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KEY FINDINGS

The first nine months of 2026 revealed a growing gap between the expansion of policy and financing instruments available to Ukrainian municipalities and their practical ability to use them. Reforms in regional development, public investment management and local governance continued to advance, with Q3 bringing new implementation procedures, more differentiated approaches to territorial support and additional recovery financing. At the same time, municipalities operated under intensifying security pressure, growing expenditure commitments and increasingly uneven fiscal conditions. September introduced an additional constraint as Treasury payment delays began affecting municipalities' ability to use available budget resources. These developments highlight an increasingly important distinction between the formal availability of financing and the actual capacity of municipalities to deliver services and implement recovery projects.

The central challenge for municipal governance is increasingly shifting from establishing regulatory frameworks to ensuring that they function under highly unequal local conditions. New investment requirements and financing mechanisms create opportunities for better project selection and more effective use of public resources, but municipalities differ considerably in their administrative capacity, fiscal resources and exposure to hostilities. The same requirements may therefore produce very different outcomes: municipalities with established project teams and stable revenues can advance investment proposals, while those facing staff shortages, infrastructure damage and financial constraints risk falling further behind. This creates a growing need to align reform implementation, financial support and capacity-building measures with the actual circumstances of different municipalities.

Regional policy reforms advanced during Q3, but important questions concerning the distribution of resources and the delineation of powers remain unresolved. Amendments to the State Regional Development Strategy further specified the classification of municipalities by functional territorial type, with differentiated state support measures planned from 2027. However, the classification's practical significance will depend on whether it changes actual funding criteria and investment priorities. The Government also established a clearer timetable for the delineation of powers between levels of government, although it does not fully align with the Q1 2027 deadline under the Ukraine Facility. Meanwhile, the draft 2027 State Budget proposed reducing the municipal share of personal income tax from 64% to 60% while expanding earmarked financing. Following the first reading on 28 October, Parliament tasked the Government with considering retaining the 64% PIT share and allowing municipalities to keep the reverse equalisation grant. These proposals remain subject to further consideration, leaving the future balance between municipal responsibilities, financial resources and fiscal autonomy uncertain.

Municipal revenues continued to grow in real terms during 9M 2026, but slower revenue growth, persistent territorial disparities and new Treasury payment restrictions exposed growing risks to local fiscal capacity. Own revenues reached $7.4 bn, increasing by 11.1% y-o-y in US dollar terms and 17.7% in hryvnia, although growth moderated compared with H1. Donetsk and Zaporizhzhia remained the only oblasts recording revenue declines, while transfers from the central government increased by 34.1%, primarily reflecting higher education financing rather than additional discretionary resources. Targeted support for the most war-affected municipalities remained 22.5% below the previous year's level. On the expenditure side, municipalities spent $10 bn, with current spending continuing to expand while capital expenditure declined by 5.9% y-o-y. Most importantly, Treasury payment delays emerging in September demonstrated that even municipalities with sufficient revenues and available budget balances may face difficulties financing infrastructure repairs, municipal services and investment projects. The growing

distinction between budgetary resources and actual spending capacity has therefore become a critical issue for municipal financial management.

Public investment management progressed from establishing planning requirements towards applying more detailed rules for project preparation, selection and implementation, making project readiness and municipal co-financing capacity increasingly important. During Q3, the Government formalised the regulatory framework for DREAM, revised procedures for implementing public investment projects and introduced new conditions for State Fund for Regional Development (SFRD) financing, including a minimum 10% local co-financing requirement. Additional EIB-supported recovery resources and new resilience financing mechanisms expanded investment opportunities, particularly for essential infrastructure and municipalities affected by the war. However, funding increasingly depends on approved investment plans, properly prepared projects, compliance with selection procedures and the ability to manage implementation. While these requirements can improve investment quality and accountability, they may also reinforce differences between municipalities with established technical capacity and those struggling to prepare projects despite substantial recovery needs.

The security burden on municipalities intensified further in Q3, with attacks becoming more frequent and geographically dispersed while damage increasingly affected infrastructure essential for public services. Over January–September, municipalities under Ukrainian government control recorded 29,829 attacks and 7,524 incidents of civilian infrastructure damage, increases of 44.4% and 159.8% respectively compared with the same period of 2025. Q3 recorded the highest quarterly number of attacks since the beginning of 2024, with air and drone strikes accounting for 86.8% of incidents. Across the 9 months, 415 municipalities experienced attacks, including a growing number outside traditional frontline areas. Although housing remained the largest category of damaged infrastructure, Q3 saw faster growth in damage affecting energy, education and healthcare facilities, increasing the risk of disruptions to essential services. The consequences were also increasingly severe for civilians: UN-verified deaths during the first nine months of 2026 already exceeded the total recorded throughout 2025. The emerging pattern requires municipalities to manage two different pressures simultaneously: sustained emergency response and reconstruction in chronically affected territories, and preparedness for sudden large-scale shocks elsewhere.

Intermunicipal cooperation remained a practical response to capacity constraints, while international partnerships increasingly focused on joint project development rather than formal agreements alone. A total of 115 domestic cooperation agreements were registered during 9M 2026, including 29 in Q3. Delegation of tasks remained the dominant form of new cooperation, accounting for 48.3% of Q3 agreements, while joint financing and maintenance declined sharply. Municipalities increasingly used partnerships to access specialised expertise, organise services across administrative boundaries and prepare shared infrastructure initiatives. Internationally, the development of municipal clusters, structured mentorship programmes and joint funding applications continued the shift towards network-based cooperation identified in H1. Examples of approved international project financing also demonstrated how established partnerships can translate into concrete investment opportunities. Together, these trends show that cooperation is becoming an important mechanism for overcoming individual municipalities' institutional limitations, although its practical results depend on moving beyond agreements towards functioning services and implemented projects.

REGIONAL POLICY AND MUNICIPAL DEVELOPMENT: WHAT'S NEW?

Q3 2026 marked a shift from developing the regulatory framework for local self-government reform towards establishing mechanisms for its practical implementation. Building on the legislation and policy frameworks developed during H1, the Government introduced new rules for regional development financing, advanced a differentiated approach to territorial support, and set clearer timelines for the division of responsibilities between central and local authorities. Preparations for the 2027 State Budget also highlighted the importance of ensuring that municipal responsibilities are matched with adequate financial resources. While the quarter brought further progress in establishing implementation mechanisms, significant challenges remained in ensuring that municipalities have the financial, institutional and technical capacity to apply them effectively.

The public investment management reform advanced further into practical implementation, linking regional development funding more closely to strategic priorities and project readiness. Building on the public investment framework developed during H1, the Government introduced new procedures in July to allocate resources from the State Fund for Regional Development (SFRD) and to assess regional and municipal public investment plans. The new approach places greater emphasis on strategic alignment, transparent project selection and effective use of public resources. While these changes represent progress towards a more systematic and EU-aligned investment framework, their practical impact will depend on municipalities' capacity to prepare and implement investment projects, particularly in municipalities with limited technical and administrative resources.

The differentiated approach to regional development gained a more concrete territorial basis in Q3. In September, amendments to the State Regional Development Strategy established a classification of municipalities by functional territorial type, including recovery territories, areas with low levels of socioeconomic development, mountainous areas and other territories requiring differentiated support. The classification is intended to guide strategic planning, recovery programmes and public investment decisions, with differentiated state support measures planned to be introduced from 2027. This represents further progress in aligning Ukraine's regional development policy with EU cohesion policy approaches under accession Chapter 22. However, the classification will only become a meaningful policy instrument if these territorial distinctions translate into actual funding criteria, investment priorities and resource allocation, rather than remaining a formal planning exercise.

The draft 2027 State Budget raised concerns about municipal fiscal autonomy, as the projected increase in local budget resources could be accompanied by greater dependence on centrally allocated transfers. In September, the Government proposed reducing the municipal share of personal income tax (PIT) from 64% to the standard 60%, while introducing an earmarked subvention to compensate for differences in utility tariffs. Unlike PIT revenues, earmarked transfers can only be used for specified purposes, limiting municipalities' flexibility to respond to local needs and priorities. However, following the first reading of the draft budget on 28 October, Parliament tasked the Government with considering two proposals: retaining the 64% PIT share for municipalities and allowing them to retain the reverse equalisation grant rather than transferring it to the state budget. Neither proposal is automatically incorporated into the budget, and both remain subject to Government consideration before the second reading. The outcome will

therefore be important not only for the overall financial resources available to municipalities, but also for the degree of fiscal autonomy they retain in 2027.

EIB-supported recovery financing expanded in Q3, creating additional opportunities for municipal infrastructure investment while placing greater emphasis on project readiness. In August, the Government allocated UAH 4.9 bn under the Ukraine Recovery Programme III for water supply, social infrastructure and housing for internally displaced persons, primarily in war-affected and IDP-hosting municipalities. Funding for the Ukraine Recovery Programme was also increased by UAH 1 bn to nearly UAH 2 bn in 2026, allowing 25 additional EIB-approved projects to receive support. Priority is given to projects already underway or ready for implementation, including those with completed documentation and procurement preparations. This approach helps accelerate the use of available financing but may disadvantage municipalities with limited project preparation capacity, reinforcing the importance of targeted technical assistance to ensure that recovery funding reaches municipalities with the greatest needs, rather than only those with the most advanced projects.

The delineation of powers between levels of government remained unresolved in Q3, while the Government established a clearer timetable for the reform that does not fully align with Ukraine's commitments under the EU's Ukraine Facility. Although draft law No. 14412, adopted in the first reading during H1, had not advanced further, the Government's Programme of Activities and the Public Administration Reform Strategy for 2026–2030 outlined the next steps: preparing legislation by Q3 2027, adopting it by the end of the year and bringing it into force by Q1 2028. However, the Ukraine Facility sets an earlier deadline of Q1 2027 for the relevant legislation to enter into force, creating a potential discrepancy between domestic reform planning and EU commitments. Beyond this timing issue, the actual distribution of functions and the corresponding financing, staffing and accountability arrangements remain to be determined. The central challenge is therefore not only meeting the reform deadline, but ensuring that the redistribution of responsibilities is accompanied by adequate resources and institutional capacity, rather than creating additional unfunded obligations for municipalities.

New national education policies introduced in Q3 expanded access to school services and increased teachers' remuneration, but also placed additional financial and organisational demands on municipalities. From September, free school meals were extended to all pupils in grades 1–11(12) attending in-person or blended classes, supported by a dedicated state subvention, while municipalities became responsible for organising expanded catering services and procurement. At the same time, teachers' salaries increased by a further 20%, following a 30% increase in January, alongside the introduction of a new remuneration system and revised education subvention formula. Although the state allocated additional funding for schoolteachers' salaries, municipalities face additional financial commitments for locally funded education institutions, particularly where they choose to extend the new remuneration system to preschool and extracurricular education. Furthermore, from September, schools falling below minimum enrolment thresholds of 45–60 pupils, depending on school type, are no longer eligible for state funding of teachers' salaries, leaving municipalities to cover these costs if they retain such schools. These changes increase pressure on municipalities to balance national education standards with local fiscal capacity and the sustainability of school networks, particularly in smaller municipalities with limited resources.

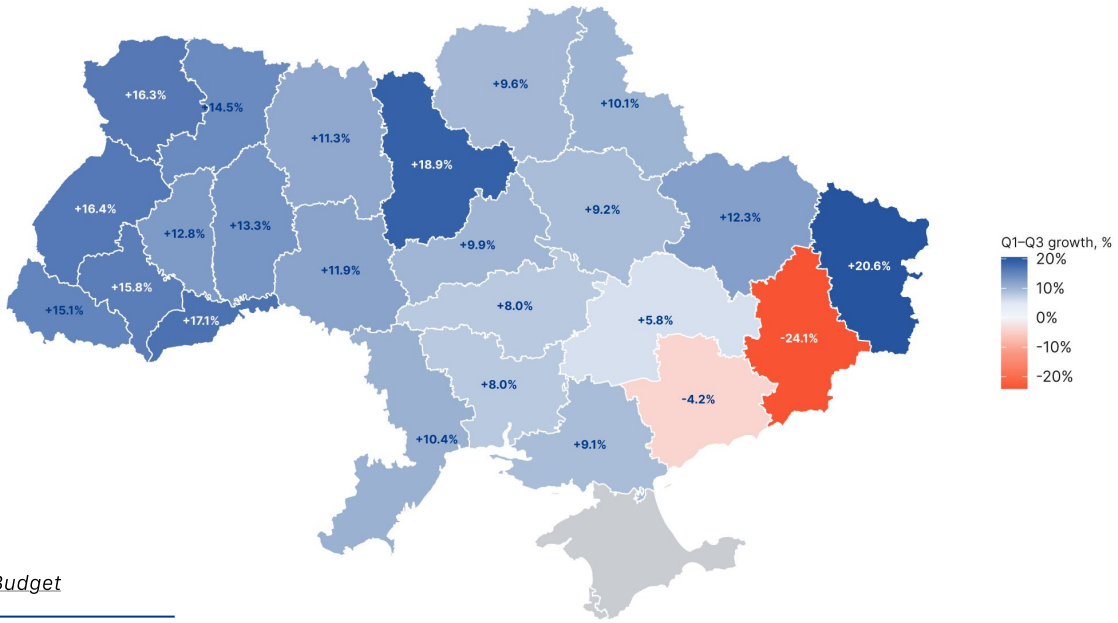
FINANCIAL SITUATION IN THE REGIONS: TRENDS IN LOCAL BUDGETS

In September 2026, municipal finances faced a new challenge as Treasury payment delays exposed a growing gap between budget revenues and municipalities' ability to use their available resources. Despite continued growth in local revenues, municipalities reported delays and partial suspension of payments for municipal utilities, infrastructure repairs, civil protection and other non-protected expenditures. These restrictions emerged before the Government formally introduced a new cash-management mechanism on 28 September, responding to lower-than-planned inflows of international financial assistance. Under the new rules, applicable from October, the Treasury uses daily and ten-day cash-flow forecasts to determine whether available funds are sufficient to cover planned expenditures. If a shortfall is confirmed, payments are temporarily prioritised for defence and security, debt servicing, salaries, pensions and social benefits. The restrictions are therefore conditional rather than automatic. For municipalities, this creates a significant liquidity risk: even where budget revenues and cash balances are sufficient on paper, delayed payments can disrupt essential services, municipal infrastructure maintenance, winter preparations, and recovery projects.

Municipal own[1] revenues continued to grow in real terms during 9M 2026, although the pace of growth moderated compared with H1 and territorial disparities persisted. Own revenues of municipalities – the general fund[2] excluding transfers from the central government – rose by 11.1% y-o-y in U.S. dollars and by 17.7% in hryvnia, while core inflation in August 2026 stood at 10.0% y-o-y. As of October 1, total own-source revenues reached $7.4 billion. Revenue growth exceeded the national average in 13 of Ukraine's 24 regions, compared with 14 in H1 2026. The situation remained unchanged from the first half of the year, with declines recorded only in the Donetsk and Zaporizhzhia regions (Fig. 1). However, as Treasury payment restrictions emerged in September, stronger revenue performance no longer necessarily translated into greater spending capacity for municipalities.

FIGURE 1.

Growth rate of general-fund revenue (excl. transfers), 9M 2026 vs 9M 2025, %



Source: OpenBudget

1 General and special funds, excluding transfers

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

Territorial disparities in municipal revenue growth persisted during 9M 2026, with the fiscal position of war-affected regions deteriorating further despite continued growth elsewhere. Own revenues in western, central and northern oblasts increased by 9.9–18.9% y-o-y, with the strongest growth recorded in Kyiv oblast. Donetsk and Zaporizhzhia remained the only oblasts recording declines, which deepened from 21.7% and 3.4% in H1 to 24.1% and 4.2%, respectively, in 9M (Fig. 1). Luhansk oblast recorded 20% growth, although this largely reflects its extremely low revenue base rather than a recovery in fiscal capacity. These persistent disparities demonstrate that aggregate revenue growth alone cannot close the fiscal gap between war-affected municipalities and the rest of the country. Recovery in these territories will depend on the return of residents and economic activity, while in the meantime, adequate and targeted intergovernmental transfers remain essential. However, as discussed below, transfer trends during 9M continued to move in the opposite direction.

Personal income tax (PIT) remained the main driver of municipal revenue growth, further increasing local budgets' dependence on wage-related taxation. PIT receipts reached $4.0 bn in 9M 2026, up 14.3% y-o-y, slightly below the 15.1% growth recorded in H1. Nevertheless, its share of municipal own revenues increased from 53.8% in H1 to 54.2%. Growth continued to be supported by rising nominal wages, with average wages increasing by 9.5% between September 2025 and September 2026, from $617.13 to $675.92[3]. This growing concentration of revenues in PIT leaves municipal finances particularly sensitive to labour market developments, including wage dynamics, mobilisation and population displacement.

The unified tax[4] continued to underperform relative to overall municipal revenue growth, despite the continued expansion of small business registrations. Receipts reached $1.1 bn in 9M 2026, increasing by only 5.3% y-o-y, compared with 5.6% in H1. Its share of municipal own revenues declined from 15.8% to 15.1%, although it remained the second-largest revenue source. Revenue growth was partly supported by higher minimum wage and subsistence minimum rates, which determine fixed tax payments for many small entrepreneurs. Meanwhile, the number of registered sole proprietors exceeded 2.2 million in September, up by 63,976 y-o-y. The divergence between business registrations and tax revenue growth suggests that the expansion of the small business sector has yet to translate into a proportionate increase in municipal fiscal resources.

Land fee revenue growth slowed during 9M 2026, reflecting the limited growth potential of this important municipal tax under wartime conditions. Receipts reached $740.5 mn, or 10.0% of municipal own revenues, increasing by 6.8% y-o-y compared with 9.2% in H1. Revenue growth was partly supported by the 1.08 indexation coefficient applied to the normative monetary valuation of land, which determines the tax base for land taxes and rents on state- and municipally-owned land. However, the loss of taxable land in occupied and war-affected territories continues to constrain this revenue source, particularly in municipalities where land payments traditionally formed a significant share of local revenues.

Excise duty revenue growth slowed significantly during 9M 2026, following the stronger increases recorded earlier in the year. Receipts reached $608.6 mn, up 11.2% y-o-y, compared with 20.7% in H1. Revenue growth continued to be supported by higher excise tax rates and rising retail prices for alcohol and tobacco products. However, the marked slowdown indicates that excise duties are no longer growing substantially faster than municipal revenues overall, limiting their contribution to further revenue acceleration.

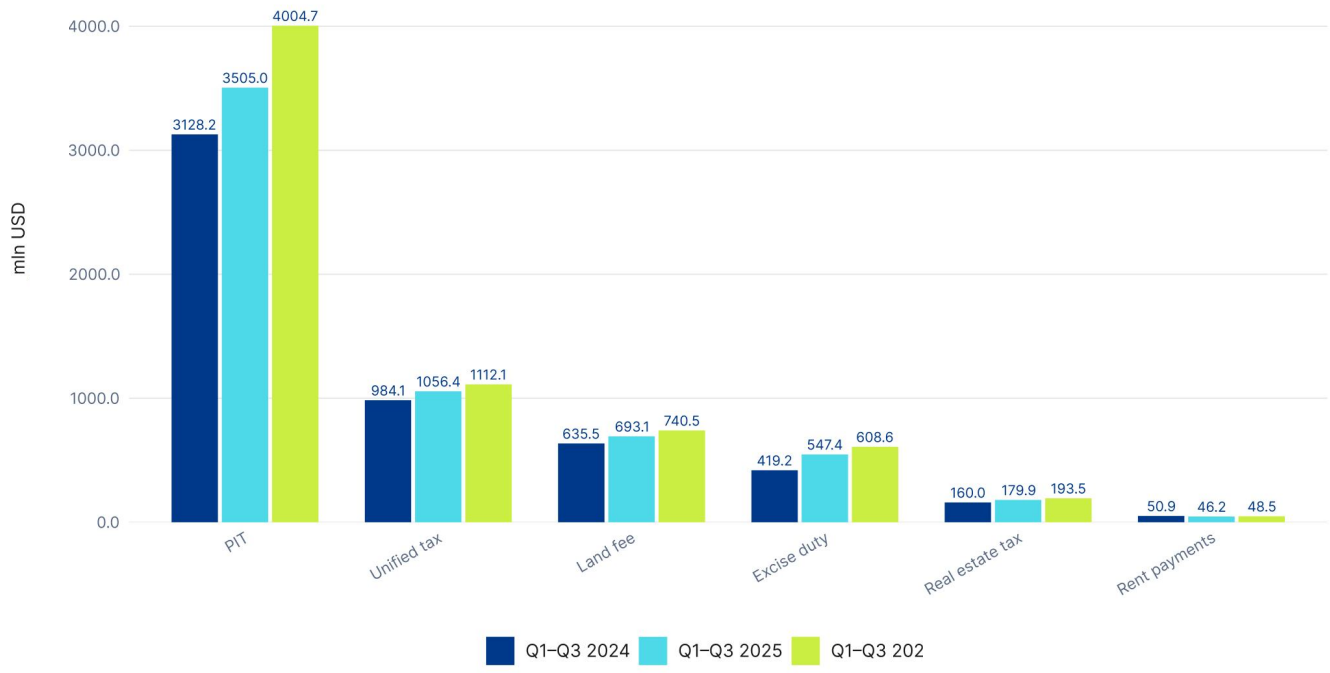
[3] According to the recruitment portal work.ua

[4] Simplified tax for individual entrepreneurs and small businesses

Real estate tax revenues grew faster than in H1 2026, but their contribution to municipal finances remained limited. Receipts reached $193.5 mn in 9M 2026, increasing by 7.6% y-o-y compared with 3.0% in H1. Growth partly reflects the link between tax rates and the statutory minimum wage, with the January 2025 wage increase affecting tax liabilities in 2026. Nevertheless, real estate tax accounted for only around 2.6% of municipal own revenues, remaining a relatively minor source compared with PIT, the unified tax and land fees (Fig. 2).

FIGURE 2.

Major taxes accruing to local budgets (excl. transfers), 9M 2024–2026, $mn



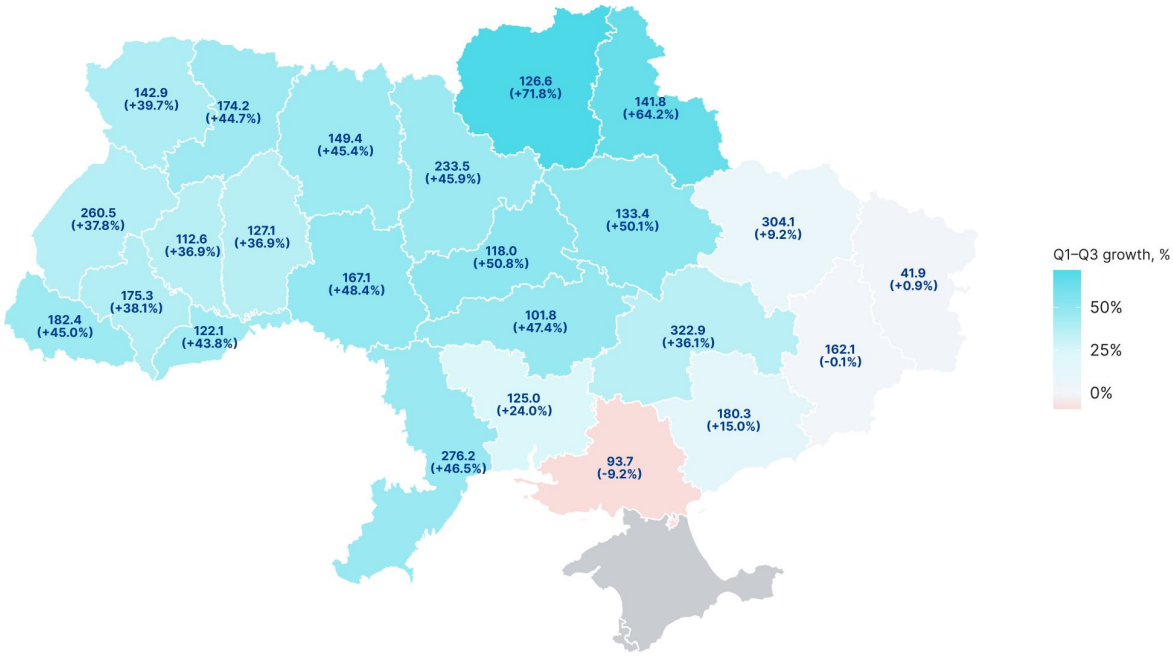
Source: OpenBudget

Central government transfers continued to grow faster than municipal own revenues in 9M 2026, but the increase remained concentrated in financing delegated responsibilities rather than expanding municipalities' discretionary resources. Transfers rose by 34.1% y-o-y, compared with 30.1% in H1, driven primarily by higher education financing. The education subvention, which mainly covers teachers' salaries, increased by 31.0%, reflecting the higher remuneration introduced in January 2026. Meanwhile, the basic equalisation grant, supporting municipalities with weaker tax bases, grew by 14.4%, slightly below the 15.4% recorded in H1 (Fig. 3). The continued concentration of transfer growth in earmarked financing means that higher state support does not necessarily provide municipalities with greater flexibility in addressing local priorities.

The territorial distribution of state transfers became more uneven in 9M 2026, with particularly large differences emerging among war-affected regions. While transfers to most western and central oblasts increased by approximately 36.8–50.2%, the range was considerably wider in regions exposed to hostilities, from a 9.2% decline in Kherson oblast to a 71.8% increase in Chernihiv oblast (Fig. 3). This contrasts with H1, when five war-affected oblasts recorded declining transfers. The divergence shows that security exposure alone does not determine transfer dynamics, as allocations also reflect the structure of state-funded responsibilities and individual transfer mechanisms. However, uneven funding remains a concern for municipalities facing the persistent costs of maintaining public services, emergency response, and damaged infrastructure, despite population displacement and changes in their revenue base.

FIGURE 3.

Intergovernmental transfers received by local budgets in 9M 2026 ($mn) and their growth vs 9M 2025, % of general fund

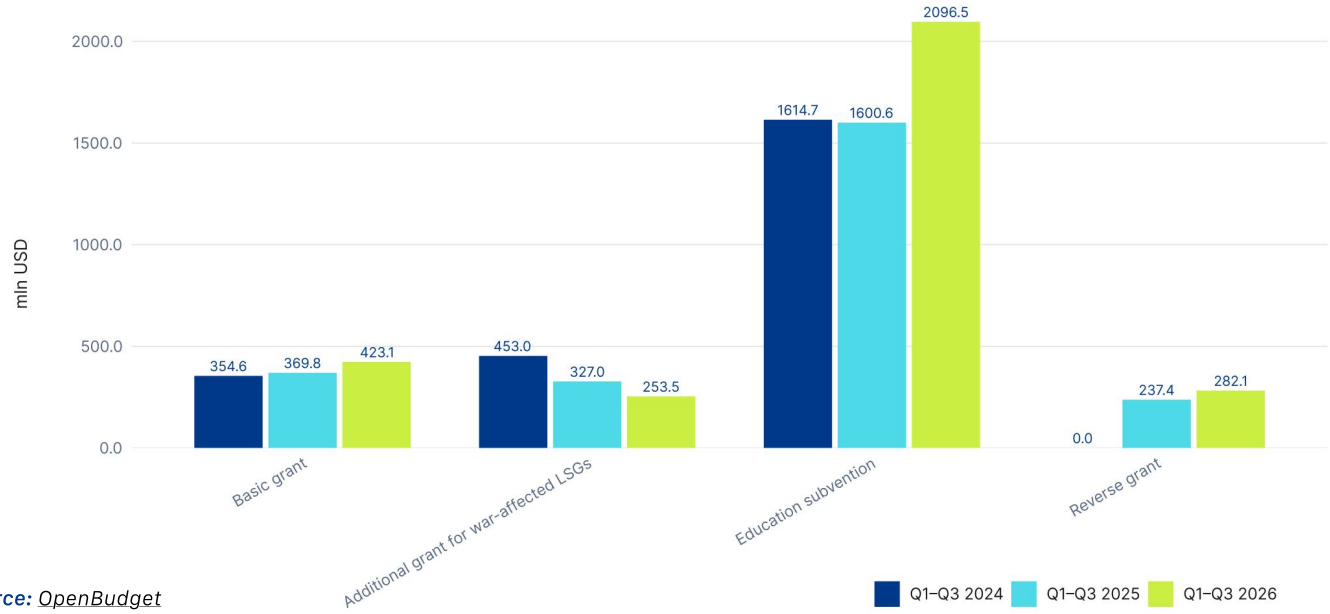


Source: OpenBudget

Targeted financial support for the most war-affected municipalities remained below last year's level, although the decline moderated significantly compared with H1. The additional grant designed to compensate for war-related revenue losses and support essential expenditure fell by 22.5% y-o-y in 9M 2026, compared with a 47.4% decline in H1 (Fig. 4). The reduction reflects changes to the allocation formula introduced in 2026, including the indexation of PIT calculations to minimum wage growth and the inclusion of PIT revenues of regional budgets. Although the smaller decline indicates an improvement relative to H1, targeted support remains lower than a year earlier, despite the continuing fiscal pressures faced by war-affected municipalities.

FIGURE 4.

Major intergovernmental transfers received by local budgets, 9M 2024–2026, $mn



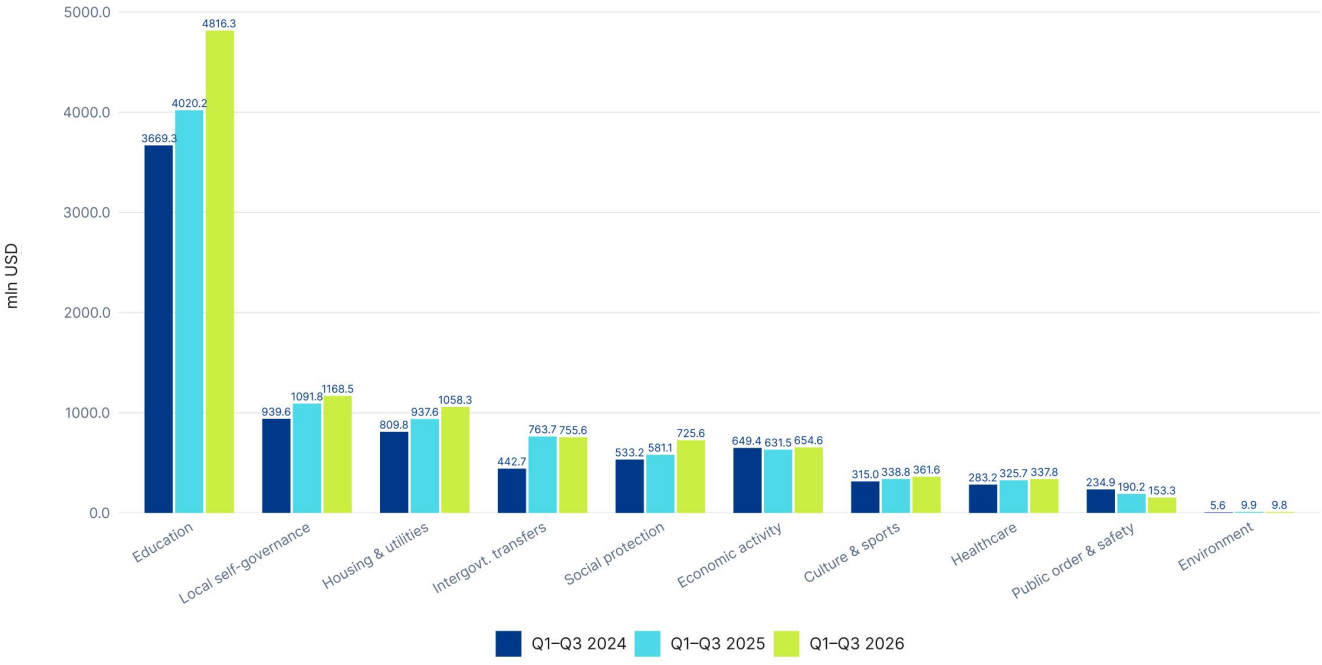
Source: OpenBudget

The reverse equalisation grant continued to grow faster than the basic grant in 9M 2026, highlighting the increasing scale of fiscal redistribution between municipalities. Payments from fiscally stronger municipalities reached $282.1 mn, up 18.8% y-o-y, slightly below the 19.7% growth recorded in H1 but still exceeding the 14.4% increase in the basic grant. The divergence in growth rates, combined with the continued reduction in targeted support for war-affected municipalities, raises questions about how effectively the current equalisation system responds to widening differences in local fiscal needs and capacities. This reinforces the importance of reviewing the equalisation mechanism to better reflect the fiscal realities of municipalities affected by the war.

Municipal expenditure growth slowed in 9M 2026, while the spending structure shifted modestly away from education towards housing and communal services, economic activity and social protection. Total expenditures reached $10 bn, up 13% y-o-y, compared with 15.5% in H1. Education remained the largest spending category, although its share declined from 51.7% in H1 to 48.0%, while social protection increased to 7.2%, healthcare accounted for 3.4%, and culture, religion and sports for 3.6%. Meanwhile, the share of housing and communal services rose from 9.1% to 10.5%, and the share of economic activity rose from 5.9% to 6.5%. Spending on local self-government bodies accounted for 11.6%, while transfers to other budgets represented 7.5% (Fig. 5). Despite these shifts, municipal budgets remained predominantly focused on maintaining public services, with education alone continuing to absorb nearly half of all expenditures.

FIGURE 5.

Structure of municipal expenditures by functional classification, 9M 2024–2026, $mn



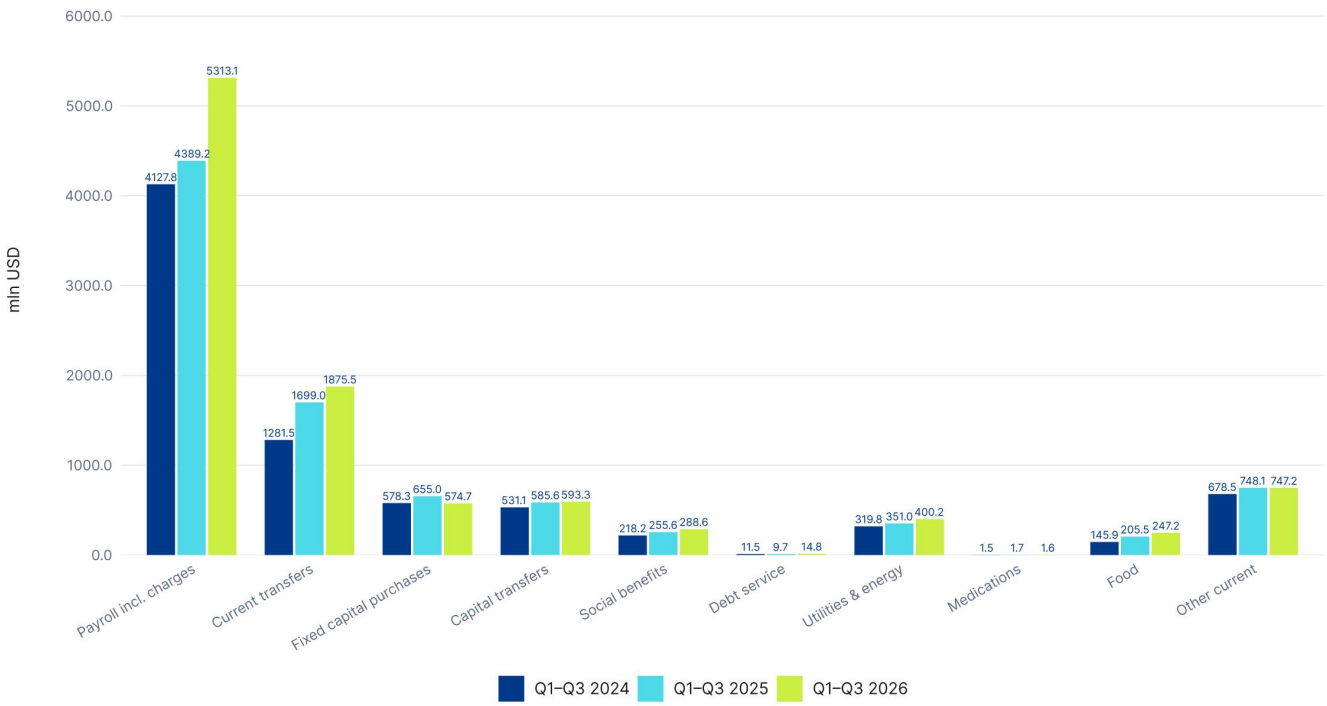
Source: OpenBudget

Municipal spending continued to shift towards recurrent obligations in 9M 2026, with current expenditures growing while capital investment declined in annual terms. Current spending reached $8.9 bn, increasing by 16.0% y-o-y and accounting for 88.4% of total expenditures. By contrast, capital spending fell by 5.9% to $1.1 bn, reducing its share of total expenditures by 2.3 percentage points compared with 9M 2025. Although the cumulative share of capital spending increased from 7% in H1 to 11.6% in 9M, reflecting stronger investment execution during Q3, its annual decline indicates that municipal investment remains under pressure (Fig. 6). The new public investment management

requirements may partly explain this trend, as municipalities without approved medium-term priority investment plans face restrictions on financing new projects from their budgets.

FIGURE 6.

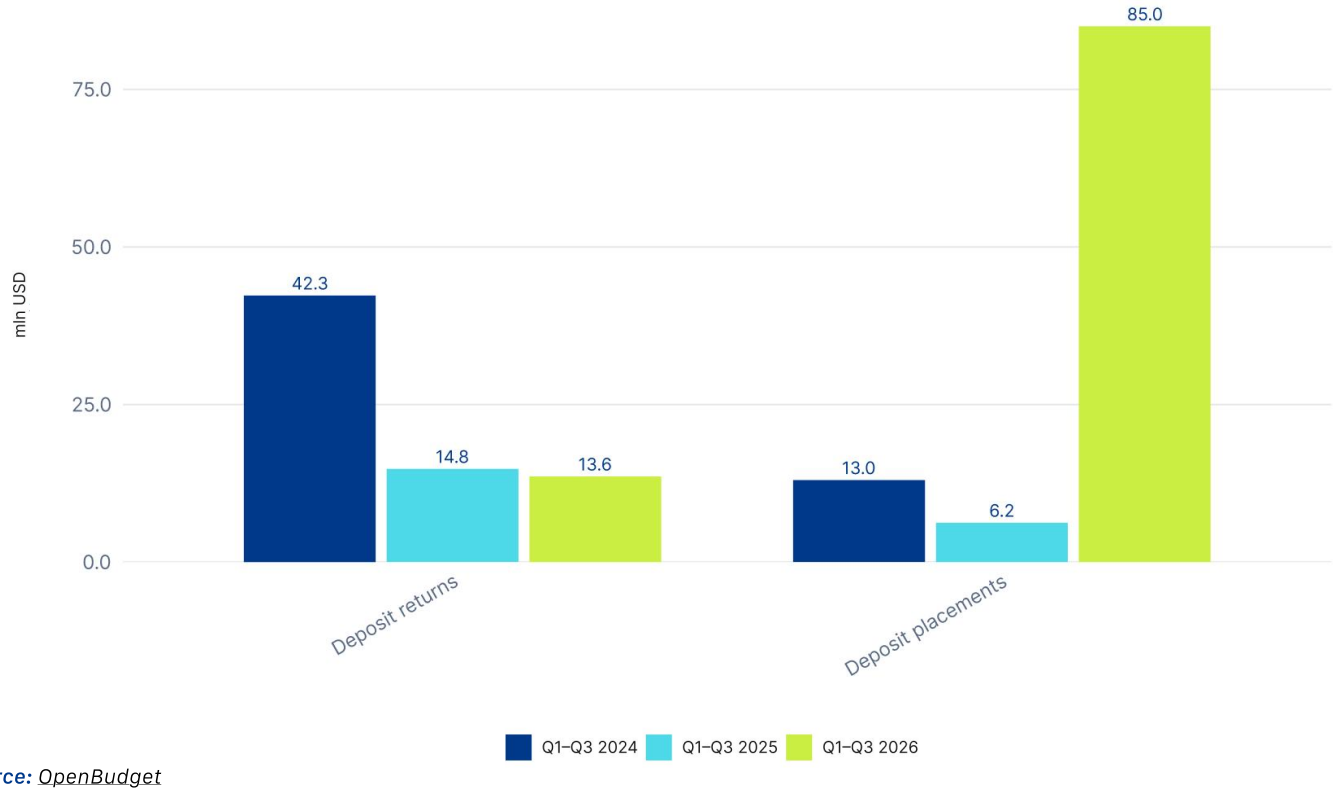
Municipal expenditures by economic classification, 9M 2024–2026, $mn



Source: OpenBudget

FIGURE 7.

Volume of deposit placements and returns, 9M 2024–2026, $mn



Source: OpenBudget

The contraction in capital investment was also reflected in lower transfers to municipal development budgets, despite a substantial increase in the placement of temporarily available funds in financial instruments. Transfers from general funds to development budgets fell by 57.4% y-o-y to $431.5 mn in 9M 2026, continuing the sharp decline recorded in H1. Meanwhile, placements of temporarily free funds in bank deposits and domestic government bonds reached $85.0 mn, nearly 14 times the level of 9M 2025, while repayments of earlier deposits declined by 8.1% (Fig. 7). These trends point to a growing divergence between municipalities' management of available liquidity and their capital investment activity. However, higher deposit placements alone do not necessarily indicate an accumulation of unused resources, particularly as Treasury payment restrictions introduced in September began limiting municipalities' ability to execute planned expenditures.

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

The public investment management reform entered a more demanding implementation phase in Q3 2026, as new regulations clarified how municipal projects are assessed, selected and managed throughout their implementation. In July, the Ministry of Economy updated methodological guidance for local investment councils and medium-term priority investment plans. More substantial changes followed in August, when Cabinet Resolution No. 1051 revised the procedures established under Resolution No. 527, including project reassessment following significant changes in cost or scope, clearer responsibilities for project evaluation and the integration of public-private partnerships (PPPs) into the investment management framework. The revised procedures are mandatory for projects financed through the state budget or state support, while their application to projects financed exclusively from local budgets is recommended. For municipalities, these changes provide greater procedural clarity but also require more systematic project preparation, evaluation and monitoring.

The formalisation of DREAM and new guidance on identifying public investments brought greater clarity to which municipal expenditures should be managed as investment projects. In July, the Government approved the regulatory framework for DREAM as the digital system supporting the preparation and monitoring of public investment projects and programmes. In September, the Ministry of Finance introduced methodological recommendations distinguishing public investment projects from other capital expenditures. The guidance considers strategic relevance, long-term outcomes, alternative solutions and future operating and maintenance costs, helping municipalities determine when a full investment project preparation process is appropriate. Although advisory in nature, these recommendations address a practical challenge: not every capital expenditure requires the same level of appraisal and documentation. More consistent classification could reduce unnecessary administrative work while strengthening the quality of investment planning.

Access to SFRD financing became more explicitly linked to municipal investment planning, project prioritisation and local co-financing capacity. In July, Resolution No. 883 established new procedures for allocating SFRD resources and assessing medium-term priority investment plans, requiring at least 10% co-financing from local budgets and compliance with Ukraine Facility requirements, including safeguards against double funding. The rules were implemented in September, when an additional selection round was opened in eight oblasts using unallocated SFRD resources. Municipalities were required to submit approved medium-term plans and prioritised lists of up to five projects included in their Single Project Pipelines. The new mechanism strengthens the connection between strategic planning and actual funding decisions. However, the co-financing requirement and project selection criteria may disadvantage financially weaker municipalities, even where their investment needs are substantial.

Financing for infrastructure resilience became a major investment priority in Q3, with project readiness increasingly determining how quickly resources could be allocated. In July, the Government established procedures for financing Comprehensive Resilience Plans for regions and selected cities, covering the protection of critical infrastructure, distributed energy generation, heating, water supply and wastewater services. In August, $0.8 bn was allocated to these plans, with priority given to projects that could be implemented quickly before the heating season. This approach addresses the immediate

need to protect essential municipal services from ongoing Russian attacks. At the same time, it creates a trade-off between urgency and inclusiveness: prioritising implementation-ready projects can accelerate the use of funds, but municipalities with less developed technical documentation or limited project management capacity may struggle to access financing despite significant infrastructure vulnerabilities.

International recovery financing expanded further in Q3, reinforcing the importance of implementation-ready municipal investment portfolios. In August, the Government announced $109.6 mn in EIB-supported financing for municipalities affected by hostilities or hosting large numbers of internally displaced persons, covering water supply, schools, hospitals and social housing. A further $22.4 mn was allocated under the Ukraine Recovery Programme, bringing its 2026 financing to nearly $44.8 mn and expanding the number of EIB-approved projects from 138 to 163. The draft 2027 State Budget also proposed approximately $2.6 bn for public investment projects and programmes, including $1.7 bn from international financial institutions and foreign governments. While these figures remained proposals at the end of September, they indicate the continued importance of externally financed investment. For municipalities, the central challenge is increasingly to move beyond identifying recovery needs towards preparing technically sound, financially sustainable projects that can meet funding requirements and proceed to implementation.

SECURITY SITUATION IN MUNICIPALITIES: STATUS AND TRENDS

Security pressure on Ukrainian municipalities continued to intensify in Q3 2026, with attacks reaching their highest quarterly level since the beginning of 2024 and spreading across a growing number of municipalities[5]. During January–September, municipalities under Ukrainian government control recorded 29,829 attacks, up 44.4% y-o-y, and 7,524 incidents of civilian infrastructure damage, up 159.8%. In Q3 alone, attacks increased by 18.5% compared with Q2, reaching 11,869, while infrastructure damage rose more moderately, by 3.7%, to 2,811 incidents. Air and drone strikes accounted for almost all additional attacks, raising their share to 86.8% of the quarterly total, up from 84.4% in Q2. The divergence between the continued escalation of attacks and slower growth in recorded damage does not indicate an easing of security pressure. Municipalities must respond to repeated incidents even when they do not result in recorded infrastructure damage, placing additional demands on emergency services, municipal staff and continuity arrangements.

TABLE 1.

Attacks and infrastructure damage in municipalities, 2026

Indicator	Q1	Q2	Q3	9M
Recorded attacks	7,946	10,014	11,869	**29,829**
Air attacks	*6,555*	*8,453*	*10,304*	*25,312*
Artillery attacks	*1,391*	*1,561*	*1,565*	*4,517*
Share of air attacks	82.5%	84.4%	86.8%	**84.9%**
Municipalities with recorded attacks	285	301	347	**415**
Infrastructure damage incidents	2,003	2,710	2,811	**7,524**
Infrastructure damage incidents	227	238	243	**347**

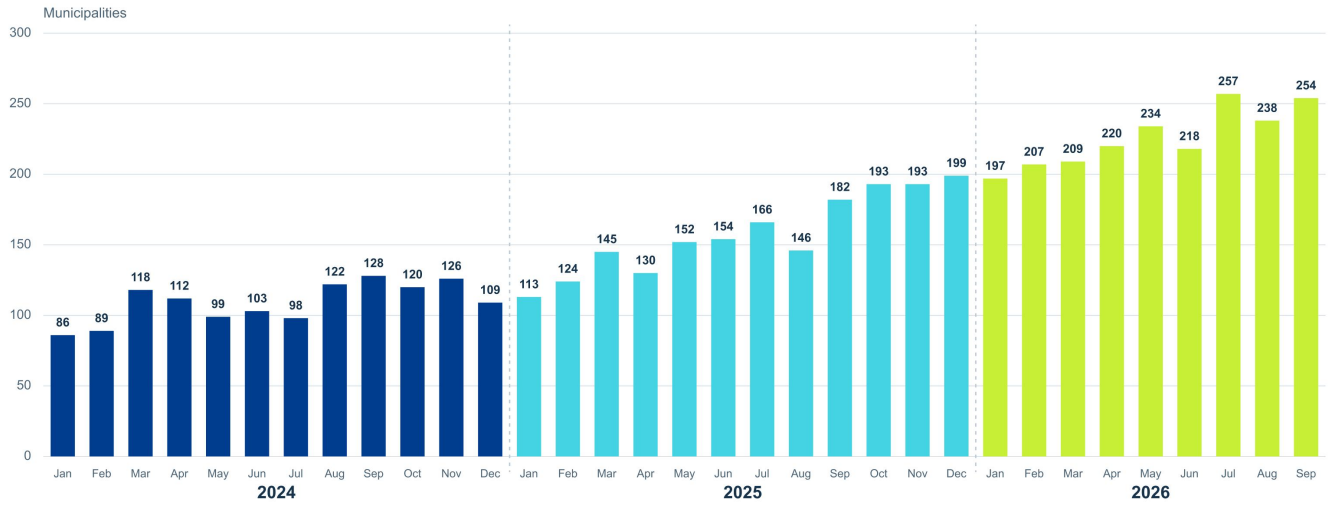
Source: KSE Institute calculations based on updated ACLED data. Municipalities are counted once within each period; quarterly counts should not be added together. Infrastructure damage incidents cover housing, energy, education and healthcare.

The geographical spread of attacks became more pronounced in Q3, increasing security risks for municipalities beyond the traditional frontline areas. Attacks were recorded in 347 municipalities during July–September, including 68 that had experienced no recorded attacks during H1. Across the first nine months, 415 municipalities were affected. Non-frontline municipalities experienced particularly rapid deterioration, with attacks increasing by 63.9% and infrastructure damage by 29.4% compared with Q2. Frontline municipalities nevertheless continued to account for 76.7% of all damage incidents in Q3. The changing geography of attacks creates different operational challenges: frontline municipalities require sustained emergency response and repair capacity, while municipalities farther from the front increasingly need arrangements for sudden shocks, temporary accommodation and continuity of essential services.

[5] Methodological note: The analysis covers 1,274 municipalities under Ukrainian government control. Historical figures have been recalculated using the September reporting update and may differ from previously published Q1 and H1 Reviews. ACLED attack categories follow the original dataset classification, while infrastructure damage incidents do not represent unique damaged facilities or monetary losses. The frontline/non-frontline classification is applied consistently throughout the reporting period, based on the relevant Ukrainian regulatory framework.

FIGURE 8.

Number of municipalities with recorded attacks, January 2024–September 2026



Source: KSE Institute calculations based on updated ACLED data.

The escalation of attacks was accompanied by a substantial increase in civilian casualties, making 2026 more deadly than the whole of 2025 before the end of September. According to revised UN figures, at least 1,165 civilians were killed and 7,166 injured during Q3, increases of 41.2% and 35.8%, respectively, compared with Q2. By the end of September, the cumulative number of verified civilian deaths had reached 2,570, already exceeding the 2,549 recorded throughout 2025. Although monthly casualties declined after the July peak, each successive quarter of 2026 recorded higher losses. The figures underscore the growing human consequences of sustained attacks, alongside the pressure on municipalities to provide emergency assistance, support affected households and maintain essential public services.

TABLE 2.

Verified civilian deaths and injuries in Ukrainian hromadas by UN, 2026

Period	Killed	Injured
January–March	580	2,770
April–June	825	5,275
July	448	2,695
August	389	2,366
September	328	2,105
July–September	**1,165**	**7,166**
January–September	**2,570**	**15,211**

Source: Calculations based on revised monthly figures in the UN September 2026 update. Quarterly and nine-month totals include the respective monthly figures. These are verified minimum figures for Ukraine, including verified cases in occupied territories, and are not directly comparable with the municipal ACLED dataset.

The composition of infrastructure damage shifted further towards facilities supporting essential public services, increasing the operational consequences of attacks for municipalities. While housing remained the largest category, accounting for 70.4% of all recorded damage in Q3, incidents affecting energy, education and healthcare infrastructure increased considerably faster. Damage to educational facilities rose by 22.8%, healthcare by 20.2% and energy infrastructure by 17.8% compared with Q2. Together, these three categories accounted for 29.6% of quarterly damage, up from 25.7%. This shift matters because damage to energy and public service infrastructure can disrupt the functioning of entire municipalities, extending the consequences beyond directly affected buildings. At the same time, the 1,980 recorded incidents of residential damage continued to generate substantial demand for inspections, emergency repairs, temporary accommodation and compensation procedures.

TABLE 3.

Infrastructure damage by category

Infrastructure type	Q2 2026	Q3 2026	Q3 vs Q2	9M 2026
Housing	2,014	1,980	–1.7%	5,407
Energy	421	496	+17.8%	1,308
Education	171	210	+22.8%	499
Healthcare	104	125	+20.2%	310
Total	**2,710**	**2,811**	**+3.7%**	**7,524**

Source: KSE Institute calculations based on updated ACLED data.

The distribution of attacks and infrastructure damage increasingly followed different geographical patterns, confirming that attack frequency alone is an insufficient measure of municipal recovery needs. Rural and settlement municipalities experienced 61.2% of attacks in Q3, while urban municipalities accounted for 68.9% of infrastructure damage. Kharkiv, Sumy, Donetsk and Dnipropetrovsk oblasts continued to account for most recorded damage, although their combined share declined from 71.9% in Q2 to 65.8% in Q3. At the municipal level, seven municipalities — Kyiv, Kramatorsk, Sloviansk, Kherson, Zaporizhzhia, Sumy and Nikopol — remained among the ten most damaged in every month of Q3, accounting together for 28.5% of quarterly incidents. This combination of persistent damage in a relatively small group of municipalities and growing exposure elsewhere requires recovery support to distinguish between chronic infrastructure losses and emerging security risks.

Q3 also demonstrated how rapidly security conditions can deteriorate in individual municipalities, even when national damage figures show only modest growth. Kyiv recorded one of the most pronounced changes, with attacks rising from 46 in Q2 to 205 in Q3 and infrastructure damage increasing from 41 to 126 incidents. September alone accounted for 117 attacks, highlighting how quickly emergency response needs can expand in a major urban centre. Similar deterioration affected municipalities closer to the frontline: infrastructure damage in Izium increased from 12 to 66 incidents, in Oleksandrivka from 19 to 58, and in Sloviansk from 68 to 114. Kramatorsk and Kherson continued to experience exceptionally high levels of damage, with 139 and 138 incidents respectively in Q3. These contrasting trajectories show that municipalities require

different forms of support: predictable repair financing where attacks are persistent, and flexible emergency resources where security conditions deteriorate abruptly.

TABLE 4.

Municipalities illustrating sharp deterioration and persistent damage

Municipality	Oblast	ATTACKS, Q2	ATTACKS, Q3	DAMAGE INCIDENTS, Q2	DAMAGE INCIDENTS, Q3
Kyiv	Kyiv city	46	205	41	126
Izium	Kharkiv	17	66	12	66
Oleksandrivka	Donetsk	47	101	19	58
Sloviansk	Donetsk	92	167	68	114
Blyzniuky	Kharkiv	12	50	10	26
Kramatorsk	Donetsk	148	255	112	139
Kherson	Kherson	515	489	131	138

Source: KSE Institute calculations based on updated ACLED data. Selected examples illustrate different patterns; the table is not a ranking.

Attacks on retail and logistics intensified during Q3, placing greater pressure on the businesses that sustain everyday life. The UN Human Rights Monitoring Mission documented 32 attacks on facilities belonging to six major companies in August, compared with 11 against the same companies in July. These included Fozzy Group, Epicentr, Nova Poshta, Rozetka, Aurora and Varus. This comparison covers those six companies, rather than all affected businesses in Ukraine. Attacks on Fozzy and Varus warehouses and distribution centres caused temporary shortages of some food products, showing how damage at one facility can affect consumers beyond the municipality where it occurs.

The emerging pattern combined repeated daytime attacks with larger overnight strikes, leaving less time for recovery between them. In its 24 September assessment, the UN described this pattern in Kyiv and reported civilian casualties on 16 of the first 24 days of September — a frequency not previously recorded in any month in the capital since the full-scale invasion. Across Ukraine, affected facilities included shops, post offices, pharmaceutical facilities, food warehouses and workplaces. The evidence points to an intensification and wider reach of attacks on the civilian economy. It supports describing a change in the frequency and combination of attacks, rather than presenting attacks on businesses as an entirely new tactic.

In September, Ukraine introduced yellow and red alert levels to distinguish between degrees of danger and allow businesses to respond accordingly. The wider rollout began on 8 September, after some regions had introduced the distinction earlier. Shopping centres could continue operating under a yellow alert if they met the applicable safety conditions. Yellow alerts accounted for 60.9% of classified daytime alert hours in September and red alerts for 39.1%. In practice, many international retailers continued to close at either level, so customers in the same shopping centre could find some shops open and others closed during a yellow alert.

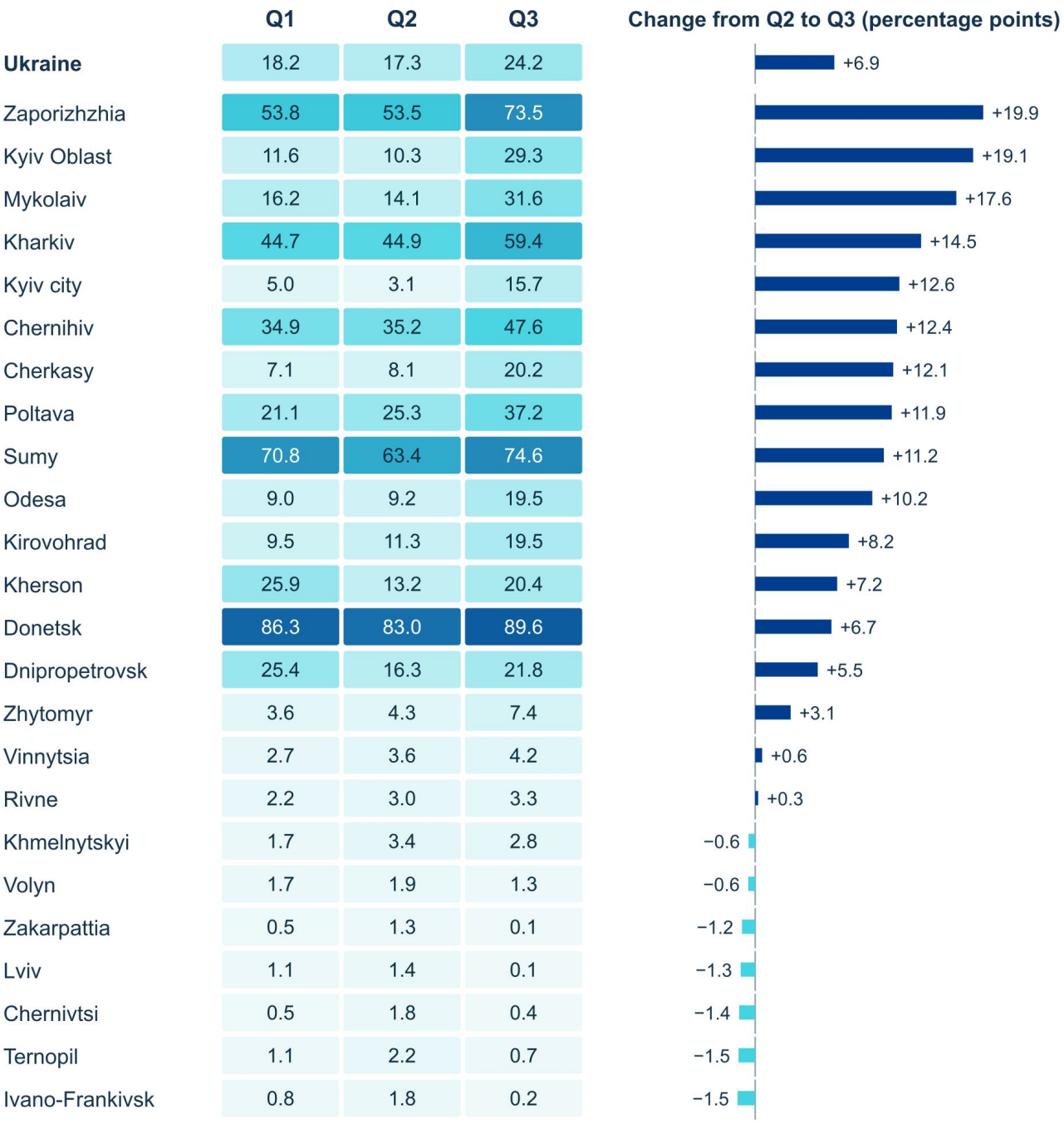
By September, air raid alerts covered nearly a third of business functioning hours (10:00 to 21:00) in Ukraine. The national share rose from 20.1% in July to 22.0% in August and 30.8% in September. Over the 11-hour window from 10:00 to 21:00, that September figure was equivalent to about 3 hours and 23 minutes under alert per day. In Kyiv Oblast, daytime alert hours rose from 30 in July to 188 in September. In Chernihiv Oblast, they nearly doubled, from 116 to 228.

FIGURE 9.

Percentage of working hours (10:00–21:00) under air raid alert by oblast, Q1–Q3 2026, and change from Q2 to Q3 in percentage points

Daytime hours under air raid alerts, 2026

Share of the 10:00–21:00 window (%)



Source: *KSE Institute calculations based on the UCSC national monthly series. Quarterly shares are weighted by the number of calendar days in each month. The estimates use the national percentages published on the dashboard, rounded to one decimal place.*

Western regions also experienced more frequent warnings last months of Q3. In Rivne Oblast, daytime alert hours rose from 4.5 to 28.5 over the same month. In Volyn, they rose from 1.7 to 11.2. The change varied across the west: Lviv and Zakarpattia each recorded less than one daytime alert hour in September.

Across the first nine months of 2026, the largest change came in Q3. The national share of operating hours under alert fell slightly from 18.2% in Q1 to 17.3% in Q2, then rose to 24.2% in Q3. In practical terms, the monthly average increased from about 58 daytime hours under alert in Q2 to 82 in Q3. September accounted for the largest part of that increase.

COOPERATION BETWEEN MUNICIPALITIES

INTERMUNICIPAL COOPERATION WITHIN UKRAINE

Intermunicipal cooperation remained relatively stable in Q3 2026, but its structure continued to shift towards the delegation of tasks rather than joint financing of municipal institutions. A total of 115 agreements were registered during January–September, including 29 in Q3, compared with 30 in Q2 and 56 in Q1. Delegation remained the leading form of new cooperation, accounting for 48.3% of Q3 agreements, while joint financing and maintenance declined to just two agreements, compared with 31 in Q1. This continues the trend identified in H1, when municipalities increasingly relied on partners with existing institutional and professional capacity to deliver services they could not efficiently organise independently. The shift suggests that cooperation is increasingly being used to address shortages of specialised personnel and administrative capacity, rather than simply to share operating costs.

TABLE 5.

Registered intermunicipal cooperation agreements by form, 2026

Form of cooperation	Q1	Q2	Q3	9M
Delegation of tasks with corresponding resources	12	14	14	**40**
Joint projects	13	7	12	**32**
Joint financing and maintenance	31	9	2	**42**
Establishment of a joint municipal institution	0	0	1	**1**
Total	**56**	**30**	**29**	**115**

Source: KSE Institute calculations based on updated ACLED data. Municipalities are counted once within each period; quarterly counts should not be added together. Infrastructure damage incidents cover housing, energy, education and healthcare.

The increase in joint-project agreements during Q3 did not indicate a broad recovery in municipal investment cooperation, but rather reflected a concentration of agreements within a few partnerships. Their number rose from seven in Q2 to twelve in Q3, although six involved the same partnership between Buky and Mankivka[6], covering services ranging from fire protection and healthcare to inclusive education and tourism. Three others concerned participation in a regional football championship. These cases demonstrate an important limitation of registration statistics: several agreements may represent different activities within a single partnership rather than independent cooperation initiatives. The number of agreements therefore provides only a partial picture of the scale and practical significance of intermunicipal cooperation.

6 For details on intermunicipal and international cooperation agreements, see our monthly Municipal Monitoring reports

Municipalities continued to use cooperation to access specialised expertise, maintain services across administrative boundaries and develop shared infrastructure projects. Agreements involving Tulchyn, Horodkivka and Vapniarka, alongside several other municipalities, focused on urban planning and architecture, allowing partners to perform specialised functions without maintaining separate professional teams. Other arrangements enabled eligible residents of Kornyn to use public transport in Rivne and pupils from Selyshche to access specialised education facilities in Korsun-Shevchenkivskyi. Cooperation also extended to infrastructure investment, including a joint water supply modernisation initiative involving Horokhiv, Lokachi and Pavlivka, covering equipment upgrades, solar installations and energy monitoring. These examples show that intermunicipal cooperation increasingly serves as a practical mechanism for organising services and preparing investments at a scale that individual municipalities may struggle to achieve alone.

TABLE 6.

Main confirmed non-frontline outliers, Q2 2026

Municipalities	Area of cooperation	Practical significance
Buky and Mankivka	Delegation of tasks	Education and inclusion, urban planning, civil protection, support for displaced residents
Tulchyn with Horodkivka and Vapniarka	Urban planning and architecture	Access to specialised administrative expertise
Kornyn and Rivne	Transport for eligible residents	Access to services across municipal boundaries
Horokhiv, Lokachi and Pavlivka	Water supply modernisation	Combining municipal needs into a joint infrastructure project
Five municipalities in Mykolaiv Oblast	Shared employment records archive	Access to records needed to verify employment history and pension entitlements

Source: KSE Institute analysis of the register and the July–September Municipal Reviews. Registration during the quarter does not establish when a service or institution began operating.

Registration delays remained a significant limitation in assessing the actual development of intermunicipal cooperation. Of the 29 agreements registered in Q3, 25 had been signed before their registration month, including seven signed before the quarter began. One agreement establishing a shared employment records archive among five Mykolaiv Oblast municipalities had been signed as early as March 2021 but was registered only in September 2026. Conversely, five agreements signed between Mankivka and Ivanky in September appeared in the register only in October and were therefore excluded from Q3 statistics. This discrepancy means that quarterly registration figures reflect administrative processing as well as actual cooperation activity and should not be interpreted as a direct measure of newly established partnerships.

INTERNATIONAL COOPERATION

International municipal cooperation continued to evolve from traditional bilateral partnerships towards more structured networks and joint project development, building on the trend identified in H1. In September, a new Cities4Cities Mentorship cycle under the Polaris programme brought together nine individual municipalities and a cluster of six municipalities from western Volyn, providing support for developing international partnerships and preparing joint project concepts. The cluster model, involving Zymne, Lytovezh, Lokachi, Pavlivka, Poromiv and Ustyluh, illustrates how smaller municipalities can pool their limited institutional capacity to engage with international partners. Meanwhile, new partnerships between Bukovynian and Romanian municipalities, facilitated through regional institutions and diaspora networks, demonstrated the continuing importance of intermediaries in establishing cross-border cooperation. These developments suggest that international engagement is becoming less dependent on individual municipalities' capacity to establish and maintain partnerships.

Ukrainian municipalities and regional authorities signed at least 33 international cooperation agreements and memoranda in the first nine months of 2026: seven in Q1, 13 in Q2 and 13 in Q3. These are minimum counts based on agreements for which we could verify the signing quarter in the Ministry's records and the monthly reviews. Registration sometimes followed months later. Kherson and Gdynia, for example, signed their twinning agreement on 25 June after seven years of cooperation, but it entered the register in July. The agreement gave the two cities a framework for exchanges between municipal administrations and utilities. Earlier in the year, the partnership between Pustomyty and Cífer in Slovakia had already delivered a tangible benefit: generators for local schools.

By Q3, municipalities were using partnerships both to find new counterparts and to fund projects they could deliver together. Seven of the 12 agreements registered in September linked municipalities in Bukovyna with Romanian partners. All seven had been signed on 28 August at a local government forum in Eforie Nord organised by the Union of Ukrainians in Romania. The forum connected municipalities well beyond the immediate border area and opened the way for joint applications. Boryslav and the Polish municipality of Sanok show what the next step can look like. In August, their joint RoboBridge project secured Interreg approval for an €84,407 budget, with the EU covering 90%. The funding will equip a school on each side of the border with a STEM laboratory.

Some international partnerships also progressed beyond initial contacts towards securing financing for concrete projects. In August, Boryslav announced approval of approximately €84,400 for the RoboBridge project developed with Poland's Sanok municipality under Interreg NEXT Poland–Ukraine, with 90% of the budget covered by EU funding. The project envisages STEM laboratories and joint educational activities, demonstrating how municipal partnerships can translate into externally financed initiatives. However, the Q3 examples also show that international cooperation develops through distinct stages – establishing contacts, preparing project proposals, securing financing and implementing activities – which should not be treated as equivalent results. For smaller municipalities in particular, structured mentoring and network-based partnerships can help bridge the gap between formal international cooperation and the capacity to develop fundable projects.