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Ukraine’s Decentralisation Reforms and the Path to Reconstruction, Recovery and European Integration

TAMARA KRAWCHENKO

ABSTRACT
The twin concepts of territorial cohesion and competitiveness have underpinned European integration and are fundamental to the development of robust democracies. They speak to the importance of reducing territorial inequalities and ensuring that all places deliver good livelihoods and well-being. Governments can strengthen subnational capacities to help deliver on these objectives through administrative, fiscal and political decentralisation and regional development. Driven by a strong, community-oriented social foundation, Ukraine has pursued this path. Since 2014, it has embarked on ambitious decentralisation, anti-corruption and regional development reforms, and progress has been made in a number of areas, such as service delivery, municipal finance and decision-making. Russia’s full-scale invasion that began in February 2022 has disrupted the reforms and led to massive destruction, especially in Ukraine’s eastern regions. Here I argue that the continuation of these reforms is critical for democracy, reconstruction, recovery and eventual European integration and that the future of the global order rests not just upon the success of countries but also on their constituent regions and communities. The international community has a central role to play in supporting such a place-based approach to territorial development.

CORRESPONDING AUTHOR:
Tamara Krawchenko
University of Victoria, Victoria, British Columbia, Canada
tamarakrawchenko@uvic.ca

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INTRODUCTION

Russia’s invasion of Ukraine has directly challenged the rules-based international order. It violates the UN Charter and is an archetypal example of how authoritarian governments are emboldened across the globe, with the world suffering consecutive years of decline in global freedom [1]. Frustration at the rise of anti-democratic populism in democracies has increased attention on the role of interpersonal and territorial inequalities in fostering people’s discontent with their government. Writing in the LSE Public Policy Review, Rodrigues-Pose has argued that the vote for anti-system parties is part of ‘the revenge of the places that don’t matter’ and that their popularity stems from a mix of cultural and economic factors [2]. He and others have argued that place-based territorial investments are needed to reverse trends of decline in territories [3–5]. Others stress the importance of fostering a shared national identity based on liberal democratic values [6]. While the root causes of populism and discontent differ across countries and regions, economic inequality and a lack of government responsiveness to citizens’ needs, values and identity appear to be central factors [7].

On these fronts, Ukraine is in the midst of transformation. The social movement flowing from the 2014 Revolution of Dignity demanded that Ukraine build a non-hierarchical community of fairness (справедливость) [8]. The Euromaidan protests were sparked by student-led protests of the Ukrainian government’s decision under President Yanukovych to suspend the signing of an association agreement with the European Union. Protestors were violently beaten by special units of the Ministry of Internal Affairs, leading to widespread discontent at the corrupt policies of the Yanukovych Government and its authoritarian practices and violation of human rights [9]. President Yanukovych’s government killed over 100 protestors; he then fled to Russia in February 2014, the same month that Russia occupied Crimea. In August 2014, regular units of the Russian army crossed the border in eastern Ukraine and together with pro-Russian separatists occupied the Donetsk and Lugansk regions. Ukraine then held parliamentary elections, and there was a political imperative to meet the demands of the Euromaidan social movement – among these, democratic/anti-corruption reforms and territorial development.

Ukraine’s 2014 decentralisation reforms took place in this context, amidst a challenging environment while parts of the country were under Russian invasion and occupation. And yet, they have been one of the most successful areas of reform to date, introduced alongside efforts to strengthen regional development [10]. Such decentralisation reflects Ukrainian social organisation and also serves to discourage or prevent regional pushes for more autonomy that could further undermine Ukraine’s territorial integrity [11]. However, what some may view as a policy deterring further fracturing of Ukrainian territory, others see as supplementing Russia-sponsored separatist ideals. For example, Barbieri argues that Ukraine’s decentralisation process also carries risks to Ukrainian unity. In handing greater independence to regions like the Donbas, it aids Russia’s claims to sovereignty over the region, fracturing Ukraine’s sense of geographic identity. The consequence of this in the Donbas was the granting of ‘special status’ to Donbas as part of the Minsk process, which postponed decentralisation-related constitutional amendments [12].

Russia’s full-scale invasion in February 2022 disrupted the implementation of decentralisation reforms and has caused massive destruction, especially in Ukraine’s eastern regions. Despite this, the continuation of these reforms is critical for Ukraine’s democracy, reconstruction and eventual European integration. Discussions of the global order tend to focus on nations, their connections, interests and conflicts, but this state-centric view has recently been challenged by the world politics of heterarchy – ‘the coexistence and conflict between differently structured micro- and meso- quasi-hierarchies’ within the state [13]. From this view, policymaking is complex, multi-actor, multilevel, multi-nodal and, as such, less state-centric. This lens raises the importance of the regions and communities, their identities and their values for the future of the global order. As such, the twin concepts of territorial cohesion and competitiveness that have underpinned European integration and internal development remain as relevant as ever – decentralisation, territorial development and effective place-based policies are critical to delivering on these objectives. In Ukraine, these concepts converge with the need for a place-based approach to reconstruction and recovery, and the international community has a major role to play in supporting this process. This paper draws in part on research conducted by the Organisation for Economic Cooperation and Development in Ukraine: the OECD Territorial...
GOVERNANCE, IDENTITY, TRUST AND THE SOCIAL FABRIC

In an overview of the territorial-administrative governance models of independent Ukraine, Kataryna Wolczuk notes that ‘at first sight, Ukraine is custom-made for far-reaching regionalisation or even federalism’ [14]. There are strong regional identities in Ukraine comprising diverse ethno-linguistic, economic, cultural and political identities – even if the boundaries of these regional identities are sometimes fluid. Yet, for much of its history, political organisation in independent Ukraine has largely been out of step with this – hierarchical and centralised, with little authority at the local levels. Following independence in 1991, Ukraine maintained aspects of the centralised governance model of the Ukrainian Soviet Socialist Republic (UkrSSR). Such a centralised model stands in contrast to Ukraine’s indigenous traditions of governance that tended towards federalism and decentralisation in intellectual thought and practice [14].

In the early years of independence, there were debates about the merits of different territorial-administrative models and how to balance regional interests against the need for a unified political entity. This led to an ambiguous declaration in the 1996 constitution that the territorial structure of Ukraine ‘is based upon the principles of unity (yednist) and cohesion (tsilsnist) of state territory and the combination of centralisation and decentralisation in the exercise of state power’ (Art. 132). In 1997, the Law on Local Self-Government in Ukraine led to the creation of directly elected oblast (region) and raion (district) councils, but fiscal decisions remained largely centralised. Oblast and raion levels of government were not aligned with the EU Charter of Local Self-Government, which advocates an application of basic rules guaranteeing the political, administrative and financial independence of subnational authorities [15]. Moreover, the administrative regions established under the UkrSSR were retained. These bore little resemblance to historical regions, lacking meaning for the people who lived under them. At the very local level, there were many villages, towns and municipalities – many with limited administrative capacities. At the subnational level, Crimea was a special case. It was made an autonomous parliamentary republic within Ukraine, governed by the Constitution of Crimea in accordance with the laws of Ukraine.

The government’s post-2014 decentralisation reforms represented a clear break with the model of centralised state authority that had flourished under Yanukovych [16]. For Ukraine, political-administrative organisation is not just a matter of recognising and accommodating regional identities but rather acknowledging governance arrangements in which the society organises itself. This organising principle was particularly apparent during the Euromaidan social movement, which was leaderless and self-organising with volunteer battalions and grassroots aid organisations [8]. These features of Ukrainian society make decentralisation and local/regional development intrinsic to its polity. Decentralisation reforms should therefore not be viewed as an outcome of the Revolution of Dignity but rather as part of the very reason that they have been successful in the first place. This civic orientation is only strengthening. A cross-sectional survey conducted between 19 and 24 May 2022 reveals that the values of civic nationalism, democracy and civic duty are strengthening alongside an increase in pro-EU orientations which ‘outpaces any ethno-linguistic identification patterns and maps onto civic identities which were already strong in the country prior to Russia’s invasion’ [17].

Russia’s invasion has highlighted the resilience of Ukraine’s social fabric and the nature of social trust, even resulting in the local civilian organisation of defence [18]. Analyses of social cohesion prior to 2022 indicated low trust in state institutions but a strong sense of belonging both at a local and a national level, as well as relatively high trust in local leaders [19]. In a nationally representative public opinion survey conducted in December 2022, the Armed Forces of Ukraine is now the most trusted social institution, followed by the president of Ukraine, volunteers and then ordinary people, respectively [20]. High trust in the president is a major reversal from the previous year (from 21% in December 2021 to 84% in 2022). Recent research has also identified the positive effects of the decentralisation reforms with respect to strengthening social cohesion in Ukraine [21]. Finally, Ukraine is increasingly committed to democratic development – 95% percent of respondents to an August 2022 nationwide poll indicated that it is ‘very important’ or ‘important’ for them that Ukraine becomes a fully functioning democracy (an increase from...
76% the previous year) [22]. Democratic values, civic identity, and social trust in others and in volunteers are only strengthening. This is important to keep in mind as reforms are considered.

UKRAINE’S DECENTRALISATION REFORMS AND REGIONAL DEVELOPMENT

Proponents of decentralisation argue that local and regional governments are closer to the people and are better placed to understand and respond to local needs. For example, Oates’s seminal work advocates that decentralisation can lead to more cost-effective public service provision [23]. Local jurisdictions compete to attract residents and businesses, leading to more responsive and flexible governments, fewer layers of bureaucracy and greater opportunities for innovation and experimentation in public services provision [23]. Beyond this presumed allocative efficiency, decentralisation is claimed by some to promote accountability and reduce corruption in government [24].

Critics point out that shifting services to the local level can lead to the deterioration of service provision and to increased costs due to diseconomies of scale, the duplication of responsibility and services and higher administrative overheads. In practice, decentralisation is a multidimensional concept spanning political, administrative and fiscal elements, and the context in which it takes place is important. Decentralisation can entail: i) delegation, wherein some decision-making and administrative authority for well-defined tasks is transferred from the central government to semi-autonomous lower-level units; ii) devolution, wherein the central government transfers authority for decision-making, finance/taxation and administration to regional or local governments; and iii) deconcentration, where there is a geographic displacement of power from the central government to units based in regions (deconcentrated state services) [25]. Where decentralisation occurs without adequate resourcing, the ability of subnational governments to carry out their mandate is undermined. Thus, it is not enough to look at which level of government is tasked to deliver services. It is also necessary to consider the contexts in which they operate and the resources that they receive from higher-level governments alongside the authority capacity and power that they have in performing their duties.

Ukraine’s decentralisation strategy was outlined in the 2014 Concept Framework of Reform of Local Self-Government and the Territorial Organisation of Power in Ukraine. The framework called for increased democratic governance at the subnational levels that spanned all three areas of decentralisation: political, administrative and fiscal [26]. The framework is being implemented through new legislation and regulation and reforms to existing legislation (e.g., budget and tax codes), and the regional development policy framework is evolving. Concurrently, Ukraine’s 2015 law On the Principles of State Regional Policy established key concepts and regional development programmes and projects and introduced a set of planning instruments (e.g., the State Strategy for Regional Development, as well as oblast and municipal development strategies). In an effort to increase local capacity, voluntary municipal mergers were launched between 2015 and 2020, financial incentives were provided to amalgamate (expanded own-source revenues) and new funding was made available for regional and local development. Moreover, municipalities gained the right to negotiate annual municipal budgets with the oblast state administration. As a result of the reforms, over 4882 municipalities merged to form 1070 amalgamated municipalities (unified territorial communities) by mid 2020. A second mandatory stage of amalgamations followed. In the end, Ukraine went from a total of 10,000 municipalities to a total of 1469.

Results from a 2021 OECD survey of Ukraine municipalities demonstrate that decentralisation reforms have had a positive effect on the administrative, human resource and fiscal capacities of municipalities, as well as on service quality.¹ At the same time, many municipalities, particularly rural ones, indicate that they lack the human resource capacity to carry out key strategic planning, public investment and budgeting tasks. Implementation has not always generated municipalities with sufficient capacity to meet the challenges of decentralised

¹ The online survey of Ukrainian municipalities was conducted in 2021. In total, 741 municipalities, covering 119 rayons, as well as 24 oblasts and Kyiv City completed the survey, resulting in a highly representative sample (over 50%).
local governance. Despite the reforms, there remains some confusion over the division of public service and of administration responsibilities at the subnational level, while there are inequalities in public service quality, type and access at the local level. Ongoing work is needed to clearly assign responsibilities among levels of government, strengthen centre-of-government practices and strengthen dialogue mechanisms across and among levels of government [10].

In the preceding decade, Ukraine’s performance in several strands of development significantly improved. For example, between 2015 and 2019, the share of the population living below the nationally defined subsistence income level fell by over half, from 52% to 23% [27]. On other metrics, however, territorial disparities have grown, and inequalities have deepened over the past decade. For example, all but two oblasts and Kyiv City have witnessed population declines, and the national economy has become increasingly dependent on the Kyiv agglomeration, with other regions lagging behind [27]. Russia’s war has only deepened the territorial disparities, with widespread destruction, urbicide (the erasure of entire cities/communities) and massive internal displacement and outmigration. In this context, local capacity and regional development take on even more critical and yet hugely challenging roles.

Immediately after the full-scale invasion began on 24 February 2022, Ukraine declared martial law and facilitated the creation of oblast, rayon and municipal military administrations. Legislation was swiftly introduced to clarify the powers and responsibilities of subnational governments under martial law, giving them additional powers to transfer funds from local budgets to the armed forces and to inspect buildings and other infrastructure damaged by the war. Local governments and communities have been actively involved in the organisation of defence through territorial defence forces, of which there are thousands of civilian volunteers. They have also supported the war effort in other ways – e.g., registering internally displaced people at administrative service centres, as well as co-ordinating the distribution of humanitarian aid. As some have commented, Russia’s full-scale invasion was a test of decentralisation, and local governments have proved themselves responsive, agile and competent [28]. Despite the fact that Russia continues its war, Ukraine is already thinking about reconstruction and recovery and the path to European integration. There are robust debates among political leadership, civil society, labour unions and academia about the way forward.

**RECONSTRUCTION, RECOVERY AND EUROPEAN INTEGRATION**

Russia’s war has been brutally destructive. As of December 2022, the total amount of documented damage to Ukraine’s infrastructure is estimated at USD137.8 billion (at replacement cost), and it is growing daily [29]. There are more than 8 million Ukrainian refugees in Europe, over 17 million people are in urgent need of humanitarian assistance in Ukraine and 5 million are internally displaced [34]. Some municipalities have doubled or tripled in population, while others have declined dramatically or no longer exist at all. Local leaders in occupied areas have been abducted, tortured and killed. The war is widening gaps between territories, with some municipalities administratively hollowed out and destroyed, while others face new pressures due to population displacement. Local governments are challenged to maintain functions over wartime while planning for the types of skills that the labour force will need for reconstruction efforts, now and in the future. Capacity sharing and collaboration take on renewed importance amidst these challenges.

Donor governments are already developing mechanisms to support Ukraine’s rebuilding and recovery. Within the EU, the Multi-agency Donor Coordination Platform was established in January 2023 to coordinate financial resources, implementation, monitoring and accountability. The EU’s plan for longer-term reconstruction notes that it will be led by Ukrainian authorities together with the EU and other partners and will include partnerships between cities and regions. A place-based approach to reconstruction and recovery will necessarily underpin this approach, and as such, Ukraine’s decentralisation and regional development reforms become all the more important. Adopting a constitutional amendment that replaces oblast (region) and rayon state administrations with a system of prefects, as Ukraine has been discussing at length in parliament, would be valuable. It could help the country strengthen local administrative supervision and facilitate the coordination of national-level priorities at the municipal level. Dialogue between national and subnational levels of government has been limited, as key coordination bodies (e.g., the Inter-Departmental Co-ordination Commission for Regional...
Development and the Congress of Local and Regional Authorities) have either not been fully operational or lack the systematic participation of municipal governments [27].

Oversight will be particularly important during the recovery period given the expected inflow of recovery funding and the pressure on municipalities to allocate resources swiftly, efficiently and effectively. At the same time, efforts to strengthen oversight should not necessarily increase administrative control or burden and need not undermine municipal autonomy or restrain municipal decision-making. Ukrainian lawmakers are considering the creation of prefects, which could oversee the legality of municipal decisions. However, this proposed reform cannot be adopted as long as martial law is in place (no constitutional amendments can be made under martial law).

Russia’s invasion has deepened territorial inequalities, which can undermine democratic governance. Yet, it has simultaneously solidified Ukrainian identity as a civic nation and demonstrated the resilience of the social fabric at the community level. Reconstruction and recovery efforts should be grounded in place-based need and development goals and broader community networks that are Ukraine’s strength. A regional development approach is already foundational to EU Cohesion Policy – it is how it delivers many of its objectives. As such, Ukraine’s reforms in this direction are compatible with the policy and are promising as the country seeks further European integration and eventually membership. Yet, there are risks that existing territorial inequalities grow more entrenched. Cities like Lviv, which are far removed from the front line and have strong local capacity, enjoy more auspicious starting conditions for growth and prosperity, while those that have been decimated in the eastern regions may require much greater support and central government interventions. It can be easier for investments to flow where there is already local capacity and the risk of elite capture. Liberated Crimea, Donetsk and Luhansk will likely be governed under military administration for a time. How can such administrations ensure that local populations feel they are an important part of the recovery process while materially improving their lives? Rebuilding can also tend to focus on physical assets and ignore the need for social investments, which may be of equal importance.

Reconstruction and recovery will involve a multitude of actors, and Ukraine’s mighty civil society and labour unions need to be involved. Since the war, civil society actors and regular people have worked through informal networks to deliver aid and other supports. As new programmes are designed, there needs to be a way for these civil society groups to converge and to adopt greater formality. This would enable them to receive government funds in support of recovery and to have formal reporting for accountability. Labour unions and workers more generally must be meaningfully involved in and benefit from reconstruction and recovery efforts. There are already concerns that Ukrainian authorities have launched privatisation programmes and dismantled labour legislation, such as rights for workers at small and medium-sized companies under wartime measures and the legalisation of zero-hours contracts [30].

Reconstruction and recovery will also involve a wide number of external actors. Municipal governments in the West have pledged assistance, as have hundreds of private companies, philanthropists and others. While bilateral and multilateral assistance will be a major source of funding, there are many other types of donors and expertise and multiple connections across scales. This too is a strength, remaking Ukraine’s global connections and relations. For example, initiatives such as the ‘yurts of invincibility’ set up by Kazakh businessman Daulet Nurzhanov have provided warmth and refuge in cities across Ukraine – a form of private aid representing solidarity in the face of Russian colonialism.

Given that the costs of reconstruction have been estimated at around €383 billion in early 2023, there is an urgent need to strengthen subnational government capabilities to efficiently and effectively absorb and manage reconstruction funds [31]. This can be done by introducing legislative amendments to ensure open and merit-based recruitment, performance management and appraisal processes, as well as a political neutrality requirement for local civil servants. In addition, the government could establish a reconstruction and recovery training strategy for municipal civil servants, building skills in strategic planning, budgeting and financial and investment management supported by initiatives to exchange experiences, tools and methodologies among Ukrainian municipalities and with local authorities abroad.

Rebuilding civic institutions and channels to reach and engage communities in the design of new plans and programmes will be critical. Doing so helps direct resources where they can have
the most impact and build trust in the reconstruction process and government more generally. Ukraine starts from a strong base: a recent survey found that Ukrainian municipalities enjoy the highest level of public trust in government, after public institutions directly responsible for security [32]. Here Ukraine could look to develop guidelines and provide training on mechanisms to inform, consult, involve, collaborate and/or empower stakeholders and make municipal budget information – including on revenues and expenditures for recovery projects – more easily accessible and understandable to the public.

Finally, Ukraine should consider building and strengthening systems to manage and monitor the use of recovery funding and tackle corruption. This will help ensure that funds, which are already being provided as part of relief and rehabilitation efforts, are well spent. This can be achieved by designing and implementing citizen-based accountability mechanisms, such as participatory budgeting and public expenditure tracking, and establishing citizen advisory boards and digital platforms to enable the public to track recovery funds and projects. In doing so, Ukraine can build on the digital infrastructure it established prior to the February 2022 invasion, in particular the mobile DIIA application and online portal that provides citizens with digital access to many government services and enables Ukrainians to engage with the government in an online one-stop shop [33].

CONCLUSION

Ukraine has found itself at the centre of global relations today – its flag raised in solidarity across democracies worldwide. At the same time, Ukrainian society has coalesced and strengthened around a civic national identity grounded in bottom-up social organisation. Ukrainians are paying a very high price to defend their nation, and the social contract is clear: there is no tolerance for corruption, and expectations for the government to deliver reconstruction and recovery are high. The Ukrainian government will need to deliver infrastructure, services, stability and economic development at all levels, which means working with the subnational authorities and listening to communities. There is a strong desire to join the EU and to rebuild those regions that have been destroyed. The future accession of Ukraine to the EU would be made possible, at least in part, because of the success of its decentralisation and regional development reforms, which might serve as an impetus for reinforcing local self-governance and place-based development throughout the EU. The international community has a central role to play in supporting such an approach to territorial development, and these global-local connections can be seen as part of a global politics of heterarchy that can help to strengthen democratic solidarity at a time when it seems so vulnerable.

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COMPETING INTERESTS

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AUTHOR AFFILIATIONS

Tamara Krawchenko
University of Victoria, Victoria, British Columbia, Canada


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