

Coordination of Reconstruction and Recovery with the Regional Development Policy in Ukraine

Policy Paper

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Abbreviations and Acronyms

CMU	Cabinet of Ministers of Ukraine
EC	European Commission
ESDP	Economic and Social Development Planning
GDP	Gross Domestic Product
GIS	Geographical Information System
ICC	Interdepartmental Coordination Commission for Regional Development
IDPs	Internally displaced persons
MCTID	Ministry of Communities, Territories and Infrastructure Development (MinRestoration)
RD	Regional development
RDP	Regional development policy
RDS	Regional development strategy
Recovery Council	National Council for Recovery of Ukraine from Consequences of the War
Restoration Agency	State Agency for Restoration and Infrastructure Development
SFRD	State Fund for Regional Development
SSRD	State Strategy for Regional Development
URP	Ukraine Recovery Plan
VRU	Verkhovna Rada (Parliament) of Ukraine

I. Introduction

This policy paper discusses the challenges of the regional development policy (RDP) within the context of post-war reconstruction and recovery efforts. By way of introduction, we discuss the basic principles and identify the challenges.

I.1 Regional development policy coordination

Objectives and basic principles of regional development policy

The Law on Principles of the State Regional Policy¹ defines the **regional development** as "the process of social, economic, ecological, humanitarian and other positive changes in the regions" and the **state regional policy** as "a system of goals, measures, means and coordinated actions of central and local executive bodies, authorities of the Autonomous Republic of Crimea, local self-government bodies and their officials to ensure a high level of quality of life for people throughout the territory of Ukraine, taking into account natural, historical, ecological, economic, geographical, demographic and other features of regions, their ethnic and cultural identity."

Further on, the law defines that the **purpose of the state regional development policy** is "to create conditions for the dynamic, balanced development of Ukraine and its regions, to ensure their social and economic unity, to raise the standard of living of the population, to create safe conditions, and to maintain state-guaranteed social standards for every citizen, regardless of their place of residence."

These legal definitions, together with basic principles set by the law, carry important messages for planning and implementation of the regional development policy:

- development is a holistic concept, encompassing **all aspects of human well-being**, and hence the RDP should not focus exclusively on economic disparities between regions as reflected in their regional GDP, and thus not only on investments in physical and economic infrastructure;
- following the holistic understanding of development, the RDP should aim at **integrated development**, i.e., "a combination of sectoral and territorial approaches to the development of a territorial community and/or region, which ensures socio-economic and cultural development of territories";
- the RDP should be directed towards **development of all regions**, not only the least developed ones, and to the balanced development of the country as a whole; accordingly, the RDP should respect the principle of **cohesion**, defined in the law as "ensuring spatial, political, economic, social, humanitarian unity of Ukraine";
- RDP should be **adapted to specific needs and circumstances** of regions and implemented by actions of executive bodies at all levels of governance, not only by the central government, following the legal principle of **subsidiarity**, i.e., "the exercise of authority at the lowest level of management, at which it is most effective";
- coherency between development actions at different levels of governance is to be achieved through **coordination** ("interconnection and coordination of long-

¹ As amended on July 9, 2022: <https://zakon.rada.gov.ua/laws/show/156-19#Text>.

term development strategies, plans and programs at the state, regional and local levels") and **cooperation** ("coordination of goals, priorities, tasks, measures and actions of central and local executive bodies, authorities of the Autonomous Republic of Crimea, local self-government bodies, ensuring cooperation between them during the formation and implementation of the state regional policy").

Approaches to policy coordination

The literature on policy coordination² suggest that, schematically, three approaches are used by governments to coordinate policy design and implementation:

- **hierarchy**, where a higher-level institution is put in charge of coordinating institutions at a lower level. The task of coordinating line ministries is usually entrusted to a centre of government institution, for example a designated unit or person within the Prime Minister's Office, a Vice Prime Minister, or a minister without portfolio. Within line ministries, the coordinating role may in turn be entrusted to a person from the Minister's cabinet, a Deputy Minister or a specific organizational unit;
- **collaboration**, where officials from different institutions work together as a team to design policies and measures addressing a common objective. This approach may go a long way towards developing an integrated policy response to challenges at hand, but it requires participating institutions and officials to invest their time in reaching, through open discussion and information sharing, a common understanding of the challenges and objectives;
- **networks** that may develop over time through interactions among civil servants who work on related policy issues and get to know each other well enough to be able to communicate directly outside of official hierarchical channels. Such informal communication and coordination may create a mutual understanding of objectives and challenges and significantly contribute to successful formal collaboration.

Essentially, **coordination is about people working together to achieve common goals**. A well-designed coordination system thus needs to provide:

- **a people-centred environment** that encourages personal initiative, creativity and leadership, as well as non-formalized cooperation and information sharing between public officials working in different organizational units and institutions;
- **formal structures** within which people exchange information and work together on designing and implementing policy documents and measures; such formal structures may include inter-institutional working groups, coordination and decision-making bodies, as well as arrangements for engaging non-government stakeholders and beneficiaries;
- **formal and informal processes** that create a shared understanding, alignment and complementarity of goals between different actors involved in policy design and implementation;
- **documents** that set agreed objectives, policy directions and measures.

² B. Guy Peters: The Challenge of Policy Coordination, Policy Design and Practice, Vol. 1, No. 1., pp 1-11, 2008.

Within public administrations, **coordination structures are often focused on producing a document** such as a strategy or an action plan, whereby the emphasis is on distribution of tasks, enforcing timelines, and reconciliation of diverging views and interests of participating line ministries and institutions. **The human, or softer aspects of coordination**, such as joint work, co-creation, personal initiative and informal communication **are often pushed aside due to time pressure, hierarchical relationships or lack of awareness about their importance.**

Horizontal and vertical coordination of regional development policy

Horizontal coordination. The principle of integrated development, as enshrined in the Law on Principles of the State Regional Policy, requires the state-level RDP to use a combination of sectoral and territorial approaches. The **territorial approach**, i.e., the measures targeted at regions and communities as beneficiaries, is the core of the RDP and a direct responsibility of the ministry concerned with regional development. The **sectoral approach** consists of state-level policies implemented by line ministries in their area of responsibility, but with differentiated impact on regions and territories. Policy sectors with strongest regional impact include infrastructure, energy, agriculture, entrepreneurship, innovation, labour market, housing and social protection. **The task of RDP decision-makers is to ensure that sectoral policies take the regional dimension of their impact into account and complement the measures directed at regions and communities as beneficiaries.**

Some elements of the hierarchical approach may be applied to the horizontal RDP coordination within the Cabinet of Ministers of Ukraine (CMU), given that the minister in charge of regional development is at the same the Vice Prime Minister for Restoration. Nevertheless, for line ministries the regional development agenda is of secondary importance next to their primary responsibility and accountability for sectoral policies. **Reaching a common understanding of complementarities between sectoral and regional policy objectives and measures** is therefore a key condition for successful horizontal coordination.

Vertical coordination. Development measures are designed and implemented at all levels of governance, from the central level to the level of local self-governing communities. **The legal principle of subsidiarity, as well as the necessity to adapt the development measures to local circumstances and capacities, limit the applicability of a hierarchical (top-down) approach to vertical coordination.** Given the number of regions, let alone local communities, it is also difficult to imagine a formal coordination structure that could successfully coordinate all the measures and actions taken at different levels.

The vertical coordination of RDP in a multi-level governance setting, whereby at least the lowest level of local communities is clearly based on self-governance and autonomy, but has the least resources for investing in development, requires development of "soft" coordination mechanism. **Emphasis should be put on communication, developing a shared understanding of development needs and priorities, supporting policy design and management capacity at local level and empowering local ("bottom-up") development initiatives.** An important coordinating role should be assumed by regional councils and executive bodies, regional development agencies and voluntary cooperation networks between local

communities with shared development challenges. In recent years, especially in the context of the EU's cohesion policy, RDP that supports and builds on local initiatives has become known as a place-based or *place-sensitive regional development policy*.

The immediate priority of reconstruction and recovery

In parallel with the military response to the Russian aggression, organizing the war economy and adapting public services to the needs of the society during wartime, Ukrainian authorities are already planning and preparing for the post-war recovery period. Less than two months after the beginning of the war, on April 21, 2022, the President of Ukraine established the National Council for the Recovery of Ukraine from Consequences of the War (the Recovery Council) and initiated the preparation of the draft Ukraine Recovery Plan (URP)³.

The draft URP puts the immediate post-war recovery into a longer-term development perspective, by dividing its ten-year planning horizon into **three stages**:

- *the stage of the ongoing war*, assumed until the end of 2022 at the time of preparing the URP,
- *the reconstruction and recovery stage*, from 2023 to 2025, and
- *the modernization and EU integration stage*, from 2026 to 2032.

A terminological clarification needs to be made at this point. In the Ukrainian title of the plan (План відновлення України), the word "відновлення" is officially translated as "recovery". On the other hand, the abbreviation "MinВідновлення" used for the Ministry of Communities, Territories and Infrastructure Development (MCTID) is officially translated as "MinRestoration" (and not MinRecovery). These variants in translation reflect the different contexts in which the same word, i.e. "відновлення", is being used. For example, the longer-term perspective of the URP that covers not only the immediate reconstruction but also modernization and development of the country is better reflected by using "recovery" rather than "restoration". On the other hand, the amended Law on Principles of State Regional Development Policy defines the meaning of "відновлення" mainly in terms of reconstruction and hence the translation "restoration" seems more appropriate in this case.⁴

For the purposes of this policy paper, we shall understand that:

- *restoration (reconstruction)* refers to repairing or rebuilding of structures that were damaged or destroyed during the war, including both physical and social infrastructure, as well as the rehabilitation of land that was contaminated, mined or otherwise degraded,
- *recovery* is about reviving economic activities, social networks and public services that were affected by re-orientation towards the needs of the war economy and humanitarian relief, relocation or closing of enterprises and migration of people towards the West of the country and abroad,

³ <https://recovery.gov.ua/>

⁴ "A set of priority organizational, financial and other measures aimed at the accelerated restoration of critical infrastructure, social infrastructure, residential and public facilities to a state that enables the return of internally displaced persons and refugees to the region, the creation of favourable conditions for the activities of all business entities."

- **modernization (development)** requires structural changes in the economy, institutions and governance that will create a more competitive and resilient economy and higher levels of well-being for the population. Experience of the new EU member states shows that the requirements of the **EU integration process** are both a motivating and a pressuring force for modernization and structural change.

I.2 Challenges for the regional development policy in the present context

The process of reconstruction, recovery and modernization presents the regional development policy with three important challenges.

Integrating the longer-term development perspective with restoration efforts

The schematic timeline of the draft URP puts reconstruction and recovery before modernization, but this should not be understood as suggesting that the purpose of reconstruction is simply restoring the status-quo ante, i.e., rebuilding the destroyed infrastructure and bringing the economy and public services back to the pre-war level. Rebuilding infrastructure should, as much as possible given the time pressure and limited financial resources, follow **the well know principle of "building back better"**. This principle implies the need to avoid "rebuilding what has not been used and will not be used" and "applying morally outdated approaches to reconstruction and restoration."⁵ The principle applies to both physical infrastructure of transport, energy and communication networks as well as to the social infrastructure of housing and public services such as education and health. Furthermore, it is also relevant for economic recovery. More than simply restoring the economic activity to the pre-war level and structure, the recovery efforts should aim at creating a renewed economic and entrepreneurial dynamics, oriented towards exploring future needs and development opportunities.

Considerations of future modernization and development needs should thus be, as much as possible, integrated already in the reconstruction and recovery phase. For the RDP, this creates **the challenge of ensuring that medium and long-term development strategies of regions and communities are reflected in their short-term restoration planning documents.**

Developing a place-sensitive approach to regional development

Clearly, the reconstruction and recovery needs differ between regions and territories. Reconstruction is urgent in the regions and territories most affected by war destruction, which are concentrated in the Eastern and Southern parts of the country. In these regions and territories, reconstruction of at least the basic infrastructure is a pre-condition for recovery and revitalization of the economic and social life. On the other hand, regions and communities less affected by the destruction are facing their own challenges of sheltering the internally displaced persons (IDP), supporting them with adequate public, administrative and social services, and integrating them into local economic activities and social networks. This challenge will continue for some time

⁵ Anatoly Tkachuk, Yuriy Tretyak, Ivan Lukerya: State regional policy 2023: to be or not to be?; <https://zn.ua/ukr/internal/derzhavna-rehionalna-politika-2023-buti-chi-ne-buti.html>

after the war until conditions for re-settlement of IDP in their original place of life and work are created.

The differentiated geographical impact of the war has made the regions even more different than before in terms of their development opportunities and the kind of support they need from the state. For the RDP, which aims at reducing development disparities between regions and territories, this presents **the challenge of adopting a place-sensitive approach to regional development**. The simple differentiation of regions into two groups based on their relative GDP per capita levels, as applied by the State Regional Development Fund (SFRD), will no longer be sufficient. A much more nuanced place-sensitive approach to RDP needs to be developed, based on identifying and supporting locally and regionally driven development initiatives.

Although some instruments and approaches of a place-sensitive RDP are already incorporated in the legislation, **the system of vertical coordination, i.e. the multi-level governance, stills need to be adapted to allow for more flexibility and bottom-up initiative**.

Empowering the regional development policy within the new institutional setting

The immediate focus of Ukrainian authorities on post-war reconstruction and recovery is exemplified by the recent restructuring of the CMU, whereby the ministries responsible for infrastructure and regional development were merged into the MCTID. The ministry is led by the Vice-Prime Minister for Restoration. An implementing agency, i.e. the State Agency for Restoration and Infrastructure Development of Ukraine (Restoration Agency), has also been established.

Merging the responsibilities for the RDP with the former ministry in charge of infrastructure creates both risks and opportunities. The risk in the longer-term is that the RDP may become overly oriented on investments as development instrument while paying less attention to soft measures such as support for the SMEs, innovation activity, education, training, capacity-building and quality of public services. In the short-term, the risk is that the reconstruction efforts might lose sight of the development perspective.

The main opportunity is that, being part of a financially and politically stronger ministry which is headed by a vice Prime Ministers leading on the restoration process, may empower the RDP policymakers to ensure that the objectives of the RDP are better incorporated in sectoral policies that impact the development of regions and territories. This presents **the challenge of strengthening the horizontal coordination between the RDP and sectoral policies within the CMU and with other state-level governance institutions**, but firstly also within the newly established ministry.

Risks of not addressing the challenges

The following chapters of this report address the identified challenges in turn:

- integrating the regional development dimension into the draft URP and coordinating the restoration process with implementation of the RDP (**Chapter II**),

- developing a place-sensitive approach to the RDP and designing effective instruments for empowering and supporting regionally and locally driven development initiatives (**Chapter III**),
- strengthening the horizontal coordination of the RDP with sectoral policies implemented at the state level (**Chapter IV**).

The fourth challenge, i.e., **the challenge of a gradual adaptation of the RDP to the standards and requirements of the EU cohesion policy**, is addressed by a complementary policy paper.⁶ Nevertheless, it should be clear that the four challenges are inter-connected and that the European Commission (EC), in assessing Ukraine's progress towards accession, will look at broader issues of RDP governance and implementation. For example, the EC's first analytical report on Ukraine highlighted the need to improve the coordination and multi-level governance of the RDP.⁷

Not addressing these challenges appropriately entails important risks for the success of the regional development policy:

- a failure to integrate the recovery process with measures aimed at medium-term regional and local development would result in the development perspective being disregarded during the restoration process; this may lead to investments in infrastructures and capacities that may later soon become obsolete or not in line with the specific development opportunities and perspectives of different territories;
- a failure to incorporate the principles of a place-sensitive regional development policy would discourage the local initiatives and ownership of the development process and, instead, nourish the culture of dependency on state support;
- a failure to develop horizontal coordination of sectoral policies with the RDP could lead to duplication of efforts, prevalence of special interests and contradictions between sectoral policy goals and territorial needs;
- a failure to integrate the processes of upgrading the RDP and preparing for EU accession could lead to over-emphasizing the legal and other formal accession requirements at the expense of developing effective policies and achieving real structural changes in the regions.

⁶ [Mojmir Mrak and Piotr Źuber: Ministry responsible for regional development as a driver of Ukraine's EU accession process in the field of regional and local development, U-LEAD policy paper of March 2023.](#)

⁷ Analytical Report following the Communication from the Commission to the European Parliament, the European Council and the Council Commission Opinion on Ukraine's application for membership of the European Union, Commission Staff Working Document of February 1, 2023.

II. Regional development policy and restoration

This chapter discusses the first of the three identified challenges, i.e. **the challenge of integrating the process of restoration with RDP objectives**. Integration should be assured at three levels:

- the national-level reconstruction and recovery planning (i.e., the draft URP),
- the regional and local-level planning (i.e., the restoration and development plans and the comprehensive restoration programmes),
- the operational arrangements for implementing restoration projects.

II.1 The regional development dimension of the URP

The draft URP, which was not yet formally approved by the CMU or the VRU, consists of 17 national programmes. Each of them includes a long list of activities and national projects to be implemented. However, the online presentation of the URP does not provide any information on the content, objectives and timelines of projects and activities. More details are available in background documents prepared by 24 thematic working groups. The working groups' documents provide an analysis of the current situation, identification of the key issues, the main objectives, priority activities for the three stages of implementation, and a list of proposed national projects with performance criteria, implementing institutions and estimated costs.⁸

National programmes of the URP cover most public policy areas. As such, **the URP could play the role of a key strategic document driving the government's policy in the coming decade**, progressively expanding the focus from reconstruction and recovery to modernisation and development. It was also **intended as a document defining Ukraine's priorities for international financial assistance**; with that purpose in mind, a blueprint URP was presented to the international Ukraine Recovery Conference in July 2022.

Linking RDP with the URP has two aspects: the content aspect, i.e. assuring that the projects and objectives of the URP integrate a regional dimension, and the coordination aspect, i.e. assuring effective communication and cooperation between the structures set for coordinating the implementation of the URP and the structures for coordinating the RDP.

Integration of RDP objectives and indicators into the URP

The overall objectives of the URP are expressed by five headline indicators and their target values, namely:

- number of projects,
- value of financing,
- Ukraine's rank in the Economic Complexity Index,
- Ukraine's rank in the Human Development Index,
- impact on GDP.

⁸ Documents of the working groups are available at: <https://www.kmu.gov.ua/diyalnist/nacionalna-rada-z-vidnovlennya-ukrayini-vid-naslidkiv-vijni/robochi-grupi>

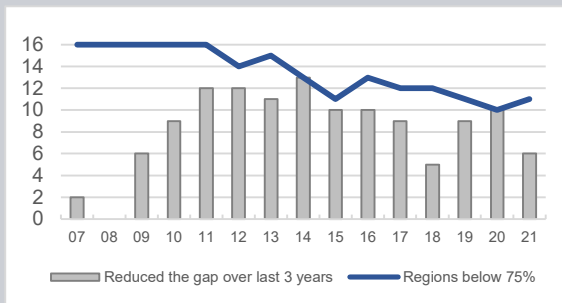
Monitoring and evaluating the results of the URP will require a broader set of indicators. Indicators are not only important for monitoring; their selection and targets provide orientation and focus to decision-makers and designers of projects and policies. To increase the attention to the regional development dimension, **the URP headline indicators should include targets related to the main objective of the RDP**, i.e. the balanced regional development (see [Box 1](#)).

Box 1: Introducing regional development indicators into the URP

We propose three headline indicators, based on data available from the State Statistics Service (Ukrstat), which could be used to monitor the trends in regional development linked to the URP implementation.

Number of regions with the gross regional product per capita (GRP p.c.) lower than 75% of the Ukraine's gross domestic product per capita (GDP p.c.)

This is the headline monitoring indicator of the State Strategy for Regional Development (SSRD). For each year, the chart below also shows the number of regions that managed to reduce their gap to the 75% threshold over the previous three years.



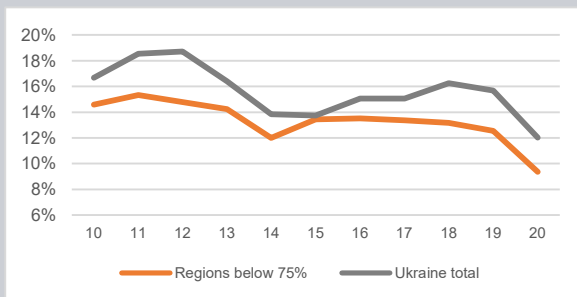
From 2014 onwards, the data does not include the Autonomous Republic of Crimea, the City of Sevastopol and the temporarily occupied territories within the Donetsk and Luhansk region.

Before 2014, the GRP p.c. of the Autonomous Republic of Crimea was below the 75% threshold. The GRP p.c. of the Donetsk region was above the Ukraine's GDP p.c. before 2014, but below 60% for the non-occupied territory since 2015.

The regions with GRP p.c. below the 75% threshold in 2007-2011, but above the threshold in 2021, are Lviv, Chernihiv, Vinnytsia, Cherkasy, Kirovohrad and Sumy.

Investment in the GRP of regions with GRP p.c. less than 75% of Ukraine's GDP p.c.

Investment is a key factor behind rapid economic growth. In the least developed regions, the share of investment in their GRP should therefore be higher than in the whole country. This will be particularly important during the recovery period.



The data does not include the Autonomous Republic of Crimea and the City of Sevastopol and, from 2014 onwards, the temporarily occupied territories within the Donetsk and Luhansk region.

The indicator for regions is calculated as the average of the investment shares for regions with GRP p.c. below 75% of the Ukraine's GDP p.c. in any given year.

Employment rate in regions compared with the whole of Ukraine

Economic growth is expected to create job opportunities and higher employment rates, but this does not come automatically. Therefore, the employment indicators need to be monitored separately.

The Ukrstat publishes regional employment data on a quarterly basis from 2018. The most recent data is for the last quarter of 2021. In this period, the employment rate of the working age population in Ukraine was 65.3%. In 8 regions, the employment rate was more than 3 percentage points lower than in the whole country. These regions are not necessary the ones with the lowest GRP p.c. For example, in Kirovohrad, whose GRP p.c. was already at 83% of the Ukraine's GDP p.c., the employment rate was still only 62%. On the other hand, the employment rate in Kherson (68%) was above the rate for the whole country, although the region's GRP p.c. level at only 66% of the Ukraine's GDP p.c.

Source of data: Ukrstat Regional Statistics and own calculations.

National programme "Restoration and upgrade of housing and regions' infrastructure"

This national programme is dedicated to the RDP and includes 103 projects under responsibility of the MCTID as the lead ministry, with an estimated total value between 150 and 250 bn USD.⁹ The listed projects comprise:

- a. **Country-wide regional development projects**, supporting cohesion between regions, human capital development (training for the needs of regional labour markets, creation of lyceums for gifted children, creative economy centres, etc.) and security infrastructure of territorial communities.
- b. **Regional development projects for selected macro-regions and regions with specific needs**, for example the Danube, the Azov-Black Sea, the Dniester canyon and the Carpathians macro-region, projects for border regions in adverse conditions, the "New Ukrainian Village" project, the Odessa summer capital project and the Shatsky Lake district project.
- c. **Economic development projects**, supporting investments in regional growth poles with their spill-over effects, a fair transformation of monofunctional cities, the industrial parks' infrastructure, the local production of glass, insulation materials and biodiesel, the provision of centralized water supply and sewage to relocated enterprises and the employment of internally displaced persons.
- d. **Projects for damaged buildings used for provision of public services** (education, health, social protection, administrative services etc.): restoration, preservation and re-use of buildings.
- e. **Housing projects**: restoration and repair of damaged housing buildings, construction of new buildings, provision of social and temporary housing, rent subsidies, mortgage lending.
- f. **Construction, restoration and modernization of life support systems**: water supply networks, sewage, wastewater and waste management systems.
- g. **Sustainable energy use projects**: district heating and cooling, modernization of heating sources and co-generation, thermal insulation, nearly zero-energy and zero-emission buildings, electrification of public transport, community energy management systems, local and regional energy plans and bankable investment projects.
- h. **Support to development actors at the regional level** for implementation of regional development strategies adapted to post-war conditions, preparation of local spatial development plans and strengthening the capacity of regional development agencies.
- i. **Provision of data and analysis for evidence-based RDP**: the geographical information system (GIS) for monitoring the state regional policy and regional and local development, the state urban cadastre and the national register of buildings and structures, an information system on life-support systems in settlements, a state register of citizens in need of housing, an analysis of IDP situation and an assessment of the natural resource potential of regions.

⁹ <https://recovery.gov.ua/en/project/program/recovery-and-upgrade-of-housing-and-regions-infrastructure>

For each of the 103 projects, the document of the URP working group on "Construction, urban planning, modernization of cities and regions"¹⁰ provides a brief description, performance targets, estimated costs, required normative changes and responsible implementation bodies. **Many projects will require cooperation of the MCDTI as the leading implementation body with several other line ministries and regional authorities.**

Related national programmes of the URP

Several other national programmes address sectoral policies with important impact on development of regions and territories. For example:

- [adapting the education system to the needs of the labour market](#) is addressed in the national programme "Improve the education system" and in the document of the working group on education and science,
- the same working group document addresses [science and innovation policy](#), which is included in the national programme "Grow the value-added sectors of the economy",
- [economic recovery and development measures](#) are included in the national programme "Boost the business environment" and analysed in the document of the working group on economic recovery and development,
- [energy sustainability and security projects](#) are included in the national programme "Energy independence and the green deal" and discussed in the document of the working group on Energy security,
- [infrastructure in general](#) is discussed in the document of the working group on restoration and development of infrastructure and mostly covered in the national programme "Logistics de-bottleneck and integration with the EU".

This complex structure of national programmes and not fully matching working group documents will require the MCTID not only to effectively coordinate with other line ministries in implementation of the national programme dedicated to the RDP, but also **to coordinate with the ministries responsible for implementation of other national programmes where synergies could be sought between the sectoral and regional development policies and projects.**

Coordination structure of the URP

The Presidential Decree 266/2022 of 21 July 2022, amended by Decree 411/2022 of 15 June 2022,¹¹ established **the Recovery Council** at the highest political level. The council is co-chaired by the President of the Verkhovna Rada of Ukraine (VRU), the Prime Minister and the Head of the Office of the President of Ukraine. Membership comprises Vice Prime Ministers and ministers of the CMU, chairpersons of relevant VRU committees, the Secretary of the National Security and Defence Council, the Chairman of the National Bank of Ukraine, and the Permanent Representative of the President of Ukraine in the Autonomous Republic of Crimea.

¹⁰ <https://www.kmu.gov.ua/storage/app/sites/1/recoveryrada/eng/construction-urban-planning-modernization-of-cities-and-regions-eng.pdf>

¹¹ <https://zakon.rada.gov.ua/laws/show/266/2022#n92>

Although not explicitly provided for by the decree, it can be expected that the Council will remain engaged as a body overseeing and monitoring implementation of the URP, once adopted, with working groups providing support and consultations to ministries and other bodies responsible for implementation.

The political level leadership of the reconstruction and recovery process was entrusted to the Vice-Prime Minister for Restoration, who at the same time serves as the minister of the MCTID. This gives the MCTID the central coordinating role in implementation of the URP, at least in the reconstruction and recovery phase. **The MCTID leadership should assure that the management of organizational units responsible for RDP is involved and has a voice in coordinating the implementation of all URP programmes with important impact on development of regions and territories.**

II.2 Planning for restoration at regional and local level

Comprehensive restoration programmes

Amendments to the Law on Urban Planning, approved on May 12, 2022,¹² introduced a new planning document, i.e. the comprehensive restoration programme prepared by regions and local communities which suffered from the armed aggression against Ukraine or in which socio-economic, infrastructural, ecological or other crisis phenomena are concentrated. Specifically, the law regulates:

- [comprehensive restoration programmes of regions](#)¹³ – to be developed by the decision of the head of the regional state administration and approved by the relevant regional council;
- [comprehensive restoration programmes of territorial communities or their parts](#)¹⁴ – to be developed by the decision of the executive body of the village, settlement, city council and approved by the relevant local council as well as by the authorized body of urban planning and architecture of the regional state administration.

Comprehensive restoration programmes should define the main spatial, urban planning and socio-economic priorities of the restoration policy and include a set of measures for ensuring the restoration of a territory. The law defined the required content of programmes, and a related government resolution further detailed the procedures for preparation, consultation and approval.¹⁵

¹² <https://zakon.rada.gov.ua/laws/show/2254-IX#Text>.

¹³ Програма комплексного відновлення області.

¹⁴ Програма комплексного відновлення території територіальної громади (її частини).

¹⁵ Government Resolution (Postanova) No. 1159 of October 14, 2022.

Table 1. The required contents of comprehensive restoration programmes

Regional comprehensive restoration programme	Local comprehensive restoration programme
General description of the area	General description of the settlement (territory) including general economic evaluation, environmental assessment, number of permanent population and of temporarily displaced population.
Information on the availability of urban planning documentation, analysis of its relevance and degree of its implementation.	The same.
Information on the existence of a regional development strategy, analysis of its relevance and degree of implementation.	None.
Analysis of negative impacts (including hostilities, terrorist acts, sabotage, emergency situations) that led to the need to develop the program.	The same, and specifically also <ul style="list-style-type: none"> – the analysis of negative effects on the environment, historical areas, objects of cultural heritage, – information on the damage caused to objects of residential real estate, objects of public purpose, objects of the production complex, objects of the social sphere; objects of cultural heritage, objects of housing and communal services, objects of engineering and transport, energy infrastructure, electronic communication networks, engineering infrastructure of reclamation systems, protective structures of civil protection, and other objects that have an impact on the life activity of the relevant territory.
Analysis of the territory's resources for restoration of the region's vitality.	Analysis of the territory's resources for restoration of vital activities.
Information on the need to prepare the territory (including demining, dismantling of destroyed buildings and structures, land reclamation).	The same.
Information on the technical and economic feasibility of restoring settlements (territories) affected by hostilities, acts of terrorism, sabotage, emergency situations.	Information on the technical and economic feasibility of restoring damaged objects by performing works on reconstruction, restoration, major or current repairs. Information on the technical and economic feasibility of restoration of objects through new construction or construction of new objects, with the determination of the application of reuse projects and the development of individual design solutions.
Information on the technical and economic feasibility of restoring engineering and transport infrastructure, energy infrastructure, infrastructure of electronic communication networks, engineering infrastructure of reclamation systems.	Information on the necessary measures of engineering preparation and engineering protection of the territory.

Regional comprehensive restoration programme	Local comprehensive restoration programme
Substantiated proposals for changing the functional purpose of certain territories of the region (which have an impact on the interests of several territorial communities), taking into account the existing buildings and urban planning documentation.	The same (at the level of the territorial community) and including proposals for changes or development of the urban planning documentation at the local level.
Substantiated proposals regarding the relocation of production facilities (which have an impact on the interests of several territorial communities).	The same (at the level of the territorial community).
General approaches and proposals for comprehensive restoration and development of the region and measures for their implementation.	A plan of measures to ensure comprehensive restoration of the territory with determination of priority.
Preliminary financial and economic calculation of the measures to ensure comprehensive restoration.	The same.
Proposals regarding the sources of financing the measures to ensure comprehensive restoration.	The same.

It is obvious from the table that **the required information content for local programmes is more detailed and broader than for the regional ones**. This is justified by the fact that local communities have the best information on damages, the locally available resources and the needs of the population in their territory. **However, the law at the same time stipulates that the provisions of the regional programmes are "components of the initial data" (i.e., inputs) for local programmes**. Given that more detailed information is available at local level, the opposite approach, i.e. local programmes being inputs for the regional ones, would seem more logical. In particular, components of the regional programmes related to the negative impacts, the need for demining and rehabilitation of land and the availability of urban planning documentation could best be prepared by collecting and summarizing the information from local communities and their programmes.

The legal requirements duly reflect the principle that restoration should not be understood as simply building back everything that was damaged. The restoration programmes are thus required to assess the technical and economic feasibility of restoring the damaged infrastructure (at the regional level) and buildings (at the local level). The regional programmes are also expected to assess the feasibility of restoring settlements and territories affected by the war. **In order not to contradict the principle of subsidiarity, assessments related to restoration of settlements and territories should be prepared in agreement with local communities**, with the exception of settlements that were completely destroyed and depopulated and, currently, have no functioning local governance institutions.

Restoration and development plans

The amendments to the Law on Principles of the State Regional Policy, passed two months after the amendments to the Law on Urban Planning, require regions and territories affected by the armed aggression to prepare another special set of planning documents, specifically:

- a plan for restoration and development of regions¹⁶ – to be developed by the MCTID, together with other central and local bodies of executive power, and approved by the CMU;
- regional restoration and development plans¹⁷ – to be developed by the Council of Ministers of the Autonomous Republic of Crimea, regional, Kyiv and Sevastopol city state administration; regional plans should include individual measures and projects of regional development and/or projects of local development of territorial communities;
- plans for restoration and development of territorial communities¹⁸ – developed and approved by the village, settlement, city council.

In March 2023, the MCTID prepared a **draft CMU resolution on preparation and monitoring of the restoration and development plans**. The preparation of documents at different levels of government is planned to proceed in parallel along a unified timeline and within a hierarchical coordination setting. The plans should be prepared for the period until the end of 2027.

Table 2. The proposed content, preparation process and monitoring of restoration and development plans

	Plan for restoration and development of regions	Regional restoration and development plans	Plans for restoration and development of territorial communities
Responsibilities			
Preparation	MCTID with inputs from line ministries.	The Council of Ministers of the Autonomous Republic of Crimea, regional, Kyiv and Sevastopol city state (military) administrations.	Executive authority of the village, settlement, city council.
Approval	CMU.	CMU (as part of the Plan for restoration and development of regions).	Local councils, upon approval by the regional administration or council.
Content and coherency assurance			
Content	Tasks and measures Regional (local) development projects Estimated costs and possible funding sources Regional reconstruction and development plans	Tasks and measures Regional (local) development projects Estimated costs and possible funding sources	Tasks and measures Regional (local) development projects Estimated costs and possible funding sources
Vertical coherency	Includes projects of the regional restoration and development plans.	Projects, task and measures subject to MCTID approval.	Takes into account the agreed proposals submitted to the MCTID in the draft regional restoration and development plan.

¹⁶ План відновлення та розвитку регіонів.

¹⁷ Регіональний план відновлення та розвитку.

¹⁸ План відновлення та розвитку територіальної громади.

	Plan for restoration and development of regions	Regional restoration and development plans	Plans for restoration and development of territorial communities
Coherency with comprehensive restoration programmes		Includes regional (local) development project of the regional comprehensive restoration programme.	Developed on the basis of the comprehensive restoration programme, had the village, settlement, city council decided to develop it.
Preparation timeline			
Condition	CMU approves the list of territorial communities and regions included in the restoration area.		
Beginning	MCTID inform the regional administrations about the beginning of the preparation process. Within 5 working days, regional administrations inform local councils.		
1 month		Regional plans submitted to the MCTID.	Local plans submitted to regional administrations.
1 month and 10 days			Regional administrations or councils approve the plans or require revision.
1 month and 15 days			Local plans resubmitted after revision.
2 months		MCTID provides comments.	
2 months and 10 days		Regional plans resubmitted after revision.	
Monitoring of the implementation			
February 15	The central executive authorities, the regional administrations and councils submit a report to the MCTID on the state of implementation of their tasks, measures and projects,		Local councils prepare and publish a report on the implementation of the plan.
Indicators	<p>Number of successfully implemented regional and local plans.</p> <p>Number of successfully implemented regional and local development projects.</p> <p>Number of restored objects of critical and social infrastructure, residential and public facilities.</p>	<p>The list of development project must include, for each project:</p> <ul style="list-style-type: none"> – expected qualitative results, – indicators of expected quantitative results, – estimated amounts and sources of funding. 	

The proposed provisions for restoration and development plans **ensure the vertical coordination in a hierarchical way**, whereby the plans of a lower governance level need to be approved by a higher governance level authority. This **does not fully respect the principle of subsidiarity**. No criteria are set for the assessment of lower-level plans which may lead to voluntary rejection or approval of specific projects and measures. There is also no delimitation about which types of project fall within the responsibility and competence of different governance levels.

Clarifying the obligation to prepare restoration plans and programmes

According to the draft CMU resolution, [the regional and local restoration and development plans](#) will need to be prepared by the territorial communities and regions which will be classified as restoration areas by a CMU decision.

The draft resolution proposed that **a territorial community may be recognized as a restoration area** if the Ukrainian authorities are exercising power on its territory, no military actions are taking place and one of the following criteria is met:

- military actions took place on the territory of the territorial community;
- the territory of the territorial community was temporarily occupied;
- there is destruction of critical infrastructure, social infrastructure, and housing facilities as a result of military actions and shelling;
- the population has changed by more than 15 per cent compared to 1 January 2022;
- the number of job positions has changed by more than 15 per cent compared to 1 January 2022;
- the number of internally displaced persons is more than 10 per cent of the total population of the territorial community as of 1 January 2022.

The restoration area may include a region that includes territorial communities classified as restoration areas.

Upon approval of the resolution, the MCTID will request the regional administrations and councils to submit a list of territorial communities meeting the criteria. The local communities not included in the list will have the possibility to request inclusion from the relevant regional authority. The MCTID will then form a commission which will decide on the list of restoration areas and submit it to the CMU for final approval. The commission will consist of MCTID representatives and the members of the VRU committee responsible for regional policy and urban development.

Although inclusion of the VRU deputies in such commissions is the usual practice in Ukraine, there is no need for it in this case. The classification criteria set by the draft resolution are clear and objective, so that the preparation of **the list of restoration areas should be a purely technical matter**. Delegating this technical task to a political-level commission entails **the risk that the assignment of territories becomes a politicized process rather than being based on the agreed criteria and objective evidence**.

Regarding [the comprehensive restoration programmes](#), the Law on Urban Planning envisions that would be prepared by local communities and regions which suffered as a result of armed aggression or in which socio-economic, infrastructural, ecological or other crisis phenomena are concentrated. Criteria for the "concentration of crisis phenomena" are not set by the law nor by the related CMU resolution.

The specific wording of the law, i.e. that the comprehensive restoration programmes shall be developed "by the decision of the head of the regional state administration" or "by the decision of the executive body of the village, settlement, city council", may be interpreted as implying that **the preparation of the comprehensive restoration programmes is not obligatory**. If this understanding is correct, then there is also no

need to further specify the criteria for regions and territories that may or need to prepare such programmes.

In any case, the updated assessment of damages and losses, prepared by the World Bank¹⁹, finds that 14 regions suffered damages in the value of less than 1 billion USD during the first year of the war. At the same time, the economic losses in these regions are considerably higher than the value of damages. **This may imply that most regions and many communities will be required to prepare their restoration and development plans** and that they may also decide to prepare the comprehensive restoration programmes.

Integrating restoration plans and programmes

The co-existence of two sets of planning documents, based on two different laws, raises the questions about alignment, complementarity and overlap between documents, and indeed even about the rationality of requesting regional and local authorities to prepare two different kinds of document in the present difficult situation.

To avoid confusion and overlap, and economize on the scarce planning capacity of the regional and in particular the local authorities, **this policy paper recommends that the two planning documents are integrated into a single document.**

The draft CMU resolution on restoration and development plans **partially provides for such integration** by requiring that the projects already planned in the comprehensive restoration programmes are included in the regional and local plans.

What is lacking in the prescribed content of regional and local restoration and development plans **is a wider and medium-term perspective on the directions and opportunities for development of communities and regions.**

It is therefore recommended to enhance the draft government resolution on restoration and development plans by provisions stipulating that:

- the restoration and development plans should include comprehensive restoration programmes as their integral part, but only in cases where such programmes were already prepared; it should at the same time be clearly stated that comprehensive restoration programme is not a condition for preparing and submitting the restoration and development plan;
- the restoration and development plans should briefly summarize the main directions and priorities of existing regional development strategies and development planning documents of local communities, where such exist, and explain if and how the impact of war may affect the implementation and the directions of these documents;
- explain how the projects included in the plan will support the medium-term priorities of existing regional development strategies and local development planning documents.

¹⁹ Rapid Damage and Needs Assessment February 2022 – February 2023, the World Bank Group: <https://ukraine.un.org/en/224376-ukraine-rapid-damage-and-needs-assessment>.

Delimitation between regional and local restoration planning

The legal amendments that introduced new planning documents did not provide sufficient clarity on the matters which should be covered by the regional documents on one hand and the local documents on the other. Based on the principle of subsidiarity (and the theory of fiscal federalism), **the obligation for planning should match with the managing responsibilities of different levels of government.**

This principle implies that **planning at the state and regional level should be primarily concerned with the infrastructure of national or regional importance**, for example airports, highways, universities, hospitals, energy production and transmission network. Regional level planning should also include infrastructure of a multi-municipal nature, such as regional roads, regional water / wastewater treatment plants or waste management centres. On the other hand, **a large portion of infrastructure falls within local competences and affects the ability of municipalities to deliver local services and drive socio-economic development** – for example, housing, local roads, schools, clinics, distribution networks. This infrastructure should primarily be a matter of local-level planning.

II.3 Operational management of the restoration process

The operational management of the restoration process is entrusted to the Restoration Agency²⁰. The Agency was established in January 2023 by merging the former State Road Agency with the State Agency for Infrastructure Projects.

The main task of the Restoration Agency is to implement state policy regarding construction (new construction, reconstruction, restoration, overhaul), repair and modernization of infrastructure. The long list of infrastructures within the Agency's remit includes, inter-alia:

- local infrastructure of housing, communal and social services,
- residential real estate objects and improvement of settlements,
- household waste management and waste treatment facilities and landfills,
- production complexes,
- transport, energy infrastructure and energy efficiency of buildings.²¹

This, however, does not mean that the Agency will implement or manage all restoration projects in these areas. Rather, it will get involved with projects of regional and local executive authorities only when there is a need for financial or project management support. According to the presentation shared by the Agency, the immediate priority is to define a portfolio of projects in regions most affected by the war and implement the most urgent and critical projects first.

The regular procedure for supporting the projects will consist of the following steps:

- the initiator of the restoration project submits **an application** to the Register of Damaged and Destroyed Property; the initiator can be any asset custodian, i.e.,

²⁰ Державне агентство відновлення та розвитку інфраструктури України (Агентство відновлення).

²¹ Government Resolution No. 193 of February 21, 2023.

- a local self-government body, regional or local administration, state or municipal enterprise or a state-level executive authority;
- among the applications, the **MCTID selects priority projects** in line with the strategic areas defined by the CMU;
- approved **projects are transferred to the Restoration Agency** for further implementation; the transfer can take place at any stage of implementation, and it entails the transfer of client's rights from the project initiator (or asset owner, if not the same) to the Agency;
- **the agency** develops project design and costing, if not already available, and **procures works and services** necessary for project implementation and completion.

The procedure as outlined in the Agency's presentation does not make any reference to either comprehensive restoration programmes nor restoration and development plans. Rather than by these planning documents, the selection among the proposed project will be done by the MCTID according to the strategic areas defined by the CMU. Such top-down approach is justified in the present situation, where local and regional restoration planning documents have not been developed yet, and there is a need to strategically prioritise the use of limited resources available for restoration projects. The need to act fast may also justify the approach where, for the selected projects, the Agency simply takes over their implementation from the project initiator.

Although local communities have the weakest fiscal capacity for restoration projects, both in terms of their budgets and the ability to take loans, **it may be expected that the short-term focus on strategic restoration areas will crowd-out smaller local projects**. In future, the project selection procedure should therefore be further developed in line with the subsidiarity principle and the need to strengthen local project management capacity and ownership.

For projects that will be included in approved regional and local restoration and development plans, no further priority check by the MCTID should be required (but, needless to say, the projects should still be checked by the Restoration Agency for their technical soundness, economic feasibility and implementing capacity). The agency should gradually **move from direct implementation towards supporting and advising local and regional authorities** on project planning and implementation, i.e. the project management cycle. It can be understood from the Agency's presentation that regional offices of the former State Road Agency could assume this supportive role.

II.4 Financing reconstruction and recovery

The updated Rapid Damages and Needs Assessment by the World Bank estimated the financial needs for recovery and reconstruction at 411 billion USD. The URP, which took a longer-term development perspective into account, estimated that an investment of over 750 billion USD will be needed over the next 10 years.

Two major proposals have been put forward regarding a possible financial and governance architecture for international support to recovery and reconstruction of Ukraine. The EC proposed establishing a Ukraine Reconstruction Platform and a RebuildUkraine financial facility in their communication of 15 May

2022.²² The Platform would serve as a coordination mechanism bringing together the EU member states, other bilateral and multilateral partners and international financial institutions. As a strategic governance body, the Platform would first need to endorse a "high level strategic reconstruction plan" and then coordinate financial support for the plan's implementation.

As a financing instrument to support the reconstruction plan, the EC proposed establishing a **dedicated 'RebuildUkraine' financial facility** as a new legal instrument fully embedded in the EU budget, thereby ensuring transparency, accountability and efficient financial management. The EC hoped that, in addition to the EU budget, the financial facility would be empowered by member states contributions, loans taken on behalf of the EU or with member states guarantees, and even contributions from EU's international partners, i.e. the G7 and G20 countries, multilateral partners and international financial institutions.

On the other hand, the Office of the President of Ukraine presented a proposal for establishing a dedicated **Ukrainian Recovery Fund** under the national legislation.²³ The Fund would receive financial assistance from governments, agencies and international organizations in the form of targeted grants, including contributions from the Ukrainian government. To ensure oversight and transparency, three quarters of the supervisory board would consist of donor representatives and the Fund's management would be fully appointed by the donors.

None of these ambitious proposals, which both envisaged pooling of international reconstruction and recovery support under one roof, i.e. in one dedicated fund, gained sufficient support from the international community. Instead, in January 2023, the **Multi-agency Donor Coordination Platform** was launched, bringing together the EU, G7 countries and international financial institutions. The Platform is co-chaired by the EC, the Ukraine and the United States, with secretariats in Brussels and Kyiv.²⁴

Meanwhile, the Ukrainian government established the **Fund for Elimination of Consequences of the Armed Aggression** as a budget line within the state budget, to be managed by the Restoration Agency. The main resources of the Fund will be grants and loans provided by international partners to the state budget. In addition, the Restoration Agency is legally empowered to issue bonds, borrow from international organizations and enter into public private partnership and concession agreements. In the approved budget for 2023, the Fund's appropriation amounted to 35.5 billion UAH (close to 1 billion EUR), but it is expected that the available resources will increase during the year. In March, the Agency reported that, only for the year 2023, they plan almost 3,500 restoration projects in priority regions, with the estimated total value of 650 billion UAH (almost 17 billion EUR).²⁵

²² https://commission.europa.eu/document/28ba5c16-19b2-4ee7-88db-5ee765c5571d_en

²³ <https://www.president.gov.ua/news/andrij-yermak-i-kirilo-timoshenko-prezentovali-poslam-inozem-77741>

²⁴ <https://www.kmu.gov.ua/en/news/vidbulos-pershe-zasidannia-nahliadovoi-rady-mizhvidomchoi-koordinatsiinoi-platfomy-donoriv-ukrainy>

²⁵ Restoration Digest, Agency for Restoration, issue 1, March 2023.

Box 2: The basic legal framework for post-war restoration in Croatia

The Croatian Restoration Law was passed after the war, in March 1996. It was therefore possible to include in the law a full list of local communities with the status of restoration areas. The law regulated the eligibility, financing, responsibilities and procedures for the restoration of housing, economic activity and infrastructure.

Private houses and apartments. Eligibility for support was checked and confirmed by regional administrations. It was limited to Croatian citizens who owned the properties or had settlement right before the war, did not possess an alternative housing and pledged to return to their original residence. This provision intended to prevent the restoration of houses which would not be used for dwellings. Under specific conditions, new settlers were also eligible for support.

Repair of private houses and apartments. Repair of private houses was financed by a fixed amount grant from the state budget depending on the level of damages (classified in three categories). Additional support was provided for the housing equipment, but only for the basic items as defined by a special regulation and provided through public tenders.

Reconstruction of private houses and apartments. The reconstruction of housing with severe damages was organized and implemented by the Ministry of Restoration. The law limited the support to the extent of reconstruction necessary for settling and to the prescribed minimum footage per household member.

Repair and reconstruction of the structures and common areas of apartment buildings was also organized and carried out by the Ministry of Reconstruction.

Economic activity. Restoration of economic activity was supported by loans from the Croatian Restoration and Development Bank. The bank had been established in 1992 and is still active today as the state export insurance and development bank.

Agricultural households. Agricultural households were eligible for loans financing the repair of farm buildings, the purchase of machinery and materials and the restoration of livestock and plantations. The law prescribed the terms of the loan at a zero-interest rate, 20-years maturity, 5-years grace period and 1% administrative costs.

Business entities. Loans to enterprises, crafts and cooperatives registered in restoration areas were extended on the basis of investment plans and their importance for economic recovery, employment and demography and the government's annual restoration plan. The conditions and terms for loans were set by the development bank.

Public infrastructure. The responsibility for restoration and financing depended on the type of infrastructure.

Transport, communication, energy and water supply infrastructure of national or regional importance: the restoration was financed and implemented by the public utility companies owning or using the infrastructural objects.

Local (communal) infrastructure: the restoration was financed and implemented by local communities and, when necessary, co-financed by the state budget on the basis of plans submitted by regional authorities.

Social infrastructure, i.e. the objects for provision of public services (education, science, culture and cultural heritage, media, sports and physical culture, care of children, health services, social and disability support), the administrative buildings and the objects of religious worship: the restoration was financed from the state budget on the basis of the annual programme compiled by the responsible ministries and state administrations.

Source: Zakon o obnovi (Restoration Law), Official Gazette of Croatia, NN 24/1996. Link (in Croatian):

III. Vertical coordination: place-sensitive development policy

This policy paper recommends that the vertical coordination of the regional development policy is gradually aligned with the principles of the place-sensitive regional development policy, which has been recognized as a good practice within the EU Cohesion Policy. This chapter highlights the elements of the place-sensitive approach already present in the Ukrainian legislation and provides recommendations for further upgrading.

The place-sensitive approach of RDP combines three basic principles:

- **differentiation between regions** based on similarities and divergencies in their economic, social and resource structure and key development constraints;
- **coordination that combines both the top-down and the bottom-up approach** to identify regions' potentials and design projects and policy initiatives;
- **integrated (multi-dimensional) approach to development interventions** in a region, as opposed to poorly coordinated sectoral approaches.²⁶

III.1 Differentiating territories by development needs and opportunities

The State Strategy for Regional Development 2021-2027 (SSRD) introduced the concept of territorially oriented development policy, based on stimulating the use of the territories' own potential, providing support to individual territories characterized by special problems of socio-economic development, high historical and cultural potential, or specific environmental conditions and environmental protection needs.

The SSRD defined 13 functional types of territory that require special attention from the state and the use of special mechanisms and tools to stimulate their development:

- **agglomerations** – territorial clusters of settlements (primarily cities) that form integral socio-territorial formations with a population of more than 500,000 people, characterized by a high level of development of infrastructure, economy, services and intensive economic, labour, cultural and household ties with the surrounding territories;
- **large cities** – cities with a population of 100,000 or more;
- **medium-sized cities** – cities with a population of 50,000 to 100,000 people;
- **small cities** – cities with a population of up to 50,000 people;
- **monofunctional cities** – cities whose development is connected with one production activity, classified as centres of coal, ore on non-ore mining and facing depopulation, deteriorating environmental conditions and increasing unemployment;

²⁶ See the paper commissioned by the U-LEAD: "Local government reform in Ukraine: towards place-sensitive development strategies", February 2022, and the Addendum Policy Note to the "Local Government Reform Report: the relevance of place-sensitive strategies in emergency and reconstruction contexts", 17 April 2022, written by Andrés Rodríguez-Pose and Federico Bartalucci <https://u-lead.org.ua/storage/admin/files/74d30a6b54e0694d08fb2d9ae36f38a0.pdf>

- **rural territories in unfavourable conditions** – territorial communities that are characterized by the population density below 15 people per square kilometre, the distance to the nearest medium-sized city of more than 30 minutes by car and the population decline of more than 30% in the period 2008-2018;
- **mountain areas of the Ukrainian Carpathians** – territorial communities located in a mountainous area and including at least one settlement granted the status of a mountain settlement in accordance with the Law on the Status of Mountain Settlements;
- **the "Azov-Black Sea" macroregion** – the territory adjacent to the seacoast or the coast of sea bays and estuaries within a 30-kilometre reach;
- **zones of influence of international transport corridors** - territory within 15 kilometres of international highways of state importance;
- **border regions** – regions directly adjacent to the state border;
- **border territories in unfavourable conditions** – territorial communities located near the border with states, relations with which require an additional level of security on the state border and restrictions on the movement of goods and people, restraining the development of the local economy and the attraction of investments;
- **temporarily occupied territories** – parts of the territory of Ukraine temporarily occupied as a result of the armed aggression within which the armed forces and the occupation administration of the Russian Federation have established and exercise general control;
- **nature conservation territories and objects** – territories and objects of the nature reserve fund, their functional and protection zones, territories reserved for the purpose of the next bequest, territories and objects of the eco-network, territories of the Emerald network, wetlands of international importance, biosphere reserves of the UNESCO program "Man and the Biosphere", UNESCO world heritage sites in accordance with the Law on the National Infrastructure of Geospatial Data.

The SSRD included maps of these territories and an additional map of centres of economic development.

The amendments to the Law on Principles of the State Regional Policy introduced a more concise classification of functional types of territory:

- **restoration areas** – micro-regions, territorial communities, on the territory of which hostilities took place and/or which were temporarily occupied, and/or suffered destruction of critical infrastructure objects, social infrastructure, housing stock objects as a result of hostilities, as well as those characterized by a sharp deterioration in the level of socio-economic development and a significant movement of the population to other regions and/or other states;
- **regional growth poles** – micro-regions, territorial communities, which are characterized by significantly better geographical, demographic, socio-economic indicators of development compared to other similar territories of the region, and whose growth has a positive effect on adjacent territories, the region and/or the state as a whole;
- **territories with specific development conditions** – macro-regions, micro-regions, territorial communities, where the level of socio-economic development is low or where there are natural, demographic, international, security or other

- objective restrictions to the use of the territory's development potential. Separate functional types of territories with special development conditions may be defined in order to apply differentiated development support measures;
- **sustainable development territories** – self-sufficient micro-regions, territorial communities with existing socio-economic potential and capable of balanced development in the economic, social and ecological spheres.

The indicators for classification of territories on the basis of the amended law are to be determined by the CMU, after which the MCTID will be obliged to form a commission for assessment and assignment of territories to functional types. The law requires that at least half of the members of this commission are members of the relevant committees of the VRU. These provisions entail **the risk that the assignment of territories becomes a highly politicized process rather than being based on clear indicators and objective evidence.**

Table 3. Functional types of territory in the SSRD and the Law

Amended Law on Principles of State Regional Policy	SSRD
Restoration areas	Temporarily occupied territories
Regional growth poles	Agglomerations
Territories with specific development conditions	Monofunctional cities Rural territories in unfavourable conditions Mountain areas of the Ukrainian Carpathians The "Azov-Black Sea" macroregion Zones of influence of international transport corridors Border regions Border territories in unfavourable conditions Nature conservation territories and objects
Sustainable development territories	
	Large, medium-sized and small cities – could be classified in any of the types provided by the law on the basis of their development conditions

III.2 Vertical coordination through development planning documents

The Law on Principles of the State Regional Policy sets the **system of strategic and implementation planning documents at all levels of governance**, which comprises:

- **the State Strategy for Regional Development** (SSRD) and its action plan, drafted by the MCTID and approved by the CMU;
- **the Regional Development Strategies** (RDS) and their action plans, drafted and approved by the regional administrations, the Kyiv and Sevastopol city state administrations and the Council of Ministers of the Autonomous Republic of Crimea;
- **the Development Strategies of Territorial Communities** (DSTC) with their action plans, approved by the relevant village, settlement or city council and prepared by their executive bodies;

- and, additionally, **economic and social development programmes** (ESDP) of the Autonomous Republic of Crimea, regions, districts, cities of Kyiv and Sevastopol, and territorial communities.

Regarding the time frame, the SSRD is prepared for a period of seven years with two consecutive action plans for a three and a four-year period, respectively. The RDS and their action plans are prepared for the same period. The DSTC are prepared for the period of the SSRD but there are no provisions in the law regarding the time frame of their action plans.

The action plans of RDS should include organizational and legal measures and **be further specified by regional development programmes and regional economic and social development programmes.**

The law defines two types of regional development programmes. One type is the regional development programme that is an integral part of an RDS Action Plan. It consists of medium-term measures and tasks aimed at achieving the goals of the RDS.²⁷ The other type is called "the programme of regional development (investment program of regional development)" and consists of medium-term measures and tasks aimed at achieving the goals defined by the SSRD.²⁸ The law does not further specify who, when and in which cases needs to prepare and approve this second type of programme, nor does it explain the relationship between the two types of programmes.

Economic and social development programmes (ESDP) are instruments of economic and budgetary planning, regulated by the Law on State Forecasting and Development of Economic and Social Development Programmes²⁹ and the related Government Resolution³⁰. The ESDP are annual documents prepared within the budgetary cycle and should include the list of investments and regional programmes that will be implemented in the next budget year. As such, they provide a bridge between the medium-term development planning and the budgetary process, specifying the set of planned development action that can be implemented in the next year within the limits of the available fiscal capacity.

Moving from hierarchical to coordinated RDP planning system

The Law on Principles of the State Regional Policy stipulates that regional development strategies must be consistent with the strategic goals and priorities defined by the SSRD. **Draft RDS and their action plans must be submitted to the MCTID to obtain a conclusion on compliance with requirements for their preparation and the strategic goals and priorities of the SSRD.** In case of non-compliance, the regional authorities must update and resubmit the drafts for another review.

In the event that the RDS is adopted without an affirmative compliance conclusion, the projects of the RDS are not eligible for financing from the State Fund for Regional

²⁷ Article 1, point 12.

²⁸ Article 1, point 8.

²⁹ Most recently amended on December 16, 2012: <https://zakon.rada.gov.ua/laws/show/1602-14#Text>.

³⁰ Most recently amended on December 29, 2021: <https://zakon.rada.gov.ua/laws/show/621-2003-%D0%BF#n38>.

Development (SFRD). This legal provision applies not only to individual projects which are not in line with the SSRD, but to all projects of the non-compliant RDS in general. It is unclear what such provision implies for projects submitted to the SFRD by local communities of that region, given that, under the current procedure, projects proposed to SFRD must first be evaluated and selected by regional commissions before they are submitted to the state-level commission for final approval.

With respect to the development strategies of territorial communities, the law requires them to take into account the priorities of the SSRD and the relevant RDS, but there is no requirement to submit draft local development strategies to a higher-level authority for compliance check. To the contrary, the law requires that (available) territorial strategies are taken into account during preparation of regional strategies. Thus, **the relationship between regional and territorial strategies includes both top-down and bottom-up elements.**

To the contrary, the legal provisions that require regional strategies to obtain clearance from a state-level institution and sanction non-compliance by the withdrawal of state financing, constitute **a strong hierarchical (top-down) relationship between the SSRD and regional strategies**, and in effect also between the MCTID and the regional administrations and councils.

Relying primarily on hierarchical relationships contradicts the principles of subsidiarity and the place-sensitive approach to regional development policy. In hierarchies, it is difficult to achieve sufficient motivation, engagement and creativity of those at the lower end, in this case the development stakeholders at the regional level (including the territorial communities in the region). In contrast, the place-sensitive approach is based on recognizing the differences in circumstances and potentials of territories, and these potentials and specific circumstances are believed to be best known to actors at the regional and local level. This assumption of local knowledge implies that, sometimes, goals and priorities may be identified at the regional level that were not foreseen in the country-wide strategy. Thus, **when a regional strategy includes well-justified priorities that, formally, do not fully comply with those of the SSRD, this should not be seen as a violation but rather as a customization of the SSRD to the needs of the particular region.**

It may be that the hierarchical approach to vertical coordination was chosen due to the lack of capacities at local and regional level for strategic planning and implementation. Still, **the relationship between the state and the regional level should gradually develop into a more open approach, where the role of the central level would primarily be to support locally driven initiatives and their implementation.** The recent initiative of the MCTID to establish reform support offices in local communities, which, inter alia, would provide "emergency consulting services" for the preparation of investment projects and planning documents, is a move into the direction of supportive rather than hierarchical vertical coordination.

The timing for updating the SSRD and the regional development strategies

The SSRD and the RDS will obviously need updating at some point to reflect the impact of the armed aggression on development needs and opportunities. However, this policy paper recommends that **updating of the SSRD and the regional**

strategies should only be undertaken towards the end of the "reconstruction and recovery" period, which, by URP, is planned for the years 2023-2025.

There are several reasons why updating the strategic documents already at this moment would be premature. First of all, the limited capacities of administrations at all levels of governance now need to fully focus on programming and managing the most urgent restoration projects. As explained in chapter II.2, most regions and many territorial communities will now be obliged to prepare their restoration and development plans including the comprehensive restoration programmes. A recommendation was also made in that section how the medium-term development perspective could be brought to play a role in these restoration planning documents.

Furthermore, the regions had been obliged to prepare their smart specialization strategies, but, according to the EU's analytical report, before the armed aggression only seven were close to finalizing them. **The smart specialization strategies, once completed, could serve as a direct input for at least the economic part of RDS.** Working on smart specialization strategies and updating the RDS at the same time would thus lead to an unnecessary duplication of efforts and potential inconsistencies.

The time before launching of the new strategy preparation cycle should be used to reconsider the current top-down process for the SSRD and RDS preparation. For example, there is no particular reason for the current practice where the preparation of regional strategies starts only after the SSRD has been adopted. If the two processes would run in parallel, a bottom-up channel of coordination could also be opened, in the sense that RDS drafts could be taken into account in the SSRD preparation. This would allow the SSRD to focus on strategic areas of intervention from the state-level and designing appropriate support instruments for the regions and the different functional types of territory.

III.3 Financial instrument for development of regions and local communities

Financing mechanisms of the state regional policy, as defined by the Law on Principles of the State Regional Policy, comprise inter-budgetary transfers and capital expenditures of the state budget, state targeted programmes and the programme of regional development, regional restoration and development plans, regional development programmes and regional development projects. **Development strategies and the restoration and development plans of territorial communities are not mentioned as financing mechanism of the state regional policy**, which implies that funds for local project may only be channelled through regionally based mechanisms.

The law further defines the principles of state support for regional development. In addition to efficiency, impartiality and compliance with the SSRD, the RDS and the priorities for implementation of regional restoration and development plans, the principles also include competitive selection of regional programmes and projects, financial and other participation of local self-governing bodies, and the ability of the funds' beneficiaries to further sustain themselves from own resources or at the expense of local budgets.

The principles of competitive selection of projects and local co-financing may contradict the purposes of restoration and even the regional development policy in a broader sense. Economically less developed regions and territorial communities tend to have weaker capacities for project development and co-financing, which **may result in a disproportionate distribution of state financial support to more capable and economically stronger regions and territories.** This risk will be even more pronounced during the post-war restoration period, when the territories most affected by the armed aggression, including the loss of human and administrative capacity, will likely be the ones least capable of preparing and co-financing quality projects able to win the competition for state support. Instead of using competitive mechanisms and insisting on co-financing, **the funds for restoration should be distributed according to objective needs and priorities, whereby support for sound project design and management should be provided to the least capable communities.**

Modernizing the State Fund for Regional Development

The SFRD is the main financing instrument owned by the ministry responsible for regional development policy. Nevertheless, the Fund's resources never reached the legally mandated amount and they accounted for only about 10% of all state budget funds supporting regional development. A similar amount of resources had in the past been provided for the socio-economic subvention, the allocation of which was effectively guided by proposals from VRU deputies.³¹

In 2021, the last year before the armed aggression, the SFRD distributed a total of 4.3 billion UAH (roughly 130 million EUR). Most projects supported capital repair and reconstruction of secondary and primary educational institutions, sports objects and hospitals. The lowest number of projects was aimed at supporting the business activity.³² This data show that **the SFRD funds are mainly used for small local investment projects in the so called "soft infrastructure"**, thereby complementing the investments in "hard infrastructure" at the regional and state level.

The Budget Code requires that 20% of the SFRD funds are distributed to regions with GRP p.c. below 75% of the national average, with the rest of the funds allocated across regions based on their relative population. The beneficiary communities are required to provide co-financing at the level of 10% of the project value.

In April 2023, amendments to the Budget Code changing the allocation formula and the project selection procedure were approved in the first VRU reading. According to the amendments, 50% of SFRD funds would be allocated to the regions most affected by the war, while the other 50% would be equally distributed between all regions and the City of Kyiv. At the same time, the co-financing requirement for the cities with population larger than 225 thousand would be increased to 50%.

The proposed amendments foresee that, after evaluation by the dedicated commissions, the pre-selected projects would be subject to direct voting by

³¹ See the U-LEAD report: Funding for regional and local development from the state budget, February 2021.

³² Julia Markuts: Repair and construction in the regions – how were SFRD funds distributed in 2021? <https://www.epravda.com.ua/columns/2021/06/7/674704/>

citizens through the Unified State Web Portal of Electronic Services (the Diia Portal). Citizens would vote for one project or programme for their residency region. Results of the voting would be taken into account by the CMU when approving the final list of projects to be financed from the SFRD.

Leaving aside the question of democratic legitimacy, given that not all citizens are presently using the digital portal, direct voting has the potential to bring the selection of projects closer to the needs of citizens. This potential is the strongest at the local level where consultations and debates are easily organized before the actual voting (see [Box 3](#)). However, **when the voting takes place at the regional level, there is a real danger that projects benefiting larger cities and populations would win the contest, outvoting the projects of smaller communities**. Regional level voting could, in the end result, lead to benefiting regional capitals and urban centres at the expense of typically less developed smaller and rural communities.

Box 3: Participatory budgeting at the community level

Participatory budgeting has different modalities, but a common form now being introduced by many local communities and cities in the EU can be schematically summarized by the following steps:

- the municipal council determines the share of budget expenditures to be spent on projects selected by the residents,
- residents or their organizations propose projects,
- the municipal administration screens the project proposals for their feasibility,
- the residents vote on the project proposals,
- the municipal administrations implement the projects and report on results.

According to data for 2019, Portugal and Poland were the EU member states with the highest share of municipalities implementing some form of participatory budgeting. In Poland, the law on local self-government makes participatory budgeting mandatory for all cities with county rights. The minimum budget for the projects proposed and selected by the residents is 0.5% of the previous year's expenditures. In Slovenia, participatory budgeting is currently used in 27 of 212 local communities. The funds for residents' proposals usually amount to between 0.5% and 1% of total expenditures and are often decided upon at the level of neighbourhoods or settlements within the municipality.

Sources:

Yves Sintomer, Carsten Herzberg, Anja Röcke: *Participatory Budgeting in Europe: Potentials and Challenges*, *International Journal of Urban and Regional Research*, Volume 32.1. March 2008, pp. 164–78.

Esther Snippe, Silvia Ellena: *Participatory budgeting: Europe's bet to increase trust in government*, *Euroactiv*., <https://www.euractiv.com/section/participatory-democracy/infographic/participatory-budgeting-europes-bet-to-increase-trust-in-government/>

Participatory budgeting in Warsaw: <https://oidp.net/en/practice.php?id=1312> (in English)

Participatory budgeting in Slovenia: <https://skupnostobcin.si/participativni-proracun/> (in Slovene)

Only 2 billion UAH were allocated to the SFRD in the state budget for 2023 (and even less, only 0.2 billion UAH, for the socio-economic subvention). **In future, the funding for the SFRD should be increased again, to gradually reach the legally mandated level** of 1% of the total revenues of the state budget's general fund. This will be easier to achieve if the socio-economic subvention, which has already been reduced to a minimum in 2023, is completely abolished instead of being increased again in the forthcoming years.

In parallel with increase of funding, this policy paper recommends undertaking a thorough modernization of the SFRD along the following guiding principles:

- **increasing the share of total funds earmarked for less-developed regions** from the current 20% to at least 50%, to better support the main goal of the regional policy, which is reducing the development disparities between regions;
- **introducing a place-sensitive approach into the allocation formula**; once the classification of territories into functional types according to the law is agreed, the allocation formula could be enhanced by setting a minimum share of funds that need to be allocated to territories with specific development conditions;
- **empowering the local communities to benefit from the place-sensitive approach**; the SFRD should develop a financial facility and a support service for designing and managing projects of administratively less capable communities, as well as for the identification and preparation of inter-municipal cooperation projects of regional significance;
- **focusing the SFRD on supporting local projects aimed at development of local economies and public services**, given that most resources for restoration will be provided directly by development partners and through the budgetary fund for elimination of consequences of the armed aggression;
- **instituting the option of waiving the co-financing requirement for financially weak communities** with clear and objective criteria for such a waiver.

In addition to modernizing the SFRD, it is also recommended to gradually develop complementary financial instruments for a place-sensitive RDP.

Developing place-sensitive financing instruments

To fully embrace the principles of a place-sensitive RDP, financial and policy instruments encouraging local ownership of development initiatives and a multi-functional approach to development should be designed.

Two instruments that could support a place-sensitive approach have been proposed within the draft Law on Stimulating the Development of Regions, which is still pending the final reading and decision by the VRU. The proposed instruments were:

- an option to combine the state support into **integrated development projects**, defined as a complex of interrelated activities of sectoral, spatial and social nature, the implementation of which is aimed at achieving economic growth of a territorial community or a region;
- an option to conclude **regional development agreements** between the CMU and the regional councils regarding a coordinated implementation of the SSRD and the region's RDS.

Integrated development projects and development agreements could be used to provide multi-functional financial support in line with the place-sensitive approach to RDP. In addition to these, other approaches to developing flexible place-sensitive financing instruments could be considered on the basis of good practices from EU member states (see [Box 4](#)).

Box 4. Examples of place-sensitive financial instrument for regional development

Territorial global grants. The funding from the European Regional Development Fund has been provided for the Integrated Territorial Programme of Sicily in the form of a global, i.e. a multi-sectoral and multi-purpose grant. The grant has been managed by the municipalities acting together and in cooperation with local stakeholders to programme, select and implement the projects financed from the grant. This approach enabled sub-granting to final beneficiaries of smaller tranches of grants, especially for “soft projects”. Another grant allocation mechanism was tendering for investments in small and medium-sized local infrastructures, public buildings and business sector investments. In this way, the global grant supported the bottom-up approach in designing local development strategies and resulted in stronger commitment, motivation and partnership for successful community development projects and programmes adherent to local needs and expectations. It also significantly increased the absorption of the available EU funding.

Source: Gabriele Bonafede: Proposal to MCT for implementing new RD instruments with a global grant approach, U-LEAD policy paper of March 2022.

Contractual instruments. The Polish government uses contractual instruments to coordinate development activities with regional self-governments – a programme contract, a sectoral contract and a territorial agreement. The programme contract is linked to the co-financing and conditions for the use of EU funds under regional operational programmes managed by the voivodships. The sectoral contract is a mechanism for agreeing on the scope of territorially targeted sectoral actions undertaken by individual line ministries. Both types of contract are concluded between the state and a regional government. Territorial agreements are primarily used to agree on interventions relevant from the point of view of local communities.

Source: Piotr Żuber: Analysis of Key Pre-accession Processes for Ukraine – The case of Poland, prepared for the U-LEAD in October 2022.

Region-specific development legislation. In 2009, the Slovenian parliament approved the Law on the Development Support for Pomurje, the least developed region of the country. The instruments provided by the law included the development of a programme for increasing the region's competitiveness, tax allowances for investments and employment of vulnerable workers, and prioritization of project applications for EU funding from the region. Priority projects included the establishment of the regional business and training centres, restructuring of the agriculture, food processing industry and forestry, investments in drinking water supply, geothermal energy utilization and tourism development. After a decade of implementation, the gap between the regional per capita GDP of Pomurje and the country's average was reduced by almost 5 percentage points.

Source: national legislation and data.

Territory-specific post-war restoration legislation. In 2001, the Croatian parliament approved the Law on the Restoration and Development of the City of Vukovar, which suffered almost complete destruction and enormous human losses during the war. The law established the Fund for Restoration and Development of Vukovar which is still active today and operates on the basis of restoration and development plans and programmes. The Fund supported projects in the areas of building reconstruction, de-mining, return of the IDPs, employment, education and training, entrepreneurship, technological modernization and prevention of environmental incidents. Specific incentives provided by the law included waiving the custom duties on imported equipment for economic activities, refunding 50% of employers' social contributions, forgiving the corporate income tax for agricultural undertakings and fisheries, establishing free economic zones, providing scholarships for students and housing support for workers with skills and professions not sufficiently available in the local labour market.

Source: national legislation and the website of the Vukovar Fund (in Croatian): <https://www.fond-vukovar.hr/>.

IV. Horizontal coordination of the state regional policy

The final chapter addresses **the challenge of improving the horizontal coordination of policies and budgetary programmes supporting regional development.**

Coordination between regional and sectoral policies

The Law on Principles of the State Regional Policy provides for an **Inter-departmental Coordination Commission for Regional Development (ICC)** as the main, although in principle temporary body ensuring coordination of executive bodies, with mandatory involvement of local governments, in the formation and implementation of the state regional policy.

The ICC was established by the CMU Resolution 714/2015, amended by Resolution 787/2020.³³ The commission was formed at a very high political level, with the Prime Minister as the chair and the Minister of community and territorial development as the first deputy chair. The other two deputy chairs are a minister and a state secretary of the CMU. Members include first deputy ministers of ministries that implement policies relevant for regional development, chairs or deputy chairs of VRU committees concerned with regional development³⁴ and budget³⁵, other selected people's deputies, a representative of the office of the President of Ukraine, heads of regional and Kyiv City administrations (if necessary, and experts.

Responsibilities of the ICC include, inter alia, coordination of actions of executive authorities in formation and implementation of the state regional policy, making proposal for such policy and for resolving problematic issues that arise in the process (**horizontal coordination**), making proposals to ensure coherence between long-term development strategies, plans and programmes at the state, regional and local level (**vertical coordination**), and analysing the implementation of the SSRD, RDS, programmes and projects of regional development (**monitoring**).

The ICC is also tasked with **coordination of financial support**, in particular to:

- studying the issues of combining planning and financing tools in the field of regional policy,
- finding ways to attract financial resources and their concentration on priority investment projects in the regions,
- preparing proposals for cooperation with international financial organizations, programmes and funds in the field of regional policy, and the use of relevant resources of international technical assistance.

During the recovery period, **the agreements reached in the ICC regarding the state regional policy could be brought to the attention of the Recovery Council directly**, as the ICC chairman (i.e., the Prime Minister) is at the same time the co-chairman of the Recovery Council, and the first deputy chairman of the ICC (i.e., the minister responsible for regional development) is at the same time Vice Prime Minister for Restoration and member of the Recovery Council. Furthermore, the participation

³³ <https://zakon.rada.gov.ua/laws/show/714-2015-%D0%BF#n9>

³⁴ Committee on State Building, Local Governance, Regional and Urban Development.

³⁵ Budget Committee.

of VRU deputies in both bodies could ensure effective coordination between the CMU and the VRU.

However, experience with the ICC since 2015, with infrequent meetings and no working groups being established,³⁶ confirms that **such high-level coordination bodies tend to be operationally inefficient**. At best, they can be expected to agree on general political directions, which is important in its own right, but the work of transposing the general directions into measures and actions needs to be done by senior civil servants (e.g., heads of departments or units) and their staff.

As a means to improve the efficiency and impact of the ICC, **we propose that inter-departmental ICC working groups dedicated to the most urgent issues of the moment are established**. Working groups **at the operational level of expert civil servants** are not only a way to coordinate and discuss policy documents and measures, but, perhaps even more importantly, they establish direct working and informal relations facilitating cooperation and information sharing between officials even beyond the formal meetings and obligations. At present, it would seem most important to form at least two working groups, one for **coordination of regional development policy with the restoration and recovery process**, and the other for **coordination of budgetary programmes that support regional and local development** (see further below). With the advancement of the EU integration process, a working group for **coordination of activities related to Chapter 22 of the Acquis** (regional policy and coordination of structural instruments) could also be established within the ICC.

To facilitate such more operational work of the ICC, **a secretariat for the commission** should be established within the MCTID. As a first step to better horizontal coordination, it is also necessary to ensure **good cooperation between divisions within the MCTID**, for example by calling regular working meeting between heads of divisions, the Restoration Agency and the minister's cabinet.

Coordination between sectoral and regional development budgets

Financial support to regional development from the state budget is provided through a large number of budget programmes and budget transfers, managed by a wide array of line ministries and other government institutions such as state agencies, i.e., the main managers of state budget funds. As only a small share of this funding comes from budget programmes managed directly by the ministry responsible for regional development,³⁷ there is a need to **set up an institutionalized coordination mechanism for budget programmes with impact on regional development**.

The most 'systemic' solution would be to form **a budgetary working group, attached to the ICC**, as proposed above. The working group would need to include all main managers of budget programmes with impact on regional development, as well the Ministry of Finance. The remit of the working group could include **analysing the priorities of the Budget Declaration from the point of view of the SSRD**

³⁶ According to U-LEAD reports "Concept Note on Work of the ICC" (January 2019) and "Improving Coordination of Budget Programmes with Impact on Regional and Local Development" (February 2022).

³⁷ See U-LEAD report "Funding for regional and local development from the state budget", February 2021.

objectives, making proposals regarding preliminary ceilings for budget programmes with impact on regional development, and discussing the reports on execution and effectiveness of such budget programmes. Proposals agreed at the working group would naturally be sent to the ICC for consideration and endorsement. When a meeting of the ICC could not be held on time, the working group proposals would be communicated directly to the Ministry of Finance and the CMU secretariat during the preparation and the approval process of the Budget Declaration.

In the absence of such a working group, the MCTID could independently prepare **an opinion on the draft Budget Declaration**, based on the analysis of proposed ceilings for budget programmes with impact on regional development. The MCTID's opinion could be submitted to the Ministry of Finance as an input into the medium-term budgetary planning process or communicated at the meeting of the relevant **CMU standing committee** during the approval procedure. In case of important disagreements, the MCTID could also propose to hold a **reconciliation meeting of state secretaries** in line with the provision of the CMU's rules of procedure.

A complementary approach to strengthening the link between the regional policy planning and the budget planning processes would be to **introduce regional development indicators into all budget programmes with impact on regional development**. Sources of such indicators could be the existing indicators of the SSRD, the indicators that would be developed for classifying the territories into functional types, and the indicators of regional and local development strategies, programmes and projects.

Box 5: Medium-term budgetary planning of development programmes

The Slovenian Public Finance Act of 1999 introduced a four-year Plan of Development Programmes as a special part of the budget. Initially, the Plan of Development Programmes only comprised capital investment projects and state aid programmes. Programmes and projects financed by the EU and donors were soon added. With the introduction of results-oriented programme budgeting in 2011, the Plan of Development Programmes was extended to include all budget programmes and projects of budget organizations.

The Plan of Development programmes is officially adopted by the Parliament during the annual budget approval procedure and therefore has the role of the official medium-term budget, providing budget allocations for development programmes for the following four years. The adopted plan may be revised during the preparation of the next year's budget. Nevertheless, the formal approval of the plan enables medium-term financial programming of key projects and programmes of the budget organizations and allows them to take obligations against the funds provided in the plan. It also provides a comprehensive information on the purposes of government spending.

Source: national legislation and budgetary documents.

V. Summary of recommendations

The policy paper discussed the main challenges of the regional development policy (RDP) in the present circumstances:

- integrating the regional development dimension into the restoration process,
- designing effective instruments for empowering and supporting regionally and locally driven development initiatives,
- strengthening the horizontal coordination of the RDP with sectoral policies implemented at the state level.

The main message of the policy paper is that **the state regional policy should gradually embrace the principles and practices of a place-sensitive approach**, following good practices of some EU member states. The place-sensitive approach to RDP combines three basic principles:

- differentiation between regions based on similarities and divergencies in their economic, social and resource structure and key development constraints;
- coordination that combines both the top-down and the bottom-up approach to identify regions' potentials and design projects and policy initiatives;
- integrated (multi-dimensional) approach to development interventions in a region, as opposed to poorly coordinated sectoral approaches.

From this aspect, the paper has analysed the current system of planning and coordination for recovery as well as the broader medium-term challenges of vertical and horizontal coordination of the RDP. Recommendations are summarized below.

Integrate the development perspective in the restoration planning

Considerations of future modernization and development needs should be, as much as possible, integrated with the immediate post-war reconstruction and recovery efforts. Disregarding the development perspective during the restoration process may lead to investments in infrastructures and capacities that may later soon become obsolete or not in line with the specific development opportunities and perspectives of different territories.

Add strategic considerations to the restoration and development plans

A draft government resolution foresees that the state, regional and local restoration and development plans will consist of projects, programmes, measures and tasks. What is lacking is a wider medium-term perspective on the directions and opportunities for development of communities and regions.

It is therefore recommended to **enhance the draft government resolution by provisions stipulating that the restoration and development plans should:**

- briefly summarize the main directions and priorities of existing regional development strategies and development planning documents of local communities, where such exist, and explain if and how the impact of war may affect the implementation and the directions of these documents;
- explain how the projects included in the plan will support the medium-term development priorities of existing regional development strategies and local development planning documents.

Use regional development indicators for monitoring of the restoration process

To increase the attention to the regional development dimension, the set of headline indicators of the Ukraine Recovery Plan should be enhanced by indicators and targets related to balanced regional development as the main objective of the RDP.

The three **recommended headline indicators** for this purpose are:

- number of regions with the gross regional product per capita lower than 75% of the Ukraine's gross domestic product per capita,
- share of investment in the GRP of regions with their GRP p.c. lower than 75% of the Ukraine's GDP p.c.,
- employment rate in regions compared with the whole of Ukraine.

Focus on restoration first and revise strategic documents later

The SSRD and the regional development strategies will obviously need updating at some point to reflect the impact of the armed aggression on development needs and opportunities. However, this policy paper recommends that **updating of the SSRD and RDS should be undertaken towards the end of the "reconstruction and recovery" period**, which, by the Ukraine Recovery Plan, is planned for the years 2023-2025.

There are several reasons why updating the strategic documents already at this moment would be premature. First of all, the limited capacities of administrations at all levels of governance now need to fully focus on programming and managing the most urgent restoration projects and preparing their restoration and development plans. This, in effects, amounts to amending or re-prioritizing the existing action plans of strategic documents but does not require their thorough revision. Furthermore, the regions had already been obliged to prepare their smart specialization strategies, which, when completed, could serve as a direct input for at least the economic part of RDS. Working on smart specialization strategies and updating the RDS at the same time would lead to an unnecessary duplication of efforts and potential inconsistencies.

Relax the hierarchical approach to regional and local development planning

The planning of regional and local development presently includes a strong hierarchical (top-down) dimension:

- the draft restoration and development plans of regions will require approval from the MCTID and the draft plans of local communities from regional administrations,
- the projects submitted to the Restoration Agency will be screened and approved by the MCTID,
- the regional development strategies need to be fully aligned with the state strategy and approved by the MCTID.

However, the legal principle of subsidiarity, as well as the necessity to adapt the restoration and development projects to local circumstances, needs and capacities, limit the effectiveness of the hierarchical approach. Within a hierarchical setting, it is difficult to achieve sufficient motivation, engagement and creativity of those at the lower end, in this case the development stakeholders at the regional level (including the territorial communities in the region). In contrast, the place-sensitive approach is

based on recognizing the differences in circumstances and potentials of territories, and these potentials and specific circumstances are believed to be best known to actors at the regional and local level.

Match the planning obligations with management responsibilities

There is presently no clear delimitation of the matters that should be covered by the state-level, regional or local planning documents. **In a multi-governance setting, based on the principle of subsidiarity, the obligation for planning should match with the managing responsibilities of different levels of government.**

Planning at the state and regional level should be primarily concerned with the infrastructure of national or regional importance, for example airports, highways, universities, hospitals, energy production and transmission network. Regional level planning should also include infrastructure of a multi-municipal nature, such as regional roads, regional water supply, wastewater treatment plants and waste management centres. On the other hand, a large portion of infrastructure falls within local competences and affects the ability of municipalities to deliver local services and drive socio-economic development – for example, housing, local roads, schools, clinics, distribution networks. This infrastructure should primarily be a matter of local-level planning.

The same principle should be applied to planning of non-investment development measures and programmes – they should be designed and implemented by the level of government covering the territory which will benefit from the programme or policy measure. Programmes benefiting several territorial communities should be jointly developed by them and, where necessary, with support and partnership from the regional administrations. Programmes designed for a specific functional type of territory which is not geographically compact should be developed in cooperation between the state level and the relevant regional and local authorities.

Limit the approval requirements to the matters of shared responsibility

On the basis of such clear delimitation of responsibilities between the governance levels, **the approval requirements should be limited to:**

- local project with significant impact on the wider territory of the region and regional projects or programmes of significant national importance,
- project and programmes that require financing from the resources of a higher governance level (i.e. the state or regional budget).

Specifically, it is recommended that:

- **the draft resolution on the preparation of the restoration and development plans** should be revised so that the only those projects and programmes of the lower governance level that meet the two criteria specified above should be subject to approval by the higher governance level. Permissible reasons for disapproval should be included in the resolution;
- **for projects submitted to the Restoration Agency**, no further priority check by the MCTID is required when such projects had been included in an approved regional and local restoration and development plan or a comprehensive restoration plan (prepared on the basis of the Urban Planning Law;

- reconsider the current practice where the **preparation of regional development strategies** starts only after the SSRD has been adopted. If the two processes would run in parallel, a bottom-up channel of coordination could also be opened, in the sense that RDS drafts could be taken into account in the SSRD preparation. This would allow the SSRD to focus on strategic areas of intervention from the state-level and designing appropriate support instruments for the regions and the different functional types of territory;
- revise the legal provisions that require the regional development strategies to be fully in line with priorities of the SSRD and sanction non-compliance by the withdrawal of state financing. When a regional strategy includes well-justified priorities that, formally, do not fully comply with those of the SSRD, this should not be seen as a violation but rather as a customization of the SSRD to the needs of the particular region.

Move from hierarchical to cooperative and empowering coordination

The vertical coordination of the RDP in a multi-level governance setting, whereby the lowest level of local communities is clearly based on self-governance and autonomy, but has the least resources for investing in development, **requires development of "soft" and "bottom-up" coordination mechanism.**

The relationship between the state and the regional level should gradually develop into a more open approach, where the role of the central level would primarily be to support locally driven initiatives and their implementation. Emphasis should be put on communication, developing a shared understanding of development needs and priorities, supporting policy design and management capacity at local level and empowering local ("bottom-up") development initiatives. A more important coordinating role should be assumed by regional councils and executive bodies, regional development agencies and voluntary cooperation networks between local communities with shared development challenges.

Specifically:

- the recent initiative of the MCTID to establish **reform support offices** in local communities, which, inter alia, would provide "emergency consulting services" for the preparation of investment projects and planning documents, is a move into the direction of empowering rather than hierarchical coordination;
- the **Restoration Agency** should gradually move from direct implementation of projects towards supporting and advising local and regional authorities on project planning and implementation, i.e. the project management cycle. It can be understood from the Agency's presentation that regional offices of the former State Road Agency could assume this supportive role;
- **within the SFRD**, a financial facility and a support service should be developed for designing and managing projects of administratively less capable communities, as well as for the identification and preparation of inter-municipal cooperation projects of regional significance.

Develop instruments of a place-sensitive regional development policy

The place-sensitive RDP is based on differentiating the regions or territories by their development opportunities and challenges and developing tailor-made support

instruments. Some elements of such approach already exist in the adopted or proposed legislation, but they need to be further developed and used in practice.

Determine the functional areas on objective criteria

The amended Law on Principles of the State Regional Policy introduced a classification of four functional types of territory. The indicators for classification of territories are to be determined by the CMU, after which the MCTID will be obliged to form a commission for assignment of territories to functional types. The law requires that at least half of the members of this commission are members of the relevant committees of the VRU.

A draft government resolution sets a number of criteria for territories to be classified as restoration areas. It foresees that, upon receiving from the regional administrations the lists of territories meeting the criteria, the MCTID will form a commission which will take the final decision on the classification of restoration areas. The commission will consist of MCTID representatives and the members of the VRU committee responsible for regional policy and urban development.

Inclusion of the political-level decision makers and the VRU deputies in such commissions entails the risk that the assignment of territories becomes a highly politicized process. Instead, it is recommended that **the classification of territories as restoration areas or as other functional types should be considered as a purely technical matter**, to be decided on a set of agreed criteria and objective evidence by an internal MCTID commission consisting of professional civil servants, supported as needed by the State Statistical Service experts.

Develop territory-based support instruments

Two instruments that could support a place-sensitive approach have been proposed within the draft Law on Stimulating the Development of Regions, which is still pending the final reading and decision by the VRU, namely the integrated development project and the regional development agreements. Such instruments could be used to leverage a place-sensitive RDP.

Specifically:

- **integrated multi-sectoral development projects of regions or local communities could be financed through the global grant instrument.** The idea of the global grant is to provide a budget support envelope to the region or community implementing the projects, but to leave the decision on which activities or sub-projects will be supported from the grant to the regional or local authorities. Experience with global grants in the context of the EU structural funds showed that they resulted in stronger commitment, motivation and partnership for successful community development projects adherent to local needs and expectations;
- **regional development agreements** between the state authorities and lower-level authorities strengthen the partnership approach and the "bottom-up" initiatives. Different types of agreement may be used. In Poland, for example, programme contracts were related to the use of EU funds, sectoral contracts were used for agreeing on the scope of territorially targeted sectoral policies of

line ministries, and territorial agreements were used to agree on interventions at the level of local communities.

Modernize the State Fund for Regional Development

The principles of competitive selection of projects and local co-financing, on which the allocation of SFRD support is based, may contradict the purposes of restoration and even the regional development policy in a broader sense.

Economically less developed regions and territorial communities tend to have weaker capacities for project development and co-financing, which may result in a disproportionate distribution of state financial support to more capable and economically stronger regions and territories. This risk will be even more pronounced during the post-war restoration period, when the territories most affected by the armed aggression, including the loss of human and administrative capacity, will likely be the ones least capable of preparing and co-financing quality projects able to win the competition for state support. Financing for restoration projects should therefore be provided outside the SFRD and distributed according to objective needs and priorities.

This policy paper recommends **undertaking a thorough modernization of the SFRD operation along the following guiding principles:**

- focusing the SFRD on supporting local projects aimed at development of local economies and public services, given that most resources for restoration will be provided directly by development partners and through the budgetary fund for elimination of consequences of the armed aggression;
- increasing the share of total funds earmarked for less-developed regions from the current 20% to at least 50%, to better support the main goal of the regional policy, which is reducing the development disparities between regions;
- introducing a place-sensitive approach into the allocation formula; once the classification of territories into functional types according to the law is agreed, the allocation formula could be enhanced by setting a minimum share of funds that need to be allocated to territories with specific development conditions;
- empowering the local communities to benefit from the place-sensitive approach; the SFRD should develop a financial facility and a support service for designing and managing projects of administratively less capable communities, as well as for the identification and preparation of inter-municipal cooperation projects of regional significance;
- instituting the option of waiving the co-financing requirement for financially weak communities with clear and objective criteria for such a waiver;
- increasing the funding to the legally mandated level; this will be easier to achieve if the socio-economic subvention, which has already been reduced to a minimum in 2023, is completely abolished.

It has been recently proposed that citizens should be invited to vote on the projects proposed to the SFRD on the regional level. Voting on the regional level entails a risk that the projects benefiting larger cities and populations will win the contest, whereas the projects of smaller communities would be outvoted. In the end result, this could

lead to benefiting regional capitals and urban centres at the expense of typically less developed smaller and rural communities.

Recognizing that direct voting on projects has the potential to bring the selection of projects closer to the needs of citizens and their preferences, this policy paper recommends that, **instead of voting on SFRD projects at the regional level, the practices of participatory budgeting at the local (community) level should be encouraged.** Such community level voting on projects proposed by local residence does not need to be limited to projects competing for SFRD funding.

Operationalize the horizontal coordination of regional development policy

The transfer of responsibility for the regional development policy to the former Ministry of Infrastructure created an opportunity that, being part of a financially and politically stronger ministry which is headed by a vice Prime Ministers leading on the restoration process, may empower the RDP policymakers to ensure that the objectives of the RDP are better incorporated in sectoral policies.

To exploit this opportunity:

- the MCDIT leadership should ensure that the management of organizational units responsible for RDP is involved and has **a voice in coordinating the implementation of the restoration programmes** with important impact on development of regions and territories;
- the MCDIT leadership should ensure good **cooperation between divisions within the ministry**, for example by calling regular working meeting between heads of divisions, the Restoration Agency and the minister's cabinet;
- to facilitate **a more operational work of the ICC**, a secretariat for the commission and the inter-departmental working groups dedicated to the most urgent issues of the moment should established. Working groups at the operational level of expert civil servants are not only a way to coordinate and discuss policy documents and measures, but, perhaps even more importantly, they establish direct working and informal relations facilitating cooperation and information sharing between officials even beyond the formal meetings and obligations.
- one of the working groups should be tasked with **coordination of regional development policy and the restoration and recovery process**;
- another working group should be tasked with **coordination of budgetary programmes that support regional and local development.** This working group would need to include all main managers of budget programmes with

- impact on regional development, as well the Ministry of Finance. The remit of the working group could include analysing the priorities of the Budget Declaration from the point of view of the SSRD objectives, making proposals regarding preliminary ceilings for budget programmes with impact on regional development, and discussing the reports on execution and effectiveness of such budget programmes;
- regional development indicators should be included as **performance indicators** in all budget programmes with impact on regional development.