

# Ukraine's Decentralization Reform: Fostering Resilience Amid Russia's War & Paving the Way for Recovery



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Ukraine's capacity for self-defense against Russia's full-scale military aggression extends beyond the input of the defenders in the Armed Forces. This article explains how Ukraine's pre-war decentralization arrangements help in resisting Russia's military invasion and will contribute to the country's recovery from the war. This positive input is an unintended consequence of enhancing the institutional and financial capacities of regional and local authorities to perform their delegated responsibilities for the sake of improving public service delivery. Since the outbreak of full-scale war in February 2022, Ukraine's cities and regions have used their enhanced prerogatives to contribute to territorial defense and support millions of internally displaced people (IDPs). Simultaneously, they have effectively partnered with foreign governments, regions, and municipalities to implement President Volodymyr Zelensky's initiative of international "patronage" over the recovery of territories and foster cooperation between domestic and foreign cities and regions for the sake of Ukraine's recovery. Sustaining the financial capacities of domestic subnational authorities during the war can be challenging, though. The territorial dimension of the newly launched Multi-Agency Donor Cooperation Platform for Ukraine can be considered as enabling the continued input of cities and regions in the country's recovery.

## Pre-war Decentralization Arrangements

When domestic policymakers launched the decentralization reform, they did not anticipate any implications for resisting against external military aggression in the future. Ukraine's leadership initiated the reform to improve the capacity of authorities to deliver public services, which had been deteriorating for decades, largely due to severe fragmentation of municipalities. Local authorities in thousands of tiny villages with 1,000-3,000 residents did not possess enough resources to provide even basic public services to residents and largely relied on the input of their superiors. Only big cities generally had satisfactory healthcare, education, and administrative services.

### Designing decentralization

In 2005, policymakers attempted to reduce the fragmentation of municipalities for the first time, but it took several successive governments a decade to prepare the proper grounds for and succeed with implementing the local amalgamation policy in 2015-2020. The policy implied merging different types of municipalities into amalgamated territorial communities (ATCs), capable of public

service delivery in primary and secondary education, the domain of administrative services, social protection, etc. The major incentive and enabler of the local amalgamation policy was fiscal decentralization. In late 2014, the reformers amended the tax code and budget code to redistribute financial resources among regional (*oblast*), subregional (*rayon*), and local (municipal) authorities for the benefit of ATCs. Prior to the reform, many municipal budgets were nestled within their region's budgets; the central government used to pass the budget allocations to the regions; in turn, the centrally appointed regional governors used to determine how to distribute the budget allocations among municipal budgets within their area. In line with the new fiscal rules, all ATCs obtained their local budgets; moreover, direct inter-budgetary relations between the central budget and local budgets were introduced. Importantly, ATCs' budgets were assigned the increased shares of taxes, most notably 60% of the personal income tax (PIT), as well as various subsidies and formula-based grants from the central budget. As a result, intergovernmental relations within the country became more transparent, and opportunities for non-transparent bargaining between regional governors and local authorities dropped.

### Policy implementation: advances and drawbacks

The local amalgamation policy started in February 2015 and was fully completed by June 2020, with approximately 11,000 localities merging into 1,469 ATCs. This significantly reduced the scope of fragmentation at the municipal level. Also, the cohort of local elites shrank: once municipalities merged into one ATC, their residents jointly elected only one mayor and one local council for the entire ATC. These changes happened at the municipal level, but they had implications for subregional and regional authorities. Prior to the decentralization reform, regional and subregional authorities were mostly in charge of public service provision at local scales. Once the decentralization reform was implemented, they could perform their priority duties and promote regional development. Following the completed local amalgamation, in July 2020, 490 subregions (*rayons*) were merged into 136 larger subregions, but the number of regions (*oblasts*) stayed the same. The composition of regional and subregional authorities – directly elected councils and centrally appointed governors – remained the same: the centrally appointed regional and subregional governors executed the decisions of the central government and the decisions made by the directly elected regional and subregional councils.

The reform implementation had its flaws, though. There were

instances, when the scope of new duties did not match the available resources, especially in small ATCs that lacked revenue-generating enterprises and thus could not afford taking on new delegated responsibilities. Additionally, the allocation of PIT in Ukraine is based on where people work, not where they live. Enterprises can be located in small ATCs, but be registered in big cities. As a result, PIT is paid to the budgets of big cities, while small villages carry the burden of public service provision to their employees. In both types of ATCs, improving public services meant not only creating new facilities (like brand-new centers for administrative service provision), but closing small schools and transporting pupils to better-equipped schools in cities. Some of the reform's flaws were addressed during the reform implementation, based on evidence-based policy advice from international technical assistance programs, most notably "U-LEAD with Europe" (U-LEAD = Ukraine Local Empowerment, Accountability and Development Program), funded by the EU, some EU member-states, and, also, Japan. U-LEAD established regional offices across the country and tasked them to identify the challenges of the reform implementation process on the ground and then propose potential policy solutions for the central government. Despite these means of problem-solving helping, a comprehensive evaluation of the reform deliverables was necessary.

Ukraine's leadership expected to assess the capacities of ATCs to fulfill their duties based on their performance over a three-year period. The prospective assessment criteria included the financial sustainability of local budgets in ATCs, the quality of public services delivery, and the pace of local development. This assessment was absolutely necessary, but Russia's invasion prevented this from happening on schedule, and the assessment will need to be carried out once the war is over and Ukraine moves into the postwar reconstruction phase.

### Ukraine's Bottom-up Resistance to Russia's Military Aggression

When Russia openly invaded Ukraine in February 2022, martial law was introduced, and the centrally appointed regional executives assumed the duties of military administration leaders in the regions. Their responsibilities increased, but the duties of local authorities remained important, too. Notably, most local authorities managed to sustain life support in municipalities during Russia's invasion. Regional and local authorities combined efforts to exercise two new responsibilities: contributing to territorial defense in a time of war and supporting millions of IDPs.

#### Supporting territorial defense

Their involvement in territorial defense was envisioned but not fully implemented before Russia launched its full-scale invasion. After the local amalgamation reform was fully completed, central authorities approved the 2021 law on national resilience and introduced a multilevel system of territorial defense. Brigades of territorial defense were planned to be established in the capital and regions, while battalions of territorial defense were intended for subregions. The

leaders of these units were to be under the authority of the chief commander of territorial defense within the Armed Forces of Ukraine. These units were to be comprised of military personnel, but civilians too could sign contracts, enroll, and undergo training. Additionally, the central military command had the authority to initiate the creation of volunteer formations in ATCs. These formations were expected to be made up of civilians residing in the municipalities and were tasked with defending communal infrastructure, under the strict subordination to the military command. Subnational – regional, subregional, and local – authorities were expected to provide institutional and financial support for the establishment of the territorial defense units and volunteer formations. They were allowed to allocate funds to establish territorial defense units in regions and subregions, as well as volunteer formations in ATCs, under the coordination of the central military command.

When Russia invaded, the territorial defense system was not launched, and no volunteer formations were established, because the military command planned their launch for a later time. This is evident from the report of the Commander-in-Chief of the Armed Forces of Ukraine on February 11, 2022, which claimed that the contribution of subnational authorities to territorial defense was anticipated in the long term, not immediately. After Russia invaded Ukraine, subnational authorities quickly moved to create territorial defense units in regions and subregions and volunteer formations in ATCs. Mayors of ATCs reported to the military command in regions and subregions and followed their instructions. Numerous civilians expressed their willingness to join either the Armed Forces of Ukraine or territorial defense units and volunteer formations in ATCs to help protect their villages, cities, and regions. Since then, territorial defense has been contributing to defending the country from the invaders.

#### Supporting internally displaced people

Simultaneously, subnational authorities have provided support to IDPs, utilizing their own budgets, financial support from the central government, and donations from international partners. In spring-summer 2022, the numbers of IDPs reached 8 million in Ukraine. By summer 2024, there remain approximately 3.7 million IDPs in the country. Notably, the highest numbers of IDPs are registered not far away from the frontline in Western Ukraine but relatively close to the frontline in Eastern Ukraine.

IDP registration has become an important priority task of local authorities. In an interview in February 2024, an international expert on decentralization Tony Levitas highlighted that maintaining a civil registry is one of the core delegated responsibilities of local authorities; thus, it is not surprising that the central government delegated the tasks of registering IDPs to subnational authorities and provided them with guidelines on procedures. Fortunately for IDPs in Ukraine, the pre-war decentralization reform enhanced the capacities of local authorities to provide administrative services through Centers for Administrative Service Provision (known as *TSNAP* in Ukrainian), territorial divisions of *TSNAPs*, and mobile *TSNAPs*. *TSNAPs*, managed by local authorities, had been often set up with international technical assistance, such as U-LEAD with Europe, with significant

contributions from organizations like the German GIZ and the Swedish SIDA. According to domestic expert Viktor Tymoshchuk, whom I interviewed in February 2024, approximately 70-80% of all TSNAPs in Ukraine were launched with support from donors; Ukraine's local self-government bodies funded 10-15% of TSNAPs from their own budgets; the remaining TSNAPs were built using state funding. In late March 2022, the central government permitted the registration of IDPs in TSNAPs and connected TSNAPs to the necessary registries. Additionally, local authorities could directly perform IDP registration in small municipalities with no TSNAPs. Given the unprecedented scope of IDPs in Ukraine, the input of local authorities in IDP registration is difficult to overestimate.

Simultaneously, subnational authorities have been providing shelter to IDPs through utilizing their own budgets, financial input from the central government, and support from international partners. In January-February 2024, I inquired with domestic subnational authorities about their experiences in addressing the housing needs of IDPs. Based on their responses, I identified typical examples of how regional and local authorities join efforts with international partners to construct or repair temporary and permanent housing for IDPs. These typical examples refer to small and big municipalities and regions in different parts of the country. The most popular solution is to approve local and regional programs that envision co-funding measures aimed at improving housing conditions for IDPs. For example, the city of Pidhorodsk in Eastern Ukraine, with approximately 20,000 residents, approved the 2022 local program, which included co-funding urgent repairs of communal premises for IDPs in partnership with the United Nations Development Program. In order to obtain international funding, subnational authorities apply for available grants; loans are significantly less popular. But if successful, subnational authorities in Ukraine are required to cover some expenses from their local and regional budgets, provide land, build bomb shelters and cover utility fees.

For example, the city of Novovolynsk in Western Ukraine, with approximately 50,000 residents, secured an international grant to construct a building for IDPs as part of the "Housing for Internally Displaced Persons and Reconstruction of Ukrainian Cities" project, funded by the EU and managed by NEFCO. The city of Khmelnytskyi in Western Ukraine, with approximately 270,000 residents, obtained

competitive funding from NEFCO to construct permanent multi-apartment residential buildings for IDPs. There are precedents, when regional and local authorities join their financial resources when collaborating with international funders. For instance, regional authorities in the Poltava region in Central Ukraine, with approximately 1.4 million residents, approved a comprehensive program for IDPs, which envisioned the construction of a modular (temporary) settlement for IDPs, funded by a grant from the UK government and managed by the Foundation of International Solidarity of Poland. Such projects complement Ukraine's state capacity of fulfilling its social responsibilities towards its citizens in need.

### Contribution to Ukraine's Recovery Even Before the War Is Over

The war is not over, but subnational authorities are helping Ukraine's reconstruction. The Third Rapid Damage and Needs Assessment, jointly issued by the World Bank, the government of Ukraine, the EU, and the UN in February 2024, highlights the efforts of Ukraine's local governments in reconstructing schools and kindergartens. Nearly 500 out of approximately 1,000 schools damaged or destroyed by Russia have been rebuilt or repaired by local authorities. Also, they repair residential buildings, bridges, and roads that Russia damaged or destroyed.

#### Domestic intergovernmental arrangements

To cover expenses associated with reconstruction, subnational authorities collaborate with the central government and utilize their own financial resources. When collaborating with the central government, subnational authorities primarily work in conjunction with the Ministry of Development of Communities, Territories and Infrastructure of Ukraine (also known as the UA Restoration Ministry), which is responsible for planning and implementing the recovery process, as well as the State Agency for Restoration and Infrastructure Development of Ukraine (the UA Restoration Agency), which operates under the UA Restoration Ministry. The division of duties is as follows. Subnational authorities identify the recovery needs at local scales and submit requests/applications to the UA

Photo 1: Slaviansk, EU/ECHO September 2014



Some small-scale reconstruction has started.

Photo 2: Wikimedia Commons



Wheat fields in Ukraine

Restoration Agency for the reconstruction of damaged infrastructure. The UA Restoration Agency then forwards these requests to the UA Restoration Ministry, which evaluates the applications and assigns the UA Restoration Agency to execute the selected restoration projects.

When utilizing their own budgets to restore damaged infrastructure, local authorities update regional and local regional development strategies to address the actual needs of reconstruction. Russia's ongoing invasion undermines the financial capacity of subnational authorities, but Ukraine's leadership makes efforts to advance it, where possible: it increased the share of PIT allocated to local budgets from 60% in 2021 to 64% in 2022-2023. Notably, the city of Kharkiv in Eastern Ukraine, which has been heavily bombed and shelled by Russian missiles, managed to announce its first public procurements for the reconstruction of ruined residential buildings as early as in May 2023. By June 2024, the city held 78 public procurements, aimed at the city's reconstruction.

### *Supporting international "patronage" over the recovery of territories*

Still, generating revenues during the war is a challenging task, and the authorities work hard to involve foreign partners in the reconstruction efforts of the country. In May 2022, Zelensky suggested that international partners choose a region or municipality in Ukraine to support its reconstruction. This approach was referred to as international "patronage" over the recovery of territories. Zelensky's call was reflected in Ukraine's National Recovery Plan, presented by Prime Minister Denys Shmyhal at the International Ukraine Recovery Conference in Lugano in July 2022. The centrally appointed regional governors were the major implementers of the president's initiative. They were tasked to collect data on damage and losses jointly with local authorities and prepare proposals for recovery. Notably, regional governors did not have to coordinate their proposals with the central government and could submit them directly to foreign embassies in Ukraine. I closely examined the first case of international patronage – Estonia's input in reconstructing a kindergarten and a bridge in the Zhytomyr region in the north of Ukraine. My study discovered that the memoranda on reconstructing the kindergarten in the city of Ovruch and a bridge in the city of Malyn did not require any involvement of the government of Ukraine: only Estonia's international development agency (ESTDEV) and Ukraine's subnational authorities signed the documents. The Ovruch kindergarten reconstruction project required limited financial input from the Ovruch city council, but was largely financed by the grant from the government of Estonia. In turn, the reconstruction of the Malyn bridge was co-financed by Estonia and the Zhytomyr region.

### *Collaboration with foreign cities and regions*

Since March 2022, domestic municipalities have been engaging their foreign counterparts in providing urgent support measures and humanitarian aid. Shmyhal proposed that domestic local authorities prioritize cooperation to assist Ukraine's reconstruction at the local level. By December 2023, 379 territorial communities in Ukraine had

signed 1,626 agreements with partners in 62 countries. Poland and Germany are the leading countries with 556 and 212 partnership agreements, respectively. Japan, too, is engaged in this kind of international interregional and intermunicipal cooperation: there are seven such agreements signed between Japanese and Ukrainian counterparts. My fieldwork of the ongoing cooperation between Japanese and Ukrainian regions and cities reveals three major priorities: humanitarian aid; businesses-to-business cooperation; and personnel training/expert assistance. Importantly, four out of seven partnerships between Japanese and Ukrainian municipalities and regions involve commitments to contribute to Ukraine's recovery and reconstruction: Yokohama–Odesa; Hyogo Prefecture–Mykolaiv Region; Hyogo Prefecture–Ivano-Frankivsk Region; Osaka–Dnipro. They do not include financial commitments and, instead, emphasize the willingness of Japanese counterparts to share their technological know-how, knowledge, and experience.

Thus far, the Multi-Agency Donor Cooperation Platform for Ukraine, launched in early 2023 and responsible for coordinating donors' targeted cooperation, did not offer meaningful support to implementing the international patronage initiative and international interregional and intermunicipal cooperation. However, this platform has the potential to contribute to sustaining the input of subnational authorities in Ukraine's recovery in the long run.

## **Conclusion**

Ukraine's cities and regions help in resisting Russia's war and preparing for the country's recovery. They cope due to the pre-war decentralization reform that redistributed duties and funding among subnational authorities, in line with the principles of transparency and subsidiarity. Once Russia invaded Ukraine, cities and regions utilized their enhanced institutional and financial capacities to contribute to territorial defense and support millions of IDPs, jointly with the central government and international partners. Two mechanisms of engaging international counterparts in Ukraine's recovery require the special input of subnational authorities: international patronage over the recovery of territories and cooperation with foreign cities and regions would have been impossible without their proactive engagement. However, it can be challenging to sustain their financial contribution to reconstruction of the country during the war. A potential solution can be establishing the territorial dimension of the Multi-Agency Donor Cooperation Platform for Ukraine to support the efforts of cities and regions to make meaningful input in the country's recovery. **JS**

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