REBUILDING CITIES AND TERRITORIES OF UKRAINE: PRINCIPLES, CHALLENGES AND OPPORTUNITIES

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STRUCTURE OF PRESENTATION

CHALLENGES

CAPABILITIES & OPPORTUNITIES

PRINCIPLES
CHALLENGES

Underlying long-term weaknesses:
- Direct existential threat from neighbouring country
- Weak public institutions
- Corruption and oligarchism
- Long-term depopulation trends
- Large fragmented territory
- Erosion of natural capital

Losses due to the Large-scale War
- Territory
- Human capital
- Natural capital
- Economic assets
- Curtailed powers due to martial law
War started on 27 February 2014 with the occupation of Crimea

- Ukraine lost 7% of its sovereign territory
- 2.5 million citizens on occupied territories
- 1.35 million of IDPs

Source: State Statistics Service (SSS) of Ukraine
Ukraine lost 11.1 mln people in almost three decades
6.5 mln emigrated from Ukraine in 2022-2018

Source: MinRegion, SSS, Ukraine
LARGE-SCALE WAR

Territory

- 603,672 sq km
- 5.4% of Europe
- 25% of Ukraine was occupied by Russia in March 2022
- 54% of the occupied territories are now regained
- 139,000 sq km: area potentially contaminated by landmines = Greece

Source: MinRegion, SSS, Ukraine
THE WAR: HUMAN LOSSES

✓ 7 million registered refugees only in the EU
✓ 14,000: confirmed civilian deaths
✓ 372: confirmed children deaths
✓ 7,000: confirmed number of Ukrainian children deported to Russia – 51 returned
✓ 1.9 mln deported, including 307,000 children, according to Russian sources

Source: UN, September 2022
THE DAMAGES

Rapid Damage and Needs Assessment, based on WB’s methodology

- **127 bn USD**: cumulative damages
- **105 bn USD** needed in the next 36 months to address urgent needs
- **19 out of 35 airports destroyed**
- **Sea blockade**

Source: KSE, September 2022
THE COSTS
Of War

Budget
• Incomes 1.3 tn UAH
• Expenditures: 2.5 tn UAH
• Deficit: 1.3 tn UAH
• Deficit: 20% (vs 2.3%)
• 50% to be spent on military
• 5 million people lost their jobs

Reconstruction needs: 350 bn USD
Russian frozen assets in the EU:
300 bn +19 bn USD

Sources
• Domestic borrowings: 90 bn UAH
• External borrowings: 1.6 tn UAH
• Debt to GDP 100.1

IMF and EU monthly direct budget support of 1 bn USD (42 bn UAH)
US monthly direct budget support 1.5 bn USD (61 bn UAH)

Forecast:
GDP growth: 4.6%
Inflation: 30%
1 USD = 42 UAH

Relocation: 772 enterprises; 35,000 jobs
THE POWERS OF REGIONS AND CITIES

During Martial Law

Executive:
All oblast and rayon state administrations became military administrations to perform the functions of:
- Defence
- Law and order
- Safety and security of population
- Overall maintaining of wellbeing and livelihood

Self-government:
Mayors of cities leaders of hromadas and local councils continue to function. Military administration could be created when elected bodies are:
- self-dissolved
- Stopped performing their functions (council sessions are no longer happening)
- De facto non-execution of their authorities
- Termination of authorities according to the Law

After de-occupation: city/community is governed by military administration until Martial Law is terminated and new councils /mayors/ heads are elected
OPPORTUNITIES AND CAPABILITIES

Long-term and created through recent reforms

- Decentralisation
- Experience of reconstruction: Chernobyl
- Society pre-existing self-organisation
- Digitalisation
- Ukraine’s connectedness

Brought by the War

- Antifragility and resilience capabilities
- Society self-organisation reaching new records
- Cross-domain innovations, with military, security & humanitarian playing central role
- Re-imagining fundamentals of economy
- Re-shaping structure of national production
### What's the Difference?

| **Antifragility** | a property of systems in which they increase in capability to thrive as a result of stressors, shocks, volatility, noise, mistakes, faults, attacks, or failures |
| **Resilience** | the ability to recover from failure through 4 stages of resistance; recovery; renewal; and reorientation |
| **Robustness** | the ability to resist failure |
Share of Ukrainians supporting accession to the EU and NATO has grown consistently. Especially after the start of war in 2014 and its escalation in February 2022. Regional disparities in acceptance are substantially smaller.
Regional homogeneity in attitudes in 2022 is similar to the one in 1991.
DECENTRALISATION EFFECTS

• Decentralisation created strong foundation for resilience

• Reform was completed in 2020/21 despite pandemic

• In 2014-2019 LAs’ own incomes increased by UAH 200 billion (€6.1 billion): from ₴68.6 billion to ₴267 billion — mainly due to 60% of PIT given to local budgets

• Share of SNG (sub-national government) tax revenues in GDP increased to 6.5% (2017) and to 7.3% in 2021 — compared to UK 1.6%, Poland 4.3%, France 5.9%, Sweden 13.5% (OECD)

• Greater control over own incomes and expenditures, as well as savings (didn’t exist before)

• BUT capital spending of hromadas is only at 15%, while salary — at 70% (2020 average)

• No artificial “normatives” — LAs can plan their incomes and expenditures realistically

• Real stimuli for generating own income, even with reverse subsidy (kicks off at 1.1 of national average — 50% surplus to be sent back to state budget)
CHANGE OF RELATIONS BETWEEN CENTRAL AND LOCAL BUDGETS

Before reform

After reform: amalgamated communities
DECENTRALISATION REFORM IN UKRAINE

- Legal framework for cooperation among LAs
- Substantial increase of local income base + inter-budgetary transfers
- Significant increase in own authorities + increased delegated authorities fully financed via subventions
- Reduction in the number of NUTS-3 and NUTS-4 units
- Territorial-admin reform
- Decentralisation/deconcentration of powers
- Fiscal decentralisation
- Substantial increase of local income base + inter-budgetary transfers
REGIONAL AND LOCAL BUDGETS

ALL HAVE DIRECT RELATIONS WITH STATE BUDGET as of 2021

Regional (NUTS2)
- 24 oblast budgets, Republic of Crimea* budget, Kyiv city budget

Subregional (NUTS3)
- 119 (+17)** rayon budgets (district)

Municipal (NUTS3)
- 187 municipal budgets (cities of oblast significance)

Local (NUTS 4)
- 1,438 hromada budgets (+31)*** (community)

* Autonomous Republic of Crimea is under illegal occupation of Russia
** 17 rayons are located in Crimea, and on occupied territories of Donetsk and Lugansk oblasts
***31 communities are located on occupied territories of Donetsk and Lugansk oblasts
FINANCING OF STATE’S REGIONAL AND LOCAL DEVELOPMENT POLICY IN UKRAINE, 2014-2019

Funding from state budget increased by a factor of 41.5
₴ 0.5 billion
₴ 20.75 billion

Source: Ministry for Regional Development, Construction and Communal Housing

2020: TOTAL SUPPORT TO REGIONS AND TERRITORIES ₴ 101.9 BILLION
OWN INCOMES IN LOCAL BUDGETS, 2014-2018

<table>
<thead>
<tr>
<th>Year</th>
<th>Receiving basic subsidy</th>
<th>Sending reverse subsidy</th>
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<td>2018</td>
<td>16.7%</td>
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Equalising subsidies: donor and recipient local budgets (cities and communities) (2019)
LOCAL BUDGETS IN H1 2022

- Incomes increased by 11.8% to 173.8 bn UAH
- March-May 2022 increase by 1% to March-May 2021
- 14 oblasts saw increase and 9 decrease in incomes
  - Kherson by -35%
  - Kharkiv by -21.7%
  - city of Kyiv by -8.7%
  - Lviv by +29.2%

Sources:
- PIT increase by 12.7%, mostly due to payments to military/mobilised
- in some regions increase is as high as 50% (Transcarpathian and Zhytomyr)
- Other taxes decreased, i.e. 0% of fuel excise duty
- People and businesses continue paying taxes when can
CAPABILITIES: TOLOKA

• Sense of belonging enhanced dramatically

• The notion of “territories left behind” has in reality disappeared

• “No one left behind” is the reality principle

• People is the biggest investor in army; each bombing results in donations spike. E.g. 55 mln USD donated after country-wide air strikes on 10 October 2022
CAPABILITIES: REBUILDING

SLAVUTYCH, 1986

KYIV, 2022

FEBRUARY

NOVEMBER
CAPABILITIES: DIGITAL

Rapid assessment of damages: case of Kyiv oblast

**DIGITIZATION OF DESTRUCTION | Methodology**

1. Drone photography and orthophoto creation
   The use of drones allows the project team to collect detailed data on the destruction: to fly at low altitudes, and shoot buildings at different angles and from all sides. For localities where drone shooting is not possible, we use high-resolution satellite images.

2. Collection of photos and videos
   To ensure completeness of the input data, the project team captures photos and videos, as well as collects additional information from verified sources.

3. Destruction detection and data processing
   Based on orthophotos, GIS specialists digitize all buildings, identify destroyed objects, classify building types, and determine levels of destruction.

4. Publication of analytical reports
   Designers and content managers present the complete information in public infographic reports.

**LEVELS OF DESTRUCTION**

Buildings destroyed:

- **31,917 / 192,729**

Level of destruction, number of buildings:

- **15,836 (49.6%)** possible
- **8,093 (25.4%)** light
- **5,824 (17.6%)** moderate
- **2,254 (7.2%)** severe

**Analysis of damages in Kyiv district (work in progress)**

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Numbers:

- 5,250,336
- 291,794
- 243,476
- 179,398
- 157,880
CAPABILITIES: DIGITAL
RESPONSE

• The government response — economy and society in martial law; Reconstruction Plan presents principles and plans for reconstruction

• The corporate response — both SOE/SOB and private sector — amazing demonstration of solidarity

• Foundational economy is taking shape: basic infrastructure, utilities, goods and services

• What we are seeing: society innovations; technological innovations

• Some companies continue to invest

• Backline cities and communities attract relocated businesses and IDPs
• Objectives identified: Resilience; Recovery; Modernisation and Growth

• Principles:
  1) Start now, ramp-up gradually
  2) Grow prosperity in equitable way
  3) Integrated into EU
  4) Build back better (for the future)
  5) Enable private investment and entrepreneurship

• Implementation approach includes regional focus where “recovery projects to be localised in specific regions and supported by specific international partners”
PRINCIPLES

ENERGY INDEPENDENCE

TRANSPARENCY AND INTEGRITY

EQUITY

HUMAN CENTRICITY AND INCLUSION

SUBSIDIARITY

HARNESSING ANTIFRAGILITY CAPABILITIES & LEAPFROGGING

SUSTAINABILITY & CIRCULARITY
INSTRUMENTS

- Own budgetary resources
- Direct lending
- Capital markets, including new instruments such as social impact bonds, green bonds, sustainable/sustainability linked bonds
- Hybrid instruments aimed at derisking
- Crowdfunding and co-creation
THANK YOU

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