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Decentralization Reloaded in Ukraine?
OPPORTUNITIES AND CHALLENGES FOR ITS LATEST LOCAL GOVERNMENT
REFORM PROJECT

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History is often said to repeat itself or at least to rhyme. Decentralization in Ukraine has been on and off the agenda of successive governments since the country's independence in 1991. Originally, the main rationale was to reform the old Soviet system in order to adapt to the realities of a liberal democratic system and a market-driven economy. Several proposals envisaged far-reaching decentralization, but the Ukrainian constitution adopted in 1996 cemented a unitary state structure and subsequent attempts to decentralize power all eventually stalled as they became embroiled in continuous struggles between different groups of elites vying for political power at the center and locally. The withdrawal of the most recent draft decentralization law by President Volodymyr Zelenskiy on January 16, 2020, thus, stands in a long tradition of failed decentralization projects over nearly three decades. By shelving this latest draft, on the one hand, some of the broader national reform momentum has been lost. On the other hand, the pause allows for deficiencies in the legislation to be addressed. These include probable exacerbation of center-periphery and rural-urban inequalities, as well as geopolitical risks by way of Moscow-induced, regional destabilization.

The non-implementation of genuine decentralization also highlights two other critical features of the context of the current (as well as all past) decentralization reform projects, namely that it takes place in a context of highly fragile state institutions and inconclusive debates about a national narrative on what the contemporary Ukrainian state stands for. Together with the multiple aims that the current decentralization reform project has been invested with by different (internal and external) stakeholders, this creates an extremely difficult environment for any decentralization project to succeed.

Decentralization in the Ukrainian Context

Unlike previous projects on administrative-territorial reform, the underpinning rationale of the efforts under way since 2014 is primarily economic. Ukraine desperately needs to optimize its public expenditure in light of the country's changing demographic and economic structure.

Since 1991, Ukraine's rural population decreased by 2.5 million and the number of rural communities decreased by 348, yet the number of rural administrations increased by 1,067. Added to this land flight, depopulation in Ukraine more generally has led to a prevalence of small communities (of the total of around 12,000 rural settlements, 4,809 settlements have fewer than 1,000 residents and a further 5,419 settlements have fewer than 500 residents). In addition, local government budgets were funded directly by the center at a rate of 70 percent on average. As the distribution of such large subsidies across such a vast number of relatively small communities is both burdensome and inefficient, two of the central pillars of the 2014 reform project were the (voluntary) amalgamation of local communities into larger entities and the partial replacement of central subsidies with local tax collection powers.

Introduced in December 2019, Draft Law No. 2598, "Changes to the Constitution of Ukraine Concerning Decentralization," was supposed to be the "final stage of decentralisation reform" but it was withdrawn for revision about one month later. The bill sought to introduce a new territorial structure of three sub-national layers. The lowest level of authority is known in Ukraine as the *gromada* (in Russian) or *hromada* (in Ukrainian) and consists of local communities that were to be created in the process of amalgamation since 2014. In the middle is the *okrug*, of which there would be 89 to replace and amalgamate the former 490 *rayons*. The highest level is the *oblast,* the only territorial-administrative unit to be retained.

In contrast to the current system, the draft law stipulated that it would be in the power of parliament to determine the number, borders, and competences of all three of these administrative-territorial units in the future. Thus, no powers devolved in the decentralization reform would have been constitutionally guaranteed. At the same time, this would have left open the possibility for a degree of variation (or asymmetry) to develop in the future, including that some administrative-territorial units may be given additional competences. This, potentially, would have created some space for negotiations on a future special status for the self-declared people's republics in the Donbas, as well as for the accommodation of, for example, ethnic minorities heavily concentrated in certain okrugs or oblasts.

While the role of parliament in the implementation of decentralization would have been strengthened, the government would have gained more power in terms of day-to-day oversight. The Head of Oblast Administration, a post co-opted by the government, would

have been abolished. The new institution of a Prefect to serve as the direct representative of the president in every okrug would have had powers to interfere directly in local decision-making, a power previously held only by courts. Heads of oblast councils would have been elected and served in largely ceremonial roles for one-year terms only. Land currently used by local councils but owned by the state would have been transferred to communal property. Further details aside, apparently after meeting with the leadership of the parliamentary faction Servant of the People, Zelenskiy withdrew the bill in January for revision based on "detailed discussion and consultations" with all parties.

Centrifugal Challenges: Separatism of the Rich and Poor, and State Withdrawal

The 2014 decentralization reform project, which remains alive amid the temporary setback of the withdrawal of Draft Law No. 2598, faces three critical challenges that are invariably tied up with the broader context outlined above. Ukraine's fragile state institutions, the lack of a unifying national narrative, and partially incompatible and competing goals associated with decentralization exacerbate, and are exacerbated by, three simultaneous centrifugal tendencies that pose significant challenges to Ukrainian sovereignty and territorial integrity. These are: 1) the "separatism of the rich" (elite-driven separatism), 2) the "separatism of the poor" (mass-driven separatism), and 3) the establishment, consolidation, and enlargement of territorial enclaves where the state has lost its monopoly over the use of violence and is unable and/or unwilling to perform its core functions.

The "separatism of the rich" has traditionally been rooted in the desire of wealthy Ukrainian territories, especially in the industrially-developed eastern part of the country, to gain more economic and fiscal autonomy from the center. Until 2014, this was primarily a strategy aimed at facilitating elites' rent-seeking behavior. As this required obtaining sufficient political power at the center, the Party of the Regions built a political agenda that integrated socio-economic demands with a defense of the Russian language and closer cooperation with Russia. Especially in the Donbas part of Ukraine, this gained broad popular traction in notions of "regional unity" and "regional identity." While elsewhere in Ukraine, waxing and waning support for decentralization was often less bound up with political manifestations of local and regional identities and was more a function of satisfaction and trust, or a lack thereof, in central government. This Donetsk regional identity has always distinguished itself strongly from other regional identities not only on the basis of regionally-framed historical, geographical, and socio-economic differences but also in how these were politically "interpreted" in a decentralization agenda.

It is important, however, to bear in mind that the pre-2014 Donetsk identity project remained a predominantly Ukrainian project in the sense that its political and economic foundations and objectives were focused on the nature of the Ukrainian state and not on the break-up of the country. This is clearly demonstrated in opinion polls carried out over

the past several years that [consistently show](#) that residents in Ukrainian-managed Donbas identified with both their region and Ukraine. As such, decentralization, including in the currently proposed form, could potentially have accommodated eastern and southern Ukraine's "separatism of the rich."

The Euromaidan revolution, the annexation of Crimea, and the war in eastern Ukraine, which led to the loss of predominantly ethnic Russian and Russian-speaking segments of the electorate, the consolidation of a now more prevalent anti-Russian narrative, and broken economic ties with Russia, have [favored](#) the marginalization of the remaining eastern Ukrainian elites, which, in turn, resulted in the decline of their representation in parliament. This may bode well in the future for the current decentralization reform project in that it will help overcome resistance to some of its aspects, but it is unlikely to facilitate the future reintegration of the Donbas and will thus do little to contribute to a stabilization of the security situation in the east or an improvement of relations with Russia. The war in the Donbas, thus, has, at least temporarily, ameliorated the challenges emanating from the "separatism of the rich." Yet, the "separatism of the poor" remains a profound challenge.

Much of the Ukrainian periphery is poor by comparison to the center, especially the more rural areas. While some of the proposed reforms will help in addressing governance inefficiencies that are part of the problem, decentralization as currently envisaged will also exacerbate center-periphery and rural-urban inequalities. As many experts argue, the proposed decentralization reform, including the suggested model of fiscal decentralization, combined with the privatization of agricultural land, continuing labor migration to the EU and Russia, and the reduction of state subsidies to support social infrastructure would have led to an increasing gap between poor and wealthy hromadas, okrugs, and oblasts. In addition, some of these peripheral areas, like Odessa and Zakarpatska Oblasts and the government-controlled areas of the Donbas, belong to a zone of geopolitical risk where ethnic Russians, Romanians, and Hungarians have long considered Ukrainian state language and cultural policy highly discriminatory.

If decentralization reforms increase rather than address these cultural grievances alongside continuing, and potentially worsening, socio-economic inequalities, these areas in the periphery could prove fertile ground for Russian destabilization tactics. Under the now withdrawn draft decentralization law, the latter looked more likely. According to one recent survey, Ukrainians' attitudes toward Russia are again more positive, albeit with sizeable regional differences.[3] Equally problematic in this context is that the Ministry of Education and Science of Ukraine has started to implement a full Ukrainization of

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[3] According to [KIIS data](#), a total of 54 percent of Ukrainians have a positive or very positive view of Russia, down by 3 percent compared to an earlier survey in Spring 2019, but still significantly above the 2015 low of 30 percent. In terms of regional variation, positive and very positive views were lowest with 34 percent in western Ukraine, climbing to 47 percent for Central Ukraine, 65 percent for southern Ukraine, and peaking at 85 percent for eastern Ukraine (including government-controlled areas of the Donbas).

school education with the beginning of the 2020 academic year. This means that the entire school curriculum needs to be delivered in the Ukrainian language. This will inevitably exacerbate existing grievances in areas with sizeable groups of Russian-speakers: 83 percent in government-controlled areas of the Donbas (17 percent using both languages and practically no one using Ukrainian); 48 percent in southern Ukraine (9 percent Ukrainian-speakers and 32 percent using both languages); and 50 percent among eastern Ukrainians (13 percent Ukrainian-speakers and 36 percent using both languages). Moreover, in the same survey, 74 percent of respondents in the Donbas, 53 percent in eastern Ukraine, and 57 percent in southern Ukraine were keen to see parity in the teaching of Russian and Ukrainian in schools.

In another recent decision, the Ministry of Education and Science of Ukraine changed the funding allocation mechanism for public universities. Based on a measure of the universities' competitiveness, the result is that universities located in Odesa and Kharkiv Oblasts will receive less public funding, while those located in Kyiv will receive an increase, and universities in Zakarpatska Oblast and the Donbas will see no change. This decision, in force since January 1, 2020, is likely to add to existing grievances about the neglect of Russian-speaking peripheral regions and favoritism toward the center and the non-Russian-speaking western part of Ukraine. These geopolitical risks associated with decentralization are particularly acute in areas of already limited governance. For example, the so-called "Amber Republic" built around the illegal extraction of amber in the western part of Ukraine is "protected" by around ten thousand armed paramilitaries that shield those involved from Ukrainian authorities.

Similar enclaves exist in the Donbas part of Ukraine (focused on illegal coal mining), Zakarpatska Oblast (timber, smuggling), and Odesa Oblast (smuggling, shadow exploitation of land). While Zelenskiy has committed to stopping these wide-spread practices of illegal resource extraction and illegal exploitation of land (by organized criminal groups), his success will depend in part on the effectiveness of reforms to the judicial and law enforcement systems in Ukraine. If his administration fails in this endeavor, decentralization reform and land privatization will favor the further rise of "land feudals" from an alliance of local elites and global agricultural corporations operating in Ukraine who will compete with, and alongside, already existing oligarchs and organized crime groups for economic autonomy and political power.

Avoiding the Worst-Case Scenario: Conclusion and Recommendations

In light of these centrifugal challenges, and the broader context of highly fragile state institutions and the absence of a national narrative on what the contemporary Ukrainian state stands for, decentralization reform could easily go wrong. In a worst-case, but not necessarily least likely, scenario, the current reform project will accommodate the "separatism of the rich" at the expense of strengthening "separatism of the poor" but not be flexible enough to accommodate local particularities in Ukraine's periphery, including

ethno-religious/linguistic/cultural differences. As a consequence, it will not sufficiently curb the potential for externally driven exacerbation and stimulation of grievances and expose the Ukrainian state to continued and increased geopolitical risk. As the withdrawn draft decentralization law was unlikely to address the core problem of central state weakness and institutional fragility, it would likely have further shifted the balance of power from the center to rich regions and paramilitary-protected enclaves and heightened resentment in poor regions, while social tensions in amalgamated rural administrative-territorial entities between richer and more powerful local centers and poorer and more marginalized local peripheries would probably also have increased. This does not imply a sudden collapse of the Ukrainian state but rather its further hollowing out as an effective actor in both the contested domestic and regional environments in which it exists. Avoiding such a bleak future, however, will be possible because the withdrawal of Draft Law No. 2598 has created an opportunity to address its shortcomings.

First, there should be no pretense that reintegration of the Donbas is a near-term option, certainly not as part of the current decentralization project. Rather, the emphasis needs to be on enhancing the effectiveness of the Ukrainian governance system at the local level by facilitating more locally driven decision-making and better service delivery that is sensitive to local needs. This may require a degree of flexibility and asymmetry to allow for local distinctiveness to be accommodated rather than constrained.

Second, decentralization should be considered a project that devolves competences from the center to the periphery in order to enhance governance, not as a way to weaken the state and its institutions. Decentralized states need not be weak states, but inter-governmental relations between the center and lower-order administrative-territorial units can only contribute to a strengthening of the state and its institutions if they are embedded in an effective system of the rule of law.

Third, the system of fiscal decentralization implemented as part of any program of administrative-territorial reform needs to allow for balancing out local and regional inequalities through transfers, subsidies to poorer regions, and other means. This will necessitate some effort to establish a new national narrative on what Ukrainian statehood means today. Such a narrative would eventually not only underpin the success of the current decentralization reform project but it could also be a strong and sustainable basis for negotiating the restoration of Ukraine's full sovereignty and territorial integrity.