down and driven by laws, legislation and plans. Through Ukraine's reform process, particularly at the local level, subnational governments are becoming increasingly responsible for the development of their territories and communities, including development planning.

Ukraine's law governing regional development provides for elected councils and relevant regional administrations to establish Regional Development Agencies (RDAs) to support the implementation of the national and regional development strategies. These agencies can be co-founded by chambers of commerce, regional business associations, regional representatives of subnational government associations (e.g. the Association of Oblast and Rayon Councils), academia, and non-government organisations (NGOs). These agencies are non-profit partnerships between the state, the private sector, and civil society organisations (e.g. NGOs, employer organisations, etc.). The establishment of these agencies is slow.

There is a need to

- clarify the sector responsibilities assigned to each government level: Most responsibilities are shared across levels of government, and spending responsibilities overlap in many policy areas. Therefore, it is crucial to ensure adequate clarity on the role of each level of government in the different policy areas in order to avoid duplication, waste, and loss of accountability.
- actively support capacity building for subnational governments with resources from the national government: Additional financial resources need to be complemented with the human resources capable of managing them. This dimension is too often under-estimated, if not completely forgotten, in decentralisation reform, and is particularly important in poor or very small municipalities. At the very least, subnational governments should have the responsibility and be able to monitor employee numbers, costs, and competencies.
- build adequate co-ordination mechanisms across levels of government: Since most responsibilities are shared, it is crucial to establish governance mechanisms to manage these joint responsibilities. Creating a culture of co-operation and regular communication is crucial for effective multilevel governance and long-term reform success. Tools for vertical co-ordination include dialogue platforms, fiscal councils, standing commissions and intergovernmental consultation boards and contractual arrangements.
- support cross-jurisdictional co-operation through specific incentives: Sub-national horizontal co-ordination is essential to encourage investment in areas where there are positive spill overs, to increase efficiency through economies of scale, and to enhance synergies among policies of neighbouring jurisdictions. Intergovernmental bodies for horizontal co-ordination can be used to manage responsibilities that cut across municipal and regional borders. Determining optimal sub-central unit size is a context-specific task; it varies not only by country or region, but also by policy area – efficiency size will differ based on what is under consideration, for example waste disposal, schools, or hospitals.
- consider funding schemes for regional development agencies that support strategic processes and limit the possibility of conflict with vested interests and potential corruption.
- European Union rules for the submission, selection and implementation of the actions financed under call for proposals should include an explicit wording which would make Regional Development Agencies (established in line with the provisions of the Law of Ukraine “On fundamentals of state regional policy”) eligible to be both a lead applicant and a co-applicant)

#### Key achievements:

The institutional system for regional development has been established and consists of:

- Ministry for regional development
- Committee for state building, regional policy and local self-government of the Verkhovna Rada of Ukraine
- Inter-service coordination commission for regional development
- Oblast state administrations, Oblast Councils
- Association of Rayon and Oblast Radas (elected councils)
- Association of Ukrainian Cities

- Regional Development Agencies, incorporated in line with the provisions of the Law of Ukraine “On fundamentals of state regional policy” (2015)

# Regional Policy Barometer HY 1 2019

## Annex 3

### National/RD policy planning framework

Ukraine's State Strategy for Regional Development 2020 (SSRD) serves as a framework planning document that sets out the overarching approach to building national competitiveness by ensuring the strength of each region as a unique building block. In addition, to increased competitiveness, the strategy targets a more integrated and balanced territorial development and supports more effective governance structures for regional development.

There is, in theory, a mutually reinforcing dynamic between Ukraine's multi-level governance and decentralisation reforms, the State Strategy for Regional Development (SSRD), and subnational development strategies. Voluntary mergers, inter-municipal co-operation, and fiscal decentralisation can build subnational resource capacity, for example in planning, infrastructure development and service delivery. This, in turn supports more dynamic and balanced regional development, economic competitiveness, and better living standards – all of which are strategic objectives at the national and subnational levels. The SSRD, with subsidiarity as one of its operating principles, supports greater authority in development decisions among subnational governments – a component of administrative decentralisation. In addition, the SSRD stipulates not only that that regional development plans be designed at and by the oblast level, but that they take into consideration local government interests.

Planning documents, including vision setting documents, integrated national-level strategic policies, sector policies, and subnational development plans are co-ordination mechanisms that build vertical and horizontal links between government actors and their actions. Such documents also connect the various levels of a policy cascade and help coordinate diverse interests when implementing a new or reformed policy.

#### Key achievements:

- State Strategy for Regional Development 2020 adopted (6 August 2014 № 385).
- Government adopted Action Plans for SSRD2020 – a) 2015-2017 and 2018 - 2020, , methodologies of elaboration of SSRD, RDS and their action plans, regional policy monitoring regulations
- All Oblasts adopted their development strategies and action plans
- The Government of Ukraine has begun elaborating the draft Strategy for regional Development 2021 – 2027 in a timely and organized manner

# Regional Policy Barometer

HY 1 2019

Annex 4

## Financing



Oblast development projects are eligible for funding through the State Fund for Regional Development (SFRD), and can also turn to co-financing (assuming sufficient resources).

The SFRD, however, is the main financing lever for regional development and the first tool that links policy and resources for policy implementation. It requires that the project proposals it funds align with the SSRD and regional development strategies. Its application as a funding mechanism, however, is posing two specific challenges.

The first issue concerns the stability of the fund's own funding. By law, the SFRD should be composed of at least 1% of the revenues from the General Fund of the State Budget. Previously this 1% was used to subsidise socio-economic development and its disbursement was discretionary, thus open to high levels of political influence. With the introduction of the SSRD, the allocation of this 1% shifted to the SFRD, which, according to Article 24-1 of the Budget Code would be disbursed to each oblast according to a formula: 80% of attributable funds would be distributed based on oblast population, and the remaining 20% would be based on the proportion of the population that fell below 75% of the country's average GDP per capita. Each oblast would be allocated, annually, a percentage of the SFRD based on the formula, bringing greater certainty and transparency to the process. These benefits were realised in several ways. First, a formula-based system gives oblast administrations better visibility with respect to available development funds, thereby increasing funding certainty. Second, since the formula had clear and stable criteria, each region could calculate how much they would receive every year, thereby facilitating development planning in the short, medium and even longer term. This is how the fund functioned in 2015 and 2016. However, as of 2017, the State Budget did not clearly allocate the full 1% via the General Fund, but rather the government determined that a certain percentage of the funding would come from other government revenue sources, including an "asset confiscation fund". This effectively links the SFRD to the ability to finance a second fund that in turn is linked to something as volatile as the ability to confiscate assets. The result is an elimination of the stability, visibility and certainty associated with a clear formula-based disbursement of a fund consistently financed by 1% of the General Fund of the State Budget. In the end, it renders medium- and long term development planning more than difficult for any subnational government.

A second concern arises with a change in the SFRD's management practices. Initially proposals presented for SFRD funds were brought before a Review Committee within the Ministry of Regional Development. The Committee's composition prior to 2017 was non-partisan in that committee members did not hold elected office. Beginning in 2017, the composition changed to include members of parliament. In addition, a percentage of the fund is now set aside for disbursement at their discretion, returning to funding practices prior to 2015 and opening the door again to the patronage and clientelism that characterises

political/constituent relationships in Ukraine. Also, in the 2015 and 2016 financing periods, projects were evaluated and selected irrespective of the sector which they sought to develop (though ideally those projects taking an integrated approach to development would be prioritised and thus multiple sectors would benefit). After 2017, following amendments in the Article 24-1 of the Budget Code, project proposals need to fulfil sector quotas: 10% dedicated to energy efficiency of state and municipal education and healthcare institutions and 10% to sports infrastructure. The remaining 80% can be non-sector specific. Such a move limits the capacity for local governments to design and fund projects that meet their specific needs, effectively reducing autonomy in decision-making and development prioritisation. Overall, these changes represent a step backward, the government is undermining its own efforts of regional development and decentralisation reform. These types of adjustments, given the current governance context in Ukraine, are not necessarily suitable to advance the reform process and government agenda.

# Regional Policy Barometer

HY 1 2019

## Annex 5

### RD Projects



On a practical level, regional development in Ukraine is confronted by some broad implementation challenges that are intrinsically linked: insufficient and a limited number of appropriate project proposals from subnational governments, difficulty in identifying clear priorities, and unstable funding, despite statutorily identified mechanisms and sources.

The key challenges are:

- most of the regional development projects submitted by the regions for funding from the SFRD are not developmental, are not aimed at implementing of all strategic objectives and objectives of the regional strategy, but essentially serve as an additional source for the construction, repair and reconstruction of buildings of budgetary institutions.
- there is a limited understanding of project management at local and regional levels: authorities are accustomed to spending subsidies but have less experience with project based thinking. Funding applications are often solely related to construction of social infrastructure without a needs assessment. Proposals are rarely evidence-based and there is limited capacity for investment projects related to Human Capital or economic development.

It is incontestable that "hard" infrastructure in Ukraine needs to be improved, and that good infrastructure can attract, facilitate, and improve the creation and maintenance of productive factors. However, the heavy emphasis on such infrastructure that characterises development project proposals put forth by Ukraine's subnational authorities requires some consideration. This emphasis can reflect a combination of pressing need, and a more "traditional" approach to regional development. However, it may also reflect the poorly defined attribution of responsibilities among levels of government in Ukraine, where there is confusion with "who is responsible for what". For example, municipalities are responsible for certain infrastructure and its maintenance. At the same time the road agency of the national government is responsible for roads including their paving and repaving. In the case of a bridge (infrastructure) if its road-surface requires repaving, there is a high risk of inaction as neither level of government is compelled to act. Is repaving the bridge's road a function of bridge maintenance and thus a municipal competence (requiring the use of municipal funds), or is it a function of road maintenance and thus a central government responsibility covered by the State Budget? The answer is not clear, and the result is that the bridge's road remains in disrepair. Thus, infrastructure investment is more likely to focus on the concrete and what is clearly attributed, in order to easily move forward in the investment project. In addition, infrastructure development is easily seen and appreciated by voters, especially when infrastructure deficits are high, making the project and investment decision easy for politicians and popular with communities.

Consideration should be given to re-balancing the project equation, particularly between *oblasts* and empowered local authorities, such as cities and Amalgamated Hromadas (AHs). In other words, projects promoting basic "hard" infrastructure development may make sense where the deficit is acute and most keenly felt by citizens (e.g. in electricity, sewage and waste water treatment, heating systems, school and health care facilities, roads in and out of the community, etc.). In these cases, significant levels of hard infrastructure development are easily identified priorities that most effectively and efficiently meet community needs and improve quality of life. Once basic needs are met consideration can – and should be given to second tier and “soft” infrastructure projects in these communities.

Infrastructure has a positive impact on regional growth when other key factors are in place, such as human capital and innovation.

To ensure that infrastructure – and infrastructure investment – plays a positive role and yields a better return for regional development, consideration must also be given to policies that address human capital formation (including skills building), innovation, agglomeration economies, and distance to markets.

Without development planning and strategies that support these additional dimensions, an investment in infrastructure will be less effective. At the same time, many OECD regions have discovered that large investments in human capital formation do not necessarily stimulate regional growth and limit brain-drain unless other growth constraints such as barriers to private sector development are addressed.

# Regional Policy Barometer

HY 1 2019

## Annex 6

M&E system  

Systemic development of regional and local strategies and corresponding implementation plans is a relatively new phenomenon for most Ukrainian regions and communities. To do this, a comprehensive methodology for monitoring and evaluating such development initiatives is required. This methodology has to be applied more or less uniformly across Ukraine to yield comparable data and results that will later be used to formulate state regional development policy, SFRD priorities, and also feed regional governments with information as to which solutions work and which don't.

Developing a monitoring system requires not only to establish a methodology for indicators, but also the legal ground for data collection and use, the IT support for storage, calculation and dissemination of results, and the set-up of collaboration mechanisms between the institutions providing the information.