

Social Protection and Social Inclusion in Ukraine

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ACRONYMS CITED IN TEXT

AIDS	Acquired Immune Deficiency Syndrome
CIS	Commonwealth of Independent States
CPI	Consumer Price Indexes
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
FIG	Financial Industrial Group
GDP	Gross Domestic Product
GVA	Gross Value Added
HHS	Household Survey
HIV	Human Immunodeficiency Virus
IDSS	Institute for Demography and Social Studies of NAS of Ukraine
ILO	International Labour Organization
IPPF	International Parenthood Planning Federation
ISCED	International Standard Classification of Education
ISIC	International Standard Industrial Classification of Economic Activities
LMP	Labour Market Policy
NAS	National Academy of Science
NGO	Non-Government Organization
PPS	Purchasing Power Standards
SDC	Swiss Agency for Development and Cooperation
SEA	Survey on Economic Activity of Population
SME	Small and Medium Enterprises
SPSI	Social Protection and Social Inclusion
TAIEX	Technical Assistance Information Exchange
UAH	National Currency
UNDP	United Nations Development Program
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
USSR	Union of The Soviet Socialist Republics
WEF	World Economic Forum
WHO	World Health Organization
WTO	World Trade Organization

EXECUTIVE SUMMARY

Following the declaration of independence, Ukraine embarked on the course of socio-economical reforms and democratization that let out new opportunities to form social orientated market economy.

The transformation period of 1991–1999 in Ukraine was accompanied by deterioration in the socio-economic situation and living conditions, as well as by demographic crisis. Social policy was aimed at strengthening social protection; however the core of the social system remained unreformed.

Since 2000, efforts to improve the situation have been reflected in the GDP growth, development of a business environment, declining of unemployment, and increase income. However, some problems remained. These are: lack of structural reforms in the economic system, low innovative activity of national enterprises, and a large share of a grey economy. Orientation of economic policy on low wages and salaries is another obstacle for development. Inconsequent political actions, frequent elections, unwarranted increase of social expenditure created serious challenges for sustainability of social protection system in Ukraine.

1. General overview

1. The process of transition from a command to an open market economy in Ukraine slowed down, and became exhausting for both economy and population. In the context of transition, the first decade of Ukraine's independence was marked by economic depression, hyperinflation, rising unemployment, decreasing of living standard. The GDP reduction during 1991-1999 was 59.2%. Since 2000 economic situation in Ukraine started to improve (average annual GDP growth in 2000-2008 was 8.5%). However, in 2008 the real GDP was only 74.1% of that achieved in 1990. GDP per capita in PPS in Ukraine still remains small in comparison with the EU-27 average (around 25%). The biggest challenges to Ukraine's macroeconomic stability are: political instability, inflation, accumulation of foreign debt, a low level of domestic banks capitalization, and unsteadiness of national currency, a sharp decrease of production as a result of actual recession.

2. The share of GDP redistributed through the Consolidated Budget of Ukraine (Central plus local budgets) was 30% in 2007. In terms of the structure of the Consolidated Budget revenues, the main sources were value added tax (27.0% of total revenues in 2007), income tax (15.8%), profit tax (15.6%); the share of non-tax revenues was 22.1%. In terms of the structure of the Consolidated Budget expenditures, the social expenditures consisted 55.1%, in particular on social protection - 21.4%, on education - 19.5%, on health - 11.7% in 2007.

3. Employment trends in Ukraine reflect the absence of structural reforms in economy. Despite the growing number of jobs, their quality is worsening; the employment profile is characterized by large share of subsistence agriculture, and significant skills' mismatch in the labour market. The economic growth during 2000-2008 did not catch up with a level of employment in Soviet period. In 2008 number of employed was 20.4 million persons (in 2000 — 20.2 mln, in 1990 — 25.4 mln). In 2008 employment rate (for age group 15-64 years) had increased up to 63.4% comparing to 58.6% in 1999. The economic activity rate in Ukraine in 2008 was 67.8%, which is lower in comparison with the EU average. Low economic activity rate in Ukraine can be attributed to a combination of factors, among which: a strong motivation of youth to obtain a higher education; low retirement age; pre-term preferential retirement (for men); and a lack of affordable quality child care facilities. Economic crisis leads to the growing underemployment (unpaid or partly paid administrative leaves or short daily (weekly) hours of work, and wage arrears delays) in order to retain staff employees and to avoid mass lay offs.

4. During the first decade of independence Ukraine experienced a growth of unemployment because of the reduction in the number of jobs in transition period. In 2000, when economy started to grow the rate of unemployment, according to the ILO-concept, was steadily decreasing and reached a level of 6.5% in 2008. However, relatively low level of unemployment is caused by labour migration, informal employment (in particular subsistence agriculture) and underemployment.

One of the major problems in Ukraine is the inequality in the development of urban and rural areas, therefore half of the rural employed is forced to work in the informal sector. Roma and Crimean Tatar communities are the most vulnerable groups among national and ethnic minorities in Ukraine that are characterized by extraordinarily high unemployment.

In spite of innovative technologies of job placement implemented by the Public Employment Service, the quality of jobs offered remains unsatisfactory. Despite decrease in a share of expenditures on the "passive" labour market policy (from 0.38% of GDP in 2002 to 0.25% in 2008), the share of expenditures on the "active" labour policy (0.1% of GDP) is significant less then in EU-27 (0.47% of GDP). The possibility to find a job with the assistance of the Public Employment Service is limited by the lack of vacancies offering decent wage (as a result of recession).

5. The problem of low wages is very urgent in Ukraine. Cheap labour does not motivate employers to introduce new technologies. Low wages lead to a poverty of employed population and to the decline in economic and

labour activity, creating obstacles to the full-scale implementation of a social insurance system. About 85% of poor households have at least one employed member; moreover, employment has no impact on the poverty risk. As a result of economic crisis, the practice of wage arrears accumulation went into force. On January 1, 2009 wages were delayed for 346.2 thousand regular staff in economically active enterprises (3.2% of total number).

6. Ukraine's economy is characterized by large scale of informal (grey, shadow) economy that leads to a widespread practice of underreporting of wages, tax evasion and reflects all negative features of undeclared work. According to estimates of the Monitoring poll of Ukrainian population's public opinion (April 2009), more than 19.0% of interviewed (polled) noted that a large part of their salaries was undeclared ("envelope payment") even in case of formal job.

7. The development of educational system in Ukraine is characterized by the worsening of its quality, insufficient adaptation to the labour market demands, small-scaled and ineffective vocational training programs, low readiness to the innovative economy needs, the decrease of competitiveness, and by the weakness of institutional reforms in the educational sphere.

Network of pre-primary institutions was significantly reduced, due to fertility decline in 1990-2000. From 2001, fertility started to increase, and a need for pre-primary institutions increased as well. In 2008, only 57% of children of the preschool age attended pre-primary institutions.

In terms of enrolment in primary, secondary and higher education, Ukraine holds the 39th position among 172 countries. According to this rating, Ukraine is close to the EU countries and above the CIS countries (WEF, 2008).

However, there are problems of different educational standards for different groups. Namely, standards are varying according to inter-settlement and ethno-national features: quality and access to education are different in rural and urban areas; children from poor families have fewer opportunities to study in schools, which meet modern standards.

The budget expenditures on education have increased from 3.8% of GDP in 1990 to 6.4% in 2008. In terms of the structure, in 2008 budget expenditures on primary and secondary education that introduce a main part of expenditures was 41.7% of the total, while tertiary education absorbed 30.4%. A share of expenditure on pre-primary education was 12% of the total. Participation of private sector in provision of pre-school, secondary and tertiary education is not significant.

8. The demographic situation is characterized by ageing of population, low fertility and high mortality (especially among men of working age), and by the high prevalence of AIDS and tuberculosis. Ukrainian population is approximately 46.2 million and steadily declining. Percent of rural population has been unchanging and reached 32%. Demographic projections indicate that population will decrease by some 20% and will reach 36.3 million in 2050. Such large losses of demographic potential can be explained by widespread standards of small families, short life expectancy and negative migration balance.

9. During period of independence, regional disparities increased throughout all economic and social indicators. Industrial regions of eastern and southern parts of the country demonstrate better economic indicators, while Western part has better environmental and social indicators.

In terms of rural-urban disparities, the most unfavourable situation is observed in rural area because of the absence of jobs, degradation of social infrastructure, that cause insufficient living conditions (problems with sewage system, water-supply), and limited access to high-quality education and health care.

2. Social protection system

1. The Social Protection System in the former USSR provided benefits and services for old people, disabled individuals, and families with children. This System was built on the principle of "insurance without contributions". Financial resources were accumulated on the base of payments from enterprises and transfers from the State Budget.

Since the independence of Ukraine, the insurance-based social protection system started to be implemented. Owing to this the role of employers and employees became stronger, and State Social Funds were separated from the State Budget.

2. The social insurance scheme is presented by four types of the Compulsory State Social Insurance: 1) against industrial accidents and occupational diseases; 2) against unemployment; 3) against temporal disability; 4) pension insurance.

The main sources of revenues Social Insurance Funds are contributions of insurers – employers and insured persons (except for the Fund of Social Insurance against Industrial Accidents and Occupational Diseases. Here

contributions are paid only by employers); and transfers from the State Budget (for non-insurance payments and in case of the Funds' deficit).

Total expenditure of the Social Insurance Funds was 15.7% of GDP in 2007, including 0.5% of GDP – against unemployment, 0.7% of GDP - against temporary disability, 0.4% of GDP - against industrial accidents and occupational diseases and 14.0% of GDP - Pension Fund.

3. Non-contributory social benefits and services schemes, that funded from the State Budget, include following items: social assistance (family allowance, assistance to low-income families, assistance to individuals handicapped from birth, disabled children's allowance); privileges (war veterans, veterans of labour, victims of the Chernobyl disaster, certain type of professions); housing subsidies (in case if family's income is not enough to pay for housing services and gas); and social services (usually for lonely persons with disability).

4. The largest share of Central Budgets' expenditures on social protection is expenditure on pensioners (more than 50%). Reasons of high expenditures on social protection of pensioners are: a demographic ageing and low retirement age that cause large number of people of retirement age, and long list of privileges for pensioners (for example, all pensioners have a right on free urban and suburban public transport).

3. Poverty and social exclusion

1. During the period of former USSR a phenomenon of poverty was denied. There were no investigations or estimates of poverty. The research on population with low income was made at the country level, but not at republics or regions levels, and this data was closed. After statistical data became available, about 11% of the population in Soviet Ukraine were claimed to be poor.

In Ukraine, monitoring the poverty is performed in accordance with two approaches: 'relative' (the national poverty line) and 'absolute' one (the subsistence minimum). The national poverty line is defined as 75% of the median total expenditures. It based on the equivalence scale that assigns a value of 1 to the household head, of 0.7 to each additional adult and of 0.7 to each child. The second national relative ('extreme') poverty line is defined as 60% of the median total expenditures, based on the same equivalence scale.

The administrative subsistence minimum was established as a basic state social standard to calculate state social guarantees (minimum wage, minimum pension, state social assistance) in 2000. The size of the subsistence minimum is designed for different socio-demographic groups every year. It is calculated in accordance with a basket principle and is used as the absolute poverty line.

2. The dynamics of poverty cannot be investigated evenly for the every year of transition period of 1991-2008 owing to irregular and incomplete data up to 1999 when monitoring of poverty has been provided by the State Statistics Committee of Ukraine. According to the expert's estimation on the basis of the families' budget survey in 1996, 85-90% of Ukrainians were poor using poverty line of 1990. Since 1999 State Statistics Committee of Ukraine provided regular monitoring of poverty. Results of the 1995-1996 survey "Incomes and Expenditures of the Population of Ukraine", supported by the World Bank, and proved that the poverty was 29.4% using the poverty line of USD PPS 4.3 per day, while using the poverty line of USD PPS 2.15 per day – 3.0%.

Beginning from 2000, when macroeconomic situation in Ukraine began to recover from transformation recession, absolute poverty dropped from 70.6% to 12.6% in 2008. At the same time, relative poverty was stagnating at the level of 26-28% during the last nine years (HHS-data). It can be explained by the fact that economic growth did not decrease inequality, which was established during the transition period.

3. In terms of vulnerable groups, the report indicates such key factors of poverty: age (children and elderly), place of residence, size of household, number of children in a household, and unemployment. High education (at least of one household member) is the only factor that can reduce poverty in a household. Employment might cause a small decline in the poverty risk, however, it does not protect from it. There is a big gap between people living in urban and rural areas: a share of poor individuals among rural population reached 38% in 2006-2007, while the urban poverty rate for the same years was 22.1%.

4. In order to fulfill National Millennium Development Goals two strategies for poverty elimination were developed: "Strategy of Poverty Overcoming" from 2001 and "Complex Program of Nation-wide Realization of Decisions, Accepted at the Global Summit on the Sustainable Development, for 2003-2015" from 2003. However, the implementation of strategies and programs remains a main problem in Ukraine. Obstacle to this is their multivariate nature that makes a broad range of life spheres to be involved; underdevelopment of monitoring and evaluation tools; and absence of goal-oriented funding.

5. The current social assistance system can do little to affect the poverty level due to the improper distribution of social benefits. The most vulnerable families with children are insufficiently supported by the state. The problem of high poverty among families with children is often related to the low remuneration of labour.

6. The most urgent aspects of deprivation in Ukraine include: inappropriate housing conditions, limited access to services of social sphere, lack of property, and inability to have a full-scale leisure. If to compare with urban, rural population experience larger deprivation of social infrastructure, in particular, in terms of territorial accessibility of medical and educational institutions. Comparing with households without children, households with children suffer from poor housing conditions (overcrowding) and greater need of money for family leisure.

7. The problem of long-term and inherited poverty and of so-called "new" groups of social exclusion (HIV/AIDS-infected people; drug consumers (in particular, injection users); homosexuals, homeless, etc.) is little-investigated in Ukraine due to acute shortage of statistical information and survey data.

4. Pensions

1. Existing pension system includes following components: contributory compulsory state pension insurance based on PAYG principle (about 3/4 of total public pension expenditure); different state pension schemes, which are financed from the State Budget by additional pension contributions (about 1/4 of total public pension expenditure); and private (non-governmental) pension schemes based on voluntary participation (regular benefits have not been paid out yet).

2. In Ukraine, expenditures on pensions as percentage of GDP are the largest in Europe. During 2004–2008 due to frequent elections, the value of pension benefits increased five times in nominal terms. In 2009 pension expenditure will reach its record – over 17% of GDP (in the 1991-2003 period – about 8-9% of the GDP).

3. At the same time, at-risk-of-poverty rate is much higher for retired people than for the working age population (especially for women and individuals of 75 years and older) and has a trend to increase. Gender gap in at-risk-of-poverty rate for retired people is substantial - the rate is 5-6 percent points higher for old women than for old men.

4. Employment rate of elderly is relatively high (40% of individuals aged 55 to 64 are employed), accounting for the extremely low retirement age in Ukraine. The largest proportion of old workers is observed in those spheres of economy, where employees have right for early retirement: mining, water and air transport, education and health, culture and sports.

5. In 2009, due to financial and economic crisis, cash gap between revenues and expenditures of the Pension Fund was more than 3% of GDP. This deficit was covered by loans provided by the State Budget.

6. The long-term challenges for sustainability and adequacy of the pension system are related to demographic trends, in particular to very low fertility and ageing. Old age dependency ratio (65+/15–64) is projected to increase up to 38% in 2050, and pension system dependency ratio (pensioners/contributors) – up to 132%. Unless there is a substantial increase in the effective retirement age, such demographic prospects will have negative impact on financial sustainability of the system, in which a generation of working individuals supports a generation of pensioners.

7. Difficult financial situation and demographic trends require fundamental reforms in the sphere of employment and pensions. In the long-term, the extension of working lives would have the highest efficiency (inter alia via increasing the retirement age for women and decreasing number of categories of workers entitled to early retirement). Introduction of certain degree of pre-funding of pension expenditure could be another solution.

5. Health and long-term care

1. Ukraine health care organization, management and financing principles were inherited from the Soviet Union. According to the Constitution of Ukraine each person has a right to free of charge health care. However, in practice accessibility is limited. In spite of the big number of health care institutions, the system does not work effectively. The poor quality of health care is stipulated by insufficient investments and low wages in the health care system. As a consequence, the health outcomes are worsening.

2. The economic crisis of the transition period led to the deepening demographic crisis. In the first half of 90s the morbidity and mortality rates significantly increased, subsequently the situation has been flattened out, but persistent trend of improvement is not observed. In Ukraine life expectancy is the lowest in Europe; in 2008 life expectancy of males was 62.3 year, of females – 74.5.

3. The health care system reform is being discussed by governmental officials, politics and health practitioners for more than a decade. In general opinion, public health reform have been aimed to provide better access and better quality of health services for people and merited remuneration for doctors and nurses. However, there is no consensus about the sector's future organization and financing.

4. The lack of consensus on reform orientation and the slow progress of reform are rooted in economic and social crisis, frequent rotation of Governments, corruption of health care system and underestimation of health value in society.

5. The immediate measures which might be undertaken are as follows: to eliminate the resources fragmentation and to improve funds consolidation in localities; to divide out the functions of provider and payer in the health care services; to divide out the primary, secondary and tertiary care, providing the preference for the primary care; to optimize the hospital network and to reorganize the hospitals into independent non-profit municipal establishments; to introduce fee-for-service method of funding; to provide the sector with the highly-skilled managers; to organize the wide-scaled explanatory action in media and to find the support for the reform through the people.

6. Key challenges

1. The social protection system of Ukraine has a lot of challenges, some of them were inherited from the Soviet period. The lack of public finances leads to choose between development and consumption. Political instability and permanent elections (since autumn of 2004) inclined decision-makers in favor of consumption. Pressing challenges for Ukraine's macroeconomic steadiness are lack of structural reforms, raw-material orientation of industrial production, low innovation activity, high inflation, corruption, insecurity of property rights, and poor legislation. The significant fluctuation of exchange rate, accumulation of foreign debt, low level of domestic banks capitalization became serious macroeconomic shocks as well. The nowadays crisis causes the sharp reduction of GDP and expansion of unemployment.

2. In terms of social protection system, key challenges are:

- to reform the current system of privileges, in particular, to minimize professional privileges and to transform social privileges into cash means-tested benefits;

- to improve the quality and efficiency of social services and to introduce social passports for families and individuals who apply for social service. It is necessary to develop individual programs for such families and individuals;

- to direct efforts on training of skilled specialists of social services;

- to provide functionality of appropriate social services' institutions. The key position among such institutions can belong to non-governmental institutions; to adjust mechanism of support of public initiatives on the local level.

3. During the period of economic growth, Ukraine has made considerable progress towards reducing the absolute poverty. However, because of the lack of effective steps in implementing the state policy, it could not reduce income inequality emerged in transition period. As a result, relative poverty rates have been stagnating for 9 years.

The Ukrainian society does not address problems of some minorities, which face social exclusion. It concerns traditionally vulnerable population groups (disabled, ethnic minorities such as Roma, Crimean Tatar, etc.) as well as new groups that appeared rather recently – HIV/AIDS-infected, drug consumers (in particular injection users), and sex minorities. Generally, tolerant attitude to such people is combined with intolerance of staying in their neighbourhood, leading to social isolation of these groups in all spheres of life.

Strategic documents need to be revised and updated with consideration of the recent changes in the poverty situation and results of the new studies of poverty and social inclusion. New strategy has to take into account possible consequences of financial crisis and identify new steps to overcoming monetary poverty. The main task of new strategy is determination of groups of social exclusion and development of measures on their integration in the society.

4. The main challenges for stability and adequacy of the pension system are related to demographic trends, especially to very low fertility and to the population ageing, as well as to a slow progress of reforms. The most urgent problems of the pension system in Ukraine include:

- improvement of the mechanism of assignments and indexation of pension benefits;

- legislative regulation of a guaranteed minimum pension;

- involvement of broad population groups into the pension insurance, increase of the retirement age and / or the necessary length of service (especially for women),
- implementation of the compulsory funded pension insurance;
- development of private pension schemes, in particular, occupational pension schemes for financing early retirement of people working in harmful conditions.
- ensuring transparency of the pension system and codification of the pension legislation.

5. The key faults of health and long-term care sector are:

financial insufficiency and, at the same time, ineffective use of available resources;

rigid, complicated and non-transparent system of funding;

limited access to quality services; large-scale under-the-table payments.

The key challenges of the health system reform are coordination of the state guarantees with financial resources, restructuring of health care system on the principles of primary health care and universal coverage, the transition from administrative to contractual model.

6. In terms of statistical problems, the study was complicated by availability of data. In the beginning of transition period Ukrainian statistics conformed to soviet standards, and it was not adapted to market conditions and international methodology. Practice of sampling surveys in compliance with international standards was absent. Hyperinflation in 1992-1995 (37,193.2 times), introduction of national currency in 1996, and instability of exchange rate made investigation of dynamics impossible.

During 90's international standards had been generally implemented in official statistics system. The Household Living Condition Survey and Survey on Economic Activity of Population were introduced on the permanent basis. However, there is a need for improving poverty measures, in particular, closer alignment between national systems of poverty monitoring and European practice.

Concerning labour force survey, there is a necessity of monthly monitoring and seasonality adjusting for more clear and operative supervision of trends. There are also some gaps in the system of indicators; in particular, the average labour market exit age is not calculated.

The statistical data on health, education, social protection is provided by corresponding Ministries and authorities. However, there might be not always comprehensive, transparent and objective.

1. GENERAL OVERVIEW

1.1. INTRODUCTION AND LONG-TERM OBJECTIVES

This report presents the results of data collection and analysis of the current situation in social protection and social inclusion in Ukraine. The outline of major trends and of emerging challenges is represented by the list of mutually linked indicators. Reference period starts in 1992 and ends in 2007 or the latest available year. Statistical information about Ukraine as independent state is available since 1992. Data for the years up to 1992 describe social and economic situation in Ukraine as a part of Soviet Union (Ukrainian Soviet Socialist Republic).

The Act of Declaration of Independence of Ukraine was adopted by the Ukrainian parliament on August 24, 1991. Later independence was confirmed by the referendum on December 1, 1991. The independence was followed by the revision of political structure and by the democratization of society that brought opportunities for establishing a new welfare state.

During the Soviet period the social cohesion was provided by powerful ideological propaganda, obligatory employment of all individuals at working age and wage-levelling, strict regulation of prices, free of charge (for users) education at all levels and health care services etc., which were financed from the state budget and public funds.

During years of independence, socio-economic transformation in Ukraine has gone through several big stages. During 1991–1999, situation in Ukraine, as well as in other former Soviet republics was characterized by deterioration of economic situation and living standards of majority of people and by demographic crisis. The transition to market economy of Ukrainian society was accompanied by poverty, material and social inequality. The state social policy was aimed at strengthening a social protection, but a core of social system remained unreformed.

From 2000, tendencies for the improvement of the situation started to be reflected in GDP growth, enhancement of business environment, declining of unemployment and rising of incomes. As a result, budget potential had increased significantly. However, even in conditions of economic improvement, inequality was still growing, as the largest income gain was observed among the richest population groups. Income inequality within regions, urban and rural areas, among workers of different sectors and industries increased as well (Libanova, 2008). There are many other problems in Ukraine, in particular, lack of the structural reform in economy, low innovative activity of national enterprises, and a large share of informal economy. Inconsequent political actions and frequent elections are accompanied by the increase of social budget. This seriously threatens the financial stability and sustainability of social protection system in Ukraine. Another dangerous factor is an orientation of economic policy toward low wages and salaries. It can cause considerable outflow of labour force from Ukraine and growing of poverty.

Current financial and economic crisis has demonstrated weakness of existing social policy and necessity of providing fundamental reforms in economy and society.

Polarization of society according to political, national, and religious creeds slackens the social cohesion. According to the sociological monitoring, about quarter of Ukraine's population wants to return to the socialist system, and this percentage has not changed since 1994, the year when monitoring was launched (Institute of Sociology, 2008). Almost 30% of people believe that it is necessary to strengthen relationships with Russia and Belarus, 18% of people indicate the necessity of strengthening relations with developed European countries, and about 20% of people have an opinion that Ukraine should enhance its independence.

Meanwhile, Ukrainian society has proved its ability to manifest high level of cohesion and tolerance. The Orange Revolution and the absence of coercive scenarios are credible evidences of democratic and European choice of Ukrainian people. However, beginning from 2004 the country exists in conditions of permanent electoral process. During election campaign all political parties give a lot of populist and unreasonable promises, which are impossible to accomplish. This leads to discredit and loss of public confidence in all political parties and in government.

Equal rights of women and men are guaranteed by the Constitution, the Law of Ukraine "On Ensuring Equal Rights and Opportunities for Women and Men" and other legislative acts. However, some of these standards – lower retirement age for women than for man, prohibition or restriction on the use of women labour at certain jobs, long leave for child care – lead to gender discrimination in the implementation of employment and pension rights. In the everyday life, the patriarchal attitude towards women's role in family and in society is still preserved. Ukrainian women spend 1.5 – 2 times more time on housework than men do. About 20% of the people in Ukraine believe that women should not engage in policy or take high administrative position (Institute of Sociology, 2008). As a result, there is a significant gender inequality concerning income and women representation in government and among politicians.

During the Soviet period the social security system rewarded mainly those people, who had certain merits in front of the society – war veterans, labour veterans, representatives of certain professions, etc. However, it did not aim at protection of vulnerable groups. Such categorical principle of redistribution social benefits and services resulted in situation when benefits were not addressed to those who needed them the most.

Beginning from 1991 new forms and types of social assistance linked to the market were introduced. They are: insurance against unemployment, pension insurance, targeted to low-income groups social assistance, housing subsidies schemes etc. However, there is no holistic state strategy of social development and social integration in Ukraine. Social policy is orientated to provide assistance to broad range of population groups; however, social inclusion of vulnerable groups remains beyond attention. Preserving categorical principle of social security leads to the situation when current social policy does not contribute to declining of inequality, and public resources are spent ineffectively.

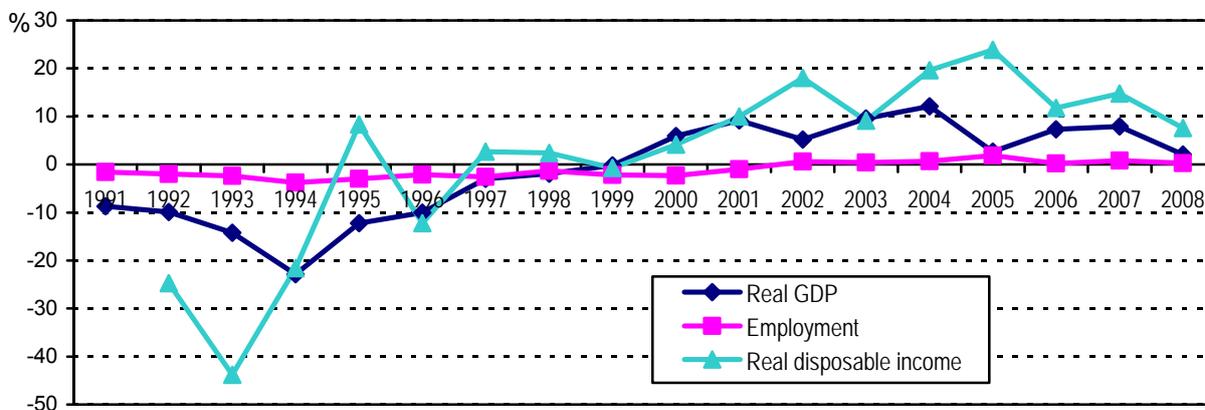
Special target schemes are designed to support social groups such as: homeless, orphans, difficult families, individuals exempted from places of imprisonment, HIV/AIDS persons. These programs rely on donor aid. The participation of voluntary organizations and local authorities is insignificant.

There are problems concerning ethnic minorities, in particular, educational and social inclusion of Roma, and integration of repatriates (Crimean Tatars).

The social work is organized ineffectively. Social assistance is provided only in case if citizen applies for social service, but there are no preventive measures. Efforts to identify potential individuals who are really in need of assistance are lacked.

Another important task for Ukraine is to harmonize goals of economic development, employment, and social cohesion. Economic growth allowed improving of living standard of the majority of population. Particularly, real income increased and absolute poverty declined. However, there is a mismatch and inconsistency among the GDP growth, employment and income (see Figure 1.1). Rapid fall of GDP during the economic crisis of transition period was not accompanied by reduction in employment. Likewise, GDP growth observed from 2000 did not lead to significant increase in the number of jobs available in economy. Activation of the state employment policy in 2005-2007 (including the creation of 1 million new jobs annually) led to the reduction of the long-term unemployment and of the number of discouraged workers. However, labour supply remained the same.

Figure 1.1: GDP, employment and real disposable income, % to previous year



Source: State Statistics Committee of Ukraine

The increase of employment occurs mainly in informal sector. Structural shifts toward low-wage and low-productive employment persists. At the same time the share of workers employed in hazardous and difficult conditions of work continues to increase.

Incomes - including social assistance and other public social transfers - were increasing more rapidly than labour productivity and GDP. During last years the misbalance between the economic growth and increase in social expenditures became more noticeable.

All these negative processes require fundamental changes in the strategy of socio-economic development. Labour market policy should focus not only on overcoming unemployment, but also on restructuring employment, increasing productivity and improving labour conditions. In the field of social protection focus should be moved to the social inclusion, primarily through the expansion of employment opportunities.

Inefficiency of the existing social protection system is related to the weakness of governmental administration, lack of unified strategies of social and economic development, uncoordinated state decisions, and inconsequent

actions of different governments. Populist slogans instead of real actions paralyze implementation of any reform in the sphere of social protection.

Immature civil society, weak trade unions and employer organizations, low social responsibility of business, prevalence of parasitic attitudes among people resulted in their passive position in springing up a social dialogue. It also explains absence of the system of monitoring and analysis of social policy.

At the beginning of transitional period, Ukrainian statistics conformed to soviet standards and was not adapted to international methodology. There was no practice of conducting sampling surveys in accordance with international standards. Hyperinflation of 1992-1995 (37,193.2 times), introduction of national currency in 1996, and instability of exchange rate make analysis of dynamics difficult.

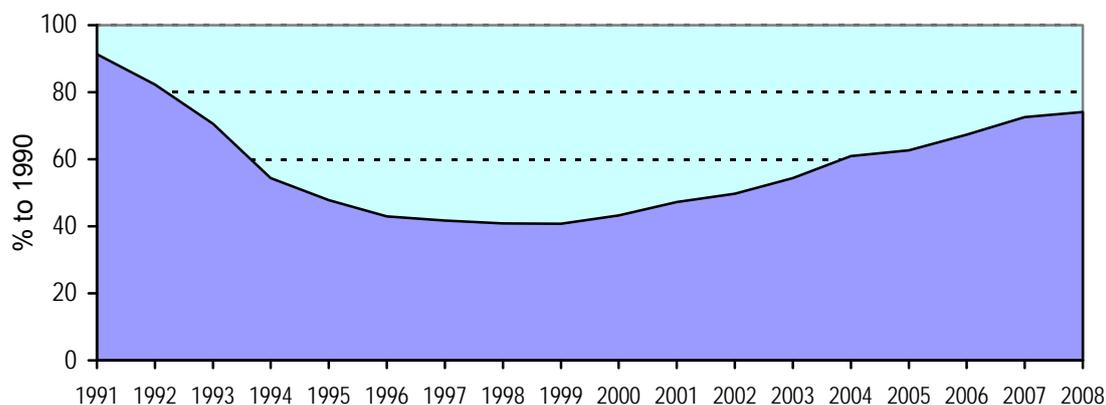
1.2. MACROECONOMIC SITUATION

The transition of Ukraine's economy into the market economy was prolonged, and it exhausted both economy and population. Previous soviet economy concentrated resources on production neglecting the development of services. Ukrainian economy generated more than 25% of Soviet agricultural output. Moreover, its heavy industry supplied the equipment, machinery and raw materials to other regions of the former USSR. The lack of structural and institutional reforms in economy, the exemption of a large number of state-owned enterprises from the privatization process and absence of bankruptcy mechanism complicated social and economic performance of Ukraine. Therefore, the GDP reduction in 1991-1999 was 59.2%. An industrial output decreased significantly as well as an agricultural output. State subsidies became essential to keep economy alive.

After price liberalization the inflation reached hyperinflationary level. The highest inflation rate was recorded in 1992-1995 (37,193.2 times) and it resulted in the worsening of living standard. Dramatically low wages, wage arrears and unpaid forced leaves were the most important mechanisms used by the majority of state-owned enterprises in response to a collapse in the demand for their products (Lehmann, Pignatti, Wadsworth, 2005). As a result of such policies (that reflect negative effects of transition), poverty rose and human development indicators deteriorated.

Since 2000 the economic situation in Ukraine started to improve. Average annual GDP growth in 2000-2008 reached 8.5%. However, in 2008 the real GDP was only 74.1% of that achieved in 1990 (see Figure 1.2). The GDP per capita in PPS in Ukraine still remains small in comparison with the EU-27 average (only about 25%).

Figure 1.2: Real GDP, 1990=100%



Source: State Statistics Committee of Ukraine

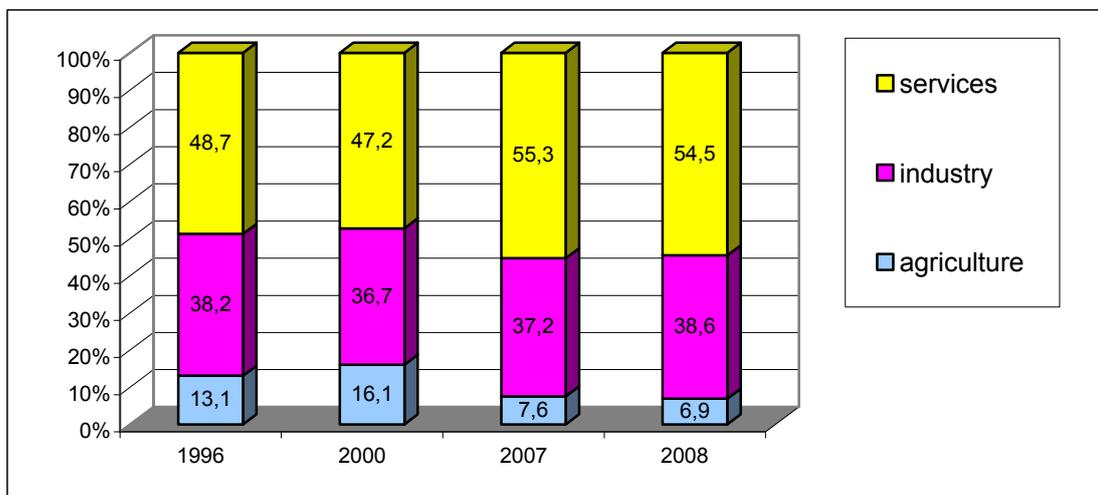
Large proportion of intermediate consumption in output is an important negative attribute of the Ukrainian economy, and it does not change (about 60%). Such structure is inherited from the Soviet period and preserved because of the lack of effective reforms. It contributes to an increase of the added value share in GDP.

Economic performance is strongly affected by the sectoral structure of GVA (see Figure 1.3). Ukrainian economy is characterized by increase in proportion of services (from 48.7% in 1996 to 54.5% in 2008) and by almost unchanged proportion of industry (from 38.2% to 38.6%). At the same time, proportion of agriculture decreased from 13.1% to 6.9%.

Beginning from 2000 the growth of GDP was mostly driven by production of metals (steel), and also by the favourable situation on the world metal market. As a result, several financial industrial groups (FIG) (diversified

corporations) took control over the most significant segment of industry. These FIG's created vertically integrated structures: coal-coke metal and coal-power generation-electricity distribution. These integrated production cycles enhanced the FIG's competitiveness on the international metal market.

Figure 1.3: GVA by sectors, billions EUR



Source: State Statistics Committee of Ukraine

To provide preferential market access for its exporters, Ukraine passed more than 20 laws in 2006, taking a step towards bringing its trade regime into conformity with WTO norms. WTO membership would allow Ukrainian exporters to reduce the tariff and non-tariff barriers, to avoid anti-dumping procedures, which they face on major markets. Furthermore, Ukraine's WTO accession and market economy status stipulate the necessity to adapt international standards of corporate governance, to complete legal and institutional reforms related to intellectual property rights and agricultural subsidies.

Ukrainian export potential depends on the world metal market's demand because export is currently concentrated in low-skill sectors (iron and steel account for 39.6% of the overall export). Main Ukraine's export markets are the EU (27.1% of all Ukrainian exports in 2008) and CIS (35.5%). A sharp reduction of demand at external and internal metal markets leads to the worsening of export perspectives of Ukrainian economy.

Over the 2000–2008, Ukraine's rapidly growing economy emerged as a dynamic market with a relatively large consumer base. This was reflected in the growing stock market and developing wholesale and retail trade as a result of increased consumer demand. It led to the significant growth of import (it grew by 40.5% in 2008 in comparison with 2007). Increased bank lending (due to easing of financing procedures) caused rise in investment and consumption, and resulted in a high standard of living. On the other hand, it reinforced risks of macroeconomic and banking sector instability. The CPI reached 122.3% by the end of 2008, and it was due to the rise in the production costs and prices.

Impact of the crisis. In the second half of 2008, macroeconomic situation was characterized by a downward trend driven by external financial instability and by an aggravation of negative economic processes inside of the country. The real GDP growth amounted to 2.1% in 2008 comparing to 7.3% in 2007. This is a result of decline in external demand for steel and internal demand for industrial products. Industrial output decreased by 3.1% and construction declined by 16%. At the end of the first quarter of 2009, the industrial output decreased by 31.9% that indicates escalation of negative tendencies in the national economy.

The low-skilled orientation of economic development leads to the conservation of industry's structure and as a result – to the strengthening of Ukrainian economy's dependence on energy suppliers. Technological readiness and modernization of Ukrainian economy remain below its potential. And despite a good quality of infrastructure, the potential of FDI and licensing for upgrading the country's technology remains underutilized.

Substantial oscillations in foreign currency demand and supply at the interbank currency market in 2008 led to changes in UAH exchange rate against US dollar. Reduced supply of foreign currencies led to a weakening of the UAH by nearly 60% and to exhaustion of international currency reserves of the National Bank of Ukraine.

The biggest challenges for Ukraine's macroeconomic stability are: lack of structural reforms, political instability, raw-material orientation of industrial production, low rate of innovation activity, high level of inflation, corruption,

insecurity of property rights, absence of adequate financing, and SME development legislation. Significant fluctuation of exchange rate, accumulation of foreign debt, low level of domestic banks capitalization became serious macroeconomic shocks.

Nevertheless, a little progress has been made in elimination of corruption, developing of a capital market and in improving the legislative framework for enterprises. That's why keeping inflation, deficit and debt under control, maintaining interest and saving rates high remain necessary for the predictability (development) of the business environment and for ensuring the availability of investment capital. All above mentioned testified that Ukrainian economy is vulnerable to external shocks especially to the influence of world economic crisis.

1.3. GOVERNANCE AND FISCAL POLICY

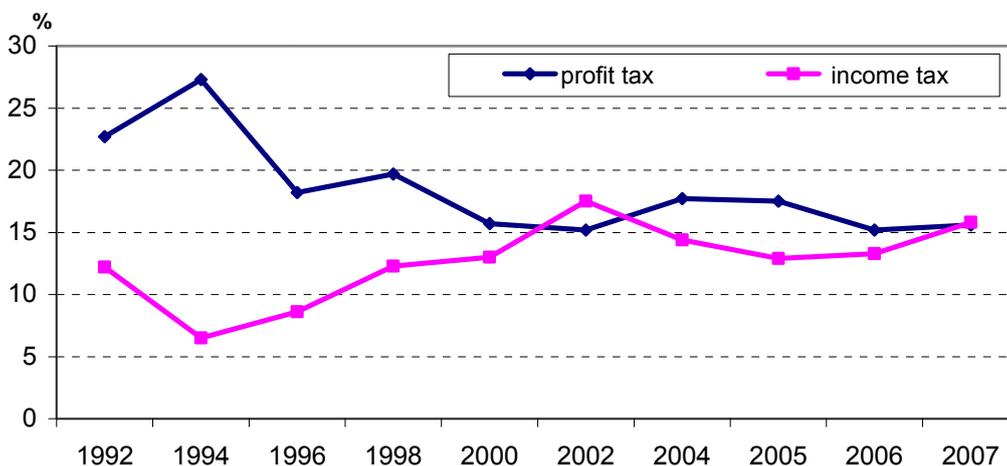
The share of GDP redistributed through the Consolidated Budget (central budget plus local authorities' budgets) of Ukraine has recently increased: proportion of the budget revenues in GDP was equal to 28.9% in 2000 and exceeded 30% in 2005-2007. It demonstrates a strict regulation of economy by the State that contradicts to requirements of the market economy. On the other hand, it made possible to fund social transfers, education and public health.

Similarly, state expenditures grew continuously over the 2000-2007 and reached 31.6% of GDP in 2007 comparing to 28.3% in 2000. Moreover, during this period, state expenditures were growing faster than state revenues.

It is difficult to make conclusions about changes in the structure of revenues and expenditures of the Consolidated Budget during the period of independence because the available official statistics is not complete (information about some revenues and expenditures until 1998 is missing), and because there was some modifications in expenditures classification.

The tax revenues of the Consolidated Budget were constantly decreasing in last decades – in 1992 they equaled to 22.7% of total revenues, in 1998 – 19.7%, and in 2007 – 15.6% (see Figure 1.4). The share of income tax in the total tax revenues slightly increased – in 1992 it amounted to 12.2% of total revenues, in 1998 – 12.3%, in 2007 – 15.8%. The share of non-tax incomes in the revenues of Consolidated Budget increased as well – from 9% in 1998 to 22.1 in 2007. Financing from abroad presented a small part in budget revenues.

Figure 1.4: Profit tax and income tax, % of total revenues of the Consolidated Budget



Source: State Statistics Committee of Ukraine

As for the structure of expenditures of the Consolidated Budget, the share of expenditures on social protection and social services rose from 18.7% of total expenditures in 1992 to 21.4% in 2007. Spending on education increased from 14.6% in 1992 to 19.5% in 2007. Health expenditures were 9.8% in 1992 and 11.7% in 2007. The share of spending on the needs of economy fell significantly from 37.2% in 1992 to 18.4% in 2007. In addition, the portion of expenditures on defense fell slightly from 5.7% to 4.2%.

During 2000-2005, the share of GDP directed to clearing off the debt significantly decreased, as well as a proportion of foreign investments. However, it grew by the factor of 1.5 in 2006. The aid, provided by foreign

governments and international organizations, supplied about 0.1% of GDP in 2001-2004 and less than 0.1% in 2005-2007.

Classifications of public expenditures

In accordance with Budget Code, the Budget Classification is approved by the Ministry of Finance of Ukraine. On December 27, 2001 the Ministry of Finance of Ukraine approved the Classifications of expenditures and crediting, such as:

- Functional Classification of budget expenditures and crediting;
- Economic Classification of budget expenditures;
- Classification of budget crediting;
- Departmental Classification of the Central budget expenditures and crediting;
- Coding structure of program classification of the Central budget expenditures and crediting;
- Temporary Classification of Local budgets expenditures.

The program classification of State budget expenditures is annually approved by the Law "On the State Budget of Ukraine".

The passage of the Budget Code in 2001 resulted in significant changes of the Ukrainian budget system and was a step toward norms and standards of European Union (basic provision of the Budget Code of Ukraine was supported on the 8th session of the European Council).

The Budget Code of Ukraine is:

- Specified new principles and operations of Ukrainian budget system, including inter-budgetary relations;
- Regulated stages of budget process;
- Functional demarcation of participants in budget process and determination of accurate procedures;
- Determination of revenues and expenditures between elements of the budget system on the basis of demarcation of authorities to grant public services, which are financed by budgetary facilities between different levels of power and local self-government;
- Determined by the law formula approach for the calculation of inter-budgetary transfers;
- The foundation for budgetary control, in particular, through introduction of treasury control of implementation of budget
- Unified budgetary terminology.

Demarcation of directions of social revenues among budgets of different levels in the Budgetary Code of Ukraine played a positive role in formation of the budgetary system of Ukraine.

The passage of the Budget Code became a pre-condition of implementation the programmed-targeting method (PTM) of formulation and realization of budgets in Ukraine, which is one of the most widespread methods in developed countries. Beginning from 2002, the State Budget of Ukraine has been formed using PTM elements. However, PTM - approach at the level of State Budget is not perfect. Its limitation is an absence of monitoring and estimation of efficiency of the budgetary programs. PTM is not used at local level.

Impact of the crisis. The consequences of the global financial and economic crisis for Ukraine are obvious: during the first half of 2009, the revenues of the consolidated budget were 3.9% smaller than the revenues of the same period in 2008.

As for expenditures, in the first half of 2009 they were almost the same as in the first half of 2008; however, social expenditures of the consolidated budget were 12.1% larger. In 2009 it is planned to reduce the expenditures for budget institutions, including public authorities, and for National Programs. These programs include: providing with medical arrangements some state programs and complex program arrangements (by 29.3%); providing with medical arrangements against tuberculosis, prophylaxis and treatment of AIDS, treatment of oncology patients (by 6%); complex medical and sanitary provision and treatment of oncological diseases with application of expensive medical technologies for victims of the Chernobyl disaster (by 82.9%); providing with arrangements the state policy for youth, women and family (by 67.5%); partial compensation of the interest rate of bank loans for young families and single youth for house-building (house-reconstruction) and accommodation purchase (by 60.5%). The expenditures of the Ministry of Labour and Social Policy of Ukraine

on subsidies for employers for providing youth with an employment were suppressed. The expenditures on house-building for certain categories of population were reduced.

One of the main destabilizing factors in the context of revenues and expenditures of budget is the change of gas prices in 2009. In 2007 NAK «Naftogaz of Ukraine» paid UAH 13.3 billions (EUR 1.3 billions) of taxes to the budget. It amounted to 8.1% of total budget revenues.

1.4. LABOUR MARKET SITUATION

Evolution and structure of the employment. Previous Soviet economy denied the existence of unemployment because every person was obliged to work. Since 1991, the situation in Ukraine has changed significantly. In 1990-2000 total number of employed fell by 20.6% (or 5.2 millions persons). Due to economic growth, the rate of employment (for age 15-64) increased up to 63.4% in 2008 comparing with 58.6% in 1999.

Data sources

The main source of the labour market data is the Survey on Economic Activity of Population (SEA) implemented on the base of the International Labour Organization (ILO) methodology. In 1995-1998, it was conducted yearly, in 1999-2003 – quarterly, beginning from January 2004 – monthly. For the monthly survey, 18.5 thousand households, which represent all regions of Ukraine, were selected. Persons aged 15-70 years of both sex participate in the survey. Due to the significant changes in the methodology of SEA, the correct comparison of the dynamics and recalculation of main indicators for age 15–64 are possible only for period 1999–2008 (of unemployment dynamics — from 1995).

According to the SEA methodology, those people who work in subsistence agriculture and sell their products are defined as employed.

An alternative source of unemployment data is registration records of the Public Employment Service. According to the Law of Ukraine “On Employment”, unemployed is defined as a person of working age with no job and income, registered at the Public Employment Service. By the ILO-concept, the unemployed person is an individual who does not have a job, has been seeking for a job in a recent past period, and is currently available for job. Thus, unemployment by ILO covers not only registered but also unregistered unemployed. Moreover, many factors prevent unemployed people from registering at the Public Employment Service, these are: small amount of unemployment benefits, long bureaucratic registration procedure, lack of prestigious jobs with decent wage in the database.

In 2000-2008 agricultural employment decreased from 20.8% to 14.2%, industrial - from 27.5% to 23.9%. Nevertheless, employment was reduced in manufacture (from 23.0% in 2000 to 18.8% in 2008), while remained constant in mining and quarrying.

The share of employment in market services grew from 27.4% to 37.9%. However, employment in this sector is concentrated mostly in small-scale retail trade. Share of employment in non-market services remains unchanged (24%). Hence, Ukrainian economy has made some progress towards more up-to-date sectoral composition but agricultural employment retaining relatively large share (Lehmann, Pignatti, 2008). Structural changes in employment were not accompanied by significant increase in labour productivity (Lehmann and Terrell, 2005).

In Ukraine the lower female economic activity rate (62.4% in 2008) in comparison with male economic activity rate (73.6%) is explained by the lack of affordable quality child care facilities, strong incentive of youth for obtaining the higher education and low retirement age.

The employment rate for females (at age 15-64) is lower than for males: 58.5% and 68.6% respectively in 2008. Female employment rate in Ukraine does not largely differ from the EU-27 average (59.1%). Male employment rate remains relatively low in comparison with the EU-27 average (72.8%). This is due to their employment at jobs with harmful conditions, health deterioration, and consequently, early retirement.

Youth (aged 15-24) employment rate increased from 30.6% in 1999 to 37.3% in 2008. In Ukraine more than 25% of individuals of retirement-age are employed (majority – in subsistence agriculture) because of the small pension benefits and low pension age (Libanova, 2007).

The educational structure of employed testifies high tertiary enrolment (46.7% of employed in 2008 had 5A, 5B, 6 level according to ISCED classification). Higher level of education provides higher competitiveness at the labour market and significantly improves employment perspectives.

The share of self-employed is 18.0% in 2008. The majority of self-employed work in subsistence agriculture for so reasons: lack of alternative job and income sources, unfavourable start-business conditions and investment

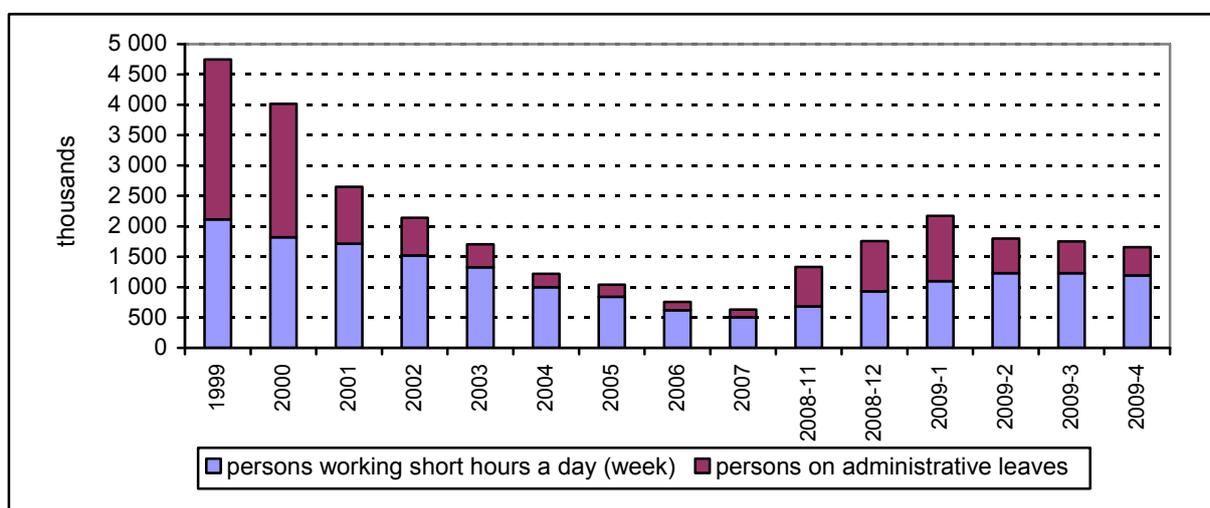
climate, insufficient development of private property etc. (Yefimov, 2001) Big number of self-employed in subsistence agriculture indicates the archaic structure of production, huge number of low quality jobs, lack of social security, and decent income.

The occupational employment structure still differs from that in EU countries. In Ukraine the number of professionals, technicians and associate professionals was 28.5% in 2008. At the same time, a high share of elementary occupations (21.6%) denotes the outdated structure of employment and stable demand from economy side. The majority of representatives of elementary occupations are concentrated in informal sector of economy.

In general, employment changes in Ukraine reveal problems of distribution of employment according to age, sex, occupations and economic activities. Aggravation of economic crisis can lead to the domination of negative tendencies in the labour market, lessening of opportunities for getting a job, and realization of employment policy.

Underemployment. Transformation crisis was associated with growing underemployment on Ukraine's labour market (unpaid or partly paid administrative leaves or short daily (weekly) working hours) (see Figure 1.5). Many entrepreneurs embarked on these interventions (coupled with wage delays) in order to retain staff employees and avoid mass lay-offs. No doubt, underemployment is quite an efficient (in economic and social sense) alternative to full unemployment in crisis conditions.

Figure 1.5: Underemployment, millions



Source: State Statistics Committee of Ukraine

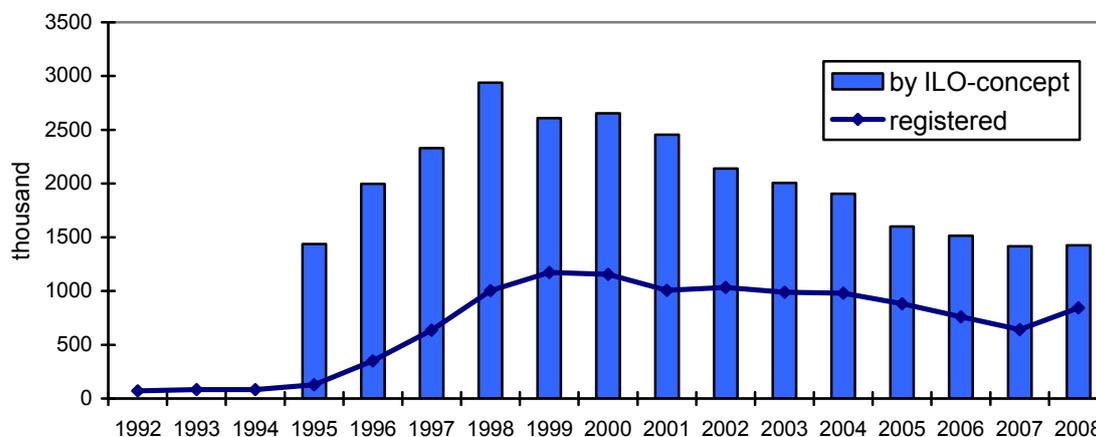
Underemployment rate steadily increased up to the maximum 39.9% of regular workers of enterprises in 1998. Afterwards, partly due to the improvement of economic situation and a higher demand for labour, partly due to certain restrictions with respect to administrative leaves, underemployment impetuously decreased (predominantly among persons on administrative leaves). The lowest underemployment rate (5.5%) was recorded in 2007. Unfortunately, the 2008-2009 crises gave a new push for underemployment.

In December 2008 7.5% of the employed individuals (828 thousand persons) were on administrative leaves and 8.5% (928.0 thousand persons) had short daily (weekly) working hours. The share of employed short daily (weekly) hours in industry rose from 8.4% in 2007 to 20.6% in 2008; in construction – from 7.8% to 25.0%. Underemployment is mostly reported in industrialized regions. In Zaporizhzhia region in December, 10.2% (49.3 thousand) persons were on administrative leaves and 18.1% (87.7 thousand) were employed short working hours; in Dnipropetrovsk region (11.0% or 106.4 thousand persons and 12.1% or 117,8 thousand persons, respectively); Donetsk region (11.0% or 135.4 thousand persons and 9.3% or 114.0 thousand persons, respectively).

Unemployment. Ukraine recorded a growth of unemployment rate by ILO-concept from 5.6% in 1995 to 11.9% in 1999 because of reduction of vacancies number of in formal economy. Since the economy started to grow, the unemployment has been steadily decreasing (see Figure 1.6). In 2008, the total number of unemployed dropped twice compares to 1998 and unemployment rate reached 6.4%. However, relatively low level of

unemployment in Ukraine is the evidence of slow structural reforms, labour migrations, informal employment and underemployment (Azfar, Zsoldos, 2005).

Figure 1.6: Unemployed by ILO-concept and registered unemployed, thousand



Source: State Statistics Committee of Ukraine

Age, marital status and gender, education standard and place of residence are significantly related to the total time spent out of job. Female unemployment rate in Ukraine is lower than male unemployment rate that might be explained by higher female inactivity rate. In addition, it has been observed that women have worse chance of finding a new job and have stronger tendency to withdraw from the labour force after period of joblessness.

Unemployment rate of youth aged 15-24 years decreased from 26.4% in 1999 to 13.3% in 2008. However, the percentage of this age group in total unemployed remains almost unchanged (about 28-29%) and reveals vulnerable position of youth in the labour market. Unemployment rate of pre-retirement age individuals (50-59) remains relatively low – 4.0% in 2008. It is a result of their involvement in subsistence agriculture and low retirement age for women.

In terms of educational attainment, most unemployed individuals have upper secondary or post-secondary non-tertiary education (levels 3-4 ISCED). It evidences the link between the educational level and period of joblessness – the higher level of education the higher level of competitiveness.

At the same time, skill mismatch does not seem to contribute significantly to unemployment in Ukraine because of considerable demand for low-skilled labour (World Bank, 2006). Share of elementary occupations (20.0% in 2008) is the most significant that confirms the structural disproportions in Ukrainian labour market. At the same time, the share of craft and related trade workers in the total number of unemployed (18.5%) reflects insufficient quality and quantity of jobs in economy.

In 1999-2008, long-term unemployment rate (12 months and more) decreased from 4.8% to 1.3%. In 2004, there was a positive shift in the structure of unemployed by unemployment duration, as a proportion of short-time unemployed increased for the first time.

In 2008 regional structure of unemployment was marked with relatively high indicators in Western regions (Chernivtsy, Rivne, Ternopil, Volyn,) and some southern regions with significant share of rural population and poor infrastructural development (Cherkassy, Kherson, Mikolaev). The lowest unemployment rate (around 6%) is observed in developed regions (Dnipropetrovsk, Donetsk, Kharkiv, Krym, Odesa) and in the city of Kyiv, where industrial, recreation, tourist and financial infrastructure is well-developed.

In 2008, the recession stipulated by a sharp reduction of production and by the financial crisis can lead to a significant increase of unemployment in mining and quarrying, manufacturing and finance.

Reasons for inactivity. In 2008 women constituted more than 60.7% of total number of inactive population (15-64 years old). For youth (aged 15-24) the main reason for inactivity was tertiary education participation; for women (aged 25-49) – child care, household activity, dependency; for elderly (contributing to 49.4% of the total inactivity) – retirement. The share of discouraged in finding a job fell that indicates the activation of looking-for-job behaviour last year.

Wage development. The problems of wages have become very urgent in Ukraine, coming outside the labour market. Cheap labour force does not motivate employers to introduce new technologies. Low wages result in

poverty of employed population and lead to a decline in activity of population, creating obstacles to full-scale implementation of social insurance system.

In hyperinflationary period (1992–1994) real wage dropped rapidly. In 1996–1999 yearly decrease of real wage was about 4%.

From 2000, the economic growth was accompanied by the fast wage growth, and real wage growth exceeded GDP growth. During 2001-2006 annual growth of real wage was nearly 20%. However, in 2007-2008 the real wage growth was hampered by the high inflation because of the political instability and numerous election obligations.

In 2008 the compensation of employees was 49.0% of GDP (including official estimation of undeclared wages). However, in the structure of operating costs for sold products (operations, services) the share of expenditures on compensation (included social contributions) consists only 8.2%. At the same time the share of cost of commodities and services, bought for resale and sold without additional processing, reached 53.2%, material costs – 26.9%. Such structure remains almost unchanged. It testifies that the growth of the compensation share in the components of GDP wasn't accompanied by the reduction of other production resources.

The share of wages and salaries in the structure of income remains relatively constant: 42-44% (including official estimation of undeclared wages). It confirms that growth of the salary and social transfers are almost same.

The present level of wages does not prevent employed persons from poverty. About 85% of poor households have at least one employed member; moreover, employment does not change the poverty risk because of the low wage.

Impact of the crisis. Negative tendencies in wage development stipulated by economic crisis lead to the decrease in real wage, significant wage arrears and further worsening of living standard of the population.

Real wage fell by 3.0% in December 2008 compared to December of 2007. Wage arrears appeared to be a broad-scale phenomenon during the transformation crisis when employers in their attempts to avoid mass lay-offs started to practice the delay of wages. Wage arrears grew most rapidly in September 2008. As of January 1, 2009 wages were delayed for 346.2 thousand regular staff in active enterprises; the average amount of wage arrears accounted for 91.2% of December wage payroll.

For early 2009 the structure of the total wage arrears was as follows: 63.2% - economically active enterprises, 31.3% - enterprises in bankruptcy and 5.5% - economically inactive enterprises in stoppage. Over half (57%) of wage arrears was accumulated by industrial enterprises within 27.5% of employed in the total number of employees. In construction 16% of the overall wage arrears were accumulated within only 4%-employment in the total number of employed persons.

Gender inequality. The Ukrainian legislation guarantees equal labour rights for men and women. But in fact, the labour market segregation by gender exists in Ukraine. Labour market segregation by gender depends not only on the degree of women involvement in paid employment but also on the occupational structure of the economy and the presence of employment opportunities for women in occupations not typical for their gender (Maltseva, 2005). Women continue to perform the whole range of unpaid domestic work (e.g. housework, childcare, cooking, care after the sick and elderly, etc.) Majority of women in transition economies do not have a chance to decrease their household duties because of poor quality of service infrastructure. It leads to maintenance of a passive strategy at the labour market (without changing occupation or moving into "female" occupations).

In terms of occupational structure it's necessary to note that the share of legislators, senior officials and managers among women is lower than among men (6.2% against 9.0). At the same time the share of women-professionals is much higher. However, only 31.7% of land owners are women, and women constitute 38% of all self-employed. The loan-giving institutions (banks, credit unions) are resistant to giving loans to women, handicapped and young people, which seriously limits their ability to start up and run businesses in labour market (Canadian Urban Institute, 2005).

In 2007 average monthly wage of employed women was 72.9% of that of men. The biggest gender pay gap is observed in mining (52.9%), metallurgical production (68.6%) and financial brokerage (65.6%). Concerning industry, the most reliable explanation is differences in labour conditions between women and men (in particular, limitation of women labour in harmful conditions, and additional compensative payments). In financial brokerage, as well as in the entire service sphere, differences can be explained by the profile of held positions. Gender gap is largely produced by the absence of adequate proportions in reimbursement according to the complexity and social significance of a job.

Female unemployment rates are lower than male unemployment rates as a result of higher inactivity rates of women. However, the age group 15-29 years is characterized by higher female unemployment rate in comparison with male unemployment. Employers usually try to avoid giving jobs to women in this age category

as it is the age of their maximum reproductive activity. On the other hand, job availability gives the possibility to prolong maternal leave up to 6 years because of a lack of affordable quality childcare.

In 2008 21.8% of unemployed women have searched for a job for 12 months and more (for men this indicator is equal to 21.6%). Gender inequality in access to work shows the structure of unemployment by reasons: the majority of unemployed women are disengaged for economic reasons (31.6% of unemployed women against 26.6% of unemployed men). That's why women use all possible ways in their searching for a job. More than 52.3% of unemployed women try to search for a job using public employment service information database (in contrast to 31.5% of unemployed men).

Vulnerable groups in the labour market. In Ukraine one of the major problems is the inequality in development of urban and rural areas. More than 67.0% of employed in the informal sector of economy work in rural area. Therefore, they are fully excluded from the sphere of labour legislation and social protection at job.

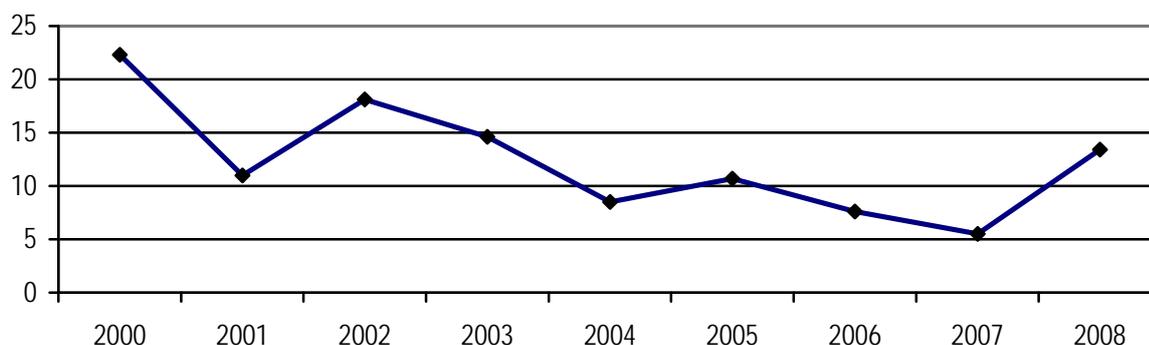
Generally, the unemployment rate of rural population is lower than that of urban, and the level of employment is higher. This is due to the fact that, according to the SEA program, people working in subsistence agriculture, are considered as employed. In particular, in 2007 2.8 million individuals were employed in subsistence agriculture. This is nearly 42% of all employed in rural area. About 55% of employed in rural area represent elementary occupations (urban – 10.8%). It is difficult to find a decent job for people with high educational-professional level in rural area.

In rural area there is an enormous deficit of decent jobs regarding all of its aspects: limited capacity of employment as a result of insufficient amount of workplaces; choice absence of forms and types of activity, low productivity and earnings; instability and insecurity of work. These circumstances are responsible for the migration of the rural population (especially young people) to the urban area.

Workers employed in mining and quarrying are also sensible to the labour market fluctuations. More than 22.6% of them are employed in harmful work conditions that reveal dangerous character of their jobs. In 2008 more than 61.9% of wage arrears in industry was concentrated in mining and quarrying, and, as a result, led to the worsening of living standard in industrial regions.

Despite the decrease in the share of workers with wage no more minimum, its share did not change significantly in the period of economic growth and reached 13,4% at the end of 2008 (see Figure 1.7).

Figure 1.7: Proportion of low-paid workers, % (in December)



Source: Ministry of Labour and Social Policy and State Statistics Committee of Ukraine

According to the estimates, Roma and Crimean Tatar communities are the most vulnerable groups among national and ethnic minorities in Ukraine. There is extraordinarily high unemployment among Roma. The survey conducted by the Ukrainian Institute for Social Studies in 2003 found that only 38% of Roma were economically active, 26% – were employed, and 74% do not work. In 2006 in Transcarpatian oblast of unemployed Roma was 80% of able-bodied persons, 10% of them were registered in the employment center (Fedorova, 2008).

The unemployment problem of Roma is linked to the low level of their education, lack of appropriate specialty, work experience, and motivation to work. The high rate of illiteracy within the Romani community prevents many of them from knowing where or how to access information regarding employment opportunities. One should pay attention to the specificity of Roma's unemployment. The overwhelming majority of those who have no

permanent job (58%) is not trying to find it, and 30% of them would rather prefer odd job than permanent work (Yaremenko, Levtsun, Balakireva, 2003).

Under conditions of the absence of permanent job, the irregular work is an important source of income for Roma population. Their main activities are scrap, return empties, aid for tips, and fortune telling.

Unemployment is also an acute problem for the Crimean Tatars. At the beginning of 2004, 51% among population of working age of Crimean Tatars was unemployed, which exceeds the average unemployment rate in the Crimea more than three times (Netesa, 2004). Low level of employment was linked to the fact that the former deportees returned to the AR of Crimea spontaneously, and creation of jobs for them was not planned. Moreover, occupational profile of Crimean Tatars did not correspond to the requirements of Crimea economy and retraining was needed.

One of the reasons of the low level of employment was a problem with land giving to the Crimean Tatars. More than 70% of formerly deported was obligated to settle in the rural area. In the absence of a job, the provision of repatriates with land for setting subsistence agriculture became essential. However, the mass return of repatriates coincided with the liquidation of collective agriculture enterprises and allotting of land plots to their members. As a result, only a limited number of Crimean Tatars obtained these plots (21.9 thousand people).

Economic crisis significantly worsen the position of vulnerable groups in the labour market. These groups are obviously affected by the economic recession and declining of labour demand.

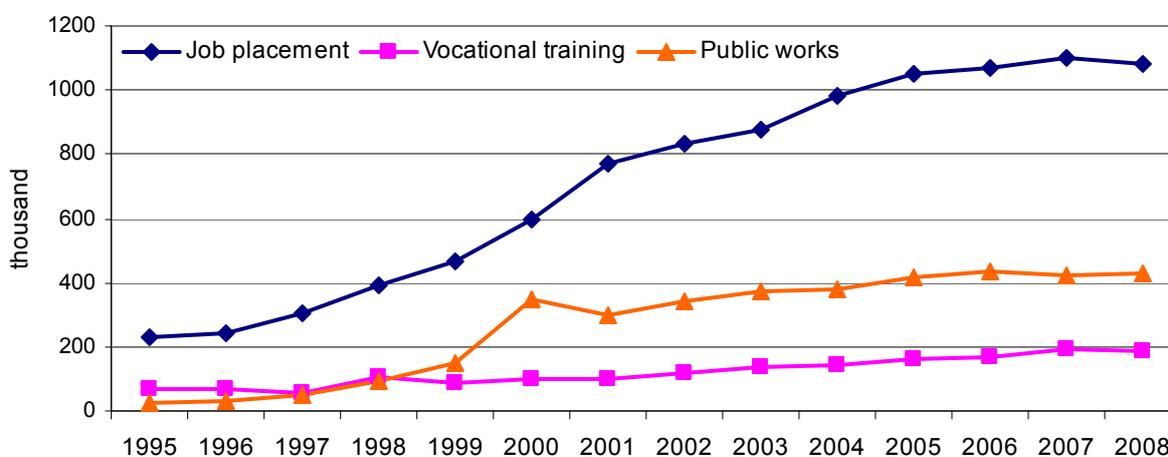
Active labour market policies and public employment service. The aim of setting the Public Employment Service in December 1990 was to create organization for implementation preventive and employability measures combined with measures to promote the re-employment of registered unemployed. Measures of active labour market policy cover a wide range of different programs focusing on vocational guidance, occupation training and re-training, public work, job mediation and counselling for those who start private business (in particular small and medium business), and providing conditions for self-employment, etc.

Until 2001 the active labour market policy financed from State Fund for Promotion of Employment, which received assignment of central and local budgets and mandatory contributions enterprises. Implementation of compulsory state social unemployment insurance made it possible to significantly extend this function. According to the Law "On Compulsory State Unemployment Insurance" provides the possibility to render social services both for insured and non-insured individuals.

Active labour market policy expenditures increased from 0.04% of GDP in 2002 to 0.1% of GDP in 2008. However, this is not sufficient financing of active labour policy – in EU-27 it reaches 0.47% of GDP.

Public work and vocational training are main active labour market programs for unemployed. In 2008 about 17% of the registered unemployed participated in paid public work, and 7% were enrolled in training courses (see Figure 1.8). Furthermore, slightly less than one percent was employed in subsidized jobs and about two percent received considerable grants for starting a business.

Figure 1.8: Main indicators of active labour market policy, thousand



Source: State Employment Office

Despite the innovative technologies of job placement implemented by the Public Employment Service, the quality of vacancies remains poor. For instance, quite high demand is observed for representatives of

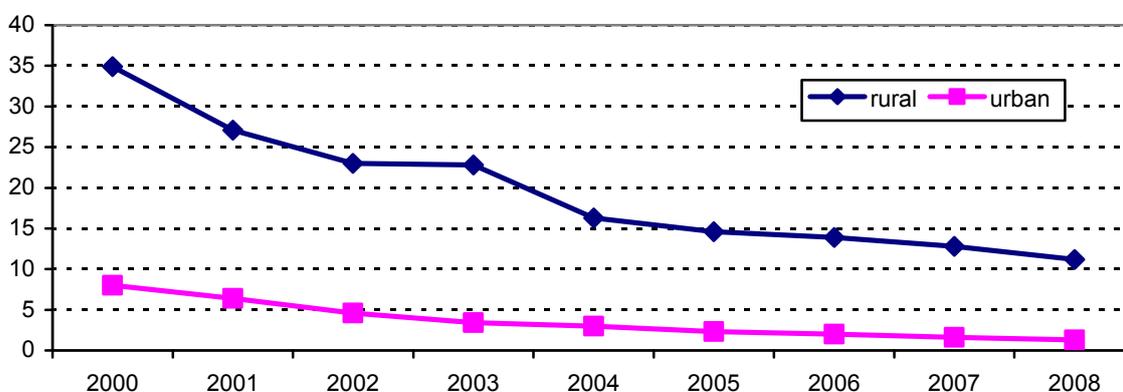
elementary professions (nearly 15.0% of the total number of vacancies in 2008). In contrast, finding a job through the Public Employment Service for professionals is unlikely because of the lack of vacancies offering decent wage. The influence of the recession on the Public Employment Service activity is marked with the steep increase in the number of registered unemployed. This led to the narrowing of the vacancy-base, as well as of financial base for implementation active measures of employment policy.

1.5. UNDECLARED WORK

Undeclared work (usually in informal economy) offers the opportunity to earn, evading paying income tax and social contributions. Number of employed in informal sector of economy increased from 3.0 in 2000 to 4.1 million persons in 2008 (20.3% of total number of employed). The share of employed (15-64 years old) in informal sector of agriculture in 2008 was 62.1%; construction – 13.4%, wholesale and retail trade – 13.9%.

Subsistence agriculture remains the one of the most appropriate survival strategy for low-income population. Significant role of processing land's products sale for low-income rural population might be confirmed by distribution of gross equivalent resources (see Figure 1.9).

Figure 1.9: Consumed products obtained from subsistence agriculture, % of total equivalent resources of households



Source: State Statistics Committee of Ukraine

In rural area the sale of products of subsistence agriculture is important for earning a living for vulnerable groups of population (11.2% in 2008). In first and second deciles, the value of the consumed products obtained from subsistence agriculture varied from 12.6% to 15.4%. In contrast, representatives of tenth decile spend only 7% of their gross resources on the consumption of products of subsistence agriculture. Despite a small share of such expenditures in urban area, it remains an additional means of subsistence for representatives of first-second deciles (2.2 – 3.3% in 2008). It is another evidence of the concentration of undeclared work in subsistence agriculture among low-income groups of population.

A large fraction of employed in the informal sector of economy is engaged in agriculture, most of whom earns low wages (in 2008 average wage in agriculture, hunting and forestry consisted 59.6% of the average wage in economy). Large share of non-hired workers in rural area (87.1%) is the evidence of using a survival strategy by the majority of agriculture workers (Labour Force Survey, 2007).

In urban area the main sphere of undeclared work was construction and retail. The state labour inspectors' audit revealed more than 30% of illegal workplaces in small business. Popularity of the "under-the-table" wages in small firms is also confirmed by the fact that the average wage in this sector is 1.7-1.9 times lower than the average official all-Ukrainian wage.

According to Monitoring of Ukrainian population public opinion (April 2009), more than 19.0% of interviewed noted that a large part of their salaries was undeclared ("envelope payment") even if they had an official job. More than 23% of young people (18-29 years old) prefer to receive such "undeclared wages", while persons aged 60-70 years old try to avoid "envelope payment" (Ukrainian Socium, 2009).

The informal sector of the Ukrainian economy is marked with the decent job deficit that means the absence of sufficient employment opportunities, inadequate social protection, low income, neglecting of labour rights and shortcomings in social dialogue.

In developing countries, the informal sector of economy is an important source of jobs for female (Maloney, 2004). Gender aspect of employment in informal sector of Ukrainian economy is marked with approximately equal participation rates of males and females. It is the result of low quality of jobs and different expectations of working conditions of male and female employed in the informal sector. The participation rate in informal sector is quite high for the population aged 60-70 because of low pension payments and low retirement age.

Slight employment growth in 2000-2008 was stipulated by the growth of employment in informal sector of economy. The significant part of employed at this sector does not declare income for taxation, social security and labour law purposes. It leads to the growth of the "grey" economy on the one hand, and absence of social guarantees for employed at this sector on the other hand. Economic crisis significantly influenced the growth of informal economy because of the spread of the "grey wages", large-scale unregistered work; and it may lead to the sharp decrease of national competitiveness in the future.

1.6. EDUCATIONAL SYSTEM

A new legal base for the educational system was created during years of independence of Ukraine. At the same time reforming and upgrading of its structure, content, forms and methods of training are still under development. The basic Law of Ukraine "On Education" (1991) and other legislative acts ensure equal access to education.

Pre-primary education is multipurpose in Ukraine, as the institutions are designed to meet the educational and developmental needs of children, as well as to provide base medical care. According to the Ukrainian legislation, a network of pre-primary education is formed by institutions of various types, including day nurseries, day nursery-kindergartens, kindergartens, day nursery-kindergartens of compensating type, baby homes, boarding children's homes, day nursery-kindergartens of family and combined type, centers of children's development. Institutions (classes), which provide special-needs education, are operating for children with mental and physical disabilities, and children with chronic diseases of internal organs. Public pre-school education is free of charge, but parents pay for children's nutrition.

Primary, lower secondary and upper secondary education are mandatory and free-of-charge in Ukraine. There are also special-profile classes for gifted children, as well as specialized schools, gymnasiums, lyceums, educational complexes of various types. Children with special needs can attend special institutions, including sanatoriums, special boarding schools and schools of social rehabilitation, special classes attached to primary and secondary schools. Children start attending school at age 6 or 7. Beginning from 2001, the concept of the 12-year primary and secondary education has been in force. The main aim of the concept is to expand enrolment of children aged 6, and to prevent unemployment among youth aged 17–18.

Tertiary education has no institutional barriers. The external independent testing provides equal opportunities to enter any tertiary institution. This testing is aimed at eradication of corruption in the system of tertiary education and expansion of access to higher education.

Lifelong learning is oriented to raising the level of professional skill and provided by universities, academies, institutes, various centers of retraining and skills upgrading. Lifelong learning is provided by employers, public employment service (for unemployed), and private costs. Regular monitoring about participants, costs, and evaluation is not implemented.

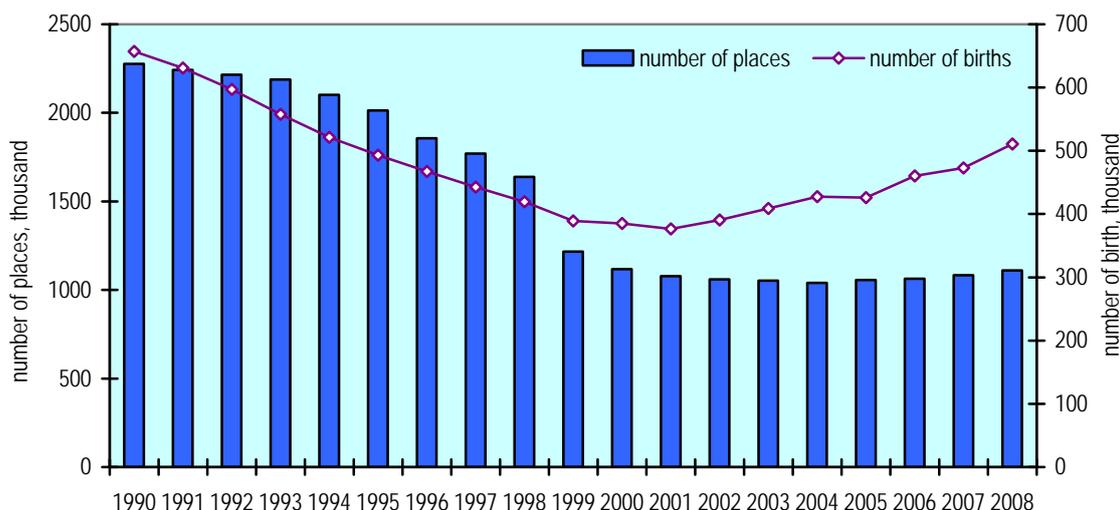
Enrolment of students by various levels of education. A network of pre-primary institutions has been reduced by 37.1% during 1990–2008, while the number of enrolled children - by 51.3%. The largest decrease was observed in the 1990's due to a decline in fertility. Respectively, many pre-primary institutions were closed.

Since 2001, the fertility has increased and a need in pre-primary institutions increased as well (see Figure 1.10). In 2008, 57% of children in the preschool age attended pre-primary institutions. While total enrollment rate was returned to level in 1990, urban-rural disparities expanded: in 1990 this rate was 64% in urban and 43% rural area, correspondingly in 2008 69% and 33%. The urban-rural disparities in access to pre-primary education could result in a problem of "equal start" for the first-graders from rural area.

The future reforms of pre-primary education are aimed at extension of the network of pre-primary institutions. This problem is particularly urgent in large cities, as there is a deficit of available places for children. As to rural area, the total number of pre-primary institutions is larger than in urban settlements due to a lower population density; however, capacity of rural pre-primary institutions is almost three times smaller.

In 2008/09 academic year, 89.4% of all children in school age were attending primary and secondary schools. However among children with mental or physical disabilities 52.9% were enrolled in primary and secondary schools as well. More than 164 thousand these children were attending general schools, while 50.3 thousands - special boarding schools.

Figure 1.10: Number of places in pre-primary institutions and number of live birth, thousand



Source: State Statistics Committee of Ukraine

The number of students in primary and secondary schools was 1,001 per 10,000 population in 2008/09 (1990/91 – 1,373), of them: in rural area – 1,070 (1990/91 – 1,302). During 1990/91 – 2008/09, the number of students has dropped by 35.3% in correspondence with demographic trends. While the total number of primary and secondary schools has dropped only by 3.9%, the number of teachers stayed practically unchanged. As a result, pupils/teachers ratio has sharply dropped, reaching 8.8 in 2008/09 (13.3 in 1990/91). This ratio is almost twice smaller than in the EU countries. The total enrolment will also decrease in the nearest decades, stressing a need for further reforms of education system (Libanova, 2007; World Bank, 2008).

The number of students in post secondary non-tertiary education has dropped by 32.1% in 1990-2008 (from 643.4 thousand students to 436.7 thousands). In 2008/09, 95 students per 10,000 population were in post secondary non-tertiary schools (1990/91– 127, 2000/01 – 107).

The decline in prestige of blue-collar occupations, increase in social importance of tertiary education, and expansion of public and private sectors of education led to an increase in demand for tertiary education among young people. A ratio of students in tertiary educational institutions to students in post secondary non-tertiary schools was 2.5 in 1990/91, 3.7 in 2000/01 and 6.3 in 2008/09. Presently, more than 1/3 of students of post secondary non-tertiary schools are planning to keep studying in higher education institutions; this trend will be preserved in the future. As compared with 1990/91 the number of tertiary students has grown 1.9 times, reaching 599 students in tertiary institutions per 10,000 population in 2008/09 which corresponds to the Central European rates.

Education in languages of national minorities. Ukrainian is the official language in Ukraine. Respectively, 81.1% of children were taught in 17,044 primary and secondary schools with Ukrainian language of teaching.

There are primary and secondary schools which provide education in languages of other nationalities and national minorities in areas of their compact residing. Generally 10 languages are used for teaching in schools (Ukrainian, Russian, Romanian, Hungarian, Crimean Tatar, Polish, English, Slovak, Bulgarian and Moldavian). There are 1,306 schools with Russian language of teaching, 89 - with Romanian, 71 - with Hungarian, 15 - with Crimean-Tatar language, 6 - with Moldavian, 5 - with Polish, 1 - with English language of teaching.

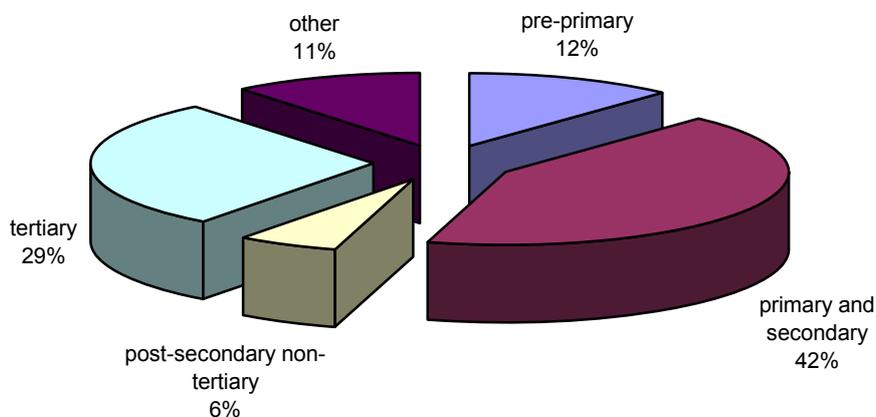
Moreover, there are 1,767 schools (8.7% of total number), where teaching is carried out in two and more languages. According to the Law of Ukraine “On Ratification of the European Charter for Regional or Minority Languages”, many schools teach Russian, Romanian, Moldavian, Hungarian, Polish, Bulgarian, modern-Greek, Roma, Hebrew and Yiddish as school subjects; Armenian and Karaim languages are taught in Sunday schools.

As to tertiary education, 2,434,518 students (88.1%) are taught in the Ukrainian language, while 326,674 students (11.8%) – in Russian, 1,127 – in Hungarian, 1,438 students – in English, 116 students – in other languages.

Educational expenditures. Public educational expenditures are 20% of the consolidated budget of Ukraine. The educational expenditures, provided from the budget, have increased from 3.8% of GDP in 1990 to 6.4% of GDP in 2008. Such expenditures are rather large in comparison with CIS and EU countries (5% of GDP as on average). At the same time, expenditures per pupil/student are still small; they have not even returned to the level of the 1990's.

The structure of public educational expenditures has been practically unchanged: the largest their part is directed on primary and secondary education – 41.7% of the total expenditures, another 30.4% – on tertiary education (see Figure 1.11).

Figure 1.11: Public expenditure by educational levels in 2008, %



Source: State Statistics Committee of Ukraine

The mechanism of the State order for training of qualified experts is inherited from the Soviet times. Students, whose training is paid by budgetary funds, still prevail in agrarian and industrial specialties. Also, the state establishes the quotas for students from the rural area trained for agrarian occupations at the expense of public funds.

Private expenditures on primary and secondary education are very small in Ukraine. There is a small number of private schools in several large cities; respectively the number of schoolchildren in private schools is also small. It does not exceed 1.0% and 98.1% of such pupils live in large cities.

In 2008/09 there were 196 private tertiary institutions (22.2% of the total number of tertiary institutions). A share of students trained in private tertiary institutions has increased from 4.6% in 1995/96 to 15.0% in 2008/09 (from 14 students per 10,000 of population to 90 students per 10,000 of population).

According to the expert estimations, private educational expenditures might be about 1.5% of GDP in Ukraine; a half of them are formed by expenditures for pre-primary, primary and secondary education, while another half – by expenditures for tertiary education. It can suggest that out-of-pocket expenditures are large in special-profile schools, gymnasiums, and lyceums, which provide various additional services. These schools are more likely to be attended by children from wealthier households (incomes of parents of such children are about 5 times larger than incomes of parents, whose children attend general schools) (World Bank, 2008).

Presently, the tertiary education is more focused at training the experts in social sciences, business and law. The contractual students (whose training is paid for private funds) prevail in specialties of management, economy, and humanities. Number of tertiary graduated in economics, management and law exceeds the needs of the economy, while skilled workers, such as builders, mechanics, turners etc. are lacking. With regard to this problem, a larger attention should be paid to vocational counseling, in particular among schoolchildren.

In tertiary institutions 35.3% of the total number of students was educated at the expense of the Central Budget, while 3.4% of them – at the expense of local budgets, and 0.5% – at the expense of the central executive authorities and legal entities. There were 60.8% of contractual students in 2008/09; their proportion varied within the range of 55-70% across regions of Ukraine.

Access to education. High educational standards can be regarded as a competitive advantage of Ukraine. Based on indicators of the population enrolled in primary, secondary and tertiary education, Ukraine holds the 39th position among 172 world countries. In addition, Ukraine holds the 31th position by enrolment in tertiary education. Thus, regarding these ratings, Ukraine is rather close to the EU countries and above the CIS countries (WEF, 2008).

Among men a share of persons with tertiary education was 41%, among women – 55%. Educational level of women was higher in almost all age groups (except for persons aged 70 and older). Legally and actually, men and women have equal access to education.

However, there are a lot of problems in education system. The lowest rate of school enrolment is inherent for households with low incomes and for rural households. Children of poor families and children of the risk groups have lesser access to primary and secondary education in schools, which meet modern standards. Expenditures for preschool, primary and secondary education, observed in households of the poorest population quintile, are approximately the same as in the richest quintile.

Another major problem of education in Ukraine is the differentiation of educational standard for different groups, in particular, according to inter-settlement and ethno-national features.

Inter-settlement disparities in education are traditionally more significant than disparities caused by age, gender or nationality in Ukraine. The difference in the quality and access to education in rural and urban areas is determined by such factors as: cultural traditions, conservative views on a role of woman in a society; imperfection of inter-budgetary relations; distribution of capital subventions and its peculiarities as well as additional expenditures (for example, on school buss); insufficient funding of tangible assets of schools at the local level; lack of qualified experts in rural area; restricted access to modern textbooks, computers, Internet and so on. There are also territorial disparities in location of schools of high education across population settlements, which is the principal reason of permanent migratory outflow of rural youth to cities.

Roma people have the lowest educational level among ethnic minorities in Ukraine. While the average duration of studies was around 10 years for the total population aged 15 years and over, it was only 5.2 years among Roma people in Odessa oblast and 4.2 years in Zakarpattya oblast. The average duration of studies of Roma in the city of Kyiv was much longer than among representatives of this ethnos in regions – 7.8 years (however, it is much shorter than among other ethnic groups in Kyiv). Thus, according to the survey “Problems and Needs of Roma People”, which was conducted by the Ukrainian Institute of Social Studies in August-September of 2003 and supported by International Foundation “Renaissance”, 68% of Roma respondents could not read at all or had some difficulties with reading; 68% of them could not write or had some problems with writing; and 59% - could not count or had some problems with counting. The situation with ability to write is particularly problematic, as one-fourth of the surveyed Roma were unable to write at all. Thus, only 2% of respondents had tertiary education; 6% of respondents had upper secondary or post-secondary non-tertiary education, and 10% of them had lower secondary education. Half of respondents had primary education (49%), while slightly more than one-third (34%) of them has not basically attended schools. Thus, persons with primary education or with no education at all prevail among adult Roma population.

Among the **Crimean Tatars** the share of persons with tertiary education was 29.0% (among Ukrainian – 29.4%), with upper secondary – 30.0%, with lower secondary – 16.5%, with primary or lower – 24.4% (among Ukrainian – 18.6%) (All-Ukrainian population census of 2001; for population aged 10 years and over). An important aspect of socio-cultural adaptation and integration of the returners is a promotion of national education, teaching children in their native language. Today in the Autonomous Republic of Crimea there are 15 schools with the Crimean Tatar language of teaching, and 3115 children study there. Moreover, another 27 secondary schools have Russian and Crimean Tatar languages, as language of teaching, 1 school - Ukrainian and Crimean Tatar languages, 36 secondary schools are teaching in Ukrainian, Russian, and Crimean Tatar languages. Together, 2771 children study there. The total number of students, who study in school with Crimean Tatar language, is 5886. About 19,503 students study Crimean Tatar language as a subject in secondary schools, and 4793 students - as a facultative subject (State Committee on Nationalities and Religions). At the same time, according to 2008 survey, relative majority among the Crimean Tatars (49.6%) felt that their need to receive education in their native language is not satisfied.

1.7. MIGRATION AND REMITTANCES

During the independence, a large decline in the intensity of migration (implying the official change of place residence, which is registered by the state statistics) took place. In Ukraine significant migration inflow was observed in the early 1990's (the highest increase — about 300 thousand persons — was recorded in 1992).

During 1994 – 2004 Ukraine was a country of emigration. The size of migratory losses equaled to 1.2 million persons. Transition to positive net migration occurred in 2005 when the number of immigrants started to grow, while the number of emigrants declined. This trend intensified in 2006 – 2007. In 2005, 54.4% of arrivals were citizens of Ukraine, 27.2% of arrivals — citizens of European countries, 15% — citizens of countries of Asia (unfortunately the data by nationality is not available). In 2008, the proportion of arrivals-citizens-of-Ukraine shrank to 47.2%. Instead, the share of citizens from developing Asian countries increased almost twice.

The total number of arrivals and departures was 1.4 million persons in 2008. The main part of migration (95.8%) was formed by internal migration, including 57.9% – within the regions and 37.9% – interregional migration.

High intensity of internal migration is distinct for persons aged 15-30 (the highest intensity – at the age of 17). External migrants are older than internal migrants: high level of participation in the external migration is observed in the 17-40 age group (the highest intensity – at the age 23-26).

Women are more active in internal migration than men (53.8% in 2008). In external migration women dominate among emigrants (55.2%), while men – among immigrants (54.0% in 2008).

International migration exchange is the largest with countries of the former USSR (80.1% of all arrivals and 66.5% of all departures in 2008). The Russian Federation remains the main migratory partner of Ukraine (both arrivals and departures). In 2005 positive net migration with Russia was registered for the first time since 1993. In 2008 immigrants from Russia constituted 45.8% of all immigrants to Ukraine; and emigrants to Russia made up for 55.5% of all emigrants leaving Ukraine. Except Russia, active population exchange is also observed with other ethnically and geographically closed countries, members of CIS – Belarus and Moldova. Emigration outside the former USSR is mostly in a form of “brain drain”. Share of individuals with high education equals to more than a half of total number of emigrants. Especially high educational level is among emigrants to Canada.

Registration of migration

Monitoring of residence change (stationary migrations) is being carried out by registration. Registration forms are filled for persons who are registered at a new place of residence (or stay there more than 6 months) or are taken off the registration list (leave to another place for a period more than 6 months). Registration of these events is carried out by the internal affairs authorities. All acts of registration are being done in three copies, one of which is passed to the state statistics for processing. Developing summary tables (yearly, monthly, and quarterly) of primary documents allows getting information about the structure of migrants by some social-demographic characteristics. Consequently, state statistics provides information only about those movements that are recognized as a change of official place of residence. New statistical accounting coupon introduced in mid-2004 was considerably simplified in comparison with the previous one. Specifically, collection of information about educational level of migrants was stopped.

Current monitoring of legal labour migration is provided by the Public Employment Service. Sample surveys of population allow to receive information on both legal and illegal labour migrants. However, because of shortage of financial resources these surveys are rarely conducted.

At the edge of the 1980'-1990' other countries accommodated from 10 to 12% of all departures from Ukraine; about 20% - in the first half of the 1990's, and about 30% in 2002-2007. Main countries of emigration (except the former USSR) were Israel, Germany and the USA. Until 2000 the first position was taken by Israel, during 2001-2005 – by Germany, and since 2006 – by the USA.

In 2006, positive net migration with some countries of Asia and Africa was registered for the first time. It happened both due to the large decline in the number of departures to these countries (more than one-third) and increase in the number of arrivals from Asia and Africa. Main counties-senders are: India, Jordan, Syria, Turkey, Morocco, Tunisia, and, especially, China. In 2008 net migration with countries of Asia was 8.7 thousand people (58.1% of total net migration).

About 165 thousand immigrants are registered in the bodies of internal affairs. Several cases of xenophobia were recorded in Ukraine. There are organized groups called *skinheads*; series of murders based on ethnic aversion were recorded as well. Sometimes articles of xenophobic nature are published in media. State bodies and public activated work on combating xenophobia (in particularly, in order to identify literature of xenophobic nature bookstores were inspected, and a database of persons seen in manifestations of racists and xenophobes was created).

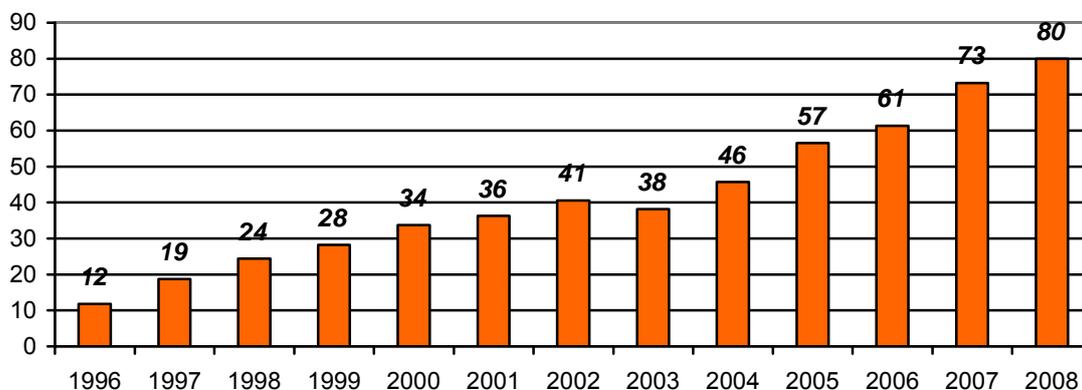
Labour migration. According to the State Employment Office 80.4 thousand of Ukrainians worked abroad in 2008 (see Figure 1.12). Information about Ukrainian citizens working abroad is supplied by private bureaus, agencies and other organizations, which provide services on employment abroad. Clearly, the number of workers placed into jobs through official mediation does not correspond to the real size of labour migration.

According to the Survey on Labour Migration Issues (2008) conducted from 2005 to the mid of 2008, about 1.5 million residents of Ukraine (or 5.1% of population in the working age) worked abroad. Their education level is much lower as compared with education level of the entire working-age population. Population of rural area is more intensely drawn to labour migration than residents of urban settlements.

The main countries of destination of Ukrainian labour migrants are Russia, Italy, Czech Republic, Poland, Hungary, Spain and Portugal. Almost all labour migrations are directed to CIS and EU countries. Ukrainian labour male-migrants are mainly engaged in construction, while female-migrants work as housemaids, in trade and on construction. Migrants to neighbouring countries (Russia, Poland, Czech Republic and Hungary) commit

periodic short trips with constant returning to Ukraine. Migrants to southern Europe stay at work for a long time. About one-third of labour migrants had residence and work permits. A large share of Ukrainian migrants with officially registered status is observed in the Czech Republic, Portugal and Spain. According to the survey, a lot of migrants without official status work in Poland and Italy.

Figure 1.12: Ukrainians working abroad due to Public Employment Service, thousands



Source: State Employment Office

Under *crisis conditions*, most of migrants, especially those who work in the EU, want to continue their work in the host country. Laying off guest workers will lead to their displacement to the informal economy and household sector. A part of construction workers among the migrants can return to Ukraine if the demand for labour will increase due to preparation of Euro-2012.

Ukrainian Center for Social Reforms assessed earnings of labour migrants and remittances. The structure of migrants by the country of destination, type of economic activity and duration of stay abroad was estimated using data of Survey On Labour Migration Issues (2008). Data about wages in the countries-recipients by the type of activity comes from ILO and Eurostat. According to estimates, total earning of labour migrants from Ukraine amounted to 1.9 billion EUR in 2007. With regard to the expenses of migrants in the country of temporary residence and transportation costs, cash transfers amounted to approximately 70% of the total earnings of the labour migrants (or more than 1.3 billion EUR).

According to estimates by A. Gaydutskiy, the yearly amount of remittances from Ukrainian labour migrants equals to 15.5 billion EUR (exchange rate of 2007). This estimate is based on the following assumptions:

- total number of international labour migrants is 4.9 million persons;
- all migrants work abroad throughout a year;
- share of monetary remittances in total income of Ukrainian migrants is estimated based on the relevant data of those from developing countries.

Monetary remittances are important source of well-being of migrants' families; the funds are mostly spent on consumption, only about 10% of migrants start their own business after return to Ukraine.

The size of the registered internal migration exceeds the registered international migration more than 18 times. The most numerous population exchange occurs with urban settlements. Frequent departures are observed from rural area to urban, while such migratory movements as "urban-rural" or "rural-rural" are rare.

Negative net migration in rural area is formed mainly by young people. At the same time, sometimes one can observe a return of the former rural residents at old age (senior working and of retirement age) to their native villages.

Through work abroad citizens of Ukraine try to improve the quality of their life. The economic factors remain important driving force of changes in migration patterns.

1.8. DEMOGRAPHIC TRENDS

Ukraine's demographic situation is a big reason for being concerned. Population decline, falling life expectancy and fertility are dominating modern demographic trends. This situation has historical roots; these trends were developing over a long period. According to most opinions, the First and Second World Wars, three famines (1921, 1932-1933, 1947), forced industrialization, mandatory collectivization, massive repressions of the 50s, the Chernobyl disaster and the prolonged system crisis of the 90s drastically influenced demographic transformation.

Ukrainian population has been steadily declining after reaching a maximum in 1993 (51.9 million people). At the beginning 2009 number of the Ukraine's population was 46.0 million people. During the period of independence of Ukraine the ratio of urban and rural population remained practically unchangeable (a share of urban population is about 68%, accordingly rural population covers 32%).

The structure of the population has also been harmed by migration. Even though during the 1980s net migration with other republics of the USSR did not exceed 100,000 people a year, population ageing increased. Most young people left for work to Siberia, the Far East and Far North, while pensioners returned to Ukraine. Emigration of young and the most qualified workers to the central part of the USSR accelerated process of the aging of population as well as damaged human capital of Ukraine. These trends further developed during the 1990s, implying massive migration caused by the collapse of the USSR; fertility decline resulting from economic, social and psychological stress; and a rise in mortality of the working-age population.

The age-sex composition of the population of Ukraine has been greatly deformed by social-economic cataclysms (wars, famines, est.). Ageing is the most essential feature of the long-term changes in the age composition of populations in all types of settlements of Ukraine. Ageing mostly occurs from the bottom – as a result of fertility decline over a long period.

The total fertility rate grew during 2002-2008. This growth was stimulated by the recovery from economic crisis, improved living standard, adapting of young people to a market economy and increase in state child benefits. It should be noted that even the highest total fertility rate reached in 2008 (1.45; 1.33 in urban areas and 1.75 in rural areas), was still lower than the replacement level of 2.1 to 2.2.

Crude death rate increased steadily due to the ageing and mortality rise. A reduction of death rates can be expected in the nearest 10 to 15 years, resulting from reforms in the public health, a new tradition of healthy way of life (at least, among young people), full-scale implementation of advanced technologies into production, and improvement of working conditions, transport and road safety.

Unlike other developed countries there were fluctuations in life expectancy in Ukraine (and in the former USSR as a whole). Beginning from the 60s, periods of death-rate decline were replaced by periods of death-rate growth.

Ethnic composition of the population is various. The All-Ukrainian population census of 2001 defined the presence of representatives of more than 130 ethnic groups. However, two ethnic groups represent a great share of the population, these are Ukrainians and Russians. 37.5 million persons (77.8%) of population of Ukraine are Ukrainians and 8.3 million 17.3% are Russians. Sixteen ethnic groups account for from 30 to 300 thousand of persons. They are: Byelorussians, Moldovan, Crimean Tatars, Bulgarians, Hungarians, Romanians, Poland, Jewry, Armenians, Greeks, Tatars, Roma, Azeri, Georgians, Germans and Gagauzis.

The Institute for Demography and Social Studies defined the most reliable scenario of demographic development in the future simulating possible changes in demographic processes. Main parameters of the comprehensive demographic projection for Ukraine (the medium variant) are presented in the Table 1.1. Under the most probable scenario of demographic projection, the population number in Ukraine will be falling throughout the next 50 years. Losses of demographic potential will be caused by widespread standard for a small family, short life expectancy and unfavourable migratory exchanges. High skilled people aged 25–40 years will emigrate to countries of Western and Central Europe with a purpose of finding a job offering decent wage. Immigrants will originate from Central and South East Asia. Most of them will be unskilled workers.

Table 1.1: Main parameters of the comprehensive demographic projection for Ukraine

	2010	2020	2030	2040	2050
Population, thousand	45,454.4	42,811.5	40,754.9	38,624.9	36,280.8
Total fertility rate	1.3	1.4	1.5	1.5	1.5
Infant mortality rate, per 1,000 born alive	10.5	9.4	8.2	7.1	6.0
Probability of surviving through the working age, per 1,000					
Women	907	926	943	949	952
Men	602	689	736	771	808
Life expectancy at birth, years					
Women	74.0	76.0	78.0	79.0	79.5
Men	62.2	65.9	68.0	69.7	71.5
Gross migration, thousand persons	+38	+61	+89	+79	+74
People aged 60+, % at the end of a year	20.7	23.2	25.2	28.0	32.5

Source: Libanova, 2006

Population ageing will be intensified by reduction in mortality, particularly among men. However, population ageing should not be judged only negatively. This is a natural process, an objective reality, reflecting progress of civilization's development and demographic transitions. Problem of ageing constitute a need to adapt social infrastructure and social policy to the needs of elderly, and to adequately transform the labour market structure.

Impact of the crisis. The financial crisis significantly influenced childbearing preferences of population in reproductive age (from 15 to 49 years). According to sample surveys (of 2008 and 2009), two-child family is the most desired family size in Ukraine. However, the proportion of respondents which desire to have two children in 2009 was lower as compared to the survey of 2008 (60% and 65% of respondents respectively). Families with three children were the second most popular choice in 2008, with 16.7% of people providing this response. However in 2009 their proportion decreased to 14%. Instead, proportion of respondents desiring to have only one child in family sharply increased from 13.5% in 2008 to 21.4% in 2009. These changes testify that people tend to limit the size of their families because of financial instability.

1.9. TERRITORIAL DISPARITIES

Rural-urban differences. There is a sizeable discrepancy of social and demographic situation in Ukraine according to the type of settlements. The most critical situation is observed in rural area. It is caused by the absence of job, degradation of social infrastructure, insufficient living conditions (problems with sewage systems, water-supply), limited access to high-quality education and health care.

The peculiarities of rural way of life and mentality, preserving traditions of a big family, large percentage of persons without high education, and low share of skilled workers led to higher level of fertility in rural area than in urban.

The urban-rural difference in mortality (14.7‰ in urban and 20.1‰ in rural area in 2007) is a result of not only high mortality intensity, but also of a large proportion of elderly in rural area. Rural inhabitants have lower life expectancy than urban residents.

Net migration for urban area was negative during 1992-2005. Net migration for rural area was positive during period of economic crisis (1992-1999) as many families moved to villages to be able to provide sustenance. Since 2000 this indicator has been negative.

There are some important urban-rural peculiarities in employment. One can say that the large disparities in employment of rural and urban inhabitants were stipulated by the increase in the employment in subsistence agriculture, low wages in urban area, methodological changes (Libanova, 2007). As to individuals aged 25 to 50, higher employment rates are observed in urban area as a result of wider range of opportunities to be hired. On the contrary, especially large urban-rural gap in employment is observed among the population aged 60+ as a result of low pensions in rural area, participation of these groups in subsistence agriculture in the informal sector of economy (see Table 1.2–1.3).

The disparity of infrastructure allocation determines the significantly worse access of rural population to education and health care. In particular, the level of coverage of rural children with preschool institutions is twice lower in rural area than in urban (33% in vs. 69%). It leads to disparity in access of rural children to high-quality and harmonious education, to higher child mortality from external causes, to limited access of rural women to employment.

Table 1.2: Urban and rural employment by age groups in 2008

	Total	15-24	25-29	30-34	35-39	40-49	50-59	60-64
Total	63.4	37.3	76.4	80.3	82.7	79.8	61.0	27.2
Urban	62.7	34.8	77.7	80.9	84.1	80.4	59.2	20.4
Rural	65.1	43.1	72.7	79.0	79.6	78.6	65.5	41.9

Source: State Statistics Committee of Ukraine

Table 1.3: Urban and rural unemployment by age groups in 2008

	Total	15-24	25-29	30-34	35-39	40-49	50-59	60-64
Total	6.5	13.3	7.0	5.4	5.2	6.1	4.0	0.1
Urban	6.7	14.9	7.2	5.4	4.8	6.2	3.9	0.1
Rural	6.1	10.3	6.6	5.6	6.0	5.7	4.2	-

Source: State Statistics Committee of Ukraine

In most cases, secondary schools are the only educational institution in villages, and they are almost the only guarantor of the child rights to full, quality education and social protection. Reduction in the number of children led to decline of the average number of pupils in classes and schools, and thus - to a significant rise in the maintenance cost for one scholar. In rural schools, the pupil/teacher ratio was 6.6 comparing to 10.5 in urban schools in 2008. The low pupil/teacher ratio in rural area requires rationalization of school network, finding innovative forms of teaching and organizing educational process. The situation is complicated by other problems, such as a lack of logistical support, obsolescence and deterioration of educational equipment, shortage of teachers of certain subjects (especially of science, physics, foreign languages, sports etc.), practical psychologists, and teachers of elementary school.

Regional disparities. During period of independence, regional differentiation increased throughout all economic and social indicators. These disparities are grounded on the specifics of production allocation. Industrial regions of the eastern and southern parts of a country demonstrate the best economic indicators. For example, GVA per capita in the Dnipropetrovsk and Donetsk oblasts is around 2 thousand euro, while in Ternopil and Chernivtsi – 700 euro.

In regard of ecological and social environment (crime, incidence of social diseases, suicides est.) and prevalence of healthy lifestyles, western part of Ukraine has the most favourable demographic situation. If to exclude Kyiv, the highest life expectancy (more than 70 years) is observed in 4 oblasts on the west: Ternopil, Lviv, Chernivtsi, and Ivano-Frankivsk oblasts. The lowest life expectancy (less than 67 years) is recorded in industrial region: Odesa, Donetsk, and Dnipropetrovsk region (see Figure 1.13-1.14).

The highest birth rate is observed in Rivne, Zakarpattya and Volyn oblasts, while Chernihiv, Sumy and Luhansk oblasts experience the lowest fertility (see Figure 1.15).

The maximum net migration (+3.7‰) is typical for Kyiv. Kyiv is the richest region that has the highest wages and the lowest unemployment rate. Minimum net migration (-2.5‰) was in Zakarpattya, which is one of the poorest regions. It has the highest rate of unemployment (see Figure 1.16). Only 3 regions (Kyiv, Kyiv oblast, and Poltava oblast) had positive net migration during 1992-2007. The most considerable population losses occurred in Lviv oblast (western region) and in Lugansk oblast (eastern region).

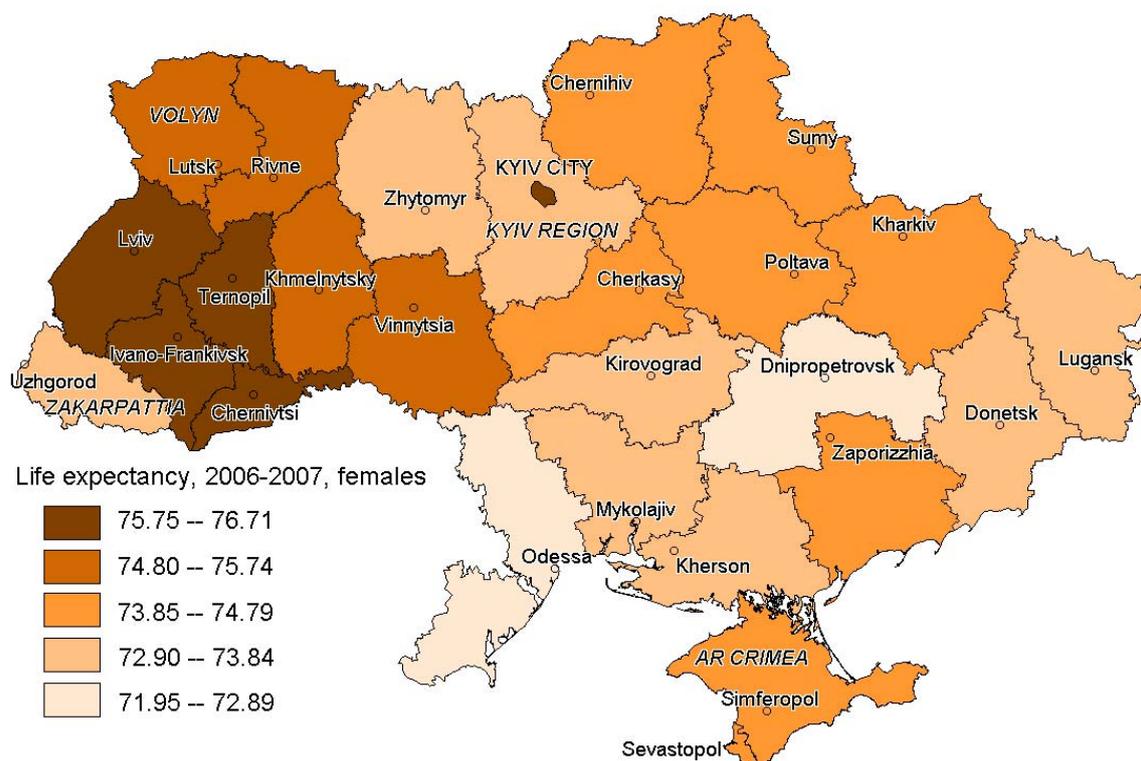
In 2007 regional structure of employment was characterized by concentration of employment in industrial area (Donetsk region – 10.2%, Dnipropetrovsk region – 7.6%) and in regions with well-developed infrastructure (city of Kyiv – 6.7%). It proves the correlation between the level of economic development and employment opportunity.

The level of urbanization of a region affects the access of population to education and health care. The worst coverage with preschool education is in on the west - area with the highest proportion of rural population and high fertility. Such western regions are: Ivano-Frankivsk (34% of children of the preschool age were enrolled in preschools in 2008), Lviv (41%), Rivne (42%), Zakarpattia (44%), Ternopil (46%), and Volyn (47%) oblasts. In these regions the pupil/teacher ratio is the lowest that indicates a problem of pupils' shortage in schools.

The system of high schools' allocation is characterized by high centralization. The largest number of universities (and the number of students) is traditionally concentrated in the capital, and in most urbanized cities of Ukraine (Donetsk, Kharkiv, Dnipropetrovsk and Lviv). The concentration of universities in large cities is a major cause of permanent migration outflow of youth from rural area and from small towns. Such migration for education is often transformed into the permanent residence.

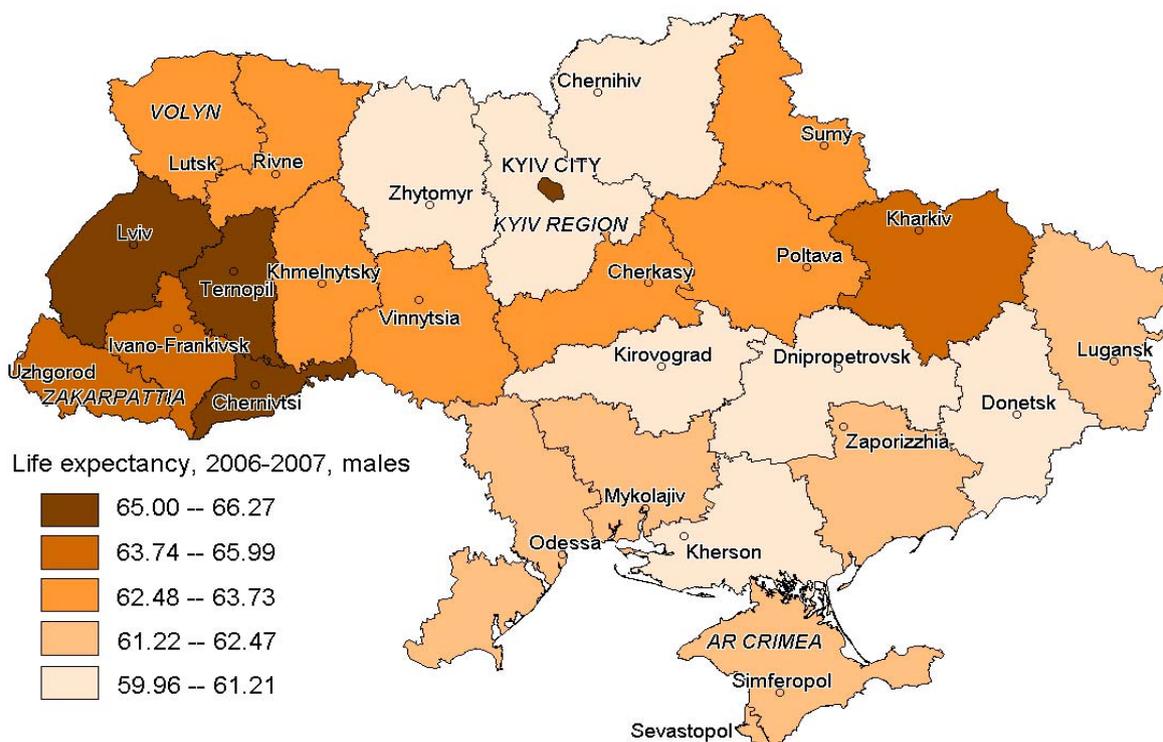
Regional income differentiation is determined by allocation of productive forces and by specialization of a region (see Figure 1.17). Due to the capital status, income of households residing in Kyiv is much higher than in all other oblasts (185% of the Ukraine's average in 2008). The income of households of developed industrial oblasts is slightly above the average; these are Donetsk oblast (117%), Dnipropetrovsk (113%), and Zaporizhzhya (110%). The lowest income is earned by households of rural western regions - Transcarpathian (71% of the Ukraine's average), Chernivtsi (75%), Ternopil (77%), and Volyn (78%) oblasts.

Figure 1.13: Life expectancy at birth for females by regions of Ukraine, years



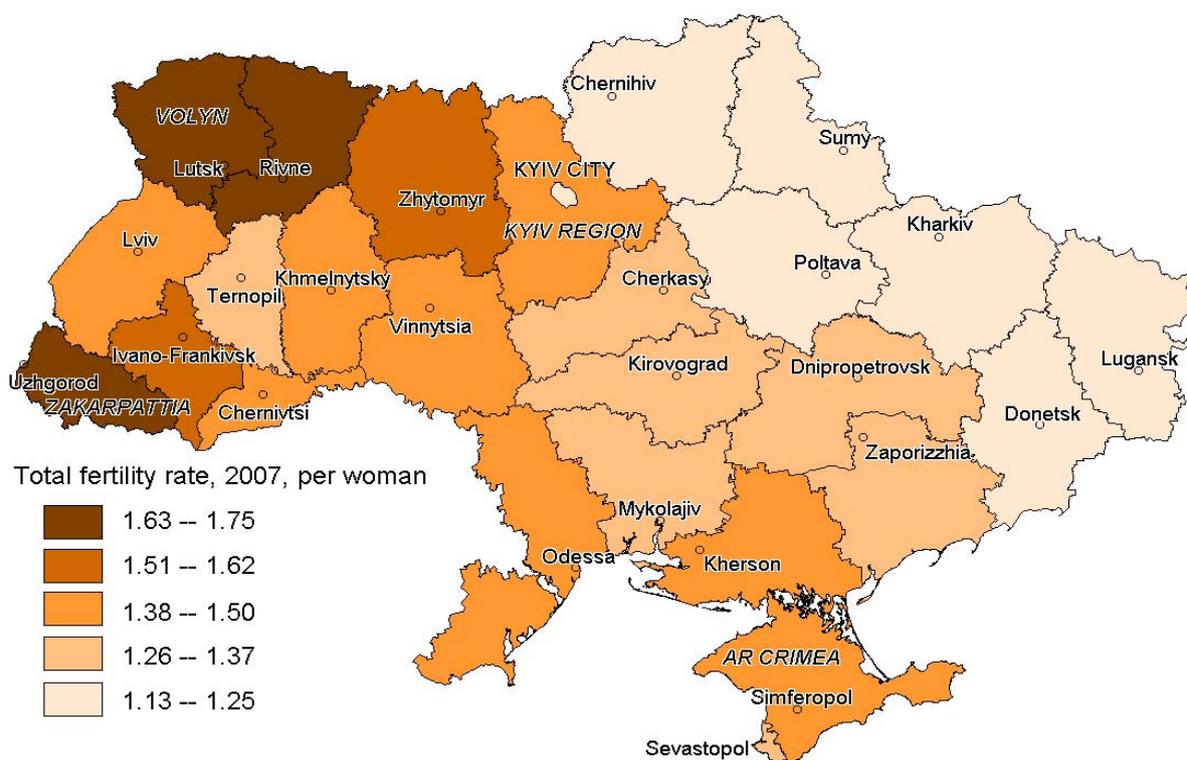
Source: State Statistics Committee of Ukraine

Figure 1.14: life expectancy at birth for males by regions of Ukraine, years



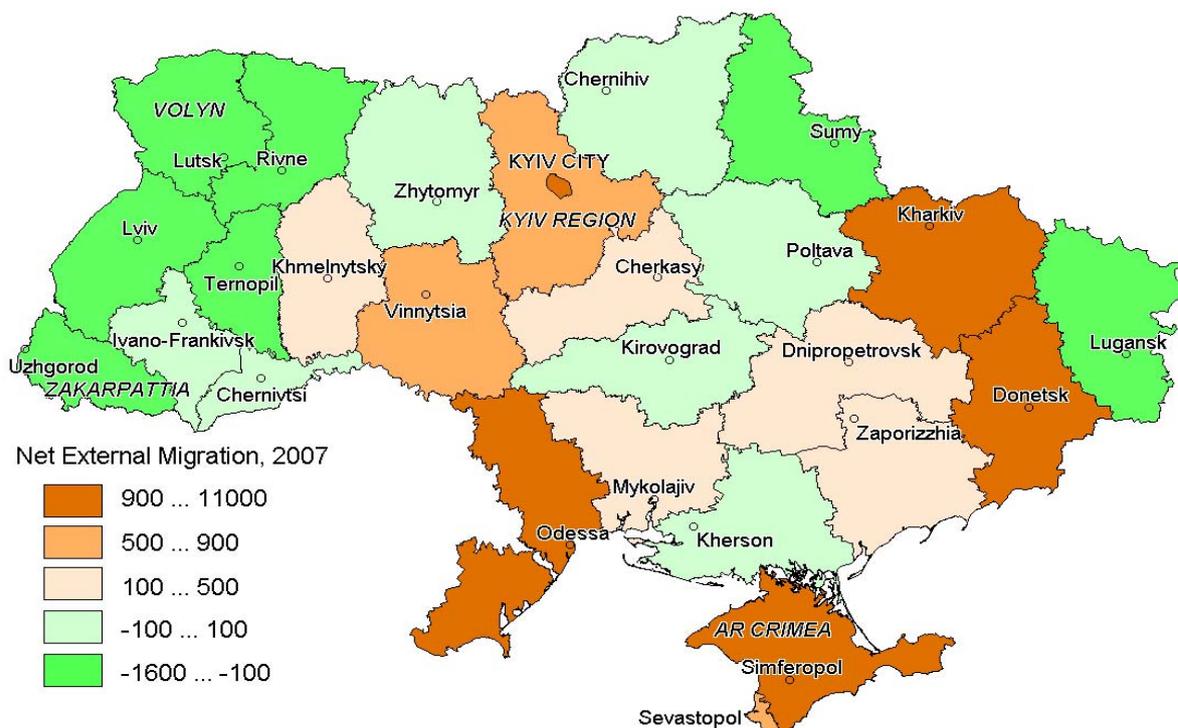
Source: State Statistics Committee of Ukraine

Figure 1.15: Total fertility rate by regions of Ukraine



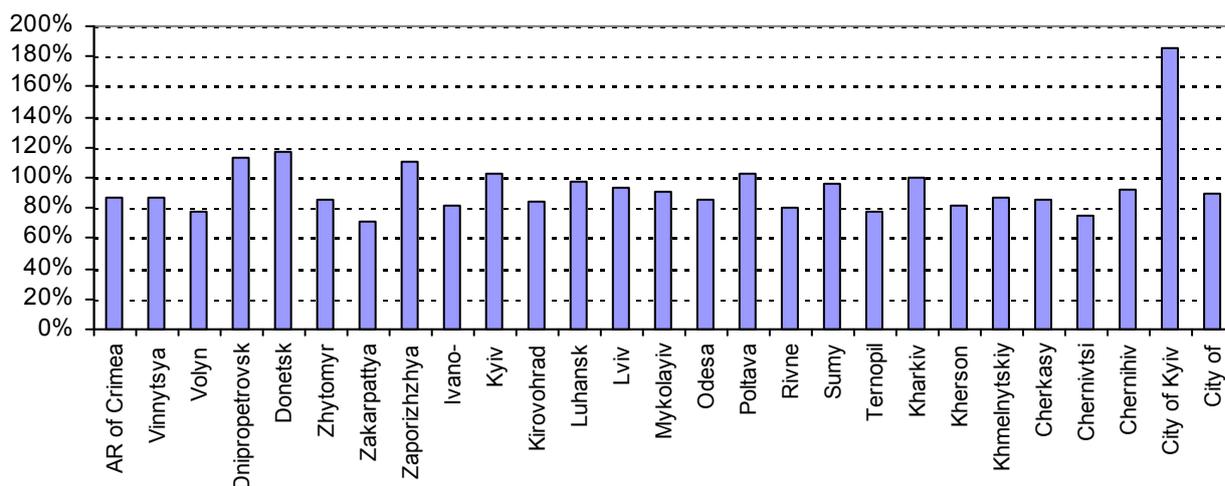
Source: State Statistics Committee of Ukraine

Figure 1.16: Net external migration by regions of Ukraine, persons



Source: State Statistics Committee of Ukraine

Figure 1.17: Disposable income of households per capita by regions of Ukraine, 2008, % of average



Source: State Statistics Committee of Ukraine

1.10. CONCLUSIONS AND KEY CHALLENGES

In spite of sustainable economic growth that began in 2000, Ukraine could not solve all of the problems accumulated during Soviet period and economic crisis. It constantly lacked public finances, and it was necessary to choose between development and consumption. Political instability and permanent elections (since autumn of 2004) inclined decision-makers in the favor of consumption. As a result, economic growth slowed down, and permanently increasing consumer demand inflated prices. The influence of economic crisis, sharp reduction of GDP, large-scale structural unemployment are main problems of sustainable economic development in Ukraine.

The development of educational system in Ukraine is characterized by the worsening of the educational services' quality, insufficient adaptation to the labour market demands, small-scaled and ineffective vocational training programs, low readiness to the innovative economy needs, the decrease of educational system competitiveness, the weakness of institutional reforms in the educational sphere.

The disproportion between the educational system and labour market became deeper because of the deformation of occupational structure of the labour market, that preserves a great number of ineffective jobs.

Employment trends in Ukraine portray the absence of structural reforms in economy. Despite of the employment growth, the quality of jobs is worsening; employment profile is characterized by large share of agriculture and by a significant skill mismatch on the labour market.

Today, social policy is oriented mainly towards pensioners. Macro-economic and demographic tendencies prove the future need for increased social transfers, whereas the financial potential is projected to grow slightly. Therefore, the deficit of resources both human and material would be felt more profoundly.

Actually, regional disproportions depend mainly on the degree of economic development of territories. The degradation of rural area is going on as a consequence of the exhausted of infrastructure and deficiency of jobs.

Impact of the crisis. The macroeconomic situation in the second half of 2008 and in a current year was characterized by downward trend driven by external financial instability and negative economic processes inside the country. The significant fluctuation of exchange rate, accumulation of foreign debt, low level of domestic banks' capitalization became most serious macroeconomic shocks. As a result, scope of budgetary financing decreased.

The recession stipulated by a sharp reduction in production and financial crisis can lead to the significant decrease of employment in mining and quarrying, manufacturing and finance. Negative tendencies of wage formation lead to the decrease of real wage, significant wage arrears and further worsening of living standards of the whole population rather than vulnerable groups alone.

Crisis significantly influenced childbearing preferences of population in reproductive age. Because of financial instability people desire to limit size of their families.

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Main links:

- Cabinet of Ministers of Ukraine <http://www.kmu.gov.ua>
- <http://rada-edu.rehab.org.ua/ukrainian>
- Institute for Demography and Social Studies of NAS of Ukraine <http://www.idss.org.ua>
- Institute of Sociology of NAS of Ukraine <http://www.i-soc.com.ua>
- Ministry of Educational and Science of Ukraine <http://www.mon.gov.ua>
- Ministry of Labour and Social Policy of Ukraine <http://www.mlsp.gov.ua>
- State Statistics Committee of Ukraine <http://www.ukrstat.gov.ua>
- State Committee on Nationalities and Religions of Ukraine <http://www.scnm.gov.ua>
- Verkhovna Rada of Ukraine <http://portal.rada.gov.ua>

Tables

Table 1.1: Ukrainian gross domestic product (current prices by average exchange rate)

	EUR Millions	Per capita, EUR	Exchange rate of the hryvnia (until 1996 Ukrainian karbovanets) against 100 Euro (before 1999 ECU)
1992	18,850.19	363.30	26,700
1993	28,135.29	539.28	527,000
1994	31,277.29	602.39	3,848,700
1995	28,277.62	548.75	19,279,000
1996	35,108.75	687.63	232.19
1997	44,188.08	873.38	211.29
1998	37,069.30	739.25	439.33
1999	29,691.12	597.72	502.89
2000	33,818.53	687.70	481.36
2001	42,419.40	871.21	503.01
2002	44,891.75	930.78	602.44
2003	44,376.87	928.13	660.94
2004	52,215.48	1,100.39	638.99
2005	69,085.90	1,466.63	633.69
2006	85,870.54	1,835.32	691.79
2007	104,183.49	2,240.05	770.80
2008	123,230.93	2,663.98	1,029.04

Source: estimation by the data of the State Statistic Committee of Ukraine and the National Bank of Ukraine

Table 1.2: Consolidated budget, % of GDP

	Revenues	Expenditures	Deficit (-) / Surplus (+)
1992	24.4	38.1	-13.7
1993	33.5	38.6	-5.1
1994	43.5	52.4	-8.9
1995	38.0	44.6	-6.6
1996	37.0	41.9	-4.9
1997	30.1	36.7	-6.6
1998	28.2	30.4	-2.2
1999	25.2	26.7	-1.5
2000	28.9	28.3	0.6
2001	26.9	27.2	-0.3
2002	27.4	26.7	0.7
2003	28.2	28.4	-0.2
2004	26.5	29.7	-3.2
2005	30.4	32.2	-1.8
2006	31.6	32.3	-0.7
2007	30.5	31.6	-1.1

Source: Treasury of Ukraine

Table 1.3: Structure of revenues of consolidated budget, %

	1992	1994	1996	1998	2000	2002	2004	2005	2006	2007
Total revenues	100	100	100	100	100	100	100	100	100	100
Tax revenues:	81.3	n.a.	n.a.	75.6	63.8	73.3	69.0	73.1	73.2	73.3
profit tax	22.7	27.3	18.2	19.7	15.7	15.2	17.7	17.5	15.2	15.6
income tax	12.2	6.5	8.6	12.3	13.0	17.5	14.4	12.9	13.3	15.8
value added tax	39.6	24.8	20.7	25.8	19.2	21.7	18.3	25.2	29.3	27.0
excise tax	4.9	3.2	2.1	4.5	4.6	6.6	7.3	6.6	5.8	5.3
Non-tax revenues	n.a.	n.a.	n.a.	9.0	25.8	23.7	26.8	23.7	23.6	22.1

Source: State Statistic Committee of Ukraine, Ministry of Finance of Ukraine

Table 1.4: Expenditures of the consolidated budget by functions, %

	1992	1994	1996	1998	2000	2002	2004	2005	2006	2007
Total	100	100	100	100	100	100	100	100	100	100
State functions	3.4	4.7	6.7	4.2	7.0	14.2	12.0	10.9	11.3	10.7
Defence	5.7	3.7	3.6	4.5	4.8	5.9	6.0	4.2	3.6	4.2
Public order, security and judicial authority	n.a.	n.a.	n.a.	5.0	5.8	8.4	7.7	7.2	7.3	8.1
Economic activity	37.2	33.2	10.1	18.2	12.8	9.4	14.0	13.6	15.6	18.4
Environmental protection	n.a.	n.a.	n.a.	n.a.	n.a.	1.1	1.2	0.9	0.9	0.9
Housing services	n.a.	n.a.	n.a.	4.5	2.3	2.3	2.6	2.8	4.6	2.6
Health care	9.8	9.1	9.2	11.6	10.2	12.5	11.9	10.9	11.2	11.7
Intellectual and physical development	2.0	1.8	1.9	2.2	2.3	2.4	2.6	2.4	2.5	2.5
Education	14.6	11.1	13.2	14.6	14.7	20.3	17.9	18.9	19.3	19.5
Social protection and social services	18.7	11.2	12.0	13.6	12.4	21.0	18.8	28.2	23.7	21.4

Source: State Statistic Committee of Ukraine, Ministry of Finance of Ukraine

Table1.5: Employment rates by gender (employed in % of population aged 15-64)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total	58.6	59.0	53.5	59.1	59.7	60.4	61.5	62.1	62.9	63.4
Female	54.9	55.1	55.0	55.7	56.5	56.9	57.3	57.5	58.3	58.5
Male	62.9	63.3	62.5	62.9	63.2	64.1	66.1	67.1	67.9	68.6

Source: State Statistic Committee of Ukraine

Table 1.6: Activity rates (labour force in % of population aged 15-64)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total	66.4	67.0	65.9	65.5	65.8	66,2	66.4	66.8	67.3	67.8
Female	62.0	62.6	61.8	61.6	62.0	62.2	61.7	61.7	62.2	62.4
Male	71.4	71.8	70.4	69.8	69.9	70,5	71.6	72.2	72.9	73.2

Source: State Statistic Committee of Ukraine

Table 1.7: Employment by economic activities (% of total employment of population aged 15-64)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total	100	100	100	100	100	100	100	100	100
Agriculture, hunting and forestry, fishing	20.8	20.1	19.8	19.6	18.7	17.8	15.9	14.9	14.2
Manufacturing	23.0	22.1	21.2	20.6	20.3	20.1	19.9	19.3	18.8
Construction	4.5	4.4	4.2	4.2	4.5	4.7	4.9	5.0	5.1
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	15.7	17.4	18.5	18.9	20.0	20.8	21.8	22.4	23.2
Transport, storage and communication	6.8	6.7	6.8	6.8	6.9	6.9	7.1	7.1	7.1
Financial intermediation	0.8	0.9	0.9	1.0	1.1	1.2	1.4	1.7	1.9
Real estate, renting and business activities	4.1	4.2	4.3	4.6	4.5	4.7	5.1	5.5	5.6
Public administration	6.0	5.9	6.0	5.9	5.3	5.1	5.1	5.1	5.2
Education	8.0	8.1	8.1	8.1	8.1	8.1	8.2	8.2	8.2
Health and social work	6.9	6.8	6.8	6.8	6.7	6.6	6.6	6.6	6.6
Other community, social and personal service activities	3.3	3.4	3.4	3.5	3.9	4.0	4.0	4.1	4.1

Source: State Statistic Committee of Ukraine

Note: since 2000 the State Statistics Committee of Ukraine had used ISIC – Rev.4 / NACE – Rev.2 Classification

Table 1.8: Employment by level of education (% of total employment of population aged 15-64)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total	100	100	100	100	100	100	100	100	100
Pre-primary, primary, lower secondary (ISCED 0, 1, 2)	10.4	8.6	7.8	6.8	10.9	10.7	9.3	8.7	8.1
Upper secondary, post-secondary non-tertiary (ISCED 3, 4)	48.6	48.6	49.1	49.1	41.9	42.9	43.0	43.7	45.2
Tertiary (ISCED 5A, 5B)	41.0	42.8	43.1	44.1	47.2	46.4	47.7	47.6	46.7

Source: State Statistic Committee of Ukraine

Note: since 2000 the State Statistics Committee of Ukraine has been using ISCED Classification

Table 1.9: Employment by occupation (% of total employment of population aged 15-64)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total	100	100	100	100	100	100	100	100	100	100
Legislators, senior officials and managers	7.2	7.3	7.5	7.3	7.1	7.1	7.2	7.4	7.7	7.7
Professionals	13.2	13.0	13.1	12.7	13.3	12.8	12.2	12.3	12.8	13.2
Technicians and associate professionals	15.6	15.1	14.7	13.8	13.8	12.7	12.5	12.3	11.7	11.8
Clerks	4.2	4.2	4.1	4.5	4.2	3.9	3.7	3.8	3.7	3.5
Service workers and shop and market sales workers	10.8	11.3	12.2	12.8	13.3	13.3	13.4	13.5	14.0	14.4
Skilled agricultural and fishery workers	3.3	3.1	2.6	2.4	2.2	1.9	1.8	1.5	1.3	1.1
Craft and related trade workers	13.3	13.3	13.2	13.5	13.5	12.6	12.5	12.3	12.8	13.8
Plant and machine operators and assemblers	16.0	15.7	15.0	14.9	14.4	13.5	13.4	13.1	12.9	12.9
Elementary occupations	16.4	17.0	17.6	18.1	18.2	22.2	23.3	25.3	23.1	21.6

Source: State Statistics Committee of Ukraine

Table 1.10: Unemployment by ILO-concept and by State Employment Office records

	ILO-Unemployment, thousand	Registered Unemployment, thousand	ILO-Unemployment rate (as % to labour force aged 15-70)	Registered Unemployment rate (as % of the working age population)
1992	n.a.	70.5	n.a.	0.3
1993	n.a.	83.9	n.a.	0.3
1994	n.a.	82.2	n.a.	0.3
1995	1,437.0	126.9	5.6	0.4
1996	1,997.5	351.1	7.6	1.3
1997	2,330.1	637.1	8.9	2.3
1998	2,937.1	1,003.2	11.3	3.7
1999	2,614.3	1,174.5	11.9	4.3
2000	2,655.8	1,155.2	11.6	4.1
2001	2,455.0	1,008.1	10.9	3.6
2002	2,140.7	1,034.2	9.6	3.7
2003	2,008.0	988.9	9.1	3.5
2004	1,906.7	981.8	8.6	3.5
2005	1,600.8	881.5	7.2	3.1
2006	1,515.0	759.5	6.8	2.7
2007	1,417.6	642.3	6.4	2.3
2008	1,425.1	844.9	6.4	3.0

Source: State Statistics Committee of Ukraine and State Employment Office

Table 1.11: Unemployment rates by age groups (by ILO-concept), %

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total	11.9	11.6	10.9	9.6	9.1	8.6	7.2	6.8	6.4	6.4
15-24	26.4	24.2	22.3	19.1	16.7	15.7	14.9	14.1	12.5	13.3
25-29	13.7	14.2	11.8	10.5	10.2	9.3	7.6	7.3	6.9	7.0
30-39	11.2	11.3	11.3	9.7	9.1	8.2	6.8	6.8	5.8	5.2
40-49	8.8	9.2	10.9	9.6	8.8	8.6	6.5	5.5	5.7	6.1
50-59	6.6	7.4	9.2	8.4	8.2	7.9	6.5	6.0	4.7	4.0
60-64	3.2	1.5	1.1	0.9	0.9	0.7	0.4	0.2	0.1	0.1

Source: State Statistics Committee of Ukraine

Table 1.12: Youth unemployment rates by gender and place of residence (% of labour force aged 15-24)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total	26.4	24.2	22.3	19.1	16.7	15.7	14.9	14.1	12.5	13.3
Female	26.2	25.3	22.5	19.2	17.1	15.4	14.4	15.3	12.5	13.6
Male	26.7	23.3	22.1	19.0	16.4	15.9	15.2	13.2	12.4	13.1
Urban	30.1	27.4	24.9	21.0	17.7	16.5	16.7	16.1	13.6	14.9
Rural	17.4	17.1	16.4	15.0	14.3	13.9	11.1	10.1	10.2	10.3

Source: State Statistics Committee of Ukraine

Table 1.13: Wage growth (% to previous year)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross wage	up by 13.6 times	up by 25.0 times	up by 8.8 times	up by 5.1 times	71.4	13.7	7.2	15.7	29.6	35.2	21.0	22.8	27.5	36.7	29.2	29.1	33.7
Real wage	n.a.	-40.1	-15.2	10.6	-3.4	-3.4	-3.8	-8.9	-0.9	19.3	18.2	15.2	23.8	20.3	18.3	12.5	6.3

Source: State Statistics Committee of Ukraine

Table 1.14: Educational institutions by levels

	1990	1995	2000	2005	2006	2007	2008
Pre-primary, thousand	24.5	21.4	16.3	15.1	15.1	15.3	15.4
Primary and secondary, thousand	21.8	22.3	22.2	21.6	21.4	21.2	21.0
Post-secondary non-tertiary	1,246	1,179	970	1,023	1,021	1,022	1,018
Tertiary	891	1,037	979	951	920	904	881

Source: State Statistics Committee of Ukraine

Table 1.15: Students by educational level of institutions

Educational level	ISCED code	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Pre-primary	0	983.0	968.0	973.5	976.8	996.5	1,031.7	1,080.9	1,137.5
Primary	1	2,065.3	2,047.1	1,960.5	1,850.7	1,945.7	1,753.7	1,647.8	1,573.5
Lower secondary	2	3,578.5	3,425.3	3,253.2	3,068.5	2,698.2	2,611.4	2,493.1	2,367.1
Upper secondary	3	1,545.1	1,557.6	1,570.9	1,377.5	1,344.6	1,284.8	1,215.6	1,131.5
Post-secondary non-tertiary	4	178.5	178.7	175.7	173.5	187.7	185.3	176.4	172.1
Tertiary	5A	1,402.9	1,548.0	1,686.9	1,843.8	2,026.7	2,203.8	2,318.6	2,372.5
	5B	528.0	561.3	582.9	592.9	548.5	505.3	468.0	441.3

Source: State Statistics Committee of Ukraine

Note: since 2000 the State Statistics Committee of Ukraine had used ISCED Classification

Table 1.16: Indices of gender parity among students by educational level of institutions
(females / males ratio by UNESCO methods)

	ISCED code	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Pre-primary	0	0.922	0.922	0.922	0.915	0.907	0.914	0.916	0.914
Primary	1	0.950	0.949	0.950	0.945	0.947	0.947	0.949	0.953
Lower secondary	2	0.956	0.953	0.950	0.952	0.865	0.954	0.953	0.957
Upper secondary	3	0.920	0.968	0.951	0.917	0.909	0.905	0.940	0.977
Post-secondary non-tertiary	4	1.193	1.188	1.141	1.092	1.004	0.946	0.927	0.900
Tertiary	5A	1.109	1.144	1.181	1.195	1.189	1.202	1.204	1.211
	5B	1.176	1.151	1.131	1.109	1.140	1.091	1.101	1.093

Source: State Statistics Committee of Ukraine

Note: since 2000 the State Statistics Committee of Ukraine had used ISCED Classification

Table 1.17: Enrolment of children of school age (on 01.09.2008)

	Total number of children aged 6–18	of them study for receiving of upper secondary education, %	of them:		
			in primary and secondary schools	in post-secondary non-tertiary schools	in higher schools
Urban and rural					
Total	4,913,750	98.9	89.4	4.3	5.2
of them children with disabilities	61,632	54.7	52.9	1.1	0.7
Urban					
Total	3,158,584	98.8	88.7	4.2	5.9
of them children with disabilities	37,771	57.7	55.4	1.4	0.9
Rural					
Total	1,755,166	99.1	90.6	4.3	4.2
of them children with disabilities	23,861	50.0	49.1	0.6	0.3

Source: State Statistics Committee of Ukraine.

Note: 42,653 persons do not study to receive secondary education; there is no information about 12,345 persons.

Table 1.18: Training and skills upgrading of regular staff-members in enterprises

	1996	2000	2001	2005	2006	2007	2008
Workers, trained for new occupations, thousand persons	369.1	294.5	306.9	317.0	302.6	310.6	290.1
as % of regular staff members	2.7	2.2	2.5	2.8	2.6	2.7	2.6
Workers, who passed skills upgrading, thousand persons	846.1	856.3	860.0	976.0	994.5	1,071.2	1,022.7
as % of regular staff members	6.2	6.5	6.9	8.5	8.6	9.2	9.0

Source: State Statistics Committee of Ukraine.

Table 1.19: Languages of teaching in primary and secondary schools,
at the beginning of 2008/09 academic year

	Total, persons	by institutions	
		public	private
Number of students	4,466,572	4,444,739	21,833
of them are taught in:			
Ukrainian	3,624,183	3,614,600	9,583
Russian	791,594	779,904	11,690
Romanian	21,671	21,671	-
Hungarian	16,768	16,407	361
Crimean Tatar	5,644	5,644	-
Polish	1,389	1,389	-
English	402	209	193
Slovak	79	79	-
Bulgarian	80	80	-
Moldavian	4,756	4,756	-
German	6	-	6

Source: State Statistics Committee of Ukraine.

Note: excluding pupils, who study in special schools (boarding schools), sanatorium schools and special classes at secondary schools.

Table 1.20: Gross internal and international migration flows, thousand

	1999	2000	2002	2004	2005	2006	2007	2008
Migrations – total	1,580.3	1,627.5	1,553.8	1,586.4	1,521.9	1,517.5	1,499.7	1,406.7
Internal	1,403.9	1,473.5	1,435.1	1,501.6	1,447.3	1,443.3	1,423.6	1,346.9
International	176.4	154.0	118.7	84.7	74.6	74.2	76.2	59.7

Source: State Statistics Committee of Ukraine.

Note: since 1999 methodology of migration accounting has changed: statistical records of internal migration started to be based on arrival coupons only. As data about migration flows for the years up to 1999 is inconsistent, its comparison with data for 1999–2008 is inexpedient.

Table 1.21: Dynamics of arrivals and departures, thousand

	1999	2000	2002	2004	2005	2006	2007	2008
Arrivals	65.8	53.7	42.5	38.6	39.6	44.2	46.5	37.3
Departures	110.6	100.3	76.3	46.2	35.0	30.0	29.7	22.4
Net migration	-44.8	-46.6	-33.8	-7.6	4.6	14.2	16.8	14.9

Source: State Statistics Committee of Ukraine.

Note: since 1999 methodology of migration accounting has changed: statistical records of internal migration started to be based on arrival coupons only. As data about migration flows for the years up to 1999 is inconsistent, its comparison with data for 1999–2008 is inexpedient.

Table 1.22: Net migration, by gender and age groups, 2008, thousand

	Urban and rural		Urban		Rural	
	male	female	male	female	male	female
Total	10.1	4.8	7.9	3.1	2.2	1.7
0-14	0.4	0.3	0.2	0.2	0.2	1.3
15-24	2.3	1.0	1.9	0.7	0.3	0.3
25-29	0.5	-1.4	0.4	-0.1	0.1	0.0
30-39	1.8	0.5	1.5	0.3	0.3	0.2
40-49	1.9	0.7	1.4	0.4	0.5	0.3
50 and over	3.2	2.4	2.4	1.8	0.8	0.7

Source: State Statistics Committee of Ukraine.

Table 1.23: Main demographic indicators in 1990–2008

	Total population, thousand (as of 1 January)	Per 1,000 of population				
		Births	Deaths	Total increase/decrease	Natural increase/decrease	Net migration
1990	51,838.5	12.6	12.1	2.0	0.5	1.5
1991	51,944.4	12.1	12.9	2.1	-0.8	2.9
1992	52,056.6	11.4	13.3	3.6	-1.9	5.5
1993	52,244.1	10.7	14.2	-2.5	-3.5	1.0
1994	52,114.4	10.0	14.7	-7.4	-4.7	-2.7
1995	51,728.4	9.6	15.4	-8.3	-5.8	-2.5
1996	51,297.1	9.2	15.2	-9.3	-6.0	-3.3
1997	50,818.4	8.7	14.9	-8.8	-6.2	-2.7
1998	50,370.8	8.4	14.4	-9.0	-6.0	-3.0
1999	49,918.1	7.8	14.9	-9.9	-7.1	-2.8
2000	49,429.8	7.8	15.4	-10.3	-7.6	-2.7
2001	48,923.2	7.7	15.3	-10.7	-7.6	-3.1
2002	48,457.1	8.1	15.7	-8.3	-7.6	-0.7
2003	48,003.5	8.5	16.0	-8.0	-7.5	-0.5
2004	47,622.4	9.0	16.0	-7.2	-7.0	-0.2
2005	47,280.8	9.0	16.6	-7.5	-7.6	0.1
2006	46,929.5	9.8	16.2	-6.1	-6.4	0.3
2007	46,646.0	10.2	16.4	-5.8	-6.2	0.4
2008	46,372.7	11.0	16.3	-5.0	-5.3	0.3

Source: State Statistics Committee of Ukraine.

Note: Total population in 2002 – All-Ukraine population census data (of December 5, 2001).

Table 1.24: Population by age groups, at the beginning of the year, %

	Total	0-14	15-24	25-44	45-64	65 and more
1990	100	21.5	13.5	28.2	24.9	12.0
1995	100	20.5	14.0	28.7	23.2	13.6
2000	100	17.9	14.8	28.7	24.7	13.9
2005	100	14.8	15.8	28.6	24.8	15.9
2008	100	14.1	15.4	28.6	25.7	16.3

Source: State Statistics Committee of Ukraine.

Table 1.25: Current and projected old age dependency ratio, at the beginning of the year (per 1,000)

	People aged 60+ to the people aged 15-59	People aged 65+ to the people aged 15-64
1990	305	180
1995	302	206
2000	338	203
2004	329	224
2005	322	230
2007	311	236
2008	310	233
2015	339	217
2020	374	235
2025	407	260
2030	418	285
2035	441	293
2040	474	310
2050	603	377

Source: State Statistics Committee of Ukraine and Libanova (2006)

Table 1.26: Crude birth rate, crude death rate and natural increase of population, 1990–2008, per 1,000

	Urban			Rural		
	Births	Deaths	Natural increase/ decrease	Births	Deaths	Natural increase/ decrease
1990	12.7	10.2	2.5	12.7	16.1	-3.4
1991	11.9	10.8	1.1	12.6	17.2	-4.6
1992	11.0	11.4	-0.4	12.5	17.6	-5.1
1993	10.1	12.2	-2.1	12.0	18.5	-6.5
1994	9.3	12.8	-3.5	11.6	18.8	-7.2
1995	8.8	13.6	-4.8	11.1	19.1	-8.0
1996	8.4	13.3	-4.9	10.7	19.2	-8.5
1997	8.0	13.0	-5.0	10.2	18.9	-8.7
1998	7.6	12.6	-5.0	9.9	18.1	-8.2
1999	7.1	13.1	-6.0	9.3	18.5	-9.2
2000	7.2	13.8	-6.6	9.2	18.8	-9.6
2001	7.2	13.8	-6.6	8.7	18.6	-9.9
2002	7.7	14.0	-6.3	9.0	19.1	-10.1
2003	8.3	14.3	-6.0	9.1	19.6	-10.5
2004	8.9	14.4	-5.5	9.3	19.6	-10.3
2005	8.9	14.8	-5.9	9.4	20.5	-11.1
2006	9.6	14.5	-4.9	10.3	19.8	-9.5
2007	9.9	14.7	-4.8	10.7	20.1	-9.4
2008	10.8	14.7	-3.9	11.6	19.9	-8.3

Source: State Statistics Committee of Ukraine

Table 1.27: Crude birth and death rates of population by regions, per 1,000

	Crude birth rate of population					Crude death rate of population				
	1990	1995	2000	2005	2008	1990	1995	2000	2005	2008
Ukraine	12.6	9.6	7.8	9.0	11.0	12.1	15.4	15.4	16.6	16.3
AR of Crimea	13.0	8.6	7.3	9.0	11.9	10.5	14.4	13.9	15.7	15.6
<i>oblasts</i>										
Vinnitsya	12.4	10.6	8.4	8.9	10.8	14.5	17.3	16.9	18.1	17.1
Volyn	15.3	12.6	11.2	12.2	14.8	11.3	13.7	14.0	15.4	15.1
Dnipropetrovsk	12.3	8.6	7.1	8.7	11.0	11.8	15.8	16.3	17.7	17.6
Donetsk	10.9	7.4	6.1	7.7	9.8	12.1	17.1	17.0	18.0	18.1
Zhytomyr	12.9	11.0	8.9	9.6	11.3	13.2	15.9	16.4	18.6	18.3
Zakarpattya	16.8	13.5	11.5	12.6	14.7	9.3	11.7	11.1	13.2	13.0
Zaporizhzhya	12.4	8.6	7.1	8.5	10.4	11.9	15.4	15.8	16.5	16.5
Ivano-Frankivsk	15.5	12.6	10.2	10.8	12.3	10.4	11.8	12.1	13.5	13.3
Kyiv (excluded city of Kyiv)	12.3	9.6	7.3	9.3	11.7	13.0	16.5	16.2	18.3	17.9
Kirovohrad	12.6	10.0	7.9	8.3	10.2	14.5	17.7	18.0	18.8	18.6
Luhansk	11.6	7.8	6.1	7.4	9.5	12.2	16.8	17.6	18.3	18.0
Lviv	14.0	11.4	9.1	10.1	11.3	10.4	12.2	12.4	13.7	13.7
Mykolayiv	13.7	10.2	8.0	8.9	11.1	12.0	15.2	15.7	16.6	16.6
Odesa	12.6	9.6	8.0	9.9	12.0	12.4	15.7	15.1	16.6	15.8
Poltava	11.8	9.1	7.0	7.7	9.7	14.3	17.2	17.9	18.9	18.4
Rivne	15.8	13.8	11.8	12.5	14.8	10.6	12.8	13.1	14.2	14.1
Sumy	11.5	8.8	7.0	7.2	9.1	14.6	17.1	18.1	19.3	18.7
Ternopil	14.2	12.0	9.1	9.9	11.3	12.8	13.7	13.6	15.1	14.8
Kharkiv	11.4	8.0	6.7	7.9	9.8	12.8	16.5	16.4	16.5	16.2
Kherson	14.3	10.8	8.5	9.0	11.3	11.6	15.1	15.5	16.2	16.3
Khmelnyskiy	12.9	10.8	8.5	9.0	11.0	13.5	15.6	15.5	17.4	17.0
Cherkasy	12.3	9.6	7.5	7.7	9.5	14.4	17.1	17.4	18.6	17.9
Chernivtsi	14.8	12.4	10.0	10.9	12.2	11.0	12.7	12.5	14.1	13.4
Chernihiv	10.8	8.2	6.9	7.5	8.9	14.8	18.9	19.8	21.6	21.1
City of Kyiv	12.0	8.0	7.3	9.8	11.6	8.6	11.5	10.2	11.2	10.9
City of Sevastopol	12.5	7.3	7.0	9.6	11.0	9.3	14.2	13.3	15.4	15.7

Source: State Statistics Committee of Ukraine

Note: In 1990 data on AR of Crimea included city of Sevastopol

Table 1.28: Net of international migration of population by regions, per 1,000

	1990	1996	2000	2001	2002	2003	2004	2005	2006	2008
Ukraine	1.5	-3.3	-2.7	-3.1	-0.7	-0.5	-0.2	0.1	0.3	0.3
AR of Crimea	18.2	-8.3	-7.1	-2.6	0.2	-0.1	0.7	1.4	1.9	1.3
<i>oblasts</i>										
Vinnitsya	-3.8	-1.0	-2.6	-3.4	-1.1	-1.6	-1.4	-1.6	-1.2	0.4
Volyn	1.2	-0.5	-0.7	-1.0	-1.8	-2.2	-1.2	-1.0	-0.5	0.1
Dnipropetrovsk	1.9	-3.5	-4.5	-4.9	-0.1	-0.1	0.5	0.6	0.5	0.2
Donetsk	2.6	-4.1	-1.3	-1.7	-2.0	-1.0	-0.5	-0.3	-0.0	0.2
Zhytomyr	-17.3	-5.4	-4.0	-4.7	-1.7	-1.8	-2.3	-2.4	-1.8	0.1
Zakarpattia	-1.3	-5.3	-2.5	-2.9	-2.0	-2.0	-2.1	-1.9	-1.8	-0.3
Zaporizhzhya	3.3	-5.4	-2.3	-2.5	-0.8	-0.5	-0.4	-0.6	-0.4	0.3
Ivano-Frankivsk	2.9	-5.1	-5.1	-5.6	-0.6	-1.0	-0.8	-0.6	-0.7	0.2
Kyiv (excluded city of Kyiv)	0.2	-1.9	-0.8	-0.4	-0.5	0.9	0.2	0.5	0.8	0.3
Kirovohrad	5.7	-3.4	-5.1	-4.0	-3.8	-4.3	-5.0	-5.1	-4.5	0
Luhansk	2.1	-6.4	-3.4	-7.6	-3.3	-3.2	-2.6	-1.9	-1.9	-0.2
Lviv	0.2	-4.9	-6.2	-6.8	-1.3	-1.1	-1.0	-0.7	-0.5	0
Mykolayiv	2.9	-3.7	-4.1	-4.7	-1.5	-1.3	-1.5	-0.4	-0.2	0.4
Odesa	-1.3	-1.5	-1.6	-2.2	-0.1	-0.4	0.5	1.1	3.0	1.6
Poltava	2.4	-0.6	-1.9	-3.7	-0.5	-0.6	-0.5	0.0	0.1	0
Rivne	-2.2	-2.9	-2.4	-4.0	-1.4	-1.9	-1.9	-2.0	-1.5	-0.2
Sumy	2.3	-0.7	-3.3	-4.0	-2.7	-3.0	-2.7	-2.2	-2.1	0.1
Ternopil	1.6	-0.2	-1.6	-2.1	-1.0	-1.1	-1.8	-1.5	-1.7	0
Kharkiv	0.9	-2.8	0.0	0.0	0.9	1.4	2.0	1.8	1.6	0.6
Kherson	5.3	-6.9	-6.3	-6.3	-3.1	-3.3	-3.8	-3.1	-2.7	0
Khmelnyskiy	-0.7	-2.1	-2.5	-3.3	-2.3	-1.8	-2.0	-2.2	-1.5	0.1
Cherkasy	1.6	-3.2	-3.6	-2.5	-0.2	-0.3	-0.8	-0.7	-0.7	0.2
Chernivtsi	-3.7	-2.0	-2.3	-3.8	-0.2	-0.5	-0.9	-0.4	0.2	0.3
Chernihiv	-0.9	-3.1	-0.9	-2.0	-1.7	-1.9	-2.7	-2.3	-1.2	0
City of Kyiv	3.8	0.0	2.1	2.0	6.8	8.4	11.2	11.4	9.9	0.7
City of Sevastopol	9.7	-7.7	-4.4	-3.9	3.7	5.0	5.5	7.0	5.4	1.8

Source: State Statistics Committee of Ukraine

Note: In 1990 data on AR of Crimea included city of Sevastopol

Table 1.29: Net of external and internal migration of population by regions in 2007

	persons		per 100,000	
	external	internal	external	internal
AR of Crimea	2,421	1,103	122.6	55.9
<i>oblasts</i>				
Vinnytsya	506	-2,039	30.1	-121.4
Volyn	-337	226	-32.5	21.8
Dnipropetrovsk	115	718	3.4	21.1
Donetsk	902	-992	19.8	-21.8
Zhytomyr	-39	-1,705	-3.0	-130.0
Zakarpattia	-493	-1,072	-39.7	-86.2
Zaporizhzhya	243	-1,124	13.2	-61.1
Ivano-Frankivsk	-87	-114	-6.3	-8.2
Kyiv (excluded city of Kyiv)	521	-1,245	29.9	-71.4
Kirovohrad	1	-4,201	0.1	-401.5
Luhansk	-1,503	-3,333	-63.5	-140.7
Lviv	-201	-996	-7.8	-38.8
Mykolayiv	245	-886	20.3	-73.4
Odesa	10,981	356	458.5	14.9
Poltava	70	-639	4.6	-41.7
Rivne	-584	-1,387	-50.6	-120.3
Sumy	-106	-2,216	-8.8	-184.0
Ternopil	-198	-1,506	-18.0	-136.7
Kharkiv	1,311	2,720	46.8	97.0
Kherson	-6	-2,990	-0.5	-268.8
Khmelnyskiy	123	-1,820	9.1	-134.2
Cherkasy	206	-493	15.6	-37.3
Chernivtsi	99	513	10.9	56.7
Chernihiv	-63	-1,062	-5.5	-92.8
City of Kyiv	2,170	22,633	79.5	829.3
City of Sevastopol	541	1,551	142.6	408.9

Source: State Statistics Committee of Ukraine

Table 1.30: Enrolment rate for pre-primary schools by regions
(as % of children aged 1–6 years without pupils in primary schools)

	Total			Urban			Rural		
	1990	2000	2008	1990	2000	2008	1990	2000	2008
Ukraine	57	40	57	64	52	69	43	18	33
AR of Crimea	68	37	54	68	54	70	67	14	31
<i>oblasts</i>									
Vinnitsya	58	38	57	64	53	76	48	23	38
Volyn	44	24	47	67	41	67	26	8	29
Dnipropetrovsk	65	48	63	67	54	69	52	21	34
Donetsk	63	53	67	64	55	70	56	35	41
Zhytomyr	52	35	54	65	54	75	33	10	26
Zakarpattia	43	25	44	57	44	61	33	14	34
Zaporizhzhya	66	49	63	69	61	74	56	16	30
Ivano-Frankivsk	31	20	34	52	38	60	14	6	16
Kyiv (excluded city of Kyiv)	57	48	66	64	59	76	46	30	49
Kirovohrad	68	39	58	72	54	74	60	19	34
Luhansk	59	39	54	59	44	59	45	12	23
Lviv	35	23	41	49	35	59	15	7	15
Mykolayiv	66	43	60	69	54	69	61	24	43
Odesa	60	37	56	63	48	67	56	22	40
Poltava	61	45	61	68	60	78	50	24	35
Rivne	40	23	42	57	44	71	22	6	21
Sumy	66	49	67	71	57	78	54	33	45
Ternopil	43	29	46	56	44	68	31	16	29
Kharkiv	62	46	58	65	51	66	48	25	28
Kherson	70	40	60	72	52	71	67	25	45
Khmelnyskiy	57	43	63	67	54	76	41	30	46
Cherkasy	68	49	70	70	62	83	63	32	54
Chernivtsi	43	26	52	60	54	78	31	10	37
Chernihiv	57	39	56	66	54	74	39	12	23
City of Kyiv	60	63	66	60	63	66	-	-	-
City of Sevastopol	n.a.	63	69	n.a.	63	71	n.a.	62	47

Source: State Statistics Committee of Ukraine

Note: In 1990 data on AR of Crimea included city of Sevastopol

Table 1.31: Pupil/teacher ratio in primary and secondary schools by regions, on 01.09.2008

	Total	Urban	Rural
Ukraine	8.7	10.5	6.6
AR of Crimea	9.5	10.5	8.0
<i>oblasts</i>			
Vinnitsya	7.8	10.5	6.1
Volyn	7.7	10.0	6.3
Dnipropetrovsk	10.9	12.0	7.5
Donetsk	10.2	10.9	6.5
Zhytomyr	7.9	10.6	5.9
Zakarpattia	8.8	10.2	8.2
Zaporizhzhya	9.2	10.4	6.8
Ivano-Frankivsk	7.7	9.3	6.7
Kyiv (excluded city of Kyiv)	8.8	11.2	6.5
Kirovohrad	8.1	10.2	6.1
Luhansk	9.7	10.5	6.5
Lviv	7.8	9.4	6.1
Mykolayiv	9.5	11.7	7.1
Odesa	9.4	10.9	7.7
Poltava	8.3	10.8	5.9
Rivne	8.1	9.2	7.4
Sumy	7.9	10.6	5.1
Ternopil	6.9	8.9	5.7
Kharkiv	9.3	11.0	5.9
Kherson	9.0	10.3	7.5
Khmelnyskiy	7.4	9.9	5.5
Cherkasy	7.8	10.2	6.0
Chernivtsi	8.7	10.0	8.1
Chernihiv	7.4	9.9	4.9
City of Kyiv	10.5	10.5	-
City of Sevastopol	9.7	9.7	8.7

Source: State Statistics Committee of Ukraine

2. SOCIAL PROTECTION SYSTEM

2.1. OVERVIEW OF THE SOCIAL PROTECTION SYSTEM

In the Soviet social protection system, the State was an exclusive provider and the largest financier. The State Social Protection System provided benefits and services for old people, disabled, and families with children. This System was built on the principle of “non-contributory insurance”. Necessary financial resources were received from payments of enterprises and transfers from the State Budget. System of social insurance was managed by trade-unions. Thus, trade-unions performed some governmental functions. Budget of social insurance was included into the state budget of the USSR. As a result, social insurance lost insurable character; it was transformed into the social protection, and became the instrument for distribution of state resources on social needs.

By means of social expenditure funds¹ population was provided with free-of-charge education, social assistance, pensions, health care, maintenance of children in preschools and privileges. In 1980-1990 this expenditures made up 11% of GDP (Narodne gospodarstvo, 1991). Main types of social assistances that were paid in the Soviet period include maternity leave (112 calendar days), assistance for a childbirth, mean-tested child allowance, benefit on children for single mothers and for mothers with many children. Families with three and more children were entitled to first-priority in receiving or improvement of housing. Children from such families were admitted to preschools in the first turn. Large families had privileges of income tax. Women with five or more children had privileges of early retirement. The assistance for temporary disability due to industrial accidents and occupational diseases was fixed at the level of 100% of salary. Sick-leaves were paid in amount of 100% of the worker salary for those who had a length of service more than 8 years. The state maintenance of preschools covered almost 80%. State subsidized production of many types of goods and services (especially baby-goods, housing and public utilities); a public system of free granting of housing was functioning. The phenomena of unemployment and poverty were disclaimed and corresponding social benefits were not provided.

At the end of 1980s initiate reforms resulted in actual liquidation of the centralized economy, and the centralized social protection system was broken. A severe economic situation of the most industrial enterprises resulted in the destruction of the department social protection system. Public system of gratuitous housing ceased to exist.

Since the independence of Ukraine, the institutional base of the social protection has been formed on the principles of social insurance. Financing of the Social Protection System has started to be based on compulsory social contributions. The role of employers and employees has become stronger, and State Social Funds have been separated from the State Budget.

Means-tested benefits have been introduced into the Social Protection System, eligibility and amount of the benefits depend on household's income. More detailed information about reforms of 1991-2008 is presented in chapter 2.6.

Current Social Protection System of Ukraine includes two components.

1) The Compulsory State Social Insurance (contributory scheme) is formed at the expense of insurance contributions of insured people (employees) and enterprises (employers). There are four types of the State Social Insurance in Ukraine:

Insurance against industrial accidents and occupational diseases provides compensation for health hazards; death grant; the first aid in case of an industrial accident; organization of treatment; rehabilitation of disabled people etc.

Unemployment insurance includes next types of cash benefits for insured persons: full unemployment benefits; vocational training allowance; redundancy compensation; funeral allowances in case of a death of unemployed. The Social Insurance Fund also provides benefits in kind: vocational training; services for unemployed and job-search assistance.

Insurance against temporal disability suggests assistance in case of temporal loss of ability to work (including care after a sick child); maternity and childbearing benefits; funeral allowances (except unemployed persons, pensioners and persons who died due to industrial accident, recreational activities (payment for sanatorium and rehabilitation treatment).

Pension insurance (see chapter 4).

¹ Social expenditure funds – a portion of consumption fund of national income that were used to satisfy needs of members of socialist society over the payment of labour fund.

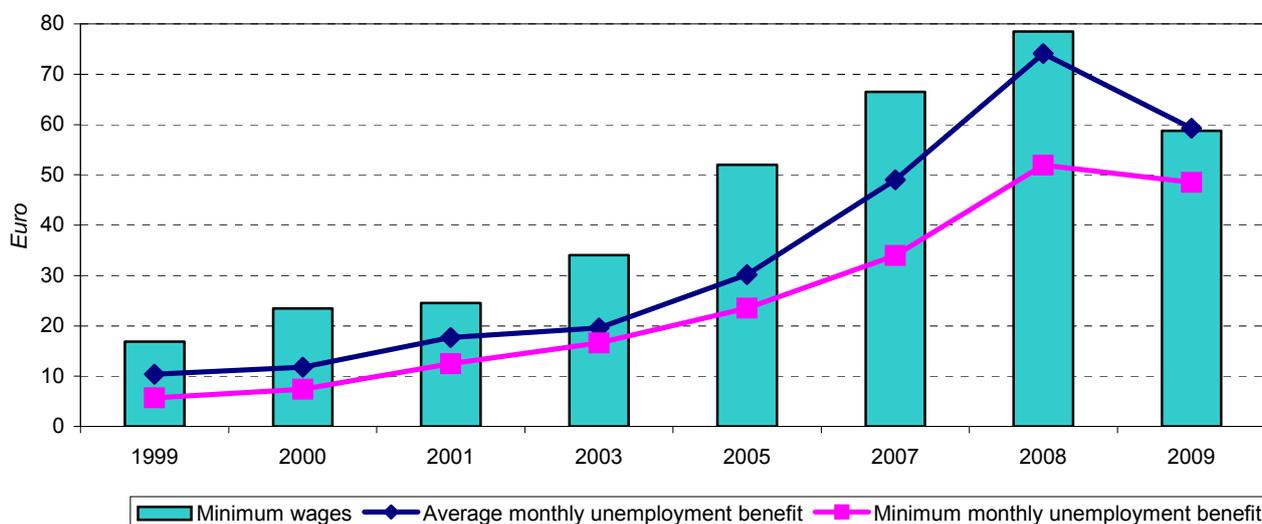
Several different drafts of the Law on the implementation of the compulsory medical insurance had been submitted to the Parliament of Ukraine since 2002. According to the comments of the Committees of Parliament, Chief Scientific-Expert Commission and independent experts - which prevent an implementation of the law - basic remarks can be emphasized: 1) conditions of the draft version are not coordinated with the requirements of the Constitution of Ukraine regarding free-of-charge medical services in the state and municipal medical institutions (according to the Constitution, population is not supposed to pay any contributions to receive medical assistance); 2) implementation of the additional type of compulsory insurance will raise tax burden; 3) most of the drafts offered could not solve the problem of estimating the amount of medical services within medical insurance (see also 5.6).

Unemployment benefits. A size of unemployment benefit depends on unemployment causes, which force a person to register at the Public Employment Service.

A minimum size of unemployment benefit is legislatively provided for all unemployed, who are registered at the Public Employment Service. However, the Law ensures special guarantees and larger benefits for persons, who lost their jobs because of the reorganization of enterprise or change in a work schedule. Thus, workers, who were dismissed by the initiative of their employer due to organizational issues, including liquidation, reorganization or re-structuring of enterprise, as well as due to redundancy, are eligible to benefits. Benefits in the amount of 100% of their average wage are to be paid for 60 days; in the amount of 75% — for next 90 days; and in the amount of 50% – for next 210 days. These benefits can not be larger than the average monthly wage in the economy of the corresponding region (oblast) and not smaller that minimum statutory wage.

During the last 10 years, the number of registered unemployed declined from 1,174.5 thousand persons in 1999 to 906.1 thousand persons in 2008. At the same time, a share of unemployed who receive unemployment benefits rose from 52.8% to 72.5% of registered unemployed. During this period, a level of minimum unemployment benefit grew 9 times, while the average unemployment benefit – 7 times. However, a size of unemployment benefit is still small; it does not correspond to the European standards. The size of unemployment benefit started to exceed 50% of a minimum wage only in 2007. In 2008, it reached 66.1% of a minimum wage (see Figure 2.1).

Figure 2.1: Minimum wage and unemployment benefits, Euro



Source: State Statistics Committee of Ukraine

Because of the global crisis, rates of 2009 largely differ from those in preceding years. After a gradual decline of unemployment before 2008, the number of dismissals has increased at the end of 2008. It was still increasing in 2009. The number of individuals applying for unemployment benefits increased as well. However, due to imperfect legislation and employers' aspiration not to pay redundancy compensations, these dismissals were officially documented as voluntary ones. It led to decrease in a gap between minimum and average benefit from 32% in 2008 up to 18% in 2009. Though the size of unemployment benefit in the national currency has increased, its equivalent in Euro dropped due to devaluation of the national currency. In addition, regarding a high inflation, it can be argued that the real size of a benefit has declined.

2) Family and social benefits and services (non-contributory scheme) are funded from the State Budget; they are formed at the expense of tax revenues. Social assistance in cash includes family/children allowance (birth grant, parental leave benefit, benefit for children under 3 years, benefit for children of a lone parent families), income support, assistance to handicapped from birth individuals, and benefit for families with handicapped children.

The Social assistance in kind includes such benefits as:

discount on payments for housing services, telephone use, medicine purchase, transportation (for war veterans, veterans of labour, for the victims of the Chernobyl disaster, for certain type of professions) etc.;

housing subsidies (pecuniary compensation) in case if family's income is too small to pay for housing services and gas;

social services in provision of domestic, medical and other services at home or at residential institutions (for disabled persons and single elderly).

In the structure of public expenditures on social benefits (including expenditures of the Consolidated Budget and Social Insurance Funds) the largest share is formed by expenditures on pensions and allowance for elderly (69.4% of total), considerable part is generated by expenditures on sickness (health care) (15.9%); shares of other expenses were not substantial (from 2% to 5%) (see Table 2.1).

Table 2.1: Social benefits by functions, 2007

	As % of total expenditure on social benefits	As % of GDP
Old age and survivors	69.4	18.2
Sickness / Health care	15.9	4.2
Disability	3.6	0.9
Family / children	5.2	1.4
Unemployment	2.0	0.5
Housing and social exclusion	4.0	1.0

Source: State Statistics Committee of Ukraine

Note: Old age and survivors includes pensions, privileges and social assistance for pensioners and veterans of war and labour

The share of pensions forms a significant part of total incomes of households. According to the HHS, during 1999-2007 it increased from 15.2% to 21.4%. The share of social assistance decreased from 6.3% to 3.5%. Among all types of social assistance only the share of child allowances rose from 0.25% to 1.28%, with a significant increase in 2005 due to the sharp increase in a birth grant size.

Analyzing total expenditures on social protection during 1996-2007, one can see that they were steadily increasing by 1.1-1.6% annually converting to prices of 1996; the same tendency is attributable to social expenditures per capita. At the same time population gradually decreased - the absolute reduction for this period amounted to 4 million persons.

According to the HHS, in 2007 58% of all households were covered by the programs of non-contributory social protection (i.e. received at least one type of benefits or privilege, other than pensions or unemployment benefits). The level of coverage by the programs of social protection was the highest among families with children under 3 years (98%). The share of social benefits was 14.7% of the total income of corresponding families. Although an extensive coverage by the programs of social protection is observed among households consisting exclusively of persons of the retirement age (86%), the share of social assistance compounded only 3.8% of their total income. The rate of coverage by the programs of social protection of 30% of the poorest households was 56.4% - that is less than among all households; the share of social benefits in total income of the poorest households was equal to 5.2% (see Table 2.2).

These components of Social Protection System are regulated by appropriate laws, which imply equal regulation of social protection throughout the country. The Ministry of Labour and Social Policy of Ukraine is a General Manager and a service provider of social benefits listed in paragraphs 2.2-2.4. Financing of these benefits is proceeded by transferring subventions from the Central Budget to Local Budgets. In spite of the fact that Local Budgets have an authority for financing social benefits, there is a centralized regulation of revenues on these purposes. In fact, local authorities deprive their financial self-sufficiency.

Table 2.2: Coverage by the programs of social protection (except pensions) by the type of household, 2007

Types of households	The level of coverage by the programs of social protection (share of recipients receiving at least one type of benefit or privilege, %)	The share of social benefits in total income, %
30% poorest households (by total equivalent income)	56.4	5.2
Households with children under 3 years	98.0	14.7
Households, consisting exclusively of persons in retirement age	86.8	3.8
Total	58.0	3.6

Source: Institute for Demography and Social Studies of NAS of Ukraine (expert calculation on the basis of HHS)

Direct service providers of social benefits are territorial departments of social protection (regional, municipal (urban), rural).

Besides these types of social state assistance, social works are assured by Centres of Social Services for Families, Children and Youth that belong to the Ministry of Ukraine for Family, Youth and Sports. These Centres have following functions: social patronage of large families in difficult situation; social support of orphans and children without parental care; social assistance of HIV-infected pregnant women, children, youth and their families; socio-psychological rehabilitation of children and youth with functional constraints.

Part of financial resources is supplied by the State Budget, and another part - by public organizations.

General characteristics and qualifications of staff. In general, 1,271 thousand persons are employed in the health care and social assistance system. During 1999-2007 the share of employed in the health care and social assistance system rose from 7.7% to 11.1%. The share of staff with higher education remained constant (about 20%), although in the whole economy this indicator grew from 18.7% to 28.4% (the ratio to the average share in economy worsened). Comparing to the average level in economy, the level of coverage by training and skills improvement programs impaired and remains stable (9%). The wage level decreased from 73.6% to 64.5% of the average wage in economy.

There is a shortage of personnel in the Territorial Departments of Social Protection and Centres of Social Services for Families, Children and Youth, especially on the districts level and in rural areas. There is a problem of huge employee turnover on the basic level of social service provision. Many Centres are not staffed because of low salary of social workers and a large working load. In 2007 around 80 thousand persons, who had proper professional education were registered at the Public Employment Service. However, they did not agreed for a job in the social services sector because of the low salary offered.

In Zakarpattia Departments for Children are staffed on 55% of their regular staff (i.e. they have a shortage of staff to execute their functions), and Centres of Social Services for Families, Children and Youth – on 49.4%. In Ivano-Frankivsk oblast, Centres are staffed on 63%. Such situation results in high working load on specialists, in employee turnover, and it influences the efficiency of work.

Ministry of Labour and Social Policy of Ukraine pointed out the improper education of the personnel of Local Centres of Social Services for pensioners and single disabled individuals. Only 5.3% of directors of these Centres and only 2.2% of the heads of departments have diploma on specialty “social work”.

2.2. FINANCING OF SOCIAL PROTECTION

Financing of social protection comes from two channels:

1) Compulsory State Social Insurance Funds. Main sources of revenues to Funds are:

- contributions of insurers – employers and insured (see Table 2.3);
- transfers from the State Budget (for non-insurance payments and in case of Funds' deficit);
- financial penalties on enterprises and physical persons for the violation of the established order of payment of social contributions and for the use of the fund's sources;
- profits from deposits;
- charitable contributions of enterprises, establishments, organizations and physical persons.

2) General governmental contributions on social assistance, privileges and social services, which are funded from the State Budget.

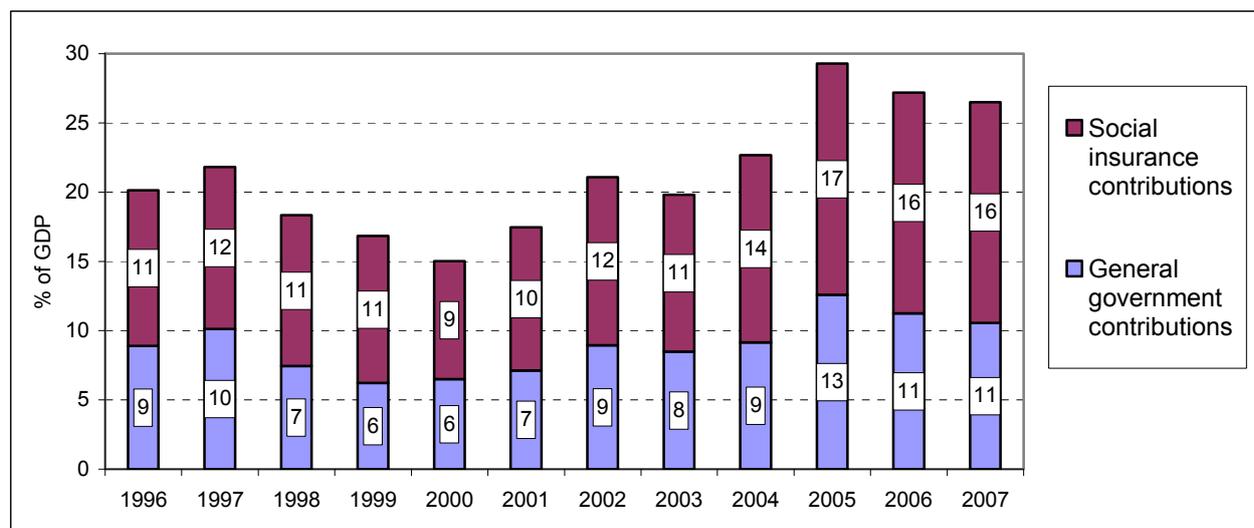
Table 2.3: Social insurance contribution rate in 2008, %

	Unemployment Social Insurance	Temporary Disability Social Insurance	Pension Insurance	Industrial Accidents and Occupational Diseases Social Insurance	Total
Employers	1.3	1.5	33.2	1.51	37.51
Employees	0.5	0.5 of wages to the subsistence minimum 1.0 of wages over of the subsistence minimum	2.0	–	1.5 of wages to the subsistence minimum 3.5 of wages over of the subsistence minimum
Total	1.8	2.0 of wages to the subsistence minimum 2.5 of wages over of the subsistence minimum	35.2	1.51	40.51 of wages to the subsistence minimum 41.01 of wages over of the subsistence minimum

Source: Ministry of Labour and Social Policy of Ukraine

During 1996-2000 the total expenditures on social protection fell from 21.8% to 15.0% of GDP (see Figure 2.2). In the period of economic growth, this ratio increased almost twice (in 2005 it was 29.3% of GDP, in 2006-2008 – about 27% of GDP). Current Ukrainian indicator corresponds with the average in EU-27, and is much higher than the ratio of some new EU Member States (for example, in Estonia, Latvia, Lithuania and Romania – 12-14%).

Figure 2.2: Financing of social protection by sources, % of GDP



Source: Ministry of Finance of Ukraine

Role of social insurance increased gradually in financing of social protection. The share of general governmental contributions reduced from 44.3% in 1996 to 40.0% in 2007.

Role of donors and NGOs in financing. Social services are mostly provided by public organizations, as well as by other types of social protection. According to researches of the Creative Center "Counterpart" (Creative Center "Counterpart", 2005), non-governmental sector covers at most 10% of the social protection (by expert estimations). It proves a poor development of civil society institutions in Ukraine.

In Ukraine non-governmental sector is involved in activities on social assistance to population. It consists of non-governmental organizations (NGOs) and charitable foundations. As on April 1, 2009, there were 60,479 NGOs, registered by statistics authorities, out of them 1,184 organizations were working in health protection and social assistance. There were 11,794 charitable foundations; out of them 9,582 were working in this field. However, according to expert estimates (Bystrytsky E., 2007; L. Palivoda, O. Kikot, 2006), the number of active

functioning NGO's (which have at least two years of experience, have two or more projects and are known in the region) is about 4 5 thousand.

The majority of NGOs in Ukraine have some typical problems related to the realization of their functions: 1) absence of a regular funding; 2) insufficient skills and qualification of their chiefs and personnel; 3) problems with training and skills upgrading; 4) low activity and weak population confidence in NGO's services; 5) scant openness of state officials and their unwillingness to cooperate with NGOs.

In Ukraine, only about 30% of NGOs dealing with social problems receive financial support from the state authorities. Ukrainian NGOs have unstable and unpromising structure of funding. These organizations mostly depend on private donations of local and foreign donors (73%). They also have a weak capacity to receive funding through selling their services (25%), and receive a small state support (2%) (O. Vinnikov, 2008).

The national legislative and legal base does not suggest the system of certification, state re-training and skills upgrading for NGO's workers. Social guarantees, which are provided to state employees, are not granted for employees of the same qualification working in NGOs. As a result, NGOs are not so attractive for the skilled social workers. By chain, due to insufficient professionalism of personnel of NGOs, population and the state do not have confidence in NGOs.

The Ukrainian Philanthropist Forum (Kiev) is an association of local and international donors whose mission is to promote a responsible and effective philanthropy for the development of Ukrainian society. During January – April of 2008, the Forum conducted a research with a purpose of analyzing a development of charity organizations in Ukraine. This research is deemed to be the most relevant and fully updated.

In Ukraine, charity institutions have the most significant monetary role among NGOs due to their built-in-mission abilities to accumulate and distribute finances. According to Ukrainian Philanthropist Forum assessment, there are several types of charity institutions in Ukraine, they are: charity organizations, operational, corporate, community, and private foundations.

The social services, health care, education, human rights, and the support of community initiatives are priority spheres of the activity of Ukrainian charity institutions. However, other strategic directions depend on the type of foundation. Important spheres of activity for community foundations are community development and support of community organizations, while private and corporate foundations devote a lot of attention to the development of culture and education.

Components of charity foundations activities are represented by a broad spectrum of operational programs. They are directed towards the resolution of existing problems in all of the above-mentioned spheres. Within the framework of these programs, most charity organizations provide informational, educational, psychological and juridical services. Other services include: everyday, medical, intermediary and employment services, etc. The fundamental and predominant activity for number of organizations is consulting. Philanthropic organizations also provide means-tested benefits to vulnerable individuals, elderly, orphans and children deprived of parental care, pupils of residential schools, drug addicts, alcoholics and their family members, HIV patients, large families, problem families, etc.

Grant programs are represented in the portfolio of one third of all charity institutions, in spite of the fact that this type of activity is not a priority for the most domestic foundations. However, the large majority of grants are provided to community organizations in individual cases. Recipients also can be private persons, central and local authorities. Similarly to operational programs, grant programs are generally implemented in the area of social security, healthcare, culture and support of community initiatives.

Regarding the amount of expenses for the charity activity of different types of foundations, the majority of operational foundations spend up to UAH 500,000 (EUR 53,000) on their charity activity annually. One third of them have an annual budget up to UAH 50,000 (EUR 5,360). The majority of corporate foundations spend between UAH 500,000 (EUR 53,000) and UAH 1 million (EUR 107,000) annually. Half of private foundations have capacity up to UAH 1 million, the rest – more than UAH 1 million (above EUR 107,000).

The Budget Code, which was adopted in 2001, fixed the level of transfers to Local Budgets at 100 percent of income tax. It was an important step toward the fiscal decentralization in Ukraine. However, main social benefits are still centralized. Financing of state social benefits (e.g. privileges for war and work veterans, family allowance, housing subsidies) is conducted using subventions (subvention is a specific transfer for the special purpose from the central to the local budgets) of the State Budget. Local Budgets are financing social service offices and local social programs.

The system of the state order of social services from the non-governmental organizations will be developed in the country under conditions of the state support of services provided. There are already some examples of financing social services from multiple sources: children's homes of family type are partially funded from out-of-budget sources as well as by in-kind and monetary aid to low-income families.

2.3. TYPES OF BENEFITS AND SERVICES

The system of the state social assistance is represented by different kinds of benefits, which are directed to support socially vulnerable and low-income population groups. There are two basic principles of assistance granting – categorical (based on belonging to certain population category without testing actual needs, i.e. eligibility) and means-tested one – based on documentary confirmed eligibility to participate in a certain program.

Social assistance has following forms:

- cash benefits (see Table 2.4);
- in-kind assistance;
- release/discount on housing bills, public transportation; purchase of pharmaceutical products, prosthetics;
- free social services (medical or everyday care at home or stationary residential institution).

Table 2.4: Types of monetary state social assistance

	Eligibility	Size
Categorical types		
Parental leave benefit	women on maternity leaves	100% of the average monthly income (stipend, social benefit, etc) of a mother, but no less than 25% of the subsistence minimum for able to work persons
Birth grant	in case of childbirth	UAH 12,240 (Euro 1,813.33) — for the 1 st child, UAH 25,000 (Euro 3,703.7) — for the 2 nd child, UAH 50,000 (Euro 7,407.4) — for the 3 rd and subsequent children
Child-raising allowance	one of parents (or foster parent, guardian, grandparent or other) for each child of 0-3 years	difference between the subsistence minimum for able to work persons and average monthly income of a family
Single parent allowance	single parent	difference between 50% of the subsistence minimum for children of the corresponding age and average monthly family's income per person for preceding 6 months, but no less than 30% of the subsistence minimum
Benefit for children under guardianship	guardians of children	difference between the subsistence minimum for children of the corresponding age and average monthly size of child's alimony and pension for preceding 6 months
Temporary aid for a child, whose parents avoid paying alimony	children, whose parents avoid paying alimony, have no possibility to support a child or their place of residence is unknown	30% of the subsistence minimum for children of the corresponding age
Allowance for handicapped children and handicapped from a birth	children aged 0-18 years with disability; non-employed individuals over 18 years, who are handicapped from a birth	depends on the subsistence minimum for persons, who have lost ability to work: handicapped from a birth of the I group – 100%; handicapped from a birth of the II group – 80%; handicapped from a birth of the III group – 60%; children aged 0-18 years with disability – 70%.
Combined approach		
Allowance for individuals, who are not eligible for pension, and for disabled persons	citizens of Ukraine, who reached the age of 63 (for men) and 58 (for women) or who are disabled and do not receive a pension, belong to low-income households	depends on the subsistence minimum for persons, who have lost ability to work: disabled of the I group, women with honorary title "Heroine Mother" – 100%; disabled of the II group – 80%; disabled of the III group – 60%; persons, who reached certain age (men – 63, women – 58) – 30%
Means-tested approach		
Allowance to families with low-income	families with total monthly income below the subsistence minimum for an important reason	difference between the subsistence minimum for a family and total monthly income of a family
Housing subsidies (discount on paying housing bills: communal services and fuel)	in case of payment for housing services is above 15%-20% of the total incomes	

Note: Honorary title of «Heroine Mother» is granted to mothers with many children (three and more).

Categorical types of assistance are granted without income testing, however, their size usually depends on the family's income and on the subsistence minimum that is established at the moment of assistance granting (see Table 2.5). These benefits are funded from the State Budget of Ukraine in the form of subventions to Local Budgets.

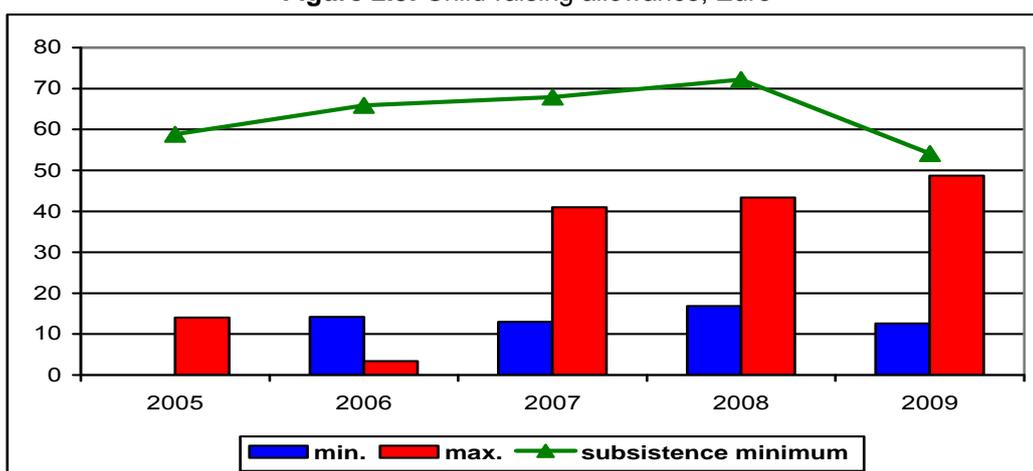
Table 2.5: Subsistence Minimum (on 1st of October, 2008, monthly, per person)

	UAH	Euro
Average	626	93
For the following socio-demographic groups:		
Children under 6	557	82
Children aged 6-18	701	104
Able to work persons	669	99
Persons, who have lost ability to work	498	74

Source: Law of Ukraine on the State Budget for 2008

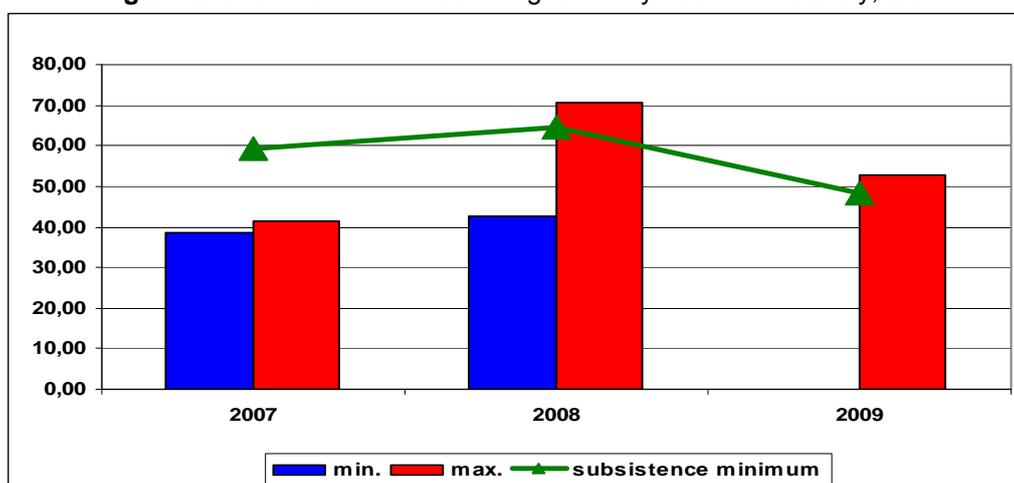
Child-raising allowance has been much smaller than the subsistence minimum for children of the corresponding age; in 2009 it has approached the subsistence minimum due to a large devaluation of UAH as compared with Euro. Allowance for children aged 0-18 years with disability was approximately equal to the subsistence minimum in 2009 (see Figure 2.3–2.4).

Figure 2.3: Child-raising allowance, Euro



Source: Ministry of Labour and Social Policy of Ukraine

Figure 2.4: Allowance for children aged 0-18 years with disability, Euro



Source: Ministry of Labour and Social Policy of Ukraine

In 2008 birth grants amounted to 62.4% of the total child allowance expenditure (according to the Ministry of Labour and Social Policy of Ukraine). According to the public opinion surveys, recipients consider this program as the most efficient tool of social protection of families with small children. However, poverty rate of household with children under 3 years (37.6%) remains significant higher of total (27.0%). Moreover, it cannot be argued that the current increase of fertility resulted exceptionally from the rise of birth grant, because fertility has been increasing from 2002 (see Subchapter 1.8).

The system of privileges, which was formed in the Soviet period, has a very complicated structure. The procedure of granting privileges is regulated by numerous legislative and normative acts, numbering over 40 documents. According to the current legislation, there are about 30 privileged categories and over 20 different types of privileges. Privileges became so wide-spread in a country that the ratio of privilege per household exceeds one. The most widespread privileges are privilege on urban and suburban transportation and privilege on paying for housing services.

Almost 30% of the population is eligible for privileged transportation (urban and suburban transports) and almost 13% of the population is eligible for privileged inter-city transportation. Almost 22% of the population is eligible for privilege on housing services (the whole family of a privileged person is eligible).

There were about 13 million persons eligible for social privileges that were registered in the database of the Ministry of Labour and Social Policy on the 1st of January 2008. The database has information about 3,022 thousand war veterans, 4,620 thousand labour veterans, 2,007 thousand victims of the Chornobyl disaster, 6,410 thousand "war children", etc.

There are some problems existing in the system of privileges:

- the excessive number of privileges;
- the absence of audit of granted privileged services;
- the absence of audit of contingents of privileged individuals.

The "Strategy of replacement of social privileges by means-tested monetary compensations to the population" was approved by the Decree of the Government on the 2nd of March 2002. However, the funding of the program was not provided by the Budgets of 2003 and 2004. In 2004 the Decree was recognized as invalid, and the process of replacement came to its end. According to the official version, the reason was a lack of funds for creating a list of eligible individuals. Presently, this list has been created, however future calculation of the compensation size is needed. The most important for realization of the Strategy is that the corresponding amount of funds has to be provided in the Budget.

The further realization of the Strategy is delayed because of a thread of mass protests. Some political parties (for instance, Communist Party) promised to organize demonstrations and protests against replacement of privileges. According to Aleksandr Golub from the communist party, "the State avoids all responsibilities for social programs. All government can propose instead is a compensation that with time will be devaluated by inflation, and socially vulnerable population groups will loose. We will make people to go to the streets and protest with all possible methods" (Newspaper "Segodnya").

Social services. The system of social services for pensioners and single disabled individuals is operating at the local level.

Territorial Centers provide such kind of activities as:

- the provision of food, consumer goods and pharmaceutical products etc. at the expense of recipients;
- the delivery of food, pharmaceutical products, consumer goods etc.;
- the provision of transport service, social patronage, call to a doctor etc.;
- the organization of consultations regarding physical and social health;
- the provision of medical and health-improving services and work therapy;
- the provision of cash and in-kind benefits;
- the provision of consultations on existing legislation.

In 2008, more than 46 types of social services were provided by 743 Territorial Centers of Social Services for retired and single disabled persons. Social services cover about 1 million of lone individuals who have lost their

ability to work, war and labour veterans, retired, disabled persons, and other categories of individuals in difficult situation (see Table 2.6).

Table 2.6: The number of institutions providing social services for vulnerable groups

	2004	2006	2008
Residential institutions	316	320	323
Territorial Centers of Social Services	747	743	743
of them stationary sections	281	315	334
Centers of social rehabilitation for handicapped children	201	212	213
Centers of professional rehabilitation for disabled persons	n.a.	n.a.	12
Institutions for homeless people and for released from imprisonment	0	64	103
of them non-governmental	0	31	47

Source: Ministry of Labour and Social Policy of Ukraine

There are 323 residential institutions in Ukraine, which include children's institutions, psychological neurological institutions, special institutions, residential institutions for elderly and disabled persons, boarding houses for war and labour veterans.

About 57 thousand persons live in stationary residential institutions; almost 20 thousand of them live in boarding houses of general profile; more than 7 thousand of them are disabled children and about 30 thousand - individuals with mental and physical disabilities (see also paragraph 5.6).

Absence of any kind of competition is among the faults of the current system of social services. The basic amount of services is provided by public organizations. A network of the alternative social services is not developed. It is a result of funding procedure of social services: the budgetary assets are planned and dedicated to the maintenance of large public institutions rather than to needs of recipients of social services. The share of non-governmental institutions (for homeless people and for exempted from the places of imprisonment) in the total number of social-service institutions for vulnerable groups is very small.

Contributory benefits. In 2007, the expenditure of the Pension Fund of Ukraine amount to 14% of GDP. The Temporary Disability Social Insurance Fund delivers sickness benefit (56% in the structure of the Fund), maternity benefit (16%), and finances recreation (21%). The main part of expenditure of the Unemployment Social Insurance Fund is the unemployment benefit (47%). The Industrial Accidents and Occupational Diseases Social Insurance Fund forwards around 84% of its expenditure to employees for compensating the damage caused by industrial accidents, which led to health injury or death (see Table 2.7).

Table 2.7: Expenditures of State Social Insurance Funds

	2001	2002	2003	2004	2005	2006	2007
Expenditures of State Social Insurance Funds, % GDP	10.3	12.1	11.3	13.5	16.7	15.9	15.7
Pension Fund, millions Euro	3,753.6	4,539.6	4,058.9	5,937.9	10,026.0	11,678.8	14,446.7
Unemployment State Social Insurance Fund, millions Euro	202.2	293.7	318.8	368.1	395.3	467.0	518.2
Temporary Disability Social Insurance Fund, millions Euro	312.4	407.9	435.9	507.8	794.3	1,165.0	759.6
Industrial Accidents and Occupational Diseases Social Insurance Fund, millions Euro	108.1	208.9	211.3	240.6	316.4	370.3	430.4

Source: Ministry of Labour and Social Policy of Ukraine

2.4. SOCIAL PROTECTION OF THE MOST DISADVANTAGED GROUPS

The most disadvantaged groups are those, who are considered to be social outsiders according to a number of parameters: income, access to social infrastructure, to adequate housing, to work, to right etc. These are disabled people, orphan children and children without parental care, homeless and exempted from places of imprisonment individuals. These people can't solve their vital problems without governmental or exterior help.

Persons with disabilities. In 2007, there were 2.53 million disabled persons in Ukraine; 170 thousand of them were children. On the 1st of January 2008 the state social assistance was paid to 238,311 persons in accordance with the Law of Ukraine „On the State Social Assistance to Disabled Children and Disabled since Childhood”.

In 2007, the Fund of Social Protection of disabled persons spent UAH 227.64 million (EUR 32.943 millions) on social, labour and occupational rehabilitation of disabled persons including creation of 2,895 jobs for disabled persons.

At the same time, according to the information of the Ministry of Labour and Social Policy, low competitiveness of disabled at the labour market is still an urgent problem. Most of available at the Public Employment Service vacancies for disabled offer minimum wages. Another serious problem is an absence of specialized or adapted jobs at enterprises. Usually disabled individuals desire to work at home, but there are almost no employers' proposals on use of home labour of disabled. In Ukraine disabled persons prefer to work at home because public infrastructure is poorly adjusted for their comfortable transportation (there are no stairs adjusted for wheel-chairs, as well as no special devices in public transport and buildings). In 2007 revisions of prosecutor department revealed mass violations of rights of disabled children. The requirement of the Law of Ukraine "On rehabilitation of disabled persons" is not executed because of a lack of coordinated activities of medical institutions, and authorities on labour and social protection. Individual programs of rehabilitation of disabled children are absented in the majority of revised institutions. A right of children on provision with technical and other rehabilitation means is not realized. That is why only 10% of disabled children are rehabilitated in fact.

Also, prosecutor revisions revealed absence of furniture, adequate nutrition, and tools for defect attack and physical development in boarding houses. Multiple violations of legislation on the state social assistance to disabled persons and pensions have been uncovered.

General Department of Public Prosecutions investigated and analyzed reasons of observed violations of legislation and rights of disabled children through inspection of the Ministry of Labour and Social Policy and the Fund of Social Protection of Disabled Persons. According to results, divisions of this department do not have real information on situation with social and pension provision of disabled persons.

Orphan children and children without parental care. In Ukraine the number of orphan children and children without parental care is about 103 thousand. During 2003-2007 their number increased by almost 7 thousand persons (from 96.1 to 102.9 thousand persons). The number of children who were taken away from their parents with depriving of parental rights increased from 7.0 to 11.9 thousand persons. The number of adopted orphan children and children without parental care fell from 7.7 to 5.2 thousand persons. During this period the protection of property rights of orphan children worsened. The number of children, regarding who cases of their property protection were tried, decreased 4 times. The share of sick children equaled to 63% of all residing in temporal founding home; every fifth of them had infectious and parasitogenic diseases (Children, women and family in Ukraine, 2008).

Most of orphan children are being educated in public stationary residential institutions and children's homes. A small number of such children (about 2,500) are being educated in children's homes of family type and foster families. It is necessary to note, that beginning from 2005 the state policy has been targeted on de-institutionalization of residential institutions. However, a share of non-governmental financing remains insignificant (see Table 2.8).

Table 2.8: Structure of financing sources of children's homes of family type and foster families in 2007, %

	Children's homes of family type	Foster families
State budget	88.2	98.2
Charitable contributions of enterprises and organizations	10.6	0.6
Humanitarian aid	1.2	1.1
Total	100	100

Source: State Statistics Committee of Ukraine

Lower educational level is observed in residential institutions comparing with other schools; therefore possibility of subsequent education in secondary- and high-educational institutions for such children is limited. In spite of privileges for orphan children for enrolment in public high-educational institutions, a large number of such children cannot study there because of low schooling level. Another problem is insufficient socialization of orphan children. They are not adapted to a life outside their home institutions. They have no skills of everyday duties: cooking, cleaning, washing etc. Such children are not capable of creating conditions for independent living by themselves.

Homeless individuals and released from prisons. On the 1st of January 2008, there were 79 institutions and organizations providing social services for homeless persons and released prisoners; out of them 34 were created by non-governmental organizations.

In 2007 about 14 thousand homeless individuals took medical examination and received the needed assistance.

Insufficient funding and lack of specialized personnel restrains re-integration of homeless persons and decelerates social adaptation of individuals released from prisons.

Decisions on creation of institutions for the above mentioned categories of population are made by local authorities, while financing of institutions is carried out by local budgets. At the same time, priorities to receive payments at the local level are still given to privileged population groups.

There are no regional departments, which would consider matters of homeless and exempted from places of imprisonment individuals.

During the public opinion poll conducted in 2006 in 15 regions of Ukraine, AR of Crimea and Kiev among 1,138 respondents such categories of homeless were detected: victims of illegal activity with accommodation, disasters and accidents; immigrants, orphans, disabled; individuals exempted from the places of imprisonment, and those, who lost housing for domestic reasons. The number of individuals desired to get back to a normal life was equal to 84.2% of polled.

In terms of education level of homeless persons, they have incomplete secondary, secondary and special education - mainly workers' specialties. About 43% of respondents did not have identification documents, which made impossible their registration at Public Employment Service, granting a pension, social assistance, etc. Among the polled 80.7% of homeless citizens did not receive social assistance.

The urgent problem is a poor health of homeless. The alcoholism, drug addiction, psychical disorders, tuberculosis, hepatitis, HIV/AIDS are widespread among people living on the street. Among the polled 60.0% use alcohol, only 50.0% of consumptive and 37.5% of hepatitis patients had a course of treatment.

2.5. INFLUENCE OF INTERNATIONAL ORGANIZATIONS/DONORS

International organizations/donors make significant contribution to improvement of social protection and social inclusion system in Ukraine.

The principal objective of cooperation between the EU and Ukraine is to develop an increasingly close relationship including gradual economic integration and deeper political cooperation. EC assistance aims at supporting Ukraine's ambitious reform agenda on the basis of the policy objectives defined in the Partnership and Cooperation Agreement (PCA) of April 1998 and the EU-Ukraine Action Plan of February 2005.

The EU and EU Member States are the largest donors, who provide support to the country in making reform visible. More than 250 projects are currently being carried out across a wide-range of sectors, regions and cities in Ukraine. Ukraine as a neighboring country benefits from the European Neighbourhood & Partnership Instrument (ENPI) since 2007. The comparative advantages of the ENPI instrument are in sector reform, legislative reform approximation, and institutional capacity building. Under this the EU partnership with Ukraine has graduated from mere technical assistance to more substantial sector and budget support with a focus on the reform that speed up the process of country integration to European standards in many spheres of life. The European Union policy on ENPI implementation was determined in the EC-Ukraine Country Strategy Paper (CSP) for 2007-2013, which was adopted by the Commission on 7th March 2007. The document provides a comprehensive overview of EC assistance and priorities encompassing all instruments and programmes. Based on this strategy the National Indicative Programme (NIP) for 2007-2010 (€494 million) has been developed and it is in the process of implementation now. The NIP for 2007-2010 focuses on three priority areas:

Priority area 1: support for democratic development and good governance including sub-priorities like public administration reform and public finance management, human rights, civil society development and local government, education, science and people-to-people contacts/exchanges are oriented toward SPSI.

Priority area 2: support for regulatory reform and administrative capacity building including sub-priority “promoting mutual trade, improving the investment climate and strengthening social reform” includes SPSI issues.

Priority Area 3: support for infrastructure development with one of sub-priority “border management and migration including re-admission related issues” which is connected with SPSI policy.

In March 2007 negotiations were launched on a new Association agreement to replace the Partnership and Cooperation Agreement. The annual EU-Ukraine Summit held on 9 September 2008 was an important step in this direction. The EU acknowledged Ukraine’s European aspirations and welcomed its European choice. The new Association Agreement once signed would renew the EU-Ukraine common institutional framework, facilitate the deepening of relations in all areas and strengthen political association and economic integration through reciprocal rights and obligations.

Taking into account that negotiations and ratification of the EU-Ukraine Association Agreement will take some more years before the full Agreement can enter into force, leaders of both sides agreed to develop an interim practical instrument Association Agenda to replace the EU-Ukraine Action Plan. Through this new instrument the European Union will support Ukraine in implementing the objectives and priorities also related to SPSI policy including:

Ensuring respect for the rights of persons belonging to minorities;

Ensuring Equal Treatment including:

- Exchange best practices to ensure the equality of men and women in social and economic life and promote the greater participation of women in public life and decision-making;
- Combat domestic violence by supporting the strengthening of the legislative framework and practices of the law enforcement agencies regarding domestic violence and through awareness raising and training;

Ensuring respect for Children’s Rights:

- In the context of the commitments under the Optional Protocol on the Sale of Children, Child Prostitution and Child Pornography² to strengthen cooperation on preventing the sale, trafficking and exploitation of children
- Developing juvenile justice standards in line with relevant international standards

Ensuring Respect for Trade Union Rights and Core Labour Standards:

- Further strengthen efforts, including through exchanges of best practices, to promote the full enjoyment of trade union rights and core labour standards based on International Labour Organization Conventions, and promote the effective use of collective bargaining.

It is envisaged that in social area the Parties cooperate in order to:

- Prepare for the implementation of the EC acquis in the areas of gender equality, anti-discrimination, health and safety at work, labour law and working conditions mentioned in relevant annexes of the Association Agreement, and in particular:
 - Strengthen administrative and enforcement capacities in the area of health and safety at work, notably the labour inspectorate;
 - Enhance practical measures in the area of gender equality with the aim of reducing the gender pay gap.
- Develop a strategic approach to employment in order to ensure:
 - a. Better matching skills and jobs on the Ukrainian labour market and its efficiency;
 - b. Strengthening capacity of administration in charge of employment policy;
 - c. Strengthening the efficiency of public employment services, possibly backed up by twinning exchanges with public employment services of EU Member States;
 - d. Promoting decent work and the transformation of the informal sector into formal work and implementing the decent work country programmes between the ILO and Ukraine;

² To the Convention on the Rights of the Child

- e. Promoting anti-discrimination and ensuring equal opportunities, in particular for people with disabilities, notably in the context of employment.
- Exchange best practices in improving the effectiveness of social protection, with a view to enhancing both its social adequacy and financial sustainability and to significantly reduce the number of poor and vulnerable people;
- Encourage both tripartite and bipartite social dialogue and the capacity building of social partners, including in the framework of TAIEX;
- Promote the conclusion of agreements between Ukraine and EU Member States on the coordination of social security for workers of Ukrainian nationality legally employed in EU Member States;
- Exchange of best practices as regards the provision of social services with a view to encouraging synergies between public and private partners in this sector in Ukraine.

In the area of public health the Parties will cooperate in:

- Implementing health sector reform;
- Strengthening administrative capacity in the field of public health;
- Preparing for the implementation of EC health acquis, especially those mentioned in the relevant annexes of the Association Agreement, including on tobacco, blood tissues and cells, communicable diseases;
- Preventing of non communicable diseases through health education and promotion of healthy lifestyle, and through actions addressing major health determinants and problems, such as mother and child health, mental health, addiction to alcohol, drugs and tobacco as well as through strengthening civil society involvement;
- Preventing and controlling of communicable diseases in particular HIV/AIDS, tuberculosis, sexually transmitted infections, and hepatitis C and B;
- Exchanging best practice in implementing the Framework Convention for Tobacco Control and the International Health Regulations;
- Participating in the EU public health related networks and working parties such as the annual network meeting on health information and the HIV/AIDS Think Tank;
- Developing gradually cooperation with the European Centre for Disease Prevention and Control.

Cooperation in the area of education, training and youth envisages the following:

- Carry out joint work and exchanges with a view to promoting Ukraine's further integration into the European Higher Education Area, in the context of its membership of the Bologna process;
- Work towards mutual academic and professional recognition of qualifications, diplomas and certificates on education;
- Carry out joint work and exchanges with a view to supporting Ukraine to bring its system of vocational training more closely in line with the modernisation of EU VET structures as pursued in the Copenhagen Process and via instruments such as European Qualifications Framework (EQF), the European Credit system for VET (ECVET) and the European Quality Assurance Reference framework for Vocational Education and Training (EQARF);
- Enhancing dialogue on systems of general secondary education, distance education and lifelong learning;
- Enhancing exchanges and cooperation in the field of non-formal education for young people and youth workers as a means to promote intercultural dialogue and support civil society, inter alia through the Youth in Action programme (2007-2013).

This new instrument encourages cooperation for civil society development. The Parties will cooperate in the familiarisation of the Ukrainian civil society stakeholders as regards the process of consolidation and dialogue between social partners in the EU, with a view to further integrating civil society into policy processes in Ukraine.

As the NIP for 2007-2010 expire, the European Commission finalized elaboration of new NIP to cover 2011-2013. All priorities for support have been agreed with the Government of Ukraine.

In addition to the National Country Programmes elaborated each year in the Framework of NIP there are number of additional instruments of support used by the European Commission. The EU has dedicated specific instruments for supporting civil society all over the world by launching grant projects under the programme European Instrument for Democracy and Human Rights, and the thematic programmes like "Investing in

people" for non-state actors and local authorities. Ukrainian based NGOs and other non-state actors are eligible participants for these programmes and benefited from them.

The international support is decisive for launching the activity of the most of the existent SPSI-oriented NGOs in Ukraine. In many cases international donors, including nongovernmental (for example, the Charles Steward Mott Foundation, the International Renaissance Foundation, the International HIV/AIDS Alliance, etc.) give technical support and money to initiate starting project for a NGOs.

Ukraine has substantially benefited from its active involvement in Tempus programme since 1994. Tempus is a Trans-European programme in the area of Higher Education, designed to promote cooperation between higher education institutions in the EU and in the partner countries thereby encouraging transfer of know-how. Since the launch of the programme in 2004, Erasmus Mundus has granted scholarships to 130 Ukrainian students and 27 scholars (Action 2), including 28 students and 8 scholars that had been selected for scholarships awards for academic year 2009/10.

Providing support the EU constantly follows principles of Paris Declaration on aid effectiveness and promotes principles and policies of donor coordination. EU works in close cooperation with UN organization based in Ukraine like UNDP, ILO, UNICEF, WHO, UNPFA, UNICEF and others. For effective cooperation EU technical assistance programmes and instruments are always consider impact of programmes and projects initiated by the EU Member States (like Matra, SIDA, SDC est.).

UNDP is a major partner in project implementation and importantly in policy dialogue and donor coordination. Major projects in the area of SPSI involving collaboration with UNDP are the following EU funded project Community Based Approach and EU cofunded project "Women's rights in Ukraine". In addition UNDP has agreed to be the main implementing partner in the joint initiative for regional development in the Crimea, launched in 2008.

Table 2.9: Programmes and projects funded by the EU y in the area of SPSI

Description of Activity / Assistance Programme	Timeline	Sector
European Commission		
Children in Crisis and Old People - Steps Toward Each Other	2008-2010	Co-operation with Civil Society
Citizen Initiative for Economic and Social Rights Protection	2009-2011	Co-operation with Civil Society
Strengthening Regional Vocational Education and training 2005-2009, Strengthening Regional Vocational Education and Training Management	2005-2009	Education
Sustainable Local Development Supplies. The overall objective is to improve quality, access and sustainability of essential services in selected municipalities and to pave the way for sustainable local development in Ukraine.	2005	Employment, Poverty Reduction and Social Policy
HIV/AIDS Prevention Among Uniformed Services of Ukraine	2005-2008	Health
Support to Secondary Health Care Reform	2007-2009	Health
Establishing a comprehensive rehabilitation system for young drug users	2006-2009	Health
Strengthening National Mechanism and Capacities for Elimination of Trafficking in Children in Ukraine. Overall Objective is to curb trafficking in children in Ukraine, strengthen national capacities in (i) protection & reintegration, (ii) prosecution and criminalisation, and (iii) prevention. Specific Objective is (i) to provide reintegration assistance to child victims, (ii) capacity building and networking for law enforcement officials and (iii) enhance national counter-trafficking mechanism through advocacy, training and networking activities	2009-2011	Human Rights
Community Based Approach to local development	2007-2011	Local and Rural Development
Support to Sustainable Regional Development (W NAP 2006): The overall objective is to upgrade regional policy in Ukraine by extending the EU regional development policy.	2006	Sustainable Development

Programmes and projects co-funded by the EU/EU MS and implemented in close cooperation with the UN Family organisations		
<p>Consumer Rights and Citizen Network 2006-2009. The project's goal is to enhance civil society role in sound economic governance in Ukraine in line with the European standards. Specifically CSCN aims at promoting access of citizens to information on product safety, consumer rights protection, and to results of independent testing, as well as promoting wide public discussion on challenges facing the consumer society in Ukraine. The project pursues its goals through knowledge transfer about best practices of consumer rights protection, access to information for consumers, media education, development of consumer education programmes and capacity building for the judiciary. DONORS:EC/UNDP</p>	2007-2009	Co-operation with Civil Society
<p>Civil Society Development Programme Ukraine. The overall aim for this programme is a strengthened civil society that promotes an open and democratic society. The project will ensure the CSO sector can flourish, diminish its dependency from the donor community, and enhance its participation in policy processes by developing the capacity of NGOs at the regional and local level to solve the local needs. The programme will be complementary to other donor efforts and emphasis will be put on securing information and knowledge sharing with other donors in the field. In particular, it will link up to UNDP's other projects supporting civil society, and social development in Ukraine. DONOR:DENMARK</p>	2009-2011	Co-operation with Civil Society
<p>Support to Economic Reforms in Ukraine through Blue Ribbon Analytical and Advisory Centre (BRAAC). The overall project objective is to facilitate economic development of Ukraine by providing assistance in policy formulation and implementation through high-quality analytical and advisory services; ensuring the capacity development by on-site training and events; expanding the public dialogue on various policy challenges and initiatives of the President of Ukraine, the Parliament of Ukraine and the Government of Ukraine. The project is co-funded by the European Commission which is likely to continue funding of the action and the Polish Programme for International Aid which provides small grants for limited activities. Donors: EC, UNDP, Government of Poland.</p>	2006-2009	Economic and social reform
<p>HIV/AIDS Prevention Among Uniformed Services of Ukraine 2005-2009. The project was implemented by UNDP and UNFPA the following specific objectives: to establish and implement comprehensive educational programs for uniformed personnel on HIV/STI prevention, safe behaviour and healthy lifestyle promotion and link to social and healthcare services; to improve and promote HIV/STI diagnostics and treatment, including Voluntary Counselling and Testing (VCT), in uniformed services; to increase capacities of sectoral leaders for effective partnerships between all relevant services of the uniformed services and non-governmental organizations to provide effective outreach to young recruits, uniformed personnel and their families. DONOR: EC</p>	2005-2009	Health
<p>Governance of HIV/AIDS Project. The project objective is to provide advice and support to the governmental institutions involved into the national AIDS response through creation of the framework for better governance of the HIV/AIDS issues at all levels and encouraging multi-sectoral partnership and coordination. The project includes three main outputs: (1) increased capacities of the selected governmental agencies in designing and implementing strategies on HIV/AIDS for a better response to the epidemic; (2) developed capacities of the regional authorities at the oblast, rayon and municipal level and local communities to address the HIV/AIDS epidemics at the local level in the most affected regions; (3) support in development of a system for monitoring of human rights of people affected by HIV. Donors: UNDP, SIDA, UNAIDS, CzTF, STF.</p>	2004-2010	Health
<p>Equal Opportunities and Women's Rights in Ukraine project which is implementing by UNDP. The project provides support to the Government to implement its policies and commitments on gender equality, particularly through capacity building interventions, in particular: Strengthening of the national gender machinery; Promotion of an educational system free of gender biases and integrating gender sensitivity; Improvement of the system of prevention and response to domestic violence (training of judges, police inspectors, changes to policy framework); Strengthening of national capacity for development and implementation of gender programmes, at national and regional level. Donors: EC/SIDA/UNDP.</p>	2009-2011	Human Rights (gender aspect)
<p>Crimea Integration and Development Programme. The goal is to foster sustainable human development in a manner that contributes to the maintenance of peace and stability in Crimea through initiatives aimed at preventing interethnic conflicts and enhancing integration among different ethnic groups. Responding to the changing development situation in Crimea over the last 10 years, CIDP applied different approaches in different programme phases to achieve its objective of integration and development in Crimea. During its fourth phase (2005 - 2007), CIDP started to incorporate the earlier community-based development interventions with an integrated approach to regional development in Crimea that goes beyond the community level to intervene at the policy level. CIDP will be implemented within the overall framework of UNDP Ukraine's Local Development Programme. Donors: CIDA, SIDA, UNDP (TRAC III).</p>	2005-2010	Local and Rural Development

Municipal Governance and Sustainable Development Programme. UNDP/MGSDP was initiated in April 2004, to develop a participatory and transparent mechanism for localizing the principles of sustainable development. It entered into second phase in 2005 to demonstrate the effectiveness of public private partnership for resolving local social, economic and environmental problems. The second phase will end by 31 December 2007. The third phase of the Programme "Municipal Governance and Community Empowerment" is envisaged for 2008-2010. Donors: CIDA, SDC, Embassy of Norway.	2004-2010	Local and Rural Development
Community Based Approach to local development 2007-2011. The main objective of Community Based Approach to Local Development Project (CBA) is to create an enabling environment for sustainable socio-economic development at local level by promoting local self-governance and community-based initiatives throughout Ukraine. Topicality of the project is supported by recent enforcement of the constitutional reform envisaging, inter alia, significant administrative and fiscal decentralisation measures. It is expected that oblasts, local authorities and communities will be playing an increasingly important role in policy formulation and implementation. Thus, without empowerment of local communities to develop themselves and their areas, no significant progress will be possible with regard to human development and achievement of Ukraine's MDGs. DONORS: EC/UNDP	2007-2011	Local and Rural Development
Chernobyl Recovery and Development Project. The programme is focusing on the following areas: (I) Strategic solutions to support sustainable local economic development; (II) Enabling local governance environment to foster economic development; (III) Consolidation of community based recovery and development; (IV) Human security through local information provision. Donors: UN Human Security TF, UNDP.	2008-2010	Local and Rural Development
Millennium Development Goals of Ukraine Project. The Ukrainian Millennium Development Goals Project (MDGP) aims to support the process of elaborating, implementing and monitoring economic and social policies to contribute to the achievement of the Millennium Development Goals (MDGs) in Ukraine. This is achieved through assisting the Ukrainian Government in enhancing the overall institutional capacity of the Ministry of Economy, a leading executive state authority responsible for realization of the national action plan of economic and social development and charged with implementation of MDGs in Ukraine. Hence, the project is focusing on the following areas: (a) strengthening capacity building for policy development; (b) improving strategic planning and forecasting system; (c) reinforcing MDGs policy analysis and monitoring; (d) raising public awareness of the MDGs in Ukraine. Donors: UNDP, DFID.	2004-2010	Macro-Economic Reforms
Youth Social Inclusion for Civic Engagement in Ukraine. The project objective is to support youth social inclusion and civic engagement by developing key social competencies necessary for pro-active youth involvement in society and decision-making processes, thus providing support to further enhancement of Government youth policy. Donors: United Nations Volunteers (UNV), Intel, UNDP.	2008-2011	People-to people contacts (incl. youth)

Source: EU Delegation in Ukraine

2.6. Drivers of reforms and system sustainability

Since independence, Ukraine has been forming its own legislative base of social protection. In order to protect population from the poverty, the Government adopted a series of laws, which are beyond economic realities and were problematic to implement under conditions of economic crisis. It concerns such laws of Ukraine as "On the pension provision" (1991), "On the status of war veterans, guaranties of their social protection" (1993), "On the status and social protection of the victims of the Chernobyl" (1991), as well as legislative acceptance of privileges for certain types of professions: judges, public prosecutors, servicemen, deputies (1992-1994).

During the process of implementation of the new social protection system (appropriate to the market economy) the most considerable events were: the acceptance of the program of housing subsidies (1996), benefits to families with low-income (2000), and the formation of the State Social Insurance system.

The program of housing subsidies was a first social program based on means-tested principle. The program is aimed at supporting population groups suffering from sizeable increase in tariffs for housing services. The main result was a suspension of arrears for housing services.

The Law "On the subsistence minimum" (basic state social standard) was accepted in 1999. In accordance with the Law, the subsistence minimum is used for the calculation of minimum wage, minimum pension, state social allowance, family allowances, unemployment benefit, scholarships and other social assistances guaranteed by the Constitution of Ukraine. However, during the long time minimum wage, minimum pension and most social benefits were below the subsistence minimum.

In 2000 the Law "On the state social allowance to families with low-income" was passed. This was a second program based on means-tested principle (first one was program of housing subsidies) where the amount of allowance depends on the family income. This law says that it is "directed on realization of constitutional

guarantees of citizens right on social protection - providing standard of living not smaller than subsistence minimum". However, due to insufficient funds, the "limit of provided subsistence minimum" for the calculation of the amount of allowances is set annually. In 2009 in accordance with this Law, the limit of provided subsistence minimum (assured minimum) for calculation the size of allowance was determined as: for persons with ability to work in amount of 11.3 EUR (20% of subsistence minimum for persons with ability to work); for persons, who have lost ability to work in amount of 15.9 EUR (37% of subsistence minimum for persons, who have lost ability to work); for disabled – 16.9 EUR (40% of subsistence minimum for disabled).

The system of the state social insurance was formed during 1998-2003. The adequate legislative base and four types of the state compulsory social insurance were created.

The series of election campaign (2004-2006) were accompanied by the excessive promises, and acceptance of additional social obligations such as: increase of pensions, introduction of privileges for a category "children of war", sharp increase of birth grants. In this regard, in 2004 the amount of consolidated state budget expenditures on social protection increased by 2.6 times.

2.7. FUTURE TRENDS

The stability of the social protection system faces a challenge. The main reason of this situation is the global financial and economic crisis that can lead to the growth of unemployment and poverty among families with children and individuals without ability to work. A decline in revenues to budgets of all levels is expected, as well as to the Pension Fund and Funds of Social Insurance. Reduction in revenues of the State budget threatens financing of social programs.

The most serious consequence of the crisis is a growth of unemployment. According to projections of UNO experts, in 2009 its level can reach 6.4% comparing to 3% at the beginning of a year. In regard to unemployment growth, number of applications for unemployment benefits will increase, while inflows to the State Unemployment Social Insurance Fund will probably decrease. Therefore, under conditions of expected deficit of resources it is necessary to activate the employment policy, to take measures on employment of unemployed.

The growth of tariffs for housing services will increase the number of applications on housing subsidies. In case of unpaid subsidies, the debt of population on housing services will grow.

Recently the revisions of some laws have passed. Rules of assigning allowance to families with low-income became stricter. Rules, according to which payment of benefits will be stopped in case if an applicant intentionally presents incorrect information about family or income, were made tougher.

In spite of statements of the Cabinet of Ministers of Ukraine about the guarantee retention of all social obligations during the crisis, the experts' opinion is that drop in population real income is expected due to both decreases in wages and in pensions, as well as in other social benefits.

2.8. CONCLUSIONS AND KEY CHALLENGES

The system of social assistance should be based mostly on the means-tested approach instead of the universal principles. In regard to the limited funds during the period of crisis it becomes even more important. Hence, the priority task of its development is to provide precise targeting on the one hand and the maximum coverage of all persons in need – on the other hand. The current system of the targeted social assistance cannot be regarded as effective in the context of poverty eradication.

The size of social assistance for persons with ability to work should stimulate recipients to economic activity. However, some recipients are not anxious to find a job because of low salaries.

The main approaches of social protection system improvement are:

- to provide a gradual transition to a single type of the target social assistance, which will combine various benefits and subsidies to the poor population;
- to create special conditions on transport, buildings and establishments;
- to improve the quality and efficiency of social services granting;
- to introduce social passports for families and separate individuals, applying for social service;
- to develop individual programs for such families and persons;
- to direct efforts on involving in and training of skilled specialists for social services:

- to empower the non-government sector, and to support of public initiatives on the local level.

The complex transformation of the current system of privileges is planned. In particular, it envisages minimization of professional privileges, and transfer of social privileges into monetary form with its granting based on the target principles.

Problems of data availability. Presently there are problems in regard to information about provision of social services with skilled staff. There is inaccessible complete information about inflows from employer's and employee's contributions to the state social insurance funds. There is limited information about activity of social service providers and NGOs in the field of social protection and granting of social services.

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Main links

- Cabinet of Ministers of Ukraine <http://www.kmu.gov.ua>
- Institute for Demography and Social Studies of NAS of Ukraine <http://www.idss.org.ua>
- Institute for Sociology of NAS of Ukraine <http://www.i-soc.com.ua>
- Ministry of Finance of Ukraine <http://www.minfin.gov.ua>
- Ministry of Labour and Social Policy of Ukraine <http://www.mlsp.gov.ua>
- State Statistics Committee of Ukraine <http://www.ukrstat.gov.ua>
- State Committee on Nationalities and Religions of Ukraine <http://www.scnm.gov.ua>
- Verkhovna Rada of Ukraine <http://portal.rada.gov.ua>
- EU Delegation in Ukraine http://ec.europa.eu/delegations/ukraine/index_en.htm
- Charles Steward Mott Foundation <http://www.mott.org/>
- International Renaissance Foundation www.irf.kiev.ua/
- International HIV/AIDS Alliance www.aidsalliance.org
- USAID www.usaid.gov/
- SDC <http://www.sdc.admin.ch/>
- Matra http://www.minbuza.nl/en/Key_Topics/Matra_Programme

Tables

Table 2.1: Household's incomes, %

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total income	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Wages and salaries	35.1	39.5	42.5	44.6	46.9	47.1	48.1	50.5	52.5
Income from subsistence agriculture	27.6	23.8	19.3	15.9	15.5	12.2	11.1	9.7	8.6
Pensions	15.2	15.6	17.0	19.6	17.2	21.1	22.9	22.1	21.4
Social benefits – total	6.3	5.2	4.9	4.3	4.3	3.6	3.1	3.5	3.5
of them:									
Subsidies	2.1	1.9	1.5	0.9	0.5	0.3	0.1	0.1	0.1
Privileges	2.7	2.1	1.9	1.9	2.1	1.7	1.2	1.2	1.2
Unemployment benefits	0.34	0.42	0.36	0.40	0.40	0.36	0.30	0.27	0.22
Family/children allowance (lump-sum benefit at childbearing, benefit on children under 16 (18), etc.)	0.25	0.24	0.30	0.34	0.54	0.52	0.92	1.30	1.28
Assistance to low-income families	0.10	0.07	0.10	0.31	0.25	0.29	0.19	0.21	0.12
Other benefits (parental allowance, for the victims of the Chernobyl disaster, funeral expenses, from local authorities, etc.)	0.74	0.45	0.76	0.40	0.46	0.48	0.40	0.44	0.51
Other incomes (property income, profit and mixed income, cash support from relatives and other persons, etc.)	15.7	15.8	16.1	15.3	15.9	15.7	14.5	13.8	13.7

Source: Institute for Demography and Social Studies of NAS of Ukraine (expert calculation on the basis of HHS)

Table 2.2: Expenditures on social protection and social assistance (including the state budget's expenditures on social protection, social security and health protection, as well as expenditures of funds of the state social insurance)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total – with Health Care:												
millions EUR	7,071.1	9,637.8	6,881.7	4,870.9	5,074.8	7,404.8	9,459.9	8,786.6	11,839.0	20,231.2	23,347.6	27,310.1
as% of GDP	20.1	21.8	18.3	16.8	15.0	17.5	21.1	19.8	22.7	29.3	27.2	26.5
in prices 1996, millions UAH	16,418.4	11,313.1	16,561.5	19,454.0	20,918.3	27,846.8	42,485.9	52,934.2	74,522.5	118,601.0	130,353.7	173,328.8
per capita, in prices 1996, UAH	325.8	226.4	334.3	396.1	429.9	577.3	888.4	1,115.8	1,582.2	2,537.0	2,805.4	3,752.3
Total – without expenditure on health care:												
millions EUR	5,713.9	7,765.5	5,569.3	4,004.0	4,102.8	6,108.7	7,961.3	7,175.2	10,003.9	17,809.1	20,235.7	23,448.4
as% of GDP	16.3	17.6	14.8	13.8	12.1	14.4	17.7	16.2	19.2	25.8	23.6	22.8
as % of consolidated state budget expenditures	39.5	39.2	37.9	37.7	38.7	53.1	66.2	57.3	65.2	80.3	73.2	71.8

Source: The Ministry of Finance of Ukraine

Table 2.3: Characteristics of staff in health care and social services

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Employed in health care and social work as % of total employment	7.7	9.5	10.0	10.5	10.9	11.2	11.2	11.1	11.1
Average monthly wage in health care and social services as % of average in economy	73.6	60.0	58.8	59.3	60.4	59.5	64.1	63.2	64.5
Workers covered by training and skills improvement programs, as % of total staff:									
in health care and social services	9.1	9.2	8.6	8.6	8.8	9.2	9.0	8.8	9.0
average in economy	5.9	6.5	6.9	8.0	7.7	8.3	8.5	8.6	9.2
Share of workers with higher education, % of total staff:									
in health care and social services	20.3	20.6	21.1	20.5	19.9	19.7	20	20.1	20.2
average in economy	18.7	20.1	21.5	22.6	24.1	24.7	26	27.3	28.4

Source: State Statistics Committee of Ukraine

Table 2.4: Expenditures of State Social Insurance Funds, EUR Millions

	2001	2002	2003	2004	2005	2006	2007
Expenditures of State Social Insurance Funds – total	4,376.3	5,450.1	5,025.0	7,054.4	11,531.9	13,681.1	16,154.9
<i>Pension Fund</i>	3,753.6	4,539.6	4,058.9	5,937.9	10,026.0	11,678.8	14,446.7
Pension benefits	3,553.5	n.a.	n.a.	5,252.4	9,905.6	11,516.1	14,264.2
Administrative costs	200.2	n.a.	n.a.	124.2	120.4	162.7	182.4
<i>Unemployment State Social Insurance Fund</i>	202.2	293.7	318.8	368.1	395.3	467.0	518.2
Unemployment benefits	n.a.	19.8	10.0	13.8	9.2	8.8	9.0
Reimbursement of costs associated with the early-retirement benefit for labour market reasons - to the Pension Fund	n.a.	14.7	14.6	14.5	25.5	36.9	21.7
Administrative costs	n.a.	50.2	43.7	74.0	69.4	88.9	107.3
Reserve Fund	n.a.	8.0	17.2	7.2	4.8	3.4	3.6
<i>Temporary Disability Social Insurance Fund</i>	312.4	407.9	435.9	507.8	794.3	1,165.0	759.6
Temporary disability	147.6	175.3	183.8	217.4	310.7	371.1	428.2
Maternity	25.5	33.8	37.5	46.5	69.9	104.4	123.5
Birth grant	7.5	12.0	12.2	25.3	157.6	371.1	n.a.
Child care below 3 years	n.a.	38.5	63.5	67.2	94.7	122.0	n.a.
Recreation	79.9	111.7	115.3	118.0	122.0	152.1	159.4
Administrative costs	51.1	44.9	20.6	29.4	32.5	35.8	43.9
<i>Industrial Accidents and Occupational Diseases Social Insurance Fund</i>	108.1	208.9	211.3	240.6	316.4	370.3	430.4
Prevention of industrial accidents and occupational diseases	n.a.	2.9	2.6	1.5	1.1	1.0	4.5
Medical, vocational and social rehabilitation of individuals suffered from industrial accidents	0.2	5.3	5.7	6.9	9.9	17.4	21.0
Compensation for industrial accident damage that led to employee's health injury or death	2.9	176.4	176.9	186.7	277.6	316.1	363.1
Administrative costs	0.7	18.7	14.0	14.2	24.8	35.9	41.6

Source: Ministry of Labour and Social Policy of Ukraine

Note: since 2007 birth grants and benefits for child care below 3 years financed from the State Budget

Table 2.5: Registered unemployment and size of unemployment benefits

	Number of registered unemployed, thousand	Of them received unemployment benefit		Average monthly unemployment benefit		
		thousand	% of registered unemployed	UAH	EUR	as % of minimum wage
1999	1174.5	620.6	52.8	52.5	10.4	50
2000	1155.2	627.3	54.3	59.4	11.8	50.3
2001	1008.1	625.1	62.0	85.2	17.7	72.2
2003	988.9	617.6	62.5	118.3	19.6	57.7
2005	881.5	642.7	72.9	192.9	30.2	58.1
2007	642.3	468.3	72.9	339.3	49.0	73.8
2008	844.9	652.1	77.2	571.1	74.1	94.4
2009 (January-February)	906.1	657.2	72.5	610.4	58.7	100.8

Source: State Employment Office

Table 2.6: Orphan children and children without parental care

	2000	2003	2004	2005	2006	2007
Orphan children and children under the custody, persons	n.a.	96,112	97,590	97,829	102,912	102,924
Children, who were taken away from their parents with depriving of parental rights, persons	6,039	7,038	7,751	8,565	9,047	10,751
Children who were taken away from their parents without depriving of parental rights, persons	1,023	1,500	1,082	1,272	1,078	1,129
Children, regarding who the cases of their property protection were tried, persons	4,697	3,602	2,003	2,749	1,711	1,059
Adopted orphan children and children without parental care	7,692	6,345	5,596	5,241	4,318	5,229
Total number of children aged 0-17, thousand	10,769.5	9,844.6	9,129.2	8,801.9	8,536.1	8,325.7
Total births, thousand	385.1	408.6	427.3	426.1	460.4	472.7

Source: State Statistics Committee of Ukraine

Table 2.7: Central budget expenditures on social protection by functions, %

	2002	2003	2004	2005	2006	2007
Total	100.0	100.0	100.0	100.0	100.0	100.0
Disability	4.6	5.7	3.2	2.0	3.3	4.8
Pensioners	59.3	57.6	47.7	71.7	64.8	53.5
War and labour veterans	1.4	1.6	9.3	4.8	6.5	8.0
Family, children and youth	0.3	0.6	10.1	8.3	12.5	18.1
Unemployed	0.5	0.1	0.0	0.0	0.0	0.2
Housing	9.2	8.5	11.6	4.4	4.2	5.4
Other categories of population	24.4	25.7	16.1	7.9	7.6	8.6
Other activities	0.1	0.3	2.0	0.9	1.1	1.3

Source: The Ministry of Finance of Ukraine

Notes: Structure of consolidated budget expenditures on social protection and social welfare differ from the structure of previous period due to the adoption of the Budget Code in 2001

The structural changes of Central budget expenditures were caused mostly by of Pension Fund deficit and increase of birth grant

3. POVERTY AND SOCIAL EXCLUSION

3.1. INTRODUCTION AND OBJECTIVES

During the period of the USSR the phenomenon of poverty was disclaimed. Consequently, any investigations or estimates of poverty were not performed. The research on population with low income was performed at the country level rather than at republics or regions level and this data was closed for researchers. Although in 1960-1980 poverty was significantly lower than in the 1990's, it still existed. According to Ukrainian scientists estimations, in 1990, after statistical data became available, about 11% of population in Soviet times were claimed to be poor (Revenko A., 1997).

The dynamics of poverty cannot be investigated evenly for the every year of transition period 1991-2008 owing to irregular and incomplete data up to 1999. From 1999, regular monitoring of poverty has been provided by the State Statistics Committee of Ukraine.

During the transitional period and the period of economic crisis (1991-1999), the real income, consumption, and provision of population with goods and services were reduced. The structure of expenditures has significantly changed over this period: the share of expenditures on food increased almost twice, the share of expenditure on non-food products fell by half, and the share of savings fell to a negative value. The role of subsistence production in ensuring consumer needs of the population significantly increased. Particularly noticeable decline of living standard happened in 1991-1995 (Cherenko, 2003).

In 1995-1996 the survey „Incomes and Expenditures of the Population of Ukraine”, supported by the World Bank, was conducted using of international poverty lines (World Bank, 2001). Different estimates of poverty based on available statistical data were performed for this period. Thus, referring to analysis of family budget survey in 1996, 85-90% of the population can be attributed to the poor using poverty line of 1990 (Revenko A., 1997).

From 2000, when macroeconomic situation in Ukraine began to recover from transformation recession, absolute poverty as a share of population consuming less than the subsistence minimum dropped from 70.6% to 12.6% in 2008. At the same time, the situation of relative poverty rate, determined on the basis of national poverty line, was stable, varying within the range of 26-28% during the last nine years (see Table 3.1). It can be explained by the fact that incomes of households have grown proportionally, and the distribution of benefits of economic growth has not aimed at decreasing inequality, which was formed during the transition period (see Methodology box 1).

Table 3.1: Poverty rates in Ukraine by different poverty lines, 2008

Poverty line	Poverty rate, %
75% of the median total equivalent expenditures of a population (national equivalence scale 1.0; 0.7; 0.7).	27.0
60% of the median total equivalent expenditures of a population (national equivalence scale 1.0; 0.7; 0.7).	13.6
60% of the median total equivalent incomes of a population (EU equivalence scale 1.0; 0.5; 0.3)	13.2
Daily ration of a person in a household below 2,100 kcal	13.2
Subsistence minimum (national equivalence scale 1.0; 0.7; 0.7)	12.6
Food expenditures over 60% of the total household's expenditures	40.8
Self-certification (self-identification of poverty)	53,2

In regard to the financial crisis, which started in Ukraine at the end of 2008, the increase in absolute poverty rate can be anticipated. The share of population with income lower than the subsistence minimum can reach 12%, as in 2009 the size of state social guarantees (minimum wage, minimum pension, state social assistance) stayed the same. The expected relative poverty rate is about 28% as income distribution at the bottom is not supposed to change.

Methodology box 1

The main national poverty line in Ukraine is defined as 75% of the median total expenditures. It is based on the equivalence scale that assigns a value of 1 to the household head, of 0.7 to the each additional adult and of 0.3 to the each child. The second national poverty line (the so called 'extreme poverty line') is defined as 60% of the median total expenditures, and it is based on the same equivalence scale.

At the same time, the administrative subsistence minimum has been established as a basic state social standard for the calculation of state social guarantees in 2000 (minimum wage, minimum pension, state social assistance). The size of the subsistence minimum is designed for different socio-demographic groups every year (children under 6; children aged 6-18; able-bodied persons; individuals who have lost their ability to work). The subsistence minimum is calculated in accordance with a basket principle and is used as the absolute poverty line. When calculating poverty by the subsistence minimum, total expenditures and the equivalency scale of 1.0; 0.7; 0.3 are used.

Thus, in Ukraine, monitoring the poverty is performed in accordance with two approaches: relative (the national poverty line) and absolute one (the subsistence minimum).

In 2009 poverty risks are expected to increase for the following population categories: families with unemployed (especially families with children), households with persons of age 70 and older, and households with children and pensioners. The situation in households where every person is employed and in households with one child and employed parents is going to improve. A projection for 2009 indicates that for families with three and more children the situation will improve in case if the families' assistance will be paid regularly.

In 2009 a slight reduction in differences of poverty rates between urban and rural areas is expected because economic crisis hit urban population harder than rural. Thus poverty is going to progress in urban area while it will stay the same in rural.

Regional changes in poverty indicators will reflect the influence of economic crisis on certain economic sectors. Monofunctional cities will find themselves in the worst situation.

The poverty rate according to the EU equivalence scale³ has been rather stable, varying within 12.5-14% during 2000-2006 and reaching 13.2% in 2008. It has to be noted that income have been growing faster than expenditures; thus, the poverty dynamics looks better using poverty line, determined on the basis of income. If we estimate the poverty according to the EU equivalence scale based on the total income, the situation seems to improve during 2000-2007 - the poverty rate dropped from 14.4% in 2000 to 9.9% in 2007.

During last years income grew faster than expenditures due to additional income from the shadow sector of economy. If in 1999 total household's expenditures prevailed income by more than 30%, today income exceeds expenditures. Thus, the dynamics of expenditures is more reliable than the dynamics of incomes.

There is no clear evidence that income exceeds expenditures in HHS. Probably it is because of imperfection of questionnaire asking about savings; households do not always indicate all of their accumulated funds.

Influence of the choice of indicator (income or expenditure) on the level of relative poverty is evident. The income exceed the expenditures much more among population with low income than among total population. When the median for income and expenditures is approximately the same and there are fewer people with low income than with low expenditures, the relative poverty by income looks better.

In spite of the increase of real income among all groups and the decline of absolute poverty, the subjective poverty is still high in Ukraine. In 2007, 55.9% of the people indicated themselves as poor, while 41.8% regarded themselves as "not poor but not in the middle class", i.e. choosing non-specified, intermediate position. In 2008, the level of the subjective poverty decreased to 53.2%.

At the same time, poverty rates by self-estimation in terms of purchasing power of personal income have improved. While in 2000 20% of people were unable to provide sufficient nutrition and another 52% permanently abstained from purchases except for food, these percentages dropped to 4 and 35% in 2007.

In 2007, 28.6% of people were poor in terms of deprivations, i.e. they had 4 or more deviations from normal conditions of life (see Methodology box 2).

³ 60% of the median total expenditures based on the equivalency scale 1.0; 0.5; 0.3.

Methodology box 2

Poverty is a complex socio-economic phenomenon, which cannot be explored only on the basis of the monetary approaches.

The data of a new module of the survey on deprivation issues, carried out by the State Statistics Committee of Ukraine in 2007, will give a better understanding of poverty in Ukraine. It also will allow comprehensive studies on cumulative poverty, as well as selecting groups of the most vulnerable population in terms of financial deprivation and social exclusion.

To determine the poverty line by conditions of life⁴ on the basis of a base list of deprivations, a distribution of households by the level of concentration of signs of deprivation in a household was carried out. For the poverty line by conditions of life, a proportion of households were selected at the level of 28.6%, which was close to the income poverty rate estimated by the national poverty line⁵. Thus, a household can be considered poor by conditions of life, if it has 4 and more signs of deprivation.

There is an essential correlation between monetary poverty and deprivation. Each two of three poor households by the income national line were at the same time poor by conditions of life. Among poor households by conditions of life, every third household was poor by the income. Every tenth household suffered from both forms of poverty (income and conditions of life).

3.2. HISTORICAL PERSPECTIVE

Trends in poverty and social inclusion since the beginning of transition. In the beginning of the 1990's, the economic crisis was combined with the transition to the market economy, leading to high inflation and sharp decline in the real income of population. Economic recession resulted in a sharp decline in the labour force demand and decrease of wages.

During 1990's not only real income of population has decreased, but also practically all indicators of a living standard. Consumption of basic food products, in particular, of meat and dairy products, eggs and fish has also dropped. Caloricity of average daily diet has fallen almost by more than 30% during the crisis decade (from cKcal 3,597 to 2,505). Retail trade and paid services have been declining every year up to 2000. A decline has been particularly large during 1991-1995. As a result, the amount of retail trade in 2000 was almost one-third of that in 1990⁶. While during 1980-1992 a share of non-foods prevailed in retail turnover, beginning from 1993 the share of food rose sharply, and only in 1997 it started to decline.

During 1990-1996, the structure of incomes and expenditures of households has deteriorated: proportions of wages and social benefits dropped, while a share of income from subsistence farming grew; a share of expenditures on food increased almost twice, respectively a share of expenditures on non-food goods dropped, and savings became negative. Provision of the population with practically all long-term use goods except cars has dropped (per 100 families) during 1990-2000. The extent of residential construction also shrank: the total area of new buildings put into operation in 2000 was 5.558 sq.m, which is 68.1% less than in 1990.

These processes started to slow down only in 1995; however, a decline continued until 1999.

For the reason that household surveys were launched only in 1999, the dynamics of poverty cannot be investigated for the whole transition period. The results of the 1995-1996 survey „Incomes and Expenditures of the Population of Ukraine”, supported by the World Bank, proved that the poverty rate was 29.4% using the poverty line of USD PPS 4.3 per day, while using the poverty line of USD PPS 2.15 per day – only 3.0% (World Bank, 2001). The above mentioned survey estimated the extreme relative poverty as well (40% of the average expenditures) and the poverty rate was 12% in 1996 (Kyiv International Institute of Sociology, 1996).

The World Bank study „Income, Inequality and Poverty during the Transition from Planned to Market Economy” (Branko Milanovic, 1998) performed an estimation of poverty under the bound 120 international dollars per capita per month, and it is approximately equal to USD PPS 4,30. According to this poverty line, in 1993-1995 poverty level by income was 63% or 33 million poor persons. Poverty level by expenditure was much lower – 26%.

⁴ The deprivation by some aspects of privation is defined as poverty by living conditions. The poverty line by living conditions is determined in accordance with poverty line by income.

⁵ 75% of the median total equivalent expenditures (the poverty rate was 27.0% in 2008).

⁶ This number is explained by deficit of income resources, and consequent transition to the subsistence production and to the barter at the level of households (for example, receipt of wage in kind and exchange of goods).

During the period of crisis there were a few poverty estimations based on statistical data. According to families' budget survey in 1996⁷, 85-90% of Ukrainians were poor by poverty line of 1990. This estimation was calculated on the basis of average income of families and a poverty line defined as 60% of the average income (Revenko A., 1997).

Economic growth, which began in 2000, influenced income level and poverty 2 years later.

In 2001 real income of population as well as consumption started to grow; the structure of incomes and expenditures improved; while a sharp decline in the absolute poverty took place in 2002. During 2000-2008, a share of population with expenditures below the subsistence minimum has dropped from 70.6% to 12.6%; the poverty rate based on international poverty line of USD PPS 4.3 per day has dropped from 14% in 1999 to 1.0% in 2006⁸. In addition, a gradual decline in the poverty rate based on poverty line of consumption, which characterizes such extreme poverty direction as insufficient nutrition, is taking place. Poverty line, determined on the basis of consumption, includes structural poverty line⁹ and calorificity of nutrition poverty line¹⁰ (Cherenko, 2008).

A financial crisis, which started in Ukraine at the end of 2008, is going to affect the situation with poverty. In 2009 the increase of absolute poverty rate is expected. The share of population with income lower than the subsistence minimum might reach 12%, because the size of state social guarantees (minimum wage, minimum pension, state social assistance) is not going to change in 2009.

Overview of research done on poverty and social inclusion in the country. In 2001 a relative poverty line (75% of the median total expenditures) was chosen with a purpose of estimating poverty, and it is used nowadays (Methodology box 1). The equivalence scale 1.0; 0.7; 0.7 was selected, which is the most close to Ukrainian realities.

The EU equivalence scale (1.0; 0.5; 0.3) is not suitable for Ukrainian conditions due to peculiarities of the structure of consumption. Expenditures on food made up 53.2% of total expenditures of households in 2007. Even the wealthiest 10% of households spend on food almost 40% of their budgets. At the same time, 42.7% of families spent on food more than 60% of their total expenditures. In such situation, assigning a value of 0.7 to each additional adult takes into account only expenditures on food.

The other problem of the EU equivalence scale application is assigning a different value to each additional adult and to each child. Expert evaluation for different years (especially in 2004 in collaboration with the World Bank) revealed that under Ukrainian circumstances expenditures on a child are no smaller than ones on an adult.

Using the EU equivalence scale instead of equivalence scale 1.0; 0.7; 0.7 can shift estimations as income of large households is synthetically increasing and income of small households is decreasing. As a result, small households, 47% of which are single pensioners or pensioners' families, can be counted as poor. Instead, households with two or more children, who really do not have enough income to cover basic needs, might not be counted as poor.

When to compare dynamics of poverty rate using poverty line of 60% of the median total expenditures based on the Ukrainian and the EU equivalency scales, very similar trends are obtained, while the poverty rate based on the Ukrainian equivalency scale is constantly higher.

Non-monetary indicators of poverty (LAEKEN indicators) tend to improving in recent times. Especially it concerns indicators of labour market: the long-term unemployment rate fell 3.4 times in 2000-2007 period, the share of long-term unemployed decreased 2 times. The share of employed who earned less than minimal wage was reduced to a half. The indicators of education improved; the share of youth aged 15-17 years who are not involved in education and the share of adults aged 25 or more who do not have secondary education fell considerably. A self-assessment of health status improved as well – only 11.8% of population self-estimated a status of their health as bad. Despite of other non-monetary indicators, life expectancy is not improved.

Government policies and strategies towards reducing poverty and social exclusion. The impact of social policy and programs of social assistance on poverty can be determined when comparing poverty index before and after receiving social transfers. The direct effect of social benefits is observed better when absolute poverty is taken into account. Thus, in 2007 a share of population with total expenditures below the subsistence minimum was 26.4% of the population. In case of cancellation of family assistance, poverty rate would increase up to 28.2%; termination of social benefits would bring poverty rate to the level of 27.4%; and abolition of all types of assistances, subsidies and privileges, would force poverty rate to climb up to 29.5%. It means that poverty rate

⁷In 1996 it was a last time when this survey was conducted on the basis of methodology accepted in USSR.

⁸The old technique of the World Bank for PPS calculation, which was in force until 2005, was used; it was used for 2006 as well.

⁹Food expenditures amount to over 60% of the total household's expenditures.

¹⁰A daily ration of a person in a household below 2,100 kCal.

increases when social benefits are taken away. However, the system of social assistance has a small impact on poverty alleviation in the country.

The reducing influence of family assistance on the absolute poverty level is pursued through a significant number of family assistance recipients and high birth grant. In addition, this program provides maximum targeting of funds to persons with low income because children are among the highest risk groups of poverty. Benefits to families with low-income and housing - communal subsidies reduce poverty rate only by 0.1. Low effect is explained by low coverage of these benefits. System of social privileges has a significant reducing impact on poverty rate because of its large coverage.

It is clear that children allowance helps to reduce poverty among households with children. Two other types of means-tested assistances (assistance to low-income families, and housing - communal subsidies) are targeted at different categories of population. Recipients of benefits to low-income families are primarily households with children; and recipients of housing - communal subsidies are households of pensioners. Regarding household types, analysis of the social policy impact on poverty level indicated that households with children experienced the impact of each above-named programs, and the influence of housing - communal subsidies was low (by 0.1). Benefits to low-income families reduce poverty level in this group by 0.2; and benefits on children have the biggest effect – by 4.2. For pensioner households housing - communal subsidies were the most significant; they reduced poverty level in this category by 3.2.

In 2005 raising of the minimum pension up to the subsistence minimum reduced poverty level among pensioners. In 2007 poverty level of pensioner's households (by the subsistence minimum) was 20.8% comparing to 26.4% in the country as a whole. If to take into account the age structure of population (high proportion of retired), one can assume that pensions significantly reduce poverty not only among retired but also in entire population. Thus, in 2007 poverty level before pensions was 47.3%, and among pensioners households 82.8%.

3.3. PROFILES OF POVERTY AND SOCIAL EXCLUSION

Measures of absolute and relative poverty. Ukraine experienced the situation when two basic monetary poverty lines, accepted at the national level (absolute and relative ones¹¹), provided opposite results. According to the analysis of 1999-2007, positive effect of economic growth, which started in 2000, provided a decline in absolute poverty rate. In addition, there was a gradual decline in the poverty rate by consumption, including poverty rate by food expenditures and by a daily ration of an individual (which characterizes sufficiency of nutrition). However, the growth did not influence the situation with relative poverty, and income differentiation did not decline as well. In terms of relative poverty rate by the national poverty line (Methodology box1) and by the EU poverty line, during the last nine years situation was stable varying within 26-28% and 12-14% respectively.

In such situation, the population's self-assessment of income purchasing power is the additional criterion of poverty determination. In 2007, 4.1% of people responded that they did not succeed to provide for themselves even sufficient nutrition, while 35.1% of them were permanently unable to afford the most essential goods, except for nutrition. It is necessary to notice, that these proportions have largely dropped in comparison with 2000. Consequently, in 2007 39.2% of people were considered poor by self-assessment and approximately 4.1% of them – as extremely poor, while corresponding proportions for 2000 were 71.8% and 20%.

Dimensions of poverty and social exclusion. Main lines of poverty and social exclusion investigation are the determination of poverty profile and factors that influence risk of poverty.

According to implemented surveys, leading factors of the poverty risk in Ukraine are:

Two and more children below 18 years in a household;

At least one child under 3; (despite the birth grant)

At least one unemployed;

At least one person aged over 75;

At least one child and individuals of retired age in a household

The only factor, which can have a positive impact on poverty reduction in a household, is higher education of at least one household member. Employment contributed to a small decline of the poverty risk, however, it does not protect from it. Unemployed individuals constitute a small population group, but they have a high poverty risk. The highest poverty risk is common for families with many children.

¹¹ Until 2006, relative poverty line was below the subsistence minimum, while it exceeded it in 2007

If to use the EU equivalence scale, the most vulnerable groups in terms of poverty include households with 3 children and more, households of persons in retirement age (in particular, older than 75 years) and households with unemployed individuals. Higher education is an important factor of protection from poverty. At the same time employment provides a smaller protection.

When the EU equivalence scale is used, higher poverty rates are common for women, in particular in the age group of 65 years and older (20.5% comparing to 16.4% for men). In terms of all age groups, persons aged 18-64 are in the best situation (irrespectively of their gender), while persons over 65 years are in the worst situation.

A problem of rural poverty remains extraordinarily urgent. Rural households practically did not gain from positive changes of the country's economy recovery, and urban-rural disparities in the living standard grew. On the background of relative poverty rate stabilization for the country as a whole, there is an increase in the poverty rate among rural residents. A share of poor among rural population was nearly 38% in 2007, while the urban poverty rate was 22.1% in 2007.

Based on the EU equivalence scale, a similar situation was observed – the poverty rate in rural area was much higher than in urban settlements, especially than in large cities (more than 100,000 residents).

Hence, application of equivalence scale (national or EU) did not influence territorial features of poverty. It provided similar results about poverty risks according to the presence of employed, unemployed and individuals with higher education in a household. However, a reduction of an equivalence scale fundamentally changes the demographic profile of poverty. As far as demographic factors are the determinative among poverty formation factors, the selection of equivalence scale influence the result of analysis and recommendations for decision making.

Poor conditions of housing constitute another problem in Ukraine. Low standards of housing provision (regarding living area and number of rooms) are combined with another serious problem of its quality. Presently, 66.4% of urban residents have no basic conveniences in their accommodation (hot water supply, bath or shower, home telephone). In rural area, 84.7% of the populations live in houses without elementary conveniences (centralized gas and water supply, sewage system). The low standard of living, especially regarding the housing conditions of rural areas, used to be a tradition in Soviet times. The slogan on the approximation of living conditions in villages to the urban standards was not realized on practice. Indicators of providing rural areas with centralized gas provision significantly increased after the Chernobyl accident (after 1986), however, other indicators grew very slowly (in the last decade of the Soviet period as well as in the time of independence).

Most impressive is the level of subjective poverty. In 2007, more than a half of the population (55.9%) call themselves poor. In previous years, when questions about social status did not include the item "I am not poor, but not the middle", over 70% of people called themselves poor (in 2006 - 86.1%).

Indicators of material deprivation.

The most urgent aspects of deprivation include improper housings conditions, limited availability of social services, deprivation of property, and so on.

Almost a half of rural households and each seventh urban household suffered of absence of conveniences in a dwelling (water pipe and lavatory, centralized heating and gas supply). Each eleventh household lived in a dwelling with living area below 7.5 sq.m per person, while 5% of households – in a dwelling with living area below 5 sq.m per person (State Statistics Committee of Ukraine, 2008).

The most widespread deprivation concerns health care services – each fourth household could not afford to purchase the necessary medicines prescribed by a doctor, or to pay for vitally essential surgery or in-patient treatment, services of doctor in medical institution and prescribed examinations and procedures, as well as emergency medical aid.

More than one-third of households could not afford paying costs for outside family leisure activities of at least one week a year.

Rural residents felt larger deprivation of development of infrastructure in comparison with urban population. Each second rural household suffered from unavailability of the first aid services and institutions, providing household services, in a settlement; two of each five households – from absence of the stationary telephone network, each third household – from absence of medical institutions and regular daily transport connections with other settlements with more developed infrastructure.

One of the factors of social exclusion is a phenomenon of “inherited” income poverty. Almost 37% of respondents believe that their material well-being is worse than that of their parents in the same age, while 58.6% of respondents feel themselves less socially protected by the state; about one-third of them think that they have lower social status and worse possibilities of self-realization (national survey, 2007).

There are obstacles for implementation of reliable measures on fighting discrimination in all spheres of public life. According to Sociological survey (TNS-Ukraine Company, 2005) most of respondents (90%) mentioned that they experienced some kind of discriminations, or know people, who experienced them. The most widespread reasons of discrimination were a state of health and age – mentioned by more than a half of respondents; gender and sexual orientation - about 14% of respondents; the least prevalent were education and religion (0.4% of respondents). Only 2.5% of respondents believed that there are no socio-demographic features, which could become the reason for discrimination.

3.4. VULNERABLE GROUPS

Children: Children turned out to be the most vulnerable population group during socio-economic transformations. According to analysis of sex-age pyramid of the poor population (by a national poverty line), the highest poverty rates are characteristic for children under 16 (irrespective of their sex). Demographic dimensions (in particular, presence and number of children) are the most important factors of the poverty risk. Households with two and more children and households with children and pensioners are the most vulnerable to the poverty.

Households with two and more children could not afford organization of family outside leisure, suffered from absence of separate dwellings and insufficient living area. It is necessary to notice, that each sixth household with children could not afford to buy the essential new clothes and shoes for children, each tenth household suffered from the absence of preschool children’s institution in their neighborhood. More frequently, households with children had no financial possibilities to pay for medical services.

The actual problem is accessibility to quality secondary and special education for children from families with low incomes from rural areas, and with mental or physical disabilities.

The problems with carrying out general overhaul of buildings, implementation of the computerization and informatization of schools, upgrade their logistics, understaffed negatively influence on quality of secondary education. Moreover in rural areas to these problems it is added difficulties of organization of regular student haulage.

Particularly acute problem of staffing (both educational personal and medical) is awaited for schools, where children with special needs are educated. Creation in schools natural architectural and communication environment for children with disabilities is complicated by limited funding from the budgets of all levels. So, the processes of their further integration in the educational field will be very slow. The number of students in private schools, and the number of students per contract, during the economic crisis could be reduced.

Elderly: In Ukraine, there is a clear correlation between the poverty rate and an age of a person. According to analysis of sex-age pyramid of the poor population, there is a highest poverty rates for females over 75. The lowest poverty rates are character for males aged 60-65 and females aged 50-60. People usually achieve the highest career level in this age, while they still keep working after reaching the retirement age (55 for females and 60 haulage for males) and receive both wages and pensions.

The highest poverty risks have households with pensioners over 65. Pensioners’ households in compare with other families have restricted access to medical services – in 2007 34.3% of them could not afford essential inpatient care, 32.1% could not pay to doctor, 31.9% - could not afford to buy essential medicines, 28.6% suffer from inaccessibility to emergency. Among single pensioners and households from two pensioners about 10% have medical payments that by 20% higher then they afford to pay.

Unemployed persons: Presence of unemployed persons increases the risk of poverty for household. Thus, the poverty rates in households without children and with at least one unemployed person made 35.9% in 2008, that twice higher than in all households without children. The risk of poverty for households with children and unemployed adult in 2008 was 40.3% in compare with 33.1% for all households with children.

Working poor: The poverty of employed population is a specific feature of the Ukrainian poverty; it can be explained by low standards of remuneration of labour and generally low incomes of employment. Women have a low wage - average wage of females are 70% of average wage of mails. Youth persons (under 25 years) have the lowest wage level (about 85% of average wage in economy). In terms of types of economic activity, the lowest level of wage observed in agriculture and budget sphere.

Low level of education: The education of households' members makes a direct impact on the poverty. If the head of a household has complete higher education, the poverty rate is declining 2.2 times as compared with the average poverty rate in the country as a whole. The poverty rate of vulnerable households with three and more children and at least one person with higher education in 2008 was 40.9%, while it increases up to 67.6% in households without persons with higher education.

Rurality: The poverty by conditions of life (or deprivation from normal conditions of life) is most prevalent in rural households with many children, in households with no employed persons, in households with all pensioners and in incomplete families (single-parent households). Regarding households with many children, more than a half of them (55.3%) had 4 and more signs of deprivation, which is twice higher than in households with one child or households without children. The poverty by conditions of life is more prevalent in rural households, as compared with urban households. Almost each second rural household had 4 and more signs of deprivation, while such combination of deprivations was observed in each fifth urban household.

Presence of employed persons and persons of the working-age is important in prevention of the poverty. Regarding households with no employed persons and households of pensioners, the poverty rate by conditions of life is 1.6 times higher than in households with employed persons or households of the working-age persons. Large poverty clusters (as income poverty, as deprivations) are situated in rural area.

Vulnerable groups by the EU equivalence scale

When analyze poverty by the EU equivalence scale, age characteristics are also important, but persons over 65 are particularly vulnerable to poverty, irrespective of gender. Among all age groups, women over 65 are most vulnerable, as their poverty rate makes 20.5% compare to 12.7% for the whole population. In contrast, the poverty rates for children under 18 are similar to the average country's rate.

Families with children do not form a vulnerable group, as persons, who live in families with children, make 50% against 54% among the whole population. We can only speak about vulnerability of families with many children – the poverty rate in families with 3 and more children is 22.7% against 12.7% in the country as a whole.

Presence of unemployed persons increases the probability of poverty of a household: the poverty rates in households without children and with at least one unemployed person make 23.1% against 12.7% in the country as a whole and 13.8% in all households without children.

Presence of persons with higher education in a household reduces the poverty risk almost 3 times.

Almost a half of poor (47.5%) live in rural area, though the share rural population makes only 32.7% of total.

5.9% of the population was poor both by the EU equivalence scale and in terms of deprivations. The corresponding rates were 5.5% among families with children and 6.3% among families without children.

Territorial disparities: The poverty has no geographical variation in Ukraine – there are more and less poor regions (oblasts) in all parts of the country. The regional poverty rate is mostly caused by level of economic development and urbanization. Volyn and Rivne oblasts (Western region), Luhansk oblast (Eastern region), Kirovohrad oblast (Central region), Zhytomyr oblast (Northern region) had a traditionally high poverty level. The more successful region is Kyiv (in 2007 poverty level was 8.0%). In last 3 years a better situation was observed in Ivano-Frankivsk oblast (Western region) where poverty level was 13-17%. In terms of aggregative regional structure, in 2007 high poverty levels were in Southern (31.0%), Western (29.8%) and Northern (28.3%) regions. In Eastern and Central regions poverty level was lower - 27.5% and 27.2% respectively, that is explained by higher economic development.

In terms of poverty level by deprivation, the highest levels had Zakarpattya oblast (Western region) – 84.5%, Donetsk oblast (Eastern region) – 54.3%, Chernihiv oblast (Northern region) – 46.3%, Cherkasy oblast (Central region) – 39.0%, Odesa oblast (Southern region) – 36.5%. The lowest levels of deprivation had Rivne oblasts (Western region) – 12.4%, city of Sevastopol (Southern region) - 13.3%, Kharkiv oblasts (Eastern region) - 15.8, and Lviv oblast (Western region) – 16.0%. In terms of aggregative regional structure, in 2007 the highest deprivation levels were in Eastern (34.2%) and Western (29.8%) regions, the lowest one was in Central (24.6%) region.

People with disabilities and other vulnerable groups: Social inclusion is mostly related to physical inabilities, certain diseases, social status, ethnic belonging, etc. In the first turn, impossibility of full-value public life concerns disabled individuals. They experience social exclusion by many aspects – from the absence of elementary equipment for disabled in public places to impossibility to choose a place of education and work.

The State provides vulnerable children (disabled, victims of the Chernobyl disaster, orphans, rural youth, children of lost miners and police officers and some others) with the privileged conditions (quotas) at their entering to higher schools and their studying. In 2007, a share of some privileged persons (victims of the Chernobyl disaster and rural population) was 5% of the total number of first-year students in higher schools.

In 2007–2008, there were 12,262 disabled students in higher schools (0.4%), 9,117 orphans and children left without parental care under 18 (0.3%), 10,079 orphans were fully maintained by the State until the graduation irrespective of age (0.4%). In 2007–2008, 713,669 students (25.4% of their total number) received stipends from the State budget, of them 30,477 students (1.1%) received social stipends.

There is a problem of homeless persons (including homeless children). However, none of information sources provides reliable information on the number and position of such persons. According to the Ministry of Internal Affairs, there were only 2,582 registered homeless persons. According to the Ministry of Health, medical institutions carry out medical examinations of homeless persons in accordance with assignments of authorities on social protection: in 2007 14,062 homeless persons took medical examinations at the assignment of social authorities or their own applications. While homeless children are picked-up and directed to children's homes, homeless adults are practically left to the mercy of fate, as there is no developed network of night shelters in Ukraine.

The modern Ukrainian society has a hidden negative attitude toward representatives of the next social groups, as well as their stigmatizing: patients with HIV/AIDS; drug users (in particular regarding injections); homosexuals or men, who have sex with men (MSM); women from sex business (WSB); patients with tuberculosis; representatives of some ethnic groups (for example, Roma people, Tatars). Each of these population groups experiences general display of discrimination of their rights and freedoms in a society, as well as displays common only for certain group.

As a whole, researches testify a high awareness of the population on HIV-infection, risks of infecting and basic ways of its transmission. At the same time, rather small proportion of people in the Ukrainian society has a tolerant attitude toward HIV-infected people. Thus, about 30% of respondents from different branches of state authorities believe that "people, who live with HIV/AIDS, are personally responsible for this consequence", i.e. they are identified as drug users and/or workers of commercial sex and homosexuals. At the same time, 30% of respondents think that a problem of HIV will never touch them personally („Problems of discrimination..", 2006).

Presently, there are no reliable data on the number of persons, who could belong to representatives of non-traditional sexual orientation. According to estimations of the national experts, there are about 500 thousand of such people; at the same time, some informal associations and public organizations declare a number in 1 million persons („Problems of discrimination..", 2006). There are no special norms, which regulate status of people, who have homosexual partners, in the current legislation. There are also no discriminatory norms, which would limit their civil rights. However, there are no any provisions in any legislative act (except Article 24 of the Constitution of Ukraine), which would protect persons, who belong to lesbians, gays, bisexuals or transsexuals from discrimination at a workplace. Moreover, even the mentioned provisions do not establish any legal liability for their violation, providing no punishment for persons, who does some discriminative actions. According to the research, 17% of respondents with non-traditional sexual orientation reported that they have been discriminated in health care. The most prevalent violations in this area are related to dissemination of medical secrets. 21 persons reported that information about their health has been disseminated, 35 persons – that other private information has been disseminated (probably, about their sexual orientation). 14 persons reported that they have been refused in granting psychological aid because of their sexual orientation (Monitoring of behavior, 2004-2005). Representatives of non-traditional sexual orientation face the largest discrimination in labour relations. Thus, in 2005, 78% of them faced some displays of discrimination at work, as well as at placement at job, 21% - faced prejudice in comparison with other workers, while 13% faced some obstacles in professional careers. 40,973 live with HIV. It is more than 16% of all men, who live with HIV in Ukraine (Information Bulletin, 2008)

Among **ethnic minorities**, which reside throughout the territory of Ukraine, Roma people face the largest obstacles for integration into the society. Unfortunately, there is a widespread stigmatizing of this ethnic group in the Ukrainian society as a result of discrimination. For instance, according to the respondents' answers, most general types of discrimination are: limited access to medical and educational institutions; worse providing with housing, difficulties with finding a job; and inadequate access to justice and rights protection, etc. According to the All-Ukrainian population census in 2001, there were 47.6 thousand Roma people in Ukraine. Their largest number resides in Zakarpattya oblast – 14.0 thousand persons and in Odessa oblast - 4.0 thousand persons. The interrogated Roma respondents mostly characterize their relations with other people in their regions as peaceful and conflict-free: 20% of respondents reported that they face "friendly" attitude, while 63% - a "normal attitude, which is not better and not worse than to representatives of other nationalities". At the same time, one-third of surveyed individuals reported about events, when Roma people were the victims of violence and offences because of their ethnicity. As to a question about relations between Roma children and youth and their coevals of other ethnic groups, the majority of experts responded that there are practically no conflicts and their

relations are friendly and neighbourly. However, some experts mentioned that absence of conflicts is rather explained by “a distance” between representatives of different ethnic groups.

Most of Roma people lives in conditions of extreme poverty with little or no access to basic social services. Although ethnic-specific data is deficient or lacking entirely, there are widespread indications testifying that very large segments of Ukrainian Roma live in poverty or extreme poverty. A 2003 survey organized by the Ukrainian Institute for Social Studies found that almost 60% of Romani respondents “could hardly make ends meet, lacking money even for basic items.” (Analysis of real problems..., 2003). The majority of Roma in Ukraine live at or below the poverty line, with small percentages living at “medium” levels, i.e. having enough money to pay for all immediate needs. Only 50% of the Romani respondents of the same nationwide study said that they had sufficient daily meals, 31% reported that they did not have enough food several times a month and 15% said they had no food at least one day a week. In some locations, the figures vary. In Uzhgorod, for example, according to expert’s estimate, around 70% of the Romani population experiences regular malnutrition.

Access of Roma to housing. Because of extreme poverty, Roma in Ukraine face serious obstacles in the realization of the right to adequate housing. Many of them live in substandard conditions in settlements or ghettos that are often segregated from mainstream society with little access to public transportation or public utilities such as electricity or waste removal. Public services or improvements such as road repairs or garbage disposal are thoroughly absent. Unwillingness to work and lack of appropriate education have been leading to poverty and deprivation in access to normal housing and living conditions. According to the 2003 survey (Yaremenko, Levtsun, Balakireva, 2003), most respondents described their housing condition as “unsatisfactory” or “bad”, 11% of them live in the room inappropriate for living. The problem of overcrowding, when several generations live under one roof, is acute. The average number of people living in one house is 6-7 persons. Roma accommodations are poorly equipped with communications compared with Ukraine’s average. Romani households are two times less supplied with running water than average Ukrainian household, three times – with bath or shower, four times – with sewer etc. According to the 2003 survey (Yaremenko, Levtsun, Balakireva, 2003), only 9% of respondents live in houses with central heating, 26% have a gas boiler for heating the room. Housing of 10% of Roma families do not have normal heating. Only 30% of respondents reported having a functioning plumbing in the house (apartment) or in the yard of their house. Almost 20% of respondents use water for drinking and cooking from open sources, which increases the risk of gastrointestinal infections.

According to the ERRC comprehensive monitoring of human rights of Roma national minority in Zaporizhie, Kirovograd, Ternopil, and Kherson regions of Ukraine in 2006, as well as in the Autonomous Republic of Crimea, Romani households still frequently have no running or potable water in the house, with family members drawing water from a neighbor street. Houses are often heated by coal or wood fires; they lack central (gas) heating, or central heating is not working properly. Many families live in houses with several windows missing. Over 50% of Roma interviewed in Kherson region and in the Autonomous Republic of Crimea in August 2006 do not have a permanent place of residence and are not registered anywhere (Proceedings Discontinued, 2006).

The problem of prejudiced attitude against Crimean Tatars and other discrimination displays is vital. The present situation with representatives of this ethnic group is caused by uniqueness of their history and modern problems of their repatriation and settlement in the Crimea (as on 01.04.2004, the number of repatriated persons reached 265.5 thousands, of them 243.4 thousand Crimean Tatars, who returned and settled in Ukraine). Discrimination against Tatars becomes mostly apparent not in prejudice attitude or violation of rights and freedom, but in impossibility to satisfy their requirements regarding provision with land plots at their native territory – the Crimea peninsula (Crimean Tatars, 1999). According to results of sociological survey conducted in 2008 by Razumkov Center in conjunction with the European Institute of Basle University supported by the State Secretariat for Education and Research of Switzerland (Center Razumkov, 2008), interethnic relations in Crimea are not harmonious because they contain some elements of international alienation and circumspection, however, they are not critically tense.

Attitudes of Crimea’s residents toward Crimean Tatars (average score of distance on the E. Bohardus’s scale - 4.31) significantly different from that to Ukrainians or Russians (average score of distance - 2.31 and 2.61 respectively). The majority of Crimea’s population (41.7%) is ready to accept Crimean Tatars only as inhabitants of Crimea, as family members - 7.5%, close friends - 5.4%, neighbors - 16.8%, employees - 7%. However, 7% of Crimea’s residents would keep Crimean Tatars out of the Crimea (Russians and Ukrainians - respectively 0.1% and 0.3%). According to the evaluation of discrimination of Crimean Tatars and other deported folks, most Ukrainians and Russians (56.5%) believe that this problem does not exist in Crimea; 16.2% believe that it appears, but rarely; 13.7% - that it exists, but appear only occasionally in some areas. Only 5% of Crimea’s residents believe that discrimination exists in most areas. However, representatives of Crimean Tatars view the problem fundamentally differently. 71.9% of them acknowledged the existence of constant or periodic discrimination.

According to 2008 sociological survey (Center Razumkov, 2008), among urgent problems Crimean Tatars considered the most important the following: low wages and pensions (66.2% of respondents); high prices on basic goods (67.4%); provision of deported people with work, housing, and land (54.7%); high unemployment (34.5%); low level of medical care (24.7%).

Information about income of Crimean Tatar population is extremely limited. For many Crimean Tatars' households the only source of income was products from private farming. According to a survey conducted in 1999 (Kotyhorenko V.O., 2005), the main component of the family budget of Crimean Tatars was pensions (this source of income indicated 45.1% of respondents). The second important component was income from casual work (41.2%), the third - income from homestead land (35.6%). In 1999, only 28.6% of Crimean Tatars had stable wages. In the same 1999 about 35% of Crimean Tatars families had income as low as a benefit for disabled people (85 hr.), and about 45% had income below the poverty line; Ukraine's average poverty level was 27.8%. Nowadays, the income level of Crimean Tatars is not much different from Ukraine's average.

Access of Crimean Tatars to housing. There are 294 of high-density "compact living" communities of Crimean Tatars in Crimea. Most repatriates living in the city of Simferopol and such districts of Crimea as: Simferopol, Belogorsk, Bahchisaraysk, Dzhanikoysky, Kirov, Krasnogvardiysky and Leninsky districts. In the Kherson region a large number of Crimean Tatars live in Genichesk area (Committee for Nationalities and Religion, 2009). Today the infrastructure of "compact living" communities of Crimean Tatars is unsatisfactory. Approximately 49% of Crimean Tatars does not have own housing (Committee for Nationalities and Religion, 2009). The coverage of Crimean Tatar's settlements by electricity (power) is 75%, by water (water pipes) - 27%; the level of gasification does not exceed 3%, sewerage and heating networks are almost absent. There are practically no hard surface roads (the providing of hard surface roads is about 10%), schools, and medical facilities (Netesa, 2004). Lack of basic living conditions in settlements of Crimean Tatars has led to a sharp deterioration of their health and to increase in mortality among formerly deported.

3.5. CONCLUSIONS AND KEY CHALLENGES

During the period of economic growth Ukraine has made considerable progress toward reducing the absolute poverty. However, because of the lack of effective steps in implementing the state policy, it did not succeed in reduction of income inequality caused by the peculiarities of the transition period. As a result, relative poverty rates have been constant for 9 years. Profile of the Ukrainian poverty remains unchanged year in year out; the main risk groups consist of families with many children, elderly, unemployed, and individuals with low educational level. Rural population experiences the highest poverty.

As a result of financial crisis in 2009, some changes in the profile and risks of poverty for certain families are anticipated. Poverty risks for families with unemployed (especially families with children), for households with persons aged 70 and older, households with children and pensioners are expected to increase. The situation in households where every member is employed and in households consisting of one child and employed parents will improve. Perhaps, in 2009 the situation for families with three and more children will improve as well, given family assistance will be paid in accordance with fixed terms.

In 2009 a slight reduction in poverty differentiation between urban and rural areas is expected because economic crisis hit urban population harder than rural. Thus, worsening of indicators in urban area and unchangeable situation in rural area can be predicted. Regional changes of poverty indicators might reflect the influence of economic crisis on certain sectors of economy. Monofunctional cities will be in the worst situation.

Presently, there are next urgent aspects of deprivations in Ukraine: inappropriate housing conditions, limited availability of social services, deprivation of property, and impossibility to have full-value leisure.

The Ukrainian society does not perceive problems of some minorities, which face social exclusion. It concerns traditionally vulnerable population groups (disabled, ethnic minorities) as well as new groups, which appeared rather recently; they are HIV/AIDS-infected people; drug consumers (in particular, injection users); homosexuals. On general, tolerant attitude toward such people is combined with intolerance of staying in their neighborhood that leads to social isolation of these groups in all spheres of life.

Homelessness is a particularly shameful problem, which also concerns children.

Currently, realization of the developed strategies and programs remains the main problem in Ukraine. Documents are mostly declarative. First, the strategy of poverty eradication covers a pretty broad range of efforts needed to be implemented in various spheres of life. However, monitoring the strategy realization is difficult as there are no precise indicators describing the achievement of specific tasks. Secondly, there is no goal-oriented financing for purposes of the strategy.

The social protection system does not have a significant influence on poverty level as a consequence of an inadequate targeting of vulnerable groups with social assistance. Only pension benefits perform a safety function and insure pensioners from poverty risks.

The strategic documents need to be revised and updated, with consideration of recent changes in the poverty situation and considering results of new studies on poverty and social inclusion. New strategy has to take into account possible consequences of financial crisis and to identify new steps toward eliminating monetary poverty. The main task of new strategy is to determine groups of social exclusion and to develop measures on their integration into the society.

Statistical problems: Absence of statistical data on non-monetary poverty of national minorities; absence of official information about social exclusion of specific groups and on aspects of their discrimination; absence of panel researches of poverty; insufficient representativeness of poverty indicators at regional level.

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Annexes for Chapter 3

Annex 1

The Subsistence Minimum in Ukraine.

Subsistence Minimum is based on “basket” principle. It includes 9 major groups of goods and services. Its amount is calculated per average family¹² or per person taking into account consumption characteristics of different demographic groups.

1. A basket of food per person, kg per year:

- For children aged 0-6 years;
- For children aged 6-18 years;
- For persons with ability to work;
- For persons, who have lost ability to work

2. The minimum set of wardrobe per person, considering the term of use, in years:

- For male with ability to work;
- For male pensioners;
- For female with ability to work;
- For female pensioners;
- For children aged 0-6 years;
- For children aged 6-18 years

3. Minimum basket of textile linen per average family taking into account the term of use, in years (bedding, blankets, towels, etc.).

4. The minimum basket of basic requirements (except food), sanitation and medicine per average family taking into account the term of use, in years (soap, toothbrush and paste, shampoo, cotton, bandage, some medications, etc.).

5. The minimum set of cultural and household goods per average family taking into account the term of use, in years (utensils, tableware instrumentation, refrigerator, TV, washing machine, iron, furniture, etc.).

6. The set of housing and communal services.

7. A set of household services in average per capita per year (shoes repair, clothing, home appliances, housing, services, laundry, dry cleaning, bath, hairdresser, photographer):

- For children aged 0-6 years;
- For children aged 6-18 years;
- For persons with ability to work;
- For persons, who have lost ability to work

8. Transport services include only travel by urban and suburban transport excluding air-transport (average per capita per year).

- For children aged 6-18 years;
- For persons with ability to work.

9. Cultural Services per average family per year (visits to theaters, cinemas, clubs, museums, parks, zoos, nature reserves, circus, musical institutions, libraries, purchase of books).

¹² Average family size in 2007 was 2.6 persons

Annex 2

The official monitoring of poverty in Ukraine.

The main information base for poverty estimation is household surveys. Based on data of surveys¹³, microdata files are prepared for monitoring of poverty quarterly and annually that allows estimation of poverty rate by the official poverty line (75% of the median equivalent total expenditures, the extreme poverty line – respectively 60%); in case of a need, this microdata allows to perform multidimensional estimations based on different approaches, including subjective estimation; as well as studies on interaction of different factors, efficiency and targetness of social protection, possibilities of access of separate groups of households to goods and services.

To estimate the poverty rate, the total per capita expenditures of a household are used. These expenditures consist of monetary expenditures, costs of consumed products in subsistence agriculture and self-storage and cashless privileges and subsidies. The poverty rate is estimated at the national level and at the level of administrative – territorial units, i.e. regions (oblasts). Quarterly monitoring of poverty includes estimation of regional poverty level on the basis of the country poverty line, and annual one on the basis of regional poverty line (with taking into account level of regional consumption prices).

Thus, until now in Ukraine poverty research aimed at estimating the phenomenon was based on monetary approaches. In 2008, a new stage of poverty research was founded, including investigation of economic deprivations; however, such approach is used only at scientific level, not in the state monitoring. The research of social exclusion was realized only fragmentary, as a result of the limited information base.

Annex 3

The strategic documents of the Government of Ukraine for eliminating poverty.

Fighting poverty was declared as one of the global goals for development at the Millennium Summit of UN in September, 2000. Joining the UN Millennium Declaration by Ukraine proved that it recognizes human development, including poverty, as a priority. Social orientation of economic policy has been defined as the strategic direction of development for the period to 2015.

To realize these tasks, the Government of Ukraine developed and approved not only governmental programs of general economic and social development, but also goal-oriented programs, determining the complex of efforts in different directions: "Children of Ukraine", "Health of the Nation", "Governmental Program of Employment of Population", etc. The legislative base that regulates minimum standards and norms in social sphere was improved. In particular, the Law of Ukraine "On the subsistence minimum" was approved.

To achieve the aim of combating poverty in Ukraine, two government programs are carried out:

- "Strategy of poverty elimination" (August, 2001);
- "Complex program of the nation-wide realization of decisions, accepted at the Global Summit on Sustainable Development, for 2003-2015" (April, 2003)

¹³ Monitoring of poverty is realized on the basis of Survey only

Tables

Table 3.1: Dynamics of poverty rates in Ukraine by different poverty line, %

Poverty line	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
75% of the median total equivalent expenditures (national equivalence scale 1.0; 0.7; 0.7).	27.8	26.4	27.2	27.2	26.6	27.3	27.1	28.1	27.3	27.0
60% of the median total equivalent expenditures (national equivalence scale 1.0; 0.7; 0.7).	14.4	13.9	14.9	13.7	13.7	14.2	14.4	14.8	13.8	13.5
60% of the median total equivalent incomes (EU equivalence scale 1.0; 0.5; 0.3)	12.0	12.6	14.0	12.6	12.5	13.6	13.4	13.5	12.7	13.2
daily ration of a person in a household below 2,100 kCal	32.6	25.6	25.9	17.3	15.6	13.7	13.2	14.2	14.3	13.2
subsistence minimum (national equivalence scale 1.0; 0.7; 0.7)	n.a.	70.6	71.2	72.5	63.3	50.3	38.2	33.0	26.4	12.6
food expenditures over 60% of the total household's expenditures	73.3	71.5	67.4	61.4	61.6	59.3	58.7	51.6	42.7	40.8
self-certification (self-identification) of poverty	n.a.	n.a.	n.a.	n.a.	n.a.	77.5	79.6	86.1	55.9	53.2

Source: Institute for Demography and Social Studies of NAS of Ukraine (expert calculation on the basis of HHS)

Note: survey methodology of the self-certification was changed in 2007 – new category was added: no longer a poor one but still not in the middle class

Table 3.2: Self-certification of incomes purchasing power, %

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Funds were enough – have savings	1.7	1.9	3.3	3.1	5.0	7.2	6.7	8.0	14.0
Funds were enough – no savings	26.5	24.6	33.2	36.0	43.4	51.4	52.9	52.7	54.5
Funds were enough only for food - abstinence from buying necessities	51.8	56.2	50.2	50.2	45.3	36.4	35.9	35.1	29.3
Funds were not enough to buy even food	20.0	17.3	13.3	10.8	6.3	5.0	4.6	4.1	2.1

Source: State Statistics Committee of Ukraine

Table 3.3: Subsistence minimum and relative poverty lines, UAH per capita a month

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Subsistence minimum	270.1	311	342	342	362.2	423	463.8	518.5	607.5
75% of the median total equivalent expenditures (national equivalence scale 1.0; 0.7; 0.7)	156	175	192	220	271	365	430	526	778
60% of the median total equivalent incomes (EU equivalence scale 1.0; 0.5; 0.3.)	161	181	197	225	276	373	436	529	793
60% of the median total equivalent expenditures (national equivalence scale 1.0; 0.7; 0.7)	125	140	153	176	217	292	344	420	622

Source: State Statistics Committee of Ukraine.

Table 3.4: Poverty rate by types of households, % (by national equivalence scale)

Type of households	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Households with children	33.9	31.9	33.4	34.4	33.1	35.4	35.4	35.3	33.9	33.1
Households without children	17.8	17.8	17.8	16.9	18.4	18.0	17.7	19.3	19.4	19.7
Households with children:										
with 1 child	29.1	25.4	26.5	25.8	24.1	26.5	28.9	27.6	27.3	26.4
with 2 children	35.8	35.9	37.7	39.9	40.7	42.2	42.9	41.8	40.6	42.0
with 3 children and more	54.5	54.1	59.6	64.3	63.5	69.6	66.0	68.4	64.6	62.4
with 4 and more	75.8	70.8	66.9	87.3	64.6	85.5	64.7	79.9	70.8	76.4
with children under 3 years	44.1	35.2	43.8	40.3	40.4	44.2	36.4	42.0	39.5	37.6
with all adults employed	31.3	25.7	27.5	27.4	25.0	26.1	27.9	27.8	26.3	24.6
with unemployed and employed adults	37.9	36.6	38.2	40.2	39.4	42.7	41.7	40.5	40.5	40.3
Households without children:										
all adults of working age	16.5	14.8	13.5	14.2	7.4	14.7	15.4	15.2	15.0	14.8
all adults of retirement age	15.9	16.8	17.0	15.2	18.5	17.8	16.2	21.4	21.8	20.7
all adults aged over 75	25.5	26.5	22.2	25.2	25.4	26.9	22.7	28.9	28.9	29.0
at least one unemployed adult	29.5	27.9	27.0	26.2	17.8	30.7	31.1	35.2	32.0	35.9
Ukraine – total	27.8	26.4	27.2	27.2	26.6	27.3	27.1	28.1	27.3	27.0

Source: Institute for Demography and Social Studies of NAS of Ukraine (expert calculation on the basis of HHS)

Table 3.5: Poverty rate by types of households, % (by EU equivalence scale)

Type of households	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Households with children	12.2	12.5	14.8	13.3	12.0	15.1	14.5	13.4	11.8	13.2
Households without children	11.7	12.8	12.9	11.7	13.1	11.8	12.2	13.6	13.8	13.1
Households with children:										
with 1 child	11.8	10.7	12.8	10.4	9.6	11.4	12.9	10.6	10.6	10.8
with 2 children	10.7	12.7	14.7	13.8	13.5	17.2	15.9	15.5	12.1	15.6
with 3 children and more	21.3	22.9	28.0	27.9	23.2	32.6	24.9	26.3	22.7	27.9
with children under 3 years	18.6	13.8	21.7	17.5	15.8	22.2	15.0	15.0	11.7	14.8
with all adults employed	7.3	8.2	9.0	9.3	7.0	8.6	8.9	8.4	9.1	8.5
with all unemployed adults	19.5	22.7	21.9	20.9	22.8	24.6	24.0	26.0	22.7	26.6
with unemployed and employed adults	14.6	16.5	16.1	13.5	15.2	20.4	17.8	16.0	11.8	16.8
Households without children:										
all adults of working age	10.4	9.8	9.8	8.9	9.0	8.1	9.4	10.1	10.0	9.0
all adults of retirement age	12.4	14.7	14.8	13.0	15.4	13.9	13.8	18.3	17.9	17.0
all adults aged over 75	22.9	25.8	23.5	23.5	22.5	23.1	22.9	26.6	26.7	27.8
at least one unemployed	17.1	17.4	19.9	18.0	9.7	19.1	21.6	24.5	23.1	24.1
Ukraine – total	12.0	12.6	14.0	12.6	12.5	13.6	13.4	13.5	12.7	13.2

Source: Institute for Demography and Social Studies of NAS of Ukraine (expert calculation on the basis of HHS)

**Table 3.6: Poverty rates by types of households and educational level in 2008, %
(by national equivalence scale)**

Type of the household:	With at least one member with higher education	Without members with higher education	Ukraine – total
Households with children			
with 1-2 children	15.6	38.3	30.5
with 3 and more children	40.9	67.6	62.4
with children under 3 years	16.2	50.3	37.6
with all persons of working age	14.8	37.8	30.3
with persons of working and retirement age	22.2	47.0	39.0
with employed and unemployed persons of working age	15.2	36.8	29.0
with at least one unemployed	23.7	55.7	49.5
with all adults employed	11.5	30.3	24.6
with employed persons and pensioners	23.0	50.2	40.3
Households without children			
with all pensioners	9.9	23.2	20.7
with all employed persons	3.0	11.8	8.7
with employed and unemployed persons of working age	6.3	16.6	12.5
with employed persons and old age pensioners	6.4	22.5	16.2
with employed, pensioners and unemployed of working age	14.3	37.4	28.3
with pensioners and unemployed of working age	13.6	35.0	26.7
with persons aged over 75	20.7	30.0	29.0
with persons of working age	7.0	13.6	14.8
with persons of working age and persons of retirement age	9.2	29.9	22.9

Source: Institute for Demography and Social Studies of NAS of Ukraine (expert calculation on the basis of HHS)

**Table 3.7: Poverty rates by types of households and educational level, %
(by equivalence scale of EU)**

Type of households	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Without children and with at least one member with higher education	5.9	4.8	6.0	4.7	5.0	5.1	4.7	5.2	5.7	5.0
Without children and without members with higher education	13.6	15.3	15.0	13.9	16.1	14.6	15.4	17.1	16.2	16.9
With children and with at least one member with higher education	4.5	5.1	6.1	3.6	4.9	7.6	7.4	4.5	4.2	5.3
With children and without members with higher education	15.2	15.7	18.1	16.9	15.0	18.3	18.0	17.8	15.8	17.3

Source: Institute for Demography and Social Studies of NAS of Ukraine (expert calculation on the basis of HHS)

Table 3.8: Age-specific poverty rates, 2008, % (by national equivalence scale)

Age groups	Females	Males
0-5	36.2	35.5
5-10	37.0	36.2
10-15	36.3	34.1
15-20	29.6	26.5
20-25	27.7	22.3
25-30	27.6	26.2
30-35	29.7	27.7
35-40	29.5	28.8
40-45	22.2	26.3
45-50	20.8	24.1
50-55	21.7	24.3
55-60	18.8	18.4
60-65	23.8	19.5
65-70	23.8	25.6
70-75	29.6	19.3
75-80	25.5	25.6
80 and over	36.9	27.4

Source: Institute for Demography and Social Studies of NAS of Ukraine (expert calculation on the basis of HHS)

Table 3.9: Age-specific poverty rates, 1999-2008, % (by equivalence scale of EU)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Females 0-17	12.7	13.9	15.3	14.2	11.7	16.1	14.5	14.6	12.3	14.4
Females 18-64	11.5	11.4	13.1	11.3	10.7	12.0	11.9	11.5	10.7	11.5
Females 65 and over	16.4	19.5	18.5	16.9	20.2	18.5	18.2	21.3	20.5	20.8
Males 0-17	11.5	12.3	15.2	13.9	12.9	15.1	14.7	13.8	12.7	14.0
Males 18-64	11.2	11.3	12.9	11.7	11.7	12.3	12.8	12.3	11.8	11.6
Males 65 and over	10.2	12.6	12.2	11.3	13.4	12.6	13.4	15.8	16.4	14.4
Total	12.0	12.6	14.0	12.6	12.5	13.6	13.4	13.5	12.7	13.2

Source: Institute for Demography and Social Studies of NAS of Ukraine (expert calculation on the basis of HHS)

Table 3.10: Poverty rates by type of settlements in 2008, % (by national equivalence scale)

Poverty line	Large cities	Small towns	Rural area	Kyiv city	Ukraine – total
75% of the median total equivalent expenditures (national equivalence scale 1.0; 0.7; 0.7)	17.5	28.3	38.2	9.6	27.0
of subsistence minimum (national equivalence scale 1.0; 0.7; 0.7)	6.0	13.1	20.6	2.2	12.6
USD PPS 4.3 per person a day	2.3	5.8	10.7	0.9	5.9
food expenditures over 60% of the total household's expenditures	33.6	41.2	49.7	27.9	40.8

Source: Institute for Demography and Social Studies of NAS of Ukraine (expert calculation on the basis of HHS)

Table 3.11: Poverty rates by the type of settlement, % (by equivalence scale of EU)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Large cities	12.7	12.8	11.5	9.0	8.0	9.0	9.0	7.7	7.5	6.8
Small towns	12.0	11.5	14.6	13.2	13.8	15.2	15.8	15.5	13.9	14.2
Rural area	11.2	13.4	16.4	16.3	16.8	18.0	17.1	19.3	18.5	20.6
Total	12.0	12.6	14.0	12.6	12.5	13.6	13.4	13.5	12.7	13.2

Source: Institute for Demography and Social Studies of NAS of Ukraine (expert calculation on the basis of HHS)

Table 3.12: Estimation of some aspects of the life comparatively to the parents at the same age in 2007, %

Aspects of living activities	Better	Equally	Worse
Well-being	42.7	19.6	36.9
Education	42.3	28.9	27.2
Social status	24.4	43.1	30.6
Housing habitation	38.2	31.8	28.8
Social protectability	13.2	26.1	58.6
Stability of life	10.4	17.6	70.4
Health	10.6	37.4	50.3
Recreation ability	27.4	23.7	47.2
Life safety	8.7	30.2	59.3
Food	42.5	23.9	32.1
Ability to travel	39.2	23.9	35.4
Ability of self-actualization	37.3	30.6	30.7

Source: Institute for Demography and Social Studies of NAS of Ukraine (expert calculation on the basis of HHS)

Table 3.13: Concentration of deprivations in households, 2007

Concentration of deprivations in a household	Proportion of households with deprivations, %	Cumulative proportion of households, %
18	0.0	0.0
17	0.0	0.0
16	0.0	0.0
15	0.1	0.1
14	0.3	0.4
13	0.2	0.6
12	0.5	1.1
11	0.6	1.7
10	1.1	2.8
9	1.6	4.4
8	2.1	6.5
7	3.2	9.7
6	4.4	14.1
5	6.4	20.5
4	8.1	28.6
3	10.1	38.7
2	11.3	50.0
1	14.7	64.7
0	35.3	100.0
Total	100.0	-

Source: Institute for Demography and Social Studies of NAS of Ukraine (expert calculation on the basis of HHS)

Table 3.14: Laeken non-monetary indicators

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Poor employees (employees with minimum wage in December), %	n.a.	n.a.	n.a.	9.7	15.3	22.3	11.0	18.1	14.6	8.5	10.7	7.6	5.5
Total unemployed, thousand	1,437.0	1,997.5	2,330.1	2,937.1	2,609.0	2,655.8	2,455.0	2,140.7	2,008.0	1,906.7	1,600.8	1,515.0	1,417.6
Long-term unemployed (≥ 12 months' unemployment), as % of total labour force in working age	n.a.	n.a.	n.a.	n.a.	n.a.	5.7	6.1	5.3	4.6	3.7	2.2	1.8	1.5
Long-term unemployment, as % of total unemployed	n.a.	n.a.	n.a.	n.a.	n.a.	55.4	55.4	53.2	50.0	42.5	29.8	25.8	23.0
Share of adults aged 25 or more who do not have upper secondary education, %	n.a.	n.a.	n.a.	n.a.	27.4	25.5	25.2	24.9	21.6	20.5	17.4	17.6	16.2
Young people who do not study, as % of population aged 15-17	n.a.	n.a.	n.a.	n.a.	4.7	5.1	4	3.7	4.5	4	2.6	2.9	2.4
Young people aged 15 who study at upper secondary, post-secondary non-tertiary or higher schools (ISCED 3, 4, 5A, 5B), %	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	95.0	95.0	95.5
Self-assessment of the health status as bad, %	n.a.	n.a.	n.a.	n.a.	n.a.	18.4	16.6	15.3	14.9	13.8	12.3	13.2	11.8

Source: State Statistics Committee of Ukraine, Institute for Demography and Social Studies of NAS of Ukraine (expert calculation on the basis of HHS)

Table 3.15: Laeken indicators: life expectancy at birth, years

	Total	Male	Female
1991-1992	69.30	64.20	74.18
1992-1993	68.67	63.50	73.70
1993-1994	67.98	62.78	73.15
1994-1995	67.22	61.82	72.72
1995-1996	66.93	61.40	72.65
1996-1997	67.36	61.91	72.95
1997-1998	68.08	62.74	73.50
1998-1999	68.32	62.95	73.74
1999-2000	67.91	62.44	73.55
2000-2001	68.33	62.77	74.08
2001-2002	68.32	62.70	74.13
2002-2003	68.24	62.64	74.06
2003-2004	68.22	62.60	74.05
2004-2005	67.96	62.23	73.97
2005-2006	68.10	62.38	74.06
2006-2007	68.25	62.51	74.22
2007-2008	68.27	62.51	74.28

Source: State Statistics Committee of Ukraine

Table 3.16: Share of food expenditures by deciles, %

Deciles	Share of food expenditures in total expenditures of households, %					
	2001	2003	2005	2006	2007	2008
1	73.6	70.9	70.7	69.2	66.7	67.9
2	69.9	68.8	67.7	65.8	63.2	62.9
3	67.2	66.2	65.3	63.6	60.1	60.2
4	66.5	64.7	62.7	62.3	59.0	57.8
5	65.4	63.6	63.0	60.4	57.6	57.3
6	65.3	62.4	60.4	58.5	55.5	55.2
7	64.0	62.2	60.1	56.9	53.9	53.5
8	63.1	59.4	58.2	54.1	53.2	51.1
9	60.6	57.3	56.0	52.5	49.8	48.9
10	52.4	48.8	45.8	41.4	41.6	37.3
Total	62.6	59.8	58.1	55.0	53.2	50.8

Source: State Statistics Committee of Ukraine

Table 3.17: Poverty rate by national equivalence scale and deprivation by aggregated regions in 2007, %

	Poverty rate by national equivalence scale, %	Households that have 4 and more deprivations according to total rating, %
Western region	29.8	29.8
Southern region	31.0	27.0
Northern region	28.3	25.7
Eastern region	27.5	34.2
Central region	27.2	24.6
Ukraine	27.3	28.4

Source: State Statistics Committee of Ukraine

4. PENSIONS

4.1. INTRODUCTION AND OBJECTIVES

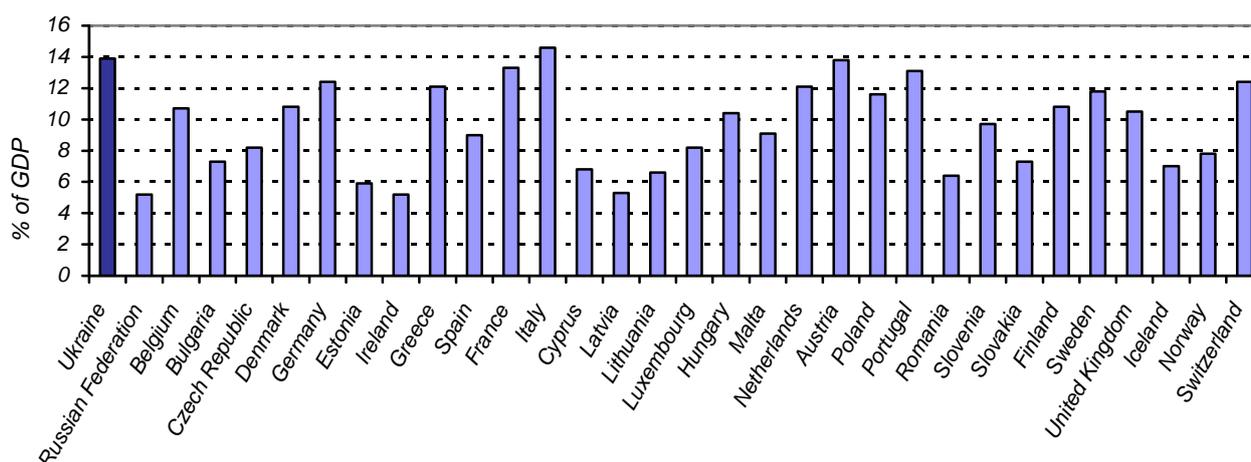
During the independence period pension system of Ukraine did not change significantly. Existing public pension system includes two components: contributory compulsory state pension insurance on the PAYG basis (old-age, disability and survivors pension) and state pension schemes (social and Chernobyl pensions, pensions to servicemen, various bonuses, extras and increases to pensions – for special merits, veterans and “war children”, etc.). State pension schemes are financed by the State Budget, and are made available because of additional pension contributions.

Private (non-governmental) pension schemes are based on voluntary participation, however, in Ukraine a little share of population is attracted by them (2% of employed). Because private schemes have been existing for only a short period of time, rewarding of its participants with benefits has not begun yet.

As a result of ageing progressing and long list of pension privileges (lower retirement age for women, early retirement for employed in hazardous or special work conditions, etc.), retired people amount to 30% of the total Ukraine's population. Retired people are the most active part of electorate; therefore before every election the size of pension benefits is increased irrespectively of needs for pension system modernization. It introduces a serious challenge to adequacy and financial sustainability of the pension system.

During 1991–2003 expenditures on pensions (excluding pensions of servicemen and officers) were about 8–9% of GDP. In 2004–2008, due to frequent elections pension benefits increased about 5 times, and expenditure on pensions grew up to 13–14% of GDP. Such level is one of the highest in Europe (see Figure 4.1). In 2009, GDP has dropped because of the crisis, and this ratio is going to reach its record – about 17% of GDP (including “military” pensions – 18.2%).

Figure 4.1: Expenditure on pensions as % of GDP in Ukraine and other European Countries, 2007



Source: State Statistics Committee of Ukraine, Eurostat (tps00103)

At the same time, at-risk-of-poverty rate of older people is much higher than for individuals at working age (especially for women aged 75 years and older) and has a trend to increase. Comparatively low poverty rates were observed only for the first 5 years of pension period because many people continue to work and receive both wages and pensions. Regardless of the lowest in Europe pension age (55 for females and 60 for males), in Ukraine employment rate of old workers (55 to 64 years) equals to 40% (in EU-27 – 44.7%).

During 1999–2008, at-risk-of-poverty rate of households consisting entirely of retired individuals grew from 12.4% to 17.0%, of households with all members aged 75 years and older – from 22.9% to 27.8% (by equivalence scale of EU). At the same time, the total poverty rate and poverty rate of households consisting entirely of working-age members are almost constant.

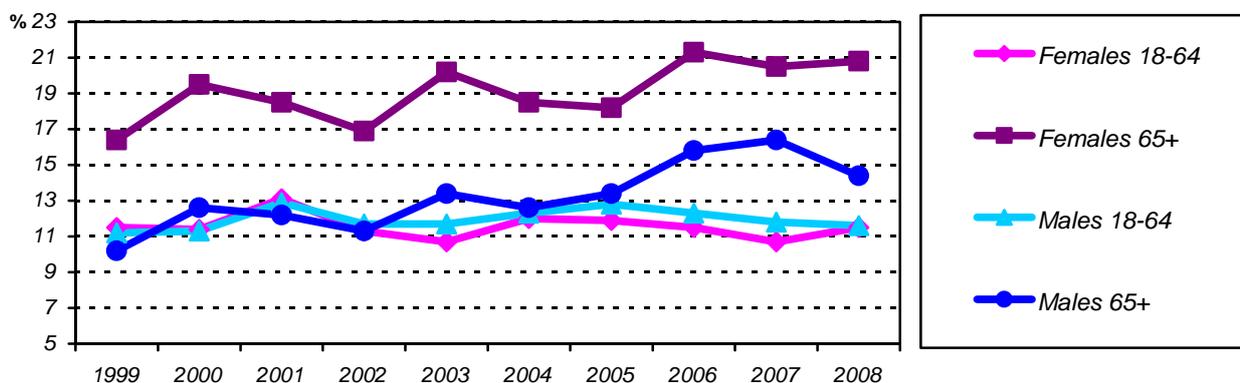
Gender gap at-risk-of-poverty rates do not change practically. The rate of elderly females is by 5–6 percent points higher than the rate of males (see Figure 4.2).

On April, 1, 2009, the ratio between the average pension and the average gross wage was 49.5% (in 1991–2000 – about 36%). Because pensions are tax-free, the net replacement rate is higher – 60.4%.

The long-term challenges for stability and adequacy of the pension system are related to demographic trends, in particular, to very low fertility and ageing. The portion of population aged 65 and over rose from

12% in 1990 to 16% in 2008, the old age dependency ratio (65+ / 15-64) – from 18% to 24%. According to demographic projections, these indicators will increase up to 25% and 38% in 2050. If the national retirement age will remain the same, in 2050 for every 4 persons in working age will be 3 elderly persons, and for every 10 contributions – 13 pensioners.

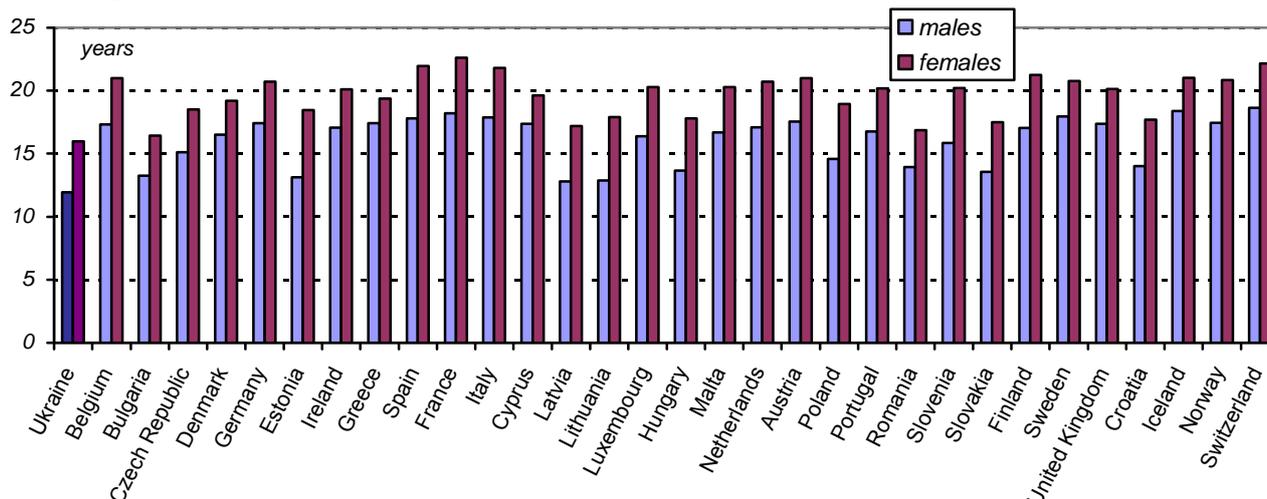
Figure 4.2: Age-specific poverty rates (by equivalence scale of EU)



Source: Institute for Demography and Social Studies of NAS of Ukraine (expert calculation on the basis of HHS)
The official monitoring of poverty in Ukraine are realized from 1999

In Ukraine, life expectancy at birth and at age 65 is very short comparing with life expectancy in EU (see Figure 4.3). However, due to low retirement age, the lifetime spend on retirement is no shorter (and even longer for women) than in most European countries (Gora, 2008).

Figure 4.3: Life expectancy at age 65 in Ukraine and other European Countries, 2007 or 2006



Source: State Statistics Committee of Ukraine, Eurostat (tsdde210)

It is expected that life expectancy will increase, especially for males at working age (see Table 4.1). This is good news as a number of contributors will increase; however, the number of retired and time spend on retirement will increase as well. Therefore, the pension system requires substantial modernization.

Table 4.1: Projection of life expectancy in Ukraine (years)

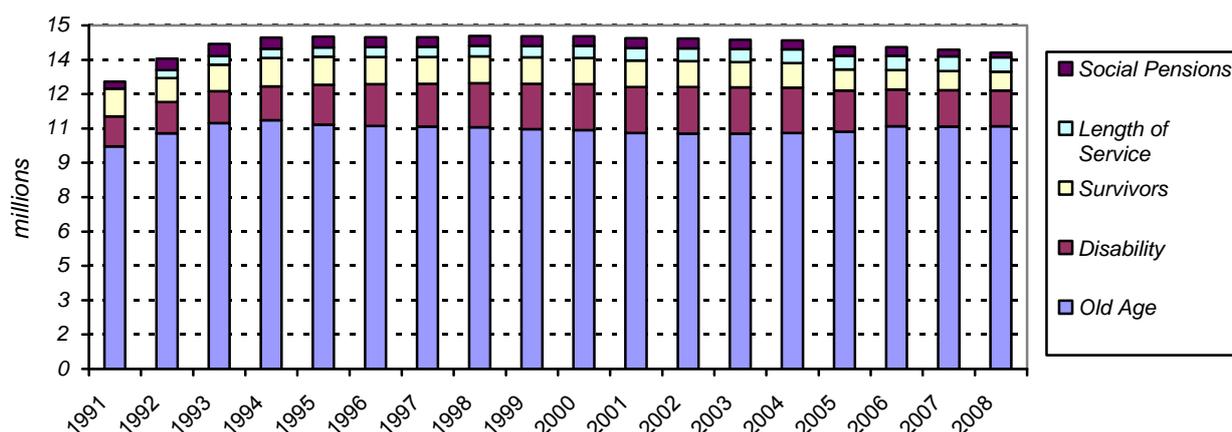
	2008	2010	2020	2030	2040	2050
Males, at birth	62.3	62.2	65.9	68.0	69.7	71.5
Males, at age 60	14.0	14.1	15.2	15.9	16.9	17.9
Males, at age 65	11.4	11.5	12.3	13.0	13.8	14.7
Females, at birth	74.5	74.0	76.0	78.0	79.0	79.5
Females, at age 55	23.2	23.3	24.1	25.4	26.5	27.0
Females, at age 60	19.2	19.2	19.9	21.3	22.3	22.7
Females, at age 65	15.5	15.5	16.1	17.3	18.2	18.7

Source: Institute for Demography and Social Studies of NAS of Ukraine

4.2. HISTORICAL PERSPECTIVE

In 1991, the Parliament of Ukraine passed the Law of Ukraine "On the Pension Provision", which had few differences from a similar Law of the USSR 1990. Both new and old law suggested combination of principles of social insurance (contributions for employers and employees) and state social assistance. However, new law opened possibilities of expansion of privileged categories of pensioners, who could become retired before the established age (anticipated old-age pension and length of service pension). As a result, the total number of pensioners grew from 13.1 in 1991 to 14.5 million persons in 1994 (see Figure 4.4). In addition, more than 20 legal acts were passed, providing special or more favourable conditions for receiving pension benefits for employed in particular occupations and positions (state employees, scientists, deputies, judges, journalists, and other).

Figure 4.4: Retired by types of pensions (including "military") at 1 January, millions



Source: State Statistics Committee of Ukraine

The retirement age (55 for women, 60 for men) was established in the 1930's and have never been reviewed. The Ministry of Labour and Social Policy of Ukraine made a few attempts to introduce a bill on increase of the pension age (mostly for women), but these drafts have not been supported by the Government and the Parliament.

According to the Law of Ukraine "On the Pension Provision", the size of the old-age pensions was calculated as 55% of the average monthly wage during any 5 service years. For each full year of additional service (over 20 years for women, 25 years for men) a pension was increased by 1% of a wage, but no less than by 1% of a minimum pension.

The size of the disability pension was calculated as percentage of the wage depending on a level of disability: I group of disability – 70%, II group – 60%, III group – 40%. Therefore, average disability pension was usually higher than old age pension. Survivor's pension was estimated as 30% of the breadwinner's wage for every dependent person.

Every year pensions was indexed by inflation, but not less than 2% of the minimum pension.

The Pension Fund was obliged to fund a large number of non-insurance benefits without appropriate compensations from the State Budget. On a background of economic crisis of the transition period, increase of expenditures on pensions resulted in the deficit of the Pension Fund. To enlarge revenues of the Pension Fund, in 1992 the size of employers' contribution was raised up: from 20.93% to 31.82% (in the I quarter of 1992 – even to 55.88%) of the wage bill. The size of employees' contribution stayed at the same level (1% of their wages). However, the deterioration of the labour market situation (in particular, prevalence of unemployment, low wages and arrears of wages) resulted in large pension arrears in 1996–1999, reaching 15-20% of the total expenditures on pension benefits; they were liquidated only in 2000 (Nadtochiy, Yatsenko, 2000; Viner, 2000).

4.3. EXISTING PENSION SYSTEMS

The official start of the Ukrainian pension reform is considered to be at the beginning of 2004, when Laws of Ukraine "On the Compulsory State Pension Insurance" and "On the Non-governmental Pension Provision" went into force. Except for these Laws, there were almost 30 laws and numerous additional normative acts, regulating pension rights and guarantees. Another problem is instability of the pension legislation, for

example, the Law of Ukraine "On the Compulsory State Pension Insurance" has been changed more than 25 times. Therefore, national pension legislation is rather complicated and non-transparent.

According to the Law of Ukraine "On the Compulsory State Pension Insurance", citizens are eligible for old-age pensions after reaching the mentioned age if their insurance service is longer than 5 years. A size of a pension benefit is calculated as a product of three variables: i) all-Ukraine average wage (income), of which insurance contributions were paid during a preceding calendar year; ii) individual coefficient of wage, estimated as an average of coefficients for each month of service (a ratio of a person's wage, of which contributions were paid in particular month, to the average country's wage); iii) individual coefficient of service, estimated as a sum of months of service, multiplied by accrual rates (1.35% for each year since October 2008) and divided by 12. A full month of service is counted under condition that a sum of paid contributions is not smaller than a minimum insurance contribution (based on a minimum wage and on contribution rate). Otherwise, service length is counted proportionally to the paid part of a minimum contribution. An advantage of this formula is that individual coefficients are counted for the entire career, not only for last years.

Disability pensions are granted in case of disability appearance (except disability as the result of industrial accident or disease – pensions are granted in accordance with appropriate type of insurance in this case). Survivor pension is granted to dependent persons – children under 18, or a spouse or a parent, if they reached pension age or are disabled. A size of disability or survivor pension is estimated as percentage of old-age pension depending on a level of disability (I group of disability – 100%, II group – 90%, III group – 50%) or on the number of dependent persons (1 person – 50%, 2 and more persons – 100%). It enabled to set more direct correlation between the size of pensions and insurance participation. The necessary service for disability (survivor) pension equals from 2 to 5 years depending on the age/time of disability (death of a breadwinner). Except the current service, a period between appearance of disability or death of a breadwinner and reaching the pension age is counted.

Besides the above mentioned types of pensions, norms of the Law "On the Pension Provision" concerning early retirement pension continue to operate nowadays. There are two types of early retirement pension in regard to the standard retirement age: anticipated old-age pension and length-of-service pension. These pensions are assigned to people who have certain service length, particularly, in difficult or hazardous job conditions (according to the list of professions). Duration of service that gives the right to early retirement varies from 8 (for women)/12 (for men) to 20/25 years; bridge period (number of years before you can retire) – from 5 to 15 years, depends on occupation or category.

On January 1, 2009 number of old age pensioners on preferential terms was 2.3 million or 16.6% of total pensioners. Out of them, 0.8 million persons were at age below the established retirement age (7.5% of total number of old-age pensioners). Mainly, these retirees are former employees at mining and processing industries, certain agricultural jobs (tractor-drivers, milkmaid, and pig-breeders), mothers with many children, drivers of urban transport etc. Number of length-of-service pensioners (excluding pensioners - former servicemen and officers) was 169.9 thousand persons or 1.2% of total pensioners. Among them the largest share is represented by former employees of education, health care, railway and subway transport, aviation workers and others.

According to the State Statistics Committee of Ukraine, the right to early retirement belongs to 59% of workers of mining enterprises, 16% – manufacturing, 12% – construction, 10% – transport, 9% – production and distribution of electricity, gas and water, 5% – agriculture. Such high indicators are caused by poor economical structure, outdated technology and equipment.

Early pensions are financed from three sources: the State Budget, recompenses of employers (above than usual size of pension contribution) and own revenues of Pension Funds. Under adoption of the Law of Ukraine "On the Compulsory State Pension Insurance", it was assumed that early retirement will be abolished with time. For those who work in conditions, where it is impossible to completely eliminate the influence of harmful factors, it was planned to create occupational pension funds. These funds will be financing pensions in transition period. However, there is perceptible resistance from the trade unions and employers.

Early-retirement benefit for labour market reasons (1.5 years before the usual retirement age for unemployed, who are registered at the Public Employment Service and have the necessary service period) is financed by the Unemployment Social Insurance Fund.

Beginning from 2005, the minimum old-age pension at presence of the necessary service period (20 years for women, 25 years for men) is set at the level of the subsistence minimum for persons, who have lost ability to work. For each full year of additional service, a pension is increasing by 1% of a pension calculated in accordance with the above mentioned formula, but no more than 1% of a minimum pension.

On April 1, 2008 the ordinance according to which the minimum pension benefit can not be less than subsistence minimum for persons, who have lost ability to work (irrespective of service) was introduced.

Inflation indexation of pensions takes place through the revision of a minimum pension in accordance with the dynamics of the subsistence minimum. Only a part, which is within the limits of the subsistence minimum is indexed, rather than the total amount of a pension. It entails a gradual depreciation of already assigned pensions and their inevitable approaching to a minimum size. Therefore, incomplete inflation indexation is one of major risks for adequacy of pensions; it puts older pensioners at greater risk of poverty.

Except indexation on inflation, pensions are indexed on the wage growth. The later is performed using coefficient, which can not be smaller than 20% of the growth of nominal average wage since March (considering the preceding increase of pensions). Theoretically, this indexation gives more possibilities to support the replacement rate in conditions of rapid wage growth. However, precise values of this coefficient are determined every year by special Governmental decisions, based on financial possibilities and political reasons. During 2004-2008 because of increase in minimum pension and recalculation, pensions grew rapidly - therefore indexation on the wage growth practically did not work.

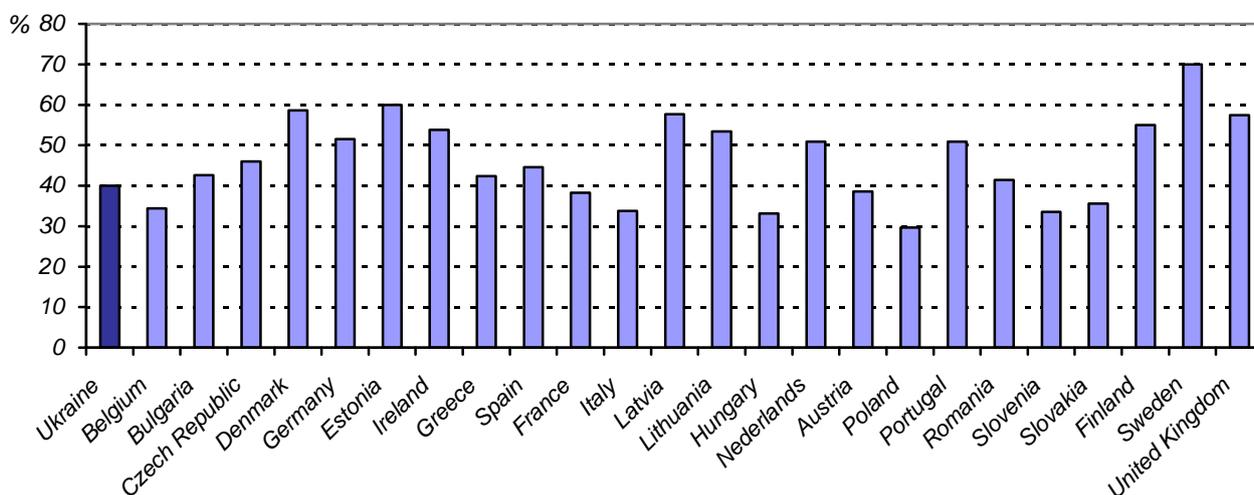
The numbers of the insured individuals, who pay pension contributions, are 15.2 million persons; the number of retirees is 13.8 million persons, i.e. there are 9 pensioners per 10 payers.

Pension contribution rate for employers equals to 33.2% of the wage bill, for employees – 2% of their wages and for self-employed – 33.2% of the minimal wage. For employers of agricultural enterprises contribution rate is reduced (26.56% in 2009); the remaining incomes of the Pension Fund come from the State Budget. It is expected that since 2010 this exemption will be cancelled.

With purpose to increase the duration of a labour period and to ensure a later retiring, the Law of Ukraine "On the Compulsory State Pension Insurance" suggested an enlarging of old-age pensions proportionally to the number years of the postponed retiring. However, only 18 persons took advantage of this right during the whole period. Another practice is much more widespread in Ukraine – this is when pensioners are continuing to work after reaching retirement age and receive pensions and wages simultaneously.

That is why age profile of employment in Ukraine is quite anomalous as compared with most European countries. Employment rates of young and middle age are significantly smaller than at old age (especially for males). Employment rate of elderly is quite high, taking into consideration the extremely low retirement age in Ukraine (see Figure 4.5).

Figure 4.5: Employment rate of older workers (aged 55–64) in Ukraine and EU, 2007 (%)



Source: State Statistics Committee of Ukraine, Eurostat (2009)

According to the Pension Fund, on January 1, 2009 the number of working pensioners was 2.8 million (21% of the total). More than 80% of working pensioners were old-age pensioners, other – disability pensioners. The largest proportion of working pensioners is employees in research and development (third of the total). About 22% of employees of mining, water and air transport, education and health, culture and sports are working pensioners. Such large share of working pensioners is observed in spheres where employees have right on early retirement. That is an evidence of significant residual work potential and is important argument for the abolition of early pensions.

If pensioner departs abroad on permanent residence, pension can be paid to him or her for six months beforehand. During sojourn abroad pension is paid in cases specified by international agreement. For now such agreements are concluded with 21 countries. Agreements with CIS, Hungary, Romania, and Mongolia

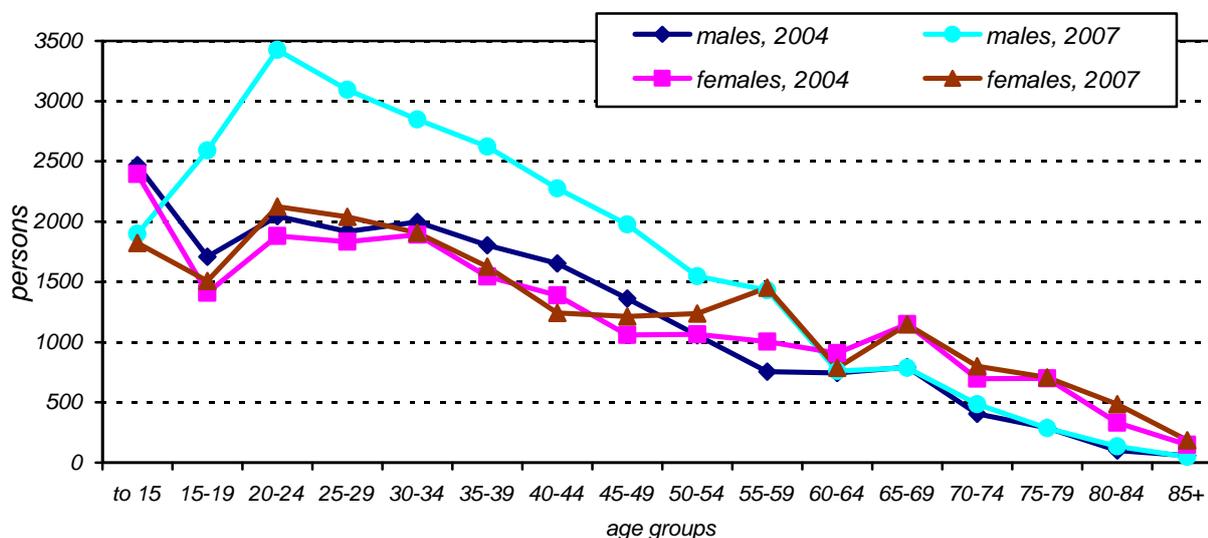
stipulate that pensions are paid by the country on territory of which the pensioner lives (so-called principle of territoriality). Agreements with other countries (Latvia, Lithuania, Estonia, Spain, Slovakia, Czech Republic, and Bulgaria) are based on the proportional principle – every country assigns and pays pension proportionally to the insurance service of individual earned in each country.

Pensions of citizens of States-Participant of Multilateral Agreement CIS (Belarus, Armenia, Kazakhstan, Kyrgyzstan, Russian Federation, Tajikistan, Turkmenistan, Uzbekistan, Ukraine), and of their families are fulfilled according to laws and at the expense of the country in which they live. In establishing the right to pension, including preferential terms and length of service, service of work in any State-Participant Multilateral Agreement CIS is taken into consideration, as well as in the former USSR during the time of entry into force of this Agreement. Pensions are calculated on the basis of earnings (income) for the periods of work which are credited to service. At the time of signing of the Agreement (1992) pension legislation in these twelve countries was almost identical to legislation of the former USSR, the types of pensions and conditions were approximately equal. Beginning from 1995 national pension systems were radical changed: in some countries the retirement age and service required for the pension increased, some countries introduced mandatory fund system, all countries changed conditions and procedure of calculation of pensions in the PAYG system etc. These changes significantly complicated the implementation of territorial pension principle and might be recognised as an independent factor of migration.

Nowadays Ukraine (comparing to most countries formed on the territory of the USSR) has the most attractive conditions for receiving a pension: preserved low retirement age and even significantly expanded the list of early retirement; guaranteed (regardless of the service) minimum pension, which can not be smaller than the subsistence minimum for persons who lost ability to work; absence of any legal restriction on the employment of pensioners and receiving both pension and salary. All this created preconditions for transformation of Ukraine into "the country of pensioners", not only through low fertility, but also through the migration of people in pre and retirement age, especially from the countries – former Soviet republics.

Beginning from 2004 (the start of the pension reform in Ukraine) tendency to the increase in the number of arrivals, men aged 50-59 and women aged 45-54, is traced quite clearly (i.e. people in preretirement age according to Ukrainian legislation). Meanwhile increase of men-arrivals aged 25-49 was observed only in 2006; number of women-arrivals aged 25-44 remains almost unchanged (see Figure 4.5).

Figure 4.5: Arrivals in Ukraine by age and sex



Source: State Statistics Committee of Ukraine

Bilateral agreement with Azerbaijan, Belarus, Georgia, and Moldova concluded in 1995 is also based on the principle of territoriality of pensions. However, these agreements contain a condition - in case if a certain type of a pension is not provided by the new country of the pensioner residence, the country of previous residence must continue to pay designated pension by the transfer. Disability pension or survivors' benefit-compensation for industrial accidents or occupational diseases are appointed and paid accordingly to the legislation and the expense of a country, where injured person was insured at the moment of the accident, or where person was employed at the moment of emergence of occupational diseases. The duration of insurance (in this country or total) does not matter.

Application of the principle of territoriality in social security systems of the CIS countries can be considered as fully justified in regard of service gained during the Soviet period. However, in respect of further disintegration of national pension systems, it loses its relevance and contradicts to the insurance principles;

thus, it cannot be an effective instrument of social protection of employed, especially of the modern labour migrants.

An important step toward the introduction of modern standards of social protection of labour migrants is joining by Ukraine of the European Convention on the legal status of labour migrants in 2007. However, the direct implementation of the Convention envisages bilateral and multilateral agreements. Therefore, Ukraine needs to intensify efforts in preparing and signing such agreements.

In 2008, the Pension Fund of Ukraine provided transfer of pensions amounting to \$1.7 million and EUR 567 thousand to 19 countries. Pension transfers to pensioners who moved for permanent residence to Ukraine, amount to \$2.3 million, EUR 17.8 thousand, and 30.8 million rubles.

4.4. MAIN REFORMS AND DRIVERS OF CHANGE

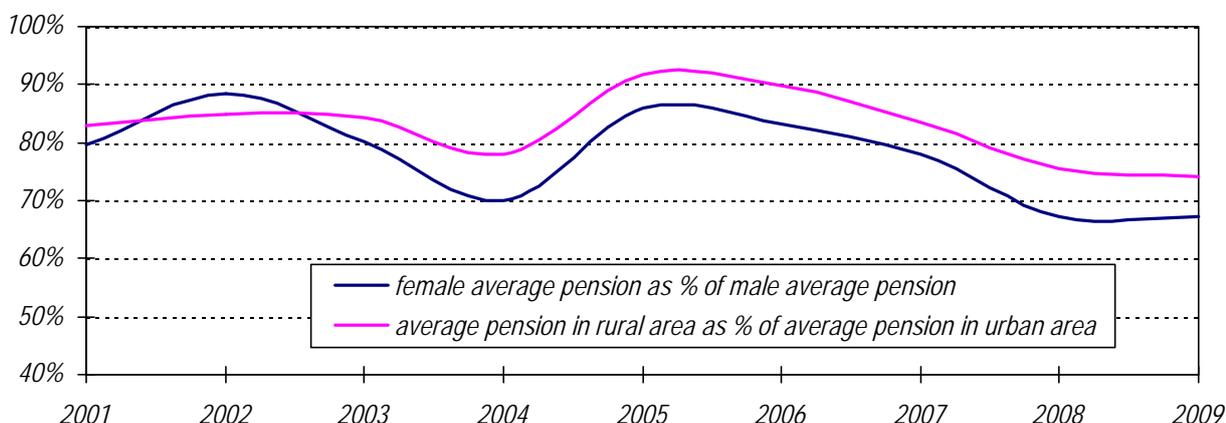
In 1999 the Coordination Center for Pension Reform Implementation was formed. This Center includes representatives of the Government (from the Cabinet of Ministers of Ukraine, the Ministry of Labour and Social Policy, the Ministry of Finances, the Ministry of Economy and some other governmental institutions), of trade unions and employers' associations, and scientists. However, this collegial authority does not work on continuing basis. The current regulation of the pension reform is provided by the Government of Ukraine, in particular, by the Pension Fund, the Ministry of Labour and Social Policy in coordination with the Ministry of Finances. The Pension Fund belongs to the system of state executive authorities (not self-governing organization, as other funds of social insurance).

The main reforms in terms of adequacy, sustainability and modernization of pension system include the following performances:

- separation of sources of pension financing of different programs between the Pension Fund and the State Budget of Ukraine (1999 and later);
- launching of personalized accounts of paid contributions (2000);
- new formula for calculating a pension size according to the Law of Ukraine "On the Compulsory State Pension Insurance" (2004);
- legislative provision of private pension schemes (entry into force of the Law of Ukraine "On the Non-governmental Pension Ensuring", 2004);
- ensuring of the minimum old-age pension at presence of the necessary service period. Minimum old-age pension is set at the level of the subsistence minimum for persons, who have lost ability to work (2005);
- introduction of the guaranteed minimum pension benefit, which is set at the level of the subsistence minimum for persons, who have lost ability to work, irrespective of service (2008).

In 2008, pensions were recalculated in accordance with a new wage base (the first multiplier in the pension formula – average wage in 2006) and accrual rates for each year (1.2% over January-October 2008, 1.35% - after October 2008 and on). This recalculation resulted in the increase of gender gap and urban-rural gap (see Figure 4.6).

Figure 4.6: Gender and rural-urban gaps of pensions (at 1 January)



Source: Pension Fund of Ukraine

High portion of women-pensioners in Ukraine (67% of the total number of pensioners) was caused by extremely high mortality of men. Women retirement age is 5 years lower than that of men, their service period is shorter. Moreover, women wages are almost by 30% smaller than men wages. It explains existence of a gender gap. According to the old formula of pension calculation, salary during any 5 years of service (of course, people selected most profitable years) was considered, and female-male pension difference was smoothed. For example, in 2003 average female pension was 80% of the average male pension. However, after introduction of new formula in 2004, the ratio between average pensions of women and men decreased to 70%. In 2005 old-age pension minimum increased, which slightly improved gender-pension-gap situation. Using of higher accrual rates since 2008 significantly increased the gender gap again. Currently, the average female pension is only 67% of the average male pension. Hence, lower retirement age and job segregation of women result in higher poverty risk in retirement of women.

The same fluctuations are observed in the ratio of pensions in rural and urban areas. The average size of pension in the rural area (one-third of the total) was only 75% of the average pension in the urban area. It is related to fact that the overwhelming majority of rural population is employed in the agrarian sector, where wage is twice smaller than the average all-Ukraine wage.

Pension reform in Ukraine did not have appreciable results neither for improving of welfare of pensioners, no for financial stability of the pension system. Numerous recalculations and increases of pensions were implemented mainly as means to mobilize the electorate regardless of the needs of system modernization.

First experience with the introduction of private pension schemes. According to the State Commission on Regulating the Markets of Financial Services in Ukraine, there were 110 private pension funds and 36 administrators of private pension funds in Ukraine. As on January 1, 2009 482.5 thousands persons have become participants of private pension schemes (about 2% of employed). The assets, formed by the pension funds, were UAH 612.2 millions (0.06% of GDP). More than 95% of contributions to the private pension funds were paid by employers. Development of private pension schemes is restricted by the low income, distrust in private financial institutions, orientation towards current consumption and weak social dialogue, limited stock market etc. About 56% of pension assets are kept on bank deposits with low return rate.

4.5. PENSIONS, EXCLUSION AND VULNERABLE GROUPS

The present contingent of pensioners is rather homogenous, as prevailing part of them was working mostly in the Soviet period. Employment was compulsory, so almost all old-age pensioners have approximately the same length of service, which is by 15-19 years longer than the necessary one. There was no large gap in wages at times of the USSR, so, there are no important disparities in wage coefficients. Thus, differentiation of pensions is rather moderate. Besides above-mentioned gender and rural-urban gaps, there is a strong law gap. The largest pensions are received by persons eligible to pensions in accordance with certain laws (deputies, state employees, scientists, journalists, judges, etc.). Their pensions are 1.5-15 times larger than pensions assigned by the Law of Ukraine "On the Compulsory State Pension Insurance". Although number of such pensioners is small (7%, including "military"), other groups of pensioners perceive their presence extremely negatively that undermines a social cohesion.

The number of individuals who reached the retirement age and was not eligible for pensions, was equal to 8 thousand persons as on January 1, 2009; out of them 1,514 persons did not become eligible for no important reason. They were assigned to social pensions, which size is equal to the minimum pension benefit. The ratio of minimum benefit to the average pension is about 60%.

On January 1, 2009, the number of pensioners who receives pension below the minimum size was 163 thousands (1.2% of the total number).

Disabled people (irrespective of the pension type) consisted 17% of the total pensioners. Average pension of these people was equal to 91% of the average pension in Ukraine. Disabled children below 18 years (the main categories of recipients of social pensions) have the lowest pension benefits (see Table 4.2).

Table 4.2: Pensioners – disabled people (irrespective of the pension type) at 1 January 2009

	Total	I Group	II Group	III Group	Disabled Children
Number, thousands persons	2,344.8	255.0	1,037.5	1,012.9	39.5
Pension benefit as % to:					
average pension	91	111	94	84	61
minimum pension benefit	150	183	155	139	100

Source: Pension Fund of Ukraine

Pensions are assigned at the place of residence. Therefore, homeless citizens, who have no registration (residence permit) or any documents, are excluded from the pension system.

There are no pension arrears.

4.6. SUSTAINABILITY OF PENSION SYSTEMS

The population ageing in Ukraine is developing mainly due to the low fertility, and it is not accompanied by steady trends of increase in the life expectancy (particularly, in the working age). According to demographic projections, in the first half of the current century in Ukraine, a decline in the population number will take place mostly at the expense of the working-age persons; instead, the number of persons of retirement age will grow. A share of persons aged 65 and over will increase from 16% in 2008 to 25% in 2050, old age dependency ratio (65+/15–64) will grow from 24% to 38%. Old age dependency ratio by national retirement age (55+/15–54; 60+/15–59) will reach 74%, pension system dependency ratio – 132% (IDSS).

In spite of favourable trends on the labour market, economic growth in 2000–2007 took place without a large increase of employment, as the labour force supply remains practically fixed. Presently, employment rate is much lower comparing with past trends (historical retrospective of the Soviet period), as well as with the present European rates. Especially it concerns males of the most working age (30–54) and young people aged 15–24. Such demographic prospects and trends of the labour market will have very negative impact on financial sustainability of the PAYG system, where a generation of working persons supports a generation of pensioners.

Influence of migration. Beginning from 2005, positive net migration has been observed in Ukraine; moreover, it is gradually increasing. However, so far, the number of immigrants does not compensate for the negative natural increase of the population and does not make a large contribution to the total population number.

Presently, financial situation of the Pension Fund is more influenced by the labour migration. The number of Ukrainian citizens working abroad is estimated to be 1.5 million persons. Most of them are illegally employed there and are not covered by pension insurance. On the other hand, foreigners, who come to Ukraine for a temporary or stationary stay, are mostly employed informally as well (Poznyak, 2007). In the future, such migrants can not be eligible for pensions; thus, their pension ensuring will require additional costs from the State Budget on social pensions.

Losers and vulnerable groups among the working age population. The most vulnerable population groups (as a result of realized reforms, as well as potentially vulnerable in the future) include workers of such low-paid economic sectors as agriculture, education, public health, etc., particularly females. A problem of pensions for self-employed, employed in the informal economy and other population categories, who do not pay pension contributions in the needed size, will become particularly urgent in the near future.

Importance of informal economy and undeclared work. A rate of participation of employed individuals in the pension insurance is 73%, i.e. more than one-fourth of employed do not pay pension contributions. These are mostly persons employed in subsistence agriculture (about 3.1 million persons). About one-third of insured individuals pays contributions from wages that are below a minimum wage.

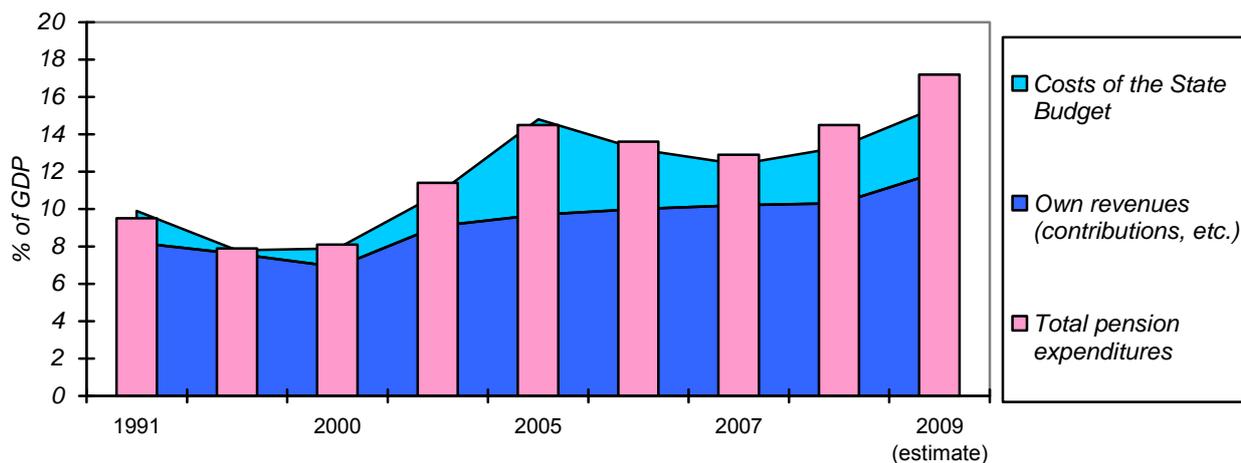
Impact of the crises. During 2004–2008 expenditures on pensions increased rapidly due to frequent elections. In 2009 total pension expenditures (without pensions of servicemen and officers) will reach its recorded – 17.2% of the GDP (see Figure 4.7).

Financial and economic crisis makes a rapid wages and pensions growth impossible. In 2009, the minimum pension and the subsistence minimum was frozen at the level of October 2008. In fact, indexing of pension on inflation was frozen as well. Quarterly size assigned to nonworking pensioners is going to rise slightly. Annual pension growth is expected to be around 5%. Inflation is expected to be at the level of 9.5% according to the official macroeconomic forecast of the Cabinet of Ministers of Ukraine, and on the level of 13.6% - according to the forecast of the World Bank Office in Ukraine.

While the approved budget of the Pension Fund in 2009 is going increase own revenues by 9.4% comparing with the last year, it has deficit of UAH 13.1 billions (8% of total planned expenditure or 1.4% of GDP). This deficit is covered by a loan provided by the State Budget.

Pensions of the majority of pensioners are not high; therefore, reduction of pension spending is practically impossible. The only way out is to increase the inflow through pension contributions. On the May 1, 2009 the Government introduced additional mandatory payment for self-employed with purpose to increase revenues of the Pension Fund. Under new conditions they must pay a contribution not smaller than minimum contribution (before they paid only a half).

Figure 4.7: Financial flows of the Pension Fund of Ukraine, as % of the GDP



Source: State Statistics Committee of Ukraine, Pension Fund of Ukraine

Notes: Without pensions of servicemen, frontier guards, other representatives of "military" structures, which have been funded through appropriate ministries and departments until 2007. In 2008 total pension expenditures with "military" was 15.8% of the GDP. In 2009 this number will attain 18.2%.

Discussions about rising of the retirement age are going on. However, such step has strong opponents in the Government and in the Parliament. Most people in Ukraine perceive the low retirement age as a great achievement of the Soviet period, and consider its increasing as encroachment on human rights. Political forces always use it as a mean for blackmailing their opponents. Therefore, nowadays authorities are forced to promise not to review the retirement age instead of explaining the objective circumstances and positive moments of its increasing (for example, rising of pension's size). Clearly, it is impossible to avoid the increase in retirement age. Further delay of the PAYG system reform condemns pensioners on conservation of poverty.

Implementation of the compulsory funded pension insurance has been suspended, which is related to the deficit of the PAYG-system and a lack of reliable financial instruments. The most discussed questions are starting parameters: age of members, contribution size, organization of the system of contribution collection, and investing of pension assets (including role of private pension funds). Financial crisis, including falling stock markets, and fruitless experience of Kazakhstan and Russian Federation substantially increase political concern about the timeliness and efficiency of the implementation of compulsory funding pension insurance in Ukraine.

4.7. PUBLIC AWARENESS AND ACCEPTANCE

There is a need to loosen the direct administrative impact of the state and to facilitate the role of social dialog on the development of the pension system. The Pension Fund of Ukraine is operating as a central executive authority, having no status of non-profit self-governing organization. Presently, sizes of insurance tariffs and directions for the use of funds of social security are actually determined by the state budget without participation of social partners. It results in non-purposeful use of insurance assets and permanent political interferences.

Realization of the pension reform is complicated by reluctance of the Government, employers, trade unions and the whole population for such unpopular, but needed actions, as an increase of the retirement age and of the needed insurance length, cancellation of the prescheduled and other privileged pensions, etc. Regarding the pension reform, the current pensioners expect only an increase in pension benefits, while employers expect a reduction of pension contributions, and employees, in particular, young ones prefer receiving larger income now and are very little concerned about their future pensions. Such dependent moods are largely related to the present practice of using the pension reform as an instrument of attraction of electoral sympathies to politicians.

4.8. CONCLUSIONS AND KEY CHALLENGES

The Ministry of Labour and Social Policy in cooperation with the Pension Fund of Ukraine have developed the concept of the pension reform for the period until 2015.

The most urgent problems of the pension system in Ukraine include:

- improvement of the procedure of pensions' assigning and their indexation;
- legislative regulation of a guaranteed minimum pension benefit;
- involvement of broad population groups into the pension insurance, including review of the retirement age and / or the necessary service (particularly, for women),
- implementation of the compulsory funding pension insurance, in particular, determination of starting parameters: age of members, contribution size, organization of the system of contribution collection and investing of pension assets, role of private pension funds, etc.;
- development of private pension schemes, in particular, occupational pension schemes for financing the early retirement of employees working in harmful conditions.
- ensuring transparency of the pension system and codification of the pension legislation.

Statistical problems. Analysis of problems of the pension system and results of the pension reform is complicated by rather closed character of information of the Pension Fund of Ukraine. It concerns contingents and structure of contribution's payers as well as recipients of pensions. There are also some gaps in the system of indicators, in particular the average labour market exit age is not estimated neither by the Pension Fund, no by the State Statistics Committee of Ukraine.

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Main links

- Verkhovna Rada of Ukraine <http://portal.rada.gov.ua>
- Cabinet of Ministers of Ukraine <http://www.kmu.gov.ua>
- Ministry of Labour and Social Policy of Ukraine <http://www.mlsp.gov.ua>
- Pension found of Ukraine <http://www.pfu.gov.ua>
- State Statistics Committee of Ukraine <http://www.ukrstat.gov.ua>
- State Commission for Regulation of Financial Services Markets of Ukraine <http://www.dfp.gov.ua>
- Institute for Demography and Social Studies of NAS of Ukraine <http://www.idss.org.ua>
- Pension reform in Ukraine <http://www.pension.kiev.ua>

Tables

Table 4.1: Pensioners (all types including "military"); at 1 January, thousand

	Total	Old Age	Disability	Survivors	Length of Service	Social Pensions	Number of pensioners per 1,000 population
1991	13,084	9,713	1,313	1,209	...	318	253
1992	13,554	10,294	1,355	1,044	361	500	273
1993	14,191	10,737	1,388	1,155	379	532	279
1994	14,477	10,865	1,477	1,236	398	501	282
1995	14,515	10,668	1,734	1,228	415	470	284
1996	14,487	10,615	1,814	1,195	429	434	284
1997	14,487	10,587	1,868	1,163	443	426	286
1998	14,535	10,558	1,923	1,168	464	422	289
1999	14,521	10,473	1,978	1,153	493	424	291
2000	14,530	10,424	2,005	1,155	517	429	294
2001	14,447	10,299	2,015	1,150	552	431	295
2002	14,423	10,275	2,033	1,127	558	430	299
2003	14,376	10,273	2,029	1,091	575	408	301
2004	14,348	10,304	1,977	1,077	592	398	302
2005	14,065	10,363	1,791	923	599	389	299
2006	14,050	10,596	1,605	852	627	370	301
2007	13,937	10,576	1,597	840	640	284	300
2008	13,819	10,591	1,571	822	621	213	299

Source: State Statistics Committee of Ukraine

Table 4.2: Average monthly pension as % of the subsistence minimum for persons, who have lost ability to work (without "military"), as in January

	Average	Old Age	Disability	Survivors	Length of Service	Social Pensions
2000	32	32	38	24	35	17
2001	34	34	38	25	43	18
2002	46	47	48	32	55	20
2003	51	53	53	36	63	22
2004	64	68	60	42	74	22
2005	95	98	92	79	101	80
2006	116	119	112	87	127	97
2007	126	131	115	89	145	83
2008	160	170	127	101	162	79
2009	180	189	149	130	190	108

Source: State Statistics Committee of Ukraine, Pension Fund of Ukraine

Note: In Ukraine subsistence minimum has established since 2000

Tables 4.3: Average monthly pension as % of gross wage (without "military"), as in January

	Average	Old Age	Disability	Survivors	Length of Service	Social Pensions
1991	30	31	27	17	30	15
1996	38	38	44	32	40	21
1997	41	40	53	34	42	26
1998	38	37	50	32	39	25
1999	41	41	51	32	45	24
2000	38	38	45	29	42	21
2001	33	34	37	24	42	17
2002	38	40	40	27	46	17
2003	34	35	36	24	42	15
2004	36	39	34	24	42	13
2005	49	51	48	41	52	42
2006	47	48	45	35	51	39
2007	43	45	39	31	50	28
2008	49	53	39	31	50	24
2009	54	57	45	39	57	32

Source: State Statistics Committee of Ukraine, Pension Fund of Ukraine

5. HEALTH AND LONG-TERM CARE

5.1. INTRODUCTION AND OBJECTIVES

Organization of Ukraine's health care sector, its management and financing were inherited from the Soviet Union. According to the Constitution of Ukraine, each citizen has a right to unpaid health care, free of charge health services¹⁴ and medical insurance. The health care system is mainly public (state) funded. The share of officially operating private clinics and hospitals is insignificant, except for dentists. The health care is regulated by the Law of Ukraine "The Fundamentals of Ukraine's Legislation on Health Care". According to the law, the State is responsible for citizens' health and is obliged to ensure health safety in all areas of life, as well as take care of labour conditions, make provisions for improvements in education, environment, health services, private life and life style.

In spite of a big number of health care institutions, the system does not work effectively. The organization of a healthcare sector is ineffective: the hospital sector exceeds the ambulatory clinics, most doctors are narrow specialists, and there is a lack of general practitioners.

While legally all citizens are entitled to services, in practice, accessibility is limited. The poor quality of health care is predetermined by insufficient investments (more than 50% of public health assets are out of date) and low wages in the health care system. The health care system is financially unsustainable because of the inconsistency between numerous State guarantees and limited resources.

As a result, public health is worsening. The morbidity and mortality rates have been significantly rising and demographic crisis has been deepening since the early 90s.

This situation is a subject of people's discontent and criticism towards Government. The health care system reform is being discussed by governmental officials, politicians and health practitioners for more than a decade. In general opinion, health care reform should be aimed at better access and better quality of health services for people and appropriate remuneration for doctors and nurses. However, there is no consensus about the sector's future organization and financing.

The above mentioned problems are further aggravated due to a lack of tradition for healthy and active lifestyles and a shortage of good human resources for health care sector.

Lack of consensus on reform orientation and slow progress of reform are rooted in economic and social crisis, frequent rotation of Governments, apathy and indifference of some top Governmental officials, managers, corruption inherent in the health care system and underestimation of health value in society.

5.2. HISTORICAL PERSPECTIVE

Evolution of legislation. Health care legislation is being substantially developed since Ukraine's independence. The Law of Ukraine "The Fundamentals of Ukraine's Legislation on Health Care" (1992) was supplemented by amendments to it and by several other Laws, President's and Government's decrees and special national programmes. They tackle infection prevention, environmental hazard and threats to human health, epidemics of HIV/AIDS and tuberculosis, improvement of health care system and medical aid, targeted groups and others. The most recent documents are: National Plan of Health Care System Development (2007), the Concept of Quality Control in the Health Care System (2008), the Conceptual Framework 'Healthy Nation' (2008) and some amendments to the Law of Ukraine «On Advertising» (prohibition of tobacco and alcohol advertisements) and to the Rules of Road Traffic (more severe punishment for the violation of road traffic rules), 2008, the conception framework for the program "Mellitus and non-mellitus Diabetes", the conceptual framework for the program "Oncology up to year 2016", the draft law "On the Adoption of the National Program for the Immunoprophylaxis and the Defence of the Population against Infectious Diseases for the period of 2009-2016".

A big number of acts and programmes reflects the government's concern with the huge volume of backlog challenges in the sector. However, the funds for implementation of the programs are often in shortage.

Main sector features. Transitions of the 1990-s had a negative impact upon the Health Care System. Public financing was cut down dramatically because of decline of budget revenues and rapid growth of prices for energy, equipment and imported medicines. Following the independence, some actions were undertaken to improve the health care. Step by step, standards for health care services were introduced to adjust to

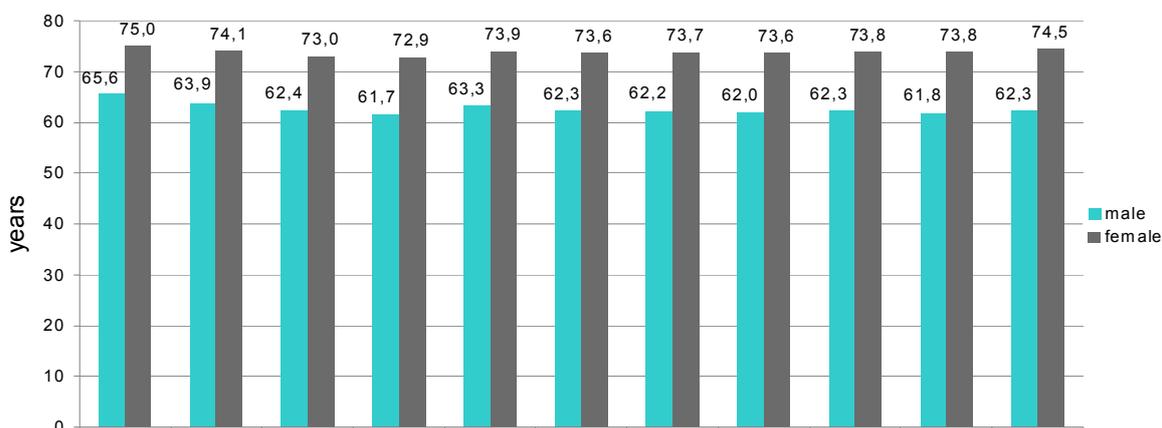
¹⁴ State guarantees declared by Constitution seem rather extensive and are impossible to implement at its full extent because of costs shortage.

modern practice of health care in the developed countries; the position of a therapist in clinics was partly substituted by a general practitioner. However, in general the system retained its basic features, inherited from the Soviet legacy, such as declarations of numerous state guarantees that cannot be implemented; poor management; budgeting on a “residual basis”; narrow specialization of health care specialists; neglect of prevention measures. Under such circumstances, any additional funding would be insufficient: a number of sick persons is growing faster than recovered ones, considerable part of resources is being used ineffectively. The situation is aggravated due to a shortage of public funds.

5.3. HEALTH OUTCOMES

Trends in life expectancy. Short life expectancy is one of the most acute problems of present-day Ukraine. In part, it is an evidence of the weakness of the health care sector. The situation has deteriorated at the initial stage of transformational crisis of 90s and never improved (see Figure 5.1). Life expectancy at birth in Ukraine is 12.6 years shorter than in European countries with the lowest death rates (the so-called Europe-A region), 1.8 years shorter than in countries with higher death rates (Europe-B+C region). There is also large gender gap in life expectancy on account of extremely high male’s mortality under 65. The gender gap in life expectancy in Ukraine approximately matches CIS standards (11.3 years) and most other European countries of the former USSR (Russia – 13.4, Belarus – 12.2, Lithuania – 12.0, Estonia – 10.9, Latvia – 11.2), but it largely exceeds the rates in the developed countries (Iceland – 4.1, Sweden – 4.3, United Kingdom – 4.4, Greece – 4.8). The average gender gap in the region Europe-A is 5.8 years, while it is 9.4 years in the region Europe-B+C.

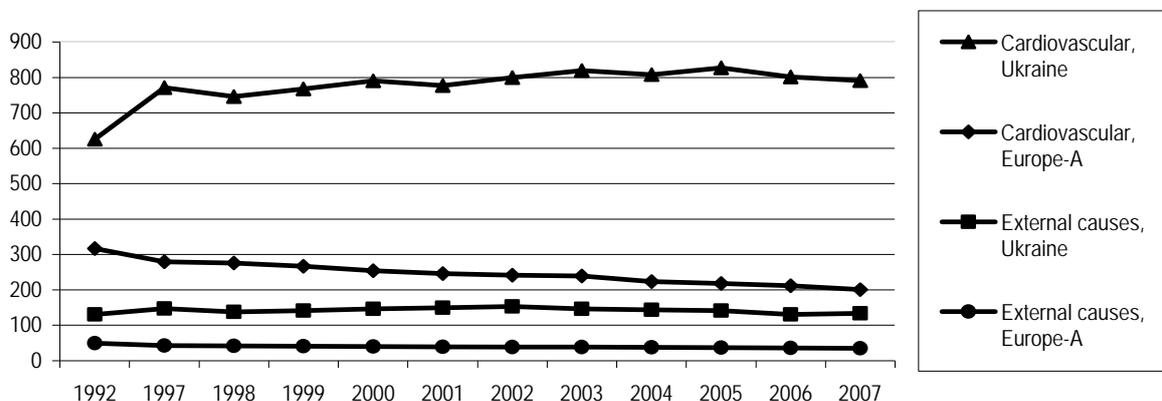
Figure 5.1: Life expectancy stagnation



Source: Institute for Demography and Social Studies

Mortality. There were different trends in age-specified mortality within stagnation of life expectancy since 1990s (see Table 5.2). The fluctuations in life expectancy in the Ukraine are driven largely by cardiovascular diseases and external causes of death, which affect predominantly young and middle-aged men (see Figure 5.2). According to the WHO, Ukraine has one of the highest death rates (Europe-C region).

Figure 5.2: Standard death rates in Ukraine and Europe-A



Source: World Health Statistics

The largest population losses are in the ages 15 to 59. The probability of death in this age bracket is 39.6% for men and 14.6% for women. In 2007, more than 28% of the Ukrainians died before reaching the age of 60. A higher rate in Europe is observed only in Russia (29%). High rate of premature deaths are due to low living standards of the majority of people, poor quality of food products, general unsatisfactory life conditions, poor access to medical services, failures of preventive medicine and healthy way of life. The last factor predominantly influenced the mortality rate, in spite of GDP rise since 1999.

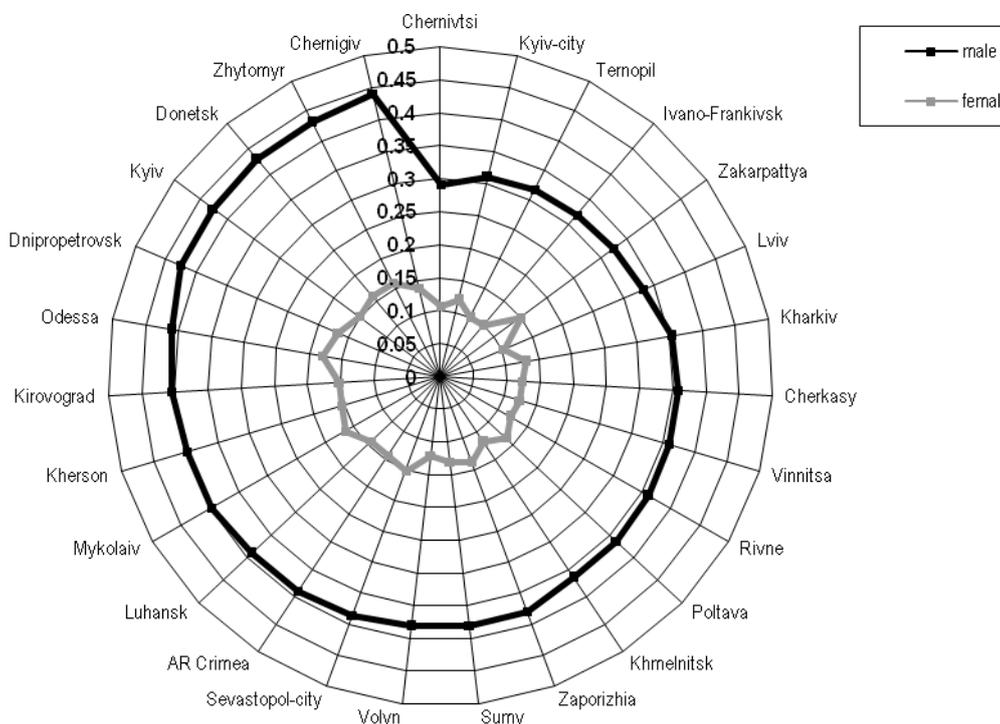
In Ukraine, mortality rates from non-infection diseases exceed those in Europe by 2-2.5 times. The main causes of death in the Ukraine are diseases of the circulatory system followed by neoplasm, injury and poisoning, and digestive system diseases at respectively, 63.0%, 11.8%, 8.6% and 4.4%.

Mortality from tuberculosis and AIDS is also increasing. Neoplasm are the only exception that partly can be explained by imperfect diagnostics.

Infant mortality is considerably lower than the Europe B+C average. Trends in infant mortality have to be interpreted with caution as until 1996 Ukraine used the restricted Soviet classification of a live birth, thus underestimating the rate of infant deaths compared to the rate if the WHO definitions were applied. The WHO definition of a live birth was adopted in 1996, by decree of the Ministry of Health, although they were not completely applied till 2006. This is why infant mortality rose in 2007.

Regional dimensions of mortality. In 2006, the highest rate of infant mortality was registered in Kirovograd (13.6‰), Chernivtsi (13.5 ‰) and Luhansk (12.7‰) regions (oblasts). The adult male's probability of death was higher than female's in all regions of Ukraine. Excessive male's mortality in the age brackets 20-40 is higher in agrarian regions (Volyn, Ivano-Frankivsk, Lviv, Ternopil, Chernihiv oblasts). In 2006, more than 40% of 20 years old man had probability to die before 60 in 7 regions – Chernihiv oblast (44%), Zhytomyr, Donetsk, Kyiv oblasts (43%), Dnipropetrovsk oblast (42%), Odessa and Kirovograd oblasts (41%). Mostly, there was also a high risk of death of women in the age brackets 20-60 in the same oblasts: Odessa (18%), Dnipropetrovsk (17%), Mykolaiv, Donetsk and Zhytomyr (16.0%), Kherson, Kirovograd and Kyiv (15%). Old-age mortality was the highest in the North and Centre, and the lowest mortality was in the West (see Figure 5.3).

Figure 5.3: Probability of death in the age 20-40 by gender and regions, 2006



Source: Institute for Demography and Social Studies

Morbidity. In 2006 the diseases of the circulatory system (29.7%), respiratory diseases (20.7%), and digestive diseases (9.6%) were the most widespread (out of the total burden of disease). The main risk factors are high blood pressure, high level of cholesterol, smoking, hazardous alcohol consumption. They stipulated more than half (56.1%) of DALY (disability-adjusted life-years). Another 27% of DALY owe to obesity, under-consumption of fruits and vegetables, low physical activity, drugs and risky sexual behaviour.

Other essential risk factors are unhealthy environment, stresses, Chernobyl disaster's influence and violation of road traffic rules (see Table 5.1).

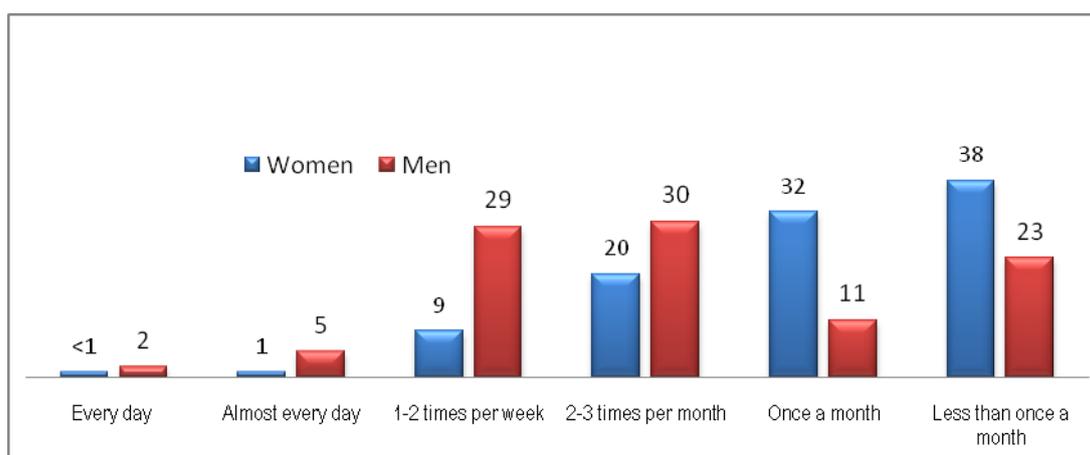
Table 5.1: Main risk factors and causes of DALY in Ukraine

Risk factors	DALY, %	Causes	DALY, %
High blood pressure	16,6	Ischemic heart disease	18,2
High level of cholesterol	14,4	Cerebral-vascular diseases	8,5
Smoking	12,8	Mono-polar depressive disorders	4,6
Alcohol	12,3	HIV/AIDS	3,1
Obesity	9,0	Injuries	3,0
Under-consuming of fruits and vegetables	8,0	Chronic lung diseases	2,8
Low physical activity	5,6	Poisoning	2,8
Drugs	3,0	Deafness of adults	2,3
Risk sexual behaviour	1,6	Violence	2,1

Source: World Health Organization, 2004

Smoking and hazardous alcohol consumption account for a considerable part of the burden of disease – particularly among men. 2007 Ukraine Demographic and Health Survey reported that 52% of Ukrainian men and 15% of women smoke cigarettes; 62% of women and 77% of men had at least 1 drink in the past month (see Figure 5.4).

Figure 5.4: Use of Alcohol, % of total number of respondents by sex



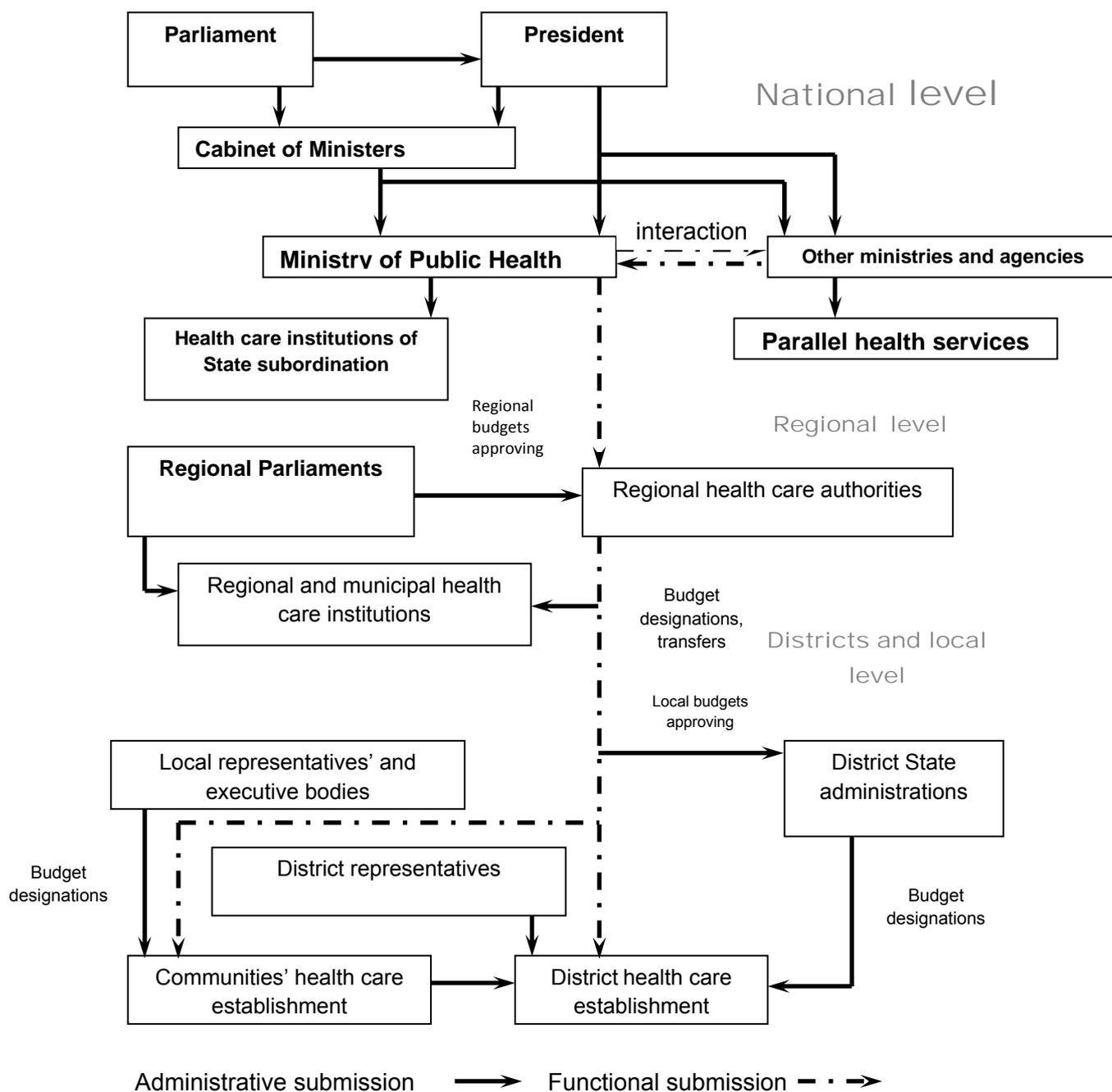
Source: 2007 Ukraine Demographic and Health Survey

Ukraine is a country with rapid HIV/AIDS spreading. Since 1995, number of new officially registered incidences of HIV has increased by more than 10 times and was 17.7 thousand persons in 2007. The epidemic specificity is that HIV/AIDS combined with so-called co-infections – tuberculosis and sexually transmitted diseases. The highest rate of HIV/AIDS, tuberculosis and sexually transmitted diseases morbidity is reported in South and East regions – Dnipropetrovsk, Donetsk, Kirovograd,, Luhansk, Mykolaiv, Odessa.

5.4. GOVERNANCE AND FINANCING

Sector organization. The health care system has a three-level structure (see Figure 5.5). The Ministry of Public Health of Ukraine is the top governing body. The medium level is represented by 26 Regional Healthcare Departments and The Ministry of Health of the Autonomous Republic of the Crimea. The lower level is represented by of district and local authorities, clinics and hospitals. The Ministry of Public Health is the main body of executive power that implements health policy. The majority of health care institutions belong to the Public Health Care System. In addition, about 20 different ministries have medical establishments in submission and finance them. Private sector is insignificant. Official salaries of doctors and other personnel the public health care sector are fixed by Central Government all over Ukraine.

Figure 5.5: Organizational structure of health care system



Structural features. The network of healthcare institutions is extensive. There are about 24 thousand entities in state property and about 23 thousand entities in municipal (community) property, with 3.3 thousand in rural areas. The private sector includes about 4 thousand entities and 7.6 thousand doctors. Most private doctors are dentists. Some big private firms have their own clinics (1.3 thousand).

In general, there is not clear distinction between primary and secondary (specialized) health service in Ukraine. Patients can speak to the doctors-specialists independently without referral of district doctor or general practitioner. It results in the decline of quality of medical service and wasting of clinic capacities. Therefore, the Primary Healthcare General Practitioner concept is not implemented in its full scale and the duplication of health services still exists.

The amount of hospital beds remains approximately at the same level over recent years and amounted to about 900 per 100000 inhabitants in 2007. This figure, as well as the length of stay in the hospital, exceeds those in European countries (see Table 5.2), but does not guarantee good access and high quality of services. Today, the majority of patients are deprived of a possibility of a free choice of a physician, clinic or hospital. This situation emerged because of financing features (see *Financing*).

Table 5.2: Hospital beds and length of stay

	1990	2000	2006
	Hospital beds per 100000		
Poland	660.4	556.4	516.2
EU Members before May 2004	799.6	611.7	554.2
Ukraine	1301.31	881.6	873.0
	Average length of stay, all hospitals		
Poland	12.5	8.9	6.4
EU Members before May 2004	13.8	9.8	9.4
Ukraine	16.4	14.9	13.3

Source: World Health Organization

Financing. Funding of health care institutions is strictly determined by a number of inhabitants on the territory where the given institution is located and provides services. Therefore, today every person who does not have a legal registration in his/her place of residence is not eligible for a free service. Formally, a patient may apply to the head of local clinic or hospital for the permission to obtain his/ her treatment for free. However, in practice patients either go to a place where they are officially registered or pay to the clinic or physician directly.

The system of financial costs distribution is a complex one (see Figure 5.6). Every year, the Ministry of Health works out a draft of the State Health Care Budget and submits it to the Ministry of Finance. Regional and local authorities play substantial role in planning and distributing financial resources allocated for public health. They develop their budget proposals based on the planned amount of inter-budgets transfers and submit proposals to respective representatives' bodies for approval. Budgeting formula generally proceeds from "per capita" (clinics) and "per bed" (hospitals) principle, on yearly assumptions of planned budget expenditures. Unfortunately, rigid expenditures delimitation between budgets of different levels exist since Soviet times. Accordingly, there can be health care institutions of different subordination (respectively, different sources of funding – from Central Budget to regional and local budgets) in one locality. This situation leads to disintegration of the territorial system of health care.

The state health care sector is financed from total budget revenues (mainly general taxation). Public expenditures on health care are not large. In 2006 they were 3.6% of GDP and in 2007 – 3.8% or about 23 billion UAH (EUR 3.4 billion). State health care expenditures are ineffective as a consequence of shortcomings of legislation, which restricts budget flexibility of health care institutions and local governments. It means that institutions and local governments have no powers to shift saved costs of certain budget lines to different lines in accordance to their current needs. As a result resources are wasted and needs are not met.

In 2007 total health care expenditures exceeded those of State by 1.5 times:

Total health care expenditure	UAH billion	41.1
	EUR billion	6.0
Public health expenditure	UAH billion	23.2
	EUR billion	3.4
Private health expenditure	UAH billion	13.8
	EUR billion	2.0
Additional resources	UAH billion	4.1
	EUR billion	0.6

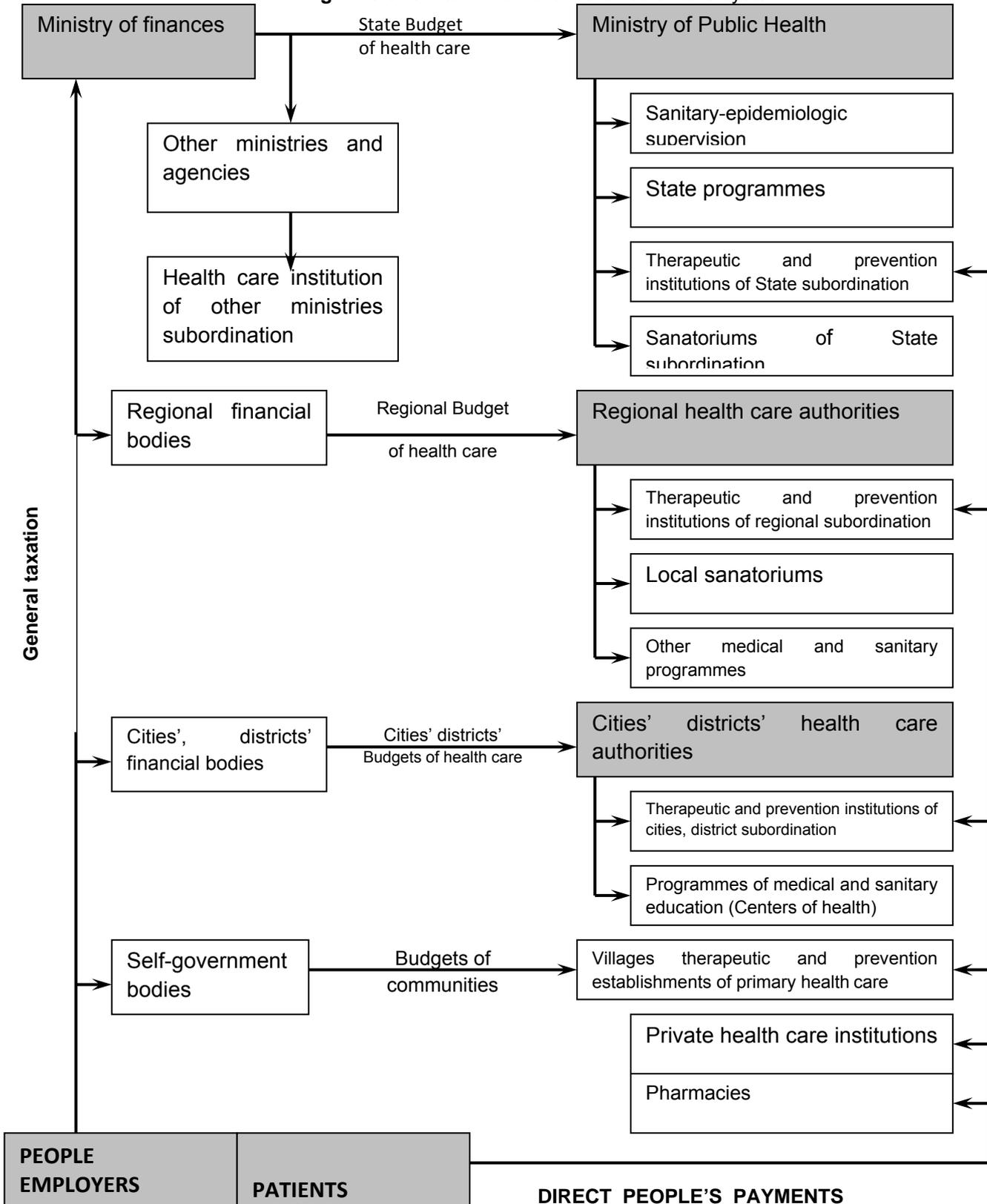
Source: Rybchouk Viktor. Potochny stan ta souchasni tendentsii finansovannia systemy okhorony zdorov'ya Ukrainy (Current situation and modern tendencies of health care financing in Ukraine) / *Ezhenedelnyk Apteka*, N 20 (641), 19.5.2008.

Public health care spending per capita is 1.7 times less than in Bulgaria, 2 times less than in Poland, 5 times less than in Czech Republic, 7 times less than in the EU.

Health care institutions are allowed to provide paid services. However, physicians receive only about 30% of official patients' payments. Both patients and doctors prefer under-the-table transfers. As to the patients, in such way they avoid burdensome bureaucracy while the doctors have an incentive to raise their proceeds.

There is no consensus about the scale of under-the-table payments of patients as a “gratitude” to doctors. Some state experts estimate it as 3-3.5% of state expenditures on health care. In per capita calculations, it makes 17.5 UAH or 2.5 euro annually. The reason for a wide spread of such phenomenon is extremely low wages of doctors and nurses.

Figure 5.6: Costs movement in the health care system



Structure of expenditures. Increases of budgetary revenues, allocated on health during 2000-2007, have been mostly spent on increase of wages of medical staff and insufficiently used for such needs as purchase of medicines, expenditures on diagnostics and treatment, and equipment modernization (see Table 5.3).

Table 5.3: Structure of the health care expenditures, %

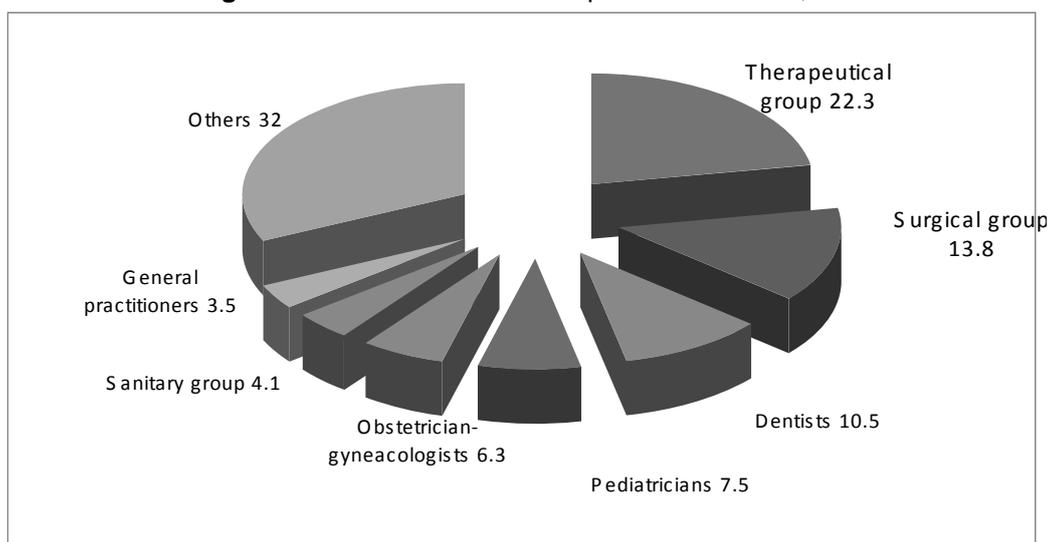
Year	Salaries of personnel	Medicaments	Energy	Food	Other
2001	59.8	9.2	10.9	3.8	16.3
2002	66.6	7.1	11.9	3.6	10.8
2003	66.1	7.3	9.3	3.4	13.9
2004	70.6	6.2	9.7	3.1	10.4
2005	73.2	5.3	6.7	3.0	11.8
2006	68.8	6.7	6.6	3.2	11.6
2008	69.1	10.0	7.1	3.3	6.3

Source: Rybchouk Viktor. Potochny stan ta souchasni tendentsii finansovannia systemy okhorony zdorov'ya Ukrainy (Current situation and modern tendencies of health care financing in Ukraine) / *Ezhenedelnik Apteka*, N 20 (641), 19.5.2008

Health care financing is not related to the quantity and assortment of provided services, but is based on the need of maintenance of medical establishments (buildings and equipments) and their staff fees. In 2007, about 70% of expenditures were spent on personnel salaries. It is the highest rate in Europe. The hospitals consume 80% of total state expenditures for health care.

Personnel in the health sector. For period from 2000 to 2007 number of doctors per 10,000 inhabitants grew from 46.2 to 48.3. However, the number of paramedical personnel has shortened from 110.3 to 105.5 (per 10,000).

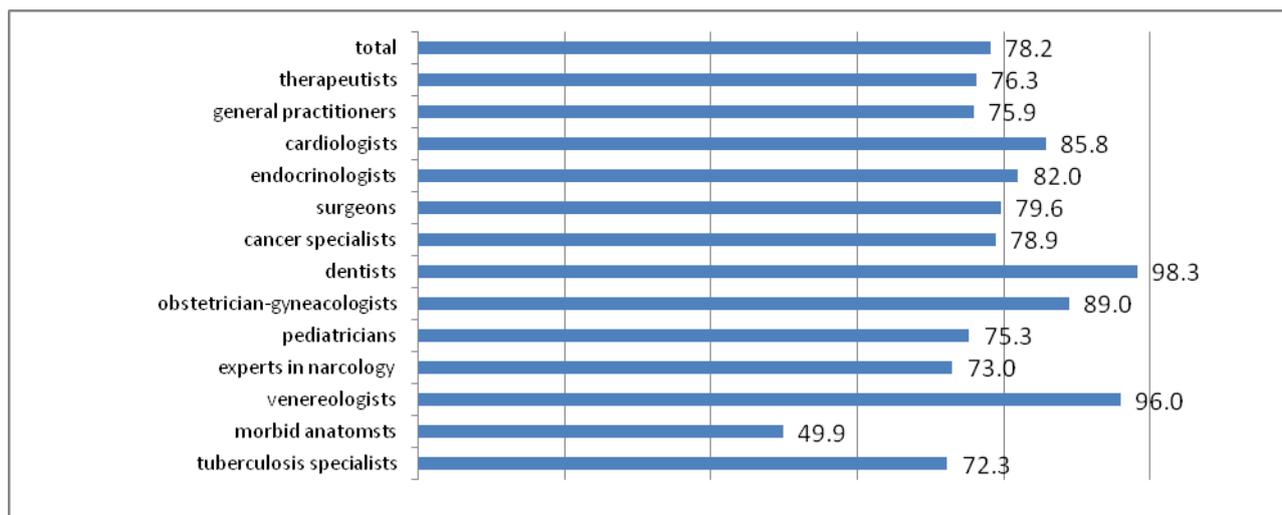
Figure 5.7: Structure of doctor's personnel in 2007, %.



Source: Ministry of Health of Ukraine

Another problem is qualified personnel supply, in particular in such "unpopular" branches as morbid anatomy and some others.

Figure 5.8. Provision with the doctors by specialties as a percentage to demand in 2007



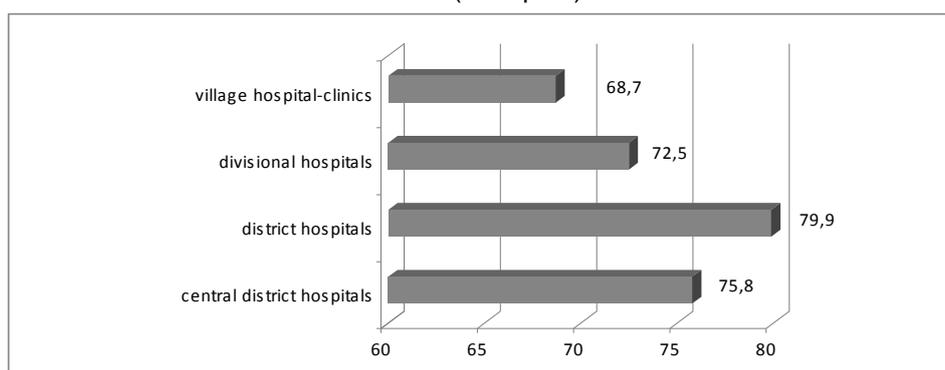
Source: Ministry of Health of Ukraine

The lack of staff results from the low level of wages. In 2008, average wage in health sector including long-term care¹⁵ was 1,140 UAH (152 EURO) or 64% of average wage in Ukraine. The official wages of physicians and nurses are comparable with those of cleaners in private sector of economy. Probably, this is the reason, why there are no active policies aimed at curbing the practices of out-of-pocket' payments by patients. In spite of sufficient number of graduates of mentioned specialties from the medical higher schools, the young doctors prefer not to work in unpopular spheres. Instead, they try to acquire more profitable medical or other profession. In rural areas, the problem of low wages is aggravated with the poor life conditions and poor social infrastructure. There is no strategy to cope with migration as well.

5.5. ACCESS AND QUALITY IN HEALTH CARE

Access to health services in Ukraine generally depends on residence (city or village), local organization of health care (sometimes in a small town's hospital it is better than in a big industrial centres), and financial affordability/capacity of a patient. There is deprivation of rural inhabitants as to the health services provision. Settlements in rural areas lack health care centres, skilled staffs, good roads and ambulances. Villages' health centres (medical attendant-obstetrician stations) lack up to 20% of planned personnel.

Figure 5.9: Provision with the doctors the institutions which provides with services mainly rural inhabitants in 2007 (% to plan)



Source: Ministry of Health of Ukraine

Access to health care in Ukraine remains limited especially for poor people and ethnic minorities. Poor people are unable to pay services of private doctors (whose quality of services as a rule is higher, than of the

¹⁵ There is no such segment as long-term care statistics independent from health care statistics.

state ones) or to remunerate doctor under-the-table in public institution for better service. Being underpaid, doctors and nurses in state sector often partly neglect their duties if they do not receive additional payment from the pocket of patients or their relatives. As to 2007 Household Survey, 18% of people who needed health service could not afford to pay for medicines or doctor's aide. Among those patients who were treated in hospitals in 2007, 9 out of 10 brought medicaments, $\frac{3}{4}$ patients brought their home food, 3 out of 5 brought their linen with them. The share of hospital patients who brought nothing mentioned with them from their homes made 6%.

The positive moment of access to health services is good vaccination coverage which does not make a difference between urban and rural area as well as between socio-economic groups. The incidences of diphtheria, whooping cough, and measles are rare ones. In more than a decade, statistics do not report any incident of acute poliomyelitis.

Roma access to health care. Many problems for the Roma are directly related to their extreme poverty. According to survey (Proceedings Discontinued, 2006), the health status of Roma, who live in high-density "compact living" communities, is worse than that of any other segment of the Ukrainian population. Such situation is caused by widespread poverty, inadequate nutrition, poor hygiene and substandard housing. Many Roma in Ukraine also suffers serious risks of intestinal infections from unsafe water. According to the study of the Ukrainian Institute for Social Studies, only 32% of its respondents reported that they had running water and about 20% used surface water for cooking and drinking.

Particularly acute problem is a spread of TB in Roma communities. According to survey, the number of TB-affected people exceeds officially registered by 2-3 times. 96% of the respondents claimed that they personally or someone of their family members is sick with tuberculosis. Even if not to consider the relatives, who are not close and do not live in the same house, the situation with tuberculosis among the Roma is catastrophic.

Regarding the access to medical services, the adult Roma seek for assistance of the doctors very rarely, only when it is an urgent necessity, in the case of exacerbation of disease, pain. The reluctance of Roma to visit hospitals in order to prevent and early detect a disease leads to high morbidity and mortality among them. Thus, in 2006, in the Transcarpathian region the total mortality rate was 22.9, when the regional rate was 9.6 per thousand adults. The rate of infant mortality was 16.5 per thousand births, when the regional rate was 9.4 (Fedorova, 2008). The main reason for such situation is poverty - nearly half of the respondents did not apply to medical facilities due to lack of money to buy drugs and to pay physicians' services (Ukrainian Institute for Social Studies, 2003).

Quality. Ministry of health has opened an interactive survey concerning satisfaction of patients on its official web-site. In January 2009, 1752 persons took part in the survey. 7% of participants responded that the services met their expectation; 3.5% of participants were partly satisfied; 9.1% were doubtful, if everything possible was done for their treatment; rather unsatisfied were 27.4%; the majority was absolutely unsatisfied by their treatment (52.7%).

There is a concern about access and quality in health care in the Government. The Concept of quality control in health care to 2010 is approved. The draft of sector program of health care standardization to 2010 and uniform methods of standards working out considering international experience is prepared. The draft of amendments to 'Basis of legislation on Public Health' Law contains new definitions, chapters and statements related to the issues of supervision and quality control as well as the issues of patients' rights protection. Unfortunately, these amendments do not provide with clear idea of the indicators of quality, mechanism of control and controlling bodies except independent experts.

5.6. LONG-TERM CARE

Introduction. In Ukraine, long-term care is not fixed as an independent sector neither financially nor organizationally. The long-term care institutions belong to jurisdiction of Ministry of Labour and Social Policy and there are some divisions of long-term care in the hospitals in the system of the Ministry of Health. This is why there is no single database concerning financing, personnel, wages etc. in the long-term care sector.

Structural features and financing. Long-term care is being provided by old people's homes and also by a network of territorial centres and divisions of social services. Since 2000 their capacities rise along with the increasing of elderly persons number. The institutions are funded by regional and local budgets rather sufficiently for patients' maintenance (food, furniture, clothes etc.). It is expected that there will be increasing needs for care provision in institutions, because of the ageing of the population and the complexity and increasing dependency rates in old-age cohorts. Problem will be more acute when the cohort of baby-boom reaches senile age.

Table 5.4: Homes for elderly and disabled people (adults and children), end of the year

	1990	1995	2000	2005	2006	2007
Number of homes	274	280	275	319	320	321
bunks in them, thousand	61.9	58.1	53.0	57.1	57.9	58.1
for elderly persons and adult disabled persons	50.6	47.9	43.8	48.3	49.1	49.5
for disabled children	11.3	10.2	9.2	8.8	8.8	8.6
number of persons aged 80 and more, thousand	1217.8	1321.6	1066.0	1231.7	1302.8	1378.1

Source: State Statistic Committee of Ukraine

Some form of domiciliary long-term care is being provided by social workers of 910 divisions of social domiciliary care for 515.6 persons (2007). It covers purchasing of medicine and other goods as well as common help in housekeeping and ordinary health care services.

There are 20 hospices with 538 beds, 20 special departments for old chronic patients, 21 departments of nursing care, 31 hospitals for war veterans and system of wards for war invalids in the hospital that include about 17 thousand beds in the system of the Ministry of Health. Today, the network of hospital long-term care is absolutely insufficient. The problem partly is being solved at the expense of so-called 'social beds' in the general hospitals. The capacities of geriatric care are insufficient as well. The lack of primary care for old people leads to an increased need for hospitalization.

For the most part of aged and disabled persons, long-term care is provided by members of family. Accordingly to Law on basic principles of social protection of veterans of labour and other aged citizens, the single elderly person who needs nursing can apply for State monthly social benefit for this purposes. In 2007 such benefit was established on the level from about 18% of average pension to about 6% (dependently on the category of elderly person). This kind of benefit is paid from State Budget. On the other hand, someone who nurses aged person can apply for monthly benefit as well. However, the amount of the latter is established by local authority and paid from the Local Budget. Thus, the stringent eligibility conditions and the amounts of such benefits do not promote their frequent request and application for eligibility.

Access and quality. The old people themselves cannot afford to pay for private care of better quality since most of them have very low pensions or other benefits. In common opinion, quality of long-term care in public institutions predominantly is very poor, though there is no data related to this matter. Quality of services strongly depends on the salary of nurses, and the latter is very small. That's why the institutions cannot hire diligent staff. As a rule, institutions are situated in suburbs, far from densely populated districts, not in the sight of people and any community supervision. Generally speaking, placement into institution for adults is seen as an utmost measure for the persons who have close relatives.

Regarding public need, actually, the core course of general practitioners training includes the issues of geriatrics. In 2008, Netherland-Ukraine joint educational project started up. The target of this project is to teach Ukrainian nurses and teachers of medical colleges in the issues of the hospices care improvement. They are assumed to work in the local hospices and medical colleges.

5.7. ISSUES OF SUSTAINABILITY

The population of Ukraine is decreasing, but they do not expect a cutback of public health spending. Firstly, the process of population ageing is accompanied by the worsening of public health and increasing demands for health expenditures. Secondly, the introduction of new technologies and equipment also requires considerable investments into medical and pharmaceutical industries. The question is: could today's system respond to the challenge of population ageing. Obviously, there is shortage of geriatric human resources, lack of incentives and an insufficient public fund allocation.

Government and all health care authorities are quite aware of current and future problems. Now, the broad discussion about the two options of health care reform has started – whether or not to change the source of system funding (State Budget) and whether to modify the mechanism of public fund allocation solely or to introduce compulsory social health insurance. The advocates of social health insurance point out the great opportunities to gain financial resources for the health sector. Indeed, many of Central and Eastern European countries introduced health insurance (has it led to increased revenue however?).

In spite of attraction of international social health insurance experience, to-day, there are more cons than pros. Some of them are as follows:

- extra payroll tax in view of to-day burden on wage fund and tax system seems unrealistic and would incline both employers and employees to wage shadowing¹⁶;
- additional revenue on health care itself does not guarantee its effective and efficient use;
- based on the payroll tax, social health insurance deprives of medical service many people, who have no legal income in the country with large share of shadow economy;
- there are many countries with successfully functioning budgetary financed health care system;
- the model of social health insurance was steadily replaced by budget funding in some countries (Denmark – 1973, Italy – 1978, Portugal -1979, Greece – 1983, Spain – 1986).

WHO research on the issue of health insurance introduction in the CEE and former USSR countries mentions that macroeconomic context in many of these countries is not suited for health insurance introduction. The situation becomes worse because of large share of shadow economy, big number of agricultural workers and high level of unemployment. Thus, the revenue base of health insurance would be restricted substantially, and payroll tax could be a feeble alternative to general taxation. This statement is relevant for to-day again on account of recent economic crisis.

Nevertheless, in 2008, Ministry of Health still viewed health insurance advent as one of the main tasks while there could be various methods of financial basis strengthening in reality. It is possible to maintain budget funding of sector under state guaranteed social minimum of health services defined by Law. Health insurance may develop itself in a supplementary voluntary form providing legal basis for more prosperous citizens' payments and releasing free of charge system from part of its burden for the benefit of more vulnerable people. Now, all measures must be directed towards increasing effectiveness of the health sector.

Another problem is dispersion of resources and efforts. Actually, the Ministry of Health is realizing simultaneously several state target programs and other actions, on which 1,737 million UAH, 231.6 thousands EUR were assigned for 2008. In the future, it should be necessary to concentrate costs on few of the most important programmes giving the preference to preventive measures.

5.8. MAIN REFORMERS AND DRIVERS OF CHANGE

Ukrainian scholars pointed out, that top-priority tasks are bringing together state guarantees and financial resources, structural reorganization, first and foremost primary health service development based on the principles of Family Care and General Practitioner, transition from administrative to contract model. The basic legislation for transformation has been already adopted by Cabinet of Ministers (National Plan of Public Health Services Development till 2010).

Following the recommendations of experts, the National Plan suggests improvements in financial maintenance, mutual co-ordination of funding and volume of the state guaranteed free-of-charge health services (so that guarantees should not exceed available means), optimization of public health institutions. Besides, experts suggest introducing the mechanism of strategic purchase of medical services on a contractual basis and transition from the line-item budgets of medical institutions to the funding based on the scope and structure of services (fee-for-service).

However, all these changes require, first of all, strong political will inside the Government and, secondly, rebuff of corruption. Otherwise, the National Plan remains on the paper, as it is now.

5.9. CONCLUSIONS AND KEY CHALLENGES

The consequences of crisis for the health sector. The first and immediate effect of crisis was cut down of funding. There is no implicit data on the budgeting process in 2009. The visible evidence of a more acute lack of costs in health care is greater involvement of patients' for purchasing medicines, chemicals, X-ray films and other articles for diagnostics and treatment.

Key problems of health sector are:

- concentration on the needs of the sector, not patients' needs;

¹⁶ Total payroll tax makes 41.2%. Proposed payroll tax for compulsory health insurance is 5.2%.

- rigid, complicated and non-transparent system of funding;
- insufficient funding;
- ineffective use of available resources;
- lack of legal financial incentives for doctors;
- low quality of services;
- limited access to services for vulnerable groups;
- lack of transparency and equity caused by large prevalence of under-the-table payments.
-

Recently, Minister of Health in his programme report formulated eight steps for structural reform in the sector.

- The first step – to eliminate fragmentation of resources and improve consolidation of funds on the local level.
- The second step – to separate the functions of providers and payers in the health care services.
- The third step – to separate primary, secondary and tertiary care, providing the preference for the primary care.
- The fourth step – to reorganize hospitals into independent non-profit municipal establishments.
- The fifth step – to introduce fee-for-service method of funding.
- The sixth step – to optimize the hospital network.
- The seventh step – to provide the sector with highly-skilled managers.
- The eighth step – to organize a wide-scale awareness and explanatory campaign in media to build support for the reform among people.

All these measures do not require any additional funding, which is extremely important in the times of economic crisis. However, the Ministry still seems unready to start the reform of the sector. That proves that any reforms should not be put into practice until there is a political will and citizens' support and participation. It would be necessary – in parallel with Government's steps and measures, to develop civil society whose institutes are able to effectively control Health Care Reform.

Statistical problems. There are several shortcomings in organization of health and demographic statistics in Ukraine. The most acute one is an inaccurate ascertainment of the causes of death. It is worth mentioning that about 1/3 of causes of death only are being fixed on the base of autopsy. As to the most widespread cause – cardiovascular diseases – this rate is even smaller: 20%. Thus, the reported structure of the causes of death appears to be not quite representative / accurate.

Statistics of morbidity by non-infectious diseases are not reliable. It is a consequence of lack of prevention measures. The incident of disease predominantly is fixed only when the patient addresses the physician himself. This is why regional variation of morbidity does not match regional features of mortality.

Even in the regions, there is no single list of all medical institutions which belong to various owners. So, to follow financial flows in the health sector is a very hard task. Neither Ministry of health nor Ministry of finance distributes their statistical issues to research organizations. There is no access to broad number of statistical indicators online.

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Main links

World Health Organization <http://www.euro.who>

Tables

Table 5.1: Life expectancy, years

	Ukraine		Europe A		Europe B+C	
	male	female	male	female	male	female
at birth						
1990	65.57	74.98	72.88	79.64	65.20	73.72
1992	63.89	74.08	73.35	80.14	64.28	73.36
1994	62.44	72.97	73.89	80.53	62.49	72.20
1996	61.65	72.85	74.31	80.83	63.37	72.81
1998	63.32	73.91	74.84	81.14	64.55	73.63
2000	62.3	73.62	75.48	81.63	64.18	73.56
2002	62.18	73.73	75.99	81.90	64.35	73.59
2004	62.03	73.63	76.71	82.43	64.60	73.92
2006	62.34	73.84	77.3	82.93	65.12	74.29
2007	61.81	73.77	...	...	...	...
at age 15						
1990	52.24	61.25	58.79	65.40	52.52	61.27
1992	50.52	60.44	59.17	65.85	51.33	60.77
1994	49.09	59.40	59.63	66.17	49.08	59.36
1996	48.22	59.22	59.98	66.40	49.83	59.84
1998	49.80	60.13	60.45	66.67	50.92	60.43
2000	48.66	59.76	61.05	67.12	50.19	60.18
2002	48.40	59.72	61.54	67.38	50.09	60.08
2004	48.00	59.59	62.22	67.88	50.26	60.35
2006	48.43	59.77	62.78	68.35	50.79	60.71
2007	47.99	59.81	...	...	...	...
at age 45						
1990	25.88	32.63	30.74	36.33	26.08	32.72
1992	24.77	31.97	31.17	36.77	25.44	32.36
1994	23.72	31.10	31.56	37.08	29.74	31.18
1996	23.07	31.04	31.83	37.30	24.28	31.60
1998	24.18	31.74	32.15	37.50	25.08	32.08
2000	23.44	31.48	32.70	37.93	24.62	31.89
2002	23.32	31.57	33.11	38.15	24.40	31.83
2004	23.10	31.55	33.68	38.60	24.61	32.12
2006	23.38	31.76	34.17	39.03	25.05	32.46
2007	23.29	31.96	...	...	...	...
at age 65						
1990	12.58	15.90	14.75	18,67	12.66	16,09
1992	12.09	15.47	15.10	19,04	12.40	15.88
1994	11.55	14.88	15.35	19,30	11.68	15.20
1996	11.48	15.01	15.51	19,46	11.97	15.44

1998	11.89	15.35	15.70	19,59	12.24	15.66
2000	11.61	15.23	16.16	19,98	12.10	15.61
2002	11.61	15.39	16.51	20,16	12.05	15.64
2004	11.64	15.48	16.99	20,57	12.28	15.92
2006	11.70	15.56	17.41	20,97	12.40	16.11
2007	11.8	15.81	...	...	...	...

Source: World Health Organization http://www.euro.who.int/InformationSources/Data/20011017_1;
State Statistics Committee of Ukraine

Table 5.2: Age groups contribution into life expectancy changes in 1990-2006

Periods	Total change	As a consequence of changes of mortality in age brackets:				
		0-14	15-24	25-44	45-64	65 and more
Male						
1990-1995	-4,3	0,1	-0,2	-1,7	-2,0	-0,5
1995-1998	1,9	0,1	0,1	0,6	0,8	0,3
1998-2006	-0,7	0,4	0,1	-0,5	-0,6	-0,1
Female						
1990-1995	-2,4	-0,1	-0,1	-0,5	-1,0	-0,7
1995-1998	1,3	0,2	0,1	0,2	0,5	0,3
1998-2006	0,0	0,4	0,1	-0,2	-0,2	-0,1

Source: Institute for Demography and Social Studies of NAS of Ukraine

Table 5.3: Standard death rate per 100,000

Years	Ukraine	Europe – A	Europe - B+C
Diseases of the digestive system			
1990	29.7	36.3	37.02
1992	34.64	35.03	40.76
1994	36.78	34.14	47.49
1996	42.30	33.01	47.62
1998	37.34	32.11	44.46
2000	42.05	30.89	46.66
2002	44.79	30.60	50.55
2004	54.60	29.46	54.31
2006	59.04	28.63	55.83
2007	...	28.56	...
Tuberculosis			
1990	8.8	1.51	8.1
1992	10.05	1.30	9.10
1994	11.72	1.15	12.24
1996	16.84	1.05	14.96
1998	16.40	0.97	14.32
2000	22.31	0.81	16.32
2002	20.49	0.70	16.31

2004	22.55	0.60	15.74
2006	21.29	0.60	14.50
2007	21.25	0.55	...
Neoplasms			
1990	186.18	204.77	187.78
1992	189.74	204.19	189.04
1994	187.46	201.19	188.47
1996	178.26	196.76	182.32
1998	174.74	193.40	179.59
2000	174.61	189.07	178.78
2002	168.39	184.78	174.84
2004	164.24	180.31	172.12
2006	161.65	177.33	168.73
2007	160.50	174.45	...
Diseases of the circulatory system			
1990	589.47	335.85	627.42
1992	625.68	317.03	644.67
1994	747.09	301.67	750.45
1996	774.58	288.53	716.81
1998	745.71	276.04	688.18
2000	790.65	254.57	713.03
2002	799.70	241.61	727.9
2004	807.98	223.06	715.98
2006	801.63	211.55	695.23
2007	791.60	200.51	...
External causes of injury and poisoning			
1990	108.36	51.22	107.84
1992	130.23	49.10	128.11
1994	145.70	45.75	162.08
1996	158.23	35.05	144.06
1998	138.24	41.66	129.08
2000	146.02	39.98	138.05
2002	153.45	38.88	143.76
2004	143.93	37.29	137.35
2006	130.33	36.08	123.36
2007	133.6	35.05	...

Source: World Health Organization http://www.euro.who.int/InformationSources/Data/20011017_1;
State Statistics Committee of Ukraine

Table 5.4: Infant mortality per 1000 born alive

	Ukraine	CIS	Europe – A	Europe - B+C
1990	12.8	22.31	7.76	27.99
1991	13.9	23.35	7.55	28.04
1992	14.0	24.33	7.04	28.31
1993	14.9	25.30	6.57	28.34
1994	14.5	23.36	6.18	26.88
1995	14.7	22.06	5.72	25.55
1996	14.3	20.99	5.50	24.51
1997	14.0	20.29	5.27	23.47
1998	12.8	18.52	5.10	21.85
1999	12.8	18.10	4.9	22.32
2000	11.9	16.46	4.75	20.98
2001	11.3	16.6	4.70	20.64
2002	10.3	14.73	4.49	19.07
2003	9.6	13.28	4.34	18.04
2004	9.5	13.29	4.22	17.53
2005	10.0	13.29	4.05	17.45
2006	9.8	12.78	3.96	16.99
2007	11.0	...	3.92	...

Source: World Health Organization http://www.euro.who.int/InformationSources/Data/20011017_1;
State Statistics Committee of Ukraine

Table 5.5: Incidence of active tuberculosis

	1990	1992	1997	2007
Firstly identified sick persons, thousand	16.5	18.1	24.9	37.1
Per 100,000	31.9	35.0	49.3	80.1
Including active tuberculosis of respiratory system, thousand	14.7	16.4	23.2	35.5
Per 100,000	28.5	31.5	46.0	76.7
Sick persons registered in the medical establishments, end of the year, thousand	98.3	95.9	106.4	93.2
Per 100,000	190.2	184.4	211.7	201.8

Source: State Statistic Committee of Ukraine

Table 5.6: National accounts of health care of Ukraine

	2003	2004	2005	2006	2007
Public expenditures on the health care	UAH 10807.6 million (EUR 1801.3 million)	UAH 13355.4 million (EUR 1993.3 million)	UAH 16827.0 million (EUR 2629.2 million)	UAH 21138.0 million (EUR 3355.2 million)	UAH 25257.3 million (EUR 3660.5 million)
as a % to GDP	4.0	3.9	3.8	3.9	3.5
as % to total State Budget expenditures	14.3	13.0	11.9	12.0	11.1
Total (public and private) expenditures on the health care per capita	UAH 389.6 (EUR 64.9)	UAH 484.5 (EUR 72.3)	UAH 602.8 (EUR 94.2)	UAH 745.5 (EUR 118.3)	UAH 921.7 (EUR 133.6)
Total (public and private) expenditures on the health care as a % to current GDP	7.0	6.7	6.4	6.4	5.9
Expenditures by sources, %:					
State (including state firms)	58.0	58.2	59.3	60.6	58.9
Private firms and corporations	2.7	2.5	2.2	2.0	2.7
Donors	0.5	0.7	0.3	0.3	0.3
Households	38.5	38.3	37.4	36.2	37.0
Other sources	0.3	0.3	0.8	0.9	1.0
Distribution of the expenditures by the providers of health care, %:					
Hospitals	38.4	36.6	38.9	40.3	40.3
Establishments of the medical and long-term care	8.0	7.5	7.1	5.6	6.0
Clinics	10.6	11.1	11.9	12.3	13.0
Pharmacies and other suppliers of the medical commodities	34.6	34.5	33.2	32.2	30.2
Management of the programs of public health	3.0	3.0	2.9	3.0	2.9
General management and insurance in health care	3.4	3.3	3.3	3.1	3.3
Other activity in the field of health care	2.0	4.0	2.7	3.5	4.3
Distribution of the expenditures by the functions, %:					
Hospital, clinic and rehabilitation treatment	48.9	47.4	49.6	49.5	54.1
Long-term care	0.2	0.2	0.2	0.2	0.2
Auxiliary services	4.6	4.6	4.6	4.5	4.5
Provision with the medical commodities in clinics	32.8	32.7	31.4	30.2	30.2
Prevention and services of health care selected for out-patients	3.7	3.6	3.5	3.6	3.7
Other activities	9.8	11.5	10.7	12.0	7.3

Source: State Statistics Committee of Ukraine;

Note: 2003 - first available data

Table 5.7: New HIV infections and number of persons with AIDS

	HIV infected			Persons with AIDS		
	1995	1997	2007	1995	1997	2007
Firstly identified sick persons, thousand	1.4	8.7	17.7	0.04	0.2	4.6
per 100,000	2.8	17.3	38.2	0.1	0.4	9.9
Sick persons registered in the medical establishments, end of the year, thousand	1.5	15.1	72.9	0.05	0.2	8.9
per 100,000	2.9	30.0	157.7	0.1	0.4	19.4

Source: State Statistic Committee of Ukraine
Note: 1995 - First available data

Table 5.8: Basic health care indicators

	1990	1992	1997	2007
Physicians of all specialties, thousand	227	228	227	223
Per 10,000	44.0	43.8	45.1	48.3
Paramedical personnel, thousand	607	602	566	488
Per 10,000	117.5	115.8	112.7	105.5
Hospital establishments, thousand	3.9	3.9	3.4	2.8
Hospital beds, thousand	700	689	503	440
Per 10,000	135.5	132.6	100.2	95.2
Ambulatory clinics, thousand	6.9	7.1	7.1	8.0
Capacity of clinics, thousand patients per shift	895	939	964	992
Per 10,000	173.1	180.5	191.9	214.7
Acute care hospitals and stations	970	1074	1033	987
Acute care hospital admission, million	17.8	16.5	14.2	13.9
Per 1,000	345	318	282	300
Average length of stay, all hospitals, day	16.4	16.8	16.2	13.3

Source: State Statistic Committee of Ukraine

Table 5.9: Vaccination coverage of children 0-2, %

Children vaccinated against:	1996	1997	1998	2004	2007
Tuberculosis	n.a.	n.a.	n.a.	98.2	97.1
Diphtheria	98.6	98.5	98.7	99.2	98.3
Whooping cough	98.6	98.5	98.7	98.8	98.0
Poliomyelitis	98.9	98.2	98.0	99.1	98.3
Measles	92.4	97.8	96.1	99.2	98.6

Source: UNDP, Ministry of health of Ukraine
Note: 1996 - First available year

6. CONCLUSIONS

6.1. GENERAL OVERVIEW

The social and economy transformation in Ukraine during the years of independence has gone through several large stages. During 1991–1999 economic situation and living standards of majority of people in Ukraine were deteriorated. The transition to market economy of the Ukrainian society was accompanied by poverty, material and social inequality. The state social policy was aimed at strengthening of social protection, but social system base remained unreformed.

Since 2000, efforts to improve the situation have been reflected in the GDP growth, development of a business environment, declining of unemployment, and increase in income. However, economic growth intensified the inequality because the highest income growth happened among the richest groups. Moreover, a lack of the structural reforms in economy, low innovative activity of national enterprises and large share of informal economy, low wages and salaries have retarded social development. Inconsequent political actions and frequent elections are accompanied by the increase of social budget's burden that really threatens the financial stability and sustainability of the social protection system in Ukraine. It will lead to considerable outflow of labour force from Ukraine and to growing poverty.

Current financial and economic crisis has evinced failure of social policy and necessity of providing fundamental reforms in economy and society.

Equal rights of women and men are guaranteed by the Constitution, the Law of Ukraine "On Ensuring Equal Rights and Opportunities for Women and Men" and other legislative acts. However, some of these standards – the lower retirement age for women, prohibition or restriction of the use of labour of women in certain jobs, long leave for child care – in fact, lead to gender discrimination in the implementation of employment and pension rights. There is a significant gender inequality concerning income, low representation of women in government and among politicians.

Despite introduction of new forms and types of social assistance related to the market (unemployment insurance, pension insurance, targeted social assistance to low-income, housing subsidies schemes etc.) there is no holistic state strategy of social development and social integration in Ukraine. Social policy is orientated to provide assistance to wide range of people, however, social inclusion of vulnerable groups remains beyond due attention.

Special target schemes are directed to support social groups such as homeless, orphans, problem families, persons exempted from the places of imprisonment, HIV/AIDS persons.

Polarization of society by political, national, religious convictions slackens the social cohesion.

Important task for Ukraine is to harmonize the goals of economic development, employment and social cohesion. The economy growth allowed improving of living standards of majority of people, in particular, an increase of real income and reduction of absolute poverty are observed. However, there is mismatch and inconsistency between the GDP growth, and employment and income.

The transition of Ukraine toward market economy was prolonged and exhausting both for economy and for population. Lack of structural and institutional reforms in economy, exemption of a large number of state-owned enterprises from the privatization process, absence of bankruptcy mechanism (despite the existing industrial potential) stipulated the sharp GDP reduction in 1991-1999, hyperinflationary level of inflation, worsening of trade balance, and significant wage arrears. As a result, all mentioned above lead to the worsening of the living standard.

Despite the economic stabilization in Ukraine that began in 2000 (average annual GDP growth in 2000-2008 was 8.5%), the real GDP level in 2008 was only 74.1% of that achieved in 1990. GDP growth was provided mainly by production of basic metals (steel) and by the favourable situation on the world metal market. However, the question is: how much longer the extensive use of factors of economic growth will be effective (priority of heavy industry development).

As a result of economic crisis influence, in the second half of 2008 the macroeconomic situation was characterized by a downward trend driven by external financial instability and the aggravation of negative economic processes inside the country. Declines in external demand for steel and internal demand for industrial products lead to the real GDP reduction, considerable industrial output decrease, worsening of trade balance, significant fluctuations of UAH exchange rates against US dollar and EURO. In addition, these negative tendencies were accompanied by changes in gas price for national industry. All above mentioned became main destabilizing factors for revenues and expenditures of a budget. Accumulation of budget deficit is one of the serious risks of social guarantees providing and worsening the living standard of vulnerable groups.

The biggest immediate challenges to Ukraine's macroeconomic stability are:

- lack of structural reforms
- political instability
- raw-material orientation of industrial production
- low rate of innovation activity
- high level of inflation
- corruption
- insecurity of property rights
- absence of adequate financial and SME development legislation.

On the other hand, economic situation will have a strong impact on Ukrainian labour market. Despite the reduction in the number of employed during 1990-2000, the structure of employment by sectors had changed inadequately. Key problems of Ukrainian labour market are: shrinking of labour force, low flexibility of labour market, significant share of employment in subsistence agriculture, gender wage gap, ineffective use of financial resources of Unemployment Compulsory Social Insurance Fund absence of coordination between public and private employment services.

In general male employment rate (68.6%) remain relatively low in comparison with the EU-27 average level (72.8%) because of their employment at harmful work conditions, health deterioration, and consequently – pre-term preferential retirement. Lower female economic activity in Ukraine in comparison with male economic activity might be explained by the lack of affordable quality of child care facilities, strong incentive of youth for obtaining the higher education and low retirement age.

In 2008 the unemployment rate reached 6.4% (despite of crisis influence). However, the relatively low level of unemployment in Ukraine is the evidence of slow structural reforms, labour migrations, subsistence agriculture, informal employment and underemployment. Crisis was associated with growing scales of the involuntary underemployment on Ukraine's labour market. Unemployment remains an acute problem for the most vulnerable groups such as Crimean Tatars and Roma.

The problems of wages have become very urgent in Ukraine coming outside the labour market. Low labour costs do not motivate employers to introduce new technologies and to provide the labour productivity growth. The present level of wages does not prevent employed persons from poverty. About 85% of poor households have at least one employed member; moreover, employment does not change the poverty risk because of the low wage.

Despite the innovative technologies of job placement implemented by the Public Employment Service, the quality of vacancies remains poor. For instance, quite high demand is observed for representatives of elementary professions (nearly 15.0% of the total number of vacancies in 2008). In contrast, finding a job through the Public Employment Service for professionals is unlikely because of the lack of vacancies offering decent wage. The influence of the recession on the Public Employment Service activity is marked with the steep increase in the number of registered unemployed. This led to the narrowing of the vacancy-base, as well as of financial base for implementation active measures of employment policy.

In order to save labour potential of enterprises, to prevent unemployment growth and to provide social guarantees the Law "On changes to Laws on minimization of financial crisis influence on employment" was adopted from 25.12.2008. Recently Cabinet of Ministries declared steps for minimization of negative impact of economic crisis on employment:

The first step – partial financing of employer's expenditures on wages, training and retraining from the Unemployment Compulsory Social Insurance Fund;

The second step – improving the organization and financing of public work;

The third step – introduction of underemployment benefits;

The fourth step – with the aim to provide financial sustainability of the Unemployment Compulsory Social Insurance Fund, from the beginning of 2009, the new proportion of contribution's redistribution was introduced. It foresees the increase of employer's contribution from 1.5% to 1.6%; and employee's contribution – from 0.5% to 0.6%;

The fifth step – strengthening of the control over services quality and financing in coordination and cooperation with the Pension Fund and the State Tax Administration.

However, different agents of LMP still appear to be unready to overcome negative tendencies at labour market attributed to the crisis. Realization of these steps should be accompanied by elaboration and implementation of anti-crisis policy that foresees coordination and cooperation between all ministries, central/local government, relevant institutions in the state, regional and municipal levels. Lack of political willingness to improve the quality of management results in a little progress toward fighting a corruption, developing capital market and improving the legislative framework for businesses.

Challenges concerning labour market development:

- relatively low female activity in Ukraine is stipulated by low retirement age. Therefore, there is a need of stimulation of economic activity growth by increasing the retirement age not only for women but also for men;
- active social inclusion of young unemployed, which are not included in education, employment or training;
- problems with financial sustainability of the Fund of Compulsory Public Social Insurance in case of Unemployment. Improved contribution collection should be a priority task since it has a significant impact on the financing of LMP measures and support. Redistribution of Fund's Revenues toward providing the dominate financing of LMP measures (public works, creation of jobs), significantly improving of the infrastructure of facilities as well as the quality of services (education, training and retraining);
- elaboration of measures aimed at the improvement of participation of vulnerable groups at labour market (Roma, Crimea Tatar) in the context of increasing their participation in education, training and employment at the state and local levels;
- absence of coordination between public and private agencies. Employment services that leads to the low efficiency of LMP measures and support.

Market oriented transition of Ukrainian economy is characterized by widening of the scale of grey economy. Main features of informal economy are illegal production; hidden production (tax evasion, non-compliance of labour legal norms). At the same time, high level of corruption leads to widespread practice of underreporting of wages (19.0% of interviewed (polled) population), tax evasion (World Bank, 2006) and reflects all negative features of undeclared work.

The informal sector of economy in Ukraine (especially including petty trade, unregistered work) is quite distinct. At the same time it is necessary to point out that the informal sector developed as a vital necessity for surviving of low-income categories of population. A large fraction of employed in the informal sector were engaged in agriculture. The informal sector of the Ukrainian economy is characterized by the decent work deficit that means the absence of sufficient employment opportunities, inadequate social protection, the denial of rights at work and shortcomings in social dialogue.

Challenges concerning undeclared work are:

- great share of envelope-paid wages, underreporting of wages leads to the increase of shadow economy scale, tax collection;
- deficit of decent work in informal sector of economy became one of the serious problem of its development. That's why it is necessary to provide an adequate social protection, strengthening of social dialogue role etc.

All above mentioned testified that Ukrainian economy is vulnerable to external shocks especially to the influence of world economic crisis. It's necessary to concentrate efforts of all relevant institutions at mitigation of the impacts of economic and financial crisis on the most vulnerable groups of population.

Ukraine's demographic situation gives a great reason for concern. Population decline, low life expectancy and birth rates are dominating the newest demographic trends.

There is a sizeable differentiation of social and demographic situation in Ukraine by the type of settlement. The most unfavourable situation is observed in the rural area that was caused by the absence of jobs, degradation of social infrastructure, insufficient living conditions (problems with sewage system, water-supply), and limited access to quality education and health care.

6.2. SOCIAL PROTECTION SYSTEM

The complex and branched-out System of Social Protection has been inherited from the Soviet times in Ukraine. It is formed by rather extensive programs of income support, privileges and social services for population nowadays. The current System consists of two basic components:

1) The Compulsory State Social Insurance (contributory scheme), which covering four types of insurance: a) against industrial accidents and occupational diseases; b) against unemployment; c) against temporal disability; d) pension insurance.

2) Social Assistance in the form of Social Benefits, Privileges and Services (non-contributory scheme) are funded by the State Budget; they are formed at the expense of tax revenues. The System of the State Social

Assistance is presented by a number of benefits, which are directed to support socially vulnerable and low-income population groups. The most disadvantaged groups, who are socially excluded by many parameters (income, access to social infrastructure, adequate housing, employment, etc.), are presented by disabled people, orphan children and children without parental care, homeless persons and other population categories.

There are two basic principles of the assistance granting, used in Ukraine: 1) categorical approach (based on eligibility of some population category with no income-testing) and 2) means-tested approach (based on official confirmation of eligibility to participate in programs through income-testing). In particular, the program of housing subsidies has become the first social program based on the means-tested principle. The program is aimed at supporting population under conditions of a large increase of tariffs for housing services.

The urgent problems of the system of social protection in Ukraine are related to the system of social privileges, which has a very complicated structure. Terms of eligibility for privileges are regulated by many legislative and normative acts, which account for over 40 documents. According to the current legislation, there are about 30 privileged categories and over 20 different types of privileges. Privileges have become so wide-spread that there is more than one case of use of privileges per household in the country. Such expanded system of privileges results in the next problems:

- excessive number of privileges;
- absence of audit of granted privileged services;
- absence of audit of contingents of privileged persons.

Absence of any competition is among other failings of the present system of social services. Social services are mostly provided by public organizations, as well as other types of social protection. A network of the alternative social services is not yet developed. It results from conditions of funding of social services: the budgetary costs are planned and allocated on maintenance of large public institutions, not on the needs of social service recipients. According to expert estimations, the NGOs cover no more than 10% of the whole system of social protection. A small participation of the non-governmental sector in social protection issues can be explained by typical problems, related to the NGOs in Ukraine: 1) absence of a regular funding; 2) insufficient skills and qualification of their chiefs and personnel; 3) problems with training and skill upgrading; 4) low activity and population confidence in NGO's services; 5) low openness of state officials and their unwillingness to co-work with NGOs.

The budgetary funding of social programs has been increasing during last years. Though a share of expenditures on social protection has dropped from 21.8% to 15.0% of the GDP during 1997-2000, it has been increasing during the economic growth period, reaching 26.5% of GDP in 2007. The series of election campaign (2004-2006) were accompanied by the excessive promises, acceptance of additional social obligations, among them - increase of pensions, introduction of privileges for a category "children of war", sharp increase of birth grant. In this connection, in 2004 the amount of consolidated state budget expenditures on social protection increased 2.6 times.

However, the expected success in improving the quality of social services and the population living standards has not been achieved due to poorly organized system of decision making and cost administration through strictly centralized authorities. In spite of rather large sums of public expenditures, not all efforts have the same effectiveness and target orientation; all these benefits do not solve a problem of the vulnerable categories completely, there is a number of problems related to underfinancing of programs; financial mechanism of costs allocation at regional and local levels requires an improvement; additional subsidizing through external grants and increase of efficiency of public expenditure are required.

Presently, the stability of the social protection system faces a challenge. The main reason of this situation is the global financial and economic crisis that leads to unemployment growth and poverty risks among families with children and persons, who have lost ability to work. A decline in revenues to the budgets of all levels is expected, as well as to the Pension Fund and Funds of Social Insurance. A decline in revenues to the State budget threatens financing of social programs.

One option could be that the system of social assistance should be based mostly on the means-tested approach instead of the universal principles. The priority task of its development is to provide precise targeting on the one hand and the maximum coverage of all persons in need – on the other hand. The current system of the target social assistance cannot be regarded as effective in the context of poverty elimination. Also, it is important to change emphasis from assistance to socially vulnerable population to the labour market development and maximal expansion of employment, ensuring the decent wages, encouragement of economic activity and aspiration to receive a high level of education and occupational training.

The state policy has to provide the operation of appropriate social services institutions to improve the quality of services. The key role among such institutions should belong to non-governmental institutions. The State has to empower the non-government sector through certification, accreditation and monitoring & evaluation, and to adjust mechanism of support of public initiatives at the local level.

6.3. POVERTY AND SOCIAL EXCLUSION

The economic crisis 1990's, was combined with the transition to the market economy, leading to high inflation and sharp decline in the real income of population. During 2000-2008, a share of population with expenditures below the subsistence minimum has dropped from 70.6% to 12.6%.

The reduction of extreme forms of poverty is accompanied by high level of inequality and people do not feel positive changes in their welfare. Therefore, relative poverty rates have been stagnating for 9 years and poverty rates by population's self-estimation are excessively high. The main risk groups consist of families with many children, elderly, unemployed and persons with low educational level. Rural population experiences the highest poverty.

Key aspects of deprivation are related to the lack of money to meet basic needs (to purchase goods and services) i.e. to monetary poverty. At the same time, such aspects of deprivation as housing conditions (quantitative and qualitative characteristics of housing) and availability of social infrastructure (health, education, culture) play important role. The problem of accessibility of social services and infrastructure is particularly urgent in the rural area.

The Ukrainian society does not perceive problems of some minorities, which face social exclusion. It concerns traditionally vulnerable population groups (disabled, ethnic minorities), as well as new groups, which appeared rather recently – HIV/AIDS-infected; drug consumers (in particular injection users); homosexuals. In total, tolerant attitude to such persons is combined with intolerance of staying in their neighbourhood, leading to social isolation of these groups in all spheres of life. Homelessness is a particularly shameful problem, which also concerns children.

As a consequence of financial crisis in 2009, some changes in profiles and risks of poverty for certain families are supposed. Poverty risks for families with unemployed (especially families with children), for households with persons aged 70 years and older, households with children and pensioners are expected to increase. The situation in households where everybody is employed and in households with one child and employed parents is going to improve. Perhaps, in 2009 the situation for families with three and more children will improve as well in case if the families' assistance will be paid in accordance with fixed terms.

Poverty rates do not have clear geographical identity. Regions with high poverty rates are observed in different parts of the country. Nevertheless industrialized regions with predominance of urban populations have lower risks of poverty in comparison with the agricultural regions. In 2009 a slight reduction in differences of poverty rates between urban and rural areas is expected because economic crisis mostly concerns of urban population. Thus, the decrease of indicators in the urban area is anticipated, while unchangeable situation in the rural one.

Presently, realization of the developed strategies and programs remains the main problem in Ukraine. Documents are mostly declarative. Firstly, the strategy of poverty overcoming covers a broad range of efforts in various spheres of life. However, monitoring of the strategy realization does not have detailed indicators of realization of all specified tasks. Secondly, there is no target financing for purposes of the strategy realization.

The current social assistance system actually doesn't affect the poverty level due to the lack of targeting of social assistance. Only pensions provide protection to retirees from the risk of poverty. Instead, the most vulnerable families with children are insufficiently supported by the state. The problem of high poverty among families with children often related to low wages in the country, especially among workers with low seniority who often have dependent children.

The strategic documents need to be revised and updated, with consideration of the recent changes in the poverty situation and results latest studies on poverty and social inclusion. New strategy has to take into account possible consequences of financial crisis and to identify new steps to overcoming monetary poverty. The main task of new strategy is determination of groups of social exclusion and development of measures on their integration in society.

Problems of long-term and inherited poverty and the situation with so-called "new" groups of social exclusion (social disease patients, sex minorities, homeless, etc.) are little-investigated in Ukraine and require particularly researching. However, there is an acute shortage of statistical information and data of surveys.

Problems of data:

- Absence of statistical data about non-monetary poverty of national minorities;
- Absence of panel researches of poverty;
- Absence of official information about social excluded groups and aspects of their discrimination;
- Insufficient representativeness of poverty indicators at regional level

Policies to overcome poverty are needed:

- to develop the new eliminating poverty program, which should take into account the possible consequences of financial crisis and to outline new steps toward eradication of poverty. One of the main tasks of the new strategy is identification of groups of social exclusion and development measures for their integration into the society;
- to provide target funding of the proposed program. In case of duplication of some fields of overcome-poverty-program and activities of other funded normative acts, it is necessary to take into the account this duplication and to determine respective value of components and total cost;
- to identify key problems of insufficient implementation of regulations and policy documents in overcoming poverty.
- to introduce full-scale system of monitoring and evaluation of implementation of overcome-poverty-program; to incorporate into program's documents the complete list of indicators for monitoring its implementation;
- to enhance efficiency and targeted social assistance system due to:
 - reforming of social benefits system and release of funds for targeted benefits;
 - restricting of rights of receiving housing subsidies to the population with lower incomes;
 - rising the threshold of targeted assistance to poor families and increase of coverage of poor population by social benefits;
 - improving of the methodology of the targeted assistance and mechanisms for its provision.

6.4. PENSIONS

Ukraine's pension system preserved paternalistic character, inherent the social protection of Soviet period. Officially, pension reform started in January 2004. Pensioners are the most active part of electorate, therefore, many performances in pension system implemented as means to mobilize the electors regardless of the needs of system modernization.

Main component is a compulsory state pension insurance in PAYG basis, which includes three types of pensions (old-age, disability and survivors) and large list of anticipated old-age pension and length of service pension. Different state pension schemes (social and Chernobyl pensions, extra-charges to pensions for some occupations and categories) financed from the State Budget due to additional pension contributions. These schemes provided about 1/4 of total public pension expenditures. During independent period the list of anticipated old-age pension, length of service pension and state pension schemes were broadened significantly.

National pension legislation is unsteady and non-transparent. There are almost 30 laws and numerous additional normative acts, which regulate pension rights and guarantees. Most people (especially young) are uninformed about pension legislation and possibilities to planning of their pensions.

Private pension schemes are based on voluntary participation, and a very small part of population (2% of employed) is attracted to them. Assets of private pension funds were 0.6% GDP in 2008. Development of this component is restricted by low income level, orientation towards current consumption and distrust to private financial institutions.

With purpose to provide an adequate retirement income for all, the Government increased the minimum pension guarantees. April 1, 2008 introduced ordinance according to which the minimum pension benefit can not be less than subsistence minimum for persons, who have lost ability to work (irrespective of service). Now minimum benefit is about 60% of the average pension.

In terms of differentiation of pension benefits, the nowadays pensioners are rather homogenous because most of them were working in the Soviet period, when there were compulsory employment and small gap in wages. However, pensions assigned by certain laws (for deputies, state employees, scientists, journalists, judges, etc.) are 1.5-15 times higher than pensions assigned by the Law of Ukraine "On the Compulsory

State Pension Insurance". This law gap has very negative influence on solidarity and fairness of the pension system.

Except law gap, current inequality in pension sizes is predetermined by two reasons: gender gap (women have lower pension age and shorter service period, in addition, female wage is by 30% smaller than male wage) and urban-rural gap (wage in agrarian sector is twice smaller than the average and agriculture seasonality reduced service).

In terms of solidarity of generations, low participation of population in pension insurance creates a large problem. Only 74% of employed pay pension contributions. About 1/3 of insured pays contributions from the wage, which is not higher than the minimum wage. Illegal labour workers, employed in subsistence agriculture and other informal types of economy are not covered by pension insurance.

Demographic ageing is a permanent challenge for sustainability and adequacy of the pension system. Main reason of the ageing in Ukraine is very low fertility during the long period. In the future, increase in life expectancy, and in migration inflow can exaggerate ageing. National pension system, compared with countries of the former USSR, is the most attractive: low retirement age, large list of early retirement, guaranteed pension benefit regardless of service. All this creates conditions for immigration of people in pre and retirement age, especially from the countries – former Soviet republics.

Nowadays, pensioners are 30% of the total population of Ukraine, and in PAYG system there are almost 9 pensioners per 10 contributors. According to demographic projection, old age dependency ratio (65+/15–64) will increase from 233 in 2008 to 377 in 2050. Given unchanged rate of participation in pension insurance, the number of pensioners will exceed the number of contributors by 32% till the 2050.

During 2004–2008 due to frequent elections pensions have increased about 5 times. In 2009 total pension expenditures (without pensions of servicemen and officers) will reach its record – 17.2% of the GDP (in 1991-2003 – about 8-9% of the GDP). However, at-risk-of-poverty rate of older people is much higher than the working age persons (especially among women and aged over 75) and has a trend to increase.

Financial and economic crisis makes rapid wage and pension growth impossible. The minimum pension and the subsistence minimum were frozen at the level of October 2008. Factually, indexing of pension on inflation was frozen as well. Cash gap between revenues and expenditures of the Pension Fund was more than 3% of GDP. This deficit was covered by loans provided by the State Budget. There are no arrears of pension benefits — deficit of funds is covered by a loan provided by the state budget.

Difficult financial situation and demographic trends require fundamental reforms in the sphere of employment and pensions. In terms of long-term prospects, measures aimed at prolonging of employment duration and development of funding pension schemes have the highest efficiency.

Above all, the prolonging of employment duration includes increasing of the pension age and/or the necessary service, especially for women. Generally, experts and officials understand the necessity and inevitability of increasing the pension age. Draft laws were developed repeatedly, however, they were never carried out for approval or public discussion.

The problem is that the most of people in Ukraine perceive the low retirement age as a great achievement of the Soviet period, and consider its increasing as encroachment on human rights. Political forces always use that as a means for blackmailing of their opponents. Therefore, nowadays authorities are forced to promise not to review the pension age, instead of explaining objective circumstances and positive moments of its increasing (for example, rising of pension's size). Efforts to attract a favour of electorate in a country where every year elections take place determine populist orientation of the state pension policy (and in general social policy) that leads to deadlock. Clearly, increasing of the pension age is impossible to avoid. The short life expectancy at birth can not be counterargument because lifetime in pension period in Ukraine is not lower (and even more for women) than in most European countries.

First of all, it is necessary to rise the retirement age for women to the level of retirement age for men to achieve gender equality in employment and pension rights. It will give a chance to realize the working potential of women and to reduce gender gap in pensions, moderate growth of pension system dependency ratio and to significantly improve financial sustainability. It is advisable to start with setting a higher retirement age for some generation (e.g., for those, who are involved in the compulsory funding pension insurance).

The shortening of the early pensions list is urgent for Ukraine. Early pensions cannot be adequate compensation for work in harmful conditions, or low income (the last factor became the main motive for significant expansion of early pensions list in 1990s). In addition to increasing the burden on the pension system, their existence significantly slows the process of restructuring the economy.

Possibility of early retirement stimulates people to agree to work in hazardous and adverse conditions, despite the threat to health. The prevalence of employment in hazardous conditions is one of the main causes of high mortality of people in working age, especially men.

Abolition or significant restriction of early pensions list will promote enhancement of requirements of employees to job quality. Implementing this measure should be realized in such areas: the abolition of unjustified privileges on anticipated old-age pension and length of service pension, limiting the duration of employment in hazardous conditions, development of occupation pension schemes.

Another problematic area of pension reforming is implementation of the compulsory founding pension insurance. Its start has been suspended, that is related to the deficit of the PAYG-system and lack of reliable financial instruments. The most discuss questions are starting parameters: age of members, contribution size, organization of the system of contribution collection and investing of pension assets (including role of private pension funds).

Financial crisis, including falling stock markets, and unsuccessful experience of Kazakhstan and Russian Federation substantially increase political concerns about the timeliness and efficiency of the implementation of compulsory founding pension insurance in Ukraine. However, international experience confirms the need for diversification of pension schemes for sustainability of public financial system. The compulsory founding pension schemes open new possibilities for augmentation of investment potential of the national economy, for motivation of the economic activity and more complete "coverage" of their income.

Directions and speed of pension reforming in Ukraine mostly are determined by election conditions. To overcome such practice it is necessary to make the following steps:

- introducing compulsory examination of draft decisions in the field of pension policy on their impact on long-term development of the pension system;
- establishing a broad educational and advocacy work with population, including education of children and adults the basics of "pension literacy", explaining of the need and objectives of pension reform, objective coverage of its;
- provision to Pension Fund of Ukraine the status of self-governing organization, the consolidation of efforts of social partners, enhancing the role of public institutions in pension policies and solidarity of society.

The success of pension reform is closely linked with the development of macroeconomic environment and the situation on the labour market. But political commitment and responsibility of its leaders are more important

6.5. HEALTH AND LONG-TERM CARE

Ukraine health care organization, management and financing principles were inherited from the Soviet Union. In spite of the big number of health care institutions, the system does not work effectively. The healthcare structure is ineffective itself: the hospital sector exceeds the ambulatory clinics, most doctors are specialists, and there is a lack of general practitioners.

According to the Constitution of Ukraine each person has a right to free of charge health care. While legally, residents are entitled to services, in practice, accessibility is limited. Only high officials and members of Parliament enjoy the full-scale of free of charge health care in clinics, hospitals and sanatoriums. The poor quality of health care is stipulated by insufficient investments and low wages in the health care system. The health care system is financially unsustainable because of inconsistency between numerous State guarantees and limited resources.

As a consequence, the health outcomes are worsening. The morbidity and mortality rates have been significantly rising and demographic crisis has been deepening since the early 90s.

This situation in Health Care is a subject to people's discontent and criticism towards Government. The health care system reform is being discussed by governmental officials, politics and health practitioners for more than a decade. In general opinion, public health reform have been aimed to provide better access and better quality of health services for people and merited remuneration for doctors and nurses. However, there is no consensus about the sector's future organization and financing.

The lack of consensus on reform orientation and the slow progress of reform are rooted in economic and social crisis, frequent rotation of Governments, corporative features of health care system (corruption) and underestimation of health value in society.

The question is: how long should today's system exist while funding is in shortage and public needs are not met. Now, the broad discussion about the two options of health care reform has started – whether or not to change the source of system funding (State Budget) and whether to modify the mechanism of public fund allocation solely or to introduce compulsory social health insurance. The advocates of social health insurance point out the great opportunities to gain financial resources for the health sector. Indeed, many of

Central and Eastern European countries introduced health insurance (has it led to increased revenue however?).

In spite of attraction of international social health insurance experience, to-day, there are more cons than pros. Some of them are as follows:

- extra payroll tax in view of to-day burden on wage fund and tax system seems unrealistic and would incline both employers and employees to wage shadowing;
- additional revenue on health care itself does not guarantee its effective and efficient use;
- based on the payroll tax, social health insurance deprives of medical service many people, who have no legal income in the country with large share of shadow economy;
- there are many countries with successfully functioning budgetary financed health care system;
- the model of social health insurance was steadily replaced by budget funding in some countries (Denmark – 1973, Italy – 1978, Portugal -1979, Greece – 1983, Spain – 1986).

WHO research on the issue of health insurance introduction in the CEE and former USSR countries mentions that macroeconomic context in many of these countries is not suited for health insurance introduction. The situation becomes worse because of large share of shadow economy, big number of agricultural workers and high level of unemployment. Thus, the revenue base of health insurance would be restricted substantially, and payroll tax could be a feeble alternative to general taxation. This statement is relevant for to-day again on account of recent economic crisis.

Nevertheless, many politics and Ministry of Health still view health insurance advent as one of the main tasks while there could be various methods of financial basis strengthening in reality. It is possible to maintain budget funding of sector under state guaranteed social minimum of health services defined by Law. Health insurance may develop itself in a supplementary voluntary form providing legal basis for more prosperous citizens' payments and releasing free of charge system from part of its burden for the benefit of more vulnerable people. Now, all measures must be directed towards increasing effectiveness of the health sector.

The key problems of health sector are:

- concentration on the needs of health sector, not patients' needs;
- rigid, complicated and non-transparent system of funding;
- financial insufficiency;
- ineffective use of available resources;
- lack of legal financial incentives for doctors;
- low quality of services;
- limited access to services of vulnerable groups;
- lack of transparency and equity caused by large prevalence of under-the-table payments.

Ukrainian scholars pointed out, that the top-priority tasks are bringing together state guarantees and financial resources, structural reorganization, first and foremost primary health service development based on the principles of Family Care and General Practitioner, transition from administrative to contract model. The basic legislation for transformation has been already adopted by Cabinet of Ministers (National Plan of Public Health Services Development till 2010).

The National Plan suggests improvement of financial maintenance, mutual co-ordination of funding and volume of the state guaranteed free-of-charge health services (i.e. guarantees should not exceed available means), optimization of public health institutions. The experts suggest also introducing of the mechanism of strategic purchases of medical services on a contractual basis and transition from the line-item budgets of medical institutions to their funding based on the scales and structure of services (fee-for-service).

Recently the Ministry of Health declared 8 steps for structural reform in the sector:

The first step – to eliminate the resources fragmentation and to improve funds consolidation in localities.

The second step – to divide out the functions of provider and payer in the health care services.

The third step – to divide out the primary, secondary and tertiary care, providing the preference for the primary care.

The fourth step – to reorganize the hospitals into independent non-profit municipal establishments.

The fifth step – to introduce fee-for-service method of funding.

The sixth step – to optimize the hospital network.

The seventh step – to provide the sector with the highly-skilled managers.

The eighth step – to organize the wide-scaled explanatory action in media to find the support for the reform through the people.

All these measures do not require any additional funding, that is very important in the relation to economic crisis. All these changes require of Government, first of all, strong political will and secondly, to overcome corruption.

However, Ministry still appears unready to start principal reform of the sector. It proves that any reform should not be put into practice beyond political will and citizens' participation. Simultaneously with Government's activities, it would be necessary to develop institutes of Civil Society which only could effectively control Health Care Reform.