

MUNICIPAL REVIEW - H1 2026

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KEY FINDINGS

In H1 2026, Ukrainian local self-government moved unevenly from reform design towards reform implementation, while operating under the heaviest security pressure recorded since the start of the full-scale invasion. The legislative concepts developed during Q1 – on the division of powers between levels of government, public investment management (PIM), the classification of territories, and public-sector recruitment – advanced at markedly different speeds. Some produced laws that were adopted and (in some cases) signed, government resolutions, and ministerial procedures that municipalities must now apply. Others did not: the framework bill on the division of powers (No. 14412) has passed first reading only, and the sectoral legislation required to give it practical effect is still being drafted. Elsewhere, activity outpaced progress: the PIM measures taken during Q2 corrected gaps identified over the past year and closed outstanding legislative omissions rather than advancing the reform as such. The direction of travel is nevertheless consistent and positive across policy areas: strategic planning, project appraisal, and structured reporting are becoming preconditions for access to public and international financing.

This tightening of requirements coincided with the heaviest security pressure recorded since the start of the full-scale invasion. Over H1, municipalities under Ukrainian government control recorded 18,183 attacks and 4,238 incidents of damage to civilian infrastructure, 40.6% and 184% more respectively than in H1 2025. This produced the central policy tension of the period: new planning, appraisal, and reporting requirements apply uniformly, whereas the administrative capacity to meet them does not. For a substantial group of municipalities, attention is absorbed by emergency response, service continuity, and the management of damaged assets. Institutional capacity, rather than the design of the rules, is becoming the binding constraint on how quickly reforms translate into measurable results at the local level.

The regional policy agenda in H1 2026 was defined less by new initiatives than by the completion and operationalization of those already underway, which shifts the risk profile of reform from legislative uncertainty towards implementation capacity. A law allowing local self-government (LSG) bodies to remunerate staff working on internationally financed projects from international technical assistance (ITA) and grant resources was signed and will enter into force in September 2026. The Government adopted the National Program for the Approximation of Ukrainian Legislation to the EU acquis, gave municipalities a clearer legal basis for supporting the security and defence sector from local resources and for establishing temporary housing stock for internally displaced persons (IDPs), and completed the medium-term architecture of the PIM system. Two of the most consequential initiatives, however – the division of powers between the state, regions and municipalities, and the phased restoration of competitive recruitment – remained in parliamentary consideration throughout Q2 after passing first reading in Q1. Until they are finalized, municipalities continue to operate with an unresolved allocation of functions and with wartime exceptions to merit-based staffing, which limits the effect of the other reforms.

Local budgets strengthened in both nominal and real terms during H1 2026, but the aggregate improvement concealed a redistribution of fiscal capacity away from the most war-affected territories. Own revenues reached \$4.8 bn, up 12.7% y-o-y in US dollar terms and 18.4% in hryvnia terms, against core inflation of 8.1% y-o-y in June — a materially stronger real outcome than in Q1, when revenue growth barely matched price growth. Growth was driven overwhelmingly by personal income tax (PIT) receipts, which supplied 53.8% of own revenues. Central transfers rose by 30.1%, but the increase was concentrated in the education subvention and reflected delegated wage obligations rather

than discretionary support: transfers fell in five oblasts, all of them directly exposed to hostilities, while the additional grant for the most war-affected municipalities was cut by 47.4% y-o-y following a change in the allocation formula. Further pressure on local fiscal capacity arose in January, when the Government substantially increased salaries for teaching staff and social service providers — a decision made by the central government that had been reflected neither in medium-term budget planning nor in municipalities' 2027 budget projections, leaving local budgets to absorb a recurring commitment they had not provided for. On the expenditure side, payroll alone now absorbs 55.6% of municipal spending, while capital expenditure remained flat in dollar terms for a second consecutive year.

Public investment management moved from rule-making to portfolio construction during H1 2026, making the quality of project preparation — rather than the availability of financing — the decisive factor in municipal access to investment resources. Between April and June, the Ministry of Economy issued unified methodological guidelines for preparing public investment projects and introduced a three-tier selection hierarchy operated through the DREAM system; the Government amended the procedure for developing the Medium-Term Plan for Priority Public Investments; and on June 27 the Cabinet of Ministers of Ukraine (CMU) approved the Medium-Term Plan for 2027–2029 with a total amount of \$6.06 bn. Municipal projects compete at the third, sectoral tier of the new hierarchy, which means that a local investment proposal must be demonstrably consistent with a national sectoral strategy in order to be considered. A residual procedural inconsistency — ministerial rules on the format of municipal submissions have not yet been aligned with the amended government procedure — illustrates how small regulatory gaps can translate into practical exclusion for municipalities with limited legal and technical capacity.

The security burden on municipalities escalated to a new and structurally different level in H1 2026, with damage to civilian infrastructure growing more than four times faster than the number of attacks. Air and drone strikes accounted for 82.3% of all recorded attacks over the six months, confirming that aerial pressure — not artillery range — now determines which municipalities are exposed. Residential buildings accounted for 75.3% of all recorded damage, straining municipal administrative caseloads and budgets with inspections, emergency repairs, temporary accommodation, compensation procedures, and social assistance. Q2 also demonstrated that the operational burden is no longer measured only in damaged assets: three eastern and north-eastern oblasts each spent roughly 700 cumulative hours under air raid alerts during the quarter, and repeat strikes on sites already hit ("double-tap" strikes) killed and injured emergency responders arriving after an initial attack. A single administrative category of "war-affected municipality" no longer captures needs that now range from chronic frontline attrition to sudden shocks in rear-area service hubs.

Intermunicipal cooperation continued to function as a practical capacity-sharing instrument rather than a development tool, and during H1 it began to be used to relocate institutional capacity across the wartime map of Ukraine. 86 new cooperation agreements were registered in H1 2026. The dominant contractual form shifted from joint financing and maintenance towards the delegation of tasks, meaning that municipalities increasingly transfer responsibility for a service to a partner that already possesses the institution, staff or expertise, rather than jointly funding a shared facility. Military administrations became regular rather than exceptional participants, and several agreements allowed displaced or frontline administrations to serve their residents through infrastructure located in safer territories. International cooperation accelerated in Q2 and moved beyond bilateral twinning towards multilateral networks, although registration lags mean the official register understates actual activity.

REGIONAL POLICY AND MUNICIPAL DEVELOPMENT: WHAT'S NEW?

H1 2026 marked a transition from developing the legislative foundations of reforms to creating mechanisms for their practical implementation. While Q1 2026 focused primarily on designing new legislative approaches and establishing the conceptual framework for local self-government reforms, many of these initiatives advanced during April–June through the adoption of laws, government regulations, and other implementing acts necessary for their practical application. At the same time, municipalities gained access to additional instruments to support recovery efforts, attract and manage international assistance, implement public investment projects, and exercise newly expanded responsibilities.

The legislative initiative to remunerate municipal staff through international assistance, identified as a priority in the Q1 review, was completed in Q2 2026. Following several months of parliamentary consideration, the President signed a [law](#) allowing local self-government bodies to use international technical assistance and grant funding to provide additional remuneration for municipal officials involved in preparing and implementing international projects. The law will enter into force at the end of September, following the adoption of the necessary implementing regulations by the Cabinet of Ministers. The measure addresses a specific and well-documented bottleneck: municipalities have consistently lost project managers, procurement specialists and grant administrators to better-paid employers, and have been unable to use donor resources to retain them. Allowing project-related remuneration to be financed from the projects themselves should strengthen absorption capacity without adding pressure to local budgets. The distributional effect, however, deserves attention. The instrument is only useful to municipalities that already hold externally financed projects, so it is likely to reinforce the position of municipalities with established donor relationships while leaving those outside international networks unaffected. Whether the mechanism narrows or widens the capacity gap will depend on how far donors and central authorities pair it with targeted support for first-time applicants.

Municipalities also received a clearer legal basis for functions they have in practice performed since February 2022. [Legislative changes](#) that finally entered into force during the reporting period – two years after their adoption by Parliament, following a prolonged delay before presidential signature – explicitly authorize local governments to support the security and defense sector using local resources, expand the mechanisms available for establishing temporary housing stock for IDPs, and refine financial support instruments for local budgets. None of these constitutes a new reform. Their value lies in reducing legal risk: municipalities that have financed territorial defense units, adapted premises for displaced residents or reallocated funds under emergency conditions have often done so in a grey zone of budgetary and audit law. Codifying these practices lowers the exposure of local officials to subsequent audit challenges and makes the associated expenditure easier to plan, account for, and present to external partners. It is worth noting that recorded municipal spending on public order and safety nevertheless declined by 13.1% y-o-y in H1 2026, which suggests that the legal clarification had not yet changed spending behavior during the reporting period.

The European integration dimension of local governance became more systematic during H1 2026. The Government approved the [National Program for the Approximation of Ukrainian Legislation to the European Union acquis](#), setting out specific legislative measures, implementation timelines and responsible institutions within Ukraine's accession process. Earlier approaches addressed approximation sector by sector; the new

program establishes a single framework for planning legislative change, preparing draft legislation in advance and monitoring implementation. The immediate effect will be limited for municipalities, since the program operates at the level of central legislative planning. The medium-term effect will be more significant: as EU standards are progressively transposed, they will shape local strategic planning documents, public procurement and asset management, environmental and construction permitting, service quality requirements, and local regulatory acts. Municipalities that treat approximation as a central-government process will run the risk of discovering obligations only once they become binding, whereas those that align their strategic and investment planning early will be better positioned to access EU instruments, both during and after accession negotiations.

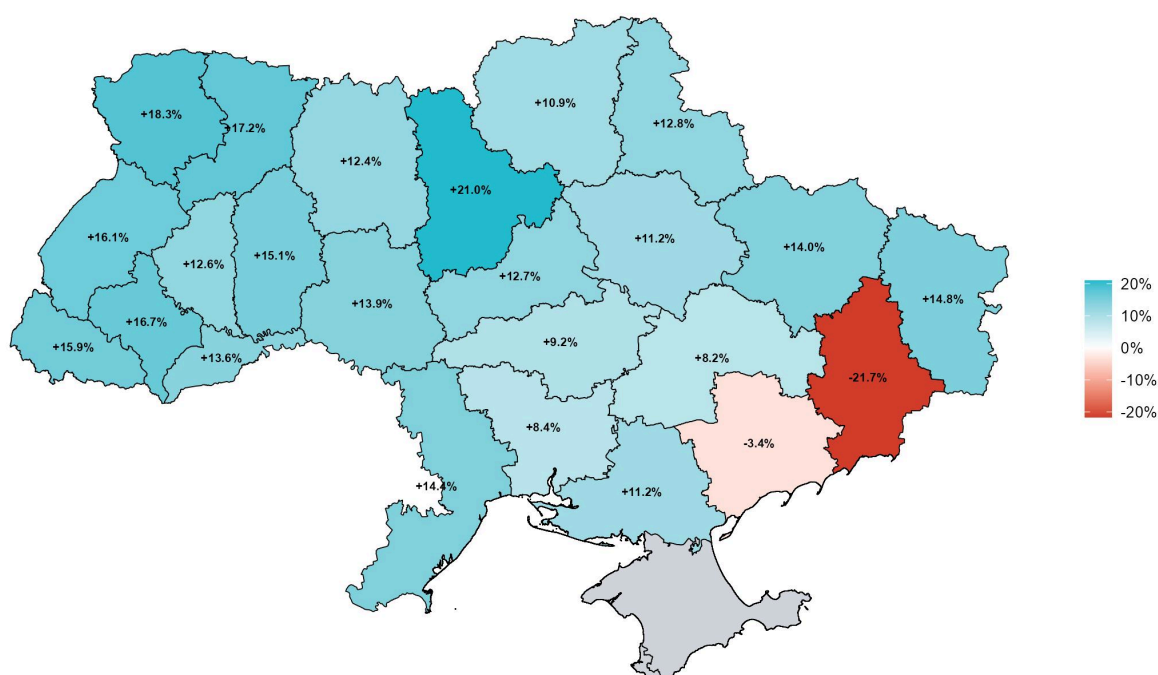
Two reforms with the largest structural implications for municipalities remained unfinished at the end of H1 2026. Parliament continued to consider [draft legislation](#) on the distribution of powers between levels of government and on the [gradual restoration of competitive recruitment in the public sector](#). Both passed first reading during H1, but neither advanced to adoption. The delay is consequential. The division-of-powers framework introduces criteria for assigning responsibilities, the principle of subsidiarity, and general requirements for the financial and institutional support of delegated powers, but it does not yet contain a concrete list of functions for each level of government. Until that list exists, the risk identified in the Q1 review persists: municipalities may receive additional responsibilities without commensurate financial, institutional or staffing support. Regarding recruitment reform, the instruments introduced during Q2 – project-related remuneration, medium-term investment planning, project appraisal, EU-aligned procedures – all presuppose qualified municipal staff, yet competitive, merit-based recruitment remains suspended under wartime exceptions. Sequencing the two reforms so that capacity is built before functions are transferred will be central to whether the emerging multilevel governance model is workable in practice.

FINANCIAL SITUATION IN THE REGIONS: TRENDS IN LOCAL BUDGETS

Municipal own¹ revenues grew in real terms in H1 2026, marking a clear improvement on the flat real performance recorded in Q1. Own revenues of municipalities – the general fund² excluding transfers from the central government – rose by 12.7% y-o-y in US dollar terms and by 18.4% in hryvnia terms, against core inflation of 8.1% y-o-y in June 2026. By July 1, total own revenues reached \$4.8 bn. Because the Q1 growth rate was 7.8% in dollar terms, the higher half-year figure implies a marked acceleration during April–June, driven mainly by wage-related tax receipts. Revenue growth exceeded the national average in 14 of Ukraine's 24 oblasts, compared with 17 in Q1. The change reflects a higher benchmark rather than weaker performance: with fewer sharply negative outliers dragging down the national average — only Donetsk and Zaporizhzhia recorded declines in H1, against a much deeper contraction in Kherson and Donetsk in Q1 — the bar that oblasts had to clear was correspondingly higher (Fig. 1).

FIGURE 1.

Growth rate of general-fund revenue (excl. transfers), H1 2026 vs H1 2025, %



Source: OpenBudget

The territorial pattern of revenue growth remained shaped primarily by security conditions rather than by economic structure. Growth in the western, central, and northern oblasts clustered between 12% and 21%, with the strongest performance recorded in Kyiv oblast. Only two oblasts recorded declines: Donetsk, where own revenues fell by 21.7%, and Zaporizhzhia, where they fell by 3.4% (Fig. 1). Fiscal convergence between these territories and the rest of the country cannot be achieved through general revenue growth. Rather, it will depend on the return of population and economic activity and, in the interim,

¹ General and special funds, excluding transfers

² The main, recurring part of a municipal budget that finances day-to-day public services

on transfer policies, which, as shown below, moved in the opposite direction during H1 2026.

Personal income tax remained by far the largest source and main growth driver of local revenues, providing 53.8% of municipal own revenues despite labor market pressures from mobilization and population displacement. PIT receipts reached \$2.6 bn in H1 2026, up 15.1% y-o-y, driven mainly by rising nominal wages, as average wages increased by 11.6% between June 2025 and June 2026, from \$601.25 to \$670.69³.

The unified tax⁴ continued to provide an important but relatively weak source of local revenue growth, suggesting that the expansion of small business activity has not yet translated into a comparable increase in municipal tax receipts. In H1 2026, receipts reached \$762.4 mn, only 5.6% higher than a year earlier, but still remained the second-largest source of municipal own revenues, accounting for 15.8% of the total. This modest increase was mainly linked to higher minimum wage and subsistence minimum rates, which are used to calculate fixed tax payments for many small entrepreneurs, rather than to a strong increase in taxable business activity. At the same time, the small-business sector continued to expand: the number⁵ of registered individual entrepreneurs exceeded 2.1 mn in June 2026, increasing by 69,938 over the year. Small businesses remain active and adaptive under wartime conditions, but their contribution to local budget growth remains limited.

Land fee revenues remained stable in H1 2026, suggesting that this traditionally important local tax depends on valuation growth and the war's direct territorial effects. Receipts amounted to \$471.2 mn, or 9.8% of municipal own revenues, and rose by 9.2% y-o-y. The growth was partly driven by the modest 1.08 indexation rate set by the StateGeoCadastre for the official normative valuation of land, which forms the tax base for both land tax and rent payments on state- and municipally-owned land. At the same time, the loss of taxable land in occupied or contested territories continues to weaken the revenue potential of this source. Strengthening land fee revenues will therefore remain a key long-term challenge for local fiscal recovery, particularly in municipalities where land was once an important part of the revenue base.

Excise duties were among the strongest-growing local revenue sources in H1 2026, supported by inflation, rate increases, and stronger compliance tools. Receipts rose by 20.7% y-o-y to \$402.6 mn. The increase was driven by higher excise tax rates since the beginning of the year, rising retail prices for alcohol and tobacco products, and administrative reforms that strengthened tax compliance, including electronic excise stamps for alcohol, tobacco, and e-cigarette liquids, which were piloted from March 2025 and became mandatory from 2026.

Real estate tax revenues continued to grow modestly in H1 2026, but remained a relatively small component of municipal own revenues compared with PIT, the unified tax, land fees, and excise duty. Receipts reached \$108 mn, increasing by 3.0% y-o-y, mainly reflecting the link between tax rates and the statutory minimum wage. In Ukraine, real estate tax for legal entities is calculated as a share of the minimum wage in force at the start of the year; therefore, the minimum wage increase in January 2025 translated into higher tax liabilities in 2026. Together with PIT, the unified tax, land fees, and excise duty, real estate tax forms part of the core locally raised revenue base, although its fiscal role remains limited in scale (Fig. 2).

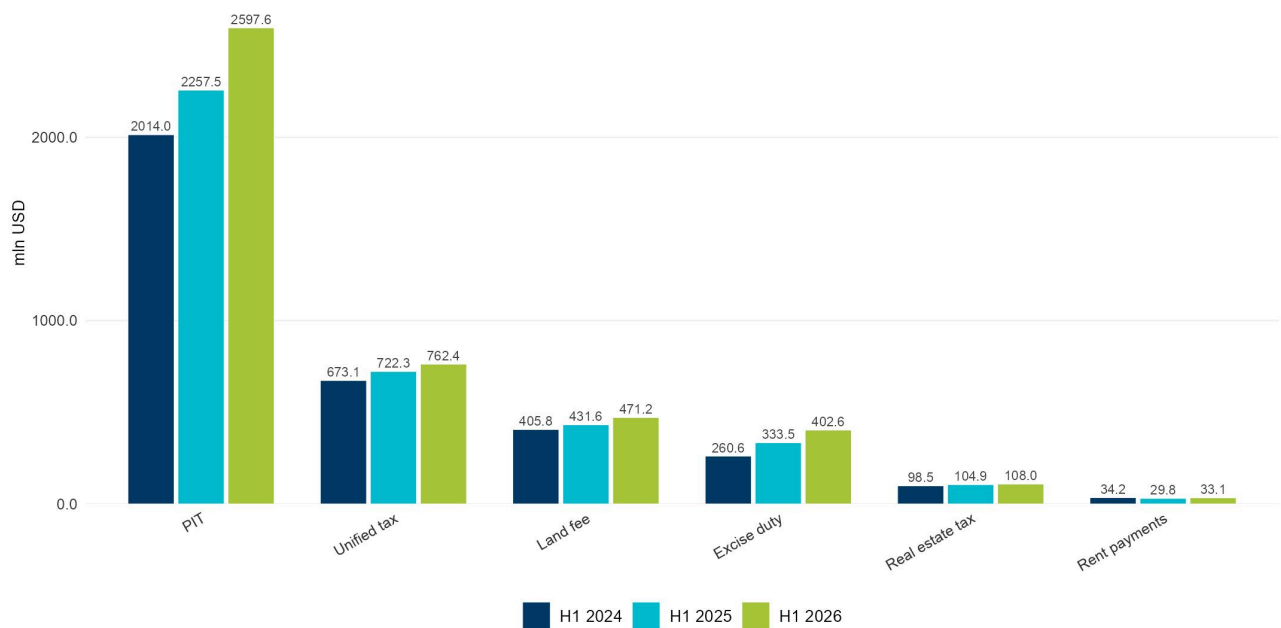
³ According to the recruitment portal work.ua

⁴ Simplified tax for individual entrepreneurs and small businesses

⁵ According to OpenDataBot

FIGURE 2.

Major taxes accruing to local budgets (excl. transfers), H1 2024–2026, \$mn



Source: OpenBudget

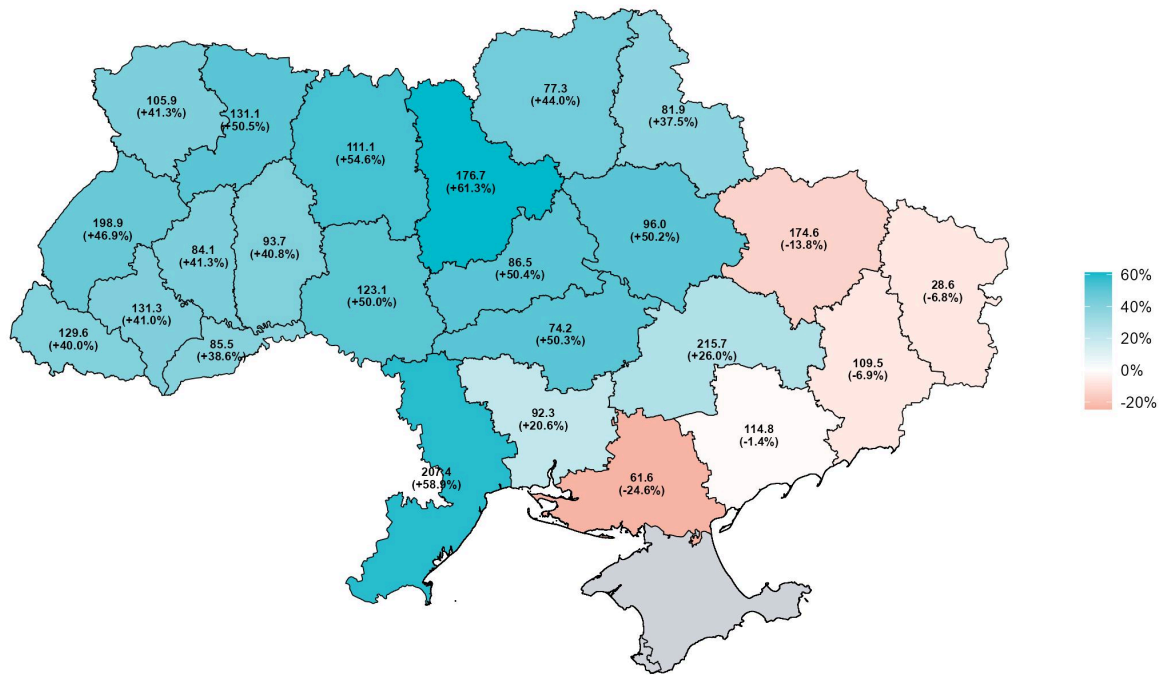
The strong increase in central government transfers in H1 2026 primarily reflected higher state financing for delegated responsibilities, especially education, rather than a broad expansion of discretionary support to municipalities. Transfers to local budgets rose by 30.1% y-o-y, driven mainly by higher education financing and equalization support. The education subvention – the main earmarked transfer used to finance teacher salaries – increased by 29.5%, reflecting the 30% pay raise for teaching staff introduced on January 1, 2026 as part of the government's effort to address long-standing underpayment in the sector. The basic equalization grant – which reallocates resources to municipalities with weaker tax bases – rose by 15.4% (Fig. 3).

The territorial distribution of transfers in H1 2026 diverged sharply from need, with the largest increases concentrated in the safest regions and outright reductions in the most exposed ones. Transfers grew by between roughly 38% and 61% across the western, central, and northern oblasts. By contrast, five oblasts recorded declines, and all five are directly affected by hostilities: Kherson (–24.6%), Kharkiv (–13.8%), Donetsk (–6.9%), Luhansk (–6.8%) and Zaporizhzhia (–1.4%) (Fig. 3). The policy problem is that the fixed costs of municipal administration, utility networks, emergency response, and damaged-asset management do not move with the population. Municipalities in the affected oblasts are therefore absorbing a simultaneous contraction in their own revenues and in transfers, while their service and recovery obligations remain concentrated in place.

Despite the overall expansion of transfers, support targeted at war-affected municipalities declined sharply. The additional grant for the municipalities hardest hit by Russia's full-scale aggression fell by 47.4% y-o-y. This grant is designed to offset financial imbalances, ensure stable public-sector wage payments, and compensate for revenue losses linked to the war (in PIT, property tax, and unified tax); it is allocated quarterly based on actual losses. The reduction in this grant is due to a change in the formula; specifically, the following were added in 2026: 1) indexation of the personal income tax calculation to the increase in the minimum wage; 2) income tax for regional budgets. Accordingly, the allocation for this grant in the state budget is 16.7% lower than in 2026 (Fig. 4).

FIGURE 3.

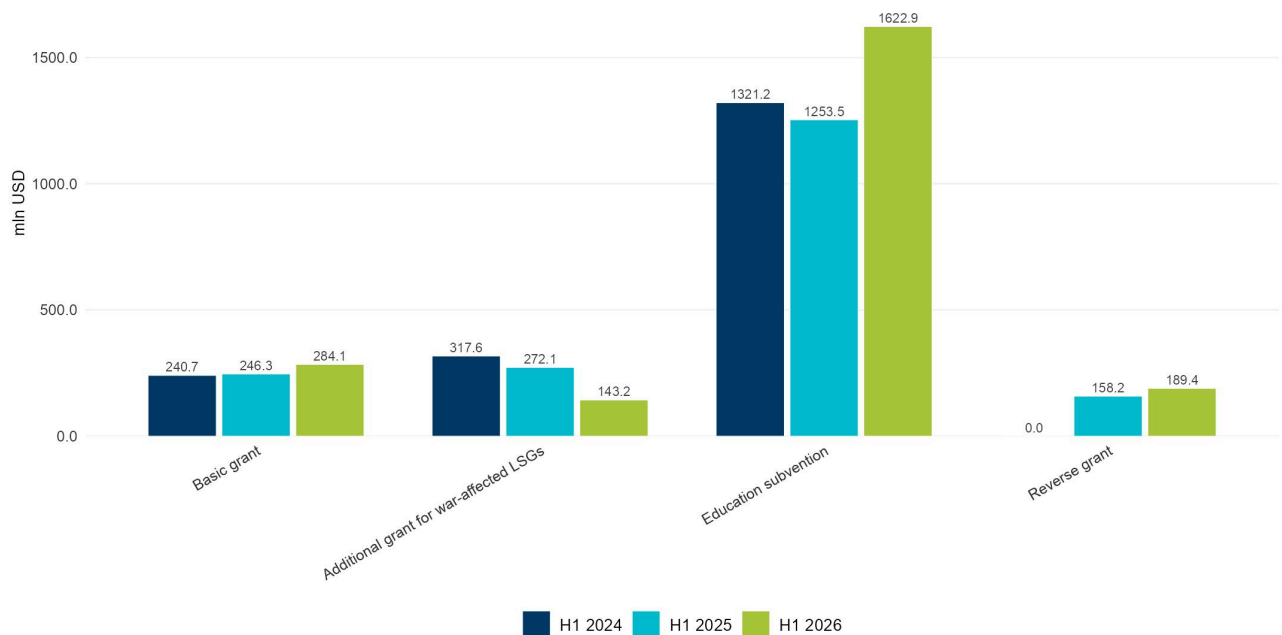
Intergovernmental transfers received by local budgets in H1 2026 (\$mn) and their growth vs H1 2025, % of general fund



Source: OpenBudget

FIGURE 4.

Major intergovernmental transfers received by local budgets, H1 2024–2026, \$mn



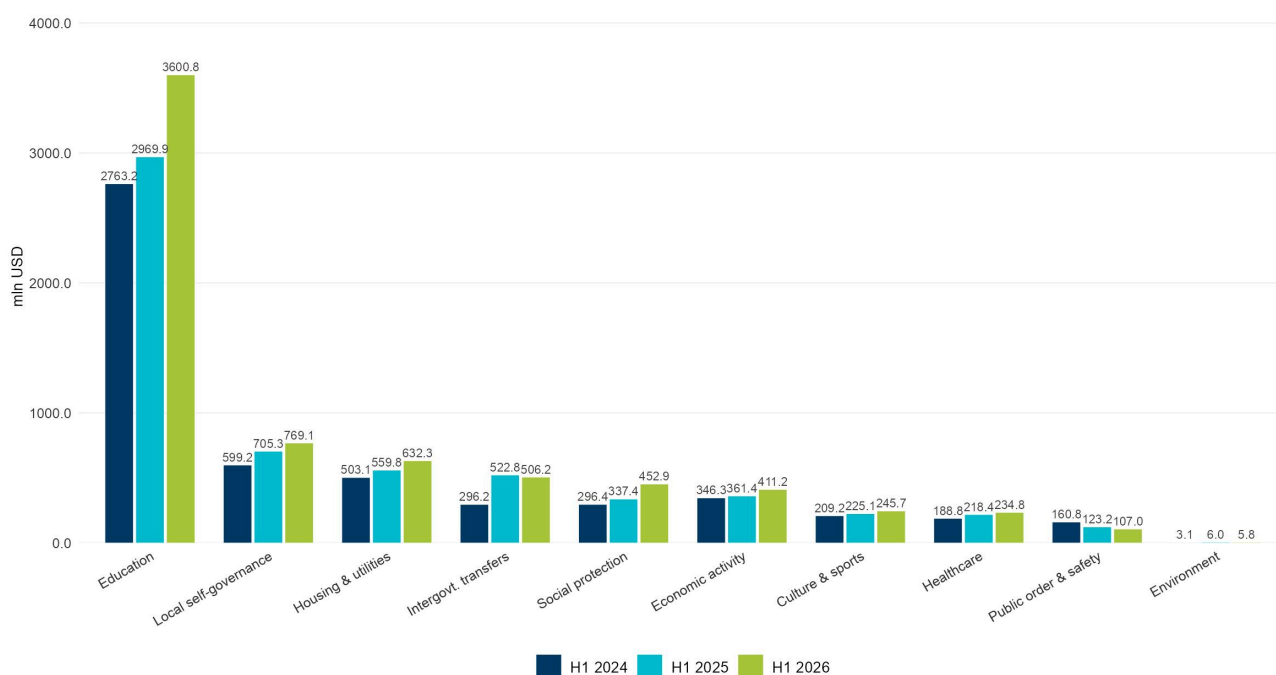
Source: OpenBudget

The reverse grant – the counter-flow paid from wealthier municipalities back to the state budget under the equalization mechanism – rose by 19.7% to \$189.4 mn. This payment applies to municipalities whose per-capita PIT revenues exceed a set threshold, and is the mirror image of the basic grant that supports lower-revenue municipalities. Its growth outpaced that of the basic grant (15.4%), which indicates that the fiscally strongest municipalities are pulling away from the average faster than the equalization mechanism is closing the gap at the bottom. Combined with the reduction in the additional grant for war-affected municipalities, this points to an equalization system that is redistributing more in volume while targeting need less precisely. A redesign of the equalization formula is becoming difficult to postpone.

Total municipal expenditures rose by 15.5% y-o-y to \$7 bn in H1 2026, with spending heavily concentrated in service delivery. Funding for public-sector institutions accounted for 65.1% of total spending – including education (51.7%), social protection (6.5%), healthcare (3.4%) and culture, religion and sports (3.5%). The remainder went to local self-government bodies (11.0%), housing and communal services (9.1%), transfers to other budgets (7.3%) and economic activity (5.9%). The breakdown (Fig. 5) confirms that education remains by far the largest single spending category, consistent with the priority placed on protecting the school system during the war.

FIGURE 5.

Structure of municipal expenditures by functional classification, H1 2024–2026, \$mn



Source: OpenBudget

The spending mix tilted further toward day-to-day costs, while capital investment contracted sharply. Current spending reached \$6.3 bn in H1 2026 – 91.0% of total spending and 18.2% higher than a year earlier – while capital spending remained at last year's level, amounted to \$477.6 mn, accounting for just 7.0% of the total. Payroll and current transfers have grown rapidly over 2024–2026, while purchases of fixed assets and capital transfers have stagnated or remained (Fig. 6). The lack of growth in capital spending may reflect Ukraine's new public investment management rules, which require municipalities to adopt medium-term priority investment plans before they can finance

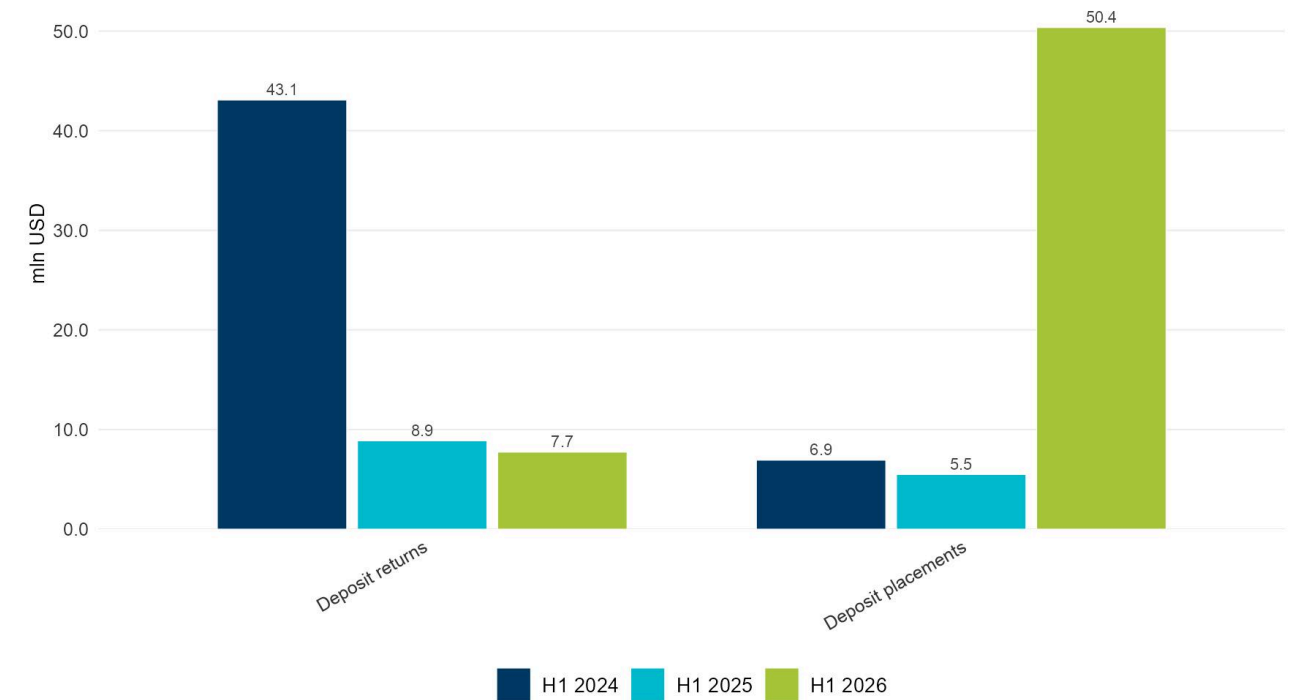
new projects; in practice, municipalities without an approved plan cannot start new investments from their own budgets.

FIGURE 6.
Municipal expenditures by economic classification, H1 2024–2026, \$mn



Source: OpenBudget

FIGURE 7.
Volume of deposit placements and returns, H1 2024–2026, \$mn



Source: OpenBudget

The economic composition of municipal spending shifted further towards fixed operating commitments, leaving investment capacity structurally compressed. Current spending reached \$6.3 bn in H1 2026 – 91.0% of total spending and 18.2% higher than a year earlier – while capital spending amounted to \$477.6 mn, or 7% of the total, essentially unchanged from H1 2025. Within current spending, payroll and associated charges rose by 21.9% to \$3.87 bn and now absorb 55.6% of all municipal expenditure, a share that has risen steadily since 2024. Within capital spending, purchases of fixed assets remained flat at \$143 mn for a second consecutive year, while capital transfers were broadly unchanged at \$334.6 mn (Fig. 6). The half-year figures nevertheless conceal a meaningful intra-period improvement: capital spending had fallen 19.2% y-o-y in Q1, so the flat H1 outcome implies a substantial recovery in April–June. The plausible explanation, consistent with the PIM developments described below, is that municipalities completing their medium-term priority investment plans during Q1 became able to commit capital resources in Q2. Whether this constitutes a durable recovery or a one-off release of delayed commitments will be visible in H2 2026 data.

The squeeze on capital investment is also visible in a steep fall in transfers to the development budget and a shift in how municipalities manage their cash. Transfers from the operating side of the local budget to the development budget – the part of the local budget that funds capital investment – fell by 60.6% y-o-y to \$219.3 mn in H1 2026. At the same time, placements of temporarily free funds in bank deposits and Ukrainian government domestic bonds rose to \$50.4 mn, nine times the level of H1 2025, while repayments of earlier deposits decreased by 13.5% (Fig. 7). Together, these patterns suggest that municipalities are building up cash reserves rather than putting resources into new capital projects, which international partners may wish to monitor closely, given the country's large medium-term reconstruction needs.

PUBLIC INVESTMENT MANAGEMENT (PIM): INSTITUTIONAL PROGRESS AND LOCAL CHALLENGES

Methodological guidelines for the preparation of public investment projects have been approved (on April 10, 2026, the Ministry of Economy issued Order No. 4901). It establishes uniform standards for national and local initiatives and introduces a three-tier system for selecting project initiatives through the DREAM system to attract assistance programs aimed at improving the quality of project documentation and bringing it into compliance with the requirements of donors interested in financing public investment projects. The three-tier system highlights the hierarchy of public investment projects eligible for state support and includes the following levels:

- 1 Selection is conducted from the state's single project pipeline;
- 2 Selection of projects from public investment programs included in the single project pipeline of the state's public investments;
- 3 Selection from sectoral portfolios of the state's public investments. Municipal projects fall specifically under the "sectoral level" and must clearly align with the sector's development strategies.

The Cabinet of Ministers of Ukraine has approved amendments to the procedure for developing the Medium-Term Plan for Priority Public Investments in accordance with Resolution No. 612 of May 1, 2026 (which amended Resolution No. 294 of February 28, 2025). The list of sectors and subsectors for investment is being updated. Proposals for the medium-term plan will now be submitted as ranked lists, thereby increasing the efficiency of funding for areas of greatest importance to the state. Clear requirements for targets and performance indicators are being introduced. The deadlines and procedures for preparing the plan are being clarified. This will ensure timely and predictable decision-making and help avoid delays in funding strategic projects. However, no corresponding amendments have been made to Ministry of Economy Order No. 352 regarding the procedure for developing and monitoring the implementation of the medium-term plan for priority public investments. This creates a problem, as municipal structural units are supposed to submit proposals for the medium-term plan for priority public investments using a format that does not comply with the national standard.

On May 27, the Strategic Investment Council approved the Medium-Term Plan. The document covers 18 priority sectors, 44 subsectors, and 67 key areas of public investment. The plan also identifies 5 cross-cutting priorities for public investment: energy efficiency, digitalization, climate change response, gender equality, and accessibility. The largest allocations are earmarked for:

- | | |
|--|------------------------------|
| ■ Education and science – \$1.75 bn; | ■ Healthcare – \$0.57 bn; |
| ■ Transportation and postal services – \$1.63 bn; | ■ Energy – \$0.38 bn; |
| ■ Municipal infrastructure and services – \$1.04 bn; | ■ Social sector – \$0.17 bn. |

This document will serve as the basis for preparing projects to be included in the Single Project Pipeline.

On June 27, the Cabinet of Ministers of Ukraine approved the Medium-Term Plan for Priority Public Investments for 2027–2029, with a total volume of \$6.06 bn. Approval of the plan is a mandatory prerequisite for the formation of the Single Project Pipeline (SPP). The plan defines the priority areas according to which projects and programs are included in the SPP. The SPP is formed using the DREAM system to ensure that every investment project, its budget, and implementation stages are fully transparent and accountable to international partners, businesses, and citizens. Sectoral ministries must prioritize projects in their portfolios and submit them for expert evaluation to the Ministry of Economy and Environment of Ukraine, the Ministry of Finance, and the Ministry of Communities, Territories Development and Internally Displaced Persons. Based on the results of the evaluation, the Ministry of Economy will compile a list of projects and programs and submit them for approval by the Strategic Investment Council.

SECURITY SITUATION IN MUNICIPALITIES: STATUS AND TRENDS

H1 2026 established a new and substantially higher baseline of security pressure on municipalities, with material damage growing more than four times faster than the number of attacks. Over January–June, municipalities under Ukrainian government control⁶ recorded 18,183 attacks and 4,238 incidents of damage to civilian infrastructure. Compared with H1 2025, attacks increased by 40.6% and infrastructure damage by 184%; compared with H1 2024, attacks rose by 159% and damage by 734.3%. The divergence between the two series is the analytically important finding. If attacks and damage grew at similar rates, the implication would be a proportionally larger version of the same problem. Instead, each attack is converting into recorded damage far more often than two years ago, which means municipalities face a rising volume of physical consequences per unit of military activity – and therefore a rising volume of inspection, repair, compensation and social-support casework that must be handled with unchanged administrative resources.

The number of attacks rose every month – from 3,084 in April to 3,193 in May and 3,724 in June– up 20.8% for the quarter. **Damage, by contrast, remained on a high but relatively stable plateau:** 792 incidents in April, 787 in May and 747 in June, representing a decrease of 5.7% between April and June. June was the most attack-intensive month, whereas April was the most destructive month of the quarter in terms of recorded infrastructure damage. For municipal authorities, this is a demanding combination: the operational burden continues to rise even when the number of buildings and facilities damaged in a particular month does not. Every attack still triggers checks, emergency coordination, communication with residents, and readiness to restore services.

TABLE 2.

Attacks and civilian infrastructure damage incidents, Q1–Q2 and H1, 2024–2026

Indicator	2024	2025	2026	Change, H1 2025–H1 2026
Attacks, Q1	3,708	5,614	8,182	+45.7%
Attacks, Q2	3,313	7,322	10,001	+36.6%
Attacks, H1	7,021	12,936	18,183	+40.6%
Civilian infrastructure damage, Q1	258	595	1,912	+221.3%
Civilian infrastructure damage, Q2	250	897	2,326	+159.3%
Civilian infrastructure damage, H1	508	1,492	4,238	+184.0%

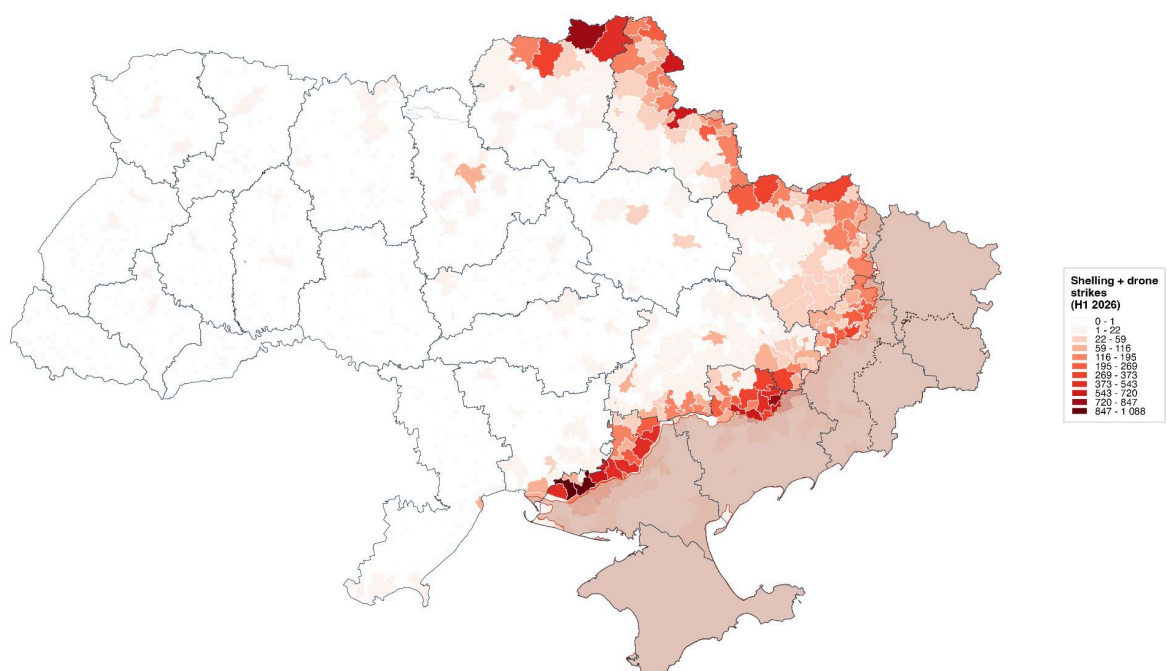
Source: KSE Institute based on data of DeepState and ACLED

⁶ This section uses KSE Institute data based on ACLED and DeepState data. Only municipalities under Ukrainian government control are included.

The rising number of attacks also had an increasingly visible human cost. According to the [UN Human Rights Monitoring Mission](#), at least 815 civilians were killed and 5,206 injured in Ukraine during Q2 2026. Compared with Q1, civilian deaths increased by 40.3% (from 581 to 815), while injuries increased by 87.8% (from 2,772 to 5,206). The escalation intensified as the quarter progressed: May recorded the highest monthly civilian casualty total since April 2022, before June surpassed it with 293 people killed and 1,990 injured. Although these national figures are methodologically separate from the our municipal ACLED dataset, they show that the growing intensity and geographical spread of aerial attacks translated not only into more damaged infrastructure, but also into a substantially heavier civilian toll.

FIGURE 8.

Number of shelling and drone attacks by municipality in Q2 2026 (interactive map)



Source: KSE Institute based on data of DeepState and ACLED

The aerialization of the war became a stable structural feature rather than a temporary monthly fluctuation. Air and drone strikes accounted for 8,346 attacks, or 83.5% of all attacks in Q2 2026. Their number increased by 25.9% compared with Q1 (from 6,627 to 8,346), while shelling, artillery, mortar, and missile attacks increased by only 6.4% (from 1,555 to 1,655). The monthly share of air and drone strikes remained consistently above four-fifths—84.6% in April, 82.5% in May and 83.3% in June. This continuity matters more than any single monthly peak: the central security challenge for municipalities is increasingly a broad aerial campaign capable of reaching territories far beyond traditional artillery zones. Frontline municipalities still face repeated shelling, but smaller rural municipalities, regional centers and non-frontline cities are now exposed to the same airspace-driven risk, even if at a lower frequency.

The material footprint of the war remained overwhelmingly residential, which determines the administrative character of the municipal response. Of the 2,326 incidents of civilian infrastructure damage, 78.2% were residential infrastructure. Residential damage increased by 32.6% compared with Q1 2026 (from 1,373 to 1,820) and

by 184.4% compared with Q2 2025 (from 640 to 1,820). Unlike damage to a specialized facility, housing losses immediately generate hundreds of individual municipal cases – inspection reports, emergency repairs, temporary accommodation, compensation procedures, social assistance, and continuous communication with affected residents. The figures show that these create a growing administrative backlog that can accumulate faster than municipalities can complete repairs.

TABLE 2.

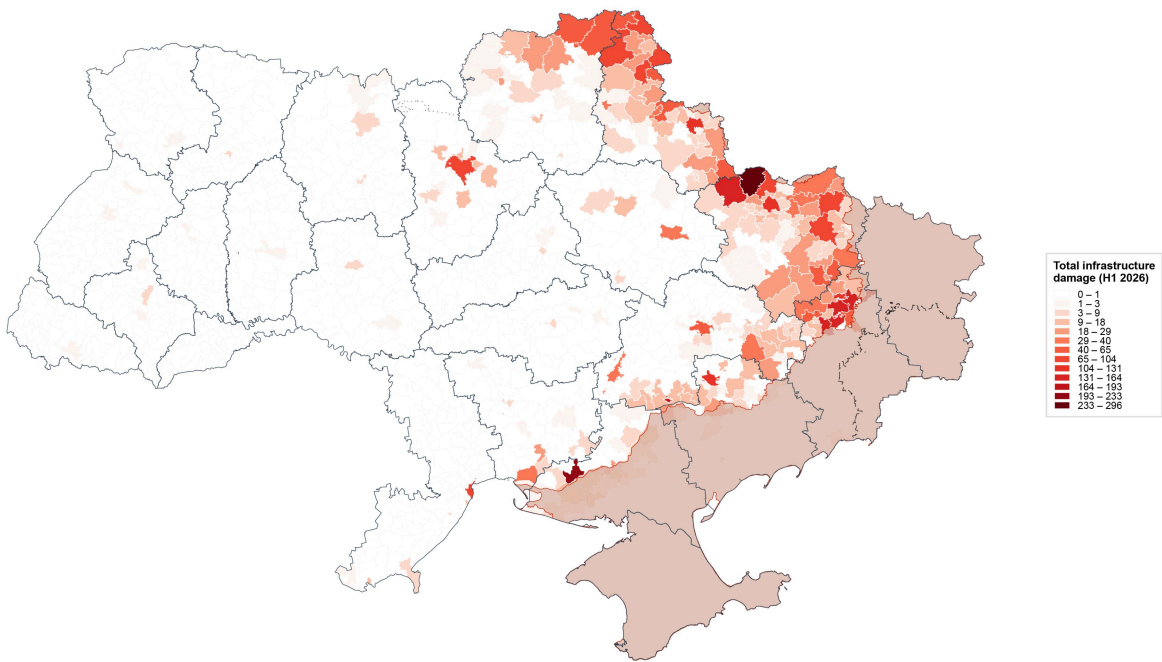
Comparison by year of number of infrastructure damages and drone attacks in Q1 and Q2 2026, Q2 2025

Infrastructure type	Q1 2026	Q2 2025	Q2 2026	Change, Q1–Q2 2026	Change, Q2 2025–Q2 2026
Residential	1,373	640	1,820	+32.6%	+184.4%
Energy	358	136	266	–25.7%	+95.6%
Education	110	75	148	+34.5%	+97.3%
Health	71	46	92	+29.6%	+100.0%
Total	1,912	897	2,326	+21.7%	+159.3%

Source: KSE Institute based on data of DeepState and ACLED

FIGURE 9.

Number of infrastructure damage by municipality in H1 2026
([interactive map](#))



Source: KSE Institute based on data of DeepState and ACLED

The burden of municipalities is therefore measured not only in buildings damaged or services physically destroyed, but also in thousands of working hours fragmented by air raid alerts, growing staff fatigue, and the need for municipalities to maintain remote-work arrangements, protected service points, and continuity plans for essential functions. Air raid alerts have become a major operational constraint even where attacks do not immediately cause physical damage. Sumy, Dnipropetrovsk, and Kharkiv oblasts each spent approximately 700 cumulative hours under air raid alerts during Q2 2026 – the equivalent of almost 30 full workdays. Such prolonged disruption complicates the everyday functioning of municipalities: council meetings and administrative services may be interrupted, schools and healthcare facilities must repeatedly move into protected operating modes, public transport and municipal works face delays, while staff must combine routine responsibilities with shelter procedures and emergency communication.

H1 also exposed a more specific operational risk for municipalities: responders arriving after an attack may themselves become targets. In May, a second strike on a gas-production facility in Poltava oblast killed five civilians and injured 32, including 23 emergency workers. In June, a second strike at the same location in Kharkiv killed six emergency workers and injured seven. Such incidents make the first hours after an attack especially dangerous and underline the need for municipal response protocols that account for repeated strikes, not only the immediate consequences of the initial impact.

Over the three months of Q2, an average city municipality experienced approximately 13 attacks and 4.9 infrastructure damage incidents. The corresponding burden was about 7 attacks and 1.35 damage incidents for a settlement municipality, or 5.4 attacks and 0.34 damage incidents for a rural municipality. City municipalities recorded 42.8% (4,282 attacks) of the Q2 total and 69.6% (1,620) damage incidents of all civilian infrastructure damage. Compared with Q1, attacks on cities increased by 17.9% and damage by 21.5%. Settlement and rural municipalities together experienced a substantial increase in security pressure during Q2, with the number of attacks rising by 25.7% (from 4,550 to 5,719), and infrastructure damage increasing by 21.9% (from 579 to 706).

TABLE 3.

Comparison by municipality type (city, settlement, village) in Q1 and Q2 (2026)

Municipality type	Q1 2026 (shelling/ damages of infrastructure)	Q2 2026 (shelling/ damages of infrastructure)	Change, Q1–Q2 2026
City	3,632 / 1,333	4,282 / 1,620	+17.9% / +21.5%
Settlement	2,144 / 373	2,639 / 512	+23.1% / +37.3%
Village	2,406 / 206	3,080 / 194	+28.0% / –5.8%
Total	8,182 / 1,912	10,001 / 2,326	+22.2% / +21.7%

Source: KSE Institute based on data of DeepState and ACLED

Frontline municipalities⁷ remained the center of the war, but the rate of growth beyond it was equally significant. Frontline-classified municipalities accounted for 91.7% (9,172 attacks) of the Q2 total, and or 81.9% (1,905) of infrastructure damage incidents. Compared with Q1, frontline attacks increased by 22.2% and damage by 22.6% (from 1,554 to 1,905). Non-frontline municipalities followed almost the same trajectory: attacks increased by 22.5% (from 677 to 829) and damage by 17.6% (from 358 to 421).

TABLE 4.

Comparison by municipality type (frontline or not) in Q1 and Q2 2026 and Q2 2025

Territory type	Q1 2026	Q2 2025	Q2 2026	Change, Q1–Q2 2026	Change, Q2 2025–Q2 2026
Frontline	7,505 / 1,554	6,898 / 658	9,172 / 1,905	+22.2% / +22.6%	+33.0% / +189.5%
Non-frontline	677 / 358	424 / 239	829 / 421	+22.5% / +17.6%	+95.5% / +76.2%
Total	8,182 / 1,912	7,322 / 897	10,001 / 2,326	+22.2% / +21.7%	+36.6% / +159.3%

Source: KSE Institute based on data of DeepState and ACLED

A small and stable core of municipalities continued to live in a permanent state of emergency. Seven municipalities appeared among the ten most attacked in each of the three Q2 months. Bilozerska recorded at least 593 attacks across April–June, Khersonska 503, Semenivska 380, Darivska 320, Preobrazhenska 300, Ternuvatska 243 and Mylivska 242. These municipalities' repeated presence shows a stable geography of attrition in which local administrations, utility workers and emergency services operate continuously under attack. Several – Khersonska, Bilozerska, Semenivska and Darivska – were already identified in the Q1 review as part of the chronically affected core that repeatedly appeared among the most attacked municipalities in 2024, 2025, and 2026.

TABLE 5.

Main confirmed non-frontline outliers, Q2 2026

Non-frontline municipality	Oblast	Q2 2026 total: attacks / damage	Pattern
Kyiv	Kyiv	46 / 34	Highest confirmed quarterly damage among the consistently reported non-frontline cases
Dnipro	Dnipropetrovsk	39 / 29	Persistent combination of repeated attacks and high material losses
Poltava	Poltava	37 / 26	Stable exposure throughout all three months rather than one exceptional incident

Source: KSE Institute based on data of DeepState and ACLED

⁷ Analysis of non-occupied municipalities, including frontline one (in accordance with Cabinet of Ministers of Ukraine Resolution No. 1364 of December 6, 2022)

High attack exposure and high material damage still do not produce the same municipal ranking. In both May and June, Bohodukhivska recorded some of the highest infrastructure losses – 49 incidents in May and 44 in June – despite not appearing among the municipalities with the largest number of attacks. Kramatorska recorded 32 damage incidents in May and 34 in June, while Nikopolska recorded 28 and 26, respectively. Khersonska, by contrast, combined both forms of pressure, with 155 attacks and 36 damage incidents in May, followed by 190 attacks and 35 damage incidents in June. These cases illustrate why the number of attacks alone is an inadequate proxy for local recovery needs: one municipality may require sustained operational support because incidents occur almost daily, while another needs larger reconstruction resources because fewer attacks generate more extensive damage.

Non-frontline regional centers displayed markedly different trajectories, indicating that rear-area risk is redistributing rather than uniformly rising. Kyiv remained the most exposed non-frontline municipality in absolute terms with 46 attacks and 34 damage incidents in Q2, although both indicators fell relative to Q1 (–17.9% and –20.9%). Pressure intensified more sharply in other regional centers. In Dnipro, attacks increased by 56.0% (from 25 to 39) and damage by 52.6% (from 19 to 29). In Poltava, attacks increased by 131.3% (from 16 to 37) and damage by 160.0% (from 10 to 26). These municipalities are not comparable with frontline areas in absolute exposure, but they illustrate how the aerial campaign creates sudden local workloads in cities that simultaneously act as transport, health, logistics and service hubs for much wider territories.

COOPERATION BETWEEN MUNICIPALITIES

86 new intermunicipal cooperation agreements were registered during H1 2026, with a lower but more evenly distributed volume in Q2 and a clear change in the type of cooperation municipalities chose. Thirty agreements were registered in April–June compared with 56 in January–March, a quarter-on-quarter decline of 46.4%. The fall is less significant than it appears: Q1 was heavily front-loaded, with 31 registrations in January alone, whereas Q2 activity was distributed almost evenly across April (8), May (12) and June (10). Q2 accounted for 34.9% of the six-month total. The substantive development lies not in the volume but in the form of cooperation, which shifted decisively during the quarter.

TABLE 6.

Main confirmed non-frontline outliers, Q2 2026

Month	Agreements	Dominant form	Main substantive focus	Illustrative cases
April	8	Delegation of tasks	Education and inclusion, urban planning, civil protection, support for displaced residents	Inclusive resource centers; delegation of urban-planning functions; the “Free Together” center for displaced Kherson residents
May	12	Delegation of tasks	Education, teacher development, veterans and social support, displaced municipalities, territorial defence	Dubno as an education service hub; Korsun-Shevchenkivskyi institutions serving Steblyvska municipality; the “YaMariupol” network
June	10	Joint projects	Residential care, housing, mobile administrative services, municipal infrastructure and development	Housing cooperation between Kryvyi Rih and Pokrovsk; mobile administrative services in Sumy Oblast; repair of care infrastructure for Hrodivska residents

Source: KSE Institute based on data of DeepState and ACLED

The most important structural change in H1 2026 was the rise of task delegation from a secondary instrument to the dominant form of cooperation. Delegation accounted for 46.7% of Q2 agreements, more than twice its Q1 share, while joint financing and maintenance fell from 55.4% to 30.0%. Across the half-year, joint financing and maintenance remained the largest single category at 46.5% of agreements, but the trend within the period is unmistakable. The distinction is practical rather than legal. Joint financing pools resources to sustain a shared facility over time; delegation transfers responsibility for delivering a specific function to a partner that already possesses the institution, personnel or expertise required. The shift therefore indicates that municipalities are increasingly responding to capacity shortages rather than to funding shortages. Where a municipality can no longer staff an inclusive resource center, a social service or an urban-planning function, the response is no longer to co-finance it but to have a neighbor perform it. The service-hub model identified in Q1 has consequently persisted while changing its contractual expression.

The quarterly average conceals a clear transition from service preservation in April to more project-based cooperation by June. April registered no joint projects: five of its eight agreements involved delegation and three involved joint financing. Two joint projects appeared in May, while in June they became the largest category, accounting for five of ten agreements. Nevertheless, the overall share of joint projects remained virtually unchanged

between Q1 and Q2 – 23.2% and 23.3%, respectively. The change was therefore not a full return to the pre-war model of one-off development projects, but a late-quarter expansion of cooperation into housing, repairs, mobile services, municipal enterprises and territorial development.

Cooperation remained predominantly local, but H1 showed a modest shift from geographic proximity toward a more functional wartime geography. In Q1, 55 of 56 agreements were concluded within one oblast. In Q2, 27 of 30 agreements remained intra-oblast, while three crossed oblast boundaries. The inter-oblast cases connected frontline or displaced administrations with partners able to provide safer infrastructure, services or institutional capacity. Examples included cooperation under the national Plich-o-plich framework and the June agreements linking Donetsk Oblast municipalities with partners in Dnipropetrovsk Oblast.

Military administrations became a regular participant in inter-municipal cooperation during Q2. Based on the agreements explicitly discussed in the three monthly reports, at least seven of the 30 Q2 agreements involved one or more military administrations. Their roles were diverse: preserving links with displaced residents through the “Free Together” and “YaMariupol” service networks; organising civil-protection and territorial-defence functions; repairing premises for residential care; and supporting sport and social cohesion. Q1 had already shown the growing visibility of military administrations, particularly in Donetsk Oblast, but Q2 demonstrates that they now use cooperation across social, administrative, security and development functions.

The most significant H1 cases show cooperation becoming a mechanism for reallocating capacity across the wartime map of Ukraine. The agreements involving Mariupol’s military administration allowed its established service network to support residents of Volnovaska and Andriivska municipalities. Sofiivska municipality and Hrodivska military administration cooperated on repairing premises for residential care in Dnipropetrovsk Oblast. Kryvyi Rih and Pokrovsk launched a joint housing project in Kryvyi Rih, although the register does not specify the precise housing category or beneficiaries. These arrangements go beyond ordinary cooperation between neighboring municipalities: they allow an administration under occupation, displacement or sustained military pressure to operate through infrastructure situated elsewhere.

| INTERNATIONAL COOPERATION

International territorial cooperation accelerated in H1 and became more visibly municipality-led and network-based. The Ministry records 13 formally registered agreements and memoranda, including two in April, five in May, and six in June. The Q1 synthesis records nine agreements in total, meaning formal registrations increased by approximately 44% in Q2. 22 international agreements were registered across H1 2026.

The formal register captures only part of the international cooperation taking place at the municipal level. Across Q2, the monthly reports identified more publicly announced partnerships and signed agreements than appeared in the Ministry’s register during the same period, suggesting a substantial lag between political agreement, signature, submission, and formal registration. This gap is partly explained by the length and complexity of the procedure, as municipalities must prepare supporting documents, secure the necessary approvals and submit the agreement in the prescribed format; some partnerships also begin with practical assistance, exchanges or joint projects before a formal agreement is registered. In addition, although registration is mandatory, the absence of effective sanctions means that some municipalities register agreements late or

not at all. Lengthy and burdensome procedures may reduce incentives to formalize partnerships, delay access to joint programs, and make it harder for the state and donors to identify active municipal networks and support them systematically.

The key H1 innovation was not a new sector but a new partnership architecture. In April, Skalat and Novoodeska municipalities from different oblasts joined around the Polish gmina of Biskytnek, creating a network rather than a conventional one-to-one twinning arrangement. In June, Olhopilska municipality, frontline Siverska municipality and Poland's Masłowice gmina formed a trilateral partnership under the logic of *Plich-o-plich*. This model combines domestic solidarity between Ukrainian municipalities with access to an international partner's experience, networks, and potential project resources. It may be particularly relevant to frontline municipalities with limited capacity to independently establish and manage international partnerships.

International agreements typically became operational before or alongside their formalization. The partnership between Mykolaiv and Berlin's Tempelhof-Schöneberg district built on already existing youth, cultural, and water-infrastructure cooperation. The Bilohorodska–Bures-sur-Yvette partnership developed through municipal and youth contacts before appearing in the register. In April, Mykolaivska municipality's partnership with the Polish town of Ława formalized cooperation that had already produced a fire engine, two buses, and humanitarian deliveries. In other words, registration records formalization, not necessarily the beginning or full intensity of cooperation.

The institutional environment for international cooperation is likely to strengthen further in H2 2026. From September 23, 2026 – three months after the President signed the law originating from draft law No. 10284 – municipalities will be able to use resources from international programs and grants to pay bonuses to local-government officials engaged in preparing and implementing international projects. This addresses one of the recurring bottlenecks behind effective cooperation: retaining personnel capable of managing partnerships and external funding. It also carries the distributional risk noted earlier in this review. Municipalities that already hold international projects will be able to consolidate their project teams, while those outside international networks gain nothing, since the instrument is financed from the projects it is meant to support. Pairing the new mechanism with entry-level support for municipalities without prior donor experience – including through the network partnership models emerging in Q2 – would help ensure that it strengthens the system as a whole rather than its strongest participants alone.