



PEOPLE PERFORMANCE VALUE

LOCAL ECONOMIC DEVELOPMENT

LOCAL DEVELOPMENT AGENCIES



Introduction / Context

In October 2013, the economic development agency *PPV Knowledge Networks* released a publication titled “*Local Economic Development: Local Development Agencies.*” The publication is sponsored by *DTEK*, the largest private energy company in Ukraine, and supported by *CSR Ukraine Community*, a leading corporate social responsibility (CSR) think-and-do tank in Ukraine. It is one of the first in-depth publications regarding the local economic development institutions in the country. Published in Ukrainian, it provides a detailed analysis of the nature of the local economic development agencies (LEDAs) and their place in the current regional development system in Ukraine. An operational model is discussed in detail. The report includes examples of possible services that LEDAs can provide in Ukraine and of projects that have been implemented by LEDAs, both in Ukraine and abroad. Financial modeling is covered at length, with three different models of LEDAs (budget-based, project-based and service-based) analyzed, and examples of LEDA budget calculations discussed. Issues of critical importance to LEDA’s measurement such as institutional sustainability, efficiency, and impact have been analyzed in the report. The publication contains a map of existing LEDAs in Ukraine, with their legal status, types of activities, and contact information.

The full version of the publication is available in Ukrainian on the PPV Knowledge Networks website (www.ppv.net.ua). A short summary is provided below, adapted for international audiences, with information on local economic development agencies in the Ukrainian context.



Regional Development System and Local Development Agencies

As of 2013, the Ukrainian regional development system is still in the transition process from the Soviet-like system to the regional development system in the European (EU) sense. The planning horizon in regional development policy-making is short, with strategies being developed on a year-on-year basis as opposed to a longer period, which is more appropriate in regional development planning. Industry- and issue- based national and regional strategies are not coherent and often contradict each other. Efficiency of resource allocation and choices of regional development instruments and policies do not feature prominently in the national regional development strategy. Thus, each region¹ ends up with multiple priorities for development, effectively cancelling the logic of prioritization. The outcome is often multiple industry- and issue-based strategies, using different politically-determined policies. There is also no overt link to the availability of financial or other resources, competences that might be available in the region or co-funding from other stakeholders. Regional councils² then approve respective annual working programmes for each strategy assigning financial resources from regional budgets to the currently active programmes. With limited financial resources in the regional budgets, there are annual budget battles, with deputies politically defining programmes that will get funding and to what extent. Usually programmes are underfunded, if at all, with dozens of programmes in each region getting just a small percentage of originally planned funding. Moreover,

¹ 24 oblasts and 2 cities (Kyiv and Sebastopol)

² Oblast council/rada (обласні ради)

funding is mostly allocated directly to known suppliers and not through an open call for proposals or tender procedures. As a result, the impact of these regional programmes is limited.

There is no system of regional development institutions in Ukraine. Public funding is allocated directly to parties responsible for implementation of certain projects. It creates a maze of projects, but no final responsible institution for the overall result or impact. Understanding of the role that institutions play in the economy is also limited, with existing institutions not being measured by their efficiency and/or impact. Respectively, the development institutions at the regional level such as regional development agencies, regional development boards, technology councils, small business support centres, clusters etc. either do not exist or operate as independent organizations without the oversight or participation from regional authorities, let alone funding. Cross-sectoral links are thus weakened, traditional instruments of regional development policy are not applied and institutional capacity of existing institutions is low.

However, the need for development is well understood in Ukraine. Local authorities, directly accountable to the voters, are especially keen to prop up the economy, solve social and environmental issues etc. Local authorities are active participants in the aforementioned budget battles, lobbying projects in their communities. There is also a growing recognition from the state for the need to support regional and local development projects. A *State Fund for Support of Self-Governance*³ has seen its budget allocations significantly grow over the last 10 years. The Fund annually allocates funding for local development projects on a competitive basis. International donors (oversees development

³ Державний фонд сприяння місцевому самоврядуванню в Україні (ДФСМС)



agencies, European Union programmes, private foundations) has been active in Ukraine for years, with multiple projects implemented and calls for proposals being issued on a regular basis.

No matter how limited, there are opportunities for regional and local development projects and initiatives in Ukraine. However, with no tradition of economic development institutions at either regional or local level, there is an acute lack of capacity. Local authorities and communities at large are particularly exposed to this issue. For regional programmes, calls for proposals of EU programmes or international donors, they need proper project applications written, project documentation developed, and the ability to implement projects demonstrated. Local business might also require attention. They should be willing to participate in social infrastructure development with the support from local authorities. They may also need co-ordination in large investment projects with multiple parties and stakeholders involved. This requires communication and facilitation competencies, in addition to understanding the issues at hand. Projects implemented with funding from either private sector or international donors have to follow certain procedures. With severely underpaid civil servants with limited experience in either business or civil society and limited number of civil servants in general, local authorities face a challenge of actually making use of opportunities available to them. Community enterprises, which might otherwise serve as project managers, are themselves lacking institutional capacity. Civil society organizations are also institutionally weak and often at odds with local authorities, which is a natural state in the maturing democracy Ukraine is. This makes it impossible to count on them in the local economic development projects. That is where *local economic development agency* (LEDA, used in publication as a synonym to *local development agency*) comes into focus.

Local economic development agency (LEDA) is a legally independent institution focusing on planning and implementation of local development projects in close collaboration with local stakeholders. LEDA's main tasks are:

- Supporting local authorities and other local stakeholders in the preparation and implementation of projects.
- Supporting small business and stimulating entrepreneurship.
- Implementing large-scale projects, especially in infrastructure.
- Articulating and implementing strategies to solve local problems of high priority, e.g. ecological, social, economic.
- Activating social participation.
- Attracting financial resources to the community, as project funding or as capital investments.

Understandably, each LEDA has a unique focus determined by the local communities' needs and available opportunities. However, all LEDAs share three common characteristics:

1. Cross-sectoral nature – LEDAs are working with authorities, businesses and civil society.
2. Focus on added value – LEDAs are focusing on creating new added value for the local economy and community, not on distributing existing wealth or resources.
3. Clear link to geographical area – LEDAs are focusing on development of a village, city or rayon.

Specifically, in the Ukrainian context LEDAs are focusing on:

1. Facilitating new business (esp. small) creation;



2. Supporting existing companies;
3. Attracting investors to the area;
4. Managing infrastructure projects;
5. Developing new knowledge, skills and competences of local human capital;
6. Activating local community, community-building;
7. Managing ecological projects and programmes.

Large, esp. infrastructural or so-called *hard*, projects are of particular importance to the LEDAs operating in Ukraine. Most cities, rayons and towns in the country have a long list of local community services and infrastructure improvements that require urgent repairs, modernization, upgrades or even the original installation. The list of such infrastructural needs can include (but not be limited to) modernization of local waste treatment facilities, water supply facilities, public lighting, local roads, energy efficiency improvements for local hospitals, schools and other facilities in municipal ownership, local transport systems, public spaces, cultural institutions, etc. With limited human resources, esp. competent ones, any local authority in Ukraine faces a challenge of actually delivering any infrastructural projects to voters under the current system. In old times, the central government was providing resources for such infrastructural projects and local authorities were responsible for ensuring that their needs are included in the list. However, in the modern Ukraine, the resources of central government are limited, thus further intensifying competition among the local authorities. There are new forms of funding available for infrastructure projects, primarily grants from non-state institutions and loans. Both grants and loans require specialized skills and competences, e.g. ability to write a project

application in English or prepare paperwork for the international finance institution loan. Such skills are in short supply, esp. in non-metropolitan areas. That is where LEDA can support respective local authorities. In respect to large projects, LEDA can:

1. Develop concepts of large projects, i.e. description of the idea, expected results, engage local stakeholders in further describing the concept;
2. Prepare the project plan, with detailed project phases and planned activities;
3. Oversee development of the project's documentation, esp. technical calculations and budget estimates;
4. Oversee development of the project's technical documentation, required for works on the project;
5. Co-ordinate project implementation, acting in a project manager capacity.

LEDA can be an institution that is aware of all large projects being planned or implemented in the area. Local authorities in Ukraine often do not know if they have any project documentation developed, do not understand the sequence of events (e.g. one needs to have proper project technical documentation prior to applying for any funding for actual construction works), and do not maintain the list of projects and their status. LEDA can streamline these efforts and become a central point of information on available project documentation, individual project phases and stakeholder needs. The actual documentation and projects nevertheless remain with the respective owners, leaders and champions, - LEDA is a support organization in this respect, not undermining the respective local authorities but providing professional support to them.



Operating Model

There are six focus areas for LEDAs in Ukraine:

1. Infrastructure Improvements
2. Energy Efficiency
3. Human Capital Development
4. SMEs Development
5. Investment and Innovation Promotion
6. Community Engagement

Though the list is not unique to Ukraine per se, the *PPV Knowledge Networks'* team has identified key issues and key opportunities for LEDAs in Ukraine within each of these focus areas, based on the team's extensive experience in setting up and working with LEDAs in different Ukrainian regions.

Infrastructure Improvements

Key Issues

- Water supply: dilapidated and outdated infrastructure, lack of clear responsibility and ownership, outdated standards, losses associated with water supply for community enterprises, complicated tariff regulations, accumulated debts for services already provided, water leakage and inefficient use of water resources;
- Public lighting: dilapidated and outdated infrastructure of street lighting, lack or insufficiency of inter-estate public lighting, outdated meters, illegal connections to the grid, outdated integrated public lighting

management system, lack of resources and outdated equipment of responsible communal enterprises;

- Transport: no transport systems, outdated public transport, no modern means of transport, .e.g bikes, infrastructure, lack of transport management competencies, manual quality assurance systems or complete lack of these, etc.;
- Local roads: no quality control systems, non-performing funding system for local road construction and maintenance, lack of project documentation for road construction and upgrade, lack of zoning and spatial development plans, unclear and corrupt system for road maintenance and construction, etc.;
- Spatial planning and development: ad hoc construction without permits, lack of central zoning rules or codes, no system for spatial planning with community engagement, conflicts around certain areas or objects, lack of funding for parks, setting up of green zones and maintenance;
- Waste water system: low level of waste water treatment, dilapidated state or lack of communal waste water treatment plants, no project documentation for respective projects, lack of rain-water canalization, outdated system for waste water system planning and maintenance, etc.;
- Waste management: low level of waste recycling, outdated and out-of-capacity waste open air storage facilities, complicated regulations for waste treatment prices for local population, illegal waste depots, low level of environmental awareness among the population etc.



Key Opportunities

- Analysing best practices and defining scenarios/plans for solving key infrastructural issues, closely engaging relevant stakeholders;
- Coordinating project documentation development with public engagement, capacity building of relevant communal enterprises and local authority departments;
- Preparing project applications for grant and loan funding;
- Managing relevant projects, including tendering procedures, public engagement, specification preparation etc.

Energy Efficiency

Key Issues

- Loss-making local utilities responsible for district heating: the tariff for district heating system, which is the most common heating system in use in Ukrainian towns, is strictly regulated by the government, with complicated and not always transparent formula, making it hard for local authorities to justify the tariff increase;
- Physical wear and tear of the district heating system: heating losses during the district heating transportation are very high, with no clear and easy way to replace the system;
- Low energy efficiency of municipal buildings, such as hospital, kindergartens, as well as apartment blocks, which belong to the local authorities as per Ukrainian Law (though the apartments themselves are private properties);

- Lack of funding for improvements in energy efficiency: no national policies and financial incentives of significant scale, existing regional and national programs are too bureaucratic, low or no credit available to condominiums, etc.;
- Lack of proper energy management: most municipalities do not have energy management systems in place;
- Insufficient development of condominiums: though there is a legal base for condominiums (associations of apartment owners who manage their common property stock themselves), there are often no incentives in place, or not enough competent condominium managers etc.;
- Low organizational capacity of local enterprises responsible for energy management or district heating.

Key Opportunities

- Mostly same as for the *Infrastructure Improvements*

Human Capital Development

Key Issues

- Gap between the employers' needs and competencies available in the local workforce;
- Brain drain to large metropolitan areas and abroad from small towns and rural areas;
- Outdated curricula in the local vocational education institutions, lack of qualified teaching staff, insufficient links with schools in other areas, regions and countries, insular educational process etc.;



- Lack of specialized training courses, private tutors, or other forms of education;
- Insufficient links between local companies and educational institutions, no tradition of apprenticeships;
- Insufficient state of educational facilities, outdated equipment etc.

Key Opportunities

- Managing projects related to tertiary, vocational or higher education in respective areas;
- Initiating and carrying out cross-sectoral initiatives, involving different stakeholders;
- Elaborating project concepts, overseeing project documentation preparation for upgrade of educational facilities or construction of new ones;
- Carrying out informational campaigns among local schools, graduates, companies etc. aiming to close the gaps between employment opportunities and levels of qualifications.

SMEs Development

Key Issues

- Low entrepreneurship level: in most Ukrainian towns and rayons, and esp. small ones, level of entrepreneurship is low in comparison with other Eastern European countries, with long paternalistic tradition and no indigenous culture of entrepreneurship in the country as major factors to blame;
- Low competitiveness of existing SMEs: in many cases majority of existing SMEs are small trading undertakings, without plans

of expansion, industrial SMEs are few and usually highly uncompetitive even on the Ukrainian market;

- No growth incentives: in small towns and rayons there are few incentives for SMEs to grow, with successful entrepreneurs relocating to metropolitan areas, and majority of SMEs owners afraid of losing the small business they have at the moment;
- Staff and personnel recruitment issues: lack of qualified personnel even for basic entry positions, despite a large portion of residents with qualifications, there remains low employability;
- Lack of access to finance: SMEs do not have access to credit on affordable terms, no equity funding, rudimentary banking systems in terms of SME funding;
- Competition from illegal businesses: in low value added business activities, esp. trade, there is a high share of illegal business on the market, i.e. not registered and paying no taxes, thus undermining the competitiveness of legal SMEs;
- General barriers to doing business: corruption, lack of access to land and infrastructure, frequent changes in the regulations and procedures.

Key Opportunities

- Creating and facilitating business networking platforms: organizing regular business events, SMEs owners meetings, cross-sectoral meetings etc.;
- Organizing skills development and professional development seminars: training seminars for different categories of SMEs staff, educational programs, study visits etc.;



- Facilitating local funding: organizing meetings with banks, setting up and managing micro-finance facilities, informing local SMEs about funding opportunities elsewhere etc.;
- Stimulating new markets , creating demand from existing markets: LEDAs can run information and promotion campaigns for new services or products, setting up opportunities for direct communication between the providers and consumers;
- Providing information and facilitating access: having information about available land lots for industrial and commercial purposes, both private and community, providing information on procedures and associated risks, etc.

Investment and Innovation Promotion

Key Issues

- Low level of innovation in existing companies: both large and small companies in Ukraine tend not to be innovative, lack of understanding of innovation as a process;
- Low level of cross-sectoral collaboration: technology transfer is always non-existent, collaboration with research institutions and business is negligible;
- Low investment friendliness: many companies, esp. small ones, are closed for investments, despite a need for capital increase, some are not ready due to low governance standards, even at the basic level;
- General investment climate: Ukraine is low in the FDI attractiveness rankings, due to

multiple reasons, with corruption being the main one, thus direct investments, both national and foreign, are low as a share of the economic activity;

- Slow speed of innovation in public sector: slow changes in policy making and procedures, resistance to change among the civil servants etc.;
- Slow speed of information and insufficient communication among the local players, leading to lack of opportunities for new collaborations, ideas and partnerships.

Key Opportunities

- Serving as an investment promotion agency: knowing local business opportunities, incl. businesses and land lots for sale, municipal land lots available for industrial or agricultural use, direct work with potential investors etc.;
- Setting up and managing local networks and clusters: organizing events for business owners and institutions from other sectors, setting up formal associations etc.;
- Working on projects related to innovation and investment promotion;
- Supporting small companies in attracting partners or investors, market expansion, new products and services development.

Community Engagement

Key Issues

- Lack of extra curricular activities, from sport clubs to scientific groups;



Operational Model	Objective	Underlying Principles	Approach to Operations	Financial Model
Budget-based entity	Supporting economic development policy of local authorities	Clear link to local authorities' priorities Close alignment with local authorities	Focused on supporting priorities and goals of local authorities	Direct funding from local budget
Project-based organization	Ensuring professional implementation of local development projects	Balanced project portfolio Successful project implementation	Ensuring successful project delivery (for local authorities, companies, granting institutions)	Organizational budget is comprised from budgets of individual projects
Service-based organization	Professional delivery of commercial and social services	High quality of service delivery Innovations in services and their delivery	Increasing market share Increasing markets for services	Proceeding from service delivery form organizational budget

- Low civil participation, lack of NGOs and NGO activities;
- Few public events, festivals, open air community activities;
- Low participation of local residents in public spaces improvements;
- Lack of cultural opportunities outside major metropolitan areas;
- Low community engagement level in general.

Key Opportunities

- Supporting local NGOs, initiative groups in organizing activities, esp. public ones;
- Facilitating links between SMEs, NGOs and local authorities, esp. on joint public activities or projects;
- Supporting clubs, organizations, encouraging volunteering movement;
- Assisting local authorities in setting up and carrying out small grants schemes for local NGOs and initiative groups.



Aforementioned issues are typical for any Ukrainian town or area, regardless of how large they are. Consequently, there is scope for LEDA to in any Ukrainian city, rayon, town or village.

There are three major operational models for LEDAs in Ukraine, - budget-based entity, project-based organization and service-based organization. Operational models define the way LEDA operates, not its legal registration status.

There are examples of all three types of LEDAs in Ukraine. *City Institute* (Lviv) is operating mostly as a budget-based entity, benefiting from an annual direct funding from the local city budget. *LEDA of Vynohradiv* (Zakarpattia oblast) is working as a project-based organization, implementing projects funded by EU programs, national and regional budgets as well as through other grant programs. *Sokal LEDA* (Lviv oblast) is an example of a service-based organization, with high share of revenues generated from the micro-finance fund managed by the agency.

However, all three operational models are rarely clear-cut. In most cases agencies tend to rely on a mix of all three models, with part of the revenue coming from projects, part – from services and in some cases getting direct funding from local authorities. Considering the lack of proper regional development systems in Ukraine, direct budget funding for LEDAs in Ukraine is a rarity. Local deputies and councils in general do not understand the importance of local economic development entities and prefer to budget the projects directly (with respective conflict of interests and outright corruption). Thus, project funding is the most common base for LEDAs' budgets.

In the project-based model, LEDAs should adhere to four underlying principles:

1. Steadily diversifying income, - in many cases, especially at the beginning, LEDAs are highly dependent on the project funding from one or two sources, e.g. projects funded by a large local company through its CSR program, projects funded by the local budget or large project funded by an EU program. Any LEDA operating in Ukraine should have a clear business plan with identified sources for income diversification.
2. Developing new services leveraging from current projects – any LEDA that is implementing several projects can and should identify commercial services that can be developed from the outcomes of the project. This commercial thinking should be integrated at the very beginning of the project, without undermining the intervention logic of the project but ensuring sustainability of the project's results. Thus, after the projects end, the LEDA will be able to provide services commercially, thus leveraging its sources of funding.
3. Extending projects' duration – at the beginning, it is hard for LEDA in Ukraine to apply for projects lasting longer than one year. But with the institutional capacity being developed and experiences gained, the LEDA should aim to get projects of longer duration.
4. Leveraging from current experience – any LEDA could identify new opportunities in focus areas others than the ones where it has already accumulated experience. For instance, multi-stakeholder engagement competencies gained in SME development projects could be used in community development projects. Such an approach allows LEDA to build a diversified project portfolios.



Sources of Funding

No matter what operational model a LEDA in Ukraine selects for itself, there are two major types of funding available to LEDAs in the country, - grants and services. Grants are resources provided by the donors for the implementation of a particular project or program. Grants are time- and rule-bound. It is useful for non-Ukrainian/Russian speakers to know that there is a misperception in Ukraine for *grants* being funding only from international donors. Project funding on a non-commercial basis from Ukrainian government-funded programs, regional (oblast) budgets and Ukrainian private foundations is also provided in the form of *grants*. This misperception often hinders mutual understanding between the local players (esp. local authorities) and international organizations in Ukraine.

A good mix of grants and services is essential to long-term validity of any LEDA in Ukraine, according to PPV Knowledge Networks' team approach. Dependence of one particular source of funding or a large one-off project could lead to a state of complacency among the LEDA team, thus undermining its impact in the community. This is often the case of the local economic development institutions in neighboring EU countries (Poland, Slovakia, Romania). Ukrainian parties interested in setting up LEDAs should be aware of both positive and negative European experiences and try to avoid costly mistakes.

Grant Programs

Local and Regional (Oblast) Budgets

In larger Ukrainian cities and rayons in Ukraine there are opportunities for LEDAs to participate in local

programs, - by suggesting, lobbying for and later managing projects. If and where local authorities, both local administrations and councils, support LEDA's activities, they will have more opportunities to get budget funding for their projects. More opportunities are available at the regional (oblast) level, - almost all Ukrainian oblast run small grant schemes for non-state actors. LEDAs could avail of the opportunities and prepare project applications for these calls for proposals or support local authorities in their applications. LEDAs could also participate in sectoral programmes, e.g. related to energy efficiency, small business development etc. However, participation in such programs require good understanding of the complicated and politics-based process of the Ukrainian budgetary process:

- LEDA should voice ideas for projects of interest at the stage of the program's drafting, - know when and where these programs are being developed;
- At the stage of the program's approval, LEDA could work with local deputies in the council and staff of the local/regional administration to ensure that the programme and projects of interest are understood and included into the programme;
- LEDA should know when and where to submit their project applications and project description for actual projects' implementation.

National Budget

With regional development system in Ukraine based on direct budgetary transfers, there are hardly any national programmes or instruments (that issue open call for proposals) that LEDAs could use. However, in 2013 there have been intensive developments to change the current system and adapt European Union - like regional development



systems. Once there will be calls for proposals for the National Regional Development Fund, areas with operational LEDAs stand a better chance of actually being ready to submit good project applications.

Nevertheless, there are two funds set up at the national level of interest to LEDAs:

- *State Fund for Support of Self-Governance* runs an annual call for proposals for projects of local authorities, with projects ranging from EUR 10K to 20K;
- *Ukrainian Social Investment Fund* is funded by international organizations and regularly calls for proposals from local authorities.

In both cases LEDAs could support local authorities in preparing applications, be a partner organization in the proposed project and later manage the project.

European Union Funding

With the European Union (EU) expanding to the East, there are more funding programs becoming open or available for Ukrainian organizations. Some of the programs of interest to LEDAs:

- Regional programs, e.g. *Eastern Partnership Programs*, *European Neighbourhood Programs* *Cross Border Co-operation* programs;
- Thematic programs, e.g. *ERASMUS+* for education and life-long learning, *Horizon 2020* for research, *Youth in Action* targeting young people;
- Ukraine-specific programs, e.g. *Non-State Actors and Local Authorities in Development* programs, *Support for Ukrainian Regional Development Policy* project, etc .

Preparing proper project applications for the EU programs requires skills and time. Ukrainian LEDAs are advised to look for partners and join consortiums to get necessary experience of participating in the EU projects.

International Donor Organizations

There are multiple grant programs for Ukrainian organizations, primarily non-governmental organizations:

- Funded through and often implemented by respective overseas development agencies, e.g. GIZ of Germany, SIDA of Sweden, USAID of the USA etc.;
- Large programs and projects funded by the respective governments but implemented by the consortia, e.g. *Municipal Heating Reform Project* by USAID, *Municipal Local Economic Development* by CIDA (Canada) etc.;
- Small grant programs run by embassies, e.g. annual small grants program by Swiss Development Co-operation, small grants program of the US Embassy, Embassy of the Netherlands, Japan, Finland etc.

Ukrainian LEDAs could submit their project applications for respective calls for proposals or closely follow developments of the programs or projects and use training, knowledge transfer and funding opportunities provided by such programs/projects.

Private Foundations

LEDAs could participate in the programs run by private foundations, both Ukrainian and non-Ukrainian. For instance, International Renaissance Foundation, Ukrainian affiliate of the Soros Foundation, regularly issues calls for proposals.



Heinrich Boell Stiftung, Stefan Batory Foundation, Konrad Adenauer Stiftung are other examples of private foundations active in Ukraine. Over the last 5 years, a new group of Ukrainian private foundations has emerged, funded largely by Ukrainian industrialists, with Pinchuk Foundation and Development of Ukraine Foundation of Rinat Akhmetov being the examples.

International Finance Organizations

For large-scale projects, esp. infrastructural, commercial loans are of interest to both local authorities and respectively LEDAs, which can manage or participate in such projects. European Bank for Reconstruction and Development, International Finance Corporation of World Bank, European Investment Bank are examples of the IFOs active in Ukraine. Often, alongside with the credit projects, IFOs offer technical assistance (grants) to support beneficiaries in preparation of the project or its implementation. Collaboration with the IFOs require both skills and longer time horizons from local authorities as well as LEDAs.

CSR Programs

Companies, especially large ones, are generally interested in having good relations with local communities. Many large Ukrainian companies are supporting philanthropic activities in the areas where their assets are located. However, companies with developed corporate social responsibility (CSR) policies are taking a more proactive stance on co-operation with local communities. Instead of straightforward donations companies are adapting the local economic development approach where the company supports a limited number of projects that lead to the economic development in the community as opposed to once-off projects without a lasting economic benefit. LEDAs can prepare and

implement such projects. In some cases, setting up a LEDA can itself become a CSR project for the large local company. Over 2011-2013 period PPV Knowledge Networks has set up and trained 14 LEDAs in different towns and areas of Ukraine where DTEK company's (largest Ukrainian private energy company and sponsor of this publication) plants and mines are located.

Services

Considering low density of NGOs, service organizations and lack of community development and local economic development projects in general, LEDAs in Ukraine have a large number of niches where they can offer services to local residents or businesses. What in other European countries would be considered as a matter of small businesses or market forces is often left as an unsatisfied market need in Ukraine. That is partly due to the lack of entrepreneurial skills or lack of knowledge or competencies required to deliver the service. Where the NGOs could have played a role, there are often no NGOs in Ukraine or local residents are averse to community-building public activities. These mental, historical and cultural peculiarities are important to consider while working with LEDAs in Ukraine.

PPV Knowledge Networks' team has identified a list of services that LEDAs in Ukraine good offer. The Ukrainian version of the publication has a detailed description of six of these services:

1. Delivering dedicated training programs for specific local market needs, e.g. cooks, welders etc.
2. Developing project technical documentation for large infrastructural projects;
3. Supporting investment projects;
4. Managing business incubators;



5. Setting up and managing local investors groups or consortia;
6. Elaborating spatial development plans and zoning documentation with public engagement;
7. Developing project documentation;
8. Preparing project applications;
9. Managing micro-finance facilities;
10. Organizing business events, networking events etc.;
11. Administering local programs;
12. Managing condominiums (associations of flat owners);
13. Preparing and evaluating business plans;
14. Managing projects;
15. Managing public events;
16. Developing marketing materials, managing promotional campaigns;
17. Delivering energy management services;
18. Organizing educational summer camps;
19. Organizing study tours, study visits, etc.;
20. Delivering cultural events, festivals, etc.;
21. Providing training seminars on specific skills, competences, e.g. IT literacy or new media courses;
22. Supporting investors or local SMEs in identifying suitable land plots;
23. Managing local business clubs, supporting local apprenticeship schemes etc.;
24. Delivering recruiting services;
25. Delivering real-estate services;
26. Delivering accounting and legal services.



Establishing a Local Economic Development Agency in Ukraine

Ukraine has weak institutions, - a fact recognized by multiple rankings and ratings, incl. World Economic Forum ones. Thus, there are no viable traditions or gained competencies in setting up or managing sustainable institutions. At the local level there is a tendency to register a legal person and parade this fact as an achievement, while in fact there are no competent staff members, coherent strategy or understanding what exactly the organization will do. Unfortunately, many institution-building projects funded in the nineties by international organizations have resulted in such unsustainable institutions being set up across the country but failing to leave a lasting impact on communities they presumably meant to serve.

Thus, while setting up a local economic development agency in Ukraine, it is essential to look at the organization not as a mere legal entity but as an institution, - with clear strategy, competent staff and operational plan. It has to fit into the area (town, city, rayon etc.) with its specific economic, political, geographical, ecological and institutional context. In Ukraine it is especially important to understand local political context, as often feudal relations in the local council or outside it could undermine the efforts of setting up an apolitical institution.

Based on its experience, *PPV Knowledge Networks* advises the following three stages of setting up a LEDA:

1. Informational Stage

- Preliminary consultations: rounds of meetings with local stakeholders (mayor, local council deputies, largest companies, civil society activists, journalists, opinion leaders etc.) where an idea for LEDA is outlined and opinion of stakeholders gathered

- Selection of founders: proposed founding organizations (stakeholders) are invited for a round table discussion to debate the LEDA idea, its main priorities, operational model and strategic plan
- Training seminars and study visits: holding local economic development seminars with different sectors and stakeholder groups represented, study visits to other Ukrainian and European LEDAs
- Communication: wide communication about the LEDA process in the area, incl. multiple channels, from meetings with residents to posts on active local groups in social networks

2. Organizational Stage

- Clearing of key issues: identified founders should come up with the agreement on key issues for LEDA, i.e. main goals, business model, operational model, sources of funding, governance, legal founders, job descriptions of key personnel
- Recruitment of key staff: recruitment process for the Director of the LEDA and key managers/coordinators, incl. wide communication of the vacancies, analysis of the submitted CVs, interviews with candidates, decision making by local stakeholders
- Legal registration of the LEDA: official procedure for setting up a legal entity
- Defining organizational culture: team culture, team dynamics, operational set-up (office etc.), knowledge management, external representation etc.

3. Planning Stage

- Analysis of key challenges and opportunities for the area: analysis of regional and local development strategies, stakeholder consultations, preliminary strategic plan



- Stakeholder analysis: identification of key stakeholders in the area by the LEDA team, based on the work done on previous stages
- Defining focus of activities: team internal brainstorming sessions, discussions with board members and key stakeholders
- Developing strategic plan: vision, mission, values, strategic priorities, strategic goals
- Development of operational plan: operational goals, key performance indicators, activities planning, budget
- Financial planning: identifying projects and services to be delivered during the first years of operations, sources of funding, expense planning, risk analysis

There are several available options for legal registration of LEDAs in Ukraine, - NGO (with three possible forms – *civil organization / громадська організація, civil union / громадська спілка, civil entity / громадська установа), community entity, community enterprise* (company owned by the local council), and *limited or joint stock company*.

- For-profit forms such as *communal enterprises* and *limited companies* are not advisable as they will not be eligible for grants.
- *Civil organizations* represent a traditional form of NGOs in Ukraine, with individuals forming the organization. In case of the agency, it creates a problem of ownership, - members of the civil organization ultimately decide on strategy and activities. One way to include local authorities, local business (and infuse the agency with local cross-sectoral ownership) is to set a Board where representatives of other sectors have to be present and legalize it in the Bylaws of the civil organization.
- *Civil union*, available as a legal form from January 2013, represents a legal form similar

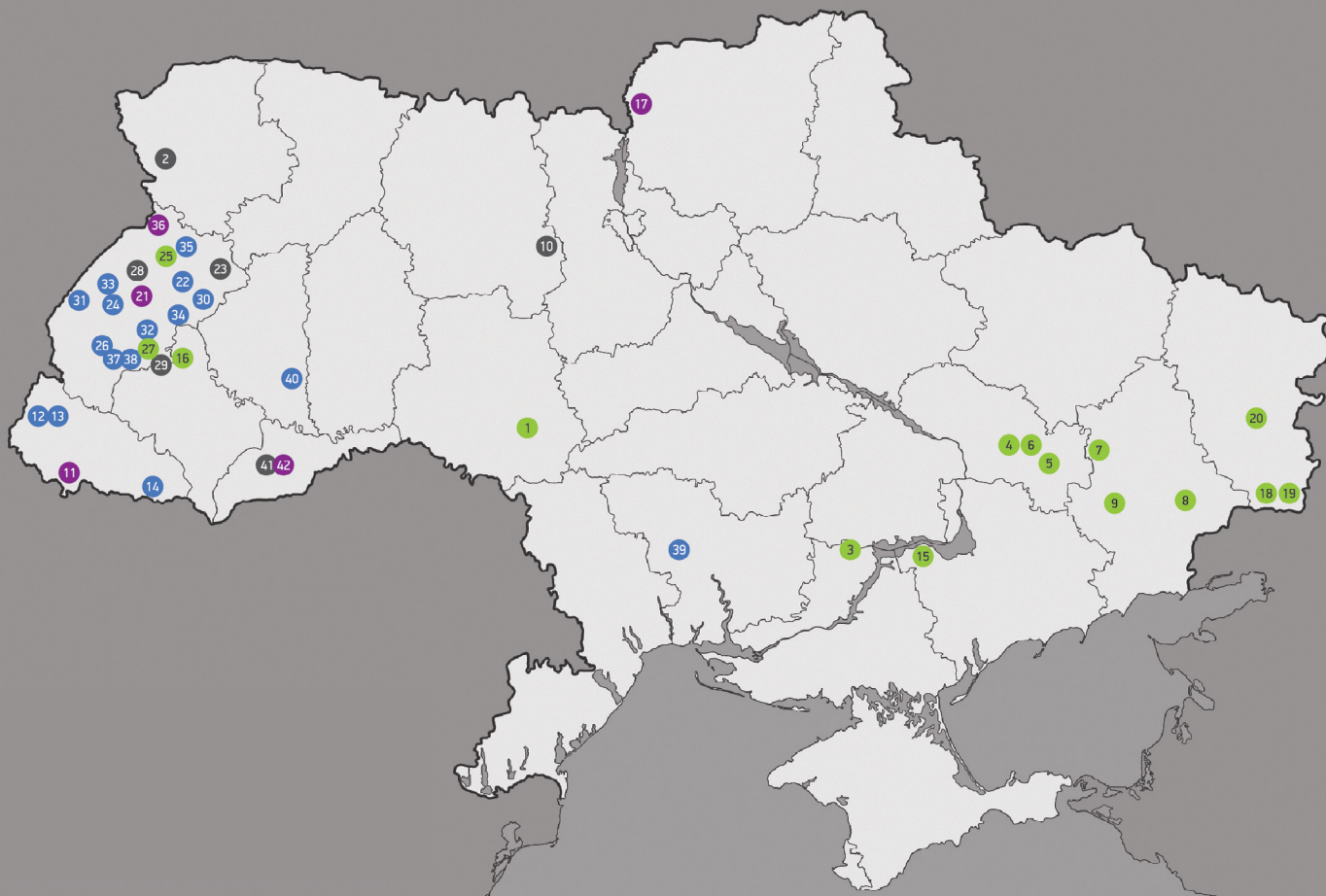
to civil organization, with the only difference being that legal entities of private Law, i.e. not local authorities, could formally join the organization.

- *Entity* is a legal form allowed by the Civil Code of Ukraine and is widely used to form legal entities which are cross-sectoral in nature. According to the Law, a legal founder of an entity makes a formal decision to set up the entity and after that deed it seizes any control over this entity. After the registration, the entity is operating based on its Bylaws. Any civil organization, civil union, association, chamber of commerce or other organization of private law can set up a *civil entity*. Local councils can set up a *communal entity* with its decision. *Communal entity* is a preferred form for LEDAs in Ukraine, as it develops ownership of the agency from local authorities, even though they have limited vetting powers over the agency (only through Board membership). *Entities* are also eligible for non-profit status and can easier work with local programs funded from local budgets.

None of the currently available legal forms truly represent the cross-sectoral nature of local development agencies. However, the Law enables enough scope for establishing an organization with proper governance and accountability. Ensuring that an agency is not an organization existing only on paper or following someone's orders is the task of the agency's champions, board and director.

From the very beginning, the agency should have a list of indicators to measure its own effectiveness, efficiency and impact. Unfortunately, there are hardly any examples in Ukraine (and not only) of local development organizations providing this self-assessment on a regular basis. Nevertheless, the publication provides a list of possible indicators applicable to Ukrainian context.

LEDAs in Ukraine





PPV Knowledge Networks' team conducted a research on LEDAs in Ukraine in September 2013. The results are presented below. The LEDAs were categorized in accordance to their state:

- Registered by not active agencies – agencies that exist legally but show no visible online signs of activities over the last couple of years;
- Early stage agencies – agencies that have recently been established and are developing their institutional capacity;
- Project dependent agencies – agencies that are operating only when they have a project or several projects, without clear institutional strategy, permanent staff and with limited impact on the community they serve;
- Sustainable institutions – agencies with clear strategy, staff, processes, and diversified project or services portfolio.

Vinnytsia Oblast

1. Ladyzhyn Local Economic Development Agency (Ladyzhyn, www.amerlad.org.ua, early stage agency)

Volyn Oblast

2. Local Development Agency Volyn (Duliby, registered by not active)

Dnipropetrovsk Oblast

3. Zelenodolsk Local Economic Development Agency (Zelenodolsk, early stage agency)
4. Pavlohrad Local Economic Development Agency (Pavlohrad, early stage agency)
5. Pershotravensk Local Economic Development Agency (Pershotravensk, early stage agency)

6. Ternivka Local Economic Development Agency (Ternivka, early stage agency)

Donetsk Oblast

7. Dobropillia Municipal Development Centre (Dobropillia, early stage agency)
8. Zugres Local Economic Development Agency (Zugres, early stage agency)
9. Kurakhove Local Economic Development Agency (Kurakhove, early stage agency)

Zhytomyr Oblast

10. Brusyliv, Korosten, Ovruch Local Economic Development Agencies (registered but not active)

Zakarpattia Oblast

11. Vynohradiv Local Development Agency (Vynohradiv, sustainable institution)
12. Perechyn Development Agency (Perechyn, project dependent agency)
13. Centre for Community Initiatives (Perechyn, project dependent agency)
14. Rakhiv Regional Development Agency (Rakhiv, project dependent agency)

Zaporizhska Oblast

15. Energodar Local Economic Development Agency (Energodar, early stage agency)

Ivano-Frankivsk Oblast

16. Burshtyn Local Economic Development Agency (Burshtyn, www.amer-burshtyn.org.ua, early stage agency)

Kyiv Oblast

17. Small Business Development Agency (Slavutych, sustainable institution)



Luhansk Oblast

18. Rovenki Local Development Agency (Rovenki, early stage agency)
19. Sverdlovsk Local Development Agency (Sverdlovsk, early stage agency)
20. Shchastia Local Development Agency (Shchastia, early stage agency)

Lviv Oblast

21. City Institute (Lviv, www.city-institute.org, sustainable institution)
22. Nadbuzhzhia Development Agency (Busk, project dependent agency)
23. Brody Regional Development Agency (Brody, registered but not active)
24. Horodochchyna Regional Development Agency (Horodok, project dependent agency)
25. Kamyanko-Buzk Rayon Development Agency (Dobrotvir, www.arr-kb.com.ua, early stage agency)
26. Drohobychchyna Local Development Agency (Drohobych, project dependent agency)
27. Zhydachiv Development Agency (Zhydachiv, early stage agency)
28. Trans-Trakt Regional Development Agency (Zhovkva, registered but not active)
29. Zhuravnivska Rural Development Agency (Zhuravno, registered but not active)
30. Zolochiv Regional Development Agency (Zolochiv, www.zarr.org.ua, project dependent agency)
31. Mostyshchyna Regional Development and Cross Border Co-operation Agency (Mostyska, project dependent agency)

32. Novyi Rozdil Economic Development Agency (Novyi Rozdil, project dependent agency)
33. Yavoriv Regional Development Agency (Yavoriv, project dependent agency)
34. Peremyshliany Prospects Regional Development Agency (Peremyshliany, project dependent agency)
35. Radekhiv Development Agency (Radekhiv, www.radekhiv-agency.narod.ru, project dependent agency)
36. Sokal Regional Development Agency (Sokal, www.agencija.sokal.lviv.ua, sustainable institution)
37. Stryi Rayon Reconstruction and Development Agency (Stryi, project dependent agency)
38. Stryishchyna Prospects Regional Development Agency (Stryi, project dependent agency)

Mykolaiv Oblast

39. Voznesensk Economic Development Agency (Voznesensk, project dependent agency)

Ternopil Oblast

40. Husiatynshchyna Local Development Agency (Husiatyn, project dependent agency)

Chernivtsi Oblast

41. Bukovyna Partnership Agency (Chernivtsi, registered but not active)
42. Bukovyna Centre for Reconstruction and Development (Chernivtsi, www.bcdr.cv.ua, sustainable institution)



PPV Knowledge Networks is an economic development agency creating and developing business ecosystems. PPV Knowledge Networks was established in 2008 and has implemented over 30 projects over this period. It is a leader in the Ukrainian market for professional services in regional and local economic development. PPV Knowledge Networks has set up 9 economic development institutions, incl. 6 local economic development agencies, 2 clusters and 1 social enterprise. The company provides strategic planning, economic added value creation, institutional incubation, and cross-sectoral project implementation services. Our clients include some of Ukraine's largest companies (SCM, DTEK, SoftServe etc.), EU programmes (CBC, NSA-LA, FP7 etc.) and international organizations (ABIS, CSR Europe etc.).

PPV Knowledge Networks provides services of setting up local development agencies:

- Reviewing framework conditions for setting up the agency, incl. identification of potential priority focus areas
- Analyzing and engaging local stakeholders
- Analyzing available institutional and legal options
- Assisting in legal registration of the agency
- Managing staff recruitment and training
- Managing collaborative process of operational model identification
- Facilitating development of strategic and operational plans
- Assisting in pilot projects' implementation

PPV Knowledge Networks can service established local economic development agencies:

- Mentoring management and staff of agencies
- Supporting in project definition, preparation of project applications and project portfolio management
- Shadowing project managers and directly managing projects

PPV Knowledge Networks also provides services of strategic turn-around for agencies that have lost their institutional capacity.

Further information: www.ppv.net.ua.

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CSR Ukraine Community is a think- and do- tank generating CSR-related analytics, promoting CSR as a topic in Ukraine and consulting companies on CSR strategies, programmes and projects. CSR Ukraine Community is a social enterprise founded in 2008 to address acute social, environmental and economic issues in Ukraine through corporate social responsibility (CSR) of companies operating in Ukraine. PPV Knowledge Networks is a founder of CSR Ukraine Community.

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