

UKRAINE

UNITARY COUNTRY

EURO-ASIA

BASIC SOCIO-ECONOMIC INDICATORS

Income group - LOWER MIDDLE INCOME Local currency - Ukrainian hryvnia (UAH)

POPULATION AND GEOGRAPHY

AREA: **603 550** km²

POPULATION: **45.363** million inhabitants (2014),
a decrease of -0.3% per year (2010-14)

DENSITY: **75** inhabitants/km²

URBAN POPULATION: **69.5%** of national population

CAPITAL CITY: **Kiev** (6.5% of national population)

Sources: OECD, World Bank, UNDP, ILO.

ECONOMIC DATA

GDP: **370.5** billion (current PPP international dollars)
i.e. 8 168 dollars per inhabitant (2014)

REAL GDP GROWTH: **-6.8%** (2014 vs 2013)

UNEMPLOYMENT RATE: **9.3%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **847** (BoP, current USD
millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **14%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.747** (high), rank **81**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|--|---|----------------------|
| 10 670* 272 CITIES (MISTA) 777 TOWNSHIPS 9 621 RURAL SETTLEMENTS | 721 DISTRICTS (RAYONS) INCLUDING 488 RURAL DISTRICTS AND 47 URBAN DISTRICTS AND 186 CITIES OF REGIONAL IMPORTANCE | 27 24 REGIONS (OBLAST) 1 AUTONOMOUS REPUBLIC (CRIMEA), 2 CITIES (KIEV AND SEVASTOPOL) | 11 418 |
| * Figures include amalgamated municipalities in 2015 | | | |

MAIN FEATURES OF TERRITORIAL ORGANISATION. Ukraine has a complex three-tier system of SNGs, established by Article 7 and Chapter XI of the 1996 Constitution. The regional level is composed of 24 regions (*oblasts*) along with the Autonomous Republic of Crimea and the two cities of Kyiv and Sevastopol. The second tier is composed of districts (*rayons*) in urban and rural areas and cities of regional importance (*oblast* subordination) while the last tier consists of small cities, townships and rural settlements. Ukraine also comprises 27 206 villages. This decentralised system is interwoven with central government authorities operating at the subnational level. In fact, regions and districts have an elected legislative council, but an executive body appointed by the central government. In contrast, cities of regional importance (186 in 2016) have an elected executive body. In April 2014 the government approved the Concept of Reform of Local Self-Government and the Territorial Organisation of Power. Two laws on voluntary municipal amalgamations and inter-municipal co-operation were adopted in 2015. In 2015, 159 new amalgamated municipalities were created comprising approximately 850 municipalities. A decentralisation programme, requiring constitutional reform, includes the transfer of powers, competences and financial means from the central government to regional and local levels, and the election of executive authorities in regions and districts.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. Ukraine is characterised by an asymmetrical territorial structure, with competences allocated differently for same levels of local government. A distinction is made between delegated competences (education, health, and social welfare) and exclusive competences for which SNGs have more autonomy (e.g. utilities, housing and social protection). The distribution of competences across levels of government is complex and unclear. Regional competences include regional development programmes, health, education, culture, social welfare, distribution of state budget funds, regional planning, transport and agriculture. District competences include district planning and development programmes, distribution of state budget funds, natural resources, health, education, culture, social welfare, transport and agriculture. Municipal competences include maintenance of technical infrastructure, urban planning, energy, transport, water, heating, waste management, tourism, environment, local commerce and employment, development programmes, urban development, education, social welfare, health care, etc.

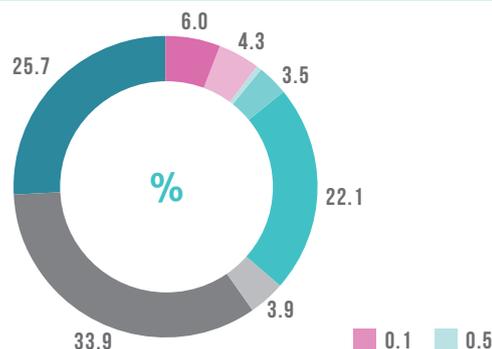
SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE | % GDP | % GENERAL GOVERNMENT (same expenditure category) | % SUBNATIONAL GOVERNMENT |
|--------------------------|-------|---|-----------------------------|
| TOTAL EXPENDITURE (2013) | 14.9% | 31.3% | 100% |
| CURRENT EXPENDITURE | 13.2% | - | 88.2% |
| STAFF EXPENDITURE | 7.1% | 60.2% | 47.3% |
| INVESTMENT | 0.6% | 54.9% | 3.9% |

On paper, Ukrainian SNGs are major social and economic actors: their spending decentralisation ratios place the country slightly above OECD unitary country averages. However, most SNG spending is made on behalf of the central government, SNGs having little influence. In the same vein, SNGs are major public employers (the share of SNG staff spending in staff public spending is twice that of SNG spending in total public spending) but in reality, they are responsible for the salaries of delegated functions (teachers, social and health staff). While SNG investment represents a very small portion of SNG expenditure, it represented a large share of public investment in 2013.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE



Major categories of SNG spending include education, social protection and healthcare which represent over 80% of total SNG expenditure. In addition, SNG expenditure constitutes the bulk of public spending in these three areas, as well as in the housing and cultural sectors. SNGs, however, do not have much freedom in managing that expenditure since key elements are decided centrally by the ministries responsible.

| REVENUE BY TYPE | % GDP | % GENERAL GOVERNMENT (same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 15.0% | 34.6% | 100% |
| TAX REVENUE | 5.6% | 24.3% | 37.6% |
| GRANTS AND SUBSIDIES | 7.9% | - | 52.7% |
| OTHER REVENUES | 1.4% | - | 9.6% |

The relative share of each main revenue source is in line with OECD unitary country averages. Half of SNG revenue comes from central government transfers and almost 38% from taxation, mostly shared. In fact, the gap between SNG own revenues and their spending responsibilities is very wide. The current fiscal framework is currently evolving in the framework of the decentralisation reform.

TAX REVENUE. Most SNG tax revenue comes from tax sharing. It includes shares of the PIT (around 80% of SNG tax revenue in 2013), tax on goods and services, business profit tax and the land tax. The shares allocated to SNGs are set by the national parliament; SNGs do not have the possibility to adjust tax rates or bases. PIT sharing is made according to a fixed percentage, levied locally. The percentage varies according to the category of SNG (from 25% to 100%, the majority receiving 50%). There is also an internal redistribution of PIT receipts across different SNG levels. According to the Tax Code passed in 2010, the number of local taxes was reduced from 15 to five: three are compulsory local taxes (a new property tax other than land, single tax (unified tax), license for special entrepreneurial activities) and two are optional charges (parking and tourist taxes), but they remain very limited.

GRANTS AND SUBSIDIES. Central government transfers are mainly dedicated to finance delegated functions and staff wages (education, social protection, health). They comprise, in approximately equal proportions, earmarked transfers and equalisation grants. The indicator taken into account for equalisation is tax potential, based on the list of resources considered for equalisation by the Budget Code. Other criteria are taken into consideration (population consumers) to assess the level of expenditure gaps. State earmarked grants finance social benefits (social grants) and local investment needs. The level of transfers is decided annually which introduces considerable uncertainty at the local level.

OTHER REVENUES. Other revenues include sales of goods and services (for instance a licence fee for individuals selling goods at markets and bazaars) and property income (rent).

OUTSTANDING DEBT

| OUTSTANDING DEBT (2013) | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 1.4% | 3.7% |

The legal framework contains some fiscal rules for local budgets which are quite loose and vary for different budget funds (general and special funds). SNGs can borrow but only to fund investment projects (golden rule) and with authorisation of the central government. For this purpose, some SNGs (e.g. cities of oblast subordination) have access to the national capital market within the limits of the law. This activity is strictly controlled and co-ordinated by the central government. In 2013, SNG debt was low by international standards and mostly composed of financial debt with a similar share between loans and bonds.

A joint- study of:



Sources: IMF Government Finance Statistics • Parliament of Ukraine (<http://static.rada.gov.ua/zakon/new/NEW-SAIT/ADM/zmist.html>) • OECD (2013) Territorial Review of Ukraine • S&P Report (2013), Ukraine Local Government System Is Volatile And Underfunded • Gavrylenko A.S (2013), Features of Fiscal Decentralization in Ukraine, Actual Problems Of Economics • Assembly of European Regions (2013), Briefing Note on Local and Regional Government in Ukraine • Council of Europe (2013) Local and regional democracy in Ukraine • Sydorovych, M. (2011) Financing Local Government in Ukraine”, Federal Governance, vol. 8 no 3, pp. 5-27.