



DECENTRALISATION AND LOCAL PUBLIC ADMINISTRATION REFORM IN GEORGIA, MOLDOVA AND UKRAINE

Learning from the past – preparing for the future

This project is co-funded by the European Union



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development
and Cooperation SDC

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ABBREVIATIONS

AA	Associations Agreements
ADA	Austrian Development Agency
ATC	Amalgamated Territorial Communities
AUC	Association of Ukrainian Cities
CALM	Congress of Local Authorities from Moldova
CEMR	Council of European Municipalities and Regions
CIT	Corporate Income Tax
CLRACE	Congress of Local and Regional Authorities of the Council of Europe
CoE	Council of Europe
CoR	Committee of the Regions
CORLEAP	Conference of Regional and Local Authorities for the Eastern Partnership
CSO	Civil Society Organisation
DACIA	CALM Model for territorial reform: Administrative Decentralisation (DA), Inter-municipal Cooperation (CI) and Voluntary Amalgamation (A)
DCFTA	Deep and Comprehensive Free Trade Area
EaP	Eastern Partnership
ECLSG	European Charter of Local Self-Government
EU	European Union
GDP	Gross Domestic Product
GEL	Georgian Lari
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
KDZ	Centre for Public Administration Research
LG	Local Government
LRGs	Local and Regional Governments
M4EG	Mayors for Economic Growth
MRDI	Ministry for Regional Development and Infrastructure of Georgia
NALAG	National Association of Local Authorities of Georgia
NALAS	Network of Associations of Local Authorities of South-East Europe
OSCE	Organisation for Security and Co-operation in Europe
PIT	Personal Income Tax
PLATFORMA	Pan-European coalition of local and regional governments and their associations active in decentralised cooperation
RCC	Regional Consultative Council of Georgia
RDO	NALAS Regional Decentralisation Observatory
SDC	Swiss Development Cooperation
SEE	South-East Europe
SME	Small and Medium Enterprises
UAH	Ukrainian hryvnia
USAID	United States Agency for International Development
VAT	Value-Added Tax
WB6	Western Balkans Six Countries

EXECUTIVE SUMMARY

Since the onset of their independence from the former Soviet Union, Georgia, Moldova and Ukraine have embarked in comprehensive decentralisation processes, transferring responsibilities and resources to levels of government closer to their citizens. Reforms have been undertaken within 3-4 incremental stages over the past three decades, although the more recent years have been pivotal for local governance in each country. Georgia and Ukraine in particular have embarked on very transformative reforms in the last 5 years, with major political, administrative, financial and territorial decentralisation reforms being adopted. Implementation of such reforms is underway, although challenged

Georgia, Moldova and Ukraine are at a crucial moment for decentralisation and local public administration reforms.

by the COVID-19 crisis and/or specific national political considerations. In Moldova, unfortunately, the implementation of the significant decentralisation reforms adopted during 2012-2016 has been adversely impacted by political instability, lack of commitment of the central government and a worsened intergovernmental dialogue. As a result, reform processes have been slower and more fragmented. Nevertheless, looking forward, all three countries are at a crucial moment for decentralisation and local public administration reform.

This study aims at consolidating the lessons learned over three decades of reforms and help the Local Government Associations (LGAs) from Georgia (NALAG), Moldova (CALM) and Ukraine (AUC), as members of CEMR and PLATFORMA, prepare for the next steps to advance decentralisation processes

and local public administration reforms in their countries. The study builds on three Status Reports developed by NALAG, CALM and AUC with the support of CEMR and PLATFORMA, as a contribution to an open, inclusive and informed intergovernmental dialogue on decentralisation reform in Georgia, Moldova and Ukraine.

Georgia, Moldova and Ukraine present significant differences as regard the territorial and administrative organisation. Moldova is characterised by a significant territorial fragmentation. Donor supported discussions for a territorial reform have been undergoing for a long time, unfortunately, without reaching consensus. Ukraine on the other hand, has recently performed a massive territorial and administrative reorganisation, consolidating 11 thousand 700 hundred first tier Local Governments (LGs) into just 1469, through a combination of voluntary and coercive amalgamations. Georgia is characterised by more consolidated LGs with larger municipalities composed both of an urban centre and rural areas. All three countries have a second-tier sub-national governments (regional level) – but in Ukraine the executive bodies of such regional governments are appointed by the national government, making them de-facto an extension of the national government. However, the regional level in Ukraine is being reformed, through both a territorial consolidation and a functional decentralisation devolving more responsibilities to the amalgamated first-tier local governments.

Georgia, Moldova and Ukraine present significant differences also as regard the role that local and regional governments (LRGs) play in the overall public sector. Nevertheless, in all three countries first tier LGs role in the public sector has increased. In Moldova and Ukraine in particular, LRGs are responsible not only for the day-to-day services but have also shared or delegated responsibilities in key

Decentralisation reforms have increased the role of local governments in key strategic sectors such as public infrastructure, education, social protection and care and public health, which have a major impact on the long term social and economic development.

strategic sectors such as education, social protection and healthcare that have a major impact on long term social and economic development of each of these countries. As a general rule, delegated functions are financed with narrowly defined conditional grants, over which local governments have very little room for discretion. Also, regional levels of government have higher degrees of control over such resources. From this perspective, LRGs in these countries have a very limited fiscal autonomy, as the central governments retain control over these finances. Nevertheless, directly, or indirectly, LRGs revenues in Moldova and Ukraine stands between 27% and 43% of total public revenues in 2019, indicating the key role that LRGs play directly or in a delegated manner in service delivery and improving the life perspectives of their citizens. Within the current reform processes in Ukraine, many responsibilities will be transferred from regional governments to the first-tier LGs in both countries. Georgian LGs do not have significant responsibilities in the social sector, currently, but their role is expected to increase in the coming years, with the implementation of the new Georgian Decentralisation Strategy.

In all three countries important achievements have been made, especially in the last decade, albeit to varying degrees. Georgia has enhanced political, administration and financial decentralisation and has put in place a clear roadmap for the upcoming 5 years. LGs autonomy has been expanded with the changes in the system of election of mayors and their accountability to the municipal councillors; the powers of local government including both own and delegated competences have been increased; and financial decentralisation has been

significantly enhanced with the introduction of a shared tax¹ system based on the Value-Added Tax (VAT)² has led to an increase in local finances, albeit less than expected due to the impact on economic activity and therefore also VAT revenues of the COVID-19 pandemic.

The major territorial reform that consolidated the first-tier local governments in Ukraine was accompanied by a remarkable transfer of power and resources to these territorial communities which were thus given the opportunity to be placed on an equal footing with cities of oblast importance in terms of finances and jurisdiction. Hand in hand with this devolution of power and responsibilities, the intergovernmental transfer system and the expansion of local government tax powers have been improved by introducing a stimulating system for fiscal equalisation across local governments based on the Personal Income Tax (PIT). As a result, local budget revenues from this tax have tripled from 2015 – 2019 after this system have been implemented.

In Moldova important steps have been made towards decentralisation and local government reforms in the conceptual, legal and judicial terms but implementation has been insufficient. Local autonomy

While significant progress has been made, major challenges remain in terms of political commitment and advancing the fiscal dimension of trends

has been anchored in the constitution and national legislation, local governments were transferred additional responsibilities and powers, and to a lesser extent some more

- 1 A shared tax is in general, a tax that is collected by a higher level of government and shared in part or in total with lower levels of government. In general, the base and rate of shared taxes are defined by higher levels of government, but there are also cases where lower levels of government can introduce surcharges to the nationally set taxes.
- 2 The Value Added Tax, or VAT, in the European Union is a general, broadly based consumption tax assessed on the value added to goods and services. It applies more or less to all goods and services that are bought and sold for use or consumption in the European Union.

competences as regards own revenues and shared taxes. Nevertheless, the implementation of reforms has been rather slow, and at times with major setbacks to local government autonomy. CALM has played a pivotal role in safeguarding local governments interests and reversing these troublesome trends.

While significant progress has been made, major challenges remain in all three countries. This concerns overall, the high political instability and the lack of **political will** for decentralisation and local government reform, especially in Moldova and to some extent in Ukraine. Additional efforts are needed to **clarify roles and responsibilities** across levels of government to eliminate duplication and/or overlapping of efforts, in particular in Moldova and Ukraine which have very powerful regional governments, with extensive service responsibilities and oversight competences. Additionally, real fiscal autonomy of local governments remains rather weak.

The assessment of the progress of decentralisation through the NALAS Regional Decentralisation Observatory (RDO) Index shows that Moldova and Georgia have achieved progress over the past three decades in creating and consolidating institutions of local government. However, significant additional efforts are needed to strengthen local government political, administrative and in particular autonomy, improve quality of local services, facilitate citizen engagement, enhance local government accountability and nurture an open and inclusive intergovernmental dialogue on decentralisation and local public administration reform. To some extent, LRGs in Moldova and Georgia score lower than their counterparts in South-East Europe (SEE) in terms of local government autonomy and to some extent also the quality of and access to local services.

Increased additional efforts are needed to improve the financing and financial autonomy of local and regional governments in all three countries. At first look, Moldova and Ukraine appear very fiscally decentralised countries with LRG revenues between 27% to 43% of

total public revenues respectively, compared to their counterparts in SEE region (17%) and even the EU (24%). However, this picture can be misleading. LRG finance in Moldova and Ukraine include also funding for costly social sector responsibilities that are not common in SEE and EU, for example paying the wages of teachers or doctors. Given their extensive responsibilities, Moldovan and Ukrainian LGs are largely underfunded with very low per capita revenues compared to their counterparts in the SEE and EU (between 7-14 times less than the EU). Additionally, a disproportioned share of funding is allocated to the second – regional – tier sub-national governments which have full control on the funds to be transferred to the first – local – tier sub-national governments, and which in the case of Ukraine, are in practice mostly central government' bodies.

Local government fiscal and financial autonomy must be strengthened. In all three countries LGs are heavily dependent from the national government. First-tier LGs raise on their own only 10-15% of total local revenues indicating a combination of weak tax base - as a result of low economic activities at the basic community level – and weak tax powers – as a result of restricted revenue raising options and competences of local governments to set and administer local taxes. Additionally, in all three countries, about 45-65% of total LRG revenues are provided through earmarked/ conditional intergovernmental transfers, over which first tier LGs in Moldova and Ukraine do not have any decision-making powers. In fact, decisions over how funds are spent in these two countries are either set directly by the national government or through the regional governments – which are also de facto significantly controlled by the national governments.

The current Covid-19 crisis has a major impact on LG operations and decentralisation reforms. LGs in all three countries, are at the frontline in managing the Covid-19 pandemic as first contact point and crisis manager closest to the citizens. However, given their responsibilities in the education, health and social protection, Moldovan and Ukrainian LGs face additional unprecedented challenges to provide basic services to

Additional reform steps are necessary in all three countries and Local Government Associations must be supported in their pivotal role to represent local governments and build consensus across and within levels of government on the development, consultation, and implementation of decentralisation reforms.

citizens and at the same time support their local communities and economies. The covid-19 crisis affects significantly the ongoing decentralisation processes, as it has shown tendencies of both re-centralisation of political and administrative responsibilities and power, also due to the lack of effective intergovernmental policy consultation and coordination mechanisms in the respective countries, and a disproportional increase of burdens for the local level as the most distinct unit in the provision of basic services. The magnitude and extent of the COVID-19 will depend very much on measures that will be adopted to revive local government finance. All levels of government need to continue to work together to mitigate the impact and consequences of this crisis.

Taking into account the difficult circumstances, in all three countries additional reform steps need to be taken for the development and implementation of decentralisation and local government reform in order to ensure both strong and sustainable democracy. In Georgia, the key next steps

The COVID-19 crisis has severely impacted local government operations and decentralisation reforms.

include the implementation of the thorough decentralisation reforms adopted in recent years and the development of an adequate financial equalisation system which is

currently missing. In Moldova the devolution of powers and resources from higher levels of governments to local governments should continue and local governments own revenue raising options need to be improved. These are key preconditions for any upcoming territorial and administrative reforms. Creating larger local governments without adequately funding them is not sustainable. In Ukraine, the key next steps include adoption of the Constitutional amendments that will enshrine the new principles of local self-government and the administrative and territorial arrangement, the further devolution of powers and resources to first-tier LGs from the regional level governments, and the improvement of the overall financing of local governments. In all three countries, besides additional resources to cover unfunded mandates, LGs need also more autonomy in determining the way grants from higher levels of government are spent to reflect local needs and priorities.

Local government associations must be supported in their pivotal role in the development, consultation, approval and implementation of decentralisation and local government reforms. NALAG, CALM and AUC have all played a key role in the development of the reform strategies in Georgia, Moldova and Ukraine. They have been and are part of the different intergovernmental working groups responsible for the drafting and consultation of policy reforms at the national level. From this perspective, by bringing together the unified voice of local authorities, they have an irreplaceable position to advance decentralisation and strengthen local democracy. They must be supported in to bring forward this mission. Additionally, the COVID-19 pandemic has brought an unprecedented crisis which more than ever requires a well-coordinated response from all levels of government. CEMR and PLATFORMA will continue to support the advocacy efforts of their members, NALAG, CALM and AUC, and will continue to contribute to an open and inclusive intergovernmental dialogue and build consensus for decentralisation and local government reform in Georgia, Moldova and Ukraine.

1. INTRODUCTION

Decentralisation, defined as the process of devolution of political and fiscal powers from the central level to the local level of government, is an essential element in the development process of any democratic country. Decentralisation and local government reform aim at the strengthening of local governments, as they constitute the most distinct local administrative and operational unit for the provision of public services. Apart from the decentralisation of fiscal and political powers and responsibilities to sub-national/local levels of government, such processes may also support democratisation, particularly by enabling the increased participation in decision-making processes for citizens. Present day decentralisation processes in Europe are of particular significance in former socialist countries with a historically higher degree of centralisation of political power, public administration and resources. Significant public administration reforms are currently being implemented in Georgia, Moldova and Ukraine, which place emphasis on decentralisation and local government reform. However, these processes are not yet complete and progress within the respective countries remains uneven.

This study aims to consolidate experiences and lessons learned over three decades and help Local Government Associations in Georgia, Moldova and Ukraine build consensus and prepare for next steps in local public administration reform in their.

This study is developed with the support of CEMR and PLATFORMA in the framework of their support to their member Local Government Associations from Georgia (NALAG), Moldova (CALM) and Ukraine (AUC) to keep an open intergovernmental dialogue and advance inclusive consensus on decentralisation processes and local public administration reforms. It is prepared by NALAS, with the technical assistance from KDZ. The study aims to describe the current processes of decentralisation and local public administration reform in Georgia, Moldova and Ukraine, to assess the status quo regarding the main achievements, challenges and opportunities for action for the further effective implementation, as well as to outline next steps of the respective processes in each of the three countries. From this perspective, the study aims to consolidate lessons learned over three decades of reform and help the local government associations prepare for the reform next steps in their countries.

The study builds on three country Status Reports, that have been developed by and under the leadership of CALM, NALAG and AUC. The status reports aim at informing and supporting the advocacy efforts of CALM, NALAG and AUC, strengthening their positioning for intergovernmental policy dialogue at national and international level; supporting an open and inclusive intergovernmental dialogue on decentralisation and local public administration reform; as well as facilitating learning and promoting sharing of experiences and lessons learned across the three countries.

2. A COMPARATIVE OVERVIEW OF DECENTRALISATION AND LOCAL PUBLIC ADMINISTRATION REFORMS IN GEORGIA, MOLDOVA AND UKRAINE

Over the course of the last decades, processes of administrative and fiscal decentralisation have been initiated in Georgia, Moldova and Ukraine, which were significantly advanced within the last 10 years. The main motives behind these political decisions in all three countries were (a), the historically centralised responsibilities and financial resources on the state and regional level, which stand in contrast to the lack of financial resources and resulting poor quality of public services on the local level, (b), the lack of an effective coordination of national social and economic policies with regional and local interests as well as (c), increased pressure due to the trends of demographic decline and rural depopulation. Furthermore, the immediate and long-term impacts of the current COVID-19 pandemic represent great challenges for all, but particularly the local level of government since they are at the frontline in managing the COVID-19 pandemic as first contact point and crisis manager closest to the citizens. The current crisis also significantly affects the ongoing decentralisation processes, as it has shown both tendencies of a re-centralisation of political and administrative responsibilities and power, also due to the lack of effective intergovernmental policy consultation and coordination mechanisms in the respective countries, and a disproportionate increase of burdens for the local level as the most distinct unit in the provision of basic services.

2.1 Territorial and Administrative Organisation and main actors in intergovernmental dialogue

A fundamental area in which there have already been significant advances in the processes of decentralisation is the territorial-administrative dimension. Ukraine went through a comprehensive re-organisation processes of sub-national administrative units, particularly through the amalgamation

of local government units at the basic and regional level. This, on the one hand, led to a significant reduction of the number of units and thus the complexity of the systems of territorial organisation as well as to the strengthening of local government units and the partial enlargement of local jurisdictions and increase of local responsibilities on the other hand.

Reform processes are influenced by a strong legacy of centralised government and a background of national security considerations.

The current decentralisation processes in Georgia, Moldova and Ukraine are built upon past processes towards administrative and territorial reorganisation, therefore the systems of decentralisation and the processes' focus vary in the surveyed countries depending on the respective initial structures of administrative organisation and local government. In addition, decentralisation processes are built also upon a strong background legacy of centralised government and also in the framework of major national security threats and military annexation of specific territories.

Figure 1 shows the status quo of the systems of territorial and administrative organisation of local government in Georgia, Ukraine and Moldova. An important factor must be considered when interpreting the administrative and territorial organisation: In terms of size and inhabitants, Ukraine cannot be compared to Georgia and Moldova. In 2017, Ukraine counted more than 44 million inhabitants spread across a territory of 579,290 km² (excluding AR KRM and city of Sevastopol, which are annexed by the Russian Federation) (destatis 2020a). It is divided in 24 regions / oblasts and 2 cities

with a special status (Kyiv and Sevastopol) and counts 1.469 village, town and city territorial communities at the basic level (Ukraine p. 11).

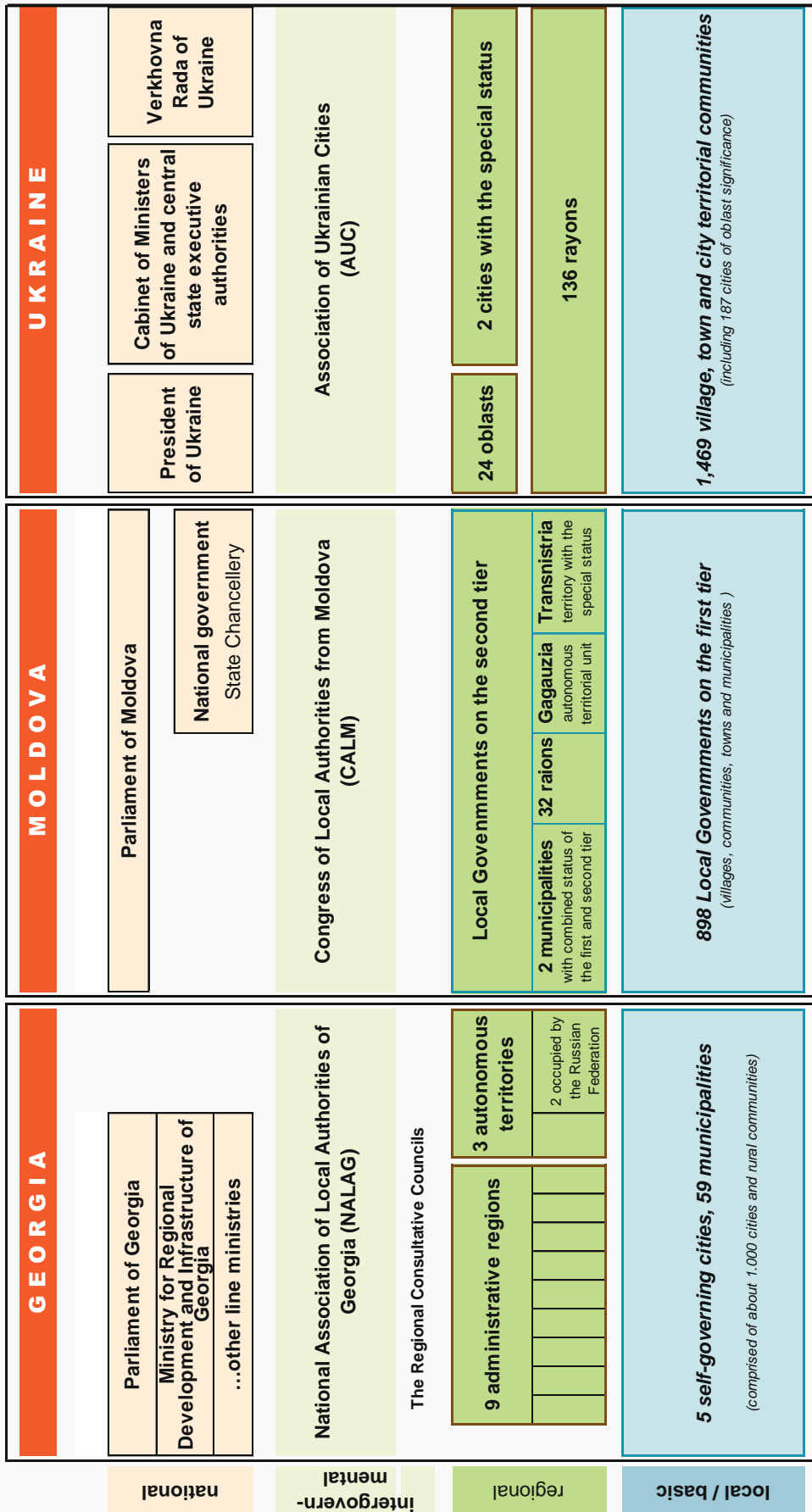
Georgia has a size of 69,490 km² and 3.7 million inhabitants (2017) (destatis 2020b) and is organised in 9 administrative and 3 autonomous territories, two of which are occupied by the Russian Federation. The capital Tbilisi has the special status of a self-governing unit. There are 5 self-governing cities and 59 municipalities of communities on the local level as well as 4 municipalities of communities in exile. A municipality of communities is an administrative territorial unit that is comprised of a varying number of rural and urban communities, in summary of about 1000 cities and rural communities (see Georgia p. 11).

With a size of 32,890 km² and population of 3.5 million inhabitants (destatis 2020c), Moldova is the smallest of the studies countries. It varies from the territorial

organisation of the other two countries, as it has a 2nd (regional) tier of 32 raions and 2 municipalities with combined status of the first and second tier (Chisinau and Balti) as well as the autonomous territory of Gagauzia (comprised of 3 raions) and the territory of Transnistria with a special status. On the 1st tier (local level) there are in summary 898 different self-governing units (towns, communities, municipalities and villages) (Moldova p. 11).

In all three countries, the National Associations of Local Governments play a pivotal role in the decentralisation process, as they act as intermediaries and advocates for the interests of the local level and provide support in the areas of local capacity building and cooperation. Local government associations are an integral part of the reform processes in all three countries. In Moldova, CALM has also the right to participate and represent local governments in the weekly meetings of the national government, which is a rather unique example of arrangements for intergovernmental coordination.

Figure 1 Political, territorial and administrative organisation in Georgia, Moldova and Ukraine



2.2 Competences of the Local Governments

To some extent, the basic level of local government in all three countries is responsible for similar competencies, including e.g. local infrastructure, local roads and transportation, local utility services such as solid waste and water management, urban and spatial planning (own competencies), as well as local budgeting and collection of shared taxes, social protection and protection of child rights or keeping of statistical records (delegated competencies). Regarding their scope and the areas of responsibility, the local competences in the studied countries are also comparable to other central European countries. However, in contrast to Moldova and Ukraine, where local and regional governments are assigned significant shared and delegated responsibilities in the areas of health services and education (such as the management and maintenance of educational and health care institutions, local governments in Georgia only have a very limited delegated competencies in this area (maintenance of school infrastructure and services to children with disabilities). From this perspective, overall, there are significant differences in service responsibilities which are reflected in significant differences in terms of level of fiscal decentralisation.

Despite some similarities, there are significant differences in the service responsibilities of local governments in Georgia, Moldova and Ukraine, which are reflected in the level of advancement and complexity of their fiscal decentralisation reforms.

All three countries have ratified the European Charter of Local Self-Governments which enshrines the principle of subsidiarity for tasks not formally assigned to higher levels of government. Therefore, local governments may take over various additional tasks within the scope of their abilities, as long as they are not assigned to any other level of government, or in cooperation with other levels of government, such as for example in the case of Georgian local governments the support of agricultural cooperatives and SMEs.

The competences of Moldovan local governments of 1st and 2nd tier are nearly the same, but 2nd tier local government have larger jurisdiction area since their competences are adjusted to their territorial scale. However, additional competences of 2nd tier local government are limited to certain areas such as social protection with several tasks and where 1st tier local governments have no responsibilities.

Figure no. 2 and 3 show a detailed comparison of local government own and delegated competences in the three countries.

Figure 2 Own competences of the LGs in Georgia, Moldova and Ukraine

Own Competences		
Georgia	Moldova	Ukraine
Management and planning	Management and planning	Management and planning
<ul style="list-style-type: none"> Local taxation and budgeting; Establishment and management of administrative units, municipal enterprises and non-commercial (social) entities; Territorial organization of the municipality and naming of streets and geographical objects; Organisation of Public-Private-Partnerships Socio-economic development and spatial planning Local natural resources 	<ul style="list-style-type: none"> Establishment and management of municipal enterprises and the organisation of any other activity necessary for the economic development of the administrative-territorial unit; Arrangement of the agricultural markets, of the commercial spaces, the accomplishment of any other necessary measures for the economic development; Administration of the goods from the local public and private domains; Urban planning 	<ul style="list-style-type: none"> Formation of the structure of executive bodies of councils, Approval and implementation of the local budget, approving decisions on local borrowings, Setting rates for local taxes and fees and granting privileges on their payment; Granting permits for placements of advertising Communally-owned property management; Approval of programs for social, economic and cultural development, targeted programs on other local government issues; Endorsing local urban development programs, development master plans, etc. Approving territorial community charters; Resolving land relations issues Granting permits for special use of natural resources of local significance
Basic local services	Basic local services	Basic local services
<ul style="list-style-type: none"> Local roads and transportation Water supply, sewage and sanitation Solid waste management Public spaces, parks, cemeteries and green areas; 	<ul style="list-style-type: none"> Construction, maintenance and lighting of local public streets and roads; Local public transport; Distribution of drinking water, construction and maintenance of sewerage and wastewater treatment systems; Collection and management of household waste, including sanitation and maintenance of land for storage; Development and management of urban gas and thermal energy distribution networks; Organisation of fire services. Management of green spaces of local interest; Arrangement and maintenance of cemeteries; 	<ul style="list-style-type: none"> Setting up and managing communally-owned companies (district heating, water supply, public transport, solid waste management, green plantations, streets) Setting tariffs for municipal utility services and urban public transportation services; Approving passenger transportation routes and vehicle schedules, Parking management Maintenance of cemeteries, other burial places and their protection
Social sector services	Social sector services	Social sector services
<ul style="list-style-type: none"> Preschool and additional education Protection of victims of family violence and protection of child's rights and social status Shelter and childcare, protection of victims of family violence, shelter for homeless Regulation for pets in urban areas 	<ul style="list-style-type: none"> Construction, management, maintenance and equipment of preschool and extracurricular institutions; Construction of housing and the granting of other types of facilities for the socially vulnerable layers, as well as for other categories of the population; 	<ul style="list-style-type: none"> Management of health care services and catering Provision of social services Management of educational establishments, health care, culture, physical culture and sport, health

Figure 3 Delegated competences to the LGs in Georgia, Moldova and Ukraine

Georgia	Moldova	Ukraine
Management and planning <ul style="list-style-type: none"> Collection of property tax 	Management and planning <ul style="list-style-type: none"> Elaboration and approval of the urban planning and spatial planning documentation, submits it to the strategic environmental assessment procedure Contribute to the protection of the immovable cultural heritage; Contribute to ensuring public order Working regime of commercial and catering enterprises; Take measures to prohibit or suspend performances, performances or other public events Keep records of peasant (farmer) households and their associations according to the register approved by the Government; Issue certificates of private ownership confirming the ownership right over the shares of the patrimony of the former agricultural enterprises Register leases of agricultural land and other agricultural property Military evidence and support for recruitment 	Management and planning <ul style="list-style-type: none"> Provision of administrative services of executive authorities Keeping statistical records of citizens State registration of legal persons and private entrepreneurs, of property rights for communally-owned property, Maintenance of the territorial community register Provision of data from the State Land Cadastre Performing works to set up and maintain the urban development cadastre Exercising state architectural and construction control and commissioning Ensuring protection of historical and architectural monuments, cultural heritage Consideration of issues on administrative offences rendered by law to the local competence; setting up administrative commissions Facilitation to drafting citizens to military service; organisation and participation in activities related to military mobilisation training and civil defense
Basic local services <ul style="list-style-type: none"> Monitor conditions of Natural Gas supply to households Regulate and control noise in urban settlements. 	Basic local services <ul style="list-style-type: none"> Safety of road and pedestrian traffic Registration and record of transport units Maintenance of the territorial service (post) of rescuers and firefighters 	Basic local services
Social sector services <ul style="list-style-type: none"> Maintenance of public-school infrastructure Management of social agents' service Provision of services to the children with disabilities for their integration into society Protection of child rights 	Social sector services <ul style="list-style-type: none"> Kindergartens Ensure the protection of children's rights; Identify socially vulnerable people who need to improve living conditions; Contribute to the implementation of protection and social assistance measures; Distribution of the housing fund and the control over its maintenance and management Design, construction, maintenance and modernisation works of the housing fund, as well as of the entire economic, social, 	Social sector services <ul style="list-style-type: none"> Ensuring accessible and free education and health care Providing medicine and medical goods to specific categories of the population Providing citizens entitled to social protection free housing or housing at affordable prices Performing activities to maintain the unified state register of citizens who require improvements of their housing conditions Improving housing, material and household conditions of socially vulnerable groups Organisational aspects of the work to

3. FRAMEWORK FOR INTERNATIONAL COOPERATION

International cooperation and development partners play a significant role for local development in Georgia, Moldova and Ukraine.

Solid partnerships and cooperation are essential for promoting the decentralisation reform. Both decentralisation and local government reforms are complex and thus requires the broad support from all stakeholders involved such as civil society, development partners and all levels of government. Hence, international cooperation and international donor funding play a significant role for local development in the three surveyed countries. The focus of international cooperation programmes and international funding is mostly not specifically on advancing processes of decentralisation in the respective countries, but the main areas all target integrated local development by increasing competitiveness and accelerating regional integration processes (particularly through cross-border cooperation), infrastructure development and environmental protection (international financial assistance) as well as experience exchange, know-how transfer and capacity building (Twinning, partner cities).

PLATFORMA³ with its leading partner, the Council of European Municipalities and Regions (CEMR), has a long-term commitment to strengthening local democratic governance, supporting decentralisation and public administration reforms in Europe and in particular in the Eastern Partnership (EaP) countries. PLATFORMA and CEMR partnership with EaP countries aims at influencing EU institutions' action in the EaP to also address the local level, reinforcing the advocacy capacity of the

national associations and at increasing the exchange of experiences between European and EaP local and regional governments on specific topics such as gender equality, waste management, digitalisation, the Sustainable Development Goals, etc.

The European Union concluded Associations Agreements (AA), including Deep and Comprehensive Free Trade Area (DCFTA) with Georgia, Moldova and Ukraine in 2014. The AAs aim to improve political association and increase political dialogue.

According to PLATFORMA, the future EU-EaP cooperation framework should ensure full and successful implementation of the association agreements and deep and comprehensive free trade areas (DCFTAs)⁴. To that purpose the local and regional governments should take the lead and be empowered financially and functionally to ensure they can respond to the needs of their citizens. They have a key role to play in public administration reforms, sustainable local policies, local economic development, environmental and climate resilience, gender equality and diverse societies, state reform, and delivery of public services, including through digital means, in all priority areas of the EU.

Local governments and their associations in the Eastern Partnership countries must be recognised by the EU institutions as key players in promoting good governance, local democracy and the rule of law.

PLATFORMA plans to continue working very actively to advocate for strengthening

3 PLATFORMA is a pan-European coalition of local and regional governments (LRGs) and their associations active in development cooperation, which streamline global and EU development agendas in sustainable local public policies both in partner countries, and in EU member states (abroad and at home).

4 [Association Agreement](#) Georgia, Article 372 and 373
[Association Agreement](#) Ukraine Article 446-449
[Association Agreement](#) republic of Moldova, Article 107-112

the role of local and regional governments and their representative associations. They must be recognised by EU institutions as **key players** in promoting good governance, local democracy and the rule of law in Eastern Partnership countries. PLATFORMA will also continue to support LRG national associations of Georgia, Ukraine and Moldova, by facilitating **multilevel political dialogues** at local, national and European

levels, and **supporting capacity-building and trainings**, and **reinforcing cross-border cooperation via peer-to-peer exchanges** between EaP local and regional governments and national associations, with EU peers, based on jointly identified priorities (green deal, e-governance, public procurement on local level; decentralisation and public administration reforms).

4. RECENT REFORM PROCESSES IN GEORGIA, MOLDOVA AND UKRAINE

Decentralisation processes in all three countries were initiated early, already in 1990s with their independence from the Soviet Union (see figures 4-6). The ratification of the European Charter of Local Self-Government was crucial for the decentralisation processes in all three countries. Yet, processes have been and still are strongly influenced by political processes on national level.

Georgia, Moldova and Ukraine have all developed decentralisation strategies and roadmaps for the implementation of local government reforms as well as mechanisms for evaluation and further development. However, the implementation is determined both by the political framework (e.g. national elections), institutional framework (e.g. a legacy of centralized government institutions) as well as by the impacts of global and national crises (e.g. financial crises 2008, Covid-19) and last by not least military conflicts and threats to national security and territorial integrity.

Georgia, Moldova and Ukraine have all developed decentralisation strategies, however the level of implementation is affected by the political and institutional frameworks as well as national and global crisis.

Georgia's decentralisation process is characterised by a more holistic reform strategy and a stronger legal framework (regarding local government autonomy). In Ukraine, a comprehensive strategy was initiated in 2014 immediately after the Euromaidan protests, to strengthen local democracy and self-government through decentralising power and resources while also reforming the territorial and administrative organisation of the country. Although the

decentralisation process has been set up in a holistic and structured manner in Moldova as well, the process has been repeatedly interrupted due to frequent changes of central government and political instabilities, which has led to only singular and smaller steps of reforms. This also affects the lack of clear outline for future steps in the process, which for Moldova have yet to be agreed on (e.g. revision of roadmap currently under preparation). If implemented, the DACIA model of local government reform, elaborated by CALM, could be of high importance for a substantial local government reform in Moldova.

A common feature in the reform efforts in Ukraine and to a lesser extent in Moldova is the process of devolution of power and responsibilities from the regional and state level to local governments. The powers of rayon councils and rayon state administrations (education, healthcare, social protection, housing and municipal utilities, local transportation and territorial planning) and the corresponding financial resources were devolved to village, town and city councils elected in the consolidated territorial communities and their executive bodies.

The decentralisation processes of Moldova, Georgia and Ukraine encompassed comprehensive reforms of the countries' administrative and territorial organisation. Thus, on the local level, the number of administrative units was reduced significantly. However, it is important to consider that the success of local government reforms does not only depend on purely administrative and territorial re-organisation, such as amalgamations. The key is the effective allocation of roles and responsibilities and most importantly adequate resources across levels of government that is conducive of improved governance and services.

Local Governments in Georgia, Moldova and Ukraine are heavily dependent on transfers from higher government levels, including regional governments

Another very important and common element of the decentralisation processes in the three countries is financial decentralisation with the aim of strengthening the financial autonomy of local governments, through increased transfers from higher levels of government, improved revenue raising options and increased own local government taxing powers. Financial decentralisation reforms have been initiated in all countries, however, as expected, the degree of success and implementation differs significantly across the three countries.

Financial decentralisation reforms remain at the core of the new local public administration reforms in Georgia and Ukraine. As expected, the bulk of the financing for the financial decentralisation reform comes from the national budget either in the form of shared tax revenues (Value Added Tax (VAT) in Georgia and Personal Income Tax (PIT) in Ukraine) or direct intergovernmental transfers (education, healthcare and equalisation subsidies in Ukraine). The introduction of shared taxes – as the key components of the intergovernmental finance systems - has brought significant improvements in terms of increased local revenues and incentives to strengthen local economies, expand local taxable bases and fight the 'grey economy', as local government revenues increase with the

increase in economic activity. The PIT serves also as the basis for fiscal equalisation in Ukraine. Georgia is still missing an effective fiscal equalisation system. In Moldova financial decentralisation reform mostly has been stalling, although the government decided to double the local shares over the PIT and introduce the sharing of the Corporate Income Tax (CIT) in 2019.

In all three countries, revenues from local government own revenues constitute only a minor share of the overall local public revenues. Local own revenues constitute 13% of total local revenues in Moldova, 18% in Ukraine (13% if we count only local taxes and fees) and 32% in Georgia. This indicates the co-existence of weak local tax powers, underdeveloped local economies and therefore weak local tax basis in all three countries, for the vast majority of local governments. The key local taxes include the real estate (property) tax (in Georgia, Moldova and Ukraine), PIT paid by individual entrepreneurs (Georgia), Single (unified tax) in Ukraine, and road tax & PIT (Moldova). It is crucial that local government own tax powers are expanded, and their revenue management capacities are strengthened.

Overall, intergovernmental finance systems in Georgia, Moldova and Ukraine are heavily dependent on intergovernmental transfers from higher levels of governments, including the regional level governments, in the form of shared taxes and direct general and earmarked transfers from the state budget. Local government own revenues are very limited as are the revenue raising options of first tier local governments.

Figure 4 Timeline of decentralisation processes in Ukraine

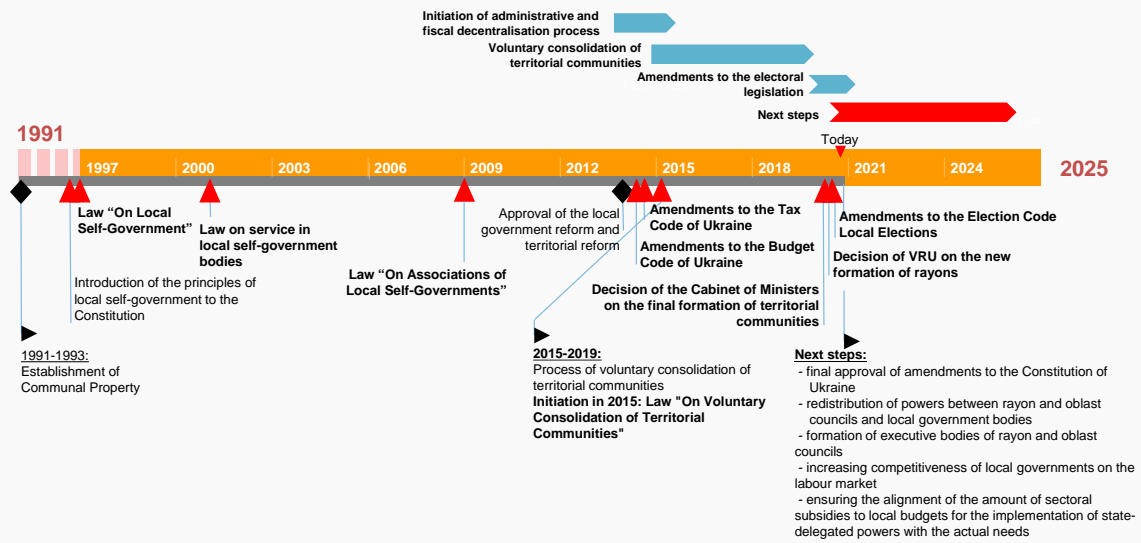


Figure 5 Timeline of decentralisation processes in Moldova

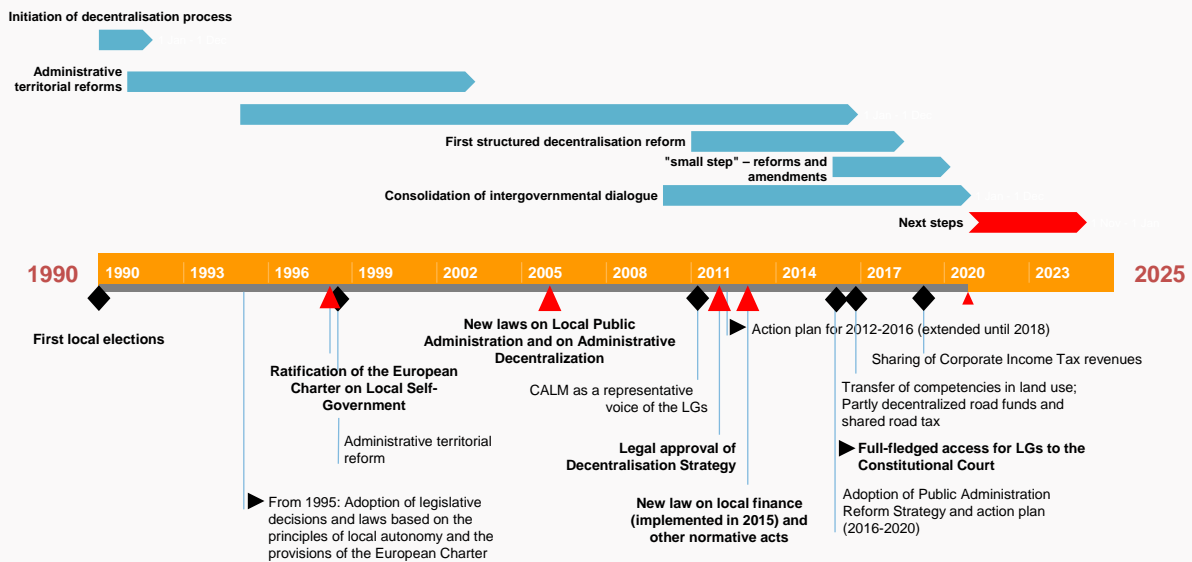
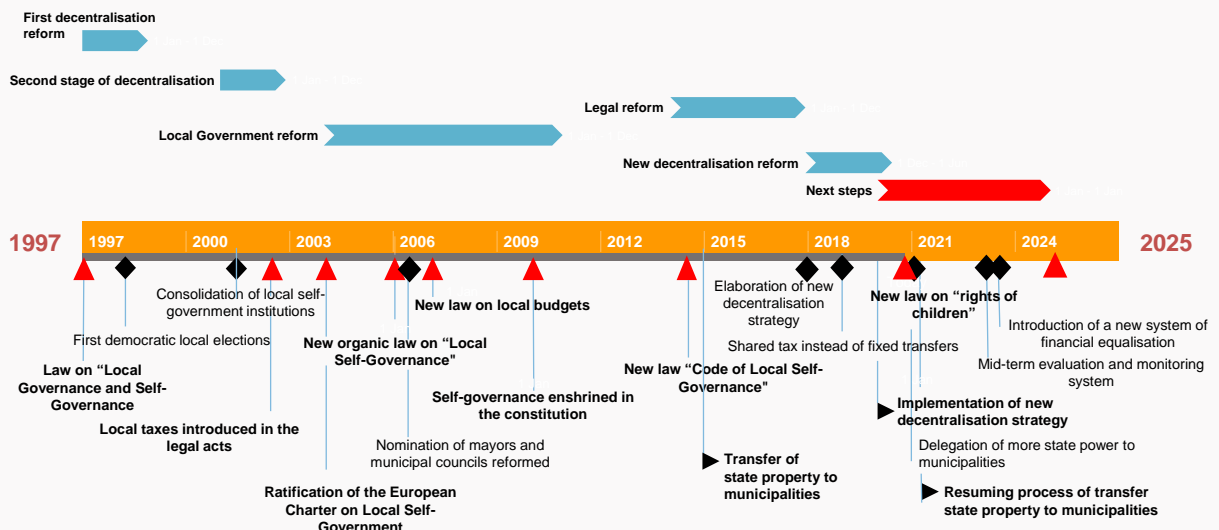


Figure 5 Timeline of decentralisation processes in Georgia



5. FISCAL DECENTRALISATION REFORMS IN GEORGIA, MOLDOVA AND UKRAINE

5.1 A brief thematic introduction

Decentralisation and local government reform hinge on the hypothesis that, given their better knowledge of the local needs and priorities, local governments can serve citizens more effectively and provide services more efficiently than any other (higher) level of government. However, for local governments to be able to deliver on such “promises” and improve quality of and access to services they need to be equipped with adequate financial resources. Also, to be able to respond the local needs and priorities for services with efficiency and effectiveness, local governments need to be able to use such resources in an ‘autonomous’ manner, that reflect what the local community needs. In short, fiscal decentralisation and local fiscal autonomy are fundamental ingredients for decentralisation and local public administration reforms.

The fiscal dimension is key to any decentralisation and local government reform process. Fiscal decentralisation implies the ability of local governments to benefit from sufficient and predictable resources to plan and manage the provision of local public services according to citizens’ preferences without continuous interference from higher authorities. It also implies that significant amounts of revenues are raised locally, meaning that within the overall taxes collected in the country, an ‘adequate’ amount is collected, retained and used locally. One of the underlying ideas is that if local governments raise substantial amounts of revenue from their own local areas, they are likely to be subjected to increased demands for downward accountability and for increased citizen participation in deciding how the resources will be used. From this perspective, fiscal decentralisation plays a key role in the overall success of local governance and local representative democracy also.

Fiscal decentralisation implies the ability of local governments to benefit from adequate financial resources to plan and manage the provision of services according to citizens’ preferences without continuous interference from higher authorities.

Nevertheless, finding the most ‘adequate’ bundle of sufficient and predictable resources to be transferred to the local level and the most adequate types of taxes and fees that can be assigned to the different levels of sub-national governments is not an easy task. It depends on a multitude of factors, which among others, include the country’s level of economic, political and institutional development, capacities, preferences, choices, conditions, traditions, economic patterns and most importantly time. These multitude of factors contribute to creating a very dynamic and country specific context for decentralisation and fiscal decentralisation reform which explains differences across countries as regards instruments and arrangements of fiscal decentralisation. There is no universal ‘model’ for setting up intergovernmental fiscal relations in a country. Each country has its own peculiarities and fiscal decentralisation reforms must reflect these peculiarities. What is critical is that the key features of such reforms can provide local governments with sufficient funds that are predictable over time and that local governments can utilise in a “flexible” manner most of these resources, without micro-management from higher levels of government.

5.2 Fiscal decentralisation reforms in Georgia, Moldova and Ukraine

Financial decentralisation is one of the three pillars of the new Decentralisation Strategy in Georgia, which aims at increasing budgets to no less than 7% of the GDP, as opposed to 5,8% of the GDP in 2018. The bulk of the increase should come from the newly introduced shared Value Added Tax (VAT) revenues, of which Georgian local governments receive 19% since January 2019. While very positive, due to the lack of an effective financial equalisation mechanism, this reform has had a major impact on larger municipalities and bigger cities. Additionally, local government own revenues remain very weak in Georgia, contributing to less than 10% of the overall local budgets, indicating the co-existence of weak local tax powers, underdeveloped local economies and therefore weak local tax basis.

Financial decentralisation remains at the core of the reform processes in Georgia and Ukraine, while in Moldova, despite some improvements, fiscal and financial decentralisation reforms have been stalling.

Financial decentralisation is a key component of decentralisation and local government reform in Ukraine too. Between 2014-2019, local budget revenues of all local governments have almost doubled. This comes as a direct result of the introduction of the shared Personal Income Tax (PIT) and the introduction of three new types of intergovernmental transfers (education, healthcare and equalisation subsidies). The PIT forms also the basis for the new fiscal equalisation system which has proved to provide a strong stimulus for expanding local tax bases and improving local revenue collections. Similarly, the rights of local governments to set tax rates and privileges on local taxes and fees have been expanded. However, ultimately, own local taxes and fees constitute only 13% of total local government revenues in Ukraine. The two most important sources of local own tax revenue include the

local property tax and the local unified tax (single tax), each of which makes up to half of total local own revenues.

Financial decentralisation reform mostly has been stalling in Moldova, in the same way as overall local government reform since 2016-2017. As of 2019, local government PIT revenue shares have doubled and the first-tier local governments started to receive also 10% of the Corporate Income Tax (CIT) revenues. However, local government own revenues constitute only 11% of total local government revenues in 2019, indicating both weak local tax powers, underdeveloped local economies and therefore weak local tax basis. In fact, the major local taxes in Moldova (the real estate tax and the land tax) continue to be limited by caps and ceilings imposed by the national level. The current government is also trying to impose significant constraints over local government taxes through the Fiscal Policy for 2021, although there is an explicit Constitutional Court decision in 2014 on the unconstitutionality of the ceilings upon local taxes.

5.3. Comparative overview of fiscal decentralisation in Georgia, Moldova and Ukraine and neighboring countries in South-East Europe

Georgia, Moldova and Ukraine, have a relatively small public sector with overall public revenues at 28-32% of the Gross Domestic Product (GDP). On the other hand, the size of the local and regional government sector varies significantly across the three countries, indicating significant differences in service responsibilities and level of development of fiscal decentralisation reforms. Ukrainian local and regional governments perform significant public functions and in fact, local government revenues constitute up to 43% of total public revenues in Ukraine. Similarly, in Moldova, local and regional governments account for

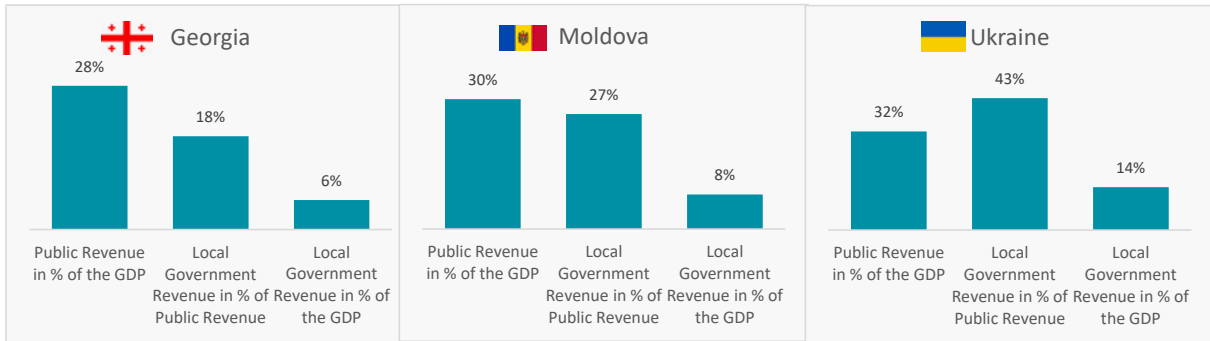
27% of the overall public revenues, while in Georgia, local governments are responsible for 18% of total public revenues.

From a regional comparative perspective, Georgia's, Moldova's and Ukraine's relatively

perform fewer public responsibilities than most of their counterparts in the WB6 and SEE (many of whom pay also teachers and doctors' salaries).

Figure 8 shows local government revenue

Figure 7 shows the total public revenues and local government revenues for Georgia, Moldova and Ukraine in 2019.



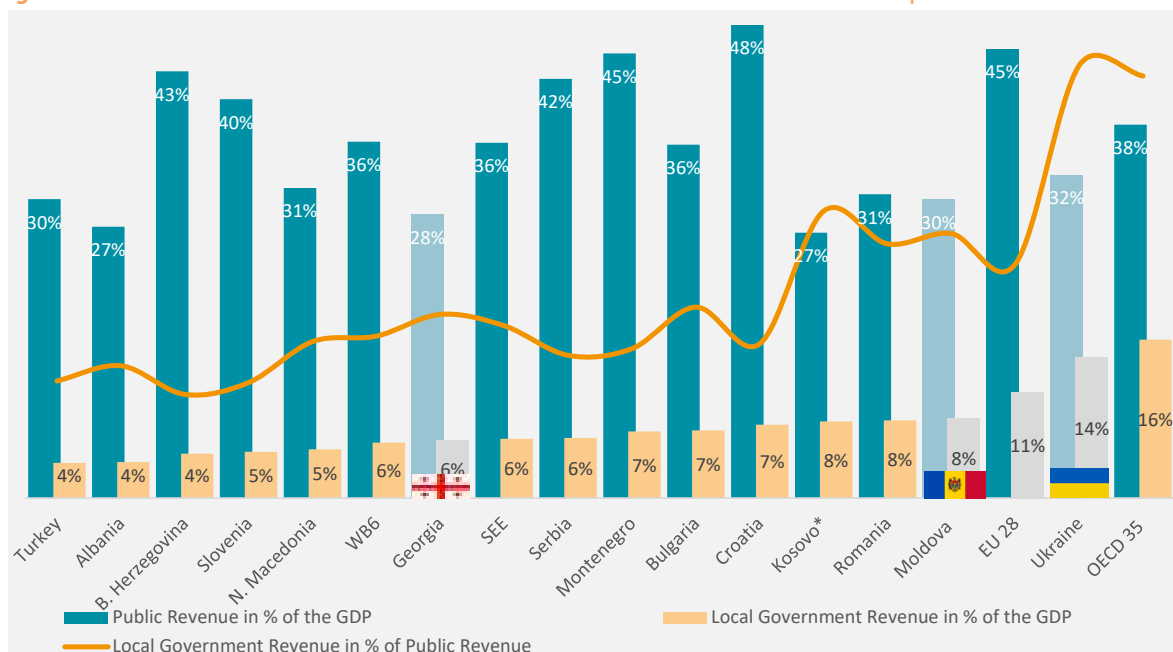
Source: Status Report for Georgia, Moldova and Ukraine; NALAS Statistical Brief: Local Government Finance Indicators in South-East Europe; Status report for Georgia, Ukraine.

Given their extensive service responsibilities, local governments in Moldova and Ukraine have exceptionally low per capita revenues compared to their counterparts in South and Eastern Europe SEE and the European Union.

small public sector is in line with most of their neighbouring countries in South-East Europe (SEE) and the Western Balkans (WB6). Also, Georgia's local government finance indicators are also similar to the WB6 and SEE averages, although Georgian local governments

and total public revenue indicators in Southern and Eastern Europe in 2019. Moldova's and Ukraine's local government finance indicators are significantly different from their neighbouring countries. At first sight, Moldova and Ukraine appear to be among the most fiscally decentralised countries in Europe, and perhaps even higher than the EU. However, it is important to clarify that Ukrainian and Moldovan local and regional governments have much more responsibilities than their counterparts in SEE and the EU, in particular in the social sector: education, social protection and healthcare. From this perspective, given their extensive responsibilities, Moldovan and Ukrainian LGs

Figure 8 Public Revenues and Local Government Revenues in South and Eastern Europe



Source: NALAS Statistical Brief: Local Government Finance Indicators in South-East Europe; Status report for Georgia, Ukraine

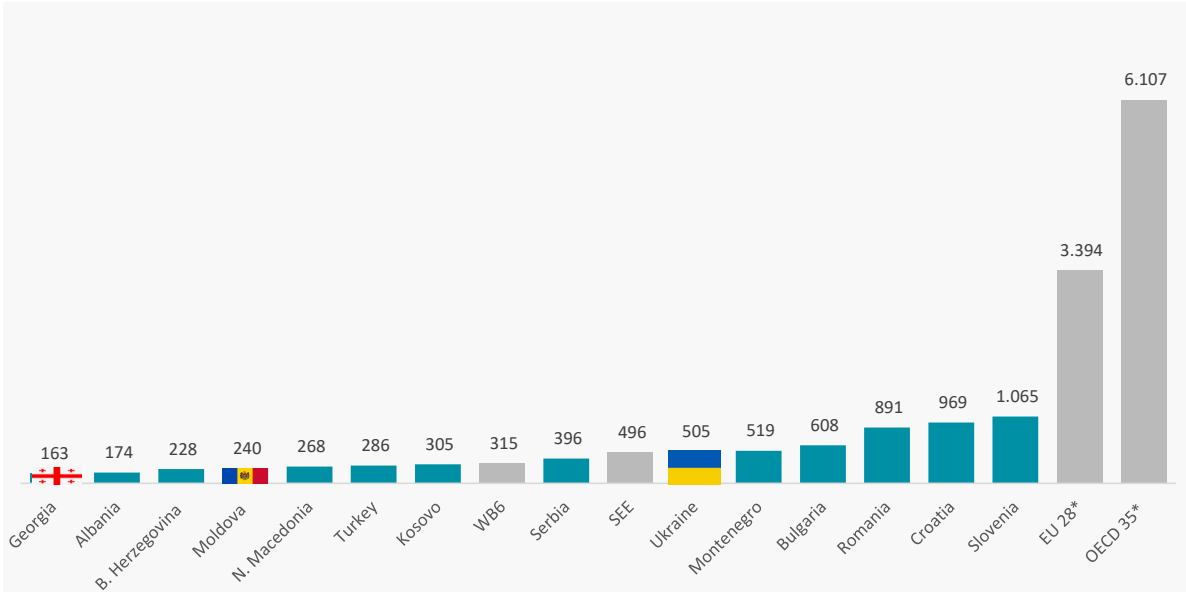
have very low per capita revenues compared to their counterparts in the SEE and EU.

Figure 9 shows the per capita revenues of local governments (in Euro), in Southern and Eastern Europe. LG per capita revenues in Euro in Moldova (240€) are 2 times less than its counterparts in SEE (496€) and 14 times less than the EU (c.3400€). Ukrainian LG per capita revenues (505€) – while at the same level with the SEE average are 7 times less than in the EU. Georgia has the lowest per capita revenues (160€) - 3 times lower than the SEE average and 21 times less than the EU. However, in this case, it should also be considered that Georgian municipalities have fewer social sector responsibilities than their counterparts in SEE and EU.

It is also important to clarify that between 80-90% of local government revenues in Georgia, Moldova and Ukraine come from intergovernmental transfers, including, where applicable, revenues from the shared Personal Income Tax, the General (Equalisation) Grant and the Sectoral Earmarked Grants. Earmarked sectoral grants make up 45-65% of overall local government finance in Ukraine and Moldova. This shows that local governments in these countries raise on their own only 10-20% of the funding they need to perform their service responsibilities. Figure 10 shows the composition of local government revenues in Southern and Eastern Europe. From a regional comparison perspective, Moldovan and Ukrainian local governments have the lowest share of own revenues to total local revenues. between 2-3 times smaller than the average share in the WB6 and SEE.

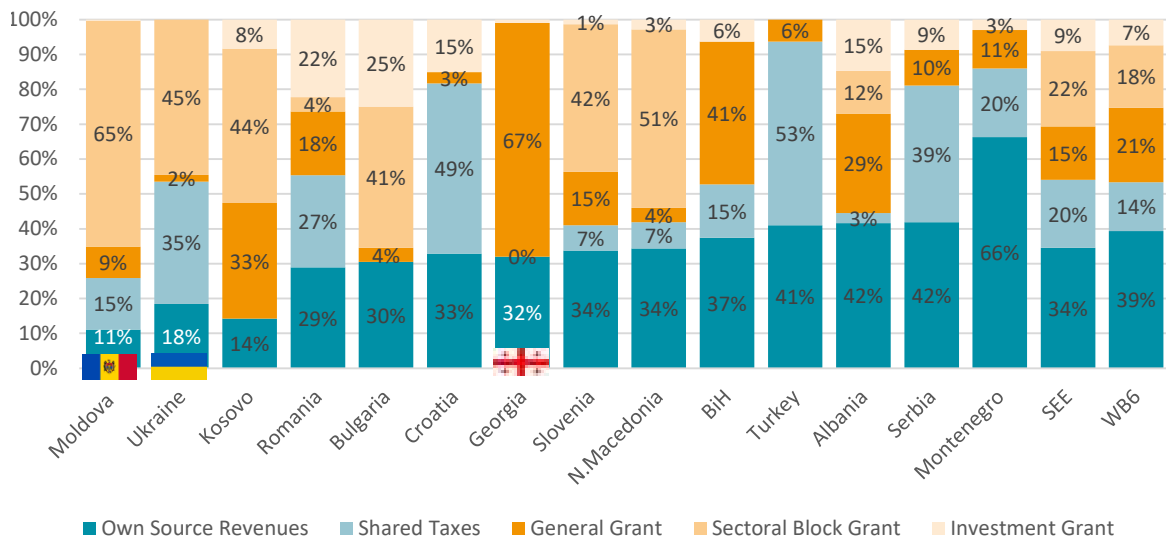
80-90% of local government revenues in Georgia, Moldova and Ukraine come from intergovernmental transfers.

Figure 9 LG Revenues in Southern and Eastern Europe, in Euro per capita, 2019



Source: NALAS Statistical Brief: Local Government Finance Indicators in South-East Europe; Status report for Georgia, Ukraine

Figure 10 The composition of local government revenues in Southern and Eastern Europe

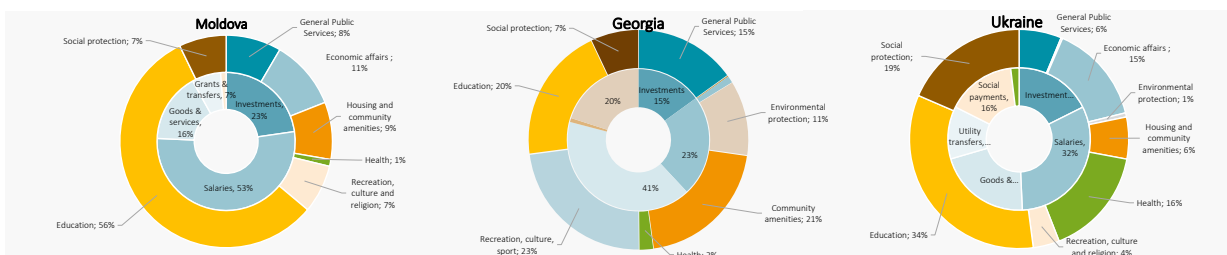


Source: NALAS Statistical Brief: Local Government Finance Indicators in South-East Europe; Status report for Georgia, Ukraine

Between Moldova and Ukraine there are significant commonalities but also differences as regards local service responsibilities and spending patterns. Figure 11 shows the composition of local government expenditures in Moldova and Ukraine. In both countries spending for salaries is the single most important category of local government spending, followed up either by spending for investment or for goods and services. Similarly, from a functional perspective,

spending for education is the single most important category of local expenditures, although Moldovan local governments spend almost two times more than Ukraine in the sector. On the other hand, Ukrainian local governments spend almost three times more than their Moldovan counterparts on social protection. Additionally, Ukrainian local governments spend also significant amounts healthcare.

Figure 11 The composition of local government expenditures in Georgia, Moldova and Ukraine, as % of total

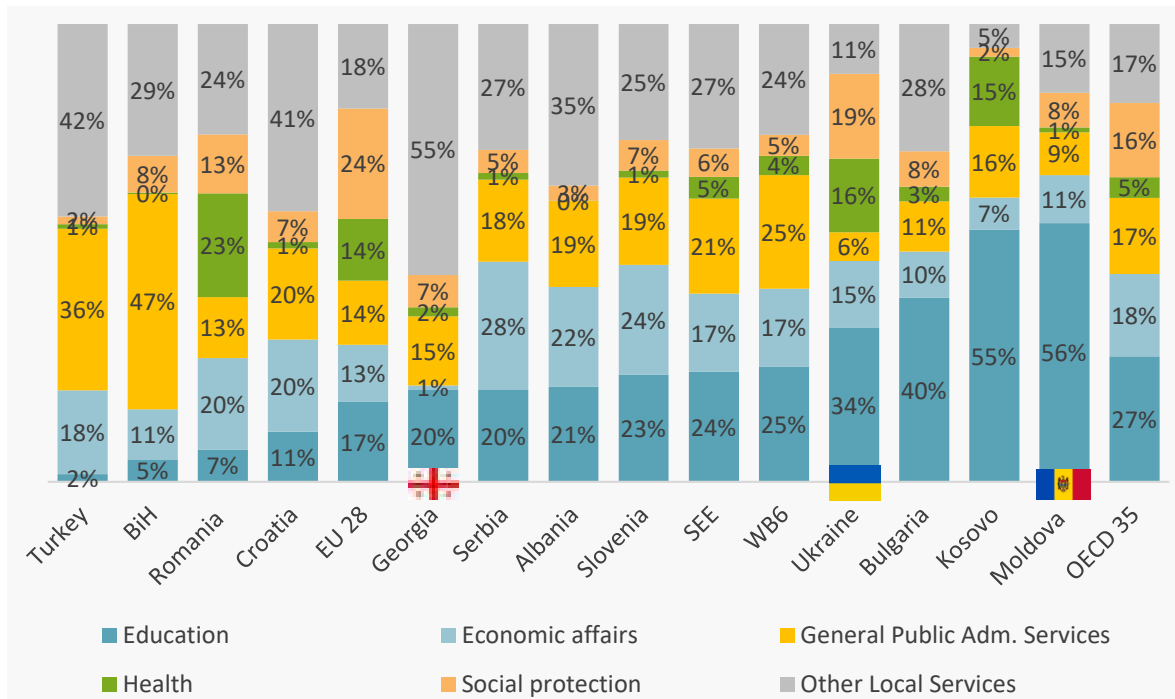


Source: Status reports for Georgia, Moldova and Ukraine, NALAS.

From a comparative perspective, Figure 12 shows that Moldovan and Ukrainian local governments spending in Education indicate that they have higher responsibilities than almost all their counterparts in Southern and Eastern Europe, including the EU28. For Ukrainian local governments this is the case

also for spending in healthcare and to a lesser extent on social protection. Similarly, differently from most of their counterparts in the region, Moldovan and Ukrainian local governments show a relatively low level on spending for the general local public administrative services.

Figure 12 Composition of local government spending in Southern and Eastern Europe



Source: NALAS Statistical Brief: Local Government Finance Indicators in South-East Europe; Status reports for Georgia, Ukraine

6. ASSESSING THE PROGRESS OF DECENTRALISATION AND LOCAL PUBLIC ADMINISTRATION REFORM IN GEORGIA AND MOLDOVA

The decentralisation and local public administration reforms are ongoing in Georgia, Moldova and Ukraine. In Georgia and Ukraine in particular there has been an outstanding progress over the past five years, while the situation in Moldova, is characterised by increased uncertainty. Assessing the progress of decentralisation is not an easy task given the multitude of elements that need to be considered altogether. To support this process, NALAS has developed the Regional Decentralisation Observatory (RDO) Index, which assesses the progress of a country in terms of decentralisation and local public administration reform. The added value of the RDO Index is that it allows for the simultaneous assessment of the multiple dimensions of decentralisation and local government reform. From this perspective, it is a useful tool to support the development of evidence-based policies and intergovernmental dialogue at national levels while learning from regional 'good practices'.

Overall, the progress of decentralisation is scored with 6.5 /out of 10 in Georgia, which is in line with the average assessment for South-East Europe, and 5.6 in Moldova, which is lower than the SEE

The RDO index is developed by NALAS, with the support of its 14 member associations (including CALM), the KDZ – Centre for Public Administration Research and the OSCE – Organisation for Security and Co-operation in Europe. The methodology is based on experts' opinions and empirical evidence for 100 indicators, which are aggregated into four main dimensions: a) local autonomy; b) quality of local services; c) citizens participation and government responsiveness; and d) intergovernmental

dialogue. The results for each indicator are shown in a scale from 1 to 10, where 1 is the least score and 10 is the highest possible score, delineating a very positive performance and progress.

The NALAS RDO assessment has been performed for Moldova and Georgia. The assessment for Moldova has been performed with the support of CALM and in the framework of the NALAS assessment for its members. The assessment for Georgia was performed in February 2020, with the support of PLATFORMA and NALAG – National Association of Local Authorities of Georgia, during the National Conference "Reinforcing dialogue on local government reform in Georgia: Achievements, Challenges and Opportunities", attended by mayors, municipal councillors, representatives of municipalities and central government, NALAG experts and partners, representatives of civil society organisations and donors active in Georgia. Unfortunately, the COVID-19 pandemic did not allow for the RDO assessment in Ukraine. The following analysis includes only the assessment results for Moldova and Georgia.

Figure 13 Overall score of the RDO Index assessment for Georgia, Moldova and SEE

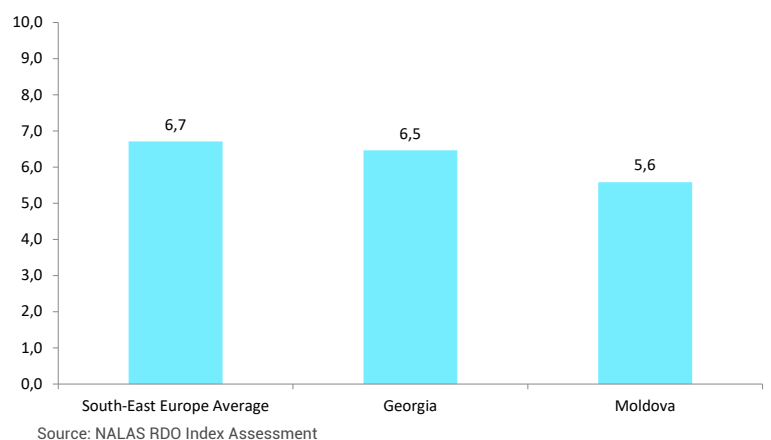


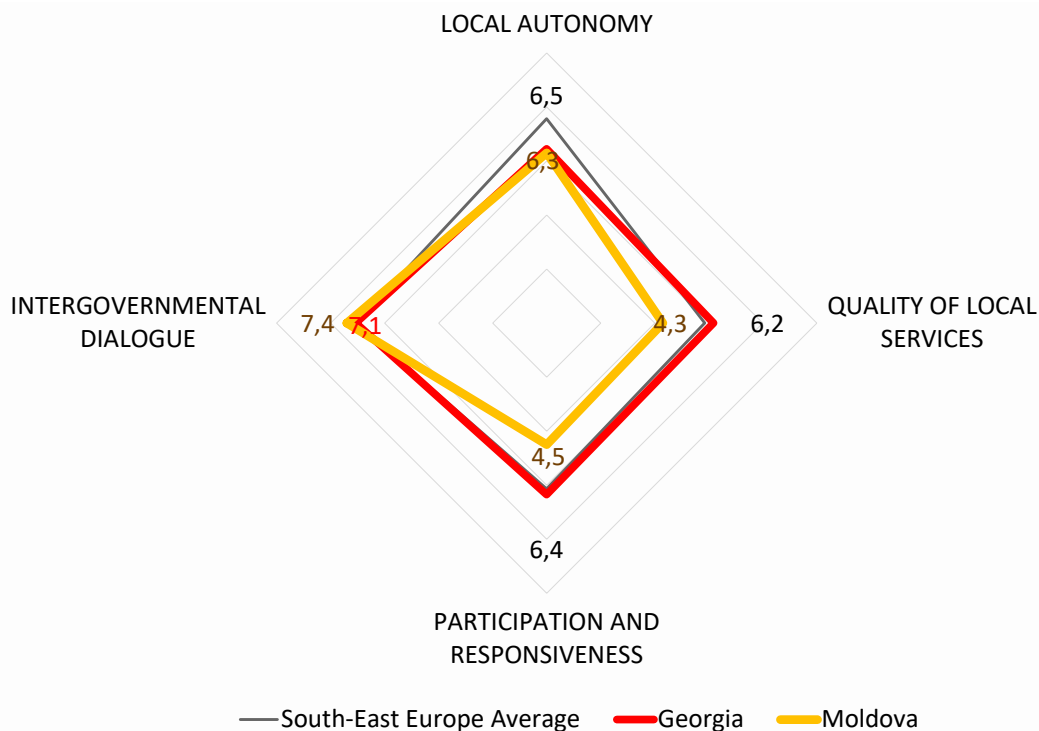
Figure 13 shows the overall score of the

RDO Index assessment for Georgia, Moldova and the average for SEE. Overall, the progress of decentralisation and local public administration reform is scored with 6.5 out of 10 in Georgia, which is in line with the average assessment for South-East Europe, and 5.6 in Moldova, which is lower than the SEE average. This indicates that additional efforts are needed in the entire region, and Moldova in particular, to further support the process of decentralisation and local public administration reform to fill in the gaps.

Figure 14 shows the overall scores across the four dimensions of the RDO Index for Georgia, Moldova and the average for South-East Europe. From this perspective, it shows

average of 6.2 out of 10. The key issues here include in particular the provision of basic services such as solid waste management, water supply and sanitation and public transportation, in which functions Moldova is considered to experience much more challenges. The lack of adequate funding and the unclear delineation of responsibilities across levels of government is one of the main factors affecting the delivery of local public services. The assessment is rather similar also as regards citizen participation and local government responsiveness. Moldova has the lowest score (4.5), while Georgia's scores (6.4) are at the same level as the other neighbouring countries in South-East Europe.

Figure 14 The results of the RDO Index across the



Source: NALAS RDO Index Assessment

from a thematical perspective where is the major progress and where are the major gaps that need to be filled in. As it can be noted, both Georgia and Moldova score less than the SEE average in terms of local autonomy, indicating that additional efforts are needed to consolidate local government political, administrative and financial autonomy from higher levels of government. Moldova has the lowest score (4.9 out of 10) as regards the quality of local public services, while Georgia's scores are closer to the SEE

According to the results, intergovernmental dialogue between and across levels of government in Moldova and Georgia, is assessed with a high score of 7.4 and 7.1, which is in line with the average estimation for South-East Europe. This indicates the very active and successful role played by CALM and NALAG in policy dialogue at national and international level. The RDO assesses

that both CALM and NALAG are very well positioned for intergovernmental dialogue vis-à-vis the national governments, they have an open and inclusive consultation with members and a good track record of impact of their proposals in the final policy making in their countries.

Overall, the RDO results for Georgia and Moldova indicate that both of them need to further step up efforts to strengthen the political, administrative and financial autonomy of local governments to reach

out their counterparts in South-East Europe. Similarly, in Moldova increased focus needs to be provided to the quality of services, fostering citizen participation and local government responsiveness. Of course, these imperatives are valid for Georgia and all the other Southern and Eastern European countries. The high scores on intergovernmental dialogue are very encouraging as dialogue and consultation is key to effective reforms, even in contexts where public finances are challenged.

7 CONCLUDING REMARKS AND RECOMMENDATIONS FOR NEXT STEPS FOR REFORMS

In general, the post-Soviet countries have experienced many challenges in their decentralisation processes, in which waves of decentralisation alternated with the opposite tendency to recentralize the governmental system and public administration. This is also reflected in the historical development of decentralisation and local government reform in the Ukraine, in Georgia and in Moldova. However, as highlighted in the respective country sections of this study, progress has been made in the development of decentralisation and local government reform, especially in the last decade, albeit to varying degrees.

Political instability up to massive political turmoil, especially in Moldova and the Ukraine, the lack of political commitment on the part of central governments, and the effects of global crises such as the financial crisis in 2008 and the current Covid-19 crisis that have particularly affected local governments have put additional pressure on the development of decentralisation and local government reform and are hindering successful implementation.

In Georgia, important achievements have been made in terms of financial decentralisation and the expansion of the powers of local government. However, additional steps are needed for an effective financial equalisation system to help reduce regional

In the case of **Georgia**, important achievement steps have been made in terms of financial decentralisation and the expansion of the powers of local government. For example, the introduction of a shared tax system based on the value-added tax has led to an increase in local finances and the alignment of local finances to economic growth. As for competences both the central government

has delegated additional competencies to local governments (investment work for the education sector, assessment of eligibility for social protection transfers, monitoring of the natural gas connection and noise regulation) and local governments have increased their own competences, e.g. in the areas of spatial planning, protection of the homeless, public-private partnerships or protection of children's rights, etc. In addition, based on Art. 16 of the Code of Local Self-Government, Georgian municipalities carry out voluntary tasks and have set up activities to support agricultural cooperatives, to promote local tourism and SMEs or to organise programs e.g. for the youth.

However, successful implementation of decentralisation and local government reform is still impaired by the lack of an effective system of financial equalisation that balance out regional disparities, by underdeveloped local economies which only provide limited tax revenues and by both the absence of adequate monitoring or evaluation strategies for the quality of local services and of citizen participation methods that guarantee engagement of a wide spectrum of local society in decision making in particular for remote rural areas. In addition, the exclusivity and completeness of municipal competences are still subject of discussion although local governments in Georgia have a wide range of responsibilities.

Thus, great expectations are placed on the implementation of the decentralisation strategy 2020-2025 which at the end of the day shall have equipped the Georgian municipalities with the relevant powers, financial resources and administrative capacities to play a leading role in the social and economic development of Georgian cities and communities. As a first important step in-depth analysis will be carried out to identify what additional competences need to be transferred to municipalities and

what additional financial resources can be assigned to municipal budgets.

In Ukraine, decentralisation and local government reform experienced a significant boost with the territorial and administrative reorganisation over the past 6 years. However, the degree of centralisation remains high and intertwined with a strong legacy from the past.

In the case of the **Ukraine** which established the constitutional framework of local self-government already in the late 1990s and has adopted since then a number of basic regulatory and legal documents that constitute the legislative and financial foundation for the daily work of local governments, the process of decentralisation and local government reform have got a significant boost with the administrative and territorial re-organisation that took place in the last 6 years and has led to a significant decrease of local governments. In 2019 more than 4,700 communities got voluntarily consolidated creating 980 new Amalgamated Territorial Communities (ATC). This was accompanied by a remarkable transfer of power and resources to these territorial communities which were thus given the opportunity to be placed on an equal footing with cities of oblast importance in terms of finances and jurisdiction. This devolution of power and responsibilities from the regional and state level to local governments went hand in hand with the improvement of the intergovernmental transfer system and the expansion of local government tax powers by introducing a stimulating system for fiscal equalisation across local governments based on the Personal Income Tax (PIT). As a result, local budget revenues from this tax have tripled from 2015 – 2019 after this system have been implemented.

Nonetheless, major challenges remain in the Ukraine as well, jeopardising the further development of effective decentralisation and the reform of local government. The degree of centralisation remains high, and recent tendencies toward the revival of

central executive bodies and centralised legal regulation of local affairs cannot be overlooked. All key issues of local government are regulated by law, while the Community Charter appears to play a purely decorative role. The formation of local councils depends heavily on political parties, and newly elected local council members and chairmen lack management experience. The new administrative territories also lack both a well-coordinated management system and a legal framework for exercising the new powers of local government bodies at the grassroots [community] and district levels. As a result of inadequate training systems due to missing experience and resources, many public servants at the local level are not able to perform their duties effectively. Local budgets cannot be strategically planned due to the constant changes in the local government's financial and tax base, and proper preparation of laws and government regulations is hindered by insufficient capacity of the respective actors at the national level. Last but not least, the lack of political will to push ahead with reforms and the slow progress of national legislative procedures are hampering further decentralisation development. To conclude, it seems that the Soviet model of administrative-territorial arrangement of the country, and the related model of regional policy and politics, inherited from the past, continue to influence the regional policy and self-government of Ukraine and are difficult to overcome.

However, positive prospects are the new administrative and territorial organisation that can serve as foundation for capable local governments and high-quality public services. Since the Ukrainian citizens increasingly perceive personal benefits of the reforms, in particular in terms of increased own financial resources, the public attitude towards reform processes have improved which facilitates further development steps. Already this year, the aforementioned criticised composition of the councils and their chairpersons will be renewed and the basic level of local self-administration will be expanded by obtaining new competencies. Effective future development projects/ programs will be ensured by the consolidated framework for international cooperation.

Moldova has taken important steps towards decentralisation and local government reforms, but implementation has been challenged by excessive centralisation, political instability and lack of political will. However, intergovernmental dialogue has improved, creating room for much needed improvements

In **Moldova**, the process of decentralisation and local government reform and the full and complete integration of the European concept of local autonomy and decentralisation into the national legal framework began with Moldova's independence in 1991. Since then, Moldova has taken a number of important steps towards decentralisation and local government reforms in conceptual, legal and judicial terms by anchoring local autonomy in the constitution and national legislation, transferring powers to the local level and by continuously, albeit modestly, increasing both local governments own revenues and shared taxes. After a period of political instability and massive public protests policies adopted over the past eight years, such as the National Decentralisation Strategy 2012-2018, the Road Map for the Implementation of Recommendation 322 of the Council of Europe's Congress of Local and Regional Authorities and the Strategy for Public Administration Reform, should have given new impetus to further decentralisation and local government reform. In 2017, however, the reform processes came to an abrupt halt when the then central government attempted to change the electoral system to gain more power. The immediate reaction of CALM and the backing from Moldova's international development partners helped prevent the revival of the authoritarian ruling in 2019.

Although the situation improved in the short term after the national elections in 2019 with the new government, which was very open to measures in the area of decentralisation, the process continues to be stuck, in part because there have been two recent changes of government. In addition to this political instability, Moldova faces other major challenges for further decentralisation

and local government reform. Of the many obstacles, the lack of political will and capacity at the central level is particularly noteworthy. The desire to "control" local affairs and politics as a mean to control national politics plays a key role and hinders the decentralisation of power and resources. Legal changes are repeatedly delayed and intergovernmental dialogue functions only partially and temporarily. Moreover, legislation in the area of local government is still partially contradictory. On the one hand, for example, a large number of local governments' competencies are still fragmented, limited or shared, such as water supply or economic development. On the other hand, local governments have no responsibilities at all in areas that are strongly linked to the local level and for which local governments are generally responsible elsewhere. And the large discrepancy between local tasks and local financial resources is still evident. Although local governments' share of PIT revenues has doubled since 2019 and first-tier local governments started to receive also 10% of the Corporate Income Tax (CIT), local finances are far from sufficient to ensure quality of services.

The Local Governments Associations - CALM in Moldova, NALAG in Georgia and AUC in Ukraine – are key players for decentralisation and local government reform in all three countries. Their role must be duly recognised and supported.

Nevertheless, the positive developments in Moldova give cause for optimism. The intergovernmental dialogue with CALM has improved again. The right to participate in weekly meetings of national government and to represent local governments is even a rather unique example of intergovernmental coordination arrangements. As a result of the measures taken by the Moldovan local governments to response to the Covid19 pandemic, both recognition and appreciation of the local governments by their citizens have increased. The shift of focus of international donors more towards the local level is also

of great importance. Last but not least, the DACIA model of local government reform emphasizing administrative decentralisation, inter-municipal cooperation and voluntary amalgamation, elaborated by CALM within a broad consultation process with its members, could contribute to substantial local government reform in Moldova.

The Local Governments Associations - CALM in Moldova, NALAG in Georgia and AUC in Ukraine – are key players for decentralisation and local government reform in all three countries. They not only represent the interests of their members but are also driving forces for further development and solid partners both in intergovernmental relations and for international donors. Therefore, their crucial role should be duly recognised. On central government level by better integrating them into national policies, ensuring that municipalities can support these policies and avoiding a priori negative impacts on the local level. With regard to international cooperation, a stronger collaboration with LGAs in particular for measures that affect the local level, already at the program development stage would ensure a better targeting to the needs of local governments.

In summary, and taking into account the

difficult circumstances in all three countries - unstable political situation, suboptimal political and institutional framework conditions and the long-term impact of the current Covid-19 pandemic that in particular challenges the local level - reform steps of recent years need to be taken along and the respective countries need to continue to push forward further development of decentralisation and local government reform in order to ensure both strong and sustainable democracy.

Hence, for **Georgia** this means to proceed with the recently started decentralisation process and local government reform and to introduce an effective equalisation system. This is also indicated by the results of the RDO assessment. In **Ukraine** more focus shall be put on clarifying the roles of government levels and improving local governments revenues. In **Moldova** the devolution of powers from higher levels of governments to local governments should be continued and local governments own revenue raising options need to be improved. Furthermore, and following Moldova's RDO assessment more focus should be put on the improvement of the quality of services and on strengthening citizens participation.

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The aim of this study is to provide an overview of the status and development of decentralisation and local public administration reform in Georgia, Moldova and Ukraine and support informing an open and inclusive intergovernmental dialogue and help build consensus on next steps for the decentralisation and local government reform in Georgia, Moldova and Ukraine.



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This publication was funded by:

The project is co-funded by the European Union



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development
and Cooperation SDC

