



European Economic Integration

Iryna TSYNALIEVSKA

FINANCING REGIONAL ECONOMIC DEVELOPMENT PROJECTS IN THE CONTEXT OF EUROPEAN INTEGRATION

Abstract

The article examines the transformation of approaches to the economic provision of regional and local development projects in Ukraine under the influence of the European Commission's requirements for reforms in the realm of state regional policy. The subject of the study is the adaptation of organizational and economic mechanisms of territorial development management to EU norms and regulations in the context of public investment. The purpose of the research is to improve approaches to ensuring territorial public investments through the optimization of state fund allocation under conditions of European integration and post-war recovery. The methodological basis of the study is a comparative analysis of public investment financing practices in the EU and Ukraine. To achieve the stated objective, methods of systemic and structural-functional analysis were applied, enabling the examination of the relationship between institutional reforms and financial mechanisms for supporting territorial development projects. Content analysis of EU and Ukrainian legal acts was employed, along with the generalization method, to develop a conceptual and methodological algorithm for project selection under conditions of European integration and post-war recovery. The main results of the study highlight the need to prioritize public investment projects, diversify funding sources, institutionalize governing bodies at regional and local levels, ensure stable co-financing from local budgets, integrate monitoring and evaluation systems, as well as to introduce public reporting. The author's proposed algorithm for project selection within the State Fund for Regional Development, of a conceptual methodological nature, enhances the efficiency of budgetary resource use, ensures compliance with European public investment standards, and creates institutional prerequisites for the recovery and sustainable development of Ukraine's regions and communities.

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Tsynalievskaya Iryna, Candidate of Economic Sciences, Senior Researcher, Department of Regional Economic Systems Development, State Organization «Institute of Market and Economic-Ecological Researches of the National Academy of Science of Ukraine», Odesa, Ukraine. ORCID: 0000-0002-9276-4264 Email: tsynalievskaya.i@gmail.com

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Problem Statement

Within the deepening of integration processes between Ukraine and the European Union, a new financial instrument – the Ukraine Facility (n.d.) – was introduced in 2024. By its structure and functional purpose, it is comparable to the Recovery and Resilience Facility of EU member states, created under the NextGenerationEU initiative to overcome the consequences of the COVID-19 pandemic. The Ukraine Facility establishes the prerequisites for large-scale programs of economic recovery and transformation through the implementation of structural reforms based on the Ukraine Recovery Plan, developed by the government with the involvement of civil society and business representatives and coordinated with the European Commission.

A distinctive feature of the instrument is priority financing at the initial stages of program implementation, which enabled the Government of Ukraine to promptly mobilize resources for critical recovery needs, in line with the Rapid Damage and Needs Assessment (RDNA). This approach corresponds to the logic of EU program financing, oriented toward achieving strategic objectives through agreed indicators and milestones.

The Ukraine Facility provides a multi-level financial model with three components: budgetary support, investment component, and technical assistance with interest rate subsidies. The total funding volume amounts to €50 billion for 2024–2027. Since funds are disbursed in stages, the Government of Ukraine is obliged to implement reforms defined in the “Ukraine Plan,” agreed with the European Commission. The Plan covers social, climate, and environmental priorities, the rule of law, gender equality, consideration of local self-government interests, and measures to counter fraud and corruption.

European integration reforms in the sphere of territorial development require the adaptation of Ukraine’s state regional policy to EU norms, particularly Chapter 22 of the *Acquis* (“Regional Policy and Coordination of Structural Instruments”). This entails changes in organizational and economic mechanisms for financing regional and local development projects through the implementation of reforms related to SFRD 3.0 and public investments, launched in 2024, actively pursued in 2025, and expected to continue until 2028.

The purpose of the article is to improve approaches to ensuring territorial public investments through the optimization of state fund allocation under conditions of European integration and post-war recovery.

Literature Review

The research problem of organizational, economic, and financial support for territorial development projects represents a highly promising subject of discourse in political, social, and economic science in Ukraine, particularly in the context of European integration and the post-war recovery.

In Ukrainian scholarly literature, the financing of regional and local development projects is primarily examined through the lens of creating favourable conditions for territorial growth, with emphasis on innovation and investment factors. Within this direction, the works of Burkynskyi (2016) and Mushenyk (2021) interpret financing systems mainly as instruments for stimulating innovation and attracting private capital at the regional level. Related to this strand are studies on regional investment attractiveness, such as those by Geleverya & Serhiienko (2020) and Yelnikova (2020), which analyse financial, institutional, and infrastructural determinants of regional capacity to mobilize investments. Complementing these approaches is a group of studies assessing investment potential at regional and local levels, focusing on resource provision, fiscal capacity, and institutional constraints (Laiko, 2009; Kukosh, 2018; Kryshchal et al., 2018; Dubovyk, 2024). Collectively, these works form a thematic cluster in which regional development financing is predominantly conceptualized through investment attractiveness and endogenous growth factors.

A second thematic cluster concentrates on the role of public investments in ensuring structural transformation and sustainable regional development. In this context, Skorokhod & Horbach (2021) analyze mechanisms of financial stimulation for innovation and ecological development, emphasizing the growing importance of “green” and technological priorities in Ukraine’s regional policy. Nevertheless, despite increased attention to innovation and sustainability, public investments as an independent object of analysis – regarding management, prioritization, and efficiency – remain insufficiently explored. One of the few exceptions is Ivashko (2023), which highlights certain aspects of public investment reform without systematically integrating them into European approaches.

The third thematic cluster emerges within European research and policy analysis devoted to public investment management and post crisis recovery financing mechanisms. Methodological foundations and practical experiences of EU countries, particularly the expertise of European Investment Bank groups, provide advanced analytical tools for assessing the effectiveness, coherence, and strategic orientation of public investments. In this context, Mahieu et al. (2024) substantiate the exceptional importance of the Recovery and Resilience Facility as a new instrument of EU economic governance. Empirical evaluations of macroeconomic and structural effects of the NextGenerationEU program, presented in studies by European scholars (Bankowski et al., 2024; Barbero et al., 2024; Vinzenz, 2022; Pecinovsky, 2023), demonstrate its impact on investment dynamics, fiscal coordination, and economic convergence in the Eurozone. Furthermore, research by Borghetto et al. (2026), Fabbrini (2023), and Alcidi & Gros (2020) analyses political factors and coalitions influencing resource allocation within NextGenerationEU and post COVID recovery and resilience plans. Studies by Zarkova (2025) and Aligishiev & Blotevogel (2025), dedicated to multiplier effects and macroeconomic consequences of EU investment programs, confirm the significant role of institutional and political aspects in utilizing EU funds to overcome crises.

Within the third thematic cluster of research, a significant role is played by analytical reports and policy briefs produced by leading European research centres. For example, the Friedrich-Ebert-Stiftung (Bureiko et al., 2024) examined the Ukraine Facility as a novel approach to EU support for Ukraine, while Pekanov (2025) analysed lessons learned from the Recovery and Resilience Facility to inform the design of a future European fiscal capacity. These studies underscore the evolution of financial support mechanisms for EU member states and candidate countries, emphasizing the increasing integration of financial assistance with coordinated strategic policy programming.

In addition, research conducted by the Foundation for European Progressive Studies (Baccini, 2025), the Institut Emile Vandervelde (Allemand et al., 2023), and The Jacques Delors Institute (formerly Notre Europe; see Rubio, 2011) further highlights the transformation of EU financial instruments. Collectively, these works demonstrate how financial support has become progressively embedded within broader strategic frameworks, thereby reinforcing the alignment of fiscal mechanisms with long-term policy objectives.

The fourth thematic cluster of research focuses primarily on the balance between public and private investments in the EU, the impact of institutional capacity on effectiveness, and the search for efficient mechanisms of territorial development financing. For example, the analysis of the Local Authorities Support Fund's role in reducing territorial disparities and financing municipal development plans is presented in the study by Pali et al. (2026), while the risks of EU fund utilization in regions with corrupt institutions are discussed by Di Cataldo et al. (2026). Research by Fajeau et al. (2026) examines the role of financial innovations in supporting local government investments, whereas the work of Francois et al. (2026) identifies the stimulating effect of public investments on private capital growth, known as the "crowding-in" effect. Strategic infrastructure investments and their economic impacts, analysed by Landwehr-Zloch & Hehn (2026) and Chen & Ki (2026), are considered drivers of economic growth and the green transformation of territories, reinforcing the relevance of territorial investments in the context of the EU's Green Transition.

An important informational and analytical foundation for the study is provided by the annual conclusions of the European Commission on the implementation of the Ukraine Plan (European Commission, 2023), prepared since 2022, when Ukraine's European integration processes gained new momentum and significantly intensified in the bilateral format.

On the basis of the identified thematic clusters, this article endeavours to overcome the fragmentation of existing approaches by combining domestic research on the institutional and financial support of territorial development with contemporary EU frameworks for public investment management and post-crisis recovery. Unlike previous works, which predominantly emphasize investment attractiveness or innovation stimulation as self-sufficient directions of analysis, this study integrates issues of public investment governance, strategic programming, and EU recovery instruments into a unified analytical framework. This enables a deeper understanding of the potential application of European public investment practices – primarily the Recovery and Resilience Facility – for improving organizational and economic systems of territorial public investment provision in Ukraine under conditions of post-war recovery and European integration.

Methodology

The methodology of the study is grounded in general scientific principles and the key tenets of economic theory. A range of methods of scientific analysis has been applied. Content analysis of research sources from European research centres was employed to understand the context and retrospective of policies concerning financial support for EU candidate countries within the Recovery and Resilience Facility. Systemic analysis was used to align objectives, resources, and institutional mechanisms for project selection under the State Fund for Regional Development (SFRD). Contextual analysis was applied to examine the prerequisites and potential consequences of implementing the SFRD 3.0 reform. Comparative analysis was conducted to juxtapose approaches to the organizational and economic provision of territorial development projects in the EU and Ukraine according to the following criteria: type of approach, planning horizon, co-financing requirements, institutional coordination mechanisms, project selection procedures, monitoring systems, and consistency with strategic development priorities. This methodological framework enabled the comparison of instruments and methods of organizational and economic support for territorial development projects in the EU and facilitated conclusions regarding significant differences in approaches to the formation, allocation, and monitoring of financial resources in the EU and Ukraine.

Research Results

Organizational and economic support for territorial development constitutes a key instrument for achieving strategic development objectives both in the EU and in Ukraine. However, approaches to the formation, allocation, and monitoring of financial resources in these systems differ significantly in terms of institutional maturity, programmatic logic, and integration with evaluation mechanisms.

In the EU, financing of territorial development projects is carried out within the framework of cohesion policy, implemented through multi-annual programs coordinated with the European Commission. The main sources include: (1) the European Regional Development Fund (ERDF), (2) the European Social Fund+ (ESF+), (3) the Cohesion Fund, (4) Interreg cross-border cooperation programs, and (5) instruments for innovation and green transformation (Horizon Europe, LIFE). Financing is predominantly based on a programmatic approach, whereby each Member State develops an Operational Program encompassing objectives, indicators, budget, monitoring and evaluation systems, and partnership mechanisms. Co-financing from national or regional budgets is mandatory for EU countries.

In Ukraine, by contrast, the primary state financing instrument for most territorial development projects is the State Fund for Regional Development (SFRD). Additional sources include state budget subventions (for infrastructure, education, healthcare), funds from foreign and international organizations providing technical assistance (UNDP, GIZ, USAID, etc.), resources from international financial institutions (World Bank, EBRD, EIB), as well as local budgets and private partners through private investment or public-private partnership mechanisms. The absorption of funds for recovery and development projects in Ukraine from international sources occurs in the form of loans, grants, and technical assistance. The system of international support for Ukraine's recovery is multi-level: international financial institutions provide

large credit resources, donor agencies supply grants and technical assistance, while specialized funds deliver targeted financing for communities. For Ukrainian regions and municipalities, this creates opportunities to combine different sources – grants, loans, and expert support – within a single project, which in practice represents the most common form of utilizing foreign funds.

The aforementioned sources of financial support for post war recovery projects in Ukraine's regions and communities have been practically utilized during 2022–2025 (World Bank, 2026). At the same time, since the onset of the full scale invasion of Ukraine, political debates have been ongoing regarding the possibility of using frozen Russian assets in EU countries for Ukraine's recovery. At present, there is no unanimous decision within the EU on this matter and given that decisions on joint international policy in the European Parliament require unanimity, the issue of Russian reparations – sourced from frozen assets – remains more of a political lever than a tangible economic instrument. Nevertheless, in the absence of a legal mechanism for the direct use of frozen Russian assets, the adoption in 2024 of Council Regulation (EU) 2024/576 and Council Regulation (EU) 2024/1471 created the possibility of utilizing revenues generated from such assets. According to these acts, the so-called “extraordinary revenues” generated by central depositories from the management of frozen assets are to be accumulated and subsequently redistributed through EU instruments, one of which is the Ukraine Facility, established by Council Regulation (EU) 2024/792.

Financing of territorial development projects in Ukraine from the state budget is conducted annually on a competitive basis, in the absence of long term programming and guarantees of full funding for regional and local development projects and programs. Project selection is predominantly oriented toward infrastructure needs rather than strategic priorities. Moreover, co financing from local budgets is desirable but not always guaranteed at the level of local self government bodies in Ukraine. A comparison of approaches to the organizational and economic provision of territorial and local development projects in the EU and Ukraine is presented in Table 1.

Table 1

Comparative Analysis of Organizational and Economic Approaches to Territorial Development Projects in the EU and Ukraine

Aspects	EU	Ukraine
Regulatory framework for policy	Cohesion Policy, aligned with EU acquis (Chapter 22)	Law of Ukraine “On the Principles of State Regional Policy”
Approach type	Programmatic	Project-oriented
Planning	Multiannual; strategic; implemented through multiannual programmes agreed with the European Commission	Annual competitive; fragmented; without long-term programming
Funding sources	EU Structural Funds (ERDF, ESF+, Cohesion Fund), Interreg, Horizon Europe, LIFE; national budgets; private partners	State Fund for Regional Development (SFRD); state budget subventions; international technical assistance; local budgets; public-private partnership, private investment

Aspects	EU	Ukraine
Cofinancing	Mandatory national/regional co-financing (15–50%)	Partial on the part of the local government; depends on the capacity of the community
Project orientation	Strategic priorities, innovation, green transition, social cohesion	Predominantly infrastructure needs, less focus on strategic priorities
Institutional structure	Governing bodies, partner committees, independent auditors	The Ministry for Communities and Territories Development of Ukraine, regional state administrations, agencies for regional development, communities
Integration with monitoring and evaluation systems (M&E)	High: through built-in evaluation systems, reporting to the European Commission	Low: monitoring and evaluation (M&E) is applied selectively, without system integration
Transparency and openness	High; available instruments: ESPON, Open Data, SFC platforms	Partial; reporting is limited, data is not always available

Source: developed by the author.

On 8 November 2023, the EU Enlargement Package 2023 was adopted, within which it was recommended to commence negotiations with Ukraine (and Moldova). At the same time, the European Commission published the Ukraine 2023 Report, which contains an assessment of Ukraine's readiness for integration and progress across 33 chapters of the EU acquis. In particular, Chapter 22 "Regional Policy and Coordination of Structural Instruments" noted that Ukraine possesses a certain level of preparedness in this area; however, overall progress during the reporting period was limited (Bezghina & Tretiak, 2024). Accordingly, specific recommendations were issued for 2024:

1. Update the State Strategy for Regional Development and modernize the State Fund for Regional Development to align with recovery and reconstruction processes, as well as with the principles of multi level governance and territorially oriented regional policy.

2. Introduce necessary measures for the implementation of the Law "On the Principles of Regional Policy," particularly taking into account the uneven impact of the war on different regions of Ukraine; strengthen the capacity of regional and local authorities to prepare relevant development projects.

3. Improve the coordination structure of regional policy to ensure systematic and inclusive involvement of regional and local stakeholders, reinforce the coordinating role of the Ministry of Recovery, and enhance the regional dimension of the Recovery Agency's activities.

With regard to Recommendation No. 1 on updating the State Strategy for Regional Development for 2021–2027 and revising the functionality of the State Fund for Regional Development, it should be noted that the document prepared in 2020 did not reflect the realities of martial law, which has been in effect since February 2022. In line with current conditions, the European Commission emphasized the need to update the system of fund allocation within the State Fund for Regional Development (SFRD). Amendments adopted in June 2023 to the Law of Ukraine

“On the State Budget of Ukraine for 2023” (Draft Law No. 9165 of 31.03.2023) stipulated the transfer of SFRD balances to the needs of the Armed Forces of Ukraine. Furthermore, in 2024, financing for the SFRD was not provided in the Law “On the State Budget of Ukraine for 2024,” with its functions partially substituted by the Fund for the Elimination of Consequences of Armed Aggression, established in autumn 2022. Meanwhile, the new reform package aimed at harmonizing provisions and procedures in state regional policy with EU standards included the European Commission’s requirement to restore the functioning of the SFRD in accordance with priority tasks and contemporary needs, transforming its functions to reflect wartime conditions and replenishing the fund with financing.

Subsequent steps in transforming the SFRD were linked to the implementation of the EU’s financial support program for Ukraine, which resulted in the development of a separate financial instrument – the Ukraine Plan (Ukraine Facility). This plan, encompassing a set of reforms to ensure further recovery, economic development, and European integration, includes the transformation of state policy systems simultaneously in three directions: fundamental reforms, economic reforms, and reforms of key sectors.

The basic reforms are of a long term nature, aimed at ensuring rapid recovery and sustained economic growth. They concern the enhancement of public administration efficiency, finance management, judiciary, combating corruption and money laundering. The package of economic reforms envisages transformations in the financial sector, state asset management, human capital development, business environment, implementation of decentralization reform and a more effective regional policy. Sectoral development reforms address (1) the energy sector, (2) transport, (3) agriculture, (4) critical raw materials (covering the extraction and processing of 22 categories of minerals considered critical for the EU), (5) entrepreneurship, SME development and manufacturing, (6) digital transformation, and (7) the green transition and environmental protection.

As part of efforts to synchronize Ukraine’s state regional policy with EU cohesion policy standards and approaches, and in response to the recommendations of the European Commission, the Cabinet of Ministers of Ukraine approved the following measures:

1. Preparation and submission to the Cabinet of Ministers of proposals for amendments to the State Strategy for Regional Development 2021–2027, with the aim of updating and aligning it with recovery and reconstruction processes, the principles of multi-level governance, and territorially oriented regional policy;

2. Preparation and submission of a draft act on the modernization of the State Fund for Regional Development, introducing new principles:

- Popular participation through voting on the allocation of funds for regional development via the Diia Portal;
- Financing of programs and projects based on performance;
- Lending in line with priority directions of national, regional, and local development strategies.
- Transparency and accountability of recovery project implementation ensured through an integrated digital architecture of state information systems, providing end to end monitoring of public expenditure, project registration, implementation control, and the generation of transparent reports for the public, donors, and government bodies.

The implementation of the SFRD reform is aimed at supporting local self-government bodies in the processes of recovery, reconstruction, and modernization of infrastructure and social services. In particular, the planned financing covers two key directions: (1) reconstruction and renewal of infrastructure facilities damaged as a result of hostilities, and (2) addressing social disparities and strengthening healthcare systems (with emphasis on expanding access to medical services), reforming social support systems to ensure their accessibility for the most vulnerable groups of the population (veterans, internally displaced persons, children, and persons with disabilities).

With regard to the involvement of Ukrainian citizens in voting through the Diia Portal as part of the procedure for selecting local-level investment projects, the proposed Selection Mechanism is one of three basic mechanisms (“baskets”) is shown in the updated SFRD: (1) participatory budgeting (public budget) (10% of the total SFRD fund), (2) subvention for the recovery, reconstruction, and modernization of subnational authorities, including local self-government bodies (through Ukraine Facility resources), and (3) concessional loans to local self-government bodies.

Government’s proposed mechanism for selecting local investment projects via the Diia Portal raises several contentious aspects in terms of implementation, including:

(1) Competence of participants (qualitative sample). The public’s assessments of the prospects for regional development projects are largely subjective and limited by individual perceptions of the situation. It is precisely because of citizens’ lack of expertise on complex issues that there is a political practice of delegating the functions of choice and decision-making to members of parliament at the relevant level or to the president in the sphere of foreign policy and certain areas of domestic policy.

(2) Quantitative sample. Electronic voting on the Diia Portal is available only to registered users, numbering 23 million as of October 2025 (Interfax–Ukraine, 2025). However, availability does not guarantee participation, and voting behavior may be random. Most users employ the portal primarily for Diia.Signature, business (private entrepreneurship) registration/closure, or individual state services access. This raises questions of representativeness. Moreover, the lack of authorization on the portal for residents not registered in a territory but wishing to vote may be considered a restriction of constitutional rights, particularly under Article 64 of the Constitution of Ukraine.

(3) Information accessibility. Citizen awareness of the issues under consideration is a crucial factor influencing voting outcomes. Therefore, mechanisms and financial support for adequate public information must be developed.

(4) Rights limitation. Individuals not formally registered in a community but residing there for extended periods are excluded, which constitutes a violation of constitutional rights.

(5) Potential abuses. Risks of administrative pressure or bribery during voting may undermine legitimacy.

Regarding the second principle of modernizing the State Fund for Regional Development – “Financing programs and projects based on performance” – the lack of continuity in funding already selected and initiated projects (absent substantiated objections or changes in feasibility due to wartime conditions) reduces the effectiveness of the SFRD. Consequently, the algorithm for project selection and financing after the full scale invasion must necessarily incorporate the principle of continuity in allocating funds to projects previously selected on grounds of feasibility and those already initiated in past budgetary periods.

Throughout 2024, the Ministry for Communities and Territories Development of Ukraine concentrated its activities on legislative changes aimed at transforming the State Fund for Regional Development (SFRD) into a financial instrument capable of implementing the recommendations of the World Bank, set out in the Diagnostic Report on Public Investment Management, and fulfilling the requirements of the EU Regulation “On the Establishment of the Ukraine Facility.”

The mechanism for financing local recovery, introduced from 2025 within the framework of public investment reform, is based on a system of strategic documents, notably the updated State Strategy for Regional Development 2021–2027, implemented through regional development (and recovery) strategies, community development strategies, and corresponding action plans. The targeted allocation of SFRD resources toward achieving the objectives of state regional policy remains unchanged; applicants for programs are local and regional councils, with submissions processed through the DREAM ecosystem.

The reform concept of the SFRD suggest expanding funding sources through the general state budget (1.5% of its revenues, suspended during martial law) and a special fund that accumulates EU and international donor resources for recovery and modernization. The implementation of the SFRD 3.0 model necessitated amendments to the Budget Code (Verkhovna Rada of Ukraine, 2010), the Law of Ukraine “On the Principles of State Regional Policy,” the Law of Ukraine “On the State Budget for 2024,” and Cabinet of Ministers Resolution No. 196 of 18 March 2015. Moreover, the proposed changes required the development of appropriate algorithms, procedural and functional frameworks.

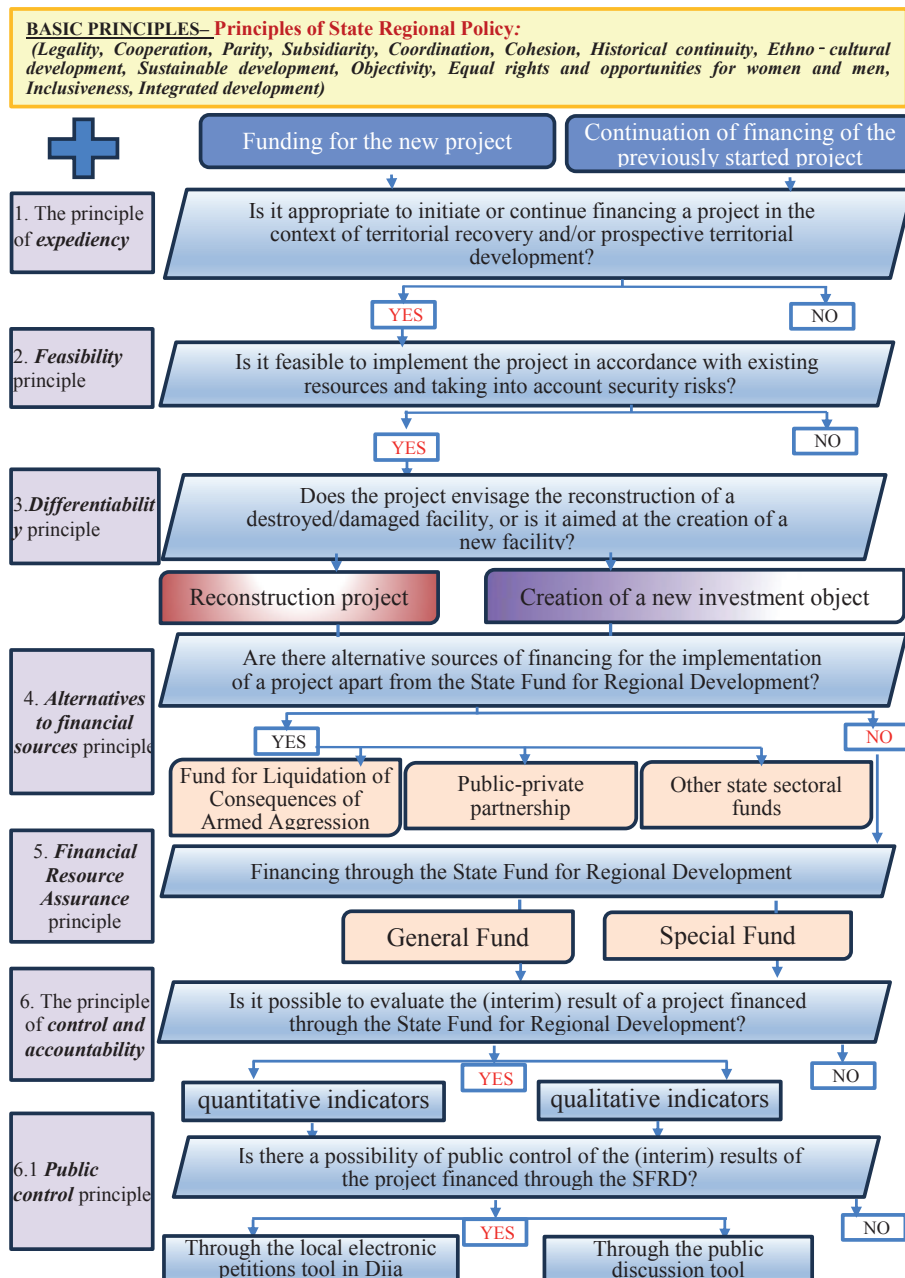
The algorithms for project selection under the SFRD require methodological recommendations on the prioritization of programs (project portfolios) to determine the scope of their financing. These algorithms must be harmonized with the existing Methodological Recommendations on the Prioritization of Projects for Eliminating the Consequences of Armed Aggression of the Russian Federation against Ukraine, developed on the basis of the World Bank’s Infrastructure Project Prioritization Framework for the Fund for the Elimination of Consequences of Armed Aggression. The need for a clear delineation of resource allocation mechanisms between the Fund for the Elimination of Consequences of Armed Aggression and the State Fund for Regional Development arises from the partial overlap of their functions in financing recovery projects.

An additional aspect not accounted for in the design of resource allocation mechanisms concerns the organizational and economic support of projects previously selected for financing under SFRD programs but not implemented due to insufficient funding or the protracted duration of project execution. The continuity of financing for medium-term projects already selected is an essential prerequisite for ensuring the effectiveness of recovery processes. Consequently, inadequate financial provision, as well as inconsistency in project selection for implementation, serve as underlying causes of the limited efficiency of the SFRD.

The procedure for selecting projects financed under participatory budgeting (public budget) must be supported by an appropriate algorithm. The procedure (algorithm) for project selection for financing under the SFRD proposed in this study is presented in Figure 1.

Figure 1

Financing Selection Algorithm for Public Investment Projects



Source: author's own elaboration.

Each project category requires the establishment of quotas to ensure the continuity of regional (local) development and recovery policy. This applies primarily to projects whose implementation is transitional from previous budgetary periods. Provided that feasibility and implementation capacity are preserved, the selection procedure must be carried out according to a defined hierarchical sequence and principles.

Within the framework of the aforementioned algorithm, a “reconstruction project” is defined as a comprehensive set of measures directed toward reconstruction, restoration, capital repair, or new construction of infrastructure facilities, educational institutions, scientific establishments, social protection facilities, or other assets destroyed as a result of hostilities. The functioning of such facilities is critically important for meeting the basic needs of the population of the respective territory and/or for creating the prerequisites for the sustainable development of human and social capital.

The term “creation of a new facility” encompasses the full cycle of actions related to the preparation of project documentation, execution of design works, direct construction of buildings and structures, development of software, creation of electronic tools, or other facilities whose functioning is essential for meeting vital needs of the population and/or establishing the foundations for long-term socio-economic development in the respective territory.

The concept of “soft infrastructure development” covers the implementation of projects aimed at introducing innovations, supporting local entrepreneurship, fostering human and social capital, strengthening healthcare, promoting formal and non-formal education, establishing effective multi-level governance, advancing the knowledge economy, developing environmentally sustainable technologies, enhancing energy efficiency, and other directions that contribute to improving the quality of life of the population and the institutional capacity of territorial communities.

Discussion

In the context of post-crisis recovery and limited financial resources, the proposed algorithm should be supplemented with a systematic risk assessment of implementation and mechanisms for adjusting project prioritization. Risk assessment must encompass political risks (changes in policy priorities, conflicts of interest, instability of managerial decisions), institutional risks (limited capacity, insufficient coordination, procedural delays), and technical/security risks (resource shortages, staffing constraints, security conditions, technological complexity of implementation). The results of risk assessment may determine the sequencing of measures and serve as corrective coefficients in the overall evaluation of projects, particularly in cases of closely competing outcomes.

For projects within participatory budgeting, it is recommended to introduce a scoring system that reconciles the results of public voting with the strategic prioritization of projects, classifying them as recovery projects, previously initiated projects, or prospective development projects. In addition, quotas should be established for “hard” and “soft” infrastructure projects to prevent structural imbalances in financing and to ensure support for education, culture, social services, and human capital. It

should be noted that, at present, “hard” infrastructure projects are more promising for financing through the State Fund for the Elimination of Consequences of Armed Aggression or potentially through public-private partnership contracts, which must be considered in the logic of resource allocation.

Fiscal risk control and the strengthening of the long term sustainability of public investments will be carried out by the Ministry of Finance of Ukraine within the framework of the Action Plan for Improving Public Investment Management. The provisions of this plan will serve as the basis for evaluating the effectiveness and risk profile of investment measures set out in strategic reconstruction projects.

The algorithm for selecting public investment projects proposed in this article is of a conceptual-methodological nature, and its empirical verification was not included among the objectives of this study, which constitutes its principal limitation. Future research will be directed toward applied testing of the algorithm on real or simulated project portfolios, including the use of simulation modeling or formalized test cases. Such an approach will enable verification of the algorithm's practical applicability, identification of potential limitations, and refinement of the conditions for its application within a system of multi-level governance.

Conclusions

The improvement of organizational and economic support for the implementation of recovery and development projects in Ukraine's regions and communities constitutes an urgent requirement, given the scale of destruction and the limited state resources under conditions of ongoing hostilities on Ukrainian territory. The system of international support for Ukraine's recovery has a multi-level structure that encompasses diverse institutional financing mechanisms. International financial organizations provide access to large-scale credit resources, donor agencies allocate grants and technical assistance, while specialized funds channel targeted financing directly to communities. For Ukrainian regions and municipalities, this creates opportunities to apply blended financial models that combine grant funding, credit instruments, and expert support within a single project. Such an approach enhances the resilience of financing and contributes to more effective implementation of recovery and development programs. At the same time, practice demonstrates that the State Fund for Regional Development remains the primary source of financing.

The adaptation of Ukraine's state policy to the requirements of the European Commission necessitates a transformation in approaches to the organizational and economic support of territorial development and recovery projects. This transformation should be achieved through the diversification of financing sources and instruments, as well as the modernization of territorial governance mechanisms. Such measures will enable national and local institutions to advance more effectively in adjusting to the evolving conditions of Ukraine's economy and public administration within the framework of European integration. The implementation of territorial development project financing must therefore proceed through public investment reform, which requires the adoption of innovative approaches, including:

- the development of medium term regional (and local) development programs with clearly defined goals and indicators;

- institutionalization of governing bodies at the regional level;
- provision of stable co financing from local budgets;
- integration of monitoring and evaluation systems into all stages of financing;
- public reporting and data transparency for citizens and donors.

These measures will not only enhance the efficiency of budgetary resource utilization within public investment frameworks but also ensure alignment with European standards, which is of critical importance in the context of Ukraine's integration into the EU.

The research materials, particularly the algorithm for project selection in regional and local development proposed by the author, may be employed by the Ministry for Communities and Territories Development of Ukraine to improve methodological approaches to the implementation of public investment management reform.

Future studies should provide applied testing of the proposed algorithm on real or simulated project portfolios, including the use of simulation modeling and formalized test cases. This will enable assessment of its effectiveness under different scenarios of financing and regional development governance.

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