

## Chapter 2. Advances in territorial and multi-level governance reform in Ukraine since 2014

*This chapter is dedicated to exploring the advances in territorial and multi-level governance in Ukraine since 2014, including in regional development. It focuses on the current decentralisation reform, situating it within the context of Ukrainian governance practices, and presents the government's approach to its implementation. It identifies areas where multi-level governance practices could be strengthened to better ensure reform sustainability, including enhanced co-ordination mechanisms. Since voluntary municipal mergers are a fundamental component of the reform, the chapter explores the strengths and weaknesses of the Ukrainian model and identifies lessons thus far. The chapter concludes with a discussion of Ukraine's evolving approach to regional development.*

## Introduction

In 2013, Ukraine was confronted by a series of interrelated challenges at the territorial level, including regional disparities/inequalities; significant shifts in productivity; high unemployment and informal employment; demographic change; poor quality services; and a top-down, centralised, multi-level governance structure that remains rooted in pre-independence practices. At the time, the OECD recommended a phased approach to decentralisation. It stressed first the need for territorial reform at the local level in order to build municipal capacity, and then for a move toward decentralisation. A number of these challenges remain, as analysed in Chapter 1, particularly interregional disparities. Most critical to decentralisation reform are the ongoing challenges, identified in 2014, of administrative fragmentation compounding disparities in access to basic services, and high levels of fiscal, policy, legal and regulatory uncertainty, combined with a lack of predictability of public institutions (OECD, 2014a). In addition to these one can add missed growth opportunities resulting from the lack of a clearly articulated, place-based regional development policy.

In 2014, Ukraine's Cabinet of Ministers adopted the Concept Framework of Reform of Local Self-Government and the Territorial Organisation of Power in Ukraine. This launched a multi-level governance reform based on a far-reaching political, administrative and fiscal decentralisation process. Since then, Ukraine has made great strides in modernising its approach to territorial governance: the Concept Framework outlines a strategy for boosting democratic governance at the subnational levels through broad-based decentralisation; voluntary municipal mergers launched in 2015 are rapidly addressing problems of administrative fragmentation at the municipal level; and a place-based approach to regional policy is evolving in a practical fashion. Local leaders and citizens are starting to notice a positive change in the administrative and service capacities in their municipalities. All of this contributes to strengthening Ukraine's development, improving quality of life and well-being, and building a more resilient state. Nevertheless, the reform process faces obstacles to its further development and challenges to its implementation which should be addressed.

This chapter is based on information collected through stakeholder meetings, fact-finding missions and OECD seminars held in Ukraine between December 2016 and July 2017,<sup>1</sup> as well as publicly accessible literature and data. It provides an update on the advances made in territorial organisation and multi-level governance since 2014.

### ***Building a more resilient state by advancing towards decentralisation reform***

In 2014, the OECD commented on the apparently strong demand in Ukraine for a reform of the state in a decentralised manner (OECD, 2014a). Ukraine's multi-level governance reform and decentralisation strategy is detailed in the Concept Framework of Reform of Local Self-Government and the Territorial Organisation of Power in Ukraine (Concept Framework) of April 2014, and it extends to all three areas of decentralisation: political, administrative and fiscal. The approach is comprehensive and theoretically strong, set up to lead the country towards the modernisation and reform results it wishes to achieve.

If successful, these reforms could also help enhance Ukraine's state resilience (i.e. its ability to absorb shocks and adapt to changing circumstances without losing the ability to fulfil its basic functions (Brinkerhoff, 2011; Grävingholt and von Haldenwang, 2017; Grävingholt, 2017). By transferring responsibilities, resources and decision-making authority to intermediate or local levels of government, decentralisation and local

governance reforms are directly related to the areas of legitimate and inclusive politics, revenue generation, and service provision. Economic development has been associated with such reforms for a long time.

It is undeniable that since its independence Ukraine has suffered significant economic, civic and political shocks: an economic rollercoaster starting with the breakup of the Soviet Union and from which, arguably, Ukraine is only now beginning to recover; civic instability beginning with the Russian Federation's annexation of Crimea and the occupation of parts of Eastern Ukraine; and a lack of political stability – evidenced by 15 governments since 1992<sup>2</sup> – that has affected the state's ability to consolidate and implement sustainable policies that can win electoral support. These shocks highlight the state's need to improve its resilience. For this to happen, however, it will also need to make improvements in the three areas that contribute to a better functioning state: 1) authority – the state's ability to preserve a monopoly of force; 2) capacity – the state's ability to provide basic services and administration for its people; 3) legitimacy – the state's ability to ensure that its claim on defining and implementing binding rules is widely accepted.

To date, Ukraine's score card with respect to the three dimensions of statehood is moderate at best. Criminal violence has declined since 2013, but the conflict in the east poses a long-term challenge to the state's authority. Ukraine's ability to deliver services is in the middle range according to the United Nations Development Programme's Human Development Index (HDI), which has not seen the same level of growth as such regional peers as Georgia and Poland (UNDP, 2017). At a local level, Ukraine's regional capital cities score an average of 3 (where 5 is the highest possible score and 1 is the lowest) when residents are asked to rate the quality of 22 different public goods and services in their city (Center for Insights in Survey Research, 2017).<sup>3</sup> In general, the state capacity to provide basic public and administrative services is weak. There are also signs pointing to weaknesses in legitimacy. Two popular upheavals in a ten-year period (2004 and 2013), leading to changes in government signal difficulty in ensuring support for government policy and action. In addition, perceptions of corruption are high, and can erode trust in government institutions. This was heard repeatedly during OECD interviews, supported by recent findings in Transparency International's Global Corruption Barometer Survey (2017), and illustrated as well by Transparency International's Corruption Perception Index, where Ukraine ranked 131 out of 176 countries (scoring 29 out of 100 possible points)<sup>4</sup> in 2016, placing it together with Iran, Kazakhstan, Nepal and the Russian Federation also ranking 131. At the local level, more than 60% of residents surveyed in 24 regional capital cities considered corruption a problem in their city (Center for Insights in Survey Research, 2017). A well-functioning state combines both administrative competences with a constructive relationship between the state (government) and society; this relationship is at the core of state resilience (Box 2.1).

Improving the state/society relationship is an important step toward building Ukraine's resilience. Decentralisation can contribute significantly to strengthening the legitimacy and inclusivity of politics, but it must be accompanied by other legitimacy-enhancing tools, including citizen ability to hold government – local, regional and national – accountable. A well-designed and implemented decentralisation process is more likely to engender democratic governance, transparency and accountability by leaders, particularly at the local level, which can then contribute to better framework conditions for reform success. There are, however, a number of conditions and practices for effective decentralisation, identified by the OECD as a result of its territorial work (Box 2.2), that are not sufficiently present in the government's reform programme. Unless these are in

place to a greater extent, successful decentralisation reform, and the benefits it brings for state resilience, will be harder to realise.

### Box 2.1. Five pillars of a resilient state

An international dialogue process including fragile and conflict-affected states as well as the OECD identified five specific pillars of state/society engagement that are particularly important to achieving resilient statehood, calling these “Peacebuilding and State-building Goals”:

1. legitimate politics based on inclusive political settlements and conflict resolution
2. people’s security and the ability of the state to establish and strengthen it
3. access to justice and ensuring everyone fair and equal access
4. economic foundations for generating employment and improved livelihoods
5. building capacity for revenue management and accountable and fair service delivery.

*Sources:* OECD (2011a), *Supporting State-building in Situations of Conflict and Fragility: Policy Guidance*, <http://dx.doi.org/10.1787/9789264074989-en>; International Dialogue on Peacebuilding and Statebuilding (n.d.), “A new deal for engagement in fragile states”, [https://www.pbsbdialogue.org/media/filer\\_public/07/69/07692de0-3557-494e-918e-18df00e9ef73/the\\_new\\_deal.pdf](https://www.pbsbdialogue.org/media/filer_public/07/69/07692de0-3557-494e-918e-18df00e9ef73/the_new_deal.pdf).

Many of the challenges confronting the successful implementation of Ukraine’s decentralisation process stem from the limited extent to which these principles are practiced. This is particularly true with respect to the clear assignment of responsibilities and functions across levels of government, an alignment of responsibilities and revenues, the capacity of local authorities to meet devolved responsibilities, and co-ordination mechanisms.

This chapter elaborates on Ukraine’s position with respect to these conditions and to the multi-level governance reforms underway, particularly decentralisation. It begins by putting Ukraine’s reform process in the broader context of governance challenges and the need to ensure a more enabling governance environment to solidify reform success. It then describes Ukraine’s frameworks for subnational reform and the challenges they face, and identifies several areas in multi-level governance that require additional attention. It also takes a closer look at Ukraine’s reform implementation process, as well as how advances made in regional development support and are supported by greater decentralisation. This chapter aims to provide insight into mechanisms and approaches that could help maintain reform momentum and help Ukraine meet its decentralisation goals. To this effect, each section ends by offering a series of policy recommendations for consideration by Ukraine’s policy makers as they move forward with decentralisation reform.

**Box 2.2. Ten guidelines for effective decentralisation in support of regional and local development**

Through its work on regional and local development, the OECD has created a set of guidelines to support more effective decentralisation when undertaken to strengthen regional and local development. While the ideal is to have all of these dimensions in place before undergoing a decentralisation process, this is difficult to achieve in practice. Therefore, in order to maximise the possibility of success, governments should assess which areas may be weak and take steps to address these, while also reinforcing those areas that are already strong. Successful decentralisation will depend on the presence of these factors.

1. **Clarify the sector responsibilities assigned to each level of government.** 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.
2. **Clarify the functions assigned to each level of government.** Clarity in the different functions that are assigned within specific policy areas – e.g. strategic planning, financing, regulating, implementing or monitoring – is as important or even more so than clarity in assignment of tasks.
3. **Ensure coherence in the degree of decentralisation across sectors.** A degree of balance or coherence in the level of decentralisation (i.e. what is decentralised and how much it is decentralised) should be ensured across policy sectors. In other words, decentralising one sector but not another can limit the ability to exploit cross-sector complementarities and integrated policy packages when implementing regional and local development policy. While decentralisation may apply differently to different sectors, there should be coherence and complementarity in the approach.
4. **Align responsibilities and revenues, and enhance subnational fiscal autonomy.** The allocation of resources should be matched to the assignment of responsibilities to subnational governments. Unfunded mandates or a mismatch between responsibility and financing capacity should be avoided.
5. **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 underestimated, 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.
6. **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 multi-level 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.

7. **Support cross-jurisdictional co-operation through specific incentives.** Subnational horizontal co-ordination is essential to encourage investment in areas where there are positive spillovers, 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.
8. **Allow for pilot experiences and asymmetric arrangements.** Allow for the possibility of asymmetric decentralisation, i.e. giving differentiated sets of responsibilities to different types of regions/cities/local governments, based on population size, rural/urban classification and fiscal capacity criteria. Ensure implementation flexibility, making room for experimenting with pilot programmes in specific places or regions and constantly adjusting through learning-by-doing.
9. **Make room for complementary reforms.** Effective decentralisation requires complementary reforms at the national and subnational levels in the governance of land use, subnational public employment, regulatory frameworks, etc.
10. **Improve transparency, enhance data collection and strengthen performance monitoring.** Data collection should be undertaken to monitor the effectiveness of subnational public service delivery and investments. Most countries need to develop effective monitoring systems of subnational spending and outcomes.

*Source:* Allain-Dupré, D. (forthcoming), “Assigning responsibilities across levels of government: Challenges and guiding principles”, forthcoming.

### Situating decentralisation reform in the Ukrainian governance context

Decentralisation reform is ultimately a political choice and thus should be pursued as part of a larger political reform process, including, for example, reforms of the judiciary, civil service and regulatory frameworks, while also building greater accountability and a broad reform coalition. If pursued in isolation from other reforms, decentralisation in Ukraine could exacerbate existing problems of corruption and clientelism (OECD, 2017a). If Ukraine's objective is to build productivity, prosperity and citizen well-being across its territory using decentralisation reform and regional development policy as vehicles, it will need to ensure a more stable reform environment.

Decentralisation is frequently undertaken in an effort to improve or strengthen democratic governance. Some shifts at the local level can be seen, particularly as noted earlier that average approval ratings for mayors and municipal councils is rising, at least in regional capital cities. Decentralisation can certainly contribute to strengthening the legitimacy and inclusivity of politics but it must be accompanied by other legitimacy-enhancing tools, such as integrity among public officials, local level civic activism and engagement, and an ability for citizens to hold government – local, regional and national – accountable. Ensuring an enabling environment for decentralisation can mean taking a stronger approach to addressing institutional impediments to reform, including corruption. Unless this is managed more effectively, decentralisation reform will be at risk.

#### *Taking stock of government effectiveness and the control of corruption*

Overcoming resistance to decentralisation can be difficult. This may be particularly true in Ukraine, where vested interests are part of a larger problem of effective public governance. This is highlighted by the World Governance Indicators. Out of six categories of composite indicators for public governance, Ukraine's governance score between 2006 and 2016 is consistently in the negative range, with the exception of voice and accountability. Although there were some positive shifts between 2014 and 2016, since 2006 there has been no significant improvement in the percentile rankings (Table 2.1).

#### *Government effectiveness has dropped in the last decade*

While the dramatic drop in the political stability category is to be expected, the fact that Ukraine's percentile rank has not improved very much over the past ten years is worrying and can reflect structural challenges in the public governance system, as well as difficulties implement lasting reform. With respect to decentralisation reform, Ukraine's performance is especially troublesome in the areas of government effectiveness (Table 2.2) and control of corruption.

Government effectiveness captures the perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies (Kraay, Kaufmann and Mastruzzi, 2010). The fact that these remain low in Ukraine even after reform is noteworthy. While Ukraine has been reforming under exceptionally difficult circumstances, the fact that its neighbours have improved government effectiveness overall by a minimum of five points raises the question of where things have broken down. There is hope that decentralisation reform with time can start to reverse this trend, but for this to happen the framework conditions must be more supportive of reform.



Table 2.1. **Worldwide Governance Indicators: Ukraine and its neighbours**

## A. Governance score (-2.50 to 2.50 scale)

	Ukraine			Belarus	Georgia	Moldova	Poland	Russian Federation
	2006	2014	2016	2016	2016	2016	2016	2016
Voice and accountability	0.05	-0.14	0.02	-1.39	0.22	-0.03	0.84	-1.21
Political stability and absence of violence/terrorism	-0.04	-2.02	-1.89	0.12	-0.29	-0.28	0.51	-0.89
Government effectiveness	-0.49	-0.41	-0.58	-0.51	0.51	-0.62	0.69	-0.22
Regulatory quality	-0.52	-0.63	-0.43	-0.94	1.01	-0.12	0.95	-0.42
Rule of law	-0.80	-0.79	-0.77	-0.78	0.37	-0.54	0.68	-0.80
Control of corruption	-0.75	-0.99	-0.84	-0.29	0.67	-0.96	0.75	-0.86

Note: Higher values (i.e. closer to +2.5) indicate better governance.

## B. Percentile rank (0-100)

	Ukraine			Belarus	Georgia	Moldova	Poland	Russian Federation
	2006	2014	2016	2016	2016	2016	2016	2016
Voice and accountability	47.6	43.4	47.3	10.3	53.7	45.8	72.4	15.3
Political stability and absence of violence/terrorism	44.0	5.7	6.2	50.5	35.2	36.2	63.3	16.7
Government effectiveness	36.6	39.9	31.7	36.1	71.2	29.8	73.6	44.2
Regulatory quality	31.9	29.3	36.1	16.4	81.3	50.5	79.8	37.0
Rule of law	24.9	23.1	23.6	22.1	63.9	32.2	74.5	21.1
Control of corruption	24.9	14.9	19.7	47.6	73.6	14.4	76.4	18.8

Note: 0 is lowest percentile rank; 100 is highest.

Sources: Kraay, A., D. Kaufmann and M. Mastruzzi (2010), "The Worldwide Governance Indicators: Methodology and analytical issues", <https://doi.org/10.1596/1813-9450-5430>; data for Ukraine from: World Bank (2017b), "Ukraine", *The Worldwide Governance Indicators* (database, table view), <http://info.worldbank.org/governance/wgi/index.aspx#reports> (accessed 29 October 2017).

Table 2.2. **Percentile rank in government effectiveness: Ukraine and its neighbours**

	2006	2016
Ukraine	36.59	31.73
Belarus	11.71	36.06
Georgia	47.80	71.15
Moldova	24.39	29.81
Poland	65.85	73.56
Russian Federation	39.02	44.23

Note: 0 is the lowest and 100 is the highest percentile rank.

Source: World Bank (2017b), "Ukraine", *The Worldwide Governance Indicators* (database, table view), <http://info.worldbank.org/governance/wgi/index.aspx#reports> (accessed 29 October 2017).

*Trust is low and corruption is widely perceived*

The control of corruption may be one of the most significant needs with respect to ensuring appropriate framework conditions for successful decentralisation reform in Ukraine. Corruption wastes public resources, widens economic and social inequalities, breeds discontent and political polarisation, and reduces trust in institutions. It can perpetuate inequality and poverty, impacting well-being and the distribution of income, and undermine opportunities to participate equally in social, economic and political life.



At a global level, it is now reported as the number one concern by citizens, of greater concern to them than globalisation or migration (Edelman, 2017).

Ukraine ranks in the top five countries in Europe and Central Asia where corruption is perceived to be one of the three largest problems facing the country, indicated by 56% of people surveyed by Transparency International.<sup>5</sup> It is preceded by Slovenia (59%), Spain (66%) and Moldova (67%), and followed by Bosnia-Herzegovina (55%) and Lithuania (54%) (Transparency International, 2016b). Overall, the perception of corruption in Ukraine's government and public institutions is consistently higher than global perceptions, and sometimes significantly so (Table 2.3) (Transparency International, 2013a).

Table 2.3. **Perceptions of corruption by institution, 2013**

Institution	Ukraine	Global score
Religious bodies	3.0	2.6
Non-governmental organisations	3.2	2.7
Media	3.4	3.1
Military	3.5	2.8
Business/private sector	3.9	3.3
Education system	4.0	3.1
Political parties	4.1	3.8
Parliament/legislature	4.2	3.6
Medical and health	4.2	3.2
Public officials/civil servants	4.3	3.6
Police	4.4	3.7
Judiciary	4.5	3.6

*Note:* Aggregated, by country; scale of 1 to 5, where 1 means not at all corrupt and 5 means extremely corrupt.

*Source:* Transparency International (2013a), *Global Corruption Barometer: 2013*, <https://www.transparency.org/gcb2013/report>.

In 2013, 87% of citizens surveyed perceived the judiciary as the most corrupt institution in Ukraine, making judicial reform an urgent matter and a critical component of the overall reform process, including decentralisation (Box 2.3). The police, as well as public officials and civil servants, are also perceived as corrupt by 84% and 82% of citizens, respectively (Transparency International, 2013b).

Confidence and trust in leadership is a weakness in Ukraine. This is evident in perception surveys undertaken in the 24 regional capital cities, which highlight a generally low approval rating for the work of the president, the parliament and *oblast* state administrations, as well as *oblast* councils. Mayors have slightly higher levels of approval (Center for Insights in Survey Research, 2017). In 2013, 77% of responding Ukrainians perceived that parliament was corrupt or extremely corrupt and 74% had the same perception of political parties (Transparency International, 2013a). In 2016, 64% of Ukrainians surveyed for perceived that “most” or “all” members of parliament were corrupt (Figure 2.1) (Transparency International, 2016a). These results point to the same issue: the pillars of a democratic society are perceived to be among the most corrupt institutions in Ukraine (Transparency International, 2013a).

Ukrainians have a generally low opinion of how the government handles corruption within its ranks. Among European and Central Asian countries, Ukraine registers the highest number of people who rate their government “badly” when it comes to fighting

corruption in government: 86% in Ukraine. While this is similar to some EU and non-EU countries, it is significantly above EU+ and Commonwealth of Independent States (CIS)<sup>6</sup> averages (Figure 2.1) At the bottom of the list are Sweden and Switzerland (Transparency International, 2016b). In other words, the government either does little to stop corruption in government administrations or its methods are not effective.

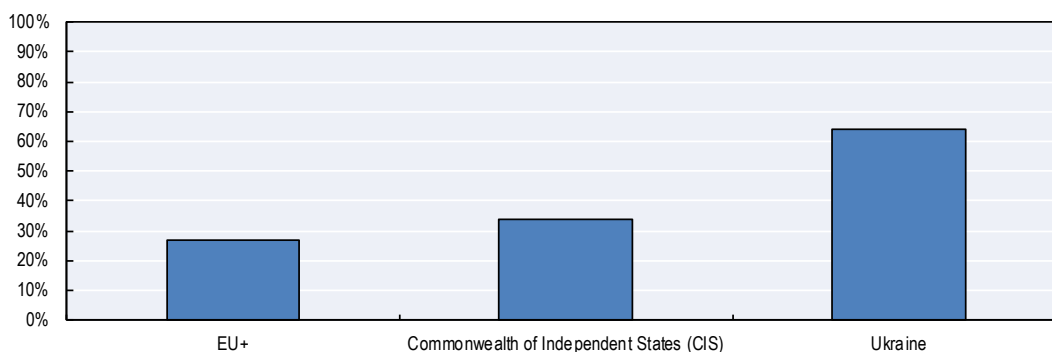
### Box 2.3. The importance of judicial reform to support decentralisation progress

A basic tenet of democracy, in addition to free and fair elections, is the adherence to the rule of law – meaning that no one, including government, is above the law, where laws protect fundamental rights and justice is accessible to all. Ukrainian courts enjoy little popular trust and confidence in their work. Among residents of Ukraine’s *oblast* capital cities, approval ratings for the work of the courts range from a high of 30% in Ternopil to a low of 2% in Uzhgorod.

The lack of trust in the court system makes it difficult for courts and court officials to serve as effective arbiters when there are disputes, including over government powers and competences. Strengthening the political and financial independence of the judiciary and improving the standards of training and admission of judges should be a priority for the Ukrainian government. The 2014 Law on Restoring Trust in the Judicial System of Ukraine returned some power to the judiciary, for example by authorising judges in each court to elect the court’s president (previously centrally appointed); but in most courts this did not lead to a change in court leadership. While the 2014 law is a good step, more could be done to ensure that courts at all levels of government are independent and trustworthy. This includes defining objective criteria for judicial appointment and promotion, ensuring that vacant posts are filled through a competitive procedure, and that the transfer of judges within the court system – at national and subnational levels – is based on a set of objective and transparent criteria. All of these steps could help fill gaps left by the 2014 law.

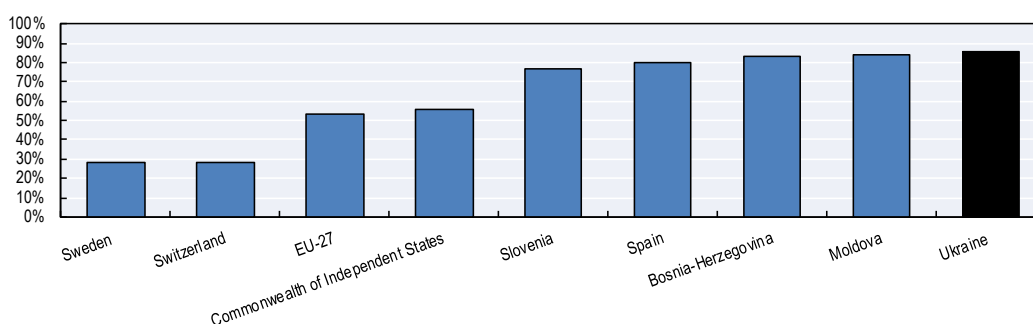
Sources: Bertelsmann Stiftung (2017), “BTI 2016: Ukraine country report”, [https://www.bti-project.org/fileadmin/files/BTI/Downloads/Reports/2016/pdf/BTI\\_2016\\_Ukraine.pdf](https://www.bti-project.org/fileadmin/files/BTI/Downloads/Reports/2016/pdf/BTI_2016_Ukraine.pdf); Center for Insights in Survey Research (2017), “Third Annual Ukrainian Municipal Survey”, [www.iri.org/sites/default/files/ukraine\\_nationwide\\_municipal\\_survey\\_final.pdf](http://www.iri.org/sites/default/files/ukraine_nationwide_municipal_survey_final.pdf); Grävingholt, J. (2017), “Decentralisation and resilience in Ukraine”, unpublished.

Figure 2.1. Perception of corruption among parliamentarians is high in Ukraine, 2016



Note: Percentage of respondents perceiving that “most” or “all” parliamentarians in their country are corrupt.  
Source: Transparency International (2016a), “Corruption Perception Index”, [https://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2016#table](https://www.transparency.org/news/feature/corruption_perceptions_index_2016#table).

Figure 2.2. Fighting corruption in government

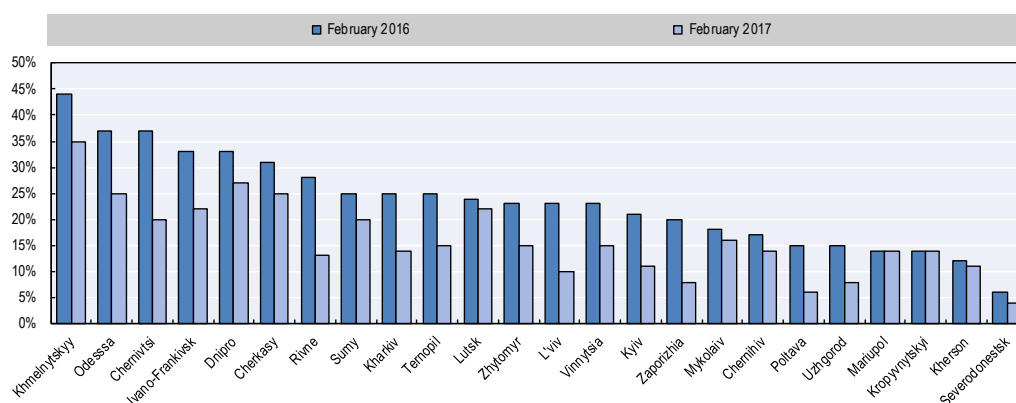


Note: Percentage of people who rate their government “badly” when it comes to fighting corruption in government. CIS: Commonwealth of Independent States.

Source: Transparency International (2016a), “Corruption Perception Index”, [https://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2016#table](https://www.transparency.org/news/feature/corruption_perceptions_index_2016#table).

These perceptions are consistent in surveys focused on local government as well. Between 2016 and 2017, the percentage of citizens in Ukraine’s regional capital cities who think their mayors make an effort to end corruption at the municipal authority level generally dropped (Figure 2.3) (Center for Insights in Survey Research, 2017).

Figure 2.3. Citizen perception of mayoral efforts to end corruption



Note: “Yes” responses to the question: “Do you think that your mayor is making an effort to end corruption at the municipal authority level?”

Source: Center for Insights in Survey Research (2017), “Third Annual Ukrainian Municipal Survey”, [www.iri.org/sites/default/files/ukraine\\_nationwide\\_municipal\\_survey\\_final.pdf](http://www.iri.org/sites/default/files/ukraine_nationwide_municipal_survey_final.pdf).

Equally worrisome is that citizens report feeling powerless to address corruption themselves. When asked “To what extent do you agree that ordinary people can make a difference in the fight against corruption”,<sup>7</sup> 72% of respondents felt that citizens could not do much to prevent or stop it (Transparency International, 2013b). When questioned about the measures that might be the most effective in decreasing corruption in their city, out of 11 possible options the highest levels of responses were:

1. “Simplifying to the greatest possible extent the process for issuing permits, references, etc.”
2. “Nothing will help because municipal authorities are powerless, as anti-corruption efforts fully depend on central authorities.”

3. “Obligatory and periodic public accountability of municipal and law enforcement authorities for anti-corruption efforts.” (Center for Insights in Survey Research, 2017)

### *Moving forward in minimising the impact of public governance challenges*

Weak public governance practices contribute to an unstable environment for achieving reform objectives. Without an enabling environment, supported by good governance practices, and a public sector – including a centre of government – that is capable of ensuring these, outcomes in regional development, service delivery, public and private investment, and the protection of property rights, for example, will be weakened rather than strengthened (World Bank, 2017b), and reform objectives will be left unattained.

Creating such an environment will mean more actively addressing the vested interests and better controlling the corruption that hold back government effectiveness – and through this hold back reform. It also means ensuring that integrity and trust become cornerstones of public institutions and services (Transparency International, 2013a). For this to happen, rule of law and judicial reform must be strengthened. It will also require improving transparency and establishing accountability and integrity frameworks, among other things.

Ensuring integrity in the public sector is fundamental to Ukraine’s success, as it can promote greater public confidence and trust in government. It can also support successful decentralisation reform. In the current context of decentralisation, subnational governments are particularly exposed to areas associated with a high risk of corruption, such as public procurement and public infrastructure projects. In addition, they are vulnerable to policy capture, where public decisions over policies are directed away from the public interests towards a special interest, thereby exacerbating inequalities, and undermining democratic values, economic growth and trust in government (OECD, n.d.). Democratic processes need to be reviewed, including disclosure laws and codes of conduct for political officials and civil servants, with enforceable sanctions if necessary.

A cultural shift in the attitude of citizens is also necessary, particularly if citizens are to hold government to account for its actions. While in Western European countries citizens are more likely to think it is socially acceptable to report a case of corruption, this is not necessarily the case in Ukraine (or in other European countries, such as Croatia, Hungary or Lithuania) (Transparency International, 2016b). When organised, people can exert significant influence through their voting and spending patterns; but they also are likely to need more formal mechanisms (e.g. whistle-blower laws) and encouragement to come forward and report cases of corruption and bribery at all levels of government and in the private sector.

**Box 2.4. Recommendations to strengthen public governance frameworks**

To strengthen public governance frameworks that otherwise can undermine decentralisation reform, it is recommended to focus on addressing issues of government effectiveness and anti-corruption, including by:

- establishing integrity and accountability frameworks
- reviewing democratic processes, including disclosure laws, and codes of conduct for political officials and civil servants
- introducing formal mechanisms and a sense of “safety” to encourage people to come forward and report cases of corruption and bribery.

**Ensuring a balanced approach to territorial reform**

Ukraine is a unitary country with three levels of constitutionally guaranteed subnational government (Table 2.4). It is comprised of *oblast* (regions – TL2), which are subdivided into *rayon* (districts) and further into *hromada* (local self-government units that range from cities to villages and rural hamlets). Within these levels there is a degree of definitional overlap: some cities, for example those of *oblast* subordination, are on equal footing as the district level – the *rayon* – and among the *hromada* there are cities, towns, villages and settlements with local councils. There are also settlements (generally rural) with no local councils.

Table 2.4. **Subnational government structure in Ukraine:  
A simplified perspective prior to reform, up to 2015<sup>1</sup>**

Level of territorial unit	Name of territorial unit	Number	Other territorial entities at the same level	Number of other entities	Total number of entities at territorial level
Regional	<i>Oblast</i>	24	Autonomous Republic of Crimea Capital city of Kyiv City of Sevastopol	3	27
Intermediary (district)	<i>Rayon</i>	490	Cities of <i>oblast</i> subordination	187	677 <sup>2</sup>
Local self-government	<i>Hromada</i>	11 520 <sup>3</sup>			

1. Since 2015 there have been a series of municipal amalgamations, which has reduced the total number of *hromada* by more than 2 000.

2. This does not include the 108 urban districts that act as administrative divisions in Ukraine’s largest cities.

3. *Hromada* include cities of *rayon* significance, towns, and rural settlements and villages having councils. If one includes settlements without councils, there are a total of 29 533 local self-government units (271 cities of *rayon* significance, 885 townships [Ukrainian *Селища міського типу* or CMT ] and 28 377 rural units).

Sources: Adapted from OECD (2014a), *OECD Territorial Reviews: Ukraine 2013*, <http://dx.doi.org/10.1787/9789264204836-en> originally in Coulibaly, S. et al. (2012), *Eurasian Cities: New Realities along the Silk Road*, <https://openknowledge.worldbank.org/handle/10986/11877>; Nehoda, V. (2014), “Concept of the reform of local self-government and territorial organisation of power”.

Administrative structures at the *oblast* and *rayon* level are deconcentrated, representing the central government, and are responsible to a presidentially appointed *oblast* governor. Popularly elected councils at the *oblast* and *rayon* levels are dependent on their associated *oblast* or *rayon* executive committee for the implementation of council priorities in terms of policy and programming. The *oblast* and *rayon* function more actively in a deconcentrated rather than a decentralised manner; in other words, these subnational entities act as “branches” of the central government (e.g. subnational offices of a

ministry) rather having full responsibility for delegated fiscal and administrative functions, and being popularly elected. Meanwhile, at the *hromada* level, leaders and councils are popularly elected, but as administrative entities they have traditionally depended on their *rayon* administration for resources. The result is restricted subnational autonomy (e.g. to identify and execute community priorities) and limited responsibility and capacity for management, administration and service delivery.

### ***The Concept Framework of Reform of Local Self Government: Proposals and limitations***

The Concept Framework takes a “whole-of-system” approach to reform. It introduces change at all three levels of subnational government and proposes to restructure the country’s multi-level governance dynamic (Cabinet of Ministers, 2014a). Its strength lies in its proposal for broad political, administrative and territorial restructuring, including by:

- altering the political power structures at the *oblast* (region) and *rayon* (district) government levels to make room for stronger democratic governance
- differentiating mandates and supporting decentralised administration and service delivery by *hromada*
- simplifying the territorial administrative structure into subnational tiers into three main categories with only one category of local self-government unit (Annex 2.A)
- clarifying and adjusting the responsibilities assigned to each level of government (Annex 2.B).

The constitutional amendment required to implement the reform package as proposed by the Concept Framework – adjusting territorial structures (e.g. reducing the number of *rayon* administrations), redefining territorial administrative powers (e.g. normatively establishing more empowered local self-governments), clarifying the attribution of responsibilities and establishing a prefect-based system for deconcentrated state administration – has stalled since 2015. This delay has resulted in significant challenges to reform implementation and affects the reform’s stability over the medium and long term. It also affects the sustainability of achievements to date, as the gains made at the local level in terms of structures, finance and responsibilities are not constitutionally entrenched.

The inability to fully implement the Concept Framework has not stopped the government from advancing territorial and administrative reform. However, it has meant abandoning a “whole-of-system” approach, where change would extend to all three levels of subnational government in a balanced manner. Instead, the reform process has emphasised local self-government. The aim is entirely logical: to build scale at the territorial level in order to ensure that local governments have sufficient capacity to assume devolved responsibilities. The impact, however, has been to generate a disequilibrium between the district and local levels that can undermine reform. It also has meant using decentralisation as an incentive for territorial reform, rather than undertaking territorial reform to ensure capacity and then introduce decentralisation evenly across the territory.

### ***Introducing decentralisation one law at a time***

Between 2014 and 2016, the government introduced a trio of mutually supportive laws that paved the way for decentralisation reform by promoting municipal amalgamation, inter-municipal co-operation and greater fiscal autonomy (Box 2.5).

These three laws facilitate the implementation of Ukraine’s decentralisation reform. Their passage facilitated territorial and administrative adjustments to local self-government

units in order to build scale, laying the foundation for administrative decentralisation. The changes to the State Budget Code represented a fiscal decentralisation package that encourages amalgamation by significantly enhancing revenue capacities and offering greater autonomy in expenditure decisions to communities that chose to amalgamate under Law No. 157-VIII. While fiscal decentralisation can improve the revenue capacity of local communities, the expectation was that it would also help improve tax collection compliance, the climate for business and innovation, and assist in fighting corruption. The driving logic being that as direct recipients of tax receipts, local authorities gain more by ensuring that taxes are collected and funds are appropriately used in order to encourage tax compliance, rather than by being lax in collection responsibilities and turning a blind eye to evasion. It should be noted that administrative and fiscal decentralisation benefits (i.e. additional service responsibilities, access to increased resources through the changes in the State Budget Code, and an ability to negotiate their budgets directly with the *oblast* administration rather than depending on transfers from the *rayon* state administration) reach only those communities that amalgamate.



**Box 2.5. A trio of laws drives decentralisation reform**

Law No. 1508-VII of 17 June 2014 on Co-operation of Territorial Communities: permits municipalities to co-operate in order to fulfil three aims: 1) to better support the social, economic and cultural development of their territories; 2) to more efficiently carry out their responsibilities; 3) to enhance the quality of services provided. Co-operation can, legally, be structured in one of five ways:

1. delegation of one or more tasks from one entity to another with the transfer of resources to perform the task
2. co-ordinated implementation of joint projects between entities with common resources accumulated for the duration of the project
3. co-financing of enterprises, institutions, communal entities or infrastructure facilities destined to provide the service
4. creation of joint communal enterprises, institutions and organisations, as well as common infrastructure facilities
5. establishment of a joint management body for the joint execution of authority.

Law No. 157-VIII of 5 February 2015 on Voluntary Consolidation of Territorial Communities:<sup>1</sup> established the capacity for small cities, villages and rural communities to amalgamate. The objective being to build scale at the local level in order to provide higher quality and more affordable public services, and improve capacity to meet new fiscal and administrative responsibilities.

Changes to the State Budget Code realised in the 2016 state budget facilitated revenue generation at the local level and budget negotiations directly with *oblast* administrations for communities that amalgamated, forming a solid incentive structure for local territorial reform.

1. Commonly referred to as the Law on Amalgamation or the Amalgamation Law.

Sources: Verkhovna Rada of Ukraine (2014a), Law No. 1508-VII of 17 June 2014 on Co-operation of Territorial Communities, <http://zakon0.rada.gov.ua/laws/anot/en/1508-18>; Verkhovna Rada of Ukraine (2015a), Law No. 157-VIII of 5 February 2015 on Voluntary Consolidation of Territorial Communities, in Ukrainian at: <http://zakon3.rada.gov.ua/laws/show/15719/print1469801433948575>; OECD interviews.

As these laws have gained momentum and generated change, they have been followed by proposed amendments as well as other laws intended to further the decentralisation process. For example, while initially communities could not amalgamate across *rayon* boundaries, with the Law on Introducing Amendments to Certain Ukrainian Legislation Concerning the Peculiarities of Voluntary Consolidation of Territorial Communities Located on Territories Adjacent to Rayon<sup>8</sup> passed in April 2017 (Association of Ukrainian Cities, 2017), this is now possible – helping bring together communities that have economic, cultural or historical ties.

This legislative-driven approach was initially powerful enough to provoke significant change in Ukraine's subnational administrative landscape. It, however, may be difficult to maintain as a long-term approach for reform implementation. While draft laws that could

strengthen the territorial and decentralisation reform processes are frequently proposed in the *Verkhovna Rada* (national parliament), their rate of approval and passage is not commensurate with their rate of introduction. This becomes evident when looking at parliamentary and stakeholder websites that keep track of the process, including in the areas of land management, the categories of communities that can amalgamate, and local power structures (Verkhovna Rada of Ukraine, 2017a; Ministry of Regional Development, 2017c; Association of Ukrainian Cities, 2017). In addition, the government has stalled or backtracked on some of its reform efforts, particularly in the area of land-use reform, local revenue sources and support to local communities for regional development. Thus, Ukraine's reform process is characterised by legislative/political intransigence, vested public and private interests that prevent complete reform and result in a patchwork of individual laws and actions, and an unstable reform environment. The result is a reform process that has a strong strategic and theoretical basis, but is facing challenges for full implementation.

### Successful multi-level governance reform requires empowered co-ordination mechanisms

Implementing a reform as complex and far-reaching as Ukraine's is easier when there is strong institutional co-ordination beginning at the highest levels. This includes a centre-of-government office that champions and communicates a clear vision of the reform's distinct pieces (e.g. strategy, legislation, sector policies, financing mechanisms, government and non-government stakeholders, monitoring and evaluation, etc.) and can steward the mechanisms that ensure everything fits together; a lead co-ordinating ministry for the reform that is not only mandated, but also fully resourced, for its implementation; and effective horizontal and vertical co-ordination mechanisms to ensure that each player in the reform process is moving in the same direction. At the base of this are co-ordination mechanisms that, with time, can evolve into more co-operative, and ideally collaborative, practices (Box 2.6).

### Box 2.6. Co-ordination, co-operation and collaboration

Co-ordination, co-operation and collaboration build on each other, where co-ordination forms the platform from which co-operation and then collaboration can grow.

- Co-ordination: joint or shared information insured by information flows among organisations. “Co-ordination” implies a particular architecture in the relationship between organisations (i.e. centralised or peer-to-peer; direct or indirect), but not how the information is used.
- Co-operation: joint intent on the part of individual organisations. “Co-operation” implies joint action but does not address the relationship among participating organisations.
- Collaboration: co-operation (joint intent) together with direct peer-to-peer communication among organisations. “Collaboration” implies both joint action and a structured relationship among organisations.

Source: Adapted from OECD (2005), *e-Government for Better Government*, <http://dx.doi.org/10.1787/9789264018341-en>.

Among the challenges that Ukraine’s reform process faces are limited stewardship and co-ordination from the national level. This is compounded by limited co-operation among political, administrative and other Ukrainian institutional stakeholders to guarantee success. Ensuring effective and coherent action requires co-ordination and clear lines of responsibility as well as accountability. The multiplicity of policies, projects and programmes generated by domestic and international stakeholders is significant and there is a strong risk of overlap, sub-optimal use of resources, and limited tracking of the reform’s actual impact or effectiveness. For example, during OECD interviews, Ukrainian officials indicated that currently there is no single entity with a comprehensive list of the programmes implemented by the actors in the decentralisation field. This in turn makes it particularly difficult to determine whether the activities underway are working in harmony, and if they are supporting broader government objectives while also yielding programme-specific desired results.

### *The centre-of-government could play a stronger role*

A clearly mandated centre-of-government body, one that can manage “day-to-day” horizontal and vertical co-ordination needs, is not evident in Ukraine’s governance structure, which affects the multi-level governance and decentralisation reform process. Without such an entity there can be overlapping activity, inefficient use of resources, policy incoherence, misaligned priorities, and poor policy and programming integration in government reform.

The primary objective of the centre-of-government is to ensure strategic, evidence-based and consistent policy implementation across government. While each country’s centre-of-government will depend significantly on its historical, cultural and political forces, there are similarities that emerge with respect to their functions (Box 2.7). The centre-of-government does not command or control what should be done by other ministries, agencies or levels of government. Its role is rather one of stewardship – guiding, supervising

and managing government processes to ensure that integrated policy efforts (e.g. regional development, decentralisation, etc.) and sector policy (e.g. agriculture, education, energy, etc.) are coherent and consistent rather than contradictory; that policy priorities are acted upon and that government objectives are met. Depending on the country, the body may be linked specifically to the executive structure (e.g. the Department of the Prime Minister and Cabinet in Australia, the Ministry of the General Secretariat of the Presidency<sup>9</sup> in Chile, the Prime Minister's Secretariat in Sweden) or a functional institution, such as Canada's Treasury Board Secretariat, or the Office of Management and Budget in the United States. While in Ukraine there is a Secretariat for the Cabinet of Ministers, which would be the logical choice for such activities, its main focus appears to be centred on ensuring the legal conformity of acts and legislation.

There are two immediate ways to strengthen Ukraine's centre-of-government practices that do not require creating new institutions. One option is to reinforce the Secretariat for the Cabinet of Ministers with a group that could perform additional centre-of-government functions. The second would be to house centre-of-government functions with another existing body. The Reforms Delivery Office is a strong candidate for such a role, as it is already fulfilling some centre-of-government functions (Box 2.8). In both instances, functions could be assumed gradually, for example focusing on specific reforms or areas of the government programme (e.g. decentralisation) and then extending into a more complete centre-of-government role. This could satisfy the current need, and might also serve as a first step towards improved governance practices overall.

**Box 2.7. The centre-of-government: What it is, why it is important, what it can do**

The term centre-of-government refers to the administrative structure that serves the executive (president, prime minister or governor at the subnational level, and the executive Cabinet collectively). It does not include other units, offices, agencies or commissions (e.g. offices for sport or culture) that may report directly to the executive but are, effectively, carrying out line functions that might equally well be carried out by line ministries. An effective centre-of-government is essential for steering policy development and implementation. It can help overcome ministerial and departmental silos that thwart co-operation and create wasteful duplication of policies and institutions. A well-functioning centre-of-government helps sustain a comprehensive long-term vision, manage risks and crises, and ensure an integrated approach to policy and reform. It plays a key role in communicating, as well as securing support and monitoring action. Who is at the centre-of-government varies by country. It will always include the body or bodies that serve the head of government and/or head of state, and is often accompanied by the Ministry of Finance.

Among the various roles for the centre-of-government are to:

- provide a strategic overview of government policy activities, including a foresight function aimed at identifying emerging issues and building anticipatory capacity
- increase policy coherence by ensuring that all relevant interests are involved at the appropriate stages of policy development
- communicate policy decisions to all concerned players and to provide implementation oversight
- apply effective regimes of performance management and policy evaluation
- ensure consistency and coherence in how policies are internally debated and how they are delivered and communicated to the public.

Centre-of-government responsibilities can include:

- strategic planning
- policy analysis
- policy co-ordination
- risk management/strategic foresight
- regulatory quality and coherence
- monitoring policy implementation
- preparing the government programme
- preparing Cabinet meetings
- communicating government messages
- human resource strategy for the public administration
- public administration reform
- relations with subnational governments
- relations with the legislature
- supra-national co-ordination/policy.

Sources: OECD (2014b), *Slovak Republic: Developing a Sustainable Strategic Framework for Public Administration Reform*, <http://dx.doi.org/10.1787/9789264212640-en>; OECD (2015), *Government at a Glance 2015*, [http://dx.doi.org/10.1787/gov\\_glance-2015-en](http://dx.doi.org/10.1787/gov_glance-2015-en).

**Box 2.8. The Reforms Delivery Office in Ukraine**

The Reforms Delivery Office is responsible to the prime minister and serves as an advisory body for the Cabinet of Ministers. Its primary tasks are analysis and reporting for government and international partners in diverse policy sectors (e.g. decentralisation, economic development, regional development, etc.). It is also responsible for the project management of different reforms on the government agenda. For example, the team dedicated to public administration reform is working with eight ministries to pilot a new structure; other teams work on the privatisation of state-owned enterprises, improving the business climate, etc.

With respect to decentralisation, the Reforms Delivery Office has identified a need for better information flows regarding implementation activities by ministries and donors. It has been working on mapping the institutional architecture to gain a better understanding of projects and programmes across the territory in order to identify duplication of effort and ensure better coherence.

*Source:* OECD interviews.

***Strengthening central level co-operation mechanisms in support of reform***

Limited co-ordination across and among levels of government is challenging the implementation of Ukraine's reform agenda. Co-ordination is needed to identify and harmonise policies and priorities, as well as to ensure effective regional development planning and the public investment to support it. Among OECD governments, legislation and laws for co-ordination tend to be the most frequently used co-ordination mechanisms, followed by co-ordinating bodies. Other popular ways to manage national/subnational relations are co-operative agreements and contracts (Charbit and Michalun, 2009). At the subnational level in Ukraine, agreement-based co-operation is gaining traction in the form of inter-municipal co-operation, but there is room for stronger horizontal co-ordination at the central level. In addition, reinforcing vertical co-ordination mechanisms, particularly ones that foster a relationship based on partnership among levels of government rather than hierarchy, will become increasingly important as local communities become more empowered.

***Introducing an inter-ministerial council to ensure reform and sector co-ordination***

There is a strong need to boost inter-ministerial co-ordination capacity for multi-level governance and decentralisation reform. Very few reforms are likely to touch so many areas of government, and action in one sector or area can easily trigger a domino effect that requires co-ordinated action in another area. Added to this is the visibility of decentralisation reform in Ukraine. It is a priority of the current government and is on the agenda of most government actors and institutional stakeholders, with extensive programming planned and already underway.<sup>10</sup> The Ministry of Regional Development is responsible for implementing the country's decentralisation process and ensuring that its objectives are reached, but it is confronted by resource challenges and an institutional culture that traditionally works in a siloed manner.

Many countries undertaking reforms as complex as Ukraine's establish a high-level inter-ministerial council or commission with a mandate to ensure or support a co-ordinated reform process across ministries and agencies. Often these bodies are chaired by the prime minister and are composed of ministers from the relevant ministries and high-level agency representatives when appropriate. Some countries, such as Japan and New Zealand, establish more broad-based entities, and include subnational government associations and non-government stakeholders (OECD, 2017a). Reform implementation is usually assigned by this body to the most relevant line ministry, helping to legitimise its mandate to co-ordinate other line ministry activities that relate to territorial reform. Such bodies are essential for identifying priorities, outlining reform sequence and ensuring that the various different parties involved buy into the process, thereby minimising obstacles at each stage. They are well-placed to support coherent reform implementation, and can sponsor ongoing dialogue among relevant stakeholders. This helps identify what works and what does not, potential risk factors, as well as relevant – and ideally more integrated and innovative – solutions.<sup>11</sup> These entities can be established strictly to steward decentralisation reform (and disbanded at some point in the future), or they can be already established inter-ministerial regional development councils responsible for overseeing and co-ordinating regional development more broadly, and then tasked with taking up decentralisation reform as part of their portfolio. Poland supports the implementation of its development policy with a high-level Co-ordinating Committee. This is a consultative and advisory body of the prime minister, chaired by the Minister for Economic Development (Box 2.9). While the Polish example emphasises regional development, Ukraine could consider establishing a similar body strictly for decentralisation – supporting reform implementation and helping address barriers to the Ministry of Regional Development's capacity to act.

#### **Box 2.9. Poland's Co-ordinating Committee for Development Policy**

Poland's Co-ordinating Committee for Development Policy is a body of the Council of Ministers, led by the Minister of Economic Development and with the Minister of Agriculture and Rural Development as the first deputy. It is composed of ministerial representatives and invited representatives (e.g. local governments, academia, etc.) on an *ad hoc* basis. The committee analyses the strategies, policies, regulations and other mechanisms associated with implementing Poland's Strategy for Regional Development, and assesses their efficiency and effectiveness. Sub-committees, for example on the territorial dimension or rural areas, can be designated. On an annual basis the committee assesses work in progress and outcomes, including with respect to funding, and prepares recommendations for the Council of Ministers.

At least once a year the committee performs an assessment of the works' progress and the results achieved (including the regional dimension) of the Strategy for Responsible Development, its course of funding including co-funding from the EU funds, an analysis of the complementarity of support from various operational programmes, EU and national developmental programmes, and private funds. Using the assessment as a basis it prepares recommendations for the Council of Ministers on programme, legal and institutional adjustments.

*Source:* Government of Poland (n.d.), unpublished documents, Department for Development Strategy, Ministry of Economic Development.



A high-level decentralisation council or committee could support the Ministry of Regional Development's position as a co-ordinating body for cross-sector government reform. The Ministry of Regional Development has been officially tasked with implementing decentralisation reform, but it apparently has not received clear guidance or a mandate to pull together the diverse government interests (Tkachuk, 2017). This ability is fundamental to ensure that decentralisation priorities are acted upon, and that sector decentralisation reform is coherent within and across sectors, as well as properly sequenced to correspond to local authority capacity to absorb new administrative and service challenges and responsibilities. It could also increase capacity to influence the process with other stakeholders, particularly subnational (*oblast* and *rayon*) governments and strong political as well as private sector interests, none of which are always in favour of reform.

Second, a decentralisation council or committee could help address an apparent resource (human and financial) gap that the Ministry of Regional Development faces. If the implementing body lacks the necessary resources (human, financial or infrastructure) to implement reform or ensure that reform priorities are implemented by other institutions, then reform success may be limited. A high-level decentralisation council or committee could help address such an issue, by finding ways to bridge a resource gap.

### ***Building stronger vertical co-ordination and collaboration mechanisms***

The limited co-ordination among and between government levels is another significant challenge that impedes the successful implementation of Ukraine's decentralisation agenda. Frequently used tools for co-ordination include laws and legislation, planning requirements, contracts and other binding agreements, and dialogue bodies. 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. Success at all levels of government will depend on a clear communication of objectives and priorities, both top-down and bottom-up; agreement on development and investment priorities; and co-ordinated action, particularly in areas where competences and/or interests overlap (e.g. transport infrastructure, urban development and land use, etc.). Therefore, reinforcing vertical co-ordination mechanisms, particularly ones that foster a relationship based on partnership among levels of government rather than hierarchy, will become increasingly important, especially as communities become more empowered.

### ***Strengthening co-ordination through multi-level dialogue***

Ensuring that different levels of government are aware of each other's vision for development, priorities and planned activities is fundamental to coherent policy implementation. This does not seem to occur in Ukraine with respect to decentralisation reform. Ministries are aware of the decentralisation reform and are pursuing decentralisation in their own sectors (e.g. health, education, social services, land use, transport) with minimal cross-sector dialogue, and even less multi-level dialogue. This will only serve to reinforce traditional ways of working in a context where one success factor is adequate co-ordination mechanisms. This can be aggravated by a mismatch in the "territorial logic" of the subnational bodies (e.g. agencies) of ministries or other central level institutions. There is a significant need for solid horizontal and vertical co-ordination when the territorial boundaries of these entities do not match each other or subnational administrative boundaries, which is frequently the case in Ukraine. Greater

co-ordination of their policies and a more co-ordinated territorial approach could improve coherence between the agencies that must intervene in the territory, and among the various government levels.

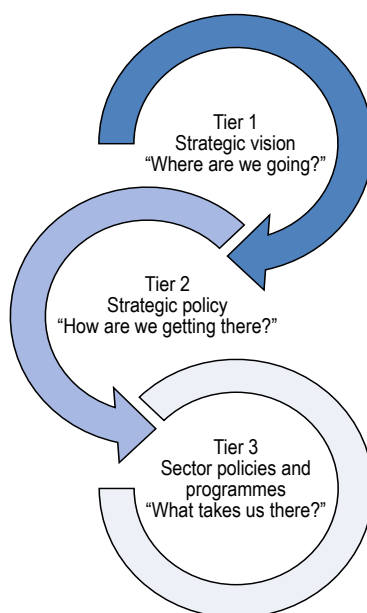
Consideration should be given to a dialogue body that brings together representatives from all levels of government. Ideally this type of mechanism should be as much part of the political level as the administrative or technical level, bringing together civil servants from different levels of government who are also involved in implementing the decentralisation reform. This has proven successful in Poland with the Joint Central Government and Local Government Committee and in Sweden through the Forum for Sustainable Growth and Attractiveness (Box 2.10).

A cross-sector, multi-level body such as those found in Poland or Sweden could help Ukraine build stronger ties among levels of government. *Ad hoc* meetings with representatives from different levels of government are called together by the Ministry of Regional Development to address specific topics of urgency. This can be extremely useful to gather opinions and find solutions to an already identified problem. However, it does not easily support ongoing dialogue and policy implementation. Building inter-institutional, multi-level mechanisms could not only help clarify government intentions and objectives, but build trust in the reform process by other levels of government as well.

#### *Using policy and planning documents to better support vertical co-ordination*

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 (Figure 2.4) and help co-ordinate diverse interests when implementing a new or reformed policy.

Figure 2.4. From strategic vision to sector policies and programmes



### Box 2.10. Dialogue bodies in Poland and Sweden

**Poland** supports dialogue between levels of government with its Joint Central Government and Local Government Committee. This body is composed of the minister responsible for public administration and 11 representatives appointed by the prime minister (at the request of the chair), together with representatives of national organisations of local self-government units that work in 12 “problem teams” and 3 working groups. It considers issues related to the functioning of municipalities and to the state policy on local government, as well as with issues related to local government within the scope of operation of the European Union and the international organisations to which Poland belongs. It develops a common position between levels of government and contributes to establishing the economic and social priorities of national and subnational government on matters such as municipal service management and the functioning of communal and district government, as well as regional development and the functioning of *voivodeship* (province) government. The Joint Commission develops social and economic priorities that can affect subnational development, evaluates the legal and financial circumstances for operating territorial units, and gives an opinion on draft normative acts, programmes and other government documents related to local government (Lublinska, 2017).

In **Sweden**, the Forum for Sustainable Growth and Regional Attractiveness facilitates and maintains a continuous dialogue among a wide and diverse array of stakeholders (e.g. central government, central government agencies, regional governments, municipalities, third-sector actors and the private sector). The forum is part of the implementation of Sweden’s National Strategy 2015-2020 and is considered an important tool for multi-level governance and to support national and regional level policy development through dialogue and co-operation. It is divided into two groups: one that promotes dialogue between national and regional level politicians, and one that fosters dialogue between national and regional level civil servants (director level). Associated with the forum are networks and working groups, such as an “Analysis Group” that brings together 16 state agencies. The forum is led by the state secretary responsible for regional growth policy, and participants are regional leaders and civil servants with regional development responsibilities in their portfolios; there are about 50 regular participants at the political level. Additional participants, such as ministers, state secretaries and directors within state agencies, can be invited on an *ad hoc* basis, depending on the agenda topics. The forum can serve as a “regional lens” or “prism” through which to consider diverse sector initiatives, e.g. in housing, innovation and transport.

*Sources:* Adapted from: Lublinska, M. (2017), “Decentralisation and multi-level governance in Poland: Ensuring coherence between national and subnational development strategies/policies”; Government of Poland (n.d.), unpublished documents, Department for Development Strategy, Ministry of Economic Development; OECD (2017b), *OECD Territorial Reviews: Sweden 2017: Monitoring Progress in Multi-level Governance and Rural Policy*, <http://dx.doi.org/10.1787/9789264268883-en>.

An explicit decentralisation policy that complements and supports the implementation of the vision established in the Concept Framework would be a useful tool in Ukraine's reform process. It is the missing link in Figure 2.4. In Tier 1 is the Concept Framework and in Tier 3 are sector decentralisation approaches, government and donor-sponsored implementation programmes, etc. An explicit national decentralisation policy (Tier 2) would link these other two levels, establish a consistent course of action for government and other institutional actors to follow with respect to the key activities supporting multi-level governance and decentralisation reform, and to address the challenges that arise. Without a road map or guide for action that all actors can turn to, reform implementation becomes *ad hoc*, without a clear sequencing of actions or capacity for stakeholders to fully identify the degree to which progress is being made. Such a document, complemented by an action plan articulating a timeline for concrete action associated with measurable, targeted results and monitoring mechanisms, could help prioritise activities and give structure to the next steps of the decentralisation process (e.g. sector decentralisation). It would also provide greater stability, consistency and clarity for stakeholders – they would be able to identify where the process is, what remains to be done, etc. In addition, it builds transparency into the decentralisation process. Such documents become particularly important given that the Concept Framework faces a constitutional block, and no updates have yet been proposed.

An explicit decentralisation policy should be articulated with the input of different national and subnational government stakeholders, including the Committee on State Building, Regional Policy and Local Self-Government of the *Rada*; relevant line ministries; the subnational government associations; leading academic thinkers; and should incorporate consultation with other relevant stakeholders. This is particularly important to ensure that the strategy and supporting policies and plans are not prescriptive, but are collaborative and shaped with the input of diverse stakeholders who will also be responsible for implementation. When there is agreement surrounding what is to be achieved and how, the process becomes more collaborative, integrated and more likely to succeed.

A decentralisation policy and action plan could also help mitigate the impact of other issues affecting the progress and stability of reform. For instance, the government recognises that amalgamation and fiscal decentralisation are first steps in a larger process. However, it has not clearly established what the larger process is (the job of a policy); resulting in an increasingly *ad hoc* decentralisation process characterised by significant instability, as the government advances and then retracts proposals and benefits associated with decentralisation. This is clearly visible with respect to the State Fund for Regional Development, but also with the excise tax on petrol, land-use rights and the use of subventions in education, for example. Furthermore, it is not clear how the government wants to continue decentralising beyond institutionalising sector-based decentralisation (e.g. in education, healthcare, transport and land use). While sector decentralisation is likely to be necessary, it is not certain that the communities formed from the amalgamation process – unified territorial communities (UTCs) – are ready to accept or absorb more responsibilities. Many are having difficulty absorbing those they have been given – particularly the smaller ones. An explicit decentralisation policy could help guide the development of solutions to these issues, particularly important as constitutional reform, while still necessary, seems increasingly distant.

An associated action plan for decentralisation would also help prioritise and sequence the various third-tier activities – i.e. sector decentralisation policies and decentralisation-associated programmes – that distinct decentralisation stakeholders intend to implement,

such as capacity building among subnational civil servants, infrastructure development, supporting small and medium-sized enterprise development, etc. In a context such as Ukraine's, where structures are traditionally hierarchical, risk taking is often low and vested interests are such that there is an incentive to ignore or bypass actions for the "greater good". Therefore, it is essential to give clear guidance on what needs to be done, provide incentives to do it and establish mechanisms to that ensure accountability. If these elements are in place, it is likely that even more can be accomplished.

**Box 2.11. Recommendations for strengthening co-ordination mechanisms and ensuring successful decentralisation**

To strike a better balance in territorial reform and ensure the conditions for successful decentralisation, the OECD recommends:

- **Strengthening co-ordination mechanisms** to ensure that actors in the reform process are moving in the same direction and that priorities are well-aligned. This includes:
  - Introducing an explicit decentralisation policy to establish a consistent course of action for decentralisation stakeholders, using it to:
    - bring together input from different national and subnational stakeholders to ensure that decentralisation policy and plans are not prescriptive, but collaborative, thereby gaining broader ground for support
    - guide sector or other institutional actors with respect to decentralisation activities and managing challenges that arise
    - establish a road map for reform (action plan) with a timeline for concrete action, establishing overall desired outcomes (that are measurable), and giving structure to next steps in the decentralisation process (prioritisation and sequencing).
  - Strengthening centre-of-government practices to better manage horizontal and vertical co-ordination needs by:
    - clearly mandating a centre-of-government office, for example by:
      - reinforcing the Secretariat for the Cabinet of Ministers with a group that could perform additional centre-of-government functions, or
      - expanding the remit of another existing body that already exercises some centre-of-government office activities, e.g. the Reforms Delivery Office.
    - Ensuring that centre-of-government office functions include strategic overview of government policy activities; oversight of policy coherence and implementation; internal communication of policy decisions; application of performance management and policy evaluation; ensuring consistency and coherence in internal policy debate and communication with the public.
    - Assigning functions in a phased manner, either focusing

- on reforms linked to the Government Programme or National Strategy for Development (e.g. decentralisation) and extending to a more complete centre-of-government role, or focusing on assigning a limited set of strategic tasks, such as strategic planning, policy analysis, policy co-ordination, monitoring policy implementation, relations with subnational governments and with international donors.
- Establishing a high-level inter-ministerial council or committee specifically for decentralisation to boost inter-ministerial co-ordination capacity and better support an integrated reform process across sectors, in order to:
  - support coherent reform implementation, sponsoring ongoing dialogue, establishing reform priorities and sequencing, etc.
  - legitimise decisions for a co-ordinated reform process across ministries and agencies
  - incorporate the interests of line ministries and high-level agencies when appropriate, as well as subnational government and non-government shareholders; ideally led by the prime minister.
- Strengthening dialogue among different levels of government to build synergies, trust in reform and strengthen co-operation, by:
  - launching a cross-sector and multi-level dialogue body dedicated to decentralisation reform (strategy, policy, programming, etc.) that meets on a regular basis. Consider first developing a dialogue body for the political level and then determining the need to introduce a similar body at the senior civil service level.
- **Clearly assigning responsibilities and functions** to different levels of government to help build efficiency in service provision and policy making, and to support greater accountability of government, by:
  - identifying and clearly distinguishing responsibilities in sector-, service- and development-related tasks (e.g. transport, education, infrastructure, economic development) and operational functions (e.g. strategic planning, financing, regulating, implementing, monitoring)
  - ensuring that ascribed responsibilities are legally supported
    - including and maintaining minimum services standards to be met, and strengthening monitoring and evaluation practices.

### Municipal amalgamation as a platform for decentralisation

Foremost among Ukraine's territorial challenges highlighted in 2014 was the high degree of fragmentation at lower levels of government, making it impossible for many local authorities to realise economies of scale or effectively perform basic service provision functions (OECD, 2014a). Before 2015, there were 11 520 municipalities in Ukraine,

ranging from large cities to small rural settlements, with an average size of about 3 950 inhabitants. Just over 10 000 of these communities were villages, 92% of which had fewer than 3 000 residents, and of these 47% had fewer than 1 000 residents (Sydorchuk, 2015). Such degrees of administrative fragmentation – i.e. many local authorities in a given district or region – can reduce territorial productivity and limit development. The OECD average population concentration is just over 9 600, more than twice that of Ukraine.

### *Amalgamation as a first step in decentralisation*

In the 2014 *Territorial Review of Ukraine*, the OECD suggested focusing first on territorial reform to address the issue of fragmentation before embarking on a process of decentralisation. By doing so, a stronger local level platform could be built for a better quality, more cost-effective and more accessible delivery of basic public services. Once this was accomplished, decentralising functions to lower levels of government would be easier to implement. Such a reform, it was noted, should promote the development of new forms of inter-municipal co-operation, including by simplifying the legal procedures involved in transferring responsibilities to joint bodies or companies, providing greater incentives to implement new types of co-operative relationships among local authorities, and facilitating municipal mergers (OECD, 2014a). To a large degree this approach is reflected in the trio of laws supporting decentralisation in Ukraine (see Box 2.2). However, rather than sequencing territorial reform and then decentralisation, Ukraine elected to use the possibility of administrative and fiscal decentralisation as an incentive for amalgamation. This has certainly spurred the amalgamation process, but it has also created uneven amalgamation across the territory, leaving a patchwork of local authorities with greatly varying resources and competence.

Making significant progress in territorial reform through a process of fully voluntary municipal mergers counts as one of Ukraine's most visible successes to date in territorial reform and the decentralisation agenda (Box 2.12). As of July 2017, approximately 2 000 local self-governments had merged to form 413 UTCs, covering 17% of the national territory and representing 8% of the population. By October 2017, the figure reached 614 UTCs with at least another 45 to be formed by the end of the same year (Kramar, 2017; Ministry of Regional Development, 2017a).<sup>12</sup> The Ministry of Regional Development has targeted a total of approximately 1 500 local self-governments to be created from the current 11 500 with local councils (Nehoda, 2014).

The rate of success in voluntary amalgamation is unusual compared with the experience of OECD countries, where voluntary mergers have difficulty gaining traction. At the outset it was driven by a strong fiscal decentralisation package linked to the changes in the State Budget Code and the approved 2016 state budget (which subsequently changed in 2017). Another draw was the opportunity for a restructured, more empowered relationship with higher tiers of government. Once officially operational (i.e. with a newly elected mayor and municipal council), the UTCs are eligible to negotiate their budgets directly with their *oblast* administrations, rather than negotiate and receive funds from the *rayon* state administration. Communities that do not amalgamate, however, are not eligible for additional revenue sources or negotiation benefits and remain under the tutelage of their *rayon*. An additional driver of success was the ability for the merging communities to maintain their original identities and elect a local community leader – the *starosta*. This helped convince smaller towns, villages and settlements to engage in the amalgamation process (OECD interviews).



**Box 2.12. Ukraine's voluntary amalgamation process**

Ukraine launched its voluntary amalgamation process in March 2015 and by early December 2016 there were already 159 newly amalgamated communities. Prospect plans developed by the *oblast* state administrations were developed as a guide for establishing new administrative units by identifying potential amalgamation partners for all communities. Local authorities, however, do not have to adhere to these plans. The law permits local self-government units (*hromada*) to amalgamate if their territories are: 1) contiguous; 2) located within the same *oblast*; 3) have historical, natural, ethnic, cultural or other unifying characteristics. Community members or local authorities can initiate the amalgamation process, which must undergo public consultation and approval by each of the local councils involved. Final amalgamation plans can be (and often are) subject to local referenda and must be approved by the *oblast* council. They also must be approved by the Cabinet of Ministers, which determines whether the new community can perform its functions. In addition, the Ministry of Finance checks to see if the resources will be sufficient to cover education, healthcare, social protection, and the basic administration and operation of the new municipality. As soon as the approval process is complete, the Central Election Committee of Ukraine authorises the election of a mayor and municipal council. Thus far, elections for new local governments appear to be held twice a year, and the Election Committee can choose not to authorise such an election (as it has done with communities wishing to amalgamate across *rayon* borders). All eligible citizens vote in the elections for the new mayor and council members, and once elected the council appoints an executive committee. The objective of this process is to ensure that all communities across Ukraine are sufficiently capable of providing the same list of delegated services, meeting the same list of responsibilities and enjoying the same financing benefits.

*Sources:* OECD interviews; Verkhovna Rada of Ukraine (2015a), Law No. 157-VIII of 5 February 2015 on Voluntary Consolidation of Territorial Communities, in Ukrainian at: <http://zakon3.rada.gov.ua/laws/show/15719/print1469801433948575>; World Bank (2017a), "Ukraine: Public finance review", <http://documents.worldbank.org/curated/en/476521500449393161/Ukraine-Public-finance-review>.

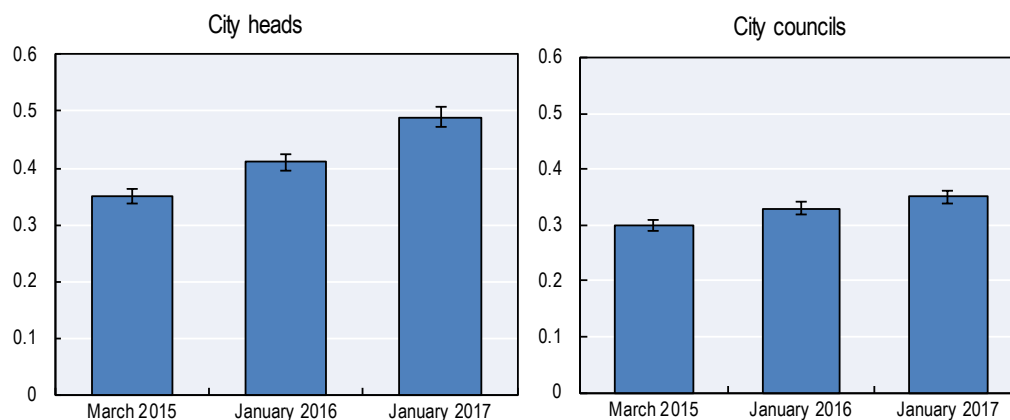
***The relative success of amalgamation***

There is no doubt that amalgamation has strengthened the local communities that engaged in the process. UTC community leaders in different regions highlight greater capacity to meet the needs of citizens, and improve and maintain services and infrastructure. They also report enhanced access to business opportunities. One fundamental and positive change that community leaders remark upon is the increase in budgets and revenues (see Chapter 3). Local communities that have amalgamated for the first time have money in their budgets to invest according to their priorities. In the past, investment decisions and funding were managed by the *oblast* and *rayon* levels. In addition, local leaders are noticing that citizens' attitudes toward the management of their municipalities is changing – where before there was an effort to keep a school open no matter the cost, now people

are considering where it is more effective to have a hub school and how to work on transporting the children there. There is a greater sense of responsibility with respect to community funds on the part of the officials as well as the citizens (OECD interviews).

The capacity to directly address pressing infrastructure and service needs, for example in road reconstruction, schools and medical clinic buildings, has a positive impact on building the relationship between citizens and the local government. In fact, evidence indicates a rise in citizens' approval of local leaders in *oblast* capital cities between 2015 and 2017 (Figure 2.5).

Figure 2.5. Average level of approval of local institutions



*Note:* Average of the share of respondents approving the mayor's (or city council's) activities in each city; N = 800 validated answers in each of the 24 cities (22 in 2015).

*Source:* Center for Insights in Survey Research (2017), "Third Annual Ukrainian Municipal Survey", [www.iri.org/sites/default/files/ukraine\\_nationwide\\_municipal\\_survey\\_final.pdf](http://www.iri.org/sites/default/files/ukraine_nationwide_municipal_survey_final.pdf).

While approval does not equate to trust, a government that receives the approval of its constituents is also more likely to be trusted by them, and this tends to occur most strongly at the local level, where services are delivered and where the link with government performance is most concrete (OECD, 2013a). Therefore, ensuring that the local level has the autonomy and resources to act in the best interests of residents, free from pressure by higher level political and other vested interests, is critical for good governance and for the implementation of reform. Unfortunately, this is not always the case in Ukraine – reflected in anecdotal evidence from local leaders trying to secure votes for amalgamation, and changes by the national government that have effectively politicised the selection process for funding projects through the State Fund for Regional Development (explored later in this chapter).

### *Lessons from amalgamation so far*

Since the amalgamation process began in 2015, several lessons stand out. First are the characteristics that make a successful UTC. It is reported that UTCs which amalgamate around towns are stronger and have more progressive leaders and more experienced public officials. The UTCs that have formed with a limited number of residents, often in rural areas, or with economically inactive populations risk a limited capacity for development and the provision of required services due to a persistent lack of scale (World Bank, 2017a). This difference between successful and less successful UTCs is critical as it can aggravate territorial inequalities.

### *An expanding capacity gap*

There appears to be an expanding capacity gap between the UTCs and non-amalgamated communities in terms of financial resources and the ability to deliver services. The UTCs with more resources and responsibility are tackling (either on their own or through inter-municipal co-operation) the need for basic services such as potable water and sanitation, sufficient heating for schools, and adequate medical attention for residents, as well as turning their attention to such connectivity needs as roads, public and school transport vehicles, and emergency and safety services (e.g. fire, snow, etc.). This is more difficult for communities, especially smaller ones that have not amalgamated. They face being left behind not only in terms of service delivery, but also with respect to the capacity to improve economic and societal well-being.

These differences also reach into administrative services, particularly those that are functions of the community (e.g. leasing land, residential registration, etc.) and functions of the state executive bodies (e.g. issuing passports, permits, licensing, etc.). Administrative service centres (ASCs) are the equivalent of “one-stop shops” for citizens. These centres can be established by *hromada*, including the UTCs – in which case the community finances the centre with its own resources – or by *rayon* administrations that finance the ASCs with state transfers. In addition, the Ministry of Economy, in co-operation with the Ministry of Regional Development and with the support of the government of Canada’s EDGE project, are piloting “re-engineered” ASCs in 15 UTCs. The objective is to streamline back-office functions and deliver administrative services in a more “citizen-centred” way. The ASCs established by individual communities appear to be better off financially and there is an incentive for a locally elected mayor to make sure that they are effective. Centres under the responsibility of *rayon* executive committees are said to be under-resourced. However, there also seems to be little incentive for communities to use their funds for such centres. While there are 715 ASCs around the country, only 250 (about 35%) are in *hromada* and of these 44 are in a UTC (Ministry of Regional Development, 2017b).

### *A need to reconsider amalgamation partners*

While amalgamations have proceeded quickly, and continue, the communities formed have highly varied capacity levels. This problem is rooted in numerous decisions taken early in the reform process,<sup>13</sup> including: to override technically solid planning, a lack of basic guidance for communities selecting amalgamation partners and an early choice to permit *ad hoc* amalgamations. Managing the results of this will require adjustments in the planning and authorisation process, as well as mechanisms to better support those UTCs facing capacity constraints.

When embarking on the amalgamation process, *oblast* administrations developed “prospective plans” for their territories as the basis for the administrative boundaries of the UTCs. They identified clusters or groups of *hromada* to be amalgamation partners, so that when they merged, outlying communities would be no more than 25-30 kilometres away, assuming a paved road, or a 30-minute ambulance ride, from the community centre. Generally, the community centre would be a city of *oblast* or *rayon* significance or another large local government with the necessary infrastructure in terms of access, connectivity and services (e.g. healthcare and higher level schools, etc.) already in place. Also considered when identifying community groups were total population; area; estimated budget from local taxes; the number of educational institutions, medical institutions and infrastructure; social service needs; and administrative and social

infrastructure (OECD interviews). The plans were based on the socio-economic relationships of the communities, as well as traditional relationships. The intention was to create *hromada* sufficiently large as to be able to ensure better public services but also to generate socio-economic growth (Box 2.13). The initial Prospective Plan for Mykolaiv *oblast*, for example, divided the territory into 32-33 UTCs from an original 313, as the majority of these communities prior to amalgamation were subsidised from the state budget – something that amalgamation could alleviate.

The prospective plans, however, were considered difficult to follow and municipalities amalgamated with neighbours on a more *ad hoc* basis. The difficulty is due in part to the process's voluntary nature, in part a result of prospective plans being potentially too rational, and in part due to strong political and economic interests at play. In addition, while there were significant incentives to amalgamate, there were no specific incentives (or disincentives) to amalgamate according to the prospective plan. Using Mykolaiv again as an example, of the 21 total UTCs that were formed between 2015 and March 2017, only 2 followed the prospective plan. The remaining 19 amalgamated with different partner combinations (OECD interviews). Based on data from the Ministry of Regional Development up to April 2017, this is not necessarily unusual. However, it permitted communities to form that still do not have sufficient scale or resource-generating capacity to meet the devolved responsibilities associated with decentralisation. The World Bank notes that the average UTC is composed of only five original local self-government units, and that many of the UTCs approved to date are formed from an original two to four *hromadas* (World Bank, 2017a). This calls into question the ability of a majority of UTCs to execute decentralised responsibilities, especially in healthcare and education. In an attempt to return to a more rational process, *oblast* prospective plans have been redrawn to account for the already formed UTCs and to indicate new possibilities for amalgamation partners. As of 2017, in order to be recognised and receive the fiscal incentive package associated with amalgamation, the communities must follow the partnerships identified in revised prospective plans. This does not mean they must amalgamate, but it puts a limit on their capacity to choose amalgamation partners.

This is a welcome shift as, moving forward, it could help minimise the formation of under capacitated municipalities even after amalgamation. However, it does not necessarily tackle the problem of the under capacitated UTCs already formed. One way to address this is through an asymmetric approach to the decentralisation of tasks, where communities that are larger and thus have greater resource capacity are also given more responsibilities. This could take the form of a tiered allocation of responsibilities based on a minimum threshold of residents for all communities (explored by Japan). It could also be accomplished through “certification” processes as in Colombia, through experimentation and pilots seen in Denmark, or contracts as in the case of the Czech Republic (OECD, 2017c). Italy's Law 56 of 2014 “Reordering the Territorial Organisation of the Country” defines different types of territorial divisions (provinces, metropolitan cities, municipalities), based on set criteria (e.g. strategic development of the territory, efficient provision of public services, existing infrastructure and communications networks, and institutional relations). It also facilitates municipal mergers and inter-municipal co-operation for the provision of public services (Global Legal Monitor, 2014).

**Box 2.13. “Expert”, “compromise” and “consensus” plans for amalgamation**

A 2017 study in spatial planning highlights the capacity of initial prospective plans to ensure well-capacitated local self-government units – thereby better supporting the decentralisation process in terms of meeting delegated responsibilities and generating additional, necessary revenues. Using Kyiv *oblast* as the model, the study evaluated the successive elaborations of the prospect plan (19 in total) developed by Kyiv *oblast*, grouping these into three variants: “expert”, “compromise” and “consensus”, and evaluating them based on the same set of indicators.<sup>1</sup>

Table 2.5. **Prospect plan variants for newly amalgamated communities in Kyiv *oblast***

Indicator	Variants of prospect plan		
	Expert	Compromise	Consensus
Number of unified territorial communities	45	77	61
Average area (m <sup>2</sup> )	569	333	411
Population (average)	39 930	23 445	26 918
Number of settlements (average)	26	15	19
Percentage of subsidised communities	25	49	47
Percentage of communities with facilities for state bodies and institutions	80	74	90

The quality of results from the “consensus” variant is intermediate between “expert” and “compromise” – most significantly because about half of the communities remain subsidised. It is through the “expert” model where the resulting territorial system reflected the highest possibility of ensuring long-term sustainable development; and so despite imperfections it was the “... best possible, scientifically sound option.” Under the “expert” variant, 89.9% of the proposed UTCs would have been fully able to provide appropriate facilities for housing state administrative institutions and agencies, if necessary, and the remaining 11.1% would have been partially able to do so; that the vast majority of communities would have had sufficient financial capacity;<sup>2</sup> and only 25% of the newly formed communities would have one income per person less than the official minimum wage. Ultimately, it was the “consensus” variant that was adopted by the Kyiv Regional Council.

*Notes:* 1. The variants refer to: i) “expert”, i.e. the plan as developed by a working group within the Kyiv regional state administration in consultation with economists, economic geographers, and specialists in state and municipal management; ii) “compromise”, i.e. those proposals that the *oblast* working group began to receive from local governments and the public while the prospect plan was being developed (fully permissible according to law) and which the working group agreed to maximally consider despite the fact that some of the proposed communities did not meet the requirements established by the *oblast* methodology for community groupings; and iii) “consensus”, i.e. a variant that implies consideration of all stakeholders in the proposed community configuration (Udovychenko et al., 2017). 2. The authors measure this in terms of the ratio of the maximum and minimum profitability indices (to the regional average). This would have varied from 5.11 in the Boryspil community to 0.41 in the Poliske community – considered relatively positive given the spatial segregation of economic development in the region (Udovychenko et al., 2017).

*Source:* Udovychenko, V. et al. (2017), “Decentralization reform in Ukraine: Assessment of the chosen transformation model”, <https://www.degruyter.com/view/j/esrp.2017.24.issue-1/esrp-2017-0002/esrp-2017-0002.xml>.

Any of these approaches, however, would require a more clearly articulated assignment of municipal responsibilities.

Another, more immediate, possibility to address the issue of under capacitated UTCs is to facilitate additional or “second-generation” amalgamations. Little consideration, however, seems to have been given to whether UTCs could amalgamate with other UTCs. Encouraging UTCs to grow, either by merging with nearby non-amalgamated communities or by permitting the amalgamation of two under capacitated UTCs, could continue to build scale. To do so, however, may require an adequate incentive structure, for example by extending the infrastructure subvention, or permitting greater flexibility in terms of use of state transfers.

### *Speed bumps that can slow the reform process*

There are some speed bumps slowing the pace of Ukraine’s amalgamation process. These include a territorial disequilibrium with the *rayon* level, insecurity among the UTCs regarding their legal status, legal constraints preventing amalgamation combinations that would ensure greater scale, insufficient communication of expectations from the top, an unclear attribution of new competences for which the UTCs are responsible, and incomplete land-use reform.

### *Changes in the territorial equilibrium*

Territorial reform via amalgamations has strengthened the political and administrative power of local authorities at the expense of *rayon* administrations. While under the Concept Framework their future was clear, the implementation of decentralisation reform through discrete laws that focus on municipalities has created a territorial disequilibrium that can slow the reform process.

### *The decentralisation agenda is at odds with rayon administrations*

The Concept Framework supports political decentralisation at the district level by introducing elected executive committees to support each *rayon* council, effectively replacing the administrative, operational and management activities of the *rayon* state administrations. It also promotes administrative decentralisation by devolving day-to-day service delivery tasks from the *rayon* to the UTCs, leaving the districts with responsibility for services that are more cost-intensive and require greater scale (e.g. second-tier medical care and specialised schools).

The reform as outlined above would have given the *rayon* a clearer purpose and function within the territorial administration. Instead, a gradual “hollowing out” of the *rayon* level is occurring. This poses a threat to the political, administrative and other power structures entrenched in the *rayon*, and in turn it can threaten the success of reform. *Rayon* state administrations are losing their resources and authority as UTCs take on what were previously *rayon*-level responsibilities in areas such as education, healthcare, social services, transport, etc., together with the ability to directly negotiate budgets with the *oblast* state administration. Eliminating the *rayon* from service delivery and budget negotiations can deprive *rayon* authorities of clientelistic ties that have formed in the past, and put them into direct competition with the UTCs for funds and influence. In addition, the *rayon* are expected to transfer their assets (e.g. buildings) to the UTCs, although this does not systematically occur (Lankina, Gordon and Slava, 2017; OECD interviews). This adds up to a resistance to change by many *rayon* state administrations (OECD interviews). At the same time, there are also *hromada* that have not amalgamated and thus remain under

the tutelage of the *rayon*. The result is that in some areas rayon state administrations exist to serve a handful (sometimes only one or two) (very small) communities.

Ukraine is facing a number of problems with respect to territorial balance:

1. As of October 2017, 14 *rayon* have been fully “hollowed out”: all *hromada* in their territory have amalgamated, either to form a single UTC (in 9 *rayon*) or several UTCs (in 5 *rayon*) (Ministry of Regional Development, 2017a). When there are no more *hromada* to support and thus no need for a dedicated budget, the *rayon* is “eliminated” from the state budget by being given a “0” in its corresponding state budget line (OECD interviews). It is, according to the government, a parliamentary decision to maintain or liquidate a *rayon* (Ministry of Regional Development, 2017a). Until the decision is taken, they are in a form of limbo, in place though in some cases with few to no administrative or service responsibilities.
2. There is an inefficient use of state resources. *Rayon* increasingly lack the scale needed to make their operation and service provision cost-effective. This is true not only where a *rayon*’s territory is partially covered by a UTC – the case in 308 of Ukraine’s 490 *rayon*, 103 of which have more than 50% of their territory covered by UTCs – but also in *rayon* where there is complete territorial coverage by UTCs (Ministry of Regional Development, 2017a). While inefficiencies are likely to have existed before amalgamations took place, the situation has become more acute, for example, by creating a need to support *rayon* state administrations, provide funds for certain services, and maintain transfers for the UTCs. This also affects the quality of services the *rayon* can provide to the non-amalgamated communities in their territories for which they are still responsible.
3. There is institutional resistance to amalgamations by *rayon* administrations. While the intention was for *rayon* civil servants to be hired by UTC administrations, this does not always occur. When such transfers are made, they are reported to be successful and considered a win-win situation: the former *rayon* employees bring their capacity and capabilities to the UTC administrations, and in turn the UTCs offer a new and often more dynamic work environment (OECD interviews). Unfortunately, it is not realistic to expect that all former *rayon* staff will find a place in UTC administrations. This creates insecurity among *rayon* civil servants and generates greater resistance to reform – they are worried not only about potentially losing their jobs, but also about their capacity to find new ones since they may lack the skill set necessary to find work elsewhere (OECD interviews). Significantly, and unfortunately, there does not seem to have been a plan put in place to address the need for *rayon* staff transition, retraining, skills upgrading, etc. This is something that could be addressed with the support of such institutions as the National Academy for Public Administration under the President of Ukraine or other appropriate training institutions.
4. There is political resistance to reform. It is acknowledged that vested interests, clientelism and corruption can be significant at the *rayon* level (OECD interviews), and thus any limit to powers of patronage is antithetical to the interests of many *rayon* representatives. One reason constitutional reform did not pass, some observers argue, was that it threatened interests within *rayon* administrations (OECD, interviews). There is also evidence – anecdotal and from international studies – of *rayon* officials undermining the reform process in their districts.



As it currently stands, the reform is creating parallel administrations by attributing the same responsibilities to UTCs as to the *rayon*. This further skews the allocation of responsibilities, negatively affecting already weak transparency and accountability to citizens. It also generates inequality in service quality, type and access, something that the decentralisation agenda is trying to rectify. Furthermore, it is financially inefficient. Overall the situation is inconsistent with the conditions for successful decentralisation reform, including ensuring clearly delineated assignment of responsibilities and functions among levels of government, and capacity for managing change. The result is inefficient and ineffective subnational administration at the intermediate level, less than potentially efficient and effective administration at the local level, and a negative impact on the decentralisation process.

While in some countries there has been discussion to eliminate the intermediate level, this view tends to be met with strong opposition. Many countries instead opt for ways to transform or modify it, as has been seen in Italy (Box 2.14) (OECD, 2017a).

#### **Box 2.14. Reforming Italy's intermediate level of government**

In a move to rationalise the intermediate level without abolishing it, Italy passed a law in 2014 that transformed its provinces into inter-municipal bodies (and into metropolitan cities in the country's ten metropolitan areas). According to the law, regional administrations are in charge of determining which responsibilities and functions should be transferred from the provinces up to regional or down to municipal governments within their jurisdiction. This will likely lead to a variety of regional local-government systems across the country. The reassignment of provincial human resources (around 8 000 employees) and provincial assets and liabilities was considered a complex question, with potentially costly changes needing implementation in a period of budgetary restriction. Although initial progress with reform was slow, by late 2015 almost all regions had adopted such agreements.

*Source:* Adapted from OECD (2017a), *Multi-level Governance Reform: Overview of OECD Country Experiences*, <http://dx.doi.org/10.1787/9789264272866-en>.

It is reported that some UTCs are transferring some of the funds they receive back to the *rayon* administrations to pay for services the *rayon* still provide, particularly in social services (World Bank, 2017a; OECD interviews). This illustrates two points: one is that UTCs do not have sufficient human resources and/or infrastructure capacity to meet all of the services transferred; the second is that there is a role for *rayon* – but perhaps *rayon* of a different size or configuration.

Given the current situation, a strong argument can be made for re-evaluating the structure and role of *rayon*. This could mean: 1) increasing *rayon* size in terms of area and population in order to build capacity for second-tier services and administrative functions allocated by transferring responsibilities down from the *oblast* level or up from the local self-government level; 2) reconceptualising the role of *rayon* into functional service providers according to catchment areas, such as hospital districts.

There are at least three options that might be considered to accomplish these shifts. The first is to retain deconcentrated *rayon* but to promote cross-jurisdictional co-operation

(i.e. inter-*rayon* co-operation) for the delivery of higher level services, reflective of inter-municipal co-operation agreements. These services could include second-tier hospitals, vocational education, high-level athletic and cultural facilities, higher cost social services, broader public health services, emergency services (e.g. fire prevention, winter road maintenance, flooding, etc.), illegally dumped waste, higher level administrative, library services, etc. Some of these, such as library services or fire prevention services, could be undertaken in collaboration with local communities; others would be fully the responsibility of the *rayon*. Promoting inter-*rayon* co-operation for a redesigned list of services could support future *rayon*-level amalgamations.

The second option, *rayon* amalgamation, could be undertaken either in a “big bang” format affecting the entire territory at once or by reforming *rayon* administrations in one or two pilot *oblasts*: assigning them a new set of responsibilities and an appropriate institutional and fiscal structure – which may or may not be decentralised – while also experimenting with optimal scale. The experiment could be undertaken for a predetermined period of time after which the central government would decide whether to continue with the model and introduce it in other parts of the country or to suspend the experiment. In Finland, such an experiment was run in the Kainuu region, lasting seven years, after which the government chose not to pursue the reform in other regions. Sweden, however, tested and further developed an asymmetric approach to subnational governance at the regional level. County governments have both deconcentrated bodies (county administrative boards) and decentralised bodies (county councils responsible to directly elected assemblies). The responsibilities attributed to county councils can differ by county, depending on capacity and desire to take on additional tasks. This technique has permitted Sweden to adjust governance structures and competences according to territorial capacity. The result has been a strongly context-dependent approach to regional governance and development rather than a “one-size-fits-all” approach (OECD, 2017b). While this approach has been taken at the regional level in Finland and Sweden, Ukraine could consider adapting it to the *rayon* level.

In both cases – co-operation or amalgamation – an appropriate incentive structure would need to be introduced. Such a structure could be financial, and within a deconcentrated, co-operative context it could mean ensuring that new responsibilities also have sufficient resources. In a decentralised scheme (an option with amalgamation) it could mean introducing opportunities to generate own-revenue at the *rayon* level. Either way, increasing autonomy in priority setting and decision making within the defined areas of responsibility could be an important incentive. At the same time, it would be essential to minimise the opportunity for clientelistic behaviour and patronage in the provision of services. This could be accomplished in part through civil service reform and appropriate remuneration levels, but also via interesting placement and promotion schemes between levels of government. This is one way to increase the buy-in of senior civil servants without compromising reform logic. Greater open government activity at the subnational level would also be of value for increasing transparency and accountability. In addition, service responsibilities between *rayon* and the UTCs would have to be clearly delineated, with limited overlap in service provision. In cases of shared services or potential overlap, strong contractual agreements would be necessary between the two government levels to clearly identify and define responsibilities, funding mechanisms, etc. To be able to enforce such agreements, however, a functioning judiciary would be critical: one to adjudicate both competing competence claims between levels of government and citizen complaints against any of them.

The third approach would be to focus *rayon* responsibilities on one specific higher level service, taking a functional approach both to their territorial definition and to the attribution of their competences. This means re-evaluating *rayon* borders along the lines of a service catchment area or district for the provision of specific, higher level, more resource-intensive services, such as hospitals. Scandinavian countries take this approach with their hospital districts, though there are challenges to ensure efficient and effective service access in remote and underpopulated areas. These catchment areas could be independent entities with administrative and fiscal capacities seen in some parts of the United States, or they could be a joint co-operative body, owned by a group of participating municipalities as is practiced in Finland (Box 2.15).

#### Box 2.15. Hospital districts in Florida and Finland

The **Palm Beach County Health Care District** in Florida (United States) was established in 1988 when county residents decided to invest in their community's health. They voted to create an independent taxing district that provides an array of healthcare services, including primary care clinics across the county, a hospital, school healthcare, a trauma system, skilled nursing care and health coverage. The district is governed by a seven member Board of Commissioners serving four-year terms, on a voluntary basis. Three commissioners are appointed by the state governor, three by the county Board of Commissioners, and one from the Florida Department of Health. The District Board is responsible for the comprehensive planning and delivery of healthcare facilities, including hospitals and health services.

In Finland, the **Central Finland Healthcare District** is owned by 21 municipalities and provides services in almost all medical specialties. It is run by an Administrative Council of 49 members and directed by a 9-member Board of Directors. The district is divided into 6 operating areas, with 25 areas of responsibility between them. Additionally, the Central Finland Regional Health Centre, which is operated as a public utility, provides eight municipalities with basic healthcare services. Meanwhile **HUS Group** is the Joint Authority of the Helsinki and Uusimaa Hospital District, plus its subsidiaries and associated enterprises. The Joint Authority is composed of five hospital areas, seven businesses that provide patient and non-patient support services (e.g. pharmacy, hospital maintenance), group administration, and property management services. The council has ultimate decision-making power, and the Executive Board, which is appointed by and reports to the council, is responsible for the administration and finances of the Joint Authority.

*Sources:* Health Care District of Palm Beach County (n.d.), "About us", [www.hcdpbc.org](http://www.hcdpbc.org); Central Finland Health Care District (n.d.), "Health Care District", [www.ksshp.fi/en-US/Health\\_Care\\_District](http://www.ksshp.fi/en-US/Health_Care_District); HUS (n.d.), "About HUS", [www.hus.fi/en/about-hus/Pages/default.aspx](http://www.hus.fi/en/about-hus/Pages/default.aspx)

Given the current context in Ukraine, building scale at the *rayon* level and giving them more concrete responsibilities may help recalibrate the territorial equilibrium. Depending on the approach taken – a functional service (e.g. hospital) or a multi-service joint

co-operative body, be it through co-operative agreements or amalgamation – it could relieve some pressure for the UTCs to deliver higher level services for which they are under capacitated. This could be applied all at once, or through a “pilot” which will permit experimenting with optimal size, structures, responsibilities and operational approaches.

The government is aware of the problems arising from lack of reform at the *rayon* level. In June 2017 a draft law – No. 6636 on the Procedure of the Creation, Liquidation of Districts, Setting and Changing their Borders – was introduced to facilitate a step-by-step transformation of *rayon* administrations in terms of size, task allocation, administrative responsibilities and institutional structure (Ministry of Regional Development, 2017c). This was followed by a July 2017 meeting that convened *oblast* governors together with representatives of the UTCs to address the issue of parallel administrations. Of the four options for *rayon* reform that the government is considering (as of October 2017), one focuses on *rayon* amalgamation, where two or more adjoining *rayon* would combine into a new one. The other three propose to: 1) change the administrative territorial structure of the *rayon* across the country; 2) eliminate the *rayon* in which all *hromada* have amalgamated; 3) legislatively regulate and provoke an early termination of powers of *rayon* councils where all *hromada* have amalgamated into a single UTC (Ministry of Regional Development, 2017a).

#### *Uncertainty caused by legal constraints and a lack of guidance*

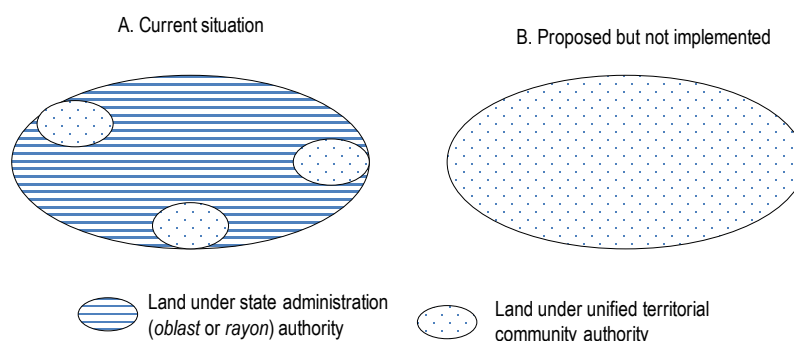
Legal uncertainties and a lack of guidance “from the top” can make amalgamation potentially uncomfortable for *hromada*, limiting their interest in or ability to build support for amalgamation.

Among the legal constraints amalgamation faces are limitations in the categories of municipalities eligible to merge. Cities (including of *rayon* significance), towns, villages and rural settlements can amalgamate with each other, but they cannot amalgamate with cities of *oblast* significance. Furthermore, non-amalgamated communities which initially decided against amalgamation cannot subsequently request amalgamation with initially identified partners. This can be limiting among communities that wish to amalgamate and reduces the potential “reach” of decentralisation. The lack of legal protection for newly amalgamated communities is a worry among UTC leaders. The UTCs are not constitutionally recognised, nor are they integrated into municipal law as official local self-government units. Acknowledgement of the UTCs as a form of *hromada* is *de facto*: the Law on Amalgamation allows them to form, but it does not guarantee their status as an official territorial administrative unit. Thus, there is a fear among UTC leaders that with political change at the national level, the gains made thus far could be lost or at least significantly diluted (OECD interviews). This is a valid concern and one not limited to changes in government, as there has already been back-tracking on the part of the government with respect to initially established funding mechanisms (e.g. excise tax allocations and the State Fund for Regional Development). While reversals in the process may be increasingly less likely as more and more communities amalgamate and the local administrative landscape changes, it is a factor in the decision-making process of local communities (OECD interviews).

One of the most pressing statutory matters in amalgamation is land use and land rights. There are numerous reasons for this, including the lack of a reliable cadastre system and unfulfilled government intentions to change legislation, combined with what appear to be few ready (and no easy) solutions. It is even more critical, given its impact on the economic development of the UTCs due to the revenue-generating capacity associated with land and land development. In Ukraine, the land outside of the administrative

boundaries of local self-government units belongs to the state, and its management – as well as any revenues generated – falls to the relevant state administration (i.e. *oblasts* and/or *rayon*). The land within the territorial/administrative boundaries of a local self-government unit is under the control and management of that community, and revenues generated are considered part of the community's own-source revenue. One of the incentives for local self-government units to amalgamate was the initial proposal that property and land-use rights for the entire territory formed by the amalgamation of the communities (i.e. land within the individual administrative boundaries, and the land in between them) would be put in their hands. This situation also affects service delivery. For instance, roads that pass between settlements forming a UTC may be under the responsibility of the *rayon* administration, which may or may not have the capacity or incentive to maintain the roads. This fragments service attribution and responsibility in a relatively small area and potentially creates differences in service quality. With a change in land rights, the roads would fall under the responsibility to the UTC, as communities are responsible for the roads within their administrative boundaries. Currently, the land within the administrative boundaries of each individual community forming a UTC falls within their authority, including income from that land, but not the land in between the individual units forming the new local government (Figure 2.6).

Figure 2.6. **Current and proposed land management and revenue allocations**



Source: based on OECD interviews with Ukrainian officials.

Such changes in land management rights would give the UTCs greater decision-making capacity over what happens in their territory and increase revenue gains from property/land-use and business taxes. This would ultimately increase their ability to better support territorial (including economic) development plans. The proposal, initially part of the amalgamation incentive package, remains unfulfilled as the framework for such a shift has not passed into law and thus there is no legal basis for a transfer of rights by *oblast* or *rayon* administrations, or for a claim to rights by the UTCs. The result is unclear property rights, fragmented land management in the UTCs, and limitations on own-source revenue and decision-making capacity by local authorities.

### *Signals from above could build greater certainty and trust in reform*

A framework for the implementation of amalgamation is missing and there is limited guidance on the part of the central government with respect to expectations, including expected outcomes. This is despite the “prospective plans” established by *oblast* administrations (discussed in the next section). On numerous occasions, the OECD team heard either that local leaders were ready to amalgamate but would not take the risk

without instructions from above, or that they would wait until the state left no other option for village heads (i.e. compulsory amalgamation). One reason for this may be the loss of local power and influence to a new municipal council. The other could be the insecurity associated with amalgamation. Many communities that amalgamated in 2015 and 2016 characterised themselves “risk takers” (OECD interviews).

A lack of explicit criteria to guide the amalgamation process – i.e. a set of basic and fixed (required) parameters for selecting amalgamation partners – on the ground, can generate uncertainty. There is a vaguely understood objective of 1 500 local self-governments in Ukraine by the end of the amalgamation process (Nehoda, 2014). This, however, does not seem to be widely communicated, and there is some question as to whether it is a fixed or moving target. The result is that it is very difficult to determine real progress *vis-à-vis* an objective and it is not clear what evidence was used to arrive at a figure of 1 500 communities.

In addition, there does not appear to be a timeline for the amalgamation process. Expectations are based on hearsay (OECD interviews). This makes it very difficult to determine a deadline for the formation of the presumed 1 500 communities. In late 2016 and early 2017, discussion among decentralisation experts and stakeholders in Ukraine indicated that as of early 2018 the government would begin requiring amalgamation. By mid-2017, the speculation was that this would not occur until late 2018 or beyond (OECD interviews). This adds uncertainty to the process, especially for *hromada* which may be willing to amalgamate but do not want to do so without “instructions from the top”. It also means that the government risks not meeting its own objectives.

Finally, a clearly communicated and statutorily supported set of responsibilities for the UTCs would be valuable. This is critical, as clarity in the assignment of responsibilities is a key driver of successful decentralisation. The only mention of public service responsibilities in the law governing the formation of UTCs is in Article 1, Section 4.5: “... the quality and accessibility of public services provided in the united territorial community cannot be lower than before the unification” (Verkhovna Rada, 2015a). However, currently there are not any defined mechanisms for establishing quality or service standards. UTC functions are still governed by existing laws on state administration and local self-government units, which indicate a responsibility for the social and economic development of their territories (OECD interviews). Therefore, while the UTCs may be responsible for these tasks, they are not legally mandated.

One of the most fundamental ways to address these concerns is for the government to clearly communicate its intentions for amalgamation – for example the number of UTCs to be created, a clear time frame by which this needs to be accomplished, and a targeted or minimum community size in terms of territory and/or population. In support of this, it would also be valuable if basic guidelines for standards and/or service levels were established to give communities an idea as to the level of resource capacity they need to reach when amalgamating. This does limit the voluntary nature of amalgamations, but it would set parameters for the process. Such guidance – an implementation framework – could be helpful for communities when thinking through the amalgamation process. In addition, it could help inject some certainty into the process, make sure amalgamations continue and signal additional government support for moving forward with decentralisation. It could also reduce a seemingly *ad hoc* approach to the amalgamation process thus far.

Some communities do not immediately recognise the benefits of amalgamation, feeling that their current budgets are sufficient to cover their basic needs. There is also a degree of distrust in the reform among citizens, which can prevent a vote in favour of amalgamation

(OECD interviews). There has been dialogue-generating activity surrounding amalgamation in individual *hromada* – often sponsored by the Association of Ukrainian Cities and the donor community – in order to explain amalgamation and its benefits. However, this was early in the process, when there was less capacity to share experience among peers. Generating ongoing opportunities for dialogue and discussion between amalgamated and non-amalgamated communities, where there can be an exchange of experiences, concerns, successes, etc., could help manage distrust and uncertainty. To the extent possible, it may be best if these fora were organised or sponsored by bodies that are not perceived as gaining from the amalgamation process itself. This could include subnational government associations or other groups that can mobilise both amalgamated and non-amalgamated communities.

### *Inter-municipal co-operation is gaining ground*

Law No. 1508-VII of 17 June 2014 on Co-operation of Territorial Communities, supporting inter-municipal co-operation (IMC), is a fundamental component of Ukraine's reform process. It provides a means to manage fragmentation and promote more effective service delivery between large cities and surrounding communities. It can also promote more capacitated communities, amalgamated and otherwise, thereby working through the capacity problem noted in the section above. IMC has taken root slowly in Ukraine due to a variety of common factors, including a lack of awareness; limited experience in initiating, organising and implementing projects; resource limitations; a lack of trust between municipalities; and insufficient practical support from higher levels of government. It is, however, quickly gaining acceptance. Between the law's introduction in 2014 and 1 July 2016, there were only 43 IMC contracts registered with the Ministry of Regional Development. By October 2017, however, there were 103 inter-municipal co-operation agreements in place, up from 81 in April 2017 (Ministry of Regional Development, 2017d; 2017b). In addition, by October 2017 almost 490 *hromadas* were using tools for inter-municipal co-operation (Ministry of Regional Development, 2017b). It is a solid mechanism to help Ukraine's local communities overcome capacity limitations, particularly in public service delivery, thereby becoming a powerful tool to simultaneously promote and support municipal capacity in the face of multi-level governance and decentralisation reform.

### *Inter-municipal co-operation is a precursor to and result of amalgamation*

The increasing popularity of IMC arrangements is strongly linked to the increased number of UTCs. Only communities that have been attributed more tasks through the law on amalgamation and have greater autonomy in their execution have a sufficiently broad basis on which to co-operate. Non-amalgamated communities only have a limited set of responsibilities where co-operation can be beneficial (often cultural and sports-oriented). This said, there are numerous reported instances where non-amalgamated communities have used the law in order to co-operate, primarily for cultural fairs and sporting events, but also in education. For example, the first IMC agreement in Zhytomyr was to set up a kindergarten. The experience helped demonstrate the benefit of working co-operatively, increased the level of trust and built a degree of comfort in working together, and ultimately served as a precursor to amalgamation (OECD, 2017d).

Inter-municipal co-operation is frequently used in OECD member and non-member countries needing to build territorial scale but either seeking an alternative to amalgamation or wanting to “test” the inter-community relationship with an agreement prior to a union through amalgamation. The popularity of IMCs rests on a number of factors, including

potential efficiency gains and cost savings. In Spain, for example, there were clear benefits observed in the case of joint management of waste collection, especially for small municipalities where cost savings were estimated to be 20% in towns with less than 20 000 inhabitants and 22% in towns with less than 10 000 inhabitants. In England, the Local Government Association has reported that 416 shared service arrangements among councils had resulted in efficiency savings of GBP 42 million (as of September 2015) (OECD, 2017a). Results associated with IMC extend to better local public services, including improved processing times; more innovative, high-tech or specialised services (e.g. through the application of shared technologies); increased staff performance; access to expertise, especially in remote locations with a skills shortage (Box 2.16) (Local Government New Zealand, 2011; OECD, 2017a).

#### **Box 2.16. Sustainable waste management in Korça, Albania**

In 2008-09, in the framework of the German-Albanian financial co-operation, the governments of Albania and Germany developed a joint project to establish a modern, environmentally sound and sustainable waste management system in the Korça Region of southeast Albania. For this purpose, the KRWM Company was created to provide comprehensive solid waste management services to about 320 000 inhabitants in 28 local government units. This required investment measures, for constructing new facilities (a new regional sanitary landfill and transfer stations) and for developing capacity: the Consulting Consortium IU-RWA-FLAG has supported the project through the institutional strengthening of the new waste company and the development of an initial business plan.

The project has delivered promising results thanks to continuous collaboration between key stakeholders, the strong leadership of mayors that initiated the enterprise, a rigorous analysis of the waste situation, the set-up of a monitoring and control system ensuring cost recovery, as well as awareness-raising of the general public. Improvements were observed in local solid waste management, especially the collection stage, as KRWM and local bodies have become more efficient in delivering solid waste management services. In terms of strategic planning, logistics for long-distance hauling to the new regional sanitary landfill, waste monitoring and planning systems, as well as concepts for equipment maintenance have been thought out and put into practice. This project has also fostered closer co-operation with the local community, and public companies and non-profit organisations have shown interest in designing pilot schemes for on-source separation, reuse and recycling.

*Source:* Dakoli-Wilson, A. (2017), “Inter-municipal co-operation in solid waste management”, <http://www.oecd.org/regional/regional-policy/Agenda-Zhytomyr-seminar-ENG.pdf>; Gopa infra (2017), “Solid waste management in South-East region”, webpage, <https://www.gopa-infra.de/projects/solid-waste-management-south-east-region>.

Another motive for strengthening IMC can be to help fulfil new compulsory service (or other) requirements arising from shifts in task attribution and/or decentralisation reform. In Iceland, for example, IMC became compulsory for small municipalities (under 8 000 inhabitants) following the decentralisation of social services for disabled persons



(OECD, 2017a). As in Ukraine, IMC in the Netherlands developed parallel to municipal amalgamations and has gained momentum with the decentralisation of a number of additional responsibilities to local governments, particularly in the areas of employment and social welfare services. To comply with these new and complex responsibilities and to improve financial management, many Dutch municipalities created new co-operative structures, for example inter-municipal social services.

IMC does have its downside, however, including high transaction costs and the generation of externalities. It can be difficult to measure; faces transparency challenges; and can engender political, organisational and operational difficulties. Overall, the efficiency of IMC will depend on a range of factors, including the number of participating municipalities, the extent of the transaction costs and the characteristics of the public good in question (Bartolini and Fiorillo, 2011; OECD, 2017a).

Despite the challenges, OECD countries are continuing to refine their approaches for encouraging the use of IMC among local authorities. For example, most OECD countries have passed laws in support of inter-municipal co-operation, as has Ukraine. In some cases, the legal frameworks have been adjusted to reinforce IMC by encouraging or requiring that municipalities participate in co-operative agreements. This was seen in Austria in 2011, in Chile in 2011, in New Zealand in 2013, and in the Slovak Republic in 2012 and 2013 (OECD, 2017a). In a few countries, IMC has become compulsory for small municipalities and/or for specific services (e.g. Greece for waste management) (Box 2.17) (OECD, 2017a).

### *Expanding areas where to apply inter-municipal co-operation*

While IMC is growing in Ukraine, the emphasis remains on basic service needs, with most contracts established for a two- to three-year period. This is attributed to the cautious attitude of local authorities with respect to co-operation and a fear of long-term commitment. By August 2017, IMC agreements had been applied to local road repair; reconstruction of community social infrastructure (e.g. schools and hospitals); collection and disposal of solid waste; creation or restoration of local fire protection infrastructure; reconstruction of local basic infrastructure (e.g. water protection dams and coastal fortifications) (Ministry of Regional Development, 2017d). An October 2017 evaluation broadly classified the areas of most active co-operation (Figure 2.7), reflecting some of the most pressing services needs in Ukrainian communities.

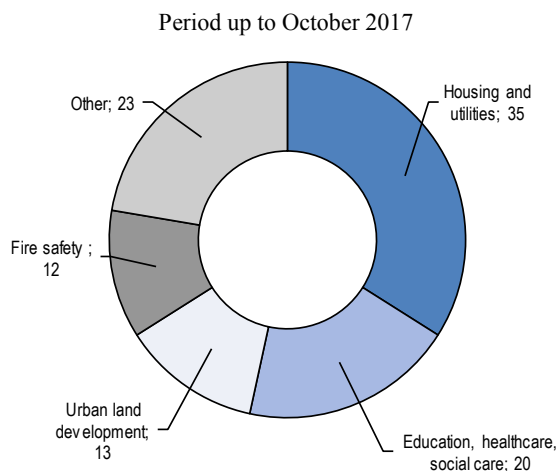
These areas are solid starting points for co-operation, particularly given that the mechanism is reasonably new to Ukrainian multi-level governance. Moving forward, government support of “second-generation” IMC agreements, for example in public transport, integrated economic development activities, larger infrastructure projects and technology (e.g. Internet). IMC arrangements are also applicable to procurement, front office activities such as customer service, as well as in “back office” administration such as payroll, finance, compliance and control activities. Co-operative arrangements in these areas could help expand on the quality and quantity of services offered to citizens, and improve quality of life and support Ukraine’s regional development objectives. The Polish experience with IMC for public transport and the Brazilian experience with regional economic development may provide some additional insight (Box 2.18).

**Box 2.17. Examples of compulsory inter-municipal co-operation in OECD countries**

In **Hungary**, the Cardinal Act of December 2011 requires municipalities of less than 2 000 inhabitants to regroup their administrative services within local government offices. A proposed **Estonian** law could lead to compulsory inter-municipal co-operation in some areas. The law would also expand the responsibilities of inter-municipal groupings. In **Italy**, Law 56/2014 on Municipal Unions significantly reinforced IMC (widespread since 1990) in approximately 500 municipal unions and mountain communities. A minimum population threshold was established: municipalities of less than 5 000 inhabitants now must be members of a municipal union. The responsibilities of these unions were extended to include all basic municipal functions. **Portugal's** Law 75/2013 created 23 compulsory inter-municipal communities, as sub-regional bodies responsible for “NUTS 3” territorial strategies (regrouping previous urban communities, inter-municipal communities for general purpose and some previous metropolitan areas). In **France**, since the NOTRe law, all municipalities must include an inter-municipal structure – public establishments for inter-communal co-operation – funded with own-source taxes. Despite a very good coverage of the French territory by inter-municipal structures, there were some remaining “grey areas” with “isolated” municipalities. Many of these “isolated” areas were concentrated in the Île-de-France region, and then had to become part of the greater Paris metropolitan area.

Source: Adapted from OECD (2017a), *Multi-level Governance Reforms: Overview of OECD Country Experiences*, <http://dx.doi.org/10.1787/9789264272866-en>.

Figure 2.7. **Inter-municipal co-operation agreements in Ukraine:  
Number by service category**



Source: Ministry of Regional Development (2017b), “Monitoring of the process of power decentralisation and local governance reform”, [https://www.slideshare.net/oleksandrivnyk/monitoring-of-decentralisation-17102017-en?next\\_slideshow=1](https://www.slideshare.net/oleksandrivnyk/monitoring-of-decentralisation-17102017-en?next_slideshow=1).

**Box 2.18. Examples of “second-generation” inter-municipal co-operation arrangements from Poland and Brazil**

The city of **Gdynia, Poland**, established ZKM Gdynia, a public transport authority, in 1992. ZKM Gdynia created a unified network by setting up contracts with several surrounding communes, including inter- and intra-communal lines. Each contract states the required frequencies and quality levels, is tendered to an operator separately, and is settled with the partner commune separately. The network provides passengers with the option to buy a single ticket for the entire network, and to get unified information on public transport in the area. **Upper Silesia**, also in Poland, offers another example. This is an old mining and industrial region with large commuting flows between residential towns and places of work. As no state or regional financing was provided, municipalities had to make a financial contribution to the Public Transport Municipal Association of Upper Silesian Industrial District, calculated as a fixed percentage of their total income. There was widespread disagreement on the size of the percentage contribution, as smaller communities were unable to afford more than half of the proposed level, and ultimately threatened to leave the union. In the late 1990s and early 2000s, the quality of public transport deteriorated significantly, because responsibilities had been transferred to the association; as a result public transport was no longer politically important for mayors. A new model was introduced in 2007, with contributions calculated based on the individual deficit of a given line. A municipality’s contribution is now calculated based on the number of passengers (from representative passenger counting) multiplied by an average income per passenger (uniform across the network) minus real costs. The deficit is split between the municipalities, based on the number of vehicle-kilometres within the territory of the commune. While the new model is far from perfect, it has created more of a customer service-oriented system.

In **Brazil**, the Inter-Municipal Consortium for the Greater Region of ABC in the state of São Paulo offers a good example of inter-municipal co-operation for economic development. This consortium is comprised of seven municipalities (about 2.4 million inhabitants). It was established by community leaders in the 1990s to identify solutions to an economic contraction that the region was experiencing. Through the consortium integrated strategies were established for a number of sectors, increasing the ability of the municipalities to meet strategic objectives in administrative co-ordination and inter-institutional/actor co-operation. The consortium is responsible for co-ordinating the region’s strategic planning, economic development and other policy areas that cross the inter-municipal boundaries of the associated communities. The ABC region is the third leading industrial centre of Brazil, comprised of the following cities: Santo André, São Bernardo do Campo and São Caetano do Sul. Together with the cities of Diadema, Maua, Ribeirão Pires and Rio Grande da Serra, they form the Greater ABC region, represented by the inter-municipal consortium (Gray, 2015).

*Sources:* Wolanski, M. (2017), “Inter-municipal co-operation as a tool to foster road infrastructure development and efficient public transport service delivery”; OECD (2013b), *OECD Urban Policy Reviews, Chile 2013*, <http://dx.doi.org/10.1787/9789264191808-en>; Original sources: Slack, E. (2007), “Managing the co-ordination of service delivery in metropolitan cities: The role of metropolitan governance”; Gray, D. (2015), “Transforming Brazil’s industrial heartland”, [www.the-report.com/reports/brazil/education-in-brazil/transforming-brazils-industrial-heartland](http://www.the-report.com/reports/brazil/education-in-brazil/transforming-brazils-industrial-heartland) (accessed 23 October 2017).

*Mechanisms to support stronger co-operation between municipalities*

A key element to successful IMC arrangements is leadership and support from higher levels of government. Such support helps overcome impediments to collaboration across jurisdictional boundaries, some of which may be rooted in national policies and all of which may be easier to correct if the higher level governments are involved (OECD, 2016; 2014c; 2013c).

As amalgamations continue, and there are more relevant opportunities to establish IMC agreements among Ukrainian communities, the government may wish to consider different ways to support greater and diversified co-operative activity, including in metropolitan areas, for better managing a variety of urban development issues (e.g. in economic development planning, spatial planning, housing policy, public transport, urban infrastructure development, Internet access, etc.). Incentive mechanisms are often used to encourage co-operative arrangements among communities, to enhance inter-municipal dialogue and networking as well as information sharing. These incentives are frequently financial, for example special grants for inter-municipal co-operation, a special tax regime (applied in France), additional funds for joint public investment proposals (seen in Estonia and Norway), bonus grants for municipalities that generate savings through co-operation (practiced in Spain). Incentive structures can also be more practical, including the provision of consulting and technical assistance, procuring guidelines and measures, and promoting information sharing. These techniques are practiced by Canada, Norway and the United States, for example.

Some governments also introduced new types of contracts and partnership agreements to encourage IMC. Poland and its territorial contracts are a good example, as are Portugal's multi-level contracts. Japan, where the focus is on amalgamation rather than co-operation, is also starting to reconsider the importance of co-operative agreements and has introduced partnership agreements, a new type of contract embedded in the 2014 Local Autonomy Act (OECD, 2017a). In Ukraine, the importance of higher level support and incentive mechanisms is clearly illustrated by the experience of Poltava *oblast*, where the role of the *oblast* council is considered one of the factors driving successful co-operative agreements (OECD interviews) (Box 2.19). In light of this, there is room for additional support or encouragement by the government, both at the national and regional levels.

In addition to supporting more effective public service delivery, IMC can also be valuable in Ukraine to overcome challenges associated with limitations to amalgamation possibilities (for example the impossibility, and often lack of desire, of smaller communities to amalgamate with higher order cities, such as those of *oblast* significance), encourage co-operation in areas beyond basic public services, build trust among potential amalgamation partners, and generate benefits associated with agglomeration economies and urban/rural linkages. It may also be useful to consider experimenting with co-operative arrangements at the district level for appropriate secondary level services.

Ukraine's decision to promote municipal amalgamation is a logical first step to decentralisation. Without greater size and stronger revenue-generating capacity, Ukraine's local self-government units would be unable to assume the more direct responsibility for service delivery, local administration and development that comes with decentralised institutional and managerial structures. In addition, by addressing administrative fragmentation through mergers and, to a lesser degree, through IMC, Ukraine is tackling some of the growth-constraining dimensions associated with administrative fragmentation. Moving forward, Ukraine will need to maintain the momentum of amalgamations, ensuring that they create communities with sufficient capacity to meet the challenges and requirements of decentralisation.

**Box 2.19. Inter-municipal co-operation in Poltava *oblast***

Poltava *oblast* leads the way in inter-municipal co-operation (IMC) in Ukraine. By July 2017 it was the site of 34 of the country's 81 signed IMC (42% of total) and by mid-August 2017 accounted for 52 of the country's 92 IMC (56% of total). Poltava regional representatives attribute this success to a number of factors, primary among which is Poltava *Oblast* Council's support and co-ordination. For example, the *oblast* council held a contest where one entry category was dedicated to IMC projects, with the winner receiving UAH 600 000 (Ukrainian hryvnia). It also supports innovation by looking for new topics and ways to use IMC. Of the 34 projects, 15 are in waste management – a sector where IMCs are traditionally strong. However, Poltava also has IMC agreements for ensuring Internet availability in each small community, which is the most complex type of agreement, as well as arrangements in infrastructure and roads and environmental concerns. Management and how IMC are organised are also critical to success. Poltava is seeing IMC capacity extend beyond local self-governments as they report that three *rayon* have developed co-operative agreements, and there is also some co-operation between Poltava and Kyiv.

*Source:* Comments by representative from Poltava *oblast* during OECD seminar in Zhytomyr, Ukraine, 18 July 2017; Ministry of Regional Development (2017d), "Register of contracts on inter-municipal co-operation between amalgamated territorial hromadas" (in Ukrainian), [www.minregion.gov.ua/wp-content/uploads/2016/03/reestr-01.07.2016.pdf](http://www.minregion.gov.ua/wp-content/uploads/2016/03/reestr-01.07.2016.pdf) (accessed 1 July 2017); [www.minregion.gov.ua/wp-content/uploads/2017/04/reestr-21.08.2017.pdf](http://www.minregion.gov.ua/wp-content/uploads/2017/04/reestr-21.08.2017.pdf).

**Box 2.20. Recommendations for reinforcing the amalgamation process**

To reinforce and maintain the momentum of amalgamation, and expand the progress of decentralisation, the OECD recommends:

- **Reforming the *rayon* level** to continue supporting the amalgamation process by considering:
  - An adjustment to responsibilities targeting delivery of higher level services, achieved by:
    - introducing functional districts for a specific higher level service (e.g. hospitals), or
    - promoting cross-jurisdictional co-operation for one or more services using either contractual arrangements or the dedicated joint co-operative bodies, or
    - piloting *rayon* amalgamation in one or two select *oblast*, keeping lessons from *hromada* amalgamation (and experimenting with appropriate size).
  - Establishing a stable incentive structure to promote co-operation, including:
    - financial mechanisms:

- increasing transfers to ensure funded mandates if *rayon* remain deconcentrated
  - introducing opportunities to generate own-revenue if *rayon* become decentralised.
  - non-financial mechanisms:
    - increasing autonomy in priority setting and decision making within assigned areas of responsibility.
- Minimising the incentive and opportunity for clientelistic behaviour and patronage in the provision of services, by implementing:
  - civil service reform, including appropriate remuneration levels, interesting placement and promotion schemes between levels of government
  - strong contractual agreements, clearly identifying and defining responsibilities, financing mechanisms, monitoring and evaluation systems, quality standards, etc., in areas where there is overlap of responsibility between *rayon* and united territorial communities (UTCs) or where services are shared
  - enhancing open government and e-government practices.
- **Improving the stability and clarity** of the amalgamation and decentralisation processes, including by:
  - establishing a legal basis for the administrative, territorial and institutional status of newly amalgamated communities
  - ensuring consistency in the incentive and financing structures offered for amalgamation and to newly amalgamated communities – once they are introduced they should remain solidly in place
  - setting a clear time frame for voluntary amalgamation after which amalgamation becomes a requirement
  - providing a basic framework or explicit guidance for implementing amalgamation processes by communities, particularly in terms of a time frame, a minimum size (i.e. population, territory or both) of the community to be formed, service standards to be met, etc.
- **Addressing problems of insufficient capacity after amalgamation**, which undermines the decentralisation process, by:
  - encouraging amalgamations that are more likely to generate capacitated municipalities by:
    - continuing the new approach of limiting new amalgamations that are not in line with a prospective plan.
    - taking an asymmetric approach to the decentralisation of tasks and give communities that are larger and have greater resource capacity more responsibilities
    - facilitating additional or “second-generation” amalgamations where two neighbouring and under capacitated UTCs can amalgamate, or a non-amalgamated community can join a UTC

- facilitating amalgamations that strengthen urban/rural linkages and/or support the generation of agglomeration economies.
- generating ongoing dialogue and discussion among communities to foster the exchange of experiences, concerns, successes, etc., that can help manage distrust and uncertainty of the process and of each other (in support of future amalgamations).
- Strengthening inter-municipal co-operation as a means to encourage future amalgamation and address service capacity gaps, including in metropolitan areas, by:
  - continuing to promote inter-municipal co-operation for critical basic services
  - offering incentives for projects that generate co-operation in innovative and second-tier services (e.g. public transport, integrated economic development, larger infrastructure projects, technology, administrative services, etc.)
  - legally facilitating co-operation between non-amalgamated communities and between UTC and non-amalgamated neighbours, as such co-operation is often a precursor to amalgamation
  - diversifying incentive mechanisms, giving consideration to:
    - financial mechanisms such as special grants for certain types of projects, or additional funds for joint public investment proposals
    - non-financial mechanisms such as consulting or technical service assistance, promoting information sharing, providing procurement guidelines and measures, new types of contracts and partnership agreements.

### Advances in regional development, 2014-17

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 citizens' 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.

The *OECD Territorial Review* highlighted a need to clearly define policy priorities – for example growth and equity – and to define or redefine major goals for regional development (OECD, 2014a). It also recommended to shift the planning method from one that was static, taking a top-down technocratic approach of creating a plan and requiring its fulfilment, to one that was more dynamic, using plans as co-ordination instruments involving public and private players, including in goal setting (Box 2.21) (OECD, 2014a).



**Box 2.21. Applying the “new paradigm” to regional development policy**

Over the past couple of decades OECD countries have shifted their focus in regional development from top-down, infrastructure-driven policies focused on lagging regions towards more integrated and market-oriented approaches to solve national growth challenges. This has resulted in a “new paradigm” driving regional development policy, one that concentrates effort and resources on building competitive regions by bringing together actors and targeting key local assets, rather than ensuring the redistribution from leading to lagging regions.

Table 2.6. **Old and new paradigms of regional development policy**

Action	“Old” paradigm	“New” paradigm
Objectives	“Balancing” economic performance by compensating for spatial disparities	Tapping under-utilised regional potential for competitiveness
Strategies	Sector-driven approach	Integrated development projects
Tools	Subsidies and state aid	Development of soft and hard infrastructure
Actors	Central government	Different levels of government
Unit of territorial analysis	Administrative regions	Functional regions
Focus	Redistribution from leading to lagging regions	

Sources: OECD (2009a), *How Regions Grow: Trends and Analysis*, <http://dx.doi.org/10.1787/9789264039469-en>; OECD (2009b), *Regions Matter: Economic Recovery, Innovation and Sustainable Growth*, <http://dx.doi.org/10.1787/9789264076525-en>; OECD (2011b), *OECD Regional Outlook 2011: Building Resilient Regions for Stronger Economies*, <http://dx.doi.org/10.1787/9789264120983-en>.

***Ukraine’s regional development policy – from paper to practice***

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 2015-2020<sup>14</sup> 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 co-ordination between national goals and sector policy priorities (Cabinet of Ministers, 2014b). It acknowledges that effective outcomes are linked to, among other things, the territorial executive and administrative structures that are established in the Concept Framework, which is still not operational. 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.

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.<sup>15</sup> At the subnational level, some *oblast* regional strategies make explicit mention of decentralisation (e.g. L’viv), strengthening inter-municipal co-operation (e.g. Kharkiv, L’viv and Poltava) and supporting amalgamated communities (e.g. Odessa and L’viv). Development planning is not limited to *oblast* administrations, however. Larger local governments in Ukraine, for example L’viv and Odessa, establish strategic development plans for their cities, including economic development (Box 2.22). Smaller cities such as Mykolaiv and Zhytomyr also develop “investment passports.” These serve as road maps for economic development and also provide information to businesses and potential investors on development priorities, available land and development opportunities, the business mix, and investment support offered by the local administration.

#### **Box 2.22. Development planning in Odessa city**

The Odessa City Economic and Social Development Strategy to 2022 is the management tool for the city’s socio-economic development. It establishes a vision for the city’s future and outlines ten strategic areas of action ranging from competitiveness and infrastructure to technology and children. It also establishes indicators with baselines and targets that can help guide monitoring and evaluation of the strategy’s achievements and outcomes in each area of action.

Complementing its Development Strategy, Odessa city launched “Odessa 5T”, an investment strategy focused on building activity in: transport, tourism, trade, technologies and trust. The Odessa 5T team, led by the deputy mayor, works on improving the investment climate in co-operation with the executive authorities and the business community, and is preparing a broad range of municipal infrastructure projects, including in public transport, air transport, industrial parks, modernisation of the seafront and an innovation cluster.

*Sources:* City of Odessa (2013), Odessa Economic and Social Development Strategy to 2022, [http://omr.gov.ua/images/File/DODATKI2013/strategia\\_eng.pdf](http://omr.gov.ua/images/File/DODATKI2013/strategia_eng.pdf); Odessa 5T (2016), “Municipal investment projects”, Odessa 5T Investment Agency, Odessa, Ukraine.

#### ***Strengthening the project planning phase***

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 (a challenge also noted in 2013), and unstable funding, despite statutorily identified mechanisms and sources.

### *Ensuring adequate project proposals*

The SSRD stipulates that each *oblast* must develop its own regional development plan, which in turn is supported by local development plans prepared either by the governments of cities of *oblast* and *rayon* significance, UTCs, or by *rayon* administrations for smaller, non-amalgamated communities. Once the proposals are approved by the relevant *oblast* administration and then by the Ministry of Regional Development's Review Committee, the subnational authority presenting the project can apply for funds.

One of the challenges that the Review Committee reportedly faces is the quality and nature of the proposals themselves, particularly those submitted by the UTCs. Among the funding eligibility criteria is the creation of "value added". For example, is the project attractive for private investment, can it generate private investment, does it improve the quality of services such as education, or does it support increasing "soft" infrastructure such as start-ups, SMEs, etc. It was reported that in the first year most projects targeted development in terms of basic construction and repairs. The capacity challenges are not surprising, and there are several factors at play. First, there is no extensive history or experience among subnational governments for regional development planning and implementation responsibility – administration and planning has traditionally been a top-down exercise in Ukraine. Therefore, a more modern approach is a relatively new phenomenon and the skills need to be built to meet the planning demand. Second, the majority of local governments had limited responsibilities, and local planning was a task of the *rayon* administrations. Third, local governments had limited revenue, impacting their ability to invest in individual community priorities. All of this, in turn, restricted the capacity of most local governments to build the skills necessary to design and implement integrated development programmes.

Moving forward attention needs to be paid to the pipeline of projects. While the lack of capacity or experience in designing project proposals at the UTC level may be a limiting factor, there may also be an issue with the structural aspects of the approval system. Each year the central government puts out a call for proposals to *oblast* administrations, that in turn request and receive proposals from capacitated local governments. While the proposals are approved by *oblast* administrations, all proposals end up at the central level to ensure they are aligned with the regional development strategy. The system is reported to provide another incentive to merge by favouring projects submitted by UTCs (over those of other categories of municipalities) and to have some political bias which may discourage subnational authorities from proposing plans that are more innovative in case they are not met with approval (OECD interviews).

### *Prioritising development projects: Moving past "hard infrastructure"*

Infrastructure has a positive impact on regional growth when other key factors are in place, such as human capital and innovation (OECD, 2012). 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 (OECD, 2012). 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 (OECD, 2014a).

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” (Lankina, Gordon and Slava, 2017). 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 rebalancing the project equation, particularly between *oblasts* and empowered local authorities, such cities and UTCs. 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 wastewater treatment, heating systems, school and healthcare 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.

Meanwhile, more capacitated local self-governments, such as cities, and higher levels of subnational government (together with the national level), should continue to support “hard” infrastructure development, but may be more successful in their development efforts by also promoting “soft infrastructure” – i.e. elements supporting regional productivity and competitiveness, costly services and amenities, etc. Local self-governments with greater capacity, such as L’viv and Odessa, are already acting along these lines, as evidenced by their development plans. In time and as capacity is built, an increasing number of local self-governments will be able to play a dynamic role in their territory’s development. It is here, in the field of regional development policy, that Ukraine’s *oblast* and local self-governments could begin to build a relationship that is based on a partnership for development and growth.

### *Ensuring adequate funding for development projects*

*Oblast* and local development projects are eligible for funding through the State Fund for Regional Development (SFRD), and can also turn to co-financing (assuming sufficient resources), and private funds, including public-private partnerships (PPPs). 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. Its application as a funding mechanism, however, poses 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 (Verkhovna Rada, 2010). 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 GDP, the remaining 20% would be based on the proportion of the population that fell below 75% of the country's average GDP per capita (Verkhovna Rada, 2010). 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.<sup>16</sup> 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" (Verkhovna Rada, 2017b). This effectively links funding for 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 the discretion of these parliamentarians. This signals a return to pre-2015 funding practices and opens 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 a draft instruction by the Cabinet of Ministers, project proposals need to fulfil sector quotas: 10% dedicated to energy efficiency of state and municipal education institutions; 10% to energy efficiency of state and municipal health institutions; 10% to sports infrastructure; and 10% to administrative services (Verkhovna Rada, 2017b). The remaining 60% can be non-sector specific (OECD interviews). 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, and the government is undermining its own efforts of regional development and decentralisation reform. It is also antithetical to the anti-corruption movement in Ukraine.

Different approaches to better use SFRD funds in light of regional development and decentralisation goals could be adopted. For example, the allocation formula could be further adjusted to focus more on the socio-economic challenges and capacities facing particular types of areas (e.g. rural regions, mountainous western regions, etc.). SFRD funding could prioritise development projects that promote inter-municipal co-operation, and support not only “hard” infrastructure projects, but “soft” infrastructure proposals as well (i.e. those that support human capital development policies such as education, the digital economy and innovation). Another possibility is to establish criteria for fund allocations at the regional level that is linked to state-region contracts and regional development plans. The use of regional development contracts based on agreed priorities and objectives, identified on the basis of a shared diagnosis of a region’s challenges, as well as agreed procedures for fund management, evaluation and reporting could be envisioned. Contract priorities could form the basis for project selection under the SFRD, among other sources of funding (OECD, 2013a). A growing number of countries have found such contracts to be a useful way to structure co-operation between central and subnational governments as they can combine the need for balance across the whole of the territory with the need to allow for regionally specific approaches. The state-region planning contracts in France, the *contratos plans* in Colombia and the “territorial contracts” in Poland are good examples.

These types of adjustments, given the current governance context in Ukraine, are not necessarily suitable to advance the reform process and government agenda. For example, the Ministry of Regional Development may choose to prioritise funding development projects that promote inter-municipal co-operation. However, the project proposal must pass the *oblast* level; and if this layer of government does not agree with the co-operative agreement, there is a risk it will not be moved up the line to the ministry. This can also create opportunities for approval bodies to impose unexpected conditionalities on the approval of funds. Such adjustments to the SFRD are all the more problematic as it is the most solicited form of funding, and the one that is most accessible to the widest number of most subnational governments.

### ***Institutional bodies supporting regional development and decentralisation***

The international donor community is a critical player for insuring that reform is implemented and its benefits reach Ukraine’s citizens. More strongly institutionalising the knowledge it imparts at the central and subnational levels could strengthen the country’s culture of reform. In addition, Ukrainian organisations such as the various associations of subnational governments, through lobbying, communication and capacity-building campaigns, have made and can continue to make significant inroads in ensuring the executive and legislative branches keep advancing the reform agenda. The challenge is to make sure their voice continues to be heard. Finally, regional level bodies dedicated to development can also help to embed reform by supporting the achievement of development objectives.

### ***The international donor community is bridging capacity gaps***

International donor organisations are actively working with the Ministry of Regional Development and subnational authorities to build capacity in regional development policy design and implementation while also supporting decentralisation. This EU project “Support to Ukraine’s Regional Development Policy”, and the U-LEAD programme<sup>17</sup> that concentrates on building effective multi-level governance mechanisms at the subnational, and especially local, levels are examples (Box 2.27).

**Box 2.23. International programmes supporting regional development and decentralisation**

Launched in January 2013, the EU-funded project “Support to Ukraine’s Regional Development Policy” aims to strengthen the Ukrainian government’s capacity to reduce regional disparities and implement effective regional development policies. It works with the Ministry of Regional Development, regional administrations, local authorities, relevant subnational associations and representatives of civil society to provide methodological and legal support for regional development in line with EU and international best practices. One of the project’s largest achievements is a process for regional administrations to independently prepare their own development strategies based on their own policy priorities. Previously, regional development strategies were prepared by researchers in academic institutes, relying heavily on statistical data and with little to no stakeholder consultation. Important results achieved by the project include the development of a National Policy on Regional Development, a new State Strategy for Regional Development through 2020 and an action plan grant programme supporting the successful implementation of over 30 regional development projects, including 18 supporting internally displaced persons.

Regional local government development centres have been established in 23 *oblasts* (excluding Kyiv) with the support of U-LEAD. These centres are dedicated to enhancing the capacity of subnational authorities in implementing regional development policies and decentralisation reform. The centres offer training on regional development planning, budgeting, administrative services, communications and spatial planning. They also act as fora for the exchange of experiences and building dialogue between communities. Centres also provide advisory/consulting services to local authorities, support strategic planning and provide technical know-how to develop and write project proposals. In addition, they help set up local administrative service centres, working with communities to improve the delivery of local administrative services (OECD interviews). These centres also undertake analytical work to help build evidence bases for reform. In Odessa, for example, the region’s local government development centre identified the comparative advantages of municipal authorities, identifying what areas could generate resources, with the idea of revealing the hidden potential of the *hromadas*’ territory (e.g. if they are by the sea, exploring the ability to support recreation) (OECD interviews).

*Sources:* SURDP website, [www.surdp.eu/en/About-Project](http://www.surdp.eu/en/About-Project); EU in Ukraine (n.d.), “Social and economic disparities between Ukraine’s regions far greater than in the EU”, <https://euukrainecoop.com/2017/02/20/regional-develop2>; OECD interviews.

There is significant donor activity in regional and local development dedicated to supporting the territorial and decentralisation reform process in a proactive, “on the ground” manner – building the capacities and skills necessary for local authorities to effectively execute new responsibilities (e.g. strategic planning, budgeting, etc.). Honing these “soft” skills strengthens governance capacity as well as human capital, preparing subnational administrations to meet the challenge of greater autonomy in decision making and implementation so that they can move forward on their own. Other donor initiatives, such as the Community-Based Approach to Local Development Project (CBA-III)

(Box 2.24) led by the European Union and the UNDP also support development projects with quick impact on the quality of life in communities.

**Box 2.24. Community-Based Approach to Local Development Project, Phase III**

The Community-Based Approach to Local Development (CBA) project was developed to promote sustainable socio-economic development at local levels by strengthening participatory governance and fostering community-based initiatives throughout Ukraine. Decentralisation and local governance reforms were a key focus of CBA Phase III. The project provided technical assistance, capacity building and funding to strengthen the autonomy and institutional structures of local authorities, and to build community engagement across the country. This was accompanied by investments in basic social and communal infrastructure in rural and urban areas. Support was provided to diverse local development initiatives, including 70 rural economic co-operatives, 46 drinking water schemes, 52 healthcare centres, 200 energy efficiency schemes, 413 urban dwelling schemes and 473 energy efficiency projects. The CBA project provided a noticeable impetus to territorial reform, with a strong correlation observed between communities that partnered with CBA and their subsequent involvement in the amalgamation process.

*Sources:* UNDP (2017), “Project summary”, [www.ua.undp.org/content/ukraine/en/home/operations/projects/democratic\\_governance/CBA-III.html](http://www.ua.undp.org/content/ukraine/en/home/operations/projects/democratic_governance/CBA-III.html); UNDP (2016), “Annual progress report 2016: Community-based approach to local development”, [www.ua.undp.org/content/dam/ukraine/docs/DG/CBA-III/CBA\\_Annual\\_Progress\\_Report\\_2016.pdf](http://www.ua.undp.org/content/dam/ukraine/docs/DG/CBA-III/CBA_Annual_Progress_Report_2016.pdf); “Meeting of donor community”, presentation of Final Evaluation of CBA-III, Kyiv, 19 July 2017.

This external support is invaluable for the advancement of Ukraine’s regional development policy. However, there seems to be a disconnect with capacity building at the national level. It is undeniable that ministries need support to implement regional development policy, multi-level governance and decentralisation reform. Yet, some have expressed concern that international support may be replacing human resource gaps within ministries rather than guiding ministry staff to build the frameworks and competences necessary to move the reform forward on their own.

There are at least two risks in this approach. First is that it provides little incentive to ministries and their staff to build or hone strategy setting and reform implementation capacities. Second, it can limit results if donor attention suddenly shifts. This thinking was echoed in the same 2017 independent report which positively evaluated the CBA-III project. In their recommendations presented to the international community and decentralisation stakeholders in Kyiv in July 2017, the EU evaluators who authored the report stressed that the Ministry of Regional Development needs to find or develop its own resources to address its responsibility to reform and through this to support socio-economic development at the subnational level.

Consideration should be given to strengthening partnerships between donor community experts and local public sector academic institutions (e.g. the National Academy for Public Administration under the President of Ukraine [NAPA] and leading Ukrainian

universities) as a means to support these national organisations in building curricula and training national and subnational civil servants in the necessary techniques for strategic development planning and implementation – be it overall or in specific sectors. This could further bridge capacity gaps at all levels of government.

### *Continued activity by subnational government associations further embeds reform*

National level associations support regional development and subnational reform and actively represent subnational interests in the regional development and decentralisation process: the Association of Ukrainian Cities (AUC), the All Ukrainian Association of *Oblast* and *Rayon* Councils, and the Association of Amalgamated Territorial Communities (AATC). The first two are statutorily capacitated as lobbyists before the government (the executive and the *Rada*). They actively comment on draft legislation and serve as “watchdogs”. In November 2016, the AATC was established to help these UTCs work through unique challenges, such as developing administrative frameworks.

These associations are strong voices for reform. For example, the AUC regularly comments on progress and challenges in territorial reform and decentralisation through a weekly newsletter, informing members and reform stakeholders about government decisions, co-operation with ministries, relevant programming and training sessions. The AATC provides capacity-building workshops on administrative management, for example, and constantly communicates with government to ensure its members’ specific challenges are kept top of mind. Finally, the regional level offices of these associations are very much in tune with the successes, challenges, needs and concerns of local officials, and are well-positioned to present these to *oblast* administrations.

By supporting development and reform at the national and subnational levels, working with the donor community (e.g. USAID’s PULSE project, GIZ, U-LEAD, SKL), and serving as fora for subnational leaders to meet, share experiences and learn from one another, these associations are helping build a critical mass of knowledge and experience. This can further embed regional development and reform principles, consolidating change and limiting the adjustments that can come with changes in government.

In total, there are four national municipal associations, the three mentioned above plus the Association of Small Cities of Ukraine, which was the former Association of Village and City Councils. Each has its members, which can overlap (for example some members of the AATC are also members of the AUC). While not necessarily a problem, too many associations can fragment membership and ultimately reduce the strength and coherence of their communication, thus weakening the ability to represent subnational interests before the government. It is therefore in the best interest of the local authorities, and the associations, not to over-fragment and create multiple specialised associations with a potentially ever smaller membership base.

### *Supporting regional development with regional development agencies*

Ukraine’s law governing regional development provides for elected councils and relevant regional administrations to establish regional development agencies (RDA) to support the implementation of the SSRD. 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-governmental organisations. These agencies are non-profit partnerships between the state, the private sector and civil society organisations (e.g. non-governmental organisations, employer organisations, etc.) (Verkhovna Rada, 2015b). The establishment



of these agencies is slow. The reasons why are unclear, but may include a lack of additional guidance, or because the idea was incorporated into a strategy that was developed based on the expectation that the Concept Framework would be approved.

According to Ukrainian officials, their RDA model draws heavily from that in Poland, but there are important differences. Polish RDAs were established in the early to mid-1990s, are statutorily limited companies whose shareholders are the government of the region, and can include banks, regional institutions and companies. They launch initiatives in the support and promotion of socio-economic development, taking regionally differentiated approaches with the common goal of regional development (Box 2.25).

**Box 2.25. Regional development agencies in Rzeszow and Torun, Poland**

The Rzeszow Regional Development Agency supports improving the quality and standard of life for residents, and works to promote the region as a modern, innovative and economically developed area as well as a tourist destination. Its activities include training for entrepreneurs, managing EU-funded projects, co-ordinating a technology transfer centre and managing an enterprise development centre, among other things.

In Torun, the Agency for Regional Development (64% of which is owned by the regional government) aims to support small and medium-sized enterprises and co-operate with local authorities and stakeholders in order to strengthen regional development. It prepares feasibility studies and business plans for infrastructure and investment projects; offers training, seminars and conferences; and acts as a financing agency for EU programmes in the region. Among its primary activities are implementing EU Structural Funds, offering advisory services, managing regional cluster projects. It is also the driver behind the Torun Technology Park, which aims to attract investment and create favourable conditions for economic activity and entrepreneurship.

*Source:* European Commission (2017a), “Rzeszow Regional Development Agency”, <https://ec.europa.eu/growth/tools-databases/regional-innovation-monitor/organisation/rzeszow-regional-development-agency>; European Commission (2017b), “Torun Agency for Regional Development”, <https://ec.europa.eu/growth/tools-databases/regional-innovation-monitor/organisation/torun-agency-regional-development>.

The crucial difference between the Polish and Ukrainian models lies in the fact that Poland’s RDAs are closely linked to, and often majority owned by, regional or self-government bodies, and the majority are registered as joint-stock companies (Kilianski, 2011). In the Ukrainian model, each *oblast* is called upon to either directly, or in kind, support the establishment of an RDA. This is logical and can be considered in keeping with international practice. The problem arises in the funding modality. Ukraine’s *oblasts* could use their revenue sources (primarily grants and transfers from the central government) to fund their agencies, but these are limited and it would most likely require an additional transfer from the government. RDAs are also entitled to apply for funds from the SFRD. Ultimately, the government expects that the majority of funding for Ukraine’s RDAs will come from activities and projects that the RDAs undertake to promote regional development, from the donor community and from the private sector, for example by working on a PPP basis<sup>18</sup> (OECD interviews). This is markedly different

from the Polish model, where the regional development entity is closely connected and often significantly funded by the regional government with which it is associated. This approach exposes the RDA to conflict with vested interests and potential corruption. To limit this possibility and avoid opening doors to former, counterproductive practices, it would be advisable to re-evaluate the RDA funding scheme.

In sum, Ukraine has advanced quickly in regional development. Now it is a matter of honing implementation practices, and continuing to support multi-level governance and decentralisation reform so that regions, and the communities that form them, can move as rapidly to build their capacities for sustainable growth and development.

**Box 2.26. Recommendations to reinforce advances in regional development**

To continue promoting regional development policy, the OECD recommends:

- **Addressing recognised weaknesses in the project planning and approval phases:**
  - continue initiatives to strengthen civil service capacity and skills in designing, presenting and implementing project proposals with added economic development value for the local and regional levels.
- **Rectifying structural aspects in the project approval phase** that may favour certain municipalities or carry a political bias:
  - strike a balance in the types of projects being approved and funded to ensure both “hard” and “soft” infrastructure development is promoted.
- **Addressing the challenges relating to the State Fund for Regional Development**, by:
  - reintroducing stability into the fund’s own financing mechanism
  - returning to the original formula system of fund disbursement which gave subnational governments visibility with respect to available development funds, increased funding certainty and facilitated short-, medium- and long-term development planning
  - reducing the possibilities of patronage and clientelism by eliminating political representation on the project approval committee.
- **Considering funding schemes for regional development agencies** that support strategic processes and limit the possibility of conflict with vested interests and potential corruption.

## Conclusions

Ukraine has made considerable progress in updating its approach to territorial administration. The Concept Framework of Reform of Local Self-Government and the Territorial Organisation of Power in Ukraine outlines a vision for greater democratic participation in subnational government, and has elements that could also support greater state resilience. The reform proposal rationalises the approach to subnational government structures while also building scale and capacity among local governments to meet the demands of a decentralised administrative and service structure. Regional development policy in Ukraine supports – and is supported by – these proposed adjustments in multi-level governance. For the strategic vision to be implemented, constitutional reform remains necessary. In the meantime, the government is focusing on implementing its decentralisation agenda.

Continued progress down the path of reform will mean ensuring that the conditions for successful decentralisation are met and address multi-level governance challenges that fall in four broad areas. The first relates to mechanisms that could ensure a balanced approach to territorial reform. This includes increased co-ordination across and among levels of government, and among stakeholders to help promote greater policy coherence, facilitate implementation and build trust in the overall reform concept. The second concerns the fundamental need to maintain the momentum of amalgamations, as they are the cornerstone of decentralisation reform. Without amalgamated communities there is no decentralisation – administrative, fiscal or political – and thus barriers to amalgamation, real or perceived, should be addressed. The third is to keep evolving in regional development practices, particularly in building subnational government capacity to design and implement effective policies while also monitoring their outcomes. It is important here to avoid backsliding into practices that could jeopardise the advances made thus far. Finally, without appropriate framework conditions, especially with respect to effective governance and anti-corruption, the impact and success of reform will be limited. This is a question larger than the scope of this report, but there is general academic and practitioner agreement that corruption is one of the largest threats to Ukraine's overall reform agenda of Ukraine (Williams and Polityuk, 2017; World Bank, 2017a; Lankina, Gordon and Slava, 2017).

## Notes

1. These are cited as “OECD interviews” in the chapter.
2. Governments are counted by changes in prime ministers, thus, prime ministers who have held office for two non-consecutive terms between October 1992 and September 2017 are counted as separate governments. In this same period there have been six presidents.
3. Polling was conducted in the 22 regional capitals of Ukraine not under control of separatist forces, as well as in the cities of Mariupol and Severodonetsk in the Donbas region. N=19 000 (Center for Insights in Survey Research, 2017).
4. Both Denmark and New Zealand ranked number one in 2016 with scores of 90 out of 100; Somalia ranked last (176) with a score of 10 (Transparency International, 2016a).
5. N=1 500.

6. The Commonwealth of Independent States (CIS) is comprised of nine member states (Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Uzbekistan).
7. Thirty-one per cent disagreed that ordinary people could make a difference and 41% strongly disagreed with the statement.
8. This is an amendment to the Law on Amalgamations, with the corresponding Draft Law No. 5520 (Association of Ukrainian Cities, 2017).
9. Ministerio Secretaría General de la Presidencia.
10. Decentralisation is one of the dimensions of the government's five-pillared National Development Strategy, which includes: economy (with a focus on privatisation, land and energy sector reform), governance (i.e. decentralisation), human capital development, rule of law and the fight against corruption, and defence and security.
11. It should be noted that these bodies not only have a narrower scope of action than the aforementioned centre-of-government office, but they also can be *ad hoc*, established for a specific period of time.
12. As of 10 April, 2018 728 Unified Territorial Communities had been formed, including 40 in which first elections for appointment were to be held on 24 April 2018 and 23 were waiting for the resolution of the Central Election Committee on the first elections (Ministry of Regional Development, 2018).
13. To ensure that the amalgamation process would proceed, the government found itself needing to juggle diverse voices, and in the interest of reform compromised on its planning process, which is inherently logical, but has led to some shortfalls in capacity.
14. Ukraine's State Strategy for Regional Development 2015-2020 serves as a framework policy 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 (Cabinet of Ministers, 2014b).
15. Article 16.1 of the Law of Ukraine on Fundamentals of State Regional Policy (Verkhova Rada, 2015b).
16. This would be greatly facilitated with multi-annual budgeting, which has yet to be officially introduced in Ukraine, though is under consideration as part of the draft Budgetary Policy for 2018-2020.
17. This programme is a collaborative initiative among the EU and Denmark, Estonia, Germany, Poland and Sweden; and implemented by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and the Swedish International Development Co-operation Agency (Sida). The local partner is Ukraine's Ministry of Regional Development, Building and Housing (Ministry of Regional Development, n.d.)
18. It should be noted that PPPs are not yet a well-developed financing mechanism in Ukraine, particularly at the subnational level.

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## Annex 2.A.

### Territorial administrative structure proposed by the Concept Framework

The Concept Framework of Reform of Local Self-Government calls for a territorial and institutional reorganisation in all three subnational government layers. It sets out to simplify territorial administrative divisions into three main categories: regions (*oblast*) including the cities of already accorded regional status; districts (*rayon*); and creates a category of local self-government unit (Table 2.A.1). The intention, as is often the case when building territorial scale, is to improve resource, institutional and managerial capacity among subnational authorities.

Table 2.A.1. **Territorial administrative divisions in Ukraine as proposed by the Concept Framework**

Territorial level	Territorial unit	Appointed state administration body in territorial unit	Elected administrative body in territorial unit
Regions	Regions (27), <i>oblast</i> (24), AR Crimea, Kyiv city, Sevastopol city	<i>Oblast</i> state administration Territorial branches of central executive authorities (ministries)	<i>Oblast</i> council <i>Oblast</i> executive committee
Intermediary	<i>Rayon</i> (c. 100)	<i>Rayon</i> state administration Territorial branches of central executive authorities (ministries)	<i>Rayon</i> council <i>Rayon</i> executive committee
Local self-government	Communities (c. 1 500)		Mayor (head of municipality) Municipal council Executive committee Heads of rural communities ( <i>starosta</i> )

*Sources:* Adapted from: Nehoda, V. (2014), “Concept of the reform of local self-government and territorial organisation of power”, presentation to European Committee on Democracy and Governance by Viachelsav Nehoda, First Deputy Minister, Ministry of Regional Development, Construction and Municipal Economy of Ukraine, 3 April 2014, Strasbourg, France.

## Annex 2.B.

### The assignment of responsibilities across levels of government

Country size, particularly in terms of population and geography, are the primary determinants of a country's territorial distribution of authority. Countries with large populations tend to have more layers of autonomous intermediate government, which increases the level of regional authority *vis-à-vis* the centre. With a population of over 45 million in 2014, Ukraine is the largest country in Eastern Europe and among the former Soviet republics. Large countries, ultimately, tend to be more decentralised (OECD/UCLG, 2016). However, at each tier of subnational government there are common threads in the types of responsibilities attributed to distinct levels of government, as summarised in Table 2.B.1 (Allain-Dupré, forthcoming).

Table 2.B.1. **Breakdown of responsibilities across subnational government:  
A general scheme**

Regional level	Intermediary level	Municipal level
Heterogeneous and more or less extensive responsibilities, depending on country characteristics (e.g. unitary vs. federal)	Specialised and more limited responsibilities of supra-municipal interest	A wide range of responsibilities: – general clause of competence – eventually additional allocations by law
	An important role in assisting small municipalities	
Services of regional interest: – secondary/higher education and professional training – spatial planning – regional economic development and innovation – health (secondary care and hospitals) – social affairs (e.g. employment services, training, inclusion, support to special groups) – regional roads and public transport – culture, heritage and tourism – social housing – environmental protection – public order and safety (e.g. regional police, civil protection) – local government supervision (in federal countries)	Responsibilities determined by the functional level and geographic area: – secondary and/or specialised education – supra-municipal social and youth welfare – secondary hospitals – waste collection and treatment – secondary roads and public transport – environment	Community services: – education (nursery schools, pre-elementary and primary education) – urban planning and management – local utility networks (water, sewage, waste hygiene, etc.) – local roads and city/local public transport – social affairs (support for families, children, elderly, disabled, poverty, social benefits, etc.) – primary and preventative healthcare – recreation (sport) and culture – public order and safety (municipal police, fire brigade) – local economic development, tourism, trade fairs – environment (green areas) – social housing – administrative and permit services

Source: OECD (2016), *Regions at a Glance 2016*, [http://dx.doi.org/10.1787/reg\\_glance-2016-en](http://dx.doi.org/10.1787/reg_glance-2016-en).

Ukraine's Concept Framework clearly delineates the responsibilities of each level of subnational government (*oblast*, *rayon* and *hromada*). It also promotes greater subsidiarity by reassigning responsibilities, particularly in public service delivery, to local authorities, thus promoting greater administrative decentralisation. The attribution of responsibilities

as proposed in the Concept Framework is roughly in keeping with trends in multi-level task attribution identified more generally at the subnational government level (Table 2.B.1), though it attributes fewer functions to the *oblast* and *rayon* administrations than is frequently seen (Table 2.B.2). Such activities as social protection, treasury services, civil registration and public health protection would be attributed to central executive territorial bodies at the basic level of government (Cabinet of Ministers, 2014a).

Table 2.B.2. **Main responsibilities of distinct government tiers as proposed by the Concept Framework**

Central level	First tier: Regional level	Second tier: District level	Third tier: Municipal level
State administration body ( <i>oblast</i> and <i>rayon</i> )	<i>Oblast</i> council and executive committee	<i>Rayon</i> council and executive committee	Communities
Control over administrative, social and other services to population and legal entities	Maintenance of joint property of region and municipalities	Maintenance of joint property of <i>rayon</i> and municipalities	Local economic development (investment attraction, entrepreneurship development)
Co-ordination of territorial branches of executive authorities	Transport infrastructure of <i>oblast</i> significance (e.g. <i>oblast</i> roads, network of inter- <i>rayon</i> and inter- <i>oblast</i> public transport routes)	Transport infrastructure of <i>rayon</i> significance	Organisation of public transport
Co-ordination of all public administrations in case of state of emergency	Tertiary (highly specialised) medical care	Secondary medical care	Ambulance, primary health protection, disease prevention
Supervision of activity of local self-government bodies (in compliance with law)	Professional, technical and specialised secondary education	Residential schools	Secondary, pre-elementary, primary and alternative education
	Regional development planning		Territorial development planning (strategic and general planning, zoning)
	Development of sports, culture and tourism		Culture and physical training: maintenance and organisation of municipal clubs, libraries, stadiums, sports areas
	Environmental protection		Local infrastructure development <sup>1</sup>
			Housing and utilities services <sup>2</sup>
			Provision of central administrative services through relevant centres
			Maintenance of municipal roads
			Building sites <sup>3</sup>
			Landscaping and amenities
			Social assistance through territorial centres
			Fire safety
			Public security (district police, patrol guard service)

1. Includes: supply of roads, water, heat, gas, electricity; wastewater management; informational networks, social and cultural facilities.

2. Includes: centralised water; heat supply and wastewater management; garbage disposal; maintenance of housing and municipal property.

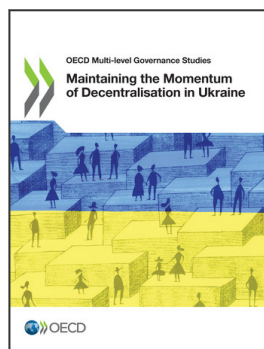
3. Includes: allocation of land plots; issuing construction permits; acceptance of buildings for maintenance.

Sources: Adapted from: Cabinet of Ministers (2014), "Concept of Local Self-Governance and Territorial Power Reforming", [http://despro.org.ua/en/news/partners-news/detail.php?ELEMENT\\_ID=1381](http://despro.org.ua/en/news/partners-news/detail.php?ELEMENT_ID=1381) (accessed 8 August 2017); Nehoda, V. (2014), "Concept of the reform of local self-government and territorial organisation of power", presentation to European Committee on Democracy and Governance, 3 April 2014, Strasbourg, France.

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