

*Olga Mrinska*

Policy consultant at European Bank for Reconstruction and Development. Home address: St. The Moors 2, Welwyn Garden City, Hertfordshire, AL71QR, UK, [omrinska@gmail.com](mailto:omrinska@gmail.com)

## **GOVERNANCE RESPONSES TO THE ECONOMIC CRISIS. THE CASE OF KYIV**

**Abstract:** This paper analyses the shifts in the system of governance of Kyiv in 2008–2014 as a crucial element of the resilience capacity of the region. The consequences of the economic crisis and the ongoing security crisis demand new approaches and solutions from the city's leadership and community. For years Kyiv suffered from poor municipal leadership and unprecedented control by the central government, which undermined the resilience of its socio-economic system in the aftermath of the global economic crisis. However, new forms of community initiatives that bring together private and non-governmental actors are becoming widespread, and are becoming critical knowledge networks that are essential for successful long-term development. Changing institutional frameworks, and the firm commitment to decentralisation proclaimed by the country's current leadership, open new avenues for harnessing the city's potential. The challenge is in finding ways for constructive collaboration between formal and informal leaders of the city while building a new base for sustainable and competitive economic growth.

**Key words:** Kyiv, governance, economic crisis, decentralisation, resilience, community initiatives.

## **ZARZĄDZANIE W OKRESIE KRYZYSU GOSPODARCZEGO. PRZYKŁAD KIJOWA**

**Streszczenie:** Artykuł analizuje zmiany w systemie zarządzania Kijowem w latach 2008–2014. Konsekwencje kryzysu gospodarczego i bieżący kryzys we wschodniej Ukrainie wymagają nowego podejścia i nowych rozwiązań w dziedzinie przywództwa i zarządzania lokalną społecznością. Przez wiele lat słabość lokalnych władz w Kijowie w połączeniu z niezwykle silną kontrolą rządu centralnego uniemożliwiła wykształcenie przez gospodarkę miasta odporności na negatywne zjawiska związane z globalnym kryzysem gospodarczym. Nie przeszkodziło to jednak w upowszechnieniu się nowych form inicjatyw społecznych, które łączą podmioty prywatne i pozarządowe. Obrany przez władze krajowe na Ukrainie kierunek rozwoju zakładający decentralizację państwa tworzy nowe możliwości wykorzystania społecznego potencjału miasta. Wyzwaniem jest znalezienie sposobu na konstruktywną współpracę między formalnymi i nieformalnymi liderami, która powinna stworzyć podstawę trwałego i konkurencyjnego wzrostu gospodarczego.

**Słowa kluczowe:** Kijów, zarządzanie, kryzys gospodarczy, decentralizacja, rezyliencja, inicjatywy oddolne.

## Introduction

At the beginning of 2015 Ukraine once again is going through dramatic economic crisis, which could be compared to the demise of the Soviet economy at the beginning of 1990s, when Ukraine lost more than 60% of its GDP. The depth of economic decline faced by Ukraine is one of the greatest in Europe. While other transition economies in Central and Eastern Europe have coped with the decline, and restored and often significantly exceeded the levels of their economic development (Gorzalak, Goh and Fazekas, 2012), as of 2014 Ukraine has reached only 64% of 1990 GDP level (estimations). Given the current rate of decline (for 2014, the GDP drop is estimated at around 6%, while for 2015 the negative forecast is between 5.5 and 11.9%), it might take two more decades to catch up with the pre-independence GDP level, and even longer to overtake it. There is evidence from multiple countries that have gone through financial and political crises, or both, that the majority of national output is not recuperated, even in the long-term (see for example Cerra and Saxena, 2008). Without political will, policy platforms, and governance structures conducive to a fundamental reconfiguration of the economic model, and a shift to a new technological, resource, and skill base that allow for leapfrogging, the perspective of complete recovery, and what is more important, dynamic and sustainable growth, is more than obscure.

More recently, what started as the deep recession caused by the global economic crisis in 2008, except for the short recovery in 2010–12, is now a full-blown systemic crisis affecting all economic spheres, and the welfare of all strata of the population. The resilience of Ukraine's national economy and of the economy of its capital city Kyiv has been tested to the limits. The departure point was not great, as Ukraine emerged from the ruins of the Soviet Union as a country with an overregulated, centrally planned economy, a negligent level of private initiative, and high paternalistic expectations. Central, regional, and local level institutions were 'calibrated' to these basic characteristics, and demonstrated strong rigidity even in the face of dramatic economic restructuring. Over the last two decades there were some improvements in these domains, however, the durability of the old economic system was exhausted while almost no new capacities were created in non-mainstream branching-out sectors (Mrinska, 2012). In other words, if we accept Martin's idea of resilience as a dynamic evolutionary process that could contribute to an increase in the competitiveness of a national or regional economy, then without renewal and reorientation stages, the resistance and recovery stages are not sufficient for achieving competitive growth (Martin, 2012).

In the theory of regional resilience, the role of institutions is definitive. Along with the structures of production and knowledge networks, institutions determine regions' propensity to adaptability and adaptation (Boschma, 2014). Various approaches are used to classify institutions depending on their ability to either support path-dependent adaptation or energise resilient adaptability (for example in Wink, 2012); to define the degree of influence of the quality of governance on the competitiveness of regions, including their ability to innovate (Rodríguez-

Pose and Di Cataldo, 2014); or the significance of leadership in driving necessary institutional change (Sotarauta et al, 2012). While recognising the possibility of different institutional setups with varied degrees of centralisation, co-ordination, and flexibility, the core objective is to reach an institutional framework that is both conducive to change and absorptive of the historical trajectories of development and the knowledge accumulated in the past. The quality of overarching institutions that allow flexible change in the specific 'zones' and micro-institutions without the dramatic overturn of the system is recognised as essential (Boschma, 2014).

Today, the economic challenges of Ukraine are exacerbated by the fundamental political crisis that led to the massive popular uprising and the change of power elites, and triggered a security conflict in some parts of the country. It is difficult to disentangle the causes and consequences of two consequent crises, of which the latest one is the most serious in the whole 24 years of the country's modern history. However, it would be wrong to ignore the effects that the global economic crisis of 2008 had on the economy of Ukraine and its capital city, as well as to not analyse the policy responses aimed at mitigating the risks and opening new opportunities. This should help to explain the evolutionary changes in economic structure and governance that contribute to or undermine the capacity of national and regional economies to succeed. The objective of this article is to analyse the scope and quality of the governance responses to the crisis by the Kyiv municipal government and the central government in the period between 2008 and 2013. To this end, both the economic context and the institutional/governance systems are analysed in detail. The article also outlines some emerging governance and policy solutions launched since the beginning of 2014, which are too fundamental to ignore when planning future development.

### **The economic context**

The resilience of Ukraine's national economy, and of the economy of its capital city of Kyiv, was transformed by the chain of crises, which, unlike in some other countries, were not used as an opportunity to perform fundamental structural reforms, but rather, as an inconvenience that needed to be 'lived through' (Mrinska, 2012). Some even suggested that 'Ukrainian leaders never miss an opportunity to miss an opportunity' (see for example Cleary, 2015). The Schumpeterian destruction (1942) of the economic system over two decades was not so much creative as destructive, as old and obsolete structures and institutions were hardly ever replaced with new ones.

Now at the beginning of 2015, in the face of military conflict and tremendous security challenges, Ukraine has a real chance to reorient its economic system towards new drivers of growth. The massive physical destruction of the old industrial capacities of the eastern industrial strongholds of Donetsk and Lugansk oblasts, though hugely damaging in the short-term, could be a positive factor inducing a global change of attitudes towards production factors and assets. The loss of a quarter of national industrial potential and exports due to the occupation of the Autonomous Republic of Crimea by Russia and war with Russian proxies

in eastern parts of Ukraine could and should be regarded as an opportunity as much as a risk.

For years it was argued (Mykhnenko and Swain, 2010; Mrinska, 2012) that Ukraine was using its resources ineffectively, giving priority to energy- and material-intensive metallurgy, chemical industry, and mining. On the other hand, historically strong intellectual and technical potential were wasted and gradually lost, especially through the brain drain. With the demise of ‘heavy’ sectors, there is an opportunity to redirect the attention of government policies and stimuli into new sectors, which could yield higher value added and consequently contribute to higher rates of economic growth. These should be sectors with already existing significant human capital and technical capacities, and opportunities to evolve into strong USPs in the short-term, notably machinery building, the ITC sector, software development, and services. Kyiv, being the leading centre in these sectors, could significantly enhance its position in the national economy and potentially gain meaningful shares of the European and international markets.

As the capital of Ukraine, Kyiv is the most powerful economic, political, social, and cultural centre of the country, with a total population of 2.7 million in the core and 3.1 million living in the Kyiv metropolitan area (2013). While it does not overwhelmingly dominate the national economy, with the dramatic reduction of inputs from Donetsk and Lugansk regions, which in 2012 jointly contributed 16% of GDP and 27% of national export, its relative position will be stronger. In 2013 Kyiv contributed about one-fifth of Ukraine’s GDP and a significant share of its investments and skilled labour (see Table 1).

Table 1. Kyiv’s economic potential relative to the national economy, 2013

Indicator	Share in national total, %
GDP	19.8
Industrial output	6.6
R&D Institutions and Organisations	43.0
Capital investments	26.3
FDI	48.2
Air passenger flow (domestic and international)	62.0

Source: Kyiv city statistics office, 2015.

Unlike the majority of Ukrainian regions and cities, it managed to diversify its economy since the beginning of 1990s. Services account for about 89% of Gross Regional Product (2013) while industry only plays a secondary role, with 6.4% in GVA and 11.3% in total employment, and the once powerful construction sector has suffered from severe fluctuations since 2008 crisis. Over the years Kyiv also became the hub linking the national economy and global markets through its share in national FDI, exports, imports, a growing number of settling international companies, transport links, and the opening up of the financial markets (see Table 1).

Looking at the structure of Kyiv companies (Figure 1) the prevalence of services is once again evident, with almost a third of all companies specialising in retail, which is followed by professional services (15%), construction (10%), property (9%), and industry (9%).

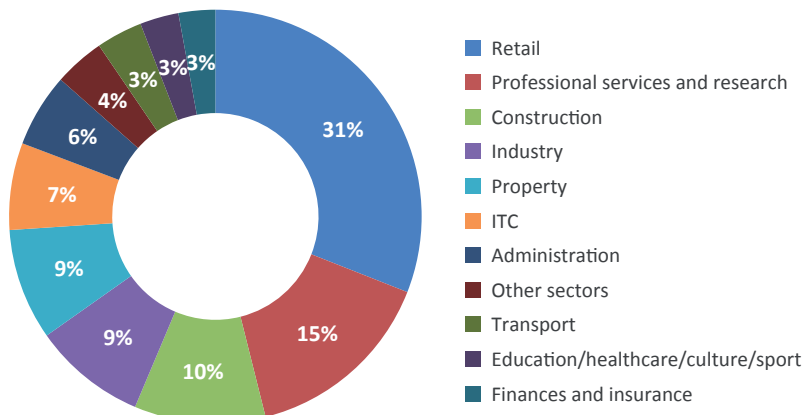


Figure 1. Kyiv companies by sector of economic activity, 2013

Source: Kyiv city statistics office, 2015.

This structure is logical given that over the last fifteen years, the majority of investments in the city's economy were focused on construction and retail, as well as on the financial and insurance sector, whose share in the city's GVA is equal to 13% (Figure 2). Kyiv benefits from being Ukraine's administrative capital, which results in a substantial concentration of public sector jobs that until recently had greater benefits than similar jobs in the private sector. At the same time, Kyiv has the highest share of the ITC sector in its GVA among Ukrainian regions – 11% (see Figure 2). For comparison, the share of ITC in Ukraine's GDP in January–September 2014 was equal to 1.39%. It should be noted that in the period of 2008–2013 there were shifts in the structure of the GVA, which saw a dramatic decrease in the property sector (from 21.3% to 6.8%), and some increase in retail (from 24.4% to 27.7%) and the financial and insurance sector (from 11.3% to 13.2%).

The nature of Kyiv's economy made it quite vulnerable to the global economic crisis, which struck in 2008. Ukraine as a whole saw a dramatic 14.8% decline in GDP in 2009, while in Kyiv this decline reached a record 18.3%. However, some sectors – construction, property operations, financial services, and retail – saw a decline that was higher than the national average. Given that these sectors are crucial for the city's economy, this meant a huge drop in tax revenues and new investments. For example, in 2009 Kyiv saw a 90% decline in output in the food industry, which contributes around 40% of the total industrial output. A similar drop of 60% happened in the machinery sector, one of the most important, research-intensive sectors in the city economy. Moreover, with the banking sector heavily wounded by a liquidity crisis, loans to businesses and households

shrunk to almost zero. It should be noted, however, that in the following years the industrial production in the capital city recovered, as its share in the total Gross Value Added between 2008–2013 remained almost unchanged (6.5% in 2008 compared to 6.4% in 2013).

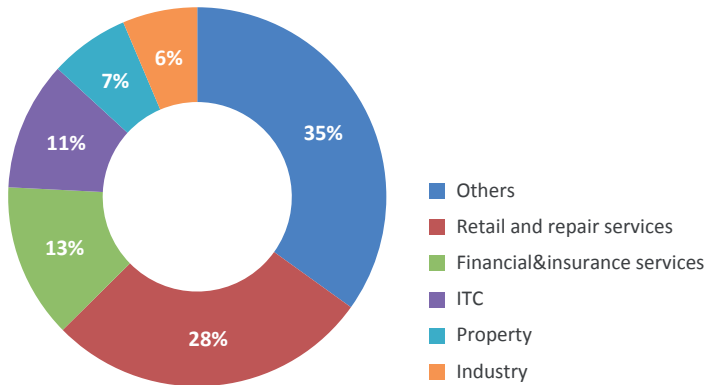


Figure 2. Nominal structure of Kyiv's GVA, 2013

Source: Kyiv city statistics office, 2015.

Property prices in Kyiv plummeted at the end of 2008–beginning of 2009, and aside from several brief periods of growth, continue to stagnate. This means that construction of residential housing – once fuelled by mortgages with unrealistic conditions and high interest rates, often in foreign currency – has collapsed. Ukraine's total volume of construction work plummeted by 48.6% in 2009 as compared to 2008. And since Kyiv's share in Ukraine's total before the crisis was around 28.7%, the negative effects of the decline were especially evident in the capital city. The index of the volume of executed construction works (relative to the previous year) in 2008 was equal to 84.5%, while in 2009 – 45.8%.

The labour market contracted as thousands of white-collar jobs were slashed by once-burgeoning service industries. This was followed by massive redundancies in the SME sector, which caused a great outflow of labour back to regions where the cost of living is substantially lower. The official level of unemployment (according to ILO methodology) didn't increase dramatically in 2008–2009, as there were widespread practices of reducing workforce without official redundancies (by decreasing hours worked, unpaid leaves, etc). In 2009 the overall unemployment level in Ukraine reached 8.8%, which is 2.4 percentage points higher than in 2008. In the following years the level normalised again, reaching 7.2% in 2013. The latest economic and political crisis led to another increase in unemployment in 2014 – to 8.9%. In Kyiv, the unemployment level is traditionally lower than the national average – 5.5% in 2012, with an increase to 6.5% in 2014.

The public sector cushioned this negative trend for a while, even though some expenditures were cut. In December 2010, the Government and then-President

embarked on massive administrative reforms with the aim of cutting around half of public sector jobs, including around 30% of jobs in central government agencies, which are located in Kyiv. And though these ambitious plans were not quite fully implemented, negative trends in the public sector increased unemployment among qualified people, people who have few entrepreneurial skills and a little hope of retraining.

It should be noted that like 4 large Polish cities (Warsaw, Gdansk, Wroclaw, and Poznan) and 3 other Ukrainian cities (Lviv, Donetsk, and Kharkiv), Kyiv went through a period of ‘spending its way’ out of crisis while preparing for the European football championship in 2012. However, the contribution of around 3 billion USD invested in transport infrastructure and the sport and hospitality industries did not have fundamental and long-lasting effects. It gave an insignificant secondary boost to the local economy due to limited connections to the local businesses and labour market. Only the city of Lviv saw a significant and consistent increase in the flow of tourists since Euro 2012 (except in 2014), while for other cities effect was either negligible (Kharkiv and Donetsk) or consistent with previous dynamics (Kyiv).

In 2010–2011 the growth of the national economy picked up to around 4–5% per year, while Kyiv was underperforming, and only in 2012–13 was its growth rate higher than the national average, albeit on a meagre scale (Figure 3). Currently Ukraine is facing a fundamental political and economic crisis similar to the one at the beginning of 1990s. In 2014 it lost about 25% of its industrial production and a third of its export due to destructions in the industrial stronghold of Donbas. The national currency, the hryvnia, lost more than 250% of its value in the last 18 months and in 2014 the inflation rate reached 25% (Ministry of Finance).

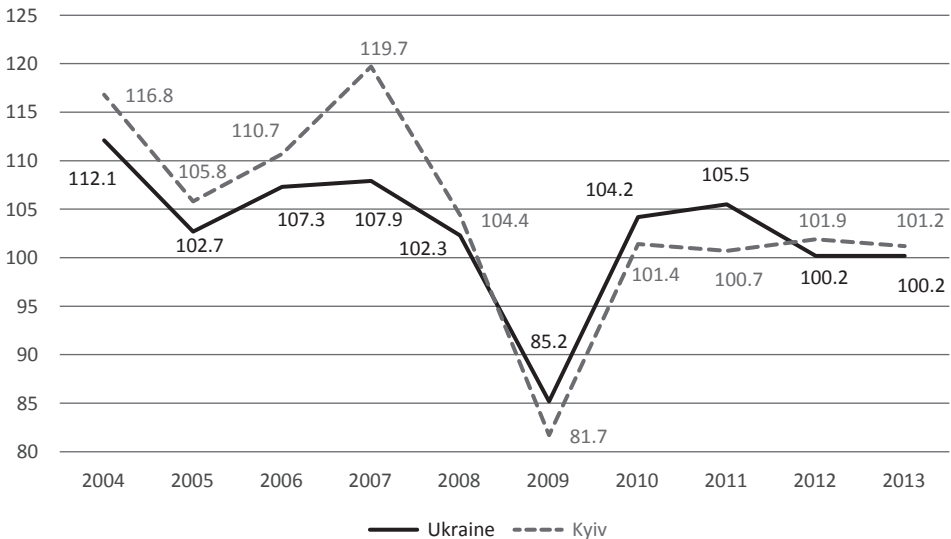


Figure 3. Dynamics of Ukrainian GDP and Kyiv GRP, 2004–2013, % (previous year=100)

Source: SSCU, 2015.

In 2014 Kyiv was back to the negative dynamics of 2008–09, as compared to 2013 it lost 6% of its GRP, 14.3% of industrial output (including a 28% drop in the machinery sector and 16% in food industry), and saw a 15% decline in capital investments, 19.5% decline in the number of innovative companies, 25% in profitable companies. The unemployment level is estimated at the level of 7.2%, compared to 5.2% in 2013. In 2014 neither the city budget nor the national budget allocated funding for city infrastructure projects, while in 2013 the total spending was equal to 1.3 billion UAH (162 million USD) and in 2012 – 2.7 billion UAH (337 million USD) (Kyiv city administration, 2015). Overall, the performance of the national economy, political instability, and multiple crises exacerbate the challenge of recovery and consistently undermine city's resilience to economic and political shocks.

### **Governance architecture between 2008 and 2014**

Ukraine is traditionally a highly centralised state where local and regional authorities have a limited degree of freedom in generating revenue and developing and implementing their own policies. For many years both territorial-administrative and fiscal decentralisation reform were on the agenda of different Ukrainian governments, without much practical effect. Until now<sup>1</sup> most of the regional and local budgets are dependent on transfers from the national budget that constitute 80–90% of the total income base. The powers of self-governments at oblast and rayon tiers are limited as directly elected councils here don't have own executive bodies. Therefore they delegate executive functions to state administrations in oblasts and rayons – the offices of national government in the regions. Larger cities (of oblast significance) have slightly greater autonomy (as their councils have own executive bodies and there are no state administrations at this tier) and resource base (due to personal income tax collections).

Kyiv has the special legal status of city of state significance, established by the Law of Ukraine on The Capital City of Kyiv (1999). The law accommodates city's unique position in enabling the functioning of all national-level state institutions as well as managing financial resources that are significantly greater than in any other region of Ukraine. Therefore Kyiv was traditionally squeezed between over-regulation due to its capital status and relatively high autonomy due to its special economic status, size (with 2.7 million people), and significant investments, which were attracted in order to enhance the city's economy, infrastructure, and welfare of its population.

The negative situation in Kyiv in the aftermath of the 2008 crisis was significantly aggravated by a lack of vision among municipal and state leaders, and by a paucity of mechanisms for creating a beneficial business climate, strong

---

<sup>1</sup> Budget decentralisation reform launched in January 2015 is significantly recalibrating the budgetary flows among territorial tiers and enhances fiscal potential of local and regional authorities. However at the time of writing of the article the evidence was not available to present the strong case of positive change.



law enforcement, and new opportunities for using intellectual and technical potential that were made redundant due to the economic crisis.

Proposed crisis strategies and plans in Kyiv were based on reactive measures; on extrapolating the trends of the past in reference to the future, in a situation when a dramatic shift was essential for saving the competitive edge of the capital city. These plans were largely built around the extensive use of territory; resources, including human; and infrastructure for satisfying growing consumer needs. At the same time there was a visible negligence of fundamental spheres that could help to re-orient the economy towards new priorities, such as energy efficiency, sustainability, local production, and effective use of space – factors that are conducive for innovative endogenous growth (Mrinska, 2013). We believe that shifts in city governance and an overcentralised decision-making process led to a vacuum of leadership and blurred responsibilities for risk-mitigating policies and activities.

The recent global economic crisis has ignited disputes about the best governance solution that would enable the country and city to tackle its negative effects and harness the opportunities presented by the crisis (see for example Wink 2012; Sotarauta et al, 2012). Examples from around Europe and the world demonstrate that the decentralisation of powers and greater authority given to local and regional self-governments and elected leaders is a more effective model than a rigid vertical hierarchy controlled by a central government (Mrinska and Smetkowski, 2013). Enabling local initiatives and projects that would address local challenges is the path many countries have chosen. At the same time, grass-root community initiatives that are tackling social, environmental, cultural, economic, and humanitarian aspects of city development are greatly encouraged. These are proving to be successful in the aftermath of the crisis and in the realities that are presented by increasing pressures on environment, natural and human resources, sustainability, and stability.

However, Kyiv faces some significant challenges that have precluded its recovery and a reorientation of the economy in the aftermath of 2008 crisis. These are:

- Weak translation of strategic priorities and fundamental advantages of the city into concrete policies and instruments
- The financial base of the city is being eroded by extracting a larger proportion of municipal incomes to the state budget (only 50% of Personal income tax collected in the city, that contributes 74% of total city incomes, remains in its budget)
- Corruption is pandemic and is especially harmful in the sphere of the management of municipal assets, land, and incomes, which could be used for city development
- Low transparency and accountability of the municipal government
- Unsustainable model of economic growth (for example Kyiv is last among 30 European capitals in the EIU's European Green City Index)

The Law on Kyiv stipulates the relationships among its elected mayor, city council, and 10 rayon councils, as well as city-state administration, which

is simultaneously the executive body for the city council and the regional representation of Government agencies, thus creating a balance between self-government and state administration and avoiding the challenge of dual leadership in the city (See Figure 4 in Addendum). The Kyiv community has direct influence on electing the city mayor, city council, and 12 members of the parliament at constituencies located in the city. These stakeholders are crucial in managing the city's economy, welfare, spatial development, managing its land and property assets, and generating and distributing financial resources – both locally generated and received from the state budget in the form of transfers and subsidies. The central government, president, and parliament have strong influence on some decisions of the Kyiv authorities, as the city hosts almost all state institutions and has strategic elements of infrastructure and economy, some of which are under state ownership. This mixture of powers and responsibilities also means that the city of Kyiv is the strongest centre of influence where a majority of power brokers are based. This significantly scales up decision-making and implementation processes, making them much more nuanced and contestable as compared to other large cities in Ukraine, where there is no such physical, administrative, and financial influence of the central authorities.

The Mayor of Kyiv is elected every 5 years by general vote, and as a rule is simultaneously appointed by the president as a head of city state administration. 120 members of the city council are elected on the basis of a mixed system (half through closed party lists and half through constituency) every 5 years. The most recent snap elections of the mayor and city council took place in May 2014 in the aftermath of the Revolution of Dignity, along with the presidential elections.

Changes to governance structures and legislation made in 2010–2013 have significantly weakened the powers of self-government in Kyiv. Combined with the fact that for most of this period the city had very weak and ineffective mayor, and for 2 years (between May 2012 and May 2014) had no mayor at all, it makes for a catastrophic situation of lack of leadership precisely when the city needed it the most. Due to the impossibility of achieving victorious results for preferred candidates, the then-president postponed elections, administratively separated the positions of the mayor and the head of city-state administration, and appointed a loyal politician from outside Kyiv as the head of administration. It meant that the *de facto* city leader was completely unaccountable to the community and was directly subordinate to the president.

Another change was abolishing 10 rayon councils in Kyiv in 2010, which was been done with the purpose of saving money. And though some might argue that it was a logical step in a dire economic situation, the decision was made by the city council administratively, without any consultation with the Kyiv community, which for decades, including during the Soviet era, had elected its rayon councils, and thus had an additional channel of influence over municipal matters.

Due to the same reason as the postponement of mayoral elections, the parliament and the president were continuously deferring the elections of the new city council. An inability to get a majority loyal to the central government led to the situation when the mandate of the city council was extended twice. It meant that in the

fluid political situation, the composition of the city council did not reflect the preferences of Kyiv residents, and would have been quite different if they had had an opportunity to vote in 2011 or 2013. This reduced even further the city community's ability to influence the decision-making process and made Kyiv power authorities almost impenetrable to public appeals.

Being the most valuable assets, Kyiv's property and land traditionally attracted a lot of interest from various economic groups, and all operations in these areas are highly corrupt. With an almost total lack of public control and accountability, in 2008–2014 city authorities managed to dispose of a significant share of the city's property at a very low price. A growing number of hostile takeovers of historical buildings, public spaces, and green zones led to multiple conflicts, including violent ones, between the residents and new owners. Among other factors, all these violations boiled down to the fierce protest against the actions of municipal and central government, resulting in the Revolution of Dignity and consequently, in the change of the country's and city's leadership in May 2014.

It would be unfair to say that there were no positive actions during that time. First of all, continuous dissatisfaction with the official leadership gradually turned Kyiv residents from passive consumers of public services into active citizens. A significant number of community initiatives emerged, mainly in the areas of the protection of historical heritage, the battle against illegal construction and land grabs, urban planning, development of sustainable transport infrastructure, supporting hospitals and schools that lacked appropriate financial support, unlocking business potential and creativity of city, etc. Some of those initiatives were welcomed by city authorities, others were ignored, and a very few were persecuted.

Another positive example is the 2010–11 preparation and approval of the Kyiv Strategy 2025, which included a very consultative preparatory stage and large-scale public inputs. Kyiv authorities hired consultants from McKenzie to help in developing the city's priorities for the future. However, despite this seemingly modern approach, the process lacked some essential components. Most importantly, priorities for the future were defined based on a static analysis of the existing structure of the economy; some vital assets, especially in research, development, and education, were not used for developing new competitive advantages. The proposed path of transformations did not reflect the changes in either the global or the national economy, or the potential for leapfrogging to a new stage of development by using an innovative approach to management and the use of resources. The strategic scenario chosen for the next decade was reactive rather than pro-active, and enhanced the risk that Kyiv might be lagging behind its European counterparts even further.

To date there is only fragmentary evidence of implementation of the Strategy and it is not treated like a blueprint for city development. However, the lack of transparency precludes the possibility of the community monitoring the overall progress and effects of the new policies.

It also should be noted that spatial development of Kyiv is traditionally chaotic and dominated by the interests of individual groups and companies rather than

the needs of the city and its community. Several versions of the Kyiv Master Plan were prepared over the last decade. However, enforcement is almost non-existent and there is no guarantee that the new and improved version will be implemented as intended.

The consequences of crisis are grave and the reforms that are needed to bring city back to its competitive edge are long-delayed. Municipal leadership is poor, and until mid-2014, the central government had unprecedented control over city life. However, new forms of community initiatives that bring together private and non-governmental actors are becoming widespread, and it is no longer an option for the city council and administration to ignore them. Finding ways for constructive collaboration in a currently over-centralised system is a challenge that demands a solution.

### **Social revolution of 2014–beginning of 2015**

Partnership between the central government, local self-government, private, and non-governmental sectors is often crucial when resources are scarce and the interests of various stakeholder groups are diverse and occasionally diverging. Matching financial and intellectual resources, finding compromises, reaching out to residents, and delivering the best solutions for local needs are crucial outcomes of such collaboration.

In 2008–2013, Kyiv was somehow experiencing opposite trends in its governance system, as more and more powers were re-possessed by the central government. Local self-government was gradually losing its powers and financial leverage, and becoming more dependent on the president, his administration, and the Cabinet of Ministers, as well as the regional government office (city state administration).

Analyses of the reactions of city leadership in the wake of crises, and of the policies and instruments that were employed to mitigate the negative consequences and create opportunities should distinguish between two stages: pre-2014 and post-2014. Although evidence of the systemic changes in the city economy and governance after the Revolution of Dignity in 2013–14 and election of new central and municipal leadership in May 2014 is still somewhat tentative, the scale of societal transformations cannot be ignored. It is consistently crystallising in new forms of political representation, governance, community initiatives, and economic activities.

The demolition of the old political system in Ukraine requires building the new one on the go. New political parties are emerging with horizontal structures and participatory mechanisms of decision-making, which until recently was impossible. Even the names of some of them, e.g. Self-help (*Samopomich*), suggest the importance of private initiatives and incessant activities to hold authorities responsible for their actions and co-produce new public services together. Although these new parties did not achieve significant results in the last local elections, their voice in city council is important. Their ability to inform the city community about dubious decisions, such as allocation of land plots,

non-transparent appointment of top-level officials and directors of municipal companies, theft of millions of dollars of budget money, and non-competitive tenders, along with their ability to mobilise the city's business and intellectual leaders and gain public support, have already reversed many of those decisions.

Moreover, the mayor and his office are now more frequently actively engaging with the expert and volunteer community of Kyiv, inviting some activists to advise and support him in the practical implementation of initiatives in the areas of public transportation, the municipal orientation system and advertising, urban planning, managing parks and public spaces, environmental protection, and recycling. A growing number of business start-ups and civil society organisations is active in the areas of space regeneration, use of derelict industrial buildings, creating a city-wide system of cycling routes, support centres for refugees, employment centres, co-working etc. Crowd-funding platforms are generating millions of hryvnias for the support of Kyiv hospitals, schools, community TV and radio channels, online media, and film production. People are rediscovering the benefits of giving to charity, freecycling and recycling, saving energy and materials, local food produce, and Ukrainian-made products. The sharp devaluation of national currency (almost threefold over the last 18 months) is a positive factor in this process, as it has dramatically reduced the demand for imported goods and stimulated Ukrainians to look for local substitutes.

Also, Kyiv being the biggest national centre of ICT industry and services, it is benefiting from multiple initiatives by private investors and international partners, who created or are in the process of creating a range of investment vehicles and start-up support business centres targeting high-tech industry and services, including those in the defence sector. Rapid reforms in the higher education sector enabled several universities to open business hubs and research application centres, which until recently were unrealistic initiatives due to rigid legislation.

Volunteering and giving are another phenomena of post-revolutionary Ukrainian society. Recent research by GfK for the UN office in Ukraine revealed that 23% of all Ukrainians are volunteering and 9% have started doing so in the last 12 months (GfK, 2014). 10% of all volunteers are living in Kyiv. 74% of Ukrainians give to charity and 25% have started doing so only in the last 12 months. Also, it is the upper- and middle class and creative professionals who are the most active – 53% of Ukrainian volunteers have higher education (comparing to 39% of the total sample).

Primarily, Ukrainians support the army (70%), Maidan activists and their families (25%), and refugees from Crimea, Donetsk, and Lugansk oblasts (23%). Excluding military and security-related activities, which are dominant in the current situation of undeclared war, other important areas of volunteering are the support of vulnerable groups (the elderly, children, people with disabilities and severe medical problems) (28%) and the regeneration of public spaces and environmental projects (25%).

Recent dramatic events in Ukraine, which unleashed the power of social capital and entrepreneurship among mid-class Kyivans, are opening up opportunities

for endogenous growth in a period of dramatic decline in foreign investments and international trade. Kyiv, located away from the war zone, is seeing unprecedented growth in community initiatives and start-ups in various sectors of economy. It is still challenging to outline any firm picture, and these trends should be confirmed in the next year or two with the statistical data for 2014–2015. However, the speed with which the city's economy is evolving as a result of two fundamental crises is a challenge that should be embraced and matched by respective policies and actions on the part of municipal leadership. Extraordinary times require extraordinary decisions. So far the pace of the changes suggested by municipal leadership is significantly below the demand of the city community. On the other hand, it is open to public proposals and flexible in correcting its mistakes when criticised. This is one of the greatest achievement of the recent social upheaval – the opening of a two-way channel of communication between government institutions and the citizens they are serving, a significant increase in transparency and accountability, and a still-fragile but nonetheless evident battle with some forms of corruption.

## Conclusions

The governance system of Ukraine is undergoing tectonic changes since the dramatic events of the Revolution of Dignity in 2013–2014, and ongoing Russian military aggression that led to the most trying challenges for Ukraine's sovereignty and territorial integrity in the last 70 years. Notwithstanding these changes, it is important to acknowledge the process of governance changes that happened in the period between the global economic crisis of 2008 and the political crisis of 2013–2014. Analysis of policy initiatives and trends of city's economic development prove that Kyiv lost 5 years of valuable time; time that could have been invested in much-needed reforms of municipal governance, diversification of economy, enhancing human capital, innovation potential, and business climate.

Over the last 5 years, Kyiv lost a large share of its economic strength, while its citizens (temporarily) lost the power to influence the way city is managed. That is why Kyiv has entered into a period of great political and economic turbulence from a much worse starting position than it could have. Its resilience potential was undermined by fundamental flaws in administration and governance. The possibility of recovery after a second major crisis in 7 years is not great, and is dependent on the ability to dramatically reassess the city's priorities and invest in the economic and social infrastructure that would yield the highest benefits.

Governance responses to economic crisis in 2008–2013 were inadequate to the challenges. Partially, this was due to the increasing centralisation of Ukraine's governance system and partially, it was due to the weakness and at times absence of city leadership. The importance of 'owning' Kyiv for national governing elites, who in this period of time were building repressive power vertically, meant that it lost more power and financial resources than other large cities.

Unlike other countries of Europe, Ukraine took the path of centralisation of power as a response to the crisis, which proved to be wrong. The consolidation of power in the hands of a few and the prioritisation of resources on welfare and social infrastructure didn't bring desirable economic growth and political dividends. Kyiv leadership spent most of the city budget on current needs and neglected capital investments into much-needed infrastructure and enabling the environment for business. Private investors are reluctant to partake in large-scale municipal projects due to the weak rule of law and unreliability of municipal partners.

Despite this pessimistic outline of Kyiv municipal governance and socio-economic development, there is a very strong factor that could change the path of development dramatically, if properly integrated into city strategy, institutions, and policy tools. It is the private initiative and social capital of Ukrainians in general and Kyiv residents in particular that increased massively in the aftermath of the Revolution of Dignity. In 2012 the author wrote that '...(in Ukraine) passive citizens fail to form the civil society institutions that could maintain permanent and constructive pressure on politicians and civil servants and hold them to account continuously – rather than sporadically during election campaigns' (Mrinska, 2012). This statement has partially lost its validity as the gap between the individuals and the state is gradually being filled by community initiatives, organisations, and networks of activists, and a new generation of political parties that represent true values and needs of Ukrainians in their cities and regions, as well as nationally.

In 2014–15, Kyiv is flourishing, with hundreds of community and private sector initiatives in many sectors. A massive economic crisis and the sharp devaluation of national currency forced Ukrainians to reorient themselves toward local products and services, which also gained more popularity due to the unprecedented growth in consumer patriotism. Today Ukrainians are learning the power of giving and sharing, through massive charity campaigns that range from helping internally displaced people (at least 1.4 million Ukrainians fled occupied territories of Crimea and the eastern parts of Donetsk and Lugansk regions) to equipping the long-neglected army with ammunition and provisions.

At the same time community links harnessed in the times of extreme danger persist and are being partially transformed into new political forces at the national and municipal tiers. They were too weak to stand on equal footing at the last elections to city council and mayoral elections in May 2014. However, their active and open position is increasing the transparency and accountability of Kyiv municipal institutions, uncovering corruption schemes in municipally owned companies, and bringing dividends in terms of greater support and participation.

Self-organisation is breaking traditional boundaries that separated the traditional Ukrainian family from the larger community. Bridging social capital is becoming a significant asset, along with bonding social capital. Unlike in 2004, when Ukrainians returned to their homes after the successful result of the so-called Orange Revolution and didn't exert any control over the day-to-day implementation of reforms by politicians and civil servants, this time civil society

and expert networks are not losing their grip after elections, and are exerting continuous pressure on all levels of governance.

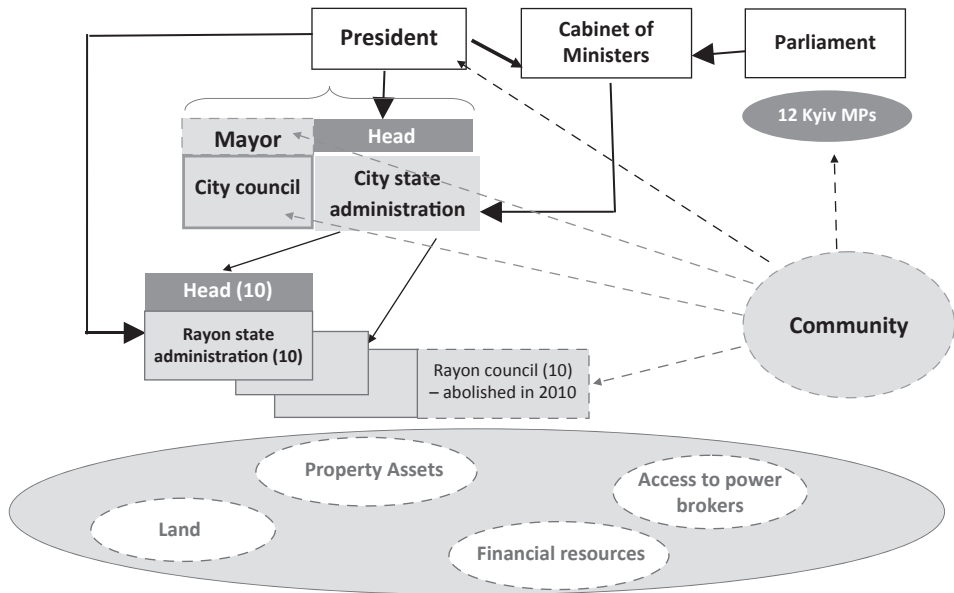
Participatory governance in Kyiv and Ukraine is not yet a reality as of today. However, it is very much a reality-in-the-making of tomorrow. And although today a lot of energy and resources are being diverted towards meeting the most basic country's needs – safety and security, rebuilding the army, and reconstructing infrastructure/facilities and livelihoods destroyed by the war – this energy has a transformative meaning for the whole economic model of Ukraine. It can add impetus to building the resilience of the country's and city's economy, recently eroded by inadequate governance and policy solutions, and encourage the embracing of human and social capital as crucial factors for growing national productivity and competitiveness.

## References

- Boschma, R. (2014). Towards an evolutionary perspective on regional resilience, Papers in Evolutionary Economic Geography, no. 14.09. Utrecht: Utrecht University.
- Cerra, V., Saxena, S. C. (2008). Growth dynamics: The myth of economic recovery, *American Economic Review*, 98(1), 439–457.
- Cleary, C. (2015). Ukraine's Rotten Front. Foreign Policy, 12 March 2015, <http://foreignpolicy.com/2015/03/12/ukraine-putin-maidan-yanukovich/> (accessed: 15.03.2015).
- GfK (2014). Volunteering Movement in Ukraine. Report prepared for the UN Office in Ukraine. Available at [http://www.gfk.com/ua/Documents/Presentations/report\\_vyshlisky.pdf](http://www.gfk.com/ua/Documents/Presentations/report_vyshlisky.pdf) (accessed: 15.03.2015).
- Gorzela, G., Goh, C., Fazekas, K. (eds.) (2012). *Adaptability and Change: The Regional Dimensions in Central and Eastern Europe*. Warsaw: Scholar Publishing House.
- Kyiv City Administration (2015). Programme of socio-economic development of Kyiv for 2015, Kyiv.
- Martin, R. (2012). Regional economic resilience, hysteresis and recessionary shocks, *Journal of Economic Geography*, 12(1), 1–32.
- Mrinska, O. (2012). Lost in transition: What past and present crises tell us about Ukraine's economic and institutional challenges, in: G. Gorzelak, Ch. Goh, K. Fazekas (eds.), *Adaptability and Change: The Regional Dimensions in Central and Eastern Europe*. Warsaw: Scholar Publishing House, 381–402.
- Mrinska, O. (2013). The innovative potential of Kyiv: Overestimated and underused, in: R. Capello, A. Olechnicka, G. Gorzelak (eds.), *Universities, Cities and Regions. Loci for Knowledge and Innovation Creation*. London: Routledge, 329–348
- Mrinska, O., Smetkowski, M. (2013). Report on the Second Seminar of the RSA Research Network on the Impact of Global Economic Crisis on Capital Cities, *Regions Magazine*, 290(2), 29–31.
- Mykhnenko, V., Swain, A. (2010). Ukraine's diverging space-economy: The Orange Revolution, Post-soviet development models and regional trajectories, *European Urban and Regional Studies*, 17(2), 141–165.
- Rodríguez-Pose, A., Di Cataldo, M. (2014). Quality of government and innovative performance in the regions of Europe, Papers in Evolutionary Economic Geography, no. 14.16. Utrecht: Utrecht University.



- Schumpeter, J. A. (1942). Creative destruction, in: *Capitalism, Socialism and Democracy*. New York: Harper, 82–85.
- Sotarauta, M., Horlings, L., Liddle, J. (eds.) (2012). *Leadership and Change in Sustainable Regional Development*. Abingdon, Oxon: Routledge.
- Wink, R. (2012). *Institutions and Regional Economic Resilience*. Leipzig: HTWK.



Addendum. Figure 4. Institutional Framework of Kyiv governance