European Committee of the Regions

#UkraineAlliance

Workshop in view of the London Ukraine Recovery Conference

25 May 2023, 14.30 - 18.30 CET

Putting the Lugano Principles into Action:

Strengthening the Role of Local and Regional Governments
in Ukraine's Recovery and Reconstruction Process, and on the road to EU Membership

Background note

Russia's large-scale war of aggression against Ukraine has led to unimaginable loss of life and wide-spread damage throughout the country, including destruction of basic public infrastructure such as schools, hospitals, housing and cultural sites. It has also tiggered a humanitarian crisis, as well as profound economic and financial distress.

Despite the tremendous strain on their financial and human resources, Ukraine's regional and local authorities continue to deliver public services as they shoulder additional responsibilities to support the war effort. In doing so, they have built on the experience gained through the **decentralisation reform** implemented from 2014 onwards. These reforms resulted in the creation of 1 469 amalgamated municipalities (down from over 10 000 entities in 2014) and the establishment of a regional development planning framework. The reform also resulted in fiscal decentralisation and a significant increase in public funding for regional and local development, as well as improved access to and quality of local public service delivery.

Granting **EU candidate status** to Ukraine opened new perspectives and expectations for the development of multi-level governance arrangements, which is now subject to annual assessment among the political criteria of the EU accession ("fundamentals"), as a part of oversight in functioning of democratic institutions and public administration reform (see excerpts of the European Commission opinion on Ukraine and of the Ukraine analytical report in Annex 1). Similarly, Ukraine's preparedness in terms of regional development and
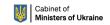
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coordination of structural instruments will be scrutinised in terms of alignment with the EU framework. (see also excerpts of Ukraine National reform programme in Annex 2)

The **Multi-agency Donor Coordination Platform for Ukraine** was established on 26 January 2023 with the mandate to coordinate the support for Ukraine's immediate financing needs and future economic recovery across different sources and established instruments for financing, complementing existing tracks. The Platform's Secretariat, placed in the European Commission, provides administrative assistance to its work.

During **the EU-Ukraine Summit** of 3 February 2023, the EU recalled the commitment to providing, together with partners, support to Ukraine's fast recovery and reconstruction. The EU confirmed the intention to play a leading role, notably through the inclusive multi-agency Donor Coordination Platform and building on the results of the Lugano and Berlin international conferences on the reconstruction of Ukraine. In this context, the EU and Ukraine acknowledged the crucial role that civil society, local administrations and private actors will play in the reconstruction of the country[1].

A recent **OECD report**[2], *Rebuilding Ukraine by Reinforcing Regional and Municipal Governance*, recommends ways in which Ukraine, together with international partners, can use effective multi-level governance arrangements to support subnational reconstruction and recovery that addresses urgent humanitarian needs, rebuilds local economies and communities, and strengthens their resilience (see annex 3).

At the last **Ukraine Recovery Conference (URC2022) in Lugano** on 4-5 July 2022 representatives of 41 countries and 18 international organisations endorsed the so-called Lugano Principles[3] as guiding principles for Ukraine's recovery process (see in annex 4).

The 4th principle focuses on democratic participation and states that "*the recovery process has to be a whole-of-society effort, rooted in democratic participation by the population, including those displaced or returning from abroad, local self-governance and effective decentralization*."
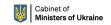
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[1] Joint statement following the 24th EU-Ukraine Summit, Kiev, 3 February 2023, paragraph 25.

[2] Rebuilding Ukraine by Reinforcing Regional and Municipal Governance. December 2022.

[3] https://reliefweb.int/report/ukraine/outcome-document-ukraine-recovery-conference-urc2022-lugano-declaration-lugano-4-5-july-2022

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This is why the European Committee of the Regions (as part of the European Alliance of cities and regions for the reconstruction of Ukraine[4]), the Ukrainian, Swiss and UK governments (as co-hosts, respectively, of the 2022 Lugano URC Conference and of the 2023 URC Conference in London), the European Commission and the OECD have teamed up to explore how to strengthen the role of regional and local governments in Ukraine's Recovery and Reconstruction Process, and on the road to EU Membership.

The **workshop** aims:

- to promote **local self-governance and effective decentralisation** as part of the reconstruction process of Ukraine (Lugano principle 4), and to **link** recovery with decentralisation reform and strong involvement of Ukraine's local and regional levels in reconstruction and recovery planning;

- to **raise awareness** of the link between multi-level governance, regional development and the EU enlargement process;

- to **discuss concrete steps to actively engage municipalities and regions** of the donor countries and beyond in these efforts;

- to **identify needs** for a **dedicated support** for local and regional self-government in Ukraine, as well as for the twinning actions with their counterparts in the donor countries for their future reconstruction efforts for Ukraine; and

- to **strengthen involvement** of private sector investments and public private partnerships in reconstruction at local and regional level.

As a result of the workshop, an **outcome document including a series of specific recommendations towards the London Ukraine Recovery Conference** will be developed. To produce such a document, the workshop co-organisers intend to take into account relevant OECD guidelines and principles, such as:

- the guidelines for **effective decentralisation** conducive to regional development[5]; and

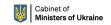- the principles on **effective public investment across levels of government**[6].

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[4] https://cor.europa.eu/en/engage/pages/european-alliance-of-cities-and-regions-for-the-reconstruction-of-ukraine.aspx#:~:text=Alliance%20for%20UkraineThe%20European,recovery%20and%20reconstruction%20of%20Ukraine.

[5] https://www.oecd.org/eurasia/countries/ukraine/Ten-Guidelines-for-Effective-Decentralisation-Conducive-to-Regional-Development.pdf

[6] https://www.oecd.org/regional/regionaldevelopment/Principles-Public-Investment.pdf

Annex 1: Excerpts of the European Commission opinion on Ukraine and of the Ukraine analytical report

a) Excerpts of COM opinion on the UA request for EU membership (17/6/2022)[7]

With respect to multi-level governance, Ukraine's decentralisation has advanced since 2014. This is one of the most impactful and successful reforms implemented in the country. It has become a crucial enabler of the social and economic development. A key aspect of the reform was a merger (amalgamation) of over 10 000 small and dispersed local entities into 1470 larger municipalities ('hromadas') with increased administrative and economic capacity to manage their responsibilities more effectively. A country-wide network of local "one-stop-shop" administrative service centres provides quality services to citizens and businesses. The reform was underpinned by fiscal decentralisation (including 64% share of personal income tax currently allocated to municipalities) with the aim of securing stable resources necessary for the exercise of the new tasks of local self-government. Municipalities also benefited from transfer of property and gained opportunities to regulate land trade on their territory. Sectorial decentralisation advanced in health and education.

b) Excerpts of the Ukraine analytical report - conclusion of chapter 22 on regional policy and structural instruments (2/2/2023)[8]

Ukraine has some level of preparation in the area of regional policy. The regulatory and institutional frameworks for regional development are only partially in line with the EU acquis. The successful decentralisation reform has expanded the competences and capacities of municipalities in areas covered by EU cohesion policy. Administrative capacity and experience are still insufficient to deal with the requirements of EU regional policy to manage and spend large-scale funds. Some challenges remain on the practical implementation and enforcement of legislation, multi-annual programming, monitoring, evaluation, and the sound financial management of regional development programmes. Coordination among the levels of government needs to be improved.

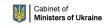---

[7] https://neighbourhood-enlargement.ec.europa.eu/opinion-ukraines-application-membership-european-union_en

[8] https://neighbourhood-enlargement.ec.europa.eu/commission-analytical-report-ukraines-alignment-eu-acquis_en

Annex 2: Ukraine's National Recovery Plan, July 2022

The government of Ukraine presented a National Recovery Plan with the following main objectives and guiding principles:

<u>Objectives</u>

- **Resilience:** Provide economic, social and environmental resilience in the marathon to victory.
- **Recovery:** Find efficient solutions for the soonest recovery of the crucial economic and social processes, and natural ecosystems.
- **Modernization and growth:** Develop a modernization plan to ensure expedited sustainable economic growth and wellbeing of the people.

<u>Guiding principles</u>

Start now, ramp up gradually: Need to start recovery initiatives asap to build resilience and agility for the economy to function under continuous security threats and provide the foundation to win the war. Plan for gradual ramp-up of activities, with gradual increase of risk appetite, as unlikely to have "clean victory" and "clean peace", or clear milestones to transition from "recovery" to "modernization".

Grow prosperity in equitable way: Ukrainian people are the ultimate beneficiaries of the Recovery Plan. Objective of the plan is to grow GDP, and ensure equitable distribution of wealth, and overall wellbeing.

Integrate into EU: Overarching strategic imperative defining the institutional and regulatory framework Integration of Ukrainian economy into European value chains, incl. "green" ones, and knowledge/information networks.

Build back better (for the future): Build back for better quality and more advanced and sustainable technologies than the damaged/destroyed assets. Align Ukraine's recovery and modernization with EU principles: Green Transition and Digital Transformation.

Enable private investment & entrepreneurship: Recovery should enable Ukraine's private investment and boost nationwide entrepreneurship Support SMEs as an important pillar of the new economic model.[9]

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[9] For an overview of the related national programmes and projects see: 62c166751fcf41105380a733_NRC Ukraine's Recovery Plan blueprint_ENG.pdf (webflow.com)
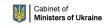
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Annex 3: OECD main recommendations of the report[10] 'Rebuilding Ukraine by Reinforcing Regional and Municipal Governance'

The following are the OECD report's **8 main recommendations to enable reconstruction initiatives to meet territorially-differentiated needs and strengthen resilience**:

1. **Ensure that recovery implementation and funding mechanisms reflect both national priorities and specific regional and local needs and assets**. This can be achieved by involving representatives of subnational governments in the definition of immediate recovery support schemes and more long-term development strategies.

2. **Assess the extent to which existing regional development funding, implementation and co-ordination mechanisms can be leveraged and improved to support post-war reconstruction**, for example by:
   o Building on the experience and skills in strategic development planning, providing citizens with a wide array of public services and managing public investment funding that municipalities have gained since the 2014 start of the regional development and decentralisation reform process.
   o Mobilising existing co-ordination bodies—or establishing new ones—at the oblast level and in larger cities to allow public institutions, as well as non-governmental actors, to share information, co-ordinate activities and mobilise diversified resources.

3. **Build the capacity of weaker municipalities to develop and implement local reconstruction projects, monitor their results, and absorb recovery funding**. The Government, supported by international partners, is recommended to focus on areas that are particularly relevant for the reconstruction and recovery period, such as project appraisal, procurement, implementation, transparency, performance measurement and stakeholder engagement.

4. **Develop a robust municipal performance measurement framework, which can identify weaker municipalities in need of additional capacity building support**. Such a framework could include socio-demographic, fiscal, operational and political system indicators applicable to all 1 469 municipalities.

5. **Promote and facilitate the involvement of non-governmental actors (private sector and civil society stakeholders)** in the development, implementation and monitoring
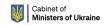
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10 _Rebuilding Ukraine by Reinforcing Regional and Municipal Governance_ (p. 23)

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of recovery initiatives in the short term, and ensure increased public participation in decision-making processes after the initial reconstruction period.
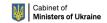
6. **Establish mechanisms that allow for the transparent use of recovery funding by subnational governments and strengthen anti-corruption efforts,** for example by:
   o Supporting municipalities on issues related to local public procurement and transparent decision making.
   o Strengthening mechanisms to control and oversee the spending of recovery funds.
   o Establishing a national-level body responsible for co-ordinating recovery funding.
   o Setting up digital platforms that enable governmental and non-governmental actors to track funds and projects.

7. **Invest in community-based accountability processes** (e.g. public expenditure tracking and monitoring of public service delivery). Accountability practices can also include local objective tracking and reporting results to citizens in an accessible, transparent, clear and user-friendly manner.

8. **Encourage peer-to-peer exchanges among subnational governments in Ukraine and abroad**, as this can foster the sharing of good practices for reconstruction and recovery needs, and promote innovative ways of working. Facilitating peer-to-peer exchange with subnational governments in the European Union could also support Ukraine's accession process.

Annex 4: Outcome Document of the Ukraine Recovery Conference URC2022 - Guiding principles for Ukraine's recovery process - 'Lugano Principles'

1. Partnership

The recovery process is led and driven by Ukraine and conducted in partnership with its international partners. The recovery effort has to be based on a sound and ongoing needs assessment process, aligned priorities, joint planning for results, accountability for financial flows, and effective coordination.

2. Reform focus

The recovery process has to contribute to accelerating, deepening, broadening and achieving Ukraine's reform efforts and resilience in line with Ukraine's European path.

3. Transparency, accountability and rule of law

The recovery process has to be transparent and accountable to the people of Ukraine. The rule of law must be systematically strengthened and corruption eradicated. All funding for recovery needs to be fair and transparent.

4. Democratic participation

The recovery process has to be a whole-of-society effort, rooted in democratic participation by the population, including those displaced or returning from abroad, local self-governance and effective decentralization.

5. Multi-stakeholder engagement

The recovery process has to facilitate collaboration between national and international actors, including from the private sector, civil society, academia and local government.

6. Gender equality and inclusion

The recovery process has to be inclusive and ensure gender equality and respect for human rights, including economic, social and cultural rights. Recovery needs to benefit all, and no part of society should be left behind. Disparities need to be reduced.

7. Sustainability

The recovery process has to rebuild Ukraine in a sustainable manner aligned with the 2030 Agenda for sustainable development and the Paris Agreement, integrating social, economic and environmental dimensions including green transition.

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