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Ukraine's Decentralization Reform

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1. The Objectives of Decentralization in Ukraine

Decentralization as a Priority of Post-Maidan Ukraine

Decentralization emerged as one of the key priorities of the new reform-minded Ukrainian Government elected in 2014 after the convulsions of the Maidan Revolution and the subsequent annexation of Crimea and Russian-backed separatist insurgencies in the Donbas. Although it might seem surprising that the political leadership of a country struggling with a biting economic recession¹ and military aggression in its own territory would turn its attention immediately to decentralization reform, the policy was in fact a natural resumption of discussions and initiatives for structural transformation of the country's government that had been pursued at various points ever since Ukraine's independence in 1991², as well as being seen as a viable means of placating the restive insurgent regions of Donetsk and Luhansk and resisting Russian demands for federalization. Perhaps more importantly, the reform plan was considered essential for achieving the levels of balanced and sustainable economic regional development and administrative capacities that would enable Ukraine to successfully harmonize its internal market and legislation with that of the EU and further its efforts on the path to eventual eligibility for EU membership.

¹ According to the World Bank, Ukraine's GDP contracted by 6.8% in 2014 - "Ukraine Economic Update", *World Bank*, 29.04.2015, <<http://www.worldbank.org/content/dam/Worldbank/document/eca/ukraine/ua-macro-april-2015-en.pdf>>.

² Ukraine ratified the European Charter of Local Self Government in 1997 (thus giving it the force of domestic law), and revolutionary changes in local government were planned by the Yushchenko Government in 2005 and 2009, as well as the Yanukovich Government (at least rhetorically) in 2010.

The Government's Rationale for Decentralization in 2014: Where Did the Impetus Come from?

The first post-Maidan government moved with astonishing swiftness to set in motion the first procedural stages of decentralization reform, approving the two major Concept Documents for Decentralization Reform and Regional Development in April 2014 and August 2014 respectively (more details on these below). The speed and decisiveness with which the coalition government applied themselves to pursuing decentralization reform and implementing these guiding legislative documents can be explained by two main factors; the ready availability of the formal legislative framework and strategic blueprints for decentralization that had accumulated in political circles over the previous decades (given Ukraine's long history of flirting with decentralization reform), and the consensus, which spread quickly among political elites from across the party spectrum in 2014, that decentralization would be the best antidote to secessionist tendencies in the East of the country and in the Republic of Crimea, providing an immediate and workable *ad hoc* response to Russian military aggression and misinformation.

The actual written text and underlying political vision of the two crucial strategic documents which launched the decentralization reform were not drawn up from scratch, but were readily available to the newly formed government in 2014 since they had more or less already been written for two previous attempts at the same kind of reform by the Yushchenko government in 2005 and 2009. Anatoly Tkachuk, one of the leading expert advocates for Ukrainian decentralization, describes how a detailed framework for the reform was drawn up in 2005 by the vice prime minister of the time, Roman Bezsmertniy, but was abandoned when he subsequently resigned, and again in 2009 when the government approved a "Concept for Local Self-Government Reform", only for it too to be discarded when the Yanukovich Government came to power in 2010; "*While the draft of 2005 got lost somewhere in the Prime Minister's drawer, the document of 2009 disappeared in the maze of the Cabinet's Secretariat...*"³. It is clear that by 2014, there was enough theoretical expertise on the subject of decentralization among civil society and political elites and enough familiarity with the challenges of translating European norms of local self-government into Ukrainian law to quickly draw up the required action plan, once the political will was present.

The second immediate factor behind the Ukrainian government's impetus for decentralization reform in early 2014 was the prevailing perception among leading Ukrainian cultural, political and intellectual figures, in the aftermath of Russia's annexation of Crimea and military support of secessionist forces in the East, that the promise of decentralization and the granting of greater autonomy to regional governments would be the most feasible remedy for the secessionist sentiments of the territories of Donetsk, Luhansk and Crimea, and could steer them away from the vision of "federalization" demanded by the Russian side. Many commented that the crisis might not have happened if decentralization had been implemented earlier, and there were frequent allusions to Poland's successful and peaceful decentralization after the collapse of communism⁴; Andriy Sadovyi, mayor of Lviv and leader of the Samopomich Party, explicitly stated that the conflict could have been prevented if the planned reforms to local government in 2005 had been brought to fruition⁵. Even Mikhail

³ »Decentralization, progress, risks and role of the Ukrainian Parliament: interview with Anatoly Tkachuk" in: *Dzerkalo Tyzhnia*, 13.01.2017, translation available at <<https://decentralization.gov.ua/en/news/4167>>.

⁴ E.g. Maxim Butchenko, »Kak decentralizaciya mogla by slomat plany Kremlya« ("How Decentralization could have thwarted the Kremlin's plans"), in: *Novoe Vremya*, 18.07.2014, <<https://nv.ua/ukr/opinion/kak-decentralizaciya-mogla-by-slomat-plan-y-kremlya-4092.html>>.

⁵ Sonya Koshkina/Oleg Bazar, » Andriy Sadovyi: 5% svogo chasu ja vitrachaju na robotu, 95% – na podolannja trudnoshchiv, jaki stvorjuje nam derzhava« ["Andriy Sadovyi: I spend 5% of my time on work,

Dobkin, former governor of Kharkiv oblast and the Party of Regions candidate for the 2014 presidential elections, campaigned on a promise to introduce decentralization; this is telling because it demonstrates that the political appeal of the term was strong enough to be adopted even by pro-Russian factions who might be expected to back the federalization of the country.

The fact that the language of “decentralization” had over the past decade already become the favoured “politically correct” response to the increasing demands of Ukraine’s eastern regions (not only Donetsk and Luhansk, but also Kharkiv and to an extent the south-eastern region of Zaporizhia as well) for greater autonomy and “federalization” meant that it was a natural reaction for Ukrainian political elites from across the party spectrum to reach for decentralization reform as a means of preserving Ukraine’s territorial integrity in the face of Russia’s military aggression and stipulations that the Donbas be granted autonomy. The distinction is important because one of the crucial differences between “decentralization” and the “federalization” demanded by Moscow was that the latter entailed the possibility of determining one’s own foreign policy alignment. In the words of Andriy Parubiy, speaker of the Verkhovna Rada, describing the situation immediately after the Maidan in 2014: *“The path of decentralization was an asymmetrical response to the aggressor [i.e. Russia]. In fact, the process of the formation of capable communities was a kind of sewing of the Ukrainian space...”*⁶.

The Government’s Decentralization Strategy: Economic Development and the European Dimension

Although the adoption of decentralization as a policy was given impetus in 2014 by the exigencies of the conflict in the East, the fundamental long term aims underpinning the reform are encouraging economic development in Ukraine’s regions and addressing imbalances and inadequacies in the levels of infrastructure, public services and overall standard of living across the territory. It is important to note that although the blueprint of the reform is deeply influenced by European models, decentralization is by no means merely an initiative of Ukraine’s European partners that has been foisted upon the government, and plays a negligible role in the “conditionalities” that govern Ukraine’s Association Agreement with the EU and the strengthening of relations between them.

The rationale for the government’s decentralization strategy is set out in two central documents, the “Concept of Reforming Local Self-Government and Territorial Structure of Power”, approved by the cabinet of ministers in April 2014⁷, and the “State Strategy for Regional Development 2015 – 2020”, approved in August 2014. The “Concept of Reforming Local Self-Government” identified the fragile financial and material position of many of Ukraine’s then 12,000 or so territorial communities as a serious hindrance to economic growth and living standards in the regions. It emphasized the need for structural reforms which would produce “economic stability” by establishing different levels of local self-governance with clear mandates and the financial and administrative resources to provide quality public services. The “State Strategy for Regional Development 2015-2020” underlines that decentralization is above all a means of addressing the acute economic and social

95% on overcoming obstacles that the state creates for us”], in: *Leviy Bereg*, 10.10.2014, <http://lb.ua/news/2014/10/10/282201_andriy_sadoviy_5_svogo_chasu.html>.

⁶ Speaking at the Second All-Ukrainian Forum of United Territorial Communities, Kyiv, December 2017, as quoted in »How European Ukraine is being sewn of amalgamated hromadas«, in: *Decentralization.ua*, 05.12.2017, <<https://decentralization.gov.ua/en/news/7747>>.

⁷ The full text of the approved concept can be found here: <http://despro.org.ua/en/news/partners-news/detail.php?ELEMENT_ID=1381>.

challenges facing communities across the country, such as; uneven economic development (with almost a fifth of GDP and half of all foreign direct investment being concentrated in the capital), lack of competitiveness, dearth of strategic planning at the regional and local level, and inadequate transport and infrastructure.

Thus, decentralization from the Ukrainian government's perspective is associated primarily with attaining the level of regional economic development and competitiveness required for alignment with European standards. Yet decentralization should not simply be bundled together with many of the other requirements that Ukraine has been asked to meet as part of its deepening relationship with the EU. Although the reform is strongly supported by Ukraine's EU partners, who have been providing financial assistance and expertise on a number of decentralization projects across the country, and every aspect of the reform is either informed by or based upon European practices, strictly speaking decentralization is not an area in which the Ukrainian government is under great pressure to harmonize its laws and institutions with the European *acquis communautaire* as part of its obligations under the Association Agreement with the EU which was signed in 2014 and ratified in 2017. The actual text of the Association Agreement focusses rather on the target of convergence of Ukraine's technical standards and regulations in a number of different fields (environmental, health and safety, hygiene, labour market etc.) with those of the EU. Similarly, decentralization was not among the criteria stipulated by the IMF in their conditions for continuing to provide financial assistance to Ukraine. The momentum for decentralization reform has developed much more organically from the Ukrainian side.

The language of the strategic documents that guide the implementation of Ukraine's decentralization reform makes it clear that the emphasis is upon achieving competitiveness in the regions and raising standards of living for the population, rather than progress in the areas which the EU and other donor countries (such as the US and Canada) have consistently pressed for, such as anti-corruption and democratization. This is not to say that democracy or anti-corruption measures do not form an important part of decentralization (they do), and indeed, as we shall see, decentralization is inseparable from many other reforms that are being undertaken in other areas, such as anti-corruption and healthcare; all the same, it is important to note that the Ukrainian government is pursuing this reform for its own long-term regional development objectives, and not to tick a box on a list of requirements that have been handed to them by the EU or the United States.

2. The Status Quo Ante: Ukraine in 2014

Ukraine's System of Local Government in 2014

The regional and local government architecture bequeathed to post-Maidan Ukraine in 2014 contained some of the formal trappings of a devolved and balanced system, but in practice functioned in a similar manner to the highly centralized and top-down structures that characterised the Soviet model of local governance.

Ukraine in 2014 consisted of 24 oblasts (regions, containing on average between 1 and 2 million people), as well as the autonomous Republic of Crimea, 2 cities with special oblast status (Kyiv and Sevastopol), 490 Rayons (districts, with around 50,000 people on average), and 11,518 communities, of which 92% had fewer than 3,000 residents and 47% had fewer than 1,000 residents. In addition, 176 cities were recognized as "Cities of Oblast Significance"; home to around 20 million people, these include the cities that serve as the administrative centre of each oblast, and therefore can range hugely in their population (for example, the city Dnipro has a population of 1 million whereas other Cities of Oblast Significance can have less than 20,000).

Ukraine's structure of government consisted of a four-tiered hierarchy: (1) central government, followed by (2) oblast, (3) rayon, and (4) village/communities. At oblast and rayon level (excluding towns of oblast significance, for which see below), power was nominally shared between two bodies; state administrators, appointed by the central government, and locally elected councillors. *De Facto* real executive authority, however, was held predominantly by the state administrators from the central government. Whilst in theory, these administrators would manage the day to day affairs of their respective oblasts and rayons and the local councillors would exercise their authority by representing the views of their electorate, in practice most decision-making was executed by the state administrators, who were unaccountable to anyone except the central state administration which appointed them. In the case of oblasts, the governor for each oblast was appointed by the President, but it was not the governor alone who represented the central government in the region; governors could achieve little without the support of other members of the executive committee appointed alongside them, and the backing of the central government. This is something that Mikhail Saakashvili, former president of Georgia, discovered during his brief and fruitless tenure as governor of Odesa between 2015 and 2016, an oblast which he regarded as completely captured by pacts between the president and regional political elites⁸. At the level of villages and towns below the rayon tier, local councillors were elected, but since the majority of these settlements lacked the financial or administrative resources to plan and execute local budgets for themselves, they would be subject for the most part to the decisions of state administrators above them at the rayon level.

⁸ Thomas De Waal, »The Odessa Project«, in: *Carnegie Europe*, 18.02.2016, <<https://carnegieeuropa.eu/strategieurope/62815>>.

Thus, citizens at the village, rayon and oblast level would vote in local elections for councillors who in reality wielded very little influence over how their local affairs were managed. Alongside the serious accountability deficit that this system entailed, the duplication and overlapping of responsibilities suggested by the formal power-sharing structure of state administrators and local councillors led to gross inefficiencies and delays in the provision of public services. According to researchers from the Swiss-led project 'Decentralisation Support in Ukraine' (DESPRO), which has been working in Ukraine since 2007, the uneasy duplication of decision-making processes whereby elected councils would have to agree on local policy decisions with their central administrators had led to widespread "*rent seeking, clientelism and corruption*"⁹.

An important exception to the general pattern of structural opacity and unaccountability at the local government level was, and remains, the Cities of Oblast Significance (COS); the mayors and council of COSs are democratically elected, and thus answerable not to the central government but to their electorate. Of course, this status of relative autonomy by no means made Cities of Oblast Significance immune from the same patterns of rent-seeking and localized corruption that characterize Ukrainian government at every level; in fact, in many cases it led to the establishment of local fiefdoms, where powerful local politicians backed by oligarchs and local tycoons would maintain control over local rents and assets in exchange for political loyalty to the central government in Kyiv. Two egregious examples of this would be the cities of Odesa and Kharkiv, which in the estimation of some analysts behave like "*self-contained city states*"¹⁰, where local elites, often with underground criminal connections, guarantee revenues and political stability for Kyiv as the price for self-enrichment locally.

(Lack of) Fiscal Decentralization

Some caveats are in order here. Obtaining precise figures for the level of fiscal decentralization and financial flows between central and local government in Ukraine up to 2014 is a difficult business, partly because state administrations have often appeared reluctant to release data for specific areas of local government finance; for example, when preparing their 2013 Territorial Review of Ukraine, even the OSCE secretariat were unable to obtain details from the Ministry of Finance about the allocation of budgets at the oblast level¹¹. Government figures and statistics regarding local government finances are not always readily available and often important distinctions between different sources and directions of revenue are obscured; in most cases, treasury statistics are not adjusted for inflation and thus give a misleading impression of dramatic increases in the government's real spending commitments at the local level. This will need to be borne in mind when it comes to critically evaluating the progress made on the fiscal decentralization front since 2014.

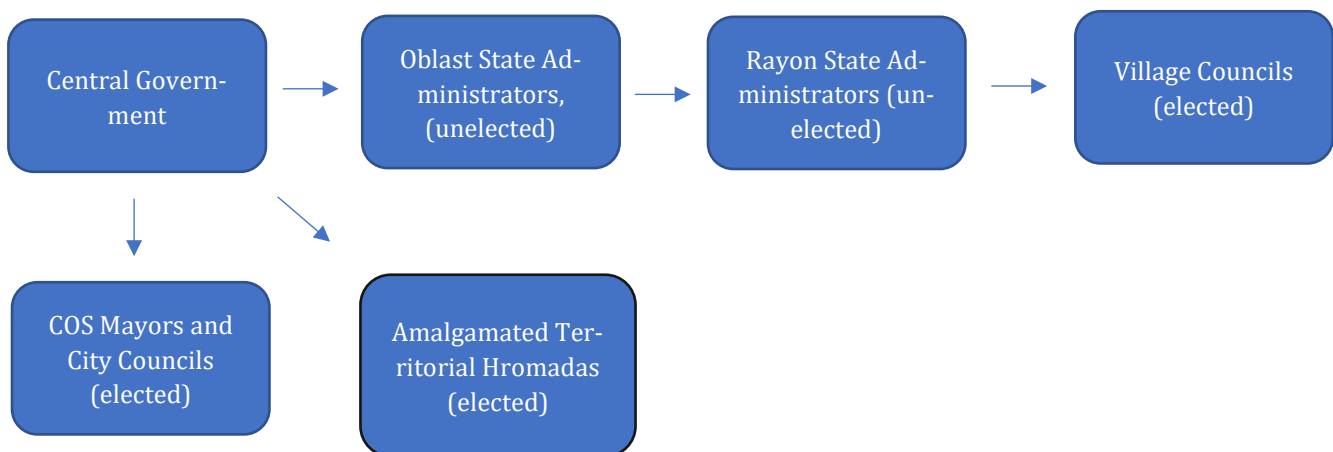
⁹ Oksana Myshlovska, »Democratising Ukraine by Promoting Decentralisation? A Study of Swiss-Ukraine Cooperation«, in: *International Development Policy, Revue internationale de politique de développement*, 4.05.2015, <<http://journals.openedition.org/poldev/2010>>.

¹⁰ J. Barabik/N. Shapovalova, »How Eastern Ukraine is Adapting and Surviving: The Case of Kharkiv«, in: *Carnegie Europe*, 12.09.2018, <<https://carnegieeurope.eu/2018/09/12/how-eastern-ukraine-is-adapting-and-surviving-case-of-kharkiv-pub-77216>>.

¹¹ OSCE, *Maintaining the Momentum of Decentralization in Ukraine*, OSCE Multi Level Governance Studies, 2018, pg. 84, <https://read.oecd-ilibrary.org/urban-rural-and-regional-development/maintaining-the-momentum-of-decentralisation-in-ukraine_9789264301436-en#page1>.

On paper, Ukraine in 2014 was a relatively financially decentralized country by European standards; approximately 36% of the whole country's revenues were accounted for by sub-national government revenues, above the EU average of 33%¹². However, this figure is not a true reflection of the level of actual fiscal decentralization in the country, as it records only the revenues that are assigned to be spent in the territories of local government, and not who negotiates or controls the distribution of these funds. For example, local governments at the oblast, rayon and village level would be assigned a share of various taxes that would be raised from citizens living in their territory; however, the rates of most of these taxes would be set by central authorities in Kyiv, and would flow to Kyiv first before being distributed to the oblasts rayons and villages according to budgets devised by the central government. Thus, just as political authority at the local governmental level was invested almost exclusively in the hands of central state administrators, councils at the oblast, rayon and village level (excluding cities of "oblast significance") were dependent to a large degree on handouts from the central government's budget for their funding.

The amount of funds allotted for local budgets and funding priorities were drawn up by central administrators in Kyiv, and after the national budget had been determined. The central government's fiscal responsibilities for the regions were established as covering principally expenditures for education, healthcare, pensions, and other expenditures regarded as essential government services; the largely impotent oblast and rayon councils were severely limited in their ability negotiate their budgets with the central government, and lacked the additional resources required to design their own regional development plans. In general, the allocation of funds to local government bodies followed a kind of waterfall pattern, with money flowing downwards through the different levels of government, each interacting only with the authorities immediately above and below it; thus, the central government would negotiate and allocate a budget to the oblast level, which would then divide up and distribute funds to the various rayons, which would in turn dispense resources to the numerous villages and settlements beneath them. One of the serious consequences of this trickle-down system of fiscal transfers was that, by the time that oblast and rayon expenditures on their core functions – education and healthcare – had been used up, there were only very limited resources left over for the villages and communities at the bottom of the waterfall to expend on other areas of public service provision, such as repairs and maintenance of local infrastructure, or public transport.



¹² T. Levitas/J. Djikic, »Fiscal Decentralization and Local Government Finance Reform: 2014-2017«, SKL/SIDA Policy Brief, 2018, pg. 32, <https://www.academia.edu/37642724/Fiscal_Decentralization_and_Local_Government_Finance_Reform_In_Ukraine_2014-17>.

As we shall see, this top-down, hierarchical structure of budgetary flows has been somewhat corrected by the post-2014 reforms, which have established direct interbudgetary relations between the new hromadas and the central government budget.

Cities of Oblast Significance: Islands of Limited Autonomy

Once again, the shining exception to this general pattern of unaccountability, fiscal constraint and centralized decision-making in pre-Maidan Ukraine were the cities of oblast significance, which were assigned a separate tranche of expenditure in the state budget that was negotiated directly with the central government, and whose councils were given a degree of fiscal autonomy¹³. Crucially, since the Orange Revolution of 2004, COS authorities had the power to appoint and dismiss the head of their department of budget and finance, giving them greater control over their finances¹⁴.

In 2014, Cities of Oblast Significance had a budget of around 96 billion hryvnia (nominal), 16% of which was derived from their own revenues – i.e. taxes and other charges that they could set themselves¹⁵. This is still very low compared to the average for local government in the European Union, which is 40%, but was markedly superior to the comparable figure for oblasts in 2014 (2%), and for rayons (a miniscule 0.15%). These “own revenues” were raised from a mixture of land and property taxes, rent and revenues from publicly owned assets on their territory. Furthermore, the increased fiscal manoeuvrability granted to COSs by their direct budgetary relationship with the central government and their increased capacity for raising their own revenues meant that these cities were able to set aside more funds for capital investment in local projects (such as local infrastructure, transport etc.); even in 2014, 10% of COSs’ expenditure (13.6 billion Hryvnia) was devoted to capital investment, compared to 1% of rayons’ expenditures on the same¹⁶.

¹³ Aston Centre for Europe at Aston University, *Local and regional government in Ukraine and the development of cooperation between Ukraine and the EU*, 2011, pg. 15, <<https://cor.europa.eu/en/engage/studies/Documents/local-regional-government-ukraine.pdf>>.

¹⁴ Levitas/Djikic (2018), *op. cit.* pg. 9 – see note 12.

¹⁵ *Ibid*, pg. 34.

¹⁶ *Ibid*, pg. 34.

3. Who are the Main Actors in Decentralization Reform? The Roles of Government and Parliament

The political and constitutional context of Ukraine makes it difficult to confidently assign clearly-defined roles and responsibility to particular actors for any given reform; the 2014 constitution divides power between the president and his government (the cabinet of ministers, led by the Prime Minister), and since the ruling coalition lost its parliamentary majority in 2016, other political parties in the Verkhovna Rada have also exercised greater influence over the reform process. Nevertheless, it is clear that formal responsibility for the implementation of decentralization reform at the central government level lies mainly with the Ministry for Regional Development, Building and Housing, led by the Minister for Regional Development, Hennadiy Zubko.

Despite the perennially fractured landscape of political parties in Ukraine and frequent ruptures within the bloc of “reform-orientated” parties, the coalition government has more or less maintained its support for the objective of decentralization since reforms were first launched in 2014, notwithstanding its failure to win the support of junior coalition partners for the proposed constitutional amendments in 2015 (see below). The fact that the current Prime Minister Volodymyr Hroysman oversaw the first stages of the reforms in 2014 when he was Vice Prime Minister for Regional Policy and (simultaneously) Minister for Regional Development has lent continuity to the decentralization agenda on the governmental level. Hroysman had previous experience with reforms of this kind; during his time as mayor of the city of Vinnytsia in Central-West Ukraine, he had overseen pioneering reforms in municipal government¹⁷. A further source of continuity is that Hennadiy Zubko has held responsibility for decentralization since December 2014, when he occupied the ministry as part of Yatsenyk’s second government, thus bridging the Yatsenyk and Hroysman governments.

Although divining the extent to which particular ministries and reformers are “loyal” to political actors is a difficult task, it is reasonable to suppose that the Prime Minister Hroysman has maintained control over the decentralization process through ministerial appointments. Although Zubko cannot be said to be “Hroysman’s man”, as he was appointed from Bloc Petro Poroshenko’s quota in 2014 before Hroysman became Prime Minister and is

¹⁷ A. Åslund, »Ukraine: What Went Wrong and How to Fix It«, Peterson Institute for International Economics, 2015, pg. 126.

probably more closely allied to the President, the two are said to have good relations¹⁸, and Groysman was able to secure his own nominee for other ministerial posts that are closely linked to the decentralization agenda, such as his political ally (and former deputy when Groysman was mayor of Vinnytsia), Volodymyr Kistion, Deputy Prime Minister for Infrastructure, Energy and Ecology. Kistion's portfolio overlaps considerably with decentralization and upon assuming his post he announced that one of his priorities would be to "coordinate efforts with local government to reconstruct roads in a short period, using local budget funds...".¹⁹

The high level of political support in parliament for the decentralization agenda can be attested to by the relatively high speed and effectiveness with which the first stages of the reform have been implemented, compared to other issues that are widely considered to be of the upmost urgency, such as judicial reform and reducing corruption. According to the umbrella NGO Group "Reanimation Package of Reforms", which monitors the decentralization process closely, the parliamentary factions "Narodnyi Front", "Petro Poroshenko Bloc", "Samopomich", as well as a part of the Radical Party and most non-affiliated MPs have consistently supported local self-government reform, while the factions of the political party "Batkivshchyna" and the Opposition Bloc have generally resisted it²⁰.

International Actors

Ukraine's international partners at both the state and NGO level have been engaged in decentralization reform in the country more or less continuously since Ukraine ratified the European Charter of Self Government in 1997. This charter is essentially a manifesto outlining the main principles that subnational governments should ideally adhere to, such as the subsidiarity principle (that powers should be exercised on a level as close to the citizen as possible), and the rights that citizens should enjoy with respect to their local authorities. European and American institutions and advisory bodies have been consulted frequently on practically every occasion when Ukraine has taken steps towards decentralization reform; for example, the Council of Europe assisted in the drafting of legislation for local government reform that lay at the centre of the planned decentralization reforms in 2005, 2009 (which were then revived in 2014).

At present, a host of international NGOs and donor countries are involved in projects promoting and implementing Ukraine's decentralization reform. The European Union's financial support for the reform is mostly channelled through the U-LEAD programme (Ukraine – Local Empowerment, Accountability and Development), which is running in its current phase from 2016 to 2020, and is financed with a budget of around 100 million euros by the EU as well as Denmark, Estonia, Sweden, Poland and Germany. The main implementing agency for the U-LEAD programme is The German Organization for International Cooperation, GIZ (Gesellschaft für Internationale Zusammenarbeit), which cooperates with the Ukrainian Ministry for Regional Development in providing training as well as logistical and

¹⁸ Yuliya Artamoshchenko, »Otvavka Grojsmana: povod, prichyny, konflikty I insajdy«, [Hrojsman's resignation: motive, reasons, conflicts and inside information"], in: *Novoe Vremya*, 14.2. 2017, <<https://nv.ua/publications/otstavka-grojsmana-povod-prichyny-konflikty-i-insajdy-647340.html>>.

¹⁹ Yuliana Romanushyn, »Who's Who in Groysman's Cabinet?«, in: *Kyiv Post*, 29.04.2016, <<https://www.kyivpost.com/article/content/ukraine-politics/whos-who-in-groismans-cabinet-412911.html>>.

²⁰ Reanimation Package of Reforms, *Reforms Under the Microscope*, 2017, pg. 42, <<https://rpr.org.ua/wp-content/uploads/2017/07/rpr-reforms-en-web.pdf>>.

financial support for local authorities in Ukraine through a network of Regional Development Centres across each of the country's 24 oblasts²¹. Each donor country has lent its own expertise to different aspects of the reform; for example, members of ATCs in Ukraine have undertaken study trips to Poland to learn from the Polish system of local governments, which has long been considered a model for Ukraine. Germany's Special Envoy to Ukraine on Local Administration and Decentralization Reform, Georg Milbradt, has been a particularly vocal proponent for decentralization in Ukraine, and played an important role in reviewing and suggesting laws pertaining to the decentralization and raising the profile of the reform among Ukrainian and international stakeholders²². Representatives of the EU have been no less emphatic in their support for decentralization in Ukraine; the EU ambassador to Ukraine, Hugues Mingarelli, has declared that it has been "*one of, if not the major, success [of the post-Maidan government]*"²³, and underlined EU support for the decentralization agenda.

The United States Agency for International Development (USAID) has also directed significant resources towards decentralization in Ukraine, in particular under the programme entitled Decentralization Offering Better Results and Efficiency (DOBRE), running from 2016 to 2021 with a budget of 50 million US dollars. Taking a more targeted approach, DOBRE provides on the ground logistical support and planning advice for 75 ATCs in 7 oblasts (Ivano-Frankivsk, Ternopil, Kirovograd, Mykolaiv, Kherson, Dnipropetrovsk, and Kharkiv), drawing heavily on cooperation with Ukrainian civil society organizations and external partners such as the Polish Foundation in Support of Local Democracy and the Malopolska School of Public Administration at the Krakow University of Economics²⁴. The United Nations Development Programme (UNDP) in Ukraine is another important international actor in Ukraine's decentralization process; in addition to supporting hundreds of community-led projects between local governments and Ukrainian civil society organizations and communities (including municipal energy efficiency projects, agricultural cooperatives, and public service provision), UNDP has also been assisting, as part of the "Recovery and Peacebuilding" dimension of its portfolio, with the day-to-day management of local administrations in the crisis-ridden regions of Donetsk and Luhansk, through administrative centres and public fora for civic participation in the two oblasts²⁵.

²¹ GIZ, *Support to the decentralisation reform in Ukraine UDU/U-LEAD with Europe*, <<https://www.giz.de/en/worldwide/39855.html>>.

²² Serhiy Sidorenko, »Dovedetsja stvoriti novu kartu Ukraini: poslanets Merkel ta rozkrili plani adminreformi« ["We will have to create a new map of Ukraine; Merkel's envoy and Zubko reveal their plans for administrative reform"], In: *Evropeyskaya Pravda*, 5.02.2018, <<https://www.eurointegration.com.ua/interview/2018/02/5/7077057/>>.

²³ 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>>.

²⁴ <<https://www.globalcommunities.org/dobre>>.

²⁵ UNP Ukraine, *Scaling Up Decentralisation Reforms — Strengthening Local Self-Governance*, 23.07.2018, <<http://www.ua.undp.org/content/ukraine/en/home/recovery-and-peacebuilding/component-two.html>>.

4. Parliamentary Resistance and the Constitutional Amendments Issue

In 2015, the Government took steps to enshrine the 2014 reform plans for local self-government into the constitution. This was necessary because the decentralization reform envisaged profound changes in the way that local administrations at the oblast, rayon and community level were to be structured – for example, the representatives of central state administration at the oblast and rayon level were to be eliminated and replaced with locally elected executive councils- such changes would require amendments to the Ukrainian constitution. In August 2015, the proposed constitutional amendments made their way to a second reading in the Verkhovna Rada, but met with serious political opposition.

Parliamentary opposition to the reform came from both the political right and left, and centred on two issues; firstly, the government's proposals to introduce a system of regional prefects (based on the institution of the *Voivode* in Poland, and the *Prefet* system in France²⁶), who would be appointed by the president to supervise the legality of local government's actions, drew criticism from parties who suspected that the prefects' functions could be politicized and used by the president to interfere unduly in matters of local government. Although the bill stated clearly enough that the role of the prefects, appointed by the president and accountable to the Cabinet of Ministers, would be merely to ensure that the decisions of local government were in compliance with Ukraine's constitution and would thus not have an executive component, there persisted the suspicion that the president could use the legal supervisory powers of his prefect to disrupt the balance of power between local and central government and make it harder for the former to seek redress against encroachments by the latter²⁷. Although the issue of the presidential prefects has largely been set aside in public discussion on decentralization since 2015, it is likely to resurface at some point, seeing as there is a broad consensus among Ukrainian and international decentralization stakeholders that any future reconfiguration of the constitution in favour of local government will require some sort of supervision to ensure that newly empowered local authorities do not defy the constitution and laws of Ukraine. Whether or not it would be most appropriate for a class of centrally appointed prefects to perform this task remains to be seen.

²⁶ Duncan Leitch, »Decentralization: The Wrong Solution to the Wrong Problem?«, in: *Ukrainian Week*, 26.06.2015, <<https://ukrainianweek.com/Politics/139503>>.

²⁷ Democracy Reporting, *From Central Control to Local Responsibility: Decentralization in Ukraine*, 2015, pg.5, <http://democracy-reporting.org/wp-content/uploads/2016/03/briefing_paper_from_central_control_to_local_responsibility_decentralisation_in_ukraine_en.pdf>.

The second, and most fatal, obstacle to the passing of constitutional amendments in 2015 was the association in critics' minds between the proposed decentralization reform and the conditions of the Minsk Agreements that had been signed in February 2015 in attempt to reach a settlement for the war in the east, according to which Ukraine was expected to grant some form of autonomy to the breakaway regions of Donetsk and Luhansk. According to Oksana Syroyid, an MP from the "Samopomich" party who has been deputy chairwoman of the Verkhovna Rada since December 2014, the Chancellor of Germany, Angela Merkel, and then President of France François Hollande pressured the Ukrainian government at the last minute to include clauses into the decentralization bill that would allow for greater autonomy for the separatist regions; Merkel and Hollande were said to have phoned Ukrainian PM Hroysman on July 14, shortly before the first vote on the bill, and urged him to include clauses into the constitutional amendments that, in Syroyid's words, "serve the interests of Russia"²⁸.

Violent Protests and Parliamentary Opposition Prevent Passing of Constitutional Amendments

The Government subsequently made a controversial addition to the "Transitional Provisions of the Constitution" proposed in their bill; this clause, Section 18, read: "*Specific arrangements for the exercise of local self-government in certain Rayons of Donetsk and Luhansk oblasts shall be set forth in a separate law*". The provision was seen by many as sanctioning the armed secessionists in Donetsk and Luhansk, and by extension Russian military aggression ("serve the interests of Russia"), as well as opening the possibility of amnesty for the criminal paramilitary forces who had participated in the rebellion. A review of the bill by the NGO "Democracy Reporting International" has concluded that the text of the bill as it stood did not technically justify fears that its provisions would post a threat to the territorial integrity of Ukraine or its constitution²⁹, but the perceived connection between the bill and capitulation to Russian demands for the dismemberment of Ukraine was enough to turn parties of the ruling coalition against it.

Towards the end of August 2015, after the constitutional amendments bill had passed its first reading, violent protests erupted outside the parliament building in Kyiv in opposition to Section 18 and the perceived "surrender" of control over Eastern Regions to Russian-backed separatists and, ultimately, Russia. The protestors, who included members of nationalist paramilitaries and far-right political parties (such as the "Svoboda", or Freedom, party), threw smoke bombs, firecrackers and, reportedly, grenades at police guarding the building. One national guardsman was killed and ninety were wounded in the clashes³⁰. Parliamentary opposition to the amendments had already been fierce (during the session at the Rada which saw the bill pass its first reading, opposition MPs cried "shame" and beat on their benches³¹), but after the violent scenes outside parliament, political support for the bill within the ruling coalition collapsed; three parties within the governing coalition (Batkivshchyna, the Radical Party and Samopomich) voted against it, and the bill failed to win

²⁸ Konrad Schuller, »Der Albtraum ukrainischer Politiker«, in: *Frankfurter Allgemeine*, 17.8.2015, <<https://www.faz.net/aktuell/politik/westliche-einflussnahme-der-albtraum-ukrainischer-politiker-13753144.html>>.

²⁹ Democracy Reporting (2015), *op. cit.* pg. 7.

³⁰ Richard Balmforth/Natalia Zinets, »Ukraine guardsman killed in nationalist protest outside parliament«, in: *Reuters*, 31.08.2015, <<https://www.reuters.com/article/us-ukraine-crisis-status-idUSKCN0R00YV20150831>>.

³¹ *Ibid.*

the 300 votes necessary for subsequent constitutional amendments, leaving the constitutional status of decentralization reform in limbo ever since. The question of introducing amendments to Ukraine's constitution in order to enshrine decentralization reform in the country's administrative structure has effectively been put on hold until after the 2019 parliamentary elections.

5. The Amalgamated Territorial Communities: Development and Challenges

The Formation of ATCs

One of the main problems in Ukraine's local government system which the 2014 Concept for Local Government Reform sought to address was the fact that the country's 12,000 or so villages below rayon level, with an average of 1,500 inhabitants each, were too small to provide public services properly, and lacked the resources for any kind of strategic planning that could contribute to economic development, especially in rural areas.

In order to remedy this, the government passed a series of laws in 2014 and 2015 which enabled the amalgamation of adjoining villages within oblasts into new Amalgamated Territorial Communities (ATCs, or alternatively UTCs – Unified Territorial Communities), which would have access to a greater share of revenues from the national and local budgets and which, as envisaged by the reform plan, would exercise more control over a range of functions in their local communities, including healthcare, education, social care, and public transport. The intention was to produce around 1,200 ATCs out of Ukraine's 12,000 villages. The process of territorial amalgamation got into full swing in 2016, and by the end of 2018 a total of 878 ATCs had been formed out of 4018 former villages, encompassing around 9 million citizens³². At present, the average unified territorial community contains 10,250 inhabitants, whereas the projected number was around 20,000 citizens for each community. In many cases, this discrepancy is due to communities that disproportionately benefit financially from raising taxes from their own territory (for example, through excise tax contributions derived from petrol stations on their land, or high land values) being reluctant to amalgamate with poorer neighbouring communities and share out their new revenues; instead, they amalgamate with as few other hromadas as possible³³.

The strategy behind the creation of ATCs is nothing less than a fundamental rethinking of Ukraine's model of local government, which if carried out properly will eventually lead to a radical transformation of the higher levels of the current architecture, rayons and oblasts, as well. The amalgamated communities are managed by an executive council, which is elected every five years by the inhabitants of the hromada, and are accountable to them. This is in contrast to the previous system, whereby much of the crucial decision making for

³² Decentralization.gov.ua, *About Reform*, <<https://decentralization.gov.ua/en/about>>.

³³ Yulia Abibok, »Decentralizing Ukraine: The View from Khmelnytsky«, in: *openDemocracy*, 3.10.2018, <<https://www.opendemocracy.net/en/odr/decentralising-ukraine/>>.

villages would be carried out by the representatives of the central state administration (accountable to the central government) from the rayon to which each village belonged. As well as being able to draw from a deeper pool of revenues raised locally, to a large extent the hromada councils are expected to enjoy direct budgetary relations with the central government; that is, central government subsidies for healthcare, education and various other expenditures will be negotiated with and allocated to hromadas directly, rather than trickling down through oblast and rayon level as before. In this sense, the ATCs will begin to structurally resemble the Cities of Oblast Significance, which arguably serve as a model for the ATC project³⁴.

Villages were incentivised to amalgamate with the promise of greater financial resources than those that were available to unamalgamated hromadas. These financial incentives were numerous; a special infrastructure fund (which amounted to 1 billion UAH in 2016)³⁵ was set up to award grants of around 5-7 million hryvnia each to communities that amalgamated, and in order to encourage speedy amalgamation, those communities that united earlier would receive a greater portion of the funds. ATCs would also receive access to the newly established (in 2014) State Fund for Regional Development, which sets aside 1% of national revenues for supporting infrastructure projects in the regions – although there are serious questions surrounding the transparency and corruption risks of this fund.

The newly amalgamated communities saw an expansion of their fiscal base. Upon their formation, they were granted 60% of the revenues from Personal Income Tax (PIT) originating from their territory; this largesse came largely at the expense of the rayons, whose share of PIT (along with that of the Cities of Oblast Significance) fell from 75% to 60%. The ATCs were also given the right to impose a number of additional taxes, including a local property tax and a 5% local surcharge on the sale of excisable goods on their territory³⁶. Alongside this, plans for ATCs to exercise greater control over local land and revenues from land taxes have recently gained momentum; previously, agricultural land within the territory of municipalities lay under the supervision and control of the rayons, but in October 2018 the Cabinet of Ministers transferred this land to the control of hromadas, many of which have begun surveying the land for tax purposes³⁷ - although it should be stressed that this process is still in its infancy. From the other side of the equation, the financial resources of the unamalgamated communities were restricted, so as to urge them towards amalgamation; they lost the right to 25% of personal income tax from their territory.

The Financial Health of the New Amalgamated Territorial Hromadas

In general, the Ukrainian Government must be credited with a serious commitment to fiscal decentralization; this can be seen in the fact that the amount of local government revenues as a percentage of total public revenues has risen from 36% in 2014 to 41% in 2017. Of course, as has already been noted, what is truly significant is not so much this percentage figure but the amount of funds that ATCs *actually are responsible for*; that is, the amount of

³⁴ Comments made by Sebastian Veigler of GIZ in conversation with the author, February 2019.

³⁵ Danish Institute for International Studies, *Decentralization in Ukraine: Supporting Political Stability by Strengthening Local Government*, 2018, pg. 53, <http://pure.diiis.dk/ws/files/2543996/DIIS_Report_07_Ukraine_WEB.pdf>.

³⁶ T. Levitas/J. Djikic, »Caught Mid-Stream: “Decentralization,” Local Government Finance Reform, and the Restructuring of Ukraine’s Public Sector 2014 to 2016«, 2017, pg. 19, <<http://sklinternational.org.ua/wp-content/uploads/2017/10/UkraineCaughtMidStream-ENG-FINAL-06.10.2017.pdf>>.

³⁷ *Danish Institute for International Studies* (2018), *op. cit.* pg. 53.

resources that are placed under local hromadas' control directly, rather than being funnelled through oblasts and rayons.

In this respect, decentralization has indeed seen encouraging results, at least during the first couple of years. Between 2016 (their first year in action) and 2017, the revenues of ATCs increased from 7.1 Billion to 18.5 Billion Hryvnia, although this doesn't tell us too much as the number of ATCs also nearly tripled during this time, so the rise is unsurprising. A stark indication of the degree to which ATCs are being given responsibility over the revenues assigned to them, however, is the fact that in 2017 their revenues per capita reached almost 6,000 Hryvnia, over three times that of unamalgamated hromada (around 1,500 hryvnia) and should overtake those of rayons (around 9,500 hryvnia per capita) once most of the responsibility for schools currently run by rayons are transferred to ATCs as planned. Initially, it was possible to see a pattern of revenues being redirected from oblast and rayon levels towards the more truly self-governed entities of Cities of Oblast Significance and ATCs; between 2014 and 2016, the revenues of oblasts fell by 28% compared to their 2014 level, and those of rayons fell by 8% in 2015 before recovering in 2016. This gave the impression that, as planned, oblasts and rayons were losing in favour of the new ATCs and Cities of Oblast Significance – in the words of Levitas and Djikic, *"This suggested that the national government was indeed moving money and functions away from higher-level local governments to the "base self-governing communities" of COS and OTH..."*³⁸

However, despite the increased financial base granted to ATCs, 2017 saw a slowdown in their momentum and a significant boost to the budgets of oblasts in particular, which has caused concern that the expected shift of resources from oblasts and rayons to ATCs might be stalling. In 2017, the local revenue of ATCs increased by only 2.3% per capita (this is the best measure to use as new hromadas are continuously being formed, and so a raw figure creates a misleading picture of soaring ATC revenues), the least of all levels of local government³⁹. Oblast revenues, meanwhile, grew by 44% in 2017 compared to the previous year, and rayon revenues by 15%. Granted, these figures are not as dramatic as they first appear and need to be seen in perspective; since 2014, oblast revenues have increased by only 5% overall (compared to the 30% rise for Cities of Oblast Significance), and rayons by 16% - and a significant share of this increase can be accounted for by an increase in social welfare subsidies for poorer households, spurred by a growth in the minimum wage, which are payments dispensed by rayons. However, if decentralization were proceeding as planned, we would not expect these sudden hikes in spending at the oblast and rayon level. Furthermore, the level of financial incentives offered by the central government for hromadas to amalgamate began to recede; in 2017, the 207 new ATCs that were formed received only 465 hryvnia per capita of investment from the central budget, compared to 785 hryvnia in 2016.

Why has this happened? It appears that in 2017, the central government responded to what was a perceived lack of capacity at local government level to manage healthcare and education facilities by issuing a new Healthcare and Education Facilities grant worth 14.5 billion hryvnia, the vast majority of which flowed to oblasts and rayons (42% and 50% respectively), with 8% allocated to ATCs for the management of the healthcare and education facilities that had come under their control⁴⁰. The ratcheting up of resources for rayons and oblasts does not in itself indicate that momentum for transferring resources to the ATCs is fading, as it is expected that eventually the grant funds currently going to rayons will be directed to ATCs as local healthcare and education increasingly comes under hromada control. However, as Levitas and Djikic observe, the very existence of something like the

³⁸ Levitas/Djikic (2018), *op. cit.* pg. 18.

³⁹ *Ibid.*, pg. 3.

⁴⁰ *Ibid.*, pg. 3.

“Healthcare and Education Facilities Grant” puts into question the fidelity to one of the reform’s core aims, which is to mark out local education and healthcare provision as an exclusive function of the ATCs.

6. Beyond Hromadas: Oblasts, Rayons and Cities of Oblast Signifi- cance

The future of Oblasts and Rayons

As the previous analysis has already indicated, oblast and rayon levels of local government have continued to play a major role in the provision of public services in Ukraine and have received the majority of funds from new subsidies issued by the central government in the last couple of years for health, education and road repairs. Together, they still make up a significant portion of local government revenues and expenditure; in 2017, their share of local revenues amounted to 233.4 billion hryvnia, around 46.8% of the total funds received by local governments⁴¹. In fact, in 2017 among all tiers of local government rayons received the second highest amount of local government revenue per capita (around 9,00 hryvnia), just behind Cities of Oblast Significance – of this figure, approximately half consisted of social welfare subsidies earmarked for poorer households.

Nevertheless, if the decentralization reform proceeds as planned and the ATCs acquire all the responsibilities that are expected to eventually be devolved to them, it is likely that oblast and rayon levels will be facing something of an identity crisis in the years to come. The truth is that it remains to be determined what exact responsibilities will actually be exercised by oblasts and rayons in a future decentralized Ukraine. In the guiding concept documents for the reform approved by the Cabinet of Ministers, including the Concept of the Reform of Local Self Government and Territorial Organization of Government in Ukraine, it is anticipated that oblast and rayon Councils will be reformed into more democratically accountable local government bodies, with all council members being elected – as opposed to the current system, where most decision-making authority lies in the hands of administrators appointed by the central government.

As far as oblast councils are concerned, the government foresees that they will be primarily responsible for “*regional development; environmental protection; development of oblast infrastructure - in particular, oblast roads, inter-rayon and inter-oblast public transport networks; vocational training; provision of highly specialized medical services; development of culture, sport and tourism*”⁴². Indeed, studies of the decentralization process in Ukraine have indicated that oblast level authorities will most likely be required to play a crucial role in

⁴¹ Levitas/Djicic (2018), *op. cit.* pg. 13.

⁴² Cabinet of Ministers of Ukraine, *Concept of Reforming Local Self-Government and Territorial Structure of Power*, 2014, <<https://mfa.gov.ua/en/news-feeds/foreign-offices-news/21459-koncepcija-reformuvannyamiscevogo-samovryaduvannya-ta-teritorialnoji-organizaciji-vladi-v-ukrajini>>.

the future as coordinators of joint development projects and co-operation efforts between amalgamated communities in specific areas where such cooperation could lead to significant savings and improved services, such as in waste management and local transport. The OCSE's latest report on decentralization in Ukraine singles out the role played by Poltava Oblast Council, for example, in contributing to the creation of 52 different inter-municipal cooperation (IMC) agreements, around half of which deal with waste management, with other areas covered including internet provision, roads and other forms of infrastructure⁴³. In many regions, there is undoubtedly much room for improvement in terms of delineating what infrastructure should be reserved for oblast or rayon oversight and what should be left to hromadas. One aspect of this was illustrated during an interview conducted with the head of the village council of Kuchakiv in Boryspil Rayon; when asked who was responsible for the state of the main road running through the village and leading up to the administrative building of the village council (the road was ragged and in desperate need of repair), we were told that it was "part of an inter-oblast road to Poltava" and thus outside the village council's remit⁴⁴. Overall, though, it looks as though oblast authorities have a future in the direction of strategic planning for regional development projects where coordination between different rayons and territorial hromadas is required, and they will also assume responsibility for a number of specific tasks (such as the maintenance of specialist medical facilities) which will be much less fiscally onerous than their current remit.

With rayons, the picture is much less clear. Although the concept documents list democratically elected rayons as one of the three fundamental future tiers of local government in Ukraine (along with oblasts and amalgamated territorial communities), the government has not specified exactly which public services and responsibilities the rayon councils will take on. According to many observers and commentators on the decentralization reform, the assumption has been that the ATCs will eventually absorb almost all of the duties currently assigned to rayons, particularly in the running of education and healthcare facilities, given that the stated aim of the reform is to make ATCs the primary provider of public services for citizens living outside Cities of Oblast Significance. This is certainly reflected in the general trend of fiscal decentralization, which has on average over the last few years directed funds away from rayon administrations and towards COSs and ATCs.

Yet there remains some ambivalence around the future of rayons in Ukraine, as it is far from guaranteed that once all of the hromada within their boundaries have amalgamated, all of their responsibilities will simply be inherited by the ATCs. Levitas and Djikic (2018) note that, once the rayons' responsibilities in the management of education facilities are transferred to ATCs and their expenditures on healthcare are shifted way, under the new healthcare reform, to contracts settled between the central state healthcare budget and individual healthcare facilities on a per-patient basis, the only significant expenditures left to rayons will be social welfare subsidies to poorer households (which currently account for about 50% of rayon expenditures) – which would make the role of rayons "*essentially that of a payroll agent of the national government*"⁴⁵, simply administering the flow of funds from the central government budget to poorer households according to a nationally determined formula. The rayons will not be retreating from any significant expenditure commitments in other forms of public service since, as Levitas and Djikic point out, "*rayons actually spend very little on functions associated with maintaining basic local infrastructure like roads, water, sewage and irrigation systems or street lights and parks...*"⁴⁶. He suggests that rayons could in future be allotted the responsibility of "restructuring rural healthcare networks"

⁴³ OSCE (2018), *op. cit.* pg. 149.

⁴⁴ Interview with the head of Kuchakiv Selo (Boryspil Rayon) conducted by the author in Kyiv, April 2019.

⁴⁵ Levitas/Djikic (2018), *op. cit.* pg. 20.

⁴⁶ Levitas/Djikic (2018), *op. cit.* pg. 30.

and “running national government inspectorates”, but the Ukrainian government and the ministry of regional development has not itself communicated a clear message on what role exactly the rayons should play. In the words of one senior member of an international organization supporting the decentralization process who spoke to me on this subject, “the government hasn’t given the rayons anything”. Meanwhile, Anatoliy Tkachuk, one of the main architects of the decentralization reform and a leading civil society voice on the subject, has said that “*ideally, the district (rayon) level should be abolished*”⁴⁷. This statement was more or less echoed by Roman Dmitriv, head of the village council of Hora, a hromada in Boryspil Rayon which is currently applying for amalgamation⁴⁸. At present, the rayon level of local government is enshrined in Ukraine’s constitution and cannot be removed until constitutional amendments are passed; yet even if the rayon tier of administration were to be preserved and left only with a very circumscribed set of functions (such as those suggested by Levitas and Djikic), the question arises whether it is worth the trouble establishing elected councils for these shrunken rayon administrations.

⁴⁷ Abibok (2018), *op. cit.*

⁴⁸ From interview conducted by the researcher with Roman Dmitriv, head of Hora Silska Rada, in Hora, April 2019.

Cities of Oblast Significance

Most commentators on Ukraine's decentralization reform have agreed that the Cities of Oblast Significance and their elected councils have been the main beneficiaries of decentralization reform in fiscal terms; their financial revenues have soared from 70.6 billion UAH in 2014 to 221.7 billion in 2017 (when adjusted for inflation, from 171.1 to 221.7 billion UAH), and their revenues per capita are the highest among all tiers of local government, at around 11,000 UAH per capita in 2017 (by comparison, ATCs received 6,000 UAH per capita in the same year⁴⁹). COSs are also the best equipped as far as investment in local infrastructure and transport are concerned, and their interests in the reform process are very effectively represented at the national level by coalition organizations such as the Association of Ukrainian Cities. This is largely a reflection of the fact that, as discussed, even before Ukraine's decentralization reform began COSs had already obtained a reasonable level of political autonomy and own-revenue raising powers.

As has previously been mentioned, the form of democratic governance and direct budgetary relations with the central state enjoyed by the COSs is regarded by many experts and actors in the decentralization process as something that future ATCs should emulate. Yet Cities of Oblast Significance have their own problems as well, and as the majority of attention in the decentralization process is trained on the amalgamated hromadas and the profound changes to the structures of local governance at the village, rayon and oblast level which the hromadas set in motion, these problems are likely to persist whilst the fundamental status quo of governance in COSs remains intact. The fact is that COSs suffer from deep underlying issues which can act as a long term constraint to the economic development of Ukraine's cities; in particular, the shadowy mesh of business interests and patronage networks which keeps the local political culture of many cities, such as Kharkiv and Odesa, highly opaque and unaccountable, concentrating the proceeds from regional development projects in the hands of a select number of rent-seeking political and business elites and inhibiting robust and vigilant democratic oversight of political decision making at the local government level. Of course, these are issues which plague every level of Ukraine's local government (see the section "Decentralization and Corruption" below) and will require much more than merely the decentralization of political and fiscal responsibilities; a more profound change in the political culture and governance standards of political leaders and administrators is required.

Progress on this front is hard to judge, and the results of efforts to improve public services and combat corruption are highly uneven across COSs. If we take general corruption perception surveys as one metric by which we can examine whether citizens think that democratic governance is improving, then there is scant evidence for overall improvement in Ukraine's major cities. Although city mayors receive the highest approval ratings of all government entities in Ukraine, according to the most recent municipal surveys, the number of Ukrainian citizens who believe that their mayor is making an effort to end corruption at the municipal authority level has dropped or remained the same in all but nine of Ukraine's regional capital cities between 2015 and 2018⁵⁰. Many cities are, however, making serious commitments on their own initiative to improving the quality of their public services and making the decision making processes of municipal councils more open and transparent. This can be seen in the results of Transparency International's "Transparent Cities" project, a collaboration between city authorities, Transparency International and civil society aimed at developing best practices of transparency and accountability in the day to day business

⁴⁹ Levitas/Djicic (2018), *op. cit.* pg. 12.

⁵⁰ International Republican Institute, *Fourth Annual Ukrainian Municipal Survey, Centre for Insights in Survey Research*, pg. 63, <https://www.iri.org/sites/default/files/2018-3-22_ukraine_poll.pdf>.

of municipal government. As part of the project, 100 of Ukraine's largest cities are assessed according to 13 indicators which measure the quality and availability of information regarding different spheres of the municipal authority's activities; for example, how much of the council's budgeting process is publicly accessible and published in a clear and timely manner on the council's website.

The transparency scores of Ukrainian cities varied considerably (ranging from a score of 86.9/100 for Drohobych to 11.33 for the city of Dunaevtsi), but there were a few standout examples of city administrations which made enormous improvements in the transparency of information on local government⁵¹. In some cases, as with the western city of Drohobych and Mariupol in the South-East, this has been largely due to the efforts of highly engaged and reform-minded mayors who have shown themselves extremely open to cooperation with local civil society groups and willing to implement the recommendations of international experts. In other cities, such as Pokrov, whose transparency score rose from 18.3 to 66.5 between 2017 and 2018, the role of civil society organizations was decisive in coordinating efforts to implement such changes, whilst the municipal administration took a more passive role⁵². The wildly varying levels of interest demonstrated among different municipal leaders in transparency and accountability reforms at the local government level attests to the fact that, since 2014, serious attempts to improve democratic governance in Cities of Oblast Significance in Ukraine have depended for the most part on the initiative of individual political actors, such as municipal mayors, in collaboration with local civil society groups and occasionally international NGOs, often on an *ad hoc* basis, and largely completely independently of the decentralization reform. This suggests that decentralization itself (*pace* the statements of some NGOs such as Transparency International⁵³) is not necessarily putting pressure on municipal administrations to reform their models of local government; in many of Ukraine's cities - for example, those in Kharkiv oblast, which have scored consistently poorly on the Transparent Cities index - greater financial resources are not leading to greater local government transparency or democratic oversight, and business is continuing as usual. Another caveat that needs to be issued here is that even higher levels of transparency in municipal authorities do not necessarily lead to greater accountability; in order to properly exploit the additional resources and powers entrusted to them by the decentralization process, COSs will need to develop functional procedures and regulations for assigning clear accountability to local government officials for their duties - for example, by drawing up rigorous codes of conduct and integrity codes for public servants⁵⁴. Again, this is not something that decentralization by itself can address.

Whilst Ukraine's Cities of Oblast Significance have benefited considerably in financial terms from the decentralization reform, this has not and will not by itself fix the deeper issues of corruption and clientelist patronage networks that restrict the development of COSs in the long term. Improvements to the standard of local government in COSs have tended to be sporadic and limited to those cities where there is the right combination of reform-minded political leaders, mobilized civil society and occasionally international assistance. For decentralization to be truly successful for COSs, the reform will need to apply on a country-wide scale some of the approaches to transparency (and eventually accountability) in local government that a number of Ukrainian cities are currently implementing.

⁵¹ Transparent Cities Ranking (as of 2018), <<https://transparentcities.in.ua/en/rating/?rating-year=current>>.

⁵² Based on remarks made by representative of Transparency International Ukraine's Transparent Cities project in conversation with the author, November 2018, Kyiv.

⁵³ See, for example: <<https://transparentcities.in.ua/en/>>.

⁵⁴ OSCE (2018) *op cit.* pg. 113.

7. Obstacles Facing the Decentralization Reform

Resistance to the Reform

It is evident from the foregoing analysis that the formation of ATCs and their ongoing development into the first port of call for as many public services as possible (in line with the principle of subsidiarity) will have profound implications for the other administrative units in the local government system; oblasts and rayons. Put simply, however the roles of oblasts and rayons are to be defined once decentralization is complete (and it is still uncertain what these roles will be exactly), it is generally agreed that they will be less important than they are now, as more central government funding will be flowing directly between the centre and the ATCs, rather than trickling down through the oblast/rayon/village waterfall. This means that stakeholders at the oblast and rayon level may stand much to lose from the decentralization reform; as their responsibilities diminish, council members' jobs could be at risk, and in local systems where clientelist practices have longed predominated, the opportunities for rent seeking will dry up.

Perhaps unsurprisingly, then, there is already evidence to suggest that actors at the local level are blocking attempts to form Amalgamated Territorial Communities and thwarting the decentralization process. This resistance occasionally comes from the oblast level, where levers to stall the reform are more readily available; amalgamations of hromadas have to be approved by the corresponding oblast councils, who must receive the required paperwork from the hromadas, which has led to many oblast councils deliberately dragging their feet on approving amalgamations and some cases where they have reportedly refused to allow the ATCs to hold elections⁵⁵. According to a report on Ukraine's decentralization by the Danish Institute for International Studies, stakeholders have cited cases where local administrations at the oblast and rayon level have worked against amalgamation processes through a mixture of misinformation, the promise of alternative funding for villages and delaying the approval of ATCs⁵⁶.

Many observers have noted that, given the current state of progress of the reform, much of the staunchest resistance originates from the rayon level; as the number of ATCs continues to rise, the pressure mounts on those rayon administrations that the hromadas are expected to replace, and which are formally rendered obsolete, leaving rayon councillors and other staff facing an uncertain future. Georg Milbradt, Germany's special envoy to Ukraine for Public Administration and Decentralization Reforms, has noted that opposition to reform

⁵⁵ *Danish Institute for International Studies* (2018), *op cit.* pg. 51.

⁵⁶ *Ibid.* pg. 61.

“generally [comes from] the county [rayon] level, where people are afraid to lose their jobs”⁵⁷. Of course, the formation of ACTs by no means entails a “lustration” of the local government old guard. As a general rule, the newly elected representatives and administrative staff for amalgamated communities tend to be drawn from the ranks of those who have previously served as administrators in rayon local government; there is thus considerable overlap between the old and new local government structures, with experience in local government being preserved. It is more than just their jobs that former rayon councillors and administrators may be reluctant to lose, however; the transfer of local government responsibilities formerly enjoyed by rayons to the ATCs might deprive the former of lucrative opportunities for siphoning and rent seeking that are too valuable to be surrendered without a fight. This problem is especially pronounced in the administration of municipal land, where rayons have traditionally had access to plentiful opportunities for rent extraction, for example in the securing of bribes in exchange for lease contracts with companies seeking to develop or work the land. It could in fact be argued that there may be a link between the value of local government-controlled land in Ukraine and the reluctance of rayons to acquiesce in the formation of ATCs⁵⁸; if one consults the latest government data and the geographical distribution of successfully formed ATCs (Figure 1, below), it becomes evident that hromada territory is particularly sparse in oblasts such as Kyiv and Odesa, where land values (especially around the capital) are disproportionately high⁵⁹.



Figure 1. Geographical Distribution of Amalgamated Territorial Communities: Blue marks ATCs, yellow marks Communities awaiting a decision on the formation of an ATC, green marks Cities of Oblast Significance

The same could be said for Zakarpathia region in the South West, where scarcity of land and proximity to valuable smuggling routes across the border could be contributing to local administrators’ resistance to share or relinquish the levers of municipal power⁶⁰. More research on this area will be required to establish whether or not land administration plays a pivotal role in rayon-level resistance to local government reform, but in any case, its im-

⁵⁷ Georg Milbradt, »Decentralization changes how people think«, in: *Ukrainian Week*, 15.07.2018, <<https://ukrainianweek.com/Politics/216775>>.

⁵⁸ Serhiy Sidorenko, »Dovedetsja stvoriti novu kartu Ukraini: poslanets Merkel ta rozkrili plani adminreformi« [“We will have to create a new map of Ukraine; Markel’s envoy and Zubko reveal their plans for administrative reform”], in: *Evropeyskaya Pravda*, 5.2.2018.

⁵⁹ Figure 1 is taken from the Government’s Decentralization website <<https://decentralization.gov.ua/en/about#gallery-4>>.

⁶⁰ I am indebted for this observation to Kateryna Pryshchepa, author of “The State of Decentralization in Ukraine”, *New Eastern Europe*, Issue 1, 2019.

portance can hardly be denied; managing the corruption risks associated with administration of municipal land will be one of the major challenges that ATCs will have to tackle as they take on more of the responsibilities previously entrusted to the rayons. Indeed, there have already been reports of local elites exploiting the decentralization process in order to increase their access to resources in the land allocation process⁶¹, and the Business Ombudsman Council of Ukraine has remarked that it is receiving an increasing number of complaints regarding the decisions of local authorities, including in disputes related to the leasing and allocation of municipal land⁶².

Resistance to decentralization reform and to the amalgamation of hromadas can also take place at the lowest level, between hromadas themselves. One of the consequences of the amalgamation process is that local facilities in many of the amalgamating villages will have to be closed and consolidated into single facilities for the entire hromada, a step necessitated not only by logistics but by Ukraine's dramatic demographic decline; there are many villages with very low-quality primary school and healthcare facilities, for example, that simply don't have the number of users to justify their presence. Despite this, hromada councils are often reluctant to agree to giving up facilities on their own ground, fearing that they will be unfairly treated in the redistribution of the new ATC's assets; the relocation of important schools and healthcare facilities to villages miles away can be quite a serious blow, especially given the generally abysmal state of roads in rural areas.

These issues are particularly acute in multilingual, multi-ethnic regions where villages are typically ethnically homogeneous and live in an uneasy and distrustful state of co-existence with their neighbours, such as Bessarabia in Odesa Oblast⁶³. A general pattern that can be observed in the decentralization process across Ukraine is that the necessity of consolidating resources and locating the new ATC's primary educational and healthcare facilities in the territory of one of the former villages making up the new community is viewed as a form of pernicious "recentralization" move by suspicious village leaders⁶⁴. In some cases, the prospect of amalgamating with other communities evoked memories of the collective farms, kolkhozes, that villagers were compelled to join in the Soviet era; according to the head of Gnidyn village council in Boryspil, Oleksandr Lazarenko, many villagers resist amalgamation because they remember that when different farms and communities amalgamated to form kolkhozes, most of the subsequent economic development would be enjoyed by the community fortunate enough to house the administrative centre of the kolkhoz⁶⁵. Many selo (village) inhabitants fear that a similar concentration of power and resources in another neighbouring community will take place if they agree to amalgamate.

Decentralization and Corruption

It is often assumed by academics and commentators that greater decentralization and devolution of responsibilities to local governments will lead to lower levels of corruption at

⁶¹ John Lough/Vladimir Dubrovskiy, »Are Ukraine's Anti-Corruption Reforms Working?«, Chatham House Research Paper, November 2018, pg. 32, <<https://reader.chathamhouse.org/are-ukraines-anti-corruption-reforms-working#>>.

⁶² Business Ombudsman Council of Ukraine, *Systemic Report on Business and Local Government*, 2019, pg. 24, <<https://boi.org.ua/en/publications/systemicreports/1130-systemic-report-challenges-for-government-and-busi/>>.

⁶³ Balasz Jarabik/Thomas De Waal, »Bessarabia's Hopes and Fears on Ukraine's Edge«, 24.5.2019, <<https://carnegieeurope.eu/2018/05/24/bessarabia-s-hopes-and-fears-on-ukraine-s-edge-pub-76445>>.

⁶⁴ Ibid.

⁶⁵ Comments made by the head of Gnidynska Silska Rada, Oleksandr Lazarenko, in interview with the author in Gnidyn, April 2019.

the local level, because, for example, “as transparency of resource allocation increases, opportunities for realizing corrupt practices are gradually reduced...”⁶⁶. There are indeed a great many reasons to suppose that a successful decentralization process will lead to more transparent and accountable political decision making and, ultimately, less corrupt societies; the literature on the connection between decentralization and corruption tends to hold this view, at least as a guiding hypothesis⁶⁷. In the context of Ukraine, this optimistic outlook is relatively plausible given that, according to sociological polling in recent years, Ukrainians consistently tend to trust their local institutions and authorities much more than their national institutions such as parliament. In fact, the Ukrainian population’s level of trust in government follows a kind of “subsidiarity principle”; in a poll conducted in 2018⁶⁸, a staggering 62.1% of respondents stated that they had “no trust at all” in the Verkhovna Rada, and 57.8% have no trust in the President or his administration. On the other hand, the figure for oblast authorities was 39.7%, and 34.4% for local authorities (below oblast level). From this perspective, then, devolving responsibilities and financial resources to local government would entail entrusting these resources to officials that are comparatively speaking the most trusted by the Ukrainian public – decentralization should in theory be “low hanging fruit” for reducing corruption on the local level in Ukraine.

However, there are some important limiting factors in the Ukrainian context which will most probably constrain the expected impact of decentralization on corruption. Above all, transparent and accountable local government will not flourish in Ukraine so long as the status quo - of local politics being dominated by informal structures of power that serve the interests of local business elites and their political partners - endures. A recent UNDP report examining the integrity and inclusivity of the democratic process in Ukraine concluded that political decisions at the local level in Ukraine are very often determined behind closed doors and in the interests of local patrons (typically a local businessman who owns assets and significant commercial interests in the community), who act as power-brokers, supporting the political campaigns of their appointees in return for lucrative government contracts and favourable treatment from local authorities. In this political context, party politics matters very little, and the electorate is not choosing between candidates with differing policy programmes or distinct and coherent ideological outlooks; the same political elites will frequently cycle between several different parties according to their own convenience, changing their party allegiance in order to secure support and patronage, for example, from more powerful national politicians in Kyiv. This problem is especially pronounced in majoritarian electoral districts, where the parliamentary deputy is typically a local businessman exercising informal control over a clientelist network of local authority politicians and business associates. The report notes that consequently “*It remains very difficult for local council deputies to stand out against corrupt practices or decisions pressed upon them by the parties’ business patrons...*”⁶⁹; unfortunately, there is no reason to believe that decentralization will substantially change this state of affairs, since these local power-brokers will want to assert informal control over the councils of ATCs once these authorities become empowered to make decisions that could materially affect their commercial interests. Indeed, to

⁶⁶ Andreas Umland, »The International Effects of Decentralization«, in: *Vox Ukraine*, 30.01.2019, <<https://voxukraine.org/en/international-implications-of-ukraine-s-decentralization/>>.

⁶⁷ E.g. Paul Seabright, »Accountability and Decentralisation in Government: An Incomplete Contracts Mode«, in: *European Economic Review* 40, no. 1, 1996.

⁶⁸ Ilko Kucheriv Democratic Initiatives Foundation and Razumkov Centre, *The Fight Against Corruption in Ukraine: Public Opinion*, May 2018, <<https://dif.org.ua/en/article/the-fight-against-corruption-in-ukraine-public-opinion>>.

⁶⁹ UNDP, *Integrity and Inclusiveness of the Democratic Process in Ukraine - Analysis of Interim Research Findings in the Regions*, 2019, <https://www.undp.org/content/dam/ukraine/docs/DG/Integrity%20and%20Inclusiveness%20report%20FINAL_12%2003%202019.pdf>.

some extent we can already see this happening; in many cases, local networks of patronage have consolidated their power within the new hromada system, with business associates (or relatives) of local political elites assuming leadership roles in the new ATCs. In one recently formed ATC in Chernihiv oblast, for example, the local majoritarian MP for the district, elected in 2014, is the son in law of the largest employer in the area, the owner of a local wallpaper making factory – and the newly elected head of the ATC is none other than the former parliamentary advisor to the same MP, a protégé of the wallpaper factory owner⁷⁰. We can thus see the same old patterns of patronage and clientelism readjusting and being duplicated in the new decentralized political context.

8. What Next for Decentralization in Ukraine?

Decentralization Infrastructure: Capacity Building at National and Local Level

The future success of decentralization in Ukraine will be dependent not only on the central government's rhetorical commitment to the reform and the implementation of necessary legislation through parliament, but also on its ability to build a decentralization infrastructure in which national ministries, local authorities, civil society and international partners can communicate and coordinate strategies for regional development, and the human capital and expertise required for effective local governance can be developed and directed to where it is most needed.

One concern that is often expressed by analysts observing the reform and international agencies that are supporting decentralization projects on the ground is that local governments, including the newly formed amalgamated territorial communities, are often severely lacking in the skills and expertise (in areas such as budgeting, resource allocation, strategic planning and submitting bids for regional development projects) that are needed to live up to the standards set in the government's decentralization reform roadmap. At present, many communities are reliant on the expertise and training provided by donor countries and their decentralisation programmes across the country, but there is little evidence to suggest that in the meantime the central government is building up the institutional infrastructure necessary to provide for well-staffed, well-equipped and sufficiently skilled local community administrators on permanent basis in the future. For example, the Ukrainian government is currently implementing a reform of its civil service with the support of international partners, but there has been no attempt to systematically approach the issue of civil service reform on the local government level. Instead, the Ukrainian government's strategy with regard to capacity building for local authorities is rather more ad hoc; in cooperation with international donors, it works through "Regional Development Centres" distributed across all 24 oblasts, providing much needed capacity building in budgeting and strategic planning to local communities. The Ukrainian government has found a well-functioning modus operandi with international donors and their implementation agencies on the ground, and their collaboration has been formalized through a number of fora; for example, they have established a "Common Results Framework," a "Donor Board on Decentralization Reform in Ukraine," and working groups for discussion of each specific decentralization issue. However, this will not be enough once the international donors leave, and government ministries themselves will find themselves responsible for the development of human capital in regional and local government structures. In the words of the latest authoritative OSCE report on decentralization in Ukraine, the fear is "*that international support may be replacing human resource gaps within ministries rather than guiding*

ministry staff to build the frameworks and competences necessary to move the reform forward on their own."⁷¹ With this in mind, it would be advisable that more energies be directed towards enabling government ministries to develop their own "decentralization infrastructure" to support capacity building in local communities across the country and rely less on ad hoc collaborations with international partners, so that the decentralization reform will in future be able to proceed on its own feet.

Missing the Real Problem? Failing to Address Local Patronage Networks

When Ukraine began its post-Maidan decentralization reform in earnest in 2014, many expert commentators were unconvinced that devolving greater financial and political responsibilities to local communities would properly address some of the major problems that are inhibiting the country's economic development, in particular its crumbling infrastructure and the issue of state capture at the regional level. Duncan Leitch, for example, pointed to the "*neo-patrimonial relationships between political, bureaucratic and business elites at all levels of government*"⁷² that had long since taken root in Ukraine's regions, arguing that these were unlikely to be dismantled simply by transferring powers uncritically to the local level. There were also serious doubts as to whether even newly empowered local governments were up to the herculean task of fixing the country's serious shortfalls in physical infrastructure, such as the general low quality of roads and municipal housing stock – problems for which, according to Leitch, "international experience points to the need for major national programmes of capital investment..."⁷³ rather than the financial boost to local budgets envisaged by decentralization.

Whether or not Ukraine requires large-scale capital investment programmes (perhaps in the form of a "new Marshall plan", as some have argued⁷⁴) to achieve the kind of economic development in the regions which the government aspires to is beyond the scope of this working paper. What has certainly been shown by our earlier examination between the purported relationship between decentralization and corruption, however, is that concerns surrounding the long-term resilience of these neo-patrimonial relationships between local government and business interests should carry great weight. As we have seen, even when new unified amalgamated territories are formed, the new leadership often perpetuates already existing patronage networks between business and political elites (especially members of parliament representing majoritarian districts), especially when high land prices and valuable industrial assets yield more lucrative rent-seeking opportunities.

Decentralization by itself will not solve these problems unless the reform brings with it a critical mass of political leaders and civil servants at the local government level who are sufficiently well remunerated and trained in best practices of transparent and accountable public service provision to resist and counter clientelist tendencies. As the leader of one hromada in Boryspil rayon explained, the key to combating corruption is not decentralization per se but high-quality personnel in roles of responsibility in the hromada administration; in particular, people with managerial experience who are committed to bringing transparency to the everyday functions of local government – starting even from small details,

⁷¹ OSCE (2018) *op. cit.* pg. 159.

⁷² Duncan Leitch, »Decentralization: The Wrong Solution to the Wrong Problem?«.

⁷³ *Ibid.*

⁷⁴ E.g. the economist Eric Rainert – quoted by Michał Kozak, »Ukraine needs a new Marshall Plan«, in: *Central European Financial Observer.eu*, 19.06.2018, <<https://financialobserver.eu/cse-and-cis/ukraine-needs-a-new-marshall-plan-2/>>.

such as the layout of administrative buildings where public officials are more visible and accessible in open-plan offices, rather than hidden behind a sequence of doors and corridors⁷⁵. As with the issue of capacity building discussed above, it is hoped that the public administration reforms currently being implemented by the Ukrainian government (the benefits of which many citizens are already enjoying, such as simplified procedures for obtaining documents such as passports, driving licenses etc.⁷⁶) will be extended to include civil service reform in local government, so that the changes in approach to public service provision and local government currently being experimented with in a certain number of cities and localities can be properly institutionalized.

⁷⁵ Based on comments made during interview conducted by the researcher with Roman Dmitriv, head of Hora Silska Rada, on a visit to Hora in Boryspil Rayon, April 2019; similar approaches can be seen in the layout and organization of Kyiv's new administrative service centres – see Roman Olearchyk, »Everyday services overhauled as Ukraine shakes off soviet past«, in: *Financial Times*, 12.09.2018, <<https://www.ft.com/content/21402c38-91b4-11e8-9609-3d3b945e78cf>>.

⁷⁶ Lough and Dubrovskiy, »*Are Ukraine's Anti-Corruption Reforms Working?*«, pg. 31.

Conclusion

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Ukraine's decentralization reform will never be truly irreversible until changes to the administrative structure of local government are enshrined in amendments to the constitution, thus allowing the roles of oblasts and rayons to be redefined and protecting the status of Amalgamated Territorial Communities in law and preventing their new resources and powers from being abolished by laws through a simple majority vote in parliament. If the next government decides to earnestly continue with decentralization, then at some point the issue of constitutional amendments will need to be readdressed, and along with it the question of how the decisions of local government authorities in future are to be reviewed for their compliance with Ukraine's constitution – whether this should be undertaken by presidentially appointed prefects, or some other body.

However, despite the failure of the government to introduce the required constitutional amendments in 2014, decentralization has arguably been one of Ukraine's most successful reforms since the Maidan Revolution. The government has demonstrated a genuine commitment to transferring responsibilities and resources to local government authorities on an unprecedented scale, as reflected in the extent of fiscal decentralization that has taken place for Cities of Oblast Significance and the new Amalgamated Territorial Communities. These changes have led to questions concerning the future role of oblast and rayon councils in the country's system of local government – questions for which no conclusive answers or consensus has emerged.

One thing that has become clear from our examination of the decentralization process so far is that the assumed connection between decentralization and combating Ukraine's perennial problems with corruption and misgovernance should not be overestimated, and policymakers should not accept as an axiom the claim that decentralization will naturally lead to reduced corruption and better public services. This paper has highlighted the risk that the causes of these problems, which include a lack of expertise and capacity at local government level and the persistence of patrimonial relationships between business and political elites, will endure beyond the decentralization process and at best severely limit its potential for positive impact. For decentralization to be truly successful in Ukraine, it needs to come hand in hand with more thorough public administration and civil service reforms in cities, towns and villages across the country.