
**Decentralisation Support Programme,
Skat**

**Contribution to Discourse
on the State Fund for Re-
gional Development (SFRD)
- Ukraine**

Executive Summary

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On behalf of:

SKAT Consulting Ltd.
Swiss Resource Centre and Consultancies for Development
Swiss-Ukrainian Decentralisation Support Project DESPRO

Швейцарсько-український проект •
Підтримка децентралізації в Україні

DESPRO



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Executive Summary

Background: The “Decentralisation Support Project” DESPRO financed by the Swiss Agency for Development and Cooperation and implemented by Skat is in its third Phase. DESPRO aims at strengthening the State Fund for Regional Development (SFRD) in its monitoring and evaluation efforts.

Objective and Methodology: The purpose of the review/mission was to assess the functioning of the SFRD which started to finance social infrastructure projects in the Oblasts, Rayons and Villages since 2012. The analysis is based on intensive analytical work done by the consultants, Mr. Sergii Marchenko and Yurii Hanushchak, meetings with various state authorities and a field visit to Vinnytsia in order to obtain first hand insights. The review was also based on the experience of regional development experiences from Albania, Poland and Switzerland. The results of the mission were presented and validated in a workshop in Kiev on 28.6.2014.

Major Findings: The SFRD has a solid legal basis in form of Article 24-1 of the Budget Code (2012) and the Cabinet of Ministers’ Resolution No. 656 (2012) with clear allocation principles and implementation procedures including a multi-annual framework. Transparent allocation formulas – based on population figures – exist. Not less than 1% of the state budget should be allocated to the SFRD and 30% of the funds should be allocated to those regions that have an income below 75% of the average Ukrainian Gross Regional Product.

In 2012 and 2013 a total of 689 projects were financed, mostly social infrastructure in the education and health sectors. The allocation of funds has only reached a fraction of the target with UAH 1.005 billion (0.35%) allocated in 2012 and 0.420 billion in 2013 (0.13%), which includes arrear payments of UAH 0.201 billion made in 2013 for commitments made in 2012. The final disbursement and adherence to the formulas cannot be determined due to lack of information about final disbursements from the MoF. The 2012 and 2013 budget figures show major deviations between the theoretical and final allocations to the regions. This was attributed to the first years’ problems but more recent figures are not available to show an improved allocation.

Instead of supporting innovative projects/investments that exploit local potentials and add value as well as employment mainly social infra-

structure (such as kindergarden and hospital expansions, etc.) is being built that often has already been started. Quite often also the project funds are not enough to finish the projects thus they reappear in the coming years. This bias is based on the present (competitive) selection criteria which, however, do not consider the defined priorities as per the law “On the Promotion of Regional Development” (2005) which also addresses the need to finance “soft” development projects.

The low predictability of the funds for the beneficiaries - the Oblasts (regions), Rayons (districts), cities and villages – hampers the project preparation, selection and implementation cycle. The project list for 2014 was still not finalised though the deadline was last August. Due to such delays the funds are allocated late and in 2014 sometimes after procurements have been done. This is a deviation from the foreseen implementation cycle outlined in the Resolution. The evaluation of projects at the local level is in general a mere formality and an evaluation grid is missing. The selection of the infrastructure projects is generally done without broader consultations of stakeholders – though this is foreseen in the Resolution. The funds are regularly audited but there is no monitoring in place and no reporting on achievements is done that would fulfil the requirement of accountability (e.g. information on financed projects, disbursements and achievements on websites).

Major Strategic Considerations:

- The SFRD offers good potentials (principles and procedures) for funding RD in Ukraine but the purpose of the SFRD should be enlarged: not exclusively social infrastructure should be eligible for funding but also investments to promote the regional economy such as expanding employment in SMEs that are linked to local resources, creation of start-up businesses, fostering innovations in technology application or organisational networks.
- The final financial allocations to the State Fund, which fluctuated around UAH 0.4-1 billion between 2012 and 2014 (or 0.1-0.3% of the state budget) should be increased to UAH 3.5 billion or 1% of the state budget annually as stipulated in the CabMin Resolution approved in 2012. Gradually other subventions to the regions for capital

expenses should be channelled through the SFRD.

- The purpose of the SFRD and the financing of RD projects should be redefined in the framework of the new NSRD 2020 (to be approved soon) and the law “On Promotion of Regional Development (2005). The State Fund should finance mid-sized regional development initiatives that offer scope for scaling-up and replication (light tower projects).
- The governance structures of the SFRD must be improved substantially which requires a strong leadership and clear allocation of responsibilities. Only one state agency should be entrusted with the implementation of the State Fund and be responsible for indicator-based M&E and reporting. It then could become a role model for good governance through competitive and independent project selection, sound management and clear & transparent reporting of disbursements and achievements.
- The evaluation and selection of regional development projects should take place at the Oblast level. Independent evaluators could be regional development experts or peers from other Oblasts in order to allow for an independent assessment. Possible conflicts of interests by the evaluators or peers must be openly declared.
- The SRDF should be institutionalised and operated as a multi-years scheme (4-5 years programme). This programme should be subject to regular external programme evaluations that feed its results into the designing of a subsequent phase. The multi-annual perspective, 1st year allocation and tentative allocation for 2nd and 3rd year, should be adhered to as outlined in the CabMin Resolution of 2012.
- The regions’ priorities for socio-economic development (often social infrastructure) and the content of the Regional Development Strategies (RDS) must be harmonised when establishing new plans or updating the existing ones and evaluating the SFRD projects.
- The requirement for obtaining preliminary feasibility opinions from the central Ministries should be dropped. Feasibility must be checked at regional level.