

# UNITED, DECENTRALISED, DEMOCRATIC, and COMPETITIVE UKRAINE

## Key tasks of the current stage of reforms



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More than 4 years have passed since, under the conditions of a severe budget crisis and the war, unleashed by Russia and its proxies in the Donbass, the Government of Ukraine has not succumbed to the panic and temptations to concentrate all the power and resources in its hands, but started a reform of local self-government and territorial organization of power, having adopted Order #333-r of April 1, 2014, which approved the Concept of Reform.

Today, citizens of Ukraine can be proud of that decision. For, this is actually for the first time in the history of independent Ukraine, that this concept did not turn out to be just another fancy document for external use, but a guide for the reform. Today this reform is recognized as successful, by both our friends and foes.

Today, we can showcase our achievements, analyze mistakes, identify new trends, assess challenges and take the necessary steps to bring the reform to a new level that would respond to the needs of Ukrainians and take into account our new opportunities, and answer those challenges of today, which must not be left without an appropriate answer.

Populism inside the political class strengthens against the background of external threats. Information avalanches of various «fakes», gossip, and the spread of depression badly affect the concentration of human efforts in the direction of development. All this occurs against the background of very weak state institutions, which are often hostages of various types of external influence.

**We can only oppose this with a UNITED, DECENTRALISED, DEMOCRATIC, AND COMPETITIVE UKRAINE.**

That is why the new stage of the reform of local self-government and territorial organization of power, and the reform of the state regional policy should be aimed at achieving this ambitious but achievable goal.

Thus, this is an effort to assess the accomplishments, achievements and failures in order to understand how to proceed further, and what should be addressed, what are the

priority tasks and how to correct joint actions of state authorities, local authorities, political forces and civil society on the way of reform.

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Expectations by some for a speedy settlement of conflicts at our borders, and the liberation of Donbass and the return of the Crimea were overestimated. Russia's destabilizing influence does not decrease, and military, economic and political blackmail of Ukraine and Ukrainians is only stepping up.

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### Gains:

1. Local self-governments of cities of oblast significance and amalgamated territorial Hromadas received considerably more financial resources for their own development, modernization of infrastructure, current and capital repairs of the entire city public space.
2. Over 800 amalgamated territorial Hromadas were created, primarily in rural areas, which for the first time in the years of independence received direct budgetary financing of their own infrastructure (2017-1 billion, 1.5 billion - 2017, 1.9 billion - 2018). This made possible to build hundreds of kilometres of water pipes, to equip street lighting, repair hundreds of schools, kindergartens, open new football fields, and sports facilities. In some rural communities, the educational infrastructure created is better than in many cities.
3. Local self-government bodies in rural areas ceased to be «social payment desks» functioning solely to pay salaries to several rural council employees, - they became full-fledged bodies that influence the development of their territories and are the largest public investors in the territory. Unfortunately, this is true only for the amalgamated territorial Hromadas, but does not apply to most village councils that have not yet been embraced by the reform.
4. Budget decentralisation has made Ukraine one of the most financially decentralised European countries. Local budgets have exceeded 15% of Ukraine's GDP and amounted to more than 51% of all public funds in Ukraine.
5. The State Strategy for Regional Development, adopted in 2014, fixes key state priorities for regional development by the year of 2020, in particular, the formation of a single Ukrainian space and the enhancement of the competitiveness of the regions.
6. Adoption of the Law «On the Fundamentals of State Regional Policy» and Article 24-1 of the Budget Code of Ukraine set up a European system of strategic planning for regional development and conditions for its stable and transparent financing.
7. The State Fund for Regional Development has increased from 1.5 billion UAU in 2013 to 6 billion UAH in 2018.
8. An ambitious program of rehabilitation of Ukrainian roads launched by the Government yields results. Today, new roads connect Ukrainian regions with modern transport arteries, which contribute to the formation of a nation-wide market, increase the mobility of the Ukrainian people, stimulate the development of domestic tourism and cooperative ties among small and medium enterprises in different regions.
9. On initiative of the Government, amalgamated Hromadas were granted control of hundreds of thousands of hectares of state-owned land. It definitely should contribute to the economic development of communities. But this imposes great responsibility on local self-government bodies. It should not be forgotten that since 1990, with a population decline of more than 8 million people, the amount of land under development has increased 5 times, and today it is more than that in Germany or Brazil. The state transfers land to Hromadas not for squandering, but for effective usage and should supervise it as efficiently as possible.
10. External support for decentralisation and regional development at the expense of the EU, the USA, Germany, Switzerland, Sweden, Denmark, Poland, Estonia and other countries and international organizations amounted to more than 200 million euros, which Ukrainians should be grateful to the peoples of these countries who shared their resources with us.
11. With the help of international partners, funding has been provided for the provision of several hundreds of administrative services centers, a large number of capacity development activities that strengthen the capacity of local authorities to manage the territories. Funding has also been provided for 5 national regional development programs to implement State Strategy of Regional Development 2020.
12. The performance of local self-government bodies during 2015-18 showed that a new force of effective managers is being formed at

the local level, who, in a few years, will become mature enough to serve in public administration. It is likely that in the next convocation of the Ukrainian parliament, or a new Government, we will see new politicians who have grown over the years out of decentralisation reform.

Formation of a modern, decentralised Ukraine, which now covers more than 70% of the population and about 40% of the territory, has become a fact. This is our great achievement, but we continue to have a part of the territories that are still in the old hierarchical model, where territorial Hromadas do not have a significant impact on their development and still do not enjoy the opportunities provided by decentralisation.

to prevent the funding of projects submitted by amalgamated Hromadas. The situation is particularly appalling in Zakarpattia Oblast, where the head of the Oblast State Administration not only openly opposes the formation of amalgamated Hromadas, but also appealed

13. Scepticism over the capacity of Ukraine to implement at least a reform has been overcome. Key opponents to decentralisation among the political factions have essentially acknowledged their mistake and ceased to publicly oppose the reform. The issue of «federalisation» of Ukraine has been removed from the agenda.

This can turn into a viewpoint conflict between modern and archaic Ukraine, as well as a threat to the dynamic development of the entire state.

That is precisely why it is becoming even more important to detect and identify negative trends and challenges, which we are facing today, and which slow down the reform and create risks in the future.

### Issues that have manifested themselves and tend to aggravate

#### 1. Rayon level imbalance

Formation in Rayons of amalgamated Hromadas inevitably leads to weakened financial and organizational capabilities of the Rayon. This requires more and more «equalisation» resources from the State Budget of Ukraine, and creates an illusion among Rayon leadership that they can still return to the past if they stop the process of formation of amalgamated Hromadas. But this will never happen again. Time can not be turned back.

#### 2. Strengthened confrontation of local state administrations vs. amalgamated Hromadas

Heads of Rayon and Oblast state administrations take on an increasingly aggressive attitude towards the formation of amalgamated Hromadas. They pressurize village heads to abstain from amalgamations, use their influence on the oblast project selection committees for the State Fund for Regional Development in order

to the court to «reverse» the reform as unconstitutional. This position of the head of the oblast state administration is not acceptable for officials of this level.

#### 3. 2017 and 2018 have seen a trend of initially approved perspective plans for forming sustainable amalgamated Hromadas being neglected

Unreasonable changes were introduced to the plans for the purpose of the formation of explicitly small amalgamated Hromadas (2,000 – 4,000 residents) that a priori could not fulfil all the powers granted to amalgamated Hromadas. This is a way to discredit the reform. It is bad that such a departure from the methodology of formation of sustainable Hromadas in the formation of perspective plans, proposals that do not correspond to the logic of the reform and regulatory requirements, do not find a proper response. One cannot understand the reason for not succeeding if the basic principles of the formation of amalgamated Hromadas are violated.

#### 4. Funds of the State Fund for Regional Development are not used efficiently enough

Regional development projects funded by the SFRD are often overtly weak and are filed in violation of statutory time limits. Projects for 2019 should have been selected at regional level and submitted to Ministry of Regional Development by 1 May 2018, but their selection has not been completed in many regions as of December 2018!

Regional commissions, when selecting projects for funding from the SFRD, are often biased. This results in a situation when projects that are lobbied for either directly by the head of the oblast state administration or by the people's deputies of Ukraine (members of parliament), are «victorious».

#### 5. Regions practically do not submit projects that are in line with the terms of reference of their own development projects, aimed at achieving the objectives of the regional strategy, which should lead to the region's economic growth.

**6. There is an emerging trend towards undermining the planning and financing system for regional development.**

The Verkhovna Rada of Ukraine has registered a number of draft laws introducing additional quotas for the SFRD under various priorities, replacing the source of the formation of the funds of the SFRD, or actually leading to the removal of the competitive mechanism for the selection of regional development projects. When adopting the budget for 2019, people's deputies of Ukraine once again placed on the State Fund for Regional Development (SFRD) a function not inherent for it - financing the participatory budget of Ukraine. Thus, the very idea of a participatory budget can be discredited, and financing of regional development projects at the expense of the SFRD is again complicated.

**7. Populism and politicking at different levels of government are becoming a dominant trend, which only aggravates in anticipation of elections.**

We are again witnessing the return of some old slogans «Kyiv does not hear us» or «Kyiv should give us more resources». This is done by some instead of having taken steps to create new resources in territories through the support to entrepreneurship and using that vast resource that was made available by the state in the time of war for investment in regional development projects. Local Radas (councils) go beyond their own powers, and this is of particular concern:

Seven Oblast councils passed a decision on the transition in relations with the state to contractual terms, four Oblast councils – on a moratorium on the use of Russian-language cultural product. This is a very dangerous way of destroying all Ukrainian state space, so we must understand our responsibility for the future of Ukraine. There are signals that in some cities and amalgamated Hromadas, local self-government leaders are beginning to behave very much “independently” of laws and the community in general. The lack of state supervision of the lawfulness of decisions and actions by local governments so far is not a reason for the anarchy and destruction of the state control system. This situation is not normal and must be turned around.

In order to realize this ambitious goal, in our opinion, it seems necessary to undertake the following priority steps:

Thus, the key task for the current and next years is to complete the reform of local self-government and territorial organization of power and, convert decentralisation and the new system of the state regional policy into increased economic growth in territories.

1. The Verkhovna Rada of Ukraine should adopt all the legislation needed to complete the reform and create a new territorial basis for the local elections in 2020.

2. An increase of the State Fund for Regional Development for 2019 and subsequent years to 1.5% of the expenditures of the state budget of Ukraine should be envisaged. One third of these funds should go to the implementation of state programs and projects stemming from the State Strategy for Regional Development and aimed at the formation of Ukraine's cohesion.

3. The use of SFRD funds in the regions should be aimed primarily at achieving the objectives of economic growth and human capital development needed for such growth.

4. A new legislative framework should be established to stimulate the development of specific types of territories - mountain, remote, poorly populated territories, territories in the zone of delimitation and border with the Russian Federation, etc. The state cannot tolerate permanent degradation and de-population of such territories.

5. The government has proposed, and the parliament has supported the allocation of significant funds from the state budget to support various sectors – over UAH 37 billion UAH in 2018, and most of these funds were expended in the regions. A system of coordination of the main spending administrators of these funds must be established so that their utilization has a synergistic effect, and is in line with the strategic planning documents, and generates economic growth in the regions.

6. The term of the State Strategy for Regional Development and regional (oblast) development strategies will expire in 2020. Therefore, it is now necessary to begin work on these strategic documents that must be based on a new strategic reality: the continuation of aggression on the part of Russia and the new opportunities of the territorial Hromadas, that they have obtained through decentralisation. These documents must be logical, motivational, backed up with real funding. The strategies and plans for their implementation should be the basis for budget planning at the local and regional level. No plan without funds, no funds without a plan. We do not need declarative, but working documents aimed at the future. Against this backdrop, somewhat strange suggestions are made as to the need to develop some other planning

documents for “perspective development plans” that are not defined by Ukrainian legislation, the content and method of development of which are also not clear. Therefore, we must act within the law on the basis of the best European and Ukrainian experience of strategic planning.

7. According to the Concept No. 333-p, amendments to the Constitution of Ukraine were envisaged. That did not happen. Perhaps this is good, because now that we have gone through half the reform process, we can see what is really needed to be enshrined in the Constitution, and what should be left for regulation by a law or an act of the Government. Now we can talk again about the constitutional process as an important promising job, taking into account at the same time political risks and possible achievements. But the key to us is that, at the same time, we can not stop the reform.

Ukrainian decentralisation reform is not a process for the sake of the process. This is our key

Decentralisation and the new state regional policy have been creating thousands of ties between communities, regions and the state on a vertical basis; and between communities, close and distant – horizontally. This is how the new embroidery of the UNITED, DECENTRALISED, DEMOCRATIC AND COMPETITIVE UKRAINE is formed.

tool for accelerated economic growth of Ukrainian territorial Hromadas, regions and Ukraine as a whole. This is our asymmetrical response to the Kremlin's encroachments.

Such plans are really ambitious, but at the same time realistic. Implementing them requires consolidated efforts on the part of executive authorities, local self-governments, involving active representatives of socio-economic partners, academics, international experts. Coordination of actions, constant communication with the society should become one of the important indicators in the evaluation of activities by institutions and officials involved in the new stage of the reform – boost economic growth.

Ukrainian decentralisation has already been recognized by our foreign partners as a systemic and successful one. But it needs to be completed by 2020, in order to truly become fully successful.



On December 5, 2018, the 3rd Forum of local self-government and amalgamated Hromadas was held. President of Ukraine, Speaker of the Verkhovna Rada, Prime Minister of Ukraine, people's deputies attended the Forum. All spoke about the success of the first stage of the reform and the necessity of systematically completing its first stage with local elections of 2020 on a new territorial basis.

This inspires hope. We have to use this opportunity and build UNITED, DECENTRALISED, DEMOCRATIC AND COMPETITIVE UKRAINE.