wiiw

NOVEMBER 2026

Policy Notes and Reports 114

Strategic vision of regional development policy:

Short-term and mid-term recommendations for Ukraine's alignment with Chapter 22 of the EU acquis

Ambre Maucorps, Andrés Rodríguez-Pose, Donát Magyari, Federico Bartalucci and Janez Šušteršič



The Vienna Institute for International Economic Studies
Wiener Institut für Internationale Wirtschaftsvergleiche

Strategic vision of regional development policy:

Short-term and mid-term recommendations for Ukraine's alignment with Chapter 22 of the EU acquis

AMBRE MAUCORPS
ANDRÉS RODRÍGUEZ-POSE
DONÁT MAGYARI
FEDERICO BARTALUCCI
JANEZ ŠUŠTERŠIČ

Ambre Maucorps is Economist at the Vienna Institute for International Economic Studies (wiiw). Andrés Rodríguez-Pose holds the Princesa de Asturias Chair and is Professor of Economic Geography at the London School of Economics (LSE). Donát Magyari is Independent Development Economist and U-LEAD Expert. Federico Bartalucci is Economic Consultant. Janez Šušteršič is former Minister of Finance and International Expert for U-LEAD with Europe.

This report is based on the Strategic Paper prepared by Ambre Maucorps, Federico Bartalucci, Donát Magyari, Andrés Rodríguez-Pose, and Janez Šušteršič with the support of U-LEAD with Europe and originally published by U-LEAD with Europe: https://u-lead.org.ua/en/media. U-LEAD with Europe: Ukraine – Local Empowerment, Accountability and Development Programme is a partnership of the Ukrainian government and the European Union (EU) and its member states Germany, Denmark, France, Austria, Poland, and Slovenia.

The views expressed in this report are those of the authors and do not necessarily reflect the views of U-LEAD with Europe, the EU, or its member states Germany, Denmark, France, Austria, Poland, and Slovenia.

Abstract

The report outlines the stakes and opportunities for Ukraine to achieve EU accession and post-war reconstruction simultaneously, focusing on regional development and territorial cohesion. In short, it lays out a strategic vision for Ukraine's regional development policy that goes beyond mere administrative reform and addresses core issues of territorial equity, economic recovery, and national security. In doing so, the paper tackles fundamental questions of policy instruments tailored to differentiated territorial realities, capacities of local communities, coordination of policy interventions, and stable financing. It argues that Ukrainian policymakers involved in the design, implementation, and monitoring of an EU-compatible, crisis-resilient regional development policy will have to home in on institutional quality, capacity-building, strong and sustainable financing mechanisms, asymmetric devolution, multi-level coordination, citizen involvement, and evidence-based policymaking.

Keywords: Ukraine, regional development, Cohesion Policy, EU accession, post-war reconstruction, decentralisation, devolution, capacity building, local communities

JEL classification: R58, O43, H72, H56

CONTENTS

Abstract 5

Executive Summary 9

1. Introduction 10

2. Strategic vision of regional development policy 12

2.1. Decentralised and polycentric model of regional development 12
2.2. A conceptual framework for a decentralised regional development policy in Ukraine 19

3. State-of-the-art regional policy instruments 29

3.1. Institutional solutions for empowering regions in their development role: lessons from European practice 29
3.2. Lessons learnt and relevance for Ukraine's institutional decentralisation framework 34
3.3. Proven practices in regional policy instruments 37

4. Capacity-building and empowerment of local communities in Ukraine 43

4.1. From existing functions to Cohesion Policy-relevant capacities 43
4.2. Priority capacity domains for local communities 44
4.3. Capacity maturity ladder for Ukrainian local communities 46
4.4. The role of EU-Ukraine municipal and regional partnerships 47
4.5. Minimum viability conditions for ITI-/CLLD-type instruments in Ukraine 47

5. Coordination of policy interventions 48

5.1. Whole-of-government approach linking reforms, sectoral policies, and regional development 48
5.2. Modernisation of the strategic planning (steering) system 55
5.3. Financing instruments of regional development policy 63

6. Conclusions and recommendations 76

References 90

TABLES AND FIGURES

Table 1 / Institutional setup and framework of regional development across six countries in Europe 34
Table 2 / Financial estimates of investments in budget documents, in UAH m 68

Figure 1 / Future model of regional development policy for Ukraine 19
Figure 2 / Schematic representation of a decentralised model of regional development policy for Ukraine 20
Figure 3 / Institutional solutions to empower Ukrainian regions in their developmental role 37
Figure 4 / Integrating international practices into a regional development strategy for Ukraine 41

Strategic vision of regional development policy: short-term and mid-term recommendations for Ukraine's alignment with Chapter 22 of the EU acquis

EXECUTIVE SUMMARY

In the span of four years, Ukraine has made remarkable progress on its path towards EU accession. The country delivered on key milestones, including the adoption of the 2025-2027 action plan for the implementation of the updated State Strategy for Regional Development (SSRD), the completion of the screening process, and the preparation of both the negotiating positions for all clusters of the EU acquis and the master plan for Chapter 22 of Cluster 5, in particular – all while resisting Russia's full-scale war of aggression.

Achieving EU accession and post-war reconstruction simultaneously requires a strategic vision for Ukraine's regional development policy that goes beyond mere administrative reform by addressing core issues of territorial equity, economic recovery, and national security. These two objectives also raise fundamental questions of policy instruments tailored to differentiated territorial realities, capacities of local communities, coordination of policy interventions, and stable financing.

Against this backdrop, Ukrainian policymakers involved in the design, implementation, and monitoring of an EU-compatible, crisis-resilient regional development policy will have to home in on:

› **Institutional quality** – Reconstruction funding cannot substitute for substantial improvements in governance, ranging from corruption control to administrative capacity, transparency, and participatory mechanisms.

› **Capacity-building** – Permanent institutional infrastructure must be supported by sustained and systematic investment rather than sporadic training initiatives.

› **Financing** – Strong and sustainable financing mechanisms must be developed to support development projects at the regional and local levels, starting with the Public Investment Management (PIM) system and the State Fund for Regional Development (SFRD).

› **Asymmetric devolution** – Territorial diversity calls for differentiated responsibilities, governance frameworks, and cooperation arrangements across regions and municipalities.

› **Multi-level coordination** – Coherence across policy interventions in a decentralised setting cannot be achieved without effective multi-level coordination mechanisms.

› **Citizen involvement** – Democratic participation and citizen engagement boost regional growth by harnessing local knowledge, fostering stakeholder ownership, strengthening accountability, and building social capital.

› **Evidence-based policymaking** – Robust monitoring and evaluation systems are further enablers of adaptive governance and drivers of positive regional development outcomes.

In short, Ukrainian policymakers will have to navigate the opportunities created by the two concomitant agendas and the practical constraints imposed by the ongoing conflict, limited administrative capacity, and fiscal pressures. Nevertheless, if designed and implemented effectively, regional development policy can help Ukraine bridge territorial disparities, reinforce institutional resilience against external threats, enhance democratic legitimacy, unlock economic transformation beyond commodity dependence, attract investment across all territories, and demonstrate the administrative capacity required for EU accession.

1. INTRODUCTION

Since February 2022, Russia's full-scale aggression against Ukraine has been causing considerable destruction and great human suffering. Current estimates of total direct damage amount to USD 195.1bn (around EUR 167bn), and recovery and reconstruction needs over the next decade to USD 587.7bn (almost EUR 502bn; World Bank, Government of Ukraine, European Union and United Nations, 2026).[1] At the end of 2025, more than 5.8 million refugees from Ukraine were recorded globally,[2] and 3.7 million persons were internally displaced (IOM, 2025).

At the same time, Ukraine has made remarkable progress on its path towards European Union (EU) accession since gaining candidate status in June 2022. In September 2025, Ukraine successfully completed its screening process, paving the way for opening negotiation chapters. In December 2025, the draft National Programme for the Adaptation of Ukrainian Legislation to European Union Law (EU acquis) was provisionally approved by the relevant authority. In terms of funding, two main tools for co-financing regional and local investment projects are under development: a new Public Investment Management (PIM) system and a revived State Fund for Regional Development (SFRD), now defined as a special-purpose investment programme of the unified state-level investment portfolio.

The Ukraine Report released as part of the 2025 Enlargement Package (European Commission, 2025a) outlines both the steps forward and the remaining challenges in relation to Chapter 22 'regional policy and coordination of structural instruments'. While it welcomes the adoption of the 2025-2027 action plan for the implementation of the updated State Strategy for Regional Development (SSRD), it also points out that the action plan 'could further integrate actions related to the ongoing public investment management reform, and a comprehensive approach to strengthening the financial, technical and administrative capacities of the regional and local government authorities'. Not least, it stresses the need for 'a clear path with defined milestones toward the establishment of a coordinated and coherent system of planning which considers strategic, spatial and budgetary planning'.

Ukraine currently stands at a historic crossroads. The two interconnected transformation agendas – EU accession and post-war reconstruction – will fundamentally reshape its territorial governance and development trajectory. These dual imperatives create both unprecedented challenges and strategic opportunities to build modern, effective, and resilient systems of regional development and multi-level

[1] Estimates for the period February 2022-December 2025. Conversion rate of USD 1 = EUR 0.854 as of December 2025.

[2] https://data.unhcr.org/en/situations/ukraine

governance. In that context, a strategic vision for regional development policy extends beyond administrative reform by addressing fundamental questions of territorial justice, economic recovery, and national security.

Effective regional policy offers pathways to reduce territorial disparities (deepened by war-related destruction and population displacement), attract investment across all territories, revitalise disrupted economic value chains, and enable diversification led by empowered local governments. Strengthened subnational institutions enhance democratic accountability, build public trust, and demonstrate the administrative capacity essential for EU accession. In short, Ukraine's regional development policy must shift from compensating lagging-behind regions to enabling every territory to achieve sustainable growth through innovation and local capacity.

Lessons from other European countries should inform future regional development strategies in Ukraine. Similarly, proven practices in regional policy instruments (e.g. integrated territorial strategies, community-led approaches, and smart specialisation) offer Ukraine tested-and-proven tools. Beyond regional development policy, these instruments address fundamental governance challenges, including weak coordination, limited strategic planning capacity, insufficient accountability, and disconnects between policy design and local realities. For Ukraine, adopting these instruments – with tailored adaptation to the country-specific circumstances – addresses both immediate reconstruction imperatives and long-term development objectives.

The Strategic Paper underlying this report aims to support Ukrainian policymakers in designing and implementing a robust regional development policy in line with EU rules and practices. To that end, it first outlines a strategic vision of regional development policy in Ukraine (Section 2), including state-of-the-art regional policy instruments (Section 3). It then delves into approaches to strengthening local governance and the role of local communities in Ukraine's reconstruction and preparation for EU Cohesion Policy implementation (Section 4). Subsequently, coordination of policy interventions and funding sources for regional development policy are explained in detail (Section 5). Finally, the main conclusions and recommendations are presented (Section 6).

2. STRATEGIC VISION OF REGIONAL DEVELOPMENT POLICY

Grounded in vast theoretical and empirical literature, this section elaborates on the rationale behind a decentralised and polycentric model of regional development. It then outlines the key features of a future model of regional development policy specifically for Ukraine. Finally, it elucidates why, what, where, when, and how to design and implement such a regional development policy as well as which cross-cutting enablers can be considered preconditions for its successful roll-out.

2.1. Decentralised and polycentric model of regional development

2.1.1. THE NECESSARY REVIVAL OF DECENTRALISED REGIONAL DEVELOPMENT

At the beginning of the millennium, geography had been declared 'dead' (Friedman, 2005; Glaeser, 2008) and spatially blind approaches to territorial development became the norm across both Europe and other geographies (World Bank, 2009; Barca et al., 2012). Nevertheless, the people-based – as opposed to place-based – approach carried significant limitations and risks. The emergence of challenges whose nature is inherently localised made disregarding location and space an imperfect approach at best.

Three cross-cutting challenges have contributed to the resurgence of place in regional development policy: territorial inequality, governance bottlenecks, and the erosion of institutional legitimacy and accountability.

First, **territorial inequality is sticky and has emerged as a key economic and social phenomenon in the last decade**. Across many countries, unstable global trends and narrowly focused policy decisions have reshaped territorial dynamics and deepened spatial inequalities (Copus, 2001; Kühn, 2015; Kinossian, 2018). Economic and social activity has become increasingly concentrated in core urban areas. Processes of decline and marginalisation have intensified from urban fringes to small towns, scattered settlements, and rural regions (Barca et al., 2012; Oppido et al., 2023).

Spatial inequalities have endured despite expectations that globalisation and mobility would diffuse prosperity through knowledge spillovers and inter-regional linkages (Rodríguez-Pose & Crescenzi, 2008; Rodríguez-Pose et al., 2024). Territorial disparities result not only in matters of fairness and social concern but also in unrealised economic opportunities, growing public dissatisfaction, and, in severe instances, social unrest (Rodríguez-Pose, 2018).

Second, **governance bottlenecks pose significant barriers to the efficient design and implementation of policies that deliver on local needs**. Institutions act as a medium affecting the ability of any policy to deliver on its intended purpose (Rodríguez-Pose, 2020). Even the most well-designed policy may fail when facing governance bottlenecks either at the national or subnational level. Weak institutional quality can hinder coordination between government tiers, delay implementation, and reduce accountability, ultimately undermining the effectiveness of interventions.

Strong, transparent, and responsive institutions enhance the capacity to adapt policies to local contexts, mobilise resources efficiently, and ensure that benefits are broadly distributed across territories (Uddin et al., 2023). The institutional environment shapes not only the outcomes of individual policies but also the long-term resilience and inclusiveness of regional development trajectories.

Third, **national institutions worldwide, and particularly in the EU, have suffered an erosion in perceived legitimacy and accountability**. Multiple factors have been driving this decline: the widening gap between citizens' expectations and governmental performance, the perceived inefficiency of bureaucratic systems, and the growing influence of technocratic and supranational governance structures (Hooghe & Marks, 2009; Norris, 2011).

The global financial crisis, austerity measures, and uneven recovery across regions have further deepened public mistrust, especially in areas feeling 'left behind' by globalisation and integration processes (Rodríguez-Pose, 2018; Ferrera, 2018). As institutional trust weakens, political discontent and scepticism towards national and EU-level governance have intensified, fuelling populist narratives and undermining the legitimacy of public policy interventions (Guiso et al., 2017; Hutter et al., 2018). Strengthening institutional accountability, transparency, and citizen engagement has become essential for restoring confidence in public institutions and ensuring the credibility of long-term policy agendas.

By empowering subnational governments and strengthening multi-level governance, decentralisation aims to improve the responsiveness and effectiveness of development strategies while fostering accountability and citizen participation (Tselios et al., 2012; Rodríguez-Pose & Garcilazo, 2018). However, its success depends heavily on the institutional and administrative capacities of local authorities. Decentralisation without adequate resources or coordination mechanisms can exacerbate disparities and institutional fragmentation (Ezcurra & Rodríguez-Pose, 2013; Hooghe et al., 2016). The challenge lies in striking a balance between autonomy and cohesion so as to ensure that decentralised governance contributes to both territorial equity and national competitiveness.

A polycentric approach complements decentralisation by promoting balanced development across a network of urban and rural centres rather than concentration in a single metropolitan core. This model encourages functional linkages between large cities, intermediate towns, and rural areas, leveraging their respective strengths in production, innovation, and service provision. It aligns with the EU Territorial Agenda 2030 and offers, in the case of Ukraine, a framework for reconstruction that prevents further hyper-concentration of economic activity in Kyiv whilst supporting regional growth poles, such as Lviv, Kharkiv, Odesa, and Dnipro.

2.1.2. RATIONALE BEHIND DECENTRALISED REGIONAL DEVELOPMENT

Four factors make a decentralised approach to regional development policy sensible:

1. **Efficiency and responsiveness**: Local governments are often better placed to understand citizens' preferences, local assets and strengths, and contextual constraints. Their proximity to communities enables them to design and implement policies tailored to local conditions – such as fostering innovation ecosystems, improving transport connectivity, or managing land-use planning – rather than relying on uniform, top-down national programmes (OECD, 2019).

This territorial sensitivity enhances the capacity of public institutions to respond effectively to local needs, supporting more efficient allocation of resources and improved policy outcomes. Empirical evidence indicates that decentralisation, when coupled with robust accountability and transparency mechanisms, can significantly improve the allocative efficiency of public spending and the quality of public service delivery (Rodríguez-Pose & Ezcurra, 2010; Rodríguez-Pose, 2020). These benefits depend on institutional capacity and governance quality at the subnational level, underscoring the importance of strengthening local administrative systems and oversight frameworks.

2. **Equity and territorial cohesion**: Centralised redistribution mechanisms alone cannot eliminate persistent regional disparities. Decentralisation enables the design of locally adaptive development strategies that leverage endogenous resources – such as human capital, small and medium-sized enterprises (SMEs), and natural or cultural assets – while maintaining national solidarity through intergovernmental equalisation systems that prevent spatial injustice (Barca, 2008; OECD, 2019).

   This approach reconciles local autonomy with cohesion objectives, ensuring that less-developed territories are not left behind while allowing more dynamic regions to capitalise on their specific strengths. In the European context, such balance lies at the heart of the place-based paradigm underpinning Cohesion Policy, which emphasises context-sensitive interventions, multi-level governance, and partnerships between national, regional, and local actors (European Commission, 2017; Di Caro & Fratesi, 2022). By aligning decentralisation with principles of solidarity and subsidiarity, policymakers can promote a more inclusive and territorially just model of development across diverse regions.

3. **Democratic deepening and trust**: Decentralisation can revitalise democratic participation by bringing decision-making closer to citizens and making governance more transparent and responsive. Empowering local governments fosters a sense of political inclusion and ownership, helping to counteract the alienation and distrust that often underpin populist discontent (Rodríguez-Pose, 2018; Norris, 2011).

   When citizens are directly involved in shaping local priorities and monitoring outcomes, accountability loops are reinforced, and the legitimacy of public investment choices is strengthened (Fox, 2015; Ardanaz et al., 2023). Participatory governance mechanisms (e.g. local consultations, budgeting processes, and deliberative forums) encourage civic engagement and rebuild confidence in public institutions (Wampler, 2012; OECD, 2020a). Decentralisation contributes not only to more effective governance but also to democratic deepening and social cohesion by strengthening the relationship between institutions and the communities they serve.

4. **Nation-building**: Beyond efficiency, equity, and democratic deepening, decentralisation contributes to nation-building by fostering a shared sense of belonging and collective purpose. Empowering citizens and communities across all regions to shape their own development pathways strengthens attachment to the state and reinforces territorial cohesion – a vital dimension for countries like Ukraine, where regional disparities and historical divisions have challenged national unity (Lipps & Schraff, 2021).

   Regardless of where they live, when people perceive that opportunities and resources are distributed fairly, trust in public institutions increases and identification with the national project is strengthened

(Keating, 2021). Unlocking local development potential drives economic progress and deepens the emotional and civic bonds between citizens and the state, laying the groundwork for a more resilient, inclusive, and cohesive nation.

Importantly, a decentralised model of regional development policy rests on a strong economic rationale. It shifts the focus from compensating lagging regions to activating local potential. This approach aligns with the 'place-based' development paradigm, which emphasises tailoring interventions to the specific characteristics, capabilities, and comparative advantages of individual regions rather than applying uniform, top-down strategies (Barca et al., 2012). Such place-based approaches generate more durable development outcomes than standardised, spatially blind policies that ignore territorial specificities (Rodríguez-Pose, 2013; Pike et al., 2017).

Given these factors, **policymakers should prioritise investments that build endogenous growth capacity**: skills development aligned with local labour markets, support for entrepreneurship and SME ecosystems, innovation infrastructure that connects regional firms to knowledge networks, and institutional strengthening that enhances local administrative and planning capabilities (Iammarino et al., 2019; Rodríguez-Pose et al., 2024).

By empowering local and regional authorities to identify and leverage endogenous growth drivers (e.g. sectoral specialisations, social capital, and territorial knowledge networks), this model transforms regional policy from a redistributive mechanism into a productivity-enhancing investment strategy (Pike et al., 2017). Indeed, decentralisation enables better matching between policy instruments and regional needs, reducing information asymmetries that plague centralised redistribution schemes (OECD, 2009).

An approach to regional development policy stands a better chance of success if it is holistic. It must address competitiveness, resilience, and adaptation in the face of climate change, demographic shifts, energy transitions, geopolitical disruptions, and, in conflict-affected contexts, the imperatives of reconstruction and recovery. Responding effectively to these interconnected challenges requires mobilising populations across all territories – their local knowledge, problem-solving capacity, and collective action. This, in turn, makes decentralisation an essential instrument for building the broad-based societal engagement necessary to navigate unprecedented disruptions (Barca et al., 2012).

Similarly, **integrated territorial resilience strategies that combine economic development with crisis preparedness can better tackle multiple challenges at once**. Regional development policy can no longer focus solely on GDP growth or employment; it must also build adaptive capacity, social capital, and institutional quality that enable territories to withstand shocks and transform challenges into opportunities (Rodríguez-Pose et al., 2024).

This, again, requires place-specific interventions informed by local circumstances: coastal regions need climate adaptation strategies, ageing industrial regions require economic diversification support, border regions may need security and connectivity investments, and conflict-affected areas demand integrated reconstruction that rebuilds physical, economic, and institutional infrastructure simultaneously (Pike et al., 2017; Romanova & Umland, 2019). Finally, it is worth noting that empirical evidence supports the effectiveness of decentralised approaches: regions with greater fiscal and administrative autonomy demonstrate enhanced capacity to design context-specific policies that mobilise underutilised assets and foster entrepreneurship (Rodríguez-Pose & Ezcurra, 2010).

At the same time, **asymmetric decentralisation permits differentiated levels of autonomy and responsibility across subnational units based on institutional readiness and capacity**, allowing more developed regions to assume greater functions. It also provides additional support or phased delegation to areas with weaker administrative structures (Fiorillo et al., 2021). Metropolitan governance presents particular challenges, requiring coordinated mechanisms (e.g. joint authorities or metropolitan planning organisations) to address service delivery and policy issues that transcend municipal boundaries, including transport networks, land-use planning, and environmental management (Slack, 2007).

Small or rural jurisdictions often benefit from inter-municipal cooperation arrangements that enable pooling of services (e.g. waste management, utilities procurement, and specialised technical functions) so as to achieve economies of scale and preserve local democratic control (Tavares, 2018). In fragile or low-capacity areas, premature full decentralisation may undermine service quality and accountability, suggesting that deconcentration (i.e. when a central government maintains service delivery through local offices) or carefully phased delegation may be more appropriate until institutional capacity reaches minimum thresholds (Smoke, 2015).

Participatory governance refers to approaches that facilitate the participation and engagement of citizens and organised stakeholders in deliberations on public policy choices and the delivery of local public services in partnership or competition with the formal public sector (OECD, 2019). Public participation is an umbrella term used for individuals engaging with the various activities, structures, and institutions of democracy. It can be understood as the act of engaging people to voice their opinions and judgment, thereby giving them the right to influence the decisions that affect them. This includes voting, contacting a political representative, campaigning, lobbying, participating in consultations and demonstrations, and taking part in participatory and deliberative processes.[3]

Public participation in local decision-making and deliberation processes has the potential to generate strong accountability pressure on local politicians and administrations. To be effective in this regard, it must be supported by the right of access to public information. Transparency is not only about sharing what the authorities decide or are legally obliged to share, but also – and even more so – about sharing in a timely manner everything that is requested by the public or media to play a control function on elected representatives and office holders. Furthermore, traditional accountability mechanisms – including internal financial control, external financial and performance audits, independent policy evaluations, and access to impartial judicial review of local administrative decisions and normative acts – must also be instituted and well-functioning.

Participatory processes may develop in a top-down or bottom-up way. The top-down approach is typically applied by local governments in holding public consultations on key policy and planning documents and normative acts. The national normative framework usually prescribes obligatory consultations on key local strategic documents, as is also the case in Ukraine.[4] On the other hand, bottom-up, citizen-led initiatives are often organised around specific investment projects and spatial-planning decisions that run counter to the interests and values of specific citizen groups. A more

[3] This follows the definition offered by Involve, a UK participation charity, at https://www.involve.org.uk/resources/knowledge-base/what.

[4] In legislation and government decisions regulating the preparation of strategic documents as well as in the recently adopted generic law on public consultations that will enter into force a year after the revocation of martial law.

permanent type of self-organised participation is linked to policy areas that are in the focus of specific stakeholder groups, such as environment-, gender-, or entrepreneurship-related issues.

Public participation should go beyond the government's collecting of opinions and proposals from the public and move towards the ideal of a **deliberative democracy**. Deliberative democracy is grounded in an ideal in which people come together – on the basis of equal status and mutual respect – to discuss the political issues they face and, on the basis of those discussions, to decide on the policies that will then affect their lives. When a broad consensus is reached, policy implementation may rely on the so-called governance networks, with different stakeholders taking responsibility for agreed actions.

However, a broad consensus may be a philosophical ideal that is hardly attainable in practice. A more modest aim for deliberative democracy is establishing mutual communication (dialogue) that involves weighing and reflecting on preferences, values, and interests regarding matters of common concern. The role of deliberation is to help citizens understand better the issues, their own interests, and the interests and perceptions of others; to forge agreement where possible; and, in the instances in which agreement is not possible, to both structure and clarify the questions behind the conflict before decisions are made by elected bodies or popular vote (Bächtiger et al., 2018).

Given their size and the 'closeness to the people', local communities are ideally placed to foster public participation and deliberation. The Ukrainian **Law on Local Self-Government**[5] institutes and regulates a number of participatory and deliberative processes:

› local referenda, as binding votes on local normative acts;

› local initiatives (i.e. the right of residents to initiate consideration by the council of any issue attributed to the powers of local government bodies);

› general meetings of residents to resolve common issues, which may be held on the territory of the entire territorial community or in its individual parts (e.g. one or more districts in the city, a village or settlement within a local community, or a micro-location, such as a block, street, square, or building);

› conferences of residents' delegates elected at a general meeting to deliberate and resolve common issues;

› public hearings (i.e. the right of residents to meet with and hear the deputies of the village, settlement, city council, and local government officials; to raise issues; and to make proposals for resolving issues of local importance);

› participation of residents in planning and distributing local budget funds by making proposals, and the obligation of the local government to promote residents' involvement in considering, implementing, and reporting on the local budget;

› participation in advisory and consultative bodies to the local government and officials in order to prepare proposals to improve their work, participate in the development of draft acts, and resolve other issues within their powers;

› participation in public consultations organised by local government bodies; and

[5] https://zakon.rada.gov.ua/laws/show/280/97-%D0%B2%D1%80#Text

› initiating a public evaluation of the activities of local government bodies and officials that is related to the exercise of their powers as well as the adoption and implementation of their decisions.

The participation channels instituted by the Ukrainian legislation follow international good practices. The final legal provision, which allows for any other form of participation that does not contradict the law, opens up the way for innovation and creativity in developing participatory practices, often supported by information technology solutions. New forms of participation and deliberation practices are constantly evolving internationally and provide a rich source of innovative ideas that can be tested by local communities.[6]

A particularly interesting innovative form of deliberative democracy is the citizens' jury. In this approach, a representative jury of local residents is selected to deliberate and reach a consensus on a contested issue of public policy. The interested stakeholders present their views and arguments to the citizens' jury instead of directly communicating them to and lobbying decision makers. Indeed, the local government or administration is only one of the parties presenting their views to the jury. This fundamentally shifts the power relations and reduces the risk that participatory processes will be 'captured' or manipulated by strong local interest groups and political actors. Compared to local referenda, which could be seen as putting the decision in the hands of the largest possible jury, a dedicated, small jury of representative citizens maximises the level of dialogue and deliberation in reaching a solution supported by a vast – and not only simple – majority of the population.[7]

An important condition for successful participatory governance is moving away from traditional leadership styles towards the steering and facilitation of deliberative processes. While elected and appointed leaders and officials must take timely decisions and ensure their implementation, their decisions should be informed by the collective wisdom of the members of the community. Various leadership traits (e.g. communication skills, a readiness to learn and adapt, long-term orientation and public spiritedness, and a genuine commitment to transparency and integrity) become the central elements of good leadership. Consistently being responsive to citizens' initiatives and keeping to the agreed solutions are key to building trust with citizens and stakeholders.

A recent study by Grillitsch et al. (2025a; 2025b) documents the trust and leadership building process in two Ukrainian municipalities. In one case, the process evolved around the transformative efforts to move away from the previous corrupt governance, which strongly focused on the business sector and led to increased foreign direct investment (FDI) and new entrepreneurial activities. In the other case, the emphasis was on more operational issues of improving the quality of local services, which led to the emergence of many social innovations driven by civil society organisations. The common traits of the trust-building process in both cases were improved communication channels with local authorities, capacity-building of local agents on matters such as project applications, and improved local financial resources due to the decentralisation reform and international assistance. These two examples show that this kind of productive participatory governance may be easier to achieve at the local level.

---

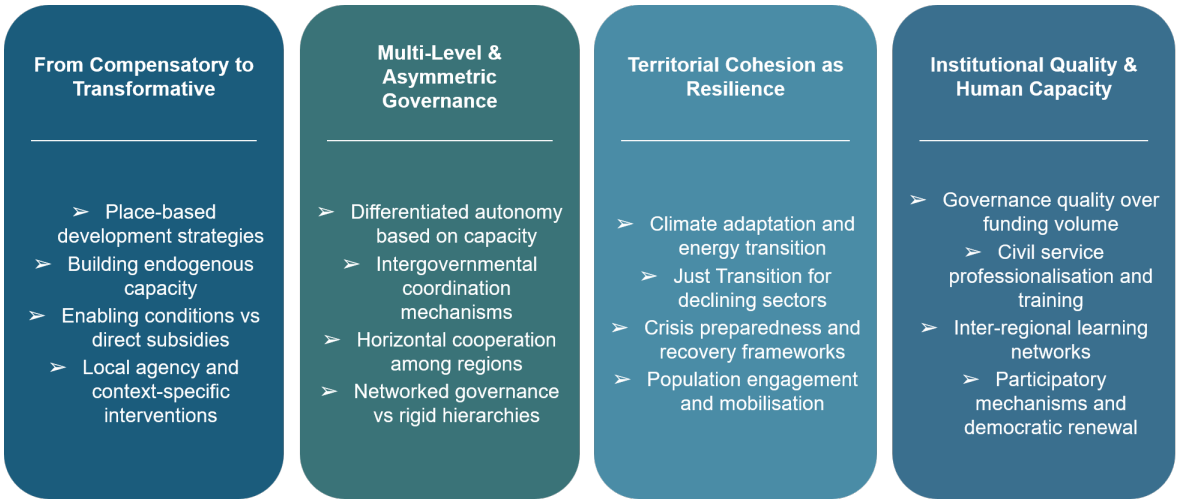
6 For useful and continually updating sources of information on participatory practices, see, for example, the Participedia network at https://participedia.net and the OECD knowledge hub at https://www.oecd.org/en/topics/sub-issues/open-government-and-citizen-participation/innovative-public-participation.html.

7 https://participedia.net/method/155

2.1.3. FUTURE MODEL OF REGIONAL DEVELOPMENT POLICY FOR UKRAINE

For Ukraine specifically, the transformative approach outlined above suggests moving beyond administrative restructuring towards building genuine regional development capacity (e.g. innovation ecosystems, entrepreneurial support, and skills alignment) that can drive sustainable growth rather than relying on reconstruction transfers alone (Romanova & Umland, 2019). It also implies that **a crisis-responsive, asymmetrically decentralised regional development policy would directly address Ukraine's immediate challenges**: integrating internally displaced persons, transitioning industrial regions towards diversified sectors, rebuilding energy infrastructure using decentralised renewable systems, and reversing depopulation through place-based strategies (OECD, 2022; Rodríguez-Pose et al., 2024).

Figure 1 / Future model of regional development policy for Ukraine



Source: Authors' elaboration.

2.2. A conceptual framework for a decentralised regional development policy in Ukraine

The design and implementation of decentralised regional development policy require a comprehensive conceptual framework that addresses multiple interdependent dimensions of governance architecture. Drawing on insights from multi-level governance theory (Hooghe & Marks, 2003) and fiscal federalism literature (Oates, 1999), this framework conceptualises decentralisation as a multi-dimensional process extending beyond simple administrative reorganisation. The framework is structured around five core questions – *why*, *what*, *where*, *when*, and *how* – each determining the structure and performance of Ukraine's regional development system and aligning it with the governance logic of EU Cohesion Policy.

› The ***why*** dimension establishes the normative and functional rationale for decentralisation, encompassing objectives such as enhancing allocative efficiency, promoting democratic accountability, building regional resilience, and advancing territorial equity (Rodríguez-Pose & Gill, 2006).

› The ***what*** dimension addresses the allocation of responsibilities and fiscal resources across governmental tiers, reflecting subsidiarity principles that assign functions to the lowest effective level of governance (Bache & Flinders, 2004).

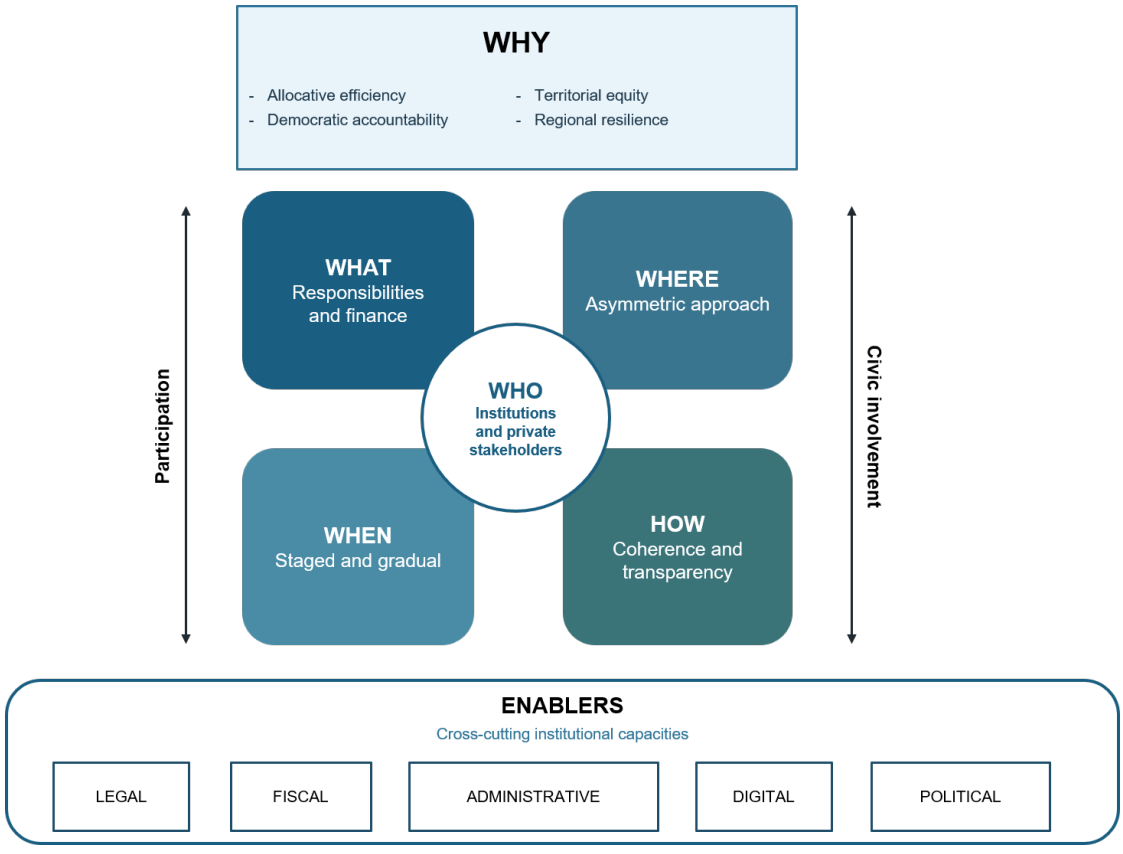
› The ***where*** dimension recognises territorial heterogeneity, acknowledging that optimal institutional arrangements may vary across regions with different economic structures, institutional capacities, and historical trajectories (Tomaney, 2014).

› The ***when*** dimension incorporates temporal considerations regarding the sequencing and pacing of reforms, recognising that institutional change requires adaptive learning processes (Piattoni, 2010).

› The ***how*** dimension specifies the institutional mechanisms and incentive structures – including coordination arrangements, performance monitoring systems, and intergovernmental transfer designs – that operationalise decentralised governance (Smoke, 2015).

Underpinning this entire architecture are essential enablers – encompassing legal frameworks, fiscal instruments, administrative capacity, and digital infrastructure – that facilitate information flows and collaborative governance across scales (OECD, 2019). In the EU-accession context, the five-dimension model provides a practical structure for Ukraine's alignment with Chapter 22, ensuring that competencies, financing, and coordination mechanisms correspond to those expected under Cohesion Policy management.

Figure 2 / Schematic representation of a decentralised model of regional development policy for Ukraine



Source: Authors' elaboration

2.2.1. THE *WHY* DIMENSION OF DECENTRALISED REGIONAL DEVELOPMENT POLICY

The foundational question in designing decentralised regional development policy concerns the *why*: clarifying the multiple, sometimes competing, objectives that justify devolving authority from central to subnational governments. From an efficiency perspective, decentralisation brings decision-making closer to service users, reducing informational asymmetries and bureaucratic lag that plague centralised systems, thereby enabling a more responsive allocation of resources tailored to local needs and preferences (Faguet, 2014).

In addition, the cost of political participation for communities is lower at the local level and the motivation for participation is high, as most local outcomes are tangible and visible to their residents in their daily life. Together with the possibility of comparing policy outcomes with other communities and the imminent threat of taxpayers and population exiting to more successful communities, this creates a competitive pressure on local governments and increases their accountability to the public. It reduces the scope for rent-seeking and corruption while also constraining the growth of public spending.

The equity dimension addresses concerns about territorial justice by facilitating more equitable access to public services across regions and establishing fiscal capacity equalisation mechanisms that enable poorer jurisdictions to provide adequate service levels without excessive tax burdens (Boadway & Shah, 2009). Decentralisation also serves democratic objectives by strengthening citizen voice, enhancing government accountability through proximity, and building trust in public institutions by creating multiple points of engagement between citizens and the state (Faguet & Pöschl, 2015).

The resilience rationale has gained prominence in recent years. Decentralised governance structures demonstrate superior adaptability to economic shocks, demographic transitions, and environmental stresses by enabling rapid, context-specific responses that centralised bureaucracies cannot match (Pike et al., 2010; Eraydin & Taşan-Kok, 2013). **Decentralisation creates space for innovation by empowering local and regional authorities to experiment with novel policy approaches**, generating valuable learning effects that can inform broader reform efforts while simultaneously advancing place-based development strategies that leverage distinctive territorial assets (Rodríguez-Pose & Di Cataldo, 2015).

These objectives hold particular salience for Ukraine, where a decentralisation reform initiated in 2014 has sought to address the country's highly centralised Soviet-era legacy, enhance service-delivery efficiency across its vast and diverse territory, and strengthen democratic governance following the Euromaidan Revolution (Romanova & Umland, 2019). Ukraine's decentralisation experience demonstrates that devolving powers to amalgamated territorial communities can improve local infrastructure investment, enhance citizen participation in decision-making, and build institutional resilience. All these factors have proven critical during the ongoing conflict, as local governments have shown remarkable capacity to continue providing essential services and to coordinate humanitarian responses under extreme duress (Bertelsmann Stiftung, 2022; Rabinovych et al., 2024).

Crucially, these objectives need careful balancing and prioritisation. Trade-offs inevitably emerge: efficiency gains may conflict with equity concerns, while innovation-oriented experimentation may temporarily compromise standardisation and predictability.

2.2.2. THE *WHAT* DIMENSION OF DECENTRALISED REGIONAL DEVELOPMENT POLICY

The *what* dimension of decentralised regional development policy addresses the critical question of scope and balance, determining which functions, responsibilities, and fiscal powers should be assigned to different levels of government. Effective decentralisation requires functional clarity in defining exclusive, shared, and delegated responsibilities across governmental tiers. Ambiguity in competence assignment inevitably leads to duplication of efforts, service delivery gaps, and counterproductive blame-shifting between levels of government (Shah, 2006; Smoke, 2015).

A fundamental principle guiding these assignments is subsidiarity, which holds that functions should be allocated to the lowest level of government capable of performing them efficiently and equitably while recognising that certain services – particularly those with significant economies of scale, substantial spillover effects, or high technical complexity – may be more appropriately delivered at higher tiers of government or through coordinated arrangements (Follesdal, 1998).

Political decentralisation – manifested through elected local councils and enhanced local accountability mechanisms – must be matched with commensurate fiscal autonomy, including revenue-raising authority and expenditure discretion. Without this balance, decentralisation degenerates into an exercise in 'unfunded mandates' that undermines both efficiency and accountability by assigning responsibilities without adequate resources (Bahl & Bird, 2008; Rodríguez-Pose & Vidal-Bover, 2024).

The architecture of fiscal decentralisation must also incorporate hard budget constraints that subject local governments to transparent fiscal rules and eliminate expectations of ad hoc central government bailouts, thereby establishing clear lines of accountability and incentivising prudent fiscal management (Kornai et al., 2003). Typical assignment logic follows established public finance principles: purely local services with contained geographic benefits (e.g. waste collection, local roads, and parks) are assigned to municipalities; services requiring professional capacity and moderate economies of scale (e.g. secondary education, hospitals, and regional transport) are allocated to intermediate tiers; and functions with strong redistributive components, significant externalities, or national public good characteristics (e.g. social protection, macro-economic stabilisation, and national infrastructure) remain responsibilities of the central government.

For Ukraine, clarifying the *what* of decentralisation has proven both essential and challenging. The country is dealing with the legacy of highly centralised Soviet-era governance structures while simultaneously pursuing European integration and confronting ongoing security threats. Ukraine's 2014 decentralisation reform represented a decisive break with past practices by creating amalgamated territorial communities (*hromadas*) and devolving significant administrative and fiscal responsibilities to the local level. However, implementation has revealed persistent tensions around functional clarity, particularly in shared competencies (e.g. education, healthcare, and social services) where overlapping mandates between the *oblast*, *rayon*, and *hromada* levels have generated confusion and coordination failures (Romanova & Umland, 2019).

In Ukraine, the balancing of political and fiscal decentralisation remains incomplete. *Hromadas* now retain 60% of personal income tax revenues and have gained autonomy over local budgets. However, their pre-war revenue base remains vulnerable to economic shocks and insufficient to cover assigned

expenditure responsibilities in many rural and economically depressed areas, creating de facto unfunded mandates (OECD, 2018).

Ukraine's institutional context complicates the application of subsidiarity principles. Amalgamation has created communities with vastly different population sizes (from under 1,000 to over 50,000 residents) and administrative capacities, raising questions about whether all *hromadas* possess the technical expertise and economies of scale necessary to deliver quality services in areas such as spatial planning, environmental management, and economic development (Krawchenko, 2023).

The enforcement of hard budget constraints has improved compared to the pre-reform period, with clearer treasury management systems and reduced discretionary transfers. Yet political pressures for bailouts persist, particularly for communities in conflict-affected regions in which fiscal stress intersects with humanitarian imperatives. Ukraine's successful EU accession trajectory and post-war reconstruction will depend significantly on further refining competence assignments, strengthening intergovernmental fiscal frameworks to ensure adequate and predictable local revenues, building administrative capacity at subnational levels, and maintaining fiscal discipline while accommodating the extraordinary demands of recovery and European integration.

2.2.3. THE *WHERE* DIMENSION OF DECENTRALISED REGIONAL DEVELOPMENT POLICY

The *where* dimension of decentralised regional development policy acknowledges that territorial diversity – in economic structure, population density, institutional capacity, and geographic characteristics – requires differentiated approaches rather than uniform institutional templates. **Effective decentralisation recognises these asymmetries and adapts governance arrangements accordingly.** Identical administrative structures imposed on vastly different territories risk either overwhelming weak jurisdictions or constraining capable ones (Falleti, 2010).

Ukraine's vast territorial diversity exemplifies why the *where* dimension requires careful calibration. The country encompasses densely populated industrial cities, depopulated rural areas, conflict-affected eastern regions, and EU-bordering western *oblasts*. The 2015-2020 amalgamation process created over 1,400 *hromadas* with dramatically different capacities. Cities like Lviv and Kyiv possess sophisticated administrative infrastructures and substantial fiscal resources, while many rural *hromadas* in Zakarpattia, Chernihiv, and Kirovohrad *oblasts* struggle with depopulation, limited revenue bases, and inadequate technical expertise (OECD, 2018; Dolan-Evans, 2023).

Ukraine has tentatively embraced asymmetric arrangements, granting Kyiv special status and experimenting with pilot programmes for enhanced autonomy in selected regions. Political sensitivities around territorial integrity have constrained more ambitious differentiation (Romanova & Umland, 2019). Metropolitan governance remains underdeveloped. Agglomerations like Kharkiv, Odesa, and Dnipro lack effective coordination mechanisms for regional transport, spatial planning, and economic development despite functional integration across municipal boundaries (OECD, 2022).

Inter-municipal cooperation has emerged organically in some areas **–** particularly for waste management and procurement – but lacks systematic legal frameworks and financial incentives to scale these arrangements (World Bank, 2015; Congress of Local and Regional Authorities of the Council of Europe, 2024). The war has starkly revealed capacity disparities. Frontline and recently de-occupied territories require substantial central government support and deconcentrated service delivery. Western regions, in contrast, have absorbed internally displaced populations and demonstrated robust local governance (Rabinovych et al., 2024).

Post-war reconstruction and EU accession require strengthening cross-border cooperation with neighbouring member states, particularly for transport corridors, environmental management, and economic integration initiatives (European Commission, 2023). Not least, enabling subnational governments to participate in cross-border cooperation programmes and regional development frameworks can promote spatial equity, facilitate knowledge transfer, and support European integration objectives (Perkmann, 2003).

2.2.4. THE *WHEN* DIMENSION OF DECENTRALISED REGIONAL DEVELOPMENT POLICY

The *when* dimension of decentralised regional development policy addresses the critical question of sequencing and pacing, determining not merely what functions to decentralise, but in what order and at what speed. The core principle holds that decentralisation should proceed at the pace of institutional capacity development rather than being driven by political expediency or short-term electoral calculations (Falleti, 2010; Rodríguez-Pose, 2018). A gradual and sequenced approach typically begins with functions that are relatively straightforward to monitor and deliver locally (e.g. local infrastructure maintenance, waste collection, and primary services) before progressively expanding to more complex responsibilities (e.g. secondary education, healthcare, and economic development) as accountability mechanisms and fiscal systems mature (Shah, 2006; Faguet, 2014).

The timing and sequencing of decentralisation must account for path dependencies and the 'stickiness' of existing spatial economic structures. Premature devolution can reinforce rather than overcome historical regional inequalities if local institutional conditions and relational assets are underdeveloped (Rodríguez-Pose, 2013). Pilot programmes in selected jurisdictions or sectors enable governments to test institutional models, identify implementation challenges, and refine approaches before national roll-out. Independent evaluation and systematic feedback loops ensure evidence-based adaptation (Bardhan, 2002).

Capacity-first sequencing requires pairing new mandates with deliberate investments in local administrative capacity, including training programmes for civil servants, digital management systems, and strengthened financial management capabilities, while simultaneously building the territorial knowledge networks and governance capabilities that underpin effective place-based development strategies (Tomaney, 2014).

Evidence increasingly demonstrates that institutional quality – rather than funding levels alone – determines regional development outcomes. Governance effectiveness, administrative capacity, and societal trust serve as the transmission mechanisms through which policies succeed or fail (Rodríguez-

Pose, 2013, 2020). Regions with higher-quality governance (e.g. lower corruption, greater impartiality, and better capacity) achieve significantly better outcomes in compliance with EU requirements, absorption of EU structural funds, and the impact of those funds (Rodríguez-Pose & Garcilazo, 2018; Charron et al., 2015). Ukraine's 2014-2020 decentralisation increased local investment efficiency by around 20% on average, but benefits were uneven across *oblasts* due to variable administrative capacity (Keudel & Myerson, 2024).

Against this background, prioritising capacity-building as core infrastructure can go a long way in decentralisation reforms. Systematic civil service professionalisation with merit-based recruitment and competitive compensation to attract talent to subnational governments; ongoing training in public financial management, procurement, project management, data analytics, and strategic planning; inter-regional learning networks and twinning arrangements that facilitate peer-to-peer knowledge transfer; and technical assistance mechanisms that provide specialised expertise to smaller or less-resourced jurisdictions can be effective tools to boost institutional capacity at the local level (OECD, 2019).

Quality of governance matters particularly for innovation, entrepreneurship, and investment attraction. Firms and skilled workers gravitate towards well-governed territories with reliable public services, efficient administration, and low corruption, creating virtuous cycles of development in high-capacity regions while disadvantaging poorly governed areas regardless of their natural endowments or infrastructure (Rodríguez-Pose & Di Cataldo, 2015). Hence, **targeted capacity-building and peer-learning mechanisms are essential to avoid a two-speed system in post-war reconstruction**.

Stability and predictability are likewise essential. Frequent recentralisations or abrupt reversals undermine trust, discourage long-term planning, and waste institutional investments. Medium-term fiscal frameworks and multi-year development plans prove critical for providing subnational governments with certainty for long-term planning (Bahl & Martínez-Vázquez, 2013). Once institutional maturity is demonstrably achieved, codifying the division of powers and intergovernmental fiscal arrangements in durable constitutional or legislative frameworks provides protection against arbitrary reversals and preserves necessary flexibility for refinement.

Ukraine's decentralisation illustrates both the opportunities and sequencing risks of reform timing. Launched amid post-Euromaidan transition and conflict, the 2014-2020 process advanced rapidly from voluntary amalgamation to universal territorial coverage, yielding major gains in service delivery but exposing capacity gaps between regions with differing institutional and economic legacies (Romanova & Umland, 2019). Although early pilots and donor-supported programmes strengthened local governance, they left many remote and conflict-affected areas under-resourced. Evaluation mechanisms remained weak, and uneven implementation reflected contrasting regional trajectories (OECD, 2018).

The full-scale invasion forced temporary recentralisation, testing institutional resilience. Yet, decentralisation has proved sturdy. The analysis conducted by Grillitsch et al. (2025a; 2025b) into formerly occupied municipalities in northern Ukraine shows how decentralisation, municipal amalgamation, and a clear orientation towards European integration can enable local change agents to mobilise resources, coordinate stakeholders, and upgrade basic services in ways that directly enhance capabilities and well-being. Looking ahead, Ukraine faces critical decisions about when to constitutionally entrench decentralisation and when to devolve responsibilities for reconstruction and EU

accession. In addition, it must balance these ambitions with the need to avoid overloading local capacity and widening territorial disparities.

2.2.5. THE *HOW* DIMENSION OF DECENTRALISED REGIONAL DEVELOPMENT POLICY

The *how* dimension of decentralised regional development policy concerns the institutional mechanisms, incentive structures, and accountability frameworks that operationalise devolved governance. Successful decentralisation relies fundamentally on coherent institutional design that aligns incentives across governmental levels while ensuring transparency and responsiveness to citizens (Falleti, 2010).

Effective intergovernmental coordination typically requires dedicated institutional infrastructure (e.g. grants commissions, fiscal councils, and joint intergovernmental committees) that manage vertical and horizontal relations, adjudicate disputes, and periodically review fiscal formulas to ensure that they remain aligned with evolving circumstances and capacities (Shah, 2006; Boadway & Shah, 2009).

Accountability mechanisms must therefore operate on multiple axes: **upward accountability** to higher governmental tiers through performance monitoring and compliance frameworks; **downward accountability** to citizens through participatory mechanisms (e.g. participatory budgeting, citizen audits, and mandatory public disclosure of budgets and expenditures); and **horizontal accountability** through independent oversight institutions and peer comparison systems (Smoke, 2015).

Effective institutional arrangements must be sensitive to territorial specificities and relational geographies, recognising that governance institutions are embedded within broader regional innovation systems, production networks, and socio-institutional contexts that shape their effectiveness (Rodríguez-Pose & Storper, 2020).

Performance-based transfer mechanisms that link funding to measurable service delivery outcomes (e.g. coverage rates, quality indicators, and efficiency metrics) can incentivise improvement. However, they require careful design to avoid penalising jurisdictions facing structural disadvantages (Barankay & Lockwood, 2007). Systematic capacity-building through training programmes in public financial management, procurement, human resource management, and data use strengthens the administrative foundations necessary for effective local governance (World Bank, 2008). Fiscal incentive structures (e.g. co-financing requirements, matching grants, and conditional borrowing frameworks) can encourage fiscal effort, promote efficiency, and discourage rent-seeking while respecting subnational autonomy (Bahl & Bird, 2008).

Multi-level governance and the partnership principle form an essential part of how a decentralised and polycentric model of regional development policy is pursued. Effective regional development requires a fundamental shift from hierarchical, top-down governance structures towards cooperative multi-level governance arrangements that enable genuine partnership and shared decision-making across all territorial levels. The partnership principle, as enshrined in Article 8 of the EU's Common Provisions Regulation (CPR), mandates that member states organise partnerships with regional and local authorities, economic and social partners, civil society organisations, and other

relevant stakeholders throughout the entire programming cycle – from strategic planning and project selection to implementation, monitoring, and evaluation.

This approach recognises that sustainable territorial development cannot be achieved through centralised *diktat* alone. Rather, it emerges from collaborative processes that harness the diverse knowledge, resources, and legitimacy of multiple actors operating at different governance levels (Casula et al., 2024). In the Ukrainian context, multi-level governance offers critical advantages: it enables *hromadas* (local self-government) to articulate their specific development needs and priorities shaped by war impacts and reconstruction imperatives; it allows *oblasts* (as deconcentrated central government structures) to coordinate sectoral interventions with territorial realities; and it ensures that national authorities can align strategic frameworks with on-the-ground capacities and challenges.

Cooperative governance mechanisms (e.g. joint programming platforms, shared monitoring systems, and coordinated financing arrangements) enhance resource efficiency by reducing duplication, facilitate knowledge sharing through peer-learning networks, and promote joint decision-making that balances national strategic objectives with local ownership (Dąbrowski, 2014). Meaningful partnership with civil society, business associations, and academic institutions strengthens democratic accountability, brings diverse expertise to policy design, and builds the social capital that is essential for both reconstruction and long-term development (Putnam et al., 1994).

As Ukraine prepares for EU accession and future management of Cohesion Policy funds, establishing robust multi-level governance and partnership arrangements now – during the reconstruction phase and through Ukraine Facility implementation – provides essential learning-by-doing opportunities to develop the institutional culture, coordination mechanisms, and collaborative capacities that will be indispensable for successful Cohesion Policy absorption post-accession.

Transparency has improved through reforms (e.g. ‘Prozorro’) and mandatory online budget publication. Nevertheless, participatory budgeting remains fragmented and confined to pilot cases (Romanova & Umland, 2019). Performance-based transfers are still marginal, dominated by special ‘equalisation’ grants for amalgamated territorial communities (ATCs) rather than incentives for efficiency or service quality (Romanova & Umland, 2019). The war has simultaneously demonstrated the value of established accountability systems – with transparent humanitarian aid distribution building citizen trust – while straining institutional capacity and creating pressure for expedited, less rigorous processes that could undermine longer-term governance quality.

The actors, institutions, and stakeholders implementing the decentralisation process are key to ensuring legitimacy through participation and involvement. Successful public administration reform depends fundamentally on the active participation and meaningful involvement of multiple stakeholders operating within coherent institutional frameworks.

Central government ministries – including finance, civil service, and line ministries – often need to establish effective coordination mechanisms to drive reform implementation, which requires dedicated institutional infrastructure, such as intergovernmental committees that manage vertical and horizontal relations through genuine collaborative engagement (OECD, 2019; Hammerschmid et al., 2024).

Citizens and civil society organisations play an essential role in ensuring accountability through direct participation in mechanisms such as participatory budgeting, citizen audits, and co-production of services. Mandatory public disclosure of budgets and expenditures enables meaningful civic engagement and creates downward accountability pressures that complement upward reporting requirements (Smoke, 2015).

The private sector and development partners contribute through active involvement in public-private partnerships, capacity-building initiatives, and innovative financing instruments that strengthen service delivery. In Ukraine, independent oversight bodies – including audit offices, fiscal councils, ombudsmen, and anti-corruption agencies – have provided horizontal accountability and can continue to do so through systematic monitoring and peer comparison systems that ensure transparency in public resource management. Their effectiveness depends on genuine institutional participation in governance processes (Smoke, 2015; OECD, 2022).

2.2.6. CROSS-CUTTING ENABLERS

Beyond the previously mentioned dimensions of decentralisation, five cross-cutting enablers can be considered preconditions for successful implementation of a decentralised model of regional development policy. These enablers span multiple domains, each creating essential institutional infrastructure for coordinated policy implementation.

- In the legal domain, establishing a **clear and coherent legal framework** that avoids conflicting sectoral laws – ideally consolidated into a unified Decentralisation or Local Government Code – offers the regulatory certainty necessary for subnational authorities to exercise their mandates effectively (Rodríguez-Pose, 2013; OECD, 2022).
- Fiscally, **predictable and rule-based intergovernmental finance systems with transparent equalisation formulas** eliminate the uncertainty and political manipulation associated with ad hoc transfers and arrears, enabling subnational governments to engage in credible multi-year planning and investment (Bahl & Bird, 2008).
- Administrative enablers, particularly **civil service and human resource autonomy at subnational levels** with merit-based recruitment and pay control, ensure that local governments can attract and retain qualified personnel. They also help avoid the efficiency losses associated with political patronage and cadre deployment systems (World Bank, 2008; Hammerschmid et al., 2024).
- **Digital and data infrastructure** constitutes another critical enabler. Reliable geo-coded data on spending, services, and demographics facilitates evidence-based equalisation, performance monitoring, and adaptive policy responses. This is increasingly essential as governments pursue digital transformation strategies (Gasco-Hernández et al., 2022; Rykkja et al., 2024).
- **Stable political commitment**, manifested through cross-party consensus, helps avoid the counterproductive oscillation between centralisation and decentralisation that undermines institutional development and erodes stakeholder trust, thereby ensuring policy continuity across electoral cycles (Falleti, 2010; Pike et al., 2017).

Collectively, these cross-cutting enablers create what can be referred to as 'institutional thickness', or the density of formal and informal institutions, social capital, and coordination mechanisms that determine a region's capacity for effective governance and sustainable development (Rodríguez-Pose & Storper, 2006). For Ukraine, ensuring that these five enablers are present and improved when greater decentralisation is pursued will likely make or break attempts to further devolve authority and responsibilities to lower tiers of government.

3. STATE-OF-THE-ART REGIONAL POLICY INSTRUMENTS

Building on the main findings of the previous section, this section delves into tested practices and solutions to operationalise decentralised regional development. It first examines institutional solutions adopted by countries in Europe and beyond for the allocation and coordination of responsibilities across governance levels, fiscal and financial empowerment, and capacity-building. Given Ukraine's specific context of post-socialist transformation, particular attention is paid to the experience of four countries in Central and Eastern Europe (CEE) – Czechia, Lithuania, Poland, and Slovenia – whose reform sequencing and institutional development trajectories during the EU accession process offer the most directly relevant operational benchmarks for Ukraine. Then, it investigates how these solutions could materialise in Ukraine. Finally, it looks at regional policy instruments used in the EU context (especially in Cohesion Policy) and how Ukraine would benefit from the adoption of such instruments.

3.1. Institutional solutions for empowering regions in their development role: lessons from European practice

Effective regional development systems require robust institutional architectures that clearly define competencies, ensure coordination across governmental levels, and provide regions with the capacity to design and implement place-based strategies. In the context of EU accession (Chapter 22), institutional design should be tested against two requirements: (i) a coherent coordination model for regional policy (strategic, programming, implementation, and monitoring) and (ii) early alignment with the future Cohesion Policy management and control system (MCS).

U-LEAD (2025b) recommends that Ukraine adopt a decentralised, place-sensitive coordination model (Scenario 3), with a strengthened line ministry, empowered regions, and ring-fenced, territory-based instruments for subnational investments. European experience offers helpful models for institutional design and intergovernmental coordination that can inform Ukraine's efforts to strengthen its regional development framework while simultaneously pursuing EU accession.

This section examines proven institutional solutions from various EU member states and beyond across several dimensions: institutional design principles that establish clear roles and responsibilities; intergovernmental coordination mechanisms that facilitate collaboration and strategic alignment; regional development agencies that serve as implementation vehicles for territorial development policies; fiscal and financial empowerment through equalisation systems; and capacity-building ecosystems through training academies.

3.1.1. INSTITUTIONAL DESIGN PRINCIPLES FOR ASSIGNING CLEAR ROLES AND RESPONSIBILITIES

The foundation of effective regional development lies in a clear legal definition of subnational competencies that eliminates ambiguity, reduces intergovernmental conflict, and enables regions to exercise meaningful authority over their development trajectories. France's Territorial Organisation Law (Loi NOTRe) of 2015 provides a comprehensive example, clarifying regional responsibilities for economic development, spatial planning, innovation support, and vocational training while consolidating fragmented competencies and reducing overlaps that previously hindered effective action (OECD, 2016a; Béal et al., 2017).

The law established regions as the primary level for economic development strategy, eliminating the previous three-tier system (region-department-municipality), which created coordination challenges and diffused accountability, while strengthening regions' capacity to develop comprehensive territorial strategies aligned with national priorities and Cohesion Policy frameworks (Vie Publique, 2015).

Its State-Region Contracts (Contrats de Plan État-Région, CPERs) establish multi-year, co-financed investment agreements that align national and regional priorities in areas such as transport, education, and environmental transition (I4CE, 2021). Adapting a similar contractual approach in Ukraine – through multi-annual regional partnership agreements under a modernised SFRD – would strengthen coordination, predictability, and joint accountability between central and subnational actors (U-LEAD, 2025d).

Poland's self-government reform laws similarly established a clear administrative division of competencies among *voivodeships* (regions), *powiats* (counties), and *gminas* (municipalities), with regional self-governments receiving explicit authority over regional development strategy, innovation policy, vocational education, and management of EU structural funds (Dąbrowski, 2014; Swianiewicz, 2014). This clarity proved essential for Poland's effective absorption of cohesion funding post-EU accession, as regions could exercise genuine strategic authority rather than merely implementing central directives (Ferry & McMaster, 2013).

Since 2021, Lithuania has consolidated seven intermediate bodies involved in Cohesion Policy implementation down to two (i.e. the Central Project Management Agency and the Innovation Agency), moved to outcome-focused monitoring, and mainstreamed simplified cost options (SCOs) to cut administrative burden. These measures have been credited with leading to faster absorption and clearer lines of accountability, making them directly relevant to Ukraine's future cohesion Management and Control System design (U-LEAD, 2025c).

The principle of subsidiarity (i.e. delegating tasks to the most effective governmental tier closest to citizens) must be embedded in legal frameworks to ensure that regional development responsibilities match the scale at which problems manifest and solutions can be designed. The European Charter of Local Self-Government, ratified by all Council of Europe members including Ukraine, establishes subsidiarity as a binding principle, requiring that 'public responsibilities shall generally be exercised, in preference, by those authorities which are closest to the citizen' and that higher-level assignment should occur only when 'the scope or nature of the task' demands it (Council of Europe, 1985).

Spain's autonomous communities system operationalises subsidiarity through differentiated devolution, allowing regions varying degrees of autonomy over economic development, infrastructure, innovation policy, and fiscal management based on historical arrangements and demonstrated capacity. While this model illustrates how differentiated competency assignments can coexist with national cohesion, its applicability to unitary states requires careful adaptation. For Ukraine, a more relevant approach involves differentiating support mechanisms at the community level – through instruments such as a capacity maturity framework – rather than granting asymmetric powers at the regional level, thereby addressing real capacity disparities without creating politically sensitive precedents (Colino, 2008; León, 2014).

Italy's 2001 constitutional reform similarly strengthened subsidiarity by expanding regional legislative powers and establishing that functions should be attributed to municipalities unless regional or national scale is necessary for effective exercise, thereby fundamentally rebalancing the Italian territorial governance system (Palermo & Wilson, 2014).

3.1.2. INTERGOVERNMENTAL COORDINATION MECHANISMS

Even with clear competency assignment, effective regional development requires structured coordination mechanisms that align strategies across governmental levels, facilitate joint investment planning, and resolve conflicts without undermining subnational autonomy. National-regional coordination councils or committees for strategic investment planning provide institutional platforms for negotiation, priority-setting, and resource alignment between central and regional governments.

Spain's Conferencia Sectorial for regional policy brings together the national Minister of Territorial Policy with regional development ministers quarterly to coordinate implementation of Cohesion Policy, discuss strategic priorities, review the performance of regional operational programmes, and address emerging challenges. This creates a regular forum for multi-level dialogue, which has proven essential for managing Spain's decentralised Cohesion Policy system (Colino, 2008).

Italy's State-Regions Conference operates similarly, serving as the primary forum for negotiating intergovernmental agreements on competency boundaries, coordinating major infrastructure investments, and aligning regional strategies with national priorities, with legally binding decisions requiring both central government and regional approval. Cooperative federalism thus becomes institutionalised (Bolgherini et al., 2018).

Partnership platforms involving line ministries, regional governments, and social partners in co-designing strategies represent more inclusive approaches to coordination that incorporate diverse stakeholder perspectives beyond governmental actors. France's regional development contracts (CPERs) exemplify this approach. They establish multi-year partnership agreements between the state and each region that identify joint investment priorities in transport, innovation, higher education, environmental transition, and digital infrastructure, with co-financing commitments from both levels and the participation of universities, chambers of commerce, and civil society organisations in strategic planning (OECD, 2016a; Pasquier et al., 2020).

These contracts – typically covering seven-year periods aligned with EU programming cycles – facilitated over EUR 30bn in coordinated public investment in the 2015-2020 period. They demonstrate how formalised partnership platforms can align resources and strategies across levels and maintain flexibility for regional adaptation (Leroy, 2017).

Scotland's Community Planning Partnerships provide another model, bringing together local authorities, health boards, police, fire services, social housing providers, and voluntary organisations to develop integrated local outcome improvement plans that coordinate service delivery across traditional organisational boundaries. This approach has strengthened cross-sectoral collaboration and produced more holistic responses to local development challenges (Scottish Government, 2015, 2025).

3.1.3. REGIONAL DEVELOPMENT AGENCIES

Regional development agencies (RDAs) serve as critical implementation infrastructure, translating regional strategies into concrete action. They also deliver professional capacity for project development, investment attraction, business support, and innovation facilitation. Czechia's RDAs, established at the NUTS 3 level following EU accession, function as implementation arms with professional staff skilled in project management, EU funding absorption, technical assistance delivery, and evaluation. They compensate for limited capacity in regional self-government administrations and facilitate the use of structural funds (Blažek & Vozáb, 2004).

These agencies maintain operational autonomy and remain accountable to elected regional councils, combining technical professionalism with democratic oversight. This governance model has proven effective across Central European countries with relatively young regional institutions (Bachtler et al., 2016).

Ireland's regional development agencies provide another instructive example. Organisations like Enterprise Ireland and IDA Ireland operate under clear mandates from national government but with significant operational flexibility to tailor business support, innovation services, and investment attraction strategies to regional economic structures (Breathnach, 2010). Their success in attracting FDI and supporting indigenous enterprise development indicates how professional agencies with clear mandates, adequate resources, and operational autonomy often serve as vehicles for effectively translating development strategies into tangible outcomes.

There are clear advantages when regional development agencies integrate business development with innovation support and vocational training coordination. Such an integration provides comprehensive support ecosystems that connect firms to knowledge institutions, facilitates technology transfer, and aligns skills development with emerging labour market needs (OECD, 2020b). This integrated model recognises that effective regional development requires coordinating multiple policy domains (e.g. business support, innovation, education, and infrastructure) rather than treating them as separate silos, with RDAs serving as coordinating hubs that bring together diverse actors and resources around common development objectives (Sotarauta et al., 2017).

The Finnish model has proven particularly effective in supporting less developed and peripheral regions to build distinctive specialisations in niche manufacturing, bioeconomy, and digital services despite geographic remoteness, demonstrating that professional development agencies can help overcome structural disadvantages through strategic coordination and targeted support (Virkkala, 2007).

3.1.4. FISCAL AND FINANCIAL EMPOWERMENT

Establishing a stable and predictable fiscal framework is fundamental to effective regional governance. Germany's *Länderfinanzausgleich* – constitutionally mandated under Article 107 – has successfully redistributed financial resources among the country's 16 federal states (*Länder*) for over seven decades (Spahn & Werner, 2007). The system operates through three stages: VAT redistribution to bring weaker states closer to 92% of the federal average; horizontal fiscal transfers between states; and supplementary federal grants to bring poorer states to at least 97.5% of the national average.[8] Approximately EUR 53.5bn is redistributed annually through this system and other lower-tier schemes in Germany alone (Henkel et al., 2021), which is roughly comparable to total annual EU Cohesion Policy allocations (approximately EUR 56bn per year in 2021-2027), illustrating the scale of Germany's internal fiscal solidarity. The 2020 reform replaced horizontal transfers with enhanced vertical VAT redistribution, reducing donor-recipient tensions while maintaining federal solidarity (S&P Global Ratings, 2021).

Sweden's municipal equalisation system, introduced in 1993, provides another instructive model. The model features three components: capacity equalisation (compensating for tax base differences); cost equalisation (addressing structural cost variations due to demographics and geography); and capitation aid (Chernick, 2004). This multi-dimensional approach has enabled smaller municipalities to provide comparable service levels, supporting territorial cohesion (Molander, 2012).

Beyond operating revenues, subnational governments need capital financing for infrastructure. Regulated borrowing access proves equally critical. Successful frameworks include: clear rules limiting borrowing to capital investment; debt limits as ratios to revenues or GDP; 'golden rule' prohibitions on current expenditure borrowing; transparent reporting; and compliance consequences (Dougherty & Forman, 2021).

Germany's debt brake (*Schuldenbremse*) limits federal structural deficits to 0.35% of GDP and bans *Länder* structural deficits entirely, with exceptions for emergencies (von Hagen & Wolff, 2006). Other countries (e.g. South Africa) employ flexible approaches, requiring treasury approval for borrowing above thresholds and linking capacity to credit ratings (Smoke, 2015). For Ukraine, balancing investment needs with fiscal sustainability will be essential for post-war reconstruction.

3.1.5. CAPACITY-BUILDING ECOSYSTEMS

Moreover, effective decentralisation requires sustained investment in subnational human capital. South Korea's Local Government Officials Development Institute (LOGODI), established in 1965, trains officials from all 243 local governments with structured curricula – ranging from integration training to advanced leadership programmes – while coordinating with provincial training centres (Development Asia, 2018).

[8] For a full overview of the German fiscal decentralisation system: https://portal.cor.europa.eu/divisionpowers/Pages/Germany-Fiscal-Powers.aspx

Best practices include career-stage aligned training; mandatory participation for promotions; regularly updated curricula reflecting policy priorities; and international partnerships for knowledge exchange (Kim, 2016).

France's CNFPT, in its current form since 1987, serves 36,519 local public authorities through 18 regional delegations. A mandatory levy of 0.9% of local payroll (EUR 430m in 2025) funds compulsory integration training and continuous development for 1.1 million participants (CNFPT, 2026). Its directory of 241 occupations gives employers a common reference for recruitment and mobility, and its observatory anticipates emerging skill needs (CNFPT, 2016, 2026).

For Ukraine, establishing a national training institution could systematically address capacity gaps created by rapid post-2014 decentralisation, thereby ensuring that all regions have access to professional development regardless of municipality size or fiscal capacity.

Table 1 / Institutional setup and framework of regional development across six countries in Europe

Country	Institutional Design	Coordination Mechanisms	Regional Development Agencies	Fiscal Equalisation	Capacity-Building
France	Territorial Organisation Law (Loi NOTRe) 2015 – clarified competencies	CPER state–region contracts	Regional implementation via agencies	Inter-regional equalisation transfers	CNFPT – national training centre
Poland	Clear *voivodeship-powiat-gmina* division	*Voivodeship* coordination with national ministry	Regional operational programme units	Horizontal & vertical equalisation	EU-funded training & academia partnerships
Spain	Asymmetric devolution	Sectoral conferences for cohesion	Autonomous regional agencies	Revenue-sharing & grants	Inter-regional learning programmes
Italy	Constitutional reform 2001 (subsidiarity)	State-Regions Conference	Regional investment agencies	VAT redistribution & borrowing limits	National School of Public Administration
Germany	Federal *Länder* autonomy	Joint federal–state committees	*State development agencies* (*Landesentwicklungsgesellschaften,* LEGs)	*Länderfinanzausgleich* (EUR 53.5 bn/yr)	Continuous *Länder*-level training
Sweden	Municipal self-rule	Coordinating councils	Regional growth partnerships	Multi-component equalisation	Continuous local staff training

Source: Authors' elaboration based on national and European sources

3.2. Lessons learnt and relevance for Ukraine's institutional decentralisation framework

Effective multi-level governance demands robust coordination mechanisms. National Regional Development Councils bring together central government, regional administrations, and municipal associations to guide regional policy, allocate resources, coordinate activities, and resolve disputes (Charbit & Michalun, 2009). To be effective, councils need genuine authority (typically through resource allocation), regular meetings with prepared agendas, professional secretariats, and transparent procedures.

Ukraine established an Inter-Departmental Coordination Commission for Regional Development, but it has met infrequently and not fulfilled its coordinating role (OECD, 2022). More broadly, a persistent 'formality gap' characterises many aspects of Ukraine's regional development governance: strategic plans, smart specialisation strategies, and public engagement mechanisms often exist on paper but lack the quality and operational depth to steer actual development. This problem extends even to basic areas, such as strategic planning and project management, where formal compliance with procedural requirements frequently substitutes for substantive capacity to design and deliver investment programmes. Revitalisation could raise the Commission from an ad hoc consultative body to a standing coordination forum with a permanent secretariat, thematic working groups, and decision-tracking. Membership should formally include regional and municipal associations with safeguarded voting rights (U-LEAD, 2025b).

Beyond coordination across different tiers of government, donor coordination is essential to ensure the efficient use of funds. Donor coordination remains fragmented across hundreds of bilateral projects. Building on the Donor Coordination Platform established in 2023, Ukraine could institutionalise a 'Regional Reconstruction Platform' linking EU Facility funding with multilateral and bilateral donors through a single pipeline of regionally prioritised projects (Betliy & Kosse, 2025). Such a system would reduce overlap, increase transparency, and enhance alignment with the Ukraine Plan and the SSRD 2021-2027.

Regional development agencies (RDAs) serve as platforms for multi-stakeholder collaboration and implementation vehicles for regional strategies. Effective RDAs perform several functions: strategic intelligence and analysis; project development and implementation management; partnership facilitation; regional marketing; and technical support to businesses and municipalities.

Ukraine's RDAs are envisioned as key implementation bodies under the 'On the Principles of State Regional Policy' law. However, they currently lack organisational capacity, technical skills, and resources**.** It should be noted that, in practice, the institutional form – whether an RDA or a project department within a Regional State Administration – matters less than the quality of management and the presence of trained personnel. Capacity levels remain highly variable across regions, and some *oblast* state administration (OSA) departments currently outperform their corresponding RDAs. Strengthening their analytical capabilities, project development expertise, and ability to blend funding sources is essential (UCORD, 2023). A complementary measure would be the introduction of a mandatory certification programme for civil servants involved in European integration and regional policy, drawing on models such as Croatia's mandatory state examination system, which would ensure a baseline of technical competence regardless of institutional affiliation.

During reconstruction, RDAs could serve as regional project management offices, coordinating municipal efforts, developing bankable proposals, procuring efficiently, and building sustainable local capacity. This approach has been successfully employed in post-disaster contexts in the US and Indonesia (Kennedy et al., 2008; University of Minnesota, 2013; World Bank, 2016). Implementing it would include piloting 'global grant'/programme-based envelopes that RDAs administer to achieve agreed results, shifting from project-by-project competitions to territorial programmes and building local ownership (U-LEAD, 2025b).

Metropolitan regions generate considerable economic output but face coordination challenges across fragmented jurisdictions. Countries have developed various models, ranging from consolidated metropolitan governments to lighter coordinating bodies (Slack & Côté, 2014). Key principles include democratic legitimacy, commensurate resources and authority, clear responsibility delineation, mechanisms ensuring smaller municipality representation, and flexibility for local variation (Heinelt & Kübler, 2005).

For Ukraine's largest cities (i.e. Kyiv, Kharkiv, Odesa, Dnipro, Zaporizhzhia, Lviv, and Kryvyi Rih), developing metropolitan governance statutes that balance integration and autonomy, provide adequate financing, and establish clear accountability could support coherent urban development and enhance global competitiveness. Metropolitan statutes may need to include ex-ante territorial impact assessments (TIAs) for major investments to ensure metropolitan-wide benefits and reduce negative spillovers (U-LEAD, 2025b).

Beyond metropolitan areas, inter-municipal cooperation represents a critical instrument for strengthening the capacity of smaller and weaker communities. Although Ukraine's legal framework permits cooperation agreements between *hromadas*, their uptake remains limited – with fewer than one agreement per community on average, many of which are largely formal in nature. Emerging initiatives, such as the 'Shoulder to Shoulder' programme connecting stronger and weaker communities, and progress in the Lviv agglomeration on functional area cooperation demonstrate the potential of structured inter-municipal partnerships. For communities that lack the capacity to independently manage complex development tasks – from strategic planning to project management to public service delivery – the pooling of resources and functions through cooperation agreements offers a pragmatic pathway to participate in regional development that does not require additional institutional layers.

Fiscal decentralisation enhances allocative efficiency by matching services to local preferences, promotes accountability through closer benefit-finance links, enables innovation, and supports political participation. Ukraine's post-2014 progress – assigning 60% of personal income tax to municipalities and consolidating grants – substantially enhanced local fiscal capacity (Romanova & Umland, 2019).

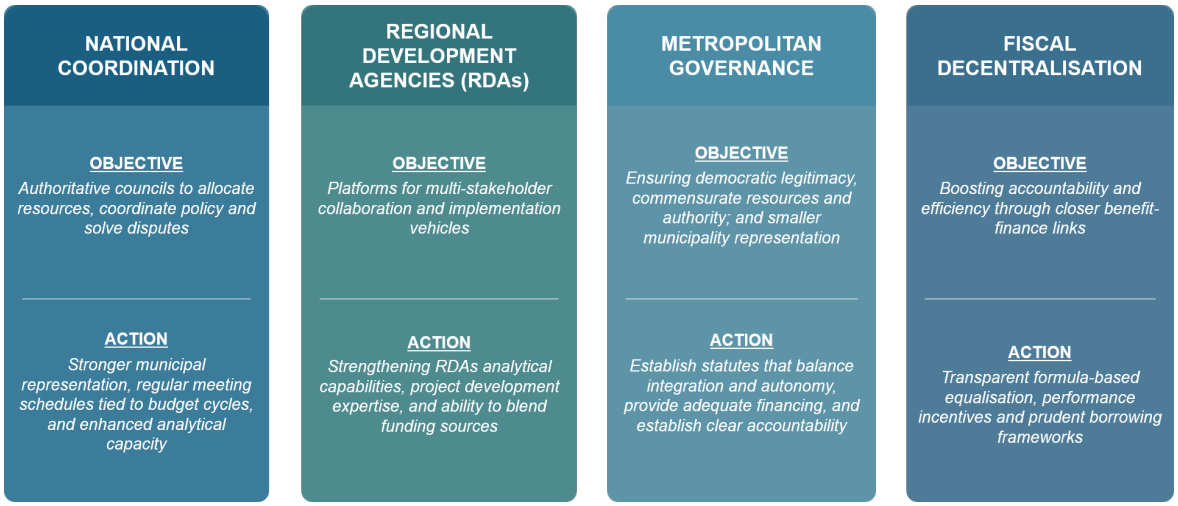
Challenges, however, remain. These include substantial revenue disparities, heavy transfer dependency in rural areas, constrained expenditure autonomy, and underdeveloped borrowing frameworks. Continued decentralisation needs to incorporate transparent, formula-based equalisation that provides adequate resources while preserving mobilisation incentives; performance incentives rewarding strong management and results; expanded own-source revenues; and prudent borrowing frameworks, as shown by the German case.

For the reconstruction phase, the same principles need adoption when dedicating part of the Ukraine Facility specifically to regions and municipalities. This regional and local window can be managed through an updated SFRD system. Macroeconomic conditions remain fragile, with GDP growth in 2025 at around 2%, public debt approaching 95% of GDP, and a significant share of the budget being devoted to defence and social protection (KSE Institute, 2025). This constrains fiscal space for equalisation transfers and capital investment.

A revised SFRD funding formula should link allocations to both fiscal capacity and reconstruction needs, avoiding ad hoc grants and ensuring adequate support for weaker *hromadas*. Stronger regions could receive larger envelopes based on readiness, while weaker *hromadas* would benefit from reduced or waived co-financing requirements. A dedicated technical assistance line would help local governments prepare solid, investment-ready projects (U-LEAD, 2025b).

The reconstruction context presents both opportunities (necessity of institutional rebuilding, available international financing, political will) and risks (recentralisation pressures, local absorption capacity constraints, security limitations, resource distribution inequities). Dealing with both requires sustained commitment to decentralisation; substantial capacity investment; careful reconstruction financing design that builds local institutions; transparent allocation mechanisms; and continuous monitoring.

Figure 3 / Institutional solutions to empower Ukrainian regions in their developmental role



Source: Authors' elaboration.

3.3. Proven practices in regional policy instruments

3.3.1. INTEGRATED TERRITORIAL INVESTMENTS (ITIS)

Integrated territorial strategies represent a holistic approach to regional development, combining multiple policy objectives and funding streams within a coherent territorial framework. This approach has proven particularly effective in addressing the complex, multidimensional challenges faced by regions in transition. **The EU's Integrated Territorial Investments (ITIs) mechanism emerged from the 2014-2020 programming period as an innovative instrument designed to pool funding streams for metropolitan or functional areas facing specific territorial challenges** (van der Zwet et al., 2014). ITIs enable regions to bundle resources from multiple priority axes of one or more operational programmes, creating synergies between infrastructure development, economic competitiveness, and social inclusion objectives. Several metropolitan areas (e.g. Barcelona, Berlin, and Warsaw) have successfully utilised ITIs to coordinate urban regeneration with sustainable mobility and digital infrastructure investments (OECD, 2016b).

The effectiveness of ITIs lies in their flexibility and territorial focus. Unlike traditional sectoral funding mechanisms, ITIs allow regions to design context-specific intervention packages that respond to local needs while maintaining alignment with broader European strategic objectives. Evidence from the 2014-2020 period demonstrates that ITIs have facilitated better coordination among different levels of government and improved the coherence of regional development strategies (van der Zwet et al., 2017; Stoyanova et al., 2023).

Poland's experience with regional operational programmes exemplifies the successful devolution of management authority to the *voivodeship* (regional) level. Since 2004, Polish regions have progressively assumed greater responsibility for designing and implementing EU-funded programmes, developing substantial administrative capacity in the process (Ferry & McMaster, 2013). This devolution has enabled regions to tailor interventions to their specific economic structures, innovation ecosystems, and social challenges.

The Polish model demonstrates how regions can effectively manage complex funding portfolios when provided with appropriate technical assistance and accountability frameworks. Key success factors include strong regional strategic planning processes, transparent project selection mechanisms, and the development of regional evaluation cultures (Moldovan, 2022; Vox Ukraine, 2023). Polish regions have also pioneered innovative approaches to integrating infrastructure investments with soft measures supporting entrepreneurship and human capital development. Rather than concentrating decision-making power at the national level, Ukraine could adopt a phased approach to devolving programme management to *oblast* authorities, beginning with regions that demonstrate strong administrative capacity and strategic planning capabilities.

3.3.2. COMMUNITY-LED LOCAL DEVELOPMENT (CLLD)

Community-led local development (CLLD) has emerged as a critical complement to top-down regional policy, particularly in rural areas and less developed and vulnerable regions where traditional economic development strategies may be less effective. The LEADER programme (*Liaison Entre Actions de Développement de l'Économie Rurale*) has operated in the EU since 1991, pioneering the community-led approach to rural development. **Introduced in the 2014-2020 programming period, CLLD extends this methodology across multiple funds and policy domains** (EU CAP Network, 2024).

These programmes empower local action groups (i.e. partnerships combining public, private, and civil society actors) to design and implement their own local development strategies within broader regional and national frameworks (High & Nemes, 2007; EU CAP Network, 2024). Research consistently demonstrates that community-led approaches generate higher levels of citizen ownership, project sustainability, and social capital formation compared to traditional grant programmes (Dargan & Shucksmith, 2008; Teilmann, 2012). **Local action groups serve as incubators for social innovation**, testing novel approaches to employment creation, social inclusion, and environmental sustainability that can subsequently be mainstreamed into broader regional policies.

Ukraine's decentralisation reform, initiated in 2014, created amalgamated territorial communities (*hromadas*) with significant autonomy over local development priorities and budgets. Evidence from successful *hromadas* demonstrates the potential for community-led approaches even in contexts of

limited resources and ongoing conflict. Communities that have developed strong civic capacity, participatory budgeting mechanisms, and partnerships with diaspora organisations have achieved remarkable results in infrastructure modernisation, service delivery improvement, and economic revitalisation (Romanova & Umland, 2019; Vaskivska, 2020).

The Ukrainian experience suggests that community-led development is not merely a complement to regional policy but potentially a foundation for building resilient, adaptive governance systems. However, realising this potential requires sustained investment in capacity-building, transparent financial management systems, and mechanisms for horizontal learning among communities. There is already evidence that capacity-building can deliver on this front, as in the case of Trostyanets and Mena, two formerly occupied municipalities in northern Ukraine where capacity-building led to multiple projects impacting residents' well-being (Grillitsch et al., 2025a; 2025b).

3.3.3. SMART SPECIALISATION STRATEGIES (S3)

Smart specialisation represents a paradigm shift in regional innovation policy, moving away from imitative, 'one-size-fits-all' approaches towards context-sensitive strategies that leverage each region's unique assets and competitive advantages. The Basque Country in Spain exemplifies effective smart specialisation, focusing on advanced manufacturing, energy, and biosciences based on its industrial heritage and research capabilities (Aranguren et al., 2015).

Slovenia has also leveraged smart specialisation to strengthen linkages between its manufacturing sector and emerging digital technologies, creating competitive advantages in smart factories and sustainable mobility (Kroll, 2015). Lithuania has used smart specialisation to focus investment on inclusive innovation, health technologies, and sustainable transport, areas aligned with its scientific strengths and market opportunities (Paliokaitė et al., 2015).

These cases illustrate how smart specialisation enables regions to make strategic choices about where to concentrate limited innovation resources for maximum impact. The methodology has proven particularly valuable for small and medium-sized regions that cannot compete across the full spectrum of knowledge-intensive sectors (Radosevic & Ciampi Stancova, 2018).

Smart specialisation offers a framework for Ukraine to move beyond commodity-based development towards higher-value-added economic activities. Several Ukrainian *oblasts* possess distinctive capabilities – from IT services and R&D in Kharkiv and Lviv to agricultural innovation in Vinnytsia and creative industries in Kyiv – that could form the basis for regional smart specialisation strategies. The methodology's emphasis on entrepreneurial discovery and stakeholder dialogue aligns well with Ukraine's evolving innovation ecosystem and could channel reconstruction investments towards sustainable competitive advantages rather than simply rebuilding pre-war economic structures.

However, a critical gap between the formal adoption of smart specialisation frameworks and their practical impact must be acknowledged. In many Ukrainian *oblasts*, existing smart specialisation strategies either replicate the current economic profile without identifying genuinely transformative pathways or set overly ambitious targets that lack the instruments and funding to be implemented. Moreover, no dedicated policy instrument currently exists to support smart specialisation development

and sectoral growth at the regional level. Closing this implementation gap requires not only improved strategy design through genuine entrepreneurial discovery processes but also the establishment of concrete support mechanisms (e.g. dedicated innovation funds, technology transfer programmes, and sectoral development grants) that translate strategic priorities into tangible economic outcomes.

3.3.4. CLUSTER POLICIES AND REGIONAL INNOVATION COUNCILS

Cluster policies – based on the insight that geographic concentration of related firms, suppliers, and knowledge institutions creates externalities that enhance collective competitiveness – have become a cornerstone of regional development strategies globally. Effective cluster policies extend beyond merely identifying geographic concentrations of firms to actively building the innovation infrastructure and intermediary organisations that enable knowledge exchange and collective action.

Denmark and Estonia have developed sophisticated cluster facilitation mechanisms, including cluster development agencies and innovation vouchers that subsidise connections between small firms and research institutions (Ketels & Protsiv, 2016). These intermediaries reduce transaction costs, facilitate technology transfer, and help firms access specialised services that they could not afford on their own.

Regional innovation councils, pioneered in countries such as Sweden and Finland, **provide governance structures that bring together universities, firms, and regional governments to coordinate research priorities, infrastructure investments, and skills development** (Asheim & Coenen, 2005). These councils serve as strategic fora where regional actors can identify shared challenges, mobilise collective resources, and negotiate division of labour in innovation activities.

Ukraine's existing industrial clusters in aerospace, information technology, and agricultural machinery provide foundations for cluster-based regional development strategies. However, realising their potential requires significant investment in cluster management organisations, innovation infrastructure, and programmes linking firms with research institutions. The experience of successful cluster policies suggests that such investments yield high returns in terms of productivity growth, technology adoption, and regional resilience (Delgado et al., 2010).

3.3.5. PERFORMANCE-BASED GRANTS

Traditional grant programmes often focus primarily on input compliance and procedural correctness, while limited attention is paid to actual development outcomes. **Performance-based grants represent an alternative approach that links funding to measurable results, creating stronger incentives for efficiency and impact.** Poland's EU Cohesion Policy programming incorporates a performance reserve mechanism whereby a portion of regional development funding is withheld and reallocated based on regions' achievement of quantifiable output and result indicators, creating direct incentives for effective implementation (European Commission, 2014). This approach encourages regions to develop robust monitoring systems and evidence-based policymaking capabilities.

Performance-based approaches require careful design to avoid perverse incentives and ensure that measurement focuses on genuine development outcomes rather than easily manipulated proxy indicators. When properly implemented, however, they can transform grant programmes from passive

funding mechanisms into active drivers of institutional improvement and policy innovation (Rodden et al., 2003; Blöchliger, 2015).

Ukraine has begun experimenting with performance elements in its SFRD, which allocates resources to *oblasts* based partly on their project preparation quality and co-financing capacity (U-LEAD, 2021). Expanding and refining this approach could encourage *oblasts* to strengthen their strategic planning, project management, and monitoring capabilities. However, performance-based systems need to be carefully designed so as to avoid penalising regions that face structural disadvantages or creating incentives for short-term results at the expense of longer-term development goals.

3.3.6. INTEGRATING INTERNATIONAL PRACTICES INTO UKRAINE'S REGIONAL DEVELOPMENT STRATEGY

The adoption of international practices in regional policy instruments offers Ukraine significant opportunities to optimise its reconstruction and development trajectory in the post-war period. Given the enormous scale of reconstruction needs combined with limited fiscal resources, Ukraine needs to maximise the effectiveness of every development investment. The policy instruments outlined above provide proven mechanisms for achieving this efficiency while simultaneously building the institutional foundations needed for long-term prosperity.

Figure 4 / Integrating international practices into a regional development strategy for Ukraine



Source: Authors' elaboration.

Integrated territorial strategies would enable Ukraine to move beyond fragmented, sectoral approaches to reconstruction towards holistic frameworks that address multiple dimensions of regional development at the same time. Rather than treating infrastructure, economic development, and social cohesion as separate policy domains, **ITI-style approaches would help Ukrainian municipalities and regions design coherent packages of interventions that create synergies and multiplier effects**. This is particularly critical given that reconstruction presents a unique opportunity to 'build back better' rather than simply restoring pre-war conditions.

Community-led development approaches align naturally with Ukraine's successful decentralisation reform and the strong civic capacity demonstrated throughout the war. The experience of Ukrainian *hromadas* in organising defence, providing services under extreme conditions, and mobilising local resources demonstrates precisely the kind of social capital and collective action capacity that LEADER and CLLD programmes seek to cultivate. Trostyanets and Mena are two examples highlighting that place-based leadership, transparent and accountable governance, and structured dialogue with businesses and civil society can transform peripheral municipalities into local role models despite adverse initial conditions (Grillitsch et al., 2025a; 2025b). Hence, scaling up community-led approaches can not only improve development outcomes but also strengthen democratic governance and social cohesion. These are essential elements of post-war stabilisation and European integration.

Smart specialisation strategies offer Ukraine a roadmap for economic transformation beyond its traditional reliance on commodity exports and low-value manufacturing. By systematically identifying and nurturing each region's distinctive capabilities – whether in technology services, creative industries, agricultural innovation, or advanced manufacturing – Ukraine can build diverse, resilient regional economies capable of competing in high-value global markets. The entrepreneurial discovery process central to smart specialisation would also strengthen connections between Ukraine's excellent research institutions and its business sector, addressing a persistent weakness in the national innovation system.

Regional innovation and cluster policies can leverage Ukraine's existing concentrations of specialised capabilities, from IT clusters in Kyiv, Kharkiv, and Lviv to agricultural innovation in central regions and maritime logistics in Odesa. With appropriate policy support (e.g. innovation vouchers, cluster management organisations, and research infrastructure investments), these embryonic clusters could evolve into internationally competitive ecosystems generating high-quality employment and tax revenues. The cluster approach is particularly relevant for regions seeking to transition away from dependence on coal mining and heavy industry.

The war has also catalysed the emergence of new cluster potentials, notably in military technology (miltech) and veteran rehabilitation services, where Ukraine has developed distinctive and internationally relevant expertise. Furthermore, the planned EU-gauge railway connection to Lviv opens significant prospects for a logistics and intermodal transport cluster in western Ukraine, positioning the city as a key gateway for European supply chains.

Performance-based grant mechanisms would introduce accountability and efficiency incentives into Ukraine's regional development funding, encouraging *oblasts* to strengthen project management capabilities and results orientation. Given concerns about corruption and implementation capacity, **performance-based approaches offer a middle path between rigid central control and**

unconditioned decentralisation, allowing regions autonomy in strategy design while maintaining clear accountability for results. The experience of regions competing for performance-based funding also creates beneficial peer-learning dynamics.

These instruments address fundamental governance challenges that have long constrained Ukraine's development, such as weak coordination between government levels, limited strategic planning capacity, insufficient accountability for results, and disconnections between policy design and local realities (see Section 2 above). Beyond the specific benefits of individual instruments, adopting these proven practices collectively would favourably position Ukraine for EU accession negotiations and pre-accession funding access. The European Commission increasingly expects **candidate countries to demonstrate capacity for managing Cohesion Policy funds through practices such as smart specialisation strategies, partnership principles, and results-oriented monitoring**. Building this capacity now would smooth Ukraine's eventual transition to full participation in EU regional policy frameworks.

4. CAPACITY-BUILDING AND EMPOWERMENT OF LOCAL COMMUNITIES IN UKRAINE

This section identifies the additional and strengthened capacities that Ukrainian local authorities will need in order to deliver reconstruction effectively and to progressively assume roles compatible with Cohesion Policy rules and instruments. More specifically, it lays out various capacity domains with the corresponding priority level and an overall capacity maturity ladder. It also underlines the role of EU-Ukraine partnerships at the local level[9] *and, lastly, lists the viability conditions for the ITI and CLLD instruments described in the previous section to be effectively implemented in Ukraine.*

4.1. From existing functions to Cohesion Policy-relevant capacities

Ukrainian municipalities already perform many functions relevant to territorial development, including local development planning, medium-term investment planning, and infrastructure project preparation. The central question is therefore not one of role creation, but rather of capacity deepening and functional upgrading in light of reconstruction scale, Cohesion Policy logic, and the potential future use of integrated territorial instruments (e.g. ITI and CLLD; see Section 3).

Reconstruction and EU alignment significantly expand the qualitative demands placed on local administrations:

› **Scale and complexity increase**: municipalities are required to manage larger investment volumes, multiple financing sources, and more complex projects than before the full-scale invasion.

› **Coordination requirements intensify**: reconstruction and Cohesion Policy both require alignment across sectors, territories, and levels of government.

› **Accountability expectations rise**: EU-style funding frameworks place strong emphasis on transparency, monitoring, auditability, and performance.

[9] The regional level is comprehensively addressed in the Master Plan for Chapter 22 under preparation by Ukraine's Ministry for Development of Communities and Territories (MinDev).

These shifts create capacity gaps that go beyond traditional municipal functions. They concern not only staffing levels but also analytical capabilities, coordination mechanisms, and professional cultures. Addressing these gaps is essential if local governments are to act as credible partners in a Cohesion Policy-oriented system rather than as passive project applicants.

The screening process of Chapter 22 in Ukraine points to limited evidence of project maturity, insufficient substantiation of investment pipelines, and the need to strengthen coordination and implementation capacity at the subnational level. In operational terms, this means that **local communities must move from preparing isolated projects towards managing integrated investment pipelines, from ad hoc coordination towards structured multi-level governance, and from compliance-oriented reporting towards basic performance management**. These shifts do not require entirely new roles, but rather deeper professionalisation and stronger organisational routines.

4.2. Priority capacity domains for local communities

The distinction between high- and medium-priority capacity domains reflects a practical assessment about which capacities are most immediately critical for credible reconstruction delivery and gradually introducing EU-compatible implementation discipline in the pre-accession period. High-priority domains are those where weaknesses can quickly undermine project feasibility, integrity, or auditability. Medium-priority domains remain essential, but their effectiveness depends more on the prior existence of basic delivery discipline and administrative reliability.

The sequencing across the five domains follows a simple operational logic. Communities first need the capacity to identify, prioritise, and manage credible investment pipelines and to implement them in a compliant and controllable way. On that basis, they can engage more effectively in inter-municipal cooperation, structured partnership management, and, over time, more systematic monitoring and performance-oriented delivery. This sequencing should not be applied mechanically: the domains are interdependent, and for weaker or war-affected *hromadas*, inter-municipal cooperation may in practice be a precondition for building even basic delivery capacity.

4.2.1. STRATEGIC INTEGRATION AND INVESTMENT PIPELINE MANAGEMENT (HIGH PRIORITY)

The ability to translate local strategies into credible, prioritised investment pipelines is a core Cohesion Policy expectation. While many *hromadas* do have strategies, the Screening Report points to the need for stronger coordination, transparency, and evidence-based decision-making in programming, and it highlights that project pipeline maturity is not yet sufficiently substantiated through standardised readiness approaches. To address this gap, **local communities need strengthened capacities to rank projects based on strategic relevance and territorial impact, assess readiness and risks, and sequence investments over time**. This includes the capacity to:

› prioritise projects based on territorial impact and functional relevance, not only local urgency;

› assess project readiness and risks in a standardised way;

› bundle smaller projects into coherent investment packages; and

› update pipelines dynamically as conditions change.

This capacity is particularly critical if Ukraine moves towards integrated territorial approaches. ITI-type instruments require local actors to coordinate multi-sector investments across functional areas, ensuring that individual projects reinforce each other and contribute to shared objectives. Without robust pipeline management, such instruments cannot function effectively.

4.2.2. INTER-MUNICIPAL AND FUNCTIONAL-AREA COOPERATION (MEDIUM PRIORITY)

ITIs depend on effective cooperation across administrative boundaries. Ukrainian local governments have limited experience with structured inter-municipal cooperation. For local communities, this translates into a need to develop governance capacities beyond administrative boundaries. **Inter-municipal cooperation must evolve from informal arrangements to structured mechanisms with clear decision-making, shared responsibilities, and accountability.** Future capacity needs therefore include:

› governance arrangements for joint decision-making;

› shared technical teams for project preparation and implementation;

› financial coordination mechanisms, including cost-sharing and joint procurement; and

› dispute-resolution and accountability arrangements.

Operationally, this implies the ability to establish joint steering arrangements, pool technical expertise, manage joint procurement or implementation units, and agree on cost-sharing and benefit allocation. These capacities are prerequisites for ITI-/CLLD-type tools and are equally relevant for efficient reconstruction delivery in areas such as utilities, transport, and social infrastructure.

4.2.3. PARTNERSHIP MANAGEMENT AND PARTICIPATORY GOVERNANCE (MEDIUM PRIORITY)

Cohesion Policy places strong emphasis on the partnership principle, which calls for structured engagement with civil society, business actors, and other stakeholders. Many Ukrainian municipalities have experience with consultations, but less with institutionalised partnership management. Local communities therefore need to strengthen their capacity to:

› design participatory processes linked to concrete investment decisions;

› manage stakeholder expectations transparently;

› document how inputs are integrated into decisions; and

› sustain partnerships over multi-annual programming cycles.

This capacity is particularly relevant for community-led instruments such as CLLD, where local authorities must act as facilitators rather than sole decision-makers. Even outside CLLD, structured partnership management enhances legitimacy and reduces implementation risks.

4.2.4. PROCUREMENT, COMPLIANCE, AND INTERNAL CONTROL (HIGH PRIORITY)

Reconstruction financing already exposes weaknesses in procurement, contract management, and internal control, with shortcomings in the first and last of these repeatedly highlighted in Enlargement Reports. Cohesion Policy would further raise compliance requirements. For local communities, this represents one of the most binding constraints on scaling reconstruction and future Cohesion Policy-type funding. Local authorities therefore need strengthened capacities in:

› procurement planning for complex, multi-lot projects;

› contract management and supervision;

› internal control and risk management; and

› documentation and audit readiness.

Capacity development needs to go beyond formal compliance training and focus on procurement planning for complex projects, contract management, internal control routines, and audit readiness. Given the diversity of *hromadas*, **shared service models or regional support units will be essential** to avoid excluding smaller or war-affected communities from investment opportunities as well as to ensure that *hromadas* can meet standards without excessive administrative burden.

4.2.5. MONITORING, DATA USE, AND BASIC PERFORMANCE MANAGEMENT (MEDIUM PRIORITY)

Results-oriented funding requires the ability to define indicators, collect data, and use evidence for decision-making. Local governments will need to move beyond activity reporting towards basic performance management. Local communities must therefore strengthen their ability to define a limited set of indicators linked to investment pipelines, collect and validate data, and use monitoring results for decision-making, including analytical skills to interpret data and adjust interventions.

The emphasis should be on usability rather than sophistication. A pragmatic minimum step is to **establish basic output/outcome tracking** that is actually used in decisions and to **connect it to existing digital platforms** (e.g. DREAM / geo-information tools) to support learning-by-doing during reconstruction.

4.3. Capacity maturity ladder for Ukrainian local communities

Given wide territorial disparities, **capacity development should follow a differentiated maturity ladder rather than uniform standards**.

› At a **basic level**, communities must be able to maintain essential administrative continuity, prepare a minimal prioritised investment list, comply with procurement rules, and report on implementation.

› At an **intermediate level**, communities should manage coherent investment pipelines, participate in structured multi-level coordination, apply standard monitoring routines, and engage stakeholders systematically.

› At an **advanced level**, communities can act as lead or core partners in integrated territorial instruments, manage functional area cooperation, and contribute substantively to programming and evaluation processes.

This ladder provides a practical tool for sequencing reforms and targeting support, taking into account uneven administrative capacity.

4.4. The role of EU-Ukraine municipal and regional partnerships

Partnerships between Ukrainian and EU municipalities and regions can serve as a practical capacity-building instrument and accelerate movement along the capacity maturity ladder. Beyond symbolic twinning, such partnerships should be task-oriented and linked to concrete reconstruction or development challenges. Partnerships can support:

› peer learning on integrated territorial approaches;

› transfer of operational know-how on ITI/CLLD design and management;

› mentoring on procurement, monitoring, and partnership governance; and

› exposure to EU administrative routines and professional standards.

To be effective, these partnerships should be time-bound and linked to concrete reconstruction or development objectives rather than generic exchanges. They can transfer tacit knowledge that formal training cannot provide. Aligning these partnerships with the priority capacity gaps identified above would maximise their contribution to achieving Chapter 22 readiness.

4.5. Minimum viability conditions for ITI-/CLLD-type instruments in Ukraine

In the Ukrainian context, ITI-type instruments should be understood primarily as tools for functional-area cooperation, where several communities or territories need to coordinate investments around shared development challenges, infrastructure systems, or service linkages. CLLD, by contrast, should be framed more flexibly as a local partnership-based approach centred on participatory governance and bottom-up initiatives. Depending on the territorial context, such partnerships may operate within a single community or extend across several communities where this is justified by common needs and local cooperation patterns. This distinction is important in order to avoid treating the two instruments as institutionally identical and to ensure that piloting reflects their different governance and capacity implications.

For ITI-/CLLD-type instruments to be viable in the Ukrainian context, several minimum conditions must be met at the local and functional-area levels.

› First, there must be a clearly defined functional territory with shared development challenges and political willingness to cooperate.

› Second, participating communities must agree on a joint governance structure with defined roles and decision-making rules.

› Third, a consolidated investment pipeline aligned with a common strategy is required.

› Fourth, basic administrative capacity for procurement, monitoring, and reporting must be ensured, either locally or through shared services.

› Finally, mechanisms for stakeholder participation and accountability must be in place.

These conditions suggest that **ITI and CLLD should initially be piloted in selected, higher-capacity territories, with gradual expansion as capacities mature**. Operating within this framework, local communities become effective delivery partners by implementing reconstruction and development investments, progressively assuming more complex roles as capacities mature, and feeding territorial intelligence back into the regional development steering system. This sequencing ensures that reconstruction delivery builds the institutional and administrative foundations required for Cohesion Policy implementation while avoiding parallel systems or disruptive institutional jumps in the pre-accession phase.

5. COORDINATION OF POLICY INTERVENTIONS

Taken together, the conceptual framework, implementing conditions, and instruments set out in this report establish a coherent steering chain linking strategy, coordination, and delivery. The strategic planning framework provides the analytical backbone and prioritisation logic, integrating reconstruction and development objectives across governance levels. This section analyses the whole-of-government coordination mechanisms that translate these priorities into disciplined programming and investment decisions through enforceable gates, joint cycles, and accountability arrangements. It also analyses how the two main sources of co-financing for regional and local investment projects in Ukraine – the new Public Investment Management (PIM) system and the revived State Fund for Regional Development (SFRD) – could be developed to support the strategic vision of a decentralised and polycentric regional development policy model.

5.1. Whole-of-government approach linking reforms, sectoral policies, and regional development

This sub-section sets out an operational approach to strengthen whole-of-government coordination for regional development in Ukraine in a manner that is credible for Chapter 22 accession requirements as well as immediately usable for recovery, reconstruction, and modernisation delivery.

Rather than on describing institutions, the focus is therefore placed on making coordination work as a management system made up of decisions, roles, procedures, information flows, and accountability. The proposals are consistent with the decentralised, place-sensitive coordination ‘Scenario 3’ recommended by U-LEAD (2025b) on the coordination and allocation of functions while also recognising that Ukraine’s current practice often resembles a more centralised, vertical model.

Ukraine already has elements of a multi-level regional policy architecture; the binding constraint is the ability to operate it at an EU-compatible level through routine, enforceable coordination across: (i) Centre of Government (Cabinet of Ministers (CMU) Secretariat / Prime Minister’s support structures), (ii) Ministry for Development of Communities and Territories of Ukraine (MinDev) as regional policy lead, (iii) Ministry of Finance (MinFin) as budget gatekeeper, (iv) State Agency for Restoration and Development as key delivery actor, and (v) sectoral ministries with high territorial impact. **The immediate task is to**

convert 'coordination' from ad hoc inter-ministerial exchange into a structured steering cycle with three coordination gates:

(1) territorial coherence,

(2) budget realism, and

(3) integrity/traceability of investments.

In the pre-accession phase, Chapter 22 requirements translate into a need to strengthen central steering, coordination, and sequencing of reforms affecting territorial development while progressively embedding partnership and multi-level governance principles (see again Sections 2 and 3). This approach is consistent with the report's long-term vision of decentralised, place-based regional development, but it recognises that accession readiness at this phase requires prioritisation of clarity, predictability, and institutional discipline.

5.1.1. WHAT 'WHOLE-OF-GOVERNMENT COORDINATION' MUST ACHIEVE IN PRACTICE

In the Ukrainian context, whole-of-government coordination should be understood as a small number of practical outcomes that can be verified rather than as an institutional diagram. The coordination system is 'working' when it produces the following results reliably and repeatedly:

- **One territorial lens for public investment**: national sectoral pipelines, reconstruction priorities, and regional development priorities are screened against the same territorial objectives and spatial logic (not only sector targets).
- **One integrated programming rhythm**: a joint annual/medium-term cycle aligns strategic updates, budget preparation, investment pipeline decisions, and monitoring/evaluation feedback.
- **One chain of accountability**: responsibilities are clear for (i) setting objectives, (ii) selecting interventions, (iii) verifying delivery and eligibility, and (iv) auditing systems and operations – mirroring the basic separation-of-functions logic of Cohesion Policy.
- **One data spine for steering**: DREAM / GIS-RD / Prozorro (and related registries) are used not only for transparency but also for operational decision-making (pipeline readiness, risk flags, performance dashboards).
- **One escalation route**: when sectoral choices undermine territorial priorities, proposals can be referred back for revision or cleared for adoption before political decisions are taken (gatekeeping).

This framing reflects the logic of the recommended **decentralised coordination scenario**: **the centre sets direction and enforces coherence, while subnational actors gain meaningful responsibility for territorial programming and implementation over time.**

5.1.2. COORDINATION MODEL FOR UKRAINE

The cited U-LEAD concept paper (2025b) argues that policies aimed at top government priorities are best coordinated from the Centre of Government, in cooperation with the line ministries responsible for delivery, and recommends that the ministry in charge of regional policy act as a functional part of the

Centre of Government through a strengthened gatekeeping role and a revitalised Inter-Departmental Coordination Commission for Regional Development (ICC).

The report identifies revitalising the ICC – supported by a permanent secretariat and regular, prepared meetings – as a core institutional upgrade for a modern decentralised regional development system. In this sub-section, the ICC is therefore treated as a practical steering mechanism: it validates cross-sector territorial priorities, issues concise decision notes, and tracks implementation through a small set of follow-up actions agreed with the CMU Secretariat, the MinDev, the MinFin, and delivery actors.

This can be operationalised without creating new heavy structures by defining three coordination layers:

- **Strategic layer (political/steering)**: ICC re-established as a regular, decision-shaping body for territorial development, with conclusions not routinely re-opened later in government procedures. The ICC's mandate should explicitly cover aligning reconstruction instruments and sectoral pipelines with regional development priorities as well as preparing for Chapter 22 obligations.
- **Operational layer (civil service/expert)**: permanent ICC secretariat (managed by the MinDev) plus thematic working groups at expert level. These groups do the technical coordination before items reach ICC and maintain continuous working relations between institutions.
- **Delivery layer (programme/instrument)**: SFRD evolved into a programme-type instrument with defined priorities, objectives, indicators, and a basic management-and-control system as well as a coherent pipeline and monitoring architecture linking national and subnational project cycles.

The **permanent secretariat** along with thematic working groups is not 'bureaucratic inflation'; it **is the minimum unit of continuity needed to (i) prepare decisions, (ii) follow up on conclusions, and (iii) keep coordination alive between meetings.**

5.1.3. COORDINATION GATES

A key weakness in Ukraine's current coordination practice is that coherence checks happen late (or not at all) once resources and political attention have been committed. A Chapter 22-credible model requires early-stage gates that are objective, repeatable, and transparent.

Building on previous expert recommendations, **three gates should be introduced and embedded into routine government procedures**:

Gate 1: Territorial impact and territorialised results

The referenced Concept Paper recommends an obligatory territorial impact assessment for draft sectoral policy and budgetary documents as a gatekeeping tool, alongside a regional breakdown of result indicators in sectoral policies and budget programmes (starting with sectors with the highest territorial impact). Operationally, rather than being a new analytical exercise for every document, this is a standard template with a limited set of required checks: (i) which territories benefit/lose, (ii) consistency with SSRD territorial typology/priorities, (iii) distributional effects, (iv) implementation capacity assumptions, and (v) risk flags (procurement, integrity, land/permits).

Gate 2: Strategic Planning Gateway

A so-called 'Strategic Planning Gateway' can be implemented as a mandatory review checkpoint to validate coherence, affordability, and measurable results before strategy approval. For Ukraine, this gateway should be the practical interface between strategic planning and public finance: it should verify that each strategy or major investment proposal has (i) a small number of measurable objectives, (ii) a costed implementation plan linked to a 3- to 5-year budgeting horizon, (iii) an implementation responsibility map, and (iv) an evidence base (baseline and data source). It should also test whether the proposal duplicates existing documents in an already fragmented planning landscape (notably the large number of programmes, strategies, plans, and concepts).

Gate 3: Annual whole-of-government performance review

Annual performance reviews should be introduced in order to adjust priorities based on monitoring and evaluation findings. This should be an ICC-chaired, evidence-driven review that covers: (i) delivery and absorption of key instruments (including SFRD), (ii) performance against indicators, (iii) systemic issues (procurement bottlenecks, verification delays, audit findings), and (iv) territorial distribution of investments and results. Rather than being another report, the output is a short decision note with corrective actions and re-prioritisation instructions for the next programming/budget cycle.

These 'gates' are not designed to recentralise decision-making. Instead, they are meant to ensure that decentralised, place-based delivery can operate at scale under constrained fiscal space and heightened integrity risks. In practice**, the gates act as a minimum discipline**, in that **they ensure that strategies and investment proposals are coherent with national territorial objectives, affordable within the medium-term budget framework, and traceable through the project cycle.** This is consistent with the report's emphasis that institutional quality and coordination mechanisms are the key enablers of effective decentralised regional development.

5.1.4. HARMONISED PROGRAMMING CYCLES

This harmonised programming cycle should not be interpreted as requiring a single, uniform planning or approval rhythm for all sectors, instruments, or levels of government. In practice, programming horizons will necessarily differ: large transport or environmental investments typically require longer preparation and implementation periods, while certain local projects or smaller reconstruction measures may need shorter and more flexible cycles. The purpose of the harmonised cycle is therefore not to standardise all timelines, but to ensure:

› a limited set of common decision points for strategic prioritisation,

› coherence checks,

› budget alignment, and

› performance review.

Within that shared framework, sectors and territorial levels can continue to operate with differentiated time horizons and, where appropriate, rolling project approval procedures. In the case of the SFRD, this means that projects may be approved on a rolling basis, but within a previously agreed medium-term strategic and financial logic, rather than through disconnected ad hoc decisions.

Therefore, the practical way to reduce fragmentation is to introduce a harmonised programming cycle that aligns planning documents with budget decisions; links regional policy, sectoral plans, and reconstruction priorities; and includes coherence checks for new plans and investments. **A harmonised cycle could include the following steps:**

› **Step 1 – Evidence update and territorial diagnosis refresh:** Use DREAM/GIS-RD data to update the territorial picture of damages, investment gaps, project pipeline maturity, and implementation risks. Produce a short territorial dashboard for ICC.

› **Step 2 – Priority-setting and indicative allocations:** Translate SSRD priorities into a limited set of annual/medium-term priority packages (e.g. functional territories, war-affected areas, growth poles). Use indicative allocations/envelopes where feasible to reduce 'winner-takes-all' competitions and enable planning.

› **Step 3 – Sectoral pipeline alignment:** Sectoral ministries submit draft pipelines and budget proposals with territorial impact templates and a regional breakdown of result indicators for the highest-impact sectors.

› **Step 4 – Gateway checks and ICC decisions:** Strategic Planning Gateway verifies coherence, affordability, and measurability; ICC validates cross-sector packages and issues binding coordination conclusions.

› **Step 5 – Budget finalisation and instrument programming:** MinFin integrates agreed packages into medium-term budgeting; MinDev programmes SFRD and related instruments accordingly, ensuring traceability requirements are embedded.

› **Step 6 – Performance review and corrective actions:** ICC reviews year-to-date performance and adopts corrections for the next cycle.

This cycle directly supports **the transition from 'projects' to 'programmes'**, as it **enables subnational authorities to plan on predictable, territorially differentiated envelopes while strengthening the ability to target urgent needs**, which the Concept Paper identifies as a weakness of purely competitive, project-by-project allocation.

5.1.5. SFRD AS TRANSITIONAL 'EU-TYPE' PROGRAMME INSTRUMENT

The SFRD is potentially Ukraine's strongest transitional instrument for piloting EU-type systems before accession, but it must evolve into a programme-type instrument with explicit priorities, objectives, indicators, baselines, and annual targets as well as a basic management-and-control system with separation of functions. **The modernisation of SFRD should include ringfencing of funds channelled through SFRD, moving towards regional/territorial envelopes based on objective indicators, and gradually shifting from financing individual projects to financing regional and territorial programmes managed by subnational authorities.**

Regarding operational design choices for the 2026-2027 period, in practical terms, the SFRD's transition should prioritise a small set of system-building features that demonstrate Cohesion Policy compatibility:

› **Priority architecture:** 3-5 priorities at most, each with 2-3 specific objectives and a small indicator set with baselines and annual targets.

- **Project readiness and eligibility:** EU-type project fiches, readiness scoring, and standard feasibility/permitting checks before selection.
- **Separation of functions:** distinct roles for selection, verification/controls, payments, and audit; clear rules if the MinDev or a subordinate body is also a beneficiary (to avoid conflict).
- **Monitoring Committee as a steering body:** balanced representation (*oblasts*, *hromadas*, socioeconomic partners, CSOs) and published minutes/decisions; use the MC to approve criteria, annual implementation reports, and major re-programming.
- **Digital traceability as default:** DREAM + Prozorro + GIS-RD linked across the full project cycle; standard data fields to enable aggregation and performance dashboards.

As regards **benchmarking to EU practice**, the European Commission's study (2025b) on organisational models of programme authorities summarises core managing authority functions across periods, such as setting up computerised systems for data on each operation, selecting procedures and criteria linked to objectives, verifying that products/services are delivered and expenditure is paid, and ensuring the adequate separation of functions (especially when the MA is also a beneficiary). **At this stage of the preparation for accession, Ukraine does not need to replicate EU institutional forms immediately, but it does need to demonstrate these functions in practice through SFRD and related instruments.**

5.1.6. DIGITAL SYSTEMS AS COORDINATION INFRASTRUCTURE

Compared to many other countries at the pre-accession stage, Ukraine has advanced digital systems. Rather than the existence of tools, the operational challenge is using them as the default infrastructure for coordination and steering. The mandatory use of DREAM and GIS-RD can ensure full traceability of reconstruction and development projects as well as a unified monitoring-and-evaluation architecture integrating DREAM, ProjectUA, and GIS-RD.

A Chapter 22-aligned approach is to treat digital systems as the 'single source of truth' for programme management. This requires agreements on governance (who owns data standards), integration (which IDs link projects, contracts, and locations), and decision-use (which ICC/MC decisions require dashboard evidence). Three practical steps can be implemented quickly:

- **Adopt a common project identifier and minimum dataset** across SFRD and major reconstruction pipelines (location, beneficiary, objectives, cost, procurement plan, implementation milestones, indicator contribution).
- **Embed risk flags and integrity checks into dashboards** (non-competitive procurement, repeated contract amendments, delayed reporting, cost overruns). Use these flags to trigger risk-based verifications.
- **Make dashboards decision-relevant:** ICC and Monitoring Committee agendas should include a short 'data brief' extracted from DREAM/GIS-RD, and decisions should reference the evidence used.

5.1.7. INTEGRITY AND INSTITUTIONAL QUALITY

Integrity risks are not solved by generic anti-corruption declarations. Instead, they are controlled through system design: transparent criteria, separation of functions, audit trail, risk-based verifications, and public information. Integrity and institutional quality can be framed as a key system dimension. This requires building integrity directly into SFRD and planning systems through conflict-of-interest rules, transparency of committees, Prozorro linkage, and red-flag indicators integrated into DREAM dashboards in addition to strengthened internal audit at regional and municipal level.

For the coordination agenda, the key operational implication is that the coordination mechanism (ICC + secretariat + working groups) must own a concise 'integrity protocol' for territorial development instruments and pipelines. This protocol should define minimum requirements for: (i) composition of selection bodies, (ii) publication of decisions, (iii) procurement traceability, (iv) verification standards, and (v) escalation pathways when red flags are detected. This is also a practical way to reduce the burden of ex post controls by strengthening ex ante prevention and early detection.

5.1.8. SEQUENCING

A decentralised model can improve the effectiveness of reconstruction and recovery planning, but its introduction must be gradual given capacity constraints and historically rooted practices of central control. The proposal is to decide on the conceptual model quickly, piloting territory-based instruments during SSRD and Ukraine Plan implementation and using the screening/Chapter 22 process to define a more specific model for coordinating structural funds, followed by normative development and investment in capacity.

Applying this logic, **the sequencing for 2026-2027 should prioritise 'system prototypes'** rather than full-scale institutional reforms:

- **Prototype 1**: ICC reboot + permanent secretariat + two thematic working groups (reconstruction-regional policy alignment; Chapter 22/cohesion readiness). Focus on a small number of pipeline decisions to demonstrate gatekeeping and coherence.
- **Prototype 2**: Strategic Planning Gateway piloted on SSRD-linked documents and major investment proposals, with a 'pass/fail + conditions' output (coherence, affordability, measurable results).
- **Prototype 3**: SFRD programme-type redesign for one annual cycle (2026 or 2027), including Monitoring Committee-based steering, selection criteria, data architecture, and basic separation of functions.
- **Prototype 4**: Territorial impact template required for a limited set of high-impact sectors, paired with a regional breakdown of indicators (transport, energy, environment/climate, innovation/SMEs).
- **Prototype 5**: Annual performance review integrated with budget preparation and ICC decisions, using dashboard evidence and evaluation feedback.

These prototypes deliver immediate coordination gains while building the institutional muscle required for post-accession cohesion implementation. They also provide concrete, verifiable evidence for accession dialogue: not just 'we have structures', but 'we run an EU-like steering cycle and can show outputs, decisions, and controls'.

5.1.9. ACCESSION-DRIVEN REFORM NARRATIVE

Although this report is not itself a negotiation position, it should support an accession-driven narrative: Ukraine is not merely aligning texts; it is building operational capability to coordinate and implement Cohesion Policy-type systems. In practical terms, **the negotiation position can reference these prototypes as commitments with milestones**: establishment of ICC secretariat and working groups; adoption and piloting of the Strategic Planning Gateway; recasting SFRD as a programme-type instrument with basic management and control features; and the roll-out of territorial impact checks for key sectors. This approach is consistent with the Concept Paper's sequencing recommendations, which emphasise immediate integration into SSRD Action Plan and Ukraine Plan implementation, followed by structural-funds-specific design.

In the post-accession phase, coordination evolves towards a shared governance model characteristic of Cohesion Policy. Central coordination remains essential, but greater emphasis is placed on partnership, multi-level governance, and negotiated programming. The transition between these phases should be managed deliberately, ensuring that coordination mechanisms established during pre-accession can be adapted rather than replaced once Ukraine participates fully in Cohesion Policy implementation.

In the pre-accession phase, Ukraine's priority is to demonstrate a credible steering system featuring fewer and better strategies, a disciplined link to medium-term budgeting and investment pipelines, and a functioning coordination mechanism that can stop or correct incoherent proposals early. As accession approaches and EU-type instruments expand, the role of the centre should progressively shift from 'gatekeeping' to 'enabling' by empowering *oblasts* and *hromadas* to design and implement integrated territorial approaches, while the centre focuses on system rules, performance review, and assurance functions.

5.2. Modernisation of the strategic planning (steering) system

This sub-section elaborates how Ukraine can modernise its strategic planning system so that it functions as an effective steering mechanism capable of integrating multiple policy interventions, including recovery and reconstruction planning; state, regional, and local development strategies; and regional smart specialisation strategies. It operationalises the conceptual foundations of the report, which emphasises that strategic planning must serve as a unifying framework for policy coherence and investment prioritisation rather than as a collection of parallel documents.

The central challenge is not the absence of strategic intent, but rather the limited capacity of the planning system to integrate diverse policy streams and translate them into coherent, implementable programmes. **In an environment characterised by large-scale reconstruction needs, strong donor engagement, and evolving EU accession requirements, modernisation of the planning system must focus on strengthening the analytical, strategic, and monitoring functions at the centre of government, enabling it to steer complexity rather than simply manage documents.**

5.2.1. STRATEGIC PLANNING AS AN INTEGRATIVE STEERING FUNCTION

The report underlines that modern regional development policy requires an integrative approach capable of aligning sectoral reforms, territorial priorities, and investment decisions. In Ukraine, however, strategic planning has often evolved in silos, with separate frameworks for reconstruction, sectoral development, regional strategies, and innovation policy. While each of these serves a legitimate purpose, their limited integration reduces the overall effectiveness of public intervention.

Modernisation therefore requires repositioning strategic planning as an integrative steering function. This implies that strategic documents should explicitly reference and incorporate related policy frameworks, clarifying how different interventions complement each other in specific territories. For example, reconstruction priorities should be linked to regional development objectives, while smart specialisation strategies should inform the selection and sequencing of innovation-related investments within broader territorial programmes. Such integration is consistent with Cohesion Policy practice, where multiple policy objectives are coordinated through a single programming logic.

Modern strategic planning systems in EU member states are designed to manage complexity arising from the coexistence of multiple policy interventions rather than to optimise individual instruments in isolation. Experience documented by the European Commission (n.d.) shows that effective use of Cohesion Policy funds depends on the ability of governments to simultaneously balance absorption, compliance, and policy impact. Over-emphasis on any one of these dimensions (e.g. rapid disbursement without strategic coordination) systematically undermines long-term development outcomes.

In the Ukrainian context, this insight is particularly relevant given the scale and diversity of current interventions, including reconstruction planning, sectoral reform programmes, state and regional development strategies, and innovation-oriented instruments (e.g. smart specialisation). Without a strategic planning system capable of integrating these interventions into a coherent steering framework, there is a significant risk of fragmentation, duplication, and territorially uneven outcomes.

Renewal of the strategic planning system should therefore be explicitly framed as a mechanism for policy integration, enabling the Centre of Government to align different intervention logics around shared territorial priorities, sequencing rules, and performance objectives. This role goes beyond coordination of documents and requires the capacity to arbitrate trade-offs between competing priorities, particularly where reconstruction imperatives interact with longer-term development and modernisation goals.

5.2.2. INTEGRATING RECONSTRUCTION PLANNING WITH DEVELOPMENT STRATEGIES

Reconstruction planning represents one of the most significant policy interventions currently shaping Ukraine's territorial development. The report highlights the risk that reconstruction efforts, if pursued in isolation, may reinforce spatial disparities or undermine long-term development objectives. Effective modernisation of the planning system therefore requires embedding reconstruction planning within the broader strategic framework for regional and local development.

In practical terms, this means that reconstruction programmes and project pipelines should be assessed against state and regional development strategies, ensuring consistency with territorial priorities and long-term objectives. Strategic planning at the Centre of Government should provide the analytical basis for aligning reconstruction investments with development trajectories, helping to balance urgent recovery needs with structural transformation and modernisation goals.

Reconstruction planning represents a distinct and powerful policy stream that must be integrated into the strategic planning system rather than treated as a parallel agenda. European experience indicates that when recovery and reconstruction instruments operate outside the main strategic framework, they tend to prioritise speed and sectoral objectives at the expense of territorial coherence and long-term impact.

For Ukraine, upgrading the strategic planning system must therefore ensure that reconstruction priorities are systematically assessed against state, regional, and local development strategies. This does not imply slowing delivery, but rather embedding reconstruction investments within a clear territorial logic that supports recovery, resilience, and structural transformation at the same time.

Similarly, regional smart specialisation strategies provide a valuable analytical basis for innovation-driven development but risk limited impact if not connected to broader territorial and investment decisions. Strategic planning should create explicit interfaces between smart specialisation priorities and other policy interventions, ensuring that innovation, infrastructure, skills, and business support measures reinforce each other within targeted territories. This integrative approach reflects established EU practice, where smart specialisation functions as a strategic input to programming rather than as a stand-alone policy exercise.

5.2.3. ALIGNING STATE, REGIONAL, AND LOCAL DEVELOPMENT STRATEGIES

Alignment across state, regional, and local development strategies is a central condition for an effective strategic planning and steering system. Ukraine has made substantial progress in establishing a coherent set of strategies at all levels of government, yet their interaction remains uneven and often merely procedural. In practice, regional and local strategies are frequently prepared to meet legal requirements or to access specific funding opportunities, while their contribution to national priority-setting and programming decisions remains limited.

Recalibrating the strategic planning system therefore requires moving beyond formal consistency checks towards functional vertical alignment. State-level strategies should provide a clear, stable, and selective reference framework that defines national development priorities, territorial objectives, and expected contributions from different levels of government. Regional and local strategies, in turn, should translate this framework into place-specific development pathways, reflecting territorial assets, constraints, and implementation capacities. Alignment should be understood as a two-way process, in which subnational strategies inform national understanding of territorial dynamics, rather than a purely top-down transmission of objectives.

A key weakness of the current system is its limited capacity to aggregate and synthesise information from regional and local strategies in a way that informs national steering. Without a structured analytical process, valuable territorial intelligence remains fragmented across documents and

administrative levels. Strengthening analytical capacity at the Centre of Government is therefore essential to enable systematic comparison of regional priorities, identification of common patterns and gaps, and assessment of how subnational strategies collectively contribute to national objectives. This function is critical for evidence-based prioritisation and for managing trade-offs between competing territorial demands.

Effective alignment also depends on synchronising planning cycles across levels of government. When state, regional, and local strategies are prepared or updated according to different timelines, opportunities for meaningful interaction are reduced. Modernisation should therefore promote greater temporal coherence, enabling national strategic reviews to draw on updated regional and local inputs as well as allowing subnational strategies to respond to revised national priorities. Predictable planning cycles support mutual adjustment and reinforce the steering role of the system as a whole.

Beyond strategic alignment, vertical coherence must extend to programming and implementation. Regional and local strategies should have a clear line of sight to the programmes and instruments through which their priorities can be financed and implemented. Conversely, national and sectoral programmes should demonstrate how they reflect and support territorially differentiated needs identified at the subnational level. This linkage is particularly important in the context of recovery and reconstruction, where large-scale investments risk bypassing established development strategies if alignment mechanisms are weak.

The modernised planning system should therefore establish clear interfaces between strategies and programmes at all levels. These interfaces should clarify how priorities are translated into investment packages, how responsibilities are shared across levels of government, and how performance is monitored. Such arrangements do not require recentralisation of decision-making; rather, they enable decentralised actors to operate within a coherent national framework, thereby increasing predictability and effectiveness.

In the medium term, strengthening alignment between state, regional, and local strategies also lays the groundwork for more advanced territorial approaches associated with Cohesion Policy, including integrated territorial investments and place-based programming. By reinforcing vertical coherence and analytical feedback loops, Ukraine can progressively move from a system of parallel strategies towards a genuinely multi-level steering framework that is capable of supporting accession-driven reforms as well as long-term regional development.

5.2.4. INTEGRATING SMART SPECIALISATION INTO TERRITORIAL STEERING

Regional smart specialisation strategies provide an important analytical and strategic tool for linking innovation policy with territorial development. However, their potential contribution to broader development objectives remains underutilised when they are treated as stand-alone documents. The report recognises the need to better integrate smart specialisation strategies into the overall strategic planning framework so as to ensure that innovation priorities are aligned with regional development needs and investment capacities.

Renewal of the planning system should therefore ensure that the priorities of smart specialisation strategies inform programme design and investment selection, particularly in areas related to economic diversification, SME development, and skills. At the same time, strategic planning should provide a framework for coordinating smart specialisation strategies with other interventions (e.g. infrastructure investment and workforce development), thereby enabling a more coherent approach to territorial competitiveness and resilience.

5.2.5. STRENGTHENING ANALYTICAL, STRATEGIC, AND MONITORING CAPACITY

A renewed strategic planning system capable of integrating multiple policy interventions critically depends on having a strong analytical, strategic, and monitoring function at the Centre of Government. Both the report and comparative EU experience demonstrate that formal coordination mechanisms are insufficient on their own to ensure coherent steering in complex policy environments. Without robust analytical capacity, coordination risks becoming procedural, reactive, and driven by immediate pressures rather than strategic objectives.

In Ukraine's current context, the demand placed on central steering functions has increased substantially. Reconstruction planning, sectoral reform agendas, state and regional development strategies, and innovation-oriented instruments all generate competing priorities and claims on limited resources. Managing these interactions requires more than document alignment; it requires the ability to analyse territorial impacts, assess policy interactions, and make informed trade-offs across sectors and territories. Strengthening analytical capacity at the Centre of Government is therefore a prerequisite for effective strategic steering rather than an optional technical enhancement.

Modernisation should focus on building an integrated analytical function capable of synthesising information from diverse sources. This includes:

› territorial data from regional and local strategies,

› performance information from programme implementation, and

› evidence from sectoral policies and reconstruction pipelines.

Rather than exhaustive reporting, the purpose of such synthesis is to generate concise, decision-relevant insights that inform priority-setting, programming choices, and corrective action. In EU practice, the ability to translate complex data into strategic judgment is a defining feature of effective Cohesion Policy administrations.

Monitoring and evaluation should be embedded within this analytical function as tools for learning and adaptation. Rather than treating monitoring as a compliance requirement, the modernised system should use performance information to assess whether interventions are delivering expected territorial and thematic results. This requires a limited and coherent set of indicators linked to strategic objectives as well as regular review routines that connect monitoring outputs to planning and budgeting decisions. Such feedback loops enable strategic plans to evolve in response to implementation experience, thereby reinforcing credibility and effectiveness.

The Centre of Government plays a unique role in this context. Only central steering functions have the mandate and perspective to compare performance across policy domains, identify systemic bottlenecks, and ensure consistency between strategic ambition and administrative capacity. Strengthening this role does not imply centralising implementation; instead, it supports decentralised delivery by providing a stable, evidence-based framework within which subnational actors can plan and operate. This balance between central analytical capacity and decentralised implementation is a core principle of effective multi-level governance under Cohesion Policy.

Lastly, investment in analytical capacity must be accompanied by institutionalisation of routines that ensure its sustained use. This includes predictable strategic review moments, clear responsibilities for analysis and synthesis, and expectations that analytical outputs will inform political and administrative decisions. Over time, these routines form the backbone of a steering system capable of managing complexity, supporting accession-driven reforms, and delivering coherent territorial development outcomes.

5.2.6. MONITORING, LEARNING, AND ADAPTIVE STEERING

Monitoring and evaluation are central components of a modern strategic planning system, not ancillary reporting functions. The report emphasises that effective steering requires continuous feedback on how policies and investments perform in practice, particularly in territorially differentiated contexts. In Ukraine, however, monitoring has often been treated as a compliance-oriented exercise, with limited influence on strategic decision-making or resource allocation.

Strengthening of the strategic planning system therefore requires a fundamental shift in how monitoring information is generated and used. Rather than focusing primarily on individual programmes or projects, monitoring should support territorial and cross-policy learning, thereby enabling decision-makers to understand how different interventions interact within specific regions and localities. This is particularly important in the current phase of recovery and reconstruction, where multiple investment streams converge spatially and temporally, amplifying both opportunities and risks.

A key challenge lies in capturing the territorial effects of reconstruction and development interventions. Large-scale reconstruction projects may deliver immediate outputs, but their longer-term impact on regional development, economic structure, and social cohesion depends on how they align with broader territorial strategies. Monitoring systems should therefore be capable of assessing not only implementation progress but also how interventions contribute to strategic objectives at the regional and local levels. This requires linking project- and programme-level data with territorial indicators and qualitative assessments.

Given current data gaps and suspended community-level monitoring under martial law, **the immediate priority is to define a minimum steering dataset and integrate the emerging digital systems into routine strategic reviews** rather than waiting for full indicator completeness.

Adaptive steering depends on the ability to translate monitoring evidence into strategic adjustment. The modernised planning system should institutionalise regular review moments at which evidence from monitoring and evaluation is synthesised and assessed against strategic objectives. These reviews

should inform decisions on whether priorities remain valid, whether programmes require adjustment, and whether certain approaches should be scaled up, redesigned, or discontinued. In EU practice, such learning-oriented reviews are a defining feature of effective Cohesion Policy management and contribute to both accountability and policy effectiveness.

In the Ukrainian context, these feedback loops are particularly critical given the volatility of the operating environment and the evolving nature of reconstruction needs. Strategies adopted under conditions of uncertainty must be capable of adapting as new information emerges. Monitoring and evaluation thus serve not only as accountability tools but also as instruments for managing uncertainty and supporting informed strategic choice. To make monitoring useful for steering, Ukraine should distinguish between

› programme performance, and

› territorial effects.

The latter is essential in reconstruction conditions: fast delivery may look successful in output terms, but it can also deepen spatial inequalities or reinforce fragmentation at the same time. A practical solution is to define a limited set of annually reviewed territorial ‘effect questions’ asking which territories are benefiting, which are falling behind, what bottlenecks are systemic, and what changes are required in strategy priorities or implementation modalities.

These reviews should have a clear consequence: if monitoring shows persistent territorial underperformance or misalignment between reconstruction investments and development objectives, strategies must be revised and pipelines re-prioritised. This turns monitoring into an adaptive steering mechanism – consistent with the Screening Report’s emphasis on evidence-based decision-making and reliable data – while recognising current wartime constraints.

The Centre of Government plays a pivotal role in enabling this adaptive approach. By consolidating monitoring information across policy domains and territories, central analytical functions can identify systemic trends, cross-sector interactions, and emerging territorial imbalances. This perspective is essential for ensuring that strategic revisions are based on comprehensive evidence rather than on fragmented or sector-specific signals. At the same time, subnational actors should be actively involved in interpreting monitoring results so as to ensure that local knowledge and experience inform strategic learning.

Lastly, effective monitoring and adaptive steering require clear expectations and routines. Strategic documents should specify how monitoring results will be used, who is responsible for analysis and synthesis, and when strategic revisions may be triggered. Embedding these expectations within the planning system reinforces its credibility and ensures that strategies remain living instruments rather than static declarations. Over time, such routines will strengthen institutional learning and enhance Ukraine’s readiness for EU-style strategic programming and territorial policy implementation.

5.2.7. INSTITUTIONALISING INTEGRATION

Effective integration of policy interventions cannot rely on goodwill, informal coordination, or one-off inter-ministerial exercises. Experience from EU member states demonstrates that integration only becomes durable when it is institutionalised through clear mandates,

predictable routines, and incentives that shape behaviour across the administration. The report emphasises that, without such institutionalisation, even well-designed strategies risk being bypassed by sectoral logics, emergency pressures, or funding-driven priorities.

Institutionalising integration therefore means formalising three routines:

› **a joint annual steering calendar** that links strategy review, reconstruction pipeline updates, and medium-term budgeting;

› **a mandatory coherence check** for new major policy interventions and investment proposals, covering territorial logic, budget realism, and delivery readiness; and

› **a periodic cross-government performance review** in which monitoring evidence is used to decide what to continue, adjust, pause, or stop.

These routines are the **practical bridge between 'planning documents' and 'policy steering'**.

In Ukraine, the challenge of institutionalising integration is particularly acute due to the coexistence of multiple policy streams operating under different time horizons and governance arrangements. Reconstruction planning, sectoral reforms, regional development strategies, and innovation policies are often governed by separate procedures, reporting lines, and accountability mechanisms. While coordination platforms exist, their impact remains limited if integration is not embedded in the standard operating procedures of planning, programming, and budgeting.

Modernisation of the strategic planning system should therefore focus on embedding integration into core government routines. This includes defining clear moments in the policy cycle at which cross-sector and territorial coherence must be demonstrated (e.g. during the preparation of strategies, the formulation of programmes, and the approval of major investment packages). These moments should be predictable and mandatory so as to ensure that integration is not dependent on individual initiative or external pressure.

Institutionalising integration also requires clarity of responsibility. While multiple actors contribute to strategic planning, the Centre of Government and the ministry responsible for regional development have a distinct role to play in safeguarding coherence across policy domains and levels of government. This role should be understood not as replacing sectoral decision-making, but rather as ensuring that sectoral initiatives are anchored in a shared strategic and territorial framework. Clear mandates for synthesis, validation, and follow-up are essential to prevent fragmentation and duplication.

Incentives play an equally important role. Integration is more likely to occur when strategic alignment is linked to access to funding, programme approval, or political endorsement. European practice shows that when programmes and investments are required to demonstrate coherence with overarching strategies and territorial priorities, integration becomes a practical necessity rather than a theoretical objective. For Ukraine, this implies that alignment with state and regional development strategies should be a standard condition for the inclusion of initiatives in reconstruction pipelines, national programmes, and future Cohesion Policy-type instruments.

Institutionalisation must also extend to learning and adjustment mechanisms. Integration is not static; it evolves as policies interact and contexts change. Regular strategic reviews, drawing on monitoring and evaluation evidence, provide an opportunity to assess whether integration mechanisms are functioning as intended and to make any necessary adjustments. Embedding such reviews within government routines reinforces adaptive steering and prevents institutional arrangements from becoming rigid or obsolete.

Lastly, institutionalising integration supports the long-term transition towards Cohesion Policy implementation. By establishing stable routines for aligning strategies, programmes, and investments, Ukraine can progressively move from ad hoc coordination towards a system that mirrors the functional requirements of EU programming. This approach enables gradual convergence with EU practice while remaining responsive to Ukraine's current reconstruction and development priorities. In this sense, institutionalised integration is not only a governance reform but also a strategic investment in accession readiness and policy effectiveness.

5.2.8. KEY OPERATIONAL DIRECTIONS

The following operational directions summarise the modernisation agenda.

› First, reposition strategic planning as an integrative steering function that aligns multiple policy interventions.

› Second, embed reconstruction planning within state, regional, and local development strategies.

› Third, strengthen vertical integration across levels of government.

› Fourth, integrate smart specialisation into territorial development and investment decisions.

› Fifth, invest in analytical, strategic, and monitoring capacity at the Centre of Government.

› Finally, institutionalise integration through predictable routines and procedures that support adaptive, evidence-based steering over time.

Taken together, these reforms align Ukraine's strategic planning system with core principles observed in effective Cohesion Policy administrations: integrated policy steering, strong central analytical capacity, selective prioritisation, and continuous learning through performance review. Importantly, this approach does not require replication of EU institutional models at this stage but focuses on functional convergence – in other words, building the capacities and routines that enable coherent, results-oriented use of public resources in a complex policy environment.

5.3. Financing instruments of regional development policy

Two main instruments for co-financing regional and local investment projects are currently being developed in Ukraine:

› **a new Public Investment Management (PIM) system**, where regional and local investment projects may be included in the state-level sectoral project portfolios, and

› **a revived State Fund for Regional Development (SFRD)**, now defined as a special-purpose investment programme of the unified state-level investment portfolio.

This section analyses both the PIM system and the SFRD as its integral part, identifies the weaknesses in their current design, and offers corresponding recommendations for gradually developing both the PIM system and the SFRD into genuine financial instruments of regional development policy. This aligns with the general approach of the report, whereby the transition to the decentralised and polycentric model should be paced and build on the evolution and transformation of existing institutional solutions and practices.

5.3.1. THE PUBLIC INVESTMENT MANAGEMENT (PIM) SYSTEM REFORM

At the state level, the ongoing reform of the PIM system is essentially about the prioritisation, preparation, and execution of the medium-term and annual capital budget (i.e. the investment projects and programmes financed from the state budget or supported by the state, primarily in the form of guarantees).[10] Within the financial envelope for total investment spending, set by the MinFin, the projects and programmes are selected by line ministries under the coordination of the Ministry of Economy, Environment and Agriculture (MinEcon) and with the involvement of the MinDev. At the regional and local levels, the reform aims at transposing the PIM system of the state level to the subnational levels of governance, which is proving to be a much more demanding task and hardly implementable at the same pace.

Preparation of the capital budget at the state level

The annual process of the capital budget preparation starts with the **Medium-Term Investment Plan (MTIP)** regarding priority public investments of the state for the next three years.[11] The MTIP defines cross-cutting strategic priorities and priority investment sectors. Within each priority investment sector, on the basis of proposals received from line ministries, the MTIP defines the main directions (objectives) and subsectors of investment with information on current projects and programmes, their target indicators, and the policy document on which they are based. The MTIP distributes the total funds available for investment, as communicated by the MinFin, into indicative annual expenditure ceilings for each priority investment sector. The funds available for investment include the state budget's general fund; loans and contributions from development partners and international financial institutions; state guarantees; and some special-purpose budgetary funds.

The MTIP is approved by the CMU together with the three-year budget declaration and thus forms an integral part of the medium-term budgetary framework. Prior to submission to the CMU, the MTIP needs to be endorsed by the **Strategic Investment Council (SIC)**, a high-level government committee presided over by the prime minister and comprising most government ministers.[12]

---

[10] According to the MinFin Order of 28 February 2025 on the methodology for determining sources and mechanisms of financial support for public investment projects and public investment programmes, state support includes 'a state (local) guarantee, state support for the implementation of public-private partnerships, state incentives for the development and operation of industrial parks in the form of ensuring the construction of engineering and transport infrastructure facilities necessary for the creation and functioning of industrial (manufacturing) parks, state support for investment projects with significant investments in the form of constructing engineering and transport infrastructure facilities, the provision of which is a prerequisite for using a certain financial mechanism for project or program funding, or a prerequisite for implementing an investment project with significant investments or for the operation of an industrial park.'

[11] CMU Resolution dated 28 February 2025, No. 294, on approval of the procedure for developing and monitoring the implementation of the Medium-Term Plan for Priority Public Investments of the State.

[12] CMU Resolution dated 15 May 2024, No. 594, on the establishment of the Strategic Investment Council.

Following the MTIP's approval, the MinEcon collects investment project and programme proposals from line ministries. The proposals are submitted for the so-called 'expert assessment', meaning that they are assessed by the MinFin for financial compliance; by the MinEcon for strategic, economic, commercial, and managerial justification; and by the MinDev for compliance with strategic planning documents of the state regional policy. On the basis of assessment scores and further consultations, the MinEcon prepares the **unified project portfolio of public investments of the state**[13] and submits it to the SIC for approval. The unified portfolio provides information on the estimated costs of investment projects and programmes, their status, and the geographical area in which they will be implemented.[14]

For inclusion in the MTIP, line ministries may only submit projects and programmes that have already been included in their own **sectoral project portfolios**. A sectoral project portfolio is formed on the basis of proposals submitted by designated project and programme initiators, which include the ministry itself as well as public authorities and publicly controlled entities at the state and subnational levels. The proposals are assessed on the basis of a preliminary or a full feasibility study, depending on the project investment volume and expected financing or support from the state budget. The sectoral assessment is carried out by a dedicated unit in the ministry and involves the strategic, economic, commercial, financial, and managerial justification of the proposal.[15]

As the final step in the process, following the approval of the MTIP and the unified project portfolio, the MinFin prepares the **consolidated list of projects and programmes of the unified project portfolio**[16] for the next three years. The consolidated list is formed on the basis of project and programme proposals from line ministries assessed on the criteria of priority, degree of readiness, and availability of funds, whereby at least 70% of funding needs to be allocated to already ongoing projects and programmes. The list is approved by the **Interdepartmental Commission on the Distribution of Public Investments**, chaired by the MinFin and comprising most deputy ministers.[17] The consolidated list sets the allocation of funding by year for each project and programme and is included in the CMU's budget proposal for the next fiscal year.

Integration of regional development policy in the PIM system at the state level

The regional development policy dimension is well integrated into the PIM system at several stages of project preparation. The proposals submitted for the MTIP by line ministries are required to take into account the SSRD in addition to sectoral strategies. The MinDev is one of the ministries that must be consulted by the MinEcon in defining the strategic goals of the MTIP and allocating the total investment ceiling over the main areas of public investment. The MinDev assesses whether the projects and programmes proposed for the unified project portfolio comply with the strategic planning documents governing state regional policy. In addition to this horizontal role, the MinDev is also the 'owner' of three sectoral project portfolios (i.e. housing, municipal infrastructure and services, and transport).

---

13 This is the direct translation of the Ukrainian title of the document (i.e., Єдиний проектний портфель публічних інвестицій держави). The jargon term 'project pipeline' is avoided here, as it is not intelligible to those who do not already know what it means.

14 CMU Resolution dated 28 February 2025, No. 527, as amended by the CMU resolution dated 26 August 26, 2025, No. 1049, on the procedure for preparing public investment projects and public investment programmes.

15 Ibid.

16 Консолідований перелік проектів та програм ЄПП.

17 CMU resolution dated 28 February 2025, No. 232, on some issues of public investment distribution.

The attention to regional development is further highlighted by including the information on 'geography' for all projects and programmes in the unified project portfolio. However, the geographical information is not transferred from the unified project portfolio to the consolidated list of projects (i.e. to those projects that will actually receive state budget financing in the next three years). It is also not clear whether there is any common methodology behind the geographical designation or how this information has been used in prioritisation of projects and programmes. It would be useful if the MinDev could prepare a **map of territorial distribution of the projects** in the unified portfolio and consolidated list in addition to taking measures to ensure that the least developed territories and regions are included.

The PIM system at subnational governance levels

The CMU resolution on procedures for preparing investment projects and programmes basically transposes the structure established at the state level to the level of regions and territorial communities. This means that regions and territorial communities need to prepare their own medium-term investment plans as well as sectoral and unified project portfolios. The projects and programmes need to be prepared in accordance with the goals and objectives defined by strategic planning documents of the corresponding level and approved by an investment council at this level.

Only projects and programmes included in regional or local portfolios are eligible for financing from the local or regional budget. To obtain state budget financing or support, regional and local projects and programmes must first be included in a state-level sectoral portfolio and, from there, in the state-level unified project portfolio. In a similar manner, projects and programmes of territorial communities may be included in sectoral and unified project portfolios at the regional level.

Additionally, regional- and local-level projects and programmes not requiring state budget support but included in their respective unified portfolios are automatically sent to the relevant state ministry for sectoral assessment. On the basis of a positive assessment, they may still be included in the state-level sectoral project portfolio. However, a negative assessment is not a basis for terminating further preparation and implementation of such a project. **This allowance is well in line with the principle of subsidiarity, but it also begs the question about the utility of the state-level assessment of projects not requiring state-level support**, particularly in view of the additional work burden that this puts on the state administration.

The PIM system certainly introduces some good strategic investment planning practices to the regional and local level while at the same time allowing for a degree of autonomy for projects and programmes not requiring state-budget financing and support. Nevertheless, **the sheer task of adapting and using the new system may be difficult, especially for smaller territorial communities and those most affected by the war**.

Analysis of the approved state-level PIM documents

The unified investment portfolio and the consolidated list of investment projects and programmes were first prepared during 2024 as part of the 2025 state budget preparation. As this was a transitional year to full PIM system implementation, the portfolios were prepared on the basis of collecting proposals directly from line ministries without first developing an MTIP or sectoral portfolios.

The MTIP was first prepared in 2025 for the next three years and approved together with the three-year Budget Declaration. The cross-cutting strategic goals of **the MTIP 2026-2028**[18] are energy efficiency, climate change response, gender equality, and accessibility. The MTIP includes 12 priority sectors for public investments. Out of the total of 18 investment sectors defined by CMU Resolution 527, the following sectors are not included: foreign affairs, agriculture, economic activity, sports and physical education, mine actions, and culture and information. This indicates that the MTIP indeed achieved a degree of strategic prioritisation at the level of investment sectors. However, within these 12 priority sectors, there are as many as 51 key-priority and 119 other investment areas.

The unified project portfolio prepared on the basis of the MTIP includes a total of 149 investment projects and programmes (89 projects and 60 programmes).[19] Approximately half of the projects and programmes (74) are new, while others have already been launched. The total estimated cost of these projects and programmes is a staggering UAH 11,421,322m (close to EUR 250bn or 172% of the Ukrainian GDP in 2023). Nevertheless, even this high estimated cost is less than a half of what it was in the transitional unified portfolio prepared in 2024, which included a total of 789 investment projects and programmes.

The total estimated cost of the unified investment portfolio is also almost 20 times higher than the total three-year investment ceiling of the MTIP and the Budget Declaration 2026-2028. This results from the use of different methodologies. On the basis of the MinFin methodology, the estimated cost of a project or programme in the unified portfolio must include the total cost over the entire project lifetime (i.e. the preparation, implementation, operational, and decommissioning costs).[20] The annual MTIP/Budget Declaration ceilings are only related to the financing available from the state budget and international loans and grants channelled through the state budget for the next three years. To bridge the gap between the total costs of the unified portfolio and the budget funding, it would be helpful to supplement the unified portfolio with **information on planned costs and financing sources of projects and programmes by year** for at least the next three years.

Furthermore, the unified project portfolio aims to include all public investments regardless of the source of financing. For example, the unified project portfolio includes 38 projects initiated by joint-stock companies in the energy and infrastructure sectors, which jointly amount to 61% of the total estimated cost of the portfolio. One can assume that such projects will be largely financed from own resources of these companies as well as from loans and grants they can commission outside the state budget. **Including projects that do not require financing or other support from the state budget in the unified portfolio may have a certain value in terms of strategic planning, but it only marginally supports medium-term and annual budget planning.** Furthermore, the investments carried out by publicly owned enterprises should be screened, approved, and monitored through the corporate governance system, with supervising boards and the responsible line ministry playing key roles. With a functioning corporate governance system, inclusion of public enterprises' investments not requiring budget financing into the unified portfolio is an unnecessary duplication of procedures and increases the administrative burden for both the enterprises and the government institutions.

---

18 Medium-Term Plan of Priority State Public Investments for 2026-2028

19 https://me.gov.ua/view/2d8f5161-b00a-43fc-9614-005c66941974

20 MinFin Order of 23 June 2025 on the methodology for calculating the cost of a public investment project.

There are, additionally, some **notable gaps between investment values in budget planning documents** that constitute the financial core of the PIM system.

Table 2 / Financial estimates of investments in budget documents, in UAH m

	2025	2026	2027	2028	Total
Total investment ceiling in Budget Declaration for 2025-2027[21]	461,400	484,000	591,000		1,536,400
List of priority investment projects in the state budget for 2025[22]	209,373				
Total planned capital expenditure in the state budget for 2025[23]	361,861				
Total investment ceiling in MTIP and Budget Declaration for 2026-2028		216,694	197,217	169,443	583,354
Total investment ceiling in MTIP and Budget Declaration for 2026-2028 without guarantees		140,039	114,988	78,266	333,293
Consolidated list of projects for 2026-2028: allocated funding from the state budget[24]		117,416	84,665	54,738	256,819
Ratio between the allocated funding and the MTIP ceiling without state guarantees		84%	74%	70%	77%

Source: Authors' elaboration based on national and European sources

First, the difference in the investment ceilings set in 2024 (for 2025-2027) and 2025 (for 2026-2028) results from the difference in financing sources taken into account. In the Budget Declaration for 2025-2027, the sources included, inter alia, the budgetary Road Fund and the investment financing available from the Ukraine Facility. The latter was estimated at EUR 6.7bn over the three-year period. The MTIP/Budget Declaration for 2026-2028 did not include these two sources, but instead included state guarantees and some smaller budgetary funds (for decarbonisation and energy efficiency, water management, and the handling of radioactive waste). This indicates **the need to clarify the methodology for estimating the total investment ceiling.**

Regardless of the size of the total investment ceiling, the value of investments included in the consolidated list (and therefrom into the capital expenditures of the state budget) is lower than the ceilings themselves. The difference is 16% for 2026 and increases to 26% and 30% in the next two years. Out of the 149 projects and programmes of the unified project portfolio, only 91 are included in the consolidated list. This gap may have resulted from the exclusion of some projects and programmes due to their insufficient readiness, low prioritisation score, and the financial limit on including new projects and programmes. For outer years, an additional reason may be the lack of new proposals that would replace the projects and programmes expected to be completed in 2026 or 2027. This indicates that **the existing procedure does not succeed in allocating the total available investment financing (as per ceilings) to actual budgetary projects and programmes**.

21 https://mof.gov.ua/uk/budget_declaration_for_2025-2027-733

22 https://mof.gov.ua/storage/files/91_list%20of%20priority%20public%20investment%20projects%20in%20the%20State%20Budget%20of%20Ukraine%20for%202025.xlsx

23 https://openbudget.gov.ua/national-budget/expenses?class=economic&view=table

24 https://mof.gov.ua/uk/interdepartmental_commission_on_the_distribution_of_public_investments-901

Investment projects and programmes for the subnational level are well represented in the MTIP for 2026-2028. The three sectors managed by the MinDev were allocated almost 40% of the total three-year investment ceiling, with the major share going to the transport sector. In the unified project portfolio, this share is similar, but with some reallocation from transport to municipal infrastructure and services. According to the geographical information, 54 out of the total of 149 projects and programmes in the unified portfolio will be implemented at the subnational level. To these, one may add another 32 projects and programmes with 'geography' designated as 'the territory of the whole of Ukraine' but implemented by interventions at the local level (e.g. municipal infrastructure of subnational governments, restoration of apartment buildings, urban transport, and water supply and wastewater management infrastructure). Together, these projects and programmes amount to 29% of the total estimated cost of the unified project portfolio.

However, according to the information on project initiators, **very few projects and programmes of the unified portfolio were initiated from a subnational governance level**. There is not even one initiated from a territorial community. Only 10 projects were initiated from the regional level (five from Dnipropetrovsk *oblast*, 2 from Odesa *oblast* and 1 from Chernivtsi, Transcarpathian and Volyn *oblasts*). All these projects were initiated by the Service for renovation and development of infrastructure of respective regions. This shows that **the PIM system does not yet work for the local and the regional level and calls for urgent provision of capacity building and project preparation support to avoid regional and local initiatives becoming de facto excluded from the state budget financing**. Furthermore, it also calls for simplification of procedures for the local level.

5.3.2. THE STATE FUND FOR REGIONAL DEVELOPMENT (SFRD)

The SFRD was created in 2012 as a special budget fund and intended to become the main financial tool of state regional development policy. Since 2020, the SFRD funding has been de-prioritised and suspended due to unexpected budgetary needs first linked to the COVID-19 pandemic and then to Russian aggression. But even before these events, the legally enshrined budgetary allocation to SFRD – first set at 1% and later increased to 1.5% of the revenues of the state budget's general fund – was never achieved.[25]

The legal basis for the SFRD is set by the Budget Code.[26] In the most recent version, **the SFRD is defined as a public investment programme** and no longer as a budget fund, with the intention of integrating it into the new PIM system. This means that the projects and programmes initiated at the subnational level and included in respective project portfolios find their way into the state-level unified project portfolio via two channels (i.e. by being included in the sectoral portfolio of the relevant line ministry or by being included in the SFRD as a separate public investment programme). **A clear delineation between the SFRD and the sectoral project portfolios is therefore necessary.**

According to the law, the SFRD is required to allocate 70% of its financial support to all Ukrainian regions in proportion to their population share, whereas 30% are reserved for regions with GDP below 75% of the Ukrainian average. Another requirement is that 30% of the funds be allocated to projects that

[25] In the Ukrainian budget system, the general fund is financed by domestic fiscal revenues, and the special fund is financed by foreign loans, grants, and some other dedicated revenues.

[26] https://zakon.rada.gov.ua/laws/show/2456-17#n510 (Article 24-1).

ensure implementation of the tasks defined in the Action Plan of the SSRD, whereas 70% of the funds are intended for implementation of tasks and measures defined by development strategies and action plans of regions and territorial communities.

Projects are selected by a dedicated commission, which is formed by the MinDev and must include representatives of all Ukrainian associations of local governments. The selection of projects and distribution of funds proposed by the MinDev's commission are submitted to the CMU for approval.

These provisions of the Budget Code have taken into account some recommendations addressed by international and national experts to the previous SFRD model. In the previous model, all funding (and not only 30%) had to be allocated to projects related to the tasks of the state-level strategy, and the funding could be withdrawn from regions that did not fully align their development strategies with the SSRD. Project proposals from territorial communities were pre-screened by regional administrations before being submitted to the MinDev for consideration. The current model – where 70% of funding can be allocated on the basis of subnational development strategies and project proposals from territorial communities are submitted to the MinDev without regional screening – is thus a significant move towards implementing the principle of subsidiarity and the empowerment of local communities. Furthermore, dropping the parliamentary representation from the project assessment commission and including associations of local governments could move the selection process closer to the real needs of territorial communities and away from politically motivated constituency-based influences.

Nevertheless, the provisions of the Budget Code regarding the SFRD have been suspended since 2024, probably because of the difficulties involved in implementing the new PIM system at the subnational level and the lack of funding. No budget funds were allocated to the SFRD in 2024, and only UAH 1bn (i.e. about EUR 20m) were allocated in the state budget for 2025.

Given these circumstances, the selection of projects for SFRD financing in 2025 was regulated by a special CMU Resolution.[27] The resolution followed some important elements of the suspended Budget Code article, notably a provision allowing territorial communities to submit project proposals directly to the MinDev and the exclusion of parliamentary representation in the selection process. It also included a general clause regarding conflicts of interest among the selection commission members as well as a scoring system for project selection. The resolution somewhat narrowed the scope of SFRD support by focusing it on public investment projects aimed at the restoration and development of regions, implementable within 18 months, and complying with the list of public investment sectors specified by a CMU Resolution related to the implementation of the PIM reform.[28]

As of end September 2025, according to the government's interactive budget transparency portal,[29] no funds had yet been disbursed from the SFRD. This is hardly surprising given the late adoption of the CMU Resolution, and it implies that the selected projects will need to be financed from the SFRD allocation in the 2026 state budget.

---

27 CMU Resolution dated 13 August 2025, No. 971, on certain Issues of the State Fund for Regional Development.

28 CMU Resolution dated 28 February 2025, No. 294, on the procedure for developing and monitoring the implementation of the Medium-Term Plan for Priority Public Investments of the State.

29 https://edata.gov.ua/

The MTIP/Budget Declaration for 2026-2028 indicated that, during this period, UAH 30bn (around EUR 600m) from the state budget's general fund would be allocated every year to the SFRD. With this amount, the size of the SFRD would reach the level of 1-1.2% of the projected general fund revenues and come close to the legally mandated level of funding. However, **in the approved budget for 2026, the allocation to SFRD was reduced from a planned UAH 30bn to only UAH 2bn**. This very low allocation suggests that the Budget Code's provision on the SFRD will remain suspended in 2026.

5.3.3. WAYS FORWARD FOR THE PIM SYSTEM AND THE SFRD

(1) Simplify the PIM system for the regional and local level

The analysis has shown that the PIM system is not yet functioning at the regional and local level, which has resulted in an insufficient number of projects and programmes being initiated from the subnational level. The reasons are partly structural (e.g. the unnecessary complexity of the PIM system). Furthermore, the selection criteria applied to project proposals have resulted in the total value of the projects included in the budget being significantly lower than the total investment ceiling set by the Budget Declaration and the MTIP.

Therefore, the **following simplifications are recommended**:

› With the SFRD treated as a public investment programme within the state's unified project portfolio, CMU approval should be limited to its total funding allocation. Government-level monitoring should focus on programme-level indicators and reports, while the MinDev should be responsible for monitoring individual projects.

› Remove the requirement of state-level sectoral assessment for regional and local investment projects and programmes that do not require state budget financing or support.

› Given the likelihood that the number of investment projects which would be implemented by the local communities will be small, institute an option to prepare a local unified project portfolio without first preparing local sectoral project portfolios.

› Until the (simplified) PIM system has been fully implemented at the subnational level, regions and territorial communities should have an option to prepare a simplified version of the unified project portfolio that only includes projects and programmes intended for support from the SFRD and the state budget.

› Limit the scope of unified project portfolios (at all levels) to projects and programmes requiring direct budget financing or support. Other projects and programmes could be included for information purposes but not subject to the assessment, selection, and monitoring procedure of the PIM system.

› Supplement the unified project portfolio with information on planned costs and financing sources of projects and programmes by year for at least the next three years.

› Introduce a second round of selection for the consolidated list of investment projects and programmes, where the funds undistributed in the first round but available under the total investment ceiling would be allocated to additional projects from priority or non-priority investment areas as well as to projects implemented in regions and territorial communities not sufficiently covered by the 'geography' of the consolidated list.

› Clarify the methodology for estimating the total investment ceiling.

Proposed deadline: immediate amendment of the pertinent normative acts and introduction of the changes during 2026 as part of the regular medium-term and annual budget preparation procedure for the 2027-2029 period.

(2) Urgently provide capacity-building and technical support for the local level

In addition to the complexity of the PIM system, another reason for poor implementation at the regional and local levels is insufficient project preparation and management capacity. It is therefore necessary to provide capacity-building and technical support for project and programme preparation and the implementation of the PIM system at the local level by using international technical assistance as well as by developing a national expert support network. For example, funds allocated by the EU's Ukraine Facility for technical assistance could be one of the sources for financing national expertise. A part of total SFRD funding could be reserved for supporting administratively less capable communities with preparing and implementing projects, including inter-municipal cooperation ones.

Proposed deadline: starting as soon as possible, with permanent development of support.

(3) Urgently prepare the SFRD regulation for 2026

With the expiration of the temporary CMU Resolution by the end of 2025 and the likely extension of the Budget Code suspension, the SFRD will find itself in a legal vacuum, which might be interpreted as falling back to the old model or simply result in no new calls for projects. Such a situation needs to be avoided, as the current SFRD model, although not perfect, has clear advantages over the previous one. It is therefore recommended that the current CMU Resolution remain in force through 2026 and, where possible, be revised to incorporate recommendations that can already be implemented. The focus for 2026 should be on recommendations related to the simplification of the PIM system and hence the SFRD, as well as relaxing the local co-financing requirement as recommended further below.

Proposed deadline: as soon as possible, to avoid repeating the situation of 2025, when the SFRD regulation was adopted in the second half of the year.

(4) Increase the SFRD funding and time horizon

The MinDev has communicated an intention to develop the SFRD into the main instrument of regional policy and align it with the principles of Cohesion Policy. The government needs to add credibility to this stated intention by increasing the SFRD funding to the legally mandated level without further delay. To serve as a Cohesion Policy instrument, the option of financing the SFRD from international funds (i.e. from the special fund of the budget and not only the general budget fund) needs to be instituted, and stable financing of multi-annual projects and programmes needs to be ensured.

Therefore, the following recommendations are put forward:

› During 2026, increase the SFRD funding in line with the inflow of project proposals to ensure sufficient funding for eligible projects, and allocate the remaining funds of the Ukraine Facility earmarked for the needs of subnational authorities, in particular local self-government, to the SFRD.[30]

[30] The Ukraine Facility Regulation (Regulation (EU) 2024/792 of the European Parliament and of the Council of 29 February 2024) mandated that 20% of the non-repayable support, provided through the facility's Pillar 1 for the reforms and investments planned in the Ukraine Plan, shall be allocated 'to the recovery, reconstruction and modernisation

› Gradually increase the SFRD budget funding to the target of 1.5% of the state budget's general fund,[31] and supplement this funding with donations and loans from development partners paid into the state budget but earmarked for regional and local development as an auxiliary source of SFRD funding.

› With ensured stability of financing, replace the current annual project list approach with project approval on a rolling basis and an option to commit the SFRD to multi-annual financing of projects and programmes.

Proposed deadline: amendments of the Budget Law during 2026 and the Budget Laws for the forthcoming years.

(5) Relax the local co-financing requirement

The legal requirement that local communities must co-finance at least 10% of the SFRD projects may be prohibitive for financially weak territorial communities and bias the distribution of funds towards fiscally stronger communities. There are several options to relax or refine the co-financing requirement:

› Waiving the co-financing requirement for local communities that meet some objective criteria (e.g. the status of a 'restoration territory' or the extent of war-inflicted damage).

› Defining the co-financing requirement in a stepwise way, with the percentage of co-financing depending on some objective criteria (e.g. the already-existing index of local tax capacity).

› Counting as local contribution the salaries of local administration employees working on project preparation and implementation as well as any expenses related to project preparation (e.g. for pre-feasibility studies) before submitting the proposal. This would, however, require clear rules on eligible expenses and their documentation and might be more difficult to implement than a conditional exemption.

Proposed deadline: starting in 2026 by the SFRD regulation and later by amending the Budget Code accordingly.

(6) Clarify the channels for state-level financing of regional and local development

Under the present system, regional and local investment projects may acquire state budget financing or support by being included in the relevant state-level sectoral project portfolio managed by the responsible ministry (including the portfolios managed by the MinDev) or by competing for the SFRD funding. There is no clear delineation between the two mechanisms, so it is likely that local and regional authorities will attempt to promote their project through both the sectoral portfolios and the SFRD at the same time.

In addition to the PIM system and the SFRD, there are numerous subsidy or targeted programmes implemented by line ministries that support investments or other policies at the local level. These are not part of the ensuing PIM system, and there is no systematic overview of the territorial distribution of state budget support, which may lead to duplication of efforts and an unintendedly biased distribution of funds.

---

needs of Ukraine's subnational authorities, in particular local self-government'. The total amount of these funds, available for the period 2024-2027, was EUR 1.05bn (approximately UAH 50,000m).

[31] Based on revenue projections in the Budget Declaration 2026-2028, this would amount to UAH 38,295m in 2026, UAH 41,923m in 2027, and UAH 46,616m in 2028.

Finally, with the SFRD now defined as an investment programme within the overall PIM system, there is a risk that local non-investment development projects (e.g. programmes for small businesses and innovation or programmes of social and employment policy) will receive insufficient support. These types of projects have traditionally been supported by Cohesion Policy funding, which by itself is not limited to investment.

The following recommendations are offered for consideration towards addressing these issues:

› Clearly define which types of subnational projects and programmes are eligible for financing from the state-level sectoral project portfolios, on the one hand, and from the SFRD, on the other hand.

› Enhance the scope of the SFRD with an option to support non-investment projects and programmes (e.g. in the areas of entrepreneurship and employment). Gradually phase out other subsidy programmes and merge them into the SFRD.

› Develop a methodology for the geographical designation of projects and programmes financed from the state budget, including but not limited to the PIM system; produce a map of the territorial distribution of the state budget support; and take measures to ensure that potentially underrepresented least developed territories and regions are included.

Proposed deadline: amendment of the pertinent normative acts during 2026 and introducing the changes from 2027 onwards.

(7) Introduce regional-level financial envelopes for the SFRD

The current general allocation principle (70% distributed across all regions of Ukraine in inverse proportion to population and 30% to regions whose GDP per capita is below 75% of the national average) does not ensure sufficient concentration of support on the territories with the largest development gaps. Economically less developed regions and territorial communities tend to have weaker capacities for project development and co-financing, which may – through a competitive procedure on the basis of uniform criteria – result in a disproportionate distribution of SFRD funds to more capable and economically stronger regions and territories.

To address this issue, the following recommendations are put forward:

› Set an indicative distribution of the total SFRD funding across regions prior to the selection of projects. The envelopes could be determined by a formula inversely relating the envelope to the regional GDP and in direct proportion to regional population. Select the projects so that the total funding is within the limits of these targeted financial envelopes. This would ensure that funds are distributed according to regional development needs, reducing the risk that regions and communities with limited capacity are crowded out by more competitive projects from more developed territories.

› To address the risk of the lack of eligible projects submitted from a certain region, the envelopes should be set for the medium term with a secondary redistribution of remaining funds as a last-resort remedy.[32]

[32] For example, this principle is used by the EU's Western Balkans Growth Facility, where the available funding was distributed among beneficiary countries on the basis of their population and GDP, with a provision that funds undisbursed due to a possible failure of a country to meet reform milestones could be re-allocated to other beneficiaries.

Proposed deadline: develop the formula for indicative envelopes during 2026 and introduce it in the Budget Code by 2027.

(8) Introduce programme-based financing instruments in the SFRD

Programme-based instruments would allocate SFRD co-financing to regions and territorial communities for implementation of their development strategies and integrated (multi-sectoral) development programmes, with the selection of individual projects left to the competent regional or local authority. Such an approach empowers the development role of regions and territorial communities, creates local ownership and accountability, and allows non-investment measures (e.g. improving public service delivery or supporting the local business sector) to be included. Such an approach is currently already one of the implementation modalities of Cohesion Policy (see Sub-section 3.3 on these kinds of Cohesion Policy instruments).

Proposed deadline: amend the Budget Code during 2026 to provide a legal basis for the use of programme-based financial instrument by the SFRD, and start to pilot their implementation during 2027.

(9) Align the SFRD and the PIM system with Cohesion Policy principles

Several of the recommendations made above are motivated by the principles of Cohesion Policy, and implementing them would by itself already better align the SFRD and the PIM system with EU-style regional development policy. These recommendations should be treated as priorities – not in terms of alignment with the EU acquis, but rather as a means to improve the financing of the regional development policy in Ukraine by addressing the most important weaknesses of the current system while at the same time moving it closer to common EU principles.

Nevertheless, implementation of Cohesion Policy also requires a specific structure of programming documents and responsible bodies at both the national and subnational levels. The rules and regulations for Cohesion Policy and related instruments are currently under review within the EU as part of the negotiation on the next Multi-Annual Financial Framework (for the 2028-2034 period). The outcome of such negotiations is impossible to predict. For this reason, recommendations regarding alignment of the financing instruments with Cohesion Policy are more general:

› In parallel with implementing the recommendations proposed above, analyse the new Cohesion Policy regulations as they are discussed and approved at the EU level, and define the role that the SFRD will play in the implementation of Cohesion Policy after EU accession.

› Strengthen the dedicated SFRD management unit within the MinDev so that it is able to manage an increasing level of funding and projects with a view towards developing the skills and practices required for a managing authority under Cohesion Policy rules.

› Strengthen the current provisions regarding conflicts of interest in SFRD project selection so as to reduce the weight of the MinDev and increase the representation not only of local community associations but also of other key development stakeholders (e.g. civil society and business associations).

A similar principle applies to the Recovery and Resilience Facility introduced to finance post-COVID recovery of EU member states.

› In parallel with increasing SFRD funding, develop a performance framework for the SFRD with a few key output and result indicators with baselines and targets.

› In parallel with increasing SFRD funding, create an SFRD monitoring committee based on the partnership principle so as to ensure the involvement of relevant regional and local authorities, public authorities, socioeconomic partners, and civil society. The monitoring committee should approve the objectives and priorities of the SFRD, approve project selection criteria, review performance, and commission periodic evaluations to monitor the results and impact of the SFRD. For the SFRD as a PIM programme, this special monitoring committee should perform all monitoring tasks generally required for investment programmes, thus exempting the SFRD from monitoring by other bodies of the PIM system.

› In parallel with increasing SFRD funding, develop a system of financial controls, including expenditure verification and on-the-spot checks, and establish auditing requirements, including performance audits, in line with Cohesion Policy requirements.

› After EU accession, ensure that the investment projects and programmes included in Cohesion Policy programming documents are included in the unified project portfolio of the PIM system at the relevant governance level. At each level of governance where programming documents will be prepared, they could be partially filled with projects from their existing project portfolios. Any new projects that will be proposed during the programming phase and included in programming documents should be automatically added to relevant unified project portfolios and consolidated lists without undergoing the assessment procedures prescribed by the PIM system. In other words, investment projects and programmes co-financed by Cohesion Policy instruments should be given priority over other investment projects and programmes. Furthermore, the reporting, monitoring, and auditing requirements of Cohesion Policy regulations should also be sufficient for the national-level monitoring by the Strategic Investment Council (SIC) without any additional requirements.

› Enhance the PIM system by including a budget line for assuring sufficient funding for the pre-financing and co-financing of Cohesion Policy programmes.

Proposed deadline: during the 2026-2028 period, in line with the ongoing accession negotiations and alignment with Chapter 22 and related chapters of the EU acquis.

6. CONCLUSIONS AND RECOMMENDATIONS

Ukraine stands at a historic juncture where post-war reconstruction and EU accession imperatives converge to create an unprecedented opportunity for transformative territorial governance reform. This report has examined the multidimensional architecture of effective regional development policy, demonstrating that **successful decentralisation extends far beyond administrative reorganisation to encompass fundamental questions of institutional design, fiscal frameworks, capacity-building, and democratic governance**. International experience offers valuable lessons and underscores that Ukraine's unique context – ongoing conflict, massive reconstruction needs (estimated at over EUR 500bn), diverse territorial capacities, and ambitious European integration timeline – requires thoughtful adaptation rather than mechanical replication of foreign models.

The central argument holds that regional development policy represents not merely a technical domain but a strategic imperative for Ukraine's long-term viability, security, and European

integration. Effective decentralisation can address territorial grievances that fuel instability, build institutional resilience against external threats, strengthen democratic legitimacy through proximity and participation, and create adaptive governance capacity to navigate unprecedented transitions. Conversely, poorly designed or inadequately implemented decentralisation risks exacerbating regional disparities, undermining service delivery, creating accountability vacuums, and weakening the Ukrainian state. The stakes could not be higher: Ukraine's reconstruction trajectory will shape its development prospects for decades.

The conceptual framework in Section 2 provides structured guidance for engaging with the complex design choices inherent in decentralisation reform. **The five core dimensions – why, what, where, when, and how – emphasise that effective systems require coherence across multiple institutional domains.** Clear articulation of objectives enables prioritisation when trade-offs emerge. Functional clarity in competency assignment, matched with fiscal resources, prevents unfunded mandates and responsibility gaps. Recognition of territorial diversity through asymmetric arrangements acknowledges capacity variations across Ukraine's vast territory. Careful sequencing proceeding at capacity-development pace reduces implementation risks and enables adaptive learning. **Robust mechanisms for coordination, accountability, and performance monitoring operationalise reform commitments.**

The framework identifies **five cross-cutting enablers as essential preconditions: coherent legal foundations, predictable fiscal systems, administrative autonomy, digital infrastructure, and stable political commitment.** Ukraine has made non-negligible progress on several enablers – particularly legal frameworks following 2014 reform legislation and fiscal mechanisms through personal income tax sharing – yet persistent gaps remain in independent fiscal oversight institutions, comprehensive civil service reform at subnational levels, and systematic digital infrastructure for performance monitoring. Addressing these foundational enablers will prove essential for sustaining Ukraine's decentralisation trajectory.

European institutional practices, as presented in Section 3, demonstrate that **effective regional empowerment requires deliberate construction of robust governance architecture**. Legal clarity regarding competencies, exemplified by France's Territorial Organisation Law and Poland's self-government statutes, removes ambiguity and intergovernmental conflict. Structured coordination mechanisms – from Spain's sectoral conferences to France's contractual planning frameworks – align strategies across governmental levels without compromising autonomy. Professional regional development agencies provide technical capacity and project management expertise. Transparent fiscal equalisation systems – as demonstrated by Germany's *Länderfinanzausgleich* – ensure adequate financing. Systematic capacity-building through dedicated training institutions addresses human capital foundations.

For Ukraine, international examples suggest specific institutional investments:

a) establishing an independent intergovernmental fiscal commission to systematically review equalisation formulas;

b) revitalising the Inter-Departmental Coordination Commission for Regional Development with genuine authority and regular meeting schedules;

c) strengthening *oblast*-level regional development agencies with enhanced analytical capabilities and project development expertise;

d) developing metropolitan governance frameworks for the largest urban agglomerations balancing integration with local autonomy;

e) expanding inter-municipal cooperation arrangements for shared services achieving economies of scale; and

f) establishing a national training institution for subnational civil servants modelled on France's CNFPT or Korea's LOGODI.

Best-practice policy instruments demonstrate Ukraine can leverage proven approaches to maximise reconstruction effectiveness while building long-term capacity. Integrated territorial strategies offer pathways beyond fragmented sectoral interventions towards holistic frameworks addressing infrastructure, economic development, and social inclusion simultaneously. This can prove particularly critical given the opportunity that reconstruction offers to fundamentally redesign territorial development patterns rather than merely restore pre-war structures.

Community-led development approaches align naturally with Ukraine's demonstrated civic capacity during wartime and successful *hromada* system. **Smart specialisation** provides actionable frameworks for economic transformation beyond commodity dependence, enabling each *oblast* to identify and nurture distinctive competitive advantages through structured entrepreneurial discovery processes. **Regional innovation and cluster policies** can leverage existing concentrations of specialised capabilities in IT, agricultural innovation, and advanced manufacturing. **Performance-based grant mechanisms** introduce accountability and efficiency incentives, all while maintaining regional autonomy.

Taken together, **these instruments place Ukraine in a strong position for EU accession negotiations and access to pre-accession funding**. The European Commission now increasingly expects candidate countries to demonstrate their ability to manage Cohesion Policy resources through smart specialisation strategies, partnership principles, multi-level governance structures, and results-focused monitoring systems. Developing this institutional capacity proactively during reconstruction – rather than reactively as membership draws nearer – will ease Ukraine's transition into full participation in EU regional policy frameworks. It will also increase the effectiveness of domestic development efforts, generating virtuous cycles in which progress in one sphere reinforces advances in another.

Several cross-cutting themes emerge with particular urgency:

› First, **institutional quality** matters profoundly and more so than the resource quantity deployed. International evidence demonstrates that regions with higher governance quality achieve substantially better development outcomes using comparable investments. For Ukraine, reconstruction funding cannot substitute for fundamental governance improvements in corruption control, administrative capacity, transparency, and participatory mechanisms.

› Second, **capacity-building** requires sustained, systematic investment through permanent institutional infrastructure rather than sporadic training initiatives.

› Third, **strong and sustainable financing mechanisms** need to be developed for supporting development projects at the regional and local levels. The initial steps can be made by adapting the

current PIM system and modernising the SFRD. The modernisation should include ringfencing of funds channelled through the SFRD, moving towards regional/territorial envelopes based on objective indicators, and gradually shifting from financing individual projects to financing regional and territorial programmes managed by subnational authorities.

- Fourth, territorial diversity demands **differentiated approaches through asymmetric devolution**, allowing capable jurisdictions greater responsibilities while simultaneously providing enhanced support to weaker areas, metropolitan governance frameworks suited to the largest urban agglomerations, and inter-municipal cooperation arrangements enabling smaller jurisdictions to achieve economies of scale.
- Fifth, **multi-level coordination mechanisms** are essential for coherence without recentralisation, requiring regularised platforms for joint planning, priority negotiation, and dispute resolution.
- Sixth, **democratic participation and citizen engagement** constitute core enablers rather than peripheral additions, serving multiple functions including harnessing distributed local knowledge, building stakeholder ownership, creating accountability pressures, and promoting social capital.
- Seventh, **evidence-based policymaking** supported by robust monitoring and evaluation systems enables adaptive governance through systematic collection and analysis of performance data, regular evaluation of intervention impacts, and transparency enabling public scrutiny and horizontal learning among regions.

The path forward requires **balancing ambition with pragmatism**, recognising both transformative opportunities created by reconstruction imperatives and EU accession prospects and practical constraints imposed by the ongoing conflict, limited administrative capacity in many territories, and fiscal pressures. Several priorities emerge as particularly critical for the medium term. Constitutional and legislative consolidation should entrench decentralisation gains in durable frameworks protected against arbitrary reversal. This requires preserving necessary flexibility for refinement, including clarifying competency boundaries in shared responsibilities (e.g. education and healthcare), strengthening fiscal autonomy through expanded own-source revenues, establishing independent oversight institutions, and codifying participatory mechanisms.

Capacity-building investments need dramatic scaling, particularly through establishing a national training institution for subnational civil servants and expanding technical assistance programmes targeting smaller *hromadas* and less developed and/or more vulnerable *oblasts*. Such an action would require creating inter-regional learning networks and twinning arrangements as well as developing digital governance infrastructure enabling data-driven decision-making. Reconstruction financing frameworks should be designed to build institutional capacity rather than bypass local authorities through phased devolution of reconstruction management to *oblasts* and *hromadas* as they demonstrate readiness, performance-based funding rewarding transparent procurement and measurable outcomes, and technical assistance accompanying financial transfers.

Metropolitan governance development for Ukraine's largest urban agglomerations will enhance their global competitiveness and improve coordination of transport, spatial planning, and economic development across fragmented jurisdictions. Smart specialisation strategies should be developed for each *oblast*, identifying distinctive competitive advantages through entrepreneurial discovery processes involving government, business, research institutions, and civil society. Preparation for EU integration

requires deliberate alignment with Cohesion Policy requirements well before membership, including demonstration projects testing ITIs and CLLD.

Local communities are already central actors in Ukraine's reconstruction. To become effective partners in a future Cohesion Policy system, their existing roles must be qualitatively upgraded through targeted capacity development. Prioritising strategic integration, functional cooperation, and compliance capacities; sequencing support through a maturity ladder; and leveraging EU-Ukraine territorial partnerships can ensure that reconstruction delivery simultaneously builds long-term Cohesion Policy readiness, in line with the findings of the Chapter 22 screening process.

In the pre-accession period, local communities' primary contribution is to deliver reconstruction reliably while progressively adopting EU-compatible disciplines: a stable project pipeline, transparent procurement, basic internal controls, and results-focused monitoring. These functions can be embedded through reconstruction-financed programmes and national systems (including digital investment transparency tools) so that EU-style routines become standard practice before Cohesion Policy funds are made available at scale.

After accession, the role of local communities shifts from 'reconstruction implementers' to structured delivery partners within Cohesion Policy governance, operating under partnership and multi-level governance requirements and contributing to integrated territorial strategies (e.g. ITI-type approaches) where minimum viability conditions are met. This sequencing avoids a disruptive institutional jump: reconstruction delivery builds the operational experience, and then Cohesion Policy implementation scales it under EU rules and assurance expectations.

In brief, Ukraine's regional development trajectory will fundamentally shape its prospects for sustained prosperity, democratic consolidation, territorial cohesion, and successful European integration. The dual imperatives of post-war reconstruction and EU accession create a window of opportunity to build modern, effective, and resilient systems of territorial governance. However, effective transformation will only happen if reforms proceed thoughtfully, build systematically on international proven practices, and are adapted to Ukrainian realities. To achieve this, Ukraine also needs to invest adequately in institutional foundations, maintain stable political commitment across electoral cycles, and resist pressures for either premature recentralisation or inadequately supported devolution.

Regional development policy done well can address Ukraine's most fundamental challenges: reducing territorial disparities threatening national unity, building institutional resilience against external threats, strengthening democratic legitimacy through proximity and participation, enabling economic transformation beyond commodity dependence, attracting investment across all territories, and demonstrating the administrative capacity essential for EU accession.

In fact, Ukraine's preparation for EU accession in relation to Chapter 22 of the EU acquis has made significant progress since the country gained candidate status in 2022. To ensure that it can continue making progress efficiently under the current circumstances, Ukraine's regional development policy framework needs to gradually transform along the key success factors and lessons learnt that are outlined in this report, thereby tackling the needs and shortcomings identified in the 2025 Ukraine Report.

The main short-term (by 2027) and mid-term (by 2030) recommendations encompass:

(1) Legislative framework

Short-term recommendations

› Resolve the potential ambiguity in shared competencies – particularly in education, healthcare, and social services where overlapping mandates between *oblast*, *rayon*, and *hromada* levels generate coordination failures and accountability gaps – by publishing a clear competency matrix aligned with the subsidiarity principle set out in Section 2's *what* dimension: each function should sit at the lowest tier capable of delivering it efficiently, with unfunded mandates explicitly prohibited and expenditure assignments matched by commensurate revenue authority.

› Adopt enabling legislation establishing the legal basis for piloting ITI and CLLD instruments in selected higher-capacity territories. Include provisions for joint governance structures across administrative boundaries, pooled funding from multiple sources, and formally constituted local action groups bringing together public, private, and civil society actors.

› Draw on the EU's 2014-2020 regulatory framework, which enabled metropolitan areas and functional regions to combine resources from multiple priority axes into coherent territorial packages. The legislation should address the minimum viability conditions set out in Section 4: without an explicit legal basis for joint decision-making bodies, shared procurement, and cross-*hromada* programming, these instruments cannot progress from concept to operational pilot, regardless of local capacity or political willingness.

› Amend secondary legislation to operationalise subsidiarity in competency allocation, clarifying the distribution of responsibilities between *oblasts* and *hromadas* (along the lines of Poland's self-government statutes, which established clear *voivodeship-powiat-gmina* divisions and proved essential for effective EU fund absorption after accession).

› Review and harmonise the legal framework for inter-municipal cooperation agreements to encourage their uptake beyond the current average of fewer than one agreement per community (drawing on Scotland's Community Planning Partnerships model, which formalised cross-sectoral collaboration through statutory structures and produced more integrated responses to local development challenges).

› Amend the provisions of the Budget Code regarding the SFRD in such a way as to:

- Institute donations and loans from development partners as a supplementary source of SFRD financing;
- Allocate a part of funds to technical support for local communities;
- Tie the co-financing requirement to the fiscal capacity of communities;
- Enable financing of multi-annual projects;
- Enable the use of programme-based financing instruments and indicative financial envelopes for regions; and
- Enhance financing of non-investment projects and programmes, gradually phase out other subsidy programmes, and merge them into the SFRD.

Mid-term recommendations

› Consolidate Ukraine's fragmented decentralisation legislation into a unified Decentralisation or Local Government Code – identified in Section 2 as the primary legal cross-cutting enabler – providing the regulatory certainty and hard budget constraint framework that *oblasts* and *hromadas* need to engage in credible multi-year planning and investment, and that Chapter 22 assessors will expect as evidence of durable, constitutionally grounded decentralisation.

› Consolidate subnational competencies in economic development, spatial planning, innovation support, and vocational training into a comprehensive Territorial Organisation Law (inspired by France's Loi NOTRe of 2015, which eliminated the three-tier ambiguity between regions, departments, and municipalities, strengthened regional strategic authority, and reduced intergovernmental conflicts that had previously hindered effective action).

› Enact legislation for asymmetric decentralisation through a capacity maturity framework permitting differentiated autonomy and functional responsibility across *oblasts* and *hromadas* based on demonstrated institutional readiness. As Section 2's *where* dimension establishes, identical templates imposed on vastly different territories risk overwhelming weak jurisdictions or constraining capable ones. Spain's system of autonomous communities offers an instructive model, though it would need to be adapted to Ukraine's unitary context by differentiating support mechanisms at the community level rather than granting constitutionally entrenched asymmetric powers at the regional level.

› Codify partnership principles, participatory mechanisms, and multi-level governance requirements as binding procedural obligations for regional programming, consistent with the additionality and partnership principles at the core of Cohesion Policy.

(2) Institutional framework

Short-term recommendations

› Operationalise the partnership principle (Article 8 of the EU Common Provisions Regulation) in reconstruction programming by establishing formal partnership agreements that systematically involve regional and local authorities, economic and social partners, and civil society in the full programming cycle. As Section 2's *how* dimension argues, sustainable territorial development cannot be achieved through centralised diktat alone but emerges from collaborative processes that harness the knowledge and legitimacy of multiple actors. Ukraine's wartime civic mobilisation provides the social capital foundation on which these arrangements can be built.

› Revitalise the Inter-Departmental Coordination Commission for Regional Development by equipping it with a permanent secretariat, thematic working groups, and safeguarded voting rights for regional and municipal associations. Doing so would close the 'formality gap' and transform it into a standing forum modelled on European countries' Sectoral Conferences, which bring together national and regional development ministers quarterly to coordinate Cohesion Policy implementation.

› Establish a Regional Reconstruction Platform institutionalising donor coordination around a single pipeline of regionally prioritised projects – building on the Donor Coordination Platform created in 2023 and drawing on the model of France's State-Region Contracts (CPER).

› Establish an inter-municipal cooperation support facility within the MinDev or through strengthened RDAs, providing legal templates, shared-service models, joint procurement frameworks, and technical assistance to *hromadas* seeking to pool functions. Financial incentives (e.g. preferential SFRD scoring

or reduced co-financing thresholds) should reward formalised cooperation agreements. As discussed in Sections 2 and 3, many *hromadas* lack the scale to manage complex development tasks independently, yet inter-municipal cooperation remains largely formal despite a permissive legal framework.

Mid-term recommendations

› Institutionalise cross-party political commitment to the decentralisation trajectory – the fifth cross-cutting enabler identified in Section 2 – through a formal multi-party agreement or constitutional provision protecting against recentralisation pressures across electoral cycles, recognising that in Ukraine, where regional disparities and historical divisions have challenged national unity, embedding decentralisation as an explicit nation-building strategy that strengthens citizens' attachment to the state and builds territorial cohesion is essential for long-term resilience.

› Create regional innovation councils in each *oblast*, bringing together universities, firms, business associations, and regional government to coordinate smart specialisation priorities, align research investments with labour market needs, and facilitate technology transfer. As Section 3 discusses using Swedish and Finnish models as examples, such councils provide the strategic fora needed to translate specialisation strategies into concrete outcomes, thereby addressing the implementation gap whereby existing Ukrainian strategies lack both the stakeholder governance and the dedicated instruments to move from paper to practice.

› Strengthen *oblast*-level RDAs as regional project management offices with enhanced analytical capabilities, project development expertise, and blended funding competence – taking inspiration from models in the EU that compensate for limited regional self-government capacity and facilitate structural fund absorption as well as from piloting programme-based ('global grant') envelopes administered by RDAs against agreed results rather than project-by-project competitions.

› Develop metropolitan governance frameworks for Ukraine's largest cities (Kyiv, Kharkiv, Odesa, Dnipro, Lviv) that balance integration with local autonomy and include ex-ante territorial impact assessments for major investments – drawing on the principles applied across EU member states, including Germany's *Länder*-level coordination bodies and Sweden's regional growth partnerships, to ensure coherent urban development across fragmented jurisdictions.

(3) Administrative capabilities

Short-term recommendations

› Develop standardised project-preparation and -management toolkits for *hromadas*, including templates for feasibility studies, procurement plans, cost-benefit analyses, and monitoring frameworks aligned with both PIM system requirements and Cohesion Policy expectations. As discussed in Section 5, very few projects in the unified investment portfolio were initiated from the subnational level – and not a single one from a territorial community – indicating that procedural complexity and insufficient technical guidance, rather than lack of local initiative, constitute the binding constraint on subnational participation in state-level investment programming.

› Differentiate implementation responsibilities and support by *hromada* maturity to match responsibilities and support measures to the actual administrative and implementation capacity of different types of *hromadas* so as to avoid both overload of weaker communities and underuse of more capable ones. This can be achieved by applying a maturity-based approach to the allocation of delivery tasks and

support measures, using transparent criteria linked to staffing, project preparation capacity, procurement performance, and basic reporting reliability. This also implies applying strict capacity-first sequencing when devolving new reconstruction management responsibilities to *oblasts* and *hromadas*. As Section 2's *when* dimension establishes, premature devolution reinforces rather than overcomes territorial inequalities when local institutional conditions are underdeveloped. Pair each new mandate with the training programmes, digital tools, and financial management systems needed to exercise it credibly, and pilot programmes in higher-capacity regions before national roll-out to enable evidence-based adaptation.

› Establish shared implementation-support arrangements for weaker and war-affected *hromadas* so as to ensure that communities with limited staff or specialised expertise can still participate credibly in reconstruction and territorial development delivery through access to shared functions (e.g. project preparation, procurement support, contract management, and reporting). These arrangements may be organised through inter-municipal cooperation, functional-area partnerships, or other shared support structures, depending on territorial conditions and institutional feasibility.

› Introduce a mandatory certification programme for civil servants involved in EU integration and regional policy, ensuring a baseline of technical competence across all *oblasts* – drawing on Croatia's state examination system identified in Section 3 as directly applicable to Ukraine's context, complemented by structured EU-Ukraine twinning arrangements with counterpart administrations. Standardise core project-preparation and project-pipeline management functions at the local level to improve the quality, comparability, and readiness of local investment proposals and reduce fragmentation between local priorities and national/regional funding channels. This can be achieved by introducing standard project fiches, simple readiness criteria, and prioritised project lists as a common minimum requirement for local project selection and sequencing.

› Introduce structured mentoring and implementation-oriented support for pilot territories to enable them to build practical implementation know-how (notably through direct support to selected municipalities and territorial partnerships preparing and delivering more complex instruments). This can be achieved by prioritising task-based support linked to real delivery functions, including governance arrangements for ITI-/CLLD-type pilots, project pipeline consolidation, monitoring routines, and compliance documentation.

› Strengthen the dedicated SFRD management unit within the MinDev so as to enable it to manage an increasing volume of funding and projects, with a view towards developing the skills and practices required for a managing authority under Cohesion Policy rules.

Mid-term recommendations

› Prioritise merit-based civil service reform at subnational levels with competitive compensation structures, addressing the administrative cross-cutting enabler identified in Section 2 as essential for attracting and retaining qualified personnel. As Section 2 documents, institutional quality rather than funding levels is the primary transmission mechanism determining whether regional development policies succeed or fail, and Ukraine's experiences in the 2014-2020 period showed uneven benefits across *oblasts* precisely because of variable administrative capacity.

› Establish a national training institution for subnational civil servants with career-stage aligned curricula, mandatory participation requirements, and regularly updated content reflecting Chapter 22 obligations – taking inspiration from the models of France's CNFPT and South Korea's LOGODI.

› Establish dedicated capacity-building units within strengthened RDAs to provide continuous, on-demand technical assistance to *hromadas* across the full project cycle — from strategic planning and pipeline development through procurement, implementation, and performance reporting. These units should operate on a differentiated support model, concentrating resources on smaller, rural, and war-affected communities with the weakest administrative bases. As Section 2's *when* dimension emphasises, targeted capacity-building paired with peer-learning mechanisms is essential to avoid a two-speed system in post-war reconstruction. In addition, Section 4's maturity ladder provides a practical framework for calibrating the intensity of support to each community's demonstrated readiness level.

› Establish durable support arrangements for weaker and war-affected territories to reduce structural disparities in access to project preparation, procurement, contract management, and reporting functions. Doing so should prevent limited administrative capacity from excluding weaker communities from territorial development and reconstruction instruments. This can be achieved by progressively replacing ad hoc, project-based, or donor-dependent assistance with more stable support arrangements embedded in the territorial development system, including shared services, inter-municipal support mechanisms, and other permanent implementation support functions.

› Create inter-regional learning networks and twinning arrangements that enable knowledge transfer from stronger to weaker communities – institutionalising the lessons of Trostyanets and Mena, where place-based leadership and structured civic dialogue transformed peripheral municipalities into local role models, and scaling this through a national peer-learning infrastructure.

› Expand programme-type implementation functions at the subnational level where readiness is demonstrated so as to gradually widen the role of capable subnational actors in managing integrated territorial interventions and more structured development programmes. Expansion should be conditional on demonstrated performance in project preparation, implementation, monitoring, and compliance rather than formal status alone.

› Expand the group of territories able to use integrated territorial instruments to move beyond a small number of pilots and prepare a wider set of communities and functional areas to participate credibly in ITI-/CLLD-type approaches and other integrated territorial interventions. Expansion should be based on demonstrated readiness, including functioning governance arrangements, prioritised and coherent project pipelines, and basic monitoring, reporting, and accountability systems.

› Align local implementation arrangements more closely with programme management requirements to prepare local and territorial delivery systems for the transition from project-based reconstruction towards more structured programme implementation under EU-style regional policy. Local arrangements should gradually incorporate multi-annual priorities, clearer intervention logic, stronger results orientation, and more structured links between local strategies and funding instruments.

(4) Programming

Short-term recommendations

› Embed a polycentric, place-based logic in reconstruction programming frameworks, moving decisively away from the spatially blind, uniform sectoral templates that Section 2 identifies as generating inferior development outcomes. This means mapping investments against each territory's distinctive assets and capacity level, differentiating support intensity accordingly, and actively promoting functional

linkages between Kyiv and regional growth poles (Lviv, Kharkiv, Odesa, Dnipro) to prevent hyper-concentration of reconstruction benefits in a single metropolitan core.

› Introduce a Strategic Planning Gateway with territorial impact screening for all major strategic and investment decisions, including major reconstruction investments above a defined threshold. Require promoters to demonstrate consistency with SSRD priorities, assess distributional effects, and identify synergies with other interventions in the same functional area. This should also ensure that key proposals are assessed before approval for territorial coherence, budget realism, implementation readiness, and consistency with the broader regional development framework, and it would prevent the cumulative spatial bias that arises when projects are assessed solely on sectoral merit. In practical terms, the Gateway should be used first for SSRD-linked documents, major investment proposals, and selected reconstruction-related initiatives with significant territorial impact.

› Pilot ITIs only where minimum viability conditions are met to enable pilot territories to build practical experience with ITI-/CLLD-type approaches without overextending administrative systems or creating formal instruments without operational foundations. Such pilot territories should be selected on the basis of governance readiness, pipeline discipline, territorial coherence, and the availability of basic monitoring and reporting arrangements. For instance, ITI-type integrated territorial approaches could be piloted in at least two *oblasts*, bundling reconstruction, infrastructure, and economic development funding within coherent territorial frameworks – drawing on the EU's 2014-2020 experience where metropolitan areas such as Warsaw and Barcelona used ITIs to coordinate urban regeneration with sustainable mobility and digital investments, moving beyond the fragmented sectoral approaches that currently limit synergies and multiplier effects in Ukraine's reconstruction.

› Scale CLLD through *hromada*-based local action groups combining public, private, and civil society actors – building on the LEADER/CLLD evidence documented in Section 3 showing that community-led approaches generate higher citizen ownership and project sustainability compared to traditional grant programmes.

› Establish a limited set of common decision points for strategic prioritisation, coherence checks, budget alignment, and annual review to reduce fragmentation between reconstruction planning, sectoral interventions, regional development priorities, and territorial investment decisions. This can be achieved by applying these common decision points at the stages of strategy update, programme preparation, budget alignment, and performance review while allowing sectors and territorial levels to retain differentiated implementation horizons.

› Anchor rolling project approval within an agreed medium-term programming logic to preserve flexibility in project selection while preventing disconnected ad hoc approval practices and improving the link between project pipelines and strategic priorities. Rolling approval may continue, including under the SFRD, provided it operates within previously agreed priorities, indicative envelopes, and programme logic.

› Strengthen the territorial logic of sectoral and reconstruction programming to ensure that large-scale investments and sectoral programmes contribute more clearly to territorial cohesion objectives and do not bypass regional and local development priorities. This can be achieved by requiring territorial impact justification and, where relevant, a regional breakdown of intended results for selected high-impact sectors and major investment packages.

› Simplify the PIM system for the subnational level in such a way as to remove the requirement of state-level sectoral assessment for regional and local investment projects and programmes that do not

require state budget financing or support. Give the local communities the option to prepare a local unified project portfolio without first preparing local sectoral project portfolios.

› Gradually increase the SFRD budget funding to the target of 1.5% of the state budget's general fund. With ensured stability of financing, replace the current annual project list approach with project approval on a rolling basis.

Mid-term recommendations

› Develop a formal asymmetric devolution framework for reconstruction programme design and management that assigns greater programming authority to *oblasts* demonstrating sufficient institutional maturity – grounded in Section 2's *where* dimension, which establishes that identical administrative structures imposed on vastly different territories either overwhelm weak jurisdictions or constrain capable ones – while simultaneously providing enhanced deconcentrated support and reduced co-financing requirements for conflict-affected and less-developed territories. This can be achieved by broadening the use of indicative territorial envelopes and more differentiated programming approaches where data, institutional capacity, and monitoring arrangements are sufficiently mature.

› Develop *oblast*-level smart specialisation strategies through genuine entrepreneurial discovery processes involving government, business, research institutions, and civil society – closing the documented implementation gap where existing strategies replicate the current economic profile without identifying transformative pathways (drawing on the Basque Country (advanced manufacturing, energy, biosciences) and Slovenia (smart factories, sustainable mobility) as models to build competitive advantages in Ukraine's distinctive capabilities, including IT services in Kharkiv and Lviv, miltech, and logistics in western Ukraine).

› Expand integrated territorial approaches on the basis of proven pilots to build a broader base for place-based, multi-sector territorial interventions consistent with future Cohesion Policy practice. This can be achieved by gradually scaling integrated approaches, using pilot experience to define governance templates, programme design standards, and eligibility conditions for wider use.

› Shift the SFRD from annual project-by-project competitions towards programme-based territorial envelopes, delegating selection of individual projects to the competent subnational authority. This creates local ownership, permits inclusion of non-investment measures (e.g. business support or skills development), and – through a formula inversely related to regional GDP and proportional to population – concentrates support on territories with the largest development gaps while reducing the risk that weaker communities are crowded out by more competitive proposals from stronger regions. The transition from fragmented project support towards programme-based territorial interventions should, in turn, increase strategic coherence, predictability, and results orientation. In practical terms, this can be achieved by expanding the use of multi-annual priorities, clearer intervention logic, and programme-type implementation arrangements where administrative and monitoring conditions have been demonstrated.

› Consolidate stronger alignment between national, regional, and local strategies and funding channels to turn strategic planning into a genuine programming function that guides the design of instruments, territorial targeting, and investment decisions across levels of government. This can be achieved by strengthening the regular interaction between strategy revision, programme preparation, and resource allocation so that strategic priorities increasingly shape actual funding choices.

› Develop a more coherent architecture for reconstruction, regional development, and sectoral programming to reduce duplication across instruments and improve the system's ability to steer territorial development across multiple funding channels and policy areas. This can be achieved by clarifying the respective roles and interfaces of SFRD, sectoral investment portfolios, line-ministry programmes, and territorially targeted instruments within a more consistent strategic and programming framework.

› Develop a methodology for assessing the geographical designation of projects and programmes financed from the state budget, and take measures to ensure that potentially underrepresented least developed territories and regions are included.

(5) Monitoring and Evaluation

Short-term recommendations

› Clarify the institutional separation between implementation and monitoring functions in pilot instruments to reduce the risk of self-reporting bias and improve the credibility of monitoring results during the pilot phase of programme-type instruments. In the short term, this principle should be first applied to selected pilots and to the emerging programme logic of instruments (e.g. the SFRD) without waiting for a full system-wide redesign.

› Build on Ukraine's existing transparency infrastructure (Prozorro, mandatory online budget publication) to operationalise the multi-axis accountability model set out in Section 2's *how* dimension – upward accountability through performance monitoring frameworks; downward accountability to citizens through mandatory public disclosure of reconstruction expenditure and participatory budgeting; and horizontal accountability through independent audit and anti-corruption oversight – treating these three axes as an integrated system rather than isolated compliance exercises.

› Define a minimum monitoring and steering dataset, and integrate emerging digital investment transparency systems into routine strategic reviews, prioritising territorial effect indicators alongside programme outputs – addressing the current compliance-oriented monitoring culture identified in Section 3. This should ensure that decision-makers have a manageable and reliable evidence base for prioritisation, coherence checks, and annual review even under wartime data constraints. Practically, this should start with a limited set of common indicators and data fields linked to project pipelines, territorial priorities, implementation progress, and basic financial traceability (rather than attempting full indicator completeness from the outset). In addition, make use of existing systems (including DREAM, Prozorro, and relevant GIS-based tools) to generate routine evidence for coordination reviews, project readiness checks, and performance discussions.

› Introduce annual performance reviews linked to budgeting and coordination decisions to create a practical mechanism for adjusting priorities, pipelines, and instruments in light of implementation evidence rather than relying only on ex post reporting. Annual review should focus on a limited set of questions: delivery progress, territorial distribution of investments, implementation bottlenecks, and the need for corrective action in the next programming and budgeting cycle.

› Embed integrity red-flag indicators (e.g. non-competitive procurement, repeated contract amendments, cost overruns, and delayed reporting) into DREAM and GIS-RD dashboards, linking them to risk-based verification triggers. As Section 5 discusses, integrity risks are controlled through system design rather than generic anti-corruption declarations. Automating early detection through existing digital

platforms strengthens ex ante prevention, reduces the burden of ex post controls, and builds the audit trail that Chapter 22 assessors will expect.

› Adopt simplified cost options and outcome-focused monitoring indicators aligned with Cohesion Policy requirements (drawing directly on the post-2021 reforms in Lithuania that consolidated seven intermediate bodies into two, introduced outcome-focused monitoring, and mainstreamed simplified cost options, thereby accelerating absorption and producing the clearer accountability lines identified in Section 3 as an inspirational model for Ukraine's future management and control system design).

› With the SFRD treated as a public investment programme within the state's unified project portfolio, limit CMU approval to its total funding allocation. Government-level monitoring should focus on programme-level indicators and reports, while the MinDev should be responsible for monitoring individual projects.

› In parallel with increasing the SFRD funding, develop a performance framework for the SFRD and create an SFRD monitoring committee based on the partnership principle. The monitoring committee should approve the objectives and priorities of the SFRD, approve project selection criteria, review performance, and commission periodic evaluations to monitor the results and impact of the SFRD.

Mid-term recommendations

› Institutionalise regular territorial performance reviews for programme-type instruments and integrated territorial pilots, and consolidate results-oriented territorial monitoring systems that synthesise monitoring evidence, assess strategic priorities, progress towards territorial development objectives, and the combined effects of different interventions across territories. In addition, trigger investment pipeline adjustments – embedding the learning-oriented review cycle that is a defining feature of effective Cohesion Policy management, with clear procedural consequences for persistent territorial underperformance and linkage to ICC decisions and annual budget preparation. In other words, monitoring should move beyond pipeline and compliance tracking towards a more stable framework linking strategies, programmes, territorial indicators, and outcomes.

› Establish evaluation units in RDAs and *oblast* administrations, building a regional evaluation culture with capacity for impact assessment and horizontal learning among regions (drawing from Poland's regional operational programme experience, where the development of regional evaluation cultures was identified in Section 3 as a key success factor in effective EU fund management, and contributing to the evidence base for Chapter 22 accession dialogue).

› More generally, develop more mature territorial performance analysis across funding channels to improve the system's ability to understand how different instruments and sectoral investments interact territorially and whether they support or weaken cohesion objectives. This should include stronger analytical use of comparable territorial data across reconstruction, regional development, and sectoral interventions with a view to supporting more coherent future programming.

(6) Financial Management and Control

Short-term recommendations

› Reform the SFRD allocation formula to link transfers to both fiscal capacity and reconstruction needs, with reduced or waived co-financing requirements for war-damaged and fiscally weak *hromadas* and a dedicated technical assistance line for project preparation (applying the principle of Germany's *Länderfinanzausgleich* that transparent formula-based equalisation provides adequate resources while

preserving mobilisation incentives, and addressing the documented risk that the current 10% co-financing threshold structurally biases SFRD distribution towards stronger communities).

› Clarify the delineation between the SFRD and state-level sectoral project portfolios, establishing explicit eligibility rules that prevent duplication and ensure that local authorities are not required to promote the same project through both channels simultaneously. The absence of clear boundaries between the two mechanisms creates confusion, doubles administrative burden, and risks an unintendedly biased territorial distribution of state budget support that no single institution currently tracks or maps.

Mid-term recommendations

› Expand the SFRD with performance-based elements linking funding allocations to measurable results, procurement transparency, and management quality (drawing on Poland's performance grants system discussed in Section 3), thereby transforming grant programmes from passive funding mechanisms into active drivers of institutional improvement. In addition, introduce regional financial envelopes based on objective indicators to concentrate support on territories with the largest development gaps.

› Establish an independent intergovernmental fiscal commission tasked with periodically reviewing equalisation formulas, monitoring the adequacy and predictability of subnational revenues, and advising on prudent borrowing frameworks for local authorities. Section 2 identifies predictable, rule-based intergovernmental finance as a critical cross-cutting enabler, and Germany's constitutionally mandated fiscal equalisation system demonstrates that independent oversight strengthens credibility and reduces the political manipulation associated with ad hoc transfers. For Ukraine, such a commission would also provide the institutional anchor needed to manage the transition from wartime fiscal centralisation towards the stable, transparent subnational financing framework that Cohesion Policy implementation will require.

› In parallel with increasing the SFRD funding, develop a system of financial controls, including expenditure verification and on-the-spot checks, and establish auditing requirements, including performance audits, in line with Cohesion Policy requirements.

The period in which EU accession preparations and reconstruction overlap should lay the foundation for future transformative change. By following these recommendations, Ukraine will certainly advance towards the decentralised, transparent, participatory, and effective governance system that is necessary to drive inclusive, sustainable, and territorially cohesive development across all Ukrainian regions.

REFERENCES

Aranguren, M. J., Navarro, M. & Wilson, J. R. (2015). From plan to process: Exploring the leadership implications of RIS3. *Orkestra Work. Pap. Ser. Territ. Compet.*, 1, 1–30.

Ardanaz, M., Otálvaro-Ramírez, S. & Scartascini, C. (2023). Does information about citizen participation initiatives increase political trust? *World Development*, 162, 106132.

Asheim, B. T. & Coenen, L. (2005). Knowledge bases and regional innovation systems: Comparing Nordic clusters. *Research Policy*, 34(8), 1173–1190.

Bache, I. & Flinders, M. (2004). Multi-level governance. Oxford University Press.

Bachtler, J., Berkowitz, P., Hardy, S. & Muravska, T. (2016). EU Cohesion policy: Reassessing performance and direction. Taylor & Francis.

Bächtiger, A., Dryzek, J., Mansbridge, J. & Warren, M. (2018). Deliberative Democracy: An introduction, in: Bächtiger, A., Dryzek, J., Mansbridge, J. & Warren, M. (eds.). *The Oxford Handbook of Deliberative Democracy*, Oxford University Press, 11–31.

Bahl, R. W. & Bird, R. M. (2008). Tax policy in developing countries: Looking back – and forward. *National Tax Journal*, 61(2), 279–301.

Bahl, R. & Martínez-Vázquez, J. (2013). Sequencing fiscal decentralization. *Annals of Economics and Finance*, 14(2B), 623–670.

Barankay, I. & Lockwood, B. (2007). Decentralization and the productive efficiency of government: Evidence from Swiss cantons. *Journal of Public Economics*, 91(5-6), 1197–1218.

Barca, F. (2008). An agenda for a reformed cohesion policy a place-based approach to meeting European Union challenges and expectations (No. EERI_RP_2008_06). Economics and Econometrics Research Institute (EERI), Brussels.

Barca, F., McCann, P. & Rodríguez-Pose, A. (2012). The case for regional development intervention: Place-based versus place-neutral approaches. *Journal of Regional Science*, 52(1), 134–152.

Bardhan, P. (2002). Decentralization of governance and development. *Journal of Economic Perspectives*, 16(4), 185–205.

Barro, R. J. & Sala-i-Martin, X. (2004). Economic growth (2nd ed.). MIT Press.

Béal, V., Epstein, R. & Pinson, G. (2017). Networked cities in the Francophone world, in: John, P., Mossberger, A. & Clarke, M. (eds.). *The Oxford Handbook of Urban Politics*, Oxford University Press, 351–367.

Bertelsmann Stiftung (2022). BTI 2022 country report: Ukraine. Bertelsmann Stiftung.

Betliy, O. & Kosse, I. (2025). Coordinating International Public and Private Donors in Ukraine's Reconstruction and Regional Development. Institut fur Europaische Politik (IEP). https://iep-berlin.de/site/assets/files/4228/donor_coordination_final.pdf

Blažek, J. & Vozáb, J. (2004). Institutional, organizational and programming context for support of regional development in the Czech Republic: A critique. Czech Geography at the Dawn of the Millennium, Olomouc: Česká geografická společnost.

Blöchliger, H. (2015). The challenge of measuring fiscal decentralization, in: *Handbook of Multilevel Finance*, Edward Elgar Publishing, 617–632.

Boadway, R. & Shah, A. (2009). Fiscal federalism: Principles and practice of multiorder governance. Cambridge University Press.

Bolgherini, S., Di Giulio, M. & Lippi, A. (2018). From the change of the pattern to the change in the pattern: The trilateral game in the Italian intergovernmental relations. *European Policy Analysis*, 4(1), 48–71.

Breathnach, P. (2010). From spatial Keynesianism to post-Fordist neoliberalism: Emerging contradictions in the spatiality of the Irish State. *Antipode*, 42(5), 1180–1199.

Casula, M., Leonardi, R. & Nanetti, R. Y. (2024). Partnerships in Cohesion Policy for smart, inclusive and sustainable growth: An operational framework for effective multi-level policy implementation, in: *EU Cohesion Policy*, Edward Elgar Publishing, 275–291.

Charbit, C. & Michalun, M. V. (2009). Mind the gaps: Managing mutual dependence in relations among levels of government. OECD Working Papers on Public Governance No. 14.

Charron, N., Dijkstra, L. & Lapuente, V. (2015). Mapping the regional divide in Europe: A measure for assessing quality of government in 206 European regions. *Social Indicators Research*, 122(2), 315–346.

Chernick, H. (2004). Fiscal equalisation between Swedish municipalities, in: *Fiscal Federalism in Unitary States*, Boston, MA: Springer US, 77–100.

Colino, C. (2008). The Spanish model of devolution and regional governance: evolution, motivations and effects on policy making. *Policy & Politics*, 36(4), 573–586.

CNFPT. (2016). Projet du CNFPT 2016-2021. Paris: Centre national de la fonction publique territoriale.

CNFPT. (2026). L'essentiel de l'activité 2025. Paris: Centre national de la fonction publique territoriale.

Congress of Local and Regional Authorities of the Council of Europe (2024). Inter-municipal co-operation under martial law in Ukraine: taking stock of existing practices and ways forward. https://www.coe.int/en/web/kyiv/-/inter-municipal-co-operation-under-martial-law-in-ukraine-taking-stock-of-existing-practices-and-ways-forward

Copus, A. K. (2001). From core-periphery to polycentric development: Concepts of spatial and aspatial peripherality. *European Planning Studies*, 9(4), 539–552.

Council of Europe (1985). European Charter of Local Self-Government. https://rm.coe.int/european-charter-for-local-self-government-english-version-pdf-a6-59-p/16807198a3

Dargan, L. & Shucksmith, M. (2008). LEADER and innovation. *Sociologia Ruralis*, 48(3), 274–291.

Delgado, M., Porter, M. E. & Stern, S. (2010). Clusters and entrepreneurship. *Journal of Economic Geography*, 10(4), 495–518.

Development Asia (2018). Building world-class civil servants: Korea's civil service training system. https://development.asia/policy-brief/building-world-class-civil-servants

Di Caro, P. & Fratesi, U. (2022). One policy, different effects: Estimating the region-specific impacts of EU cohesion policy. *Journal of Regional Science*, 62(1), 307–330.

Dolan-Evans, E. (2023). Devolution or decapitation? Decentralization during conflict in Ukraine. *Journal of Intervention and Statebuilding*, 17(1), 16–38.

Dougherty, S. & Forman, K. (2021). Evaluating fiscal equalisation: Finding the right balance. OECD Working Papers on Fiscal Federalism, 36, 1–43.

Dąbrowski, M. (2012). Shallow or deep Europeanisation? The uneven impact of EU cohesion policy on the regional and local authorities in Poland. *Environment and Planning C: Government and Policy*, 30(4), 730–745.

Dąbrowski, M. (2014). EU cohesion policy, horizontal partnership and the patterns of sub-national governance: Insights from Central and Eastern Europe. *European Urban and Regional Studies*, 21(4), 364–383.

Eraydin, A. & Taşan-Kok, T. (eds.) (2013). Resilience thinking in urban planning. Springer.

EU CAP Network (2024). LEADER success stories across the CAP. https://eu-cap-network.ec.europa.eu/news/leader-success-stories-across-cap_en

European Commission (n.d.). Public finance, procurement and EU cohesion policy funds. Section 4: Managing EU cohesion policy funds (CPFs). *Quality of Public Administration – A Toolbox for Practitioners*. https://reforms-investments.ec.europa.eu/public-administration-and-governance-coordination/quality-public-administration-toolbox-practitioners/public-finance-procurement-and-eu-cohesion-policy-funds-4_en

European Commission (2014). The Performance Reserve: Rewarding Performance in Cohesion Policy 2014-2020. Brussels: DG Regional and Urban Policy. https://ec.europa.eu/regional_policy

European Commission (2017). My Region, My Europe, Our Future: Seventh Report on Economic, Social and Territorial Cohesion. Brussels: Publications Office of the European Union.

European Commission (2023). Ukraine 2023 report. https://enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_699%20Ukraine%20report.pdf

European Commission (2025a). Ukraine 2025 Report. Commission Staff Working Document accompanying the document Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions '2025 Communication on EU enlargement policy'. SWD(2025) 759 final. Brussels, Belgium. November 2025.

European Commission (2025b). Organisational models of programme authorities managing EU Cohesion Policy 2000-2020. Final Report. Luxembourg: Publications Office of the European Union, 2025.

Ezcurra, R. & Rodríguez-Pose, A. (2013). Political decentralization, economic growth and regional disparities in the OECD. *Regional Studies*, 47(3), 388–401.

Faguet, J. P. (2014). Decentralization and governance. *World Development*, 53, 2–13.

Faguet, J. P. & Pöschl, C. (eds.) (2015). Is decentralization good for development? Perspectives from academics and policy makers. Oxford University Press.

Falleti, T. G. (2010). Decentralization and subnational politics in Latin America. Cambridge University Press.

Ferrera, M. (2018). The European Social Union: how to piece it together, in: *Social Policy in the European Union: State of Play 2018*, ETUI, 17–33.

Ferry, M. & McMaster, I. (2013). Cohesion policy and the evolution of regional policy in Central and Eastern Europe. *Europe-Asia Studies*, 65(8), 1502–1528.

Fiorillo, F., Giuranno, M. G. & Sacchi, A. (2021). Asymmetric decentralization: distortions and opportunities. *Economia Politica*, 38(2), 625–656.

Follesdal, A. (1998). Subsidiarity. *Journal of Political Philosophy*, 6(2), 190–218.

Fox, J. A. (2015). Social accountability: what does the evidence really say? *World Development*, 72, 346–361.

Friedman, T. L. (2005). The world is flat: A brief history of the twenty-first century. Macmillan.

Gasco-Hernández, M., Gil-García, J. R. & Luna-Reyes, L. F. (2022). Unpacking the role of technology, leadership, governance and collaborative capacities in inter-agency collaborations. *Government Information Quarterly*, 39(3), 101710.

Glaeser, E. L. (2008). Cities, agglomeration, and spatial equilibrium. Oxford: Oxford University Press.

Grillitsch, M., Cobos-Cabral, F. & Horvat, A. (2025a). Change Agency and the Capability Approach: Regional Development and Well-Being on the Edge. *Economic Geography*, 101(5-6), 385–410.

Grillitsch M., Cobos-Cabral F. & Horvat A. (2025b). Local Agency on the Edge: Regional Development, Human Wellbeing and Social Resilience. Paper in Innovation Studies No. 2025/05, Centre for Innovation Research, Lund University.

Guiso, L., Herrera, H., Morelli, M. & Sonno, T. (2017). Demand and supply of populism. EIEF Working Papers Series 1703, Einaudi Institute for Economics and Finance (EIEF), revised Feb 2017.

Hammerschmid, G., Palaric, E., Rackwitz, M. & Wegrich, K. (2024). A shift in paradigm? Collaborative public administration in the context of national digitalization strategies. *Governance*, 37(2), 411–430.

Heinelt, H. & Kübler, D. (2005). Metropolitan Governance in the 21st Century: Capacity, Democracy and the Dynamics of Place. Routledge.

Henkel, M., Seidel, T. & Suedekum, J. (2021). Fiscal Transfers in the Spatial Economy. *American Economic Journal: Economic Policy*, 13(4), 433–468.

High, C. & Nemes, G. (2007). Social learning in LEADER: Exogenous, endogenous and hybrid evaluation in rural development. *Sociologia Ruralis*, 47(2), 103–119.

Hooghe, L. & Marks, G. (2003). Unraveling the central state, but how? Types of multi-level governance. *American Political Science Review*, 97(2), 233–243.

Hooghe, L. & Marks, G. (2009). A Postfunctionalist Theory of European Integration: From Permissive Consensus to Constraining Dissensus. *British Journal of Political Science*, 39(1), 1–23.

Hooghe, L., Marks, G., Schakel, A. H., Osterkatz, S. C., Niedzwiecki, S. & Shair-Rosenfield, S. (2016). Measuring Regional Authority: A Postfunctionalist Theory of Governance, Volume I. Oxford University Press.

Hutter, S., Kriesi, H. & Vidal, G. (2018). Old versus new politics: The political spaces in Southern Europe in times of crises. *Party Politics*, 24(1), 10–22.

I4CE – Institute for Climate Economics (2021). Décryptage des projets de Contrats de Plan État-Régions 2021–2027. Paris: I4CE.
https://www.i4ce.org/publication/decryptage-des-projets-de-contrats-de-plan-etat-regions-2021-2027/

Iammarino, S., Rodríguez-Pose, A. & Storper, M. (2019). Regional inequality in Europe: evidence, theory and policy implications. *Journal of Economic Geography*, 19(2), 273–298.

Idczak, P., Musiałkowska, I. & Kociuba, D. (2024). The origins of the EU Cohesion Policy: From regional economic development to the place-based approach, in: EU Cohesion Policy, Edward Elgar Publishing, 10–29.

IOM – International Organization for Migration (2025). Ukraine – Internal Displacement Report – General Population Survey Round 21. October 2025. https://dtm.iom.int/reports/ukraine-internal-displacement-report-general-population-survey-round-21-october-2025

Kapucu, N., Parkin, A., Lumb, M. & Dippy, R. (2024). Crisis coordination in complex intergovernmental systems: The case of Australia. *Public Administration Review*, 84(3), 389–399.

Keating, M. (2021). Beyond the nation-state: Territory, solidarity and welfare in a multiscalar Europe. *Territory, Politics, Governance*, 9(3), 331–345.

Kennedy, J., Ashmore, J., Babister, E. & Kelman, I. (2008). The meaning of 'build back better': evidence from post-tsunami Aceh and Sri Lanka. *Journal of Contingencies and Crisis Management*, 16(1), 24–36.

Ketels, C. & Protsiv, S. (2016). European cluster panorama 2014. Stockholm: Center for Strategy and Competitiveness.

Keudel, O. & Myerson, R. (2024). Supporting Ukraine's Democracy Bottom-Up: Proposed Mechanism for a Decentered but Coordinated Donor Assistance to Ukraine's Recovery. Friedrich Ebert Stiftung.

Kim, P. S. (2016). Innovating training and development in government: The case of South Korea, in: *Sharpening the Sword of State: Building executive capacities in the public services of the Asia-Pacific*, ANU Press, 125–140.

Kinossian, N. (2018). Planning strategies and practices in non-core regions: A critical response. *European Planning Studies*, 26(2), 365–375.

Kornai, J., Maskin, E. & Roland, G. (2003). Understanding the soft budget constraint. *Journal of Economic Literature*, 41(4), 1095–1136.

Krawchenko, T. (2023). Ukraine's Decentralisation Reforms and the Path to Reconstruction, Recovery and European Integration. *LSE Public Policy Review*, 3(1), 8. https://doi.org/10.31389/lseppr.87

Kroll, H. (2015). Efforts to implement smart specialization in practice – leading unlike horses to the water. *European Planning Studies*, 23(10), 2079–2098.

KSE Institute (2025). Macroeconomic Handbook for Ukraine. https://kse.ua/wp-content/uploads/2025/10/Ukraine_Macro_Handbook_October2025.pdf

Kühn, M. (2015). Peripheralization: Theoretical concepts explaining socio-spatial inequalities. *European Planning Studies*, 23(2), 367–378.

León, S. (2014). How does decentralization affect electoral competition of state-wide parties? Evidence from Spain. *Party Politics*, 20(3), 391–402.

Leroy, M. (2017). Les contrats de plan État-Régions en France: quelles leçons pour le développement des territoires. *Gestion & finances publiques*, 6(6), 13–24.

Lipps, J. & Schraff, D. (2021). Regional inequality and institutional trust in Europe. *European Journal of Political Research*, 60(4), 892–913.

Molander, P. (ed.). (2012). Fiscal federalism in unitary states (Vol. 6). Springer Science & Business Media.

Moldovan, B. C. (2022). Poland–model of regional development in Central and Eastern Europe. *Annals of the University of Oradea, Economic Science Series*, 31(1), 222–232.

Mykhnenko, V. (2020). Causes and consequences of the war in Eastern Ukraine: an economic geography perspective. *Europe-Asia Studies*, 72(3), 528–560.

Norris, P. (2011). Democratic deficit: Critical citizens revisited. Cambridge University Press.

Oates, W. E. (1999). An essay on fiscal federalism. *Journal of Economic Literature*, 37(3), 1120–1149.

OECD (2009). How regions grow: Trends and analysis. OECD Publishing.

OECD (2016a). OECD territorial reviews: France 2016. OECD Publishing.

OECD (2016b). Regions at a glance 2016. Paris: OECD Publishing.

OECD (2018). Maintaining the momentum of decentralisation in Ukraine. OECD Multi-level Governance Studies, OECD Publishing.

OECD (2019). Making Decentralisation Work: A Handbook for Policy-Makers. OECD Publishing.

OECD (2020a). Innovative Citizen Participation and New Democratic Institutions: Catching the Deliberative Wave. Paris: OECD.

OECD (2020b). Broad-based Innovation Policy for All Regions and Cities. Paris: OECD.

OECD (2022). Rebuilding Ukraine by Reinforcing Regional and Municipal Governance. Paris: OECD.

OECD (2024). Steering from the centre of government in times of complexity. OECD Publishing.

Oppido, S., Ragozino, S. & Esposito De Vita, G. (2023). Peripheral, Marginal, or Non-Core Areas? Setting the Context to Deal with Territorial Inequalities through a Systematic Literature Review. *Sustainability*, 15(13), 10401.

Palermo, F. & Wilson, A. (2014). The multi-level dynamics of state decentralization in Italy. *Comparative European Politics*, 12(4), 510–530.

Paliokaitė, A., Martinaitis, Ž. & Reimeris, R. (2015). Foresight methods for smart specialisation strategy development in Lithuania. *Technological Forecasting and Social Change*, 101, 185–199.

Pasquier, R., Guigner, S. & Cole, A. (2020). Dictionnaire des politiques territoriales. Presses de Sciences Po.

Perkmann, M. (2003). Cross-border regions in Europe: Significance and drivers of regional cross-border co-operation. *European Urban and Regional Studies*, 10(2), 153–171.

Phillips, L. (2018). Improving the performance of sub-national governments through benchmarking and performance reporting. Paris: OECD.

Piattoni, S. (2010). The theory of multi-level governance: Conceptual, empirical, and normative challenges. Oxford University Press.

Pike, A., Dawley, S. & Tomaney, J. (2010). Resilience, adaptation and adaptability. *Cambridge Journal of Regions, Economy and Society*, 3(3), 59–70.

Pike, A., Rodríguez-Pose, A. & Tomaney, J. (2017). Local and regional development (2nd ed.). Routledge.

Putnam, R. D., Nanetti, R. Y. & Leonardi, R. (1994). Making democracy work: Civic traditions in modern Italy. Princeton University Press.

Rabinovych, M., Brik, T., Darkovich, A., Savisko, M., Hatsko, V., Tytiuk, S. & Piddubnyi, I. (2024). Explaining Ukraine's resilience to Russia's invasion: The role of local governance. *Governance*, 37(4), 1121–1140.

Rackwitz, M., Breaugh, J. & Hammerschmid, G. (2024). Leadership for intergovernmental collaboration towards digital transformation, in: *Collaborating for Digital Transformation*, Edward Elgar Publishing, 124–142.

Radosevic, S. & Ciampi Stancova, K. (2018). Internationalising smart specialisation: Assessment and issues in the case of EU new member states. *Journal of the Knowledge Economy*, 9(1), 263–293.

Rodden, J., Eskeland, G. S. & Litvack, J. I. (eds.) (2003). Fiscal decentralization and the challenge of hard budget constraints. MIT Press.

Rodríguez-Pose, A. (2013). Do institutions matter for regional development? *Regional Studies*, 47(7), 1034–1047.

Rodríguez-Pose, A. (2018). The revenge of the places that don't matter (and what to do about it). *Cambridge Journal of Regions, Economy and Society*, 11(1), 189–209.

Rodríguez-Pose, A. (2020). Institutions and the fortunes of territories. *Regional Science Policy & Practice*, 12(3), 371–386.

Rodríguez-Pose, A., Bartalucci, F., Lozano-Gracia, N. & Dávalos, M. (2024). Overcoming left-behindedness: Moving beyond the efficiency versus equity debate in territorial development. *Regional Science Policy & Practice*, 16(12), 100144.

Rodríguez-Pose, A. & Crescenzi, R. (2008). Mountains in a flat world: why proximity still matters for the location of economic activity. *Cambridge Journal of Regions, Economy and Society*, 1(3), 371–388.

Rodríguez-Pose, A. & Di Cataldo, M. (2015). Quality of government and innovative performance in the regions of Europe. *Journal of Economic Geography*, 15(4), 673–706.

Rodríguez-Pose, A. & Ezcurra, R. (2010). Does decentralization matter for regional disparities? A cross-country analysis. *Journal of Economic Geography*, 10(5), 619–644.

Rodríguez-Pose, A. & Garcilazo, E. (2018). Quality of government and the returns of investment: Examining the impact of cohesion expenditure in European regions, in: *Place-based Economic Development and the New EU Cohesion Policy*, Routledge, 34–50.

Rodríguez-Pose, A. & Gill, N. (2006). How does trade affect regional disparities? *World Development*, 34(7), 1201–1222.

Rodríguez-Pose, A. & Storper, M. (2006). Better rules or stronger communities? On the social foundations of institutional change and its economic effects. *Economic Geography*, 82(1), 1–25.

Rodríguez-Pose, A. & Storper, M. (2020). Housing, urban growth and inequalities: The limits to deregulation and upzoning in reducing economic and spatial inequality. *Urban Studies*, 57(2), 223–248.

Rodríguez-Pose, A. & Vidal-Bover, M. (2024). Unfunded mandates and the economic impact of decentralisation: When finance does not follow function. Political Studies, 72(2), 652–676.

Romanova, V. & Umland, A. (2019). Ukraine's decentralization reforms since 2014: Initial achievements and future challenges. Chatham House Briefing Paper, November 2019.

Romer, P. M. (1990). Endogenous technological change. *Journal of Political Economy*, 98(5), S71-S102.

Rykkja, L., Hammerschmid, G., Klijn, E. H. & Verhoest, K. (2024). Introduction: collaborating for digital transformation in the public sector, in K., Verhoest, K., Klijn, E. H., Rykkja, L. & Hammerschmid, G. (eds) Collaborating for Digital Transformation, Edward Elgar Publishing, 2–12.

S&P Global Ratings (2021). Institutional framework assessment: German states. https://www.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/12175225

Schnabel, J. (2017). Committed to coordination? Intergovernmental councils as a federal safeguard. *Swiss Political Science Review*, 23(2), 191–206.

Scottish Government (2015). Community Empowerment (Scotland) Act 2015. Edinburgh: Scottish Parliament.

Scottish Government (2025). Assessment of community planning: Community Empowerment (Scotland) Act 2015 update and findings report. Edinburgh: Scottish Government. https://www.gov.scot/publications/community-empowerment-scotland-act-2015-update-findings-report/

Shah, A. (ed.) (2006). Local governance in developing countries. World Bank Publications.

Slack, E. (2007). Managing the coordination of service delivery in metropolitan cities: The role of metropolitan governance (Vol. 4317). World Bank Publications.

Slack, E. & Côté, A. (2014). Comparative urban governance: future of cities. Foresight, Government Office for Science.

Smoke, P. (2015). Rethinking decentralization: Assessing challenges to a popular public sector reform. *Public Administration and Development*, 35(2), 97–112.

Sotarauta, M., Beer, A. & Gibney, J. (2017). Making sense of leadership in urban and regional development. *Regional Studies*, 51(2), 187–193.

Spahn, P. B. & Werner, J. (2007). Germany at the Junction between Solidarity and Subsidiarity, in: *Fiscal Fragmentation in Decentralized Countries: Subsidiarity, Solidarity and Asymmetry*. Cheltenham: Edward Elgar Publishing, 89–113.

Stoyanova, M., Pavlova-Banova, M. & Aleksandrova, A. (2023). The integrated territorial development tools-a key component of the European cohesion policy. *Revista Inclusiones*, 10(2), 64–79.

Swianiewicz, P. (2014). An empirical typology of local government systems in Eastern Europe. *Local Government Studies*, 40(2), 292–311.

Tavares, A. F. (2018). Municipal amalgamations and their effects: A literature review. *Miscellanea Geographica. Regional Studies on Development*, 22(1), 5–15.

Teilmann, K. (2012). Measuring social capital accumulation in rural development. *Journal of Rural Studies*, 28(4), 458–465.

Tomaney, J. (2014). Region and Place I: Institutions. *Progress in Human Geography*, 38(1), 131–140.

Tselios, V., Rodríguez-Pose, A., Pike, A., Tomaney, J. & Torrisi, G. (2012). Income inequality, decentralisation, and regional development in Western Europe. *Environment and Planning A*, 44(6), 1278–1301.

U-LEAD (2021). Funding for Regional and Local Development from the State Budget. Kyiv: U-LEAD.

U-LEAD (2025a). Regional development endeavours in the wake of the war: the Ukraine Plan, State Strategy for Regional Development 2021-2027 and Chapter 22 of the accession negotiations. Kyiv: U-LEAD with Europe.

U-LEAD (2025b). How to meet EU accession requirements in the field of Chapter 22, regional policy and coordination of structural instruments – coordination and allocation of functions for regional development policy implementation and future utilization of EU structural instruments in Ukraine. Kyiv: U-LEAD with Europe.

U-LEAD (2025c). Case study on Lithuania. Kyiv: U-LEAD.

U-LEAD (2025d). Case study on France. Kyiv: U-LEAD.

UCORD – Ukrainian Centre for Regional Development (2023). Strengthening regional development agencies in Ukraine. UCORD Project Report.

Uddin, I., Ahmad, M., Ismailov, D., Balbaa, M. E., Akhmedov, A., Khasanov, S. & Haq, M. U. (2023). Enhancing institutional quality to boost economic development in developing nations: New insights from CS-ARDL approach. *Research in Globalization*, 7, 100137.

University of Minnesota Extension (2013). Lessons from the storm: Case studies on economic recovery and resilience. Extension Disaster Education Network (EDEN). https://extensiondisaster.net/lessons-from-the-storm-case-studies-on-economic-recovery-and-resilience/

van der Zwet, A., Bachtler, J., Ferry, M., McMaster, I. & Miller, S. (2017). Integrated territorial and urban strategies: How are ESIF adding value in 2014-2020? European Commission, Directorate-General for Regional and Urban Policy.

van der Zwet, A., Miller, S. & Gross, F. (2014). A First Stock Take: Integrated Territorial Approaches in Cohesion Policy 2014-20. IQ-Net Thematic Paper, 35(2), European Policies Research Centre, Glasgow.

Vaskivska, K. (2020). The development of the regional innovation system in Ukraine under decentralization. *Journal of Management and Financial Sciences*, (40), 57–72.

Vie Publique (2015). Loi du 7 août 2015 portant nouvelle organisation territoriale de la République. https://www.vie-publique.fr/loi/20721-loi-notre-loi-du-7-aout-2015-nouvelle-organisation-territoriale-de-la

Virkkala, S. (2007). Innovation and networking in peripheral areas: A case study of emergence and change in rural manufacturing. *European Planning Studies*, 15(4), 511–529.

von Hagen, J. & Wolff, G. B. (2006). What do deficits tell us about debt? Empirical evidence on creative accounting with fiscal rules in the EU. *Journal of Banking & Finance*, 30(12), 3259–3279.

Vox Ukraine (2023). Driving growth and development: Poland's cohesion policy funds absorption model. https://voxukraine.org/en/driving-growth-and-development-polands-cohesion-policy-funds-absorption-model

Wampler, B. (2012). Participatory budgeting: Core principles and key impacts. *Journal of Public Deliberation*, 8(2). https://doi.org/10.16997/jdd.138

World Bank (2008). Decentralization in client countries: An evaluation of World Bank support, 1990–2007. World Bank.

World Bank (2009). World development report 2009: Reshaping economic geography. Washington DC: World Bank.

World Bank (2015). Municipal Solid Waste in Ukraine: Development Potential. World Bank.

World Bank (2016). Indonesia: Turning to unity for rebuilding communities after natural disasters. Washington DC: World Bank.

World Bank (2023). Ukraine rapid damage and needs assessment: February 2022 – February 2023. Washington DC: World Bank Group.

World Bank, Government of Ukraine, European Union, United Nations (2026). Ukraine – Fifth Rapid Damage and Needs Assessment (RDNA5): February 2022 – December 2025 (English). Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/099022026094036395

IMPRESSUM

Herausgeber, Verleger, Eigentümer und Hersteller:
Verein „Wiener Institut für Internationale Wirtschaftsvergleiche“ (wiiw),
Wien 6, Rahlgasse 3

ZVR-Zahl: 329995655

Postanschrift: A 1060 Wien, Rahlgasse 3, Tel: [+431] 533 66 10, Telefax: [+431] 533 66 10 50
Internet Homepage: www.wiiw.ac.at

Nachdruck nur auszugsweise und mit genauer Quellenangabe gestattet.

Offenlegung nach § 25 Mediengesetz: Medieninhaber (Verleger): Verein "Wiener Institut für Internationale Wirtschaftsvergleiche", A 1060 Wien, Rahlgasse 3. Vereinszweck: Analyse der wirtschaftlichen Entwicklung der zentral- und osteuropäischen Länder sowie anderer Transformationswirtschaften sowohl mittels empirischer als auch theoretischer Studien und ihre Veröffentlichung; Erbringung von Beratungsleistungen für Regierungs- und Verwaltungsstellen, Firmen und Institutionen.

wiiw

wiiw.ac.at

https://wiiw.ac.at/p-7771.html