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Ukraine: Local Government Reform Accelerates, but Slowly

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Local government reform was supposed to be one of the priorities of the Ukrainian government. Despite declarations by political parties and the newly elected president and international support, the pace of change is slow. It is essential that the declarations are followed by more decisive action on the part of the Ukrainian authorities. EU assistance in the form of outside expert help should place a greater emphasis on the preparation of local authorities and communities for reform and include training programmes for officials and local activists.

After 10 months since the start of reform of local government in Ukraine, most of the proposed changes are still in the planning stage. The main objectives of the reform were adopted by the government in April 2014. In July, the Verkhovna Rada launched a debate on a draft revision of the constitution that introduced decentralisation of power.

The starting point for the discussion was the current situation in which local territorial units, so-called hromads (towns and villages), raions (districts), and oblast (provinces) have elected councils. But apart from the cities these are devoid of executive bodies. Instead, most of the territorial units are managed by local state administrators, with the heads appointed from Kyiv. All of these units were deprived of their own finances. Taxes were discharged to the state budget and local authorities negotiate annually a grant amount.

One of the proposed reforms actually would lead to the creation of local governments with appropriate enforcement authorities and powers as well as their own budgets. Although there is support for this idea in general, the various political groups have different points of view on the issue. One is whether the hromads should be strong or the raions should become the primary local government level, while another is the impact the central government should have on local governments. To date, Ukraine has managed only to make changes in the tax code to increase the financial autonomy of local authorities. However, it is an experiment, because until now such mechanisms do not function and there is no redistribution system for poorer regions.

A law allowing voluntary associations among hromads was recently adopted. The former deputy prime minister in charge of local government reform, and now the head of parliament, Volodymyr Hroysman, stated that the changes in the constitution should be implemented before September and local elections should take place in October. Hroysman confirmed that the adopted model would be very similar to Poland's (where at the lower levels there is local government but at the provincial level there is a mix of central and local government).

Getting Started: Financing and Combining the Hromadas. A change in the number and size of the territorial units and how their governments function proved politically difficult to implement and required further amendments to the constitution. That's why Ukraine has started with the financial issues.

At the end of December 2014, the Verkhovna Rada adopted amendments to the country's tax code. Villages, settlements and city-level hromadas will receive 100% of the revenues from several categories of taxes, including excise and so-called unified taxes (from those self-employed and companies using simplified tax rules), as well as fees from parking, tourism, administrative services, licensing and registration, and administrative penalties (fines). In addition, the hromads will be allowed to retain 25% of the environmental taxes and 10% of the corporate profits taxes collected within their borders.

The Ministry of Finance says that the local budgets in 2015 will amount to UAH 266.9 billion ($10.5 billion), which is 20.6% more than in 2014. The share of local budgets in the consolidated budget will increase to 54.6%, compared to 52.1% in 2014. The new model for funding local authorities also includes 22.7 billion UAH ($0.9 billion) for performing tasks for the state. As a result, the hromadas will have a lot more opportunities than ever before, although it is unclear whether they can implement all the mechanisms under the new law.

In Ukraine, there is discussion about reducing the number of hromadas and increasing their powers. There are currently 10,500 of them. The smallest have just 500 inhabitants and are not able to perform the duties imposed on them. There is a proposal to reduce the number of hromadas to 2,500 but it is opposed by some political groups (e.g., Yulia Tymoshenko's Batkivshchyna party). On 5th February, the Verkhovna Rada adopted a law on voluntary associations of Hromadas. These associations must be uniform territorially and within one oblast. Also, when formed the historical, ethnic and cultural backgrounds of the residents must be taken into account. Once the association is ready, the local authorities may request it be formalised by the oblast's authorities. These new units will choose their own leaders, who will take over the existing powers of the other local governments. If there is little interest in forming larger territorial units, implementing a system of incentives for doing so would be available and may help turn the numerous hromadas into stronger entities as in Poland. No one knows though what will happen to the hromadas that remain beyond the borders of the new associations, or to single units that do not wish to join the association. It is difficult to say whether the association would be the basis for a new administrative division, which is among the constitutional proposals.

The Main Obstacles. The biggest problem with the debate on the need to strengthen the competences and finances of the units below the oblast is the ongoing war with separatists supported by Russia. The demands of the rebels are especially influential on Ukrainian politicians in relation to the powers granted to the oblasts.

So far, Ukraine has emphasized its unitary system. Even the "Autonomous Republic" of Crimea had quite limited powers. Now, the separatists want the maximum degree of autonomy, if not independence, in Donbas. A formula similar to the Polish province, which is a mix of powers, may be insufficient there.

In its support of the separatists, Russia has called for the federalisation of Ukraine, understood as an autonomous, strong-provincial system, which Kyiv strongly opposes. The fear of granting the oblasts too much power delays any reform, not only for Donbas but also other primarily Russian-speaking regions such as Kharkiv, as well as Zakarparcie, which has a significant Hungarian minority.

There are also other structural problems. Most of the population still lacks an understanding of the idea of local government. For more than half a century of communist-rule as Ukraine SSR and years under an independent but centralised and oligarchic government, local communities were forced to turn to Kyiv to get anything done, so there is no sense of responsibility for one's own village or town. Further, there is widespread acceptance of corruption, including combining public affairs and business. Long-term foreign support of Ukraine's decentralisation process so far has proven not to be highly effective. There have been a number of conferences and meetings as well as studies sharing the experience of other countries and recommending solutions for Ukraine. Representatives of Ukrainian municipalities have participated in numerous workshops and EU projects. Many of those now understand the need for and consequences of this change, however, not necessarily among the politicians in the capital and the central authorities elsewhere, who generally fear giving power to local politicians.

How to Support the Reforms? The decentralisation process cannot be carried out within a few months. Local government reform must be accompanied by a change not only in financing but also by a clear delegation of specific competences, anti-corruption regulations, and the establishment of a civil service corps similar to the Polish one. Voluntary associations of the hromadas also probably will not solve the problem that Ukraine has too many, very poor communities. It will be necessary to develop additional incentives to build larger groupings or to forcibly convert some of them. The EU, including Poland, should persuade the authorities in Kyiv to proceed with these urgent changes as beneficial for the country in the long term, especially as it would force local authorities to be more economical with their resources.

There is also a need for better coordination between the various countries and donors that support local government reform. So far, many funds have been expended on various expertise from external experts and too little on the education of Ukrainian specialists who would be responsible for the long process of decentralisation at both the legislative and practical levels.

It is advisable to develop a system of training and internships that create administrators who are more responsive to the needs that arise from the decentralisation process and provide adequate preparation for the building of local development plans, budget planning and use of taxes. Also very important is the selection of participants and a programme of supervision as the knowledge is put into practice.

Ukraine's Association Agreement with the EU creates the conditions for organising and funding training for officials at the central and local levels. It does not address decentralisation specifically but it raises the issue of the need to improve public administration. The EU should set up a separate fund to support grassroots outdoor activities for decentralization—elite education, information policy, and cooperation with local governments in other countries. This fund should be available for all countries of the Eastern Partnership where decentralisation is being carried out.