

On the reconstruction front line

Ukrainian municipalities and the funding landscape



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Summary of the research series

Local governments in Ukraine

In 2020, as part of the Ukrainian government's decentralisation reforms, 1,469 territorial communities, or hromadas, were established in the country. The average population of one of these communities is 26,500 people. As of the beginning of 2024, 31 communities were located in Russian-occupied territories in Donetsk and Luhansk.¹

According to the Third Rapid Damage and Needs Assessment for Ukraine (RDNA3)² – jointly compiled by the World Bank, the Government of Ukraine, the European Commission, and the United Nations – the estimated recovery and reconstruction needs are almost USD 486 billion. These needs will likely be met through financing from the Ukrainian state budget alongside support from international partners and organisations. The total reconstruction and recovery needs for the municipal sector are estimated at USD 11.4 billion for the next 10 years. Local governments play a vital role in leading the recovery efforts and ensuring the delivery of services to communities, including vulnerable residents.

To effectively address the emergency situation, a comprehensive, place-based strategy must be implemented at the local level. This strategy will require meticulous planning to secure financing from a diversified pool of public and private sources. However, the likelihood is that any planning undertaken during the wartime period will need to be adjusted and re-evaluated during the recovery phase. RDNA3 highlights the vital role of municipalities in recovery planning, the need for all processes to be coordinated, and the importance of financial support for communities:

Local governments are critical for the implementation, coordination, and planning of measures stipulated by individual functional sectors and line ministries. This reality necessitates not just adopting an integrated and place-based approach at the local level and ensuring the presence of strong coordination mechanisms but also continued support in terms of capacity and financing for the local governments. Considering the significant revenue losses

¹ Decentralization Portal, [Communities](#), *Decentralization Portal*, accessed 18 February 2024.

² World Bank, Government of Ukraine, European Commission, United Nations, [Ukraine Third Rapid Damage and Needs Assessment \(RDNA3\): February 2022 – December 2023](#), *World Bank, Government of Ukraine, European Commission, United Nations*, February 2024.

For more information

Mariia Lukyanova
Ukraine National Coordinator
CEE Bankwatch Network
Mariia.lukyanova@bankwatch.org

Vladlena Martsynkevych
Ukraine reconstruction officer
CEE Bankwatch Network
Vladlena@bankwatch.org

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and increased expenditures municipalities continue to face, it is necessary to ensure that a functional and predictable financing and support mechanism for the implementation of projects is made consistently available to them. In addition, to overcome the likely challenges of resource constraints and unstable cash flow during the recovery period, local governments will at the outset need to undertake evidence-based identification of prioritized needs and associated sequencing of recovery and reconstruction measures.³

Funding for recovery needs at the municipal level can be secured from various sources, including local budget revenues, funds from the state budget, international financial institutions and international technical assistance projects, humanitarian aid, and support from international governments.

Problems that need to be resolved

Despite the war, Ukrainian communities have relatively stable local budgets. However, almost three quarters of these communities depend on basic subsidies from the state budget. Due to the damage caused by hostilities and shelling, municipalities face higher expenditures and a more unpredictable environment compared to normal operating conditions. Accordingly, municipalities have a greater need to attract additional extrabudgetary funding. Our research focuses on the challenges municipalities face, and the first part of it is dedicated to exploring accessibility of financial sources for municipalities in depth.⁴

At the national level, municipalities can attract funds from national funds financed from the state budget. The State Fund for Regional Development was widely popular among communities because it allowed them to compete for funding for local development projects based on a strategic regional vision. The Energy Efficiency Fund has collaborated with municipalities on the thermal modernisation of condominium buildings. Since the war, they have also been working under the VidnovyDim programme. However, during the two years since the full-scale invasion, these funds have not received co-financing from the state budget.

In order to finance the recovery from the consequences of war, the Fund for the Elimination of the Consequences of Armed Aggression was established in 2022. In 2023, the Fund for the Elimination of the Consequences of Armed Aggression was envisaged for UAH 61.8 billion in the state budget. As of the end of 2023, the Fund was allocated by the Government for UAH 56.6 billion. As of 1 January 2024, the balance of the Fund's resources for 2023, which were not used and returned to the Fund, amounted to UAH 23.7 billion.⁵

Taking into account the mobilisation of funds for defence, the state budget expenditures for the country's recovery from the consequences of a full-scale invasion in 2024 have been reduced. Therefore, further reconstruction and restoration of the country will largely depend on the financial support of Ukraine's international partners. However, its provision will require the use of instruments that provide for the highest level of transparency and accountability, as well as targeted and efficient use of funds.

³ Ibid., 162–163.

⁴ CEE Bankwatch Network, [Ukrainian communities at the forefront of reconstruction efforts: Financial sources and their accessibility for municipalities](#), CEE Bankwatch Network, 27 November 2023.

⁵ Ministry for Restoration of Ukraine, [Протокол № 1 засідання Міжвідомчої робочої групи з розгляду узагальнених пропозицій заявників та підготовки пропозицій Кабінету Міністрів України щодо виділення коштів фонду ліквідації наслідків збройної агресії \(далі – Міжвідомча робоча група\)](#), Ministry for Restoration of Ukraine, 9 February 2024.

According to the Ministry of Finance of Ukraine, since the beginning of Russia's armed aggression in 2014, funding for socio-economic development projects from international financial institutions has increased. In 2014, funding amounted to USD 485 million before increasing to USD 1.014 billion in 2021. In 2022, it quadrupled to USD 4.065 billion. In 2023, the total value of projects financed by international financial institutions USD 2.368 billion.⁶ The main international financial institutions are the International Bank for Reconstruction and Development (IBRD), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Clean Technology Fund (CTF-IBRD), Kreditanstalt für Wiederaufbau (KfW), the European Atomic Energy Community (Euratom), and the Nordic Environment Finance Corporation (NEFCO).

According to the State web portal Budget for Citizens, aid from the European Union, foreign governments, international organisations and donor agencies has been 100 per cent transferred to the state budget since 2022.⁷ In 2023, this aid amounted to 16.22 per cent of state budget revenues (26.92 per cent in 2022).⁸

Communities are primarily facing the challenges of war and infrastructure damage, but do not have easy access to financial resources, including international ones, needed for recovery (Annex 1).

The potential issues with funds availability are also rooted in the regulatory and legal framework in Ukraine. Until recently, rural and township communities were not allowed to obtain loans for community needs. Additionally, there is a lack of effective communication and a shared strategic vision between municipalities, regional military administrations, and state authorities. Furthermore, the organisational capacity and qualifications of self-government bodies and civil servants, as well as the absorption capacity of communities and state authorities, are areas of concern.

Objectives

All stakeholders must be involved in the recovery process at local, regional, national and international levels. Municipalities must have access to funding to meet their reconstruction needs.

Main stages

1. At the municipal level, it is crucial that all available financial, natural, and human resources are utilised, and that social ties between non-governmental organisations and businesses are strengthened. This will help to **increase the resilience of communities and help them withstand and respond to the challenges of war** (Annex 2).
2. **Establish partnerships with civil society organisations.** This increases the opportunities for municipalities to attract additional resources in the form of grants or humanitarian aid. Many grant calls are not designed with the participation of local self-government bodies or budget institutions in mind. In bridging this gap, civil society organisations play an important role in establishing

⁶ IFIs projects, [Statistics](#), *IFIs projects*, accessed 12 February 2024.

⁷ Open Budget, [Доходи](#), *Open Budget*, accessed 12 February 2024.

⁸ Open Budget, [Державний веб-портал бюджету для громадян](#), *Open Budget*, accessed 12 February 2024.

connections with donors. They also tend to have more experience in fundraising and project management, which can serve to increase organisational capacity and enhance the qualifications of municipal officials. At the same time, this type of cooperation should be mutually beneficial, enabling civil society organisations also have access to local decision-making. Collaborating with civil society organisations can also benefit state authorities, especially when advocating for the interests of Ukraine in the international arena, engaging in decision-making, participating in tender commissions in accordance with EU regulations, and implementing the partnership principle.

3. **Build the organisational capacity of self-government and state authorities.** Officials should have project management skills, financial literacy, reporting, negotiation, and psychological stability. These skills can be developed both at qualification improvement courses and at joint training with non-governmental organisations within the framework of international technical assistance.
4. **Establish communication and cooperation between municipalities and regional state authorities.** Regional military and state administrations should coordinate municipalities to achieve common goals of regional strategic development. These administrations should ensure equal and fair access to all municipalities to information and opportunities for development, attraction of additional financial resources. If there is a possibility of competitive distribution of additional resources between communities, it is advisable to involve representatives of civil society in the competitive commissions. This approach will prevent the risks of promotion of favourite communities or favourite mayors. The role of regional military and state administrations in the promotion of regional development agencies is important. This will make it possible to strengthen the organisational capacity of communities in attracting qualified fundraisers and project managers to work on local projects and will contribute to the fair and comprehensive development of the region.
5. **Promote the widespread use of the Digital Reconstruction Ecosystem for Accountable Management (DREAM) platform for project submissions.** DREAM provides Ukrainian citizens, the government and donors with one platform to monitor and manage all stages of Ukraine's post-war reconstruction projects, creating a single pipeline from communities to funders.⁹ The platform's user account provides an accessible guide for submitting a project application. The platform staff conducts training for municipalities on how to work with DREAM. At the same time, it is convenient for civil society representatives, citizens and donors to track where and how projects are being implemented.
6. **State support of municipalities in attracting financial resources for restoration.** There are some national funds available for communities to finance reconstruction such as the State Fund for Regional Development, the Energy Efficiency Fund, and the Fund for Eliminating the Consequences of Armed Aggression. Each of these funds has its own advantages and disadvantages. However, for the year 2024, the SFRD and EEF did not receive any funding from the state budget, and appropriations for FECAA were also reduced. Considering the limitations of the State budget and

⁹ Digital Restoration EcoSystem for Accountable Management, [Home](#), *Digital Restoration EcoSystem for Accountable Management*, accessed 15 February 2024.

the priority of defence expenditures, it would be wise to establish a national recovery fund with the active participation of international partners. This fund should operate based on the principles of transparency and partnership similar to those used by EU funds (Annex 3).

7. **Make programmes by international financial institutions available to municipalities for Ukraine's recovery.** The EIB signed two multisectoral framework loan agreements with the Ukrainian government – the Emergency Loan Programme for the Reconstruction of Ukraine and the Ukraine Recovery Programme – in 2014 and 2020, respectively. These programmes, totalling EUR 540 million, play an important role in assisting Ukraine. They are designed to enable the Ukrainian government and local authorities to restore social infrastructure and improve the living conditions of internally displaced persons and their host communities.¹⁰ This list includes construction projects in the healthcare sector, social housing, and the modernisation of water supply and sewerage systems. The Ministry of Community Development, Territorial and Infrastructure Development of Ukraine (Ministry for Restoration), together with the Ministry of Finance, are responsible for implementing the programmes, while the reconstruction projects are fully managed by local governments. The United Nations Development Programme in Ukraine provides technical assistance. In 2020, the EIB entered into a financial agreement with the Ukrainian government for the Ukraine Public Buildings Energy Efficiency project, valued at over EUR 300 million. The programme primarily targets small and medium-sized cities and territorial communities throughout Ukraine. The Ministry for Restoration manages the funds, which are earmarked for beneficiaries seeking to invest in the thermal rehabilitation of public buildings such as hospitals, preschools, schools, sports facilities, cultural centres, and local government buildings.¹¹
8. **Harness the power of small communities through cooperation.** The average hromada in Ukraine has 26,500 inhabitants. To strengthen their own organisational capacities, communities should unite on the basis of intermunicipal cooperation, create clusters, join community associations, and initiatives such as the Covenant of Mayors. Municipalities united by common interests can attract funding for large infrastructure projects. In 2023, with the support of international partners, recovery and development offices were opened in Ukraine in war-affected regions. At the regional level, four of the offices are located in Kharkiv and Mykolaiv and two in Dnipro, supporting the Luhansk and Donetsk oblasts. At the community level, six additional offices have been set up in Sumy, Nizhyn (Chernihiv Oblast), Mykolaiv, Pervomaiskiy (Kharkiv Oblast), Kamianske (Dnipropetrovsk Oblast), and Voznesensk (Mykolaiv Oblast). The offices serve as a platform for communication between different stakeholders such as local authorities, international organisations, media, civil society organisations, and businesses. They are also intended to help authorities identify key projects for funding programmes, and promote sustainable post-war development through an integrated recovery mechanism.¹²

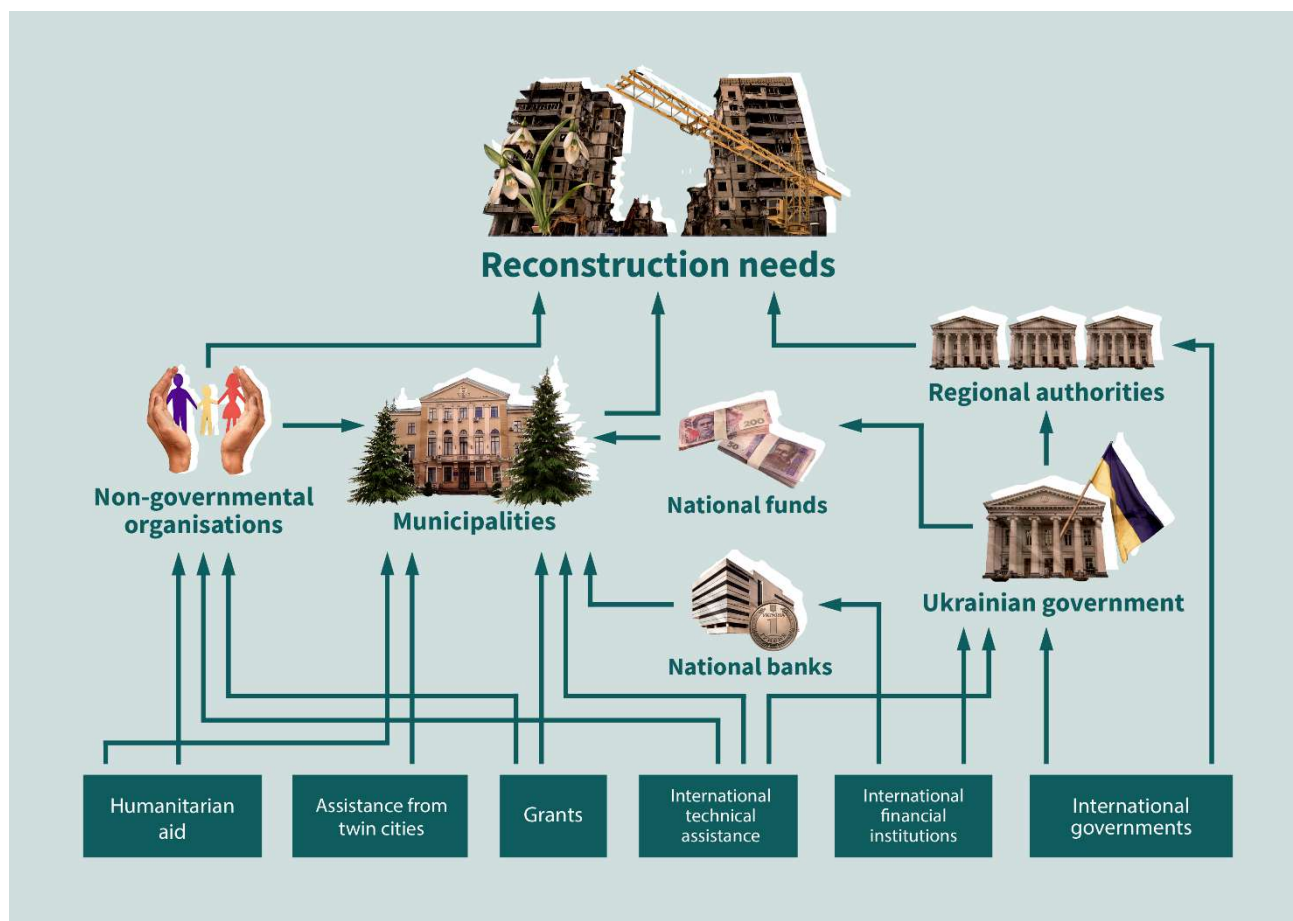
¹⁰ Interfax-UKRAINE, [ЄІБ виділив Україні майже EUR100 млн на проєкти з відновлення](#), *Interfax-UKRAINE*, 19 December 2023.

¹¹ Ministry for Restoration of Ukraine, [Початок відбору проєктів у рамках Фінансової угоди «Енергоефективність громадських будівель в Україні» між Україною та Європейським інвестиційним банком](#), *Ministry for Restoration of Ukraine*, 8 September 2023.

¹² UNDP, [EU, Sweden and UNDP launch 10 Recovery and Development Offices to support sustainable post-war restoration in Ukraine](#), *UNDP*, 21 December 2023.

9. **Grant legal entity status to municipalities.** In order to grant Ukrainian municipalities the status of legal entity, Ukrainian legislation must be brought in line with EU regulations. A reform, outlined in the draft Ukraine Plan, aims to expand the possibilities of self-government by facilitating access to EU resources.
10. **Advocate for municipal access to international funding.** Joint efforts by municipality associations, government authorities, and civil society representatives are crucial if international financial institutions are to systemically alter their approach to financing municipalities and expand the number of loan programmes available to municipalities.

Annex 1. Availability of international financing for municipal reconstruction efforts



The most accessible way of attracting additional resources and meeting the needs of municipal reconstruction are humanitarian aid, support from twin cities, and international technical assistance programmes, including grants. By establishing cooperation with non-governmental organisations, municipalities can increase the involvement of humanitarian aid and grants.

International financial institutions typically work with state governments or national banks. There are some examples of lending to large municipalities such as Lviv. Ukrainian municipalities are traditionally reluctant to take out loans, especially foreign currency loans. Due to high risks associated with fluctuations in the exchange rate, the cost of projects can increase significantly when converted into hryvnia. This can pose challenges for municipalities, particularly when it comes to repaying loans amid the prevailing uncertainty over their own budgetary capacities.