

## Decentralisation reform in Ukraine

Since 2014, the Ukrainian government has initiated extensive reforms. While some reform projects have stalled recently, the comprehensive decentralisation reform is considered one of the most successful and dynamic reforms in Ukraine, despite challenges and difficulties. It has already changed the reality of many people's lives outside the capital Kyiv. In the last four years, the reorganization of the municipalities has been driven forward and competencies and resources have been transferred from the central state to the local level. The decentralisation reform is supported by Ukraine's Western partners, above all the EU and Germany. Despite successes, however, there is still a long way to go before the reform is completed.

### Decentralisation: concept and background

Like all former socialist states, Ukraine has struggled since its independence in 1991 with the legacy of the Soviet system, in which competencies and resources were concentrated primarily in the capital and in a few regional centres. Soon after independence, it became clear that this concentration of power was the main cause of weak economic development in large parts of the country and of the poor quality of public services outside the conurbations.

In the centralised state structure, the citizens in the municipalities have few opportunities to help shape decisions on local affairs and to hold local state representatives accountable. The term decentralisation has therefore been used in Ukraine for many years to describe a fundamental transformation of local public administration. In essence, this involves the transfer of competencies and resources from the central state to the local level.

The decentralisation efforts begun in 2005 after the "Orange Revolution" and came to a standstill again under President Yanukovich in 2010. After the so-called Revolution of Dignity of 2013/2014, the decentralisation process was resumed with a lot of energy. Two reform efforts are running in parallel: the actual decentralisation of competences and resources from the national to the municipal level and a municipal reform, which is to create new, efficient municipalities through the voluntary merger of small municipalities.

### New municipalities as the engine of decentralisation

Many of the formerly more than 11,000 municipalities in Ukraine were tiny municipalities with sometimes a

few hundred inhabitants before the beginning of the municipal reform. They found it difficult to independently organise and finance public services for their citizens. Even in a decentralised system, municipalities that are too small cannot take on many public tasks such as the organisation of municipal waste collection in a sensible and efficient way.

Since 2015, the Ukrainian government has been encouraging municipalities to voluntarily join together to form larger municipalities through a primarily financial incentive system. So far, almost 36% of Ukrainian municipalities, in which almost 20% of the population of Ukraine live, have merged. These municipalities benefit particularly from the parallel decentralisation reform: among other things, they receive more money from the central government, can draw on government funding for their own projects and receive a larger share of tax revenues as well as new powers to levy local taxes and duties.

In addition, larger, more efficient municipalities from the Rajon level (district level) are gradually transferring the management of local schools. At present, 40% of the general educational institutions are managed by the new municipalities, and the trend is rising. Finally, since the adoption of the health reform at the end of 2017, the municipalities have been assigned a much stronger role than before for local health management. They can now manage local hospitals themselves and are responsible for maintaining and expanding local health care.

Due to the voluntary nature of the municipal reform, however, almost two thirds of the municipalities are still not merged. This has created a patchwork of reformed and non-reformed municipalities in the regions of Ukraine. While the reformed municipalities are entitled to new competencies and resources, the non-reformed municipalities are still administratively and financially dependent on the Rajons (districts) and Oblasts (regions), which themselves are dependent on the central government. The Rajons in particular often regard municipality reform as a threat. Their future role and function in the state structure is unclear, above all due to the incomplete legal situation. Important legislative acts for the reorganization of local competencies are stuck in committees of the Ukrainian parliament.

### Relocation of financial resources

Since its independence, Ukraine has gradually increased the financial resources for its regions,

districts and municipalities and, according to the OECD, is now in line with the EU average in terms of fiscal decentralisation. According to data from the Ukrainian Ministry of Finance, the share of local revenues has stabilised at around 15% of GDP since 2012. In Ukraine's consolidated state budget, the share of public funds directed at the subnational level has risen from just under 46% in 2015 to 51.2% in 2017.

In this respect, fiscal decentralisation has so far been regarded as a success: on the one hand, despite the economic crisis and the conflict in the Donbass, Ukraine has resisted all temptations to place the overall declining public revenues more under the control of the central state. Secondly, a closer look at local finances shows a considerable strengthening of the new merged municipalities: while the regional administrations (Oblasts) and districts (Rajons) have lost financial autonomy and received less money than a few years ago when adjusted for inflation, the situation for the merged municipalities has clearly developed positively. Recent government figures show that local taxes and levies have increased by over 41% for the merged municipalities compared to the previous year. This creates a boost to development at the local level, since municipalities have an interest in stimulating new jobs and immigration by shaping local economic development, for example because of the higher income tax revenues. On the whole, however, state transfer payments still constitute by far the largest item in the municipal budgets, which means that fiscal decentralisation is far from complete.

### EU and further donors' engagement

In the course of the western orientation and the EU rapprochement of Ukraine, the extensive decentralisation reform is massively supported by foreign countries. In addition to the European Union as the largest donor, other countries, the United Nations and international organisations are active. They all coordinate with the Ukrainian government in a joint donor group and finance numerous projects. Among them, the multi-donor initiative "U-LEAD with Europe" plays a key role. With an office in Kyiv and 24 regional development centres, the project works to strengthen all actors involved in decentralisation reform. In addition to advising the Regional Development Ministry responsible for the reform, training and further education is provided to prepare local administrative staff and newly elected representatives in the municipalities for the new tasks. U-LEAD is financed by the EU, Denmark, Germany, Estonia, Poland and Sweden and implemented by the federally owned implementing organisation GIZ and the Swedish development agency Sida.

### Outlook

Almost five years after Euromaidan, the resumed decentralisation process has already positively changed the everyday lives of many people in the country. The reform is also regarded internationally as one of the most successful reforms of the Ukrainian government. Nevertheless, decentralisation has by no means become a self-runner. The continuation of municipal reform, even against the resistance of local and regional power elites, the further transfer of competencies, the strengthening of the municipalities' own revenues and the further development of the still incomplete legal framework are strongly dependent on the political will of the Ukrainian government. With the decision of the Central Election Committee at the beginning of August to suspend the municipal elections planned for autumn in other merged municipalities until further notice, the pace of reform has slowed down recently. In addition, the parliamentary and presidential elections of 2019 are casting their shadows. These will show how the political and social will to decentralise Ukraine is developing.

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