

Supporting Ukraine’s Democracy Bottom-Up: Proposed Mechanism for a Decentered but Coordinated Donor Assistance to Ukraine’s Recovery¹

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Abstract

Ukraine has been stronger during the full-scale Russian invasion because the national government has devolved a substantial part of tax revenue to local governments as part of decentralization reforms since 2014. Semi-autonomous and locally accountable local governments provided the Ukrainian political system with legitimacy and resilience to withstand the Russian invasion as a functioning democratic state. Ukraine’s national government and international partners should utilize and support the system of democratic local governments as vital social capital when addressing Ukraine’s immense reconstruction and modernization needs. In this paper, we sketch a possible mechanism – a local aid agency – for donors to work directly with local governments in every region of Ukraine and encourage inter-municipal cooperation based on collective and deliberative within-region prioritization of recovery priorities and funding. Considering Ukraine’s EU accession path, the EU is the most appropriate donor to coordinate the agency. We envisage the local aid agency as complementary to funding distributed through the national government for recovery projects.

¹ This is an enhanced version of a previously published piece by Roger Myerson (<https://home.uchicago.edu/~rmyerson/ukrainelocal2023.pdf>) and a presentation by the authors at the European Central Bank on 21 September 2023 (<https://home.uchicago.edu/~rmyerson/research/ecb2023monnet.pdf>). The authors gratefully acknowledge that this paper has been influenced by valuable discussions with Tymofiy Mylovanov, Edward Glaeser, James Hodson, and Myroslava Savisko.

I. Introduction

Decentralization reform, launched in 2014, strengthened local self-government (LSG) in Ukraine and in so doing provided the Ukrainian political system with legitimacy and resilience to withstand the Russian invasion as a functioning democratic state.² In trying times, LSG authorities demonstrated the ability to respond to crises through meaningful collaboration with citizens, national government, and foreign partners. They proved their loyalty to Ukraine, keeping the very statehood alive; in some instances, they did so even under extreme conditions of Russian occupation.³ Ukraine's national government and international partners should utilize and support the system of democratic local governments as vital social capital when addressing Ukraine's immense reconstruction and modernization needs.⁴

Producing sustainable and locally relevant solutions to recovery needs of such a grand scale will require strategic and operational coordination across levels of governance with international partners and the private sector. Therefore, Ukrainian civil society as well as the European Union⁵ emphasize the need to meaningfully incorporate local self-government authorities (LSG's) in planning and implementing the reconstruction effort in their communities (hromadas). Because of local self-government's ability to generate legitimacy and provide public goods even through war-related crises, they will be essential partners for the national government to ensure democratic, participatory, and needs-driven recovery.

However, many LSGs will need substantial assistance to develop capacity for managing large local reconstruction projects. International donors can and should support the development of LSG administrative capacity, but this support will require a coherent framework for engaging international donors with Ukraine's LSG authorities.

Many of Ukraine's international partners already plan to fund local recovery, but some gaps exist. First, donors' preference for competitive selection of projects may favour high-performing hromadas and marginalize others, creating regional inequalities. Hromadas will need help preparing large grant proposals. Second, the lack of donor coordination and varied requirements for funding administration create unnecessary pressure on hromadas' overall limited absorption capacity. Third, despite a commitment to local

² Tymofii Brik and Jennifer Brick Murtazashvili, "The Source of Ukraine's Resilience," *Foreign Affairs*, June 28, 2022, <https://www.foreignaffairs.com/articles/ukraine/2022-06-28/source-ukraines-resilience>; Valentyna Romanova and Andreas Umland, "Domestic and International Dimensions of Ukraine's Decentralization: Kyiv's Local Governance Reform and Post-Soviet Democratization," *Demokratizatsiya: The Journal of Post-Soviet Democratization* 31, no. 3 (2023): 363–89; Oleksandra Keudel and Oksana Huss, "Polycentric Governance in Practice: The Case of Ukraine's Decentralised Crisis Response during the Russo-Ukrainian War," *Journal of Public Finance and Public Choice* 1, no. aop (October 18, 2023): 1–26, <https://doi.org/10.1332/25156918Y2023D000000002>.

³ Oksana Mikheieva and Serhiy Danylov, "Living Under Russia's Occupation. The Locals' Tale | European Resilience Initiative Center," *European Resilience Center*, June 21, 2023, <https://european-resilience.org/analytics/living-under-russias-occupation-locals-tale>.

⁴ A March 2023 joint assessment released by the Government of Ukraine, the World Bank Group, the European Commission, and the United Nations, estimates the reconstruction and recovery costs in Ukraine at US \$411 billion (equivalent of €383 billion), see: https://ec.europa.eu/commission/presscorner/detail/da/ip_23_1852.

⁵ See Regulation on Ukraine Facility: https://neighbourhood-enlargement.ec.europa.eu/system/files/2023-06/COM_2023_338_1_EN_ACT_part1_v6.pdf; Discussion paper by the civil society coalition RISE Ukraine: <https://drive.google.com/file/d/1CrT1xV01mDNIRJXpav5hUPq2vit91Wmc/view/>

ownership in the international development community, the ranking and selection of projects by donors may in practice shift recovery priorities towards donor preferences, marginalizing other needs or topics.

This memo proposes a local aid agency to ensure that local reconstruction priorities are based on people's needs and preferences in the affected communities. To this end, we propose that the local aid agency facilitates region-wide deliberation among the local self-government authorities on the rules for distributing the donor funding between communities (*hromadas*) of a region (*oblast*) in close cooperation with the agency staff. The local aid agency should also ensure coordination with regional recovery priorities by including representatives of regional administrations in an advisory capacity. To support LSGs' ability for project design, local aid agency should have offices in each region that can work with the *hromadas*' local self-governments in project application and then in reviewing projects' benefits and costs, closing capacity gaps for smaller municipalities, project monitoring and evaluation, and scaling up the exchange of good practices. In this way, the local aid agency could enhance public authorities' capacity to provide locally-owned recovery in the *hromadas* without distracting government human resources from national and regional projects.

II. Why decenter recovery funding: LSG's contribution to democratic character and efficiency of the recovery process

International support for Ukraine's recovery should not neglect the capabilities of democratic local authorities in the *hromadas* of Ukraine by directing a portion of recovery funding to these authorities in a sustainable and coherent way. There are at least two **benefits of decentralizing a portion of recovery funding to Ukraine by coordinating directly with local self-government authorities:**

Benefit 1: Contribution to democracy and social cohesion

The LSG authorities are best positioned to lead the process of determining priorities in rebuilding local public goods (such as schools, clinics, local roads, water and waste systems), based on the preferences of people in the affected communities. LSGs have already developed tools and experience for this since the Revolution of Dignity, when they became subjects to citizen demands for local accountability.⁶ Many LSGs introduced participatory and collaborative governance to meet citizens' needs better by getting their input and feedback.⁷ LSG authorities experimented with innovative participatory tools such as electronic petitions and participatory budget, which allowed greater citizen involvement.⁸ LSGs gradually increased their transparency and started working on accountability in partnership with civil society, because their increased competences after the decentralization reforms made them subjects of citizens' scrutiny and demands for responsiveness.⁹ New anti-corruption coalitions that include local councilors and executives brought about

⁶ Aadne Aasland and Oleksii Lyska, "Signs of Progress: Local Democracy Developments in Ukrainian Cities," in *Decentralization, Regional Diversity, and Conflict*, ed. Hanna Shelest and Maryna Rabinovych, 2020, 283–310, <https://doi.org/10.1007/978-3-030-41765-9>.

⁷ Congress of Local and Regional Authorities, "Baseline Survey on Open Government at Local Level in Ukraine: Mapping Initiatives and Assessing Needs" (Strasbourg: Council of Europe, 2023), <https://rm.coe.int/open-government-survey-eng/1680a97942>.

⁸ Dmytro Khutkyy and Kristina Avramchenko, "Impact Evaluation of Participatory Budgeting in Ukraine" (Kyiv, 2019), <https://doi.org/0.13140/RG.2.2.11468.36485>.

⁹ Bohdan Baliuk et al., "Cities of Free People. Results of Transparency and Accountability Rankings 2021" (Kyiv: Transparency International Ukraine, 2022), <https://transparentcities.in.ua/en/articles/mista-vilnykh-liudei-rezultaty->

substantial local reforms, such as introduction of transparent land auctions that proved effective.¹⁰ Thus, LSGs have enhanced the legitimacy of the Ukrainian political system for local residents as evidenced by their increased trust of local authorities after the decentralization reform.¹¹ Increased competencies of LSGs to solve local matters after the decentralization reforms have also resulted in communities' increased ability to accommodate ethnocultural diversity.¹² In this vein, recovery that empowers communities can support social cohesion by bringing together people with different experience of war (e.g. internally displaced people and veterans and their families) to determine local priorities.

Benefit 2: Smart use of self-government competencies and resources to complement the national government's efforts

Ukraine has been stronger because the national government has devolved a substantial part of tax revenue to the local governments, so that in trying times of the Russian invasion they demonstrated resilience by continuing to provide local public goods despite the co-occurring war-related crises.¹³ Even if many were not prepared for the scale of the shocks, LSGs had enough robustness and adaptability to continue performing their functions. Their ability to collect their own tax revenue and the extent of intermunicipal cooperation have been crucial for resilience.¹⁴ And the LSGs' embeddedness in their local communities enabled them to coordinate local knowledge and resources, to generate context-sensitive solutions to crises.¹⁵ These local efforts provided space for the national government to concentrate on defense and maintain the statehood in a situation of invasion where other states might have collapsed.

reitynhiv-prozorosti-ta-pidzvitnosti-2021. See: <https://transparentcities.in.ua/en/> for Transparent Cities and <http://www.ucipr.org.ua/en/news/experts-determined-the-most-democratic-cities-of-ukraine> for City Democracy Index

¹⁰ Oleksandra Keudel, Marcia Grimes, and Oksana Huss, "Political Will for Anti-Corruption Reform: Communicative Pathways to Collective Action in Ukraine" (Swedish International Centre for Local Democracy, 2023), https://icld.se/wp-content/uploads/2023/03/ICLD_ResearchReport_22_2023-web.pdf; Roman Neyter and Oleg Nivievskyi, "Local versus Centralized Public Land Governance: Evidence from the Spatial Analysis of Land Auctions in Ukraine." (2023 EAAE Congress, Rennes, 2023).

¹¹ Helge Arends et al., "Decentralization and Trust in Government: Quasi-Experimental Evidence from Ukraine," *Journal of Comparative Economics*, August 24, 2023, <https://doi.org/10.1016/j.jce.2023.08.002>.

¹² Aadne Aasland, Olga Filippova, and Oleksandra Deineko, "Decentralization, Social Cohesion and Ethno-Cultural Diversity in Ukraine's Border Regions," in *The Accommodation of Regional and Ethno-Cultural Diversity in Ukraine*, ed. Aadne Aasland and Sabine Kropp (Springer International Publishing, 2021), 143–70, <https://doi.org/10.1007/978-3-030-80971-3>.

¹³ Tymofii Brik and Jennifer Brick Murtazashvili, "The Source of Ukraine's Resilience," *Foreign Affairs*, June 28, 2022, <https://www.foreignaffairs.com/articles/ukraine/2022-06-28/source-ukraines-resilience>; Valentyna Romanova, "Ukraine's Resilience to Russia's Military Invasion in the Context of the Decentralisation Reform" (Warsaw: Stefan Batory Foundation, 2022), <https://www.batory.org.pl/wp-content/uploads/2022/05/Ukraines-resilience-to-Russias-military-invasion.pdf>.

¹⁴ Maryna Rabinovych et al., "Explaining Ukraine's Resilience to Russia's Invasion: The Role of Local Governance," *Governance* 1, no. 20 (2023), <https://doi.org/10.1111/gove.12827>.

¹⁵ Oleksandra Keudel and Oksana Huss, "Polycentric Governance in Practice: The Case of Ukraine's Decentralised Crisis Response during the Russo-Ukrainian War," *Journal of Public Finance and Public Choice* 1, no. aop (October 18, 2023): 1–26, <https://doi.org/10.1332/25156918Y2023D000000002>.

Just as in wartime resilience, the LSGs' involvement in planning and implementation for recovery projects to deliver local public goods such as schools, clinics, local roads, water and waste systems – supported by the local aid agency – would enhance public authorities' capacity to provide locally-owned recovery in the hromadas. The local aid agency should create a framework for distribution of local reconstruction assistance that encourages voluntary cooperation among the hromadas by reaching out to the elected local authorities through their various associations and donor-mediated discussion platforms in each region. Encouraging voluntary cooperation will support solving localized problems that affect several hromadas but not the whole region. Such an agency would complement national government efforts, while the involvement of regional administrations in deliberations about the relative priority for local projects will ensure that selected projects do not contradict national and regional recovery priorities.

III. How to decenter recovery funding? A local aid agency to fund reconstruction by Ukraine's elected local authorities

In this section, we sketch a possible structure for donors to work directly with local governments, through a local aid agency that could connect donors with LSG authorities in every region of Ukraine. While the largest part of international assistance will be understandably directed through the national government to support national and regional recovery projects, a complementary local aid agency could be funding local authorities' projects for restoring local public goods and infrastructure that serve people in a few communities.

However, we should not try to draw any hard line between local public goods and regional public goods, as regular communication and coordination between Ukraine's regional administration and the regional office of the local aid agency should enable them to allocate projects in a way that best matches people's needs with funding opportunities. So we anticipate that, in each region, officers of Ukraine's regional administration will participate in deliberations on priorities for funding by the local aid agency, and representatives of the municipalities should participate in deliberations on priorities for funding regional recovery projects from the government.

Below we move on to propose the tasks and general principles for the structure, the deliberative approach, and equity measures for the local aid agency to ensure local ownership of local recovery.

Local Aid Agency Tasks and Funding Scheme

Connecting international donors with local governments throughout Ukraine will require a **local aid agency** that can accomplish several distinct but interrelated tasks (Box 1).

Box 1 The Local Aid Agency Tasks

- It must reach out to local authorities throughout Ukraine and help them to prepare suitable proposals for funding.
- It will need permanent staff who can review these proposals and provide independent estimates of their benefits and costs.
- Given these inputs, the agency will need to coordinate a process of scoring and ranking local projects for international funding priority.
- Where small municipalities lack capacity to manage complex reconstruction projects with appropriate fiscal controls, the agency should be ready to help these municipalities to get the administrative support that they need.
- The agency also needs some ability to monitor and evaluate the results of local projects as they are implemented.
- The agency should help share best practices and standards as well as funding opportunities.

One or more major donors may take responsibility for establishing this local aid agency to operate during the period of active international support for Ukraine's recovery from war. Their funding will both cover agency's operational costs and provide most of the early round grants to local governments. It may be particularly appropriate for the European Union to take a leading role in establishing the local aid agency, because then the experience of working with this agency could help to prepare Ukraine's local officials for participating in the administration of the European Union after Ukraine gains full membership in it. The European Commission's call for expression of interest suggests that the EU may be looking for such options already ¹⁶. Alternatively, the local aid agency could be established by a partnership of the European Union and the United States.

Donors should provide assistance to local authorities in the form of grants rather than loans. If foreign-assistance loans allowed some irresponsible officials to mortgage their communities' future revenues for mismanaged projects, the result could be to leave some communities ruined without any means for recovery. Risks of such long-term harm can be avoided when foreign assistance is in the form of grants, which could be matched by contributions from current local revenues.

Local aid agency structure

The local aid agency will need an ability to work closely with local government officials in all parts of Ukraine, and so it will need a network of field offices like the regional offices that U-LEAD is already using to work with municipalities throughout Ukraine (Box 2). Of course, some of the agency's staff work could be done from a central office in Kyiv. But from the initial outreach to the final results evaluation, much of the agency's work should be done from regional offices which can serve as a base for regular meetings in the region's municipalities. Importantly, the project's implementation should be embedded in Ukraine's national

¹⁶ European Commission, "Call for Expression of Interest - Ukraine Facility," October 31, 2023, https://commission.europa.eu/jobs-european-commission/job-opportunities/temporary-jobs-european-commission/apply-temporary-jobs-european-commission/call-expression-interest-ukraine-facility_en.

laws, such as using the transparent digital system Prozorro for project procurement and reporting on the projects' implementation stages within the DREAM platform.

Box 2 U-LEAD with Europe: an existing model of EU's regional presence in Ukraine

“U-LEAD (Ukraine - Local Empowerment, Accountability, and Development) with Europe”, which is a partnership of Ukraine with the European Union and several of its member states. Since 2016 this partnership has helped to support the development of responsible democratic local governments in Ukraine. U-LEAD has an office in each region of Ukraine and is working there to help municipalities in planning, coordinating, and implementing reconstruction activities for prompt response to the urgent needs of their residents ¹⁷.

Deliberative approach to local projects prioritization

It is particularly important that the process of scoring and ranking proposals should be decentralized to a regional level where municipalities can be actively involved. Agency staff may work to provide some standardized estimates of different kinds of costs and benefits of different classes of projects. But questions about how different benefits and desiderata should be weighted for formulating overall benefit/cost comparisons among different projects cannot be answered without understanding the needs and preferences of people in the affected communities. Thus, elected municipal officials must be able to represent their communities' concerns in the critical process of defining how local projects in their region will be ranked for donor funding.

In each region, officers of the local aid agency should facilitate that representatives of the municipalities come to a **broadly acceptable agreement about a methodology for ranking their projects for international funding**. As one alternative, the local authorities could vote to delegate these ranking decisions to a panel which they could elect. But if the local authorities are substantially divided on the methods or criteria for ranking local projects, the agency's regional coordinator may formulate a compromise plan for taking projects to donors until a broader agreement can be reached.

These negotiations may be difficult, but developing the ability of locally accountable local governments to cooperate in planning local public goods will serve Ukraine well in future. Indeed, we should recall that the greatest contribution of the Marshall Plan to Europe's long-term development may have been the Plan's encouragement of economic cooperation among the nations of Europe, which it did from the start by requiring that the aid would begin only after the participating European nations had negotiated a jointly acceptable formula for dividing the American aid among themselves ¹⁸. In modern Ukraine, negotiations

¹⁷ U-LEAD, “U-LEAD with Europe’s Contribution to a Transparent, Accountable and Responsive Multi-Level Governance in Ukraine,” February 2022, <https://www.giz.de/de/downloads/giz2022-en-u-lead-four-pager.pdf>.

¹⁸ J. Bradford De Long and Barry Eichengreen, “The Marshall Plan: History’s Most Successful Structural Adjustment Program,” Working Paper, Working Paper Series (National Bureau of Economic Research, November 1991), <https://doi.org/10.3386/w3899>; Harry Bayard Price, *The Marshall Plan and Its Meaning* (Ithaca: Cornell University, 1955), https://pdf.usaid.gov/pdf_docs/PDACQ201.pdf.

between *hromadas* have proven fruitful, as evidenced by the increased revenues and spending for local infrastructure ¹⁹ after voluntary amalgamation of communities.

Ensuring equity in access to local aid agency funds

The local aid agency may appropriately **bear some costs for increasing local authorities' administrative capacities**, as such capacity-building expenses is a good way to invest in Ukraine's future, potentially as important as investments in physical infrastructure. The local aid agency should be particularly attentive to the possibility that many small municipalities may lack administrative capacity for formulating and managing complex reconstruction projects that their communities need. In such cases, the local aid agency should help municipalities to get the resources that they need, which may involve training and consulting as well as office equipment. The agency may help municipalities get technical guidance from international experts, but Ukrainian resources for capacity-building should be used whenever possible.

Ukraine's **municipal associations** can help in sharing best-practice information, and small municipalities may form **inter-municipal partnerships** (Box 3) to share a financial office that can handle administration of large reconstruction projects, as well as apply for projects through inter-municipal partnerships. Where such local solutions are an effective way of helping small municipalities to increase their administrative capacity, the local aid agency should encourage them and, when appropriate, help bear some of their initial costs.

Box 3 Forms of inter-municipal partnerships to support small municipalities' bids

- Delegation. Several municipalities can delegate project application and its implementation for them.
- Joint project. Coordinated activity and pooling resources (e.g. staff) to implement a recovery project
- Co-financing of infrastructure and other municipal organizations (e.g. a shared infrastructure-to-be reconstructed)
- Creation of joint municipal enterprises or organizations (e.g. procurement or project management office)
- Creation of a joint management authority.

Source: Based on the law of Ukraine on Inter-Municipal Cooperation (Art. 4)

The local aid agency should help guide the donors toward a **regional distribution of international assistance** that takes account of regional needs. Donors' attention should not be concentrated in just a few regions that have been featured in global news media. At the national level, the local aid agency should identify appropriate principles for allocating international funding to its regional offices and should issue estimates of the results of this allocation, so that the prioritization deliberations in each region can be based on reasonable estimates of how much international funding may become available for their local projects. These principles should include those that the national government uses for allocation of funding

¹⁹ Anna Harus and Oleg Nivyevskiy, "In Unity There Is Strength: The Effect of the Decentralization Reform on Local Budgets in Ukraine," *VoxUkraine* (blog), August 6, 2020, <https://voxukraine.org/en/in-unity-there-is-strength-the-effect-of-the-decentralization-reform-on-local-budgets-in-ukraine>.

to the various regional development funds, but the local aid agency might also take other factors into consideration after deliberations with the associations of municipalities.

Conclusion

To truly support Ukraine's democratic system of government, international recovery assistance should include support for elected local governments as well as for the national government. If international donors were to channel all their support through an office of the national government, then their assistance could become an implicit force for centralization in a country where political decentralization is a new and fragile achievement. But while war prevents democratic elections in Ukraine, national leaders' support for donors' engagement with local governments can be a vital expression of commitment to constitutional democracy.

We have proposed a donor-funded local aid agency to liaise directly with elected local authorities in every region of Ukraine and facilitate that they jointly come to a broadly acceptable agreement about distributing donor funding for local recovery projects in their region. To this end, the local aid agency should have permanent staff entrusted with facilitation function as well as supporting projects' preparation, scoring, and ranking, encouraging exchange of good practices and collaborating, where necessary, with the associations of local self-government authorities. Considering Ukraine's path towards EU integration, the European Union may be the most appropriate donor to coordinate local aid agency.