

# Turning to regions and local governments to rebuild Ukraine

2 December 2022

## Key messages

- Ukraine's regional development and decentralisation reforms, adopted after the Maidan revolution in 2014, have contributed to the resilience of the country's regions and municipalities and their continued support to citizens, following Russia's war of aggression against Ukraine.
- While Ukraine's main focus remains on winning the war and managing its effects, its different levels of government have already started to plan for the post-war recovery. A key challenge in this regard will be reinforcing the ability of all Ukrainian regions and municipalities to meet both their short-term reconstruction needs, and longer-term economic development and recovery objectives. The earlier reforms have provided strong foundations to achieve these objectives.
- However there remain large variations in the fiscal, administrative and human-resource capacity among different Ukrainian municipalities. For instance, the OECD's survey of 741 municipalities (51% of the total) in October 2021 found that over a quarter of municipalities felt they lacked the capacity to design a local development strategy. These disparities have been exacerbated by Russia's war in Ukraine.
- The war has affected regions and municipalities in very different ways. Many communities have suffered tremendous loss of lives and destruction of critical infrastructure, and others have provided homes and support to internally displaced people. These differences require a tailored approach to reconstruction and recovery, one that is sensitive to local needs and capacities.
- In the forthcoming recovery period, policymakers should aim to strengthen the capacity of municipalities to plan and implement reconstruction and recovery projects, and track progress. They should also establish national and local-level mechanisms (e.g. a digital platform to track subnational spending) to support the transparent use of recovery funding by subnational governments while ensuring trust in government and donors.
- The OECD can help Ukraine as it advances with its national reconstruction and recovery planning, for example by promoting and facilitating exchanges between Ukraine and other countries to explore good practices in subnational reconstruction, as well as sustainable regional and local development. Moreover, it will work with Ukraine in its OECD initial accession dialogue and can use its new Kyiv office to further support dialogue on mobilising aid.

## Background and key issues

**Russia's war is having a devastating humanitarian impact and has severely thwarted development progress in Ukraine.** It has unleashed a humanitarian catastrophe, triggering the largest wave of refugees in Europe since World War II. As of 22 November 2022, 7.8 million refugees had fled the country, while around 6.2 million people are internally displaced (UNHCR, 2022<sup>[1]</sup>). In recent months, there have been reports of an uptick in migrants returning to Ukraine. However, no clear data are available on the number of migrants that have been permanently resettled (CSIS, 2022<sup>[2]</sup>; CEPA, 2022<sup>[3]</sup>). On 31 October 2022, the Office of the UN High Commissioner for Human Rights (OHCHR) recorded 16 295 civilian casualties: 6 430 killed and 9 865 injured (OHCHR, 2022<sup>[4]</sup>). The war is also exacerbating territorial disparities and governance challenges across Ukraine, for example, by reducing the human and fiscal resource capacities of many municipalities. Moreover, the war has affected regions and municipalities in very different ways. Many communities have suffered tremendous loss of lives and destruction of critical infrastructure, and others have provided homes and support to internally displaced people.

**At the same time, the war is highlighting the resilience of Ukrainian regions and municipalities.** Since the beginning of the Russian Federation's invasion of Ukraine in February 2022, regional and municipal governments have been vital to the war effort. Municipalities, for example, are using administrative service centres, created as part of the post-2014 decentralisation reforms, to register internally displaced people, provide them with access to social benefits, and co-ordinate humanitarian aid. They are also key partners in the reconstruction and recovery effort, for example, by identifying local investment needs.

## What are the impacts?

**The preparedness of Ukraine's regions and municipalities to respond to the war and its consequences, reconstruction and recovery, owes much to the success of the decentralisation and regional development reforms implemented after the 2014 Maidan revolution.** The decentralisation reforms resulted in the merging of over 10 000 local councils into 1 469 municipalities that were granted new administrative powers and funding. This included creating several new inter-governmental grants and increasing the portion of municipal revenues derived from shared taxes. As a result, by October 2021, over 70% of the 741 municipalities surveyed by the OECD (51% of all Ukrainian municipalities) reported improvements in the quality of administrative and social services. The decentralisation reforms have, ultimately, empowered subnational authorities to adapt emergency responses to local needs to better protect civilians.

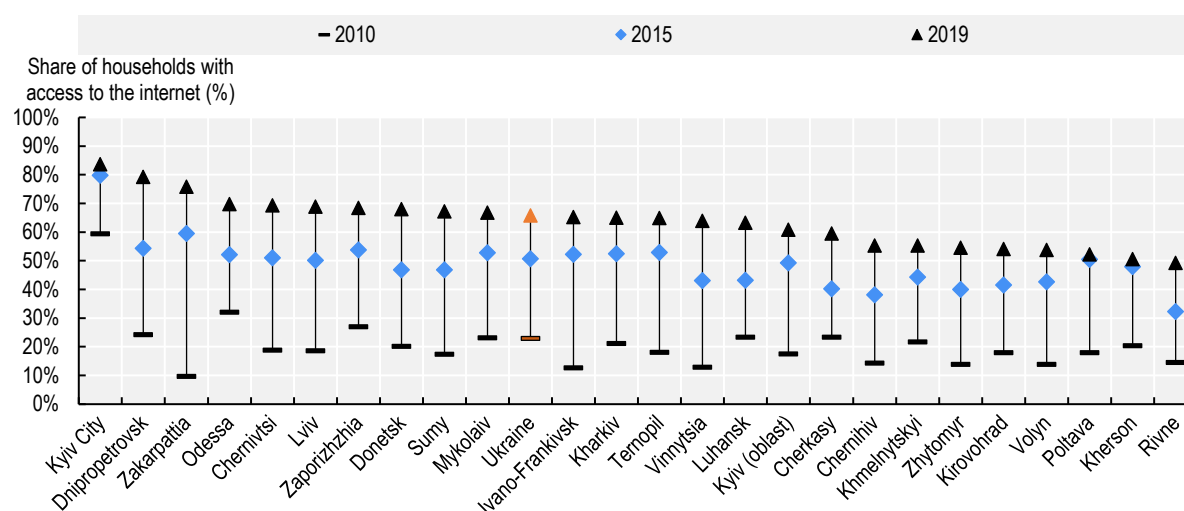
**At the same time, since 2014, Ukraine has developed an elaborate policy, governance and funding framework for regional development.** Regional and local development funding trebled in real terms between 2015 and 2019. The reforms also led to the creation of various national and subnational policy co-ordination bodies, including regional development agencies, which support the design and implementation of territorial development strategies and projects, and attract public and private investment. These agencies are well-placed to support the post-war recovery in regions and municipalities by helping local authorities identify local reconstruction needs, and co-ordinate the design and implementation of reconstruction projects.

**While implementing these reforms, Ukraine also achieved important progress in fundamental development areas, notably poverty reduction, and internet access.** For instance, from 2015 to 2019, the share of the population living below the nationally defined subsistence income level fell by over half, from 52% to 23% (CabMin, 2021<sup>[5]</sup>). Moreover, internet access increased by 30% between 2015 and 2019 (Figure 1), although this progress was more pronounced in urban regions than in rural ones (CabMin,

2021<sup>[5]</sup>). The latter is particularly relevant in the context of Russia's war, as the improvements in internet access have supported the delivery of digital services, such as online education during the war and the identification of bomb shelters.

**Despite the progress of the regional development and decentralisation reforms, however, some development challenges grew and territorial disparities deepened.** For instance, since 2011 most regions reported strong population declines, on average -5%, and, in turn, a shrinking labour force, on average -4%, curtailing economic development and productivity (CabMin, 2021<sup>[5]</sup>). The demographic challenge that Ukraine faced has been severely exacerbated by Russia's war of aggression against Ukraine, as millions have fled the violence. These pre-existing development challenges should inform decision-making by national and subnational level policymakers as they seek to meet immediate reconstruction needs and foster long-term recovery and resilience.

**Figure 1. Proportion of households that have access to internet services at home by *oblast* and Kyiv City, 2010, 2015 and 2019**



Note: The chart excludes the temporarily occupied territory of the Autonomous Republic of Crimea and Sevastopol City as no data were available for these territories.

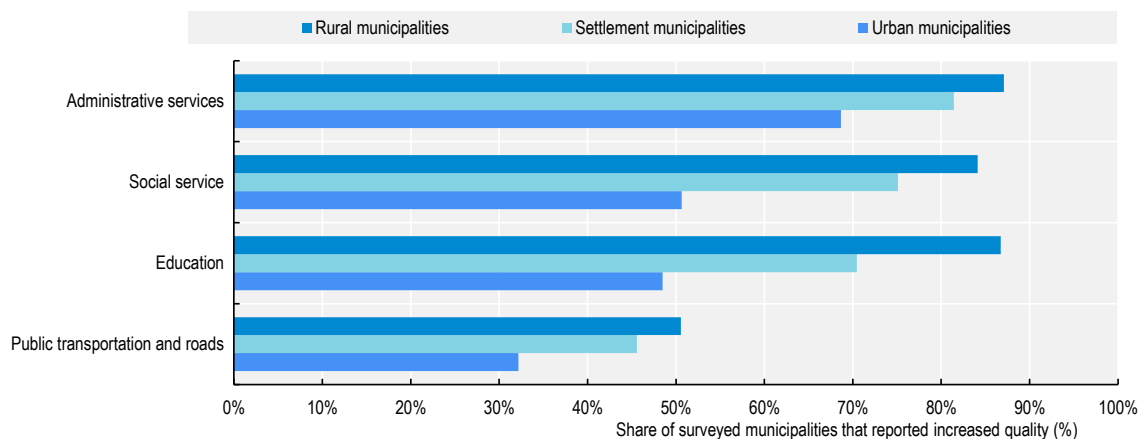
Source: Author's elaboration with data from (CabMin, 2021<sup>[5]</sup>) and based on the results of a sample survey of living conditions of households.

**The post-2014 achievements of Ukraine's multi-level governance reforms can provide the stepping stones for an effective reconstruction – one that takes into account territorially-differentiated needs and remaining assets.** However, several governance challenges that existed prior to February 2022 would still have to be addressed. An effective subnational recovery requires reinforcing the country's regional development funding mechanisms and practices, which may have negatively affected investment results in recent years. For example, between 2015 and 2019, investment funding was fragmented into 110 different regional and local development grants, leading to spending and implementation inefficiencies. In addition, funding for the State Fund for Regional Development was mostly allocated towards small-scale community-level projects, rather than regional or inter-regional projects with higher economic returns. Meeting these challenges will be even more important in the reconstruction and recovery phase, not least to ensure effective, transparent and efficient investment when rebuilding physical infrastructure and human capital.

**Further strengthening subnational capacity is also critical for regions and municipalities to contribute effectively to the post-war recovery.** The results of the OECD's 2021 survey suggested that

municipalities saw significant increases in municipal planning, budgeting and investment management skills as a result of the decentralisation reforms (Figure 2). However, important capacity gaps remained and need to be addressed. This particularly applies to rural municipalities. For example, while 80% of urban municipalities reported sufficient capacity to design local development strategies in 2021, this was the case for only 67% of rural areas (OECD, 2021<sup>[6]</sup>). Establishing and implementing a robust training strategy for municipalities that can be adapted to different territorial contexts and needs is essential for ensuring that local governments have the necessary expertise to design and implement reconstruction projects, and ensure service delivery. Reinforcing subnational capacities would become even more important if Ukraine were to make drastic cuts in its civil service, as has been discussed in recent months (Liga Zakon, 2022<sup>[7]</sup>).

**Figure 2. Positive effect of the decentralisation reforms on the quality of local service delivery**



Note: The survey was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021).

Source: Author's elaboration, based on the OECD online survey.

**The lack of clarity about the division of tasks and responsibilities among levels of government that existed prior to February 2022 could affect effective reconstruction** (OECD, 2022<sup>[8]</sup>). This lack of clarity appears to be particularly true in areas that will be critical to reconstruction, such as roads, transport and energy. A lack of clarity in the assignment of responsibilities can lead to un-coordinated action, or inaction on the part of different governmental actors. In a disaster situation this generates a risk of “passing the buck” to other levels of government, which can result in a disjointed and ineffective response. Dialogue between national and subnational levels of government has been limited, as key co-ordination bodies (e.g., the Inter-Departmental Co-ordination Commission for Regional Development) have either not been fully operational or lack the systematic participation of municipal governments.

## What is the outlook?

**During the post-war recovery, Ukraine will need to address immediate reconstruction priorities and longer-term development needs in parallel.** Rehabilitating and rebuilding destroyed public infrastructure is a key priority. At the same time, the government also needs to take account of pre-existing territorial disparities and governance challenges, in order to ensure a strong and inclusive recovery that helps rebuild local economies while improving citizen well-being.

**Ukraine should continue to build on the regional development and decentralisation reforms adopted as of 2014.** Regional and local governments have been gaining essential experience with development planning and funding that can be further refined to design and implement reconstruction projects that meet local needs, and monitor their results.

**Well-informed, evidence-based subnational reconstruction and recovery decisions will be fundamental. A robust performance measurement framework could help Ukraine and international partners alike in such an endeavour.** In parallel, it is essential to set up mechanisms that enable the transparent use of recovery funding by subnational governments and strengthen anti-corruption efforts, which tend to be exacerbated in post-disaster contexts. Particular attention should be paid to ensuring that anti-corruption mechanisms are designed in such a way that they do not stifle subnational decision-making.

## What are the key considerations for policy makers?

- **Regions and municipalities should be involved in the design of immediate recovery support schemes and more long-term development strategies.** This will help ensure that recovery implementation and funding mechanisms reflect national priorities, and specific regional and local needs and assets.
- **The government is advised to create a limited number of subnational reconstruction funds to avoid fragmented investment spending.** At the same time, this should not mean reducing the overall volume of funding for regional development.
- **The government, supported by international partners, should help municipalities build their technical expertise in areas that are particularly relevant for the post-war reconstruction period,** such as project appraisal, procurement, implementation, transparency, monitoring and stakeholder engagement.
- **The government should build the technical capacity of all levels of government to produce, analyse and disseminate territorially-disaggregated economic, demographic and well-being data.** Such data need to be made accessible on an open monitoring platform, to help public institutions, non-governmental actors and international partners track the extent to which subnational reconstruction and recovery objectives are being met.
- **Peer-to-peer exchanges among subnational governments should be encouraged, as this can foster the sharing of good practices for reconstruction and recovery needs, and promote innovative ways of working.** Facilitating peer-to-peer exchange with subnational governments in the European Union (EU) could also support EU accession.

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## Explore further

This note is an abridged version of the 2022 OECD report, *Rebuilding Ukraine by Reinforcing Regional and Municipal Governance*, OECD Multi-level Governance Studies, <https://doi.org/10.1787/63a6b479-en>

Romanovna, V (2022), *Ukraine’s Resilience to Russia’s Military Invasion in the Context of Decentralisation Reform*, <https://www.batory.org.pl/wp-content/uploads/2022/05/Ukraines-resilience-to-Russias-military-invasion.pdf>

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