

# Fiscal Decentralization in Ukraine: Is It Run Smoothly?



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The governance system at the local level in Ukraine for many years has had built-in conflict as it does not clearly define the responsibilities of elected local authorities and the local administrations, which are a part of the executive branch of power. The local government entities traditionally had little impact on their financing – both in regard to revenue and expenditures. Such a situation failed to create any real incentives for local authorities to be efficient and improve their performance.

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THE DECENTRALIZATION REFORM LAUNCHED IN 2014 AIMS AT INCREASING THE FINANCIAL AUTONOMY OF LOCAL GOVERNMENT ENTITIES PROVIDING MORE FINANCING, AS WELL AS MORE POWERS TO THE LOCAL LEVEL

The decentralization reform launched in 2014 aims at increasing the financial autonomy of local government entities providing more financing, as well as more powers to the local level. In Ukraine, decentralization in no way means federalization. By now, it basically combined two major pillars.

The first relates to **fiscal decentralization**, according to which the local authorities received more taxes, but with more responsibilities. The second refers to the **administrative issues of decentralization**, including the organization of amalgamated territorial communities. The latter, however, is not possible without the former. Through decentralization, local entities receive powers to carry out governance, healthcare, education, regional development, roads maintenance, etc. Overall, the decentralization reform is listed among one of the biggest successes of Ukraine's reforms in the last four years.

#### THE BACKGROUND OF THE REFORM

Between 1991 and 2014<sup>1</sup>, the Ukrainian government did little towards strengthening the regions. Most decisions were taken at the central level, whereas local governments were fiscally dependent on the central budget.

Moreover, local government entities were (and still are) represented by local self-governance with little powers<sup>2</sup>, while their executive branches (local administrations) are *de facto* the territorial subdivisions of the central government<sup>3</sup>.

About 60% of local revenues were received in the form of central fiscal transfers, while the share of tax revenues declined from 62% in 2001 to 30% in 2015<sup>4</sup>. Moreover, tax rev-

<sup>1</sup> Ukraine gained its independence in 1991.

<sup>2</sup> Local self-governance is conducted either directly, by local communities, or indirectly, by elected local councils (village, town, city, rayon, and oblast councils), which are formed primarily by elected local deputies and mayors. See <http://zakon0.rada.gov.ua/laws/show/280/97-%D0%B2%D1%80>.

<sup>3</sup> The heads of local administrations are appointed by the President of Ukraine on the submission of the Cabinet of Ministers. See <http://zakon2.rada.gov.ua/laws/show/586-14>.

<sup>4</sup> Such changes were partially explained by legal amendments, but also by low efficiency of local taxes. For details see OECD (2018) *Maintaining the Momentum of Decentralization in Ukraine*, OECD Multi-level Governance Studies.

venues were primarily comprised of shared taxes (personal income tax, excise, and environmental tax). Own local tax revenues are generated by use charges, administrative fees, revenues from assets, land tax, and property tax, among others.

As the administrative territorial reform was not introduced during the years of independence, in 2014, Ukraine was comprised of 24 oblasts and Autonomous Republic of Crimea, which were at the time divided into 490 rayons (districts). More than 11,000 communities (villages and towns) existed, while only about 1,000 local government entities received direct central fiscal transfers as the rest did not receive direct central fiscal transfers but received them indirectly through rayons' budgets. Several levels of transfer provisions and numerous key expenditure units resulted in high fiscal non-transparency as well as inefficiencies, which also reduced fiscal sustainability. Territorial disparities were high with little possibility of local government to impact the situation.

### THE AIM OF THE DECENTRALIZATION REFORM IN UKRAINE

After the Euromaidan revolution in 2014, the new government identified decentralization as one of its top priorities. The decentralization reform was launched with several important decisions taken by the government very fast.

First, in April 2014, the government adopted the Concept of the Reform of Local Self-Government and the Territorial Organization of Power,<sup>5</sup> which was followed by the approved Action Plan for its implementation. These documents envisaged the implementation of the broad-based decentralization

<sup>5</sup> The Resolution of the Cabinet of Ministry, N°333-p from April 1, 2014. Available [online]: <http://zakon5.rada.gov.ua/laws/show/333-2014-%D1%80>



## AFTER THE EUROMAIDAN REVOLUTION IN 2014, THE NEW GOVERNMENT IDENTIFIED DECENTRALIZATION AS ONE OF ITS TOP PRIORITIES

aimed at strengthening the development of Ukraine and improving the well-being of the population.

Later, the decentralization and the reform of state governance were defined among the Top-5 priorities of the Strategy "Ukraine-2020", which was approved by President Petro Poroshenko in 2015. The Government Action Plan until 2020 (adopted in 2016) also lists decentralization reform among the priorities. These two strategic documents define the decentralization as the fiscal decentralization. Meanwhile, the Association Agenda between Ukraine and the European Union (EU) focused primarily on the issue of the decentralization of power.

According to the Concept of the Reform of Local Self-Government and the Territorial Organization of Power, the major tasks of the decentralization reform included ensuring:

- the access to quality public services;
- optimal division of powers between local and central executive bodies;
- justification of territorial basis for activity of local self-governance and local administrations to ensure access to quality public services provided by them;

- creation of appropriate material, financial, and organizational conditions to ensure the implementation of own and delegated functions by local self-government bodies.

The decentralization is to be based on the transfer of powers (responsibilities) from the center to the lowest possible local level, the respective shift of financing resources, and supervision of local government entities by the central government.

According to the Concept of the Reform of Local Self-Government and the Territorial Organization of Power, the decentralization was planned to start with amendments to the Constitution, according to which the reform of powers of local councils and local administrations were to be streamlined. However, since the approval of amendments appeared politically unfeasible<sup>6</sup>, the reform has started on the basis of the old Constitution. Yet, the Parliament still approved the amendments to the Budget Code and the Tax Code, which changed the tax distribution between local and central governments. Furthermore, all essential legislation was approved for the implementation of the decentralization reform – including the mergers of territories, regional government policies, and provision of administrative services at local level.

The decentralization envisages the creation of administrative service centers at local government entities to enable the provision of most services locally. As of June 2018, 756 Administrative service centers have already been created (452 of them by rayon state administrations), which is a substantial progress in the fulfillment of the task of better access to administrative services for the population.

<sup>6</sup> Jarábik, B. and Y. Yesmukhanova (2017) *Ukraine's Slow Struggle for Decentralization*. Available [online]: <https://carnegieendowment.org/2017/03/08/ukraine-s-slow-struggle-for-decentralization-pub-68219>

### THE AMALGAMATED TERRITORIAL COMMUNITIES AS A CORNER STONE FOR FISCAL STRENGTHENING

One of the key steps within the decentralization reform are the voluntary municipal mergers, which started in 2015. The formation of capable basic level of local self-government was based on the Law on "Voluntary Amalgamation of Territorial Communities"<sup>7</sup>. It is aimed at the concentration of human capital, infrastructure, and land resource at a local level, which would strengthen communities. The capable community will then be able to provide quality public services (including education and healthcare) to the population.



## THE COMMUNITIES ARE STIMULATED TO MERGE THROUGH THE FINANCIAL STIMULUS. IF THEY DO MERGE, THEY RECEIVE HIGHER REVENUES

"Amalgamated hromada<sup>8</sup> is the unification of several settlements with a single administrative center. Any amalgamated hromada (community) with a city as an administrative center is an urban hromada, any amalgamated hromada with an urban-type settlement as an administrative center is a settlement

<sup>7</sup> Law 333-2014 from April 1, 2014. Available [online]: <http://zakon5.rada.gov.ua/laws/show/333-2014-%D1%80>

<sup>8</sup> Hromada is an amalgamated territorial community.

hromada, and any amalgamated hromada with a village as an administrative center is a rural hromada". (<http://decentralization.gov.ua><sup>9</sup>)

The Law also introduced the institution of a starosta<sup>10</sup> in the amalgamated territorial communities, who is to represent the interests of rural residents in community council<sup>11</sup>.

According to the Ministry of Regional Development, Construction, Housing, and Communal Services of Ukraine (hereinafter referred to as the Ministry of Regional Development), as of June 11, 2018, 743 amalgamated territorial communities were formed by 3,443 communities with 6.4 mn residents (the number of residents in communities increased by about 5 times to about 8,400 per an amalgamated community)<sup>12</sup>. If such trends continue, the number of communities is likely to decline from about 11,000 to around 2,400 communities<sup>13</sup>.

<sup>9</sup> [decentralization.gov.ua](http://decentralization.gov.ua) is a special official web-portal devoted to the issues of decentralization reform. It contains the information on the design of the reform, monitoring of its implementation as well as information on the assistance of international donors in the implementation of the reform.

<sup>10</sup> *Starosta* is a local self-government official in villages forming part of an amalgamated territorial community (hromada). A village head is voted during elections and declared by the decision of the amalgamated community's council.

<sup>11</sup> As of June 11, 2018, 653 starostas have been elected and more than 1.8 thousand individuals are acting starostas.

<sup>12</sup> Ministry of Regional Development, Construction, Housing and Communal Services of Ukraine (2018) *Monitoring of the Process of Decentralization of Power and Local Self-Government Reform as of 11 June 2018*. Available [online]: <http://decentralization.gov.ua>

<sup>13</sup> This is somewhat more than primarily expected 1,500 communities after the reform. See Carnegie Endowment's (2015) *Ukraine Reform Monitor*. Available [online]: <http://carnegieendowment.org/2015/10/05/ukraine-reform-monitor-october-2015/iik7>). Still, this might change if some of the remaining communities join already created amalgamated territorial communities.

The communities are stimulated to merge through the financial stimulus<sup>14</sup>. If they do merge, they receive higher revenues: in 2016, total budgets of communities that amalgamated in 2015 increased by 49%<sup>15</sup>, while in 2017, own revenues of 377 active amalgamated communities more than doubled. Moreover, such amalgamated communities become direct recipients of the central fiscal transfers – including healthcare, education, and infrastructural subventions (earmarked transfers from the central budgets).

Still, the evidence indicates that some communities lack fiscal sustainability. One of the reasons for this is that not all of them were created in accordance with the regional development strategies (in some oblasts such strategies were not approved)<sup>16</sup>. As a result, some of the amalgamated communities are too small to cope with their new responsibilities<sup>17</sup>.

The data indicates that the amalgamated territorial communities spent increasing revenues for financing primarily social and other infrastructure. Overall, education, healthcare, administrative services, roads, lighting, water, waste, landscaping, and safety currently belong to the competence of amalgamated territorial communities. The amalgamated territorial communities received more responsibilities in the area of architectural

<sup>14</sup> The survey, conducted by the Center of Democratic Initiatives in 2016, showed that heads of local government entities became more interested in merging with other communities after they saw the additional financing received by first amalgamated communities. This also reduced the skepticism about the amalgamation among representatives of civil society.

<sup>15</sup> <http://despro.org.ua/despro/Local%20Budgets%20of%20ACs.pdf>

<sup>16</sup> Ukrainian Center for Independent Political Research (2017) *Decentralisation in Ukraine: Achievements, Expectations, and Concerns*, August.

<sup>17</sup> OECD (2018) *Maintaining the Momentum of Decentralization in Ukraine*, IECD Multi-level Governance Studies.



## EDUCATION, HEALTHCARE, ADMINISTRATIVE SERVICES, ROADS, LIGHTING, WATER, WASTE, LANDSCAPING, AND SAFETY CURRENTLY BELONG TO THE COMPETENCE OF AMALGAMATED TERRITORIAL COMMUNITIES

and construction supervision and inspections, which is expected to simplify the construction procedures. The communities also received more powers in the management of land resources. However, the evidence shows that some communities lack managerial competences<sup>18</sup> and technical capacities. This is true especially for rural communities.

It was evident that some amalgamated territorial communities are more capable than others in dealing with new challenges and, thus, were expected to be more successful in using additional financing and new powers. To ensure knowledge sharing, the Law on "Cooperation of Territorial Communities"<sup>19</sup> defined the mechanism of dealing with

<sup>18</sup> Ukraine's Slow Struggle for Decentralization. Available [online]: <https://carnegieendowment.org/2017/03/08/ukraine-s-slow-struggle-for-decentralization-pub-68219>

<sup>19</sup> The Law of Ukraine, №1508-18 from June 17, 2014, <http://zakon3.rada.gov.ua/laws/show/1508-18>

common problems faced by communities. According to the Ministry of Regional Development, since the beginning of July 2018, 199 cooperation agreements have already been implemented and 861 communities have taken advantage of this mechanism<sup>20</sup>. Such activities relate primarily to such issues as waste management and recycling or development of joint infrastructure.

### FISCAL DECENTRALIZATION PATH

In the end of 2014, the government introduced steps for fiscal decentralization, which were aimed to increase the financing capacity of local government entities. Tax-sharing arrangements were changed, while the list of local taxes was modified (some were abolished, while others were created). Local governments' taxing power was extended, as they have received bigger freedom in setting tax rates and envisaging exemptions (even though the maximum rates have been capped).

Key taxes that fill local budgets (cities of oblast importance, rayons, and the amalgamated territorial communities) currently amount to:

- 60% of **personal income tax**, part of the excise tax (important source of revenues in 2015-2017)<sup>21</sup>;
- 100% of **unified tax** paid by the taxpayers under the simplified taxation system, and;
- 100% of **property tax** (property, land)<sup>22</sup>.

According to the official estimate, in 2018, these four taxes will account for 94.9% of total tax revenues of local budgets. As previously, tax revenues of local budgets are primarily comprised of shared taxes (personal income

<sup>20</sup> <https://decentralization.gov.ua/en/about>

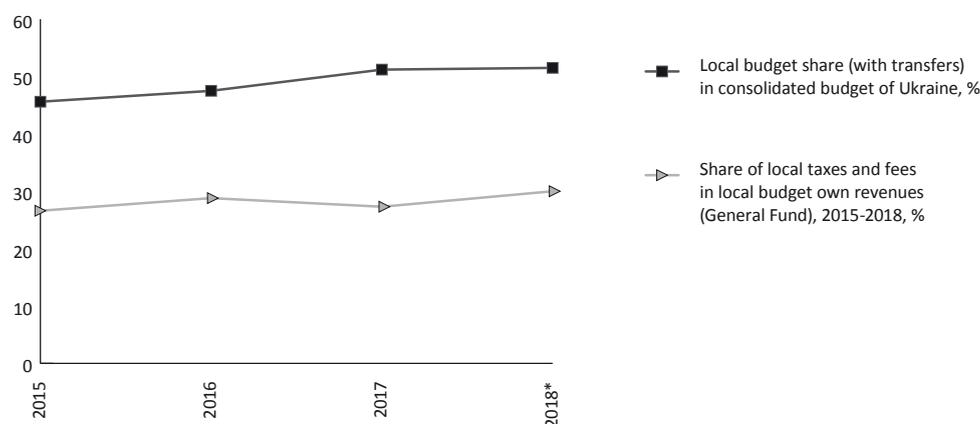
<sup>21</sup> First, since 2015, the local budgets received excise on retail sales with the rate of 2–5%. In 2018, local budgets receive part of the domestic excise tax, excise of fuel, and part of the excise on retail sales.

<sup>22</sup> The Budget Code of Ukraine. Available [online]: <http://zakon0.rada.gov.ua/laws/show/2456-17/conv/print1533816078654981>

tax and excise account for 69.2% of total tax revenues of local budgets<sup>23</sup>), while own local tax revenues remain low. In particular, the revenues from property tax, which is perceived to be inefficient, remained low as some of the local government entities impose a zero percent rate for the tax. Still, local budgets received more powers in spending revenues from shared central taxes, which became a benefit of the reform.

In particular, oblasts and rayon administrations are still comprised of “deconcentrated and decentralized entities” and, thus, part of their budgets should be classified rather as “central government sector” according to the OECD methodology<sup>25</sup>. In any case, the increase in the shares of local budgets and local taxes still indicate the strengthening of financial capacities of local budgets over recent years.

Figure 2: The Local budgets in 2015-2018



Note: \* 2018 – official estimate

Source: The Ministry of Regional Development<sup>26</sup>

Local budget own revenues (general fund) gradually increased from 5.1% of GDP in 2014 to 6.7% of GDP in 2017 and are expected to grow further to 7.1% of GDP in 2018<sup>24</sup>. The share of local taxes and fees in local budget own revenues (general fund) increased over the last three years [See Figure 2]. Still, these numbers should be taken with caution while being comparing to other countries.

Furthermore, since 2015, the government has changed the policies in relation to transfers provided from central to local budgets. Before 2015, the government covered 100% of the fiscal gap, which did not stimulate local government entities to become more efficient. In turn, the revenues surplus of well performing local entities

<sup>23</sup> The State Treasury Report on the Budget execution for 6 months of 2018.

<sup>24</sup> Ministry of Regional Development, Construction, Housing and Communal Services of Ukraine (2018) *Monitoring of the Process of Decentralization of Power and Local Self-Government Reform as of 11 June 2018*. Available [online]: <http://decentralization.gov.ua>

<sup>25</sup> OECD (2018) *Maintaining the Momentum of Decentralization in Ukraine*, IECD Multi-level Governance Studies.

<sup>26</sup> Ministry of Regional Development, Construction, Housing and Communal Services of Ukraine (2018) *Monitoring of the Process of Decentralization of Power and Local Self-Government Reform as of 11 June 2018*. Available [online]: <http://decentralization.gov.ua>



## IN 2017, THE LOCAL GOVERNMENT ENTITIES RECEIVED MORE FINANCING RESPONSIBILITIES

was withdrawn to the central budget. After the change, the government covers only 80% of possible fiscal gap, while well performing entities transfer to the central budget not the full amount of revenue surplus, but 50% of its size. The financing of healthcare and education was transferred to the rayon level and level of cities of oblast importance and is provided in the form of formula-based direct subventions (earmarked central budget grants). The amalgamated communities are direct recipients of these subventions.

The evidence suggests that in 2015-2016, local budgets spent additional revenues primarily for road construction. This was explained by the delay in the shift of powers to local government entities (which were not amalgamated). However, in 2017, the local government entities received more financing responsibilities. In particular, they became responsible for financing utility services (including heating) of health and education facilities, as well as payment of wages to non-pedagogical staff of secondary schools. The cities of oblast importance became responsible for financing vocational education schools. The provision of some privileges was also shifted to the local level.

The gap in time between the increased resources and transferred financing responsibilities might be considered as a drawback in the reform path. The local government

entities that increased their development budgets in 2015-2016 had to reduce them in 2017 with a risk of underfinancing already started projects.

Still, the evidence indicates that not all local governments can spend received resources effectively. In particular, some local governments keep part of the available financing at the Treasury or on banking deposits<sup>27</sup> instead of using them on the development (since 2015 local governments can keep unspent funds, while prior to that they had to return them to the central budget).

### STATE SUPPORT OF REGIONAL DEVELOPMENT

- The decentralization and regional development were stimulated by the approved State Strategy of Regional Development of Ukraine until 2020<sup>28</sup>. The Strategy defined three aims of its implementation:
- increased regional competitiveness;
- territorial, social and economic integration;
- effective state management in the area of regional development.

In the framework of the implementation of the Strategy, the Law on the “Fundamentals of State Regional Policy” was introduced<sup>29</sup>. According to the Ministry of Regional Development, it resulted in a sharp increase in state support of regional development [See Figure 1]. Overall, it partially reflects the reduction in the support in the form of equalization transfers in fa-

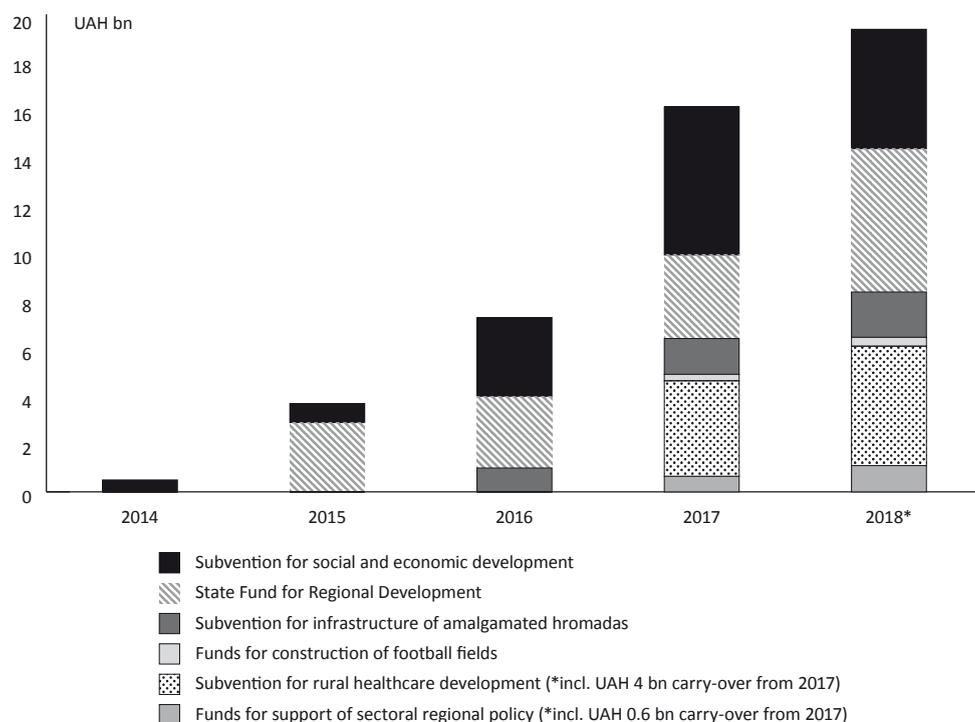
<sup>27</sup> Financial and Economic Analysis Office at the Verkhovna Rada of Ukraine (2018) *Local Budgets' Deposits as of July 1, 2018* (inforeference). Available [online]: <https://feao.org.ua/products/local-budgets-deposits-july-1-2018/?lang=en>

<sup>28</sup> Постанова КМУ (2014) Державна стратегія регіонального розвитку України (ДСРР) на період до 2020 року», №385 від 6 серпня 2014 р. Available [online]: <http://zakon2.rada.gov.ua/laws/show/385-2014-n/paran11#n11>

<sup>29</sup> Закон (2018) №157-19 від 5 травня 2018 року. Available [online]: <http://zakon1.rada.gov.ua/laws/show/157-19>



Figure 1: State Support of Regional Development



Note: \* 2018 – official estimate

Source: The Ministry of Regional Development<sup>30</sup>

vor of support through more transparent earmarked grants. The grants of the State Fund of Regional Development (SFRD) are distributed on a competitive basis.

Overall, the financing of the SFRD should be envisaged at 1% of forecasted central budget revenues (general fund), and the government envisages financing for the SFRD close to the benchmark when it is to be submitted to the Draft State Budget Law for the next fiscal year to the parliament. However, during the voting for the Budget in the parlia-

ment, people's deputies typically redistribute part of funds allocated for the SFRD in favor of non-transparent and inefficient social and economic subvention to regions<sup>31</sup>.

In 2018, the local governments are also expected to receive an earmarked grant (subvention) for construction, repair, and maintenance of local public roads with a total amount of UAH 11.5 bn, which is one of the biggest priorities of the government's policies in recent years. The provision of such

<sup>31</sup> Social and economic subvention is a central fiscal transfer to specific community typically lobbied by people deputies, often on the basis of political decisions. For details see Centre for Economic Strategy (2018) *Subvention for Socio-Economic Development: How to Stop Public Funds Allocation According to Political Preferences*. Available [online]: <https://goo.gl/RysRZN>

<sup>30</sup> Ministry of Regional Development, Construction, Housing and Communal Services of Ukraine (2018) *Monitoring of the Process of Decentralization of Power and Local Self-Government Reform as of 11 June 2018*. Available [online]: <http://decentralization.gov.ua>

subvention constitutes also one of the steps in the framework of decentralization. Previously, this financing was conducted from the central level (first, by the Ukravtodor, and then by newly created State Road Fund).

In the framework of the implementation of the Law on the "Fundamentals of State Regional Policy", the Regional Development Agencies were created almost in all oblasts, whereas the Centers of Local Self-government Development were established in all oblasts.

### SUPPORT OF DECENTRALIZATION REFORM BY INTERNATIONAL DONORS

The decentralization reform is among the focus of technical and financial assistance of numerous international donors<sup>32</sup>. Donors helped the government in the drafting of legislation as well as in the implementation of the changes. Several projects are aimed at the strengthening of capacities of local governments, especially in amalgamated territorial communities, to use increased financing efficiently and effectively, and fulfill responsibilities in an optimal way.

Currently, the largest project that supports the implementation of the decentralization reform is the EU financed U-LEAD<sup>33</sup>. The project is implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), German Corporation for International Cooperation (GmbH), and Swedish International Development Cooperation Agency (SIDA)). One of the components of the project foresees the creation of Decentralization



DONORS HELPED THE GOVERNMENT IN THE DRAFTING OF LEGISLATION AS WELL AS IN THE IMPLEMENTATION OF THE CHANGES

Centers in all oblasts, while another one focuses on the establishment of Administrative Service Centers.

Several large projects were financed, and some are still financed by the U.S. Agency for International Development (USAID)<sup>34</sup>. In particular, these are projects DOBRE and PULSE, which were highly evaluated by the Ministry of Regional Development.

Overall, the Ministry of Regional Development is very active in the cooperation with the international donors<sup>35</sup>. The Ministry created the Council of Donors with the aim to ensure strategic coordination between the government and numerous international donors. The coordination is conducted on the basis of a created Matrix of Assistance, which clearly outlines the contributions and tasks of each project in the implementation of specific decentralization reform measures and steps.

<sup>34</sup> USAID (2017) *Governance and Decentralization*. Available [online]: <https://www.usaid.gov/ukraine/factsheets/governance-and-decentralization>

<sup>32</sup> There are 15 projects financed by a number of donors, including the EU, USAID, Canadian Government, governments of other countries. See <https://donors.decentralization.gov.ua/>.

<sup>33</sup> <http://donors.decentralization.gov.ua/project/u-lead/>

<sup>35</sup> For details of the support by international donors see IER (2018) "Priorities of the EU'S Assistance to Ukraine: Beneficial Alignment", by O. Betliy, Y. Anhel, I. Kosse, V. Kravchuk, O. Krasovska, and I. Fedets.. Available [online]: <http://www.ier.com.ua>

## KEY CHALLENGES FOR THE FUTURE

The decentralization reform is among the biggest successes of Ukraine's reform path over recent years. It includes the financial strengthening of local government entities, which become more powerful while making decisions on territorial development. The establishment of amalgamated territorial communities in the framework of the fiscal decentralization reform is among crucial changes recently launched by Ukraine. It results in the creation of capable communities, as well as increased fiscal transparency.

The reform is also supported by the population. In 2017, 42% of the population supported the steps taken in the framework of decentralization reform, while 27% negatively evaluated the measures introduced by the government<sup>36</sup>. According to the experts' survey, the decentralization reform is the second most successful reform<sup>37</sup>.

However, the implementation of the decentralization reform still faces challenges<sup>38</sup>. One of these relates to the lack of managerial competences of leaders of local government entities (especially of amalgamated territorial communities) to implement fiscally responsible policies<sup>39</sup>. In particular, the evidence already shows that the performance of local government entities varies after they have received more financing. Some of them effectively finance infrastructural and social

<sup>36</sup> Survey of the population, conducted by the Ilko Kucheriv Democratic Initiatives Foundation on June 9-13, 2017: <https://dif.org.ua/article/gromadska-dumka-naselennya-shchodo-reformi-detsentralizatsii>

<sup>37</sup> The survey of experts was conducted by the Ilko Kucheriv Democratic Initiatives Foundation on June 8-13, 2018. See <https://dif.org.ua/uploads/pdf/9941662655b4882a3310fb8.05753855.pdf>

<sup>38</sup> Here, only several challenges are listed.

<sup>39</sup> The principles of fiscal responsibility in the framework of decentralization include greater transparency, monitoring, and reporting mechanisms at the local level.



## THE ESTABLISHMENT OF AMALGAMATED TERRITORIAL COMMUNITIES IN THE FRAMEWORK OF THE FISCAL DECENTRALIZATION REFORM IS AMONG CRUCIAL CHANGES RECENTLY LAUNCHED BY UKRAINE

projects, while others have not improved the performance. As a result, the capacities of the leaders of local government entities impact the equity and quality of primary and secondary education and healthcare provision. The communities, especially in rural areas, lack professionals in many sectors – including public health, education, infrastructure, and energy efficiency.

The role of local authorities increases in provision of vocational and educational training (VET) as they are expected to coordinate the state order in VET schools with local employers. This is an essential prerequisite of the adaptation of skills, competences, and vocational qualifications to the needs of the local economy<sup>40</sup>. Therefore, more capacities are needed at the local level in this area as well.

<sup>40</sup> ETF (2018) "Ukraine – Education, Training and Employment Developments, 2017", European Training Foundation.



## THE ANECDOTAL EVIDENCE SUGGESTS THAT CORRUPTION ACTUALLY BECAME A BIGGER ISSUE AT THE LOCAL LEVEL AFTER DECISION MAKING WAS SHIFTED FROM THE CENTRAL LEVEL

Another challenge defined in the OECD study relates to ensuring an enabling environment for the reform, which, in particular, relates to the corruption<sup>41</sup>. The anecdotal evidence suggests that corruption actually became a bigger issue at the local level after decision making was shifted from the central level.

The reform also indicates that the powers of the rayons and amalgamated territorial communities should be streamlined. In particular, this relates to a clear definition of the spending responsibilities between different tiers of administrative units.

The creation of the amalgamated territorial communities again indicated that there is a need for a broad administrative territorial reform. The current number of rayons (districts) is excessive. Moreover, the administrative division of other countries suggests that the oblasts might be also further merged.

<sup>41</sup> OECD (2018) "Maintaining the Momentum of Decentralization in Ukraine", IECD Multi-Level Governance Studies.

This is likely to be a task for the new government, which will have a mandate for the continuation of the decentralization reform after the presidential and the parliamentary elections scheduled for 2019.

In any case, an essential point for the future is the effective communication of the importance of decentralization reform to the public. The government should clearly explain the plan (the sequence of measures) and expected results of the reform to the public to increase the support for the reform. Overall, such a road map of the decentralization reform really needs to consider the fact that it tightly interrelates with the education, healthcare, and tax reforms, which are high in the policy agenda. •



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