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UKRAINIAN MUNICIPALITIES IN 2025: KEY CHANGES IN LOCAL GOVERNANCE

Authors: Yuliya Markuts, Andrii Darkovich, Vladyslav Shymanskyi

Regional Policy: Key Changes of the 2025

Achieved Results

In December the Government of Ukraine updated the reform framework for local self-government by approving the *Specifics of Implementing the Concept of Reforming Local Self-Government and the Territorial Organisation of Power under Conditions of War and European Integration*. The document adapts the 2014 Concept to the realities of full-scale war and Ukraine's path toward EU membership, reaffirming decentralisation as one of the state's key policy priorities. This creates a political and methodological foundation for the next phase of the reform, including the preparation of legislative changes, strengthening the capacity of municipalities, and integrating decentralisation into the country's recovery process. For local self-government bodies, this provides continued political certainty and a clear signal that the institutional development of municipalities remains a core element of state policy rather than a temporary crisis-response measure.

In October the Verkhovna Rada adopted a resolution confirming the continuity of powers of local self-government bodies. Given that holding local elections in 2025 is not possible, this decision removed the risks of political uncertainty, internal speculation, and external information attacks regarding the legitimacy of local self-government bodies. This step is critically important for stability of governance, the adoption of budget decisions, and protection against both internal and external attempts to delegitimise local self-government.

In November Parliament adopted a law on oversight of the legality of decisions taken by local self-government bodies, following lengthy and complex discussions between central and local authorities. The compromise model – focusing oversight on delegated powers – made it possible to preserve the autonomy of municipalities while establishing a mechanism to prevent abuses. This decision allowed Ukraine to meet an overdue Ukraine Facility indicator and restore access to EUR 560 mln in macro-financial assistance.

In the 2026 State Budget, the Government retained a 64% share of personal income tax (PIT) for municipalities, confirming the stability of their revenue base even under wartime conditions. At the same time, the State Fund for Regional Development was reinstated in a reduced format, signalling a return to a more strategic approach in regional policy and public investment development, including the use of resources from international partners and Ukraine Facility. This provides local self-government bodies with a predictable revenue base and the ability to plan medium-term expenditures, including investments, despite the high uncertainty of the wartime period.

During the year, the Government introduced a unified system of functional territorial types, establishing indicators to be used to assign municipalities to them. This marks a shift toward a more targeted state policy, where support takes into account security conditions, demographic trends, and the economic potential of territories – following logic long applied in the EU. A practical outcome of this approach was large-scale financial support for municipalities affected by the war.

Parliament and the Government of Ukraine expanded the set of practical tools available to municipalities by adopting a series of laws on local democracy, simplified recovery procedures, and inter-municipal cooperation. These decisions enabled municipalities to engage residents more actively, carry out recovery works without excessive permits, use humanitarian transport for passenger services, and launch joint services with lower administrative costs. In addition, Parliament adopted a law on administrative fees for public services, moving this long-stalled issue forward. For municipalities this opens the possibility of more predictable financing for administrative service centres and related service infrastructure, which is essential for service quality during wartime and in the post-war period.

In August Ukraine took another step toward European standards in the management of municipal property by abolishing the Commercial Code of Ukraine. Despite concerns expressed by local self-government associations, the practical implementation of this change did not result in systemic legal conflicts, giving municipalities time and space to adapt to the new regulatory framework.

Key Challenges

In 2025 the Government of Ukraine did not move beyond policy intentions toward concrete, system-wide decisions on strengthening the financial base of municipalities. Key issues – such as the place of PIT payments, improvements in local tax administration, and the horizontal equalisation formula – remained at the discussion stage, with no registered legislative initiatives. At the same time, a clear delineation of powers was not proposed, despite fixed deadlines under the Ukraine Facility. For local self-government bodies, this means the persistence of structural fiscal imbalances and the postponement of decisions that directly affect the medium- and long-term financial sustainability of municipalities.

Changes in the Government in July led to a loss of institutional momentum in advancing legislation important for municipalities. The automatic withdrawal of government draft laws that had not passed first reading halted progress on a number of issues, including the renaming of municipalities and certain aspects of the administrative-territorial structure. For municipalities, this resulted not only in delays but also in the need to restart procedures from scratch, increasing transaction costs and reducing the predictability of the reform process.

The suspension of USAID programme funding in 2025 created a gap in external institutional support for local self-government. The pause of programmes such as DOBRE, HOVERLA, and SOERA reduced access to advisory and project-based assistance that is critical for addressing gaps in administrative capacity and strategic planning. For local self-government bodies, this increased pressure on their own resources at a time of complex reforms and continued wartime instability.

Next Steps

In 2026 it is important to move to a more substantive review of approaches to PIT and the administration of local taxes, considering both European practices and wartime realities. Paying PIT at the place of residence is a consistent European approach: people live in a municipality where they vote for local authorities, pay taxes to its budget, and use the services it provides – from early childhood education and public spaces to municipal utilities. At the same time, under current conditions of war and large-scale population displacement, such a shift could significantly affect frontline and de-occupied municipalities. Therefore, any changes require careful balancing and compensatory mechanisms. For local self-government bodies, this implies potential changes in financial incentives and revenue structures, which should be introduced thoughtfully, with due regard to security and socio-economic factors.

Updating the budget equalisation formula and reconsidering the reverse grant remain key tasks for the near term, given the war-driven changes in the country's economic geography. It is essential to account for the interests of municipalities that have lost taxpayers, production capacity, or experienced prolonged population outflows (particularly in frontline territories). If these approaches are translated into concrete decisions, municipalities will begin to feel changes in intergovernmental fiscal flows already in the medium term, directly affecting their ability to sustain basic public services.

State policy on frontline territories, recovery, and regional development instruments has the potential to be further strengthened through specific programmes and funds. The focus is to support frontline territories and special regimes, expansion of the State Fund for Regional Development and development of the Side-by-Side initiative. For local and regional authorities, this will mean new opportunities to access resources, but at the same time increased requirements for project capacity, quality of strategic planning, and readiness to work under more competitive selection rules.

In 2026 several indicators of the Ukraine Plan under the Ukraine Facility are envisaged that are directly or indirectly linked to regional policy:

- **Adoption and entry into force of framework and sectoral legislation on the delineation of powers between levels of government.** This legislative package, currently being developed by the parliamentary committee together with the Ministry for Development of Communities and Territories of Ukraine, is intended to establish a new architecture of competences across key public policy sectors and eliminate long-standing overlaps between local self-government bodies and state executive authorities. At the same time, the absence of even a framework draft law in the parliamentary agenda by the end of 2025 has raised concerns among the expert community. A particular challenge will be the adoption of sector-specific legislation and related amendments to budget legislation, which should ensure clearer allocation of powers between levels of government and between local self-government bodies and state executive authorities, primarily based on the principles of subsidiarity and decentralisation.
- **Institutionalisation of financial accountability and risk management at the local level (Q4 2026).** An indicator for the Q4 2026 is the introduction of formalised fiscal risk management at the municipal level. The Ukraine Facility provides for the entry into force of amendments to budget legislation that establish structured procedures for managing fiscal risks of local budgets and clearly define the roles of central and local authorities. These risks arise in situations where municipal revenues or expenditures may change significantly – for example, due to war, economic crises, natural disasters, liabilities of municipal enterprises, or underperformance of revenue plans even without force majeure. This regulatory framework is important for assessing potential impacts on local budget indicators and for ensuring that local councils' executive bodies take timely measures during budget execution to prevent and mitigate fiscal risks.

Security Situation in Municipalities: Status and Dynamics

In 2025 the consequences of military actions for Ukraine's local municipalities had a clear spatial pattern: the municipalities located closer to the front line suffered the greatest losses, where high-intensity attacks were combined with a significant number of casualties.[1]

In 2025 there were over 70,000 attacks on local municipalities and over 72,000 civilian and military casualties[2]. The hostilities directly affected **556 municipalities**, of which **293** suffered human casualties.

The highest concentration of victims was in Donetsk (~34,000) and Kherson (~27,000) oblasts. These two oblasts account for more than 84% of all recorded casualties. In the Donetsk oblasts, the key areas of damage were the Pokrovsk (~10,000 victims), Hrodivka (~5,400), Udachne (~3,000), Velyka-Novosilkivka (~2,600), and Illinivtsi (~2,300) municipalities. The Kherson municipality stands out with an extremely high number of victims – over 25,500 – and is the most affected municipality in Ukraine in terms of casualties.

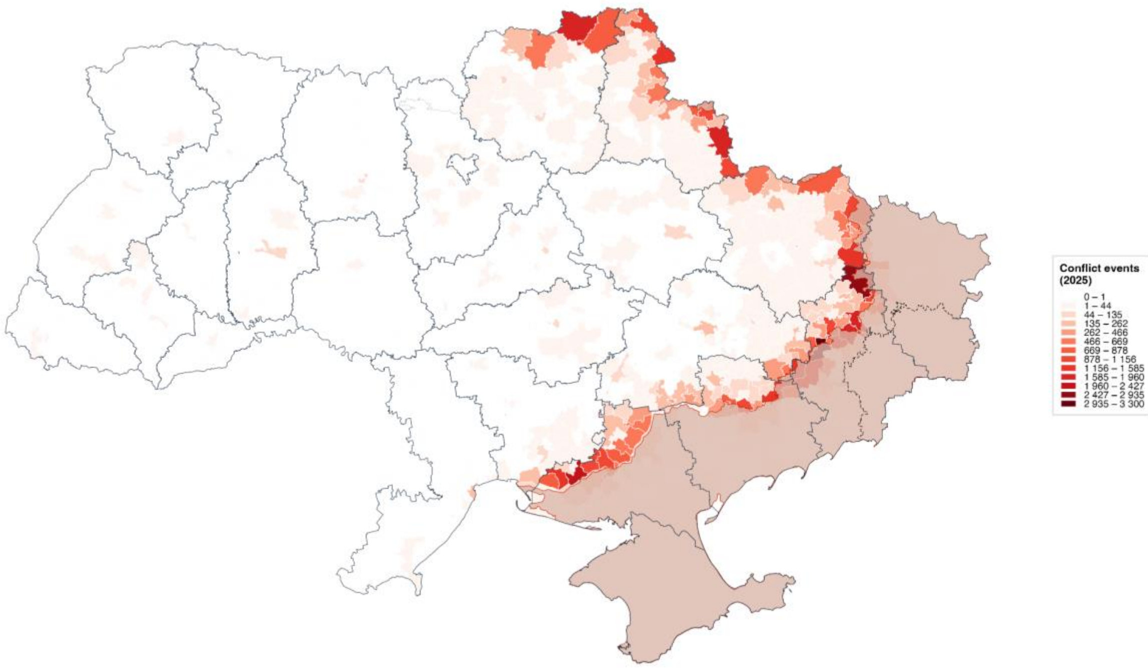
The northern oblasts (Sumy and Chernihiv) show a fundamentally different profile: despite the high intensity of attacks (~15,000 in total), the number of victims remains relatively low (~1,600). Municipalities such as Semenivska, Krasnopillia, Esman, and Seredyna-Buda were

[1] All calculations were performed by the KSE Institute based on ACLED data
[2] The report provides the number of victims according to ACLED data and methodology

under regular fire but losses were limited due to the lower population density.

Figure 1. Intensity of military actions in 2025

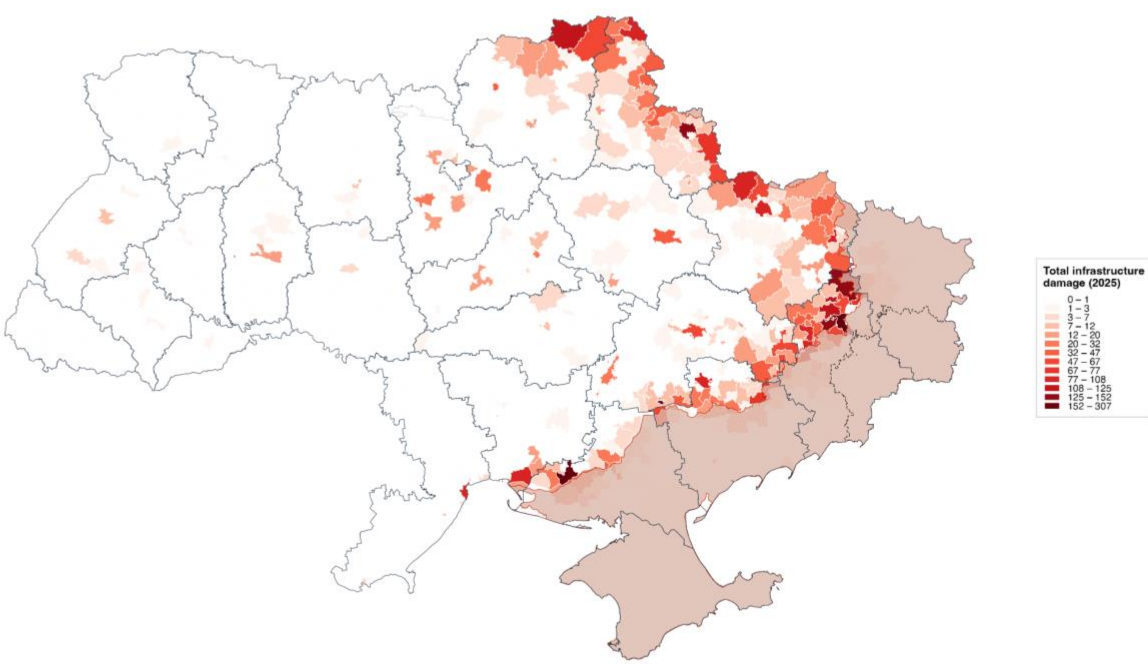
(interactive map)



Source: KSE calculations based on ACLED data

Figure 2. Damage to civilian infrastructure in 2025

(interactive map)



Source: KSE calculations based on ACLED data

In 2025 most of the infrastructure damage was concentrated near the front line, though some large cities also suffered significant infrastructure losses. This is the main difference from the destruction caused by military actions in frontline territories and systematic pressure on key urban and economic centres.

More than 5,900 cases of infrastructure damage were recorded in 378 municipalities. The most affected sectors were residential (~4,200), energy (~1,000), education (~420), and medical infrastructure (~290).

The greatest infrastructure losses were in the Donetsk region (~1,500 incidents of damage), primarily in the Kostiantynivka, Lyman, Pokrovsk, and Dobropillia municipalities. Kherson municipality leads in infrastructure losses among all municipalities (~307 cases). Here, due to regular strikes, the damage was accumulated significantly.

Significant infrastructure losses were suffered by rear strategic centres: Nikopol (~301), Odesa (~103), Kharkiv (~102), Zaporizhzhia (~98), and Dnipro (~58) municipalities.

Despite numerous attacks, northern border municipalities lost relatively less infrastructure than Donetsk and Kherson regions.

Military Administrations in the Local Self-Government System

Martial law has profoundly reshaped Ukraine's governance framework. During martial law, it is impossible to amend the Constitution, hold elections, national and local referendums, or hold strikes, mass gatherings, and rallies. Temporary state bodies (Military Administrations) are created to ensure the **effective exercise of the powers granted and to repel the enemy**. They are formed at the *regional* and *district level* in all regions and districts of Ukraine based on the previous civilian vertical of state power at the local level (Oblast and Rayon State Administrations) with the same Heads appointed by the President. **At the municipality level, local military administrations (LMA) – which are formed from personnel of military, law enforcement agencies, civil defence services, and civil workers** – can take the place of local self-government bodies according to current legislation. In other words, unlike *district* and *regional* administrations, the current heads of municipalities did not automatically become heads of LMA; they can, however, be appointed by the President.

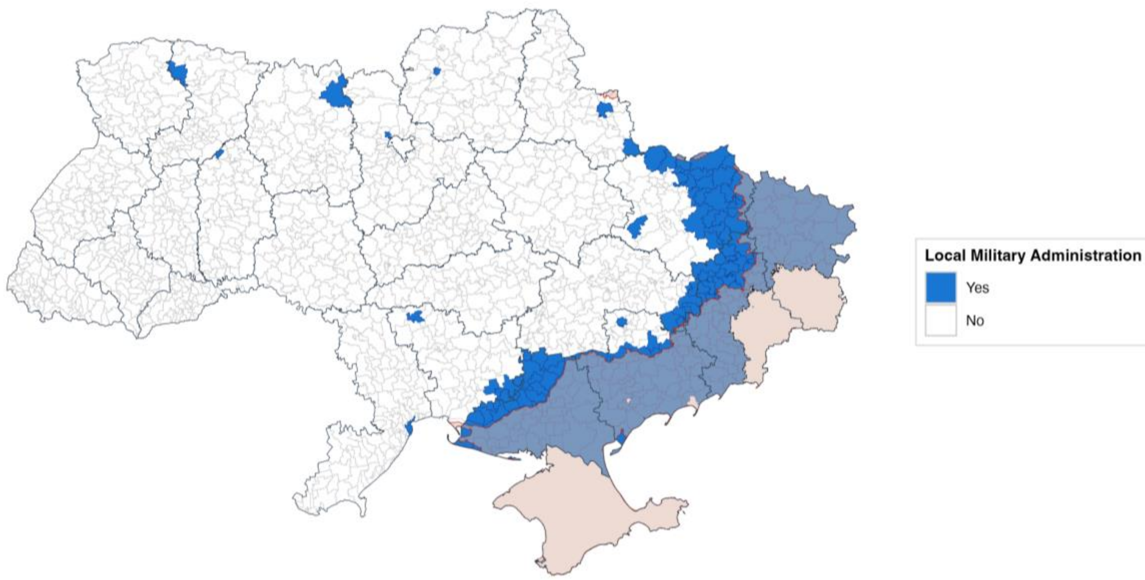
As of the end of December 2025 there are 214 military administrations (MA) operating in municipalities in Ukraine, compared to 184 at the beginning of 2024. This reflects the continued institutional adaptation of the local government system to the conditions of protracted war. They are predominantly located in Zaporizhzhia (48), Kherson (49), Donetsk (47), Luhansk (26) and Kharkiv (27) regions, reflecting a natural attachment to areas of active combat, occupation or increased security risks, forming a specific geography of temporary administrative decisions. In these regions, problems most often arise with the quorum of local council deputies and the possibility of the safe functioning of local self-government bodies.

At the same time, MAs have also been established in a number of municipalities that do not formally belong to the frontline territories but have critically important infrastructure of national significance, primarily nuclear power plants. These are municipalities in which the Rivne Nuclear Power Plant (Varash municipality), the Khmelnytskyi Nuclear Power Plant (Netishyn municipality) and the South Ukraine Nuclear Power Plant (Yuzhnoukrainsk municipality) are located. Thus, the criterion for establishing MAs is not only a direct military threat to the territory, but also the need to ensure the security of strategic facilities.

In October 2025 a city military administration (CMA) was established in Odesa. Under martial law, it took over the executive functions of the city administration and was primarily responsible for defence, security and coordination of the city's life support systems. At the same time, the CMA **did not receive the expanded powers provided for in Article 10** of the Law of Ukraine "On the Legal Regime of Martial Law," and the **Odesa City Council was not dissolved**. This preserves the representative and regulatory powers of the local self-government bodies, in particular the approval of the local budget and amendments thereto, the adoption of regulatory decisions by the council, and the determination of policy on the management of municipality property. A similar model is already in use in 17 other municipalities and provides for the integration of the military administration into the existing management system, rather than its complete replacement.

Figure 3. Local military administrations in Ukrainian municipalities*

[interactive map]



**as of the end of December 2025*

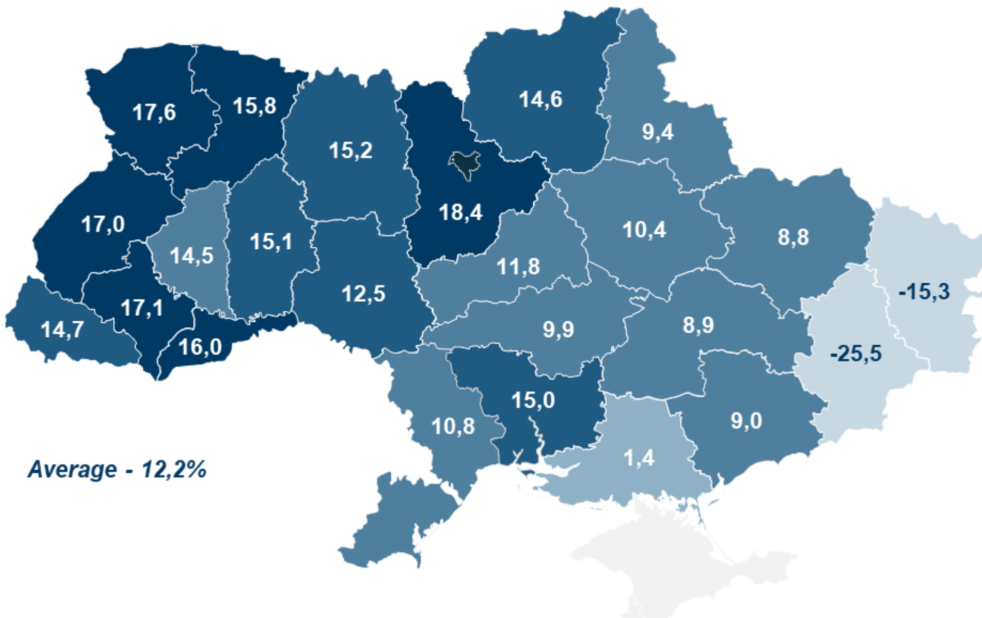
Source: KSE Institute data

In December 2025 the government established six city and town military administrations, and the President appointed their heads. The heads of these military administrations are the current city or town mayors elected in the 2020 local elections. Such a model allows for continuity of governance at the community level, maintaining trust in local authorities and relying on the experience of current leaders during the transition to a special regime of governance under martial law. Five of these administrations were formed in the Synelnykivskyi district of the Dnipropetrovsk region – in the Velykomykhailivska, Malomykhailivska, Mezhivska, Pokrovska and Slovianska municipalities. In the Donetsk region, the Mariupol local military administration was formed. All these communities are located in areas where the front line may potentially approach or are already under occupation. In municipalities that are temporarily occupied, local military administrations are responsible for preserving the legal continuity of local self-government, representing the municipality in relations with central authorities, managing relocated administrative functions and assets, coordinating humanitarian assistance, and preparing the institutional groundwork for the restoration of governance once territorial control is regained. According to previous KSE research, such appointments are typical, as about 30% of city military administration heads previously held the position of head of the respective municipality, while about 60% of those appointed had previous experience in local government as mayors, their deputies or heads of executive bodies.

Financial Position of Municipalities 2025: Trends

In 2025[3] revenues of the general fund of local budgets (excluding intergovernmental transfers) increased by 12.2% and reached $7.02 bn, exceeding the annual inflation rate of 10,9%.[4] Revenue growth above the national average was recorded in 13 oblasts.

Figure 4. Growth rate of actual general fund revenues (excluding transfers) in 2025 compared to 2024, %



Source: [OpenBudget]()

PIT remains the main source of revenues for local budgets. Under the Budget Code of Ukraine, 60% of PIT is credited to municipal budgets; during martial law, this share is temporarily increased to 64%. **In 2025 PIT accounted for 56.3% of general fund revenues (excluding transfers), amounting to $3.95 bn** (+12.7% y-o-y). Revenue growth was driven primarily by an increase in average wages by 16.8%. According to [work.ua]() data, the average monthly wage increased from $539.7 in January to $630.8 in October, exceeding the wage level projected during budget preparation ($585). [The National Bank of Ukraine]() notes that, while the security situation continues to constrain business activity and labour market mobility, wage growth in the private sector remains strong. This has expanded the tax base for PIT and the military levy. At the same time, [research]() confirms persistent labour shortages faced by businesses.

The second largest revenue source is the single tax[5], which accounted for 17.7% of general fund revenues. In 2025 single tax revenues increased by 7.9% compared to 2024. This growth was partly driven by an increase in the number of registered entrepreneurs. According to [YouControl.Market](), 77.4 thousand new individual entrepreneurs were registered in Q3 2025 – the highest quarterly figure in the past two years – while 52.2 thousand ceased operations (0.4% less than in Q2). Thus, for every 100 new registrations, there were 67 closures, resulting in a significant net increase in entrepreneurs. At the same time, ongoing discussions related to Ukraine's cooperation programme with the IMF – in particular, the proposal to introduce mandatory VAT registration for individual entrepreneurs with annual turnover exceeding $23.99

[3] Data for the 10 months of 2025 compared to the same period last year
[4] October 2025 to October 2024
[5] Simplified taxation regime for individual entrepreneurs, with 100% of proceeds retained by municipalities

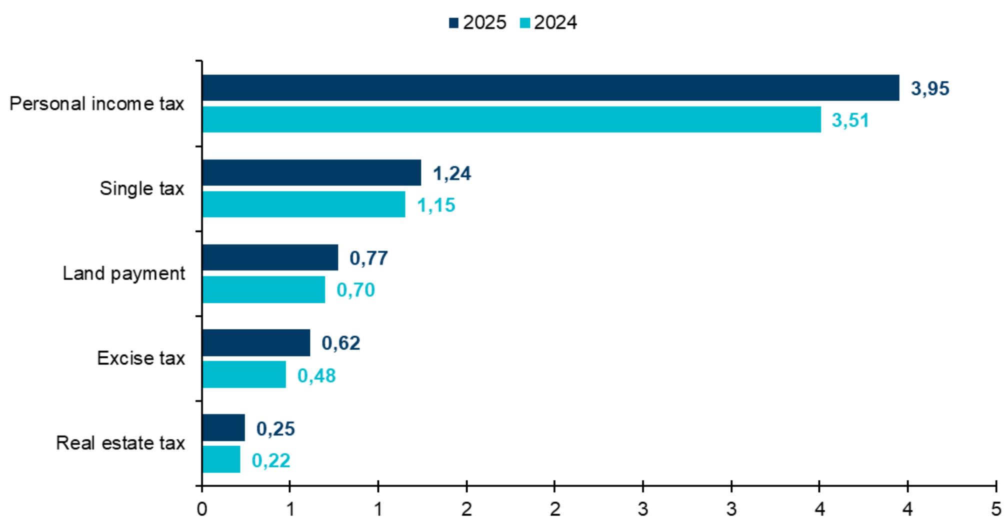
thousands starting in 2027 – create potential risks of increased business closures and, consequently, lower future revenues for municipal budgets.

Land payment revenues (a mandatory component of the property tax, including land tax and lease payments for state and municipal land) **amounted to $0.8 bn, representing a 10.2% increase compared to 2024.** This growth was driven by a 12% increase in the indexation coefficient of normative land valuation and by the revitalisation of land lease auctions for state and municipal land.

Revenues from the real estate tax (also part of the property tax) **increased by 13% y-o-y to $0.3 bn.** This growth reflects an increase in the minimum wage, which as of 1 January 2025[6] was 8.5% higher than a year earlier. In addition, households paid the tax for 2024, a year in which the minimum wage hadn't increased compared to 2023.

Excise tax revenues (on fuel, alcohol, and tobacco) **reached $0.6 bn, representing an increase of 29.2% compared to 2024.** This growth was driven by overall inflation and higher excise tax rates. In addition, excise tax administration was improved: electronic excise stamps were introduced in pilot mode starting in March 2025 and will become mandatory in 2026.

Figure 5. Revenues from main taxes to the general fund of local budgets in 2024–2025, $ bn



Source: OpenBudget

In 2025 intergovernmental transfers from the state budget to local budgets increased by 3% compared to the same period in 2024, while the basic grant increased by 5.2%. At the same time additional grants allocated to municipalities affected by the full-scale armed aggression of the Russian Federation decreased by 31.7% over the 10 months of the year. The additional grant is designed to mitigate fiscal disparities between municipalities, ensure stable salary payments in the public sector, and compensate for revenue losses caused by the war. Its distribution is carried out quarterly based on actual revenue losses (PIT, property tax, and single tax).

Total expenditures of municipalities increased by 13.9%, amounting to $10.14 bn. Expenditures of the general fund increased by 13.2%, while expenditures of the special fund grew by 17.5%. In 2025 the main expenditure priorities were:

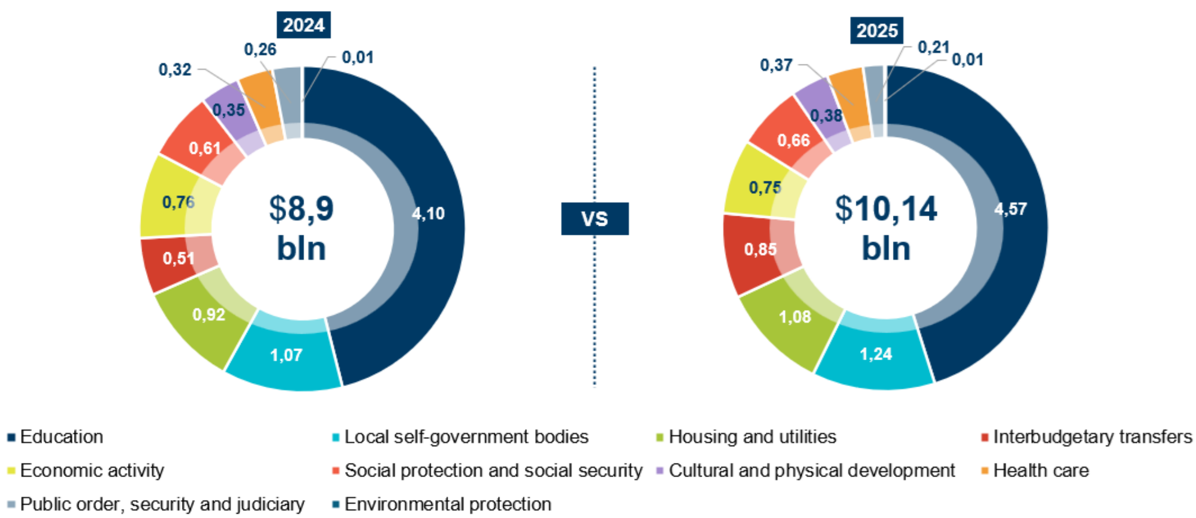
- financing of budgetary institutions: 59% (education: 45.1%, healthcare: 3.6%, social

[6] Used for calculating tax liabilities of legal entities

protection and social security: 6.5%, culture, sports, and physical development: 3.8%),
- local self-government bodies: 12.2%,
- housing and communal services: 10.7%,
- economic activities: 7.4%,
- intergovernmental transfers: 8.4% (+68.4% y-o-y), reflecting the resumption of reverse grant payments from local budgets to the state budget in 2025 and increased municipal spending to support the Armed Forces of Ukraine.

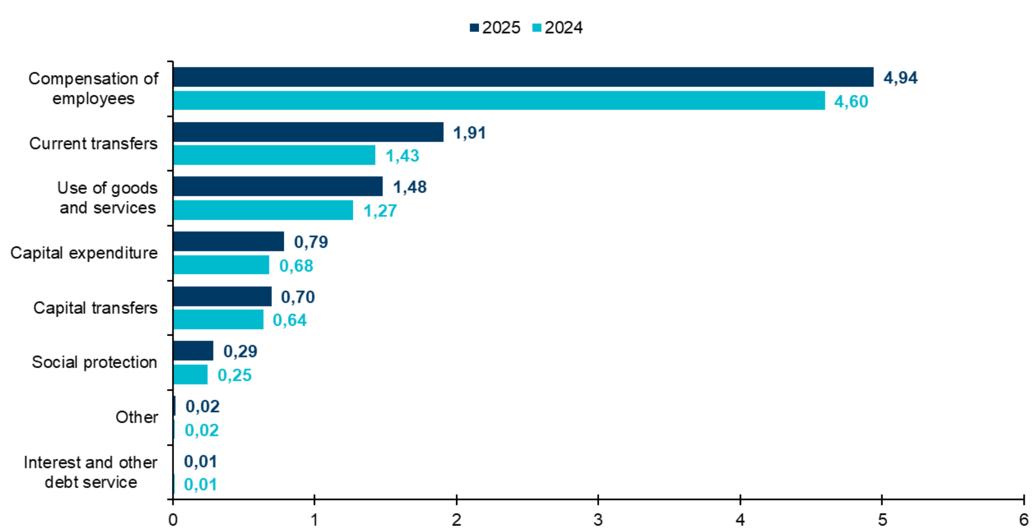
Current expenditures account for 85.4% of total local budget spending, amounting to $8.6 bn (+14.2% y-o-y). Capital expenditures accounted for the remaining 14.6%. Over the first ten months of 2025, municipalities financed $1.5 bn in capital expenditures, +12.3% y-o-y.

Figure 6. Structure of municipalities' budgets expenditures by sector, January–October 2024–2025, $ bn



Source: OpenBudget

Figure 7. Municipalities' budgets expenditures by economic classification, January–October 2024–2025, $ bn



Source: OpenBudget

Public Investment Management: Progress, Challenges, and Early Outcomes

For municipalities 2025 became a year of simultaneous implementation of two systemic changes: the return to medium-term budget planning and the launch of the public investment management (PIM) reform. The pilot nature of the reform, tight timelines, and delays in the adoption of secondary legislation by central authorities created significant uncertainty regarding practical implementation at the local level. At the same time, the reform highlighted the importance of the quality of municipal strategic planning, which is intended to serve as the foundation for investment decisions under the new PIM framework.

By the end of 2025 most municipalities were formally integrated into the PIM system. During the year, **22 regional development strategies** were updated, and approximately **95% of municipalities** completed or nearly completed their local development strategies in line with national policy. According to the Ministry for Development of Communities and Territories of Ukraine, local investment councils were established in **1,146 municipalities; 975 municipalities** developed medium-term public investment plans; **487 municipalities** are at the stage of expert appraisal; and **401 unified project portfolios** of municipalities and regions have already been approved. Overall, around **80% of municipalities** are involved in the new public investment management system.

The main challenges in implementing the PIM reform at the municipal level include:

- difficulties in determining ceilings for public investment volumes and their financing sources, particularly regarding state budget funding and international assistance; limited understanding among local finance officials of the methodology for defining “forecast amounts” from sources other than the local budget;
- practical inconsistency of the Budget Code requirement to allocate at least 70% of investment resources to “ongoing” projects during the first year of system implementation;
- inability to amend medium-term public investment plans once approved during the budget year;
- rigid expenditure ceilings that limit reallocations between priority areas;
- absence of a unified methodology for project prioritisation, which complicates budget planning;
- uncertainty regarding the classification of certain capital expenditures as public investments, particularly in the context of recovery and reconstruction;
- institutional and human capital capacity constraints in small municipalities, including the absence of development strategies and designated PIM coordinators;
- lack of practical expertise in preparing and assessing preliminary feasibility studies;
- insufficient involvement of main spending units and project initiators in the DREAM system (Digital Restoration Ecosystem for Accountable Management).

Excessive concentration of public investment management functions on a single official in municipalities with limited staff capacity and/or executive structures where most local and state policies are executed by one main budget holder (the executive committee).

The government together with the expert community is working to address these challenges in a systematic manner. A number of draft regulatory acts aimed at clarifying procedures and resolving practical implementation issues are currently under consideration. This is critically important as the public investment management reform is not only a tool for improving the efficiency of current investment decisions but also a foundation for strengthening institutional capacity for high-quality strategic planning of capital expenditures. Such capacity will be essential in the medium term, particularly in the context of Ukraine’s EU accession process and future access to EU structural funds and other European Union financial instruments.