

# Local budgets and the reconstruction of Ukraine



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# On the reconstruction front line:

## Ukrainian municipalities and the funding landscape

### Introduction of research series

Russia's war in Ukraine is having a devastating impact on the population and development of the country. Decentralisation reforms launched in 2014 have enabled Ukrainian communities<sup>1</sup> to remain resilient and promptly respond to the challenges of war. However, no community has been untouched.

While some have suffered huge loss of life and significant damage to infrastructure, others have had to provide internally displaced persons with housing and employment, or help businesses re-establish themselves after relocating from war zones and occupied territories. Because regions and communities are being impacted in different ways, this has led to an uneven allocation of resources among communities, leading to disparities in the level of support required for recovery, modernisation, and the effective liquidity and absorption of funds.

In our view, the primary responsibility of the government – in partnership with civil society and assisted by international organisations – is to establish clear and transparent mechanisms aimed at mobilising domestic resources, attracting international financial support, and fairly distributing aid to meet the reconstruction and development needs of Ukrainian municipalities.

In this report, we present and address the main problems in accessing funds for Ukraine's reconstruction at the following three levels:

At the **community level**, municipalities, local governments, volunteers and residents are responding to the challenges of war in different ways – by repairing damaged infrastructure, assisting internally displaced persons, providing basic services to the population, and supporting the army. While reconstruction needs at this level can be financed through various means like local budget revenues, assistance from twin cities, humanitarian funds, volunteer projects, and government support in the form of targeted grants and state-funded projects, there is an urgent need to increase funding.

This section explores avenues for financing municipal needs through extra-budgetary sources, including international financial institutions. Public participation is crucial for attracting additional funds beyond the local budget, such as through joint projects with non-governmental organisations, discussions on local development priorities, and project monitoring.

At the **national level**, recovery policy is formulated and implemented by state and regional bodies. This section identifies opportunities for utilising state funds and other forms of state support to meet the recovery needs of municipalities. The state bears responsibility for ensuring that funds provided by international partners are distributed fairly and transparently among municipalities to ensure their

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<sup>1</sup> From 2014 to 2020, the Ukrainian government implemented decentralisation reforms with the aim of enhancing regional development and local democracy. This resulted in the creation of 1470 communities or hromadas: 410 (28 per cent) of the city type, 433 (29 per cent) of the urban type, and 627 (43 per cent) of the rural type. The terms 'hromada', 'community', and 'municipality' are used interchangeably to refer to the distinct administrative and territorial units in Ukraine and the bodies that govern them.

recovery needs are met. It is our view that public participation in the tender committees tasked with reviewing reconstruction projects submitted by municipalities should be made mandatory and enshrined in law.

At the **international level**, support for Ukraine's reconstruction is being provided by international partners, financial institutions, and dedicated funds. This last section evaluates the availability of international financial support for municipalities.

This research series is divided into three publications, each dedicated to addressing the complexities of reconstruction funding at the level examined. All references to funds and civil society groups are for illustrative purposes and should not be interpreted as expressions of preference or exclusivity.

# Local budgets and the reconstruction of Ukraine

## Assessment of the financial capacity of municipalities' budgets for recovery needs

From the years 2014 to 2020 1,470 territorial communities were formed in Ukraine during the process of decentralisation reform. The transfer of resources, powers, and responsibilities to the local level has significantly strengthened the resilience and potential of local authorities. The prompt response and decision-making by the municipalities since the full-scale invasion of Ukraine in February 2022 has highlighted the success of the reform. The effectiveness of this decentralisation reform has also been also highly valued by Ukraine's foreign partners, prominent figures and allies.<sup>2,3</sup>

The financial capacity of local budgets, which is the basis for the implementation of the delegated powers by local self-governments, has become a decisive factor in community development. A financially capable local budget is one that has sufficient funding from transparent sources of revenue and uses these funds effectively to fulfill its key goals. With sufficient financial capacity, a community can quickly advance with its sustainable development and become a comfortable place for its inhabitants.<sup>4</sup> Local budgets in the system of public finance currently play a very important role in ensuring the provision of quality public services to the population, since in fact all the state budget's own revenues are directed toward the security and defense sector.

## State of local budgets

Overall, the local budget revenues increased in 2022 and in the first quarter of 2023. The positive dynamics of revenues to the general fund of local budgets can be observed in the portal Budgets of Municipalities of Ukraine by ULEAD.<sup>5</sup> But the generalised indicators of local budget revenues cannot be considered fully informative. In particular, there has been a gradual return to the pre-war growth rates of local budget revenues.<sup>6</sup> While the state of local budgets in 2023 can generally be described as positive, the imbalance of local budgets is now at its highest level. Filling the revenue portion of local budgets depends significantly on personal income tax (67 per cent in the revenue structure), single tax (12 per cent), land tax (8 per cent),

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<sup>2</sup> Council of Europe Office in Ukraine, '[Good Democratic Governance among the key reforms for Ukraine](#)', *Council of Europe Office in Ukraine*, 9 November 2022.

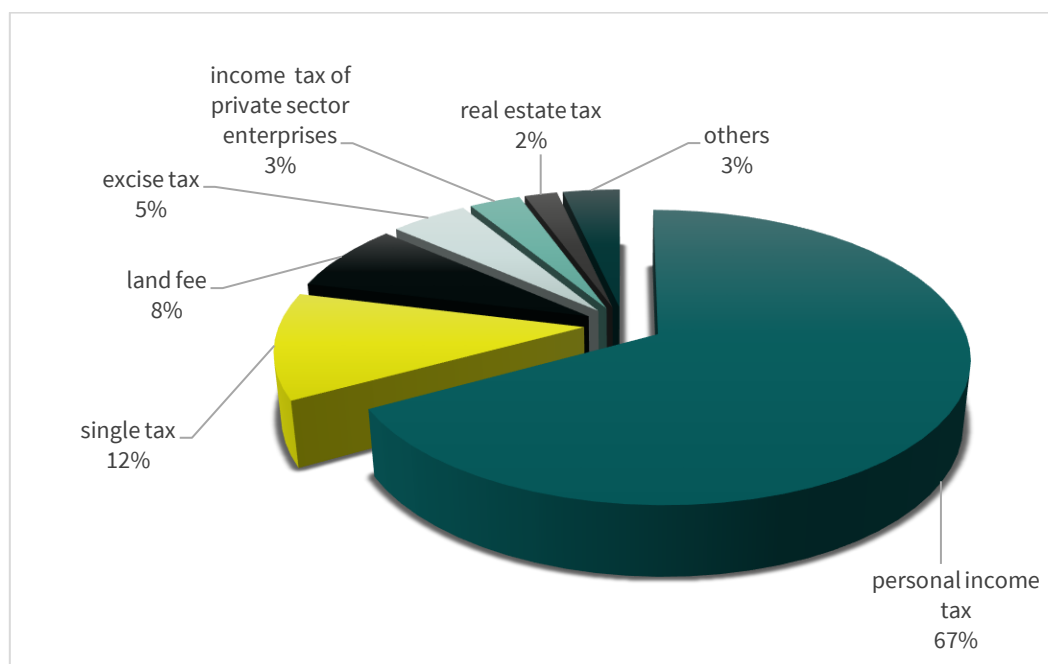
<sup>3</sup> Association of Ukrainian Cities, '[The Conference "Local Self-Government - the Basis of European Integration and Restoration of Ukraine" brought together more than 500 participants from Ukraine and abroad](#)', *Association of Ukrainian Cities*, 18 July 2023.

<sup>4</sup> Centre of United Actions, '[Financial capacity of territorial communities of Ukrainian oblast centers](#)', *Centre of United Actions*, 27 September 2022.

<sup>5</sup> ULEAD, '[Бюджети територіальних громад України by ULEAD](#)', *Tableau public*, 12 May 2023.

<sup>6</sup> Igor Onyshuk, '[Аналіз виконання місцевих бюджетів за I квартал 2023 року](#)', *Децентралізація*, 25 May 2023.

excise tax (5 per cent), the income tax of private sector enterprises (3 per cent), and real estate tax (2 per cent) (Figure 1).



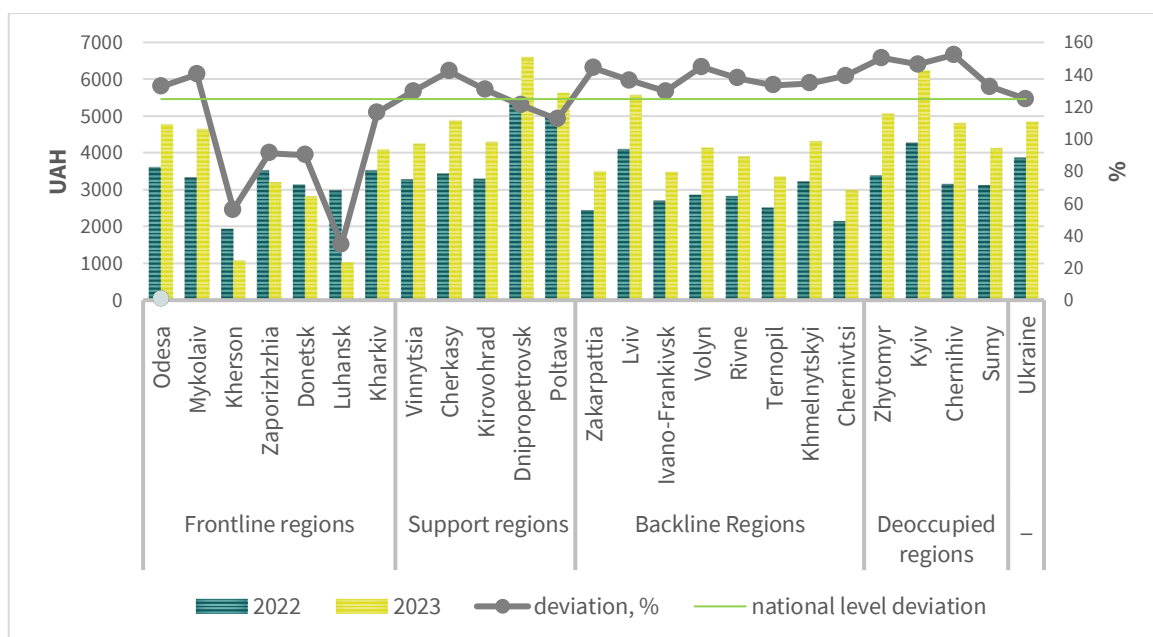
**Figure 1:** Structure of local budget revenues (January – September 2023).<sup>7</sup>

Since 2022, the budget revenues of municipalities have been negatively affected by the unprecedented outmigration of inhabitants, the shutdown of businesses, and the general, military recruitment, and war-related destruction. At the same time, mobilising hundreds of thousands of people into the Armed Forces of Ukraine has had another significant impact on community budgets. Revenue from the ‘military’ personal income tax (PIT) increased significantly. As a result, a municipality that hosts a military unit (which does not necessarily mean that there is an actual military presence) receives a significant influx of funds. At the same time, many territorial communities have seen a significant decrease in PIT collections from other sources: 44 per cent of communities received less than in 2021, and in 11 per cent of communities, PIT income dropped by over 20 per cent. When employees go to the frontline, the community where they used to work effectively loses the income from PIT which they paid, with the community where the military unit is registered becoming the recipient of their taxes as military service members.<sup>8</sup>

In Ukraine there was an increase in local budget revenue per capita for January-May 2023 compared to the corresponding period of 2022, by an average of 25 per cent (Figure 2). The main reason for this is a certain drop in income levels in base year 2022 due to Russian aggression as of February 2022. Additionally, there is a significant increase in the current period of PIT, including military PIT.

<sup>7</sup> Ministry of Finance of Ukraine, ‘[Execution of local budget revenues for January – September 2023](#)’, Ministry of Finance of Ukraine, 3 October 2023.

<sup>8</sup> Igor Piddubnyi, Serhii Tytiuk, Andrii Darkovich, ‘[“Military” PIT: How the Tax Allocation System Can Change and What It Will Lead To](#)’, Vox Ukraine, 25 September 2023.



**Figure 2:** Dynamics of local budget revenues per capita by the groups of regions, January–May, 2022 and 2023.<sup>9</sup>

During the past year of the war, communities of almost all regions (Figure 2) have shown an increase in local budget revenues per capita: 17 out of 24 regions showed an increase in budget revenues above the average national level. Exceptions to this tendency are the heavily affected front-line and partially occupied regions: Kherson, Zaporizhzhia, Donetsk, and Luhansk. Surprisingly, the backline territories<sup>10</sup> do not have a particularly high level of income, something which might have been expected from the business relocations. Thus far these territories have barely met the conditions of the reconstruction programmes and projects provided by the government.

As an indicator of local budgets’ level of financial capacity, it is proposed to use the share of their own revenues in the total amount of budget revenues (Figures 3). Despite certain successes of the decentralisation reform and the increase in local budget revenues in general, more than half of regions municipalities’ own revenues are at a lower level in the general budget structure than the national one and need additional funding (Figure 4).

<sup>9</sup> Ministry for Communities, Territories and Infrastructure Development of Ukraine, ‘Моніторинг реформи місцевого самоврядування та територіальної організації влади’, presentation, Ministry for Communities, Territories and Infrastructure Development of Ukraine, 20 July 2023.

<sup>10</sup> There are four types of regions in Ukraine:  
 Group I – Frontline regions, where military action is taking place  
 Group II – Supporting regions  
 Group III – Backline regions (territories that are outside of the war zone)  
 Group IV – De-occupied regions, where primarily reconstruction is now taking place.

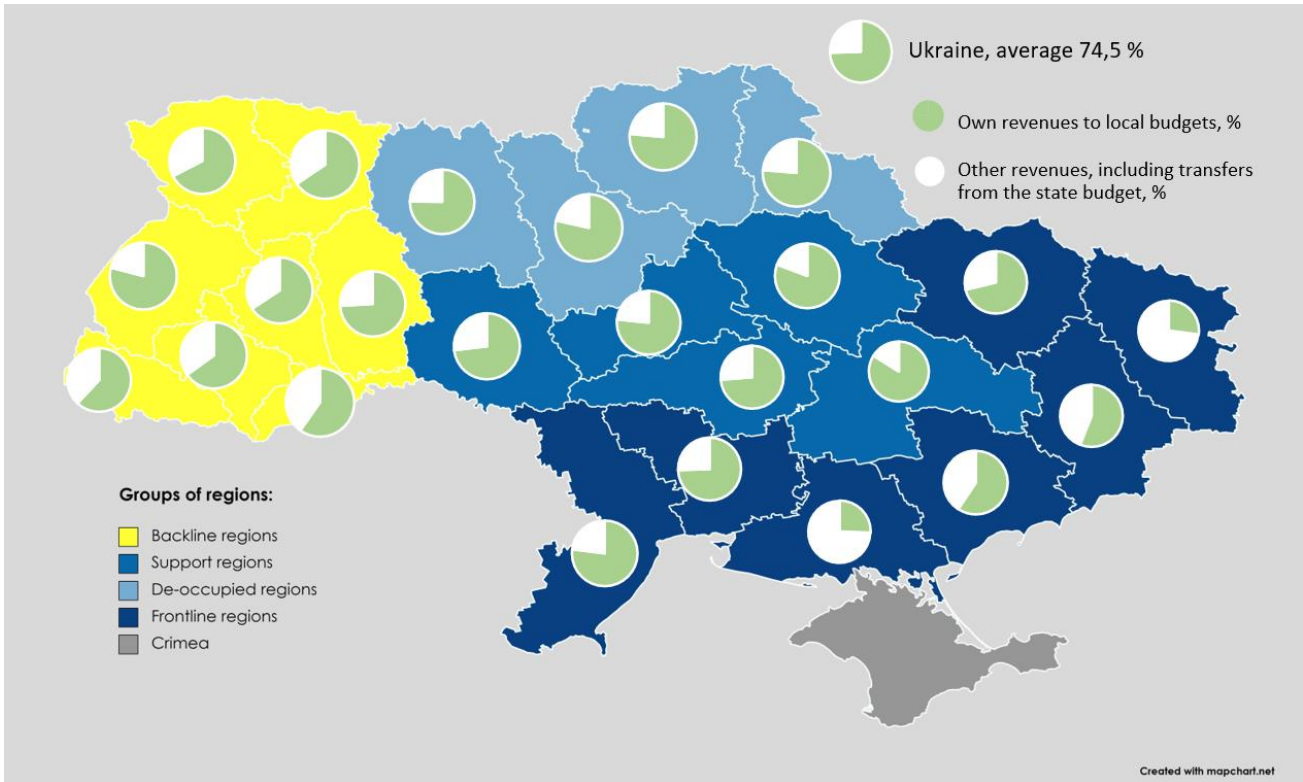


Figure 3: Own municipalities revenues in the total volume of revenues to local budgets, January – May 2023.<sup>11</sup>

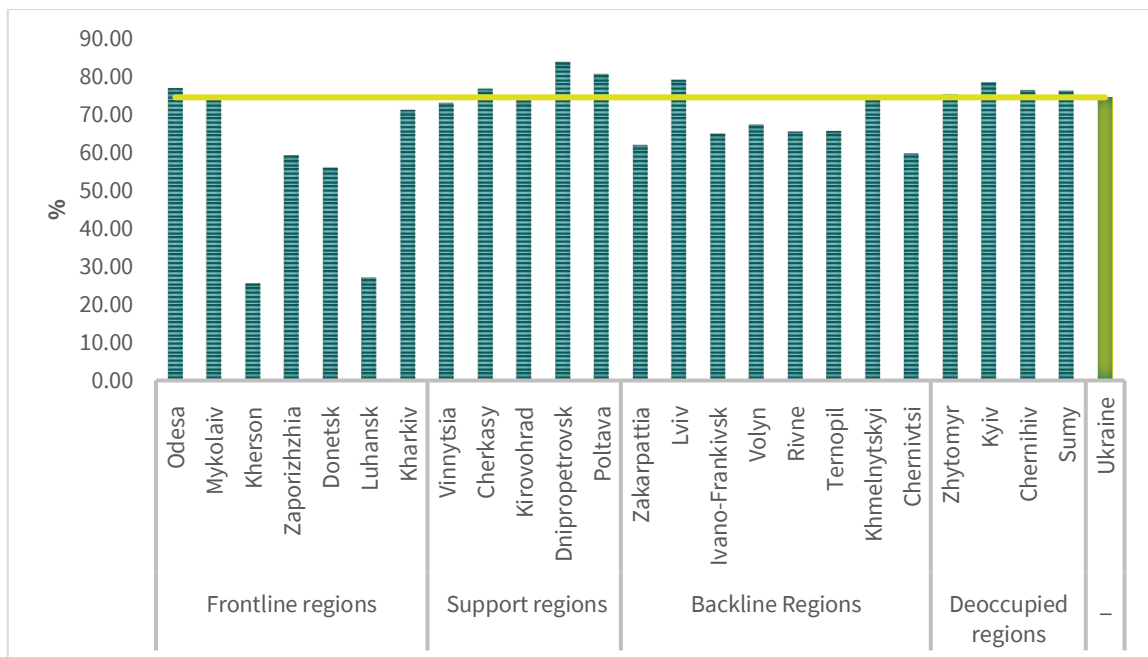


Figure 4: Share of own revenues in the total volume of revenues to local budgets, January – May 2023.<sup>12</sup>

<sup>11</sup> Ministry for Communities, Territories and Infrastructure Development of Ukraine, 'Моніторинг реформи місцевого самоврядування та територіальної організації влади', presentation, Ministry for Communities, Territories and Infrastructure Development of Ukraine, 20 July 2023.

<sup>12</sup> Ministry for Communities, Territories and Infrastructure Development of Ukraine, 'Моніторинг реформи місцевого самоврядування та територіальної організації влади', presentation, Ministry for Communities, Territories and Infrastructure Development of Ukraine, 20 July 2023.



On the other hand, a closer look at the individual communities indicates significant imbalances in the capacities of the territories. According to a study by the USAID DOBRE (Decentralization Offering Better Results and Efficiency) Program, the impact of the war on the budgets of territorial communities,<sup>13</sup> based on data from 60 DOBRE Program partner communities located in 10 regions of Ukraine, revealed a significant decrease in communities' budget revenues in 2022 compared to 2021. Some communities, however, have seen an increase in their own revenues. The most common reasons for this are personal income tax receipts from military salaries, business migration from temporarily occupied territories of Ukraine and territories of active hostilities, as well as receiving humanitarian aid. At the same time, personal income tax revenues from military salaries cannot be a stable basis for supplying local budgets in the future.<sup>14</sup>

Most of the municipalities in Ukraine are subsidised by the state budget. The state supports communities with insufficient income, using 'horizontal equalisation', which involves the transfer of financial resources from richer communities (reverse subsidy) and their distribution to the poorer in the form of a basic grant (subsidy). The value of the tax capacity index of the corresponding budget is definitive to identify the communities with less financial capacities. According to the Budget Code of Ukraine, Art. 99: 'A community with a fiscal capacity index of 0.9 to 1.1 does not pay money to the state, but also does not receive subsidies. In the event that the index exceeds 1.1, the state takes 50 per cent of the funds that exceed the income tax revenue of individuals compared to the similar average indicator for all local self-government budgets in Ukraine (except the budgets of Kyiv and Sevastopol) per person. If the fiscal capacity index is less than 0.9, the state will subsidise such communities by providing a basic subsidy of 80 per cent of the amount needed to reach the required value.'<sup>15</sup>

Figure 5 (prevailing orange color) illustrates that approximately 75 per cent of communities receive basic grants/subsidies from the state budget, approximately 14 per cent pay reverse subsidies, and nearly 11 per cent are non-subsidised.<sup>16</sup> The biggest share of communities that receive basic subsidies is made up of those that are rural and urban – about 80 per cent.<sup>17</sup>

Research by the Kyiv School of Economics shows<sup>18</sup> that municipalities that were more efficient at collecting revenue before the invasions took less time to resume the provision of public services and chose not to cut spending. This indicates the need for further support of decentralisation reform in order to strengthen the financial capacity of municipalities, especially for the needs of post-war reconstruction and recovery.

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<sup>13</sup> Децентралізація, '[Як війна вплинула на бюджети територіальних громад: дослідження Програми USAID DOBRE](#)', *Децентралізація*, 24 October 2023.

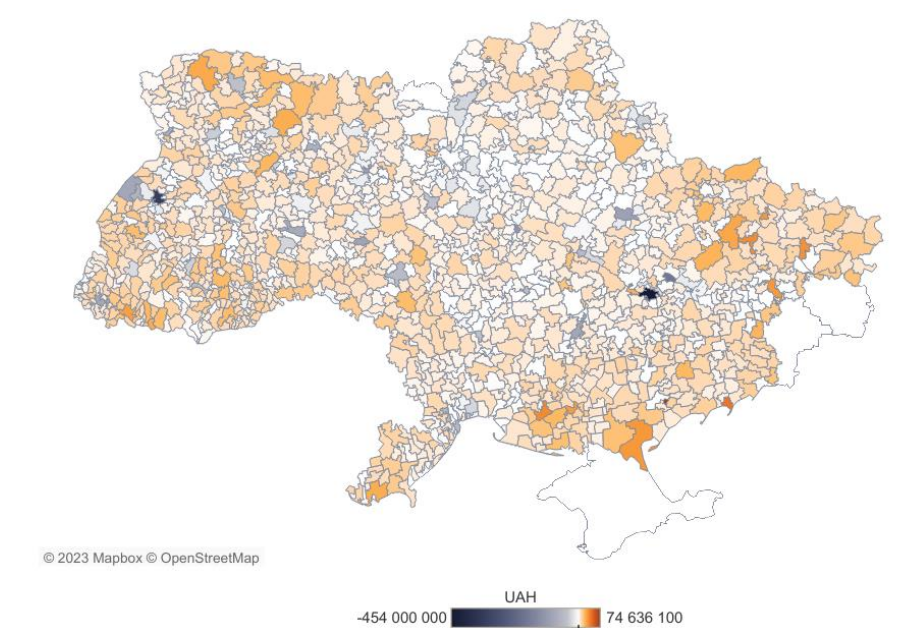
<sup>14</sup> Ibidem.

<sup>15</sup> Verkhovna Rada of Ukraine, '[Бюджетний кодекс України](#)', *Verkhovna Rada of Ukraine*, 19 November 2023.

<sup>16</sup> Катерина Березюк, '[Децентралізація: які громади годують Україну, а які — дотаційні](#)', *Рух ЧЕСНО*, 26 January 2022.

<sup>17</sup> Ступницький О. І., Швець І.Ю., '[Відновлення України: фінансові ресурси і інструменти відбудови та розвитку територіальних громад](#)', *Навчально-науковий інститут міжнародних відносин Київського національного університету імені Тараса Шевченка*, 11 October 2023.

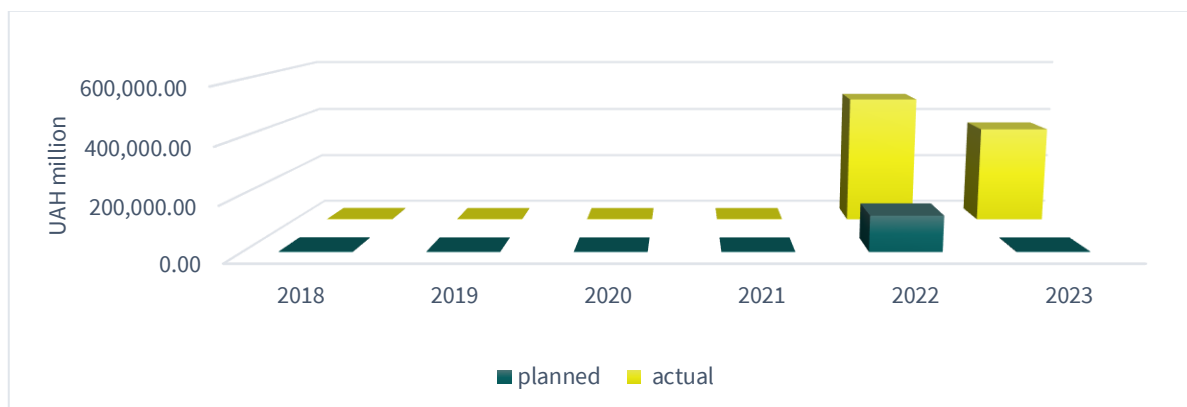
<sup>18</sup> Igor Piddubnyi, Roman Neyter, Serhii Zamidra and Oleg Nivievskiy, '[Decentralization and Communities Amalgamations: Increasing the Urban and Rural Divide?](#)', *KSE Center for Food and Land Use Research*, October 2022.



**Figure 5:** Transfers of territorial communities' local budgets from the state budget.<sup>19</sup>

Ukrainian budget legislation allows for the receiving of aid from the EU, foreign governments, international organisations, and donor institutions. However, the legislation does not permit rural communities to attract loan resources or international grants.

Since 2022, international partners have significantly increased assistance to Ukraine (Figure 6). Actual support substantially exceeded the planned level (Figure 6). In the structure of state budget revenues, international aid accounted for about 0.1 per cent in 2020, 0.1 per cent in 2021, 27 per cent in 2022 and 18 per cent from January to September 2023. As for local budgets, the revenue levels from international aid have not changed and were almost insignificant, accounting for 0.03 per cent in 2020, 0.01 per cent in 2021, 0.04 per cent in 2022 and 0.03 per cent in 2023.<sup>20</sup>



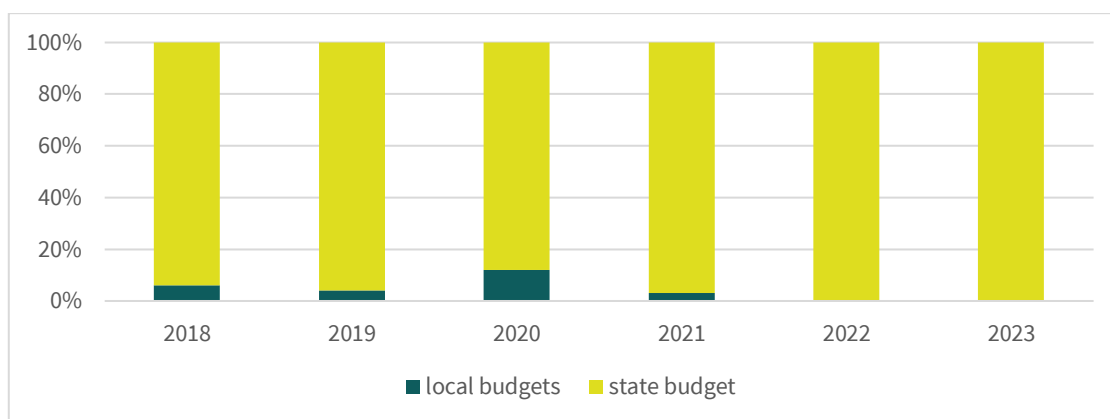
**Figure 6:** Budget revenue from the EU, foreign governments, international organisations, and donor institutions, 2018-2023, UAH million.<sup>21</sup>

<sup>19</sup> ULEAD, 'Бюджети територіальних громад України' by ULEAD, Tableau Public, 11 May 2023.

<sup>20</sup> Open Budget, 'Державний веб-портал бюджету для громадян', Open Budget, 2023.

<sup>21</sup> Ibidem.

Thus, since 2022, practically *all* international aid has gone to the state budget (Figure 7).



**Figure 7:** Distribution of budget aid from EU assistance, foreign governments, international organisations and donor institutions, 2018-2023, per cent.<sup>22</sup>

In order to support and advance the development of local governments in Ukraine, a significant share of foreign reconstruction assistance should be set aside for their use.<sup>23</sup>

The benefits of decentralisation reform and the ability of municipalities and local self-government to speed up and improve the quality of local decision-making are recognised and should be emphasised. However, the uneven income of community budgets depending on proximity to the front line, occupation, or de-occupation remains a challenge. Most municipalities still depend on state aid in the form of a basic grant. There is an urgent need to develop mechanisms for making international aid available directly to municipalities.

## Possibilities for attracting national and international financing for community reconstruction needs

The regulatory framework for ensuring recovery and reconstruction processes in Ukraine consists of some relevant existing provisions that describe their implementation and the roles and responsibilities of various participants; yet much remains to be developed, such as the national law on restoration, local plans and recovery programmes, and the national recovery plan (Annex 1).

As of mid-2023, the Fund for the Liquidation of the Consequences of Armed Aggression (the Liquidation Fund) and three programmes supported by the European Investment Bank (EIB) were the funding sources available for reconstruction projects. The submission of applications for financing, as well as the monitoring and auditing of the implementation of approved projects, will take place in the Digital Restoration Ecosystem for Accountable Management (DREAM), a state electronic reconstruction management system. Expert teams from the United Nations Development Programme and the Agency for Reconstruction and Infrastructure Development will be involved in order to monitor the quality of restoration projects, as well as their compliance with the requirements of accessibility, energy efficiency, and the availability of shelters.

<sup>22</sup>Ibidem.

<sup>23</sup>Roger Myerson, 'Postwar reconstruction assistance and local governments in Ukraine', *Vox Ukraine*, 23 May 2023.

Digital Restoration Ecosystem for Accountable Management – is a state digital ecosystem that provides a single digital pipeline for all reconstruction projects. Communities can create projects, present them to international partners to attract financial resources and manage the construction process. Ecosystem implements the highest integrity, accountability, efficiency, and transparency standards in Ukraine's recovery to build trust between the government, citizens, businesses, and financial institutions. DREAM allows anyone, anywhere, to monitor project performance and efficiency and use this information to mitigate risks, create accurate reporting, and improve the quality of projects overall.<sup>24</sup>

The World Bank, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the Council of Europe Development Bank (CEB) have signed the Memorandum that declares the intention to use the digital system DREAM.<sup>25</sup>

In 2023, UAH 62.3 billion (EUR 1.54 billion) was allocated from the Fund for Liquidation of the Consequences of Armed Aggression for various recovery programmes. The funds were earmarked, in particular, for work on energy facilities, the construction of water pipelines, the construction and restoration of infrastructure facilities, a pilot project for the comprehensive reconstruction of six settlements, as well as for local budgets to implement projects in the social sphere and related to housing and communal services.<sup>26</sup>

Additional resources for local needs could also be attracted from the State Regional Development Fund and the Energy Efficiency Fund, with which many projects have been implemented by municipalities in the recent past. A more in-depth discussion on the national programmes and funds for municipalities can be found in the second part of the publication series, which is dedicated to the possibilities of financing the needs of community reconstruction from state funds and the budget.

Due to limited financial resources, the success of the reconstruction will depend on efficient resource management, attaining the maximum results with efficient spending. In order to achieve this, the following aspects are essential:

- the planning and decision-making process for reconstruction should be decentralised;
- local self-government bodies should be responsible for the projects' implementation;
- community leaders should be the ones to request reconstruction and receive the resources (including financial) for its implementation;
- at the community level, it is essential to involve the inhabitants in the reconstruction, since they are its core beneficiaries.

This involvement should be present at all stages – from formulating requests for reconstruction in the community to monitoring its implementation. This will not only make the process more transparent, but will also promote a true understanding of the needs of the communities, inform people about the plans,

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<sup>24</sup> [DREAM: Digital Restoration Ecosystem or Accountable Management](#), accessed 27 November 2023.

<sup>25</sup> Ministry for Communities, Territories and Infrastructure Development of Ukraine, '[International financial institutions plan to use the DREAM digital ecosystem to ensure transparency and accountability in reconstruction](#)', *Government Portal*, 18 October 2023.

<sup>26</sup> Communications Department of the Secretariat of the CMU, '[Ukraine needs up to USD 15 billion for rapid recovery programme, says Prime Minister](#)', *Government Portal*, 7 October 2023.

take the interests of various stakeholders into account, reduce the risk of corruption, and increase trust in both the reconstruction process and the state. Reconstruction must be accessible and fairly distributed among those who truly need it and in locations where it will be socially and economically feasible. Fair competition between territorial communities and unified requirements for receiving funding will have the most significant impact on the reconstruction outcomes. The struggle between territorial communities for access to limited resources must be conducted according to clearly defined rules for each level (territorial community, raion, oblast), with uniform requirements for projects, budget calculations, etc. In this respect, the government must ensure equal access to resources, preventing cases in which the majority of the reconstruction resources are taken by a minority of those who need them.<sup>27</sup>

On July 20, 2023, the Coordination Council on Regional Policy and Decentralisation was held jointly with the Ministry for Community Development, Territories and Infrastructure of Ukraine (Ministry of Reconstruction), the Verkhovna Rada Committee on the Organization of State Power, Local Self-Government, Regional Development and Urban Planning, heads of diplomatic missions of partner countries, and representatives of project offices aimed at supporting decentralisation reforms and regional development.

Five key priorities of regional policy and work with municipalities were determined:

- strategic planning and project management
- investment activity and interaction with donor organisations
- anti-corruption activity
- digitalisation and data-driven policies
- urban planning.

This will help provide municipalities with the experience and tools to continue decentralisation and strengthen recovery processes.<sup>28</sup>

## International Financial Institutions work with communities

In a democratic and transparent society, information regarding international assistance should be open and accessible to the public. In Ukraine, an official state web portal, IFIs projects,<sup>29</sup> was created in 2019 to prevent corruption in ministries, in other central bodies of executive power, and to address the public's request. It contains comprehensive information in the format of open data about social and economic development projects implemented in Ukraine with the involvement of funds from international financial institutions.

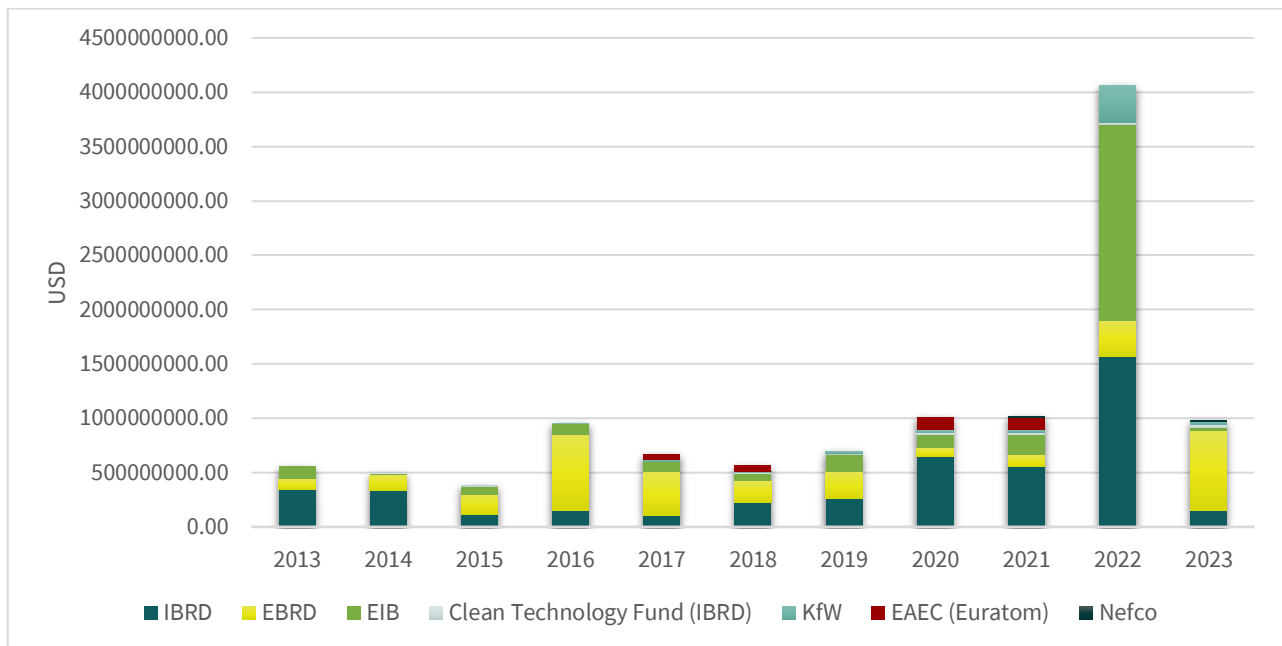
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<sup>27</sup> Centre of United Actions, '[Position of the Centre of United Actions on the post-war reconstruction of Ukraine](#)', *Centre of United Actions*, 22 June 2023.

<sup>28</sup> DREAM Новини, '[Мінвідновлення: Відбудова України стане зразком для наслідування для всього світу](#)', *DREAM Новини*, 21 July 2023.

<sup>29</sup> IFIs projects, '[Портал реєстру проектів МФО](#)', *IFIs projects*, 2023.

According to the portal, we can see that international aid has been revived since 2016, and in 2022 it increased four times compared to 2021 and consisted of USD 4.065 billion (Figure 8).



**Figure 8:** Dynamics of the use of funds from international financial institutions, US dollars.<sup>30</sup>

The main international financial institutions that work with Ukraine are the following:

- International Bank for Reconstruction and Development (IBRD, 35.53 per cent of IFI financing),
- European Investment Bank (EIB, 28.80 per cent),
- European Bank for Reconstruction and Development (EBRD, 28.38 per cent),
- German Credit Institute for Reconstruction (KfW, 3.51 per cent),
- European Atomic Energy Community (Euratom, 2.69 per cent),
- Clean Technologies Fund (CLF, 1.02 per cent),
- NEFCO (Northern Environmental Finance Corporation, 0.07 per cent).<sup>31</sup>

Among all the projects on the portal, very few concern municipalities; examples include the following:

- Kharkiv, Dnipro – the construction of the metro, supported by EIB and EBRD,
- Chernivtsi – a municipal water management project, supported by KfW,

<sup>30</sup> IFIs projects, 'Статистика.' IFIs projects, 2023.

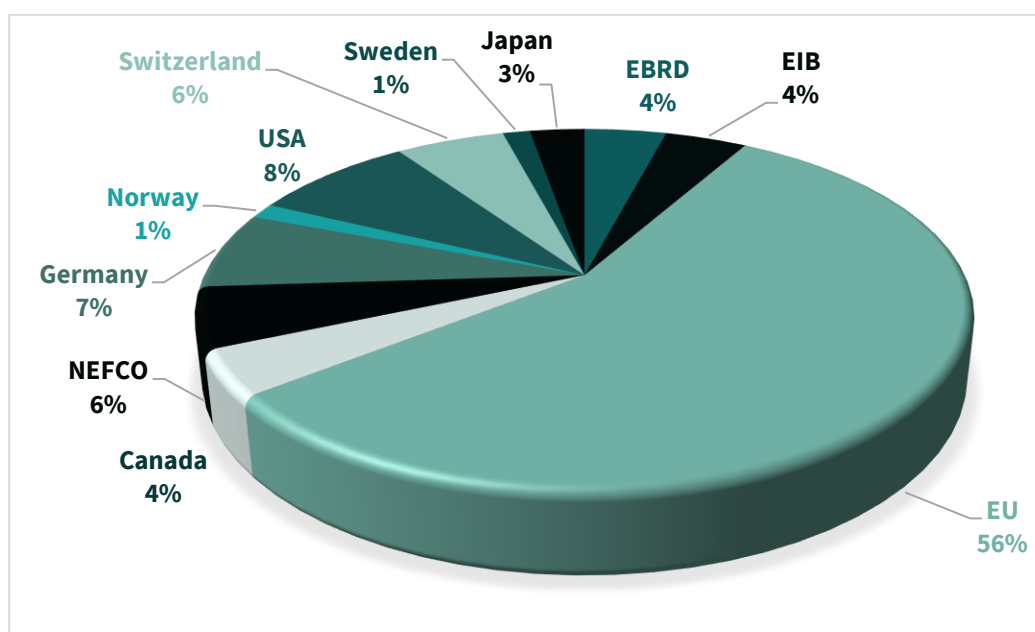
<sup>31</sup> Ibidem.

- improvement of urban public transport in some cities of Ukraine, such as Ivano-Frankivsk, Bila Tserkva, Kyiv, Lutsk, Lviv, Kremenchuk, Odesa, Sumy, Ternopil, Kharkiv, and Chernihiv, supported by EIB,
- Zhytomyr, Zaporizhzhia – increasing the energy efficiency of selected buildings, supported by KfW.

This list is not complete, as the EBRD municipal projects are missing.<sup>32</sup> Moreover, it only contains information on IFIs’ projects for large cities/regional centres, which confirms the limited possibilities for village and settlement communities to take advantage of foreign financing.

In addition to funding from international financial institutions, municipalities could attract resources from international technical assistance (ITA, Annex 2).

Based on the data from the international technical assistance registers, we can estimate the level of targeting of aid projects to municipalities. As of 1 December 2019,<sup>33</sup> municipalities were recipients of only 10 per cent of ITA, and as of 2 October 2023,<sup>34</sup> municipalities were recipients of 13 per cent of ITA.



**Figure 9:** The approximate structure of ITA projects accessible for municipalities by partners.<sup>35</sup>

Monitoring the databases of the national official registers of IFI and ITA, we can assume that ITA projects are more accessible for small municipalities than IFI financing.

<sup>32</sup> Olha Stohnusheko, Fidanka Bacheva-McGrath, ‘[EBRD urban projects in Ukraine must drive national recovery efforts](#)’, CEE Bankwatch Network, 19 May 2023.

<sup>33</sup> Міністерство економіки України, ‘[Перелік проектів міжнародної допомоги, зареєстрованих у Міністерстві розвитку економіки, торгівлі та сільського господарства України](#)’, Міністерство економіки України, 1 December 2019.

<sup>34</sup> Government Portal, ‘[Перелік проектів МТД](#)’, Government Portal, 2 October 2023.

<sup>35</sup> Ibidem.

*The pilot community survey confirms that for most communities, neither national nor international funding for local needs is readily available.*<sup>36</sup>

## International cooperation of communities

One of the most accessible ways for municipalities to attract international financial support is to find sister cities, also known as ‘twin towns’ or partner cities.<sup>37</sup> During these difficult days of the Russian invasion, Ukrainian municipalities have felt the true solidarity of local self-government. Municipalities from all over the democratic world help Ukrainian communities by sending humanitarian aid and necessary machinery and equipment, already joining in the process of reconstruction in the destroyed and de-occupied communities. Working together with foreign partner municipalities to overcome all these challenges makes our communities stronger and more successful.

Three hundred and fifty-six Ukrainian municipalities have concluded 1,464 partnership agreements with the communities of various countries. Ukrainian communities have established partnerships with municipalities in a total of 62 countries, including countries on every continent apart from Australia (Annex 3).

Ukrainian communities have the most partnerships with Polish cities and gminas (municipalities) (501 partnerships, or 39 per cent of the verified list). Hungary (122 partnerships), Germany (86), Romania (83), the Slovak Republic (56), Lithuania (50), the Czech Republic (39), Georgia (28), Bulgaria (25), Italy, Latvia and France (22 each) are also among the countries with whose communities Ukrainian municipalities are most involved. Larger cities and territorial communities closer to the western, EU border of Ukraine have the largest number of partners.<sup>38</sup>

Two examples of the cooperation initiatives are mentioned below.

- The Partnership for Recovery and Development programme entails partnerships that Ukrainian communities have established; a guide on the steps for establishing cooperation is also provided as part of the initiative.<sup>39</sup>
- The initiatives Cities 4 Cities | United 4 Ukraine assist in establishing partnership initiatives, with more than 40 initiatives realised. Cities 4 Cities was founded by the city of Sindelfingen (Germany) under the patronage of the Congress of Local and Regional Authorities of the Council of Europe. United 4 Ukraine was launched by SALAR International and the city of Lviv (Ukraine) with the support of the Swedish International Development Cooperation Agency (Sida).<sup>40</sup> Partnering with foreign municipalities opens up opportunities to attract international funding through participation in cross-border cooperation programmes. The programmes of DG Regio – the EU Directorate for

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<sup>36</sup> Ступницький О. І., Швець І.Ю., ‘Відновлення України: фінансові ресурси і інструменти відбудови та розвитку територіальних громад’, Навчально-науковий інститут міжнародних відносин Київського національного університету імені Тараса Шевченка, 11 October 2023.

<sup>37</sup> Wikipedia, ‘[Sister city](#)’, *Wikipedia*, accessed 27 November 2023.

<sup>38</sup> Ministry of Communities and Territories Development of Ukraine, ‘[Partnership for recovery and development](#)’, *Децентралізація*, 27 November 2023.

<sup>39</sup> Ibidem.

<sup>40</sup> [Cities4cities](#), accessed 27 November 2023.



Regional Development<sup>41</sup> – help implement EU policies through solving problems that affect a particular region, as well as thematic programmes. Cross-border cooperation programmes available for the regions of Ukraine bordering the EU include:

- Poland – Ukraine programme (Interreg NEXT Poland – Ukraine)<sup>42</sup>
- Hungary – Slovakia – Romania – Ukraine programme (Interreg NEXT Hungary – Slovakia – Romania – Ukraine)<sup>43</sup>
- Romania – Ukraine programme (Interreg NEXT Romania – Ukraine)<sup>44</sup>
- Black Sea Basin programme (Interreg NEXT Black Sea Basin)<sup>45</sup>
- Danube programme (Interreg Danube).<sup>46</sup>

### *New Interreg programme for all Ukrainian communities<sup>47</sup>*

Recently, the government of Ukraine and the European Commission announced that Ukraine will join the Interreg Europe programme from 1 January 2024. The uniqueness of this programme is that every single region and city of the EU and Ukraine can take part in it. Therefore, if certain Ukrainian communities were previously unable to participate in other cross-border cooperation programmes, now, with a partner in every corner of the EU, they can safely apply together for projects involving the exchange of experience in six priority areas:

- a smart Europe
- a green Europe
- a united Europe
- a socially responsible Europe
- a Europe that is closer to citizens
- better regional governance.

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<sup>41</sup> European Commission, '[Funding and Tender Opportunities](#)', *European Commission*, accessed 27 November 2023.

<sup>42</sup> [Interreg NEXT Poland - Ukraine](#), accessed 27 November 2023.

<sup>43</sup> HUSKROUA 2021-2027, '[Hungary-Slovakia-Romania-Ukraine: ENI Cross-border Cooperation Programme 2014-2020](#)', *HUSKROUA 2021-2027*, accessed 27 November 2023.

<sup>44</sup> [Interreg NEXT Romania-Ukraine](#), accessed 27 November 2023.

<sup>45</sup> [Interreg NEXT Black Sea Basin](#), accessed 27 November 2023.

<sup>46</sup> [Interreg Danube Transnational Programme](#), accessed 27 November 2023.

<sup>47</sup> [Interreg Europe](#), accessed 27 November 2023.

### *Horizon Europe programme<sup>48</sup>*

This programme deals with the development of technologies and innovations, in particular with regard to achieving the goals of sustainable development, overcoming challenges related to climate change, creating a competitive economy, developing fundamental research, and developing scientific talents. While having a scientific focus, the programme still offers Ukrainian communities the opportunity to participate, particularly with regard to climate-neutral and smart cities and offers the chance to gain experience in these areas.

### *LIFE Programme<sup>49</sup>*

This programme is aimed at preserving nature and biodiversity, creating a circular economy, reducing the impact of climate change and transitioning to clean energy sources. The programme is the main tool for the implementation of the European Green Deal, within the framework of which Europe should become the first climate-neutral continent by 2050. The areas for the projects for Ukraine include:

- the protection of the Emerald Network protected areas under the Bern Convention,
- the Phoenix programme, which aims to create new ecological infrastructure in Ukrainian communities; in particular, this programme will contribute to solving the issues of solid household waste management and the quality management of water resources.

### *The EU programme for the recovery of Ukraine*

Starting in 2024, the EU will implement the Ukraine Facility,<sup>50</sup> a dedicated financial instrument, to support Ukraine's recovery; it will be similar in mechanism to the EU's structural and investment funds. While the Facility will mainly focus on macroeconomic support to Ukraine, it may also have special dedicated funding shares for communities.<sup>51</sup>

## **Communities – drivers of change and resilience**

Since 2014, Ukrainian municipalities have been working under the conditions of Russia's armed aggression and have experienced recovery needs as well. The communities of the Luhansk and Donetsk regions undeniably have more experience with this. Through decentralisation reform, the communities were able to get more resources and gain more responsibility, both national and international, with regard to solving local problems. The communities that voluntarily united by 2020 within decentralisation reform received more benefits from infrastructure subvention, work with United States Agency for International Development (USAID),<sup>52</sup> including the USAID programme "Decentralization Offering Better Results and

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<sup>48</sup> European Commission, '[Horizon Europe](#)', *European Commission*, accessed 27 November 2023.

<sup>49</sup> European Climate, Infrastructure and Environment Executive Agency (CINEA), '[LIFE Programme](#)', *CINEA*, accessed 27 November 2023.

<sup>50</sup> European Commission, '[Questions and Answers - A new Ukraine Facility](#)', *European Commission*, 20 June 2023.

<sup>51</sup> Valeriya Izhyk, '[Initial Comments on the Proposal for a Regulation on establishing the Ukraine Facility](#)', *CEE Bankwatch Network*, 20 July 2023.

<sup>52</sup> U.S. Agency for International Development (USAID), '[Ukraine](#)', *USAID*, accessed 27 November 2023.

Efficiency (DOBRE),<sup>53</sup> the Swiss-Ukrainian Decentralization Support Project (DESPRO),<sup>54</sup> the Ukraine – Local Empowerment, Accountability and Development Programme (U-LEAD with Europe),<sup>55</sup> International Organization for Migration (IOM)<sup>56</sup> programmes, etc., as well as from international experts. These pioneer communities initiated a project approach to organising work within self-government. Their experience should be extended to the rest of Ukraine's communities.

One of the examples of the successful activities of amalgamated communities is the Chortkiv Urban Territorial Community in Ukraine,<sup>57</sup> in the Chortkiv Raion of the Ternopil Region. The area of the community is 151.7 km<sup>2</sup>, and the population is 36,632 (as of 2020).<sup>58</sup>

In 2016, Chortkiv's mayor joined the Global Covenant of Mayors for Climate and Energy,<sup>59</sup> where a voluntary commitment was undertaken to advance the EU-wide requirements to reduce CO2 emissions by at least 40 per cent by 2030, through introducing energy-saving measures and widening the use of renewable energy sources. In the same year (2016), the Chortkiv City Council became a member of the Voluntary Association of Local Self-Government Bodies, in particular, the association Energy-Efficient Cities of Ukraine.<sup>60</sup>

In 2017, Chortkiv joined the European initiative Measures for Economic Growth (M4EG).<sup>61</sup> It will create opportunities for its members to significantly support experts and colleagues from other municipalities and provide assistance in the dissemination of success stories, as well as knowledge transfer and grant support for municipalities that were selected on a competitive basis.

In 2017, Chortkiv was selected by the Northern Ecological Financial Corporation (NEFCO),<sup>62</sup> and the process of cooperation on the project of the thermal renovation of the buildings of educational institutions began. On 29 December 2017, a loan agreement was signed between the Chortkiv City Council and the NEFCO. Another achievement of the city was the additional allocation of grant funds in the amount of UAH 2 628 624 (approx. EUR 90 000) within the framework of this project by the Eastern Europe Energy Efficiency and Environment Partnership (E5P).<sup>63</sup> These funds were provided for the implementation of this project on an irrevocable basis and without any interest being owed.

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<sup>53</sup> Ministry of Communities and Territories Development of Ukraine, '[ПРОГРАМА «ДЕЦЕНТРАЛІЗАЦІЯ ПРИНОСИТЬ КРАЩІ РЕЗУЛЬТАТИ ТА ЕФЕКТИВНІСТЬ» \(DOBRE\)](#)', *Децентралізація*, accessed 27 November 2023.

<sup>54</sup> [Swiss-Ukrainian Decentralization Support Project DESPRO](#), accessed 27 November 2023.

<sup>55</sup> [U-LEAD with Europe](#), accessed 27 November 2023.

<sup>56</sup> '[Ukraine: IOM Response 2022-2023](#)', *IOM*, accessed 27 November 2023.

<sup>57</sup> [Chortkiv City Council](#), accessed 27 November 2023.

<sup>58</sup> Ministry of Communities and Territories Development of Ukraine, '[Чортківська територіальна громада](#)', *Децентралізація*, accessed 27 November 2023.

<sup>59</sup> [Global Covenant of Mayors for Climate and Energy](#), accessed 27 November 2023.

<sup>60</sup> [Association of Energy Efficient Cities in Ukraine](#), accessed 27 November 2023.

<sup>61</sup> [Mayors for Economic Growth](#), accessed 27 November 2023.

<sup>62</sup> [Northern Ecological Financial Corporation \(NEFCO\)](#), accessed 27 November 2023.

<sup>63</sup> Department of Strategic Development and Investment of the Executive Committee of the Rivne City Council, '[Eastern Europe Energy Efficiency and Environment Partnership \(E5P\)](#)', *Department of Strategic Development and Investment of the Executive Committee of the Rivne City Council*, accessed 27 November 2023.

In 2018, Chortkiv City Council signed a Memorandum of Cooperation with the international NGO 350.org<sup>64</sup> in order to achieve the jointly important goal of 100 per cent renewable energy sources in the energy balance of the city of Chortkiv by 2050, creating a positive identity for Chortkiv and making it attractive in terms of investment both in the Ukrainian and in the international sphere. Further, the cooperation encouraged the implementation of the best global practices in the field of energy efficiency, renewable energy sources, and climate adaptation.

The community was formed in 2019. Advisory assistance in passing the accession stages was provided by regional consultants of the Reforms Office at the Ternopil Regional Branch of the Association of Ukrainian Cities within the framework of the project Policy for Local Self-Governance in Ukraine, implemented jointly with USAID.

In 2019, a new, modern administrative service centre was officially opened in Chortkiv City Council with the support of the U-LEAD with Europe programme.

In October 2023, the Chortkiv community was officially admitted to the European association of Energy Cities.<sup>65</sup> All these steps demonstrate the development of the Chortkiv community in the direction of energy efficient reconstruction.

Russia's invasion is worsening problems for coal mining communities. Mines are being flooded and critical infrastructure destroyed, forcing people to evacuate. Transitioning coal towns to sustainable industries could create a green post-war recovery and promote sustainable economic and social development. In September 2022, leaders of coal mining communities from different regions of Ukraine signed a joint letter<sup>66</sup> regarding the role of their communities in the recovery of Ukraine and the prospects for a just transition.

The mayors of the mining communities of Ukraine:

1. expect the involvement of local self-government representatives in the development of recovery plans;
2. strive for a transparent and effective mechanism for drafting recovery plans and plans for the development of mono-functional mining towns;
3. propose the resumption of regular consultations, following the example of the Coordination Center for the Transformation of Coal Regions;
4. propose starting a dialogue on the following areas of transformation: energy security, economic development, education, environmental safety, housing policy, gender equality and inclusiveness.

To support coal mining communities in their quest for a just transition, civil society calls for several recommendations to be taken into account and considered in the further process of developing the concepts and programmes for the just transition of mono-industrial cities/communities, based on previous experiences and taking into account new challenges. The recommendations are divided into the following

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<sup>64</sup> [350.org](#), accessed 27 November 2023.

<sup>65</sup> [European association of Energy Cities](#), accessed 27 November 2023.

<sup>66</sup> Interfax - Ukraine, '[An open letter from the mayors of coal mining communities regarding Ukraine's recovery process](#)', *Interfax - Ukraine*, 15 September 2022.

groups: 1. Energy; 2. Environmental protection; 3. Economy; 4. Education; 5. Housing policy; 6. Gender equality and inclusiveness.<sup>67</sup>

A good initiative for the reconstruction and recovery of coal mining communities is the platform Coal Regions of Ukraine: Just Transition and Investment,<sup>68</sup> where information for potential investors is submitted.

## Sustainable energy for community initiatives

There are also examples in which civil society organisations cooperated successfully with communities and helped them find financing, develop technical documentation, and implement projects.

Responding to the energy challenges during the war, the NGOs Ecoclub and Ecoaction addressed the need to support the activities of local self-government in the implementation of solutions that would lead to sustainable energy in communities through providing grants.<sup>69</sup>

Currently, Ecoclub implements projects to install solar power plants in hospitals, water utilities, and kindergartens in large and small communities in Ukraine. One of the goals of the organisation is to help equip as many critical infrastructure facilities as possible in territorial communities in Ukraine with solar power plants to protect these facilities from the loss of their power supply. As of 1 October 2023, 15 projects have already been implemented or started in the following cities: Sumy (hospital), Zhytomyr, Zvyagel (hospital, water supply, kindergarten and lyceum), Brody, Kremenchuk, Rivne, Dubno, Nizhyn, Mykolaiv, Kodima, Chornomorsk, Brovary, and Khotin.<sup>70</sup>

## Green reconstruction in practice

Over the past few years, Ecoaction supported local NGOs in implementing projects that help Ukrainian communities to become more climate resilient. These projects involve developing more effective climate policies, assessing communities' climate change vulnerability, and selecting adaptation measures. In 2022, Ecoaction supported four NGOs that carried out projects dedicated to climate change adaptation over a six-month period. Another 10 organisations will implement projects based on the principles of green reconstruction. The projects are executed with the financial support of the Federal Ministry for Economic Affairs and Climate Action of Germany within the framework of the International Climate Initiative (Die Internationale Klimaschutzinitiative, IKI) project.<sup>71</sup>

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<sup>67</sup> Ecoaction, '[Civil Society Position on Coal Mining Communities' Just Transition in the Post-War Recovery of Ukraine](#)', *Ecoaction*, 24 January 2023.

<sup>68</sup> [CR invest](#), accessed 27 November 2023.

<sup>69</sup> Ecoclub, '[Конкурс: надаємо гранти для проєктів у сфері "зеленої" енергетики](#)', *Ecoclub*, 4 January 2023.

<sup>70</sup> Енергобізнес, '[ЕНЕРГЕТИЧНА БЕЗПЕКА: ЧОМУ УКРАЇНСЬКІ ГРОМАДИ ВСЕ ЧАСТІШЕ ОБИРАЮТЬ ВІДНОВЛЮВАНІ ДЖЕРЕЛА ЕНЕРГІЇ](#)', *Енергобізнес*, 24 October 2023.

<sup>71</sup> Ecoaction, '[Green reconstruction of Ukrainian communities: 10 projects supported by Ecoaction](#)', *Ecoaction*, 25 August 2023.

## Coalition of Integrity Communities

In working on establishing international partnerships and attracting international funding for local development and reconstruction projects, municipalities should conduct their activities transparently, openly and honestly. In Ukraine, the initiative of the NGO Tsegrin and the SE Prozorro Coalition of Integrity Communities has been successfully implemented since 2022.<sup>72</sup>

Prozorro<sup>73</sup> is a platform where municipalities, if necessary, can leave requests for additional assistance. Donors can find a list of the urgent needs of communities that municipalities are unable to cover with their budgets and can provide appropriate assistance.

This initiative is valuable in promoting the benefits of the virtuous behaviour of municipalities. At the beginning of October 2023, the coalition included 21 municipalities. Another important aspect of the Coalition of Integrity Communities is networking and the direct exchange of experience between participating municipalities.

## Capacity-building for communities

The role of civil society organisations can also be to help build the capacities of communities. They can provide technical and expert support in the advancement of community development strategies and recovery plans (as the basis documents for further cooperation with donors) and organise trainings for local activists and local government officials.

Since 2017, the NGO Open Society of Ukraine<sup>74</sup> has been implementing the project School of Local Self-Government.<sup>75</sup> Participants of the school gain knowledge regarding local self-government and the organisation of public activities, and they perform teamwork aimed at developing their communities and Ukraine as a whole.

Since 2001, the NGO Institute of Political Education<sup>76</sup> has been implementing a number of different projects aimed at the development of democracy and civil society in Ukraine, the development of local self-government and parliamentarism, Ukraine's European integration, and the promotion of democratic values. In 2023, the Institute of Political Education is implementing the project Unbreakable Communities. Restoring Ukraine Together!,<sup>77</sup> which aims to strengthen local communities by providing socially active women with knowledge and skills related to the new challenges of communities functioning under martial law, and to organise a network for the continuous exchange of experience and best practices between them. The project has involved 250 active women from the public sector and local government officials.

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<sup>72</sup> [Prozorro](#), accessed 27 November 2023.

<sup>73</sup> Інфобокс Prozorro, '[ЗВІТУВАННЯ ТЕРИТОРІАЛЬНИХ ГРОМАД](#)', *Інфобокс Prozorro*, 1 October 2023.

<sup>74</sup> Facebook, [Відкрите Суспільство України](#), *Facebook*, accessed 27 November 2023.

<sup>75</sup> [Школа місцевого самоврядування](#), accessed 27 November 2023.

<sup>76</sup> [Інститут Політичної Освіти](#), accessed 27 November 2023.

<sup>77</sup> Інститут Політичної Освіти, '[НЕЗЛАМНІ ГРОМАДИ. ВІДНОВЛЮЄМО УКРАЇНУ РАЗОМ!](#)', *Інститут Політичної Освіти*, 7 February 2023.

Another capacity-building programme for Ukrainian municipalities, Rethinking Cities in Ukraine,<sup>78</sup> is organised by Stockholm Business School, Stockholm University, and Ro3kvit Urban Coalition<sup>79</sup> with financial support from the Swedish Institute's Public Sector Innovation Programme. This 6-month programme (October 2023–April 2024) aims to support local-level officials and community leaders in Ukraine in a deeper understanding of the challenges of current and post-war strategic spatial development and to provide methodologies and tools to solve these tasks. The programme is focused on thematic modules that will guide participants through the entire cycle of integrated spatial planning: spatial planning and reconstruction, sustainable technologies, participation and inclusion, finances, partnerships, and management.

For Integrity Communities, Tsegrin<sup>80</sup> conducts trainings on establishing the effective operation of local self-government bodies (project management, development of local strategies and recovery plans, establishing effective communication, organisation of procurement, and work with the Prozorro system). Community leaders hold meetings and discussions with decision makers at the national level (representatives of ministries, deputies of the Ukrainian Parliament), as well as with municipality associations and experts.

To participate in the cooperative programmes and attract funding, it is important to:

- establish a profile of the community on its websites;
- develop a project idea that would meet the programme priorities;
- demonstrate the financial and organisational capacity;
- conduct activities transparently, openly and honestly;
- champion in the thematic areas – sustainable development, climate change, sustainable energy solutions, preservation of nature and biodiversity, creating a circular economy.

## Problems with attracting financing from municipalities for reconstruction needs

Based on the results of the survey,<sup>81</sup> the main challenges and obstacles faced by the communities during the implementation of the projects were as follows.

- Martial law caused the suspension of the implementation of projects that were launched before the start of the war. This is a serious challenge for project planning and implementation.
- Funding problems: 1) the lack/delay of funding from the central or regional budget complicates the implementation of projects; 2) scarce funds in the local budget leads to delays in financing projects

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<sup>78</sup> Ro3kvit, '[Capacity building program "Rethinking Cities in Ukraine"](#)', Ro3kvit, accessed 27 November 2023.

<sup>79</sup> [Ro3kvit](#), accessed 27 November 2023.

<sup>80</sup> [Cehrin](#), accessed 27 November 2023.

<sup>81</sup> Ступницький О. І., Швець І.Ю., '[Відновлення України: фінансові ресурси і інструменти відбудови та розвитку територіальних громад](#)'. Навчально-науковий інститут міжнародних відносин Київського національного університету імені Тараса Шевченка, 11 October 2023.

and complicates their planning and implementation; 3) treasury restrictions and procedures;<sup>82</sup> 4) the need for co-financing from the local budget.

- Time gaps between the development of projects and their implementation lead to the need to adjust the budgets and technical parts of projects due to changes in the conditions and costs of construction.
- Increases in the cost of construction affect the financing of projects and require additional resources.
- Delays in the allocation of funds and tender procedures, as well as the completion of tender procedures, lead to delays in the implementation of projects.
- The need to find additional sources of funding (for some projects) can be a difficult task.
- Lack of experienced design and construction organisations.
- Constant changes in legal norms in the field of construction.
- Necessity of financing measures for defense purposes and civil protection of the population.

The ability of communities to attract and effectively use foreign aid and foreign loans is called absorptive capacity.<sup>83</sup> The major problem in attracting funding and in absorption capacity for communities is primarily the political will of the local self-government.<sup>84</sup>

The most relevant bottlenecks regarding the absorptive capacity of Ukrainian municipalities and the potential solutions to them are listed below.

Bottlenecks	Potential solutions
<p>Have inability to build relationships with donors and stakeholders during the implementation of the project because the interests of the parties might not always coincide, or the needs of the recipient are not addressed. Examples of these challenges show that stakeholder management skills are relevant today at the local level.</p>	<p>Strengthening the involvement of self-government and civil society at all stages of the project. Currently responsible Ministry for Restoration and its Agency for Reconstruction and Development of Infrastructure must ensure greater involvement of communities to allow them not only to influence and voice their interests and needs, but also to learn during the work process (learning by doing). This will contribute to the development of decentralisation and democracy at the grassroots level. Currently, the process almost completely</p>

<sup>82</sup>Verkhovna Rada of Ukraine, '[Resolution of the Cabinet of Ministers of Ukraine No. 590](#)', *Verkhovna Rada of Ukraine*, 9 June 2021.

<sup>83</sup>Huma Haider, '[Aid absorption: Factors and Measurements](#)', *K4D*, 9 March 2018.

<sup>84</sup>Centre for Analytical Strategies, '[Діагностичний звіт з питання недоліків абсорбційної спроможності в українських містах та концептуальні записки з вирішення правових та освітніх проблем](#)', *Centre for Analytical Strategies*, 21 March 2023.



	excludes municipalities from the stages of project selection, apart from the application stage.
Lack of competence at the local level in the face of extremely complex donor procedures, which often aim to realise the restoration of Ukraine in accordance with international standards, best available technologies, requirements for transparency and accountability.	Comprehensive support for professional development in the regions should be foreseen by donors, potentially as part of the technical cooperation. <sup>85</sup> Foreign languages skills of local government officials could speed up operational interaction with teams of donor organisations and access to foreign educational sources.
Lack of strategic planning skills for creating future projects' concepts following regional development strategy. Donor organisations are often forced to reject proposals that are insufficiently prepared or do not consist of the principles of gender equality, inclusiveness and consideration of environmental factors.	Apart from local capacity-building, there should be proper public participation and consultations, similar to the mechanisms that the EU partnership principle 86 offers (e.g. steering and monitoring committees) for all socio-economic partners. Further, an accessible and well-promoted mechanism for feedback on project planning and implementation should be in place for various plans. This is highly important so that the local governments and community representatives are included in the decision-making.
Weak understanding of the financial process, international financial tools (features of credit programmes, grants, bank guarantees, etc.), and financial audit. Also, in this group of skills, it is important to emphasise the anti-corruption component, which is an important basis for trust on the part of foreign partners and society. An additional factor is the risk of financial management in the Ukrainian bureaucratic environment and the high risk of qualifying the actions of representatives of state authorities or local self-government as 'damaging the state' and being prosecuted for this.	Local authorities' capacity-building in finances is important. Improvement of normative and legal regulation in the sphere of attracting international financial aid and loans – in particular, the Resolution of the Cabinet of Ministers of Ukraine No. 590 regarding the priority of expenditure, the law On State Aid to Business Entities regarding the simplification of obtaining a decision by the Antimonopoly Committee of Ukraine. Also consider the need to develop a single law that would establish the basic principles of receiving international financial assistance (in particular, taking into account the requirements of EU legislation).
Lack of equal and inclusive access for all communities to opportunities for foreign funding	Unification of donor programmes to attract small communities. It is worth holding consultations

<sup>85</sup> Natalia Gozak, Vladlena Martsynkevych, [Suggestions for donor interventions to help the green post-war reconstruction of Ukraine](#), CEE Bankwatch Network, 28 July 2022.

<sup>86</sup> European Commission, Directorate-General for Employment, Social Affairs and Inclusion, [‘The European code of conduct on partnership in the framework of the European structural and investment funds’](#), Publications Office of the European Union, 2014.

<p>from (large) donors for small communities, with national provisions that only cities can access the foreign funding.</p> <p>The financial capacity of communities will remain limited for several years after the war.</p>	<p>with the largest donors on the creation of unified programmes, whereby small communities would also have access to resources currently available only to large, capable cities.</p> <p>Amend the Budget Code of Ukraine, defining the possibility of carrying out local internal and external borrowing by obtaining credits (loans) from international financial organisations with the aim of directing funds to the implementation of development and investment projects for all types of communities, including rural ones and settlements.</p> <p>Priority should be given to funding partners capable of providing grant funding. The communities can also start with small projects to develop 'positive history' and to learn (Annex 4).</p>
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## Annex 1

### The legislative basis for ensuring the processes of the recovery and reconstruction of Ukraine and other definitions

Budget Code of Ukraine;

Law of Ukraine “On compensation for damage and destruction of certain categories of immovable property as a result of hostilities, terrorist acts, sabotage caused by the armed aggression of the Russian Federation against Ukraine, and the State Register of property damaged and destroyed as a result of hostilities, terrorist acts, sabotage caused by the armed aggression of the Russian Federation against Ukraine”;

Resolution of the CMU on the Fund for Liquidation of the Consequences of Military aggressions and related documents;

Resolutions on procedures for the preparation of recovery programmes, determination of recovery areas, etc.;

Orders, decisions on defining construction standards, state building regulations, etc.;

Plans and recovery programmes which have to be adopted by territorial communities;

National policy of recovery and reconstruction is formed by Verkhovna Rada of Ukraine, the Cabinet of Ministry of Ukraine, the Ministry for Restoration. At the same time, the Ministry for Restoration is responsible for the further implementation of decentralisation reform and community development;

National policy of recovery and reconstruction is realised by State Agency for Restoration and Infrastructure Development of Ukraine, local self-governments;

The State Audit Service and the Accounting Chamber carry out verification and control functions;

Donors, civil society organisations, volunteers, charitable organisations, owners of damaged property, and businesses are also participants in the recovery and reconstruction process.

## Annex 2

**International Technical Assistance (ITA) means financial resources and services provided by donors under international agreements with Ukraine on a gratuitous and non-refundable basis to support Ukraine.**

Under the legislation of Ukraine, ITA may be provided by means of:

- any property imported into or acquired in Ukraine for implementation of project tasks
- works and services
- intellectual property rights
- financial resources (grants) in national or foreign currency
- other resources not prohibited by law, including scholarships.

## Annex 3

### International Partnership of Municipalities

<b>Region/Oblast</b>	<b>Number of foreign partnerships</b>	<b>Number of foreign countries</b>
Vinnitsya	66	18
Volyn	98	15
Dnipropetrovsk	24	16
Donetsk	29	11
Zhytomyr	65	20
Zakarpattia	257	16
Zaporizhzhya	19	13
Ivano-Frankivsk	87	20
Kyiv	39	28
Kyiv region	83	25
Kyrovohrad	6	5
Luhansk	5	3
Lviv	226	26
Mykolayiv	20	11
Odesa	101	34
Poltava	30	12

Rivne	37	12
Sumy	22	7
Ternopil	70	10
Kharkiv	17	15
Kherson	2	2
Khmelnysk	43	17
Cherkasy	30	10
Chernivtsi	56	14
Chernihiv	32	12
Total	1464	62

**Source:** Self-governance reform monitoring <http://surl.li/lxjef>

## Annex 4

### Advice to Communities on Writing Grant Proposals

1. To organise grant writing activities in a community, the local self-government body must determine which institution will be involved in writing and implementing the project:
  - structural subdivision (department) in the municipality,
  - a separate communal institution or enterprise with non-profit status (Communal Enterprise Regional/local Development Agency),
  - a separate public NGO (Regional/local/economic Development Agency).
2. Following public consultations and discussions, identify key community problems that need financial solutions and prioritise them. This step should be carried out in the process of forming a community development strategy and determining the main projects that should be implemented in the strategic period. At this stage, it should be determined which institutions in the community will be grant recipients (hospital, school, etc.).
3. It is necessary to take into account the strategic interests of the community and the interests of the donor. A donor specialising in cultural development is unlikely to provide funds for a renewable energy project.
4. Create databases on the main indicators of the community (area, population, children, number of IDPs, etc.), periodically update them, and keep them in a cloud storage with access provided to those who write projects. The information provided by the municipality for different donors must be identical.

5. Do not neglect small grants, and collect a portfolio of successfully implemented projects. It will then be easier to attract large financing. Publicly highlight project work in the municipality, and mention and thank donors. Build the reputation of the municipality as a successful grantor.

In order to be successful, including in matters involving extra-budgetary funding, municipalities should establish close cooperation with civil society organisations.

Firstly, they can be partners in writing and implementing projects. Many grant competitions are designed specifically for the participation of NGOs, not budget institutions. Such cooperation will provide new opportunities. They do not have the treasury restrictions that budget institutions have, and they are more flexible in procurement procedures.

Secondly, public organisations can provide training for officials and community residents in order to improve project management skills. They can provide expert support for project implementation.

Thirdly, open governance and the implementation of the partnership principles will create a favourable image of the municipality for foreign donors.

Popular sites for finding grants in Ukraine:

- <https://gurt.org.ua/news/grants/>
- <https://www.prostir.ua/category/grants/>
- <https://bigggidea.com/opportunities/>
- <https://www.irf.ua/grants/contests/>

Information about grant contests can be obtained from periodic mailings to municipalities from community associations and U-LEAD.