SEMINAR PROCEEDINGS

Supporting Decentralisation in Ukraine:

Implementing the OECD Effective Public Investment Toolkit

Thursday 14 June 2018
9:30 – 17:30

Ministry of Regional Development
9, Velyka Zhytomyrska Street
Kyiv, Ukraine

OECD Regional Development Policy Division

OECD Eurasia Competitiveness Programme

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THE PROJECT: SUPPORTING DECENTRALISATION IN UKRAINE

The OECD project will run until June 2018 with the aim of helping the Ukrainian authorities implement their decentralisation reforms and strengthen the institutions of public governance at national and sub-national levels across the country. It is jointly implemented by the OECD Regional Development Policy Committee and the Eurasia Competitiveness Programme, in close collaboration with the Government of Ukraine. The project is **co-financed by the European Union, and the governments of the Czech Republic, Flanders (Belgium), and Poland**.

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SEMINAR PROCEEDINGS

Overview

This capacity building seminar focused on implementing the OECD Recommendation on Effective Public Investment across Levels of Government, using the Effective Public Investment Toolkit. An OECD Recommendation is an instrument that results in international norms and standards, best practices and policy guidelines. The OECD Recommendation on Effective Public Investment is organised around three pillars: (i) co-ordination of public investment across levels of government and policies, (ii) strengthening the capacities for public investment and promoting policy learning at all levels of government, and (iii) ensuring proper framework conditions for public investment at all levels of government.

This seminar looked at the principles set out in the Recommendation in order to better define the roles of different levels of government in the design and implementation of a critical and shared responsibility for improved public investment capacities and a better distribution of responsibilities across levels of government.

This seminar was the eighth and last in a series held with national and subnational authorities in Ukraine, conducted within the framework of the OECD project on Supporting Decentralisation in Ukraine. The audience included representatives of public institutions and the central administration involved in the decentralisation reform in Ukraine, including relevant line ministries such as the Ministry of Regional Development, Construction and Utilities, Ministry of Finance, and Ministry of Economic Development and Trade. Representatives of other national agencies, subnational authorities and international organisations active in decentralisation were also invited to contribute to the discussions.

Key findings

- SNGs account for 67% of public investment in Ukraine, and almost 60% in the OECD. Subnational investment accounts for 1.1% of GDP in Ukraine, compared with 1.5% of GDP in the OECD.
- The key priorities for Ukraine to improve the governance of its public investment include enhancing horizontal and vertical co-ordination, building subnational resource capacities and strengthening framework conditions.
- The adoption of a stable multi-annual investment budget can allow the government to conduct planning on a multi-year basis and adopt a long-term investment outlook.
- Ukraine could adopt a strategic approach to subnational investment, by linking the State Strategy for Regional Development to investment strategies at oblast level, improving inter-ministerial and inter-departmental co-ordination, and supporting investments in both “hard” and “soft” infrastructure.
- There is a need to establish dialogue across levels of government to jointly identify and agree upon investment priorities, and develop agreements and contracts to clarify responsibilities and financial arrangements for investment.
- The government should continue supporting inter-municipal co-operation, support metropolitan governance arrangements, and promote higher jurisdiction co-operation (e.g. at the rayon level).
- Ukraine could review how resources from the State Fund for Regional Development are distributed, and consider state-region contracts for regional development.
- In order to strengthen subnational fiscal capacity, Ukraine could develop subnational borrowing by loosening borrowing rules and developing a more diversified local debt market (loans and bonds), and promote transparent and strategic use of public procurement at the subnational level.
- It is essential to improve the budgetary and fiscal rules framework, by introducing a budgeting rule forbidding unfunded and underfunded mandates, making internal audit compulsory and developing tools and financial support for local governments, and improving external audit by extending the remit of the Accounting Chamber of Ukraine to subnational governments.

Opening remarks and introduction

The seminar was moderated by **Ms. Maria Varinia Michalun**, Project Manager, Decentralisation, Public Investment and Subnational Finance Division, OECD. Ms. Michalun thanked the Ministry of Regional Development for hosting the seminar and noted the importance of the topic, as approximately 67% of investment at subnational level is undertaken by subnational governments (SNGs) in Ukraine.

Opening remarks were delivered by **Mr. Taras Tokarski,** Deputy Minister for European Integration, Ministry of Regional Development, Construction and Utilities of Ukraine. Mr. Tokarski underlined the importance of implementing OECD standards and good practices in Ukraine, in particular the OECD Recommendation on Effective Public Investment across Levels of Government, which can be used to improve the efficiency of public resource use. He also noted that Ukraine is currently working on implementing the necessary procedures to adhere to the recommendation. **Mr. Benedikt Herrmann,** First Secretary, Policy Officer for Decentralisation and Sectoral Reform, Delegation of the European Union to Ukraine, noted that the topic of the seminar is very timely. Ukraine has achieved significant progress in establishing newly amalgamated communities (NACs), with local budgets that rely on tax revenues from local businesses. This has resulted in significant improvements in the efficiency of public expenditure – for instance, the quality of roads built by NACs have been shown to be five times better than roads built by previous administrations (at the *rayon* level). He also noted that the OECD provides a unique platform for mutual learning, and there is no one solution – each country has to develop its own approach. Finally, **Ms. Gabriela Miranda,** Country Manager for Ukraine, OECD Eurasia Division, explained that the seminar is tailored to needs that were identified over the past two years. Ukraine has made lots of progress, but still faces challenges in improving public service delivery and strengthening the co-ordination and efficiency of public investment.

To introduce the topic of the seminar, **Ms. Dorothée Allain-Dupré,** Head of Unit, Decentralisation, Public Investment and Subnational Finance, OECD, delivered a presentation on the *OECD Recommendation on Effective Public Investment across Levels of Government.* **SNGs account for 67% of public investment in Ukraine, and almost 60% in the OECD.** The OECD conducted a survey of regions and cities in the EU, collecting data from 255 SNGs in all EU countries to better understand how public investments are implemented. The results demonstrated that the main challenges reported by SNGs include red tape and regulatory burden, designing and planning infrastructure in a long-term perspective, co-ordination across levels of government and jurisdictions, and performance monitoring. Another survey conducted in 21 OECD countries demonstrated that the main challenges for public investment at national level include an excessive emphasis on sectoral priorities, weak long-term strategic planning, difficulties involving private firms, and weak capacities for administering public-private partnerships (PPPs). At the subnational level, the top challenges identified by regional governments include a lack of involvement of private actors, reduced fiscal capacity for public investment, a lack of capabilities to administer public procurement, an excess of administrative procedures and red tape, and a lack of competitiveness in salaries paid to public employees (when compared with the private sector).

To address these challenges, the OECD developed the Recommendation on Effective Public Investment across Levels of Government, which is structured around three pillars and twelve principles that can apply in all countries and all contexts:

Pillar 1: Co-ordinate across levels of government and policies

1. Invest using an integrated strategy tailored to different places
2. Adopt effective co-ordination instruments across levels of government
3. Co-ordinate across SNGs to invest at the relevant scale

Pillar 2: Strengthen capacities and promote policy learning at all levels of government

4. Assess upfront long-term impacts and risks
5. Encourage stakeholder involvement throughout the investment cycle

6. Mobilise private actors and financing institutions to diversify sources of funding and strengthen capacities
7. Reinforce the expertise of public officials and institutions
8. Focus on results and promote learning from experience

Pillar 3: Ensure proper framework conditions for public investment at all levels of government

9. Develop a fiscal framework adapted to the objectives pursued
10. Require sound and transparent financial management at all levels
11. Promote transparency and strategic use of procurement
12. Strive for quality and consistency in regulatory systems across levels of government

These twelve principles have been adopted by all OECD member countries. They are not legally binding, but practice accords them with great moral force as representing the political will of OECD Member States. Moreover, the OECD Regional Development Policy Committee has a mandate to monitor progress every three years and assess how countries are implementing the principles, by building a database of good policy practices and promoting learning and sharing of experiences among countries. To facilitate this process, the OECD has built an *Implementation Toolkit* which helps to make the principles more concrete and operational. The toolkit includes more than 70 indicators that national and subnational authorities can use to self-assess the governance of their public investment.

For example, vertical co-ordination across national and subnational governments can be achieved through a variety of means, such as inter-governmental councils (Australia), regional development agencies (Brazil, Canada), contracts (France, Canada, Colombia), partnerships between public and private actors (United Kingdom), conditionalities (EU programming), and platforms for dialogue (Austria, Sweden). Out of 31 OECD countries surveyed, 19 countries conduct regular dialogue across levels of government to discuss and define investment priorities. Horizontal co-ordination is essential, particularly in countries with a highly fragmented territorial structure, and can be achieved through incentives provided by the national government (Switzerland), joint initiatives initiated at local level (France), or through actions taken at the metropolitan level (France, Germany, United Kingdom).

The OECD has also developed a set of multi-level governance indicators, to benchmark and assess common challenges across OECD countries. The evidence indicates that the way public investment is managed has an impact on local and regional growth. Better quality of government is associated with better returns to public investment. When designing incentives to make public investment work, governments should use a mix of hard and soft incentives, design national performance frameworks around outcomes anchored within an overall framework of Key National Indicators or strategic goals, use a limited set of indicators, and ensure transparency and accountability. **The key priorities for Ukraine to improve the governance of its public investment include:**

1. **Enhancing co-ordination** (strengthening central government practices to manage horizontal and vertical co-ordination, reinforcing inter-municipal co-operation to encourage future amalgamation).
2. **Building capacities** (more active support for subnational resource capacity, rectifying structural aspects in the project approval phase that may favour certain municipalities or carry a political bias).
3. **Strengthening framework conditions** (more effective capital transfers for subnational investment, improving subnational fiscal capacity to invest, developing access to external funding for investment, better clarifying the attribution of responsibilities and functions across levels of government, improving the public procurement framework).

During the open discussion, **Ms. Maria Varinia Michalun** noted the importance of ensuring proper framework conditions for public investment at all levels of government. **Ms. Oksana Hryshkevych,** Director of the Department of Public Investment Projects and Development Support, Ministry of Economic Development and Trade of Ukraine, explained that the Ministry is responsible for designing investment policy at the national level. When responsibilities were shifted to the local level as part of the decentralisation reform, subnational authorities faced difficulties assigning priorities, co-operating with neighbours, and developing adequate co-ordination mechanisms. There is a need to reinforce co-ordination between levels of government and formulate a strategy for public investment. The Ministry is currently working together with representatives of local communities to establish a list of priority investment projects. **Mr. Yuri Tretyak,** Adviser on Regional Development Policy and Action Team, U-LEAD with Europe Programme, explained that Ukraine doesn't have a national architecture for strategic investment planning. The Cabinet of Ministries is receiving an avalanche of planning documents not adequately supported by budget funding, many of which are developed in order to obtain a share of public funds. **Ms. Dorothée Allain-Dupré** explained that partnership agreements are developed in the EU through a multi-sectoral cross-ministerial process. This has contributed to improving strategic planning within countries, and avoiding having too many plans with conflicting priorities. Long-term investment strategies have also been developed in Australia and Canada, as well as the US (in response to the crisis).

Ms. Oksana Zatvornytska, Senior Economist, Centre for Economic Strategy, noted that a culture of regional feedback is missing. Regions often propose investment projects based on nationally-defined priorities, and many strategies are not appropriately linked to regional priorities, and lack clearly defined objectives and monitoring indicators. **Mr. Vadym Oliynyk,** Expert on the decentralisation of transport infrastructure, Advisor to Deputy Minister of Infrastructure of Ukraine, Ministry of Infrastructure, outlined work conducted by the Ministry of Infrastructure to design a strategy for the development of transport infrastructure in Ukraine. Working closely with the Association of Ukrainian Cities, regional and local administrations, the Ministry developed a plan to improve the quality of roads and strengthen safety standards to reduce the number of accidents resulting from poor-quality roads. **Ms. Maria Varinia Michalun** concluded the session by noting that Regional Development Agencies can be a very powerful tool for the implementation of public investment strategies. There is a need for an overarching strategy document at national level that provides guidance and is not overly prescriptive. Collecting good quality data, constructing relevant and useful indicators, and involving and engaging with citizens throughout the process are also relevant factors.

Session 1: Strengthen capacities for public investment and promote policy learning at all levels of government

The first session of the day began with a presentation on *Portuguese Regional Policy within EU Regional Policy* by **Mr. Duarte Rodrigues,** Vice-President of the Board, Cohesion and Development Agency, Portugal. Portugal has been implementing EU regional policy since 1986, through a multilevel governance approach. EU regional policy has helped to improve strategic planning at regional and sub-regional levels, public procurement, and operational programming skills. **The adoption of a stable multi-annual investment budget allows for the government to conduct planning on a seven-year basis and adopt a long-term investment outlook.** Portugal has also developed a strong monitoring and evaluation framework and prepares an evaluation plan for each seven-year period. A range of municipal associations and other relevant stakeholders are closely involved in the process. This allows for a systematic approach to programming based on a well-articulated intervention logic supported by a thorough monitoring and evaluation system. Key challenges in developing relevant indicators throughout the policy cycle include the need to identify how policy outcomes are related to the final results, the need to align the objectives of different sectors and different levels of government, and the need to identify the right scale of analysis.

The Portuguese multilevel governance system consists of the central government, five deconcentrated regions, and 308 municipalities (278 in mainland Portugal and 30 in the autonomous regions of the Azores and Madeira). There are 23 municipal associations, which are often used to scale up public investments at local level. Municipal associations are formed through a voluntary approach without any restrictions on their formation. They were established through fiscal incentives, by being granted the possibility to participate in fiscal decentralisation. The main territorial instruments of EU regional policy in Portugal are implemented through the Portugal 2020 Territorial Development Strategy, which is based on a multilevel governance approach. Regional Strategies (at NUTS II level) are closely linked to Territorial Development Strategies (at NUTS III level). These are implemented through to three key territorial instruments:

- Community-Led Local Development (CLLD) funds – EUR 310 million provided to 91 Local Action Groups, implemented through Local Development Strategies.
- Integrated Territorial Investments (ITI) – EUR 1.1 billion provided to 22 inter-municipal communities and metropolitan areas, implemented through pacts for territorial cohesion and development.
- Integrated Sustainable Urban Development (SUD) actions – EUR 739 million provided to 105 urban centres.

After three cycles of contracts, the main results include the ability to consolidate a sub-regional level of inter-municipal co-operation in a short-term period, improved capacity of sub-regional actors, the transition from inter- to supra-municipal projects in some sectorial policy areas, and increased openness to interventions at municipal level. The main challenges include the “cascade dilemma” (difficulty to manage the need for territorial and thematic flexibility within the detailed programming of EU funds), tension between strategic and result orientation, the need to be selective when implementing contracts, and the geographical overlapping of territorial instruments. **Some of the key lessons learnt include: the need for persistent implementation of policies over time, the need to be selective and avoid fragmentation in territorial strategies, the need to combine devolution with capacity building of regional and local stakeholders, the need to evaluate and communicate the results, and the need to find a balance between results and flexibility.**

A representative of the **Institute for Budgetary and Socio-Economic Research** explained that they have developed norms to evaluate investments in hard infrastructure, but don’t have an established methodology and official approach to conduct benefit-cost analysis for soft investments. **Mr. Duarte Rodrigues** used the construction of a new road as an example, explained that it’s important to understand the main objective of the road to be built, how the new road might lead to improvements in connectivity, the expected increase of traffic flows, etc. The same results and complexities should be assessed when evaluating soft infrastructure. In Portugal for example, the government supports local enterprises to participate in international trade fairs. The main expected outcome of these investments is to increase exports from local industries.

This was followed by a presentation by **Dr. Natalia Oliynyk,** Head of the Department of Economic Policy and Governance, National Academy for Public Administration under the President of Ukraine (NAPA). NAPA plays an important role in strengthening capacities for public investment by working to build the capacity of civil servants. They have developed a comprehensive curriculum, established a network of regional institutes, created PhD programmes on public administration and management, and work to train professionals and top level managers. The primary purpose of these activities is to try and form the competences needed in the public administration for implementing reforms. This involves building a culture of management, and teaching personnel to formulate decisions, take on responsibility and implement policies at all levels of government. The decentralisation reform has helped to increase accountability at local levels to resolve these issues. Looking ahead, there is a need to equip public servants with knowledge on how to implement the OECD recommendation on public investment, and disseminate the principles of the recommendation across levels of government and amongst local stakeholders.

The session concluded with a presentation by **Ms. Oksana Hryshkevych,** Director of the Department of Public Investment Projects and Development Support, Ministry of Economic Development and Trade of Ukraine. Ms. Hryskevych provided an outline of the Advanced and Transparent Public Investment Management System – a project initiated by the Ministry of Economy in 2014. The project established a procedure for the selection of public investment projects, based on a range of criteria relating to efficiency. The commission evaluates projects by conducting cost-benefit analysis, and recommends projects for financing accordingly. For example, when evaluating a potential road infrastructure project, the commission would look at factors such as the potential of the new road to reduce travel time for road users, and the potential for improved infrastructure to result in fewer accidents. Transparency and maximum involvement of relevant stakeholders are key principles underlying the evaluation process. Furthermore, a post-implementation project evaluation is also conducted to follow up on public investment projects several years after their completion.

During the open discussion, **Mr. Julian Talens,** Senior Adviser on Public Finance, European Union Advisory Mission, inquired as to whether all ministries are participating in the scheme. Ms. Hryskevych that individual line ministries have the responsibility to initiate projects, and there are no restrictions on their participation. At the same time, not all line ministries have sufficient staff, resources and capacity to do so. **Mr. Duarte Rodrigues** emphasised the need to use both formal and informal channels to support public investment. In Portugal, the regional councils discuss the implementation of projects and implementation challenges. The national strategy for 2030 started off in the parliament, and was subsequently reviewed by the Economic and Social Council, the Ministry for Regional Development, and five regional councils. The monitoring committee for regional development was established to review and approve changes to the strategy.

Session 2: Co-ordination of public investment across levels of government and policies

This session began with a presentation on *Improving co-ordination across levels of government for more effective public investment* by **Ms. Maria Varinia Michalun,** Project Manager, Decentralisation, Public Investment and Subnational Finance Division, OECD. The first pillar of the OECD Recommendation on Effective Public Investment across Levels of Government focuses on co-ordination across levels of government and policies. Investment should be thought of as a process, and policy makers should have adequate foresight on how much funds are available for investment over the next 3-5 years, in order to conduct multi-annual budgeting. A stable investment policy is crucial, as an unstable investment environment makes it much more difficult to attract capital.

Principle 1 of the Recommendation focuses on investing using an integrated strategy tailored to different places. This implies linking investments to the specific needs of each region or locality, by making public investment choices based on an assessment of potential opportunities for and impediments to growth at the local level. It also involves joining up related investments across policy sectors, by understanding the complementarities between objectives, making investments in both "hard" and "soft" infrastructure at the regional level, and seeking complementarities and reducing conflict among sectoral strategies. Additionally, investments should be made on the basis of well-informed and evidence-based strategies. To this end, it is essential to have good data at the right territorial scale to inform investment strategies and produce evidence for decision making. For example, investments at the level of a metropolitan area may require sharing of data between neighbouring localities, to allow for effective investment at a larger scale. Identifying complementarities across sectors (e.g. housing, transport) and co-ordinating strategies among line ministries is essential. Furthermore, governments should avoid a "cut and paste" approach when developing regional strategies, and should establish clear priorities based on specific local needs.

Principle 2 of the Recommendation focuses on the need to adopt effective co-ordination instruments across levels of government. These are necessary to bridge a series of fiscal, information or policy gaps that may occur across levels of government. Transaction costs, competitive pressures, resource constraints and differing priorities may impede efforts to bring governments together. In France, state-region planning contracts (*Contrat de plan État-région – CPER*) have been in operation since 1982 and are important tools in for planning and co-ordinating regional development policy. In Australia, the Council of Australian Governments (COAG) is the main forum for developing and implementing inter-jurisdictional policy. It is composed of the Australian Prime Minister (chair), state premiers, territory chief ministers and the President of the Australian Local Government Association. Through COAG, the federal and subnational governments have endorsed national guidelines on public-private partnerships (PPPs), agreed to a national port strategy, and conducted inter-governmental agreements on heavy vehicles, rail and maritime safety. Co-ordination is also essential as a means to identify joint investment priorities and minimise the potential for investments to work at cross-purposes. One way to achieve this is by formalising consultations of SNGs in the development of national plans. In Ukraine, SNGs are often involved in projects at the implementation stage, and are not adequately consulted during the planning stage. There is a need to involve subnational stakeholders early on in the process, in order to build ownership.

Principle 3 of the Recommendation focuses on co-ordination across SNGs to invest at the relevant scale. This is crucial, as it reduces duplication of unsustainable investments due to inter-jurisdictional competition. Moreover, evidence suggests that administrative fragmentation can impede investment: if the scale of investment is too small, returns may be too low and investments may not be economically viable. SNGs should therefore co-ordinate in order to promote economies of scale, increase efficiency, enhance synergies, and be able to invest at the functional scale. Public investment can also result in positive and negative spillovers among neighbouring regions. It is necessary to manage these spillovers and take the into consideration when making investment decisions. Governments should provide relevant incentives to enhance co-operation across jurisdictions, develop adequate governance systems for metropolitan areas, and avoid forced collaboration where fiscal incentives are not aligned.

The key recommendations for Ukraine include:

- *Principle 1:* taking a strategic approach to subnational investment, linking the State Strategy for Regional Development to investment strategies at oblast level; improving inter-ministerial and inter-departmental co-ordination; and supporting investments in both "hard" and "soft" infrastructure.
- *Principle 2:* establish dialogue across levels of government to jointly identify and agree upon investment priorities; develop agreements and contracts to clarify responsibilities and financial arrangements for investment.
- *Principle 3:* continue supporting inter-municipal co-operation; support metropolitan governance arrangements; promote higher jurisdiction co-operation (e.g. at the rayon level).

This was followed by a presentation by **Mr. Vadym Oliynyk,** Expert on the decentralisation of transport infrastructure, Advisor to Deputy Minister of Infrastructure of Ukraine, Ministry of Infrastructure. Mr. Oliynyk noted that the poor quality of roads has been an ongoing issue in Ukraine for many years, and people often blame the central administration and Ukravtodor (the state road agency) for the situation. The Ministry of Infrastructure is currently focusing on how best to renew the road network in Ukraine. Approximately UAH 11.5 billion has been allocated for this purpose – about 35% of the road fund, which is an unprecedented amount. Funds are mainly derived from excise tax revenues, and are used for targeted financing of construction and reconstruction works of some 250 000 km of roads at national and local levels. Up to 20% of funding allocated to local roads should be targeted at roads managed by newly amalgamated communities (NACs). Although the length of roads repaired has increased substantially in recent years, 95% of roads are obsolete and don't meet modern demands. The Ministry of Infrastructure estimates that at least UAH 100 billion of investment per annum is needed over the next 10 years, to build roads that will endure for a minimum of 20-25 years. The growth of local budgets as a result of the decentralisation reform is a positive development that will encourage further infrastructure investment at local level. However, it is also important to attract private capital to finance infrastructure. The Ministry of Infrastructure has limited experience in this area, having only dealt with one public-private partnership (PPP) so far.

Ms. Valentyna Poltavets, Executive Director, Association of Newly Amalgamated Hromadas, Ukraine, explained that the association encourages newly amalgamated communities (NACs) to develop strategic documents and identify specific areas in need of investments. They are encouraged to work closely with the regional (*oblast*) administrations to adjust their strategies, and create plans for municipal projects. This is an important mechanism for vertical co-ordination, although the regional administrations are not always quick to respond with feedback. The administrations of NACs are also in the process of acquiring skills in strategic and project management. The Ministry of Regional Development provides support to formulate projects, and helps communities to deal with the most urgent issues (e.g. building infrastructure for kindergartens, local schools). However, many NACs have developed their own strategies and are working quite independently, with resources from their own budget.

Poltava region is one of the best examples of inter-municipal co-operation (IMC) in Ukraine. The region has developed more than 150 IMC projects in areas such as law enforcement, water supply, waste management, etc. There is a need to further share and disseminate this experience amongst other regions in Ukraine.

Currently communities operate under programme-based budgeting, but there is a need to move towards mid-term budgeting with strategies based on clearly-defined and well-funded projects.

The final presentation of the session was delivered by **Ms. Dina Serebrianska,** Local economic development analyst, Association of Ukrainian Cities. Ms. Serebrianska noted that the fiscal decentralisation reform has had very positive impacts in Ukraine, resulting in a broadened fiscal base, and enhanced role of territorial communities in delivering quality public services. An absolute growth of revenues without transfers has been observed, however the share of NACs in the total consolidated budget has only grown by 1%. A number of financing instruments have been established, including grants for medical development in rural areas, educational grants, and infrastructure subsidies. However, financial resources are not able to meet the investment needs of communities, and the limited availability of debt at subnational level reduces the ability of SNGs to attract investment. According to the Association of Ukrainian Cities, enhanced co-operation between the central government and local communities is needed to further stimulate public investment at local levels.

Session 3: Framework conditions for public investment at all levels of government

The final session of the day began with a presentation on *OECD Recommendation – Pillar III "Ensuring sound framework conditions for public investment at all levels of government"* by **Mr. Antti Moisio,** Economist/Policy Analyst, OECD. The third pillar of the OECD Recommendation on Effective Public Investment across Levels of Government focuses on ensuring sound framework conditions at all levels of government, and comprises four principles centred on fiscal issues, public procurement and the regulatory framework. Fiscal decentralisation should focus on establishing the appropriate framework conditions for effective public investment. **It is crucial to improve SNG fiscal capacity to invest, by improving their self-financing capacity, diversifying fiscal resources for investment (user charges, revenues from property lease and sales, dividends, land-based financing instruments, municipal concessions, etc.), and enlarging access to external funding (increasing flexibility on subnational borrowing, enabling PPPs and innovative financing schemes for the most capable SNGs). It is also important to develop multi-year budgeting and planning, and improve the public procurement framework for SNGs.**

Principle 12 of the Recommendation aims to promote quality and consistency in regulatory systems across levels of government. In many OECD countries, SNGs face inflationary regulations that change constantly (for example in France, more than 55% of regulations applying to SNGs have been modified in less than 10 years). Unclear, overlapping and contradictory regulations across levels of government can also increase costs, reduce efficiency and deter potential investors. Lack of regulatory capacity is another obstacle for SNGs. Possible solutions include the implementation of formal co-ordination mechanisms between levels of government, regularly reviewing the stock of regulations, assessing the costs and benefits of new regulations, taking compliance costs for SNGs into account, implementing effective regulatory impact analysis (RIA) mechanisms across levels of government, and implementing programmes to foster SNG capacity for regulatory quality.

Principle 11 of the Recommendation focuses on transparency and strategic use of procurement. Procurement is integral to public investment and can contribute to sustainable development, innovation and SME development, but is also the government activity most vulnerable to waste, fraud and corruption. On average, 55% of public procurement spending occurs at the subnational level, but many SNGs lack the capacity and capabilities to conduct procurement. There is a need for transparency throughout the procurement cycle, professionalization of the procurement function, and better accountability and control mechanisms. Potential solutions include providing guidance and stability for SNGs for procurement, collaborating for procurement (e.g. purchasing alliances, framework agreements, central purchasing bodies), encouraging the use of e-procurement tools, harmonising procurement practices, professionalising procurement through training programmes, recognising procurement officials as a specific profession, and encouraging the use of procurement by SNGs as a tool to foster green development and innovation.

In Ukraine, grants and subsidies form the major source of funding for SNGs: 60% of subnational revenue, compared with 38% on average in the OECD. Most grants are operating grants and earmarked to finance education, health, and social protection expenditures, but are not really used for investment. **The level of subnational public investment in Ukraine is very low: subnational investment accounts for 1.1% of GDP in Ukraine, compared with 1.5% of GDP in the OECD on average.** Ukraine needs to boost its public investment and improve the governance of public investment at all levels. Some progress has been made in this area, with the introduction of the State Fund for Regional Development. Ukraine also has a very low level of subnational government debt, when compared with OECD countries. This is due to highly restrictive rules on access to borrowing, which is reserved to some categories of SNGs, with strict prudential rules. SNGs need prior authorisation of the Ministry of Finance to borrow, which is a major constraint and implies that the central government fully controls borrowing by SNGs. The low level of subnational debt is also due to the weak fiscal capacity of SNGs: they have limited creditworthiness, as a result of their limited capacity to raise own-source revenues and the lack of stability, predictability and "unconditionality" of intergovernmental grants.

Key recommendations for Ukraine to improve the multi-level governance of its public investment include reviewing how resources from the State Fund for Regional Development are distributed, considering state-region contracts for regional development, developing subnational borrowing by loosening borrowing rules and developing a more diversified local debt market (loans and bonds), and promoting transparent and strategic use of public procurement at the subnational level. Furthermore, it is essential to improve the budgetary and fiscal rules framework, by introducing a budgeting rule forbidding unfunded and underfunded mandates, making internal audit compulsory and developing tools and financial support for local governments, and improving external audit by extending the remit of the Accounting Chamber of Ukraine to subnational governments.

The discussions focused on the role of price-based criteria in making public procurement decisions, possibilities for Ukraine to enlarge subnational procurement, and the role of NGOs in influencing decisions in the investment cycle. **Ms. Maria Varinia Michalun** noted that from the perspective of a government, procurement is not just a mechanism for investment, but is also a tool that can be used to advance certain goals and strategic priorities (e.g. by introducing criteria on carbon footprints). In OECD countries, we observe increasing use of procurement as a tool in areas such as sustainable development, innovation policy and regional development.

Conclusions of the seminar and closing remarks

Closing remarks were delivered by **Ms. Maria Varinia Michalun,** Project Manager, Decentralisation, Public Investment and Subnational Finance Division, OECD. Ms. Michalun highlighted some of the key ideas and concepts that had been discussed during the seminar, including place-based regional development, strategic planning, and decentralisation. These concepts are similar to those that were discussed during the project's first seminar in January 2017, and represent recurring issues for Ukraine, such as stability of policy, funding and investments. **Mr. Benedikt Herrmann,** First Secretary, Policy Officer for Decentralisation and Sectoral Reform, Delegation of the European Union to Ukraine, thanked the OECD for organising the seminar, as well as the participants for their attendance and contributions. Ms. Michalun closed the seminar, thanking the participants for their active engagement in the discussions.

ANNEX A: LIST OF SPEAKERS

- **Ms. Dorothée Allain-Dupré,** Head of Unit, Decentralisation, Public Investment and Subnational Finance, OECD
- **Mr. Benedikt Herrmann,** First Secretary, Policy Officer Decentralisation, Sectoral Reform, Delegation of the European Union to Ukraine
- **Ms. Oksana Hryshkevych**, Director of Department of Public Investment Projects and Development Support, Ministry of Economic Development and Trade of Ukraine
- **Ms. Maria Varinia Michalun,** Project Manager, Decentralisation, Public Investment and Subnational Finance Division, OECD
- **Ms. Gabriela Miranda,** Country Manager for Ukraine, Eurasia Division, OECD
- **Mr. Antti Moisio,** Decentralisation, Public Investment and Subnational Finance Division, OECD
- **Dr. Natalia Oliynyk,** Head of the Department of Economic Policy and Governance, National Academy for Public Administration under the President of Ukraine
- **Mr. Vadym Oliynyk,** Expert on the decentralisation of transport infrastructure, Advisor to Deputy Minister of Infrastructure of Ukraine, Ministry of Infrastructure
- **Ms. Valentyna Poltavets,** Executive director, Association of Newly Amalgamated Hromadas, Ukraine
- **Mr. Duarte Rodrigues,** Vice-President of the Board, Cohesion and Development Agency, Portugal
- **Ms Dina Serebrianska,** local economic development analyst, Association of Ukrainian Cities, Ukraine
- **Mr. Taras Tokarski,** Deputy Minister for European Integration, Ministry for Regional Development, Construction and Utilities, Ukraine

ANNEX B: AGENDA

SUPPORTING DECENTRALISATION IN UKRAINE:
Implementing the OECD Effective Public Investment Toolkit

Ministry of Regional Development
9, Velyka Zhytomyrska Str., Kyiv, Ukraine

Thursday, 14 June 2018

Moderator: Ms. Maria Varinia Michalun, Project Manager, Decentralisation, Public Investment and Subnational Finance Division, OECD

9:30-10:00	**Registration and coffee**
10:00-10:15	**Welcome and Opening Remarks** • **Mr. Taras Tokarski,** Deputy Minister for European Integration, Ministry for Regional Development, Construction and Utilities, Ukraine • **Mr. Benedikt Herrmann,** First Secretary, Policy Officer Decentralisation, Sectoral Reform, Delegation of the European Union to Ukraine • **Ms. Gabriela Miranda**, Country Manager for Ukraine, Eurasia Division, OECD
10:15-10:45	**Introduction** • **Ms. Dorothée Allain-Dupré,** Head of Unit, Decentralisation, Public Investment and Subnational Finance, OECD *Presentation and introduction to the OECD Recommendation on Effective Public Investment across Levels of Government* **Questions and answers**
10:45-11:00	***Coffee Break***
11:00-12:30	**Session 1: Strengthen capacities for public investment and promote policy learning at all levels of government** • **Mr. Duarte Rodrigues,** Vice-President of the Board, Cohesion and Development Agency, Portugal • **Dr. Natalia Oliynyk,** Head of the Department of Economic Policy and Governance, National Academy for Public Administration under the President of Ukraine • **Ms Oksana Hryshkevych**, Director of Department of Public Investment Projects and Development Support, Ministry of Economic Development and Trade of Ukraine **Key topics for discussion:** – The importance of engaging with stakeholders throughout the investment cycle – What types of risks are associated with public investment?
12:30-14:00	***Lunch Break***

14:00-15:30	**Session 2: Co-ordination of public investment across levels of government and policies** • **Ms. Maria Varinia Michalun,** Project Manager, Decentralisation, Public Investment and Subnational Finance Division, OECD • **Mr. Vadym Oliynyk,** Expert on the decentralisation of transport infrastructure, Advisor to Deputy Minister of Infrastructure of Ukraine, Ministry of Infrastructure • **Ms. Valentyna Poltavets,** Executive director, Association of Newly Amalgamated Hromadas, Ukraine • **Ms. Dina Serebrianska,** local economic development analyst, Association of Ukrainian Cities, Ukraine **Key topics for discussion:** – What types of governance arrangements and incentives than can help coordination? – Which instruments should be adopted for an effective co-ordination across national and sub-national levels of government?
15:30-15:45	***Coffee Break***
15:45-17:15	**Session 3: Framework conditions for public investment at all levels of government** • **Mr. Antti Moisio,** Decentralisation, Public Investment and Subnational Finance Division, OECD **Key topics for discussion:** – How to ensure the proper framework conditions for public investment at all levels of government? – What practices should be adopted to ensure financial accountability and transparency?
17:15-17:30	**Conclusions and closing remarks** • **Mr. Benedikt Herrmann,** First Secretary, Policy Officer Decentralisation, Sectoral Reform, Delegation of the European Union to Ukraine • **Ms. Maria Varinia Michalun,** Project Manager, Decentralisation, Public Investment and Subnational Finance Division, OECD

ANNEX C: LIST OF PARTICIPANTS

№	Participants	Position	Organisation
	Public sector representatives		
1.	Mr. Taras Tokarski	Deputy Minister for European Integration	Ministry of Regional Development, Construction and Utilities
2.	Ms. Olena Boyko	General Director of Regional Development	Ministry of Regional Development, Construction and Utilities
3.	Ms. Oksana Hryshkevych	Director of Department of Public Investment Projects and Development Support	Ministry of Economic Development and Trade of Ukraine
4.	Ms. Olena Levchuk	Deputy Director of Department of Public Investment Projects and Development Support	Ministry of Economic Development and Trade of Ukraine
5.	Mr. Daniil Menshykov	Deputy Head of Directorate of Entrepreneurship – Head of Division of Entrepreneurship Development Department of Entrepreneurship Development and Regulatory Policy	Ministry of Economic Development and Trade of Ukraine
6.	Ms. Iryna Martynenko	Head of Division of Investment Monitoring and State Investment Projects of the of Department of Public Investment Projects and Development Support	Ministry of Economic Development and Trade of Ukraine
7.	Ms. Iryna Korzh	Chief specialist of Division of Investment Monitoring and State Investment Projects of Department of Public Investment Projects and Development Support	Ministry of Economic Development and Trade of Ukraine
8.	Ms. Natalya Vosnyuk	Advisor to the Department of Urban Development, Architecture and Planning of the Territories	Ministry of Regional Development
9.	Mr. Vadym Oliynyk	Advisor to the Deputy Minister, Expert on decentralisation of transport infrastructure	Ministry of Infrastructure of Ukraine
10.	Dr. Natalia Oliynyk	Head of the Department of Economic Policy and Governance	National Academy for Public Administration under the President of Ukraine
11.	Dr. Volodymyr Moroz	Deputy Head of the Department of Economic Policy and Governance	National Academy for Public Administration under the President of Ukraine
12.	Dr. Volodymyr Vakulenko	Head of the Department of Regional Administration, Local Self-Government and City Administration	National Academy for Public Administration under the President of Ukraine
13.	Dr. Natalia Vasylieva	Professor of the Department of Regional Administration, Local Self-Government and City Administration	National Academy for Public Administration under the President of Ukraine

№	Participants	Position	Organisation
14.	Mr. Gryhoriy Borshch	Associate Professor of the Department of Regional Management, Local Self-Government and City Administration	National Academy for Public Administration under the President of Ukraine
15.	Ms. Tetiana Yashchuk	Researcher	National Academy for Public Administration under the President of Ukraine
16.	Ms. Yulia Ryzhkova	Researcher	Institute of Economics and Forecasting, National Academy of Sciences of Ukraine
17.	Dr. Vitali Gryga	Researcher	Institute of Economics and Forecasting, National Academy of Sciences
18.	Dr. Yevgen Bublyk	Senior researcher	Institute of Economics and Forecasting, National Academy of Sciences of Ukraine
19.	Dr. Svitlana Brus	Senior researcher	Institute of Economics and Forecasting, National Academy of Sciences
20.	Mr. Tymofiy Devko	Village Head	Devychkivska AH
21.	Ms. Tetiana Androsenko	Specialist in regional development	Devychkivska AH
	Private sector, associations and NGOs:		
22.	Ms. Valentyna Poltavets	Executive Director	Association of Newly Amalgamated Hromadas
23.	Ms. Dina Serebrianska	Local economic development analyst	Association of Ukrainian Cities
24.	Mr. Vadym Maslak	Expert	All-Ukrainian Association of Village and Settlements Councils
25.	Mr. Rostyslav Tomenchuk	Chairman, Advisor of Mr. Zubko	Ukrainian Institute for International Politics
26.	Mr. Vadm Maslak	Expert	All-Ukrainian Association of Village and Settlement Councils
27.	Dr. Natalia Herashchenko	President	NGO “Club of Economists”
28.	Ms. Olexandra Pravdyva	International economy expert	NGO “Club of Economists”
29.	Dr. Lidia Hladchenko	Key expert	NGO “Club of Economists”
30.	Dr. Alla Kozhyna	Head	NGO “Institute of Public Strategies”
31.	Ms. Oksana Zatvornytska	Senior Economist	Centre for Economic Strategy
32.	Ms. Inna Samchynska	Deputy General Director	Institute for Budgetary and Socio-Economic Research (IBSER)
33.	Ms. Tamara Shapoval	Director of Department of Methodology and Curriculum	Institute for Budgetary and Socio-Economic Research (IBSER)
	International partners:		
34.	Mr. Benedikt Herrmann	First Secretary, Policy Officer for Decentralisation and Sectoral Reform	Delegation of the European Union to Ukraine
35.	Mr. Janis Aizsalnieks	Attaché, Sector Manager for Regional, Local Development and Decentralization of Governance	Delegation of the European Union to Ukraine

№	Participants	Position	Organisation
36.	Mr. Julian Talens	Senior Adviser on Public Finance	European Union Advisory Mission
37.	Ms. Yanina Kaziuk	Coordinator on Financial Decentralisation	Central Reform Office under the Ministry of Regional Development (U-LEAD)
38.	Mr. Yuri Tretyak	Adviser on Regional Development Policy and Action team	U-LEAD with Europe Programme
39.	Ms. Kristina Avramchenko	Advisor on Local and Regional Development	U-LEAD with Europe Programme
40.	Mr. Mojmir Mrak	Expert on Local and Regional Development	U-LEAD with Europe Programme
41.	Mr. Duarte Rodrigues	Vice-President of the Board	Cohesion and Development Agency, Portugal
	<u>OECD delegation:</u>		
42.	Ms. Gabriela Miranda	Country Manager for Ukraine, Eurasia Division	OECD
43.	Ms. Dorothée Allain-Dupré	Head of Unit, Decentralisation, Public Investment and Subnational Finance	OECD
44.	Ms. Maria Varinia Michalun	Project Manager, Decentralisation, Public Investment and Subnational Finance Unit	OECD
45.	Ms. Antti Moisi	Economist/Policy Analyst, Decentralisation, Public Investment and Subnational Finance Unit	OECD
46.	Mr. Jibran Punthakey	Economist/Policy Analyst, Eurasia Division	OECD
47.	Ms. Maria Ferreira	Project Assistant	OECD
48.	Mr. Mykhailo Semchuk	Local Consultant	OECD
49.	Ms. Liudmila Taranina	Interpreter	