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Jean Monnet Lecture
Reconstruction assistance and local governments in Ukraine

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Outline:

- *Monnet & lessons of the Marshall Plan*
- *Lessons about democratic development from Ukraine*
- *Benefits of decentralizing powers to locally accountable local authorities*
- *National resilience from decentralization*
- *Decentralization and the struggle against corruption*
- *Limits of the decentralization reform*
- *Designing an aid facility for balanced support of national & local authorities*
- *Grants versus loans in foreign assistance*
- *Advantages of donors working with local & national officials*
- *Conclusions*

Monnet & Lessons of the Marshall Plan.

Foreign reconstruction assistance is most effective when it supports reforms that will be vital for future development. (DeLong & Eichengreen 1991, Price 1955).

For Europe in 1948, key reforms were reducing barriers to international trade, and increasing economic cooperation among nations of Europe.

In the allocation of US Marshall Plan funds, people could see positive results of European cooperation in solving problems of postwar reconstruction.

For Ukraine today, vital reforms are: (i) EU integration, (ii) strengthening democratic local self-government.

Affiliation with EU was a primary impetus for 2013-4 Maidan protests.

Establishment of responsible democratic self-government in new amalgamated communities (*hromadas*) has been a key reform since 2014 (2015-2020: >10,000 villages to 1470 hromadas with reliable funding).

Strengthening democratic local governments is the main theme today.

Lessons about democratic development from Ukraine.

Assistance for Ukraine's defense and reconstruction is an investment in world peace.
Leaving Ukraine in ruins would let Putin achieve a basic goal of his aggression:
preventing Ukraine from showing Russians how democracy can succeed
(Person & McFaul 2022).

Ukraine may indeed offer a valuable lesson in democratic development for the world.
The decentralization reforms of 2014-2020 should be recognized as a key part of this.
Responsible democratic local governments have earned people's trust in Ukraine, and
so have strengthened Ukraine's national resilience against Russia's invasion.
The elected local authorities can play a vital role in Ukraine's postwar development,
offering accountable provision of local public goods that are essential for prosperity.

But too often foreign aid has implicitly been a force for centralization of power.
Foreign aid for public spending increases power of those who can direct this spending,
and a sovereign national government may assert its right to regulate foreign aid.
Such can be avoided...

Benefits of decentralizing powers to locally accountable local authorities.

National leaders and centrally connected elites have an interest in centralizing power, and so decentralization may often be undervalued and undersupplied.
We should consider more potential benefits of political decentralization.

Local governments can fit public policies to local conditions.
Learning from different local policy experiments can generate positive externalities.
The central government can take account of interregional externalities.

The advantages of decentralization depend on hardening of local public budgets; soft budget constraints let those with central connections dominate local politics.

Autonomous local governments reduce entry barriers in national politics, as successful local leaders can become strong competitive candidates for higher office (*a form of local experimentation that national leaders might not want to encourage*). (my 2006)

Local accountability can provide better incentives for local public investments. (my 2021)

Decentralization gives local leaders a stake to defend the state; people are more willing to fight for a national state when their communities' leaders have a positive role in it.
Future rewards and honors for local contributors to local defense efforts can be promised more credibly by a locally elected mayor than by a centrally appointed governor.

National resilience from decentralization.

The extraordinary increase in Ukraine's ability to resist Russian invasion between 2014 and 2022 owes much to the empowerment of democratic local governments.

In 2014, Ukraine's government was highly centralized, and Donbas lacked trusted local authorities who would lead local defense against Russian insurgents.

Since decentralization reforms (2015-2020), locally elected mayors have been empowered to provide better public services and leadership for local defense.

So in 2022, every part of Ukraine had recognized local leaders who could mobilize people in their communities and had a stake in the state that was worth defending.

Almost all mayors have been loyal to Ukraine, therefore targeted by Russian occupiers.

Local authorities have innovated and shared effective strategies to cope with the challenges of war. (Congress of Local and Regional Authorities, 2023b)

Polls of trust of national government showed little or no improvement in 2014-2020, but trust of local government became greater after 2015 reforms (Arends et al 2023).*

In 2023, decentralization was among the reforms that citizens most widely considered successful, along with digitalization, army reform, public procurement (Sologoub 2023).

Meaningful accountability of local authorities strengthened legitimacy of government.

So fears of decentralization weakening the state (like *librum veto* of 1700s) were wrong.

*Trust in local and national governments in Ukraine, 2002-2020.

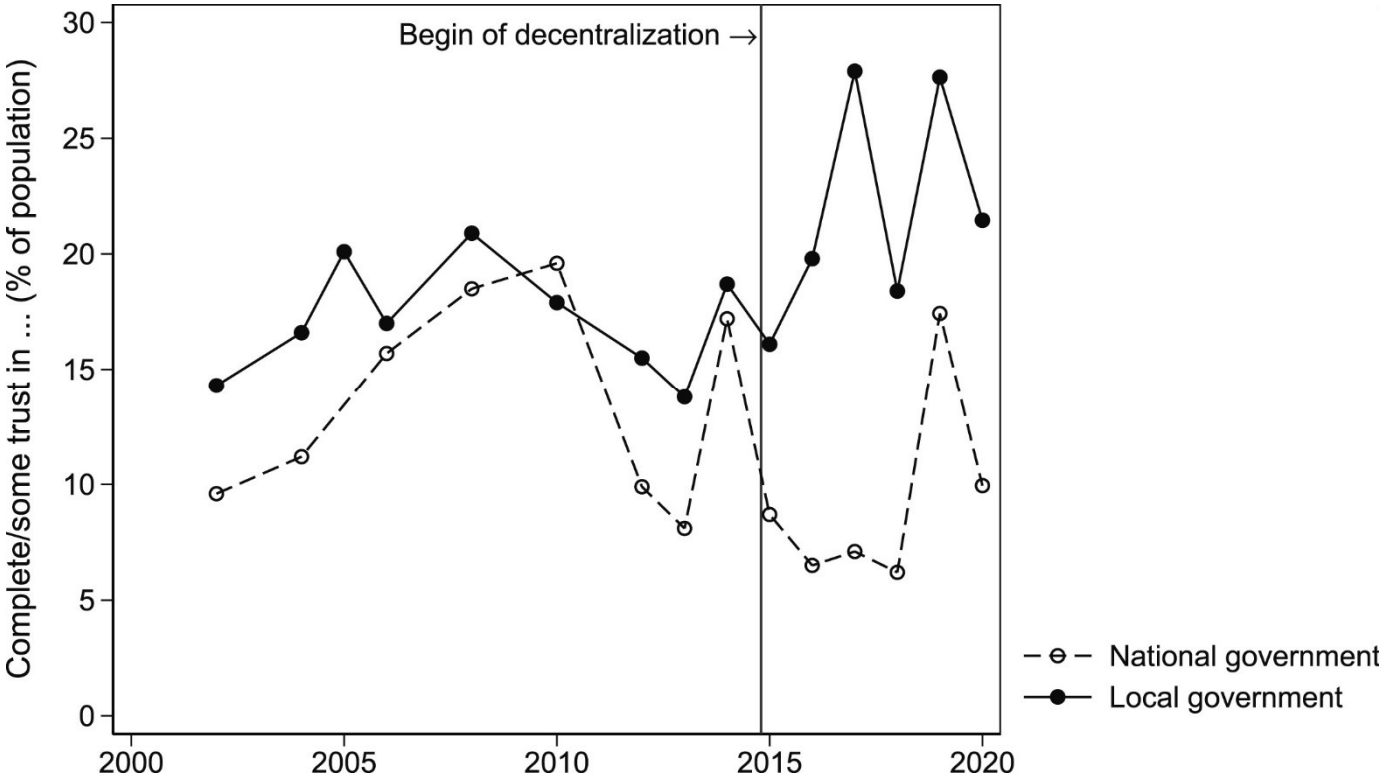


Figure 2 from Helge Arends,Tymofii Brik, Benedikt Herrmann, Felix Roesel (2023), "Decentralization and trust in government: quasi-experimental evidence from Ukraine," *Journal of Comparative Economics*: https://doi.org/10.1016/j.jce.2023.08.002

The graph shows the share of respondents reporting some or complete trust into local governments (solid line) and national governments (dashed line) in Ukraine. Data are from the IS NANU Monitoring which includes cross-sections of 1800 respondents on average per year. The survey question to be answered on a five-point scale was '*How much confidence do you have into the local/national government?*'

Decentralization and the struggle against corruption.

Local corruption exists everywhere, but a strong anti-corruption culture has developed in Ukraine alongside the development of autonomous local governments since 2014.

Responsible local governments have become primary objects of residents' demands for better public service, and locally elected officials have become more responsive to voters' suggestions & complaints. (Congress of Local and Regional Authorities, 2023a, p36)

Meaningful anti-corruption policies depend on broad empowerment of citizens, without which leaders could just use anti-corruption laws to selectively punish opponents.

Decentralization has created more opportunities for citizens' involvement in local policy-making both through formal and informal mechanisms.

Extensive local debates about community-amalgamation brought new groups into local politics, and many municipalities have civic councils for advice on policy questions.

Peer competition: TI-Ukraine's publicly-ranked ratings of cities' transparency have steadily improved since 2017. See https://transparentcities.in.ua/en

Local & national civil society groups have helped to develop & monitor online digital transparency of government.

The civil society-driven & government-approved Digital Restoration Ecosystem for Accountable Management (https://dream.gov.ua/) has been developed for public monitoring of communities' reconstruction projects.

Limits of the decentralization reform.

Locally elected officials have been empowered only at the municipal (hromada) level.
The reformed municipalities got 60% of locally-paid personal income taxes, so that by 2021 local governments got about 1/4 of all public revenue in Ukraine.

Locally elected councils for each region (oblast) and district (rayon) exist but have no executive power.
Oblast & rayon administrations have remained branches of the central government under the President.
Because decentralization reforms under President Poroshenko were limited to the lowest municipal level, people in Ukraine have not seen what locally elected officials could do for providing local public goods and services at the rayon/district level (NUTS-3).

Possible reform of rayon & oblast administrations remains a question for after the war.
One alternative: keep oblast administrations under central control, but devolve rayon administrations to locally elected councils that include local mayors.
Kremlin agents promoted an oblast-level separatism in 2014; but rayons, like municipalities, seem too small to be posed as units of separatism.

Designing an aid facility for balanced support of national and local authorities.

Foreign aid has often been an implicit force for centralization of power.

Even with foreign funding, public spending in Ukraine must be directed by the people's elected officials; but these include mayors as well as the President.

A TI-Ukraine poll (spring 2023) found divided views about which institutions should be responsible for final results of reconstruction spending: 54% said local authorities, 49% said President, 47% said central executive, and 46% said national legislature.*

To design aid programs that appropriately support national and local authorities, donors should solicit mayors' views from the national associations of cities & communities.

Then the EU's Ukraine Facility should have local offices in every oblast, to help local authorities propose projects and then manage them with appropriate controls.

Staffing field offices to support development of municipalities' project-management capabilities can be an investment in strengthening local self-government.

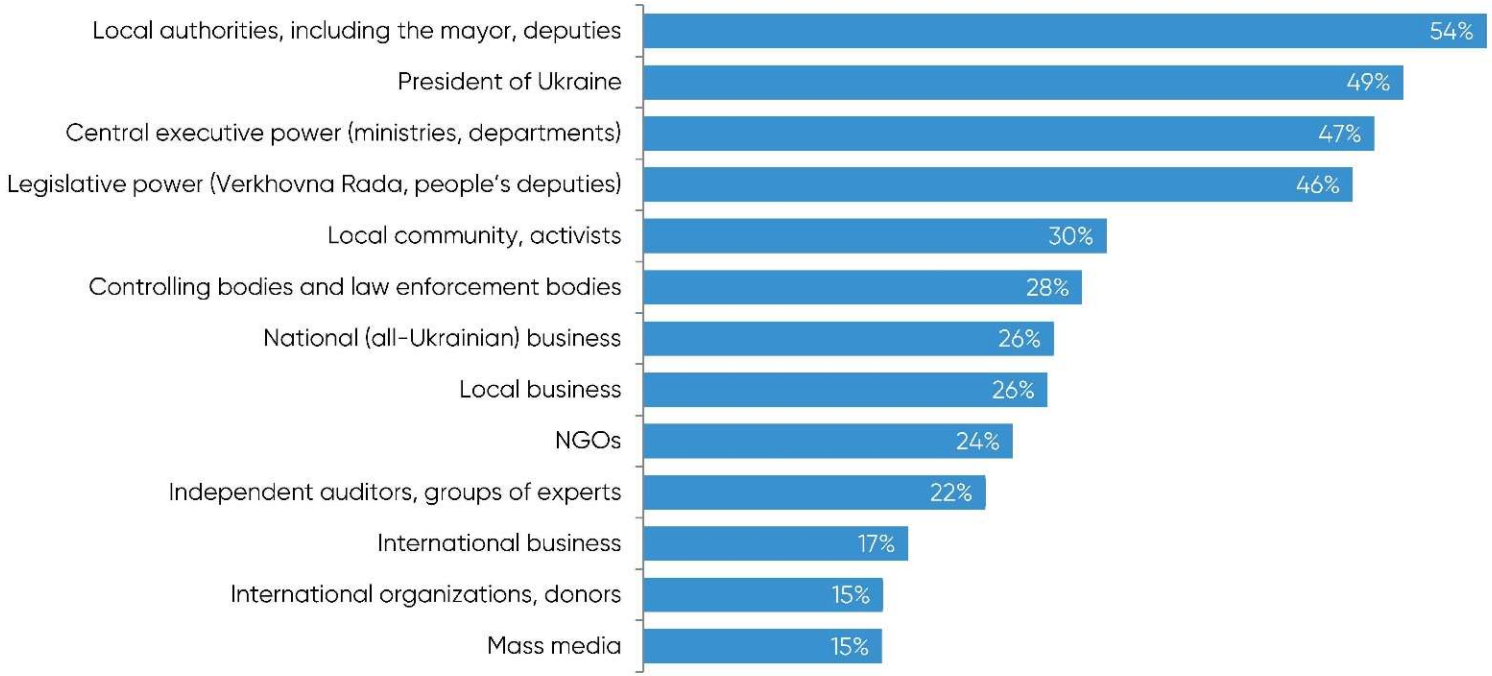
The EU's U-LEAD program already has regional offices. (https://u-lead.org.ua/en , "Ukraine – Local Empowerment, Accountability and Development")

Some fraction of foreign aid (1/4?) could be budgeted for allocation by mayors and other locally elected officials in each district, working with a local office of the Facility.

Then in each district, the Facility's local aid officer could encourage local mayors to cooperate in planning local reconstruction, with a budget that is not dependent on national political approval. (*like a locally accountable rayon-level authority?*)

*

[Population] Which institutions should be responsible for the final result?



Q12. In the process of reconstruction, it is necessary to attract financing, to carry out financing, to control costs, to set tasks and **to accept work**. I will read out the list of institutions. Would you tell me please about each one whether it should **... be responsible for the final result?** One institution can perform several tasks or none.

33

Transparency International Ukraine (14 June 2023), "How to rebuild Ukraine: sociological survey of citizens and business," https://ti-ukraine.org/en/research/how-to-rebuild-ukraine-sociological-survey-of-citizens-and-business-representatives/ See page 33 in https://drive.google.com/file/d/1MxD5o-DbZ6AQGYEz4dfLyYP6TxrSof7y/

Grants versus loans in foreign assistance.

Generous loans can reinforce centralization when lenders require national guarantees, so that approval of loans becomes a valuable resource controlled by central authorities.

Local credit-worthiness could be promoted by a law enabling municipalities to pledge some fraction of their future PIT revenues.
But if foreign aid lets corrupt officials mortgage their town's future revenues, the result could be to leave some towns ruined without any means for recovery.
Risks of such harm can be minimized by assisting local governments with grants, matched by local contributions from current revenue.
(*1919: shell games of creating debts to write off later can have real costs!*)

The EU provides grants to local governments in disadvantaged regions of Europe.
Ukraine is the one part of Europe to be invaded & bombed for applying to join the EU.
So although the EU has not yet admitted Ukraine as member nation, perhaps its local authorities could be treated as parts of a very disadvantaged region of Europe.

Advantages of donors working with local and national officials.

Working with both national and local officials can help foreign aid officers to monitor how well aid is used at each level, and support anti-corruption efforts at each level.

Even with best oversight, contractors should expect profits for managing risks, and political leaders may steer lucrative contracts to businesspeople they have relied on.
Decentralization of authority for planning reconstruction can reduce the concentration of profits for businesspeople with connections to top officials. (New oligarchs?)
Burdens of foreign reporting should not disqualify locally trusted suppliers.
(*If the allocation of funds to a locality's projects depend on a central government office, local planners could be pressed to use contractors with connections at the center.*)

Donors' fiscal controls should support, not displace, accountability to people of Ukraine.
Local civil society can be more meaningfully involved in locally directed projects.
Promoting strong civil society seems a worthy goal, but foreign supported "civil society" groups may ultimately become accountable only to foreign donors.
Civil society can be supported through its involvement with elected local governments.

The people of Ukraine deserve an opportunity to see what locally elected officials can do to provide public goods at the rayon/district (NUTS-3) level.

While democracy is limited by war in Ukraine, national leaders' support for donors' engagement with local governments can be a vital expression of commitment to constitutional democracy.

Conclusions.

Postwar reconstruction of Ukraine should aim to fulfill its people's hopes for a better future, for which they have given so much.

Decentralization reforms have been a key component of Ukraine's democratic promise.

Ukraine's recent history has shown how democratic decentralization can help to increase people's trust in government, broaden government's accountability to civil society, and strengthen national resilience against armed invasion.

Local self-government has ensured that every part of Ukraine has local leaders who can mobilize people in their communities and have a stake in the state worth defending.

Democratic development in Ukraine can be a model for other nations to emulate.

But Putin's war goal of preventing this could be achieved if Ukraine is left ruined.

So postwar recovery assistance should be valued also as an investment in the defense of peace and democracy for others in Europe and throughout the world.

Decentralization reforms are a domestic development in Ukraine, but foreign assistance can provide valuable support when donors work with local authorities.

To support Ukraine's resilience both in the war and in post-war recovery, aid donors should reach out to the locally accountable local governments as full partners with funding and authority to plan & direct local recovery efforts.

https://home.uchicago.edu/~rmyerson/research/ecb2023monnet.pdf
https://home.uchicago.edu/~rmyerson/ukrainelocal2023.pdf

Source: Monitoring of the reform of local self-government (original in Ukrainian), https://decentralization.gov.ua/uploads/library/file/690/10.02.2021.pdf, page 3

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Organizations of elected local authorities in Ukraine:

Ukrainian Association of Amalgamated Territorial Communities: https://hromady.org/about/

All Ukrainian Association of Communities: https://communities.org.ua/en/about-the-association/

Association of Ukrainian Cities: https://auc.org.ua/

Ukrainian Association of District and Regional Councils: https://uaror.org.ua/

International Organizations working to strengthen democratic local government in Ukraine:

Ukraine – Local Empowerment, Accountability and Development Programme ("U-LEAD with Europe"), a partnership of the Ukrainian government and the European Union and its member states Germany, Sweden, Poland, Denmark, Estonia and Slovenia: https://u-lead.org.ua/en

The Congress of Local and Regional Authorities, Council of Europe: https://www.coe.int/en/web/congress/co-operation-activities-ukraine_2023

Cities4Cities/United4Ukraine, intermunicipal partnerships: https://cities4cities.eu/

U.S. Agency for International Development, Governance and Local Accountability Activity (HOVERLA) https://www.usaid.gov/ukraine/fact-sheets/may-26-2022-governance-and-decentralization

Organizations working broadly for government accountability in Ukraine:

Transparency International Ukraine: https://ti-ukraine.org/en/ , https://transparentcities.in.ua/en/

RISE Ukraine coalition: https://www.rise.org.ua/

Digital Restoration EcoSystem for Accountable Management: https://dream.gov.ua