

Reconstruction assistance for Ukraine should include local governments¹

by Roger Myerson, December 2022

A basic lesson from the Marshall Plan for postwar reconstruction of Europe in 1948 was that foreign reconstruction assistance can be much more effective when it helps to promote reforms that will be fundamental for successful future development.² Reforms that have been widely considered vital for Ukraine's future development include strengthening ties with the European Union and increasing the capacity of local governments to serve their communities.

The first of these considerations has motivated a recent CEPR report's recommendation that all foreign reconstruction assistance should be coordinated and supervised by an agency of the European Union.³ That is, even reconstruction assistance from the United States should be channeled through an EU agency, because government officials in Ukraine can benefit from the experience of working with the EU's fiscal regulations and standards, given that closer integration with the European Union could be vital for Ukraine's future prosperity.

Reconstruction work must be under the direction of officials of Ukraine's sovereign democratic government. But donors should recognize that, in 2022, the people of Ukraine have been fighting to defend a system of government that includes responsible locally elected officials as well as nationally elected officials of the central government.

Citizens are willing to risk their lives to defend their country against insurgency or invasion when they see a connection between service to the state and leadership in their own community. When Russian agents began actions to subvert some eastern regions of Ukraine in 2014, however, government in Ukraine was highly centralized along the old Soviet model, and local authorities were dependent on the national leadership in the capital. Accordingly, even under national democracy, people in some regions might understand that their local government was controlled by politicians who were elected by voters from other parts of the country. In such regions, even the most prominent local leaders could feel alienated from the state which had no use for them. Who would then organize their communities to defend the state at need?

Decentralization reforms in 2015 created a new system of local governments throughout Ukraine, establishing about 1400 territorial communities (*hromadas*) in the country by 2020. These locally elected community governments were given a significant share of local taxes to

¹ For a broader discussion that includes most points in this text, see R. Myerson, "Perspectives on Ukraine and the Russian invasion," November 2022: <https://home.uchicago.edu/~rmyerson/ukraine2022nov.pdf>

² See Harry Bayard Price, *The Marshall Plan and Its Meaning* (Ithaca: Cornell University Press, 1955): https://pdf.usaid.gov/pdf_docs/PDACQ201.pdf. See also J. Bradford De Long and Barry Eichengreen, "The Marshall Plan: History's Most Successful Structural Adjustment Program," working paper 3899, National Bureau of Economic Research, November 1991: <http://www.nber.org/papers/w3899>

³ Torbjörn Becker, Barry Eichengreen, Yuriy Gorodnichenko, Sergei Guriev, Simon Johnson, Tymofiy Mylovanov, Kenneth Rogoff, and Beatrice Weder di Mauro, "A Blueprint for the Reconstruction of Ukraine," Centre for Economic Policy Research, 7 April 2022: <https://cepr.org/publications/books-and-reports/blueprint-reconstruction-ukraine>

provide local public services, which had formerly been the responsibility of nationally-appointed district governors. The results have included measurable improvements in local public spending.⁴

Thus, since 2015, democratic decentralization has ensured the emergence of elected local leaders with real power to organize and maintain local defense. Since the Russian invasion began in February 2022, there have been regular reports of mayors leading their communities in resisting the Russian invaders.⁵ As Tymofii Brik and Jennifer Murtazashvili have observed, citizens have rallied not just in support of President Zelenskiy in Kyiv, but also to defend their locally elected mayors and community councils.⁶

To support and advance this vital growth of local government in Ukraine, a significant share of foreign reconstruction assistance should be set aside for use by local governments.⁷ That is, while the largest portion (perhaps two thirds) of foreign assistance should be directed by officials of Ukraine's national government, a significant portion (perhaps one third) should be budgeted for allocation by local reconstruction boards that consist of locally elected officials. In each district of Ukraine, an official of the European assistance agency could work with the local mayors and other locally elected officials to help them develop and implement a plan for allocating their district's share of the locally directed portion of foreign assistance. In this way, the process of rebuilding the infrastructure of Ukraine can also help to promote the development of local governments' capacity to serve their communities, which is vital for Ukraine's successful democratic development.

Ukraine's success in resisting a massive Russian invasion in 2022 has been based on its people's confidence in the ability of an independent Ukraine to provide a better future for them, and reforms to establish responsible local governments have contributed to this confidence. After the war, the international community should generously support the development of an independent democratic Ukraine that can build peaceful and mutually beneficial relations with all its neighbors. But above all, the postwar reconstruction of Ukraine should aim to fulfill its people's hopes for a better future, for which they have given so much.

<https://home.uchicago.edu/~rmyerson/ukraine2022dec.pdf>

⁴ See Anna Harus and Oleh Nivyevsykyi, "In Unity There is Strength: The Effect of the Decentralization Reform on Local Budgets in Ukraine," *Vox Ukraine*, 6 Aug 2020: <https://voxukraine.org/en/in-unity-there-is-strength-the-effect-of-the-decentralization-reform-on-local-budgets-in-ukraine/>

⁵ For example, see Yuras Karmanau, "Russians Try to Subdue Ukrainian Towns By Seizing Mayors," *Associated Press*, 3 November 2022: <https://apnews.com/article/e4e8d5a847aff39c78871c7ab1cb9c10>

⁶ Tymofii Brik and Jennifer Murtazashvili, "The Source of Ukraine's Resilience: How Decentralized Governance Brought the Country Together," *Foreign Affairs*, 28 June 2022: <https://www.foreignaffairs.com/articles/ukraine/2022-06-28/source-ukraines-resilience>

⁷ This point has also been suggested by Timothy Garton Ash, "Ukraine in our future," *New York Review of Books*, 23 Feb 2023: <https://www.nybooks.com/articles/2023/02/23/ukraine-in-our-future-timothy-garton-ash/>