

Analysis of the Institutional Structure of the Ukraine Facility

Disclaimer: This policy paper focuses on the governance and implementation architecture of Pillar (Component) 1 of the Ukraine Facility, namely the Ukraine Plan. Governance issues of Pillar 2 (Ukraine Investment Framework) and Pillar 3 (Technical assistance and administrative support) are outside the scope of this document.

1. Existing Governance Structure of the Ukraine Facility

This policy paper examines the governance and implementation architecture of the Ukraine Facility through the lens of three levels: central, regional and local.

1.1. Central level

The main element of the Ukraine Facility governance architecture at central level is the Ministry of Economy, Environment and Agriculture of Ukraine (hereinafter – the Ministry of Economy) as the National Coordinator for implementing the instrument. The Ministry of Economy's status as National Coordinator of the Ukraine Facility was established by Resolution of the Cabinet of Ministers of Ukraine (CMU; Ukr. KMU) No. 1318 of 15 November 2024. This act defines the Ministry of Economy's powers to prepare and submit the Ukraine Plan, coordinate implementing bodies and report to the European Commission. Key components of the system are the Ministry of Finance as the independent audit body, the State Audit Service, which exercises state financial control over Plan expenditures, and the State Treasury Service, which provides treasury services for the relevant budget funds.

More than 50 implementing bodies are involved in implementing the Ukraine Plan, none of which is directly subordinate to the Ministry of Economy, and the National Coordinator's influence over them is mostly indirect – this is what creates the main coordination challenge at central level (see Section 2 for details).

The legal basis for involving the regional and local levels is established by Regulation (EU) 2024/792 (hereinafter – the Regulation). Article 14(3) requires the specific needs of regional, local and urban areas to be taken into account when preparing the Ukraine Plan; Article 14(4) provides for consultations with regional, local and other public authorities in line with the principle of multi-level governance and a bottom-up approach. [1] Article 16(4) provides that an amount equivalent to at least 20% of the non-repayable financial support under Pillar I shall be directed to the recovery, reconstruction and modernisation needs of sub-national authorities, primarily local self-government. [1] The Ukraine Plan specifies this requirement through separate milestones – an intermediate one at 5% and a final one at 20% of non-repayable support under Pillar I. [2]

In practice, this requirement is met overwhelmingly through subventions from the state budget to local budgets, the procedures for which are set by the relevant central executive authorities (CEAs; Ukr. TsOVV). For example, the official page of the Ministry of Education and Science of Ukraine (MoES; Ukr. MON) for 2026 contains a separate list of "Ukraine Facility subventions": the "New Ukrainian School" subvention, and subventions for purchasing school buses, equipping shelters, fire protection, modernising workshops and laboratories of vocational education institutions, and modernising canteens and catering units.

[3] Each subvention has its own procedure defining the main budget spending unit, the range of spending units at local level and the reporting route – that is, there is no single unified model for channelling funds to the sub-national level under the Ukraine Facility. In this example, the relevant body is the Ministry of Education and Science of Ukraine, which, as the main spending unit of the relevant budget programmes, determines the procedure for granting each subvention, the range of local spending units and the reporting route, guided by the Framework Agreement and the Regulation.

Body	Function	Link to the Ukraine Facility
Ministry of Economy, Environment and Agriculture of Ukraine	National Coordinator	Prepares and submits the Ukraine Plan, coordinates more than 50 implementing bodies, reports to the EC
Ministry of Finance	Independent audit body	Audit of Plan implementation
State Audit Service	State financial control	Control over Plan expenditures
State Treasury Service	Treasury services	Servicing budget funds for Plan expenditures

Two dimensions of the Ukraine Facility governance structure should be distinguished. At the level of the Regulation, the key programme governance bodies are defined. At the same time, the internal structure for managing funds is determined directly by the Ukraine Plan (approved by CMU Order No. 244-r of 18 March 2024), implementation of which is a condition for receiving funds under the financial instrument. Section 3 of the Ukraine Plan separately defines the powers of territorial communities (hromadas) and the regional level within this system.

The central level sets the rules, provides national resources and coordinates implementation; however, the architecture itself – with more than 50 implementing bodies and no single channel for directing the 20% to the sub-national level – builds in structural fragmentation that is replicated at the regional and local levels.

1.2. Regional level

The role of the oblast state administration (OSA; Ukr. ODA) in implementing Pillar I measures does not follow from the mere fact of Ukraine Facility funding – it is determined separately for each budget programme, depending on the procedure for granting the specific subvention. In the "New Ukrainian School" subvention, the OSA is explicitly designated by the act as an intermediate reporting link to the MoES; by contrast, in the subvention for public investment projects in health care, no similar reporting function for the OSA is provided by regulation – local spending units interact directly with the Ministry of Health (MoH; Ukr. MOZ). [4, 5] Thus, in some programmes the OSA is part of the administrative chain between the centre and local budgets, while in others it is merely an indirect observer.

The regional level acquires a distinct institutional role in the public investment management system introduced by Law No. 4225-IX and CMU Resolution No. 527. [6, 7] The OSA participates in forming medium-term investment priorities, sectoral portfolios and

the region's Single Project Portfolio (SPP; Ukr. YePP); oblast (military) administrations are required to designate public investment management units. [8] Inclusion of a project in the SPP only records that it has passed through the prioritisation system – this is not the same as a funding decision, which is taken by a separate act, subvention or financing agreement.

Taking the Dnipropetrovsk OSA as an example, the functions potentially involved in Ukraine Facility measures are distributed among several units:

Unit	Function	Link to the Ukraine Facility
Department of Economic Development	Analysis of socio-economic development, coordination of regional programmes	Forms and maintains the oblast's SPP
Department of Finance	Oblast budget policy	Budget support when funds flow through the OSA
Sectoral departments (education, health)	Sectoral policy	Participation depends on the specific subvention procedure – de facto ad hoc rather than systematic
Internal Audit Unit	Internal audit of the oblast military administration (OMA; Ukr. OVA)	Possible involvement within existing control powers

None of these units has a dedicated function specifically for the Ukraine Facility. The model is further complicated by the regional governance system itself: functions are divided between the oblast council as a local self-government body and the OSA as an executive authority, with some powers exercised through delegation. [9, 10]

1.3. Local level

The territorial community (hromada) is the only one of the three levels that covers the entire investment cycle: identifying needs, preparing a project application, securing co-financing, implementation (procurement, works, commissioning), monitoring and reporting. [1] This distinguishes the hromada from the OSA, which rather coordinates, and from the central level, which sets the rules.

Funds reach hromadas through subventions and public investment project financing, and increasingly on a co-financing basis: the subvention may cover 70–95% of the project cost depending on the hromada's tax capacity index, with the remainder provided by the local budget. [11] Thus, the financial mechanism for local participation covers not only receiving external funding but also the hromada's own financial responsibility.

Structurally, unlike the regional level, the local level has no single dedicated unit responsible for the Ukraine Facility – functions are distributed by project stage:

Unit	Function	Link to the Ukraine Facility
Local council	Approval of the budget, strategies and investment decisions	Sets priorities, approves co-financing
Finance department	Budget planning and execution	Budget support for subventions

Unit	Function	Link to the Ukraine Facility
Economic development department	Strategic planning, attracting investment	Forms the hromada's investment portfolio
Sectoral department (e.g. education) and procurement service	Sectoral policy, public procurement	Implementation of specific subventions and project procurement

In smaller hromadas, these functions may be concentrated in one or two units – the actual model depends heavily on the hromada's population, financial capacity and staffing.

A practical example is the Pustomyty urban territorial community, which receives the "New Ukrainian School" subvention but has not applied for the subventions for school buses, shelters and fire protection (the relevant need has already been met by other means, or the relevant institutions are absent), and received the canteen modernisation subvention in 2024. This example illustrates that access to a specific Ukraine Facility subvention depends not only on the hromada's right to participate, but also on the existence of the relevant need and infrastructure in its territory.

2. Challenges in Coordinating Ukraine Facility Implementation Between Levels of Governance

The challenges in coordinating Ukraine Facility implementation between levels of governance can be grouped as follows:

Coordination burden on the Ministry of Economy. The main weight of coordinating Ukraine Facility implementation lies at central level. For the Ministry of Economy, Environment and Agriculture of Ukraine as National Coordinator, the challenge is to ensure the effective fulfilment of commitments by several dozen implementing bodies, none of which is directly subordinate to the Ministry of Economy and over which the National Coordinator has only indirect influence.

Uneven information flow to the sub-national level. A separate challenge is that neither the regional nor the local level is designated as responsible for any of the Ukraine Plan steps; therefore, how effectively information reaches OSAs and hromadas depends on the particular central executive authority designated as responsible for a given investment step. This in turn results in uneven information flow, since CEAs handle this function in different ways.

Limited capacity of hromadas. One of these challenges is the capacity of hromadas and the regional level themselves. Project implementation at local level is closely linked to the PIM (public investment management) reform. Under this reform, every project seeking funding must be developed and submitted in line with PIM requirements, after which the responsible CEAs review the projects, which are then approved by the Investment Council. The challenge is that the project requirements and the conditions for forming the SPP are complex, while hromadas' capacity to prepare projects varies: some hromadas are unable to prepare a quality project application and consequently do not receive the desired funding – despite an obvious need.

Use of the special fund of the state budget. In addition, funds under the Ukraine Plan reach the local level from the general fund of the state budget, which contrasts with the usual practice of channelling international assistance through the special fund. This makes it harder to explain that the funds belong to the Ukraine Facility and to ensure compliance with the Regulation's requirements – a large share of procurement is carried out without complying with requirements on visibility, eligibility of the origin of goods and avoidance of procurement from sanctioned persons.

No direct channel for directing the 20% to the sub-national level. Perhaps the biggest challenge has been that no mechanism was found that would allow the required 20% of non-repayable support to be directed to the regional and local levels directly. Instead, funds arrive through the mechanism familiar to hromadas – subventions provided by CEAs as main spending units under specific budget programmes. OSAs are involved indirectly when subventions are allocated among hromadas; they have no control function and mostly perform a coordinating role. Within this challenge, it is also important that Ukraine Facility requirements are not written into each individual subvention/budget programme, so to ensure compliance they have to be inserted into numerous procedures for the use of funds/orders – each one separately.

Fragmentation of actors. At the same time, there is considerable fragmentation of actors in the fund allocation process – at both regional and local level. Contracting authorities on the ground may be individual institutions (for example, schools), departments of local councils, departments of OSAs and so on; different CEAs may be responsible for implementing an approved project. Within the hromada itself, the functions of a single project are also usually divided among several actors – the local council, the executive committee, the finance department, the sectoral unit, the municipal enterprise and the procurement service – without a single owner of the whole cycle. As a result, it is difficult to trace what exactly was funded from Ukraine Facility resources and who was responsible for the result.

Time gap between receipt of assistance and deadlines for investment steps. This challenge is compounded by the time gap between the receipt of non-repayable assistance and the deadline for completing investment steps. 75% of the total non-repayable assistance was received by the state budget during 2024 and was accordingly used in the nearest budget periods. At the same time, most investment steps have deadlines in 2026–2027, so implementing bodies often do not understand the specifics of the budget process and how these funds are to be used if they have already been spent. As a result, there is confusion over Ukraine Facility labelling.

3. Proposals for Improving the Governance and Implementation Architecture of the Ukraine Facility

The challenges identified at each of the three levels essentially boil down to a single problem that scales: dispersion of actors and the lack of end-to-end traceability of Ukraine Facility resources from allocation to final result. Accordingly, the proposals below are not three separate initiatives but a level-by-level response to one and the same structural defect.

1. A direct channel for directing the 20% to the sub-national level. At present, this requirement is met exclusively through subventions whose spending units are sectoral CEAs; the oblast and local levels are recipients of funds rather than a party influencing their allocation. It would be advisable to develop a separate instrument – a dedicated regional development fund or a modification of an existing mechanism – that would allow part of this 20% to be directed directly, bypassing the link to a specific sectoral subvention, with a clear function of an owner of the overall picture. Given that the current instrument ends in 2027, it would be more appropriate to take this into account when designing the architecture of future support instruments.

2. Budget labelling of Ukraine Facility expenditures. Funds pass through the general rather than the special fund of the budget, which makes it harder to identify that they belong to the Ukraine Facility and, according to available data, leads to widespread procurement without compliance with requirements on visibility, origin of goods and avoidance of sanctioned suppliers. A separate budget code/marker for such expenditures would allow them to be tracked end-to-end regardless of the main spending unit and would provide a technical basis for monitoring compliance with the requirements of the Regulation and the Framework Agreement.

3. A regional aggregation function. The OSA performs a coordinating but not a control role and has no instrument for consolidating information on the total volume of Ukraine Facility resources attracted to the oblast. It is proposed to assign to the relevant OSA unit (most likely the Department of Economic Development, within its existing role in the SPP) the function of regularly consolidating data on funding flowing into the oblast under all Ukraine Facility programmes, regardless of the main spending unit – without delegating new control powers to it.

4. An integrated project management system at local level. At hromada level, the functions related to a single project are divided among the council, the executive committee, the finance department, the sectoral unit and the procurement service without a single owner of the cycle. Introducing an integrated system that combines the local investment portfolio, budget planning, DREAM and internal control in a single loop – even in the form of internal regulations or assigning responsibility to one unit for supporting a project "from start to finish" – would eliminate the main risk: loss of end-to-end traceability at the most fragmented level of governance.

List of Sources

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