

Group 1

Topic: Analysis of the current state of the decentralisation reform in Ukraine as of July 2026: problems, bottlenecks and a plan for completing the reform

DRAFT

Type of policy paper: Policy Brief (analytical note)

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1. Introduction

Public administration reform in Ukraine is one of the key structural transformations of the state, aimed at building an effective system of multi-level governance in line with the

European principles of subsidiarity, transparency, accountability and good governance. It entails not only broader citizen participation in decision-making, but also real influence of local self-government bodies on the formulation and implementation of policy at local level.

The institutional start of the reform was the adoption of the Concept for Reforming Local Self-Government and the Territorial Organisation of Power in Ukraine [1]. At that time, the public administration system was highly centralised, which constrained territorial development, reduced the efficiency of public service delivery and deepened regional disparities.

In this context, decentralisation became the central reform instrument aimed at redistributing powers, resources and responsibility in favour of the basic level of local self-government.

Initially, the reform envisaged:

- building a capable basic level of local self-government;
- ensuring the accessibility and quality of public services;
- a clear delineation of powers between local self-government bodies and executive authorities;
- strengthening the financial base of territorial communities (hromadas);
- introducing an effective system of state supervision over the legality of decisions of local self-government bodies.

The decentralisation reform is not an isolated process and is being implemented within a broader architecture of public administration and sectoral development reforms. Its regulatory and strategic basis includes, in particular, the **Public Administration Reform Strategy of Ukraine until 2030** [2], the **Ukraine Plan (Ukraine Facility)** [3], budget and sectoral legislation [4], and Ukraine's commitments under the Association Agreement with the European Union [5].

Significant progress has been made during the reform: a new administrative-territorial structure has been created [6], the financial autonomy of hromadas has been strengthened [7] and access to administrative services has been expanded [8]. The results achieved have received positive international recognition – in particular, the European Parliament, in its resolution of 11 February 2021, described decentralisation as one of the most successful reforms in Ukraine [9].

At the same time, as of 2026 the reform remains institutionally incomplete, which manifests itself in a number of systemic problems:

- **the absence of a coherent and complete model for the distribution of powers and responsibility between levels of public authority;**
- **insufficient clarity and limited mechanisms of state supervision over the legality of decisions of local self-government bodies, in particular with regard to the exercise of their own (self-governing) powers;**
- **functional uncertainty of the sub-regional (rayon/district) level of governance as a result of the redistribution of resources and competences in favour of**

hromadas.

The urgency of completing the reform is significantly increased by three interrelated factors:

- 1. The full-scale war and security challenges: the existing model for distributing powers between local self-government bodies, local state administrations and military administrations is fragmented and duplicates functions in the areas of security, civil protection and life-support services. This complicates coordination, blurs responsibility and slows down management decision-making. A further challenge is the absence of a defined legal mechanism for the transition from military to civilian governance.**
- 2. European integration: the incomplete model of multi-level governance limits the implementation of the subsidiarity principle, makes it harder to ensure accountability and transparency of governance, and creates institutional barriers to the effective use of European Union financial instruments.**
- 3. Post-war recovery: institutional imbalances between levels of government complicate the coordination of recovery policies, reduce hromadas' capacity for strategic planning and create risks of inefficient use of national and international resources, in particular in de-occupied territories.**

Taken together, these factors necessitate a shift from partial solutions to a comprehensive institutional transformation – completing the decentralisation reform – building a coherent model of multi-level governance in which each level has clearly defined powers, sufficient resources to exercise them and responsibility for the results of its decisions. This is a necessary precondition for effective governance, the recovery of territories and Ukraine's successful European integration.

The purpose of this policy brief is to analyse the current state of the decentralisation reform, identify its systemic gaps and substantiate policy options for completing it under martial law, European integration and post-war recovery.

The analysis is based on key legislative and strategic acts that define the institutional architecture of public governance, the specifics of the system's functioning under martial law, budgetary and financial mechanisms, the territorial organisation of power and Ukraine's European integration commitments, and also takes into account the provisions of the draft Law of Ukraine "On the Principles of Delineation and Distribution of Powers Between Levels of Public Governance" (Reg. No. 14412) and current data from monitoring of the decentralisation process.

Notes

1. On approval of the Concept for Reforming Local Self-Government and the Territorial Organisation of Power in Ukraine: Order of the Cabinet of Ministers of Ukraine No. 333 of 01.04.2014. <https://zakon.rada.gov.ua/laws/show/333-2014-%D1%80#Text>
2. On approval of the Public Administration Reform Strategy of Ukraine for 2026–2030 and approval of the operational action plan for its implementation: Order of

- the Cabinet of Ministers of Ukraine No. 768-r of 01.06.2026. <https://zakon.rada.gov.ua/rada/show/768-2026-%D1%80#Text>
3. Ukraine Facility. <https://www.ukrainefacility.me.gov.ua>
 4. On approval of the State Strategy for Regional Development for 2021–2027: Resolution of the Cabinet of Ministers of Ukraine No. 695 of 05.08.2020. <https://zakon.rada.gov.ua/rada/show/695-2020-%D0%BF#Text>
 5. On ratification of the Association Agreement between Ukraine, of the one part, and the European Union, the European Atomic Energy Community and their Member States, of the other part: Law of Ukraine No. 1678-VII of 16.09.2014. <https://zakon.rada.gov.ua/laws/show/1678-18#n2>
 6. On voluntary amalgamation of territorial communities: Law of Ukraine No. 157-VIII of 05.02.2015 <https://zakon.rada.gov.ua/laws/show/157-19#Text>; On the procedure for resolving certain issues of the administrative-territorial structure of Ukraine: Law of Ukraine No. 3285-IX of 28.07.2023 <https://zakon.rada.gov.ua/rada/show/3285-20#top>
 7. On amendments to the Budget Code of Ukraine regarding the reform of intergovernmental fiscal relations: Law of Ukraine No. 79-VIII of 28.12.2014 <https://zakon.rada.gov.ua/laws/show/79-19#Text>; On amendments to the Tax Code of Ukraine and certain legislative acts of Ukraine regarding tax reform: Law of Ukraine No. 71-VIII of 28.12.2014 <https://zakon.rada.gov.ua/laws/show/71-19#top>
 8. On amendments to certain legislative acts of Ukraine regarding optimisation of the network and functioning of administrative service centres and improving access to administrative services provided in electronic form: Law of Ukraine No. 943-IX of 03.11.2020. <https://zakon.rada.gov.ua/rada/show/943-20#Text>
 9. European Parliament resolution of 11 February 2021 on the implementation of the EU Association Agreement with Ukraine (2019/2202(INI)). https://www.europarl.europa.eu/doceo/document/TA-9-2021-0050_EN.html

2. Assessment of the Current State of the Reform: Achievements, Unfinished Elements and Challenges

2.1. Key achievements

1) Completion of the basic administrative-territorial structure at hromada level.

One of the most significant and effectively irreversible results of the reform has been the creation of a capable basic level of local self-government. In 2020, the Cabinet of Ministers of Ukraine approved a new administrative-territorial structure at the basic level, and instead of more than 11,000 units, 1,469 territorial communities (hromadas) were formed, covering the entire territory of Ukraine. This created the territorial basis for local self-government, direct fiscal relations between hromadas and the state budget, and a shift from a model in which many management and financial decisions were taken at rayon (district) level to a hromada-centred model.

An important outcome was not only territorial consolidation, but also the emergence of a new governance actor – the territorial community as the main holder of powers,

resources and responsibility for many issues of local significance. Today, hromadas are the main link in delivering everyday public services and in local development. During the war they have become the main centres for security, receiving internally displaced persons (IDPs; Ukr. VPO) and coordinating logistics.

At the same time, territorial consolidation does not automatically mean governance capacity. The administrative-territorial reform launched in 2015 was carried out in line with the political and economic conditions of the time and the analytical and methodological approaches then available; however, some decisions on forming hromadas and rayons did not always fully comply with the methodological principles, which subsequently affected their level of resources and capacity. For example, in Ivano-Frankivsk Oblast it was initially planned to create 41 hromadas, but 62 were actually created; 5 rayons were planned, but 6 were created.

2) Formation of an enlarged rayon level.

In 2020, 490 rayons were merged into 136 enlarged rayons. This eliminated excessive fragmentation of the sub-regional level and brought its territorial organisation into line with the new system of hromadas. Hundreds of duplicating bureaucratic structures (former rayon councils and rayon state administrations) were abolished, reducing administrative overheads. The new division is also consistent with the European NUTS-3 standard, which is needed for future EU regional statistics.

3) Strengthening the financial capacity of local self-government bodies.

Fiscal decentralisation is one of the most tangible results of the reform. Local budgets received their own revenue sources (64% of personal income tax (PIT; Ukr. PDFO), the single tax, excise duties, and land and property fees), direct fiscal relations with the state budget and greater freedom to decide independently how funds are used. The Ministry of Finance describes local budgets as autonomous, which is ensured by assigning the relevant revenue sources and the right of local councils to approve budgets independently.

The financial capacity of the local level continues to show positive dynamics even in wartime. In the first half of 2026, the general fund of local budgets received UAH 287.7 billion, which is UAH 41.9 billion, or 17%, more than in the same period of 2025. At the same time, regional differentiation remains significant: the lowest revenues are in territories where active hostilities are under way or which have been temporarily occupied.

In 2026, the state continues to apply horizontal and vertical fiscal equalisation mechanisms. A basic grant of UAH 29.2 billion and a reverse grant of UAH 17.8 billion are provided for, as well as separate support for hromadas in whose territories hostilities are taking place.

Thus, fiscal decentralisation in Ukraine is a significant achievement, but its effectiveness should be assessed not only by the volume of funds retained locally, but also by the stability of revenue sources, the match between resources and the scope of powers, and hromadas' ability to finance development.

4) Development of the administrative service delivery system.

One of the most visible results of the reform for citizens has been bringing administrative services closer to their place of residence. Building the network of Administrative Service Centres (ASCs; Ukr. TsNAP) has been an important part of the shift from an administrative-territorial to a service-oriented model of local governance.

As of 1 January 2026, the ASC network comprised 5,716 facilities, of which 5,405 were operating and 311 were temporarily closed. The largest number of temporarily closed facilities was in the oblasts most affected by the war. This shows both the scale of the service network's development and its vulnerability to security factors.

The next stage of ASC development is not so much a quantitative increase as ensuring uniform standards of quality, accessibility, barrier-free access, digitalisation and staff capacity.

The Polaris Programme "Support to Multilevel Governance in Ukraine", together with the Ministry of Digital Transformation of Ukraine – funded by the Government of Sweden through the Swedish International Development Cooperation Agency (Sida) and implemented by SALAR International, part of the Swedish Association of Local Authorities and Regions (SALAR) – conducted a survey of ASC staff. The results, published in July 2026, revealed, among other things, the problem of recruiting new staff: 37.6% of respondents named this as a problem, and only 44.7% were prepared to stay in their position for a long period.

2.2. Unfinished elements of the reform

1) Lack of a clear delineation of powers between levels of public authority.

This is currently the main systemic unfinished element of the reform. The problem is no longer so much the lack of transfer of powers as the insufficiently clear regulatory definition of who exactly is responsible for the result of performing a specific public function. "Own" (local) and "delegated" (state) powers have still not been clearly separated.

In practice, there remain areas where the powers of hromadas, the rayon and oblast levels, territorial bodies of central executive authorities and local state administrations overlap. This leads to duplication, the need for approvals, conflicts of competence, and situations where responsibility is not matched by resources commensurate with the scope of powers.

For example, in social protection and health care: hromadas finance primary care; oblast councils, as founders of oblast and specialised health and social protection institutions, appoint their heads and finance property maintenance; oblast military administrations (OMAs; Ukr. OVA) coordinate the work (operational management) of these institutions; and the National Social Service or the National Health Service of Ukraine (NHSU; Ukr. NSZU) exercise direct control and financing. In civil protection and security: organising defence work, building shelters and responding to emergencies are simultaneously assigned to hromada heads, OMAs and the State Emergency Service of Ukraine (SESU; Ukr. DSNS). Similar problems exist in architectural and construction control and in approvals for land allocation.

The core principle should be subsidiarity: decisions should be taken at the level closest to the citizen that is capable of performing the relevant function effectively. Meanwhile, the state often transfers functions to hromadas (for example, concessionary travel or maintenance of vocational education) without providing the corresponding subventions to fund them.

2) Unresolved status and functions of local state administrations.

The current model of local state administrations (LSAs; Ukr. MDA) was largely shaped before the decentralisation reform. The Law of Ukraine "On Local State Administrations" still provides for a wide range of powers in the socio-economic, budgetary, property, education, health and other areas. Yet a large share of these functions has in fact moved to hromadas after the reform.

This creates an institutional imbalance: hromadas have received considerably more powers and resources, while local state administrations have not been systematically transformed into classic bodies of state supervision and coordination. Instead of pure European-style supervision over the legality of acts of local self-government bodies (LSGBs; Ukr. OMS), state administrations often try to manage hromadas' economic activities.

As of July 2026, the adaptation of the operating model of local state administrations remains under active consideration. This indicates a gradual shift from the traditional universal LSA model to a more adaptive one, but does not resolve the fundamental question of their constitutional and functional status.

3) Unclear role of the rayon level.

After the creation of 136 enlarged rayons, the rayon level found itself between a strong hromada and the oblast. Enlarged rayon councils exist, but by law they have been stripped of real powers and their own financial resources (budgets).

As of 1 February 2026, 119 rayon councils were functioning in Ukraine; 21 rayon councils, or 17.6%, did not hold a single plenary session in 2025. Many of the problems are related to occupation and hostilities, but the functional weakness of the rayon level is itself systemic.

In the future, the rayon level should be viewed not as an "intermediate copy" of the hromada or the oblast, but as a level for coordinating functions that exceed the capacity of an individual hromada but do not require the regional level. Its functions should be clearly defined by law and backed by appropriate resources.

4) Lack of an effective system of state supervision over the legality of decisions of local self-government bodies.

An important clarification is needed here: the legislative decision has already been adopted, but its full practical implementation has been postponed.

Law of Ukraine No. 4677-IX of 5 November 2025 provides for a mechanism for ensuring the legality of acts of local self-government bodies, including defining the powers of local state administrations to exercise state supervision over acts of hromadas and rayon

councils, as well as a judicial mechanism for challenging unlawful acts. However, the Law itself takes effect 12 months after the termination or lifting of martial law.

Thus, the problem is no longer the complete absence of a legislative model, but the delayed launch of its full mechanism and the need to build the institutional capacity of the bodies that will exercise supervision.

This is fundamentally important: decentralisation cannot mean the absence of state control over legality. The European approach provides for control over legality, not over the expediency of local self-government decisions. Therefore, completing the reform should provide for a clear distinction between hromadas' political autonomy and state supervision over compliance with the Constitution and laws.

5) Uncertainty about the governance model during the transition period (military administrations).

Martial law has created a special model of public governance in which military administrations (MAs; Ukr. VA) may take over a significant share of the powers of local self-government bodies. The law defines military administrations as temporary state bodies established to ensure defence, public security, civil protection and the functioning of the state under martial law.

As of 1 April 2026, 214 military administrations had been established in hromadas, and in 23 cases their heads had not been vested with the powers provided for by law. Conflicts often arise between the powers of the elected mayor/council and the appointed head of the military administration.

This shows that military administrations have become not an isolated exception but a large-scale element of the wartime governance model. At the same time, they remain temporary in nature, so the procedure for transitioning from the military-administrative model to fully-fledged civilian local self-government must be defined in advance.

This is particularly important for de-occupied territories, where restoring the work of councils, executive bodies, municipal enterprises, the budget process and local democracy must go hand in hand with restoring physical infrastructure.

2.3. Key stakeholders of the reform

Territorial communities (hromadas) are the main beneficiary and at the same time the main implementer of the reform. Local self-government bodies are interested in retaining a sufficient volume of own revenues, clearly assigned powers, less duplication of functions with state bodies, and predictable funding rules. Residents of hromadas, in turn, judge the reform primarily by the accessibility and quality of services, the state of infrastructure, security, transparency of government and the ability to influence local decisions.

State authorities – central executive authorities (CEAs; Ukr. TsOVV) and their territorial bodies in the oblasts – are interested in maintaining the unity of state policy, legality and manageability of territories. The main challenge for this stakeholder is the shift from direct administrative management to coordination, regulation and oversight of legality.

The regional level – oblast councils and oblast state administrations (OSAs; Ukr. ODA) – should retain its role as the regional strategic level, especially in development, recovery, infrastructure, coordination between hromadas and implementation of state regional policy. At the same time, duplication between oblast councils, OSAs/OMAs and territorial bodies of central executive authorities needs to be eliminated.

The sub-regional level – rayon councils and rayon state administrations – has the greatest interest in defining its own role. Its representatives are objectively interested in preserving institutional capacity, but the future status of the rayon should not be determined solely from the standpoint of preserving existing institutions and posts. It must be justified by real functions that cannot be performed, or cannot be performed efficiently, at the level of an individual hromada.

Internally displaced persons and other population groups most affected by the war are a special stakeholder. For them, the quality of decentralisation is measured by the possibility of actual integration into the hromada: access to social, administrative, educational, health and housing services, employment and participation in the life of the host community. Migration processes also change the demographic and financial structure of hromadas themselves, which must be taken into account in intergovernmental fiscal relations.

International partners – the European Union, the Council of Europe and other donors – remain important participants in the reform through expert, financial and institutional support. For them, what matters is the reform's compliance with the European Charter of Local Self-Government, subsidiarity, transparency, good governance, accountability and the capacity of the local level to take part in the country's recovery. European support for Ukraine also directly links the institutional capacity of local and regional authorities with the processes of recovery and European integration.

National associations of local self-government bodies play a special role in completing the reform. They should act not only as representatives of hromadas' interests, but also as a platform for reconciling the positions of the state, hromadas, and the rayon and regional levels.

2.4. Systemic problems and bottlenecks

Institutional problems:

1) Duplication of functions and unclear responsibility.

The main institutional bottleneck is the mismatch between the formal distribution of powers and the actual decision-making process. In a number of areas, local self-government bodies, local state administrations and territorial bodies of central executive authorities operate simultaneously. For example, civil protection, housing and utilities, or winter preparedness may simultaneously be the responsibility of the LSGB, the rayon state administration and the oblast military administration. The absence of the "one function – one responsible actor" principle complicates governance and blurs responsibility.

2) Conflicts of powers between levels of government.

The most contentious issues are those where legislation allows differing interpretations of competence. This concerns land, urban planning, social, education, property and environmental issues, as well as recovery and the use of public investment.

Resolving the problem requires not further mechanical redistribution of individual powers, but a comprehensive functional audit of the entire system: defining the function, the level at which it is performed, the source of funding, the actor responsible and the control mechanism.

Legal problems:

1) Gaps and inconsistencies in legislation.

The regulatory framework for local self-government remains fragmented. The Law "On Local Self-Government in Ukraine", legislation on local state administrations, budget legislation, legislation on administrative services, regional policy and martial law were developed at different times and do not always form a coherent system.

2) Absence of a complete legislative framework for the reform.

The key problem is that the territorial part of the reform has already been implemented, while the legislative formalisation of the final model of multi-level governance is still ongoing.

It is particularly important that the state supervision mechanism provided for by Law No. 4677-IX is in effect a transitional solution: the law enters into force, but its main provisions on the new mechanism for ensuring legality take effect only after the end of martial law, with an additional 12-month transitional period.

Thus, in legal terms, as of July 2026 the reform is not in a state of complete absence of legislative decisions, but in a state of unfinished transition from the old to the new model.

Financial problems:

1) Imbalance in hromadas' financial capacity.

Despite overall revenue growth, the gap between hromadas remains significant. Financial potential is affected by population size and structure, business concentration, the location of large taxpayers, the state of the labour market, the extent of infrastructure damage and the security situation. Hromadas in western and central Ukraine have accumulated relocated businesses and PIT, while frontline and de-occupied hromadas in the east and south have lost more than 70% of their revenues due to the destruction of industry and mine contamination of land.

2) Dependence of certain hromadas on transfers.

Fiscal equalisation is a necessary element of decentralisation, but for some hromadas transfers remain a critically important source of funding for basic functions. This is especially true of small, demographically weak, rural and war-affected hromadas.

Therefore, in the future it is necessary to move from assessing only a hromada's "revenue-raising capacity" to assessing its real financial capacity to perform a legally defined

list of powers.

Human resources and management problems:

1) Limited institutional capacity.

The existence of a formally established local self-government body does not guarantee its ability to carry out strategic planning, land management, public investment, project management, digitalisation, international cooperation and recovery effectively.

This is particularly evident in small hromadas, where one official often has to perform functions that in a larger hromada are divided among several specialised units.

2) Shortage of qualified staff.

Competition for specialists between local self-government bodies, state bodies and the private sector is intensified by population migration and mobilisation. The staffing problem is especially acute in frontline, de-occupied and small hromadas. Similar trends have been observed in the ASC system, where many staff point to difficulties in recruiting and retaining personnel.

Security problems:

1) Impact of martial law.

Martial law is the main factor limiting the possibility of completing the reform in its classic logic. Under martial law, the state's priorities naturally remain defence, security, mobilisation, civil protection and continuity of state functioning. This objectively narrows the room for completing constitutional and institutional transformations in local self-government.

2) Specifics of governance in de-occupied and frontline territories.

In such territories, the classic model of local self-government cannot always be restored immediately. Part of the population has been displaced, infrastructure has been destroyed, local bodies may be effectively unable to function, and human resources are critically limited.

Therefore, after the active phase of hostilities ends, a differentiated approach is needed: the governance model for safe territories cannot be automatically transferred to frontline and recently de-occupied hromadas.

3. Policy Options

Ensuring the sustainability of public governance, successful post-war recovery and fulfilment of Ukraine's European integration commitments require a clear strategic line on the future of the decentralisation reform. At the current stage (as of August 2026), there are four possible policy options, each with its own institutional, financial and security implications.

Option 1. Suspending (freezing) the reform

- **Essence of the option:** Complete suspension of further institutional, legislative and structural changes in decentralisation and local self-government until martial law in

Ukraine is terminated or lifted. The current configuration of public authority is kept "as is", with an emphasis on vertical governance through military administrations.

- **Advantages:** Maximum concentration of management and financial resources at central level for defence needs; simplified procedures for taking operational decisions in the security sphere; no need for complex political and legal debates in wartime.
- **Disadvantages and risks:** Deepening of systemic conflicts of competence between LSGBs and military administrations; entrenchment of an ineffective sub-regional (rayon) level; a critical drop in the motivation of local elites and hromadas to drive their own recovery. This option directly contradicts the requirements of the European Charter of Local Self-Government and could critically slow down negotiations on Ukraine's accession to the EU.

Option 2. Continuing the reform in its current form

- **Essence of the option:** Retaining the existing inertial model without significant legislative changes or a review of the functions of the levels of government. The reform continues to develop solely through current ad hoc decisions and the fiscal equalisation instruments in force as of 2026.
- **Advantages:** Stability and predictability of the legal framework for stakeholders (no stress from new reforms); preservation of established interaction practices; minimal financial costs of institutional restructuring in the short term.
- **Disadvantages and risks:** Does not resolve any of the systemic legal and institutional problems mentioned above. The damaging duplication of functions and the shortage of staff in small hromadas persist. The postponed launch of full state supervision (under Law No. 4677-IX), combined with inertial development, will reinforce legal nihilism at local level and widen the financial gap between rear and war-affected hromadas.

Option 3. Updating the reform's objectives and priorities

- **Essence of the option:** Partial adaptation of decentralisation objectives to current realities by focusing the reform on two key vectors: security/recovery (introducing flexible governance models for de-occupied territories) and European integration (adapting certain sectoral standards to EU requirements).
- **Advantages:** Allows a rapid response to the most acute wartime challenges; meets international partners' priority requirements for transparency in the use of recovery funds; creates preconditions for legislative regulation of the status of military administrations.
- **Disadvantages and risks:** Fragmentary in nature. Updating priorities without a fundamental review of the functions and powers of public authority (without adopting systemic legislation such as draft law No. 14412) will only produce new, inconsistent legal acts. The basic architecture of multi-level governance will remain unbalanced.

Option 4. Institutional transformation of the reform

Essence of the option: Comprehensive and systematic completion of the reform through an in-depth review of the distribution of powers, the roles of institutions and the mechanisms of interaction between all levels of public administration in line with the subsidiarity principle. It provides for a clear legislative delineation of "own" and "delegated" powers, the transformation of LSAs into supervisory and coordinating bodies, a statutory definition of the distinct role of the rayon level, and the creation of a transparent, differentiated model for the transition from military to civilian governance.

- **Advantages:** Fully eliminates duplication of functions and conflicts of competence; creates a resilient, transparent and accountable system of multi-level governance that fully meets the EU membership criteria (including the European NUTS-3 standards); lays a solid foundation for long-term post-war recovery, with the hromada as the main driver of development.
- **Disadvantages and risks:** High political and managerial complexity of implementation; the need to adopt and implement a package of fundamental laws quickly under martial law; the need for considerable efforts to overcome the staffing shortage at local level and to train civil servants in new supervisory functions.

Comparative analysis of policy options

Comparison criteria	Option 1. Suspension (freeze)	Option 2. Continuation in current form	Option 3. Updating objectives and priorities	Option 4. Institutional transformation (Recommended)
Compliance with European integration requirements and EU standards	Critically low (backsliding)	Low (entrenchment of non-compliance)	Medium (partial fulfilment of requirements)	Highest (full compliance)
Effectiveness of public administration and elimination of duplication	Low (heightened mayor/MA conflicts)	Low (persisting chaos in powers)	Medium (targeted improvement)	High ("one function – one responsible actor" principle)
Capacity to ensure post-war recovery of hromadas	Very low (blocks local initiative)	Limited (due to fiscal imbalance)	Medium (focus on priority areas only)	High (systematic strengthening of the capacity of all hromadas)
Complexity of legislative and institutional implementation	Low	Minimal	Medium	High (requires consolidation of Parliament and Government)

The analysis thus shows that Option 4 (Institutional transformation) is the only rational path for Ukraine as of July 2026.

Further postponement of the reform (Options 1 and 2) does not remove security risks; on the contrary, it weakens the state's internal resilience through institutional chaos at local

level and the blurring of responsibility for critical infrastructure.

Option 3 is a half-measure that merely postpones the resolution of the persistent problems of the existing system.

Only a systemic institutional transformation based on the principles of subsidiarity and a clear delineation of powers (in particular through the lens of draft Law No. 14412) will make it possible to turn dispersed resources into a manageable, transparent and European model of multi-level governance.

This will ensure Ukraine's readiness to absorb European recovery funds quickly and will remove institutional barriers on the path to EU membership.

4. Strategic Plan for Completing the Reform (2026–2027)

4.1. Legislative steps

1. Adoption of the draft Law of Ukraine "On the Principles of Delineation and Distribution of Powers Between Levels of Public Governance" (Reg. No. 14412). At the same time, this draft law requires further work on the distribution of sectoral powers between public governance bodies; if it is adopted in the proposed wording, it will be necessary to develop a separate draft law (or draft laws) on the distribution of powers in specific sectors.
2. Adoption of the draft Law of Ukraine "On Ensuring the Competence of Local Councils under Martial Law" (Reg. No. 14405).
3. Adoption of the draft Law of Ukraine "On Amendments to Article 4 of the Law of Ukraine 'On the Legal Regime of Martial Law' Regarding the Status of Employees of Military Administrations of Settlements" (Reg. No. 15543).
4. A draft law also needs to be developed and approved to define the specifics of state policy regarding temporarily occupied territories and frontline territories, and clear instruments to support them.

4.2. Institutional changes

1. The need to reform the system and operating principles of local state administrations.
2. Defining clear criteria for establishing military administrations at local level, grounds for restoring local self-government during ongoing armed aggression, and mechanisms for the transition from military administrations to the restoration of fully-fledged local self-government and civilian authorities after martial law is lifted.
3. It is also necessary to define the powers of public administration bodies at the sub-regional (rayon) level.

4.3. Management and human resources measures

1. Drafting and introducing amendments to Law of Ukraine No. 3077-IX of 2 May 2023 "On Service in Local Self-Government Bodies" to set a specific date for its

entry into force, without linking it to the termination or lifting of martial law in Ukraine.

2. Drafting and adopting legislation to ensure the implementation of Law of Ukraine No. 4887-IX of 27 May 2026 "On Amendments to Certain Laws of Ukraine to Encourage the Participation of Local Self-Government Bodies in International Technical Assistance Programmes and Projects and in International Territorial Cooperation".

4.4. Financial stabilisation

1. Once a clear delineation and distribution of powers between levels of public governance has been carried out, the financial resources needed to exercise those powers effectively will have to be assigned accordingly.
2. One of the areas requiring legislative regulation is reform of the regional development financing system. In line with the principles of EU cohesion policy, the State Regional Development Fund should operate on a three-year planning cycle as an instrument for implementing strategies.

5. Implementation Risks and Conclusions

At present, the main factors determining the further course of the decentralisation reform in Ukraine are preparation for Ukraine's accession to the European Union, as well as martial law and the armed aggression of the Russian Federation against Ukraine.

Ukraine's European integration commitments are stimulating factors for continuing and completing the reform, whereas wartime challenges lead to its suspension and to risks of losing the results achieved.

At the same time, the need to build effective local self-government and territorial organisation of power – to create and maintain a full-fledged living environment for citizens and provide high-quality, accessible public services – and hence the need for the decentralisation reform, arose much earlier, and postponing the continuation of the reform will have exclusively negative consequences, notably lost opportunities and time for carrying it out.

Of the policy options identified, Option 4, Institutional transformation of the reform, is recommended, as it ensures the highest level of compliance with European integration requirements and EU standards, a high level of public administration effectiveness, the elimination of duplicated powers of public administration bodies, and the capacity of territorial communities for post-war recovery.