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Amalgamation and its impact on municipal performance

This chapter presents the results of the OECD assessment of how Ukraine's decentralisation reforms have affected municipal performance. First, it sets forth the methodology used to analyse municipal performance. Second, it presents the results of an online OECD survey focusing on how the decentralisation reforms affected various dimensions of municipal performance prior to the large-scale invasion by Russia in February 2022. In particular, it reflects on how municipal administrative capacity, human resources, service delivery, stakeholder engagement, and co-ordination among levels of government have improved, the challenges that remain, and what this means for post-war reconstruction and recovery. Third, the chapter examines municipal efficiency and explores how the combined qualitative and quantitative analysis can inform the debate about the possible need for amalgamations in the future.

Introduction

Decentralisation has been one of Ukraine's most essential and complex reforms of the past decade. The establishment of larger municipalities through mergers has been the cornerstone of the decentralisation process and a basis for strengthening local democracy. The impact of the decentralisation reforms has been far reaching, certainly territorially but also in terms of the quality and accessibility of services delivered, inter-governmental relations and partnerships, and subnational accountability. Amalgamated municipalities perceive progress in their ability to effectively deliver important public services, such as administrative services, education, healthcare and social services. Challenges remain, however. Activities such as strategic planning and stakeholder engagement require further attention, and there are significant differences in the effect that decentralisation reforms have had on rural, settlement and urban municipalities. A robust performance measurement framework, which can help all levels of government to identify where progress has been made and where gaps remain, is always valuable but will be even more so as Ukraine takes stock of its territorial and community needs in its reconstruction and recovery from Russia's full-scale invasion in February 2022.

This chapter proceeds in three parts. First, it sets forth the methodology used by the OECD to examine municipal performance based on the territorially-disaggregated data available, covering the 2015-2021 period. Second, it discusses the results from an online survey that was completed in 2021 by 51% of Ukrainian municipalities prior to the Russian Federation's full-scale invasion of Ukraine in February 2022. Third, the chapter examines the results of a Data Envelopment Analysis (DEA) of municipal efficiency.

Box 7.1. Recommendations for the continued progress of the decentralisation reforms

The following recommendations complement the ones included in Chapter 6. They should be considered in a timeframe that is appropriate to the current context of war and post-war reconstruction and recovery.

To improve professional development of municipal civil servants, Ukraine is advised to:

- Establish a reconstruction and recovery training strategy for municipalities that can be adapted to different territorial contexts and needs. The strategy should prioritise capacity building in areas that are particularly relevant for the post-war recovery period, such as strategic planning, project appraisal, procurement, implementation, transparency and stakeholder engagement (including with donors). Legislative amendments should be made in tandem, for example, to ensure that the recruitment and performance management criteria for the local civil service are merit-based.
- Set up train-the-trainer programmes to create and support a highly skilled network of municipal trainers who can effectively localise and multiply the acquired knowledge and skills in their communities. In the short term, such programmes could focus on topics that are particularly relevant to recovery, such as the ones mentioned above.
- Establish peer-to-peer learning initiatives (including coaching and mentoring) to facilitate the exchange of experiences, tools and methodologies related to strategic development planning, public engagement and performance monitoring among Ukrainian municipalities and with local authorities in Europe. Such initiatives should be tailored and targeted to the particular challenges of each type of municipality. Support should be equitably distributed among different types of municipalities (e.g. rural, settlement, urban), and include dissemination components to ensure that relevant knowledge, practices and tools are being shared across municipalities.
- Promote and facilitate administrative and human resource-sharing, for example, through:
 - Temporary secondments or job shadowing among larger and smaller municipalities. These mechanisms should only be applied when, in the post-war period, the basic administrative and human resource capacities of the most affected municipalities have been restored and they are able to send key staff to learn from municipalities, without undermining their own capacities.

To strengthen local accountability and public engagement, Ukraine is advised to:

- Reinforce existing legislation to make public consultation a systematic component of development and investment planning at the subnational level. However, the government should be careful not to overwhelm municipalities with requirements to organise public engagement processes, as this might stifle municipal decision making and lead to consultation fatigue.
- Develop guidelines and provide training on 1) what mechanisms municipalities can use to inform, consult, involve, collaborate and/or empower different stakeholders (e.g. participatory planning and budgeting, petitioning) and 2) under which circumstances those mechanisms should be used, in order to ensure that they are fit-for-purpose.
- Make municipal budget information (including on revenues and expenditures for recovery projects) more easily accessible and understandable to the public (a "budget for citizens") and publish a yearly (or half-yearly report) on budget execution in a friendly format, accessible by the public.

To improve the quality of municipal service delivery, Ukraine is advised to:

- Adopt and/or facilitate flexible and shared public service delivery models, such as co-operation, collaboration, co-production, colocation and flexible service provision.
- Provide additional capacity building support for municipalities to demystify complex legislative and regulatory issues as new legislation that impacts municipalities is introduced. This also applies to existing legislation on sectors for which there is, according to municipalities, limited clarity about the division of tasks and responsibilities among levels of government (e.g. public transportation and roads, support to small and medium-sized enterprises, waste management and housing).
- Ensure that municipalities do not have un- or underfunded mandates, for example by:
 - Increasing the volume of block grants or expanding municipal power to set the tax base and rates for own-source taxes in order to ensure that municipalities have sufficient financial resources and the necessary flexibility to allocate spending to meet particular local needs. This should be based on a comprehensive review of municipal administrative and service responsibilities, and an assessment of the extent to which these responsibilities are currently underfunded.
- Increase outreach to and capacity building of municipal leaders on the value of inter-municipal co-operation and provide financial and functional incentives:
 - Financial incentives could include providing a higher tax-share for delivering joint services and awarding additional points in the selection process of competitive regional and local development grants to project proposals developed by two or more municipalities.
 - Functional incentives could include establishing a condition of population size for the delivery of different services, thereby encouraging co-operation between smaller municipalities.

OECD analytical framework for assessing municipal performance in Ukraine

Assessing the impact of decentralisation reforms (including amalgamation) on the performance of Ukraine's municipalities prior to February 2022 could provide insight into the success factors that will underpin municipal development outcomes in the recovery process. One way to do so is to consider the experience of municipalities that appeared to have significantly improved their performance across a wide range of indicators since amalgamation. Doing so could also shed light on why some municipalities did not appear to benefit as much from decentralisation reforms as others. Ideally, such an assessment could be transformed into a tool to help 'lagging' municipalities 'catch-up' with their more successful peers, and highlight how 'leading' municipalities could continue to strengthen their performance.

For municipalities to fully benefit from such an assessment, however, some data constraints will need to be overcome in the future. For example, while the Hromada Performance Monitoring Portal provides data on the social infrastructure facilities that municipalities have built in their territory (e.g. schools or hospitals), it lacks data that can measure the extent to which local services are being delivered, or time series data that could help evaluate how municipal service performance and quality has changed over time. Furthermore, a misalignment between key datasets across ministries needs to be considered. For example, the Ministry of Finance's Open Budget Portal is not harmonised with the unique territorial codifiers for municipalities used by the Ministry for Communities and Territories Development (MinRegion). This makes it more difficult for policy makers to link datasets and develop an in-depth analysis. Finally, time will be necessary in order to develop a fair assessment of changes in performance. The gradual nature of the amalgamation process (from 2015 to 2020) and adjustments to the decentralisation incentives meant that

municipalities were in different stages of building capacity and received different levels of support from the central level. These considerations were taken into account when undertaking the assessment presented below, resulting in a focus on three main performance areas: economic performance, service delivery and local democracy (e.g. administrative, fiscal, citizen satisfaction and democracy) (Box 7.2).

Box 7.2. Measuring the success of amalgamation reform

To measure the success of municipal mergers in different OECD countries, researchers have often focused on evaluating the effect of amalgamation on three different strands of local government activity: economic performance, service delivery and local democracy.

Economic and efficiency performance measurement

Indicators related to issues such as debt and expenditures per capita consider the extent to which municipal mergers are delivering cost savings. As such, they can help to test the hypothesis that municipal amalgamation improves technical efficiency at the local level by creating economies of scale.

Service delivery performance measurement

Indicators related to institutional capacity, as well as policy and/or service outcomes (e.g. increased access to or quality of water, school enrolment rates) consider the extent to which local governments are able to act effectively as service providers. As such, they can help to determine whether municipal mergers contributed to improved service delivery. Indicators related to citizen satisfaction are another way to examine whether local public service quality improved after municipal amalgamation.

Democratic performance measurement

Indicators related to democratic performance (e.g. voter turnout percentages) consider the extent to which municipal amalgamation has coincided with a change in local democratic participation. Other indicators, such as the number of town hall meetings or other formal interactions that residents have with their elected officials, assess whether municipal mergers have either increased or reduced opportunities for the community to participate in local decision making.

Source: Author's elaboration, based on (Allers and Geertsema, 2016^[1]; Bikker and van der Linde, 2016^[2]; Buljan, Švaljek and Deskar-Škrbić, 2021^[3]; Haček and Bačlija, 2014^[4]; Hofmann and Rother, 2019^[5]; Roesel, 2017^[6]; Miriam and Petriková, 2015^[7]; Turley et al., 2018^[8]; van Houwelingen, 2017^[9]; Miyazaki, 2017^[10]).

The OECD analytical framework in the context of scarce data

In order to assess municipal performance post-amalgamation, while also working within the data constraints described above, the OECD developed an analytical framework composed of two complementary elements: i) the responses to an online survey completed by over 50% of Ukraine's 1 469 municipalities, and ii) a Data Envelopment Analysis (DEA) of municipal efficiency. Both elements consider distinct strengths and limitations, and are complementary. The OECD's online survey of Ukrainian municipalities, circulated to all municipalities in 2021 (Box 7.3), measured municipal performance across a wide range of areas, including administrative capacity, local finance and investment, and local democracy. Survey responses enabled the OECD to identify how municipalities assessed their performance across various areas (including strengths and challenges), as well as how they perceived their performance and challenges had changed over time. The survey's multiple-choice format helped disaggregate responses by urban, rural and settlement municipalities¹, enabling a cross-municipal comparison. However, the survey's perception-based nature means that it is inherently subjective, and would therefore benefit from complementary statistical analysis to help assess municipal performance.

Box 7.3. OECD online survey of Ukrainian municipalities

To better understand the results of the decentralisation reforms, the OECD requested that municipalities complete an online survey. The objective of the survey was to assess the impact of Ukraine's amalgamation reform on municipal performance. In particular, it sought to collect perspectives on how decentralisation reforms, including the amalgamation process, affected local service delivery, finance, and co-operation with non-governmental actors, as well as current municipal challenges.

The survey, which was prepared with input from MinRegion, the Cabinet of Ministers of Ukraine (CabMin), as well as international development partners U-LEAD and DOBRE, included sections on the process of amalgamation, the creation of administrative service centres, administrative capacity, local finance and investment, local democracy and public participation, among others. With the support of CabMin and MinRegion and the 24 *oblasts*, the survey was shared with all municipalities. In total, 741 municipalities, covering 119 *rayons*, as well as 24 *oblasts*, and Kyiv City, completed the survey, resulting in a highly representative sample.

Given the perception-based nature of the survey results and the data constraints discussed above, a Data Envelopment Analysis (DEA) of Ukrainian municipalities was also developed. DEA is a management performance assessment tool used by local governments since the late 1990s (De Borger and Kerstens, 1996^[11]). It evaluates the relative efficiency with which subnational governments are able to provide local public services. The OECD DEA draws on data from the MinRegion municipal performance monitoring portal, such as total local revenues per capita, and from statistics on local public infrastructure (e.g. number of secondary schools or primary healthcare institutions). It also considers how municipal efficiency varied across *oblasts* and urban, rural and settlement municipalities. On the basis of this information, it used regression analysis to establish the most common drivers of municipal efficiency.

This combined qualitative and quantitative framework enables the identification of national-level trends, including areas where municipalities have improved their performance during the amalgamation process, and areas where local challenges remain significant. It also highlights sizeable differences in the performance of urban, rural and settlement municipalities. Furthermore, it signals the value of a place-based approach in responding to the challenges of Ukrainian territories, and indicates elements that are key to improving municipal efficiency across the country.

Municipal self-assessment of Ukraine's decentralisation reforms

This section presents findings from the OECD online survey of Ukrainian municipalities that was conducted prior to the Russian Federation's large-scale invasion of Ukraine on 24 February 2022. It is divided into five parts, covering: i) administrative capacity and human resources; ii) service delivery; iii) financial capacity, iv) local democracy and engagement with non-governmental actors and; v) co-ordination and co-operation mechanisms. The findings highlight that, across the board, municipalities had experienced, prior to the war, a significant increase in their capacity to carry out budgeting, development planning and public investment-related tasks. In addition, a large share of them reported that the decentralisation reforms had increased the quality of social, healthcare and administrative services, resulting in higher revenues while promoting better co-ordination with higher levels of government (vertical co-ordination). At the same time, the survey results show that the effects of the decentralisation reforms were experienced very differently across rural, settlement and urban municipalities. The same applies to how the different types of municipalities perceived their capacity to effectively carry out their mandate.

Understanding the nature of capacity gaps and development needs faced by different types of municipalities will be useful to national and subnational officials, as well as development partners in the

recovery period. Such insights can make it easier to tailor financial and technical support in order to advance recovery efforts while also serving to bridge specific gaps and/or meet pressing needs. Moreover, the results can also inform the debate about the need for additional legislative, regulatory, fiscal and territorial reforms to support local service delivery and citizen well-being throughout the country.

It is important to note that the devastating impact of the war, the effects of which have varied across territories, as well as the crucial role that municipalities have played to support the war effort, mean that the conditions under which the 2021 OECD online survey was completed have changed substantially. In addition, municipalities are already playing a vital role in supporting reconstruction efforts during wartime and will remain critical development actors in the post-war reconstruction and European integration period. Therefore, throughout this chapter, the impact of the war on municipal functions is considered alongside needs for reconstruction and recovery.

Effects of the decentralisation reforms on administrative capacity and human resources

Administrative capacity can refer both to having an adequate number of employees to deliver the services needed, alongside the necessary training and skills, together with the necessary processes and mechanisms to carry out their tasks. Municipalities surveyed by the OECD generally reported that they were sufficiently staffed across a range of functions such as finance, planning and public investment (OECD, 2021^[12]). Since the survey was conducted, however, the war has dramatically changed administrative capacity and human resources in many regions. By July 2022, 5.8 million people had fled the country, and millions more are internally displaced (OHCHR, 2022^[13]). The population of some municipalities, predominantly located in the west of the country, has doubled or even tripled since the war began. At the same time, many municipalities that are—or have been—on the frontline have seen a dramatic population decline. Municipal leaders in occupied areas have been abducted, tortured and killed. The war is widening disparities between municipalities, with some facing severe human resources challenges as many civil servants have fled or joined the army, and others facing different pressures due to the influx of internally displaced people. Local governments continue to provide services during wartime while also planning for the types of skills that the labour force will need for ongoing reconstruction efforts. Innovative capacity building models and inter-municipal co-operation take on a renewed importance amidst these challenges.

This section discusses how municipalities perceived the impact of the decentralisation reforms on their ability to carry out tasks related to budgeting, strategic planning and public investment. It also looks into whether municipalities considered they had the necessary experience and skills to effectively carry out their mandate in these three areas, showing marked differences across different types of local governments. Finally, the section provides a series of policy recommendations on how to support municipal administrative capacity for post-war reconstruction and recovery.

Prior to the war, most municipalities felt sufficiently staffed to carry out their responsibilities

Among municipalities surveyed in 2021, 72% reported that they had sufficient staff to carry out their responsibilities (Annex Figure 7.A.1). However, there were differences across types of municipalities: 83% of urban municipalities reported that they had sufficient staff, compared with 73% of settlement municipalities and only 62% of rural municipalities. One reason for this disparity might be that urban municipalities find it easier to attract staff with appropriate qualifications than rural municipalities do, and have larger talent pools than their lower-density counterparts. This might also explain why only 15% of urban municipalities indicated that the decentralisation reforms had made the recruitment of qualified staff more complicated, compared with 28% of settlement municipalities and 40% of rural municipalities (Annex Figure 7.A.2).

Despite the generally positive self-assessment regarding staffing levels, research has pointed to a lack of professional local government managers and high staff turnover as major challenges facing Ukraine's local

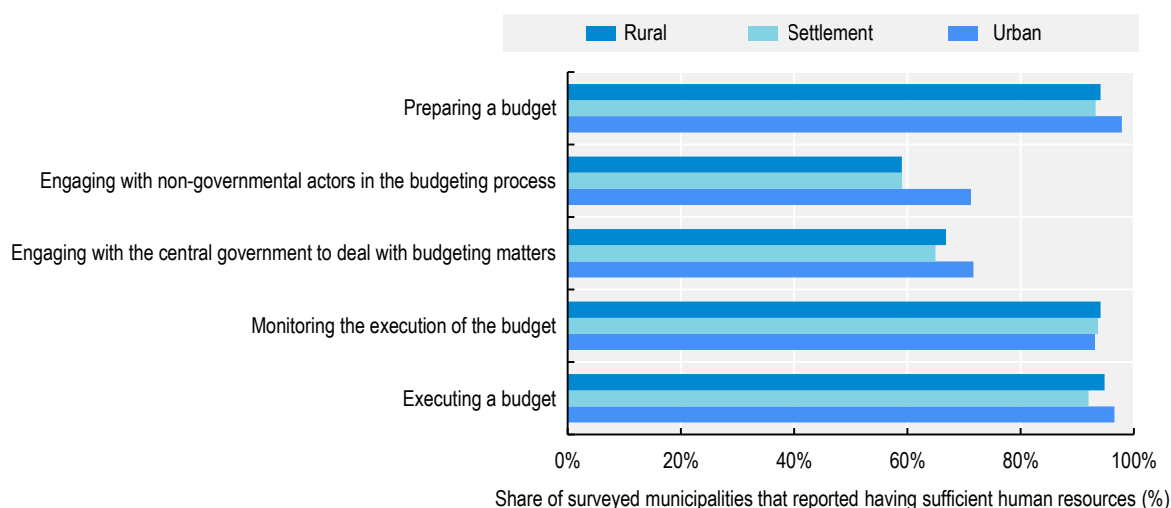
governments (Kolesnik and Samborska, 2020^[14]; Vasylieva, 2020^[15]; Goncharuk, Orhiiets and Prokopenko, 2021^[16]). Ensuring sufficient civil service capacity, in terms of the availability of human resources, experience and skills, as well as mechanisms and structures to guide the work, is crucial for the forthcoming post-war reconstruction period. Municipal civil service capabilities for project appraisal, implementation, transparency and stakeholder engagement (including with donors) will be especially critical as local authorities may play a central role in the execution of local reconstruction projects. In this regard, it is important to acknowledge that staffing levels in the post-war recovery period may look very different from those that were reported prior to February 2022, as municipal staff have fled their communities or joined the armed forces. In June 2022, the government estimated that about 7 000 of the approximately 170 000 national and local civil servants were displaced abroad, and 7 400 were located in the territories occupied by Russian forces (National Recovery Council, 2022^[17]; National Agency of Ukraine on Civil Service, 2022^[18]). Changes in local population levels as a result of the war may also cause some municipalities to be in greater need of inter-municipal co-operation arrangements in the post-recovery period, owing to the corresponding decrease in financial and human resource capacity that these changes will likely entail. While some municipalities, particularly those located in the west of Ukraine, may still have the necessary staff to carry out most administrative and service delivery tasks, others may not.

To address this challenge, the government could request that municipalities indicate if they are able to, at least temporarily, carry out specific functions. Based on this information, the national government could, for example, encourage or even temporarily require increased cross-jurisdictional co-operation whereby subnational governments share staff and expertise or the provision of services (see Chapter 6). In addition, in heavily damaged areas, non-governmental organisations have been playing a complementary role in supporting service delivery and reconstruction and recovery efforts.

Municipalities have been well equipped to deliver core financial functions

A large share of surveyed municipalities reported having the necessary human resources to: i) prepare a budget, ii) execute a budget and iii) monitor the execution of a budget (Figure 7.1). Differences between urban, rural and settlement municipalities are minimal, with over 90% of each category reporting that they had significant human resource capacity to perform such tasks. This suggests that municipalities were generally well-equipped to cope with the core financial functions that underscore the decentralisation reform process. Such capacities are instrumental in effectively mitigating a “scissor effect” (i.e. increased municipal expenditure and decreased municipal revenue) that the war is having on Ukraine's municipal budgets. Indeed, many municipalities are struggling with rising expenditures and fiscal pressures, as they try to rebuild local infrastructure and maintain their territorial defence. There are examples of municipalities that have developed action plans to cut back on non-essential expenditures, while ensuring the continued provision of key services (U-LEAD, 2022^[19]). At the same time, with the support of international donors, local civil servants have generally continued to receive their salary during the war (Atlantic Council, 2022^[20]).

Figure 7.1. Availability of human resources to carry out budget-related tasks



Note: Question: Does your municipality have the necessary human resources (including expertise) to effectively carry out the following tasks related to the budgeting process? Full list of tasks: Preparing a budget; Engaging with the private sector, civil society or academia in the budgeting process; Engaging with the central government to deal with budgeting matters; Monitoring the execution of the budget; Executing a budget. Response options: Yes, No. The survey was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021).

Source: Author's elaboration, based on the OECD online survey.

Budgeting capacity is also essential for the post-war period, as many municipalities will likely receive funds for local reconstruction projects. A relatively low share of surveyed municipalities reported that they have sufficient human resources to engage with the private sector, civil society or academia in the budgeting process (63%). It is notable that 71% of urban municipalities were more likely to express sufficient capacity in this area, compared to 59% of rural and settlement municipalities. These differences may reflect, in part, the relatively long period of time that many former cities of *oblast* and *rayon* significance have had to develop these capacities, as compared to settlement and rural municipalities. It must be noted, however, that not all urban amalgamated municipalities are former cities of *oblast* and *rayon* significance. Those that are not likely faced similar challenges in building up their planning, budgeting and investment capacity as settlement and rural municipalities, post-amalgamation.

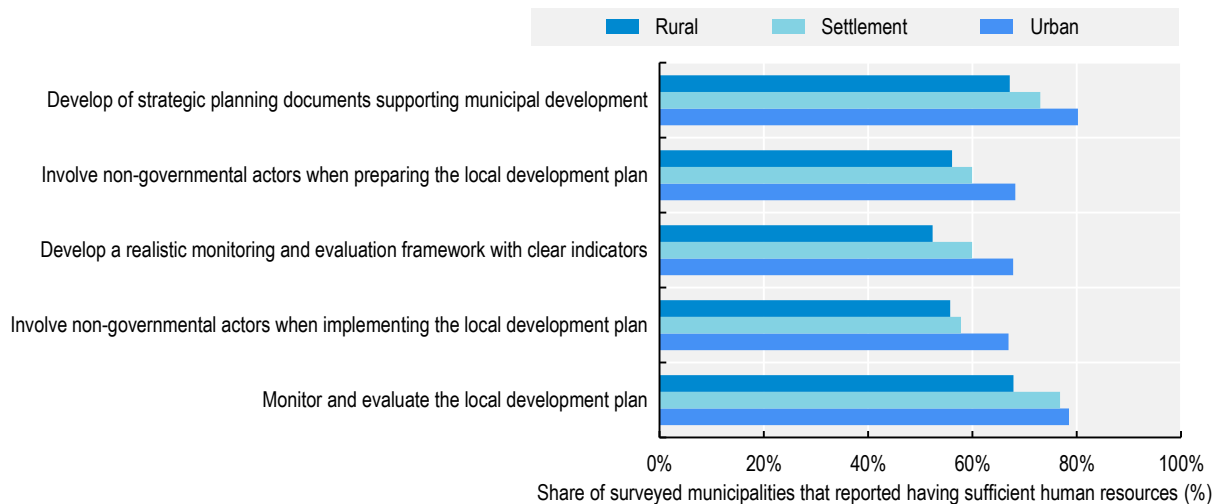
Administrative functions such as engagement with non-governmental actors, co-ordination with donors, and monitoring and evaluation will take on heightened importance for reconstruction and recovery efforts, prompting the need for additional capacity building support. Moreover, municipalities may want to explore engagement mechanisms to help ensure that the reconstruction efforts take into account the specific demands of citizens and that non-governmental actors are provided insight into how (recovery) funds are spent.

Most municipalities have been sufficiently staffed to carry out development planning

Nearly three quarters of all surveyed municipalities indicated that they had the capacity to develop local development strategies (73%) and to carry out monitoring and evaluation exercises (74%). However, fewer rural municipalities report having the human resource capacity for these tasks than urban and settlement municipalities (Figure 7.2). Until 2022, legislation did not mandate municipalities to develop a local development strategy (Verkhovna Rada, 2021^[21]). Consequently, in 2021, only about half of all municipalities had an approved strategy, which limited their ability to guide local development efforts (OECD, 2021^[22]). Given this, it is not surprising that over one quarter of municipalities considered that they were neither able to develop nor monitor a strategy. Moreover, municipal development planning was

generally limited to the development of one-year plans with a narrow sectoral focus, often dealing with only current, urgent measures while failing to address longer-term objectives and actions (OECD, 2021^[22]).

Figure 7.2. Availability of human resources to carry out development planning-related tasks



Note: Question: Does your municipality have the necessary human resources (including expertise) to effectively carry out the following tasks related to the development planning process? Full list of tasks: Develop forecast and program documents of socio-economic development of the territorial community, in particular the strategy of development of the territorial community; Involve the private sector, civil society or academia when preparing the municipality's socio-economic development plan; Develop a realistic monitoring and evaluation framework with clear objectives and indicators; Involve the private sector, civil society or academia when implementing the municipality's socio-economic development plan; Carry out periodic monitoring and evaluation exercises of the municipality's socio-economic development plan. Response options: Yes, No. The survey was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021).

Source: Author's elaboration, based on the OECD online survey.

Surveyed municipalities reported that they had less capacity to: a) develop a realistic monitoring framework with clear objectives and indicators (60%) and b) involve the private sector, civil society or academia in the design (61%) and implementation (60%) of the municipality's development strategy. There are also important differences among the different types of municipalities. For example, 52% of rural municipalities considered that they were able to design a realistic monitoring framework, compared with 60% of settlement municipalities and 68% of urban municipalities, a disparity that may reflect the more extensive human resource capacity reported by urban municipalities compared to their peers.

There is a risk that large discrepancies in planning capacities could undermine territorial development in the future. The scale of social, infrastructure and economic development that will be required in many municipalities will necessitate extensive planning capacities and rigorous monitoring and evaluation systems. In July 2022, amendments to the Law "On the Principles of State Regional Policy" were adopted, which formalised a three-tiered strategic planning system and mandated the design of municipal development strategies. These legislative changes make the need to improve municipal planning capacities all that much more urgent (Verkhovna Rada, 2021^[23]). MinRegion, together with the various local government associations, regional development agencies and international development partners should support municipalities, particularly rural ones, to improve their capacity to design, implement and monitor local development strategies that reflect local needs and are aligned to national and regional priorities, including those in a national recovery plan. In particular, the government should consider establishing an expanded list of standardised training programmes tailored to municipal responsibilities in the post-war recovery period. More specifically, teaching content should be subject to effective quality control (see Chapter 6). The focus of the training programmes would need to be reviewed periodically as

municipal capacity-building needs will change as Ukraine moves from the immediate post-war reconstruction phase to longer-term recovery. Efforts to boost municipal strategic planning capacity also need to include conducting local civil service needs assessments and encouraging municipalities to prepare training plans that reflect their particular needs for each of the phases of the strategic planning cycle. Similarly, the government should ensure that guidelines for the design of the local strategies emphasise the need for short and adaptable local strategies. This could be achieved by adjusting the official methodology to accommodate for the design of local development strategies.

Peer-to-peer learning initiatives could be set up to facilitate the exchange of experiences, tools and methodologies related to strategic development planning, citizen engagement and performance monitoring among Ukrainian municipalities and with local authorities in Europe. The European Alliance of Cities and Regions for the Reconstruction of Ukraine serves as one such example. International networks, such as the Partnership for Local Economic Development and Democratic Governance project implemented by the Federation of Canadian Municipalities, can also contribute to this work (Box 7.4). Policy makers and donors should ensure that such initiatives are tailored and targeted to the particular challenges of each type of municipality as their specific needs will likely be different. They should also ensure that the support flowing from these initiatives is equitably spread among different types of municipalities (e.g. rural settlement and urban), and includes built-in dissemination components to ensure that relevant knowledge, practices and tools are being shared across municipalities. Ukraine could also benefit from the EU's twinning instrument that enables institutional co-operation between public administrations of EU member states and beneficiary or partner countries. This instrument, of which Ukraine has become a beneficiary, aims to upgrade the administrative capacities of the public administration of beneficiary or partner countries by training civil servants. It also provides support to bring national laws, regulations and quality standards more in line with those of EU member states, which is particularly relevant as in June 2022 the European Council granted Ukraine EU candidate status (European Commission, 2022^[24]).

Box 7.4. Partnership for Local Economic Development and Democratic Governance

Since 2015, the Partnership for Local Economic Development and Democratic Governance project—implemented by the Federation of Canadian Municipalities—has supported the design and implementation of development strategies in 16 cities across four regions of Ukraine. It developed a handbook to support strategic planning development and implementation alongside case studies of successful plans. They outline six stages of the strategic planning process:

1. Organising work on strategic planning.
2. Analysing the environment and the factors of territorial community development.
3. Defining the mission, vision, scenarios, and directions of community development.
4. Developing a strategy implementation plan.
5. Public hearing followed up by the official approval of the strategy and its implementation plan.
6. Monitoring and implementing the strategy.

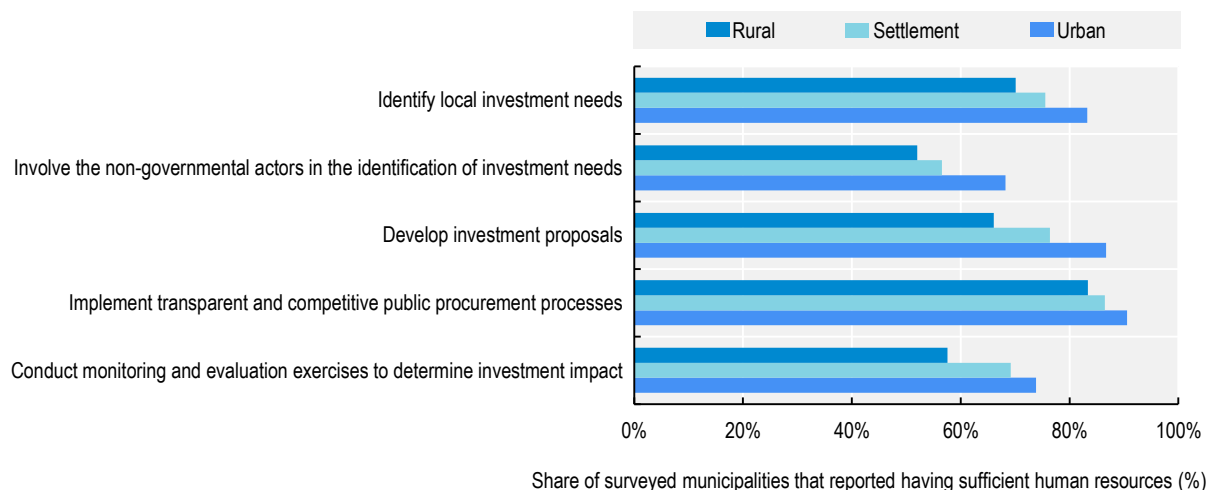
Source: Author's elaboration, based on (FCM, 2019^[25]; Verkhovna Rada, 2021^[21]).

Strategic planning for post-war recovery and reconstruction requires specific considerations. A handbook for municipal policy makers (similar to the one developed as part of the “Partnership for Local Economic Development and Democratic Governance”) that is focused on the measures they can take to support reconstruction and recovery planning would be a useful resource, alongside training in areas such as monitoring and evaluation, and stakeholder engagement. The volume of investment that will be needed in many communities highlights the importance of strengthened strategic planning capacities.

A majority of municipalities reported having the necessary human resources to carry out public investment responsibilities

A large majority of municipalities (87%) considered that they have sufficient human resources to implement transparent and competitive public procurement processes with appropriate internal control systems. There was limited variation between types of municipalities (Figure 7.3). This may reflect the ease of use of the ProZorro electronic procurement platform through which state and municipal customers can organise tenders for the purchase of goods and services. When the ProZorro system was launched, many training sessions were organised on procurement regulations, and a training manual was developed. These actions may help to explain the confidence that municipalities reported in their ability to execute effective public procurement (OECD, 2021^[22]). Municipal procurement capacity will be tested during the post-war reconstruction process as local governments will likely become recipients of national and international reconstruction funds, which have to be spent efficiently and in a transparent manner. As such, continued technical support for municipalities on issues related to local public procurement and transparent decision making is essential. Providing targeted training or developing easy-to-use procurement guidelines could be effective initiatives in this regard.

Figure 7.3. Availability of human resources to carry out investment-related tasks



Note: Question: Does your municipality have the necessary human resources (including expertise) to effectively carry out the following public investment tasks? Full description of tasks: Identify local investment needs; Involve the private sector, civil society or academia in the identification of investment needs; Develop investment proposals (e.g. for allocation of funds from the SFRD); Implement transparent and competitive public procurement processes with appropriate internal control systems; Conduct periodic monitoring and evaluation exercises to determine the impact of the investment projects. Response options: Yes, No. The survey was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021).

Source: Author's elaboration, based on the OECD online survey.

More than three quarters of municipalities indicated that they have the capacity to a) identify local investment needs and b) develop investment proposals (e.g. for the allocation of funds from the State Fund for Regional Development [SFRD]). There was, however, also some typological variation to this finding. For example, while 87% of urban municipalities reported having sufficient human resource capacity to develop investment proposals, this was the case for only 66% of rural municipalities. One possible explanation for this variation is that rural and settlement municipalities, particularly those that were administratively amalgamated in 2020, may have had a more limited experience with managing projects funded through Ukraine's multiple competitive funds for regional and local development.

A lower share of surveyed municipalities indicated that they have the human resource capacity to involve the private sector, civil society or academia in the identification of investment needs (59%) and to conduct periodic monitoring and evaluation exercises to determine the impact of public investment projects (66%). Reported human resource capacity in these areas in rural municipalities was lower still (52% and 58%, respectively). Monitoring and evaluation exercises and consultations with non-governmental stakeholders play a critical role in ensuring the effectiveness of local public investments. Improving municipal capacity in these areas through tailored training and coaching can help local governments systematically involve the private sector, civil society or academia throughout the investment cycle. Municipalities can build on the significant contribution of non-governmental actors to support the country's response to the war. In many communities, volunteers have been supporting local authorities, for example by organising the delivery of aid to residents, the military, internally displaced people and temporarily occupied territories (U-LEAD, 2022^[19]).

Enhancing municipal administrative capacity in the context of post-war recovery

Municipalities generally perceive they are sufficiently staffed to carry out their core duties. This is a positive assessment, however, typological variations indicate that smaller municipalities (rural and settlement) often have less capacity in this regard. Continued investments that are tailored to the human resource needs of specific types of municipalities will be important. Below, possible interventions to strengthen local government administrative capacity are discussed. They relate to i) strengthening the offer of high-quality and training programmes that are adapted to the territorially-differentiated needs of municipalities and take into account specific recovery challenges; and ii) promoting and facilitating human resources-sharing among municipalities to fill particular capacity gaps.

High-quality, flexible and responsive professional training for local government

Recruitment and talent retention is supported through municipal human resource training and talent management, including the development of competitive subnational employment policies such as attractive remuneration and non-financial incentives (e.g. mentoring). Ukraine's municipalities have typically accessed professional development through vocational and certification training and shorter-term courses, with the National Civil Service Agency annually designating priority training topics (Національне агентство України з питань державної служби, 2022). Moreover, after the National Academy of Public Administration was reorganised by joining Taras Shevchenko Kyiv National University in 2021, the Educational and Scientific Institute of Public Administration and Civil Service was established. The Institute has accredited programmes in public administration, including a programme for civil servants and local self-government officials (Taras Shevchenko Kyiv National University, 2022^[26]). At the same time, as the war has affected municipal human resource capacity and altered the demands for municipal service delivery, new training methodologies will be needed, including fast-track courses alongside new degree programmes in specialised subject areas. These can include strategic planning, project appraisal, economic development, project management, donor relations and public procurement. Regarding the latter, the OECD *Recommendation of the Council on Public Procurement* stresses that developing effective human resource capacity is a crucial element of a sound procurement system that delivers efficiency and value for money in the use of public funds (OECD, 2015^[27]). As such, strengthening human resource capacity has become a priority in countries' public procurement reforms. Specialised training focusing on the particular challenges associated with procuring goods and services in a reconstruction and recovery context might be particularly relevant for Ukraine, as in 2021, a large majority of municipalities (87%) considered that they had sufficient human resources to implement transparent and competitive public procurement processes (Figure 7.3).

Previous OECD research on decentralisation in Ukraine has noted the importance of designing a subnational strategy for human resource management (OECD, 2018^[28]). The OECD recommended to Ukraine that it establish a national consultation platform to reform the training system for local authorities;

request and support (technically and financially) subnational governments with the design of an annual training plan; establish specific training for senior managers in local government; and set up an observatory of local employment, remuneration and competences (OECD, 2018^[28]). The OECD had also recommended that the National Academy of Public Administration develop specific training programmes for local governments. These recommendations still hold value for Ukraine. Moreover, the government should consider the following actions:

- Establish a reconstruction and recovery training strategy for municipalities that can be adapted to different territorial contexts and needs;
- Establish a high-quality, flexible and responsive municipal training system for reconstruction and recovery;
- Conduct an assessment of local training needs and prepare municipal training plans;
- Set up train-the-trainer programmes as a cost-efficient way to build capacity within municipalities. Such programmes can help create and support a highly skilled network of trainers who can effectively localise and multiply the acquired knowledge and skills in their communities.

Higher education institutions, the local government associations, regional development agencies, non-governmental organisations, as well as international municipal networks will be critical actors for supporting new and expanded municipal training efforts (Box 7.5). MinRegion plays an important role in quality control, monitoring, assessment and co-ordination for training and capacity building.

Box 7.5. Approaches to local government training

There are a variety of training models for local government administration, from formal degrees including diplomas and certificates to shorter training programmes, one-off courses, and initiatives such as workshops and mentoring. While there are a wide range of short-term courses and workshops, the quality and rigour of these programmes should be assessed.

Association of Ukrainian Cities

Currently, the Association of Ukrainian Cities (AUC)—a non-governmental, non-profit, and non-partisan organisation, which unites a large share of Ukrainian municipalities—supports training and professional development through its AUC Centre. The centre is involved in drafting and implementing training programmes for municipal staff, holding workshops, regional training and schools for municipal employees, while maintaining databases of local self-government experts and training institutions.

Accredited programmes for local government management are critical because they equip civil servants with important skills in local administration and budgetary issues, strategic planning, infrastructure, public services, entrepreneurship, community development and asset management.

Government of British Columbia

As an example of how an accredited programme can be established, the Government of British Columbia (Canada) appoints a Board of Examiners, which offers certification and scholarship programmes to improve and recognise the professional skills and education of British Columbia's local government staff and build their administrative capacity. The Board of Examiners is established by legislation and is comprised of representatives from British Columbia's government, the Local Government Management Association and the Union of British Columbia Municipalities. This model ensures that the training that is offered is robust, meets the needs of local government managers and is co-ordinated across the various institutions that provide training. This could be a useful model of shared governance for training certification for Ukraine to consider.

Training programmes for army veterans

In the post-war period, training programmes for Ukraine's veterans could help them transition into careers in local government. For example, in the United States, the Veterans Local Government Management Fellowship offers a 12-to-25-week programme that provides service members who are leaving the armed forces with management training and hands-on experience in local governments to help them start a career in local public service. The programme matches former service members with local governments based on the skills, level of education, experience, and the preferences of both parties (veterans and local governments). Initiatives such as this could support local government capacity building for reconstruction and recovery in Ukraine, while also facilitating the transition of military personnel to civilian careers.

Source: Author's elaboration, based on (Government of British Columbia, 2022^[29]; Association of Ukrainian Cities, 2022^[30]; ICMA, 2021^[31]).

Reforms to the training system for local civil servants in Ukraine should go hand-in-hand with amendments to the 2001 Law “On Service in Local Self-government”. These will be necessary to improve municipal human resource and administrative capacity (Verkhovna Rada, 2001^[32]). There is currently no requirement for local officials to be politically neutral, and the recruitment criteria for local civil servants are often not based on merit (see Chapter 6). Both of these elements should be adjusted in order to create the conditions for a more professionalised local civil service that can shoulder the burdens of the reconstruction and recovery phase. Remuneration issues, notably the gap in remuneration between national and local civil

servants, should be reviewed in order to facilitate the recruitment and retention of more highly-skilled local officials.

Sharing administrative and human resources

As described above, rural municipalities often have diminished capacity in the fields of budgeting, development planning and investment than their urban counterparts. With municipalities expected to play a critical role in recovery efforts, effective mechanisms need to be in place to strengthen and support the administrative capacity and human resources in communities most affected by the war, regardless of whether they are categorised as urban, rural or settlement municipalities. Administrative and human resource-sharing is one mechanism for doing so. One option is for the government to establish mechanisms to support temporary secondments and job shadowing among larger and smaller municipalities. However, these mechanisms should only be applied when, in the post-war period, the basic administrative and human resource capacities of the most affected municipalities have been restored and they are able to send key staff to other municipalities without undermining their own capacities (Box 7.6). For secondments and job shadowing to work, incentives need to be in place to ensure that both local civil servants and municipal governments are interested in and can benefit from participating. For example, a grant could be created that provides participating civil servants with funding to compensate travel and accommodation costs. It could also cover part of the salary of the participating civil servant during his or her secondment or job shadowing period. The latter could encourage local leaders to allow their staff to temporarily work in another municipality.

Box 7.6. Secondments and job shadowing for local government capacity sharing

A secondment is the temporary transfer of an employee to another municipality or relevant organisation. Secondees get access to career development opportunities, while municipalities get the chance to develop their skills base. Advantages for secondees include the opportunity for wider career and personal development; the acquisition of valuable project and service experience; and the chance to apply specific skills in a different organisational environment. Municipalities also benefit by gaining assistance with projects and obtaining an external perspective. It is also cost-effective and a network-building opportunity.

Shadowing is similar to a secondment. The primary difference is that the learner acts as merely an observer to the work and the organisation. He/she will assume a secondary role and their contribution to operational functions is likely to be minimal. The learner will observe, record and question aspects of the work being undertaken and will, at the end of the experience, reflect on, analyse and evaluate what has been observed. The arrangements for shadowing are flexible and should be agreed between the learners and the host organisation. Once again, shadowing can be agreed over a set timescale and frequency. Exposure to good working practices will equip the learner with the confidence and skills to return to his/her municipality. They should record the experience in a written report and be ready to make a presentation on the practices observed and use the new skills and experience to train/mentor colleagues.

Source: Author's elaboration, based on (Jackson, Trutkowski and Mururajani, 2015^[33]).

A flexible approach to administrative capacity and human resource-sharing could help Ukraine meet urgent needs while simultaneously strengthening relationships with other municipalities and demonstrating the benefits of collaboration. This could increase the attractiveness of possible future amalgamations, which is important because in the past, rural municipalities have sometimes been hesitant to merge because

they felt that it would lead to a loss of influence and control over budgets (Hedikova and Muzychenko, 2021).

Effects of the decentralisation reforms on local public service delivery

Ukraine's decentralisation reforms have promoted subsidiarity by assigning new responsibilities to municipalities, which is particularly true for public service delivery tasks. The attribution of responsibilities is roughly in keeping with international trends in multi-level task attribution at the subnational government level, though fewer functions are assigned to the regional and district levels compared to the situation in other countries (OECD, 2018^[28]).

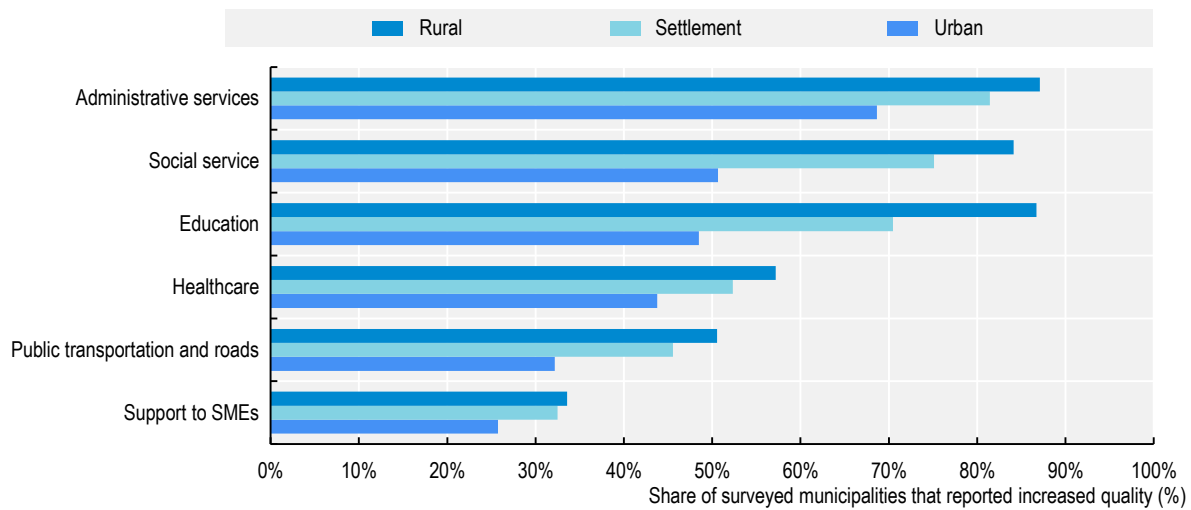
Proponents of decentralisation argue that local and regional governments can provide public services that are better suited to local needs (OECD, 2017, 2019). However, it is important to consider not just which level of government delivers what types of services, but also the context in which they operate, whether the service delivery responsibilities are shared among levels of government, as well as the resources and incentives that they have to perform their duties. Each of these elements can affect the efficiency and effectiveness of subnational service provision. There is growing evidence that 'soft institutions' such as civic culture, leadership and trust in government play an important role in shaping outcomes (Rodríguez-Pose, Tijmstra and Bwire, 2009; Klok *et al.*, 2018).

This section discusses how municipalities perceived the effect of the decentralisation reforms on public service delivery. It also presents how long the different types of municipalities estimate they will need before they can effectively carry out their service tasks and responsibilities and whether there is a need for further amalgamation. It also provides different policy recommendations on how to boost service delivery in the context of post-war reconstruction, for example by adopting integrated service provision models.

Decentralisation reforms were perceived as positive for administrative service delivery

The effect of the decentralisation reforms on local service delivery varies according to the service area. A vast majority of municipalities (79%) reported that the reform process had had a positive effect on the quality of administrative services, including 87% of rural municipalities, 81% of settlement municipalities and 69% of urban municipalities (Figure 7.4). This reflects the recent proliferation of administrative service centres in Ukrainian municipalities, which have made administrative transactions easier and more convenient by allowing residents to deal with administrative issues in their own municipality (Verkhovna Rada, 2020^[34]). The relatively low number of urban municipalities reporting that the reform process had a positive effect in this area might be explained by the fact that administrative services were previously handled in regional hubs, which may have meant limited change for the residents of larger cities.

Figure 7.4. Positive effect of the decentralisation reforms on the quality of local service delivery



Note: Question: What effect have the decentralisation reforms (including the amalgamation process) had on the quality of service delivery by your municipality in the following areas? Response options: Increased quality; Decreased quality; No significant effect. The survey was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021).

Source: Author's elaboration, based on the OECD online survey.

A large majority of municipalities also reported that the reform process had had a positive effect on the quality of local services, such as social services (71%) and education (70%), while a smaller majority reported a positive effect on healthcare. This was an encouraging finding in the context of improving citizen well-being, not least because research has shown that satisfaction with local public services has a strong impact on citizen trust in government at the local level (Mitsch, Lee and Ralph-Morrow, 2021^[35]). There was, however, a significant divergence in the responses by type of municipality. For example, 84% of rural municipalities reported that there had been an increase in the quality of social services, compared with 75% of settlement municipalities and just 51% of urban municipalities. Data from the Ministry of Social Policy indicate that the reform process has led to a large rise in smaller municipalities providing social services for the elderly and families. This may help to explain why the reported improvement was less pronounced in cities, where residents may have already had access to quality social care before the reforms. A similar argument could explain the significant differences between the average responses from urban and rural municipalities regarding the quality of education services.

The education, social services and healthcare sectors have been under particular stress since February 2022. By August 2022, it was estimated that Russia's war against Ukraine had damaged or destroyed 1 435 education institutions, 764 kindergartens, 89 social services facilities and 903 healthcare facilities totalling USD 5.7 billion in damages (KSE, 2021^[36]). The widespread destruction of physical infrastructure has limited municipalities' capacity to continue to provide services in these sectors.

The OECD survey also indicated that the reform process had a weaker effect on supporting territorial economic development. Only 34% of rural municipalities, 32% of settlement municipalities and 26% of urban municipalities felt that the reforms had increased the quality of economic development in their communities. This might reflect the fact that decentralisation reforms often take time to generate concrete results. However, there is evidence that municipalities do not consider boosting economic development to be among their key responsibilities, and also find it challenging to support small and medium-sized enterprises. In fact, results from the OECD project's online survey indicate that supporting economic development has not been a high priority for municipalities, compared with other policy areas, such as social services (see Chapter 6) (OECD, 2021^[22]). Stimulating territorial economic development is of crucial

importance for rebuilding communities and encouraging residents who have fled to other, safer parts of the country or abroad to return.

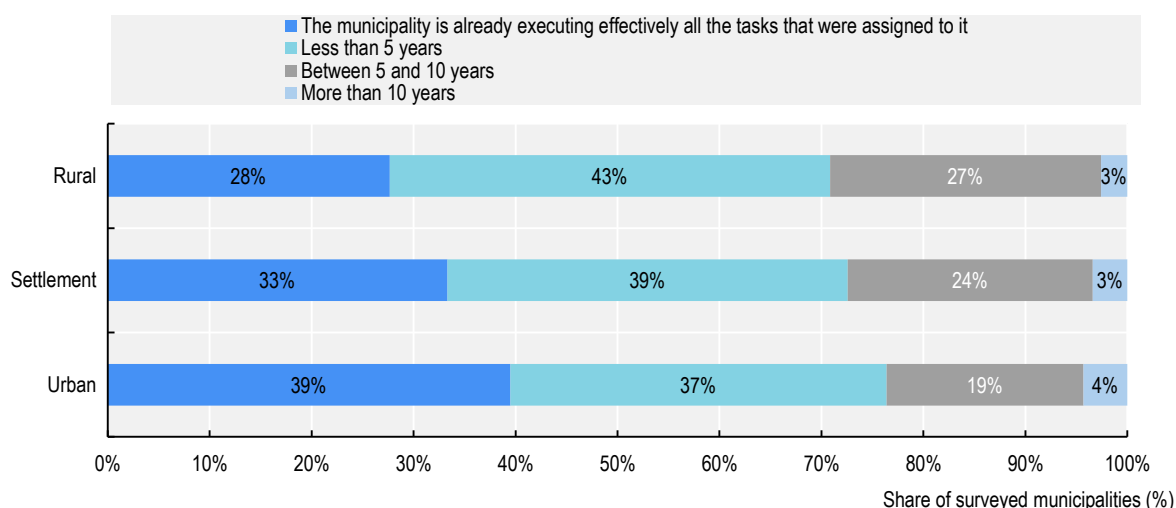
The survey results may also reflect limited municipal capacity to support local development or the impression of municipal leaders that their main priorities are related to social service delivery and not economic development (OECD, 2021^[22]). For example, despite having the power to establish PPPs and involve the private sector in the identification of local investment needs, the survey indicated that many municipalities felt they lacked the capacity to do so. These are important considerations for discussion when addressing the next steps in the decentralisation process. Improving guidance on actions that municipalities can take to support the private sector and strengthening their capacity to engage effectively with local businesses are fundamental to boosting subnational economic activity in the recovery period. Besides that, the government could explore increasing financial incentives for municipalities to strengthen their local economy, for instance by increasing the municipal share of the corporate profit tax generated in their territories.

The majority of municipalities believe that they will require more time to be able to effectively execute their mandate

A majority of municipalities believe that they will need at least several additional years before they are able to effectively execute all the tasks and responsibilities assigned to them. Only 33% of all surveyed municipalities considered that in 2021 they were already carrying out all their tasks and responsibilities effectively. Forty percent expected that it would take up to five years of internal reorganisation, while an additional 27% believed that it would take them at least five years.

There were slight variations across municipal typologies, with 39% of urban municipalities reporting that they were already carrying out their tasks and responsibilities effectively, compared with 33% of settlement municipalities and 28% of rural municipalities (Figure 7.5). At the same time, about the same percentage of rural, settlement and urban municipalities (27%, 24% and 29%, respectively) considered that they would need at least 5 years of internal reorganisation before they could fully carry out their mandate.

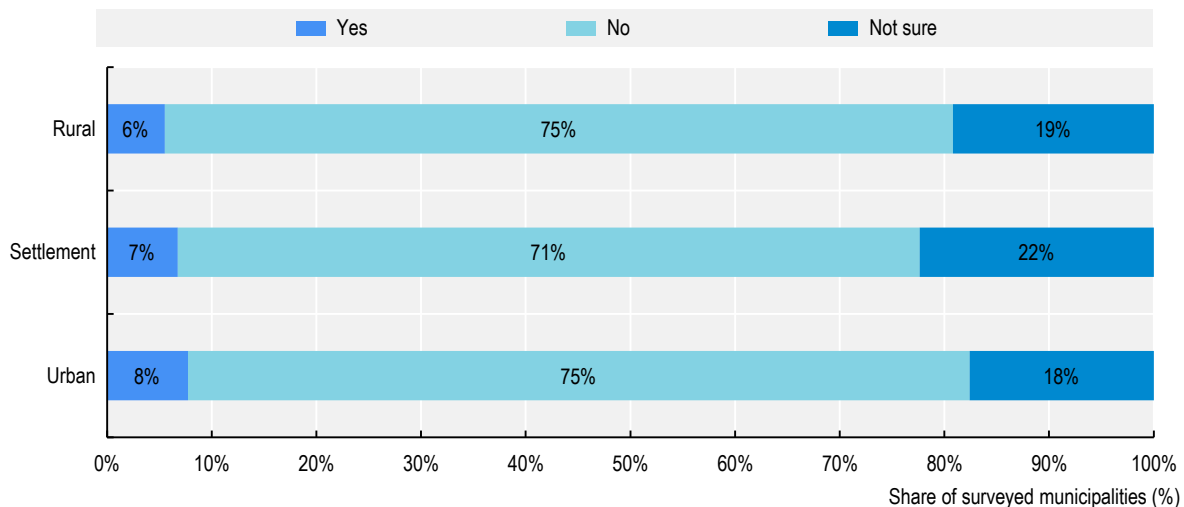
Figure 7.5. Estimated time before municipalities can effectively execute all the tasks and responsibilities that are assigned to them



Note: Question: How many years of internal reorganisation and adjustments do you think it will take before your municipality is executing effectively all the tasks and responsibilities that were assigned to it as part of the decentralisation reforms (including the amalgamation process)? Response options: The municipality is already executing effectively all the tasks and responsibilities that were assigned to it; Less than 5 years; Between 5 and 10 years; More than 10 years. The survey was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021). Source: Author's elaboration, based on the OECD online survey.

The widespread destruction of the war, and its detrimental effects on municipal administrative, human resource and fiscal capacity have increased the likelihood that municipalities will need much more time before they can effectively execute their remit. These are important considerations as policy makers contemplate next steps in the decentralisation process, including further amalgamation, reinforcing inter-municipal co-operation and possible adjustments to the devolution of administrative and service delivery tasks. Regarding further amalgamation, it is worth noting that in 2021, a majority of municipalities (74%) did not consider that they required further amalgamation to effectively provide public and administrative services to their populations. However, a notable minority (26%) reported that either they would or were not sure. This finding was largely consistent across urban, rural and settlement municipalities (Figure 7.6).

Figure 7.6. Perceived need for further amalgamation in the future



Note: Question: Do you think that your municipality may need to be further amalgamated with another municipality to be able to provide basic services to its population? Response options: Yes; No; Not sure. The survey was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021).

Source: Author's elaboration, based on the OECD online survey.

These findings are instructive in the context of the current debate on the merits of adjusting Ukraine's territorial administrative organisation after the war ends. The debate has been ignited by the way that Russia's war in Ukraine has transformed the demographic situation across territories and wrought widespread infrastructure damage in certain areas. In the post-recovery period, the government should re-evaluate whether Ukraine's current territorial administrative structure is fit for purpose. This could go beyond, for example, a discussion over the role of *rayon* state administrations and the creation of prefects (see Chapter 6) to include a reflection on the need for further amalgamations in order to ensure effective local public service delivery.

Adopting flexible and shared service delivery models can address gaps in service provision

As shown by the survey results, municipalities have generally reported an increase in local service quality since decentralisation, particularly among rural and settlement municipalities. This is a key achievement of decentralisation reforms. However, there is evidence of territorial inequalities, as some municipalities reported needing more time before they can carry out their all tasks. Many municipalities did not amalgamate until 2020, after which they had to manage the effects of COVID-19 pandemic and Russia's war. These municipalities may need further time to improve their performance. Additional training and greater fiscal capacity could be needed for municipalities that are lagging behind.

Flexible and integrated service provision models could help fill gaps and increase municipal capacity. Co-operation, collaboration, co-production, colocation, and flexible service provision models are relevant in this regard (Box 7.7). These approaches to service provision could help tailor municipal services to user needs and territorially-differentiated circumstances; and in the case of co-production, they could leverage local assets to maintain standards. As an example, Estonia is maintaining hospitals with very small catchment areas through a networking approach, with regional hospitals taking on a leading role in governing general hospitals (Rechel et al., 2016^[37]).

Box 7.7. Integrated and flexible service provision models

Integrated service delivery entails combining services for the benefit of users and to improve efficiency in delivery by providers, including costs, quality and access. This can include joint planning, the co-operation or communication among service providers, collaboration among professionals across different sectors, the physical or virtual colocation of complementary services, or a mix.

- **Collaboration** refers to agencies, at the national and/or subnational levels, working together through information-sharing and training, and creating a network to improve service experience for users. This can help to reduce any gaps in service provision. Increased professional knowledge about different services can enhance “needs-based” recommendations. In rural areas, collaboration may be more easily achieved due to the smaller number of individuals involved in service provision.
- **Co-operation** refers to a form of integration wherein professionals communicate and work together, for example on multi-agency teams. Beyond the practitioner level, this can also entail co-operation among or across levels of government (vertical or horizontal). Doing so can help lower the costs of delivering services by reducing duplication, and better identify and respond to service user needs. Often such integration requires facilitation at the regulatory and policy levels in order to, for instance, share resources and other information and pursue joined-up strategies.
- **Co-production** refers to the involvement of community or non-profit groups (i.e. the third sector) in service provision. Some countries have a long history of this tradition—e.g. Germany and the Netherlands where co-production was an essential part of the construction of the post-war welfare state. In some European countries, the term is used to describe the organised involvement of citizens in their own welfare production. In many countries, co-production is increasingly promoted as a cost-effective way of providing services in rural areas. With denser social networks, rural areas may have a competitive advantage over urban ones in pursuing this type of service delivery strategy.
- **Colocation** is a form of (light) integrated service delivery. This practice refers to having different services or agencies being located in one building (e.g. one-stop shops such as Ukraine’s administrative service centres). It can provide residents with access to multiple services in one place, while reducing administrative and capital costs.
- **Flexible service provision** can be used to fill the gaps where fixed assets or standard forms of service provision are not possible and/or to improve service accessibility by bringing services to people. It can help to tailor services to different circumstances. Examples of flexible service provision include mobile health services such as blood clinics or medical visits. It can also refer to replacing fixed public transport routes in rural areas with a taxi service, which may be a more affordable option depending on distances/volumes.

Source: Author’s elaboration, based on (OECD/EC-JRC, 2021^[38]).

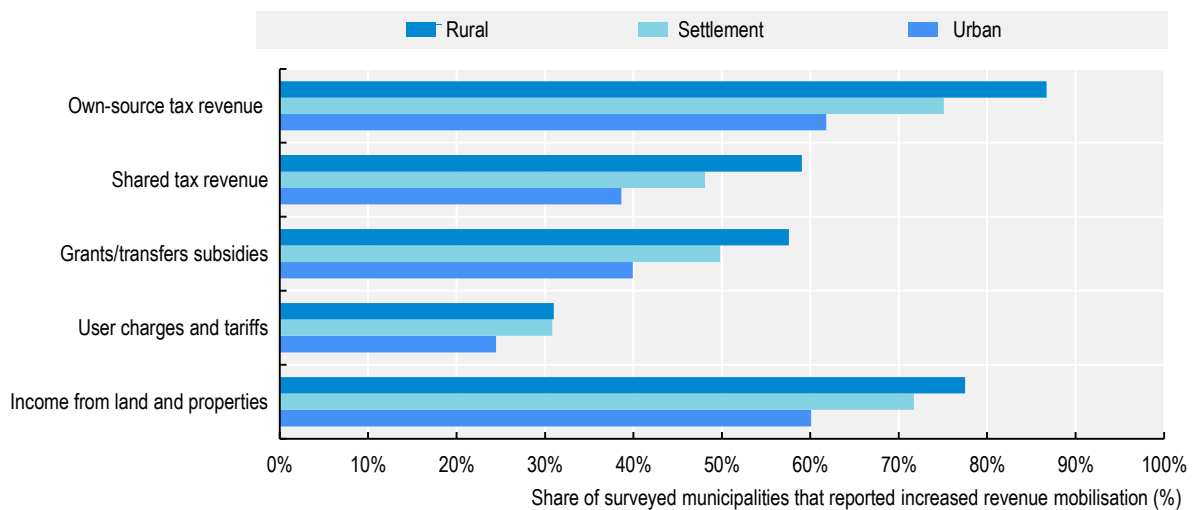
Effects of the decentralisation reforms on sub-regional finance and investment

Fiscal decentralisation has accompanied administrative reforms in Ukraine. Subnational governments have benefit from new revenue sources, tax-sharing arrangements, local taxes and a revised equalisation system (see Chapter 5 and Chapter 6). Fiscal decentralisation processes take time to fully transfer competences and resources from the central government to lower levels of government and as such, this remains an evolving aspect of the decentralisation reform process (OECD, 2018^[28]).

Tax revenues increased in the majority of municipalities

A majority (75%) of surveyed municipalities report that the decentralisation reform process increased their own-source tax revenues. There was significant variation among different types of municipalities; with 87% of rural municipalities reporting that their own-source tax revenues had increased compared with 75% of settlement municipalities and 62% of urban municipalities (Figure 7.7). Similar differences can be found with regard to shared tax revenues (e.g. Personal Income Tax). The lower share for urban municipalities may reflect the fact that some were formerly cities of *oblast* significance, which entitled them to a 75% share of Personal Income Tax (PIT), compared to the 60% that they receive today. By contrast, local communities in rural and settlement areas only received 25% of PIT prior to the decentralisation reforms, and therefore saw a significant increase in shared tax revenues. The survey results largely match changes in the distribution of municipal revenues between 2016 and 2020 (see Chapter 6). Over this period, the share of tax revenues of amalgamated municipalities (including shared and local taxes), increased from 46% to 62% of the total revenues of amalgamated municipalities (CabMin, 2021^[39]).

Figure 7.7. Effect of the decentralisation reforms on the mobilisation of revenue sources



Note: Question: What effect have the decentralisation reforms (including the amalgamation process) had on the mobilisation of the following sources of revenue of your municipality. Full list of sources of revenue: Tax revenue (own-source); Tax revenue (shared between municipality and other levels of government); Grants/transfers subsidies; User charges and tariffs; Income from land (lease, sales, land value capture) and properties (buildings). Response options: Increase; Decrease; No significant effect. The questionnaire was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021).

Source: Author's elaboration, based on the OECD project survey.

In addition, over two thirds of municipalities (70%) reported an increase in income from land/property. This likely reflects the mandatory transfer of “objects of common property” that were previously held by *rayons* (e.g. healthcare and education institutions) to municipalities in 2020, which bolstered the land incomes of the latter. The finding was highest for rural municipalities (77%), followed by settlement and urban

municipalities (72% and 60% respectively), which may reflect the fact that urban municipalities were relatively more likely to own objects of common property prior to the launch of the reform process.

Only half of surveyed municipalities reported that the reforms had increased their revenue from central government transfers. While this may appear striking given that the amount of funding available for municipalities through government grants rose substantially between 2015-2019 (see Chapter 5), the survey results largely correspond with a gradual decrease in the share of transfers as part of the total revenues of amalgamated municipalities (from 49% in 2016 to 33% in 2020) (see Chapter 6). Moreover, the survey results may reflect the fact that municipalities have also seen a substantial increase in tasks since 2015, and may not feel that the net increase in funding has been commensurate with their new responsibilities.

Ensuring territorial equality amidst differences in fiscal capacity for recovery

The OECD project survey indicates that decentralisation has increased own-source revenues, particularly for rural municipalities. There are a number of positive benefits related to this, including municipal ownership over budgets and a stronger connection between the taxes that citizens pay and the services they receive, which can lead to improved public accountability and trust in government. The ongoing war, however, has upended public finance and new mechanisms will evolve to support reconstruction and recovery efforts, including national reconstruction grants and funds from international donors. In this regard, it is essential for the government to periodically assess the fiscal capacity of municipalities and how their public finance needs evolve during the war and post-war reconstruction and recovery period. This should be coupled with establishing transparent monitoring and accountability frameworks that show how recovery funds are spent.

It will be critical that relatively weak municipalities, which tend to lack dedicated finance professionals, do not fall through the gaps in accessing such reconstruction funds. This requires, among other elements, ensuring that the application process for funding is not highly complex or bureaucratic. Moreover, it is important for the government to make sure that information on funding opportunities is widely shared and shared in a timely manner, for example through the local government associations, as well as the Congress of Local and Regional Authorities. In addition, the national and regional governments should track not only which municipalities are applying for funds, but also those that are not applying for them in order to discern whether this is related to a lack of need or a lack of administrative capacity, the latter of which may require intervention.

Effects of the decentralisation reforms on local democracy and public engagement in local decision making

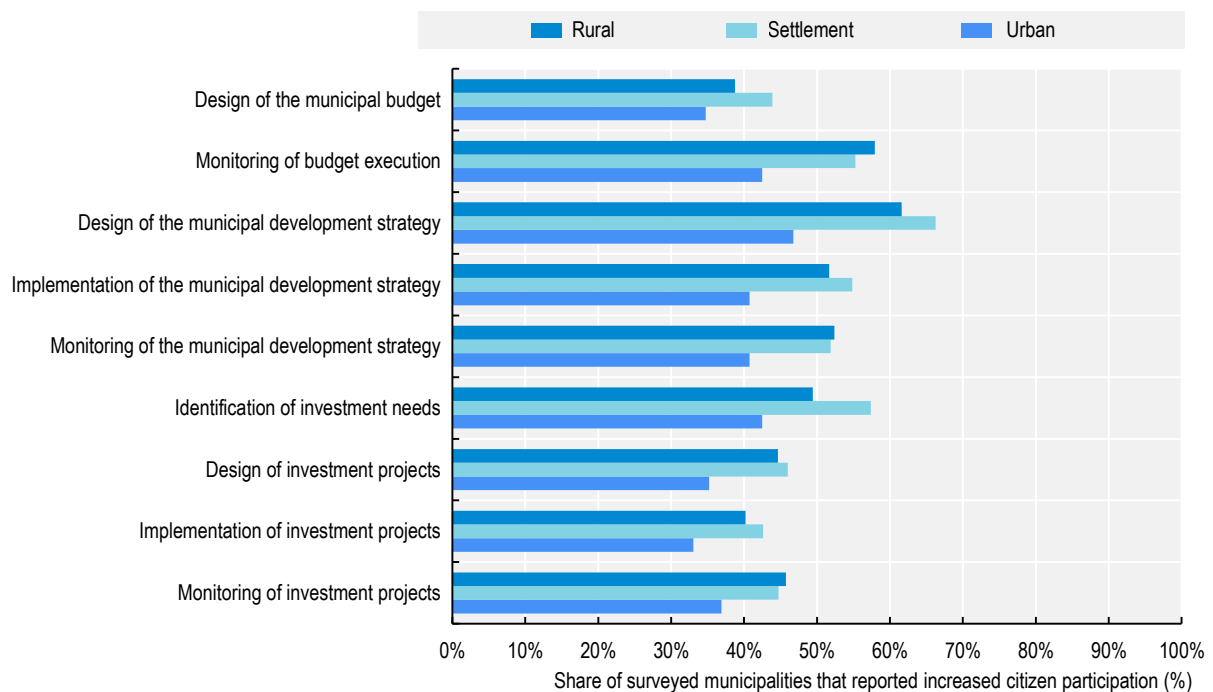
Improving local democracy was one of the goals set out in the 2014 “Concept of Reforming Local Self-Government and Territorial Organisation of Power” (CabMin, 2014^[40]). Since then, the decentralisation reforms resulted in the direct election of 1 469 new councils and a further institutionalisation of the *starosta* (see Chapter 6). Moreover, prior to February 2022, civic engagement tools such as electronic petitions were increasingly being used at the municipal level. The same applied to participatory budgeting, particularly in larger cities (Sabadash and Kruglashov, 2020^[41]).

This section presents how municipalities perceived the impact of decentralisation on the participation of citizens and businesses in municipal decision making processes. It demonstrates that continued investment in local democratic engagement is needed. The section ends with a discussion of the importance of strengthening public engagement, reporting and accountability, particularly in the context of the post-war recovery period. It also addressed the effect that the war has had on public engagement in municipal decision making.

Few municipalities reported improved participation of citizens and businesses in local decision making

Small majorities of surveyed municipalities felt that the decentralisation reforms had improved citizen participation in the design of a municipal socio-economic development plan (58%); monitoring of budget execution (52%); and identification of investment needs (50%). For all other areas related to citizen participation, a majority of municipalities felt that the reforms had had no effect. There was also a notable divergence between types of municipalities, with less than half of surveyed urban municipalities reporting that the reforms had increased citizen participation across all the different decision making areas, compared to over half of surveyed rural and settlement areas (Figure 7.8).

Figure 7.8. Effect of decentralisation reforms on citizen participation in municipal decision making

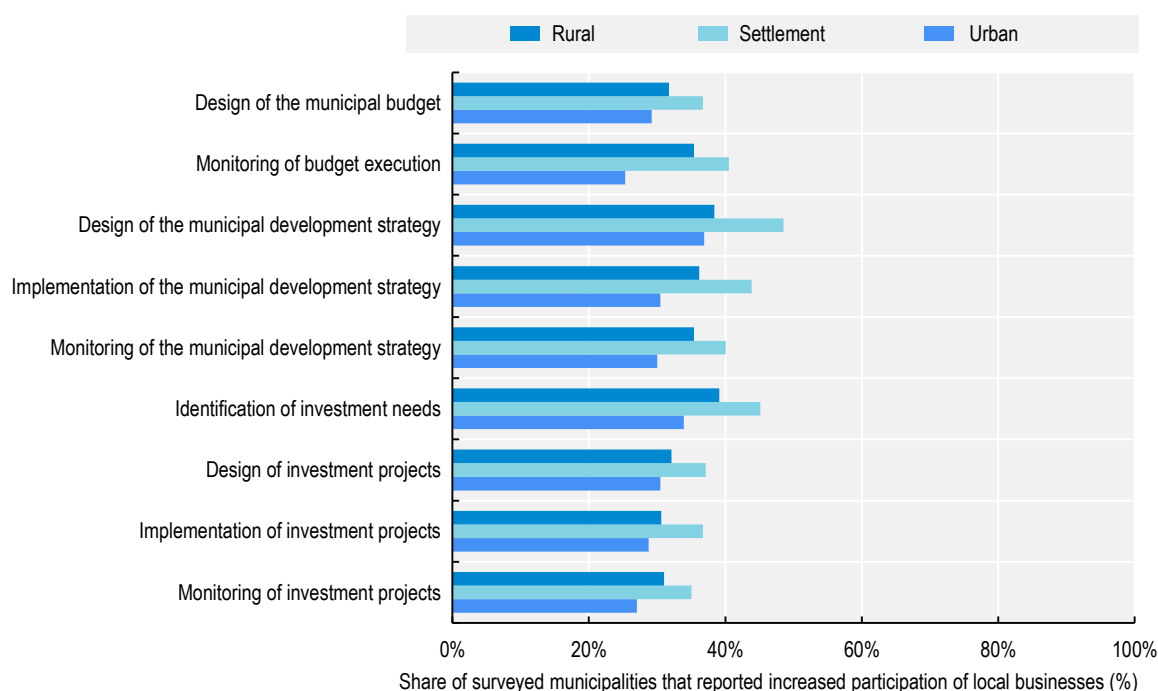


Note: Questions: What effect have the decentralisation reforms (including the amalgamation process) had on the participation of individual citizens in the following areas of municipal decision making? Full list of areas of municipal decision making: Design of the municipal budget; Monitoring of budget execution; Design of the municipal socio-economic plan (strategy of development of the territorial community); Implementation of the municipal socio-economic plan (strategy of development of the territorial community); Monitoring of the municipal socio-economic plan (strategy of development of the territorial community); Identification of investment needs; Design of investment projects; Implementation of investment projects; Monitoring of investment projects. Response options: Increased participation; Decreased participation; No effect. The survey was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021).

Source: Author's elaboration, based on the OECD online survey.

A sizeable majority of municipalities indicated that the reforms had had no effect on the involvement of local businesses in municipal decision making. Overall, this finding was most pronounced in urban municipalities, followed by rural and settlement municipalities. For example, only 25% of urban municipalities felt that the reforms had increased private sector involvement in the monitoring of budget execution, compared with 35% of rural municipalities and 41% of settlement municipalities (Figure 7.9).

Figure 7.9. Effect of the decentralisation reforms on business participation in municipal decision making



Note: Questions: What effect have the decentralisation reforms and amalgamation process had on the participation of local businesses (private sector representatives) in the following areas of municipal decision making? Full list of areas of municipal decision making: Design of the municipal budget; Monitoring of budget execution; Design of the municipal socio-economic plan (strategy of development of the territorial community); Implementation of the municipal socio-economic plan (strategy of development of the territorial community); Monitoring of the municipal socio-economic plan (strategy of development of the territorial community); Identification of investment needs; Design of investment projects; Implementation of investment projects; Monitoring of investment projects. Response options: Increased participation; Decreased participation; No effect. The survey was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021).

Source: Author's elaboration based on the OECD online survey.

These findings could be interpreted in different ways. On the one hand, municipalities may feel that they were already adequately engaging with citizens and local businesses in municipal decision making and as such, reforms have not increased engagement. This may, for example, explain the lower number of urban municipalities reporting increased citizen participation due to the decentralisation reforms. As indicated previously, particularly in larger municipalities, tools such as participatory budgeting had been used more frequently in recent years.

What the findings likely reflect, however, is the lack of awareness and/or understanding of the existing legislative and regulatory framework with regard to public participation and consultation at the subnational level (OECD, 2021^[22]). For example, in 2020 the Ministry of Finance published methodological guidelines on how to organise public participation mechanisms in the budget process at the local level (Verkhovna Rada, 2020^[42]). In addition, as mentioned above, many municipalities reported that they don't have the necessary capacity to involve non-governmental stakeholders in planning, budgeting and public investment processes.

Strengthening public engagement, reporting and accountability

Public engagement is about developing a partnership between public officials and community residents in the governance process. It requires sharing information and managing competing interests. It also requires

trust and acknowledging the contribution that non-governmental actors can make to decision making on development priorities, revenues and spending, among other elements.

Over the course of the war, municipalities have been working closely with civil society, non-governmental organisations and businesses to deliver critical services, co-ordinate humanitarian aid and mobilise recovery efforts. Many have noted how this is transforming the culture of civic engagement and local democracy in beneficial ways (Gumenyuk, 2022^[43]). In the reconstruction period and beyond, Ukraine should build on this experience. In order to enhance public engagement in municipal decision making, the government should consider passing new legislation to make public consultation a systematic component of development and investment planning at the subnational level. In particular, it should clearly set out the mechanisms through which municipalities can boost public engagement, such as participatory planning and budgeting, and ensure that public participation tools (to inform, consult, involve, collaborate or empower) are fit-for-purpose. At the same time, the government should be careful not to overwhelm municipalities with requirements to organise public engagement processes, as this might stifle municipal decision making and lead to consultation fatigue on the part of citizens and businesses.

While all municipalities are required by law to present an annual report to their local council on local budget execution, only 59% of surveyed amalgamated municipalities indicated that they had done so (OECD, 2021^[12]). There was some variation across types of municipalities, with 65% of rural municipalities reporting having presented such a report, compared to 59% of settlement municipalities and 52% of urban municipalities. A more systematic submission of annual public reports could provide an added measure of transparency and accountability to subnational government activities, particularly as municipalities will be involved in the implementation of recovery projects. This would help municipalities to demonstrate to residents that taxes and donor funding are being spent efficiently and effectively, and show the progress that is being made towards local development objectives.

The government is advised to provide additional resources (e.g. updated methodologies and reporting templates) on how to develop and present annual reports that can inform a wide range of stakeholders about the activities that have been implemented, how funds have been spent and the degree to which local development goals have been met. Moreover, the government could consider making the presentation of an annual report a condition for receiving funds from, for example, the SFRD.

Related to public participation in the field of budgeting, the OECD previously recommended that Ukraine make budget information more easily accessible and understandable to the public (a “budget for citizens”) and develop capacity building meetings with the population in order to develop their financial skills and understanding (OECD, 2018^[28]). Moreover, it recommended setting up citizen monitoring committees for fiscal issues and publishing a yearly (or half-yearly report) on budget execution in a friendly format, accessible by the public. Finally, it urged officials to promote the use of participatory budgeting experiences through which citizens can express their demands in terms of budget allocation and prioritisation (OECD, 2018^[28]). These recommendations still hold value for Ukraine.

The vast investment that will be needed to support local reconstruction and recovery underscores the importance of robust public engagement in municipal decision making. Non-governmental actors may be able to provide financial, material and human resources to implement reconstruction projects, and to monitor the use of public and donor funding.

Effects of the decentralisation reforms on vertical and horizontal co-ordination and co-operation

Co-ordination and co-operation between and among levels of government is a key element of successful decentralisation reform (OECD, 2019^[44]). Co-ordination entails joint or shared information flows among organisations while co-operation implies joint action. The OECD has noted that inter-municipal co-operation is slowly gaining traction, but that there is room for improvement (see Chapter 6). In addition,

existing vertical co-ordination mechanisms face multiples challenges (see Chapter 4 and Chapter 6). A relationship based on partnership among levels of government, as opposed to hierarchy, has become increasingly important as municipalities have gradually received more administrative and service delivery responsibilities.

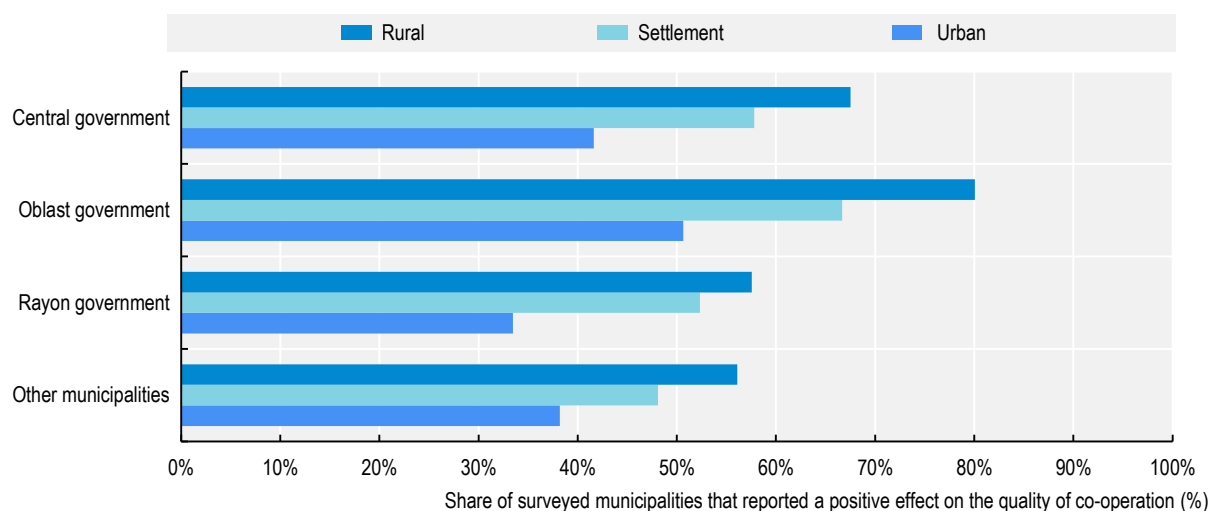
This section discusses how municipalities perceived the effect of the decentralisation reforms on vertical co-ordination, and addresses the issue of clarity in the division of tasks and responsibilities among levels of government. It also reflects on the value of increasing inter-municipal co-operation for post-war reconstruction and recovery.

Decentralisation reforms were perceived to have a positive impact on vertical co-operation

A majority of surveyed rural and settlement municipalities (68% and 58%, respectively) felt that the decentralisation reform process had had a positive impact on their relations with the central government, compared with just 42% of urban municipalities. This may reflect the fact that former cities of *oblast* significance had already had extensive dealings with the central government before the start of the decentralisation reforms. For example, former cities of *oblast* significance were able to issue bonds, subject to the control and co-ordination of the central government, which rural, urban and settlement municipalities were not allowed to do.

By contrast, a majority of rural (80%), settlement (67%) and urban (51%) municipalities all reported that the decentralisation reforms had had a positive impact on the quality of their co-operation with *oblast* governments (Figure 7.10). This likely reflects, at least in part, the way in which the reforms enabled municipalities to negotiate their budgets directly with *oblast* state administrations, thus developing and strengthening their relationship with the *oblast* level. Prior to decentralisation reforms, *rayon* state administrations communicated and managed funding levels to most municipalities. The exception were all cities of *oblast* significance that enjoyed direct fiscal relations with the *oblast* level of government (see Chapter 6). This may explain why urban municipalities were less positive than settlement and rural municipalities about the effect of the decentralisation reforms on the quality of co-operation with other levels of government.

Figure 7.10. Effect of the decentralisation reforms on the quality of co-operation with other levels of government



Note: Question: What effect have the decentralisation reforms (including the amalgamation process) had on the quality of co-operation with the following levels of government? Response options: Positive effect; Negative effect; No noticeable effect. The survey was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021).

Source: Author's elaboration, based on the OECD online survey.

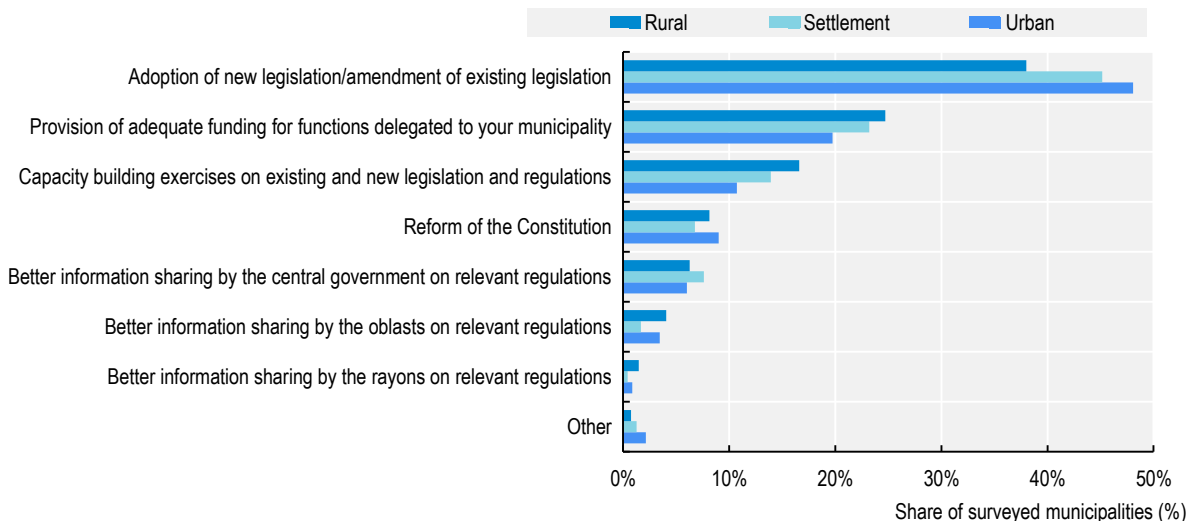
A small majority of surveyed rural municipalities (56%) indicated that the reforms had had a positive impact on their co-operation with other municipalities, compared with only 48% of settlement municipalities and 38% of urban municipalities (Figure 7.10). This may be explained by the fact that not all rural or settlement municipalities have the necessary infrastructure to, for example, provide a wide array of healthcare or education services and therefore need to co-operate with other municipalities that do.

The survey also found that in rural, settlement and urban municipalities alike, the largest share of local authorities indicated that inter-municipal co-operation would be beneficial for improving local waste management services and healthcare (Annex Figure 7.A.3). This may reflect the large amount of investment that is required to develop and maintain physical infrastructure, and a desire to improve the efficiency of public investment by generating greater scale. Other beneficial areas for which a relatively large share of municipalities indicated that inter-municipal co-operation would be beneficial included tourism (particularly among urban municipalities), as well as social and administrative services, signalling a wide range of sectors for which municipalities consider there are benefits to cross-jurisdictional co-operation.

Greater clarity on division of tasks and responsibilities among levels of government is needed

Nearly half of surveyed municipalities (43%) reported that adopting new legislation or amending existing legislation would most contribute to increasing clarity in the division of tasks and responsibilities among levels of government (Figure 7.11). This may reflect the fact that legislation does not set out a clear mandate for municipalities in certain tasks. For example, current legislation does not specify clear mechanisms that municipalities can use to support local economic development. In addition, there is uncertainty about which level of subnational government is responsible for the construction and maintenance of roads (see Chapter 6).

Figure 7.11. Actions that would contribute most to increasing clarity in the division of tasks and responsibilities among levels of government



Note: Question: According to you, which of the following actions would contribute most to increasing clarity in the division of tasks and responsibilities among different levels of government? Please selection one option. Adoption of new legislation / amendment of existing legislation; Provision of adequate funding for functions delegated to your municipality; Training and other capacity-building exercises on existing and new legislation and regulations; Reform of the Constitution; Improved communication / dissemination of information by the central government on regulations affecting municipalities; Improved communication / dissemination of information by the *oblast* administrations on regulations affecting municipalities; Improved communication / dissemination of information by the *rayon* administrations on regulations affecting municipalities; Other. The survey was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021).

Source: Author's elaboration, based on the OECD online survey.

Research on inter-governmental relations in Ukraine echoes these findings, indicating that the legal assignment of functions among the levels of government is sometimes unclear (Wright and Slukhai, 2021). This can undermine the effective delivery of public services and accountability as actors may avoid taking responsibility by “passing the buck” to other levels of government. These challenges are especially problematic in the context of a disaster, which requires swift, co-ordinated and decisive action, not to mention clear communication and accountability structures. In order to address this issue, the government could consider a two-pronged approach. First, it could conduct a comprehensive review of municipal administrative and service responsibilities and how these relate to the mandate of higher levels of government. Such a review could help identify services where, for example, responsibilities overlap or where there is limited clarity regarding which level of government is responsible. Second, based on this assessment, the government could identify where introducing new legislation or regulations (or amending existing legislation or regulations) is needed and where other measures might suffice. These include promoting and facilitating vertical and horizontal co-operation, and providing additional capacity building support for municipalities to demystify complex legislative and regulatory issues, particularly as new legislation is introduced. Both of these elements could provide greater clarity for municipalities regarding their tasks and responsibilities within a multi-level governance context.

It is also notable that: a) the provision of adequate funding and b) training and capacity building were the second and third most commonly-cited elements that would contribute to increased clarity regarding the division of tasks and responsibilities among levels of government. The findings suggest that certain municipalities may not feel that their service delivery mandates are being adequately funded. While it is important for municipalities to practice prudent financial management, the government should ensure that local governments have the necessary means to effectively execute their mandate, thereby avoiding un- or under-funded mandates. As part of efforts to increase the stable, predictable and adequate funding of municipalities, the government could consider increasing the volume of block grants or expanding the municipal power to set the tax base and rates for own-source taxes, possibly within a nationally determined range to avoid too much variation among municipalities. This would, however, need to follow the comprehensive review of municipal administrative and service responsibilities mentioned above, combined with an assessment of the extent to which these responsibilities are currently underfunded. These policy interventions would contribute to municipalities having sufficient financial resources and the necessary flexibility to allocate spending to meet particular local needs.

Increasing inter-municipal co-operation

Inter-municipal co-operation is critical for creating economies of scale and improving cost-efficiency in public service delivery. It will be all the more important in light of the vast destruction of public infrastructure in the wake of Russia’s war against Ukraine. While Ukraine has formal mechanisms for inter-municipal co-ordination, more needs to be done to encourage these partnerships. The slow uptake of such agreements may be due, in part, to a lack of adequate knowledge about how they work and the risks involved. The national government could play a stronger role by developing incentives for co-ordination and ensuring that municipalities have the right mechanisms in place and the know-how required to take action. For example, it could consider providing local governments with additional support material (e.g. on relevant legislation, good practices, shared service contract templates) and advice on how to set up and manage inter-municipal co-operation, particularly in service delivery areas that may have been overlooked in the past (see Chapter 6) (OECD, 2018^[28]). In addition, the share of own-source revenue as part of total municipal revenue may influence the likelihood of municipalities setting up inter-municipal co-operation agreements. When municipal revenue consists mostly of shared taxes (e.g. PIT) and inter-governmental grants, then municipalities tend to feel less pressure to identify expenditure savings, for example by co-operating with neighbouring municipalities to provide services (GIZ/UN-Habitat, 2015^[45]). As such, reducing municipal dependence on shared taxes and grants—for instance by increasing the power of municipalities to generate own-source revenue—can work as an incentive for inter-municipal co-operation.

OECD municipal efficiency assessment

The previous sections have highlighted the findings of a self-assessment of decentralisation reforms, providing important insights into how municipalities view the impact of these reforms on internal capacity, inter-governmental relations, and municipal operations. Understanding the impact of the reforms on municipal efficiency provides an additional angle of analysis with which to analyse and understand reform effects. Assessing the relative efficiency with which different municipalities provide public services can be an important metric of municipal performance. It can help to identify how much “bang” local taxpayers are receiving for their “buck”.

To determine a municipality’s relative efficiency, a Data Envelopment Analysis (DEA) was applied (Box 7.8). This modelling method is commonly used for measuring the cost efficiency of different organisations and institutions in providing similar services, such as primary education, healthcare, access to cultural institutions, sanitation and road infrastructure (Charnes, Cooper and Rhodes, 1978^[46]; Cooper, Seiford and Ton, 2006^[47]; Lamichhane and Tamang, 2019^[48]). In this case, the DEA ranks municipalities according to the relationship between the resources used (inputs) and the public-service goods produced (outputs). A municipality is considered to be relatively inefficient if another municipality, using the same combination of inputs, is able to produce more outputs or is able to produce at the same output level with fewer inputs.

Box 7.8. Data Envelopment Analysis model

To run the Data Envelopment Analysis (DEA) and evaluate the relative efficiency of municipal spending, the OECD identified input and output indicators. The input variable selected was total municipal revenues per capita, which measures how much revenue municipalities have to spend relative to their population. In particular, it refers to the municipal revenues of the General Fund, which is formed by, among other elements PIT. Ideally, the OECD would have used an additional model with municipal expenditure per capita as an input variable. However, the available municipal expenditure data could not be matched with the output indicators presented below.

With regard to output indicators, researchers conducting the DEA typically use variables such as the amount of urban waste collected or the volume of drinking water supplied to citizens in order to measure the provision of public goods. Given limitations on the availability of local-level data indicating policy outcomes (e.g. changes in the quantity or quality of key public services such as education or healthcare), the OECD analysis relied on information presented on the Hromada Performance Monitoring Platform. The DEA model applied by the OECD used the following output indicators:

- Number of preschool institutions
- Number of general secondary education institutions
- Number of institutions providing primary healthcare
- Number of museums
- Number of cultural institutions
- Number of art schools
- Number of libraries

While public infrastructure indicators are not optimal since they do not include information about service delivery quality for example, the range of outputs considered in the analysis is deemed diverse enough to generate robust results that do not vary with the inclusion or exclusion of a particular output.

The DEA used data from 2019-2021, the most recent data available, depending on the indicator. While ideally, the analysis would have only included amalgamated municipalities, the technical difficulty associated with merging datasets with different codes meant that the analysis considered all 1 438 municipalities mentioned on MinRegion's Hromada Performance Measurement Portal. This list included municipalities that did not amalgamate between 2014 and 2020. It also excluded the temporarily-occupied territorial municipalities in Donetsk and Luhansk *oblasts*.

Source: Author's elaboration.

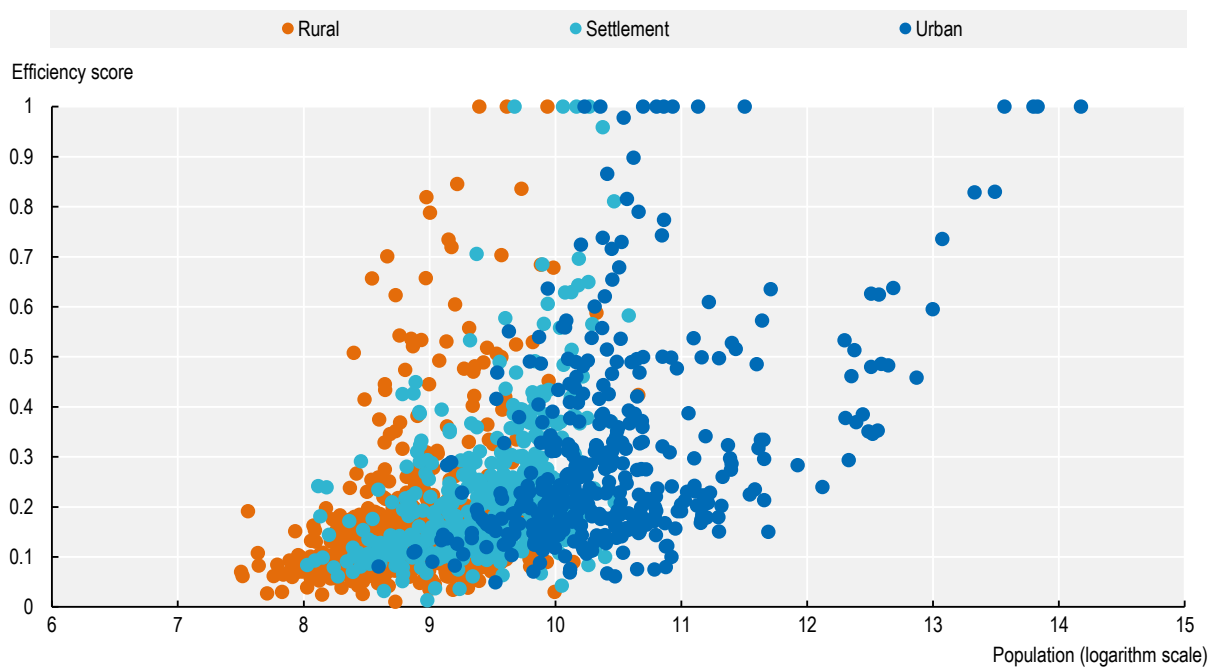
Measures of municipal efficiency, however, should not be viewed in isolation. Equally important is an assessment of effectiveness, including difficult-to-measure objectives such as the quality, equity and accessibility of services, which is discussed in detail in Chapter 8.

Population size and tax revenue-raising capacity are key determinants of municipal performance

The DEA of municipal performance found that only 1% of all 1 438 municipalities were situated at the relative efficiency frontier (i.e. scoring 1 on a range of 0 to 1, with 1 representing the highest level of efficiency) (Figure 7.12) (Annex Table 7.B.1). Large cities such as Dnipro, Kharkiv, Lviv and Odessa were among the most efficient municipalities (i.e. that received the top score of 1), as well as a group of small municipalities, such as Keretsky (Zakarpattia *Oblast*), Solotvyn (Ivano-Frankivsk *Oblast*) and Borynia (Lviv *Oblast*) whose population ranged between 14 959 (Keretsky) and 26 033 (Solotvyn) inhabitants in 2021. It is important to stress that the outcomes of the DEA depend on the type and number of input and output indicators used. Moreover, the DEA estimates indicate *relative* and not absolute efficiency. As such, municipalities that obtained an efficiency score of 1 should not be understood to perform at a hypothetical efficiency “maximum”.

Overall, the results of the analysis indicate that municipal size (both in terms of population and area), are important determinants of the efficiency of municipal public expenditure, and that this effect is particularly significant in rural and settlement municipalities. The assessment also found that every municipality situated in the bottom 5% of the efficiency index had relatively small populations (less than 10 500 people).

Figure 7.12. Municipal efficiency scores and population size

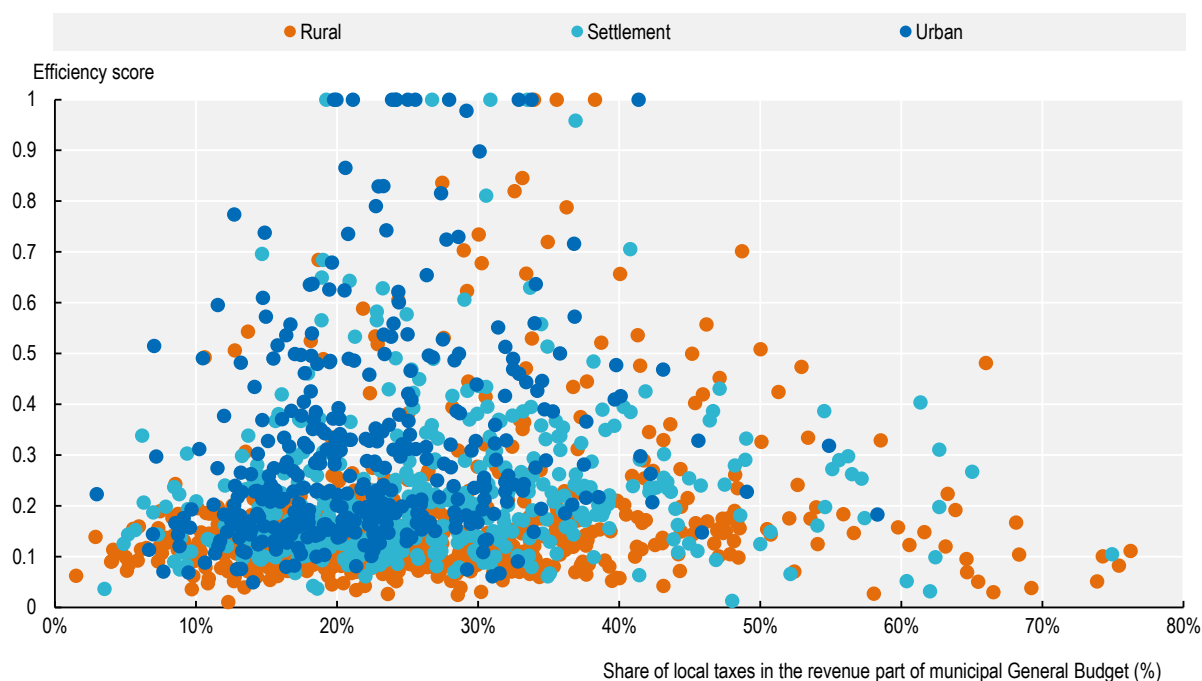


Source: Prepared by Pedro Camões and Antonio Tavares with data from (MinRegion, 2021^[49]).

The role of population size in generating better municipal efficiency outcomes may, in part, be a reflection of Ukraine's pre-2014 administrative-territorial structure. In particular, some of the larger urban municipalities are former "cities of *oblast* significance", which already had an extensive list of tasks and responsibilities prior to the start of the amalgamation process. These municipalities have had significantly more time to build up their administrative capacity than their peers. This, in turn, may help to explain the efficiency of these municipalities relative to those that received additional tasks and responsibilities as part of the post-2014 decentralisation process, and have had to significantly strengthen their capacity to deliver on their expanded mandate. Moreover, as the income per capita of municipalities with relatively large populations tends to be higher than in small municipalities, the former may be more likely to obtain a relatively high share of local taxes as part of their total revenues, which the DEA and subsequent regression analysis identified as a determinant of municipal efficiency.

In most *oblasts*, relatively efficient municipalities derived at least 15% of their revenues from local taxes, which underscores the importance of a minimum level of local financial autonomy in supporting efficient municipal operations (Annex Table 7.B.2). The regression analysis found that municipalities with a higher share of locally-generated revenues were more efficient managers of government funds than their peers. This aligns with OECD work on fiscal decentralisation, notably the fact that municipalities with a higher share of own-source revenues often have a better quality and efficiency of public spending (Asatryan, Feld and Geys, 2015^[50]; OECD, 2019^[44]). The explanation may lie partly in that municipalities with a relatively high share of own-source revenues, the financial implications of spending decisions are more directly linked to the payment of taxes by local residents, creating public pressure on local decision makers for responsible budgeting and spending. Within the context of the decentralisation process, the findings suggest that additional reforms supporting increased own-source revenue across Ukrainian municipalities could lead to more efficient local government spending. However, the DEA also shows that municipalities that were highly dependent on local taxes (i.e. municipalities whose share of local taxes constituted 60% of their revenues) scored relatively poorly in terms of efficiency (Figure 7.13). This might imply that those municipalities (all rural and settlement municipalities) had relatively low revenues per capita in general, making them highly dependent on PIT.

Figure 7.13. Municipal efficiency scores and own-source revenues



Source: Author's elaboration with data provided by (MinRegion, 2021^[49]).

Urban and settlement municipalities are on average more efficient than rural municipalities

The DEA also sought to evaluate the relative efficiency of urban, rural, settlement municipalities at the national level and by *oblast*. The best-performing municipalities overall, as well as the best performing municipalities in the respective rural, settlement and urban categories, are presented in Annex Table 7.B.1; Annex Table 7.B.3; Annex Table 7.B.4 and Annex Table 7.B.5, respectively.

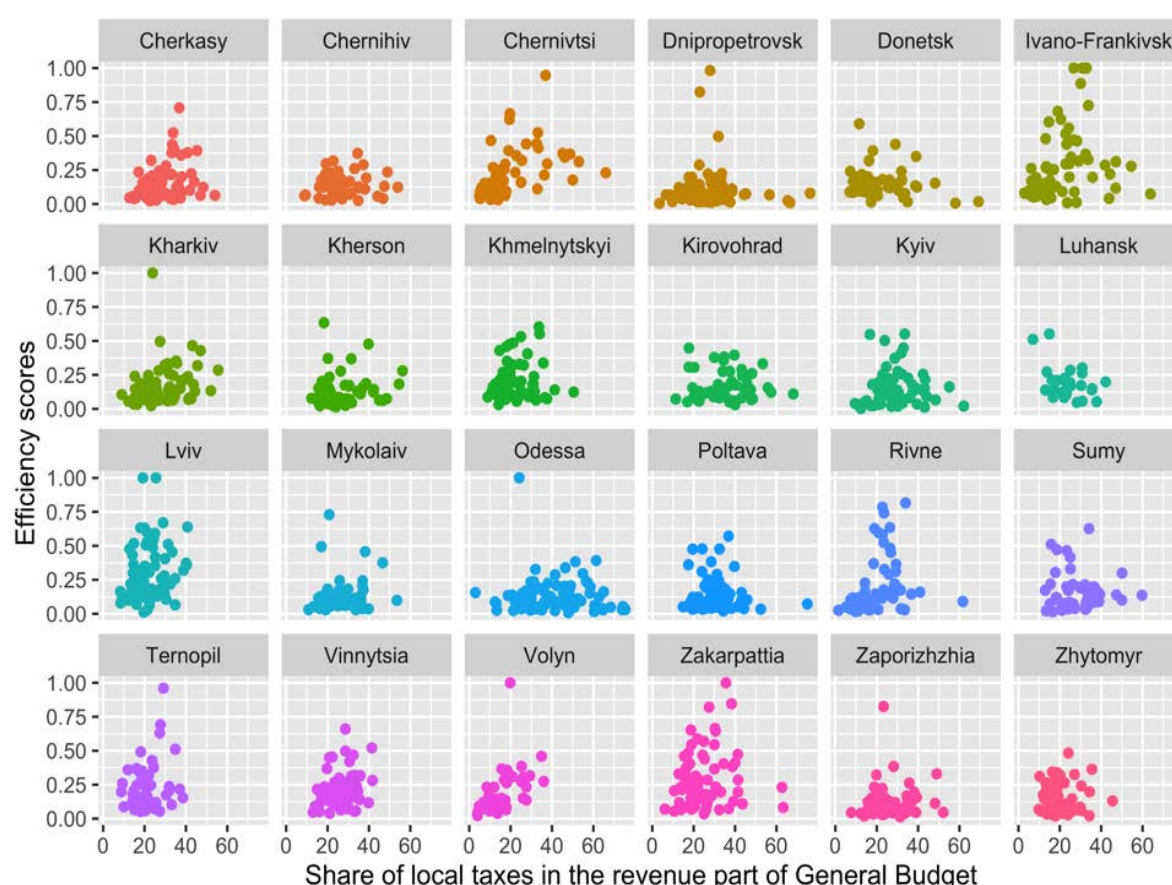
Regression analysis found that urban and settlement municipalities are, on average, more efficient at maintaining public infrastructure outcomes than rural municipalities, with urban municipalities the most efficient of the three. Rural municipalities also tend to have lower efficiency scores, irrespective of their proportion of own-source revenues (Figure 7.13). Moreover, the DEA found that in 19 out of 24 *oblasts*, urban municipalities were relatively more efficient on average than their rural and settlement peers (Annex Table 7.B.2). However, there were a few exceptions, notably in Chernivtsi and Zakarpattia *Oblasts*, where most of the efficient municipalities were rural, and in Donetsk, Luhansk and Mykolaiv *Oblasts*, where most of the efficient municipalities were settlements (MinRegion, 2021^[49]).

The relatively low efficiency of rural municipalities may reflect the fact that spending efficiently in rural areas is particularly challenging because of their low density. It could potentially also be related to the fact that, generally, rural municipalities have a relatively high share of elderly population and low levels of productivity, compared to urban municipalities. Another reason might be that rural municipalities have less experience and administrative capacity in managing the construction of public infrastructure than urban and settlement municipalities. The latter point is supported by responses from the OECD project survey, which indicated that a smaller share of surveyed rural municipalities believe that they have the necessary human resources to carry out public investment responsibilities than settlement and urban municipalities (Figure 7.3).

Municipalities in the west tend to be more efficient than peers elsewhere in the county

The OECD also conducted analysis of aggregate municipal efficiency by *oblast* (Figure 7.14). Positive coefficients from the regression analysis indicated that municipalities in certain *oblasts* tend to be, on average, more efficient, particularly Chernivtsi, Ivano-Frankivsk, Khmelnytskyi, Lviv, Rivne, Ternopil and Zakarpattia *oblasts*. This is evidenced by the presence of more municipalities in the upper part of each graph. Notably, the *oblasts* with the most efficient municipalities were situated in the west of Ukraine. By contrast, municipalities in Chernihiv, Donetsk, Kirovohrad, Luhansk, Sumy and Zhytomyr *oblasts* performed worse as a group, as shown by the significant concentration of units in the lower part of their respective graphs.

Figure 7.14. Municipal efficiency scores represented by proportion of tax revenues, per *oblast*



Note: Each graph constitutes a separate DEA for a different *oblast*, meaning that municipal efficiency scores are only relative to the other municipalities that are located in their *oblast*.

Source: Prepared by Pedro Camões and Antonio Tavaréz with data from (MinRegion, 2021^[49]).

Preliminary considerations for increasing municipal efficiency

The findings, which underscored the importance of a municipality's size and own-source revenues in ensuring better municipal efficiency, are instructive in the context of the current debate regarding Ukraine's administrative-territorial structure and whether it should be adjusted after the conclusion of Russia's war

against Ukraine. The OECD findings provide some initial evidence suggesting increasing municipal size, particularly in terms of population, and increasing the capacity of municipalities to generate own-source revenues could lead to more efficient local government spending. There are diverse ways to accomplish this, such as educating municipal leaders on the value of inter-municipal co-operation and developing financial and functional incentives. Examples of financial incentives include providing a higher tax-share for delivering joint services and awarding additional points in the selection process of competitive regional and local development funds to project proposals developed by two or more municipalities. An example of a functional incentive is establishing a condition of population size for the delivery of different services, thereby encouraging inter-municipal co-operation between smaller municipalities.

Additional (voluntary) amalgamations could also be considered, though such institutional reforms take time to generate results and any additional reconfiguration might be too premature as there is insufficient data to determine how performance has changed over time given the recent reform cycle. Moreover, those communities that amalgamated only recently (i.e. in 2019 and particularly in 2020) have had very limited time to adjust to their new tasks and responsibilities. This puts them at a disadvantage, which may have been aggravated by the war. These are important elements to consider during discussions about any further amalgamations. At the same time, the debate around the merits of additional municipal amalgamations will also need to consider other variables besides efficiency, such as how mergers affect the quality of service delivery, local democracy and citizen well-being, for which the development of a robust performance monitoring system is needed. In the longer term, generating sustainable, more inclusive local and regional growth, as explored in the first part of this report, is called for.

Implications of the OECD analytical framework for future decentralisation reform

The combined qualitative and quantitative framework applied by the OECD shows that, across the board, municipalities considered that the decentralisation reform process, including amalgamation, had a positive impact on their administrative and human resources capacity, on the quality of several service delivery areas and on their revenues. Moreover, surveyed municipalities also indicated that the reforms had improved inter-municipal and vertical co-ordination (i.e. with other levels of government). These improvements have likely contributed to the ability of many municipalities to continue to execute their core administrative functions, and provide basic services during the war.

The results from the OECD analytical framework also show significant performance variation across types of municipalities, with the share of rural municipalities reporting improvements in areas such as revenue generation and vertical and horizontal co-ordination being higher than that of settlement and urban municipalities. Conversely, they also show that prior to February 2022, a relatively large share of rural municipalities considered that they did not have the necessary human resource capacity to carry out key tasks in the fields of strategic planning, public investment or budgeting. Boosting municipal capacity in these fields in the short term will be essential in ensuring that they have the necessary capacity to absorb recovery funding, design and implement projects, and manage procurement processes.

Furthermore, the results highlighted that across municipal typologies, there is ample room for improvement in terms of public engagement. This is another area demanding urgent action to ensure that the needs and priorities of citizens and local businesses are taken into consideration in the design and implementation of recovery projects. It is also important that non-governmental actors be able to monitor public spending and track progress of local recovery initiatives. Finally, the results demonstrate the impact that municipal size (particularly in terms of population) and their capacity to generate a minimum level of own-source revenue have on the efficiency with which municipalities are able to maintain public infrastructure. These results signal that measures such as increasing inter-municipal co-operation and, potentially additional (voluntary) amalgamation, could increase municipal efficiency.

Combined, these findings can help the government as it considers the next steps in the decentralisation reform process and to meet the challenges of the coming reconstruction phase. This should include investing in capacity building support initiatives that are tailored to territorially diversified reconstruction needs, as well as incentives to improve inter-municipal co-operation. Additional steps could also entail legislative, regulatory and fiscal reforms to clarify municipal service delivery responsibilities and to ensure that they have the necessary funds to carry out their mandate.

Finally, the findings point to the need for Ukraine to invest in a robust municipal performance measurement framework, which can help all levels of government to identify where progress has been made and where gaps remain. A periodic assessment of municipal perspectives on the impact of the decentralisation reforms, similar to the one conducted by the OECD, could be part of such a framework.

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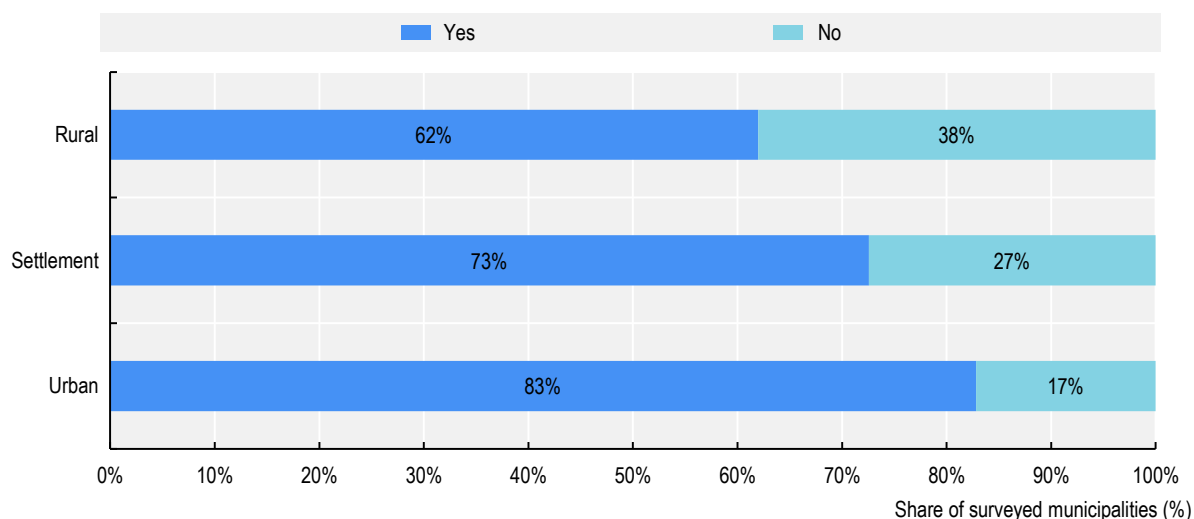
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Note

¹ Of Ukraine's 1 469 territorial communities, 31 are municipalities in Donetsk and Luhansk *Oblasts* that were temporarily-occupied prior to February 2022. Of the remaining 1 438, to which invitations to complete the survey were sent by the OECD in 2021, 625 are categorised as rural (43%), 433 as settlement (30%) and 380 as urban (26%).

Annex 7.A. Results from the OECD survey

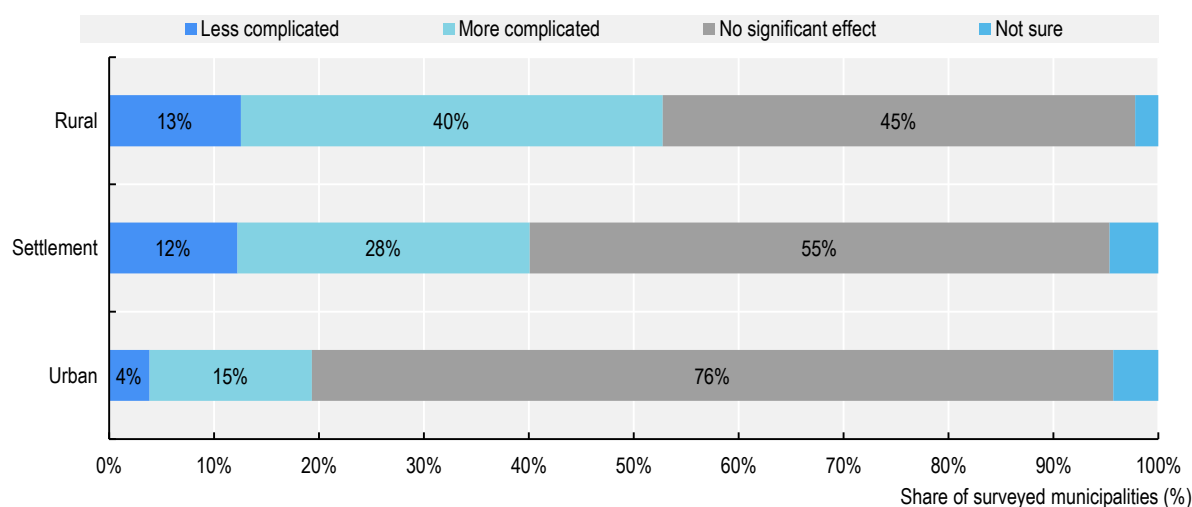
Annex Figure 7.A.1. Share of municipalities that reported having sufficient staff to carry out their responsibilities



Note: Question: Does your municipality have sufficient staff to carry out its responsibilities? Response options: Yes; No. The survey was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021).

Source: Author's elaboration, based on the OECD online survey.

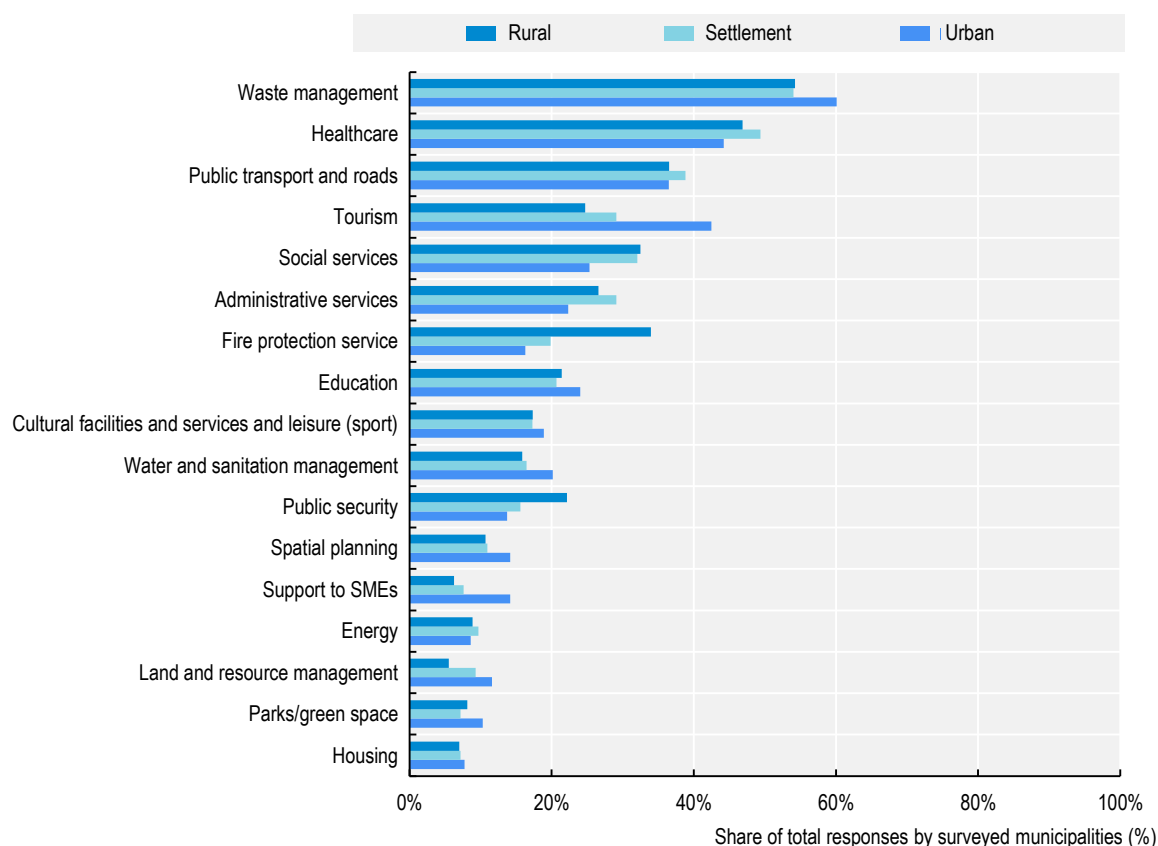
Annex Figure 7.A.2. Effects of the decentralisation reforms on the recruitment of qualified staff



Note: Question: Has the decentralization reform (including the amalgamation process) made the recruitment of qualified staff (1) less difficult, (2) more difficult, or (3) has it had no significant effect, or are you not sure? The survey was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021).

Source: Author's elaboration, based on the OECD online survey.

Annex Figure 7.A.3. Areas for which municipalities reported that inter-municipal co-operation could be particularly beneficial for improving service delivery



Note: Question: In which of the following areas could inter-municipal co-operation help improve service delivery in your municipality? Full response options: Administrative services (e.g. registration, issuing passports, etc.); Cultural facilities and services, and leisure (sport); Education; Energy; Fire protection service; Healthcare; Housing; Land and resource management; Parks/green space; Public security; Public transport and roads; Social services (e.g. support for families, children, elderly, etc.); Spatial planning; Support to SMEs; Tourism; Waste management; Water and sanitation management; Other. The survey was filled out by 741 municipalities (51% of all Ukrainian municipalities in 2021). Source: Author's elaboration, based on the OECD online survey.

Annex 7.B. OECD Data Envelopment Analysis

Annex Table 7.B.1. List of the most efficient municipalities overall

Municipality	Type of municipality	Oblast	Rayon	DEA score
Berezove	Rural municipality	Rivne	Sarny	1
Bilky	Rural municipality	Zakarpattia	Khust	1
Borynia	Settlement municipality	Lviv	Sambir	1
Dnipro	Urban municipality	Dnipropetrovsk	Dnipro	1
Horodenka	Urban municipality	Ivano-Frankivsk	Kolomyia	1
Ivankiv	Settlement municipality	Kyiv	Vyshhorod	1
Kamin-Kashyrskiy	Urban municipality	Volyn	Kamin-Kashyrskiy	1
Keretsky	Rural municipality	Zakarpattia	Khust	1
Kharkhiv	Urban municipality	Kharkiv	Kharkiv	1
Kuty	Settlement municipality	Ivano-Frankivsk	Kosiv	1
Lubny	Urban municipality	Poltava	Lubny	1
Lviv	Urban municipality	Lviv	Lviv	1
Odessa	Urban municipality	Odessa	Odessa	1
Pohrebyshe	Urban municipality	Vinnitsia	Vinnitsia	1
Rohatyn	Urban municipality	Ivano-Frankivsk	Ivano-Frankivsk	1
Sokal	Urban municipality	Lviv	Chervonohrad	1
Solotvyn	Settlement municipality	Ivano-Frankivsk	Ivano-Frankivsk	1
Stryi	Urban municipality	Lviv	Stryi	1
Zolochiv	Urban municipality	Lviv	Zolochivskiy	1

Note: DEA scores range from 0 to 1, with 1 representing the highest level of efficiency relative to the other municipalities (including rural, settlement and urban municipalities) and are a product of the specific input and output indicators used for this analysis. This means that municipalities that obtained a relative efficiency score of 1 should not be understood to perform at a hypothetical efficiency “maximum”.

Source: Author’s elaboration with data provided by (MinRegion, 2021^[49]).

Annex Table 7.B.2. Most efficient municipalities by oblast and proportion of own-source revenues

Oblast	# Most efficient municipalities	Own-source revenue* interval of most efficient municipalities (approx. %)	Type of municipality		
			Urban	Settlement	Rural
Cherkasy	7	20–40	5	-	2
Chernihiv	7	20–50	4	3	-
Chernivtsi	8	10–40	2	1	3
Dnipropetrovsk	11	20–40	5	4	2
Donetsk	7	10–40	3	4	-
Ivano-Frankivsk	7	15–35	5	2	-
Kharkiv	11	20–50	7	4	-
Kherson	6	20–45	4	1	1
Khmelnitskyi	13	15–35	6	4	3
Kirovohrad	13	15–50	7	5	1
Kyiv (oblast)	9	15–50	5	4	-
Luhansk	13	5–30	3	7	-
Lviv	9	15–40	7	2	-

Mykolaiv	5	15–45	2	3	-
Odesa	14	20–60	6	4	4
Poltava	7	15–45	6	-	1
Rivne	10	20–35	5	4	1
Sumy	8	10–40	7	1	-
Ternopil	10	10–30	9	-	1
Vinnitsia	11	20–40	7	3	1
Volyn	3	18–35	2	-	1
Zakarpattia	21	15–40	5	5	11
Zaporizhzhia	12	20–50	5	5	2
Zhytomyr	10	10–35	5	4	1

Note: *Own-source revenue as a share of the revenue that is part of the General Budget of municipalities.

Source: Author's elaboration with data provided by (MinRegion, 2021^[49]).

Annex Table 7.B.3. List of the most efficient rural municipalities

Municipality	Oblast	Rayon	DEA score
Berezove	Rivne	Sarny	1
Brusnytsia	Chernivtsi	Vyzhnytsia	1
Irkliiv	Cherkasy	Zolotonosha	1
Kamianka	Chernivtsi	Chernivtsi	1
Kamianske	Zakarpattia	Berehove	1
Keretsky	Zakarpattia	Khust	1
Kozyova	Lviv	Stryi	1
Kuialnyk	Odesa	Podilsk	1
Nedoboivtsi	Chernivtsi	Dnistrovskiy	1
Neresnytsia	Zakarpattia	Tiachiv	1
Palanka	Cherkasy	Uman	1
Pavlivka	Volyn	Volodymyr-Volynski	1
Piyterfolvo	Zakarpattia	Berehove	1
Popivka	Sumy	Konotop	1
Soshychne	Volyn	Kamin-Kashyrskiy	1
Srilly	Lviv	Sambir	1
Stavne	Zakarpattia	Uzhhorod	1
Berezove	Rivne	Sarny	1
Brusnytsia	Chernivtsi	Vyzhnytsia	1
Irkliiv	Cherkasy	Zolotonosha	1
Kamianka	Chernivtsi	Chernivtsi	1
Kamianske	Zakarpattia	Berehove	1
Keretsky	Zakarpattia	Khust	1
Kozyova	Lviv	Stryi	1

Note: DEA scores range from 0 to 1, with 1 representing the highest level of efficiency relative to the other rural municipalities and are a product of the specific input and output indicators used for this analysis. This means that municipalities that obtained a relative efficiency score of 1 should not be understood to perform at a hypothetical efficiency “maximum”.

Source: Author's elaboration with data provided by (MinRegion, 2021^[49]).

Annex Table 7.B.4. List of the most efficient settlement municipalities

Municipality	Oblast	Rayon	DEA score
Borynia	Lviv	Sambir	1
Chemerivtsi	Khmelnyskyi	Kamianets-Podilskyi	1
Drabiv	Cherkasy	Zolotonosha	1
Ivankiv	Kyiv	Vyshhorod	1
Kelmentsi	Chernivtsi	Dnistrovskyi	1
Kuty	Ivano-Frankivsk	Kosiv	1
Liublynets	Volyn	Kamin-Kashyrskyi	1
Makariv	Kyiv	Bucha	1
Mizhhirya	Zakarpattia	Khust	1
Murovani Kurylivtsi	Vinnytsia	Mohyliv-Podilskyi	1
Nova Ushytsia	Khmelnyskyi	Kamianets-Podilskyi	1
Orzhytsia	Poltava	Lubny	1
Petrove	Kirovohrad	Oleksandriia	1
Rokytno	Rivne	Sarny	1
Romaniv	Zhytomyr	Zhytomyr	1
Solotvyn	Ivano-Frankivsk	Ivano-Frankivsk	1
Solotvyno	Zakarpattia	Tiachiv	1
Teofipol	Khmelnyskyi	Khmelnyskyi	1
Vylok	Zakarpattia	Berehove	1
Zhuravne	Lviv	Stryi	1
Zolochiv	Kharkiv	Bohodukhiv	1

Note: DEA scores range from 0 to 1, with 1 representing the highest level of efficiency relative to the other settlement municipalities and are a product of the specific input and output indicators used for this analysis. This means that municipalities that obtained a relative efficiency score of 1 should not be understood to perform at a hypothetical efficiency “maximum”.

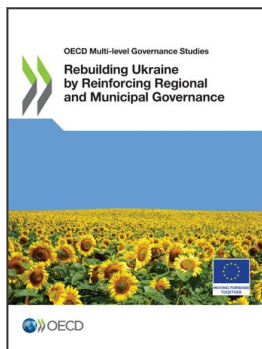
Source: Author's elaboration with data provided by (MinRegion, 2021^[49]).

Annex Table 7.B.5. List of the most efficient urban municipalities

Municipality	Oblast	Rayon	DEA score
Buchach	Ternopil	Chortkiv	1
Dnipro	Dnipropetrovsk	Dnipro	1
Horodenka	Ivano-Frankivsk	Kolomyia	1
Kamin-Kashyrskyi	Volyn	Kamin-Kashyrskyi	1
Kharkhiv	Kharkiv	Kharkiv	1
Khyriv	Lviv	Sambir	1
Lubny	Poltava	Lubny	1
Lviv	Lviv	Lviv	1
Odesa	Odesa	Odesa	1
Pohrebyshche	Vinnytsia	Vinnytsia	1
Rohatyn	Ivano-Frankivsk	Ivano-Frankivsk	1
Sniatyn	Ivano-Frankivsk	Kolomyia	1
Sokal	Lviv	Chervonohrad	1
Stryi	Lviv	Stryi	1
Zolochiv	Lviv	Zolochivskyi	1

Note: DEA scores range from 0 to 1, with 1 representing the highest level of efficiency relative to the other urban municipalities and are a product of the specific input and output indicators used for this analysis. This means that municipalities that obtained a relative efficiency score of 1 should not be understood to perform at a hypothetical efficiency “maximum”.

Source: Author's elaboration with data provided by (MinRegion, 2021^[49]).



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