

Diagnostic report on the issue of absorptive capacity deficiencies in Ukrainian cities and plans for conceptual notes on addressing legal and educational problems

Project UA2011-01: Provision of expert and technical support to the government and regional administrations in the development and implementation of recovery plans

March 2023



Project details

- Desk research of international experience and statistics on projects implemented in Ukraine
- A series of in-depth interviews with representatives of donors, cities and experts
- Legal analysis of absorption barriers and drawing up conceptual recommendations
- Analysis of gaps in professional competences on the ground and development of the concept of the training course
- Analysis of GESI, conflict sensitivity, climate impact



Steps to improve absorptive capacity

- Improvement of normative and legal regulation
- Training course for representatives of cities and communities
- Development of PPPs and concessions
- Unification of donor programs to attract smaller cities and communities
- Strengthening the involvement of cities in the centralized implementation of projects
- Priority to grant funding



General description of the problem
and the results of the conducted interviews

Absorption problems identified in the literature

PROBLEMS ARISING ON THE DONOR'S SIDE

 **THE DONOR'S INTERESTS DO NOT MATCH THE RECIPIENT'S NEEDS** | In particular, the donor can promote those project topics that interest him, not those the recipient needs.

 **FAILURE TO BUILD RELATIONSHIP BETWEEN DONOR AND RECIPIENT**

 **DONOR COMMITS RECIPIENTS TO WORK WITH PREDETERMINED COMPANIES OR COUNTRIES** | Aid tying

 **THE DONOR IS INSUFFICIENTLY AWARE OF THE UKRAINIAN CONTEXT/LEGISLATION**

 **THE DONOR LACKS SPECIFIC INDUSTRY EXPERTISE FOR THE TOPIC OF THE PROJECT WITHIN ITS ORGANIZATION**

 **DONOR'S INFLEXIBLE PROJECT CYCLES (FOR EXAMPLE, BUDGET YEAR) DICTATE UNACCEPTABLE TIME REQUIREMENTS FOR THE PROJECT**

 **DIFFICULT PROGRAM PROCEDURES / LONG PREPARATORY PHASES OF PROJECTS ON THE DONOR'S SIDE**

 **LACK OF PROJECT SUCCESS PROCEDURES**

 **COMPETITION BETWEEN DONORS FOR PROJECTS, LACK OF COORDINATION**

 **DELAY IN PAYMENT OF FUNDS BY DONORS FOR REASONS NOT RELATED TO THE PROJECT**

PROBLEMS ARISING ON THE RECIPIENT'S SIDE

 **POLITICAL/MILITARY/ECONOMIC INSTABILITY IN THE COUNTRY, HIGH COUNTRY RISK**

 **INSUFFICIENT GOVERNMENT SUPPORT FOR LOCAL PROJECTS**

 **CORRUPTION AT THE RECIPIENT LEVEL / AT THE GOVERNMENT LEVEL**

 **PROJECT GOALS NOT CLEARLY DEFINED** | This dilutes the implementation of the project and reduces the efficiency of the use of funds.

 **PROJECTS ARE NOT INTEGRATED IN NATIONAL STRATEGIES AND PROGRAMS**

 **RECIPIENTS ARE NOT ORGANIZATIONALLY READY TO COOPERATE WITH DONORS** | Low institutional capacity

 **INSUFFICIENTLY TRAINED STAFF**

 **BUREAUCRATIZATION OF PROCESSES**

 **PROBLEMS WITH ACCOUNTING AND REPORTING FOR PROJECTS**

Recipients, providers, forms and stages of assistance



Providing aid: IFIs, development agencies and donor organizations financed by foreign governments
Funding is usually in the form of loans

Stages in accordance with donor procedures

Selection of a project from the list of strategically important projects for the city/community, in the case of attracting loan resources - justification of its payback (through tariff policy or other mechanisms)

Search for donors who can potentially finance the project, the preliminary stage of negotiations, obtaining documentation, and familiarization with the requirements. Preparation of the application for financing according to the requirements of the donor, negotiations with the representatives of the donor, corrections in the application

Approval of the application for funding, receiving of an Allocation Letter from the donor

Signing of the agreement and transactions

Project progress and reporting in accordance with donor procedures



Getting aid: cities and communities; often - municipal enterprises

Prefer to receive grants

Stages according to Ukrainian legislation

Approval of the city/community development strategy, comprehensive spatial development plan of the territory/general plan of the settlement, determination of priority development projects

Assessment of the financial condition of the potential beneficiary of the investment project, receiving a letter from the Ministry of Finance regarding the evaluation of the financial condition of the final beneficiary and its class and the decision of the Antimonopoly Committee by the requirements of the Law of Ukraine "On State Aid to Business Entities"

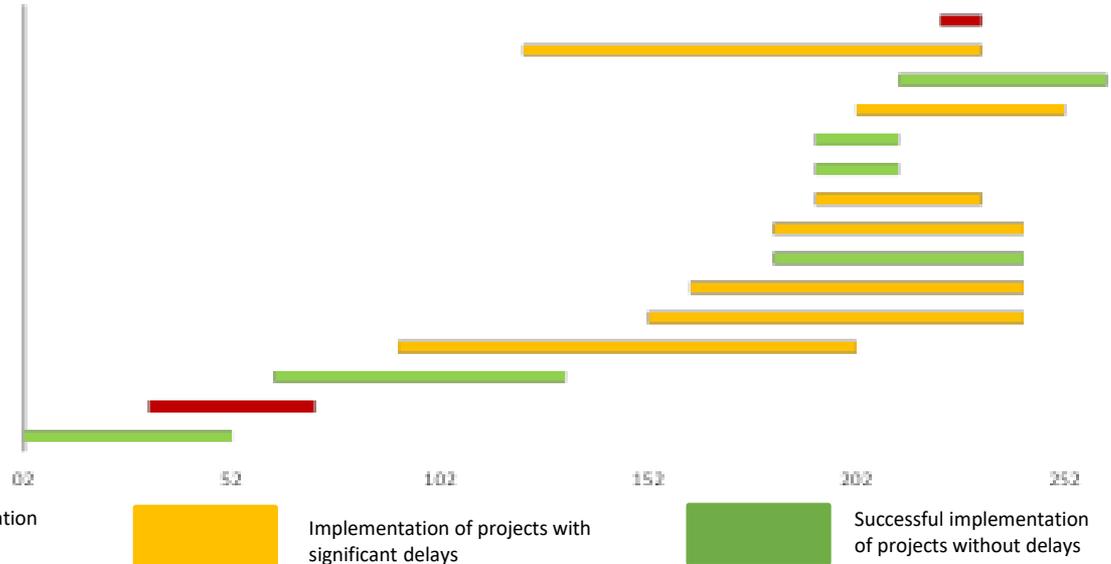
In the case of providing local guarantees - obtaining the approval of the Ministry of Finance (order on approval of the scope and conditions of providing local guarantees)

Project progress and reporting in accordance with the Budget Code and other normative legal acts of Ukraine

Overview of available data by projects

MFI PROJECTS THAT HAVE ALREADY BEEN IMPLEMENTED AND THOSE STILL IN THE PROCESS OF IMPLEMENTATION IN THE CITIES OF UKRAINE

Kyiv city mobility project
 Construction of Zaporizhzhia NPP-Kakhovka overhead line
 HOVERLA
 Expansion of the Kharkiv metro system
 Mariupol trolleybus project
 "Bridge Initiative" (Mariupol)
 Development of the water supply and drainage system in Mykolaiv
 Higher education of Ukraine
 Urban public transport of Ukraine
 Chernivtsi municipal water management project
 Completion of the construction of the Dnipropetrovsk metro
 Rivne NPP overhead line construction project
 Repair of the Kyiv-Chop road
 Water supply and sewerage in Lviv
 Energy saving project in administration and community buildings of the city of Kyiv



- Out of the 15 projects we analyzed, 6 were successful, 7 were implemented with significant delays, and 2 were unsuccessful.** Although the number of successfully implemented projects is considerable (40%), the share of those that are delayed in their implementation on time or canceled altogether is still quite significant (60%).
- The main reasons for this include inadequate organizational and financial support, as well as the lengthy approval of tender documents and contract terms by IFIs.** In addition, one of the obstacles to the timely completion of tasks in the three projects under review was frequent changes in construction requirements by the State Enterprise Ukrderzhbudespertiza, which required additional funding from the donor.



The main problems of absorptive capacity in Ukraine

IMPLEMENTATION OF PROJECTS IS MOST SUCCESSFUL WHEN CITIES HAVE THE POLITICAL WILL TO COOPERATE AND INSTITUTIONAL CAPACITY

But if the city really wants to cooperate, technical problems do not become an obstacle. Donors are ready to help recipients develop institutional capabilities, solve problematic issues, and even prepare project-tender documentation or territorial development plans for cities within the framework of grant international technical assistance packages.

PROJECTS FAIL WHEN THE CITY (MAYOR) DOESN'T HAVE THE POLITICAL WILL TO COOPERATE OR WHEN THE PROJECT STRUCTURE BECOME TOO COMPLEX

Cities complain about difficult cooperation with ministries, noting that difficulties arise in those projects where it is necessary to work not directly with donors but through the government.

THE MOST DIFFICULT THING FOR CITIES IS BUDGETING AND ADAPTATION TO WORK WITH DONORS DUE TO THEIR LIMITED EXPERIENCE IN SUCH COOPERATION

It is especially relevant for smaller cities that have suffered significantly from Russian aggression and are looking for funds for reconstruction. Donors have a similar impression - the lack of experience and competencies on the ground is recognized as a significant obstacle to absorptive capacity.

PROBLEMS ARISING ON THE DONOR'S SIDE:

- **Problems in the relationship between the donor and the recipient, conflict of interests;**
- **Complex donor program procedures;**
- **Insufficient coordination between donors, lack of grant funding.**

PROBLEMS ARISING ON THE RECIPIENT'S SIDE

- **Political, economic, and military instability of Ukraine;**
- **Lack of political will (desire) to cooperate with donors;**
- **Bureaucratization of the process;**
- **Insufficient institutional capacity, insufficient technical skills of the recipient's employees;**
- **Corruption.**



Legislative obstacles



Legal obstacles to the effective use of aid funds

IDENTIFIED OBSTACLES/COMPLICATIONS



BUDGET LEGISLATION | The ability of territorial communities to make development expenditures during martial law is limited by the regulation of the order of priority of expenditures by the State Treasury Service (such expenditures are not a priority and territorial communities face difficulties in making such expenditures).



LEGISLATION ON INTERNATIONAL AID | The key legislative gap is the absence of a specialized law regulating the procedure for attracting and using financial assistance funds. Instead, certain aspects of attracting financial assistance are regulated by separate laws and regulations.



REGULATION OF AID COORDINATION | Receiving of state aid by the recipient requires approval by the AMCU. The approval process is overly bureaucratic and has a negative impact on the formalization of attracting such assistance, as well as on attracting new financial assistance projects.

PROPOSALS FOR THEIR ELIMINATION

We recommend making appropriate changes (including to Resolution of CMU No. 590 "On Approval of the Procedure for the Execution of Powers by the State Treasury Service in a Special Mode in the Conditions of Martial Law") regarding the change in the sequence of operations of territorial communities for development expenses.

We recommend considering the need to develop a law that will contain introductory basic provisions to ensure transparency, clarity and stability of all processes from the stage of providing funding to the stage of resource use, will ensure the implementation of key requirements according to the Association Agreement (in terms of requirements for the use of EU funds, decentralization policy, etc.), unity of terminology, and will regulate the issue of minimizing risks for aid recipients and general reduction of bureaucratic processes.

To eliminate bureaucratic obstacles in implementing current financial assistance projects and to stimulate the provision of new financial assistance, we recommend simplifying the procedure for agreeing to receive such aid in the AMCU.



Competences and skills

Characteristics of project management in local governments

The state as a beneficiary

- large/complex/high-visible projects
- higher risks
- the need to maintain trust
- unbalanced influence of political will
- resistance to changes
- sometimes a lack of institutional capacity

Limited funding

- reduction of budgets
- the gap between what was promised and what was accomplished
- the need for constant monitoring and control
- inability to compete with the market for professionals
- inability to ensure professional development of personnel



A large number of stakeholders

- the involvement of many departments and ministries
- complex strategic planning
- alignment with established structures, systems and processes
- balancing external and internal constraints

Accountability

- increased supervision
- the need for high transparency of processes
- low trust
- ensuring compliance, implementation of standards, and regulation

Possible structure of an 8-week course for managers of the local governments

Structure of an 8-week course for managers of the local governments



Module 1. Stakeholder management

Goal 1. The specialist carries out identification, analysis, prioritization of stakeholders.

Goal 2. The specialist understands the specifics of working with the main donors operating in Ukraine

Task: The specialist develops project documentation for stakeholders.

Case study: management of relations with stakeholders

Duration: 2 weeks



Module 2. Financial management and responsibility

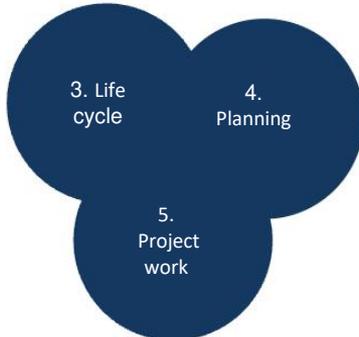
Goal 1. The specialist applies the principles of financial management

Goal 2. The specialist knows the legislation of Ukraine regarding individual responsibility during financial transactions

Case study: financial state audit (State Audit Service of Ukraine)

Task: create a budget for a project application

Duration: 1 week



Module 3. Strategic planning

Goal 1. The participant develops the project life cycle

Goal 2. The participant consistently defines actions, estimates the duration of actions

Goal 3. The participant develops and controls schedules

Goal 4. The participant organizes the work of the project

Goal 5. The participant evaluates efforts, duration, resources

Task: The participant develops a project implementation plan

Case study: strategic planning taking into account the needs of the region

Duration: 3 weeks



Module 4. Risk management

Goal 1. The Participant identifies, analyzes, evaluates, and provides risk mitigation measures for possible options

Goal 2. The participant prepares for possible options for the development of the situation

Goal 3. The participant builds reserves into the project to prevent possible risks

Task: The participant uses risk management tools to develop a matrix of several possible scenarios

Duration: 1 week

Module 5. Achievement and delivery of the project

Goal 1. The participant fulfils the requirements and scope, and achieves the expected quality of the project results

Goal 2. The participant evaluates the effectiveness of the project

Goal 3. The participant monitors the use of resources

Task: The participant develops a report on the results of the project

Duration: 1 week.



Environment and climate

Environment and climate

Environmental pollution, consequences of climate change, and irrational use of resources negatively affect health and well-being, as well as economic development, investment attractiveness and absorptive capacity of communities

Ukraine loses about 50% of its drinking water every year due to outdated water supply infrastructure

According to the World Health Organization, about 35 000 men and women die annually in Ukraine as a result of air pollution; economic losses from air pollution in 2019 amounted to 4.4 billion dollars

Approximately 400 000 hectares of land are lost every year due to uncontrolled exploitation of natural resources

The survey showed that the majority of recipients believe that the poor state of the environment does not prevent the attraction and effective use of aid

Environmental pollution, climate change, irrational use of natural resources

Reduction of investment attractiveness and absorptive financial capacity of communities

The majority of donors and experts noted that the neglect of environmental and climate protection issues completely makes it impossible to finance the recipients



Steps to improve absorptive capacity

- Development and implementation of action plans for adaptation to climate change, reduction of greenhouse gas emissions and increase of carbon absorption
- Increasing the efficiency of natural resource management
- The development of innovative technologies that help reduce the harmful impact of economic activity on the environment
- Encouraging and supporting entrepreneurial activities to create jobs based on environmental preservation and restoration
- Implementation of environmental education and conscious consumption with the involvement of children, youth, sensitive population groups



The GESI section provides an overview of:

- 1) Impact of absorptive capacity on community residents of different social groups
- 2) The relationship between absorptive capacity and gender aspects
- 3) The connection between absorptive capacity and the issue of social engagement
- 4) Elimination of existing obstacles to increase the absorptive capacity of the community

Recommendations for increasing the absorption capacity:

- Gender-sensitive planning and budgeting of project and program activities
- Gender-sensitive analysis of staff employment and working conditions
- Assessment of the individual level of readiness of community representatives to implement project/program activities
- Conducting a series of educational trainings/seminars/modules on professional development of personnel
- Providing community development assistance in line with partner country priorities, including poverty reduction strategies, greater involvement of girls and women, sustainable urban development and similar approaches to the Sustainable Development Goals
- Involvement of representatives of different population groups in the decision-making process



Conflict sensitivity

1. Timely identification of areas of potential tension in the community allows to avoid further escalation of the conflict and contributes to increasing the efficiency of the recipient's team on the way to mastering the provided funding. Community development requires not only the development of appropriate policies and tools, but also capacity building to integrate conflict sensitivity at all levels of projects and programs.
2. Conflict situations and factors that would affect the possibility of using the funds by the recipient were not identified. However, in order to identify factors of potential impact on the absorption capacity of the community, an in-depth analysis is recommended.
3. Recommendations:
4. Analysis of the existence of a conflict situation (in selected communities)
5. Development of an overcoming/minimization strategy or recommendations for the prevention of possible conflict situations in the community
6. Conducting staff training on approaches to conflict sensitivity.

**Thank you for
attention**