

PROJECT FICHE

Title	Support to sustainable regional development		
Total cost	€15 million		
Aid Method	Project approach – centralised management ¹		
DAC-code	15110	Sector	Economic and Development policy/planning

1. RATIONALE

Policy dialogue with Ukraine is based on the EU-Ukraine ENP Action Plan and on the Partnership and Co-operation Agreement. The ENP Action Plan, in particular, aims at promoting sustainable development and at reducing regional imbalances and improving local development capacities.

Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. The goals of economic and social development shall be defined in terms of sustainability and checked against the environment's ability to meet present and future needs.

During the European Council of June 2005, Presidency Conclusions included a Declaration on Guiding Principles for Sustainable Development (SD). SD aims at improving life quality and its key objectives – which the EU will pursue with its partners, too – are those of environmental protection, social equity and cohesion, economic prosperity, compliance with international responsibilities.

As regional governments and municipalities are often the ones providing public services, from public transport to power generation, from waste collection to caring for the poor, they are well placed to effect practical change on the ground.

1.1. Strategic framework

This project will complement the previous projects on sustainable development under the AP 2004 and AP 2005 for Ukraine.

While national budget contributes to many sectors relevant to a SD strategy, there is still no comprehensive and approved national policy on Sustainable Development in Ukraine.

Consistency with ENP Action Plan

Sustainable development, regional development and poverty reduction are addressed in three specific sections of the European Neighbourhood Policy EU-Ukraine Action Plan:

Regional Development, (23) *Reducing regional imbalances and improve local development capacities*

¹ The aid method could be changed into sector approach and decentralised management if Ukraine proves its ability to manage decentralised projects by the time of implementation

- *Introduce strategic planning at the national and regional levels in Ukraine and elaborate a draft State strategy of regional development up to 2015; and establish a legislative basis for promotion of regional development, including depressed territories*

Sustainable development, (24) Promotion of sustainable development

- *Take further steps towards completion of administrative structures and procedures to ensure strategic planning of sustainable development and co-ordination between relevant actors.*
- *Complete and adopt a national strategy on sustainable development, and take steps to ensure its implementation. Take steps towards completion of a long-term strategy.*
- *Take further steps for the integration of environmental considerations into other policy sectors, particularly industry, energy, transport, regional development and agriculture.*

Social situation, employment, poverty reduction, (22) Introduce effective employment creation and poverty reduction measures, aimed at a significant reduction in the number of people with income below the poverty line and improved social cohesion, including sustainable systems for education, health and other social services with access for all.

In addition to the three points above, the project proposed will contribute to achieving further objectives in the ENP, namely, promote transparency and accountability of the administration, ensure involvement of the citizens in the decision-making process, reinforce structures and procedures to carry out environmental impact assessments and enhance administrative capacities including for permitting as well as for enforcement and inspections in view of preventing the deterioration of the environment, protection of human health, and achievement of rational use of natural resources.

Finally, the ENP AP mentions that *there will also be support through the European Investment Bank for projects involving infrastructure investment* (Annex – Introduction - New partnership, economic integration and cooperation perspectives section – 4th paragraph)

1.2. Lessons learnt

Several projects at regional level have shown positive results. The two Waste Management projects in the Donetsk Oblast (AP 1999 and 2003) have for example shown that sustainable results are possible with committed Regional Authorities.

Notably, the UNDP's "area-based development" approach has proven to be an effective and economical way of achieving social goals in a decentralised manner.

The Municipal Services Support project (AP 2002) is about to produce the important tangible output of local plans on SD for ten municipalities. These plans would be used as a basis for drawing conclusions at regional and probably national policy level, like social costs of interventions, poverty reduction indicators nationwide, tariffs, etc.

The present project will complement and build on past experience and on ongoing TACIS projects, notably the AP 2004 and AP 2005 "Sustainable Local Development" projects phase I and II.

1.3. Complementary actions

TACIS

This project is part of a comprehensive approach for sustainable development. This approach includes the following projects:

- **Regional Development (2001 National Action Programme - ongoing):** The project objective is to provide assistance in development and implementation of transparent and efficient national regional policies stimulating economic growth by (i) improving capacity of the national, regional and local authorities to formulate and implement regional development policies, (ii) approximating the Ukrainian regional development framework to the European best practices, (iii) improvement of economic, social, ecological and cultural conditions and increasing the competitive advantages of selected pilot oblasts and (iv) Improving cooperation on regional development between stakeholders: national & local authorities, local governments, private sector and civil society.
- **Municipal Services Support (2002 National Action Programme – ongoing):** The objective of the project is to improve the water services level in Ukraine, to improve environmental performances and to introduce sustainability of services in selected cities. The expected results include a precise understanding of local state of affairs as well as an elaboration of an optimised financial and management tool on SD.
- **Sustainable Local Development (National Action Programme 2004 – to start around September 2006):** the project will upgrade municipal services infrastructure and will pave the way for sustainable development in selected cities -Phase I-,
- **Sustainable Local Development (National Action Programme 2005 – to start around April 2007):** directly related to the 2004 service project –Phase II-,

OTHER DONORS

Donors active in Ukraine are identifying, assessing and promoting sustainable development actions, being at national, regional or local levels. However, activities to this end are considered to be fragmented in a SD context.

SIDA: Development of Local Self-Government in Irpen. The project aimed to support the implementation of the Law on Administrative and Legal Experimentation in the Irpen Region. The project addressed the following issues: 1) delimitation of powers between local and regional levels; 2) creation of financial preconditions for municipal service delivery; 3) contribution into a concept of a new management model; 4) the General City Development Plan.

DFID: In 2003 DFID has established a 4 year-project to be implemented in Lviv oblast. The project aims at supporting the Lviv oblast economic strategic development planning in the context of EU enlargement and Poland's accession to the EU. Objectives: (i) support to Lviv Oblast administration in strategic economic development, (ii) improvement of the environment for inward investments and business development, (iii) establishment of local development agencies, (iv) establishment of a Euro-information centre and (v) training of 80 staff members of local administrations.

UNDP is providing technical assistance to the Ministry of Economy on national economic development planning and on reforming and restructuring the Municipal Economy.

USAID is promoting local self-government and municipal development through a number of activities. It has provided technical assistance to the Fiscal Analysis Office of the RADA budget committee to record, review and analyse budget execution and distribution to the Rayon level. It has

also promoted US-Ukrainian Community Partnerships for Local Training and Education Projects including the creation of regional training centres and workshops for local governments on the following topics: (i) economic development, (ii) citizen participation, (iii) budgeting and finance and (iv) housing and communal services. The USAID has also started in 2003 a project on local economic development designed to increase local governments' capacity to generate better service delivery.

Finally, SD is the guiding principle for the majority of the loans or assistance provided by World Bank, EBRD and EIB.

1.4. Donor coordination

Co-ordination between Donors exists within specific frameworks, steered by either international agreements and forums on SD or by commonly agreed projects. However, there exists no specific co-ordination mechanism on SD actions. The need for such a tool has been identified in the Sustainable Development Strategy of the EU, as well as on the Paris Declaration on Aid Effectiveness. Consultations have been held with all major Donors in Ukraine, i.e. WB, DFID, UNDP and USAID. These yielded an understanding that should such a tool be created in the future, all pertinent actions, activities, assessments and interventions would effectively be co-ordinated. Moreover, Donors consider that Aid directed to Regional Development need to be up-scaled and more funds be directed into infrastructure projects, with an aim to build sustainable social and economic development. In this framework, the project will also assist the Ukrainian authorities in designing a financial instrument which, in future, may contribute to mobilize national, local and external financing aimed at providing further support for SD actions.

2. COUNTRY CONTEXT

2.1. Cooperation related policy of beneficiary country

Policy dialogue between Ukraine and the EU has been established through the Partnership and Cooperation Agreement (PCA) signed in 1994 (in force since 1998). The PCA provisions have been supplemented early 2005 by an EU-Ukrainian Action Plan (ENP AP, in the framework of the European Neighbourhood Policy) aiming to establish an increasingly close relationship between EU and Ukraine, involving gradual economic integration and a deepening of political co-operation.

2.2. Sector context

Sustainable Development (SD) is the result of harmonious inter-relations between economy, social and environment. These harmonious inter-relations lead to a fair (relation between economy and social), viable (relation between economy and environment) and bearable (relation between social and environment) development. SD consequently encompasses many sectors, hence there is a need to view it through a global approach.

Despite the absence of a national sector strategy, SD has been discussed in Ukraine by central and local governments for several years. Three initiatives were launched in the past to this end: a. elaboration of a document entitled "A concept of strategy for sustainable development" based on the 1992 Rio Conference resolutions; b. the founding principles of the so-called National Commission on Sustainable Development, established under the Cabinet of Ministers in 1997; c. the draft State Strategy on Regional Development up to 2015, a document vague in objectives, that will have to be re-written. However, there are no concrete actions resulting from the above initiatives as yet.

Since the “orange” revolution, sustainable development is seen as one of the main governmental priorities, with the responsibility in the government shifting from the Ministry of Economy to bodies near to the President and the Prime Minister (see section 3.3 on stakeholders).

In the absence of a sector strategy, it is difficult for Ukraine to work out a National budget for regional development. Budgets for regional authorities have two sections: (i) a common fund for operational expenses and substantial maintenance costs and (ii) a special fund for “capital” repairs. Some of the special fund is directly given to the “development budget” of the local authorities. The “development budget” is the sole source of finance for their development projects. It is very difficult to estimate the expenses for investment and there is no regional consolidation for public investment expenditures. Main facts are that: (i) public resources for development of regions and local authorities are very limited; (ii) however development budgets are sharply increasing; (iii) budgets are unevenly split between regions and municipalities and among municipalities themselves. The Commission estimates that in 2003 regional development took 2.3 % of the National budget, or some 300 million euro.

3. DESCRIPTION

3.1. Objectives

Wider objective:

The project will complement and build on the results of previous projects on sustainable regional development. It should continue EC assistance to Ukraine in formulating a national policy on sustainable development, assist Ukraine in establishing a Regional Fund to ensure investment in the area and should further assist Ukraine in designing an implementing Action Plan (alternatively a Platform for Action).

Specific objectives:

The project will to a large extent build on results of the AP 2004 and AP 2005 “Sustainable Local Development” projects. The project will also aim to jointly operate with other IFIs (international financial institutions). This project will adopt a comprehensive approach at strategy, instrumental and implementation levels.

The project’s specific objectives are:

1. To strengthen the Ukrainian authorities’ capacity in the fields of policy formulation and decision-making process, and
2. To assist the Ukrainian authorities in designing an action plan implementing such an approach for sustainable development and contribute to its implementation.

3.2. Expected results and main activities

Expected results

For the first specific objective, the results will be:

1. The strategy for SD in Ukraine is formulated and formally adopted for all administrative levels, i.e. national, regional and local,

2. Ukrainian co-ordination and implementation bodies for SD are in place and operational, and
3. The financial instrument for SD in Ukraine is designed.

For the second specific objective, the results will be:

1. Impact assessments and benchmarking of SD actions are carried out in accordance with the newly conceived strategy,
2. Infrastructure projects are carried out in selected areas,
3. Regional and Municipal administrations implementation capacity is strengthened, and
4. Outcomes of studies and works are used by the policy-making bodies to update the pertinent SD policies in Ukraine.

Main activities

The activities of the project will be organised in two components: the first one will cover the National policy and strategy, as well as design the instruments – in particular financial mechanisms - needed for implementing the strategy. The second one will be devoted to support SD projects.

For each of the two components a feasibility study will identify in depth the specific activities.

First component: To assist the National authorities in formulating a national policy and strategy for sustainable development and designing the corresponding financial tools (or mechanisms).

Result 1: The strategy for SD in Ukraine is formulated and formally adopted for all administrative levels, i.e. national, regional and local.

Activities will include:

- To assist the National Authorities in formulating a national policy and strategy for SD for all administrative levels.

The present project will compile various components of concerned sectors and give an analytic and comprehensive view to obtain a global approach on SD. In addition to the municipal services, other relevant components for SD will include education and training for employment, health, social protection, enterprise development – agriculture, industry, and services -, transport, energy, environment, etc.

The compilation of relevant SD actions may include a Public Investment Programme (PIP). The PIP would address (see second component below) major infrastructure projects – i.e. national roads, rail systems, border crossings, hospitals etc. that would have an impact on many regions and not just one.

- To assist the National Authorities to review and fine tune the National Regional Development Strategy under development.

The present project will assist the authorities assess and define the appropriate institutional framework, at national and sub-national levels, including co-ordinating body(ies) for sustainable

regional development coordination, on the basis of the relevant analyses on SD stemming from the abovementioned thematic Sector studies. This work will, inter alia, build on the results of the AP 2001 project and of the Ukrainian administrative reform, which should effectively start after the 2006 parliamentary elections.

At this stage, it is assumed that the appropriate co-ordination bodies will be placed under the direct responsibility of the Presidential Administration or of the Prime Minister or of the Vice Prime Minister.

The project will also assist the Ukrainian authorities in assessing the best possible financial instrument to support SD in Ukraine. In doing so, the legal, institutional and technical feasibility of implementing and supporting a national Fund for Regional Development (NFRD) will also be assessed in order ensure its full consistency with the national and sub-national public financial systems in Ukraine, as well as with the existing EC regulations.

- To assist the National Authorities in reviewing and drafting the necessary legislative framework and implementation modalities.

The project will assist the National Authorities in reviewing and preparing any legislative relevant amendments, notably concerning the SD co-ordinating and implementing bodies at national and sub-national levels and the relevant tools or mechanisms.

Result 2: Ukrainian co-ordination and implementation bodies for SD are in place and operational.

Activities will include:

- To assist the National authorities to set-up the Ukrainian co-ordination and implementation bodies.

The project will assist the authorities in the identification and assessment as well as in the progressive establishment and operation of these bodies. This will include the review and the assessment of key institutional and public finance issues in view of the implementation and financing of the SD policy approved by the government, as well as the review and the assessment of the required monitoring, reporting and auditing responsibilities related to the implementation of the SD policy.

- To assist the Ukrainian authorities in assessing the specific needs and the budgetary costs, in the short and medium-term period, related to the human resources aspect of SD implementation at national and sub-national levels. Following approval of the Ukrainian authorities of the above-mentioned needs and costs, the project will assist the authorities in the preparation of the staff selection process and training of the staff responsible for the SD coordination, implementation, monitoring and reporting.

Result 3: The financial instrument for SD in Ukraine is designed / assessed and agreed at the appropriate national and sub-national levels, and a detailed plan for its implementation is undertaken

Activities will include:

- To assist the National authorities to identify, assess and set-up the financial tool for SD.

Support and technical assistance will be provided to Ukrainian authorities in the assessment and in the best design a possible financial instrument to support SD in Ukraine via the mobilization of internal and external financial resources. In this framework, the legal, institutional, and technical feasibility of implementing and supporting a National Fund for Regional Development (NFRD) will also be assessed in order to document and to ensure its full consistency with the national and sub-national public financial systems in Ukraine as well as with existing EC regulations.

If the Ukrainian authorities agree to set up the NFRD (or other financial tools or mechanisms), the project will assist them in preparing the staff selection process, staff training and start up operations.

Second component: To assist the National authorities in implementing the national policy and strategy for sustainable development.

This component is based on the results of AP 2004 and AP 2005 projects as well as on the progress expected by the implementation of the Sustainable Local Development project.

Result 1: Impact assessments and benchmarking of SD actions are carried out in accordance with the newly conceived strategy.

Activities will include:

- Conduct of environmental impact assessments, Social Cost Benefit Analyses, etc at local level, in the selected areas as per component 1.
- Conduct of studies on benchmarking of the local appraisals outcome at regional level.
- Conduct of impact assessments at national level, including the main areas of energy, transport and environment.

Result 2: Infrastructure projects are carried out in selected areas

Activities will include:

- Elaborate, organise and implement specific assistance projects to improve infrastructures in the sectors that will be defined during the activities foreseen under component 1. These projects may include a supply and technical assistance component. Focus will be on the areas of municipal and employment services, health care, social protection, education and vocational training for employment, transport, energy, local economic development.

Result 3: Regional and Municipal administrations institutional capacity is strengthened

Activities may include following actions:

- Needs-assessment of sub-national administrations institutional capacity to adequate public services regarding SD and RD policy and strategy,
- training to enhance sub-national level administration's finance, budgeting, resource mobilisation (billing, collection), planning, managerial and technical skills,
- development of coordination, implementation, reporting and monitoring procedures, and

- studies, diagnosis and defining indicators with the aim of adequately plan, manage, monitor and evaluate the execution of projects and programmes identified in the SD/RD Action Plan; studies will be complementary to the sectoral assessments carried out in component 1.

Result 4: Outcomes of studies and works are used by the policy making body to update the pertinent SD policies in Ukraine.

Activities will include:

- Carry out major impact assessments and national policy on SD convergence studies,
- Support to national, regional and local authorities to elaborate loan plans for submission to the IFIs (EIB, EBRD, etc), and
- Provide assistance to the national, regional and local levels to effectively take-up the studies' and concrete actions outputs (tangible, intangible) to update the pertinent SD policies.

3.3. Stakeholders

The potential beneficiaries of this project will be:

- The Vice Prime Minister, in charge of Regional Policy, who is mainly dealing with the administrative and territorial reforms;
- The first Deputy State Secretary (Presidential Administration) who is in charge of the organisational, legal, consultative, informational and analytical support to the implementation of the state strategy for Regional Development;
- The National Council on State Building, Regional and Local Development that insures co-ordination between the Presidential Administration, the Government and the Parliament;
- The Ministry of Economy, that is mainly dealing with data related to Regional Development;
- The State Committee for Housing and Municipal Economy that has integrated recently the Ministry of Architecture and Municipal Services.

Other project beneficiaries will include:

Oblast and rayon state administrations that are implementing governmental priorities at their level.

The National Association of Regional Development Agencies (NARDA), a non profit legal entity, which supports the State policy for sustainable regional development and integration into European structures.

Individuals living in areas lacking imperative SD infrastructure and efficient municipal services are considered by this project as the main final beneficiaries.

3.4. Risks and assumptions

The main risks are:

- Insufficient commitment by the national and regional authorities to promote SD.

- Political instability, insufficient commitment by all stakeholders to coordinate actions.

The main assumption is that:

- The administrative reform (links between national, regional and local authorities) will be well engaged,
- The appropriate SD co-ordination bodies will be placed under the direct responsibility of the Presidential Administration or of the Prime Minister or of the Vice Prime Minister, and
- SD and RD activities receive adequate national funding.

3.5. Conditionality

On all administrative levels the Ukrainian authorities must agree to specific capacity improvements.

In addition of reporting on the specific project activities, the Government of Ukraine shall document and report to the EC Delegation on SD-specific implementation progress and related assessment, at central as well as well as at sub-national level.

3.6. Crosscutting Issues

The project will address cross-cutting issues, particularly environment and gender which will be addressed in the studies and recommendations and benchmarking for sustainable development. Additionally, the project will adopt and ensure that principles of good governance and empowerment of local actors, protection for the implementation of the regional development strategy and the delivery mechanisms of the regional fund. Issues contributing to sustainable development and poverty reduction will be addressed, namely empowerment of local actors, training and education, SME development, energy, health, social protection, and local networks.

4. IMPLEMENTATION ISSUES

4.1. Implementation method

Centralised Management by EC Delegation, Kiev.²

4.2. Budget and calendar

The budget will be EUR M 15. The following breakdown is tentative: 20% for first component, 80% for the second component. The duration of the project is scheduled to be maximum 48 months.

The first component will benefit from service and supply contracts. The second component will benefit from service, supply and works contracts. A detailed break-down of expenses is not possible at this stage.

² The implementation method could be - for all or part - changed into decentralised management if Ukraine proves its ability to manage decentralised projects by the time of implementation. Implementing modalities available will be assessed and used in accordance with Commission procedures.

4.3. Procurement and award of grants procedures

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

4.4. Performance monitoring

The project will be monitored according to standard procedures.

Project monitoring will be based on periodic assessment of progress and delivery of specified project results and towards achievement of project objectives.

Particular attention will be given to the possible disbursements of the regional fund to be created. This specific review could be jointly done with the other organisations financing the regional fund.

4.5. Evaluation and audit

The project will follow standard procedures for evaluation and audit.