

# 4 Ukraine's regional and municipal development policy frameworks

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This chapter examines recent advances in Ukraine's territorial development policy, and how it could be strengthened post-2022. First, it looks at how Ukraine has overhauled its legislative framework for regional development since 2014. Second, the chapter takes stock of how recent changes to the country's multi-level governance system have affected the state's capacity to design and implement regional development policy. In particular, it evaluates the effectiveness of existing co-ordination mechanisms to ensure vertical and horizontal policy coherence. Third, the chapter explores advances in and challenges to the design of Ukraine's multi-level regional development planning instruments. Finally, the chapter assesses how constraints related to the production, analysis and dissemination of territorially-disaggregated data hamper evidence-based decision making.

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## Preface: Building on Ukraine's regional development policy framework to support post-war reconstruction

This chapter analyses Ukraine's progress in strengthening its legislative, regulatory and planning frameworks for regional development between 2018 and 2021. It also explores the tasks, responsibilities and capacity challenges of the main actors involved in the design and implementation of various regional and local development strategies, projects and action plans.

### ***Considerations for Ukraine's post-war recovery at the subnational level***

The data and analysis presented in this chapter are particularly relevant for the development and implementation a national recovery plan at the subnational level. For example, the assessment of the strengths and challenges of municipalities in implementing the State Regional Policy can provide insights into how they can support the delivery of local recovery projects.

The following paragraphs discuss the relevance and implications of some of the chapter's main findings for Ukraine's recovery and reconstruction. They include links to boxes, tables and charts included in the chapter.

#### *Ukraine's recovery and reconstruction efforts should build on local needs and assets*

Ukraine's post-2014 regional development and decentralisation reforms are widely considered to be highly successful. By giving municipalities a vast array of new administrative and service delivery responsibilities, providing them with additional financial resources to execute their mandate, and making them the locus of local development efforts, the reforms, which received broad public support, have led to improvements in service delivery.

As it advances in the development and implementation of a national recovery plan, the government should be careful not to adopt a centralised approach to post-war recovery and reconstruction, which would ignore the important potential that the local level now has to rebuild economies and communities. Instead, the government should adopt a recovery approach that builds on local needs and capacities as a basis to return to integrated regional development.

To ensure that the recovery and reconstruction efforts meet both national priorities and local needs, Ukraine should closely involve all levels of subnational government as it advances in the design and implementation of a national recovery plan. In doing so, it can build on and further strengthen the multi-level governance arrangements that were modified as part of the post-2014 decentralisation and regional development reforms. This includes the merger of over 10 000 communities into 1 469 municipalities, the gradual devolution of administrative and service delivery tasks to the municipal level, as well as steps to promote greater fiscal decentralisation. It also includes the creation of regional development agencies, and different vertical and horizontal co-ordination bodies that support the coherent implementation of Ukraine's State Regional Development Policy at all levels of government. These achievements provide important stepping stones for rebuilding Ukraine's local economies and communities.

Involving subnational governments in the delivery of a national recovery plan would also serve as an important signal of the government's continued support for decentralisation and place-based regional development. In particular, supporting municipalities during the post-war recovery and reconstruction period and beyond is essential to ensuring that territories recover quickly and in a sustainable manner, while increasing their resilience to possible future shocks.

### *Municipalities can support local reconstruction projects*

As part of the post-2014 decentralisation reforms, amalgamated municipalities progressively received new administrative and service delivery tasks. This provided them with the opportunity to build important skills and acquire experience in development planning, budgeting and investment management (Figure 4.7). For local recovery efforts to be effective, the government should build on these important assets. The expertise and experience in local administration that municipalities gained since 2014 could allow them to take stock of territorial needs, design and deliver local reconstruction projects, manage recovery financing and track progress in meeting local needs.

Despite these advances, many municipalities, particularly those categorised as rural and settlement municipalities, may need further support to improve their strategic planning and project management skills, for example to adequately assess the economic, social and environmental impact of possible recovery projects and ensure that they align with national and regional priorities. Many municipalities may also benefit from support to strengthen their ability to link recovery project financing to their local budgets and revenue streams.

### *The cost of the post-conflict reconstruction requires the involvement of non-governmental actors*

The current legislative and planning framework for regional development provides very little room for non-governmental actors to contribute to the design and implementation of territorial development initiatives. In the past, this has limited the ability of subnational governments to leverage the support of businesses, the social economy, academia and citizens to meet territorial development objectives.

Meeting the immense challenge of the post-war recovery will require the mobilisation of non-governmental actors in Ukraine. They can contribute by identifying immediate needs and providing support to vulnerable populations, particularly in remote areas, as well as by contributing to the design, delivery and monitoring of recovery initiatives. Municipalities, in particular, can provide a platform to facilitate and promote broad-based stakeholder involvement in recovery efforts. In addition, citizens can also be involved in quality assurance and in setting service delivery standards. However, the capacity of municipalities to effectively engage with non-governmental actors must be bolstered. The 2021 OECD survey undertaken for this study indicates that about 40% of the 741 responding municipalities considered they lacked the expertise to adequately involve the private sector and individual citizens in the design and implementation of development plans (Figure 4.6).

### *Existing co-ordination bodies can be used to ensure policy coherence*

The Congress of Local and Regional Authorities (Box 4.13), which was created to support the implementation of Ukraine's regional development and decentralisation reforms, can be used as a platform to facilitate dialogue among levels of government regarding subnational recovery efforts. An important task for this Congress could be ensuring that recovery initiatives meet local demands, while avoiding a fragmented approach that would undercut the adequate use of funding. However, the pre-existing challenges that have hampered its effectiveness so far must first be addressed. This means ensuring that both upward and downward communication between the national government – in particular with the National Council for Recovery – and subnational authorities takes place.

### *Ukraine's regional development planning framework should be updated to include recovery objectives*

Over the past few years, Ukraine has established a more robust multi-level regional development planning system. This resulted in the creation of a new State Strategy for Regional Development, regional development strategies in each *oblast*, and several hundred municipal development plans. These provided

relative clarity regarding the government's territorial development aims and an ability to track regional development outcomes.

As it advances in the development and implementation of a national recovery plan, Ukraine should take the opportunity to learn from the challenges faced by national and subnational governments in implementing their regional and local development strategies and plans. These include the lack of clarity regarding the implementation tools that regional and municipal governments can use, as well as uncertainty about the sources of funding that are available to finance projects.

Ukraine should also ensure that regional and local development strategies and plans are redesigned or updated and effectively linked to a national recovery plan. In the light of the destruction that has been wrought by the war, policy makers will also have to critically reflect on whether it is necessary to modify the overall aim of Ukraine's State Regional Policy going forward. For instance, more emphasis might need to be placed on boosting territorial resilience. In addition, the government is advised to mandate subnational governments to include a spatial dimension in their regional and local recovery development strategies to ensure that they effectively respond to territorially-differentiated needs and assets. So far, this has been missing from the regional development strategies prepared by *oblasts* and municipalities (U-LEAD, 2022<sup>[1]</sup>).

#### *Streamlining planning requirements for subnational governments can support recovery efforts*

With the gradual rollout of the regional development reforms and decentralisation, the number of territorial development strategies and plans that subnational governments are required to develop proliferated. This creates a risk of overlap among planning documents, potentially resulting in a duplication of efforts. It can also create confusion over the hierarchical relationship between the different strategies and plans and lead to a fragmented use of resources, particularly when the objectives of different strategies and plans are not aligned. In addition, the responsibility to develop a wide array of strategies, plans and programmes might limit the human and financial resources that are available to support implementation. To ensure the effective delivery of a national recovery plan at the subnational level, Ukraine is advised to streamline the overall planning requirements for subnational governments. In doing so, it should strike a balance between planning and implementation, while ensuring the high quality of a limited number of highly complementary national- and subnational-level strategies and plans.

#### *Subnational governments need support to facilitate territorial economic development*

Enhancing the capacity of subnational governments to foster economic development was not a particular priority of the post-2014 decentralisation and regional development reforms. According to interviews with local stakeholders conducted in 2021, municipalities generally did not consider creating an environment that was favourable to economic development to be among their main responsibilities. Furthermore, the 2021 OECD project survey results indicate that supporting small and medium-sized enterprises is an area that many municipalities highlighted as lacking clarity with respect to the division of responsibilities among levels of government (Figure 4.2).

By May 2022, the International Monetary Fund expected that in 2022 Ukraine's GDP would shrink by 35% (IMF, 2022<sup>[2]</sup>). Moreover, by July 2022, it was estimated that the war would have resulted in over 5.8 million people fleeing the country and in the internal displacement of millions more (UNHRC, 2022<sup>[3]</sup>). In this context, the regional recovery efforts need to emphasise rebuilding competitive local economies, which requires municipalities to effectively engage with the local private sector to support job creation. This should be coupled with, for example, increased public investment in research, development and innovation at the local level, particularly in rural areas.

*Addressing the lack of data at the local level is fundamental to ensuring an effective recovery*

Prior to the invasion, Ukraine faced multiple challenges in terms of the availability of data on regional and local development. The government, aided by international partners, will need to support the capacity of subnational governments and local non-governmental actors alike to provide up-to-date information on immediate and longer-term development needs. It should also ensure that the territorially-disaggregated data needed for recovery is collected centrally and is presented on an easily accessible platform. This is essential for supporting evidence-based decision making on recovery and reconstruction, and tracking progress on meeting local needs.

## Introduction

Designing and implementing a regional development policy that fosters economic development and well-being rests on the ability to design an integrated strategy that is tailored to the needs, strengths and capacities of different places. This requires policy makers to articulate a strategic vision with clear objectives, defining the policy to support it, and to engage in regional development planning that is “place-tailored”, results-oriented, forward-looking and aligned with national objectives and local realities. Moreover, different policy sectors and actors should come together to identify and implement regional development and investment initiatives in a coherent manner that optimises resources. Success further depends on activities taking place at the proper territorial scale, as well as adopting a learning-based approach to building capacity.

Over the past decade, Ukraine has taken significant steps in setting up an elaborate legislative and policy framework for local and regional development, and building implementation capacity at all levels. This includes the 2014 reform of local self-government and territorial organisation of power, the approval of a legislative framework for the country’s State Regional Policy, and the design and implementation of successive State Strategies for Regional Development (SSRD). Other progress also includes the creation of regional development agencies (RDAs), and the establishment of several financing mechanisms targeting regional development. By 2021, the government was in a position to further consolidate this framework and support a stronger place-based approach to better meet its growth aims and generate greater well-being throughout the country. To capitalise on the results of the regional development reforms, however, Ukraine needs to overcome several key challenges.

First, the number of planning documents that national and subnational governments are expected to develop has proliferated. This comes on top of the multiple, and at times competing, strategic frameworks for regional development currently in place. This may create uncertainty regarding the aims of Ukraine’s State Regional Policy, risking a fragmented implementation process and sub-optimal use of public resources. It could also complicate monitoring and evaluation efforts. Second, centre-of-government co-ordination in the field of regional development has remained relatively weak, hampering efforts to ensure the effective implementation of the country’s State Regional Policy across sectors and among levels of government. This is compounded by the absence of functioning horizontal and vertical co-ordination mechanisms that are necessary to increase policy coherence and effectiveness, and to generate trust-based partnerships. Third, the mechanisms for implementing the country’s regional development policy and corresponding strategies, particularly at the *oblast* level, are still embryonic. This applies especially to the work of RDAs in helping articulate and implement regional and local development strategies. Fourth, many of the 1 469 newly amalgamated municipalities are still building the necessary technical expertise to effectively contribute to the implementation of the country’s State Regional Policy. This is compounded by the limited participation of non-governmental actors throughout the regional development planning cycle. Finally, to improve evidence-based decision making, Ukraine needs to boost the capacity of all levels of government to produce, analyse and disseminate information on local and regional development performance.

This chapter, which updates and adds to the 2018 OECD report *Maintaining the Momentum of Decentralisation in Ukraine*, focuses on the legislative and policy framework for regional development, as well as the multi-level governance structures that support regional development in Ukraine. It begins by analysing Ukraine’s progress in overhauling its legal and regulatory framework for regional development. Subsequently, it explores the roles and responsibilities of the main actors involved in the development and implementation of the country’s State Regional Policy. The chapter then explores recent advances in the design of Ukraine’s multi-level regional development planning instruments. It concludes with a discussion of the advances in and challenges to the creation of an outcome-oriented performance measurement system for regional development.

#### Box 4.1. Recommendations to strengthen the design, implementation and monitoring of Ukraine's strategic planning framework for regional development

The following recommendations should be considered in a timeframe that is appropriate to the current context of war and post-war reconstruction and recovery.

**To strengthen Ukraine's overall strategic planning framework for regional development, Ukraine is advised to:**

- Ensure continued alignment between the State Strategy for Regional Development (SSRD) and subnational development strategies. This can be done by:
  - Modifying the legal framework to call on state, regional and municipal authorities to conduct a mandatory assessment of the strategies after the first three or four years of implementation and/or in light of any significant economic, social, environmental or political changes.
- Strike a balance between development planning and implementation, and promoting horizontal and vertical policy coherence. This can be done by:
  - Creating a national planning law that defines the long-, medium- and short-term planning documents needing to be developed (including the State Strategy for Regional Development, as well as regional and local development strategies), when and how the different documents should align, and who should be responsible for their design, implementation and monitoring.
- Strengthen the mandate and capacity of municipalities to create the conditions for increased subnational economic development. This could be done by:
  - Creating new or modifying existing regional development subventions<sup>1</sup> to facilitate the implementation of projects to support small and medium-sized enterprises (SMEs).
  - Raising municipalities' awareness of their economic development responsibilities and providing capacity building support to help them meet them.
  - Investing in outreach to municipalities to educate them on the benefits and, in particular, the multiple risks associated with local-level public-private partnerships (PPPs), as well as funding and financing alternatives to deliver services and infrastructure.

**To support the coherent implementation of Ukraine's State Regional Policy at all levels, the government is recommended to:**

- Strengthen regional development policy co-ordination. For example by:
  - Providing the Ministry for Communities and Territories Development (MinRegion) with more tools to ensure its contribution to policy development in sectors with a regional-/local-level incidence, for example by giving it a role in the review of draft policy proposals on issues such as transport and subnational economic development.
- Clarify the mandate and strengthen the capacity of regional development agencies (RDAs) to execute their tasks and responsibilities. This can be done by:
  - Adopting regulations requiring oblasts to provide RDAs with a minimum level of funding.
  - Setting up peer-to-peer learning trajectories to facilitate the exchange of good practices between Ukrainian RDAs and their peers from OECD member countries.
- Bolstering horizontal co-ordination mechanisms in the field of regional development by:

- Reinforcing the Inter-Departmental Co-ordination Commission for Regional Development (ICC) by:
  - Determining and holding a minimum number of sessions per year, with an established work plan.
  - Streamlining the ICC's broad set of responsibilities to ensure its meetings focus on key regional development issues.
  - Providing the ICC with a formal role in the design and/or mid-term revision of the SSRD.
  - Creating (technical) working groups within the ICC related to, for example, the monitoring and evaluation of the State Regional Policy and the SSRD, as well as regional development financing mechanisms.
- Strengthen vertical co-ordination mechanisms for regional development by:
  - Improving the effectiveness of the Congress for Local and Regional Authorities to facilitate debate and exchange among levels of government. This can include:
    - Establishing a transparent process for selecting which subnational representatives can take part in the meetings of the Congress.

**To strengthen the effectiveness of the SSRD, Ukraine is advised to:**

- Clarify how the government targets the special functional territories mentioned in the SSRD. For example by:
  - Defining how the state programmes for the socio-economic development of individual territories will be designed, implemented and financed.
  - Ensuring that the state programmes for the socio-economic development of individual territories include a clear description of the different special functional territories they target, their comparative development challenges and potential.
- Promote and facilitate the participation of a wide range of governmental and non-governmental actors in the full lifecycle of regional development strategies. For example by:
  - Involving representatives from the different associations of local governments, business chambers, think-tanks and leading civil society organisations in a mid-term review of the SSRD.
- Clarify the relationship between the SSRD and the National Economic Strategy 2030 and how both strategic planning frameworks seek to advance regional development.

**To strengthen the impact of the *oblast* development strategies, Ukraine is advised to:**

- Improve the quality of the regional development strategies, by:
  - Reviewing and updating the methodology that guides their design, monitoring and evaluation.
  - Adopting legislation proposed by MinRegion to reinforce the link between the *oblast* strategies, other regional development planning instruments and the State Fund for Regional Development.
- Increase clarity about the mechanisms to finance and implement the regional development strategies. For example by:
  - Mandating regional development strategies to include implementation and monitoring plans that indicate which actors will be involved, as well as their specific tasks and responsibilities.
  - Establishing multi-sector and multi-level regional co-ordination mechanisms to oversee the implementation of the regional development strategies.



**To strengthen the ability of municipalities to foster territorial development and contribute to the implementation of the SSRD, Ukraine is advised to:**

- Facilitate peer-to-peer learning among municipalities, building on the experience that some have already gained in designing local development strategies.
- Promote and facilitate municipalities' engagement with stakeholders by, for example:
  - Updating existing legislation to make public consultation an integral part of development and investment planning at the national and subnational levels.
  - Providing more systematic capacity building support to municipalities in the field of stakeholder consultation and setting up peer-to-peer learning processes.

**To improve evidence-based decision making on regional development, Ukraine is advised to:**

- Increase the availability of up-to-date territorially-disaggregated information on a wide range of topics. For example by consolidating the Hromada Performance Monitoring Platform by:
  - Ensuring that all data presented on the platform are also included on the SSSU's website and offering users the possibility to download the raw data, while protecting respondents' data.
  - Including metadata for each indicator to allow users to understand, for example, the units of measurement for the different indicators, how the data were gathered and by whom.
- Invest in the generation, analysis and dissemination of information on citizen and user experience with public services at the national, regional and local levels.
- Strengthen the role that the SSSU plays in gathering, analysing and disseminating data across ministries and among levels of government. For example by:
  - Investing in the ability of its staff to provide training to subnational governments so the latter can produce, analyse and disseminate development statistics, as well as to use evidence as a learning tool.
  - Expanding the available territorially-disaggregated data on the SSSU portal and integrating data presented on the portals of other state institutions.
  - Creating inter-agency commissions—for instance for regional development—that are charged with defining the sectoral data needs, establishing standards to generate and present statistics, as well as ensure current databases are up-to-date and new ones are developed.
- Establish a publicly accessible regional development performance monitoring platform that allows the government to track and communicate its development objectives and territorial performance with a wide audience.

## Ukraine's strategic planning framework for regional development

Over the past decade, Ukraine has taken important steps in setting up a comprehensive framework for regional and local development, allowing governments at all levels to play a major role in designing and implementing regional and local development initiatives. Progress in this field is closely linked to the rollout of the country's decentralisation reforms that resulted in the creation of 1 469 amalgamated municipalities (from an original number of over 10 000 in 2015). These municipalities' remit includes a vast array of new administrative and service delivery responsibilities, making them the locus of regional development efforts. The effectiveness of the regional development reform process, however, is curtailed by a series of challenges such as the proliferation of planning instruments and the absence of a national planning law. Other constraints include the limited focus that the decentralisation and regional development reforms placed on subnational economic development, as well as the piecemeal implementation of the decentralisation reforms.

### ***Strategic planning frameworks for regional development across the OECD***

A regional development strategy sets out a vision-based, long-range plan to achieve national, regional or local aims for growth. In so doing, it draws together sectoral policy interventions for regional development and facilitates integrated action by helping different sectors understand and work towards realising long-term development objectives (Box 4.2). It differs from a regional economic development strategy both in its scope and the breadth of the policy instruments used.

#### **Box 4.2. The scope of regional development**

##### **Regional development**

Regional development is a broad term that refers to a general effort to reduce regional disparities and foster balanced and inclusive growth in a country, an individual region or a metropolitan, urban or rural area. Over time, the main objective of regional development has evolved from top-down interventions designed to reduce regional disparities through compensation of less developed areas into a much broader approach aimed at improving regional competitiveness, often by adopting a strategy that builds on territorially-differentiated development strengths and challenges. It emphasises co-operation among and across levels of government, as well as leveraging the contribution of non-governmental actors.

##### **Regional development policies and strategies**

A regional development policy refers to the set of goals and priorities reflected in laws, regulations, as well as planning and budgeting instruments that aim to reduce territorial disparities and foster inclusive and balanced social, economic and environmental development in a country or a specific territory.

A regional development strategy, by contrast, is a long-term planning instrument to achieve specified territorial objectives. It can bring together the strategies of diverse policy sectors to support their coherent implementation and contribution to a territory's productivity and attractiveness, as well as to the well-being of its citizens. It depends on several other elements, such as sectoral policies, the subnational governments with whom policy responsibilities are shared, and non-governmental actors.

Source: Author's elaboration, adapted from (OECD, 2020<sup>[4]</sup>).

Many countries (e.g. Brazil, Chile, Germany, Greece, Ireland, Malaysia, Mexico, the Netherlands, Portugal, Switzerland, the Republic of Türkiye and the United Kingdom) have a document outlining a strategic vision for their country. However, these often have a short time horizon (e.g. one to six years). Increasingly,

however, countries aim to develop strategies that span one to two decades or even longer (e.g. Costa Rica, the Czech Republic, Finland, Hungary, Israel, Lithuania, Norway, and Slovenia) (OECD, 2020<sup>[4]</sup>). In countries where changes in government generally imply a marked shift in priorities, the development of a long-term strategic plan can contribute to policy continuity and improved outcomes.

### *Implications of top-down versus bottom-up regional development planning*

A country's approach to regional development can be top-down, bottom-up or a combination of the two. In the case of the former, the national government sets the development vision and takes a command and control approach to policy design and implementation. Conversely, a bottom-up approach implies that subnational governments or other subnational actors identify local needs, and establish and implement plans to meet them. On their own, neither approach will likely be effective or sustainable. Top-down approaches tend to meet strong implementation resistance from local stakeholders. Adopting an approach that focuses primarily on bottom-up development may limit policy coherence, lead to disconnected investments across territories, and face financing constraints. A key question policy makers need to answer is how to strike an appropriate balance between the two approaches (OECD, 2020<sup>[4]</sup>).

There is evidence that strategies that combine a bottom-up and top-down approach are among the most effective (Crescenzi and Giua, 2016<sup>[5]</sup>). The development and implementation of a long-term regional development strategy that is the result of extensive stakeholder consultation processes can promote policy coherence among sectors and across levels of government, while enhancing the efficient use of resources. It provides the framework for action that enables different actors to take responsibility for implementing the initiatives necessary to achieve a society's long-term development vision, and builds their understanding of the need for collaboration (Rojas, Cuadrado-Roura and Fernández Güell, 2008<sup>[6]</sup>).

The majority of OECD countries present their long-term regional development strategies within a regional policy framework, using different planning instruments to articulate their objectives and plans. For example, in European Union (EU) countries, seven years is a common timeframe that is in line with the EU policy cycle. Ukraine follows this practice. Moreover, in many instances, the national-level strategic documents are complemented by regional development strategies designed by subnational actors (OECD, 2016<sup>[7]</sup>; OECD, 2019<sup>[8]</sup>).

### ***The legislative framework for regional development***

Beginning in 2014, the government embarked on an ambitious overhaul of its multi-level and territorial governance structures, which included a series of decentralisation reforms. Crucial elements were the adoption of the Concept Framework of Reform of Local Self-Government and the Territorial Organisation of Power. This document outlined a strategy for boosting democratic governance at the subnational level through broad-based decentralisation, as well as the gradual merger of over 10 000 communities into 1 469 municipalities. This was combined with the creation of a new legal framework for regional development policy through the approval of the 2015 Law “On the Principles of State Regional Policy”.

The combined objective of the decentralisation and regional development reforms initiated in 2014/2015 was four-fold. First, it sought to bolster territorial cohesion in economic and social terms. Second, it aimed to increase the well-being of all citizens, regardless of their place of residence. Third, it sought to enhance the competitiveness of regions and municipalities. Fourth, it intended to put municipalities at the centre of development efforts, while simultaneously increasing local democracy.

### *The 2015 Law “On the Principles of State Regional Policy” forms the basis of Ukraine’s regional development system*

The 2015 Law “On the Principles of State Regional Policy” sought to ensure the establishment of a comprehensive, consistent and implementable regional development policy (Box 4.3). The law put

Ukraine's legislative framework for regional development on a solid footing. Indeed, it clearly outlined its main policy instruments including the State Strategy for Regional Development (SSRD), as well as the key actors involved in its design and co-ordination. At the same time, the law is ambiguous regarding the design, implementation and monitoring of several planning instruments, thus undermining its effectiveness and creating uncertainty for actors at all levels of government.

#### Box 4.3. Ukraine's Law "On the Principles of State Regional Policy"

The 2015 law established key concepts for regional development, such as the State Regional Policy, regional development programmes and projects. It also introduced a set of regional development planning instruments: the State Strategy for Regional Development (SSRD), the regional development strategies (*oblast* level) and their respective action plans, as well as strategies for the development of cities, towns and villages. Moreover, it established which actors are responsible for developing and implementing the country's State Regional Policy and its main planning instruments.

In particular, the approval "On the Principles of State Regional Policy" established that the State Fund for Regional Development (SFRD), created in 2012, should provide financing for the implementation of state and regional development strategies. It also introduced basic concepts for monitoring the performance of the country's regional development strategies and action plans and provided for the possibility to set up regional development agencies (RDAs), as well as an Inter-Departmental Co-ordination Commission for Regional Development.

After the adoption of the law "On the Principles of State Regional Policy", the Cabinet of Ministers of Ukraine passed resolution 931, which establishes the procedure for the development and monitoring and evaluation of the SSRD.

Source: Author's elaboration, based on (Verkhovna Rada, 2015<sup>[9]</sup>; CabMin, 2018<sup>[10]</sup>).

Taken together, the Law "On Principles of State Regional Policy" and the 2015 Cabinet of Ministers (CabMin) Resolution no. 931 (CabMin, 2018<sup>[10]</sup>) provide relatively detailed information on the main planning instruments that constitute Ukraine's State Regional Policy (Table 4.1 and Figure 4.1). These are the SSRD and the regional development strategies that need to be developed by each *oblast*. Both are linked to the EU planning cycle. Each of these planning instruments needs to be supported by action plans. The action plans of the regional development strategies form the basis for the development of regional development and investment projects.

**Table 4.1. Main planning instruments for regional development in Ukraine**

	State Strategy for Regional Development	Regional development strategies
Scope	National	<i>Oblast</i> /regional
Creation	Mandatory	Mandatory
Timeframe	7 years	7 years
Development co-ordinated by	Ministry for Communities and Territories Development (MinRegion)	Council of Ministers of the Autonomous Republic of Crimea, <i>oblast</i> , Kyiv and Sevastopol city state administrations
Approval by	Cabinet of Ministers (CabMin)	Verkhovna Rada of the Autonomous Republic of Crimea, <i>oblast</i> , Kyiv and Sevastopol city councils
Consultation	With regional development entities	With regional development entities
Action plans	One for the first 3 years, a second for the last 4 years	
Updating	Possible after 3 years	Not specified

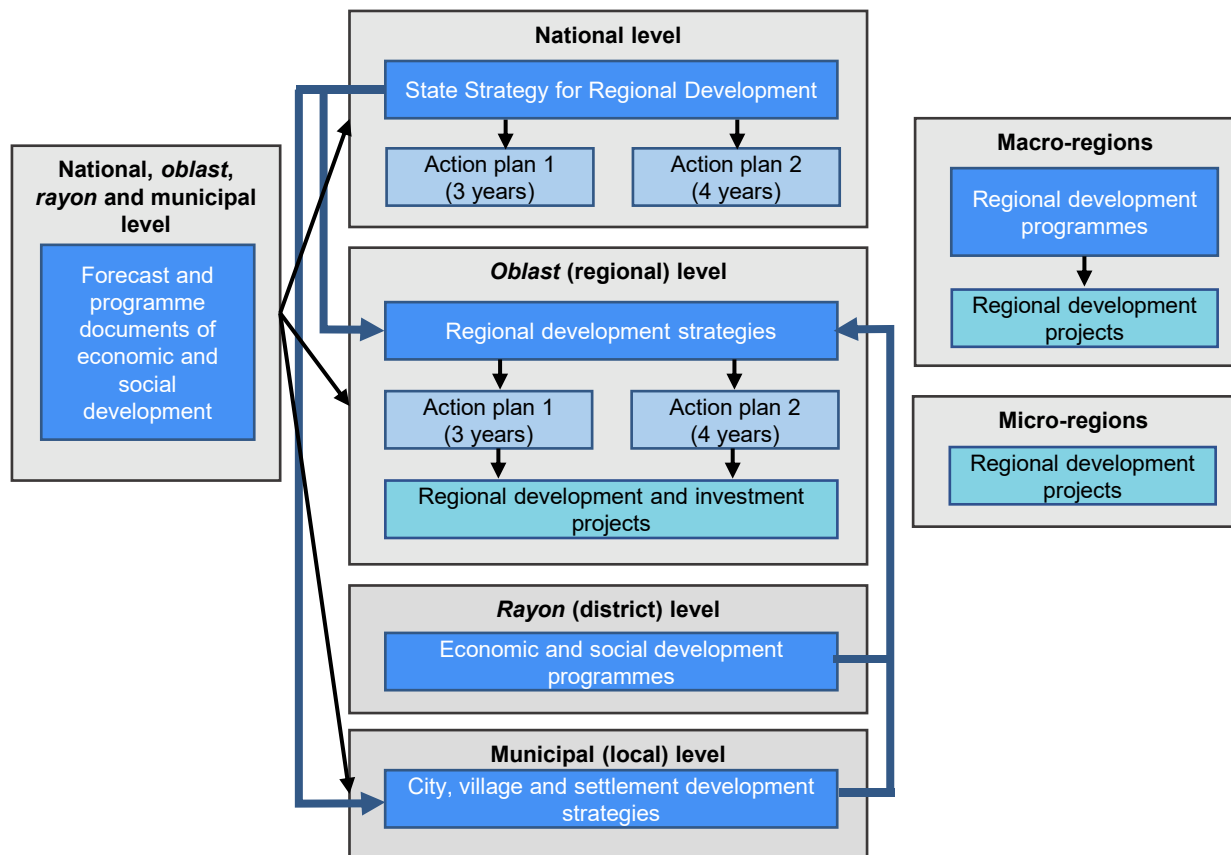
Contents	<ul style="list-style-type: none"> <li>- Trends and main problems of socio-economic development of regions;</li> <li>- Priorities of the State Regional Policy;</li> <li>- Strategic goals and directions of regional development and interregional co-operation;</li> <li>- Operational goals;</li> <li>- The main tasks and implementation mechanisms;</li> <li>- Monitoring and evaluation system.</li> </ul>	<ul style="list-style-type: none"> <li>- Trends and main problems of socio-economic development of the Autonomous Republic of Crimea, regions, cities of Kyiv and Sevastopol;</li> <li>- Strategic goals and development priorities;</li> <li>- Operational goals;</li> <li>- The main tasks and implementation mechanisms;</li> <li>- Monitoring and evaluation system.</li> </ul>
To be aligned to	Not applicable	SSRD
Sources of financing	<ul style="list-style-type: none"> <li>- Funds of the State Budget of Ukraine, in particular the SFRD;</li> <li>- Funds from local budgets;</li> <li>- Charitable contributions;</li> <li>- Funds of international organisations.</li> </ul>	

Source: Author's elaboration, based on (Verkhovna Rada, 2015<sup>[9]</sup>; CabMin, 2018<sup>[10]</sup>).

The Law "On Principles of State Regional Policy" and CabMin Resolution no. 931 also mention a series of complementary planning instruments. These include strategies for the development of cities, villages and settlements, the development of which is not mandatory. They also refer to regional development programmes for Ukraine's macro-regions. These are specially defined territories that can consist of several regions or their parts, which are united by common features, and are "characterized by common development problems" (Verkhovna Rada, 2015<sup>[9]</sup>). Likewise, according to the Law "On Principles of State Regional Policy", regional development projects can be implemented at the micro-regional level. However, the relevant legislation provides very limited information about the process through which each of these instruments needs to be developed, implemented or monitored. This creates uncertainty at all levels of government, and hampers the adequate implementation of the Law "On Principles of State Regional Policy".

On paper, the legislative framework envisions a combined bottom-up and top-down approach to regional development planning. In practice, however, a top-down approach predominates. Current legislation supposes a partial top-down approach as the development of the mandatory regional development strategies and the optional strategies of cities, villages and settlements must comply with the provisions of the SSRD and be aligned with the national government's strategic priorities. At the same time, however, the Law "On Principles of State Regional Policy" espouses a bottom-up approach as it specifies that actors such as municipalities can submit proposals for the development of the SSRD, the regional development strategies and their respective action plans. Similarly, the development of the regional development strategies should be carried out taking into account the strategies of cities, towns and villages, as well as the development priorities of the so-called depressed areas. However, as the Law "On Principles of State Regional Policy" does not mandate the creation of development plans for local self-governments these bottom-up planning processes largely fail to materialise. Moreover, by not referencing non-governmental actors, the law "On the Principles of State Regional Policy" limits their potential role in the design of the various national, regional and local development strategies and plans (Figure 4.1).

**Figure 4.1. Planning instruments for regional development as specified in the Law “On the Principles of State Regional Policy”**



Source: Author's elaboration, based on (Verkhovna Rada, 2015<sup>[9]</sup>).

### *SSRD and subnational development strategies need to be continually aligned*

Whereas the Law “On the Principles of State Regional Policy” indicates that the “tasks and measures” of the SSRD can be updated after three years, it does not include similar arrangements for the regional and local development strategies. This means that, in case of a mid-term modification of the SSRD, the planning instruments of *oblasts* and municipalities may become misaligned. To remedy this, any modification of the legal framework should indicate that after the first three or four years of implementation, state, regional and local authorities should conduct a mandatory assessment of the strategies in light of any significant economic, social, environmental or political changes. This assessment should not be limited to the strategy's proposed tasks and measures, but also include its results framework.

### *The absence of an overarching national planning law risks duplication of planning efforts*

Ukraine's Law “On the Principles of State Regional Policy” did not replace but rather supplemented a series of laws enacted since 2000 that affect the regional development planning system (Annex Table 4.A.1). Each of these laws refers to different short-, mid- and long-term planning instruments, creating a highly complex patchwork of interrelated strategies, plans, programmes and projects that are often directly linked to regional and local development. This could lead to duplication of planning efforts at the different levels of government and overemphasise the development of strategies and plans, at the expense of their

implementation. It could also lead to a sub-optimal allocation of resources and create confusion about the hierarchical relationship between the various planning instruments. To promote horizontal and vertical policy coherence, the government should consider creating a national planning law that defines which long-, medium- and short-term planning instruments need to be developed, when and how the different instruments should align, and who should be responsible for their design, implementation and monitoring. Such a law should also differentiate between high-level, long-term strategies and operational short-term action plans, as well as define the funding mechanisms for each plan or strategy.

### ***A complex interplay between the decentralisation and regional development reforms***

The decentralisation and regional development reforms implemented since 2014 should be seen as interdependent and complementary in terms of their policy objectives, stakeholders and implementation arrangements. The overarching goal of both the Concept of Reforming Local Self-Government and Territorial Organisation of Power in 2014, as well as the 2015 Law “On the Principles of State Regional Policy” was to ensure the unity of the state as a “necessary basis for regional development” (National Institute for Strategic Studies, 2020<sup>[11]</sup>).

#### *Post-2014 changes to Ukraine’s multi-level governance system make it more conducive to place-based regional development*

The approval of the Concept of Reforming Local Self-Government and Territorial Organisation of Power, and the passing of several legislative reforms (Annex Figure 4.C.2) made Ukraine’s multi-level governance and decentralisation system more conducive to place-based regional development. For example, the Concept framework set out to ensure the availability and quality of public services, based on local needs. It also sought to optimise the distribution of power among the subnational governments according to the principles of subsidiarity, defining a basic list of responsibilities for each level. Many of them are directly related to regional and local development. They include:

- *Oblast* state administrations: regional development and development of regional infrastructure;
- Local self-governments: local economic development, planning of community territory development and the development of local infrastructure.

Moreover, the Concept framework set out to ensure that the subnational governments have the necessary material, financial and organisational resources to carry out their mandates. Combined, the actions of the government to support the implementation of the Concept framework have redefined the institutional, regulatory and financial framework in which the State Regional Policy is designed and implemented. The regulatory framework for regional development echoes many of the elements of the decentralisation reform. For example, the law “On the Principles of State Regional Policy” stressed the importance of vertical co-ordination and subsidiarity. The law also provides for the possible establishment of different actors and mechanisms that could benefit the implementation of the decentralisation reforms, including the RDAs and the Inter-Departmental Co-ordination Commission for Regional Development (ICC). The former could support the practical design and implementation of projects aimed at improved regional competitiveness, as well as increased local well-being and economic development. The latter can serve as a forum to discuss a wide variety of topics that are directly related to both the decentralisation and regional development reforms. However, despite their complementarity, the interconnected nature of both reforms also poses significant challenges to their effectiveness.

#### *Non-linear implementation of both reform packages has created uncertainty*

Since 2014, there have been continuous efforts to introduce or amend legislation related to the decentralisation and regional development reform packages. This has not been a linear process. The passing of amendments at different times, and initiated by different ministers, has led to contradictions.

This has been compounded by the rollout of the municipal amalgamation process that lasted several years, as well as the creation of new, consolidated districts in 2020. These processes were accompanied by a gradual increase in the tasks and responsibilities of municipalities and the creation of many new subventions to finance regional and local development initiatives (see Chapter 5).

As a result, the actors involved in regional development planning and implementation have had to adjust to a changing regulatory and institutional environment, as well as new fiscal realities. This has created much uncertainty and strained the ability of local government officials at all levels to take informed decisions regarding regional development. Moreover, parts of the decentralisation reform, as set out in 2014, have not yet materialised. For example, attempts to enshrine the new administrative-territorial structure and introduce a prefecture-like system at the regional and district level in the Constitution have not garnered the necessary support.

When considering additional reforms related to regional development and decentralisation, the government should emphasise those policy interventions that can generate certainty for actors at all levels in the short term and, to the extent possible, are feasible within the existing regulatory and institutional framework. This should be complemented by more long-term efforts such as modifying the Constitution and introducing a national planning law.

*The increased focus on local economic development would strengthen the decentralisation and regional development reforms*

The overarching objectives of the regional development and decentralisation reforms dovetail regional and municipal economic development. There are, however, concerns that relatively little attention has been paid to increasing the capacity of subnational authorities to foster economic activity.

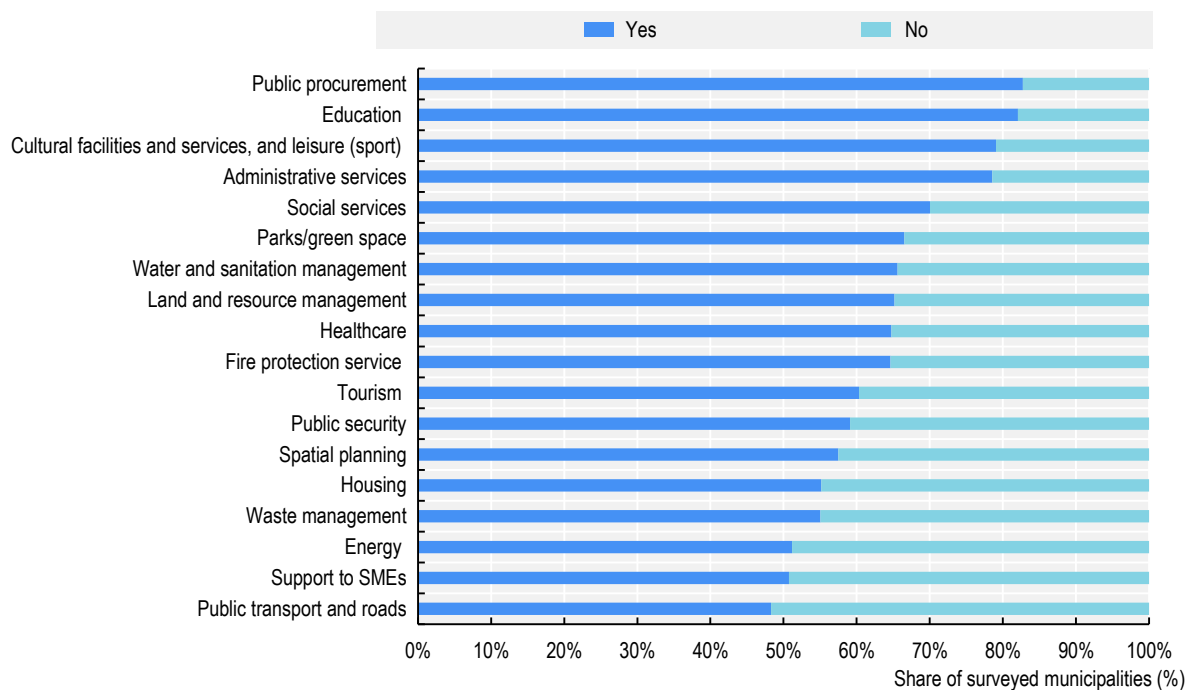
With the decentralisation reform, improving the delivery of various administrative and social services (e.g. education and healthcare) has become a major focus. However, fostering an environment conducive to subnational economic development has not been a policy objective of many subnational governments. This is an area in which most Ukrainian municipalities have historically had limited responsibilities, and local leaders consider the delivery of social services to be their top priority (OECD, 2021<sup>[12]</sup>). This comes in addition to a general perception among municipalities that the division of tasks and responsibilities among levels of government in areas closely related to economic development is not clear. In fact, OECD project survey results (Figure 4.2) indicate that the area in which surveyed municipalities report that there is least clarity with respect to responsibilities is public transport and roads, followed by support to small and medium-sized enterprises (SMEs), and energy (Box 4.4). In these areas, around 50% of responding municipalities indicated that there is no clarity in the division of responsibilities among levels of government. For example, it is not clear from the legislation who is responsible for financing and undertaking the construction and maintenance of local roads. While the Law “On Local Self-Government” indicates that this responsibility lies with the amalgamated municipalities, the Law “On Roads” states that it is vested in *oblast* state administrations. Conversely, the Law “On Local State Administrations” indicates that it is the preserve of the *rayons* (Verkhovna Rada, 2021<sup>[13]</sup>; Verkhovna Rada, 2021<sup>[14]</sup>; Verkhovna Rada, 2021<sup>[15]</sup>).



#### Box 4.4. The OECD online survey

To complement the scarce data on the results of the decentralisations reforms, the OECD asked municipalities to complete an online survey in September and October of 2021. The objective of the survey was to assess the impact of Ukraine's amalgamation reform on municipal performance. In particular, it sought to collect perspectives on how decentralisation reforms, including the amalgamation process, have affected local service delivery, finance, and co-operation with non-governmental actors, as well as their perceived current challenges. The survey included sections on the process of amalgamation, the creation of administrative service centres, administrative capacity, local finance and investment, local democracy and public participation, among others. With the support of CabMin and the Ministry for Communities and Territories Development (MinRegion), the survey was shared with all municipalities. In total, 751 municipalities, covering 119 *rayons*, as well as 24 *oblasts*, and Kyiv City, completed the survey.

Figure 4.2. Municipal perceptions of clarity in the division of tasks and responsibilities



Note: Question: Do you consider that there is clarity in the division of tasks and responsibilities in the following fields between your municipal government and other (local) governments: other municipal governments, *rayons*, *oblasts* and central government)? Response options: Waste management; Water and sanitation management; Public procurement; Housing; Healthcare; Social services (e.g. support for families, children, elderly, etc.); Public transport and roads; Education; Cultural facilities and services, and leisure (sport); Tourism; Parks/green space; Public security; Fire protection service; Spatial planning; Land and resource management; Support to SMEs; Energy; Administrative services; Other. The survey was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021).

Source: Author's elaboration, based on the OECD online survey.

Several elements would justify a heightened focus on promoting subnational economic development. For example, the population and labour force of almost all regions is decreasing due to a number of factors, including labour migration to the EU. This has major consequences for productivity. Moreover, Ukraine's economy is increasingly dependent on Kyiv *Oblast* and Kyiv City, with other *oblasts* falling further behind.

The government should use the next phase of the decentralisation process to strengthen the mandate and capacity of municipalities to create the conditions for increased subnational economic development. This could imply providing guidance to municipalities about the levers they can use to stimulate economic development, as well as improving support for the development of local public-private partnerships (PPPs) where appropriate. This would have to include guidance by the national government on the expertise required to set up and manage PPPs and, in particular, the multiple risks associated with such partnerships, including regulatory capture, conflicts of interest and long-term fiscal constraints on municipal finances (see Chapter 5). Guidance should also seek to ensure that subnational governments are well-informed regarding alternatives to PPPs, and the potential benefits and risks of these. It could also mean creating or modifying existing regional development subventions to facilitate the implementation of projects to support SMEs and building subnational government capacity to engage with their local business communities (e.g. to identify their needs, to co-design local investment projects). In addition, it could imply facilitating collaboration between local businesses and higher education and/or vocational institutions to ensure that education and training programmes meet current and future labour needs. Actions such as these would contribute to achieving the objectives of the SSRD and the decentralisation reforms aimed at boosting the economic well-being of citizens, as well as strengthening the fiscal capacity of all levels of government through increased tax revenues.

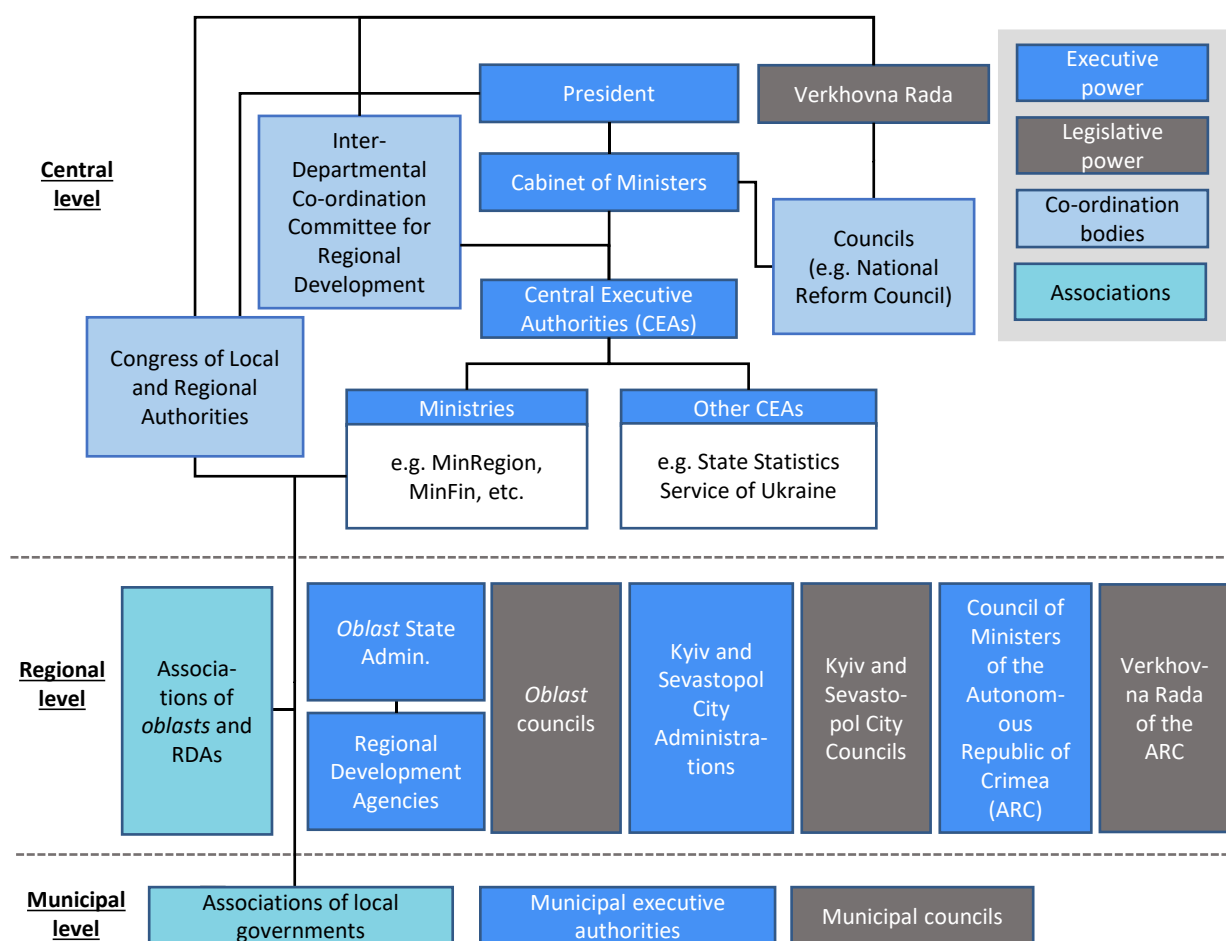
The success of these efforts depends on the effective co-operation of the wide array of public and non-governmental actors involved in the design and implementation of the State Regional Policy. Ukraine's progress in setting up an elaborate regional development governance system, and the challenges it faces in terms of multi-level co-ordination, among other elements, are addressed in the next section.

## The governance of regional development in Ukraine

The governance of regional development and public investment matters. Ukraine's regional development and decentralisation reforms implemented since 2015 have redefined the composition of and interplay between the governmental and non-governmental actors. These changes reflect a gradual shift in the governing paradigm, which used to be characterised by a dominant central government that sets developments targets and uses its deconcentrated administrative structure to ensure implementation. Gradually, Ukraine is moving towards a new approach that, in principle, favours more multi-level co-operation and co-ordination and emphasises building local capacity to address local challenges. Such a change takes time, however. It requires as much a shift in administrative culture as modifications of the institutional framework.

For its regional development planning system to work effectively, Ukraine needs to consolidate the governing framework (Figure 4.3), facilitate the structural involvement of non-governmental actors in the planning cycle, and improve the functioning of established vertical and horizontal co-ordination mechanisms.

Figure 4.3. Main actors involved in regional development planning and implementation



Source: Author's elaboration.

### Leadership for regional development at the national level

A wide array of public actors are involved in the regional development planning system at the national level. This reflects the cross-sectoral nature of regional development, linking policy areas such as economic development, housing, energy and education. It also explains the direct involvement of most of Ukraine's line ministries in the development and implementation of the SSRD. Three central government actors play a particularly relevant role: CabMin, the Ministry of Finance (MinFin) and MinRegion (Table 4.2). Over the past few years, centre-of-government co-ordination for regional development has remained limited, thus hampering policy cohesion.

**Table 4.2. Main executive actors at the national level**

Actor	Responsibilities
The Cabinet of Ministers (CabMin)	CabMin consists of the Cabinet's "presidium", which is composed of the Prime Minister of Ukraine, their Deputy Prime Ministers, as well as other ministers. All government decisions are voted on and adopted in sessions of the Cabinet. With regard to regional development, CabMin is charged with both approving the SSRD and its action plans, as well as the guidelines for their development, implementation, monitoring and evaluation.
The Ministry for Communities and Territories Development (MinRegion)	MinRegion is the central executive authority that leads the implementation of the decentralisation and regional development reforms. In particular, it is charged with managing the design, implementation, and monitoring and evaluation of the SSRD and its action plans. MinRegion is also directly responsible for the management of the SFRD (see Chapter 5).
The Ministry of Finance (MinFin)	MinFin is responsible for the formation and implementation of Ukraine's state budget and the distribution of funds among levels of government. It manages the Subvention for Implementation of Measures for Socio-Economic Development of Certain Territories (see Chapter 5). MinFin also manages the Open Budget Portal that presents fiscal data on a wide series of indicators related to national and subnational public finances. If local governments want to borrow, they need the explicit approval of MinFin.

Source: Author's elaboration.

### *Strengthening the position of influence of MinRegion can improve State Regional Policy co-ordination*

Under the administration of President Poroshenko (2014-2019), the Minister responsible for regional development served as one of the country's Deputy Prime Ministers. Since 2019, however, the Minister responsible for regional development no longer holds the position of Deputy Prime Minister. In addition, since August 2019, three different ministers have led MinRegion, creating uncertainty about the Ministry's policy priorities and weakening the Ministry's ability to effectively co-ordinate policy at the national and subnational levels of government. This stands in contrast with the previous five years (December 2014 – August 2019) when the Minister responsible for regional development did not change. Other national government bodies, such as CabMin, have also been unable to strengthen cross-sectoral co-ordination supporting the State Regional Policy. For example, the Inter-Departmental Co-ordination Commission for Regional Development has struggled to function optimally. This co-ordination body was created in 2015 but has only held two official meetings since.

To strengthen co-ordination of the State Regional Policy, the government is advised to take a number of complementary actions. It should consider providing MinRegion with more tools to promote policy coherence, for example by ensuring that the Ministry is able to contribute to policy development in sectors with a regional-/local-level impact (e.g. housing, public utilities and transport). It could, for example, review or issue an opinion on draft policy proposals. It should also be noted that in the past, when the head of MinRegion also served as a Deputy Prime Minister, the Ministry benefited from additional "soft" powers that came with the Minister's position within the Cabinet of Ministers. These powers enabled the head of MinRegion to add a regional lens to the agendas of other Ministries and thereby contribute to horizontal policy coherence.

### ***Subnational actors operate in an uncertain institutional setting***

On paper, Ukraine's subnational governments play a key role in the implementation and financing of the country's State Regional Policy. For example, *oblast* state administrations are responsible for developing, implementing and monitoring their regional development strategies. The *oblasts* also need to ensure the implementation of the State Regional Policy at the regional level and propose initiatives to improve co-ordination among levels of government. Furthermore, *oblasts* can establish RDAs. Several elements, however, hinder the effective execution of *oblast* tasks in the field of regional development and need to be addressed. These include limited clarity regarding the tasks and responsibilities of RDAs, as well as the constitutional mandate of *oblasts*.

### *The unfulfilled potential of Ukraine's regional development agencies*

Since the passing of the Law “On the Principles of State Regional Policy” in 2015, most *oblasts* have created an RDA (Box 4.5). The RDAs have the potential to become key actors in stimulating place-based regional and local development serving as linchpins between the different levels of government, the private sector, non-governmental organisations and academia. The RDAs, however, face a number of important challenges related to their human and financial capacity that severely limit their effectiveness.

#### **Box 4.5. Ukraine's regional development agencies**

Regional development agencies can be created by *oblasts* to support the design and implementation of projects aimed at improving regional competitiveness and economic development. To comply with official regulations, the RDAs need to have a co-founder (in addition to the *oblasts*), which can be a regional chamber of commerce, a local government association or a higher educational institution, among other actors. According to the template outlining the rules and regulations governing RDAs, the agencies have several responsibilities, including:

- Analysing the socio-economic situation and development challenges of their region and developing of proposals on ways to address them.
- Supporting the implementation of the regional development strategies, action plans, and corresponding programmes and projects.
- Increasing the investment attractiveness of the region.
- Monitoring the implementation of the SSRD in the region, as well as the Regional Development Strategy, its action plans and corresponding programmes and projects.

The template outlining the rules and regulations governing RDAs also stipulates that the RDA must be composed of subdivisions for finance and accounting, planning, project management. The relevant legislation and regulations provide limited information about how the RDAs can be funded. As of September 2021, most regions had an RDA. Only Sumy, Mykolaiv and Kharkiv *Oblasts* have not yet established their agency. The RDAs of Lviv *Oblast* and Donetsk *Oblasts* are being liquidated, the former because the *Oblast* was its sole founder, which goes against official regulations, the latter because it was not operational.

Source: Author's elaboration, based on (CabMin, 2016<sup>[16]</sup>) (MinRegion, 2021<sup>[17]</sup>).

The financial, material and human resource capacity varies significantly between RDAs. Most RDAs have staffing problems. This is primarily due to a lack of stable funding, resulting in high levels of staff turnover and difficulties in attracting qualified professionals. The majority of RDAs have five staff members or less, undermining their capacity to perform tasks such as supporting the implementation of regional and local development projects. The staffing situation of a few RDAs is much better. For example, in 2021 the RDA of Zakarpattia *Oblast* had close to 40 staff members, including accountants, project administrators and analysts (MinRegion, 2021<sup>[17]</sup>). This allows them to execute a wider set of tasks than those that only employ a director.

The heterogeneity in terms of staffing of the RDAs does not fully reflect their financial capacity. For example, the RDA of Zakarpattia *Oblast* was among those that received the most funding during the first nine months of 2021 (UAH 1 395 000). At the same time, the RDA from Zaporizhzhia *Oblast*, which according to MinRegion only has 2 staff members, received most revenue of all RDAs between January and September 2021: UAH 2 499 000 (MinRegion, 2021<sup>[17]</sup>). This begs the question of whether this RDA

is able to effectively spend these funds given its staffing constraints, unless it used (part of) the funds for consultancies. On the other side of the ledger are the RDAs from Rivne *Oblast* and Odessa *Oblast*, whose revenues totalled less than UAH 270 000, a fraction of the revenues received by some of their peers. In addition, the level of funding of the RDAs tends to vary from year to year, hampering their ability to consolidate their operations and plan for future activities.

While many RDAs only received funds from regional budgets, the revenues of others (Zaporizhzhia and Luhansk) also include funds from international donors. This reduces their dependence on the availability of public funding. Furthermore, in the first nine months of 2021, five RDAs received funds by providing paid services. Examples of initiatives in which RDAs are involved include:

- Providing training for municipal staff on issues such as project management, attracting investment, and business plan development;
- Identifying national and international funding opportunities and investors;
- Implementation of sectoral development projects (e.g. in the field of renewable energy).

There are also concerns about the effective collaboration between the RDAs and other public and non-governmental actors involved in regional planning. For example, despite the fact that the RDAs can contribute to the design of the development strategy, there is evidence that in some *oblasts* the strategy for 2021-2027 was developed without their involvement (National Institute for Strategic Studies, 2020<sup>[11]</sup>). This can be explained by the still nascent understanding among levels of government of the mandate of RDAs. In fact, for several years, a number of *oblasts* stalled the creation of their RDAs or failed to provide their RDAs with the necessary resources to function properly. All of these factors not only limit the effectiveness of the RDAs in executing their mandates, but also limit their ability to bridge the co-ordination gap between national, regional and municipal authorities (OECD, 2021<sup>[12]</sup>).

To address these challenges, in 2022, the Verkhovna Rada adopted a series of amendments to the Law “On the Principles of State Regional Policy” (Box 4.6) that provide RDAs with more clarity regarding their official tasks and responsibilities. The amendments also further regulate their ability to provide paid services, thereby strengthening their financial capacity.

#### Box 4.6. Amendments to the Law “On Principles of State Regional Policy”

In 2022, the Verkhovna Rada amended the Law “On the Principles of State Regional Policy”. This law seeks to consolidate Ukraine’s regional development planning system, particularly at the regional and municipal levels, while improving the financial support of the State Regional Policy, strengthening the role of RDAs in general, and outlining their basic tasks.

The law specifies that municipalities can participate in the establishment of RDAs. It also provides additional detail on the design of the regional development strategies, which need to be the product of joint efforts by associations of local governments and RDAs, among other actors. In addition, the law specifies that municipalities are required to develop local development strategies, which must take into account the SSRD and relevant state forecasting documents.

Source: Author’s elaboration, based on (Verkhovna Rada, 2022<sup>[18]</sup>).

The government should also consider adopting additional regulations requiring *oblasts* to provide RDAs with a minimum level of funding to ensure their operations. In parallel, the government and RDAs are encouraged to set up peer-to-peer learning trajectories, facilitating the exchange of good practices within Ukraine and internationally. For example, the RDAs can learn from the experiences of their peers in OECD countries such as Finland and the Netherlands (Box 4.7). These peer-to-peer initiatives should have an

equitable spread among different types of municipalities (rural, settlement, urban), and have built-in dissemination mechanisms to ensure that relevant knowledge, practices and tools are being shared more widely.

#### Box 4.7. Regional development agencies in Finland and the Netherlands

##### Finland

While not regional development agencies per se, Finland's 15 Centres for Economic Development Transport, and the Environment are a form of cross-sectoral, decentralised national action to support regional competitiveness, well-being and sustainable development in each region. They cover a wide range of issues from business and industry support, transport and infrastructure to the environment and natural resources. While the Ministry of Employment and the Economy oversees the 15 Centres, they also support the implementation of policy emanating from other ministries (e.g. Environment, Transport and Communications; Agriculture and Forestry; Education and Culture; the Interior).

##### The Netherlands

The Netherlands has eight Regional Development Agencies (*Regionale Ontwikkelingsmaatschappijen*). The RDAs function as territorial development corporations with public shareholders, whose aim is to strengthen regional economies and increase employment. They have a particular economic focus, aiming to boost the local economy and employment by stimulating innovation, investments and internationalisation activities. They do so by helping local and international businesses to identify funding and employees, and building up business networks. The RDAs can receive funding from the national government, provinces, municipalities, as well as non-governmental organisations such as research institutions. Most revenue is spent on investment in innovative businesses, and the (re)development of industrial estates and business parks.

Source: Author's elaboration, based on (OECD, 2021<sup>[19]</sup>); Finland (OECD, 2020<sup>[4]</sup>); the Netherlands (Netherlands Chamber of Commerce, n.d.<sup>[20]</sup>).

Combined, these actions would strengthen the ability of RDAs to effectively execute their mandate, for example by facilitating multi-level co-ordination of the implementation of Ukraine's State Regional Policy. This could also help ensure that regional and local development strategies are aligned with national-level priorities. These efforts could receive a major impetus through the creation of a prefecture system, as proposed in the latest attempt to amend the Constitution.

*Ukraine's proposed prefect system should support rather than control subnational decision making*

The debate regarding the capacity of Ukraine's regional governments to effectively support the implementation of the State Regional Policy needs to feature the government's efforts to amend the Constitution (Box 4.8). The draft amendment presented in late 2021 proposes to significantly alter the configuration and powers of the subnational governments, including by creating a prefecture-like system at the regional and district level.



#### Box 4.8. The 2021 draft amendment of the Constitution

The draft amendments to the Constitution of Ukraine, presented in November 2021, propose the setup of a new administrative-territorial system. In particular, it aims to replace the *oblast* state administrations and the *rayon* state administrations with prefectures. If approved, *oblast* and *rayon* councils would receive their own executive bodies.

The draft amendments also propose to grant municipalities the right to make decisions on any issue of local importance for which the decision making power has not been transferred by the state to other bodies. This would replace the current arrangement whereby municipalities are not allowed to make decisions on issues not specifically defined by law. Similarly, the draft text proposed to give municipalities the right to sufficient financial resources, which they could freely dispose of, and to ensure that financial resources need to be commensurate with their responsibilities. Both principles—regarding the extent of their authority and financial resources—if adhered to, would strengthen the position of municipalities as the locus of local development efforts.

Source: Author's elaboration, based on (Office of the President of Ukraine, 2021<sup>[21]</sup>).

Creating a prefect system, which requires a constitutional amendment, can have several major implications for the design and implementation of the State Regional Policy. First, it would place an emphasis on the role of prefects to co-ordinate with municipalities, particularly as consultation of the municipalities by the prefects would become mandatory. There are concerns that the regional development strategies are principally developed by *oblast* state administrations to comply with legislation, rather than as a tool to guide regional and local development policy.

A prefect system would prompt the modification of existing legislation for regional development. In this process, attention to the roles assigned to the prefects in the design, implementation and financing of regional development strategies is necessary. The government should ensure that the responsibilities of the Prefects and the executive bodies of the *oblast* councils are clear and complementary, and that mechanisms are in place to hold both institutions accountable. Moreover, the government should provide prefects with the tools to co-ordinate among levels of government to ensure vertical policy coherence. In this regard, the government is advised to assess the role French prefects play in fostering regional and local development (Box 4.9).



### Box 4.9. The French prefect system

The French prefect system was created to serve as an extension of national government to ensure the implementation of state policies at the local level. Several rounds of reforms have gradually adjusted the responsibilities of the prefects and their relationship with the national and subnational governments, as well as non-governmental actors. This has changed the tools they can use to promote regional development. Prefects, which operate at the French departmental, regional and defence zone level, are responsible for three broad set of tasks: to work with the police co-ordinating security and public order issues; to manage the territorial branches of state services; and to collaborate with different local bodies and companies to support the implementation of national policies.

#### Administrative control and supervision

Prefect control over the acts of regions, departments or municipalities (*communes*) is exercised *a posteriori*. When identifying a violation of the law, prefects can appeal a decision that has already been made.

#### Prefects are linchpins between levels of government

France's departmental prefectures are tasked with guaranteeing the coherence of the National government's actions in the region, and are responsible for reviewing and ensuring the legality of the acts adopted by the elected regional councils. They are also charged with allocating State funding between the departmental prefects and with supporting the creation of state-region development contracts.

Source: Author's elaboration, based on (Ministère de L'Interieur, 2014<sup>[22]</sup>; République Française, 2021<sup>[23]</sup>; Philip, 2007<sup>[24]</sup>).

As a result of different decentralisation reforms passed since the 1980s, the work of French prefects has gradually transitioned. No longer primarily executing the national government's directives, or supervising regional and local authorities, the prefects increasingly act as partners with the relevant regional and local authorities to initiate projects and help communities develop their own initiatives rather than controlling local decision making. Past reliance by prefects on control mechanisms has given way to increased use of contractual tools and incentives. Through the different co-ordination tools available (e.g. supporting state-region development contracts and serving as a key interlocutor between the National government, local authorities, and non-governmental actors), prefects occupy a unique position to support place-based regional and local development.

### ***Ukraine's co-ordinating bodies and dialogue mechanisms for regional development***

To support Ukraine's regional development and decentralisation reforms, several co-ordination mechanisms were introduced that, in principle, could contribute to horizontal and vertical policy coherence. These include the national-level Inter-Departmental Co-ordination Commission for Regional Development (ICC), the Congress for Local and Regional Authorities and the RDAs. The work of Ukraine's various local government associations and the donor-led Decentralisation and Regional Development Working Group complements these bodies. Despite their ambitious mandates and potential to boost policy coherence, the effectiveness of several of the co-ordination bodies is limited.

#### *The value of inter-ministerial co-ordination for horizontal policy coherence*

Regional development policy is, by nature, cross-sectoral. It requires a sense of ownership among the various relevant sectors and stakeholders, and also clear leadership, barring which, difficulties can arise

in the implementation phase and lines of accountability can be blurred. High-level inter-ministerial bodies can help create a sense of shared ownership and responsibility for the policy among the relevant ministries or sectors, while crystallising leadership and accountability overall. Over time, they can also strengthen shared values, facilitate collaboration at the technical level, and build trust among actors with potentially divergent interests (OECD, 2020<sup>[4]</sup>; OECD, 2011<sup>[25]</sup>).

A high-level, inter-ministerial co-ordinating body for regional development can be an effective mechanism to align interests and priorities across ministries. Such an entity can help establish a clear and transparent priority-setting process that considers territorially-differentiated needs and the impact of development initiatives and investment projects. Ultimately, this type of structure is valuable for ensuring high-level co-ordination, discussion and guidance on matters related to regional development (OECD, 2020<sup>[4]</sup>).

Experience from OECD member countries shows that horizontal co-ordination bodies chaired by a single line ministry may be limited in pursuing multi-sectoral objectives and hinder full involvement of other ministries. This particularly applies to cases in which the line ministry in question has not been given a clear mandate from the centre of government. This could render the mechanism less appropriate for co-ordinating regional development policy. Alternating the chair among participating ministries is one way to address this (OECD, 2020<sup>[4]</sup>). The higher the leadership within these types of co-ordination bodies, the stronger the incentive to participate and the greater the engagement of the different actors. However, if a high-level co-ordination body is not supported technically, for example through a secretariat, its ability to influence policy may be severely diminished.

The dominant approach to inter-ministerial committees for regional development has been to provide them with a co-ordination function to streamline policy implementation. Committees that do not meet regularly tend to have significantly less influence in defining relevant policies. Despite these challenges, several countries, including Iceland and Poland have inter-ministerial committees and bodies that effectively advocate policy reforms at the national level through horizontal co-ordination. In the case of Poland's Co-ordinating Committee for Development Policy, for example, the high-level body is supported by sub-committees that examine more technical issues. Such technical bodies may be well placed to review policies at an early stage in order to ensure that the impact on different types of regions and localities are adequately considered (OECD, 2020<sup>[4]</sup>; OECD, 2019<sup>[26]</sup>).

### *The Inter-Departmental Co-ordination Commission for Regional Development faces operational issues*

On paper, Ukraine's Inter-Departmental Co-ordination Commission for Regional Development (ICC) (Box 4.10) is the government's primary co-ordination mechanism supporting the implementation of the State Regional Policy. It is mandated to co-ordinate the country's regional development policy, however, a number of issues hinder its effectiveness: these include the lack of official meetings being organised; the breadth of issues it should address (ranging from analysing the state of implementation of the SSRD to contributing to the digital transformation of Ukraine's regions); and the fact that its decisions are not binding.

#### Box 4.10. The Inter-Departmental Co-ordination Commission for Regional Development

The Inter-Departmental Coordination Commission for Regional Development (ICC) originates with the approval of the Law "On the Principles of State Regional Policy". The ICC was originally established in 2015 and chaired by MinRegion. It is a non-binding advisory body of CabMin, which aims to co-ordinate the formation and implementation of the State Regional Policy in Ukraine at central and subnational levels. In 2020, its regulation was adjusted and chairmanship passed to the Prime Minister.

The ICC has a broad set of tasks ranging from facilitating the overall co-ordination of the design and implementation of State Regional Policy (including the SSRD) to assessing the state of its implementation and identifying good international practices related to regional development. Other tasks include:

- Preparing proposals to ensure the interconnection and coherence of long-term development strategies, plans and programmes at the state, regional and local levels;
- Attracting financial resources for the implementation of priority investment projects;
- Promoting the creation of effective mechanisms for representing the interests of regions at the national level, and territorial communities at the regional level.

The Minister of MinRegion holds the position of First Deputy Chairman of the ICC. Other members include representatives from several ministries, CabMin, the Office of the President, and the Verkhovna Rada.

Source: Author's elaboration, based on (CabMin, 2015<sup>[27]</sup>).

Since the ICC's formation, only two official meetings have been organised (in March 2016 and March 2021, respectively). The lack of meetings during the previous administration (2015-2019) might be linked to two issues. First, the primary focus of MinRegion was the effective implementation of the decentralisation reforms. Second, through the role as Deputy Prime Minister, the Minister of Regional Development, Construction, Housing and Utilities had the political clout to promote a cross-sectoral approach to regional development without necessarily having to organise sessions of the ICC. The challenges to operationalise the ICC can also be linked to the absence of a legal requirement to hold a minimum number of sessions per year. Going forward, the government should consider adding such a condition to the ICC's official regulations, following the example of the National Reform Council, which, according to its regulations, must convene at least six times per year and must be supported by a specialised executive committee. A second challenge facing the ICC relates to its broad mandate. Its founding resolution identifies ten activities for the ICC's work. Minutes from the first meeting of the ICC highlighted a lack of time to discuss key issues and proposals. To avoid this issue in the future, ICC agendas should focus only on key issues and should be streamlined to leave more time for discussion.

Another further challenge is the non-binding nature of ICC decisions. The ICC is an advisory body that facilitates discussions between executive authorities rather than a formal decision-making body, and its decisions have no legal force. This risks a lack of buy-in from line ministries. In this regard, the government could, for example, consider giving the ICC a formal role in the development and/or mid-term revision of the SSRD.

The lack of buy-in from line ministries was further complicated by the fact that, until 2020, the ICC was chaired by a single ministry (MinRegion), whereas according to legislation, CabMin should be responsible for co-ordinating the activities of ministries. The current government has sought to address this challenge by adjusting the status of the ICC and appointing the Prime Minister as its chair. In principle, the Prime Minister's authority should enable more effective co-ordination of the ICC. However, the very sporadic

occurrence of commission meetings under the new chair makes it difficult to evaluate progress in this regard. In the absence of official meetings of the ICC, the donor-led Decentralisation and Regional Development Working Group has played an important role in facilitating regular exchanges between different ministries, as well as with the international donor community active in regional and local development (Box 4.11).

#### **Box 4.11. Decentralisation and Regional Development Working Group**

To support co-ordination and co-operation between MinRegion, development partners and other stakeholders active in the fields of regional development and decentralisation, the Decentralisation and Regional Development Working Group was established. This platform, which is chaired by the European Union Delegation and the Canadian Embassy in Ukraine, and whose chairperson is the Minister for MinRegion, aims to support the coherent implementation of the post-2014 regional development and decentralisation reforms led by MinRegion. It serves as a forum to ensure co-ordination in the development of future international technical assistance initiatives.

Over the past few years, different thematic subgroups have been established by the Working Group. These subgroups have examined issues such as the legal framework for decentralisation, local financing, administrative service delivery, monitoring and evaluation, and the human resource capacity of local self-governments. The groups have facilitated regular exchanges between the different international development partners and MinRegion, as well as other national and subnational authorities on advances in and challenges to the implementation of the regional development and decentralisation reforms.

Source: Author's elaboration, based on (OECD, 2021<sup>[12]</sup>; MinRegion, n.d.<sup>[28]</sup>).

An additional issue worth noting is that the ICC lacks thematic working groups to ensure that agenda items can be carefully prepared and discussed during the meetings. Despite a number of reported efforts to establish working groups beginning in 2016, no such entities have been formed. Establishing these should be a priority to improve the ICC's effectiveness. The government could, for instance, create (technical) working groups related to the monitoring and evaluation of the State Regional Policy and the SSRD, and regional development financing mechanisms. The latter could, for example, support the preparation and implementation of different grants and subventions related to regional development (see Chapter 5). By assigning chairpersonship of the working groups to different central executive agencies, the government could strengthen broad-based ownership of the ICC.

There are also opportunities to strengthen the participation of local governments in the ICC. While its regulations indicate that local governments may be involved in the work of the commission, their participation is not guaranteed. Given that several of the ICC's tasks relate to the design, implementation and monitoring of the State Regional Policy at the subnational level, the ICC should provide the local government associations with a permanent seat at the ICC's sessions. By ensuring the participation of representatives from all levels of government, through the respective local government associations, the ICC could strengthen the multi-level communication about progress in implementing regional development strategies, as well as challenges faced. This is particularly relevant as municipalities appear to have a poor understanding of the rapidly evolving legal frameworks that they are bound by, and struggle to communicate their development challenges and needs to the national government (OECD, 2021<sup>[12]</sup>).

There is a wide array of actions that the government can take in the short term to boost the capacity of the ICC to facilitate horizontal and vertical policy co-ordination. However, the responsibility for promoting and facilitating multi-level communication on regional development policy is not only the prerogative of the ICC,

but also of the Congress for Local and Regional Authorities, which are thus recommended to co-operate more closely.

*The Congress for Local and Regional Authorities should facilitate upward communication*

OECD experience shows that countries with well-developed vertical co-ordination arrangements have a comparative advantage when introducing and implementing reform (OECD, 2017<sup>[29]</sup>). These bodies can take different forms, such as a dedicated permanent policy exchange conference or council. Australia's National Cabinet can serve as an example. It includes the Prime Minister, as well as State and Territory Premiers and Chief Ministers with the aim of enabling consensus-based decision-making among levels of government (Commonwealth Department of the Prime Minister and Cabinet, 2021<sup>[30]</sup>). Poland has taken a different approach with its Joint Central Government and Local Government Committee (Box 4.12).

#### Box 4.12. Multi-level dialogue bodies in Poland

Poland's Joint Central Government and Local Government Committee supports dialogue between levels of government. This body is composed of the minister responsible for public administration and 11 representatives appointed by the Prime Minister, together with representatives of national organisations of local self-government units that work in "problem teams" and different working groups.

The Committee considers, among others, issues related to the functioning of municipalities and the state policy on local government. It develops a common position among levels of government and contributes to establishing the policy priorities of national and subnational government on matters such as municipal service management and the functioning of municipal and district government, as well as regional development and the effectiveness of voivodeship (province) government.

The Joint Committee 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.

Source: Author's elaboration, based on (OECD, 2020<sup>[4]</sup>) (Lublinksa, 2017<sup>[31]</sup>) (Government of Poland, n.d.<sup>[32]</sup>).

Multi-level dialogue platforms, such as the one in Poland, bring together a combination of national and subnational public, private and third sector actors in a regular, formalised manner and are frequently used for co-ordinating regional development and investment priorities (OECD, 2018<sup>[33]</sup>). They can provide actors with the opportunity to share perspectives and experiences; understand the needs and problems faced among levels of government; submit proposals; negotiate with each other; and obtain help in the design, implementation and monitoring of policies.

In principle, Ukraine's new Congress for Local and Regional Authorities could perform these functions (Box 4.13). Since its creation in 2021, several meetings have already been organised that were led by the President, underscoring the government's commitment to dialogue with subnational authorities. Local stakeholders have, however, indicated that the participation of municipalities in particular has been minimal and that national government and *oblast* state administrations are the ones that decide which municipal leaders to invite, often on an arbitrary basis (OECD, 2021<sup>[12]</sup>). There are also concerns that the Congress will principally serve as a platform for the national government to present national priorities to subnational governments, rather than facilitate upward communication. The government should consider operationalising the two chambers of the Congress, and ensuring a transparent process for selecting which subnational representatives can take part.

### Box 4.13. The Congress for Local and Regional Authorities

The Congress for Local and Regional Authorities was created in March 2021 and serves as an advisory body that is convened and chaired by the President of Ukraine. It effectively replaced the Council for Development of Hromadas and Territories, a short-lived state advisory body that was tasked with ensuring co-operation between the national and subnational governments on the State Regional Policy.

The purpose of the Congress is to represent, protect and advance the interests of regional and local authorities. It has been assigned a broad remit of responsibilities, from promoting effective vertical and horizontal co-ordination between state and local government bodies to promoting co-operation between the EU and Ukraine at the local government level.

It can bring together cabinet ministers, members of the Verkhovna Rada, heads of *oblast* state administrations, chairs of *oblast* and *rayon* councils, local government associations and municipalities, among other actors. The Congress will consist of two chambers: one for municipalities, the other for regions.

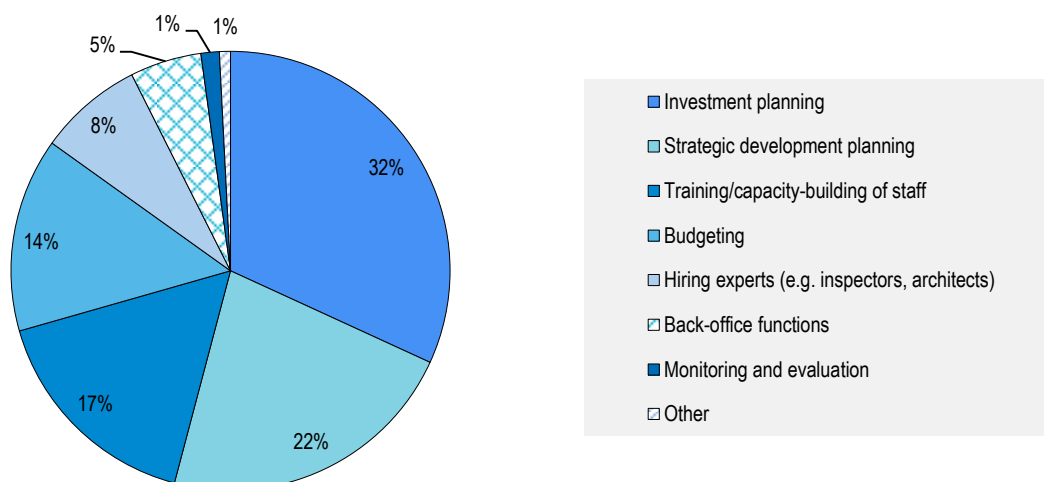
Source: Author's elaboration, based on (President of Ukraine, 2021<sup>[34]</sup>; Ukrinform, 2021<sup>[35]</sup>).

#### *Municipalities express a need for greater multi-level co-ordination*

The legislative and policy frameworks for regional development in Ukraine require municipalities, *oblasts* and the national government to co-ordinate their efforts in a large number of areas. These include the development of regional development strategies, as well as the design and submission of project proposals for different subventions (see Chapter 5).

The results of the OECD online survey (conducted in 2021, prior to the Russian Federation's large-scale invasion of Ukraine on 24 February 2022) indicate that in the field of regional development and investment planning, surveyed municipalities identified a clear need to improve vertical co-ordination. A large share of consulted municipalities reported that greater co-ordination with *oblasts* was needed most in the areas of investment planning and development planning (32% and 22%, for each area respectively) (Figure 4.4). Likewise, municipalities consider that improved co-ordination with the national government is most urgent in the areas of investment planning (29%) and development planning (24%) (Figure 4.5).

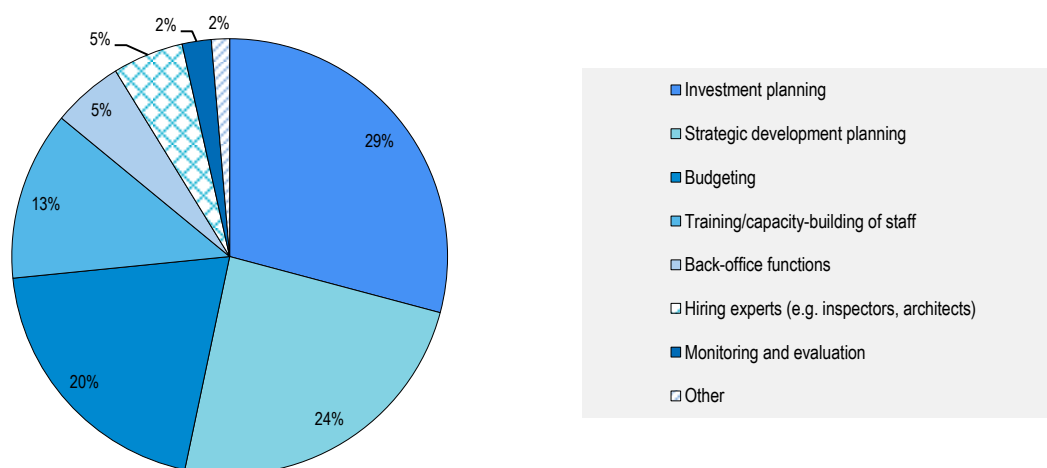
**Figure 4.4. Areas in which greater co-ordination between municipalities and *oblasts* is needed most**



Note: Question: For which of the following administrative responsibilities would greater co-ordination between your municipality and the *oblast* state administration be needed most? Please select only one option. Full response options: Development planning (strategic development planning); Investment planning; Back-office functions; Budgeting; Monitoring and evaluation; Training/capacity building of staff; Hiring experts (e.g. inspectors, architects, etc.); Other. The survey was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021).

Source: Author's elaboration, based on the OECD online survey.

**Figure 4.5. Areas in which greater co-ordination between municipalities and the national government is needed most, according to municipalities**



Note: Questions: For which of the following administrative responsibilities would greater co-ordination between your municipality and the national government be needed most? Please select only one option. Full response options: Development planning (strategic development planning); Investment planning; Back-office functions; Budgeting; Monitoring and evaluation; Training/capacity building of staff; Hiring experts (e.g. inspectors, architects, etc.); Other. The survey was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021).

Source: Author's elaboration, based on the OECD online survey.

These findings illustrate the need to strengthen existing vertical co-ordination mechanisms such as the Congress for Local and Regional Authorities, as well as to facilitate the increased participation of



municipalities in RDAs and in the ICC. Improving communication among levels of government on policy priorities, local needs and capacity challenges is key to ensure the effective implementation of the SSRD, as well as the development strategies that subnational governments are responsible for. The government will need to address the co-ordination challenges outlined above for its comprehensive, multi-level regional development system to be more effective.

## Ukraine's multi-level regional development planning instruments

Since the approval of the SSRD 2021-2027 in August of 2020, all *oblasts* have developed new or adjusted existing regional development strategies that are aligned with the SSRD. In addition, many municipalities have created local development strategies. The development of these planning instruments presents a major step forward in the implementation of Ukraine's State Regional Policy. They provide increased clarity regarding the strategic objectives for regional and local development, and, in principle, they also facilitate efforts to monitor the effectiveness of public interventions to increase well-being, territorial cohesion and competitiveness. To capitalise on this potential, several challenges need to be addressed. This includes strengthening the involvement of public and non-governmental actors in the design and implementation of the different planning instruments, streamlining implementation tools, and effectively linking action plans and funding.

### ***The priorities of the State Strategy for Regional Development have shifted***

The SSRD is the key planning instrument of Ukraine's regional development policy framework, defining the priorities of the country's State regional Policy. Over the past decade, the SSRDs have become increasingly instrumental in regional and local development efforts. Likewise, the government has gradually prioritised territorial cohesion as the SSRD's key strategic objective. This has been accompanied by efforts to facilitate the strategy's implementation. Several structural challenges, however, need to be addressed to ensure that the objectives of the SSRD can be achieved. Changes in the institutional context shaped the development of the new SSRD

The legislative and institutional framework supporting the SSRD 2021-2027 varied significantly from that of the SSRD 2014-2020. For example, when the SSRD 2014-2020 was designed, the territorial amalgamation processes had not yet started and no RDAs existed.

When developing the new SSRD, MinRegion took into account the SSRD's annual implementation reports. In fact, when drafting the SSRD 2021-2027, MinRegion published an analytical report that presented lessons learned from the implementation of the previous SSRD (Box 4.14). Nevertheless, the current strategy neither mentions the main achievements of the SSRD 2014-2020, nor does it make clear what will be done to avoid the challenges MinRegion identified.



#### Box 4.14. Lessons learned from the implementation of the SSRD 2014-2020

The Analytical Part of the Draft State Strategy for Regional Development until 2027 identified the following challenges with regard to the implementation of the SSRD 2014-2020:

- **Unpredictability of funding sources to implement the strategy.** This is particularly related to the fact that the SFRD's legal mandate to receive 1% of planned General Budget Fund revenues has never been met. In addition, no mechanisms were in place to leverage funds from ministries and other central executive bodies to implement the tasks of the SSRD.
- **Absence of a clear relationship between strategic and budgetary planning.** The strategy envisaged the implementation of 199 tasks. However, it did not clearly link the sources of funding needed to execute them.
- **Ineffectiveness of existing tools and mechanisms for implementing the strategy.** The report established that mechanisms such as State Target Programmes and agreements on regional development did not work.
- **Absence of well-functioning mechanisms to co-ordinate the implementation of the SSRD.** During the implementation of the SSRD until 2020, the Inter-Departmental Co-ordination Commission for Regional Development only met once.
- **The absence of relatively large-scale regional development projects** to stimulate job growth and economic development.

Source: Author's elaboration, based on (MinRegion, 2020<sup>[36]</sup>).

Even though more than a year has passed since the former SSRD expired, by December 2021, no official evaluation had been conducted. Going forward, the government should ensure that prior to commencing the design of a new generation of regional development planning documents, (preliminary) evaluation reports of the current strategies are developed.

*Before the war, increasing territorial cohesion had become Ukraine's top regional development objective*

The current SSRD represents both a continuation of and partial departure from previous state strategies. The SSRD 2021-2024 represents different elements that were also featured in the previous state strategies for regional development (Table 4.3). For example, each of the SSRDs aimed to boost the competitiveness of Ukraine's regions, and included an objective to strengthen the governance framework for regional development. There is, however, a small yet important difference between the priorities of the current SSRD and those of the previous strategies. The 2021-2027 SSRD's top objective is to strengthen territorial cohesion in the social, humanitarian, economic, environmental, security and spatial dimensions. Even though the SSRD 2014-2020 included a similar objective, it was more narrowly framed, focusing primarily on socio-economic integration. Moreover, it was situated lower in the hierarchy of objectives, after increasing regional competitiveness.

**Table 4.3. Strategic objectives of last three SSRDs**

SSRD until 2015	SSRD until 2020	SSRD 2021-2027
<ol style="list-style-type: none"> <li>1. Increasing the competitiveness of regions and strengthening their resource potential.</li> <li>2. Ensuring the development of human resources.</li> <li>3. Development of interregional co-operation.</li> <li>4. Creating institutional conditions for regional development.</li> </ol>	<ol style="list-style-type: none"> <li>1. Increasing the level of competitiveness of regions.</li> <li>2. Territorial socio-economic integration and spatial development</li> <li>3. Effective public administration in the field of regional development.</li> </ol>	<ol style="list-style-type: none"> <li>1. Form a cohesive state in the social, humanitarian, economic, environmental, security and spatial dimensions.</li> <li>2. Improve competitiveness of the regions.</li> <li>3. Develop effective multi-level governance.</li> </ol>

Source: Author's elaboration, based on SSRD until 2015: (CabMin, 2006<sup>[37]</sup>); SSRD until 2020: (CabMin, 2020<sup>[38]</sup>); SSRD 2021-2027 (CabMin, 2020<sup>[39]</sup>).

In light of the country's growing economic dependence on Kyiv City and Kyiv *Oblast*, however, increasing the competitiveness of all *oblasts* is also of the essence. Focusing on increasing territorial cohesion should therefore not translate into a policy that primarily aims at compensating or subsidising 'lagging' regions, but rather on investing in their economic base, taking into account local strengths and capacities.

*The SSRD 2021-2027 does not clarify how special functional territories will be targeted*

An important innovation of the current SSRD is that it includes elements of a place-based approach to regional development. The strategy defines place-based development policy as one that "stimulates the use of territories' own potential". A core element of the strategy's place-based approach is the identification of several types of territories<sup>2</sup> that require special attention from the state to boost their development and competitiveness.

In principle, the definition of functional areas that share certain traits can help guide national and subnational governments prioritise investments. It can also facilitate the creation of targeted vertical and horizontal co-ordination mechanisms. However, in the case of the SSRD, the identification of functional territories is not supported by a diagnostic of each territory's specific development challenges or comparative strengths. In addition, it remains unclear how the strategy's 17 operational objectives (Annex Table 4.B.1) relate to the functional areas. Only one operational objective is clearly linked to a functional territory [i.e. "Stimulate economic development centres (agglomerations, cities)"]. This means that it remains unclear what the main challenges of the functional territories are and how the strategy proposes to address them.

Even though the strategy mentions that state programmes for the socio-economic development of individual territories will be developed, it does not detail how they will be designed, implemented or financed. It also leaves open which public and non-governmental actors will be involved in the implementation and how efforts will be co-ordinated. Even though this could theoretically provide flexibility, it also poses the risk of inaction. In fact, by late 2021, no state programmes for the socio-economic development of individual territories had yet been developed. In 2021, draft legislation was introduced to establish different planning and co-ordination instruments to help the national and subnational governments develop and implement policies for specific functional territories (Box 4.15).

#### Box 4.15. Proposed Law no. 5649 “On Peculiarities of Stimulating Regional Development”

Draft law no. 5649 proposes certain provisions of the Law "On the Principles of State Regional Policy". Its purpose is to stimulate the development of regions and certain types of territories that require special attention from the State to, among other elements, establish equal conditions for balanced socio-economic development, increase employment and improve living standards.

A core element of the draft law is the definition of territories that require special attention from the State. These can, for example, refer to border areas in unfavourable conditions or whose economic performance has been below the national average for several years.

The law also proposes the creation of different types of development programmes, as well as new mechanisms to stimulate the development of regions that require special attention. These include Regional Development Agreements and Inter-regional Co-operation Agreements that would allow the joint implementation of regional development projects affecting several regions.

Source: Author's elaboration, based on (Verkhovna Rada, 2021<sup>[40]</sup>).

As many of the functional territories overlap, specific *oblasts* and municipalities could simultaneously be targeted in the implementation of different programmes (e.g. programmes for border areas and struggling rural areas). At the same time, the respective subnational governments also need to implement their own development strategies. Ensuring that the wide range of possible strategies and programmes are coherent and effectively implemented requires fit-for-purpose vertical and horizontal co-ordination.

Ukraine should ensure that regional development programmes targeting the different functional territories include a clear definition of their comparative development challenges and potential. The government should also define how they relate to (and need to be aligned with) other planning instruments. In this regard, the government is advised to take stock of the experience of Piedmont, Italy (Regione Piemonte, 2021<sup>[41]</sup>). The region's Unitary Strategic Document for the programming of European funds for 2021-2027 identifies and analyses the interplay and synergies between different international, national and regional development frameworks and instruments. Taking into consideration the high number of regional and local development planning instruments that subnational governments need to create, applying this approach could help optimise complementarities and avoid overlap.

#### *The structure of the SSRD limits the participation of public and non-governmental actors in its implementation*

An additional challenge that may undermine SSRD implementation efforts relates to the contribution that public and private stakeholders can make to advance the State Regional Policy. For example, the new SSRD fails to detail the contributions different governmental actors can or should make to support its implementation, financing, monitoring or evaluation. This is a cause for concern as the main challenges encountered in the implementation of the previous SSRD stemmed from the absence of effective mechanisms to leverage funds from ministries and other central executive bodies for implementation.

Moreover, the SSRD does not mention the role that civil society organisations, the private sector and academia can play in the implementation, monitoring or evaluation of the strategy. This could limit the understanding of public institutions at all levels of government of the contribution that non-governmental actors could make to achieve regional and local development objectives. To ensure that regional and local development interventions effectively address local needs, the government should promote and facilitate the contribution of non-governmental stakeholders in the full lifecycle of regional development strategies.

To enhance the participation of key governmental and non-governmental actors, the government should involve a wide range of stakeholders in a mid-term review of the strategy. Any updated version of the strategy should also establish which actors will be involved in pursuing the different operational objectives of the strategy. This could inform and facilitate the creation of *ad hoc* working groups or technical committees—for example in the framework of the ICC—that are responsible for co-ordinating and monitoring the implementation of the SSRD. In doing so, the government could build on the Action Plan 2021-2023, which identifies the public institutions that are responsible for the implementation of the 131 tasks (CabMin, 2021<sup>[42]</sup>).

### *The vast number of SSRD implementation tools limits their effectiveness*

The SSRD identifies several tools to support its implementation. These include the different planning instruments for regional development that are specified in the Law “On the Principles of State Regional Policy”. It also mentions other instruments such as state programmes for the development of cross border co-operation and programmes for the socio-economic development of individual territories. However, it does not provide details regarding who should develop and implement these tools or how they should be linked to the SSRD.

The list of implementation tools also includes several sectoral strategies covering diverse policy areas (e.g. support to small and medium-sized enterprises, energy, and waste management) and with timespans ranging from two to 15 years. The lack of clarity about the relationship between these tools and how they can support implementation efforts adds to the strategy’s complexity.

To advance its strategic objectives, the government should clarify how the various tools interact with and could contribute to implementing the SSRD. There are different ways to approach this. For example, the government could map the synergies between the thematic focus and objectives of the sectoral strategies and the SSRD, as per the example of Piedmont’s Unitary Strategy Document. Furthermore, the list of tasks to be implemented under each operational objective could indicate if they are directly related to one or more of the sectoral development strategies. This could facilitate co-ordination efforts. In the mid to long term, however, the regional development planning system should be streamlined and efforts should centre on the development of a reduced amount of planning instruments that facilitate implementation.

### *Complementarities and tensions exist between the SSRD and the National Economic Strategy 2030*

Given a possible mid-term modification of the SSRD, the government should also clarify the relationship between the SSRD and the National Economic Strategy 2030 (NES) (Box 4.16). The NES, developed under the leadership of the Prime Minister and adopted in March 2021, sets out the country’s strategic objectives for several economic policy areas, as well as regional development. The existence of two potentially competing long-term, high-level strategic frameworks that deal with regional development—the SSRD and NES—could hold back regional development efforts.

### Box 4.16. National Economic Strategy 2030

The objective of the NES is to “create opportunities to realize the existing geographical, resource and human potential of the country to ensure the appropriate level of prosperity, self-realization, security, rights and freedoms of every citizen of Ukraine through innovative climate neutrality no later than 2060”.

The NES is divided into 20 ‘pillars’, most of which have an economic focus. They include topics such as macroeconomic policy, trade and communication technologies. Some of the pillars cover broader topics such as quality of life, rule of law and regional development. The multi-sectoral scope of the NES positions it as a long-term national development strategy.

Although the NES includes a reference to the SSRD 2021-2027, its three strategic objectives in the field of regional development are more narrowly defined than those of the SSRD. The NES’ three strategic objectives include:

- Ensuring effective regional development planning;
- Increasing the institutional capacity of local executive bodies, local governments and RDAs to ensure the development of regions and territorial communities;
- Ensuring effective financing of regional development.

Source: Author’s elaboration, based on (CabMin, 2021<sup>[43]</sup>).

The regional development pillar of the NES overlaps with the third strategic objective of the SSRD: “Develop effective multi-level governance”. As such, the NES does not explicitly seek to achieve the two main objectives of the SSRD: increase the competitiveness of Ukraine’s regions, and strengthen territorial cohesion. Even though there is no inherent contradiction between the two strategies, the difference in approach creates a tension that could hamper implementation efforts.

In addition, the regulatory framework underlying each strategy demands that all other planning documents be aligned with them (CabMin, 2021<sup>[43]</sup>). In the absence of a national planning law, the two documents can be seen as competing. This adds to the complexity of development planning in general and regional development planning in particular.

The government could use the mid-term revisions of the NES planned for 2024 and 2027 to strengthen its link with the SSRD. In fact, the mid-term revisions could build on the lessons learned from each SSRD action plan. Furthermore, CabMin is calling for the development of “a single web portal of e-government” that presents the strategy’s progress. To avoid a duplication of efforts, this portal should, to the extent possible, incorporate information regarding the implementation of the SSRD (CabMin, 2021<sup>[43]</sup>).

### **Challenges to implementing Ukraine’s oblast development strategies**

As of 2021, all *oblasts* had regional development strategies that are aligned with the SSRD, as well as action plans that identify specific projects to be implemented. There are several challenges that limit the effectiveness of the regional development strategies, which generally relate to the strategy design process, and their implementation and financing tools.

#### *Challenges to the quality of regional development strategies and their links to the SSRD*

When reflecting on the effectiveness of the regional development projects selected during the 2014-2017 period, then First Deputy Minister of Regional Development, highlighted four challenges. First, regions did not sufficiently focus on the creation of jobs. Second, some *oblast* strategies were considered to be of poor

quality. Third, when developing their strategies, some *oblasts* did not adequately incorporate input from municipalities or other key stakeholders. Fourth, the selection of projects to be financed through the different regional development funds was also generally not aimed at achieving the tasks of regional strategies (MinRegion, 2019<sup>[44]</sup>).

When developing the current regional development strategies, the government took several actions to address these challenges. For example, the strategies were developed with the methodological support from MinRegion and followed the official guidelines adopted by CabMin in 2015. *Oblasts* also set up multi-sector working groups to facilitate the design of their regional strategies and development partners were invited to propose specific projects (CabMin, 2019<sup>[45]</sup>; MinRegion, 2019<sup>[46]</sup>). Nevertheless, the participation of municipalities and non-governmental actors continued to be limited (OECD, 2021<sup>[12]</sup>). Their greater involvement could help design gender-sensitive approaches to regional development, which are currently absent from the strategies (Box 4.17).

#### Box 4.17. Gender and regional development

A recent study published by UN Women indicates that gender-based inequality in Ukraine is higher than in Europe and Central Asia, as determined by the Gender Inequality Index. This index shows the loss in potential human development due to disparities between female and male achievements.

Several challenges to advancing the gender equality agenda at the national and subnational levels can be identified. These include a lack of a co-ordinated and comprehensive whole-of-government approach to gender mainstreaming, as well as limited public funding for gender programming, strategies and women's rights organisations. The limited participation of women in legislative positions at the regional and national level might contribute to the fact that many regional development strategies and action plans do not reflect a gender-sensitive approach to regional development.

##### Opportunities to strengthen gender-based regional development

Gender-sensitive strategic goals are absent in the development strategies of all *oblasts*. Most regional strategies also do not use a systematic approach to addressing gender inequalities. Sixty-four percent of strategies include some gender-sensitive targets, and more than half of all strategies have gender-sensitive indicators. An important obstacle to gender-based regional development planning is the scarcity of human and technical resources to handle statistical data that is disaggregated by sex.

To overcome these challenges, the Government of Ukraine could consider facilitating the participation of women's groups in the mid-term review of regional development strategies and the design of the next generation of action plans. Furthermore, it should invest in providing capacity building support for subnational governments on how to adopt an integrated gender approach in the areas of strategic planning, budgeting, implementing and monitoring the State Regional Policy. Ukraine should also invest in collecting more micro-data disaggregated by sex to design policy interventions that bridge the gender divide and foster the economic and political participation of women in particular.

Source: Author's elaboration, based on (Government of Ukraine, 2019<sup>[47]</sup>; Food and Agriculture Organization, 2021<sup>[48]</sup>; UN Women, 2021<sup>[49]</sup>; DESPRO, 2020<sup>[50]</sup>).

To further improve the quality of the regional development strategies, the government should review the methodology that guides their design, monitoring and evaluation. In particular, it should provide more specific indications on how regions can conduct inclusive multi-actor and multi-sector consultation processes. It should also define the expected involvement of the RDAs in this process. Furthermore, the role of the *oblast* Project Selection Boards should be reviewed. These entities are charged with selecting regional development projects to be financed through the SFRD. The Boards are often considered to be

under direct influence of the Head of the *oblast* state administration who is appointed by the President of Ukraine. This can undermine the transparency of the project selection process and open the way for political considerations to trump technical criteria. Finally, the government is advised to adopt legislation developed by MinRegion to reinforce the link between the *oblast* strategies, as well as the other regional development planning instruments and the SFRD (see Chapter 5).

*Mechanisms for monitoring the regional development strategies remain unclear*

The regional development strategies tend to be ambiguous regarding the mechanisms to oversee their implementation, monitoring and evaluation. For example, the Odessa Regional Development Strategy 2021-2027 indicates that the regional council, the *oblast* state administration, municipalities, and individuals, among other actors, will be involved in tracking the implementation of the strategy. However, no information is provided about how or when the monitoring and evaluation exercises will be conducted, whether the actors will co-ordinate their efforts or how results will be disseminated (Odessa Regional State Administration, 2020<sup>[51]</sup>).

The regional strategies and their action plans also suffer from a high degree of uncertainty regarding the availability of the necessary financial resources to implement the proposed projects. In principle, the strategies can be financed through a wide variety of sources, including the SFRD, the budgets of municipalities, grants and loans. The action plans present a breakdown of the expected annual cost of proposed projects. They indicate the amount that will be financed through national, regional and local funds, as well as other sources such as domestic and foreign investments.

A recent assessment of the action plans of 13 *oblasts* highlights significant variation in the proposed sources of project financing. Most *oblast*-level projects depend on state budget funds for their implementation. For example, 91% of the action plan of Luhansk *oblast* is supposed to be financed through national funds (Родченко and Прыс, 2020<sup>[52]</sup>). Other *oblasts*, for example Kherson, Donetsk and Zaporizhzhia plan to finance the majority of the costs associated with their action plans with the support of domestic and foreign investors. The action plans that depend most on local budgets include those of Lviv (45%), Poltava (36%) and Kharkiv (28%) (Родченко and Прыс, 2020<sup>[52]</sup>). These differences in the sources of financing may be explained by two factors:

1. Variation in a region's openness towards and experience in identifying funding from sources other than state subventions; and
2. The comparative attractiveness of their investment projects to domestic and international investors.

The dependence of many *oblasts* on state funding comes with a substantial risk due to the unpredictable nature of major state financing mechanisms. For example, the SFRD's legal mandate to receive 1% of planned General Budget Fund revenues has never been met. This creates uncertainty about the extent to which the projects that depend on SFRD funding would be able to receive the necessary funding. This is compounded by problems related to the timely disbursement of SFRD funds by *oblast* state administrations to municipalities (OECD, 2021<sup>[12]</sup>). In addition, several of the other inter-governmental funds that could support regional and local development initiatives are competitive in nature. This means that, at the time of developing the project proposals, funding might not have been secured. *Oblasts* appear keenly aware of the challenge of securing sufficient funds to implement their regional development strategies. This is illustrated by the Odessa state administration's 2021-2024 action plan that mentions the following risks associated with implementing several of its proposed projects (Odessa Regional State Administration, 2020<sup>[51]</sup>):

- Insufficient funding for projects from the state budget and lack of alternative sources of funding;
- Non-fulfilment by regional development entities of the obligation to co-finance the implementation of investment projects; and



- Lack of local knowledge and managerial capacity to implement projects and mobilise the necessary resources.

To effectively address the challenges in implementing and financing the regional development strategies and their action plans, the government could consider a series of complementary policy interventions. First, it should mandate that the regional development strategies include implementation and monitoring plans that indicate which actors will be involved, as well as their specific tasks and responsibilities. Second, the different proposed development projects included in the action plans should detail their relevance for the development of the region. Third, the regional development strategies and their action plans should clearly indicate if the necessary funding for the different proposed initiatives has already been secured or whether the *Oblasts* or involved municipalities hope to attract funding, for example through the SFRD. Finally, the government should contemplate setting up multi-sector and multi-level regional co-ordination mechanisms to oversee the implementation of strategies. The 2030 Agenda committees created in Mexico's state governments can serve as an example (Box 4.18). Combined, these actions could help convert the regional development strategies from *de facto* 'wish lists' that lack effective financing and implementation mechanisms, into solid strategies that stimulate the implementation of regional projects linking national strategic priorities with local needs.

#### Box 4.18. Mexico's subnational 2030 Agenda committees

Between 2017 and 2018, Mexico's 32 states created 2030 Agenda monitoring and implementation committees. Even though the specific mandate and composition of the committees differ from state to state, they generally function as planning bodies that facilitate co-ordination between the states' three branches of government, municipalities and non-governmental actors.

The committees are charged with the intergovernmental co-ordination for the design, implementation, monitoring and evaluation of policies, programmes and actions for the achievement of the 2030 Agenda. In particular, the committees, which tend to meet twice a year, are responsible for 1) proposing specific actions to achieve the objectives of the 2030 Agenda and 2) submitting a periodic report on their results and the objectives they achieved. In addition, several of the committees are responsible for proposing adjustments to local legislation to advance the achievement of the 17 Sustainable Development Goals, and informing the national 2030 Agenda council on local progress.

Besides line ministries and strategic non-governmental actors, in most committees a representative of the national Institute of Statistics, Geography and Informatics is invited to support monitoring and evaluation efforts. Furthermore, several of the committees have created thematic working groups or regional hubs to support the local implementation of their annual work plan. These bodies ensure that the meetings of the committees impact actual policies. Other factors determining the effectiveness and continuity of the work of the committees include the leadership of the committees' president—who is often the State Governor or Secretary—as well as the extent to which non-governmental actors have an active role in shaping the committees' agenda and work.

Source: Author's elaboration, based on (UNDP Mexico, 2019<sup>[53]</sup>).

### ***Increasing municipal capacity to implement territorial development strategies***

As a result of the amalgamation process, many municipalities have taken a more proactive role in supporting local development efforts (OECD, 2021<sup>[12]</sup>). At the same time, efforts by municipalities to design local development strategies that set clear targets and guide investment are curtailed by a number of



factors. These are primarily related to municipal responsibilities for the development of local strategies, as well as their capacity to effectively execute them.

*Half of municipalities reported not having a local development plan*

Up until July 2022, municipalities were not mandated to design local development strategies that align with the SSRD or the regional development strategies (Box 4.6) (Verkhovna Rada, 2022<sup>[18]</sup>). This may explain why, of the 741 municipalities that responded to the OECD's online survey in September 2021 (Box 4.4), only 49% indicated that they had an officially approved local development strategy. Forty-eight percent reported that they did not and 3% were unsure. These figures are in line with findings from OECD interviews with local stakeholders, which indicated that approximately half of the 1 469 municipalities had an approved local development strategy (OECD, 2021<sup>[12]</sup>). Many of these had been developed with the support of international development partners, as well as the different local government associations (OECD, 2021<sup>[12]</sup>).

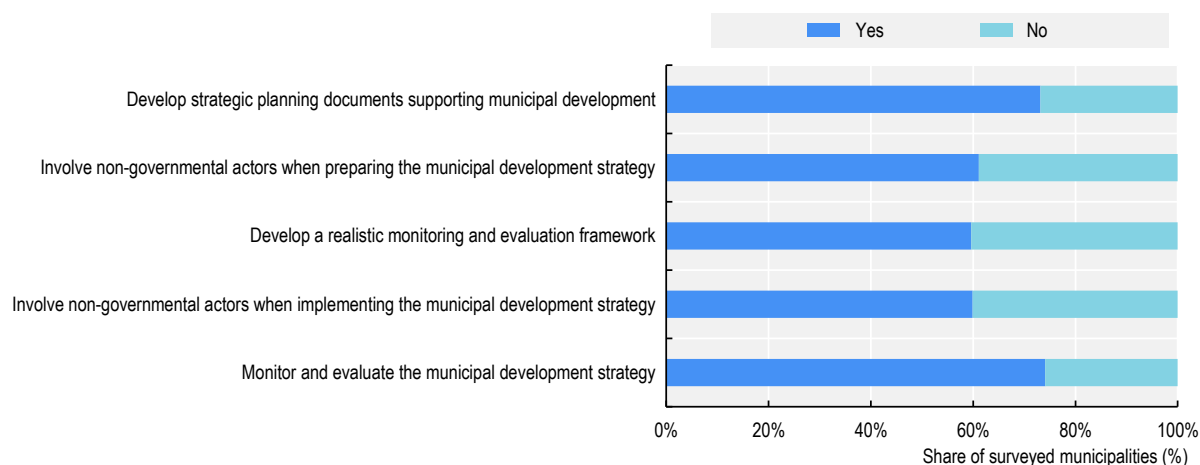
The lack of a local development strategy hampers the ability of a municipality to guide local development efforts towards clear objectives and monitor progress, as well as to develop proposals for investment projects that are coherent with local needs and capacities. Conversely, municipalities that have created an integrated local development strategy are in a stronger position to effectively contribute to the development of the regional development strategies. The availability of a local strategy, particularly one that was designed with the input of public and private actors, can provide clarity for stakeholders regarding investment priorities, which is crucial for subnational economic development. However, there are concerns that municipalities are developing extensive local development strategies that, albeit very comprehensive, are also highly complex and therefore hard to implement. To address this challenge, the government is advised to develop guidelines that emphasise the need for succinct and adaptable local strategies and corresponding action plans.

Following the recent approval of amendments to the Law “On the Principles of State Regional Policy”, all municipalities will have to design a local development strategy (Box 4.6). In this effort, municipalities can use the methodology that MinRegion developed. In addition, the government is advised to facilitate peer-to-peer learning between municipalities, building on the experience that some have already gained in designing local development strategies.

*Municipalities reported having sufficient capacity to develop local development strategies, but not to engage with key stakeholders*

When asked about the availability of human resources (including expertise) to effectively carry out selected tasks related to the regional development planning process, 73% of municipalities reported having sufficient capacity to design development strategies (Figure 4.6). However, local stakeholders in Ukraine indicated that municipalities that were administratively amalgamated were more likely to lack the capacity to create a comprehensive development strategy (OECD, 2021<sup>[12]</sup>).

**Figure 4.6. Availability of human resources to effectively carry out tasks related to the development planning process**



Note: Question: Please indicate if you consider your municipality has the necessary human resources (incl. expertise) to effectively carry out the following tasks related to the development planning process? Full list of tasks: Develop of forecast and program documents of socio-economic development of the territorial community, in particular the strategy of development of the territorial community; Involve the private sector, civil society or academia when preparing the municipality's socio-economic development plan; Develop a realistic monitoring and evaluation framework with clear objectives and indicators; Involve the private sector, civil society or academia when implementing the municipality's socio-economic development plan; Carry out periodic monitoring and evaluation exercises of the municipality's socio-economic development plan. Response options per task: Yes; No. The survey was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021).

Source: Author's elaboration, based on the OECD online survey.

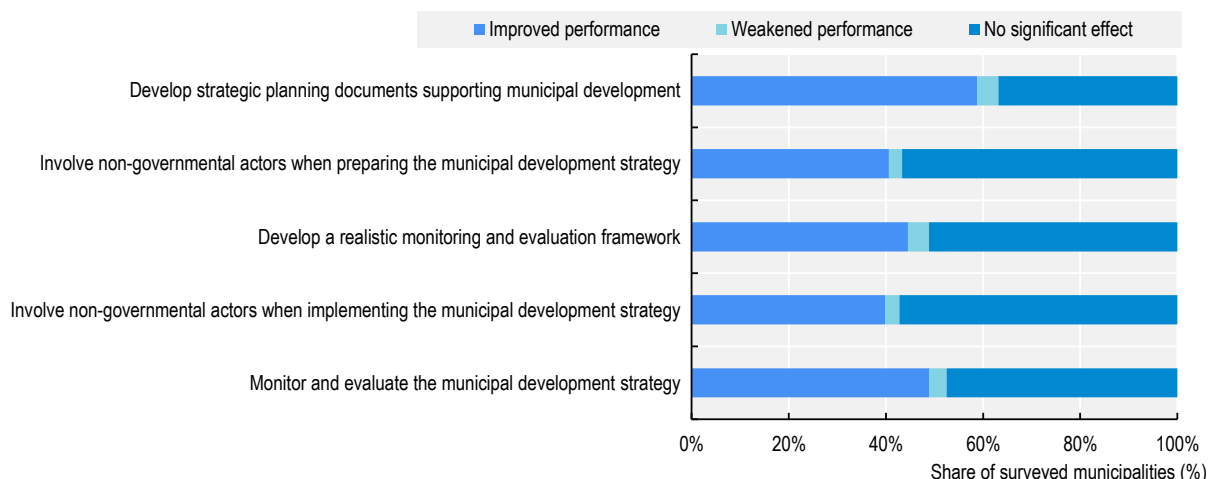
Among the municipalities surveyed, 74% reported that they have the capacity to carry out monitoring and evaluation exercises, and 40% indicate they do not have the necessary expertise to develop a monitoring and evaluation framework with clear objectives and indicators. This means that any capacity building support for municipalities in the field of monitoring and evaluation should primarily focus on how to set indicators and define realistic targets. MinRegion has indicated that it is planning to develop methodological guidance for municipalities to address this issue (OECD, 2021<sup>[12]</sup>).

Another issue revealed by the survey was the lack of human resources to effectively involve the private sector, civil society or academia when preparing the municipality's development strategies (39% of responding municipalities) or implementing them (40%). Through dialogue processes with CSOs, academia and businesses, as well as the application of surveys and other consultation methods, municipalities can obtain valuable information about local needs and priorities. As such, ensuring a robust consultation process at the local level is critical to enabling effective priority setting.

*Many municipalities reported that the decentralisation reforms have been positive for their development planning capacities*

The OECD project's online survey indicated that Ukraine's decentralisation reforms (including the amalgamation process) have had a generally positive effect on municipal performance in areas related to the development planning process (Figure 4.7). Of the surveyed municipalities, 59% indicated that it had improved their ability to develop local development strategies. A majority (49%) reported that their ability to periodically monitor and evaluate their development strategy improved.

**Figure 4.7. Impact of the decentralisation reform on the performance of municipalities in the field of regional planning**



Note: Question: What impact has the decentralisation reform (including the amalgamation process) had on the performance of your municipal government (in the following areas) related to the development planning process? Full list of tasks: Develop of forecast and program documents of socio-economic development of the territorial community, in particular the strategy of development of the territorial community; Involve the private sector, civil society or academia when preparing the municipality's socio-economic development plan; Develop a realistic monitoring and evaluation framework with clear objectives and indicators; Involve the private sector, civil society or academia when implementing the municipality's socio-economic development plan; Carry out periodic monitoring and evaluation exercises of the municipality's socio-economic development plan. Response options per task: Improved performance; Weakened performance; No significant effect. The survey was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021).

Source: Author's elaboration, based on the OECD online survey.

The majority of municipalities consider that the decentralisation reforms (including the amalgamation process) have not increased the participation of local businesses (e.g. private sector representatives) in municipal decision making (Annex Figure 4.C.1). Rather, most surveyed municipalities reported that the reform process either had no effect (or sometimes even a negative effect) on local businesses' participation in local policy-making.

These results suggest that municipalities may not have received sufficient guidance on how to foster inclusive public-private dialogue or to ensure that local strategies take into account the constraints and opportunities facing the local private sector. This is a particular area of concern given the SSRD's objective to increase territorial competitiveness. Well-structured public-private dialogue processes can contribute to mutual understanding between government and the business community about, for example, how to strengthen the local investment climate. To address this challenge, the government could make the allocation of funds to municipalities to stimulate economic development conditional on private sector representatives being involved in the project design.

#### *Municipalities reported that individual citizens are participating more in local decision making*

The perceived impact of the decentralisation reforms on the participation of individual citizens in various spheres of local decision making is relatively positive (Annex Figure 4.C.2). A majority of municipalities reported that the reform process has increased citizen participation in areas such as the design of the municipal development strategies (58%). At the same time, however, a majority of municipalities indicate that the reforms had either no effect on or decreased citizen participation in areas such as the monitoring of the municipal development strategy; the identification of investment needs; and the design of investment

projects. This may be explained by the fact that several proposed legal amendments to provide a framework for public participation and consultation have not passed.

The government should consider introducing legislation to clarify the tools and mechanisms through which citizens can participate in municipal decision making. These include participatory budgeting, referenda and petitioning. It also requires the updating of existing legislation to make public consultation an integral part of development and investment planning at the national and subnational levels. This would help ensure that a wide range of citizens' perspectives are systematically considered in municipal decision making, facilitating the identification of community priorities and a triangulation between various local interest groups. In turn, this will help to enhance trust in government.

Combined, these findings suggest that some municipalities might be falling behind their peers in terms of development planning and implementation. This could entrench territorial disparities. The government should consider providing more systematic capacity building support to municipalities in the aforementioned areas and particularly in the fields of stakeholder consultation, as well as monitoring and evaluation. In doing so, the government should leverage the expertise and experience many municipalities have gained in these fields. In interviews with municipalities, peer-to-peer exchange was mentioned as one of the most effective methods of capacity building (OECD, 2021<sup>[12]</sup>).

The next section discusses how Ukraine can boost the production and use of micro-level information and therefore evidence-based decision making in the field of regional development at all levels.

## Effective data management for regional development policy

Well-developed, outcome-oriented performance measurement systems are fundamental to the success of regional and local development policies. They allow national and/or subnational governments to measure the effectiveness of policy and spending (Mizell, 2008<sup>[54]</sup>; Phillips, 2018<sup>[55]</sup>). Performance measurement systems generally combine monitoring and evaluation mechanisms containing indicators and can help governments at all levels determine if their actions are obtaining the desired results or if adjustments are necessary. Over the past few years, Ukraine has taken important steps to increase the availability of territorially-disaggregated information on issues related to regional development. However, more action is needed to ensure informed decision making. It is thus essential to set up a solid regional development performance monitoring system, and to invest in the general capacity of the government to produce, analyse and share information.

### ***Evidence-based decision making for regional development***

A well-designed monitoring and evaluation system offers policy actors at all levels timely information to enhance decision making throughout the policy and investment cycles. A key step in developing such a system is determining performance indicators that are appropriate for the objective at hand (Box 4.19). When developed together with subnational actors and even non-governmental actors, and coupled with realistic targets, indicators can promote capacity development, encourage performance improvements, and strengthen transparency and accountability at all levels of government (Mizell, 2008<sup>[54]</sup>) (Phillips, 2018<sup>[55]</sup>) (OECD, 2009<sup>[56]</sup>).

### Box 4.19. Distinguishing between different types of indicators

An indicator is a measure that can capture different types of information and provides insight for evidence-based decision making. Indicators are generally divided into four categories:

- **Input indicators** reveal what resources (e.g. people, money, and time) are used in what amounts to produce and deliver goods and services.
- **Output indicators** capture the goods and services that activities produce (e.g. number of local civil servants trained, the number of SMEs that received financial support, kilometres of roads built).
- **Outcome indicators** capture the dimension that is expected to change as a result of an intervention (policy, programme, or project). Outcome indicators show the real-world changes that practical outputs will produce (e.g. the percentage of people who have improved their situation in the labour market within a certain number of months after their participation in training).
- **Impact indicators** relate to the expected impact of a policy intervention on the economy or society in general. They measure changes in the long term.

In determining what to measure, two factors are particularly important: the objectives of the monitoring system, and the objectives of the policy/programme/project.

Source: Author's elaboration, based on (OECD, 2009<sup>[56]</sup>).

Having access to reliable, timely and disaggregated data can help governments at all levels understand and make informed decisions about how to best boost regional economies, redress territorial inequalities and improve the well-being of local communities. It allows decision makers to develop place-based regional and local development strategies and plans that take into account the comparative strengths of different localities, identify specific and urgent development gaps. It also enables them to build on these strategies and plans in order to propose territorially-differentiated policy solutions.

More robust performance measurement would enable Ukraine's national and subnational governments to better understand the impact of their regional development policies, strategies and investment projects. It could also offer insight into the factors contributing to or detracting from regional and local attractiveness, and potentially improve policy continuity.

To improve evidence-based decision making in the field of regional development, Ukraine needs to build subnational government capacity to produce, analyse and disseminate up-to-date territorially-disaggregated information on a wide range of topics. Promoting a management style that focuses on learning, rather than control is also necessary. In addition, Ukraine should strengthen the role that the State Statistics Service of Ukraine (SSSU) plays in gathering, analysing and disseminating data across ministries and among levels of government. Doing so could not only support regional and local development but also improve evidence-based decision making across government, regardless of the policy or topic at hand.

#### *Increased efforts to provide micro-level data on regional and local development*

MinRegion, as well as key development partners, seem to be acutely aware of the challenges posed by the scarcity of micro-level data on regional and local development, particularly at the municipal level. This has spurred the development of several initiatives aimed at improving the availability of territorially-disaggregated data and creating a municipal performance monitoring system.

In 2021, MinRegion launched a survey among municipalities to obtain their suggestions regarding the topics they would like to see included in a new system of local statistics (MinRegion, 2021<sup>[57]</sup>). Likewise, together with the Organization for Security and Co-operation in Europe it created the Hromada Performance Monitoring Platform<sup>3</sup>, which presents territorially-disaggregated data related to population, physical infrastructure and public finances. The creation of this platform represents an important step forward in the availability of data that allow all levels of government, as well as development partners, to gain insight into different aspects of municipal performance.

The platform presents several opportunities for improvement. First, it does not contain information or links that would allow users to obtain a copy of the presented data. Second, the majority of the statistics included on the platform are not included in the SSSU's statistics portal. This undermines the function of the latter portal as the main source of official statistics. Moreover, it creates uncertainty about which institutions are responsible for producing the data presented on the Hromada Performance Monitoring Platform. These challenges could be overcome through a series of practical actions such as ensuring that all data presented on the platform are also included on the SSSU website and by offering users the possibility to download the data. The government is also advised to include metadata for each indicator. This would allow users to understand, for example, what the units of measurement for the different indicators are, how the data were gathered and by whom.

MinRegion has also been involved in a pilot initiative, organised by the USAID-financed DOBRE project, to contribute to the development of a municipal performance management system. As part of this initiative, a set of indicators related to three service areas was developed. These indicators were subsequently tested in different communities. The findings of the pilot confirmed the scarcity of information in municipalities to assess their performance. This particularly applied to municipalities that had recently amalgamated (DOBRE, 2021<sup>[58]</sup>).

The findings from the DOBRE pilot initiative help explain why nearly half of the municipalities surveyed by the OECD reported that they lack the capacity to develop a realistic monitoring and evaluation framework (Figure 4.6). In addition, as mentioned earlier, a majority of municipalities reported that the decentralisation reforms implemented since 2014 had either had no significant effect on—or in fact weakened—their performance in areas such as developing local strategies (Figure 4.7).

There are signs that over the past few years the access of municipalities to some data gathered at the regional and national level has decreased. Certain statistics that used to be available to municipalities prior to 2018—for example on foreign direct investment—appear to be no longer accessible (OECD, 2021<sup>[12]</sup>). This has prompted some larger municipalities to contract private enterprises to generate data they need for local decision making. Given the financial constraints that particularly smaller municipalities face, this might not be an option for them. As such, the scarcity of data, combined with municipal challenges to access databases, may actually contribute to existing disparities between local authorities.

Addressing the above-mentioned challenges requires continued investment in the capacity of the national and subnational governments to produce, analyse and share reliable data. In particular, it is important to vastly expand the list of well-being indicators for which territorially-disaggregated data are produced, moving well beyond the indicators presented on the Hromada Performance Monitoring Platform.

Besides investing in the capacity of national and subnational governments to generate disaggregated data on indicators (e.g. the number of students enrolled in primary schools, drinking water coverage and local waste collection), the government is advised to focus on obtaining information on citizen and user experience with public services (Box 4.20).

### Box 4.20. Citizen and user satisfaction surveys

In many OECD member countries (e.g. Australia, Canada, Chile, Italy, Norway), asking citizens about their overall satisfaction with selected services has become an indicator that national and local authorities often turn to for a quick measure of whether services are performing well against user needs and expectations. In fact, user satisfaction is one of the most common indicators of service performance because it reflects actual user experience with a specific services, and it is generally faster and cheaper to collect, process and disseminate than objective measures of performance. This makes user satisfaction surveys especially suitable for Ukraine.

Satisfaction surveys can be developed and disseminated by the national government, but also by regional and local governments. The latter is particularly relevant for those public services for which subnational governments have a shared or exclusive mandate. However, the national government is well-advised to co-ordinate the design and dissemination of the subnational satisfaction results to ensure comparability. In addition, as not all *oblasts* and municipalities may have experience with developing and disseminating satisfaction surveys, national government and international partners may need to provide support to build the necessary skills.

Source: Author's elaboration, based on (OECD, 2022<sup>[59]</sup>).

In addition, the government should further explore the potential of “big data”. This requires investing in the capacity to make sense of raw, digital datasets to understand their potential for evidence-based decision making, as well as the associated challenges. The benefits of using such datasets include increasing the efficiency and effectiveness of public services. For example, big data collected from social media and mobility apps can help mitigate traffic jams. Challenges include developing the tools necessary to make sense of vast datasets, and using data from social media without compromising the privacy of citizens, for example (Singh, Srivastava and Johri, 2014<sup>[60]</sup>). Successful use of data also hinges on the willingness of the private sector and academia to collaborate with public actors, including by sharing data and analytical tools.

It is important to stress that a solid performance measurement system complements citizen satisfaction data with information on processes (e.g. waiting times in administrative service centres or hospitals), outputs (e.g. access to drinking water), and outcomes (e.g. Are people better off as a result of the service?). Moreover, quantitative data may be needed to understand the extent to which the satisfaction data generated through surveys can be generalised to the whole population (OECD, 2022<sup>[59]</sup>).

Actions to better understand any changes in the performance of municipalities would help improve the ability of all levels of government to assess the results of their initiatives and support informed decision making on future initiatives. Beyond this, a concerted effort to strengthen the dissemination of available statistics among levels of government is necessary. Many of these actions depend on the ability of the SSSU to effectively co-ordinate the national statistics system.

#### *Strengthening the State Statistics Service can support regional development performance monitoring*

The SSSU is the central executive body in the area of statistics and the main actor of the country's national statistical system. This makes it a fundamental actor in any effort to strengthen evidence-based decision making by public actors, at the national and subnational levels. However, it faces a series of challenges that include reductions in its territorial presence and the lack of co-ordination mechanisms to support the generation, analysis and dissemination of development statistics. Over the past few years, the territorial

presence of the SSSU has drastically changed. Whereas in 2017 the institution had 545 district offices, they were subsequently closed due to budget cuts (Laux et al., 2017<sup>[61]</sup>). The territorial reorganisation came at a critical time as it coincided with the merger of many municipalities whose administrative and service delivery responsibilities increased, and with it their demand for up-to-date data. Taking into account the implications of the territorial reorganisation for the SSSU, the government should consider investing in the ability of its staff to provide training for subnational governments to produce, analyse and disseminate development statistics. Such capacity building efforts should not only focus on strengthening technical skills but also promote the use of evidence as a learning tool, rather than as a means of control.

In addition, the SSSU's current portal and those of its regional offices do not meet the standards of modern statistical and geographical data reporting. This limits the ability of governments at all levels, as well as non-governmental actors, to easily identify and exploit the available data for decision making purposes. This challenge is compounded by the fact that territorially-disaggregated data can often be found on the platforms of different ministries, such as MinFin and MinRegion. Consequently, users often do not know where to look for information or how to match sectoral statistics that might be published on different online portals. This is particularly problematic when users are looking for data on cross-cutting topics such as regional and local development.

On top of this, several of the online portals that include subnational data do not present the unique codifiers of administrative-territorial units. This complicates integrating or comparing different datasets. Given the inherent complexity of managing micro-data in a context of gradual amalgamation, the government should ensure the widespread use of the codifiers for each administrative-territorial unit. Furthermore, efforts need to be oriented towards expanding the available data on the SSSU portal and integrating those data that are presented on the portals of other state institutions.

*The creation of inter-agency statistics commissions could increase data availability*

No formal co-ordination body exists to facilitate the regular and systematic exchange between the SSSU and other government institutions to support the generation, analysis and dissemination of development statistics. Given the scope of the challenges with regard to production and dissemination of data discussed previously, the government should consider creating inter-agency commissions that are charged with defining the sectoral data needs, establishing standards to generate and present statistics. It should also ensure that current databases are up-to-date and new ones are developed, with safeguards to ensure respondent confidentiality.

The co-ordination structure of the Mexican Institute of Statistics, Geography and Informatics could be used as an example (Box 4.21). Through complementary co-ordination bodies, this institute facilitates high-level, and technical co-ordination among public authorities to promote an institutional culture oriented towards the generation, dissemination and use of data for decision making processes. Following this example, Ukraine could create a technical statistical committee on regional development that is responsible for setting standards for the generation of information on regional development, identifying new sources of data, as well as determining the information necessities of national and subnational authorities. Such a committee could also be instrumental in promoting the use of evidence in the development of regional and local development strategies, as well as the design of monitoring and evaluation mechanisms. Likewise, it could serve as a mechanism with which the country can identify the capacity building needs of national and subnational authorities and to discuss how to best address them.



### Box 4.21. Mexican Institute of Statistics, Geography and Informatics

The National Institute of Statistics, Geography and Informatics (Instituto Nacional de Estadística y Geografía - INEGI) is Mexico's autonomous public institution responsible for regulating and co-ordinating the National System of Statistical and Geographical Information (Sistema Nacional de Información Estadística y Geográfica - SNIEG), as well as collecting and disseminating information about the country in terms of territory, resources, population and the economy.

The SNIEG is formed by the different thematic subsystems that are charged with producing, integrating and disseminating "information of national interest". Each subsystem has different Specialised Technical Committees that contribute to the production, integration and dissemination of statistical and geographical information. The subsystems are composed of representatives from public institutions whose mandates relate to the topic at hand. Representatives from the private sector, academia, civil society organisations and international institutions can also be invited to participate. The Technical Committees' develop annual work plans, meet each semester and report annually on the results of their activities, contributing to the transparency of their actions.

One of the permanent Specialised Technical Committees deals with regional and urban development. Its tasks include setting technical standards for the generation of information on regional development, promoting knowledge about it among public institutions, generating indicators related to regional development that can be included in the National Indicators Catalogue, and identifying the information needs for public decision making in the field of regional development.

Source: Author's elaboration, based on (INEGI, n.d.<sup>[62]</sup>; INEGI, 2020<sup>[63]</sup>; INEGI, 2021<sup>[64]</sup>; INEGI, 2017<sup>[65]</sup>; INEGI, n.d.<sup>[66]</sup>).

Finally, an inter-agency statistics commission on regional development could spearhead the creation of a publicly accessible regional development monitoring platform. Such a platform could allow governmental and non-governmental users alike to get acquainted with the country's regional objectives and see how the national and regional governments perform on the indicators that are included in the SSRD and the regional development strategies. It could also include information on the actors that are implementing programmes and projects that contribute to the different regional development objectives. Scotland's National Performance Framework<sup>4</sup> and Mexico's 2030 Agenda monitoring platform<sup>5</sup> are examples of monitoring platforms that can help governments communicate their development objectives and territorial performance with a wide audience.

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## Notes

<sup>1</sup> The Budget Code of Ukraine defines subventions as inter-governmental transfers of funds to be used for specific purposes through procedures defined by the authority that decides to provide the subvention (Verkhovna Rada, 2021<sup>[74]</sup>).

<sup>2</sup> The SSRD 2021-2027 identified the following functional territories: agglomerations; large cities; mid-sized cities; small cities; ‘mono-functional’ cities whose economies are based on mining activities and chemical and oil processing industries; rural territories in adverse conditions; mountainous territories of the Ukrainian Carpathians; the Azov-Black Sea macro region; zones of influence of international motorways; border regions (incl. those in adverse conditions); and temporarily occupied territories and territories and objects of natural reserve.

<sup>3</sup> Hromada Performance Monitoring Platform: [https://tdukr.maps.arcgis.com/apps/MapJournal/index.html?appid=47f24b79311f44e2863eabe27ccbdc81&fbclid=IwAR3NdmVaXZD\\_ojyJnqt41UF01jJ5eOuNZLfJALashZLhfl2mg8w5cdv0ohk](https://tdukr.maps.arcgis.com/apps/MapJournal/index.html?appid=47f24b79311f44e2863eabe27ccbdc81&fbclid=IwAR3NdmVaXZD_ojyJnqt41UF01jJ5eOuNZLfJALashZLhfl2mg8w5cdv0ohk)

<sup>4</sup> Scotland's National Performance Framework: <https://nationalperformance.gov.scot/>

<sup>5</sup> Mexico's 2030 Agenda monitoring platform: <https://agenda2030.mx/#/home>



## Annex 4.A. Key legislation in the fields of regional development and decentralisation

**Annex Table 4.A.1. Key legislation affecting the territorial planning responsibilities of the government**

Law	Description
The Law "On Stimulating the Development of Regions"	This Law, adopted in 2005, provided for the establishment of "regional contracts" to facilitate investment financing by the national government and <i>oblast</i> state administrations. However, only seven of such regional development agreements have been developed and implemented, and none of them were considered successful. The law also allowed for the development of programmes to overcome the "depression" of certain territories. However, no such initiative was implemented.
Law "On State Target Programmes"	This 2004 law provides for, among other elements, the creation of national programmes of economic, scientific and technical, social, national and cultural development, and environmental protection. These programmes could cover the entire national territory or a significant number of its regions, have a long implementation period, and could be implemented by central and local executive bodies.
Law "On the General Scheme of Territorial Planning"	The General Scheme established by this 2002 law covers two consecutive periods (2002-2011 and 2012-2020). It defines the priorities and conceptual solutions for the use of the country's territory, improvement of development of industrial, social and engineering infrastructure and formation of the national ecological network. It refers to the needs of separate territories that should be reflected in state programmes of economic and social development.
Law "On State Forecasting and Development of Programs of Economic and Social Development of Ukraine"	This law from 2000 mandates the design and implementation of a wide array of planning instruments including a series of short- and mid-term forecasting and strategic planning documents at the national, regional and city level.

Source: Author's elaboration, based on: the Law "On Stimulating the Development of Regions" (Verkhovna Rada, 2005<sup>[67]</sup>); the Law "On State Target Programmes" (Verkhovna Rada, 2020<sup>[68]</sup>); the Law of Ukraine "On the General Scheme of Territorial Planning of Ukraine": (Verkhovna Rada, 2012<sup>[69]</sup>); and the Law "On State Forecasting and Development of Programs of Economic and Social Development of Ukraine": (Verkhovna Rada, 2012<sup>[70]</sup>).

**Annex Table 4.A.2. Core elements of the post-2014 decentralisation reforms and their relation to regional development**

Law	Description
Law of Ukraine "On Voluntary Amalgamation of Territorial Hromadas"	The 2015 law regulates the process of voluntary amalgamation of territorial communities. It was a central piece of legislation in the creation of the Concept framework.
Law "On Local Self-Government in Ukraine"	This law defines the system of local self-government in Ukraine, its principles of organisation and activity. It also establishes the legal status and responsibilities of local self-government officials.
Law "On Local State Administrations"	This 2001 law specifies the organisational arrangements for executive bodies at the subnational level, their mandates, as well as tasks and responsibilities. It defines the institutional and organisational framework within which the <i>oblasts</i> , <i>rayons</i> and municipalities can implement development policies. Ukraine's parliament is reviewing a proposal to amend the law in light of the creation of 1 469 amalgamated municipalities and the reorganisation and consolidation of 136 districts. The proposed bill seeks to improve the oversight of local authorities' decision making, as well as subnational representation of the national government by establishing the legal preconditions for a prefecture-like system.
Law "On Co-operation of Territorial Hromadas"	This 2014 law defines the principles, forms and financing of co-operation between municipalities. The promotion of inter-municipal co-operation was one of the key features of the 2014 decentralisation reform. It sought to facilitate the creation of economies of scale and improve the cost-effective delivery of services by amalgamated municipalities. In 2021, the Cabinet of Ministers (CabMin) developed a

	proposal to amend the law to further facilitate the establishment and implementation of inter-municipal co-operation agreements.
Budget Code of Ukraine	The Budget Code determines the legal basis of the budget system and establishes the sources of revenue of the different government levels. In 2012, the Budget Code was supplemented by Article 24-1, creating the SFRD, which is a key source for financing regional and local development projects.

Source: Author's elaboration, based on: the Law "On Voluntary Amalgamation of Territorial Communities"; the Law "On Local Self-Government in Ukraine": (Verkhovna Rada, 2021<sup>[14]</sup>); the Law "On Local State Administrations": (Verkhovna Rada, 2021<sup>[15]</sup>); the Draft Law on Amendments to the Law of Ukraine "On Local State Administrations": (Verkhovna Rada, 2020<sup>[71]</sup>); the Law of Ukraine "On Co-operation of Territorial Communities": (Verkhovna Rada, 2014<sup>[72]</sup>); and the Draft Law on Amendments to the Law of Ukraine "On Co-operation of Territorial of Territorial Hromadas": (Verkhovna Rada, 2021<sup>[73]</sup>).

## Annex 4.B. Objectives of the SSRD 2021-2027

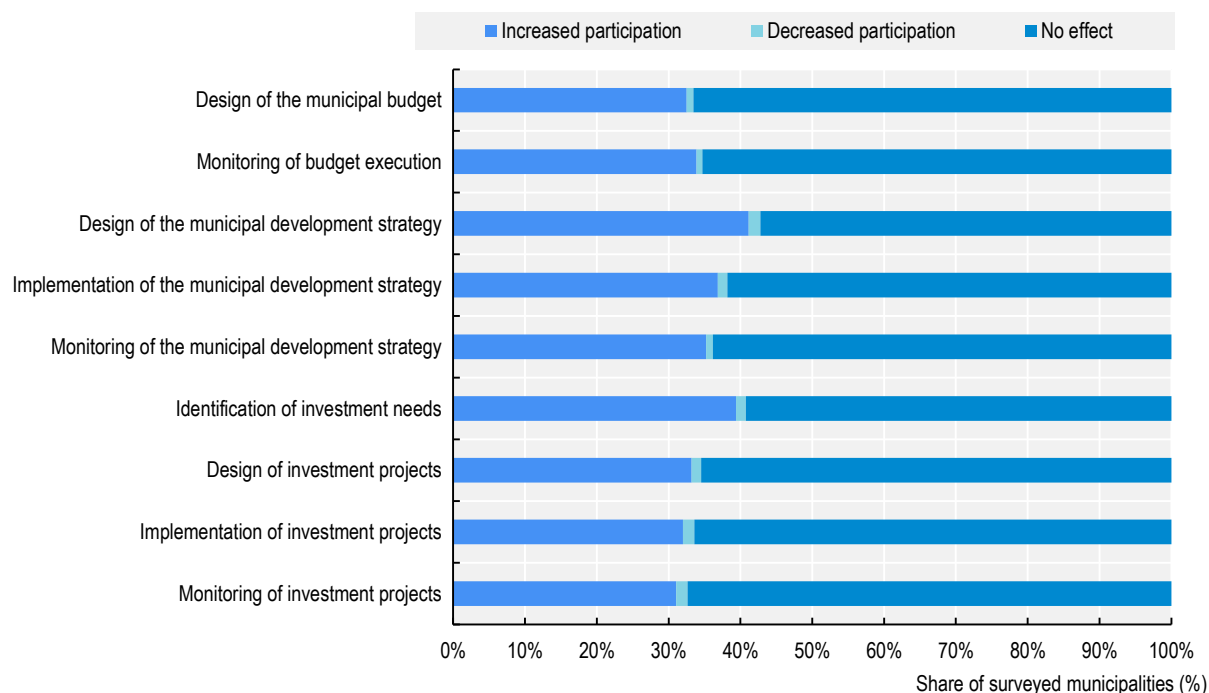
Annex Table 4.B.1. Operational objectives per strategic objective of the SSRD 2021-2027

Form a cohesive state	Improve competitiveness of the regions	Develop effective multi-level governance
<ol style="list-style-type: none"> <li>1. Stimulate economic development centres (agglomerations, cities).</li> <li>2. Preserve the environment and ensure sustainable use of natural resources, strengthen the opportunities for development of territories in need of state support (macro-and micro-level).</li> <li>3. Create conditions for the reintegration of the temporarily occupied territories of the Autonomous Republic of Crimea and Sevastopol city, the temporarily occupied territories in Donetsk and Luhansk <i>Oblasts</i> into the Ukrainian space.</li> <li>4. Infrastructure development and digital transformation of regions.</li> <li>5. Form a unified educational, informational and cultural space across the entire territory of Ukraine.</li> <li>6. Effective use of the economic potential of cultural heritage for sustainable community development.</li> </ol>	<ol style="list-style-type: none"> <li>1. Human capital development.</li> <li>2. Support for entrepreneurship development, business internationalization in the small and medium-sized business sector.</li> <li>3. Strengthening investment attractiveness of territories, supporting investment attraction.</li> <li>4. Support for introduction of innovations and growth of the technological level of the regional economy, support of innovative enterprises and start-ups.</li> <li>5. Sustainable industrial development.</li> </ol>	<ol style="list-style-type: none"> <li>1. Formation of effective local self-government and public authorities on a new territorial basis and in line with the new administrative and territorial structure of Ukraine.</li> <li>2. Formation of horizontal and vertical co-ordination of state sectoral policies with the State Regional Policy.</li> <li>3. Build effective system of public investment across all levels of government.</li> <li>4. Build capacity within State Regional Policy actors.</li> <li>5. Assuring equal rights and opportunities for women and men, preventing and countering domestic violence and discrimination.</li> <li>6. Building a system of information and analytical support and developing managerial skills for decision making based on objective data and spatial planning.</li> </ol>

Source: Author's elaboration, based on (CabMin, 2020<sup>[39]</sup>).

## Annex 4.C. Results from the OECD survey

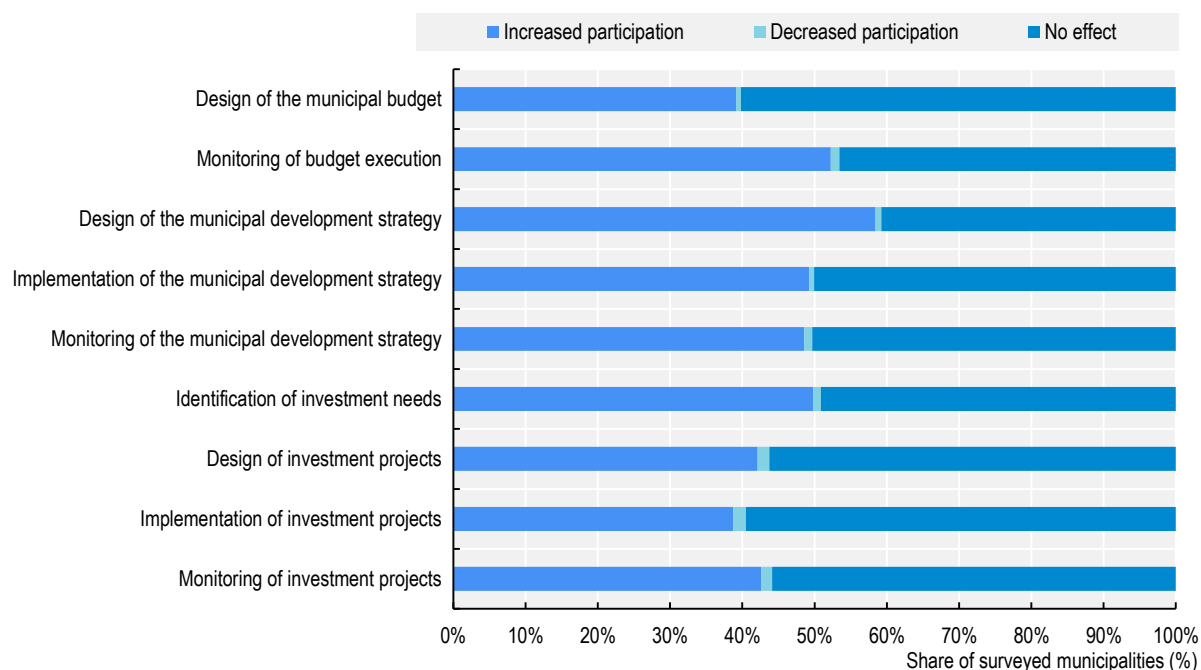
Annex Figure 4.C.1. Participation of local businesses in municipal decision making



Note: Question: What effect have the decentralisation reforms (including the amalgamation process) had on the participation of local businesses (private sector representatives) in the following areas of municipal decision making? Full list of areas of municipal decision making: Design of the municipal budget; Monitoring of budget execution; Design of the municipal socio-economic plan (strategy of development of the territorial community); Implementation of the municipal socio-economic plan (strategy of development of the territorial community); Monitoring of the municipal socio-economic plan (strategy of development of the territorial community); Identification of investment needs; Design of investment projects; Implementation of investment projects; Monitoring of investment projects. Response options: Increased participation; Decreased participation; No effect. The survey was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021).

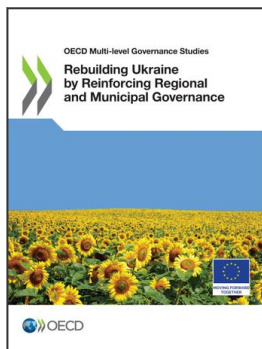
Source: Author's elaboration, based on the OECD online survey.

Annex Figure 4.C.2. Participation of individual citizens in municipal decision making



Note: Question: What effect have the decentralisation reforms (including the amalgamation process) had on the participation of individual citizens in the following areas of municipal decision making? Full list of areas of municipal decision making: Design of the municipal budget; Monitoring of budget execution; Design of the municipal socio-economic plan (strategy of development of the territorial community); Implementation of the municipal socio-economic plan (strategy of development of the territorial community); Monitoring of the municipal socio-economic plan (strategy of development of the territorial community); Identification of investment needs; Design of investment projects; Implementation of investment projects; Monitoring of investment projects. Response options: Increased participation; Decreased participation, No effect. The survey was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021).

Source: Author's elaboration, based on the OECD online survey.



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