

# The Territorial and Decentralization Reform in Ukraine (2014–2020)

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## Abstract

The article is devoted to the reform of local self-government and territorial organisation of power in Ukraine, which took place in 2014–2020, combining three important tasks: improving the system of public authority, strengthening local self-government, and streamlining the administrative-territorial system in the state. The analysis conducted in the study concerns: the main problems to be addressed by the relevant reform; the chronology of the adoption of key regulations and their role in this process; the results of the amalgamation of territorial communities; and the communities' ability to ensure the sustainable development of territories. As a result, the article highlights the stages of the implementation of the reform of local self-government and territorial organisation of power in Ukraine, as well as outlines several unresolved issues in this area.

## Keywords

territorial reform, decentralisation, Ukraine, territorial organisation of power, amalgamated territorial community

## Introduction

The need to build an effective system of local self-government for the Ukrainian people is best evidenced by the fact that this reform was initiated by one of the first governments immediately after the Revolution of Dignity in 2014. This was influenced, *inter alia*, by Ukraine's chosen course of European integration and the implementation of the principles of local self-government. The most important element of the reform of local self-government and territorial organisation of power in Ukraine is the voluntary amalgamation of territorial communities, which are this way more self-sufficient administrative units than they had been by themselves. At the same time, there was a transfer of powers and resources to the basic level of administrative-territorial organisation, namely the level of cities, towns, and villages.

Prior to the start of the decentralisation reform in 2014, local scholars characterised Ukraine as a centralised state with significant disparities in regional development and an unsatisfactory level of public service delivery (Tkachuk et al. 2012). The reform pursued to radically change this situation, creating conditions for the sustainable development of territories. At the same time, the aim was to bring local self-government and territorial organisation of power in line with the European standards and the fulfilment of international obligations in this area under the European Charter of Local Self-Government.

Today, after seven years of implementing the reform of local self-government and territorial organisation of power in Ukraine, it is rightly considered one of the most successful reforms in Ukraine since independence (Shevchenko et al. 2019, p. 7). The proposals of territorial communities to acquire greater powers, resources, and the ability to implement their territorial development initiatives were all supported by the public authorities and society. Transformation in the system of territorial management, decentralisation in the fields of education, medicine, and the provision of public services are showing positive changes, but this process is not devoid of difficulties and barriers.

The purpose of this article is to define the main trends and phenomena characterising the implementation of the territorial and decentralisation reform in Ukraine for the period 2014–2020. In order to achieve this purpose, the following methods were used: systematisation, comparative analysis (to identify the problems, the reasons for decentralisation in Ukraine, and the previous attempts), historical method, generalisation, content analysis (to determine the evolution of the formation of the regulatory and legal framework for decentralisation), as well as statistical and abstract-logical methods (to describe the process of the amalgamation of territorial communities and the results of implementing financial decentralisation in Ukraine). The chosen methods of the study allowed the authors to establish the impact of administrative and financial decentralisation (2014–2020) on the development of local self-government and territorial communities in Ukraine.

In the following sections, the general overview of the implementation of territorial reforms in Europe since 1990 is presented, as well as theoretical arguments for these changes are illustrated. The problems that led to the need for territorial amalgamation and decentralisation in Ukraine as well as previous attempts at similar reforms are also assessed. Next, the legal support for the reform of local self-government and territorial organisation of power in Ukraine, indicating the chronology of the adoption of key regulations in this area during the period 2014–2020, is analysed. The process of the amalgamation of territorial communities is characterised with the consideration of the reasons for the transition from the principle of voluntariness to forced centralised change. Finally, the results of the financial decentralisation implementation in Ukraine are summed up, focusing on the dynamics of growth of own revenues of the general fund of local budgets. In the last section of the article, the implications of administrative and financial decentralisation in Ukraine for the 2014–2020 period are summarised as well as challenges and gaps are identified.

## 1. The review of the implementation of territorial reforms in Europe since 1990

Territorial reforms are politically risky and extremely difficult to implement. It should be noted that in some countries there are changes towards territorial fragmentation (Brink 2004; Erlingsson 2005; Lima and Neto 2018). The process of territorial fragmentation is usually not the result of central government policy, but of pressure from local political elites and local communities, i.e. from the bottom up. Such processes took place, for example, in the Czech Republic, Slovakia, and Hungary in the early 1990s (Gendźwiłł et al. 2020, p. 3).

The dominant trend during the first two decades of the 21<sup>st</sup> century was territorial reforms aimed at the amalgamation of municipalities. They have led to a significant reduction in the number of municipalities in the approximately 20 European countries, including: Northern Macedonia (2002), Georgia (2006), Denmark (2007), Latvia (2009), Greece (2011), Albania (2015), Ireland (2015), Estonia (2017), Northern Ireland (2017). Municipalities have also been amalgamated in some federal states (5 German *Länder*, 1 Austrian *Land*, 5 Swiss *cantons*) in the same 20-year period (Swianiewicz 2021). In addition, there are several countries that have been pursuing a steady policy of encouraging and supporting the amalgamation of municipalities for many years (Finland, Iceland, Luxembourg, the Netherlands, and England) (Gendźwiłł et al. 2020, p. 2). All these reforms were implemented either from top to bottom or stimulated by the central government.

Territorial amalgamations are often considered as an “archetypal” public administration reform and one of the austerity measures in times of crisis (Kuhlmann and Bouckaert 2016). The most popular argument in favour of territorial integration reform is related to the cost of providing services and the potential positive effects on various budget indicators. Providing services by enlarged local governments may be less costly. From the economic point of view, it is also argued that a larger size covers a wider area, provides coordinated planning, and facilitates the concentration of different resources for economic growth. Changes in local borders can lead to the spatial reorganisation of economic activity. The amalgamation is expected to support the concentration of economic activity and centrifugal forces towards the administrative centre (Egger et al. 2017).

It is believed that territorial amalgamation reforms improve the quality and effectiveness of public service delivery (Steiner et al. 2016). Tavares (2018) argues that studies examining the impact of local community integration on the quality of local services are in favour of the idea that larger local governments can provide better services to their citizens. However, improving the quality of

services through amalgamations comes at a cost: increasing the average size of local governments increases their ability to provide more diverse and better services to citizens, but these expanded local governments are more expensive (Tavares et al. 2018, p. 4). It should be noted that there is an impact of amalgamation on the quality of local democracy, as it can reduce the number of candidates in local elections, influencing domestic political effectiveness. Pre-amalgamation municipalities can feature more professional and responsive representatives and executives (Drew 2020, p. 53). At the same time, arguments for higher political efficiency of smaller municipalities were covered much less frequently (Blom-Hansen et al. 2014; Gendźwiłł et al. 2020, p. 14).

Territorial reforms at the local level are usually coupled with other policies, tailoring the scale of governance to the scale of problems (Swianiewicz et. al. 2022, p. 5), including incentivised inter-municipal cooperation, decentralisation, regionalisation, etc. The case of Ukraine (2014–2020) is based on the combination of the territorial amalgamation with administrative and financial decentralisation, which, in practice, is implementing under one reform. Arguments for decentralisation, as a rule, contains the following four theses:

1. Decentralisation provides a more efficient allocation of resources in the public sector. The system, in which decisions on the allocation of resources in the public sector are made at the regional and municipal levels, makes public choices more accurate, taking into account local characteristics of public preferences.
2. Decentralisation increases the accountability of public authorities in spending budget funds. The essence of this argument is that in decentralisation, the relationship between paid taxes and received public goods and services is more direct and transparent, as taxes are levied where budget expenditures are made.
3. Having its own tax base encourages regional and local authorities to take measures to expand it, i.e. to incentivise the development of regional and local economies.
4. Giving regional and local authorities the right to independently dispose of budget funds stimulates them to reduce unjustified expenditures in the public sector.

In the European practice, different models have been applied of the “conjunction” between the territorial and decentralisation reforms. Sometimes, functional decentralisation comes first and requires territorial adjustments; in other cases, territorial reform stimulates functional or financial decentralisation (Swianiewicz 2021).

## 2. Problems of local self-government in Ukraine and attempts to solve them

During the period of Ukraine’s independence, there were several attempts to carry out the administrative and territorial reform, and build an effective local self-government. For the first years of the Ukrainian state’s existence, the laws regulating the formation and functioning of local government changed. They sometimes established or abolished regional self-government, executive bodies of *oblast* and district councils, changed the status of their chairpeople, etc. (Panchenko 2011). A few years after the beginning of the formation of the domestic administrative system through the adoption of the Constitution of Ukraine and the current Law of Ukraine “On Local Self-Government in Ukraine” (1997), the question of administrative and territorial reform arose.

The Constitution of Ukraine (1996) states in its article 7 that “local self-government is recognised and guaranteed in Ukraine”. The most important for the functioning of the local self-government and self-governance of Ukraine are Chapters IX–XI, which are related to the territorial system, the autonomy of the Republic of Crimea, and local self-government. Local self-government was defined as “the right of a territorial community – residents of villages or voluntarily amalgamated into a rural community of residents of several villages, settlements or cities – to independently resolve matters of local importance, within the limits specified in the Constitution and laws of Ukraine” (Article 140).

According to the Law of Ukraine on Local Self-Government in Ukraine (1997), the local government system includes local legislative and executive bodies: councils of people’s deputies and executive committees at all three levels of administrative and territorial units, i.e. in *oblasts*, districts (equivalent to Polish *poviats*), and *gromadas* [equivalent to municipalities (Pol. *gminy*)]. In recent practice, local self-government executive bodies in Ukraine acted only at the lowest level and were not cited at that time in most small rural and urban *gromadas*. The local self-government of regions

and districts was limited only to the existence of elected councils. The local and regional state administrations, subordinated to the president of the state and appointed by a decree, constituted the executive body at the regional and subregional level. Due to the lack of executive bodies of local self-government, all decisions, including financial ones, were made by the state administration in this area. Formally, the councils controlled the activity of local state administrations, although the possibility of the councils expressing no confidence in them was quite difficult (due to the requirement of a qualified majority of 2/3 of council members).

Since the adoption of the Constitution of Ukraine and basic regulations, the development of local self-government has taken place only at the level of territorial communities of cities of regional importance, as the vast majority of territorial communities were unable to fulfil all local government powers due to their excessive fragmentation and extremely weak material and financial base.

In 1997, Ukraine ratified the European Charter of Local Self-Government of the Council of Europe, thereby committing itself to decentralise the state in line with the principle of subsidiarity, which states that each level of government should be responsible for tasks that cannot be performed by lower levels. In practice, however, those provisions have not been implemented for almost 20 years.

The period 1997–2004 saw the first attempts at administrative reforms in Ukraine, which were embodied in the concept of the administrative reform (1997) and the state regional policy (2001). Although they did not envisage significant changes at the local level, their discussions put forward proposals for establishing full-fledged *oblast* self-governments and developing financial autonomy for local self-governments.

The next attempt at the administrative-territorial reform in Ukraine took place immediately after the Orange Revolution in 2004. In addition to the redistribution of power relations, the developed amendments to the Constitution of Ukraine proposed to review the borders of most of the existing administrative-territorial units. The new model of public administration was to give more power on the ground, consolidating the grassroots, i.e. the community. However, these intentions were accompanied by growing social tensions in the society due to the administrative amalgamation of territorial units. After all, reducing the number of village councils by four or five times would lead – in the public opinion of that time – to a decrease in promising rural areas, where only the primary school and the head-person would remain. Although the authors of the reform emphasised that no village would disappear and that there would be a minimum set of services in each settlement, there were fears that this set of services in villages that lost the status of village councils under the administrative amalgamation would be smaller than they would be if communities were enlarged voluntarily, realising the benefits of such an amalgamation (Tarasenko 2013). Thus, the attempt to form a new administrative-territorial system, one designed at the central level without the participation of communities, was not realised.

At the same time, the discussion on the need to reform the local self-government in Ukraine has been going on for many years due to the accumulation of many problems related to the ineffective self-management mechanism, such as, coming in the form of, for example (Święcicki 2014):

- a very large fragmentation of local government units – at the basic level, i.e. *gromada*, there were approximately 12,000 councils before the local government reform; most of these units had several hundred inhabitants and there the councils were unable to perform public functions, so they were, *de facto*, implemented by the regional state administration;
- competence problems – competencies were written quite vaguely, e.g. that a territorial unit must deal with schools (however, when it came to applying the provisions in practice, it turned out that practically every level deals with schools, including the local state administration, which reports to the president of the state);
- the fact that councils of small towns and villages elected by the inhabitants did not have their executive apparatus (councils pass local law from time to time, but in most cases, drafts of these legal acts are prepared by the state administration, which also deals with their implementation);
- local self-government authorities not having their funds – each year the *oblasts* and districts had to negotiate their budget with the government, and the lowest-level self-government units had to negotiate with the districts;

- local governments often not having their communal property, but only property in use (therefore, they could not sell it or change its purpose).

To solve these problems, the reform of local self-government and the territorial organisation of power was introduced in Ukraine with the aim of improving the management of sustainable development in the territory.

### **3. Regulatory and legal support for the territorial and decentralisation reform in Ukraine**

As the biggest problem was considered to be the presence of more than tens of thousands of city, town, and village councils – unable to perform their own and delegated powers – the focus of the reform developers was on the issue of the consolidation of territorial communities that will be able to govern more effectively (Swianiewicz 2002). International research on the practice of uniting local communities in different countries of the world shows that the amalgamation of communities into more affluent ones is carried out to improve the quality of public services, enhance management efficiency, and promote participatory democracy (Ebinger et al. 2019, p. 3).

Among the challenges to the introduction of decentralisation in Ukraine during the period of 2014–2020 was the problem of the coherence between the expected and the established regulatory framework for reform. At the same time, it was envisaged to amend the Constitution of Ukraine in terms of the formation of executive bodies of regional and district councils, modelling of administrative-territorial units in the regions. However, in the face of challenges to territorial integrity, the Verkhovna Rada of Ukraine failed to adopt a decision on constitutional changes in the decentralisation of power (Shevchenko et al. 2019, p. 13). The political reality made its adjustments to the sequence of steps to implement the decentralisation of power. The key role in the development of the reform belonged to the Cabinet of Ministers of Ukraine and the Verkhovna Rada of Ukraine, which, since April 2014, has adopted more than ten important regulations in this area (see Figure 1).

The Sustainable Development Strategy “Ukraine 2020”, approved by the Presidential Decree of January 12, 2015, added decentralisation to the list of priority reforms necessary to ensure European living standards in the country. The goal of the decentralisation policy was to “move away from the centralised model of governance in the country, ensure the capacity of local self-government and build an effective system of territorial organisation of power in Ukraine, fully implement the European Charter of Local Self-Government, subsidiarity, universality, and financial self-sufficiency” (Presidential Decree No. 5/2015).

The concept of local self-government and territorial organisation reforming of power in Ukraine, <i>Cabinet of Ministers of Ukraine</i>	April 1, 2014		Law of Ukraine "On Cooperation of Territorial Communities", <i>Verkhovna Rada of Ukraine</i>
	June 17, 2014		
Action plan on the implementation of the Concept of local self-government and territorial organisation reforming of power in Ukraine, <i>Cabinet of Ministers of Ukraine</i>	June 18, 2014		Amendments to the Tax and Budget Codes, <i>Verkhovna Rada of Ukraine</i>
	December 28, 2014		
Sustainable Development Strategy "Ukraine 2020", <i>President of Ukraine</i>	January 12, 2015		Law of Ukraine "On Voluntary Amalgamation of Territorial Communities", <i>Verkhovna Rada of Ukraine</i>
	February 5, 2015	April 8, 2015	Amendments to some legislative acts of Ukraine on voluntary accession of territorial communities, <i>Verkhovna Rada of Ukraine</i>
Methodology of the formation of capable territorial communities, <i>Cabinet of Ministers of Ukraine</i>	February 9, 2017	April 3, 2018	Amendments to some legislative acts of Ukraine on voluntary accession of territorial communities, <i>Verkhovna Rada of Ukraine</i>
	June 12, 2020		Definition of administrative centres and approval of community territories, <i>Cabinet of Ministers of Ukraine</i>
Amendments to the voluntary amalgamation of territorial communities to cities of regional significance, <i>Verkhovna Rada of Ukraine</i>	June 12, 2020		Definition of administrative centres and approval of community territories, <i>Cabinet of Ministers of Ukraine</i>
	July 17, 2020		Resolution of the Verkhovna Rada of Ukraine "On the formation and liquidation of districts", <i>Verkhovna Rada of Ukraine</i>

Figure 1. Chronology of the adoption of basic regulations on the reform of local self-government and territorial organisation of power in Ukraine

Source: own elaboration.

The directions, mechanisms, and terms of formation of an effective local self-government and territorial organisation of power within the implementation of decentralisation were laid down in the “Concept of local self-government and territorial organisation reforming of power in Ukraine”, which was adopted by the Cabinet of Ministers of Ukraine on April 1, 2014.

According to the Action Plan for the implementation of the “Concept”, the reform priorities included the formation of approximately 1,500 self-sufficient territorial communities capable of stimulating local development and providing quality and affordable public services at the basic level of local self-governments. The implementation of the “Concept” provided for the creation of a legal basis for the voluntary amalgamation of territorial communities already in 2014.

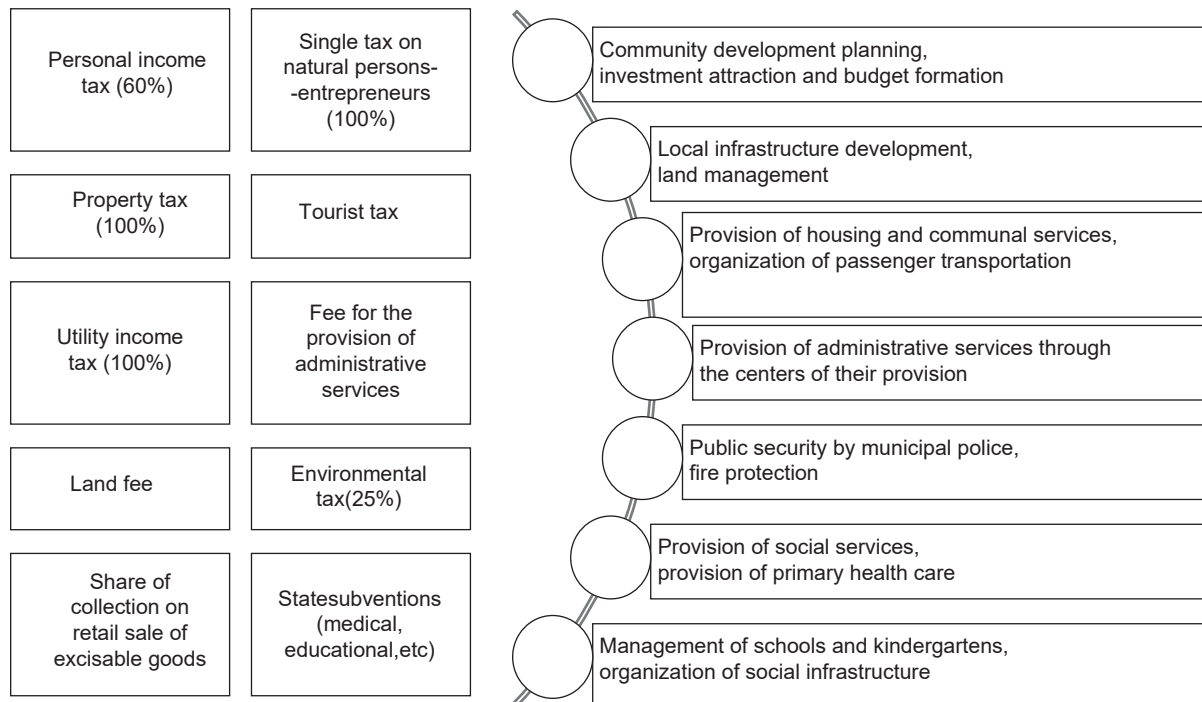
The first step in this direction was the adoption of the Law of Ukraine “On Cooperation of Territorial Communities” of June 17, 2014, which allowed communities to unite their efforts to solve common economic and other problems, as well as to implement joint development projects. Forms of inter-municipal cooperation included the implementation of joint projects, which involves: the coordination of the activities of the subjects of cooperation and their accumulation of resources for a certain time to jointly implement relevant measures; the joint financing (maintenance) by the subjects of cooperation of enterprises, institutions, and organisations of communal ownership; the formation of joint utilities, institutions, and organisations by the subjects of cooperation. An additional incentive for the cooperation of territorial communities was to be the support inter-municipal cooperation projects from the Regional Development State Fund. However, an interest of communities in inter-municipal cooperation at the beginning of the reform was low, in particular in 2014, when only two cooperation agreements were signed in the Khmelnytskyi *oblast* (MCTDU 2021).

The precondition for a real decentralisation was the adoption at the end of 2014 of many amendments to the Budget and Tax Codes, which enshrined financial decentralisation. Thus, incentives were introduced for the amalgamation of territorial communities, which:

- clearly defined the terms of approval of local budgets, regardless of the adoption of the state budget (until December 25, 2017);
- defined redistributive powers of public authorities and local governments following the principle of subsidiarity;
- assigned about 50 sources of income to local budgets and initiated incentives for communities' tax capacity;
- introduced a flexible system of horizontal equalisation of tax capacity of territories depending on the level of personal income tax revenues per capita (CMU 2017).

Along with this, the key moment in the formation of affluent communities was the adoption of the Law of Ukraine “On Voluntary Amalgamation of Territorial Communities” (2015) and the “Methodology of formation of capable territorial communities” (2015), approved by the Cabinet of Ministers of Ukraine. The law gave the amalgamated territorial communities (ATCs) the same powers as cities of regional significance enjoy; normalised direct inter-budgetary relations of the ATCs with the State budget; provided financial support for the ATCs (the total amount of special state support is distributed between ATCs' budgets in proportion to their area and population), etc. According to this law, the process of voluntary amalgamation of communities must take into account historical, cultural, and ethnic factors, and the quality and accessibility of public services provided in ATCs cannot be worse than before the consolidation. The methodology of forming capable territorial communities regulated the requirements for long-term plans for the formation of community territories in each *oblast* as well as defined the criteria for potential administrative centres of the ATCs.

In conjunction with the financial encouragement of the processes of voluntary amalgamation of communities, the expansion of the powers of the local self-government of amalgamated communities has created a legal basis for forming a rational balance between ATCs' powers and financial resources to ensure them (see Figure 2).



**Figure 2.** Comparison of the main sources of financial income and the list of own powers of the amalgamated territorial community

Source: own elaboration.

An additional stimulus in increasing the pace of formation of affluent communities was the legal support for the voluntary accession of territorial communities to the already formed ATCs. This became possible owing to the Law of Ukraine “On Amendments to Certain Legislative Acts of Ukraine on Voluntary Accession of Territorial Communities” of February 9, 2017. According to the simplified procedure, the law provides the right to join the ATC to those communities that have the appropriate common border and belong to this consolidation in line with the long-term plan for the formation of the territories of the communities of the region. According to the law, the head of the ATC which is joined by a neighbouring community is not re-elected, and elections of the ATC’s council deputies are held only in the annexed territory.

Within a year, the accession mechanism was applied to cities of regional importance, i.e. key centres of economic activity. Thus, on April 3, 2018, legislative changes were adopted in terms of voluntary accession of territorial communities of villages/settlements to territorial communities of cities of regional significance (Law of Ukraine “On Amendments to the Law of Ukraine “On Voluntary Amalgamation of Territorial Communities” Concerning Voluntary Accession of Territorial Communities of Villages, Settlements to Territorial Communities of Cities of Republican and Regional Significance”). This law provided a simplified opportunity to unite the respective communities on the grounds of the annexation of territories, which does not require re-elections of the respective mayor and the relevant city council.

With the next local elections approaching (October 25, 2020), which were provided by the Constitution of Ukraine, the Government completed the formation of the ATCs in the state (except for the occupied territories), approving the administrative-territorial structure of the basic level. This has led to a transition from voluntary amalgamation to decision-making at the central level. In turn, on July 17, 2020, the Verkhovna Rada of Ukraine adopted the Resolution of the Verkhovna Rada of Ukraine “On the formation and liquidation of districts” to reorganise the district (subregional) level of administrative-territorial organisation of the state. The formation of new and the liquidation of the existing districts has ensured the compliance of the system of administrative-territorial organisation of the district level of Ukraine with modern requirements and European standards, which will help determine a reasonable territorial basis for the executive and relevant local governments.



#### 4. The process of territorial communities' amalgamation in Ukraine since 2014

The Law of Ukraine "On Voluntary Amalgamation of Territorial Communities" provided for several successive stages of the process of amalgamation of territorial communities and defined the time frame of these stages. It should be noted that by Article 4 of this Law, the voluntary amalgamation of territorial communities of villages, settlements, and cities was carried out in compliance with the following conditions:

- 1) within the amalgamated territorial community there can be no other territorial community which has its own representative body of local self-government;
- 2) the territory of the amalgamated territorial community must be inseparable and the boundaries of the ATC are determined by the external boundaries of the jurisdiction of the councils of the ATC;
- 3) the amalgamated territorial community must be located within the territory of the Autonomous Republic of Crimea, one *oblast*;
- 4) historical, natural, ethnic, cultural, and other factors influencing the socio-economic development of the amalgamated territorial community are taken into account when making decisions on the voluntary amalgamation of territorial communities;
- 5) the quality and availability of public services provided in the amalgamated territorial community may not be lower than before the amalgamation.

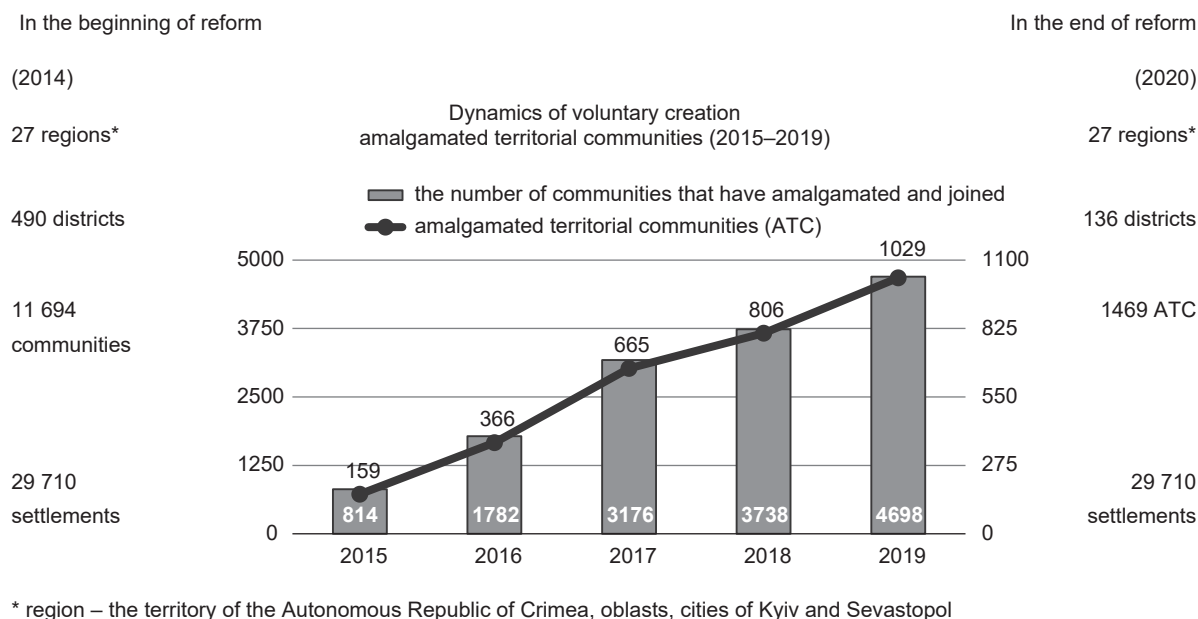
The administrative centre of the ATC was defined as a settlement (village, city), which has a developed infrastructure and, as a rule, is located closest to the geographical centre of the territory of the ATC.

The whole process of the voluntary amalgamation of territorial communities can be divided into two parts: (1) preparatory actions – i.e. the initiation of the amalgamation, the study of the proposal to initiate the amalgamation and its public discussion, consideration of the proposal to unite at a session of the council (initiator), the amalgamation of adjacent territorial communities, public discussion and consideration of the proposal to unite at the session of the council of the adjacent territorial community; and (2) the procedure of voluntary amalgamation of territorial communities – i.e. formation of a joint working group; preparation and approval of the draft decision on the voluntary amalgamation by all territorial councils sending a draft decision on the amalgamation of territorial communities to the regional state administration to provide an opinion on its compliance with the Constitution and laws of Ukraine.

Figure 3 presents the results of changes in the administrative-territorial system as a result of the reform of the territorial organisation of power in Ukraine in 2014–2020.

The process of voluntary amalgamation of UTCs in Ukraine can be considered dynamic: 1029 UTCs were formed in 2015–2019. They amalgamated 4698 territorial communities, which was 42.9% of the total number of basic level councils as of January 1, 2015. In 2020, the territory of the formed UTCs was 44.2%, while almost 70% of the population lived in UTCs and cities of regional significance. The average number of territorial communities that voluntarily amalgamated into one UTC was 4.6, and the average population of one UTC was 10,284 (MCTDU 2020a).

However, the principle of voluntariness did not allow a rapid change and led to a delay in this process, and, as a consequence, the incitement of a certain frustration in the society. Since the beginning of the reform, the key obstacle to an effective decentralisation has been the low activity of citizens and their unwillingness to take responsibility and make decisions. This created an opportunity to manage the process of decentralisation 'from above', i.e. the district and *oblast* leadership, which often pursued the goal of not rushing to unite. At the same time, the process of implementing the reform involved the risk of socio-economic differentiation into wealthier and poorer communities. It intensified with the flow of resources to the newly amalgamated communities, leaving behind those communities that delayed amalgamation (International Alert 2017, p. 12).



**Figure 3.** Changes in the administrative-territorial structure in Ukraine in 2014–2020

Source: own study based on Ostapenko et al. 2020, MCTDU 2020a.

Following the implementation of the reform, the Government of Ukraine still decided to forcibly complete the administrative-territorial reform. However, it was not possible to create ATCs throughout the country voluntarily within 4 years. Therefore, in June 2020, the Government decided to complete the process of community amalgamation by administratively forming 1,469 ATCs, including those already established. This was also dictated by the holding of regular local elections throughout Ukraine in October 2020. At the same time, the issue of reforming the subregional level of public administration arose. After preliminary consultations, the Verkhovna Rada of Ukraine decided to establish 136 districts, as opposed to 490 districts that had functioned before the reform. However, at the beginning of 2021, the range of powers that should be vested in public authorities at the district level remains unclear, given the new decentralised system of public administration. The discussion on the establishment of the institute of prefects at the district level continues, outlining their powers to ensure the legitimacy of the activities of local governments to prefects (Makarova and Duda 2017, p. 17). In particular, there is a separate supervision of local government decision-making and responses in case of violations of the Constitution and laws of Ukraine in the form of warnings, court appeals, and the cancellation of illegal acts.

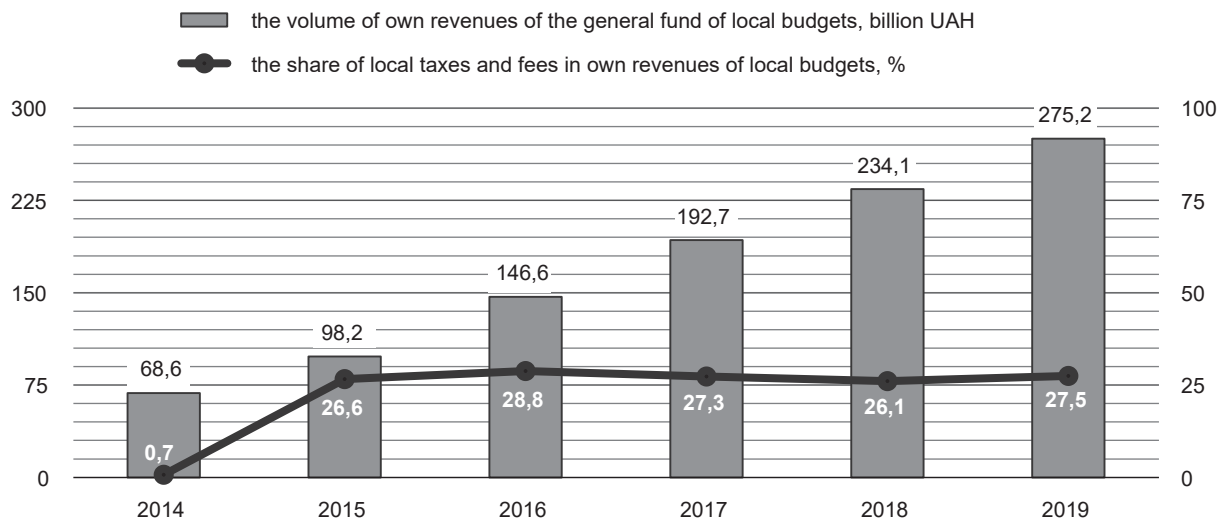
The reform of local self-government and territorial organisation of power in Ukraine took place without their enshrinement in the state constitution. The adoption of the draft law amending the Constitution of Ukraine on the decentralisation of power, which had previously been approved by the Verkhovna Rada on August 31, 2015 (Draft Law of Ukraine... 2015), blocks an item not directly related to the reform on the specifics of local self-government in some districts of Donetsk and the Luhansk *oblasts*. The formation of a system of public administration at the district level requires amendments to the Constitution of Ukraine, which is why this process will be practically difficult to implement in the future.

### 5. The results of the financial decentralisation implementation and related problems

In the process of the voluntary amalgamation of territorial communities, the issue of financial support for the implementation of the new powers of local governments was fundamental. At the beginning of the reform, the map of self-sufficient territorial communities in the state was presented in the form of long-term plans for the formation of community territories in terms of regions. In the

case of formation of UTCs by such long-term plans, the Cabinet of Ministers of Ukraine recognised the relevant communities as capable, as required by law. As a result, UTCs gained expanded powers to provide public services, direct inter-budgetary relations with the state budget, as well as received several subventions and subsidies (including those granted due to the horizontal equalisation of tax capacity).

The financial decentralisation in the period of 2014–2019 showed an increase in own revenues of the general fund of local budgets by more than 4 times, while the share of local taxes and fees in own revenues of local budgets increased from 0.7% (2014) to 27.5% (2019) (see Figure 4).



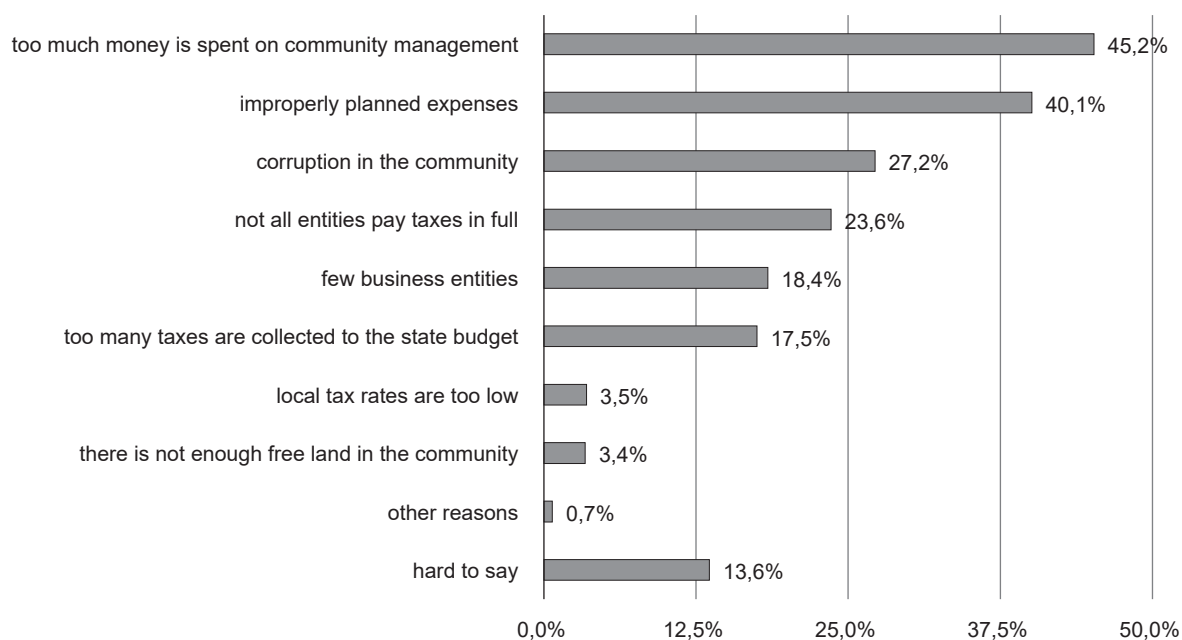
**Figure 4.** The dynamics of growth of own revenues of the general fund of local budgets in 2014–2019

Source: MCTDU 2020b.

An important aspect of stimulating the development of UTCs in Ukraine is the state's support for their development. The following forms should be included here: funds to support sectoral regional policy, subsidies for the development of rural healthcare, funds for the construction of football fields, subsidies for infrastructure and social and economic development, the State Regional Development Fund.

In 2019, when compared to 2014, state financial support for the development of territorial clusters and the expansion of their infrastructure increased by 41.5 times (to 20.75 billion UAH) (MCTDU 2020b). The most important subsidies from the state budget are those for education and health protection, and these are not negotiated. The algorithms used to calculate them are quite complicated, but since they are constant and precise, no territorial cluster negotiates their amounts every year. An important element of these solutions is the principle that if a cluster saves on expenses in a given year, it does not reduce subsidies in the next year. This assumption aims to stimulate local authorities to organise the school network, as it is mostly a remnant of the Soviet era.

ATCs faced many problems, including the unsatisfactory state of social infrastructure; the need to repair and restore roads in settlements; the wear and tear of heat, sewage, water supply networks, and housing, etc. Solution of these challenges requires significant financial resources and time. The actual capacity of the formed ATCs demonstrates the financial problems that became even clearer after the reform. The reasons for the lack of budget funds to address pressing local issues was researched by the all-Ukrainian sociological survey among the population of Ukraine, conducted by the Centre for Social Indicators in August–September 2020, commissioned by the Council of Europe Decentralisation and Local Government Reform in Ukraine in cooperation and coordination with experts of the Council of Europe, experts on local self-government, and the Ministry of Development of Communities and Territories of Ukraine (see Figure 5).



**Figure 5.** Reasons for lack of budget funds to solve urgent local problems<sup>1</sup>

Source: CSI 2020, p. 71.

Most Ukrainians consider excessive community management costs (45%) and improperly planned expenditures (40%) to be the main reasons for the lack of funds. Another 27% of the respondents recognise corruption in the community, 24% – that not all businesses pay taxes in full. 18% of the respondents are of the opinion that there are simply few business entities in the community and that too many taxes are collected in the state budget of Ukraine (CSI 2020). Thus, the low level of professionalism of local government officials, corruption at the local level, the shadow economy, and low business activity are the factors that will hamper the development of territories, despite the success of the local government reform and territorial organisation in Ukraine.

ATCs face the problems of the degradation of local territories, caused by the decline of local economies, low living standards and social capital, social exclusion, the migration of economically active population, unsatisfactory state of the environment, and more. These territories need a revitalisation policy as a set of targeted measures in the following dimensions: (1) *spatial* (a change of urban order, infrastructure development); (2) *economic* (business development, the cessation of inefficient economic activity); (3) *social* (the improvement of living and working conditions, the development of social capital); (4) *cultural* (the formation of an urban identity, support for historical and cultural heritage); (5) *ecological* (environmental protection and rational use of natural resources). Each of these dimensions has its own specifics and orientation, but only their combination can be a basis for a strategic vision of the ATCs' recovery from the crisis.

## Concluding remarks

The unsatisfactory ability of the vast majority of local governments among the approximately 11,000 local councils that existed before 2014 to exercise their powers (own and delegated) at the appropriate level necessitated the reform of local self-government and territorial organisation in Ukraine. The reform aimed to ensure the proper capacity of local communities to provide high-quality and affordable public services, in particular in the fields of education, culture, health, social protection, housing, communal services, etc. The increase in managerial efficiency was due to the

<sup>1</sup> A response to the question "Despite the increase in local budget revenues in the community (your village / town / city), there are often not enough funds to address many urgent local needs. What is the reason for this situation? Choose up to 3 answers" (% among all respondents, n = 2000). In the course of the research, the socio-political moods of adult residents of Ukraine (aged 18 and older) were studied through a survey.

amalgamation of territorial communities, in which local sources of budget, infrastructure, and human resources should be sufficient for local governments to decide on local issues in the interests of local communities.

The analysis of the results of the introduction of the administrative and financial decentralisation in Ukraine in 2014–2020 shows on the one hand the authority of local governments of large territorial communities to provide a wide range of public services, and on the other – an increase in revenues and fiscal autonomy of local governments, increasing public financial support, and the redistribution of taxes in favour of the lowest level of public administration.

For instance, ATCs gained expanded powers to provide public services, direct inter-budgetary relations with the state budget, several subventions, and subsidies (including due to the horizontal equalisation of tax capacity). Financial decentralisation in 2014–2019 showed an increase in own revenues of the general fund of local budgets by more than 4 times.

The reform of the administrative-territorial system took place through the voluntary amalgamation of territorial communities at the initial stage. The amalgamated territorial communities were designed taking into account the indicators of their financial capacity in accordance with the new model of interaction between the state and the community. However, the amalgamation of territorial communities could not be completed on a voluntary basis.

In 2019, preparatory work was carried out to complete the process of uniting communities before the next local elections in October 2020. The idea of the need to move from voluntary to forced creation of ATCs was also strengthened. Due to this factor, certain territorial communities tried to exercise their right by initiating the formation of ATCs, which had low levels of capacity to solve problems of local importance and provide high-quality public services. According to opinion polls, the main reasons for the lack of funds in the community involved too high costs of community management, improperly planned expenditures, corruption in the community, the fact that not all businesses pay taxes in full, etc.

The local elections in October 2020 were held on a new territorial basis, which included 1,469 ATCs (elections were not held in 31 communities located in the uncontrolled territory within the Donetsk and Luhansk regions). Thus, in 5 years, Ukraine has managed to complete the reform of the territorial organisation of power at the basic level, as well as to ensure a certain level of financial independence for local governments. At the same time, the amalgamation of districts – i.e. 136 districts as opposed to 490 districts – requires further and clearer regulation of the range of entities, powers, and financial sources of activities that will characterise this level of public administration. Also, the reform of local self-government remains unfinished in terms of establishing prefect institutions, adopting new versions of laws on local self-government, civil service of municipal bodies, etc., as well as amending decentralisation to the Constitution of Ukraine.

The method of the decentralisation of power chosen in Ukraine brings the state closer to the European Union by introducing the principles of subsidiarity and promoting local democracy. This reform of administrative-territorial decentralisation can serve as an example for post-Soviet and other countries seeking to build effective governance at the grassroots level.

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