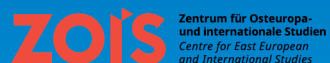


THE LINK BETWEEN DECENTRALIZATION AND EU INTEGRATION





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New Europe Center (Ukraine)
and
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INTRODUCTION

Decentralization is considered one of the most successful reforms implemented in Ukraine after its “Revolution of Dignity” of 2013-14. According to Ukrainian stakeholders, this reform has reached its critical benchmark, with close to 50% of the main indicators having been met or even surpassed. 44.2% of Ukraine’s territory is covered by amalgamated territorial communities (ATCs) with less than 30% of Ukrainians still living in non-amalgamated territorial communities (excluding territories not currently under government control).

Decentralization and anti-corruption reforms in Ukraine have attracted considerable attention from Western governments, especially EU member states. Decentralization reforms in particular have demonstrated steady progress and have generated numerous pleasant surprises. This report takes stock of these success stories and also spells out the remaining obstacles and challenges. In 2019, discussions regarding the acceleration of these reforms have intensified in Ukraine. The reforms have reached a point where those territories wanting to amalgamate have already done so, and the remaining question was whether to move from a voluntary to a mandatory process of amalgamation. While reformers in Ukraine advocated this approach, some EU observers disagreed, warning of possible conflicts in reaction to administrative pressure from above.

At this critical stage in the reform process, the New Europe Center (Ukraine) with the assistance of ZOiS (Germany) conducted extensive research across Ukraine in order to assess the outcomes of the decentralization reform to date and to gain a better

understanding of the remaining challenges. On this basis it becomes clearer where and how external actors can assist in the process.

The first phase of the project consisted of regional analysis, produced by various experts in Donetsk, Kharkiv, Sumy, Poltava, Lviv, and Odesa *oblasts* (regions). In the second phase, analysts from the New Europe Center and ZOiS prepared a comparative analysis, including interviews with key regional actors involved in the decentralization process in Ukraine (regional policymakers, NGOs, media experts). Overall, more than 70 stakeholder interviews were conducted as part of this research.

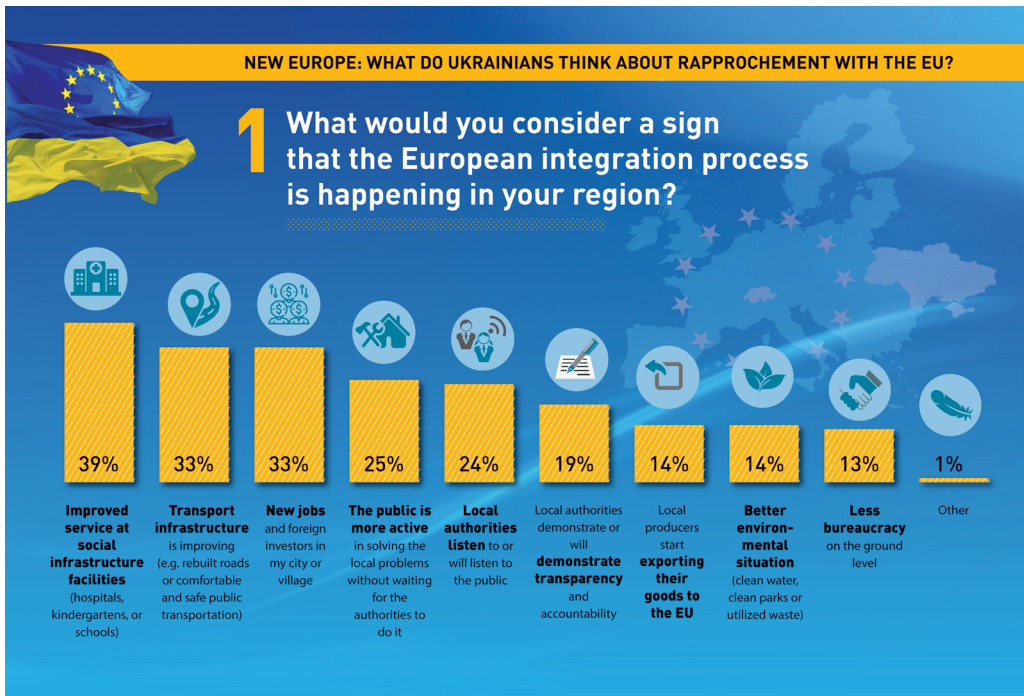
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1 THE LINK BETWEEN DECENTRALIZATION AND EU INTEGRATION

Most of the key stakeholders interviewed within the framework of this project emphasized the direct link between the processes of decentralization and European integration. While the significance of decentralization reforms is widely recognized in Ukraine, their inherent links to the process of European integration are not always well understood. The interviews revealed that those involved in the implementation of the reforms see them as an essential part of the process of adopting EU standards. They also highlighted that the reforms strengthen democracy from the ground up, as local residents receive additional leverage in decision-making processes.

Ukrainians tend to associate successful European integration with practical and tangible improvements, such as better hospitals, repaired roads, or the creation of new jobs. Many of these indicators of successful European integration are directly related to decentralization. For instance, according to a survey conducted by the New Europe Center in May 2018, Ukrainians associated the following indicators with successful European integration.¹

¹ *New Europe: What Do Ukrainians Think? New Europe Center, May 2018. <http://neweurope.org.ua/en/visual-materials/nova-yevropa-yak-yiyi-bachat-ukrayintsi-3/>*



- improved service at social infrastructure facilities (hospitals, nurseries, or schools);
- improved transport infrastructure (e.g. rebuilt roads, or efficient, comfortable and safe public transport);
- new jobs;
- a more active public, solving local problems without waiting for the authorities to do so;
- local authorities listening to the public.

These answers show that practical improvements (e.g. related to infrastructure) go hand in hand with value associations, for example an idea of more responsible and active communities (*hromady*) in solving local problems without waiting for the authorities to do this. According to this survey, one in four Ukrainians believes that local authorities considering public opinion is a sign of successful European integration.

At its core, decentralization is essentially a domestic reform initiative. The EU has not made decentralization a condition of Ukraine's closer relations with the EU, but it regularly encourages and praises it as its "most successful reform".² In Ukraine the Government also stresses that successful decentralization is part of the European integration process³ and marks a departure

² Hugues Mingarelli, «Decentralisation is perhaps the most important success of Ukraine», in: *Decentralization.gov.ua*, 21.02.2018. <https://decentralization.gov.ua/en/news/8317?page=18>

³ *Service of the Deputy Prime Minister of Ukraine*, posted on February 26, 2019. <https://www.kmu.gov.ua/en/news/decentralizaciya-ce-shlyah-ukrayini-doyevrosyozuy-gennadij-zubko-u-brusseli>



OLEKSIY ZAKHARCHENKO,

Expert (Sumy):

“European support is not only about money. It includes working with the Parliament and the Government, lobbying for reforms, and coordinating our Ukrainian experts. All this is no less important than the funds provided for the reforms themselves.”

from the post-Soviet legacy of centralized public management.⁴

The stakeholders polled generally praised the EU's assistance in the decentralization process. In particular, support for infrastructure projects was cited. The statement “since the EU supports it, it is probably related to the European integration” sums up the perceived logic. Simultaneously, doubts were voiced that “ordinary” Ukrainians would associate decentralization as clearly with European integration as experts or diplomats do.

Decentralization promotes interpersonal contacts between Ukrainians, EU citizens and the EU at large. The launch of the reform process was supported by a number of programs and initiatives aimed at transferring European experiences enacting similar reforms. Many local politicians have had the opportunity to visit EU countries or meet, for example, German or Polish experts working in Ukraine as part of decentralization projects. Until 2014, such contacts were not common: residents of small settlements often felt

⁴ Umland, A. *International Implications of Ukraine's Decentralization*. *Vox Ukraine*, January 30, 2019. <https://voxukraine.org/en/international-implications-of-ukraine-s-decentralization/>

isolated, as many seldom traveled to major cities in Ukraine, let alone to EU countries. In the last few years, many groups of ATC heads have traveled to the Baltic States, Poland, and Germany to familiarize themselves with local government procedures. The stakeholders we interviewed consider this type of hands-on EU assistance as particularly effective. Study visits ultimately allow local authorities in Ukraine to not just learn from but also establish cooperation with their counterparts inside the EU.

Cooperation between Ukrainian authorities and donor organizations in the field of decentralization can serve as an effective model for the implementation of other reforms. Overall, 19 Western-backed projects and programs are currently being implemented.⁵ Among them are “U-Lead with Europe”, a program supported by the EU and individual Member States (Denmark, Estonia, Germany, Poland, and Sweden), the Swiss-Ukrainian project “Decentralization Support in Ukraine” (DESPRO), the DOBRE program supported by USAID, and others.⁶

According to the reports of regional analysts, “U-Lead with Europe” program has the widest recognition by the Ukrainian public. This project is implemented by the German Society for International Cooperation (GIZ) and the Swedish International Development Cooperation Agency (Sida), and its total funding is 102 million Euro for 2016-2020. Within the framework of this project, a Central Office for Reforms was established at the Ministry of Communities and Territories Development as well as regional offices of the Local Government Development Center (LGDC), which operate in each *oblast*.

LGDCs work directly with communities, providing information and legal counseling, enhancing their competence and capacity in various fields, conducting various educational and information events, etc. Overall, the activities of these centers received positive feedback from survey respondents. In the opinion of both experts and representatives of the ATCs, the most effective form of assistance involving the LGDCs is study visits and exchanges both abroad and in neighboring *oblasts* of Ukraine, which enable the establishment of new political and economic ties.

In 2017, the EU Commission’s Ukraine Support Group introduced special envoys and high-level advisors from G7 countries who would oversee certain areas of reforms, in an initiative to strengthen the reform efforts of the Ukrainian Government. This idea originated with German Chancellor Angela Merkel at the G7 Summit in Taormina, Italy. Subsequently, Germany appointed the former Prime Minister of



OLEKSANDR KHORUZHENKO,
Director of Sumy Local Government
Development Center:

“We have 15 agreements in place, several projects between Europe and the Ministry of Communities and Territories Development, and huge funds allocated: over three billion UAH over three years for the U-Lead. The presence of European coordinators and people close to Angela Merkel in Ukraine also means a lot. The EU’s role is enormous. Even more, without the EU’s support, we would not even have launched this process (ed. – decentralization).”

⁵ *Map donor decentralization / All projects.* <https://donors.decentralization.gov.ua/projects>

⁶ *Ibid.*



A member of the Odesa City Council:

“The investment in training is a very valuable support, because it is impossible to get funding from our budget for “such a nonsense,” as our officials think. And at the expense of foreign funds, we really put a lot of knowledge into people.”

Saxony Georg Milbradt as special envoy for decentralization.⁷ So far this remains a unique format for cooperation between Ukraine and Germany, underlining strong support for Ukraine’s decentralization reform.

Foreign assistance is important not only for the establishment of ATCs but for other stages of decentralization. For example, the project, “Modeling of the administrative-territorial structure at subregional level in the Volyn, Odesa, Poltava, Chernivtsi and Kyiv *Oblasts*” was launched in July, 2019. This initiative was implemented by the Ukrainian Association of *Rayon* and *Oblast* Councils with the support of the Council of Europe Program “Decentralization and Local Government Reform in Ukraine.”⁸ It was aimed at developing models of sustainable districts (*rayony*), i.e. upper subregional administrative units that would form the basis for appropriate legislation. Moreover, previously laws proposing changes to the district levels of the Donetsk, Luhansk,

Ternopil, and Kharkiv *oblasts* had already been drafted.

Overall, Ukrainian decentralization reform is based on the European Charter of Local Self-Government. This broad framework leaves ample space for each country to chart its own specific course. As the history of decentralization in Europe shows, there is no universal recipe for success. What can be implemented in one country may well be unfeasible or undesirable in another country. Thus, Ukraine has had to define and implement its own unique model, borrowing from – but not copying – best practices of Scandinavian countries (their voluntary amalgamation phase mirrors the Ukrainian one), the Baltic States, Germany, Poland, and France (the oversight system for the activities of ATCs, including attention to the term *‘prefects’*). In doing so, Ukraine is adopting European standards.

Representatives of donor organizations interviewed for this study note that Ukraine has approached decentralization reform boldly and continues to re-adjust an ambitious process along the way. Support for decentralization by foreign donors is one of the driving forces behind these reforms, although our respondents also pointed to projects duplicating the efforts of others, in particular, energy efficiency and health



A representative of an NGO (Odesa):

“I think they already replaced state structures. If it were not for their activity, not their work, Ukraine would have ten times less ATCs, because regional administrations and regional councils, at least in the South of Ukraine, have absolutely no interest in the reform.”

⁷ *G7 in Ukraine: Support, Criticism or Critical Support?* New Europe Center, 2018. http://neweurope.org.ua/wp-content/uploads/2018/03/Policy-Memo_NEC_G7-in-Ukraine_eng-3.pdf

⁸ *Another project launched to help form an optimal rayon level model in Ukraine.* <https://decentralization.gov.ua/en/news/11415?page=3>

care infrastructure projects. Better reporting and communication would be desirable. Moreover, the overall number of projects aimed at developing local economies and entrepreneurship, job creation, for community development was deemed insufficient by our respondents.

2 DECENTRALIZATION SUCCESS STORIES

As of January 2020, 1029 amalgamated territorial communities have been created, each with their own clear responsibilities, budgets, and rights. An amalgamated territorial community (ATC) is a primary local government body in Ukraine, created through the voluntary association of residents of several settlements (villages, hamlets or towns). After the merger, a new administrative center is established with a self-governing body.

By far not all reforms receive as positive a public response as decentralization. A 2018 survey established that 43% of Ukrainians supported the government's steps towards decentralization (while 27% did not support these reforms). However, 61% of respondents stated that they had not yet felt changes resulting from extra funding at the local budget level.⁹

This disparity may be explained by the fact that decentralization is inherently a long-term process, which cannot generate the immediate results people expect. The formation of amalgamated territorial communities – the first phase of decentralization – is expected to conclude in Spring 2020. The second

⁹ *Public opinion about decentralization reform. Nationwide public opinion polling conducted by the Ilko Kucheriv Democratic Initiatives Foundation jointly with Kyiv International Institute of Sociology on August 16-28, 2018 in all regions of Ukraine excluding territories not currently under government control. 2,014 respondents aged 18 and older were polled. The statistical margin of error does not exceed 3.3%. <https://dif.org.ua/article/detsentralizatsiya-dosyagnennya-i-problemi-otsinki-gromadyan>*

phase aims to accelerate reforms in healthcare, education, social services, energy efficiency, etc. During this stage, Ukrainians would be able to fully and tangibly experience the benefits of decentralization. However, even at the current intermediate stage, changes are visible.

ACCOUNTABILITY OF LOCAL AUTHORITIES

Observers interviewed note that local government authorities (LGAs) are now more attentive to the expectations of their communities. Previously, local politicians could ignore the wishes of their electorate, arguing that “the central government” did not provide funding or did not approve a project. Civil society actors are now engaged in so-called “participatory budgets,” a process of consultation which is virtually unprecedented in the post-Soviet space, in which active citizens can influence the priority given to local issues. Regional analysts interviewed by our researchers also pointed out that local politicians are becoming more “responsible and accountable”. This is especially noticeable in rural areas where power is increasingly concentrated in the hands of elected bodies. Previously, it was concentrated in the subregional (*rayon*) administrations, the leadership of which was appointed by the president. An increase in the accountability of elected office-holders should help reduce the level of corruption in Ukraine. Previously, officials could embezzle money from the capital, without direct contact with their constituency. A system where local officials have more direct contact and accountability to their community complicates opportunities for



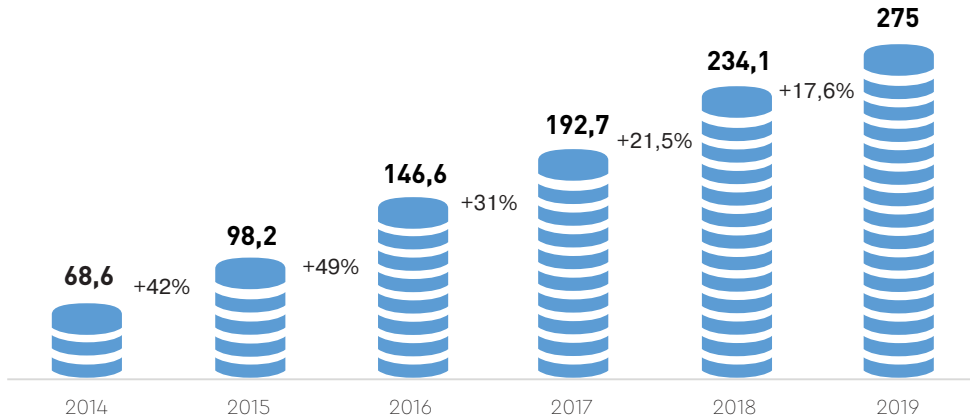
OKSANA DASHCHAKIVSKA,

Senior lecturer at UCU, Department of Political Science; head of the Western Ukrainian Office of the International Renaissance Foundation:

“Previously, residents of the Lviv region often blocked roads as part of strikes against poor road conditions; there were problems with public transportation. Schools and the level and quality of education available in the ATCs have changed significantly; certainly, there is still a difference compared to education in Lviv, but the level is definitely increasing.”

graft. The threat of public condemnation is perhaps more likely than a conviction by a Ukrainian court.¹⁰ In this context, it is important to support local independent initiatives and projects aimed at monitoring budget expenses, and Western donors facilitating anti-corruption activities in Ukraine should pay more attention to this sphere. Moreover, it should be crucial for the Ukrainian government and external stakeholders to reform the law enforcement system and judiciary sector since many local independent investigators have been endangered or killed by elites seeking to preserve corrupt schemes.

¹⁰ Mark Bernard, *Smart Decentralization: A Bottom-up Path Toward Functioning Institutions and Economic Prosperity*, VoxUkraine, 2015. <https://voxukraine.org/en/smart-decentralization-a-bottom-up-path-toward-functioning-institutions-and-economic-prosperity/>

Fig. 1. Revenues of the general fund of local budgets, billion UAH

INCREASE IN COMMUNITY BUDGETS

Representatives¹³ of the ATCs unanimously cite the increase in local budgets as the main success of decentralization. Larger local budgets, in turn, increase the capacity of settlements to address local issues. This part of the reforms required amendments to the Ukrainian Budget Code. In 2018, the revenues to the general fund of local budgets of Ukraine amounted to EUR 7,3 billion.¹¹ In 2014, local budget revenues amounted to EUR 4,3 billion.¹² In 2019, these revenues increased to EUR

10,2 billion¹³ (see Figure 1 in Ukrainian hryvnia).^{14 15}

¹³ The average exchange rate (2019) of the hryvnia against euro was taken as the basis – 28,95.

¹⁴ These materials have been prepared on the basis of the data provided by the Ministry of Finance of Ukraine, State Treasury Service of Ukraine, Main Directions of Budget Policy for 2019-2021, and the Law of Ukraine “On the State Budget for 2019” by the experts of the Financial Monitoring Group at the Central Office for Reforms of the Ministry of Regional Development (with the support of the Program “U-LEAD with Europe” and the SKL International project). https://decentralization.gov.ua/news/10670?fbclid=IwAR0F89YRsn9N_Elc_wJAU86V9gkyGhO8Ly_YvnG9n-uQytlcAQa_QLEShig

¹⁵ Implementation of local budget revenues, Ministry of Finance of Ukraine. <https://mo.gov.ua/en/vykonannya-dokhodiv-mistsevvykh-biudzhetiv>

¹¹ The average exchange rate (2018) of the hryvnia against euro was taken as the basis – 32,14.

¹² The average exchange rate (2014) of the hryvnia against euro was taken as the basis – 15,72.



OLEKSIY ZAKHARCHENKO,

Expert (Sumy):

“Small towns often show greater initiative in making changes as they try to get the most out of the reform for themselves. It is an opportunity for them to stop stagnation, and those who can take advantage of the reform will later replace their neighbors as regional leaders.”

DE-BUREAUCRATIZATION

As part of the decentralization process, administrative service centers (ASC) have emerged in many communities (*hromady*). In such centers, people can receive documentation, permits and subsidies without having to travel to a regional or district center. As of October 1st 2019, the number of administrative service centers in the country was 806.¹⁶ Overall, 53 % of ASCs in Ukraine offer from 50 to 135 available services.¹⁷

Moreover, there are even ‘mobile administrators’, special vehicles that act as mobile ASCs in remote settlements. This innovative method of service delivery allows the elderly, people with health problems and with reduced mobility to access administrative services at home. For example, in the Lyman ATC in the Donetsk *oblast*,

‘mobile’ ASCs appeared at the end of 2018; a specialist renders services quickly, in an average of 20 minutes.

NEW INFRASTRUCTURE

Our respondents described how, for the first time in many years, small towns and villages are emerging from hibernation, as new funds in their budgets allow for the restoration of local infrastructure. Local authorities have begun funding repairs of old schools and the construction of new ones and the restoration of communal buildings for the first time since the Soviet era.

NEW SERVICES

Local authorities are beginning to take care of issues that they have not previously addressed due to either a lack of funds or a simple unwillingness to solve problems. For example, many ATCs now have resolved issues concerning solid waste removal, established intercity transport connections, or introduced special transport for the elderly and the disabled. Some communities, for example the town of Merefa in Kharkiv *oblast*, have also begun investing in public safety through the introduction of a unified video surveillance system. This particular project was recognized by the Ukrainian government in the category “Best practices of local government” in 2018.

INTERNATIONAL PROJECTS

New conditions are encouraging communities to actively seek new development opportunities. International support for the decentralization process allows local

¹⁶ *Monitoring of the process of power decentralization and local governance reform.* <https://decentralization.gov.ua/uploads/library/file/477/10.10.2019.pdf>

¹⁷ *ASCs for citizens and business.* <https://my.gov.ua/info/news/207/details> (data given as of 01.07.2019)

politicians to participate in study visits abroad to learn best practices. These visits help establish useful contacts which lead to permanent cooperation. For example, communities in Lviv *oblast* often cooperate with municipalities in Poland and Germany. An example of this cooperation is the Shchyrets community, which cooperates with the German town of Gudensberg. This partnership is supported by the Federal Ministry of Economic Cooperation and Development of Germany, and it covers a range of activities from culture to infrastructure.

Previously, communication was very weak, and now there is no center (Donetsk), so we are establishing new ties.” Inter-municipal cooperation based on agreements is helping to overcome challenges linked to a lack of resources. As of mid-2019, 450 such agreements were registered in the Register of Cooperation Agreements of Territorial Communities.¹⁹

TOURISM

Towns and villages have begun paying more attention to the development of tourism. The Nove Misto ATC in the Lviv *oblast*, for example, received a grant of 1 million euros to build a tourist town in the style of the “Wild West”, but with Ukrainian authentic features.¹⁸ Many communities regularly hold special festivals that should also attract tourists. In the Lyman ATC in Donetsk *oblast*, for example, a strawberry festival is organized.

DIALOGUE BETWEEN COMMUNITIES

Decentralization promotes dialogue between communities. In the words of a representative of the non-governmental sector in Mariupol, “as a result of decentralization, people started communicating with each other, and this is very important for the Donetsk *oblast*.



A representative of an NGO (Odesa):

“So far, it is a “Western-style” renovation. On the ground, the social infrastructure is being repaired: schools, museums, cultural centers... But the real essence of decentralization is in attracting investments at the local level. So far, unfortunately, the local authorities do not quite understand how to do that.”

¹⁸ EUR 1,000,000 for the Wild West of the Carpathian Mountains, or How the Nove Misto ATC received a grant. <https://decentralization.gov.ua/news/8833?page=2>

¹⁹ Communities Cooperation. Analytical research, September 2019. <http://cooperation.acsa.com.ua>

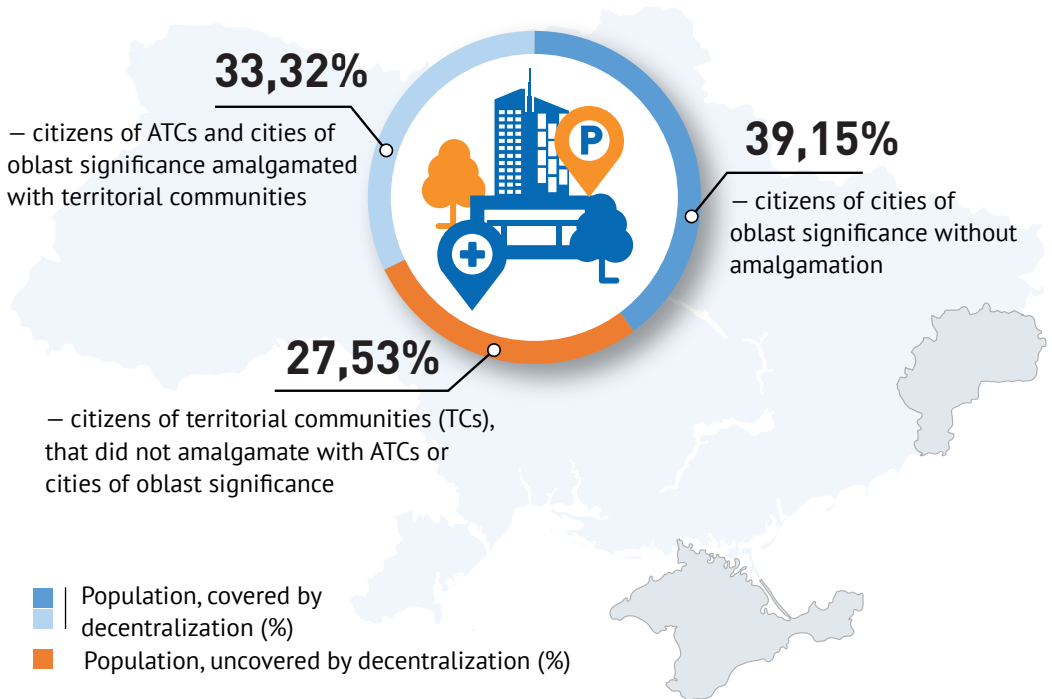
3 OBSTACLES TO FURTHER DECENTRALIZATION

After more than five years of reform, most stakeholders in Ukraine believe that the process of voluntary community amalgamation is almost complete; there is a broad understanding that those communities that were willing to amalgamate have already done so. Therefore, according to many Ukrainian experts, a transition to an administrative phase is now needed. This phase implies community amalgamation in accordance with the 'perspective plan' (PP), a key document of state planning for community amalgamation. According to the Law "On Voluntary Amalgamation

of Territorial Communities," 'perspective plans' are developed for each *oblast* and the Autonomous Republic of Crimea and finally approved by the Cabinet of Ministers of Ukraine. PPs define ATCs that can be 'self-sufficient' and 'capable' to provide for its inhabitants.

At the same time disagreements remain about the quantitative assessment of ATC creation. For instance, while supporters of decentralization point to statistics from the Ministry of Communities and Territories Development of Ukraine showing that more

Fig. 2. Population



* Cities of oblast significance – cities that are economic and cultural centers, have developed industry, utilities, significant state housing fund, with a population of more than 50 thousand people.

than 70% of the Ukrainian population is currently covered by these reforms (excluding territories not currently under government control), opponents claim that this figure is exaggerated. They argue that it includes not only the population of ATCs, but also the cities of *oblast* significance amalgamated with territorial communities (TCs), as well as the residents of cities of *oblast* significance without amalgamation (see Figure 2).²⁰

In addition, the Government's desire to keep up the pace of the reform has led to the establishment of many voluntary ATCs that were not a part of the 'perspective plans' of the *oblasts* developed in accordance with the Methodology of Formation of Capable Territorial Communities designed by the Ministry of Communities and Territories Development of Ukraine. This document was approved by the Government in 2015 and set out the mechanism and conditions for the formation of 'self-sustaining' or 'capable' territorial communities, as well as the procedure for developing and approving the 'perspective plans'. In other words, the 'perspective plans' started being retrofitted into the system of existing communities, which were created not in accordance with these plans. According to Ukrainian authorities it contributed to the existence of ATCs that were not necessarily economically viable to provide adequate services and secure their economic development. It should be noted that, at present, 73% of the amalgamated communities in Ukraine have subsidized budgets.²¹ So communities that



Member of the city council (Odesa oblast):

"There were many obstacles that prevented the region from developing. In the South, national minorities live; there are concerns that community amalgamation will lead to separatism. I don't know if it's true. Probably, it's some kind of prejudice."

amalgamate, but receive large amounts of subsidies, may see short term gains from decentralization, but may face problems down the road if subsidies slow down.

The administrative completion of decentralization was opposed by some foreign experts and some local business representatives. International experience has shown that no country has completed decentralization exclusively on a voluntary basis and that each case had its own unique characteristics and timeframe for reform. The main concern of certain foreign experts was that a forced amalgamation of the remaining communities could lead to widespread protests. For example, in summer 2017, hundreds of thousands of citizens protested against the compulsory amalgamation of local authorities in two federal states of East Germany. In certain cities, the level of protest reached the level of 1989, when East Germany opposed the Communist regime.²²

Regardless of the arguments of the conflicting parties, most of the political

²⁰ *Monitoring of the process of power decentralization and local governance reform.* <https://decentralization.gov.ua/uploads/library/file/506/10.12.2019.pdf>

²¹ *From the voluntary phase of community amalgamation, we move to capacity-based amalgamation,* – Alyona Babak. <https://decentralization.gov.ua/news/11593>

²² *When Local Governments Become Too Big: The Risks of Over-sizing. Lessons from Germany.* Felix Roesel. <https://voxukraine.org/en/when-local-governments-become-too-big-the-risks-of-over-sizing/>

obstacles that hindered decentralization have yet to disappear with the change of government in 2019. If these challenges are not considered and resolved, both rapid and administrative as well as long-term and voluntary amalgamation could be problematic. In accordance with the Constitution of Ukraine, regular nationwide local elections are due in October 2020. Ukrainian officials emphasize that they should be conducted on a new territorial basis with the established ATCs and the new district level of *oblasts*.

Given the large number of communities that are not yet amalgamated (more than 350 ATCs, according to the 'perspective plans'), local resistance is quite likely. Therefore, the deadline for voluntary amalgamation had to be clearly announced with appropriate communication. Moreover, an extremely intensive communication campaign and an on-site consultation process is required. The more clearly the government can make a reasoned and transparent case for amalgamation, the less resistance it will meet from a public which has to this point shown some resistance.

UNDERMINING OF REFORMS BY LOCAL AUTHORITIES

Community representatives confirmed that a clear and transparent position of central authorities in terms of the reform timeframe and all its stages is key to the successful completion of reform. The government has so far reacted weakly to attempts by regional leaders to slow down, and thus subvert, the overall pace and implementation of decentralization reform. For instance, during the presidency of Petro Poroshenko, Zakarpattia was the

only *oblast* that did not adopt a 'perspective plan'. According to independent experts the former head of the regional administration, Hennadii Moskal, subverted the process of decentralization by, for example, calling the amalgamation of territorial communities a basis for separatism. He even appealed to the Supreme Court of Ukraine about the abolition of certain provisions of the law "On Voluntary Amalgamation of Territorial Communities", which launched the process of decentralization in the country.²³

As of January 10, 2020 more than 90% of the territory of Ukraine was covered by 'perspective plans' (excluding territories currently not under government control), but some *oblasts* lagged considerably in comparison. In the Odesa *oblast*, the 'perspective plan' covered less than 40% of



Journalist (Odesa oblast):

"The huge problem is that every territorial community in the Odesa region has its own history. This history is not only economy or local lore, it is a history of national lore. We have a serious problem that the creation of communities from different ethnic villages leads to very serious conflicts and angers the population."

²³ Zakarpattia Regional State Administration got a refusal to repeal certain provisions of the law on decentralization. https://zaxid.net/verhovniy_sud_vidmoviv_zakarpatskiy_oda_u_skasuvanni_okremih_norm_zakonu_pro_detsentralizatsiyu_n1453927

territorial communities, while in the Kyiv *oblast* it covered 57.8%.²⁴

Today the President and members of the parliamentary majority have vocally supported and rationalized the need for the completion of the decentralization process. For instance, parliament has passed the law which allows the Cabinet of Ministers to approve 'perspective plans' independently of the Regional State Administrations (RSAs).

LACK OF UNDERSTANDING

Decentralization is closely tied to reforms that at times require unpopular decisions to be taken at the ATC level, such as closing understaffed schools in view of the overall improvement of the quality of educational services. Reforms of the healthcare system are also not always synchronized with decentralization. Therefore, a central challenge lies in the weak link between the local government reform and individual sectoral reforms, such as in health care, education, administrative services, and social policy. Observers note that these reforms, which were originally intended to be part of one comprehensive strategy, are being pursued separately. Moreover, there is a lack of coordination between central level institutions. The Ministry of Regional Development, Construction and Housing (renamed by the new government into the Ministry of Communities and Territories Development) is a leading institution in the process of decentralization, but it is not responsible for sectoral reforms

developed and implemented at the regional level by other ministries.

In Summer 2019, the Ministry of Communities and Territories Development of Ukraine presented a vision for reforming local government at the subregional level. According to the agency's estimates, 102 *rayony* should be created in Ukraine instead of the existing 490.²⁵ However, there is no ultimate understanding of what sub-regional level will look like, and its modeling requires extensive information and advocacy activities aimed at *hromady* (communities), *rayony* (districts), and *oblasts* (regions). It is also critically important to choose the ultimate design of the reform with defined powers of each level of government and to synchronize all aspects of administrative and territorial reform and decentralization with reforms across individual sectors.

PATERNALISTIC AND CONSUMERIST PERCEPTION OF COMMUNITY AMALGAMATION

Though there are positive trends with local enthusiasm in Ukrainian communities, established ATCs still quite often adopt strategic documents solely to meet legal requirements or to work with donor organizations. Apart from that, regional analysts note that local authorities seek to please their constituents, so they competitively focus on high-visibility projects. "On the ground, the social infrastructure is being repaired: schools, museums, cultural centers [...]. But the real essence of decentralization is in attracting investments at the local level. So far, unfortunately, the

²⁴ *Monitoring of the process of power decentralization and local governance reform, as of January 10, 2020.* <https://decentralization.gov.ua/uploads/library/file/526/10.01.2020.pdf>

²⁵ *Why, how and when should rayons change?* <https://decentralization.gov.ua/en/news/11369>

local authorities do not quite understand how to do that,” summed up a representative of an NGO from Odesa.

A positive example is the decision by the mayor of Trostyanets in Sumy *oblast* to include the city hospital in the city budget asset list and launch its modernization. “Of course, the community will spend tens of millions of hryvnias, which could have been invested into a quickly-made ‘pretty picture façade?’ like others do. But ten years later, Trostyanets will switch roles with neighboring towns: it will have a modern hospital, while doctors will be leaving the other settlements,” noted Oleksandr Khoruzhenko, Director of the Sumy Local Government Development Center.

COMMUNICATION ISSUES

Representatives of the first amalgamated communities (*hromady*) note that they created amalgamated communities as a kind of start-up enterprise, and many of them did not fully understand the scope of authority and responsibility accompanying these reforms. Initially, there was a lack of publicly available information, especially in 2015-2016. This knowledge gap helped generate negative myths about the reform. For example, certain media outlets actively disseminated manipulative materials in the line of “decentralization means separatism.” Our respondents indicated that residents of amalgamated communities do not always know how they function. Where communities are not yet amalgamated, myths about the inevitability of schools and hospitals closures or the extinction of villages persist, and disputes arise over land market issues.



IVAN LESHCHENKO,

Head of the Belotserkivka ATC (Poltava oblast):

“Decentralization is the biggest blow to the Soviet system of councils that we had in place... And it is already an irreversible process, regardless of the next government. It is possible to slow it down for a while, but not to stop. In several years, people will come back to this, as this is a progressive direction for the development of power on the ground. There are state issues and there are local powers. And local powers are the prerogative of local authorities. Both state and local authorities only need to clearly understand their own powers and not to try to grab the largest piece of the pie.”

According to a poll conducted by the Ilko Kucheriv Democratic Initiatives Foundation together with the Kyiv International Institute of Sociology in August 2018, 16% of respondents stated that they knew what decentralization reform was about, while 60% had heard something about it (compared to 62% in 2017).²⁶ This suggests that the public supports the process in general, but does not understand it properly, and therefore, there is a need for more information and advocacy.

CAPACITY ISSUES

Most of our interlocutors acknowledged that some of the newly created communities

²⁶ *Public Opinion on the Decentralization Reform. Ilko Kucheriv Democratic Initiatives Foundation. <https://dif.org.ua/article/detsentralizatsiya-dosyagnennya-i-problemi-otsinki-gromadyan>*

lack the resources to provide for their own development in various spheres. For instance, only a few of the first 15 communities (*hromady*) in Lviv *oblasts* were deemed as 'self-sustaining' or 'capable'. One possible explanation for the capacity gap, according to experts and government officials, is that some communities amalgamated at their own discretion without considering the 'perspective plans', and so they may be not be economically viable to maintain their development.

In fact, the only document that provides a definition of a 'self-sustaining' community is the Methodology of Formation of Capable Territorial Communities. According to this document, "self-sustaining' or 'capable' territorial communities are territorial communities of villages (hamlets, cities) that, through voluntary amalgamation, are able to provide, on their own or through the relevant local government bodies, an adequate level of services, in particular in the fields of education, culture, health care, social security, and housing and utility services, taking into account the human resources, financial capacity, and infrastructure development of the respective administrative and territorial unit."²⁷

The capacity issue is often linked to the size of the community's population. For instance, the Monitoring of the Process of Decentralization, carried out by the Ministry of Communities and Territories Development of Ukraine, rates Ukrainian *oblasts* in the sphere of decentralization. Among the components of this rating is the number of ATCs with a population less than 5 thousand people. The

more such communities in the *oblast*, the lower its ranking.

Moreover, experts of the Financial Monitoring Group of the Central Office for Reforms at the Ministry of Communities and Territories Development of Ukraine have analyzed the financial performance of 665 ATCs in 2018. For the analysis, they were grouped by population: *group 1* - more than 15 thousand residents; *group 2* - from 10 to 15 thousand residents; *group 3* - from 5 to 10 thousand residents; *group 4* - less than 5 thousand residents. According to the results of this research, small ATCs (*group 4*) mostly have low financial capacity, with exceptions being communities where local budget-forming enterprises are located.²⁸ However, successful communities (such as Shakhove in the Donetsk *oblast* with a population of up to three thousand people) prove that the size of local government bodies does not always affect efficiency, but rather depends on local conditions such as active population, possibilities of tourism development, and other factors.

In early 2019, the Ukrainian Government recognized the need to assess the effectiveness of ATCs. One of the best options for improving the development prospects of not 'self-sustaining' or 'capable' communities is to merge them with others and create larger ATCs. However, wealthy communities have expressed reluctance to amalgamate with poorer ones. For example, local governments in cities of *oblast* significance are often hesitant to coopt the population of rural territorial communities located around these cities. There are currently 44 cities of *oblast* significance in Ukraine that incorporated

²⁷ On Amendments to the Methodology of Formation of Capable Territorial Communities. <https://zakon.rada.gov.ua/laws/show/34-2020-n>

²⁸ Large hromadas have more opportunities: experts analyzed the budgets of 665 AHs over 2018. <https://decentralization.gov.ua/en/news/10649>

territorial communities, out of 82 included in the 'perspective plans' of the *oblasts*. In turn, rural territorial communities have expressed concern that if they amalgamate with wealthier ATCs, their interests will be insufficiently considered.

In January the Cabinet of Ministers of Ukraine adopted a resolution "On Amendments to the Methodology of Formation of Capable Territorial Communities". The new version contains criteria, that should allow communities to "evaluate" their own capabilities – human potential as well as financial and property resources.²⁹

LACK OF SKILLED PERSONNEL

"One of the problems is the global personnel hunger, i.e. there are few specialists in local governments who understand in general what local self-government is," said a representative of the non-governmental sector from Mariupol. Moreover, with the launch of decentralization reform, both the leadership and the local assemblies have only been partially rejuvenated. The lack of staff is particularly impactful in villages, as a strong management team is to a large extent the key to a communities' success. Furthermore, there is no systematic approach to the issue of civil service reform on the ground. For decentralization to become truly successful, it has to be combined with public administration and local public service reforms.

DECENTRALIZATION AND SECURITY

"Decentralization is a virus that undermines your neighbor, Russia." This opinion was expressed by the Special Envoy of the German Government on Governance and Decentralization Reforms in Ukraine Georg Milbradt. He posits that widescale reform of Ukrainian villages and towns combined with the increased ability for ordinary Ukrainians to shape the local agenda will generate Russian interest in Ukraine's positive experience. According to Milbradt, bottom-up democratization in Ukraine could ultimately win the hearts and minds of Russians, and decentralization could become a sort of 'soft power' of Ukraine.

However, not everyone in Ukraine shares the optimism of decentralization advocates. Both government officials and many non-governmental observers argued for the need to introduce safeguards against certain 'side effects' of community empowerment. There is concern that as *oblasts* gain competences, their appetite for autonomy will grow, in a way that could potentially run counter to Ukraine's national interests.

The issue of decentralization has been negatively affected by the beginning of the war in the Donbas in 2014. The Russian narrative regarding "separatism" was based on the fact that residents of Eastern and Southern *oblasts* of Ukraine demanded more powers. The most pressing problem during the negotiations is the issue of granting special status to separate

²⁹ *On Amendments to the Methodology of Formation of Capable Territorial Communities.*
<https://zakon.rada.gov.ua/laws/show/34-2020-n>

rayony of the Donbas.³⁰ There are concerns among Ukrainians that under the guise of decentralization reform, which is generally popular, authorities could legitimize the separatist regimes backed by Russia.

There is another dimension of concerns that is not associated only with Russia. The opponents of decentralization outline similar scenarios for certain districts of Odesa, Zakarpattia, and Chernivtsi *oblasts*. For instance, in Odesa *oblast* certain specificities in the perception of community amalgamation are observed in the *rayony* with compact ethnic minority settlement. Local governments in the *rayony* of Bessarabia are concerned that community amalgamation could negatively affect the ethnic identity and quality of social and administrative services in the respective communities. The politicization of this issue by certain MPs has been also observed.

Proponents of decentralization seek to actively dispel the myths of decentralization provoking separatism, noting that of more than a thousand newly-created ATCs, not one has shown any inclination for separatism. Russia resorted to an act of aggression in 2014, prior to the rollout of decentralization and based on a rigidly centralized governance model. Foreign stakeholders specializing in decentralization in Ukraine are also skeptical of this kind of argument. In their opinion, decentralization will strengthen the state's immunity to any manifestations of

separatism.³¹ Moreover, by devolving power to the municipal level, decentralization deprives Russia's 'hybrid warfare' of major entry points for the separation or annexation of *oblasts*.³²

³⁰ Extraordinary Plenary Session, Verkhovna Rada of Ukraine, August 31, 2015. <https://portal.rada.gov.ua/meeting/stenogr/show/5961.html>

³¹ Umland, A., 2019. 'International Implications of Ukraine's Decentralization', Vox Ukraine. <https://voxukraine.org/en/international-implications-of-ukraine-s-decentralization/>

³² Romanova, V.; Umland, A., 2019. *Ukraine's Decentralization Reforms Since 2014: Initial Achievements and Future Challenges*, Chatham House. <https://www.chathamhouse.org/publication/ukraine-s-decentralization-reforms-2014-initial-achievements-and-future-challenges>

RECOMMENDATIONS

- 1 Advise on further legislative efforts.** EU member states, having profound knowledge of decentralization, should continue to play an active role in further legislative implementation efforts in Ukraine. The primary objective of these efforts is to choose the final design of the reform, including clearly defined responsibilities at each level of government, clearly delineated phases of reform, and a synchronization of all aspects of the administrative and territorial reform with other reforms, in particular, healthcare, education, administration, and social policy reforms.
- 2 Intensify information and advocacy activities.** There are still many misconceptions about decentralization reform, thus it is critical to continue and intensify information campaigns in order to clarify the details of key components of the reforms. Particular attention should be paid to explaining the objectives of the future subregional level of government. EU could support relevant communications initiatives.
- 3 Emphasis on development projects.** Donor organizations, which are supported by the EU predominantly, should pay greater attention to supporting local initiatives aimed at launching and implementing development projects. Increasing the number of “tutors” who could assist community members from the writing phase during the application process to the implementation stage is extremely important.
- 4 Increase the workforce capacity of the ATCs.** Community development largely depends on the professionalism and initiative of the leadership of those communities (*hromady*). Therefore, trainings and consultations on attracting investments, business development, strategic planning by EU representatives should be organized for local government officials. It especially concerns ATCs heads, MPs and members of executive committees, who are key actors in the decision-making process but often lack a strategic vision for their community’s development.
- 5 Take into account the regional differences.** Supporting decentralization reform, more attention should be paid to certain *oblasts*. In particular, this concerns Zakarpattia, Chernivtsi, and Odesa *oblasts* with their compact ethnic minorities. It is advisable to enhance the exchange of experience between these *oblasts* (mutual visits of representatives of minorities, review of existing donor projects and programs). On the other hand, in Luhansk and Donetsk *oblasts*, it is necessary to promote inter-municipal cooperation.
- 6 Support local democracy initiatives in the ATCs.** Donor agencies where the EU plays a central role should increase their involvement in educating local civil society and local government representatives on the mechanisms of public participation in decision-making.

7 Contribute to dialogue facilitation activities. As potential conflicts between heads of newly established communities (*hromady*), executive bodies, and *rayon* state administrations are already emerging, the specificities and interests of communities should be taken into account, especially when changing subregional levels of government. Proactive steps should be taken, such as facilitation trainings for decision-making on amalgamation and other issues concerning the life of communities (within EU-supported initiatives).

8 Organize study tours for representatives of ATCs. Previously communities were concerned with the level of financial assistance they received, but as reforms take hold, they are shifting their concern to questions of sustainable economic development. Thus, it is critically important to continue organizing study visits to EU countries in order to learn from best practices in local economic development, services provided by the municipality, etc.

9 Build partnerships between Ukrainian ATCs and the communities in EU countries. The development of twin cities will facilitate the cultural integration of Ukrainian communities and the development of business contacts (especially valuable for small and medium-sized businesses). There are many communities (*hromady*) in Ukraine willing to find such partners.

ABBREVIATIONS USED IN THIS RESEARCH

LGDC BO – Local Government Development Center branch office. The LGDC and 24 BOs are funded by the “U-LEAD with Europe: Ukraine Local Empowerment, Accountability and Development Program” (U-LEAD with Europe), supported by the European Union and its Member States: Denmark, Estonia, Germany, Poland, and Sweden.

RSA – Regional State Administration

LGA – local government authorities

ATC – amalgamated territorial community

IMC – inter-municipal cooperation

PP – ‘perspective plan’

PIT – personal income tax

TC – territorial community

ASC – administrative service center

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