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Committee on Urban Development, Housing and Land Management

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Item 11 of the provisional agenda

Response to the COVID-19 pandemic at city level and building urban economic resilience**Economic Resilience Building Plan – Kharkiv, Ukraine****Note by the Secretariat***Summary*

This document contains the *Economic Resilience Plan for the City of Kharkiv, Ukraine*, the second-largest city in the country. The Plan was developed within the context of the United Nations Development Account (UNDA)-funded project “Building Urban Economic Resilience during and after COVID-19” to help the local government strengthen urban economic resilience and build back better post-COVID-19.

The Plan was prepared by the United Nations Economic Commission for Europe (ECE) Housing and Land Management Unit working closely with the Kharkiv City government and Ukrainian experts. While completed before the outbreak of the war on 24 February 2022, the plan remains relevant as it sheds light on the main factors undermining the city’s resilience. Unaddressed, these factors will impede emergency relief reconstruction efforts and, thereof, the achievement of the city’s strategic vision and the Sustainable Development Goals (SDGs).

This plan would need to be revised in light of the consequences and impact of the war, with a view to considering and addressing all relevant factors for ensuring a sustained recovery and the achievement of the SDGs.

The Committee is invited to take note of this document.

I. Introduction

Cities have been at the epicentre of the COVID-19 pandemic, accounting for an estimated 90 percent of all reported COVID-19 cases¹ as the size of their populations, combined with their high level of interconnectivity, rendered them particularly vulnerable to the spread of the virus.² Cities, as well as towns and suburbs, rose to the challenge. They upscaled public health preparedness to curb the spread of the virus pursuant to the World Health Organization advisory guidelines³ and launched support measures to cater to the emergency needs of inhabitants across neighbourhoods, age groups and economic activities⁴, especially those belonging to vulnerable segments.

However, cities and local governments were quickly overwhelmed by the disruptive impact of health protection measures, particularly during the early pandemic period. This period saw countries implementing nationwide lockdowns, the sealing-off of many cities, the closure of educational institutions, non-essential businesses, and all forms of public transport. The negative impact of these measures was compounded by the lockdown and health protection measures in trading partner countries, which caused severe supply chain disruptions. These disruptions resulted in supply shortages that left the health sector and utility service providers struggling to meet the demand for their services. The disruptions also left many enterprises, particularly micro, small and medium enterprises, struggling to survive. Pay cuts and furloughs assumed an increasing trend so that losses in lives were compounded by livelihood crises.

For many cities, the impact of the pandemic was amplified by climate change effects. Several cities suffered from floods, heatwaves and droughts⁵, while others were hard hit by a series of earthquakes (e.g., cities in Albania and Croatia) that caused considerable damage to the cities' housing stock and urban infrastructure.⁶ Indeed, Cities across the globe suffered setbacks that are akin to complex humanitarian emergencies associated with disasters. The coping strategies of local governments as well as households, basic utility service providers and enterprises, are being challenged by the unfolding socio-economic crisis so that vulnerabilities are aggravated. It, therefore, stands to reason to not to avoid treating the pandemic as a temporary shock whose effects can be swiftly reversed once normality is attained. Several reports by the United Nations noted that the pandemic exacerbated many pre-existing systemic vulnerabilities, with the consequence of aggravating informality and homelessness, as well as income and gender inequalities.⁷

¹ UN-Habitat, *World Cities Report 2022: Envisaging the Future of Cities*. Available at https://unhabitat.org/sites/default/files/2022/06/wcr_2022.pdf. For a more detailed overview of COVID-19 cases reported by cities, see UN-Habitat Urban Indicators Database (<https://data.unhabitat.org/pages/covid19citydata>).

² United Nations, *Policy Brief: COVID-19 in an Urban World*, July 2020. Available at https://www.un.org/sites/un2.un.org/files/sg_policy_brief_covid_urban_world_july_2020.pdf.

³ <https://www.who.int/emergencies/diseases/novel-coronavirus-2019>.

⁴ For detailed examples of support measures implemented by cities, see, for example, OECD Cities Policy Responses, July 2020. Available at: <https://www.oecd.org/coronavirus/policy-responses/cities-policy-responses-fd1053ff/>; United Nations Policy Brief : COVID-19 in an Urban World, July 2020.

⁵ <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7995187/>.

⁶ http://geofizika-journal.gfz.hr/vol_38/No2/38-2_Herak_et_al_a.pdf;
<https://reliefweb.int/report/albania/albania-earthquake-final-report-mdral008>.

⁷ See, for example, United Nations *Policy Brief : COVID-19 in an Urban World, July 2020; ESCAP Sustainable Cities Post-Coronavirus Disease Pandemic, 2020*. (https://www.unescap.org/sites/default/files/CED6_INF5.pdf); World Bank *Responding to COVID-19 in Urban Settings : Emerging Evidence, Lessons, and a Look Ahead, 2021*.

Local and regional governments need to, therefore, build capacities to strengthen resilience to disasters; address the long-term strategic needs of their inhabitants; contribute to overcoming the global challenges of today's world, particularly climate change; and ensure the successful achievement of the Sustainable Development Goals (SDGs) following the principles set out in the 2030 Agenda for Sustainable Development (2030 Agenda) and its overarching commitment to leaving no-one behind.

II. The work of UNECE in support of strengthening local resilience and building back better post-COVID-19

The above concerns formed the focus of the United Nations Development Account (UNDA)-funded project “Building Urban Economic Resilience during and after COVID-19”, which was implemented in the period 2020-2022 in collaboration with the United Nations Regional Economic Commissions (RECs), the United Nations Human Settlements Programme (UN-Habitat) and United Nations Capital Development Fund (UNCDF). The project targeted 16 cities from across the globe, and involved developing a range of knowledge and capacity-building resources, which were piloted during training workshops.⁸

The project also involved evidence-based assessments of the impact of the pandemic on the local economies of the 16 targeted cities, including the ECE cities of Bishkek (Kyrgyzstan), Kharkiv (Ukraine) and Tirana (Albania), with a view to helping these cities develop economic recovery and resilience plans for building back better post-COVID-19. The ECE cities were also assisted in identifying potential sources of development funding for financing urban economic development and infrastructure projects aimed at supporting urban economic resilience and post-COVID-19-sustained recovery.

The impact assessments were conducted using the “Urban Economic Recovery and Resilience Diagnostic and Planning Tool”,⁹ aimed at helping local authorities ascertain the strengths and weaknesses of their institutional and operational arrangements from the perspective of economic recovery and resilience. As shown in figure 1, the tool features city-focused resilience performance indicators (RPIs) that are grouped under five categories:

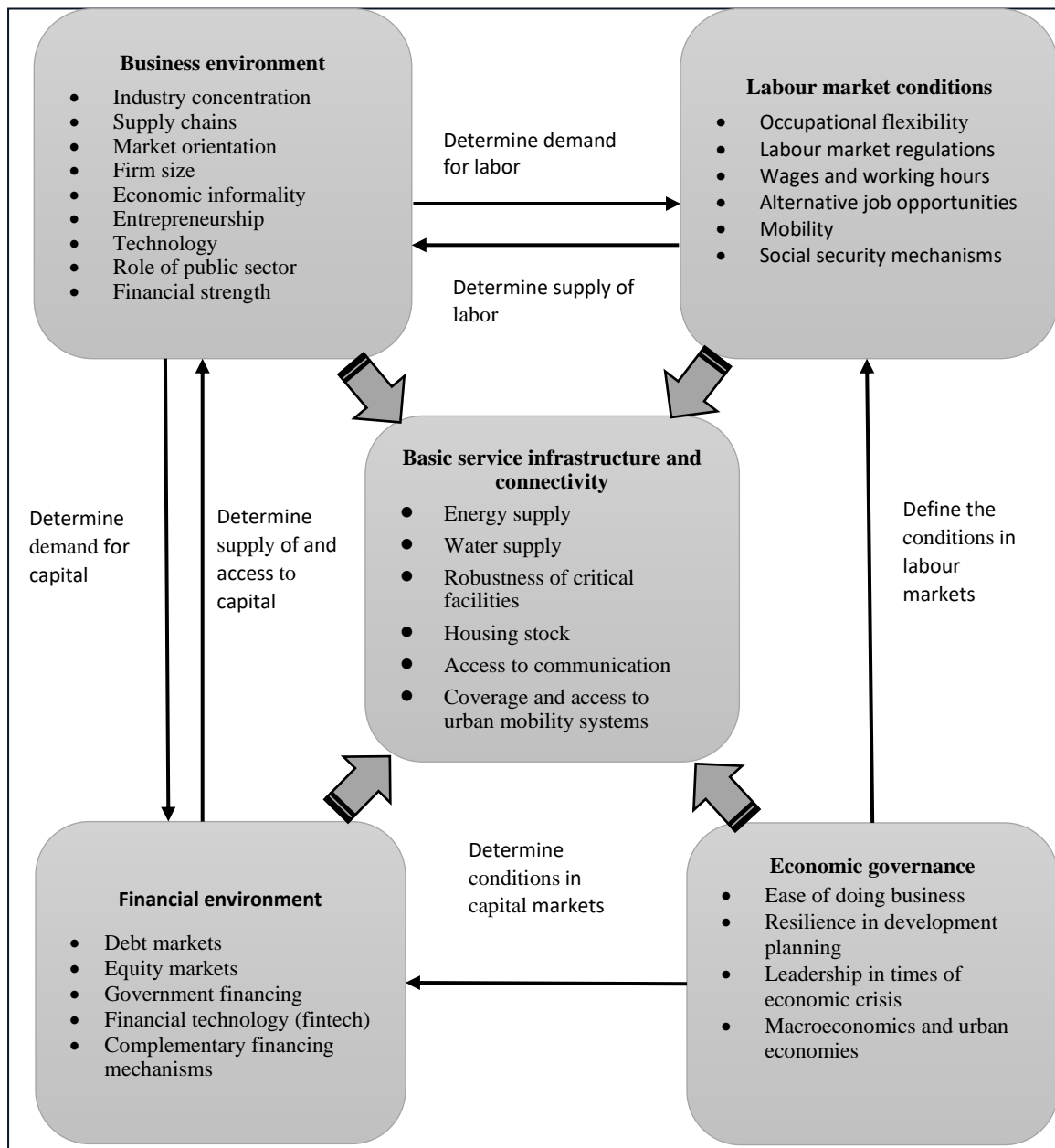
1. Resilience of local business environment;
2. Resilience of local labour market;
3. Resilience of local financial system;
4. Resilience of economic governance;
5. Resilience of basic service infrastructure and connectivity.

(<https://openknowledge.worldbank.org/handle/10986/36298>); UNECE Summary of the Second Forum of Mayors, 2022 (ECE/HBP/2022/3); and UN-Habitat, *World Cities Report 2022: Envisaging the Future of Cities*.

⁸ The resource materials along with detailed information on training workshops are published on the project website at <https://urbaneconomicresilience.org>

⁹ <https://urbaneconomicresilience.org/deliverables-resources/urban-economic-recovery-and-resilience-diagnostics-and-planning-tool-dpt/>.

Figure 1. The Urban Economic Recovery and Resilience Diagnostic and Planning Tool: Main elements

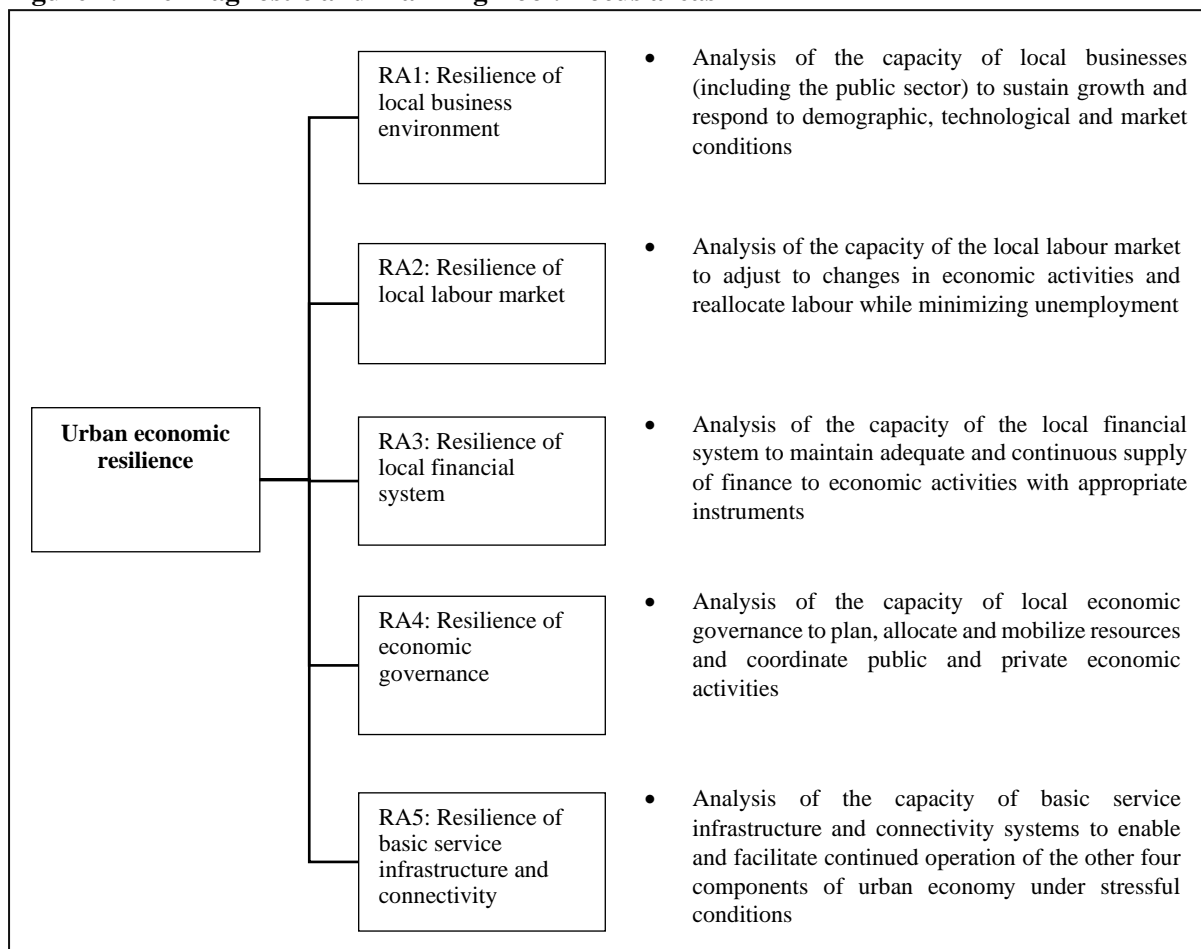


Source: UNCDF, 2020¹⁰

The RPis, 17 in total, include qualitative and quantitative composite indicators as well as indices, for measuring progress toward consolidating a conducive environment under each category. Cities are assessed against each of the indicators on a scale of A to F, with A being the highest score (maximum contribution to resilience) and F being the lowest score (no contribution to resilience). The ranking helps local decision makers gain a better understanding of major factors undermining the resilience of their cities and establishing action-oriented plans for improving city resilience within the context of a holistic approach (see figure 2).

¹⁰ <https://urbaneconomicresilience.org/deliverables-resources/urban-economic-recovery-and-resilience-diagnostics-and-planning-tool-dpt/>.

Figure 2. The Diagnostic and Planning Tool: Focus areas



Source: UNCDF, 2020,¹¹

III. Economic impact of COVID-19 on the city of Kharkiv

Kharkiv is a major cultural, scientific, educational, transport and industrial hub in the country. The city, which is located in the northeast of Ukraine about 30 miles from the border with the Russian Federation, has a population of an estimated 1.447 million in December 2021¹², 60 research institutes, 41 institutions of higher education, including the National University (Karazin University, ranked among the top 500 universities in the world) and the National Technical University (Kharkiv Polytechnic Institute, ranked among the top 700 best universities in the world).¹³ The city is also home to 24 museums, 36 libraries, 17 art galleries and 14 theatres.¹⁴

The rich cultural heritage of Kharkiv has rendered it among the main touristic destinations in the country.¹⁵ The city also boasts a well-established industrial sector, with the city home to

¹¹ <https://urbaneconomicresilience.org/deliverables-resources/urban-economic-recovery-and-resilience-diagnostics-and-planning-tool-dpt/>

¹² <https://www.city.kharkov.ua/en/dovdnyk/putevoditel-po-xarkovu.html>.

¹³ <https://www.topuniversities.com/university-rankings/world-university-rankings/2021>.

¹⁴ <https://en.unesco.org/creative-cities/kharkiv>.

¹⁵ <https://eurocities.eu/cities/kharkiv/>.

around 70 per cent of the enterprises registered in the region of Kharkiv¹⁶, which is equivalent to around 25,144 in 2020. These industrial enterprises are specialized in heavy transport and industrial machinery and equipment (including aircraft, tractors, turbines, electric engines, tower cranes, software-controlled tools), energy and utilities (including electric power, gas and water supply) and food.¹⁷ These enterprises have accounted for over 55 per cent of the total industrial value added of the region of Kharkiv over the past decade, with the remaining value added generated by enterprises engaged in mining, light manufacturing, wood, metal and non-metallic mineral production.¹⁸ As shown in box 1, Kharkiv was negatively affected by the pandemic, particularly during the first few months that saw the national Government impose a national lockdown to curb the spread of the virus.

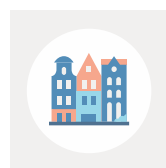
Box 1. Economic impact of the pandemic



Impact on labour market

The labour market of the region of Kharkiv exhibited signs of recovery in 2021, with unemployment rate decreasing from 7.4 per cent in March 2021 to 6.7 per cent in December 2021.¹⁹ The region fared better than the national labour market, with unemployment rate estimated at 9.8 per cent in 2021.²⁰

Nonetheless, national and regional unemployment rates need to be interpreted against the widespread informality, as those involved in the informal economy are not reflected in official statistics.²¹



Impact on the business environment

As a result of the national lockdown, many industrial enterprises suspended their operations. In the heavy industry sector, which employs a large part of the city population, some factories, like Turboatom and Eletrotyazhmash, were able to reschedule the working hours outside of peak hours and transfer some employees to part-time work, while others had to suspend their operations completely, for example, a tractor plant, which was forced to suspend its work when more than 1,100 of its employees were unable to travel to work due to the closure of the metro. The enterprises engaged in the services sector, particularly tourism, were also negatively impacted. Most affected were small and medium enterprises as well as the self-employed, who were left without income. Under such conditions, the volume index of GDP for the region of Kharkiv decreased by around 5 per cent from 101.4 in 2019 to 96.6 in 2020.²²

¹⁶ According to official statistics, in 2020, the total number of enterprises operating in the region of Kharkiv was 25,144. See data by the State Statistical Service of Ukraine (https://ukrstat.gov.ua/operativ/operativ2013/fin/kp_reg/kp_reg_e/arh_kp_reg_e.htm). Over 79 per cent of these enterprises were located in the city of Kharkiv. See official statistics by the city of Kharkiv (<http://kh.ukrstat.gov.ua/kilkist-subiektiv-hospodariuvannia-po-mistakh-oblasnoho-znachennia-ta-raionakh>).

¹⁷ https://ukrstat.gov.ua/operativ/operativ2013/fin/kp_reg/kp_reg_e/arh_kp_reg_e.htm.

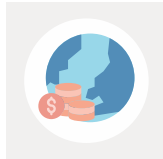
¹⁸ Statistical Yearbook of Ukraine for 2020. Available at https://ukrstat.gov.ua/druk/publicat/kat_u/2021/zb/11/Yearbook_2020_e.pdf.

¹⁹ State Statistical Service of Ukraine, Labor Force by region. Available at <https://ukrstat.gov.ua/>.

²⁰ State Statistical Service of Ukraine, Unemployed population, by age group, sex and place of residence. Available at <https://ukrstat.gov.ua/>.

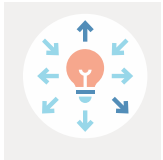
²¹ For further details, see the National Bank of Ukraine, Shadow Economy of Ukraine (2020), which shows that around one-quarter of national gross domestic product (GDP) is generated by the informal sector. Available at <https://bank.gov.ua/ua/news/all/doslidjennya-tinovoyi-ekonomiki-v-ukrayini--mayje-chvert-vvp--abo-846-mlrd-griven--perebuvaye-v-tini>.

²² <http://kh.ukrstat.gov.ua/index.php/natsionalni-rakhunky-stat>.



Impact on the financial environment

The city saw its revenues decrease by 15.7 per cent in 2020 compared to the previous year to reach 1,475.1 million Ukrainian Hryvnia (UAH), reflecting dwindling land payments and tax revenues, particularly from utility tax. Transfers from the national government also decreased by over 50 per cent to reach UAH 1,649.1 million. Budget expenditures of the city of Kharkiv for January-July 2020 amounted to UAH 7803.1 million.²³



Economic governance

As of December 2021, no changes to the discretionary power of local financial decisions were introduced.

IV. Crisis response and emergency support measures

The city government launched a range of emergency support measures to mitigate the economic impact of the pandemic. During the initial period, it created an “anti-crisis committee” which comprised owners and managers of large enterprises operating in the city and representatives of the city authorities. Funds were provided by owners of large enterprises in the city, and the funds were used to purchase expensive medical equipment and support medical institutions and vulnerable groups.

The Kharkiv City Council increased expenditures on health care to the amount of UAH 20.5 million, to purchase medicine, disinfectants, personal protective equipment and medical devices (artificial lung ventilation devices with high-flow oxygenation), among others. It also created 18 mobile medical teams, which made 5,500 visits during the lockdown period and took 9,000 samples of biomaterial for research. More than 220,000 food packs and 37,000 first-aid kits with a set of essential medicines were distributed to Kharkiv residents, especially representatives of vulnerable groups (seniors and others) during the quarantine period.

The city provided considerable financial assistance to the most affected groups. As of 1 January 2021:

- Health care providers who contracted the virus have received over UAH 4.4 million in material assistance.
- Material assistance totaling UAH 14.3 million was given to inhabitants who have contracted the virus.
- Enterprises that were forced to suspend operations received direct financial support (UAH 8,000 per enterprise).
- As part of the *Programme of Support for the Development of Entrepreneurship in Kharkiv 2018-2022* to support small and medium-sized enterprises, the amount of UAH 1.9 million was provided to affected enterprises in 2020.

²³ Data provided by Kharkiv City Council.

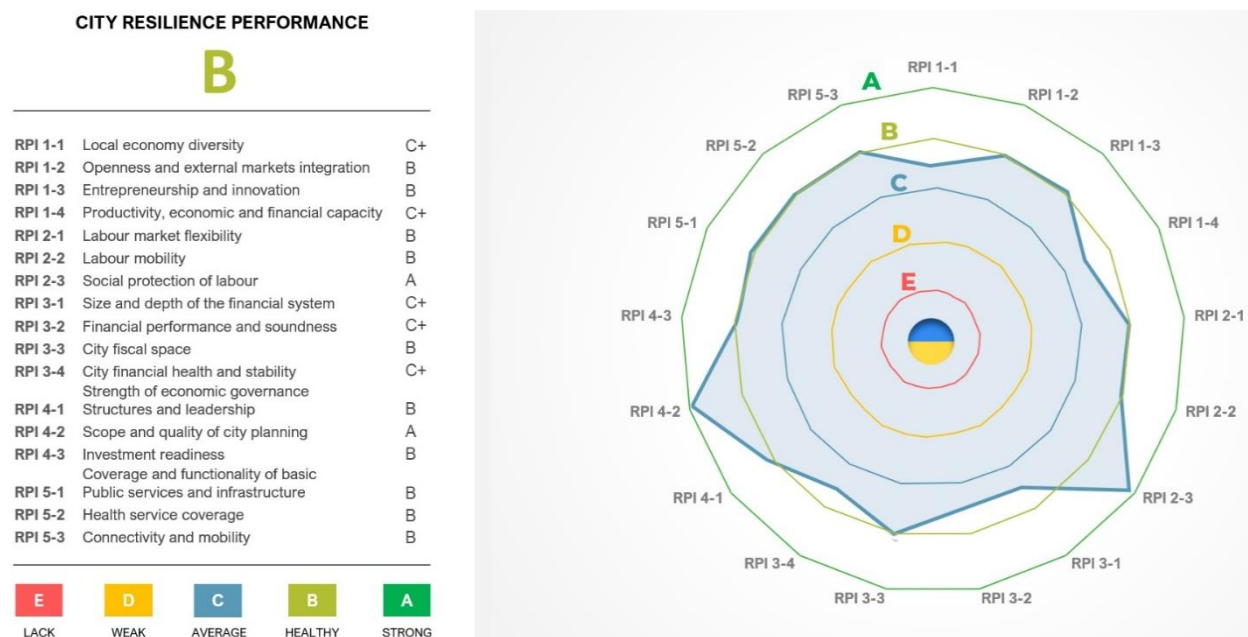
- The Kharkiv Mayor's Office also implemented an accelerated reconstruction project for the Sarzhin Yar Park, a cultural heritage site known for its rich mineral water and a major destination for outdoor recreation activities. The Park was deserted during the lockdown period, and the city invested in its reconstruction to provide inhabitants with a safe public space for social engagement.

As a result of these measures and the support from the national Government²⁴, the city bounced back with the volume index of GDP for the region of Kharkiv increasing by 2.7 per cent from 96.6 in 2020 to 99.3 in 2021.²⁵ Moreover, the budget revenues increased by 12.5 per cent between January and March 2021 year-over-year.²⁶

V. Diagnostic assessment for the city of Kharkiv

The city of Kharkiv was in a good position to ensure economic and financial resilience.²⁷ The city was able to reduce the negative impact of the pandemic while simultaneously allowing for a swift recovery. Nonetheless, the assessment suggests that there are several areas that need more attention to improve the city's economic resilience in the future. These include local economic diversity; productivity, economic and financial capacity (see figure 3).

Figure 3. Kharkiv City economic resilience performance



²⁴ <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>.

²⁵ <http://kh.ukrstat.gov.ua/index.php/natsionalni-rakhunky-stat>.

²⁶ Statistics provided by the Kharkiv City Council

²⁷ The data for the diagnostic analysis were collected in autumn-winter of 2021 by the project experts in close cooperation with the Kharkiv city government. Data on several indicators were not available, including those on the structure of the city economy, business registration statistics at the city level, gross loan portfolio and RPI 5-3: *connectivity and mobility*. Information on the gross loan portfolio was available only at the level of Kharkiv region. In the case of the unavailability of the data, the analysis was complemented by qualitative information received from the Kharkiv City Council and qualitative assessments.

Resilience performance is divided into 3 categories:

- Relatively strong resilience areas of the city of Kharkiv: social protection of labour (Resilience Performance Indicators (RPI) 2-3), scope and quality of city planning (RPI 4-2).
- Resilience areas in which some work is required to improve performance: openness and external market integration (RPI 1-2), entrepreneurship and innovation (RPI 1-3), labour market flexibility (RPI 2-1), labour mobility (RPI 2-2), city fiscal space (RPI 3-3), structure and leadership (RPI 4-1), investment readiness (RPI 4-3), coverage and functionality of basic public services and infrastructure (RPI 5-1), health and service coverage (RPI 5-2), and connectivity and mobility (5-3).
- Resilience areas in which significant work is required to improve operational efficiency: local economy diversity (RPI 1-1), productivity, economic and financial capacity (RPI 1-4), size and depth of financial system (RPI 3-1), financial performance and soundness (RPI 3-2), city financial health and stability (RPI 3-4).

In general, the city administration managed to minimize the negative impact of COVID-19 by improving the efficiency of budgetary processes, including further reforming inter-government fiscal relations, the application of result-based management and streamlining expenditure. While the overall economic performance of Kharkiv City bounced back after the pandemic, additional measures could be taken to enhance the city's economic resilience, including by increasing its investment attractiveness, promoting the development of the manufacturing sector, ensuring the stable functioning of its utility services, transport and communal infrastructure, improving the quality of life and ensuring an adequate level of social protection of the inhabitants.

Furthermore, the analysis highlights the need to improve statistical data at the national and regional levels. More can be done to improve the system of local governance to allow for increased decentralization in decision-making. The analysis also shows that the city needs adequate financial resources to respond effectively and efficiently to economic and other shocks. This calls for more conducive legal and regulatory frameworks than the ones currently in place, as analyzed in the following section.

VI. Recommendations

The following recommendations for actions were formulated based on the analysis. The recommendations need to be reviewed to take into account the current local realities in light of the war as well as the long-term strategic goals for post-war reconstruction and development.

- Some of the COVID-19 impacts are linked to the lockdown and health protection measures and, as such, are difficult to avoid during pandemics. This means that the city should be prepared to launch emergency support measures to help the affected inhabitants, particularly the most vulnerable. In the long term, the city should implement additional measures to develop and support entrepreneurship and enhance partnerships with international organizations so as to improve resilience area (RA) 1 "Resilience of the Local Business Environment" and enable it to be rated as "B".

- RA2 indicator "Resilience of the Local Labour Market" for Kharkiv was rated "B+". This is quite high and should be interpreted against the widespread informality in the city. The city should implement measures to improve labour market performance and formalize the informal sector.
- RA3 "Resilience of the Financial System" can be improved to reach level "B", through the long-term development of lending programmes supported by the national and local governments.
- RA4 is rated "B+", which indicates a high level of performance of the municipality. In order to maintain this high level, it is recommended that steps be taken to improve the level of financial literacy of the city inhabitants.
- Improvement of indicator RA5 " Resilience of Basic Services and Transport Connectivity" is in line with the national policy of Ukraine, which seeks to expand the provision of basic services and develop the transport infrastructure of the city.
- To ensure that the urban governance system functions effectively, the city develops and implements long-term socio-economic development programmes on an ongoing basis, which address all spheres of city life. These programmes focus on improving the efficiency of municipal property management; procurement of goods, works and services for the city's needs; development of investments and innovation; digital development of the city; development of entrepreneurship as a basis for the city's economic stability; development of the social sphere, especially in terms of employment; housing policy; urban infrastructure, including the development of the city transport system; and the humanitarian sphere including a high level of health care. The above-mentioned indicates that some of the recommendations can be integrated into the relevant urban development programmes to facilitate implementation.

VII. Approaches for financing the implementation of the recommendations

To support the implementation of the above recommendations, ECE developed a "Financial Information Brief for the City of Kharkiv", which needs to be reviewed to take into account the current local realities in light of the war as well as the long-term strategic goals for post-war reconstruction and development. The financial brief contains three main recommendations for funding and financing in the context of the existing national and local legislative framework:

1. to support effectively massive reconstruction efforts at the city level, it is recommended to establish a City Reconstruction and Development Agency (CRDA), a fully owned municipal enterprise to serve as the central executive arm of the Kharkiv City Council. In the initial phase, CRDA could focus on two main roles - leadership and governance - along with the coordination of reconstruction and recovery efforts. It should assume additional competencies in the field of economic development as the situation stabilizes. CRDA should be managed by a board of directors appointed by the City Council.

2. To promote the mobilization of private capital for development, it is recommended to establish long-term partnerships with international asset management firms to mobilize equity and debt financing for municipal infrastructure development. Such firms could help establish a City Investment Fund, which could be managed by CRDA (although other management arrangements are also possible). The Fund is envisaged as an independent entity to be established with 100 per cent ownership by the city government, receiving two streams of revenues - equity in the form of intergovernmental fiscal transfers (or in the form of regular equity that requires return or some mix of the two) and direct grants and guarantees from donors and development partners.

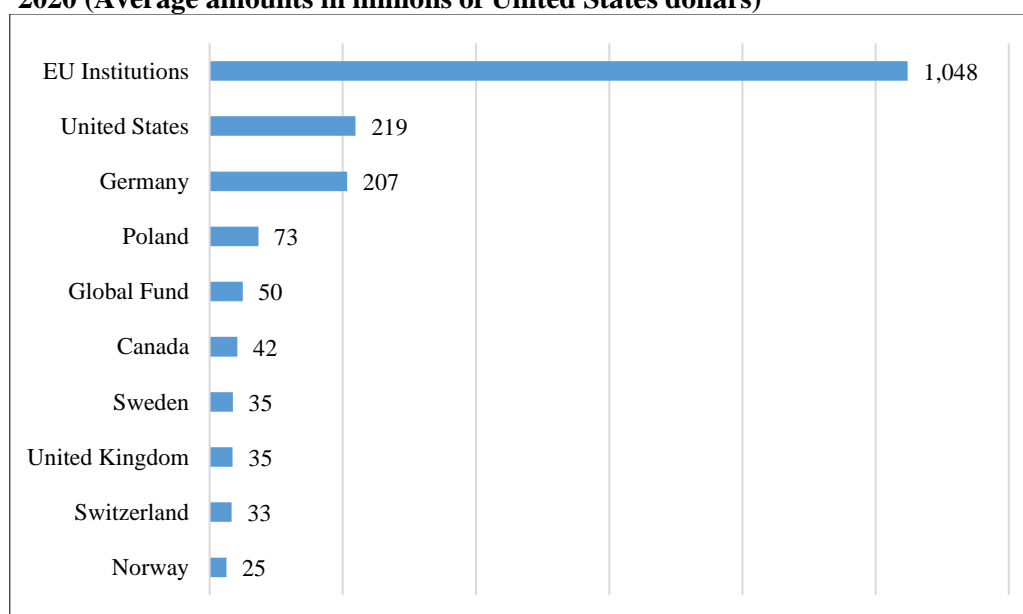
3. To cooperate and gain direct access to international finance for reconstruction and development. In the context of the post-war reconstruction efforts, access to international finance will be critical. As shown in table 1, Ukraine received an average of \$1.5 billion a year in Official Development Assistance (ODA) over the period 2018-2020. The top five donors were European Union institutions, Germany, the United States of America, Poland and The Global Fund to Fight AIDS, Tuberculosis and Malaria (see figure 4).

Table 1. Official development assistance extended to Ukraine, 2018-2020

Description	2018	2019	2020
Bilateral share of gross ODA (percentage)	65	61	32
Net ODA (USD million)	1,223	1,120	2,335
Gross ODA (USD million)	1,257	1,307	2,548
Total net receipts (USD million)	2,641	3,374	3,090
Net ODA/GNI (percentage)	0.9	0.7	1.5

Source: Organisation for Economic Co-operation and Development.²⁸

Figure 4. Top ten donors extending official development assistance to Ukraine, 2019-2020 (Average amounts in millions of United States dollars)



Source: Organisation for Economic Co-operation and Development.²⁹

²⁸ <https://www.oecd.org/countries/ukraine/aid-at-a-glance.htm>.

²⁹ Ibid.