Foreword

Beginning in 2014, the Ukrainian government embarked on an overhaul of its multi-level and territorial governance structures, including through decentralisation reform. For decentralisation to work effectively, a simple transfer of responsibilities to lower levels of government is not enough. A number of other conditions must be met, starting with the sufficient and appropriate resources to fulfil new responsibilities. Resources need to be complemented by adequate capacities at the subnational level, proper co-ordination mechanisms, effective monitoring systems and a good balance in the way various policy functions are decentralised.

The Ukrainian government and its Ministry of Regional Development, Construction and Utilities requested the OECD to support the successful implementation of decentralisation reform by following up on the OECD Territorial Review of Ukraine conducted in 2013. The current work is undertaken as part of the OECD's three-pillar Action Plan for Ukraine, signed in April 2015. The Action Plan covers three pillars: i) anti-corruption; ii) governance and rule of law; and iii) investment and business climate. The second pillar on governance issues includes, among other areas, support to the decentralisation reform agenda.

This report updates and extends the OECD’s prior regional economic analysis of Ukraine with development trends since the Donbas conflict, offers insight into Ukraine’s territorial and decentralisation reform agenda, and explores the impact of fiscal decentralisation. The report’s analysis of the structure and implementation of Ukraine’s multi-level governance and decentralisation reform highlights successes, identifies areas for additional improvement, and offers recommendations for short, medium and long-term action.

The work has been undertaken as part of the programme of work of the OECD’s Regional Development Policy Committee (RDPC), a leading international forum in the fields of regional, urban, and rural development policy and in multi-level governance, and served by the Centre for Entrepreneurship, SMEs, Regions and Cities. It is the result of a partnership with the OECD Global Relations Secretariat’s Eurasia Division.

The RDPC has long advocated for recognising the importance of multi-level governance and place-based approaches tailored to local and regional needs. To support the RDPC's leadership in this area, the OECD created the Multi-Level Governance Studies series in 2016. This report dedicated to Ukraine and its reform experience contributes to the body of knowledge contained in this series.

This report was discussed at the RDPC’s 38th Session on 8 December 2017 and was approved on 15 January 2018.
Acknowledgements

This report was produced by the Centre for Entrepreneurship, SMEs, Regions and Cities (CFE) of the OECD led by Lamia Kamal-Chaoui, Director, in partnership with the Global Relations Secretariat of the OECD, led by Andreas Schaal.

The project was implemented in the context of the OECD-Ukraine Memorandum of Understanding. It was made possible thanks to the financial contribution of the European Union Delegation to Ukraine and the Governments of the Czech Republic, Flanders (Belgium) and the Republic of Poland.

The report was coordinated and edited by Maria-Varinia Michalun, Policy Analyst, under the supervision of Dorothée Allain-Dupré, Head of the Unit for Decentralisation, Public Investment and Subnational Finance in the Economics, Statistics and Multi-level Governance Section of CFE. Chapter 1 was written by Antoine Comps and Jibran Punthakey. Chapter 2 was written by Maria-Varinia Michalun. Chapter 3 was written by Isabelle Chaty. Chapter 4 was drafted by Jibran Punthakey with input from Antoine Comps. The report benefited from significant contributions from Jörn Grävingholt, Senior Researcher, German Development Institute/Deutsche Institut für Entwicklungspolitik (DIE) for Chapter 2 and Rosario Macario, Professor, CERIS, Instituto Superior Técnico, Universidade de Lisboa, Portugal for Chapter 4. Valuable research and translation was provided by Lyudmyla Tautyeva, and equally valuable comments, input and support on the report and report process were received from Luke Mackle, Gabriela Miranda, Joaquim Oliveira Martins and William Tompson (OECD). In Ukraine, operational, logistical and administrative support was provided by Mykhailo Semchuk, and interpretation and translation provided by Liudmilla Taranina.

The OECD would like to thank the Ukrainian authorities at the national and subnational levels for their co-operation and support during the review process. Special thanks are due to Mr. Hennadiy Zubko, Vice Prime Minister and Minister of Regional Development, Construction, Housing and Communal Services, for his commitment to the project, and to the First Vice-Minister of Regional Development, Construction, Housing, and Communal Services, Mr. Vyacheslav Nehoda, and his team, for their collaboration. Thanks are also due to representatives of the Ministry of Finance, Ministry of Infrastructure, Ministry of Ecology, Cabinet of Ministers, the State Statistics Service of Ukraine (SSSU), the Verkhovna Rada of Ukraine, and the Presidential Administration of Ukraine for accepting to meet with the OECD team and share valuable information during the missions. Special thanks go to the representatives of the Association of Ukrainian Cities, the Association of Amalgamated Territorial Communities, and the Ukrainian Association of Rayon and Oblast Councils for their participation in the seminars and the study visits, and for their support in hosting OECD seminar.

Thanks for their continued support, insight and input are also given to Benedikt Herrmann and Dominik Papenheim of the European Union Delegation to Ukraine, to Serhiy Maksymenko and Yuri Tretyak, U-LEAD with Europe Programme, to Alexandra Linden and Mariana Semenyshyn from GIZ-Ukraine and the House of Decentralisation.
The OECD is grateful for the useful discussions and information shared by the international community in Ukraine during the meetings of the Donor Thematic Working Group (TWG) on Decentralization, co-ordinated by Christian Disler and Ilona Postemska from the Swiss Cooperation Office in Ukraine.

The OECD extends its thanks also to the stakeholders from central government ministries, the Verkhovna Rada of Ukraine, subnational governments, academia, civil society and the international donor community who met with the OECD team during their missions and who participated in the OECD seminar series organised in Kyiv, Mykolaiv, Lviv, Zhytomyr and Kharkiv between December 2016 and June 2018. Special thanks are also given to the country representatives and OECD experts who shared their experience and knowledge in the OECD seminar series: François Bafoil (CNRS, Sciences-Po Paris, France), Jean-Christophe Baudouin (General Office for Territorial Equality, France), Mirosław Czekaj (National Fund for Environment Protection and Water Management, Poland), Alba Dakoli Wilson (Foundation for Local Autonomy and Governance, Albania), Christof Delatter (Flemish Association of Cities and Municipalities, Belgium), Tatiana Escovar Fadul (Department of National Planning, Colombia), Iris de Graaf (Ministry of the Interior and Kingdom Relations, The Netherlands), Małgorzata Lublińska (Ministry of Regional Development, Poland), Adrian Mazur (Ministry of Infrastructure and Construction, Poland), Artur Modrzejewski (University of Białystok, Poland), Dawid Szesciło (University of Warsaw, Poland), Julián Talens (Ministry of the Presidency and Territorial Administrations, Spain), and Michał Wolański (Warsaw School of Economics).

The report is based on a variety of information sources, including interviews during the missions, information and presentations shared during the seminars, OECD reviews and research on Ukraine’s governance and finance practices published by the international community, as well as good practices and evidence collected during the two study visits organised for a selected group of Ukrainian stakeholders as part of this project, one to Flanders, Belgium (April 2017) and a second to Lublin and Rzeszów, Poland (September 2017).

The implementation of this project would not have been possible without the administrative and logistical support of Maria Ferreira and Théa Chubinidze during the preparation of the missions and events. Pilar Philip provided guidance to prepare the publication. Jennifer Allain edited the final manuscript and prepared it for publication.