



RGD – Making a Difference

Legislation for Institutional Change

Much was written about what RGD has been able to achieve with its regional partners in Zakarpattya and Zaporizhzhia. However, RGD's contribution to long term institutional development in Ukraine is most apparent in the progress made nationally on legislative change. Some donor projects on local and regional development have chosen to work exclusively outside Kyiv, but RGD believes that its ability to work at both national and regional levels simultaneously is one of the reasons for its success in promoting institutional change.

The 2005 Ukrainian State Law on Stimulating Regional Development

Ukraine's Parliament adopted this groundbreaking piece of legislation in the September of RGD's first year of operation. The Law was largely the product of the Ministry of Economy's (MoE) determination to bring Ukraine's approach to regional policy into much closer harmony with the practice of the European Union and so to take better advantage of the various regional assistance programs available to Ukraine from the EU on the condition that reforms be introduced.

The legislation was a genuinely radical departure from Ukraine's Soviet past in two major ways. **First**, it treated a region as an important economic entity in its own right rather than simply a subordinate administrative or political unit. Maximizing the economic potential of a region was now to be understood in a holistic and integrated way driven from below and no longer as a series of unrelated sectoral programs designed and delivered by separate and remote ministries who hardly talked to each other.

Second, the Law was an attempt to bring a new level of transparency into state support to regions that would enable scarce budget resources to be allocated in an open and accountable way. This represented a real opportunity for Ukraine to break away from old habits of making deals behind closed doors, with favoured capital projects getting the go-ahead on the basis of 'a nod and a wink' between senior officials and political leaders. The implementation of the Law would be a decisive step forward in the direction of improved governance.

Making the Law Work



RGD was quick to take up the challenge and support the MoE as it set about trying to apply the new Law. Given its controversial nature, many hoped the Ministry would fail. Much well-intentioned legislation in Ukraine is ineffective just for this reason. But thanks to the way RGD was designed to work at

both national and regional levels, and the excellent relations it had built with strong partners in both Zakarpattya and Zaporizhzhya oblasts, the project was able to provide a unique bridge between the vision of lawmakers in Kyiv and day-to-day realities on the ground. Working in parallel at Ministry and regional level, RGD has helped to ensure concrete progress in putting the Law into practice.

Five Steps toward Improved Governance

1. New Guidelines to Regions in the Preparation of Development Strategies

During preparation of the new Law, the MoE had issued guidelines to all oblast administrations on the design of development strategies for their regions. Regions found these guidelines difficult to use, as they were rather general and far from user-friendly. In addition, little mention was made of the need to engage as wide a range of regional stakeholders as possible in the strategy process as a means of activating local resources to support development.

Based on its practical experience in both pilot regions - where all levels of local government, business and enterprise, and the wider community were successfully involved in strategy design - RGD advised the MoE in the preparation of new step-by-step guidelines to oblast leaderships. These are to be used as the template for all regional development strategies in future.

2. New Skills and Practical Instruments for Strategy Realization

Initially, there was scepticism at regional level about the idea of preparing a development strategy, and whether this new approach imported from Western Europe and North America had anything concrete to offer to Ukraine. Because the Law obliged them to do so, several regions prepared their strategies on paper and left it at that. Dealing with day-to-day crises always took priority over investing in the future. RGD's pioneering work in Zakarpattya and Zaporizhzhia in training young managers and specialists on how to work in teams with business and community organisations in the practical implementation of strategies has shown what can be done with minimal resources from regional and local government. More significantly, during the current financial crisis, it has shown oblast leaderships how well-designed and innovative projects can attract finance from outside the region. Around 40 priority projects have been realised in 2009 alone. National ministries and other regions alike are taking an active interest in what is being achieved in Zakarpattya and Zaporizhzhia.

3. New Transparent, International Standard Procedures for Investment Project Design and Evaluation

The new Law, obliging all regions to identify clear investment priorities on the basis of their development strategies, was an attempt to de-politicize the old state capital grants system and to ensure that scarce funds were directed towards Ukraine's major concern – the collapse of essential infrastructure. External financing was needed for this in addition to resources from the state budget, but this called for new skills for preparing of investment proposals.

During 2008 and 2009, RGD has trained over 50 specialists from national ministries and the two pilot regions on how to design major proposals for investment in municipal infrastructure to the standards required by international financial institutions like the World Bank and the European Bank for Reconstruction and Development (EBRD). As a result, 22 projects aimed at improving water supply, the treatment of waste water, energy saving in district heating systems and modernization of urban transport have been completed to design stage. Two have already received agreement to co-financing from EBRD and still others are in the pipeline.

4. New Support to Depressed Areas

Until 2009, Ukraine's Parliament was unable to agree on a definition of the country's poorest towns and districts and a realistic formula for providing them with additional support from the state budget. The problem of decaying mono-industrial towns, for example, was so widespread that reasonably enough all elected deputies wanted their own regions to get priority.

RGD has worked with the MoE during the last two years trying to find a practical solution that would achieve consensus amongst politicians. Ukrainian, Canadian and East European experts together produced a survey of international examples of special programs for disadvantaged regions and RGD led workshop discussions of how these experiences might be adapted to Ukraine. The MoE has acknowledged that this played a key part in the passing, in June 2009, of an amendment to the 2005 Law to include an agreed definition of depressed areas and, for the first time, a formula for ring-

fencing annual state budget funds for their support.

5. Contracts for Regional Development

The Contract for Regional Development (*ugoda* in Ukrainian) between the Cabinet of Ministers and Oblast Councils is perhaps the single most important innovation in the 2005 Law, as it institutionalizes the twin principles of transparency and partnership of equals. According to the terms of the agreement, regions with a well-designed strategy for medium-term development (5-7 years) and a package of priority investment proposals linked to their strategy, can negotiate a stable, multi-year co-funding arrangement with national government. This is the final stage of shifting the emphasis of state financing from annual top-down ministry programs to an integrated, region-led approach to a longer development horizon.

It is no exaggeration to say that RGD's contribution to providing a usable model for regional strategy preparation and implementation, and in building capacity to design investment proposals that follow international standards, has enabled the MoE to continue to make good progress with this major reform. Agreements were signed with Donetsk and Lviv oblasts, and Zaporizhzhia is one of a limited number of other regions with whom negotiations are currently underway.



Verkhovna Rada – Ukraine Parliament

Project Information

The Regional Governance and Development (RGD) Project is a five-year (2005-2010) cooperation project of the Canadian Urban Institute, supported by the Canadian International Development Agency. The Project promotes civic engagement in regional governance, providing opportunities for Ukrainian citizens and communities to shape their common future and to put their region on the path towards sustainable development.

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