Caught Mid-Stream: "Decentralization", Local Government Finance Reform, and the Restructuring of Ukraine's Public Sector 2014 to 2016

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Caught Mid-Stream: “Decentralization,” Local Government Finance Reform, and the Restructuring of Ukraine’s Public Sector 2014 to 2016*

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Executive Summary

In 2015, the Government of Ukraine introduced important reforms into Ukraine's intergovernmental finance system while also encouraging a voluntary process of jurisdictional consolidation at the lowest level of local government (gromada). This report analyzes how these reforms have affected the finances and behaviors of the country's Oblasts (Regions), Cities of Oblast Significance (COS), Rayons, and gromada (small towns and villages), including the 159 gromada that were consolidated in 2016 and are now known as Amalgamated Gromada (AGs).

The reforms have produced substantial shifts in the relative importance of different levels of local government. Oblast governments have been the biggest losers. Since 2015, their revenues have fallen by close to 30% in inflation-adjusted terms. Rayons have also lost power, but less because their total revenues have fallen, than because an increasing share of them - 48% - are now earmarked transfer payments to poor households over which they have no control. Like rayons, the revenues of unconsolidated gromada fell in 2015, before recovering in 2016. But this stabilization is likely to be both tenuous and transitional given the persistent deficits of unconsolidated gromada and the GoU's clear intention to encourage further amalgamation.

The biggest beneficiaries of the reforms have been COS. Since 2014, the revenues of these cities (containing 52% of the total population) have increased 14%. This reflects both the expansion of their responsibilities in the health and education sectors and changes in tax sharing arrangements that have been particularly beneficial to large cities. The share of own revenue in COS budgets is still low –17%-- and there is little question that going forward COS will have to do better job mobilizing local resources. That said, there is no evidence that the increase in the largess of the transfer system has depressed their willingness to collect local fees, charges, and taxes.

The reforms also seem to have had a mildly positive effect on the horizontal equity of the system at the COS level, and there has been no significant deterioration in the relationship between the revenues of the poorest 25% of COS and the richest 25%. Perhaps most importantly, COS investment rates have doubled from 10% of total expenditures in 2014 to close to 20% in 2016. Similarly striking it that more than 60% of their education spending and 40% of their health spending now comes from their general revenues, meaning from sources other than the grants they receive from the national government to support these functions.

Collectively, the 159 newly amalgamated gromada have also done well. They were formed through the voluntary consolidation of about 1000 small towns and villages in 2015 and began functioning as independent units of local government in 2016. A total of 1.38 million people now live in these jurisdictions, or about 8% of the country's non-urban population (16. 9 million). The structure of their revenues most closely resembles those of COS and their investment rate –at close to 30% of total expenditures-- is the highest for all types of local government. Perhaps most importantly, per capita expenditures of AG now exceed the combined per capita expenditure of both rayons and unconsolidated gromada once statutory transfer payments are removed from the picture.

The 2015 reforms have produced a significant shift in the relative importance of Ukraine's local governments. Power and money has been moved away from 2nd and 3rd tier local governments (rayons and oblasts) towards 1st tier local governments (COS and AGs). Or put another way, the reforms have led to the municipalization of oblast power and what might best be called the "gromadization" of rayon power.

In short, the 2015 reforms have produced a significant shift in the relative importance of Ukraine's local governments with power and money moving away from 2nd and 3rd tier local governments (rayons and oblasts) towards 1st tier local governments (COS and AGs). Or put another way, the reforms have led to the municipalization of oblast power and what might best be called the "gromadization" of rayon power.

These are very significant achievements that almost certainly reflect the core strategic objectives of Ukraine's local government reforms. Nonetheless, way forward and communication of goals and achievements of the reform should be improved.

Many of these issues arise from the simple fact that due to deep division in the Ukrainian Parliament the adoption of complex legislation pawing the road for the reform was impossible. Not surprisingly, this has generated a fair degree of frustration and improvisation, both of which have real and mounting costs. The most obvious example of this relates to the political inability to pass legislation that would mandate the amalgamation of all gromada by a particular date and according to certain standards.

These political obstacles have resulted in a voluntary amalgamation process which has proven extremely dependent on national government financial incentives. But more important than the financial incentives themselves, is the fact that the voluntary nature of the process seems to be encouraging the dysfunctional self-sorting AGs into two distinct groups: On the one hand, small rural and poor gromada seem to be consolidating themselves into units without any sort of town center because they are afraid that their voices and interests will be ignored if they amalgamate with the more populous units. On the other hand, many of these more urban centers seem to be trying to amalgamate with as few rural gromada as possible because they then won't have to provide services to their poorer neighbors.

Worse, this dysfunctional self-sorting into richer and poorer AGs is being encouraged by the fact that unlike in most countries, Ukraine shares Personal Income Tax revenue with local governments not on the basis of where taxpayers live, but on the basis of where they are employed. As such, a savvy mayor of a small town lucky enough to have a few significant firms has at least a short term interest in not amalgamating with those gromada in which many of the concerned employees may live.

In short, without a clear requirement that all gromada consolidate by a particular date, and that consolidation conform to certain minimum requirements, the voluntary amalgamation process is not only likely to stall, but to produce a large number of AGs that will be unsustainable without additional fiscal transfers – transfers that the Ukrainian government may not be able to sustain over the longer-term.

But the real Achilles heel of the 2015 reforms lies in the fact that a combination of short term tactical considerations and longer historical forces, have led Ukraine's local government reformers to rely on discourse of reform that conflates "decentralization" with the provision of more money to all levels of local government. Indeed, for the last two years the most common and frequently used argument in favor of the reforms has been the at large amounts of new revenue that they are providing to all levels of local government.

This is deeply problematic: Once inflation is factored into the picture, not only are the financial gains much more modest, but the discourse itself masks the real significance of what has actually been accomplished, namely the shift in the relative power of different levels of local government. Moreover, Ukrainian local governments have at least nominally controlled about 40% of public expenditure since independence. As such, and at least in strictly fiscal terms, Ukraine has been one of the most "decentralized" countries in Europe for many years and the problems that the country's local governments have been confronting have never been primarily financial.

Instead, the real problems have been caused by the fact that as local (self) governments the character of oblasts and rayons has always been compromised by the national government appointment of their governors; the persistence of nationally mandated (and fiscally unsustainable) expenditure norms that have undercut the real autonomy of all local governments; and by the extremely fragmented structure of existing gromada as 1st tier units of democratic authority.

The truly remarkable fact about the reforms of the last few years is that they have been pursued in the face of occupation, war, and the collapse of the economy. In short, the Ukrainian case is striking precisely because external threats did not lead to a radical recentralization of public finance.

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The one-sided identification "decentralization" with more money is increasingly dangerous and potentially politically self-blocking. The first reason for this is simply that this discourse creates the false expectation that going forward all levels of local government can expect to see their financial positions improve. This is clearly not what is going on and is particularly problematic now because one of the ironies of the last few years is that while the revenues of all types of local governments have not increased in real terms, all types of local governments felt that they did.

The reason for this is because the national government did not adjust public sector wages in line with inflation in 2015 and 2016. As a result, the disposable income of all levels of local governments rose, and with it investment rates, even though in real terms revenues declined or remained the same for all levels of government except COS and AG. In 2017 the national government decided to increase wages. These increases will reduce the disposable income of all local governments, but particularly those of oblasts, rayons and gromada. And in the name of "decentralization" they will fight back by demanding more money. Worse, these demands may well be supported by the politically more powerful COS precisely because "decentralization" has become completely identified with the idea that the national government is simply not providing local governments with adequate funding.

Second, the conflation of decentralization with more money distracts the attention of local governments from the most important challenges they –and indeed Ukraine-- face. These challenges lie in improving the quality of public sector services while downsizing school and health care networks that have not been adjusted in line with country's steep demographic decline. In short, Ukraine cannot afford to have one of the lowest teacher/pupil ratios in the world, or one of the highest ratios of hospital beds to citizens in Europe. And like it or not, local governments must understand that they will necessarily be on the front line of this struggle.

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Finally, the "financialization" of Ukraine's discourse about decentralization is at odds with recently developed legislation designed to overhaul the country's health care system. These plans call for the creation of a centralized, insurance-based system of finance that would pay both public and private health care providers on a fee-for-service or outcome basis. The creation of such a single-payer system will leave local governments as the owners of many health care facilities but relieve them of responsibility for financing the costs of day-to-day medical services. Instead, a national health insurance fund will pay hospitals and health care providers directly, though some grants will continue to go to local governments to pay for the maintenance of health care facilities. As a result, much of the money now transferred to local governments for health care will be recentralized, leading to significant cuts in their budgets. . In this way, the health care reforms envisioned by the Ministry of Health are on a collision course with current discourse on decentralization, a discourse which focuses almost exclusively on the reform's positive consequences on local budgets.

Taken together, the local government reforms of the last few years and the new plans for the health care system hold the promise of profoundly improving the governance of Ukraine's public sector by assigning responsibilities to those levels of (fully democratic) local self-government best equipped to manage and finance them: By concentrating responsibility for most day-to-day public services at the COS and AG levels the reforms should help clarify who is really be responsible for what. Once this is done, the expectation is that municipalized governments will prove capable of both improving basic public services and restructuring the country's tragically inefficient school system. Moreover, the recentralization of health care finance, should make possible both the a more equitable and efficient way of reimbursing providers for health care services, while also making clear that the burden of restructuring of the country's overbuilt and ineffective hospital system has to be shared between the national government and local governments.

But further progress on this promising agenda will require both a change in the way reformers articulate their vision and the consolidation of the country's deeply fractured elites around it. Whether either is possible remains an open question. But one thing should be clear: The clock is ticking on amalgamation, and unless some consensus can be reached about how to move forward with it quickly and forcefully, the gains of the last few years could unravel.

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I. Introduction

This report reviews the evolution of local government revenue and expenditure during the period 2014 – 2016. The central purpose of the report is to assess how the intergovernmental fiscal reforms passed by the Government of Ukraine (GoU) in late 2014 and implemented in 2015 have affected the finances and the behavior of the county's Oblasts (Regions), Cities of Oblast Significance (COS) ("Major" Cities[1]), Rayons, and gromada (small towns and villages), including the 159 gromada that were consolidated in 2016 and are now known as Amalgamated Gromada (AGs)[2]. The report also attempts to situate the structural changes that are taking place across the country's local governments[3] within Ukraine's longer history of decentralization and to make some recommendations about where reform efforts should be concentrated going forward.

The report is organized in four sections. The first section briefly reviews the history of decentralization in Ukraine in order to clarify both the intentions behind, and the origins of, the 2015 reforms as well as to outline the challenges they face. The second analyzes the changes that have taken place in the structure of local government revenue and expenditure, both across oblasts, COS, rayons and gromada and within each group. The third section focuses on the finances of newly amalgamated gromada and the difficulties of the amalgamation process in general, and of voluntary amalgamation in particular. And the conclusion, recapitulates our main findings and where possible discusses their implications for the future, including their relationship to the way the government is currently describing and motivating the reforms.

These reforms consists of a variety of components. But the key legal changes were enacted in 2014 and introduced in practice in 2015. The government is pushing the reforms forward under the banner of "decentralization" and has been particularly emphatic about the financial benefits that the reforms have brought to Ukraine's local governments.

The real promise of the reforms, however, has less to do with the (very uneven) financial benefits they have brought to different levels of local government, then with shifts in the relative importance of these different levels. The reforms have significantly expanded the role, and strengthened the finances of, the country's urban centers while moving power and money away from oblasts. They have also initiated a process of jurisdictional consolidation in Ukraine's more rural areas. And the amalgamation of gromada – while still in youth-- is in turn eroding

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[1] The category COS is a legal category and not a functional one. So while all major urban centers are considered COS, the category includes 35 units with populations of less 30,000 people.

[2] The report only analyzes the finances of non-amalgamated gromada at the aggregate level for reasons explained in the methodological note.

[3] The use of the term "local governments" to describe oblast and rayons is not correct because these levels of government do not have democratically elected executive authorities. Indeed, the struggle to transform oblasts and rayons into true local governments has historically been one of the central fault lines of "decentralization" in Ukraine. Nonetheless, we use the term to describe all levels of "sub-national government" precisely because this is in line with current Ukrainian usage, and because the alternative --sub-national governments— creates more confusion than it resolves.

the position of rayons. Taken together, they are shifting the center gravity of Ukraine's subnational order from 2nd (rayon) and 3rd (oblast) tier local governments towards cities and amalgamated gromada. Or put more prosaically, the last few years have seen the significant municipalization of oblast power, and the beginnings of what might best be called the "gromadization" of rayon power. Indeed, it is fair to say that these shifts constitute the core strategic objectives of Ukraine's local government reformers and the essence of what they mean by "decentralization" – at least when they confer among themselves.

The last few years have seen the significant municipalization of oblast power, and the beginnings of what might best be called the "gromadization" of rayon power.

The achievement of these objectives, however, has been profoundly hindered by absence of legislation that would mandate the amalgamation of gromada. As a result, the government has been forced to rely on a voluntary process of jurisdictional consolidation, a process which has proven slow and costly. At the same time, the primary way the reforms have been justified to the public has been by stressing the dramatic increases in revenues that they have given to local governments. [4].

As this report tries to demonstrate, once inflation has been factored into the picture the increase in revenue is not as radical as has been advertised, or at least not for most levels of local government. And as we have already suggested the more important changes set in motion by the reforms have less to do with money per se, then with shifts in the structure of scope of Ukraine's public sector at the subnational level.

Indeed, one of our overarching arguments is that "decentralization" is probably not a particularly good way to describe either what has actually happened over the last few years or the challenges that public sector reform in Ukraine faces in the immediate future. More importantly, we suspect that by conflating "decentralization" with local government revenue gains the current reform discourse may prove politically self-blocking.

As in most countries, the term "decentralization" in Ukraine has been associated with giving local governments more money and more power. But unlike in most other countries, money has never been the most fundamental problem because in strictly fiscal terms, Ukraine has long been one of the most decentralized countries in Europe. In fact, consolidating the gains of the

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See for example, the Ministry for Regional Development's monthly bulletin on "Decentralization in Ukraine," which almost always leads with the items on the new money local governments have been given. [5] What is meant by democratically elected executive authorities, is that the executive authorities of oblast and rayons are either freely choosen by democratically elected council, or directly elected by the peopleThis is not the case with rayons and oblasts, as the executive branch is appointed by a higher government level.

government's current reform efforts may well require taking money away from local governments.

The most important reason for this is because the Ministry of Health is hoping to overhaul Ukraine's health care system by creating a centralized insurance-based system of finance that would pay both public and private providers on a fee-for-service or outcome basis. The creation of such a single payer system will necessarily relieve local governments of responsibility for financing the day-to-day operations of hospitals, and by extension require significant cuts in their budgets. In short, the reform of the health care system currently being promoted by the Ministry of Health is on a collision course with the popular understanding of "decentralization".

Further complicating matters, is the fact that the term "decentralization" in Ukraine has historically been linked with the struggle to introduce (democratically-elected)[5] executive authorities (for councils) at both the oblast and rayon levels. To date, however, efforts to amend the constitution to make these changes possible have failed. More importantly, there are now good reasons to ask whether this objective should still be considered a central element of the country's reform agenda. In short, structural shifts in the relative power of local governments combined with the plans to recentralize health care finance, suggest that while introducing (democratically elected) executive authorities to councils at the oblast and rayon levels may still be desirable, it should no longer be considered a priority.

Instead, reformer should focus on accelerating the consolidation of structurally sustainable gromada, on transferring to them as many responsibilities in the education sector as is reasonably possible, and on ensuring the development of a new, national health care system. If this can be done, then the fiscal "weight" of both oblasts and rayons will shrink dramatically. So much so that oblasts might reasonably be left as deconcentrated bodies of the national government whose primary responsibilities would lie in ensuring the financial and legal probity of Cities and Gromada, exercising oversight over the school system, and supporting the extremely difficult and painful task of rationalizing health care facilities. Similarly, responsibility for making social welfare payments to individuals and households might reasonably be shifted from rayons to AG, leaving rayons –like oblasts—to focus on the challenge of rationalizing the health care sector ---a challenge that they would face as agents of the national government, but monitored and advised by democratically-elected councils[6].

[5] What is meant by democratically elected executive authorities, is that the executive authorities of oblast and rayons are either freely choosen by democratically elected council, or directly elected by the peopleThis is not the case with rayons and oblasts, as the executive branch is appointed by a higher government level.

[6] At present, most health care facilities are owned by COS and rayons. The draft health care legislation calls for the creation of new hospital districts that would force rayons and COS to negotiate over which facilities should be closed or privatized.

That said, the most immediate and pressing challenge lies in amalgamating as many fiscally sustainable gromada as possible and in the section devoted to AGs we critically examine the amalgamation process to date, and make some specific policy recommendations with respect to the process going forward. Here, the clarion call is to prevent where ever possible the formation of AGs that do not have some sort of town center. This can probably only be achieved through an administrative rule that prevents small settlements from amalgamating in order to separate themselves from a "dominant" center, and conversely prevents town centers from amalgamating without including all contiguous settlements.

The way the Personal Income Tax is currently being shared with AG should be changed because by sharing the tax on the basis of where a person works, and not where he or she lives, encourages gromada which have major employers not to amalgamate with those surrounding gromada in which many employees may live.

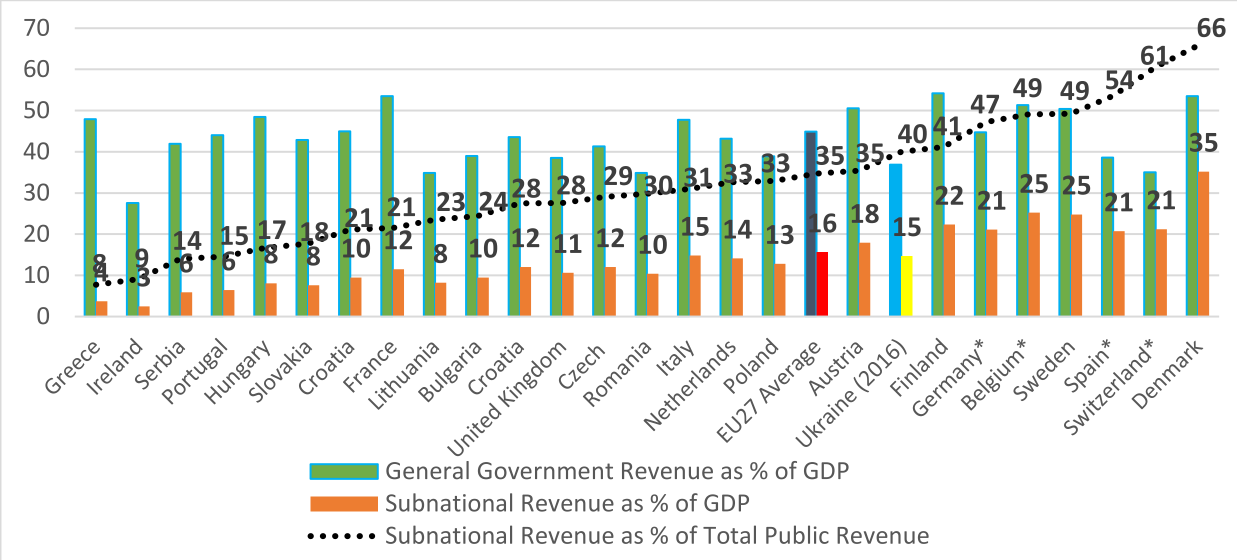
Towards this end, the way the Personal Income Tax is currently being shared with AG should be changed because by sharing the tax on the basis of where a person works, and not where he or she lives, encourages gromada which have major employers not to amalgamate with those surrounding gromada in which many employees may live. We also suggest that while there is surprisingly modest fiscal inequality across Oblasts, COS and Rayons, the current amalgamation process seems to be encouraging AGs to "self-sort" into groups of poorer rural jurisdictions, and groups of richer ones clearly focused around a more densely populated or well-endowed town. If not corrected, this kind of self-sorting will create a class of AGs that are unlikely to be fiscally sustainable, while also putting pressure on the equalization system --a system whose adequacy at the AG level needs to be closely monitored under all circumstances.

II. The History and Context of the 2014 Financial Reforms

"Decentralization" and the strengthening of local governments are not new subjects in Ukraine. On the contrary, they have a long and complex history that is beyond the purposes of this report. Nonetheless, a few key fault lines of the past must be outlined if the significance of the current reforms --and the challenges they continue to face-- are to be understood.

In strictly fiscal terms, Ukraine has always been extremely "decentralized". Ukraine inherited this decentralized fiscal structure from its Soviet past, and local governments have had at least nominal control over almost 40% of public expenditures since independence. Figure 1 below, compares local government revenues in Ukraine as percentages of both total public revenue and GDP with those of other European countries in 2016.

Figure 1. Local Government Revenue as a % of GDP and Total Public Revenue in EU & Non-EU Countries 2015 (Ukraine 2016)



As can be seen from the figure, Ukraine's public sector is more decentralized than is the average for the European Union**.** Indeed, the share of total public revenues (nominally) controlled by Ukrainian local governments would not change dramatically if the data used in the graph were drawn from any year since 1992[7]. So unlike in many countries, the major problem with the local governance in Ukraine has never really been a question of money. Rather it has been with the degree to which local governments are truly democratic bodies, the degree to which they actually control the revenues they receive, and the degree to which gromada have the scale necessary to provide basic public services. And here the picture gets complicated.

Ukraine's public sector is more decentralized than is the average for the European Union.

For starters, Ukraine like many –but not all— post-communist countries began their decentralization efforts in the 1990s by allowing all towns, villages, and hamlets to become independent jurisdictions with their own democratically elected *councils*. This preference for small local governments was --as elsewhere-- motivated by a rather romantic, de Tocquevillian idea that the fundamental purpose local government was to bring democracy as close to the people as possible. While understandable in the wake of communism, the execution of this idea in practice resulted in extreme jurisdictional fragmentation and the creation of over 10,000 villages - gromada whose *average* population is about 1500 people. In short, most existing

[7] See for example, OECD Territorial Reviews: Ukraine, 2014, page 16

gromada lack the human and financial capital necessary to provide basic public services, to say nothing of sustaining a reasonably sized primary school.

With respect to the democratic character of local governments the fundamental problem has been that while oblasts and rayons have democratically-elected councils, their executive authorities remain appointed by the national government. Indeed, the Ukrainian Constitution requires that oblast and rayon heads be appointed by the President of Ukraine based on nominations made by the Council of Ministers. These state-appointed heads, in turn, exert considerable influence over the hiring and firing of the directors of most local departments (e.g. Health, Education, Social Welfare). And both the heads of oblasts and rayons, and the departmental directors whose careers they control are subject to a dual subordination, at once responsible to higher level state (e.g. line ministries) and their democratically-elected councils[8]. As a result, there is a profound confusion of local and national authority at the oblast and rayon levels. So much so, that they really should not be labeled local (self-) governments at all. Indeed, this confusion is only avoided in cities where both councils (legislatures) and mayors (executives) are democratically elected.

Finally, the actual control that local governments have had over their budgets has been limited by structure and functioning of Ukraine's intergovernmental finance system. During Ukraine's first wave of decentralization in the 1990s, responsibility not only for providing basic public services, but for financing and managing the country's health, education, and social welfare systems was parsed out between oblasts, COS and rayons. Each level was assigned a set of local fees, charges, and taxes over which they had some –usually minimal control. But their most important source of revenue came from shares in the national yield of the Personal Income Tax, with each level receiving a specific percentage of the total amount of PIT paid (on behalf of employees) by companies located in particular jurisdictions[9].

Because the level of economic activity differed substantially across the country as a whole, the same PIT share yielded very different levels of revenue in different jurisdictions. Indeed, during the 1990s, only a few particularly dynamic Oblasts, Rayons, and COS were able to finance their social sector responsibilities from their PIT shares, and by the end of the decade basic public services were failing in many parts of the country.

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[8] This confusion is expressed in Article 118 of the Constitution of Ukraine, "Heads of local state administrations are appointed to office and dismissed by the President of Ukraine upon the submission of the Cabinet of Ministers of Ukraine. In the exercise of their duties, the heads of local state administrations are responsible to the President of Ukraine and to the Cabinet of Ministers of Ukraine, and are accountable to and under the control of bodies of executive power of a higher level. Local state administrations are accountable to and under the control of councils in the part of the authority delegated to them by the respective district or oblast councils. Local state administrations are accountable to and under the control of the bodies of executive power of a higher level."

[9] Usually, PIT shares are returned to the jurisdiction in which an employee lives, not the one in which he works. In Ukraine (as in some other countries) it is returned to the jurisdiction of employment because there are technical difficulties with linking PIT payments made by employers on behalf of their employees, with those employees' place of residence. This system strongly favors urban centers –where firms are headquartered—over the suburban and rural areas in which many employees live. It also has important implications for the consolidation of gromada, a point discussed later.

In 2001, the government implemented a reform and introduced the Budget Code in an effort to correct the situation. The national government began calculating normative expenditure needs for the health, education and social welfare functions of all local governments. It then added these expenditure needs together and compared them to the yield of shared taxes in every jurisdiction. In those local governments in which expenditure needs exceeded the yield of shared taxes, the national government filled the gap with an equalization grant.

The 2001 reforms marked a significant improvement in an intergovernmental finance system that had previously done almost nothing to equalize local government revenues. But from the start it was compromised by a major internal contradiction: While the calculation of each local government's expenditure need was generally done on a per capita or per user basis (e.g. number of pupils), the national government also required local governments to spend social sector monies in accordance with norms that were defined in other ways (e.g. amount per hospital bed)

As a result, and virtually everywhere, there were large differences between what local governments could afford to pay for social sector services, and the expenditure norms that were required of them by the national government. These tensions expressed themselves within local governments in constant struggles between democratically-elected councils and centrally-appointed executives over spending priorities. They also encouraged constant bargaining between local governments and higher-level authorities over how much additional money they needed to meet the financially unsustainable expenditure norms.

Taken together, the unclear character of democratic authority at the oblast and rayon levels, the gap-filling structure of the transfer system, and the maintenance of financially unsustainable expenditure norms have created a nexus of problems that have left subnational governance in Ukraine –and with it 40% of public expenditure-- in limbo. Most importantly, it remains unclear which level of government is really responsible for allocating resources within the health and education sectors[10]. Worse, this lack of clarity has both encouraged and ensured that no level of government really considers itself responsible for the painful task of rationalizing school or hospital networks in the face of Ukraine's dramatic demographic decline[11]. As result, Ukraine has significantly more doctors, nurses and hospital beds per 100,000 inhabitants than the vast majority of EU countries and one of the lowest pupil/teacher ratios in the world.[12] Indeed, it is

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[10] In theory, the national government is responsible for allocating health and education monies across local governments, and local governments are responsible for allocating these monies within their jurisdictions. In practice, the maintenance of centrally controlled input norms for these sectors combined with the selection of oblast and rayon governors by the national governments authorities has undercut this otherwise standard division of responsibilities. It should also be added that there are important confusions in other sectors as well (e.g. Transport, Social Welfare, Economic Development). But from a purely fiscal point of view the most important arise from the large recurrent costs associated with the provision of "universal" health and education services.

[11] According to the last Soviet census, Ukraine had 51.7 million inhabitants in 1987. The 2001 Ukrainian census put the population at 48.4 million people. According to estimates of the Ukrainian State Statistical Agency in 2014, and before the Russian annexation of Crimea and the loss of parts of the Donbass to Russian-backed separatists, the population stood at 45.2 million people for a total decline of more than 10%.

[12] In 2005, Ukraine had 868 beds, 302 doctors, and 781 nurses per 100,000 inhabitants while the EU10 averaged 644 beds, 262 doctors, and 548 nurses. Ukraine's 9.4 pupils per teacher in 2008 was half the OECD average. See World

probably fair to say that the greatest challenge facing Ukraine's local government reform agenda lies in the restructuring of the health and education sector

Following the Orange Revolution in 2005, the government hoped to make a clean break with this past by clarifying who should be responsible for what, and by clearly establishing 1st tier local governments –COS and gromada-- as the primary providers of day-to-day public services. Under the leadership of Deputy Prime Minister Roman Beszmertnyi, and in partnership with Association

> The greatest challenge facing Ukraine's local government reform agenda lies in the restructuring of the health and education sector.

of Ukrainian Cities, detailed plans (and maps) were developed to consolidate 12,000 villages, small towns and smaller cities into 1,200 much larger political units. These new amalgamated gromada (AG) were --with COS—to be considered the most important level of local government:[13] And like COS, AG would be responsible for all basic urban services, as well as for the finance and management of most schools and primary health care facilities.

The primary responsibility of rayons would be limited to running general purpose hospitals outside of urban areas, and where necessary some schools.[14] Meanwhile, oblasts would manage specialized health care facilities, some specialized educational institutions, and coordinate regional planning. And the executive authorities of both levels would now be democratically-elected, eliminating their dependency on higher level agents.

At the same time, the reformers expected to overhaul the gap-filling nature of the intergovernmental transfer system: Now, local governments would receive a lower share of PIT, but each would get block grants for their health and education responsibilities. Here, the hope was that this would clarify how much national government money was really available to fund

Bank Report #42450-UA, "Ukraine: Improving Intergovernmental Fiscal Relations and Public Health and Education Expenditure Policy, Selected Issues" 2008 pp. 1-135

[13] For good reviews of this background see, "Local Governance and Decentralization Assessment: Implications of Proposed reforms in Ukraine," USAID, 2014 and Victor Chumak and Ihor Shevliakov, "Local Government Functioning and Reform in Ukraine", Norwegian Institute for Urban and Regional Research and ICPS, 2009. These plans were heavily influenced by the extremely successful Polish model of local government reform, a model which in turn owes much to Scandinavia --where the provision of public services is also concentrated at the municipal level.

[14] The fact that Ukraine inherited from the Soviet Union a K-12 system of schooling has complicated this process: In many countries responsibilities grades 1-6 or 1-8 are assigned to 1st tier local governments, while grades 9-12 are assigned to country or regional governments. Because Ukraine has historically considered all K-12 education as a single level (of secondary) education that ideally should be provided in a single school, it has been harder to think through how the education system should be aligned with decentralized system of local governance.

social sector functions. And with this clarity, local governments could then decide whether they wanted to contribute to social sector spending from their general revenues.

All these hopes and plans fizzled out with the Orange Revolution and by the time the vision had crystalized in 2009 the government was too weak to implement them: On the one hand, it was afraid of provoking the grassroots opposition that always accompanies efforts to consolidate jurisdictions, opposition that was (and remains) happy to exploit. And on the other, it lacked the parliamentary super-majority necessary to pass the constitutional amendments that would have made possible both the democratic election of rayon and oblast executives, and the designation of gromada as the fundamental unit of local self-government[15].

But the reform agenda of 2009 decentralization agenda was quickly and not surprisingly put back on the table by the Euromaidan Revolution of February 2014 and the events that followed in its wake: In March, Russia annexed Crimea and in April it began to foment armed insurrection in the Donbass. In May, Petro Poroshenko was elected President of Ukraine and immediately announced that decentralization would be at the top of his agenda. In part, this reflected a more general effort to "reanimate" the reforms of the Orange Revolution that ultimately foundered. And in part, it was the Ukrainian government's response to calls for the federalization of the Ukraine as the only way to prevent the conflict with Russia from spinning out of control. In short, the government responded by saying decentralization, yes. Federalization, no.

To push through the reforms, the young, reformist mayor of Vinnytsia --Volodymyr Groysman— was appointed as both Deputy Prime Minister and Minister for Regional Development. The Deputy Prime Minister assembled a team that consisted of many of the architects of the 2009 decentralization plans. Efforts were made to draw up constitutional amendments permitting the democratic election of oblast executives and the creation of new state oversight bodies at the regional level as well as legislation mandating the nationwide consolidation of gromada. Meanwhile, the Ministry of Finance prepared amendments to the tax and budget codes designed to both diversify the revenue base of local governments and replace the gap-filling transfer system with a one grounded on block grants for health and education.

But the government opted to postpone submitting the legislation to parliament because the body was still composed of members elected prior the revolution. Instead, it chose to wait until October, hoping that new elections would produce a legislature more willing to pursue major structural reforms. As it happened however, the elections returned an almost equally politically divided parliament, and as before, many parties resisted the idea of jurisdictional consolidation.

There was strong political opposition to passing the constitutional amendments necessary to allow the democratic election of oblast and rayon governors, governors that are currently appointed by the national government. But at least some of the opposition to them had shifted: On the one hand, a ceasefire between Russia and Ukraine brokered by the European Union in September called for giving the occupied rayons of Donetsk and Lugansk oblasts special powers.

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[15] "Local Governance and Decentralization Assessment: Implications of Proposed reforms in Ukraine," USAID, 2014. pp.15-16

Not surprisingly, this provoked fears –particularly on the "right" -- that the democratic election of oblast leaders would facilitate the dismemberment of the country. On the other hand, the amendment requiring the creation of new national oversight bodies to ensure that oblasts acted within the boundaries of the law –and, for example, did not use their new autonomy to pursue separatist ends-- subordinated these new bodies to the president and not parliament, provoking opposition from the "left"[16].

As a result, the best that could be done in the frantic closing months of 2014 was to pass a law that allowed gromada to amalgamate on a voluntary basis and to amend the budget and tax codes is ways that profoundly changed the nature of the intergovernmental finance system. For our purposes, the most important changes can be summarized as follows[17]:

- Oblast, Rayons, COS, and AGs all started receiving block grants for health and education functions. The grants were designed to cover most of the functions for which expenditure needs had previously been calculated under the gap-filling system. The most important functions not covered by the new grants –thus becoming functions that local governments are expected to fully fund out of their general revenues—are, in order of fiscal importance: Preschool Education, Culture, and the costs of social welfare institutions like orphanages and homes for the elderly.

- The share of the Personal Income Tax (PIT) returned to Oblasts on an origin basis was reduced from 25% to 15%. The share returned to COS and Rayons was reduced from 75% to 60%. As a result, 25% of the yield of the tax would be retained by the national government.

- Amalgamated Gromada were assigned the right to a 60% PIT share at the moment of their creation and at the expense of the concerned rayon or rayons.

- Unconsolidated Gromada lost the right to 25% of the PIT generated on their territories (to encourage amalgamation).

- Oblasts started receiving a 10% share of the Corporate Income Tax, as well as a higher share of Environmental Fees (55% up from 10%).

- COS and Rayons were allowed to retain 100% of certain state duties and administrative fees that previously went to the national budget.

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[16] See Democracy Reporting International, "From Central Control to Local Responsibility: Decentralization in Ukraine" Briefing Paper 59, p 1-8 DRI Berlin www.democracy-reporting.org

[17] For a more extended treatment see Yuriy Dzhygyr, "Fiscal impact of 2015 decentralization reforms on Ukraine's communities: stress-test to inform targeting under the Community Social Support project" Consultant Report July 2015, pp. 1-28

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- COS and gromada were allowed to impose a new area based property tax, as well as to impose up to a 5% local surcharge on the sale of excisable goods in their jurisdictions[18].

The next section of the report examines how these changes have affected the finances and behavior of local governments.

II. The Financial and Behavioral Consequences of the 2015 Reforms

The financial data used in this part of the report comes from the GoU's Treasury System. This system records the complete revenues and expenditures of all public agencies, including those of local governments in accordance with Ukraine's budget classification scheme. Like most well developed Treasury Systems, the classification scheme used to record public revenues and expenditures is extremely detailed. For example, on the revenue side of the ledger, local governments receive income through 178 distinct economic categories, categories that at the margins change every year. Meanwhile, on the expenditure side, there are 18 functional categories (e.g. Education, Health, Social Welfare)[19], and a much larger number of sub-functions (e.g. primary education, secondary education, general purpose hospitals, special purpose hospitals etc.) all of which can be examined through about 20 distinct economic classifications (e.g. different types of wages, goods and services, utility payments, transfers, and investments).

Unfortunately, however, the GoU has no standardized system for consolidating the raw data generated by the Treasury system into a manageable data set or data base organized around a stable set of analytically useful categories for each level of government[20]. As a result, Treasury System data is effectively trapped in the Ministry of Finance, which is understandably reluctant to make massive, and unwieldy files widely available. Indeed, in their raw form, such files would be of little use to all but the most sophisticated users.

One consequence of this is that Treasury data is radically underutilized for strategic and policy purposes. Instead, MoF uses it mainly to control the financial behavior of individual public-sector agents and to ensure that public monies are being used for their intended purposes. Another

[18] In 2016, the government eliminated local control over the rate of the surcharge and set it at 5%, effectively making it a shared tax. This is how we treat the tax in the following.

[19] The entire classification scheme contains 25 functional categories, but 7 do not pertain to the expenditures of local governments.

[20] A few years ago, the World Bank developed a sophisticated relational data base (aka: Boost) that allows for the consolidation and analysis of public finance data by both economic and functional categories for all public agencies. It is unclear to us why this data base cannot be used directly by the GoU. At the same time, the GoU's E-data Project has very ambitious plans to develop a multi-functional, web-based data system that would make all government transactions open to the public. But ministries, agencies, and policy makers outside of MoF need to have regular access to manageable data on local government finances now, both to monitor the progress of decentralization and to assess how it is interacting with reforms in health, education, and social welfare. So while gaining access to Boost, or creating a user friendly relational data base is no doubt desirable, it is important for MoF to work with key stakeholders to develop a data set that can be regularly extracted from the Treasury System through a standard set of queries.

consequence, is that when people do try to use it for policy purposes, discussions about how the data has been analyzed, and what the evidence suggests, frequently deteriorate into fruitless disputes over the "facts" because people are working from files that are organized differently and pulled from the Treasury System at different points of time.

To avoid these sorts of disputes, the appendixes of the report contain detailed explanations how some of the problems contained in the data have been dealt with, as well as how and why revenue and expenditures have been consolidated into different groups. But at least a few aspects of how the data has been organized need to be explained in order to ensure that readers understand why some of the data and the analyses that accompany them may look unfamiliar.

To make the data manageable and comparable over time all revenues and expenditures have been consolidated into larger groups[21]. On the revenue side, these groupings differ from current Ukrainian practice in two important ways. First, Ukrainian budget law requires that revenues be grouped into a freely disposable General Fund, and a Special Fund whose revenues must be spent on a variety of particular purposes. The report ignores this distinction because a) similar –and sometimes identical-- types of revenues go into both funds b) the types of revenues assigned to the Special Fund change from year to year, and c) while the category of the Special Fund may be useful for financial control purposes, it is not very useful for analytical ones, especially since most earmarked spending comes through investment grants that are easily identified.

Second, Ukrainian law considers shared taxes as local government own-revenues because they are freely disposable. This is understandable, and indeed common in many countries. But it is not in line with international best practices in public sector accounting. According to these standards, only those revenues whose yields local governments can substantially influence through their own behavior –for which they are politically responsible-- should be considered own-revenues. For these reasons, the report does not consider revenue received from shared taxes as own-revenue. Instead, it is a freely disposable transfer from the national government and functions more like a grant than like a local tax, though one whose yield is linked to the strength of a local government's tax base[22].

We have also adjusted the data to reflect the territorial and population losses that have come with Russia's armed intervention, the changes that have come with consolidation of gromada, and the designation of a few new towns as COS. Because MoF is updating its record of both jurisdictions and their populations annually based on information from the State Statistical Office there are differences in the data in both the number of jurisdictions and their populations from year to year[23].

[21] See Appendixes 1 & 2 for an explanation of how we have consolidated revenue and expenditures data.

[22] Not surprisingly, local governments with relatively strong tax bases are the staunchest defenders of shared taxes as "own-revenues"

[23] See Appendix I for how we have dealt with the uncertainties in the data about the number and populations of local governments still under GoU control, as well as for how we adjusted the data to take into account other jurisdictional changes.

At the end of 2013, the State Statistical Office estimated Ukraine had a population of 45.2 million people, of which about 2 million lived in the Autonomous Republic of Crimea[24]. Prior to Russian aggression, Ukraine had one Autonomous Republic, 24 Oblasts, 178 Cities of Oblast Significance, 490 rayons and approximately 12,000 gromada. Following Russia's annexation of Crimea and its occupation of the most densely inhabited parts of the Donetsk and Lugansk Oblasts, Ukraine's population fell to an estimated 38.4 million people, a decline of almost 15%. At the same time, the number of COS under GoU control fell to 148, the number of rayons to 457, and the number of gromada to about 11000.

The population numbers presented in the report and used to calculate per capita values are the same ones MoF uses to determine grant entitlements. The report also consolidates gromada-level financial data to the rayon level. This makes it impossible to examine the distribution of revenues and expenditures across gromada and thus to anticipate the finances of future amalgamated gromada.[25] But it makes other analyses much simpler. The 2016 data have also been adjusted to reflect the voluntary consolidation of some 1000 gromada into 159 AG.

Perhaps most importantly, the financial data for 2014 and 2015 have been put into 2016 hryvna in order to account for the high inflation of these years.[26] As a result, the figures for these years will look unfamiliar to readers who are used to seeing them only in nominal terms. More problematically, adjusting the data for inflation is in tension with the official narrative that stressed that the major achievements of the reforms lie in the tens of billions of new hryvna that the reform has given to local governments.

This is unfortunate because it is difficult to get a clear picture of the structural changes taking place within Ukraine's public sector without adjusting financial flows for inflation. That said, the official inflation rate is based on the Consumer Price Index, an index designed to measure the impact of inflation on household budgets. Because local governments purchase a different basket of goods and services from those purchased by households –and different goods and services respond to inflation differently—it is fair to say that the official inflation rate is an imperfect measure of the impact of inflation on local governments. Nonetheless, it remains the only tool available to render public sector financial data reasonably comparable over a period characterized by high inflation[27].

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[24] http://www.lv.ukrstat.gov.ua/dem/piramid/all_e.php Ukraine's last official census in 2001 recorded a population of 48.47 million people.

[25]Going forward, the disaggregated data on gromada finances will be important to assess the relative performance of new AG.

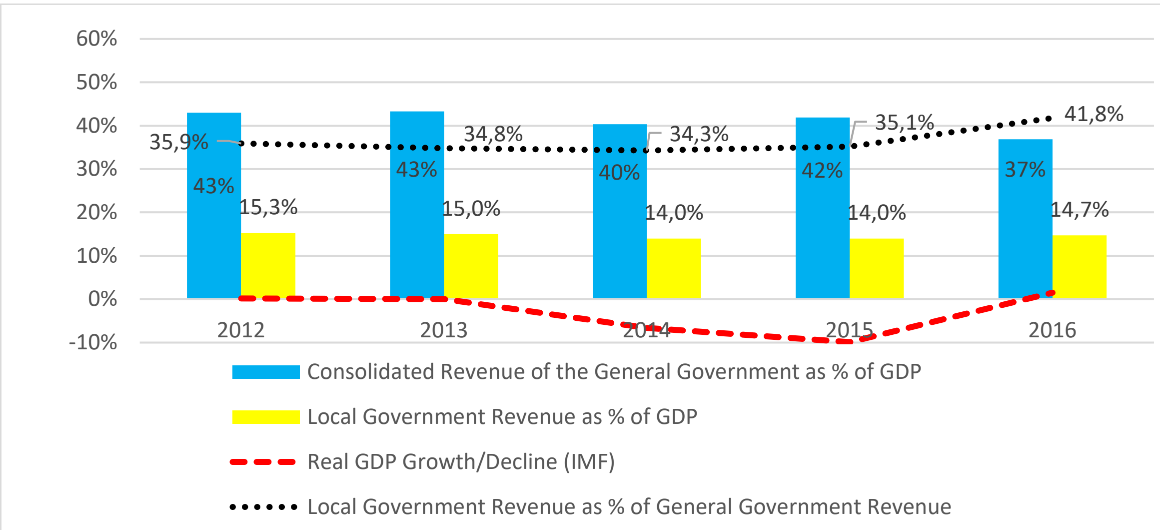
[26]The report use the data on the Consumer Price Index data provided by the National Bank of Ukraine for 2015 (43.3%) and 2016 (12.4%). We have multiplied the 2014 financial data by 1.61 (1.433*1.124) and the 2015 data by 1.124. See National Bank of Ukraine, "Inflation Report" January 2017 pp. 1-67

[27] See Roy Bahl and Jorge Martinez-Vazquez, "Inflation and the Real Growth of State and Local Government Expenditures" The American Economic Review, Vol. 80, No. 2, pp. 166-179. Most American discussions argue that that the CPI understates the impact of inflation on local budgets because the basket of goods that local governments

A. Macro Trends in Local Government Finance[28]

Figure II below, shows total local government revenue as a percentage of both total public revenue and GDP between 2012 and 2016. As can be seen from the figure, local government revenue stayed stable in 2015 as percentage of the GDP, and rose slightly as a share of total public revenue despite the severe economic contraction that came with war and Ukraine's territorial losses. This is remarkable because countries at war almost inevitably recentralize public finances and the fact that this did not happen should be taken as an indication of the national government's commitment to local government reform. Moreover, local revenue increased as share of both total public revenues and GDP in 2016.

Figure 2: Subnational Revenue as a % of GDP and General Government Revenue 2012-16



Local government revenue stayed stable in 2015 as percentage of the GDP, and rose slightly as a share of total public revenue. This is remarkable because countries at war almost inevitably recentralize public finances and the fact that this did not happen should be taken as an indication of the national government's commitment to local government reform. Moreover, local revenue increased as share of both total public revenues and GDP in 2016."

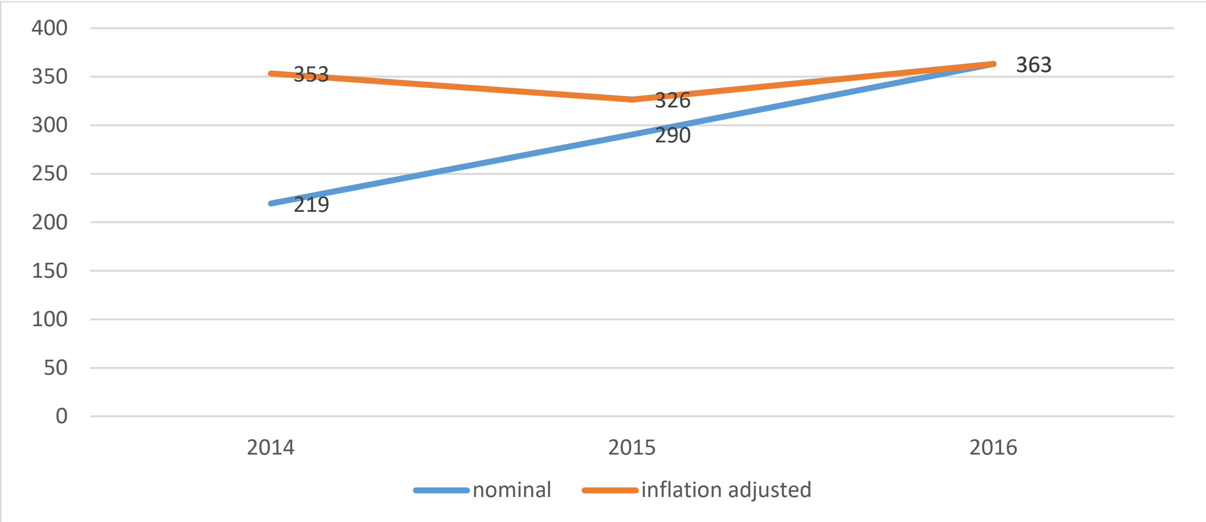
Figure 3 below, shows total local government revenue between 2014 and 2016 in both nominal and inflation adjusted (2016) hryvna. Once the data has been adjusted for inflation, it becomes

buy tends to rise faster than basket of goods that households buy. See http://gfoa.org/inflationary-indices-budgeting and http://www.cbpp.org/research/i-1033s-problematic-measure-of-inflation

[28] The report covers a lot of different aspect local government finance in Ukraine. But it passes over the question of subnational borrowing. The basic reason for this is that there is virtually no borrowing going on, and negligible amounts of debt in the system –at least to financial institutions.

clear that the 2015 reforms did not lead to an immediate increase in the real value of local government revenues and expenditures. Instead, the real value of total local government revenue fell from 353 to 326 billion UAH in 2015, before rising to 363 billion UAH in 2016.

Figure 3: Total Local Government Revenue in Nominal & 2016 UAH (bln) 2014-16



The 2015 decline in the real value of local government revenue stands in contrast to the official narrative of big incomes after the reform. In short, the government has used the nominal growth of local government revenue to argue that the reforms have radically improved the financial position of local governments. And while local government revenue in 2016 did indeed increase by about 3% over 2014, this is far less than 10s of billions which are talked about.

More interestingly, the argument that local government revenue has risen radically since 2014 has been widely accepted by the local government community itself. The primary reason for this seems to be that inflation-adjusted revenues increased significantly faster than inflation-adjusted expenditures because central control over public sector salaries prevented wages from rising anywhere close to the inflation rate. As a result, local governments realized the difference between the two growth rates as an increase in their operating surpluses, some of which they used to substantial increase investments, and some of which they carried over into the following year.

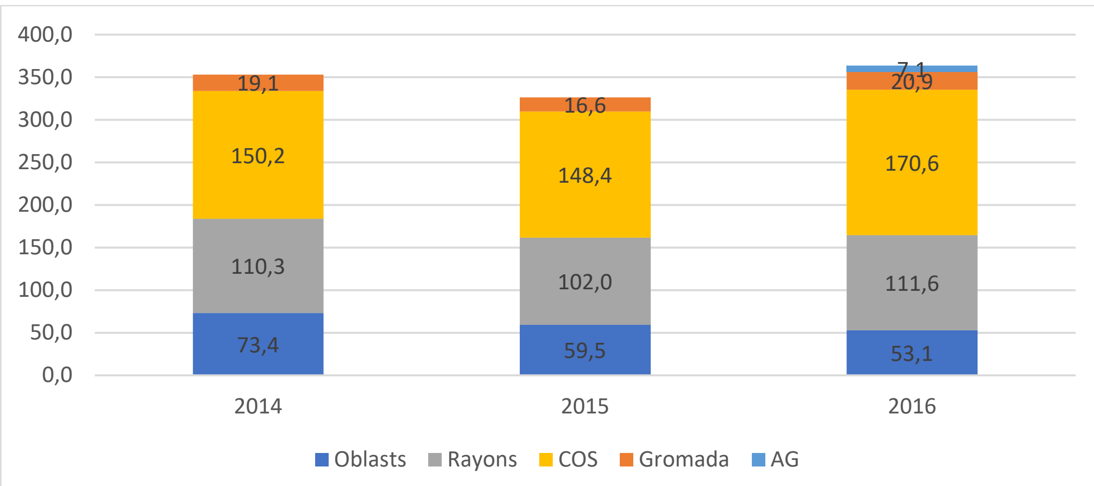
Table I below illustrates these forces by showing inflation-adjusted expenditures by economic category for all local governments between 2014 and 2016, as well as 2015 and 2016 values as percentages of 2014 values. As can be seen from the Table, in 2015 the real value of wages fell 17% generating close to 24 billion UAH in freely disposable income. Local governments then used this income to boost capital expenditures by 14 billion UAH (58%) and to almost double their year- end surplus from 8.5 to 14.2 billion UAH (67%).

Table 1: Local Government Expenditure by Economic Category 2014-2016 (2016 UAH, bln)

	Wages	Utilities & Energy	Other Operating Costs	Subsidies to institutions[29]	Transfers to individuals	Capital Expenditure	Surplus	Total Expenditure	Total Revenue
2014	142.3	17.4	48.1	34.0	78.8	24.1	8.5	**353.1**	**353.1**
2015	118.8	18.5	44.2	20.6	74.6	38.0	14.2	**328.9**	**326.5**
2016	115.4	17.6	44.2	19.1	99.0	52.5	15.4	**363.2**	**363.2**
2015 as % of 2014	83%	106%	92%	61%	95%	158%	167%	**93%**	**92%**
2016 as % of 2014	**81%**	**101%**	**92%**	**56%**	**126%**	**218%**	**182%**	**103%**	**103%**

Moreover, the real value of wages continued to fall in 2016, at the same time as total local government revenue did in fact increase by 10 billion UAH (3%) over 2014 levels. This permitted the continued expansion of investment spending which rose to 52.5 billion in 2016, more than double what was spent in 2014, while year-end surpluses also increased. In short, the rise in disposable income that accompanied the decline in the real value of public sector wages explain why local governments themselves felt that their revenues were rising when in fact they fell in 2015 and increased only marginally in 2016.[30]

Figure 4: Composition of Local Government Revenue by Level 2014-16 (2016 UAH, bln)

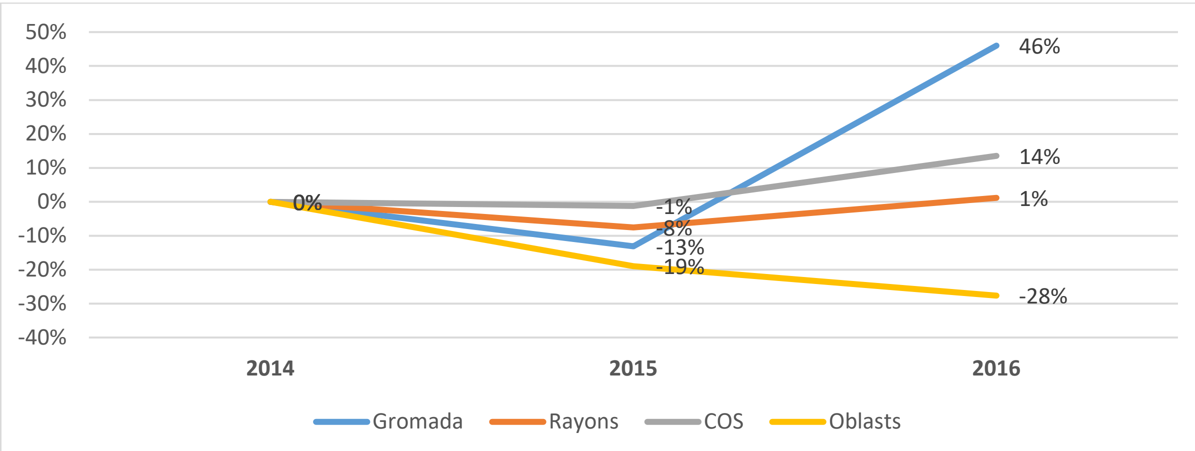


[29] The fall in the value in Subsidies to Institutions is largely the result of the fact that in 2015 the national government eliminated a transfer to local governments designed to provide price supports to public utilities, and which they basically passed on to municipal water and heating companies. In 2016, this subsidy was reinstated, but was now earmarked not for transfers to utilities, but to poor households so that they could pay their utility bills. This is the major reason why transfers to individuals increased dramatically in 2016.

[30] In 2017, the national government acknowledged the sharp erosion in the real value of public sector wages both increased statutory salary levels and added substantial funds to the Health and Education Grants that local government receive to help pay for these function. It is beyond our present understanding of the way these wage increases were put into effect to comment on whether they are likely to force local governments to increase Health and Education spending the already substantial contributions they make to these sectors from their general revenues. What is clear, however, is that it will be important to monitor how these wage increases impact expenditure patterns in general, and investment spending in particular in 2017.

Figure 4 above, shows local revenue by level of government in billions of 2016 UAH, while Figure 5 shows the percent change in revenue for each level between 2014 and 2016. As can be seen from the figures, there has been a significant shift in the relative importance of different levels of government. Oblasts are the biggest losers, and their revenues fell from 73.4 to 53.1 billion UAH between 2014 and 2016, a decline of 27%. The revenue of COS on the other hand declined slightly in 2015, but then rose sharply in 2016 to reach 170 bln UAH. This represents an absolute gain of 20 billion UAH –by far the largest of any level of government-- in an increase of 14% over 2014.

Figure 5: Percent Change in Total Revenue by Level of Government since 2014



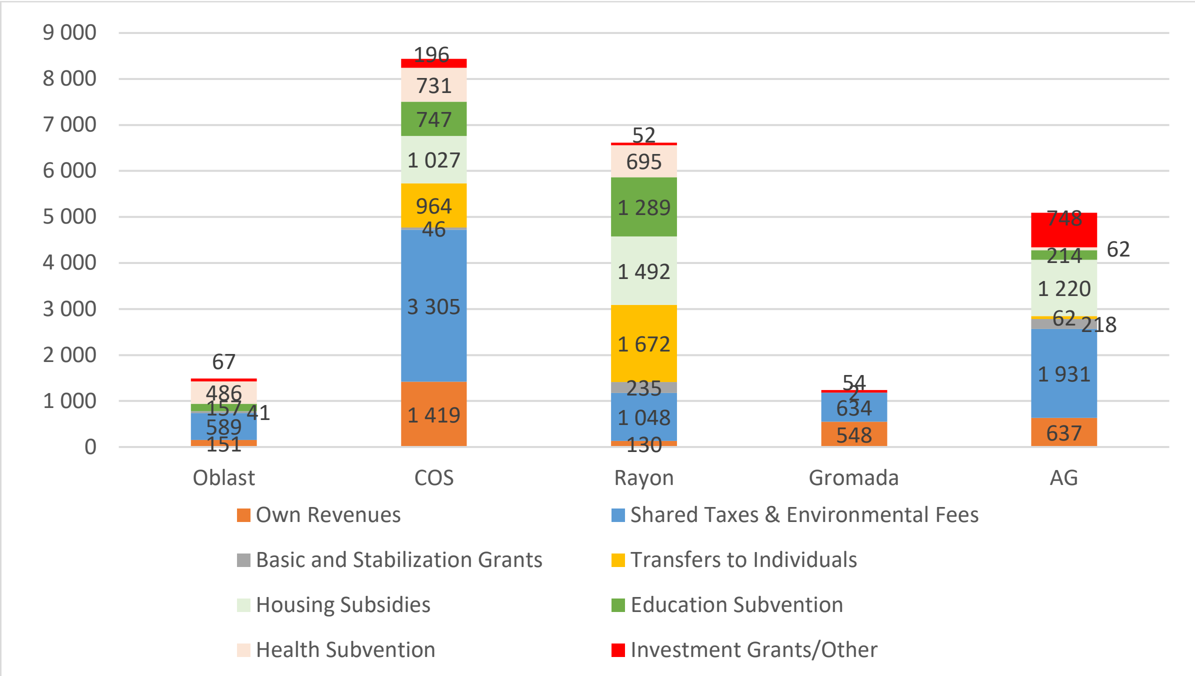
In Figure 5 –unlike in Figure 4- the category Gromada includes both unconsolidated gromada and AGs.

The situation with rayons, gromada and AG is more complicated. Rayon revenue fell 8% in 2015 before recovering to 111 billion UAH in 2016, an increase of 1% relative to 2014. But as we shall discuss later, all of the growth between 2015 and 2016 came from an increase in Transfer Payments to Individuals. These payments originate with the national government and flow through local government budgets, but are not meaningfully controlled by them in any way. As a result, it is fair to say that the overall importance of rayons as providers of public services also declined significantly following the 2015 reforms.

Gromada revenue fell 13% between 2014 and 2015 (from 19.1 bln UAH to 16.6 bln UAH) before recovering to 20 billion UAH in 2016. But the very substantial growth of Gromada and AG revenue that can be seen in Figure 5 is really being driven by the 159 AGs created in 2016. These new local governments received about 7.1 bln UAH in revenue in 2016, an amount equal to about 1.7% of a total public revenue.

Figure 6 below, presents the composition of local revenue in 2016 in per capita terms for all levels of local government. One striking aspect of the figure is that oblast revenues have declined so significantly that gromada now receive almost the same amount of revenue in per capita terms. Another important aspect of the figure is that the per capita income of AGs is approaching that of rayons. Indeed, if the social welfare payments (Transfers to Individuals) that are currently administered by rayons were shifted to AGs, the per capita budgets of AGs would substantially exceed those of rayons. Finally, it is worth noting the structural similarities between COS and AG revenues: Unlike both rayons and oblasts, both derive a significant share of their revenues from own-revenues. And unlike villages, both are receiving significant subventions for the provision of social sector and housing services.

Figure 6: Per Capita Local Government Revenue by Level of Government (2016 UAH)



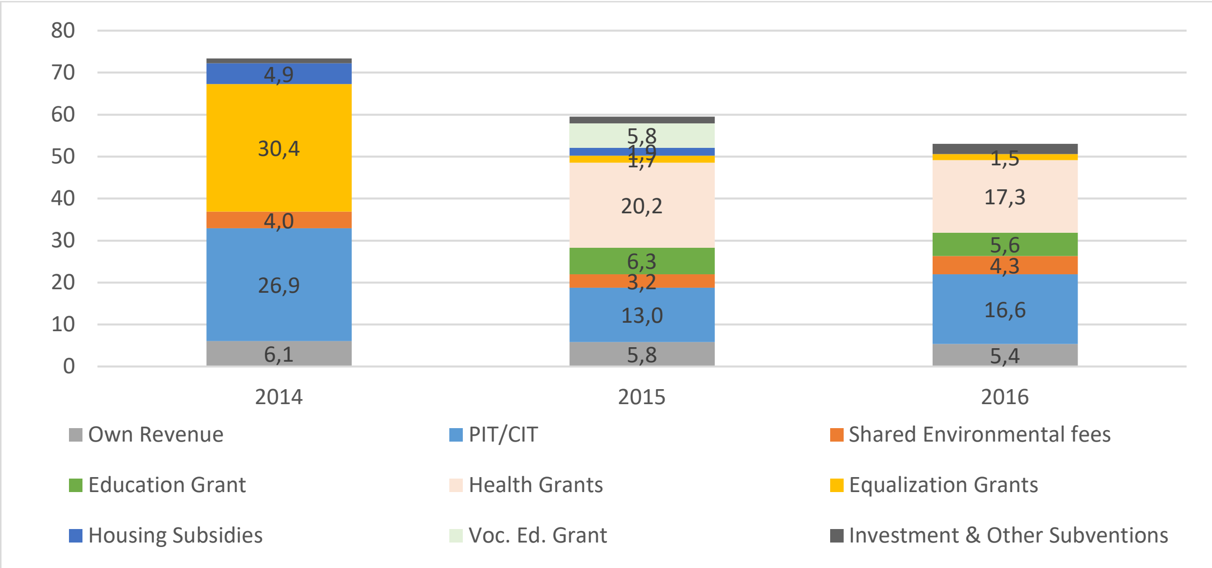
If the social welfare payments (Transfers to Individuals) that are currently administered by rayons were shifted to AGs, the per capita budgets of AGs would substantially exceed those of rayons.

In a moment, we will look in greater detail at the finances of individual levels of government. But what should be clear is that since 2014 there has been a very substantial shift in the relative importance of different levels of government. Indeed, what has happened is probably best described as the municipalization of oblast power, and beginning of the "gromadization" of rayon and village power.

B. Revenue and Expenditure Trends: Oblasts

Figure 7 below presents the composition of Oblast revenue in 2016 UAH for the period 2014-2016. As can be seen from the figure, virtually all types of Oblast revenue declined sharply after the 2015 reforms. In 2015, Oblast revenue from shared PIT fell sharply, partly because the reforms reduced their PIT share from 25% to 15%, and partly because of the contraction of the economy. These revenues rebounded in 2016 with the upturn in the economy. But it is clear that oblast's lost more revenue from the reduction of their PIT share, than they gained from their new 10% share of Corporate Income Tax.

Figure 7: Change in the Structure of Oblast Revenues 2014-16 (2016 UAH, bln)



In 2015, the gap-filling Equalization Grant was replaced by new much smaller revenue equalization grant, as well as block grants for Health, Education, and Vocational Education. As can be seen from the Figure, the sum of these new grants in 2015 (32.4 bln UAH) exceeded the value of the old gap-filling grant (30.4 bln UAH) by 6%. In 2016, however, the situation changed radically: The Vocational Education Grant was eliminated and responsibility for vocational schooling was transferred to COS[31] while the costs of utilities were removed from the health and education grants for all levels of local government[32]. As a result, the total value of the grants that oblasts received in place of the gap-filling Equalization Grant declined 20% between 2014 and 2016 (30.4 vs 22.9 bln UAH). And by 2016, Housing Subsidies had also disappeared from their budgets, in part because some housing related functions were shifted to other levels of government, and in part because some housing related transfers were eliminated. Finally, the revenue Equalization Grant that remained in the system after 2015 provided oblasts with only 1.7 and 1.5 billion UAH in revenue in 2015 and 2016.

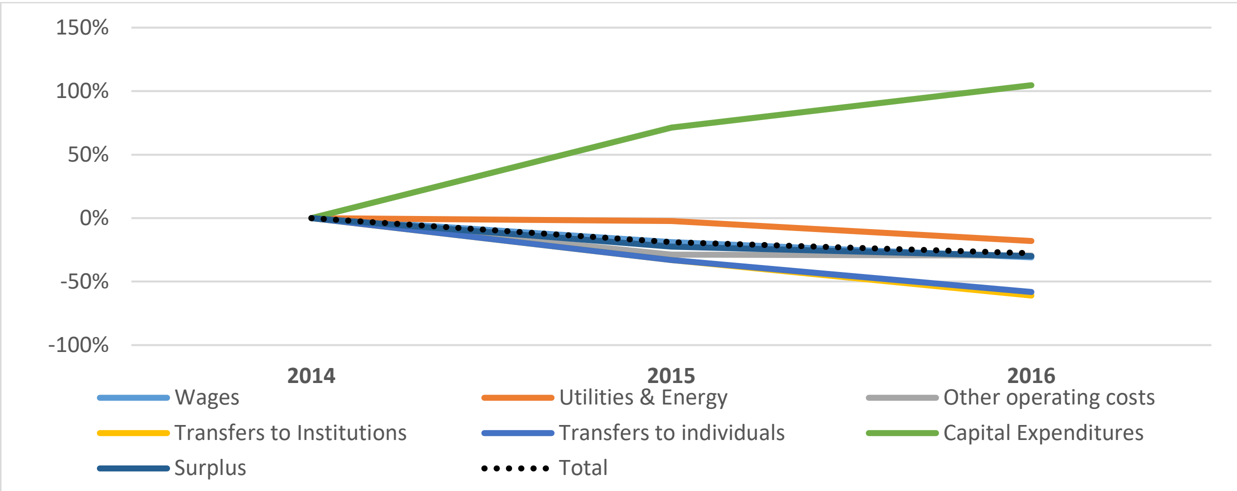
Figure 8 below, shows the change in oblast expenditure by economic category between 2014 and 2016 in 2016 UAH. As can be seen from Figure 8, total oblast expenditure declined 28% while wages –almost 40% of all spending in 2014—declined by 31%. The fall in wages spending was due

[31] In 2016, however, COS however did not receive a Vocational Education Grant and instead were supposed to finance the function from their general revenues. This proved impossible for many smaller COS and the government was forced to provide them with supplemental funds.

[32] This was done both because the Ministry of Finance felt that the reforms had given away too much money to local governments and as an attempt to clarify the Health and Education responsibilities of local governments: As owners of facilities, the government argued, they should be responsible for the full costs of maintaining and improving physical infrastructure.

in part to the shift of vocational education functions to COS, and in part, to the fall in the real value of wages that we have already discussed. Transfers to Individuals fell by more than 60% because responsibility for making these payments was reassigned to COS. And Transfers to Institutions fell similarly because in 2015 a price support subsidy for utility companies was eliminated. In 2016, the subsidy was essentially restored, but now as a Transfer Payments to Individuals and with the responsibility for paying them assigned to COS and rayons.

Figure 8: Percent Change in Expenditure for Oblasts by Economic Classification 2014-16



But the most striking aspect of the figure is that only investment spending increased between 2014 and 2016. In absolute terms, the increase was relatively modest, rising from 3.6 billion UAH in 2014 to 7 billion UAH in 2016. Nonetheless, investment doubled as share of total oblast expenditure (from 7 to 14%) and rose more than 180% between 2014 and 2016. In short, the disposable income of oblasts rose despite the fact that their overall revenues declined, a trend that again can only be explained by the fall in the real cost of wages.

Figure 9: Oblast Expenditure by Functional Classification 2014-16 (2016 UAH, bln)

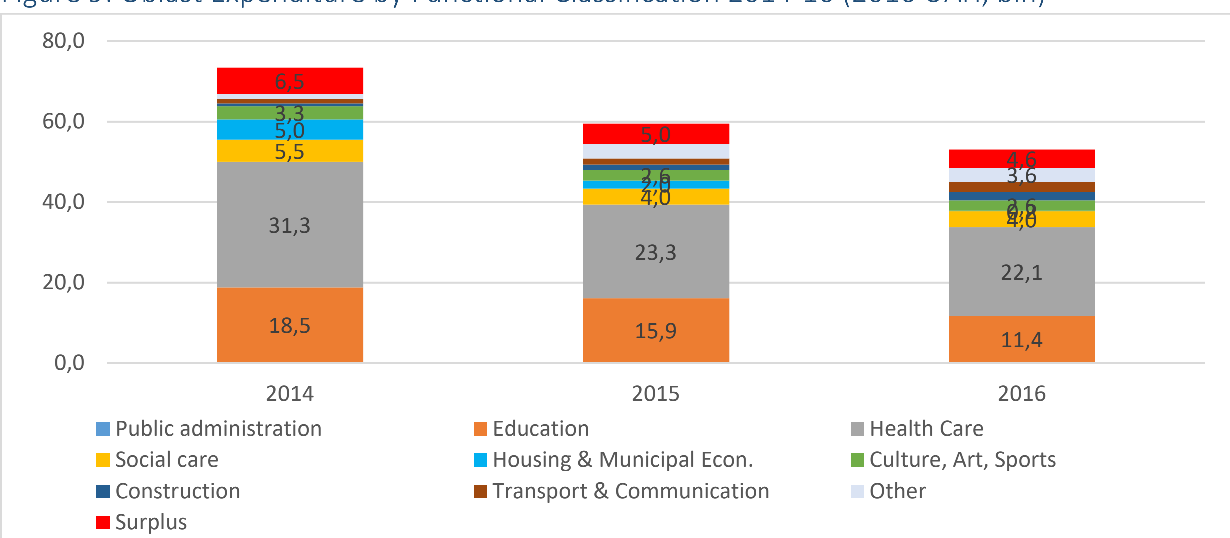


Figure 9 above, shows the composition of oblast expenditure between 2014 and 2016 by functional classification in billions of 2016 UAH. Surprisingly, spending on Public Administration –meaning the direct wages and other administrative costs of running oblast offices is so low (308 million in 2014, 224 million in 2016) that it cannot be seen in the figure. Spending on Education fell by almost 40% between 2014 and 2016, in part because of the decline in the value of teachers' wages and in part because of the shift of responsibility for Vocational Education from oblasts to COS. Nonetheless, even in 2016, more than half of all education expenditure (52%, 5.8 bln UAH) was funded from the general revenues of Oblasts, and not from the Education Grant (48%, 5.6 bln UAH; compare Figures 9 & 7). Spending on Health also declined by 30% as significant functions in the sector were transferred to COS and wage costs fell. In 2016, 22% (4.8 bln UAH) of Oblast health spending was funded by general revenue, while 78% (17.3 bln UAH) was paid for by the Health Grant. Meanwhile, spending on Construction and Transport increased, reflecting the rise in capital expenditure.

C. Revenue and Expenditure Trends: Cities of Oblast Significance (COS)

Table 2 below, presents the revenues of COS between 2014 and 2016 in billions of 2016 UAH Own revenues –discussed in greater detail in a moment-- are consolidated in the orange line. Shared Taxes are presented in the lines shaded in red, while Grants and Subsidies are in the blue lines. As can be seen from the Table, total COS revenue declined from 150.2 to 147 billion UAH in between 2014 and 2015, before rising sharply to 170.6 billion UAH in 2016 (14% over 2014). As such, and with the exception of AGs created in 2016, COS are the only level of local government that saw a substantial increase in their total budgets after 2014.

Table 2: Revenues of COS (2016 UAH, bln)

	2014	2015	2016	% of 2014 Total	% of 2016 Total
Own Revenues	24.4	25.8	29.2	16%	17%
Single Tax[33]	8.5	7.6	10.5	6%	6%
Excise	0.0	5.8	7.4	0%	4%
PIT	47.3	33.8	45.4	32%	27%
CIT (Kyiv)	0.3	2.3	3.0	0%	2%
Equalization Grants	16.6	0.7	0.9	11%	1%
Education Grant	0.0	16.7	15.1	0%	9%
Health Grant	0.0	17.1	14.8	0%	9%
Social Welfare Transfers	27.6	21.4	19.5	18%	11%
Housing Subsidies	20.0	13.6	20.8	13%	12%
Investment & Other Grants	5.5	2.1	4.0	4%	2%
Total	**150.2**	**147.0**	**170.6**	**100%**	**100%**

[33] The Single Tax is a flat rate "income tax" imposed on individual entrepreneurs and legal entities with turnover or land values that are below certain thresholds. The national government sets both the rate of the tax and the thresholds for different types of business activities or entrepreneurs. 100% of the yield of the tax, however is returned to local governments.

By 2016, the revenue generated by COS' new share of excise taxes, plus the 10% share of CIT assigned to the Capital City of Kyiv, exceeded the losses caused by the 2015 reduction of their PIT-share from 75% to 60%. As a result, the change in tax sharing arrangements introduced by the 2015 reforms resulted in a small net gain in revenue from shared taxes for COS. More striking is that in 2016, the value of the new Education and Health Grants were close to 13 billion more than what COS received through the old gap-filling Equalization Grant in 2014. Unfortunately, however, we cannot determine how much of this increase was due to the shifting of health and education functions from Oblasts to COS, and how much it might be due to more general changes introduced into the formulas used to allocate these grants.

Collectively revenue from Social Welfare Transfers and Housing Subsidies plummeted from 47.6 to 34 billion UAH between 2014 and 2015, before climbing back to 40.3 billion in 2016. The 2015 drop in Housing Subsidies of 6 billion UAH was again related to the elimination of price supports that were earmarked for payments to municipal utilities. In 2016, these subsidies were restored but now earmarked for payments to poorer households so that they could meet their utility bills. From the point of view of COS officials, however, the total decline in Social Welfare Transfers and Housing Subsidies did not reduce their disposable income because most of these monies simply flowed through municipal budgets as statutory payments to individuals and/or utilities.

Moreover, as the value of these un-freely disposable revenues fell, the value of revenues over which COS have some real control increased sharply: The total value of own revenues, shared taxes, and the (sectorally-earmarked) health and education grants rose from 97.2 to 109.8 billion UAH between 2014 and 2015 and then jumped to 126.4 billion in 2016 --a total increase of over 30%. This sharp increase in relatively freely disposable revenue happened at the same time that the real value of public sector wages fell. And it is this combination that accounts for the very positive assessment of the reforms at the municipal level.

As can be seen from Table 2 (above), own-revenues constitute only 17% of COS budgets, up from 16% in 2014. This is low in comparison with the average for the European Union, where local governments typically derive about 40% of their total budgets from revenues over which they have some real control. And going forward, there is no question that Ukraine cities need to make greater use of the revenue generating powers than they currently do.

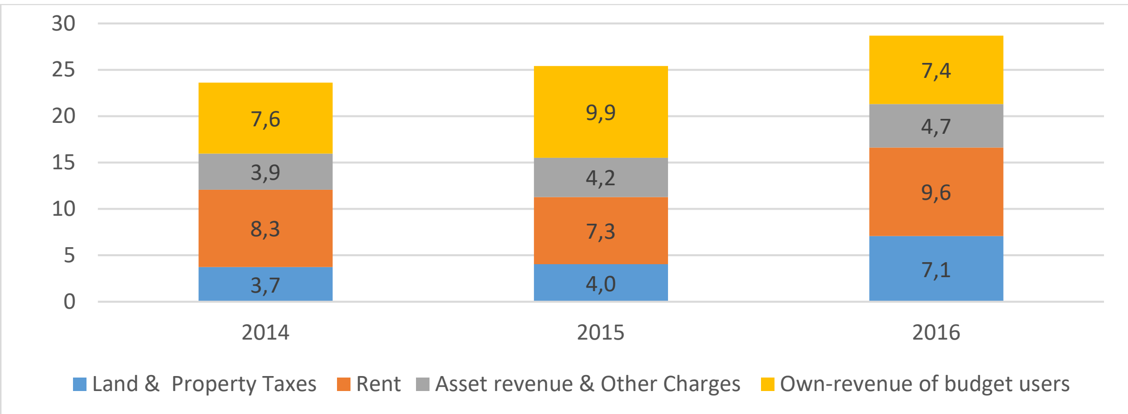
But the low share of own-revenue in COS budgets also reflects what Blochlinger and King have called the "decentralization paradox".[34] The paradox is that the more that costly social sector functions like health and education are devolved to local governments (and the more statutory transfers flow through their budgets) the lower the share of own-revenue in their total budgets will be. Or put more prosaically, the more local governments are given to do, the less they can be counted on to pay for doing it out of revenues they raise themselves. This is because once

[34] Blochliger and King, "Less than You Thought: the Fiscal Autonomy of Sub-Central Governments" OECD Economic Studies No.43 pp. 156-185 http://www.oecd.org/eco/publicfinanceandfiscalpolicy/40507581.pdf.

consumption taxes have been centralized though nationally administered Value Added Taxes, there are few other robust taxes that can reasonably be assigned to local governments[35].

Figure 10 below, shows the composition of local government own-revenues between 2014 and 2016 in billions of 2016 UAH. The figure overstates the true own revenues of COS in at least two ways. First, the levels of many of the fees and charges that COS collect are in fact set by the national government. And second, Own Revenues of Budgetary Entities are not strictly speaking COS own-revenues because they do not flow directly into COS budgets. Instead, they are retained on the accounts of non-commercial municipal institutions, like schools, cultural institutions, and agencies that deal with permitting and licensing issues. Further analysis is required to understand why these revenues increased substantially in 2015 only to fall substantially in 2016.

Figure 10: Own Revenue of COS (2016 UAH, bln)

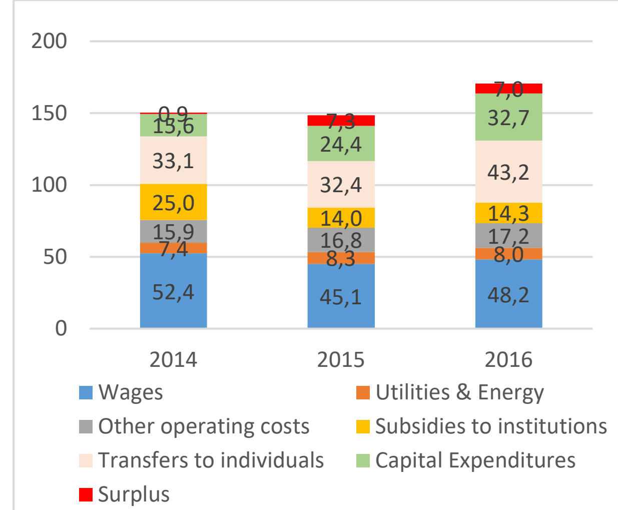


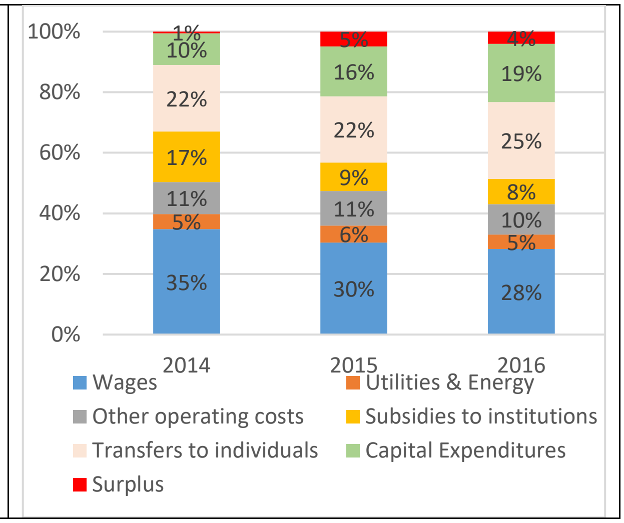
But what the figure does demonstrate is that the 2015 reforms did not have a negative impact on the willingness of COS to collect own-revenues. On the contrary, they increased 22% between 2014 and 2016 despite the fact that they received a windfall in other (relatively) freely disposable income. In short, COS have continued to improve local revenue collection even though other changes in the intergovernmental finance system substantially strengthened their overall financial position.

Figures 11 &12 below, show the composition of COS expenditures by economic classification between 2014 and 2016 in both billion UAH and as shares of total expenditure. As can be seen from the figures, wage spending fell by about 4 billion UAH (8%) between 2014 and 2016, despite the fact that by 2016 COS assumed responsibility for the wages costs of Vocational Education. More importantly, the share of wages in total municipal expenditure fell from 35% in 2014 to 28% in 2016, while investment spending rose from 15.6 to 32.7 billion UAH, and almost doubled as a share of total expenditure (from 10% to 19%).

[35] This imbalance cannot be fixed with the property tax, which in the best of cases will yield revenues equal to only the 3% of the GDP (Canada), and which in the EU hovers at around 1% of GDP. Indeed, the only clear solution to the problem seems to be to give local governments not just PIT shares, but control over PIT rates. Indeed, this constitutes the essence of both Nordic Fiscal Federalism and Swiss Fiscal Federalism, where the national government determines the base of the personal income tax and collects it, but subnational governments are free to set the rates.

Figures 11 & 12: COS Expenditure by Economic Classification 2014-16 (2016 UAH, bln)





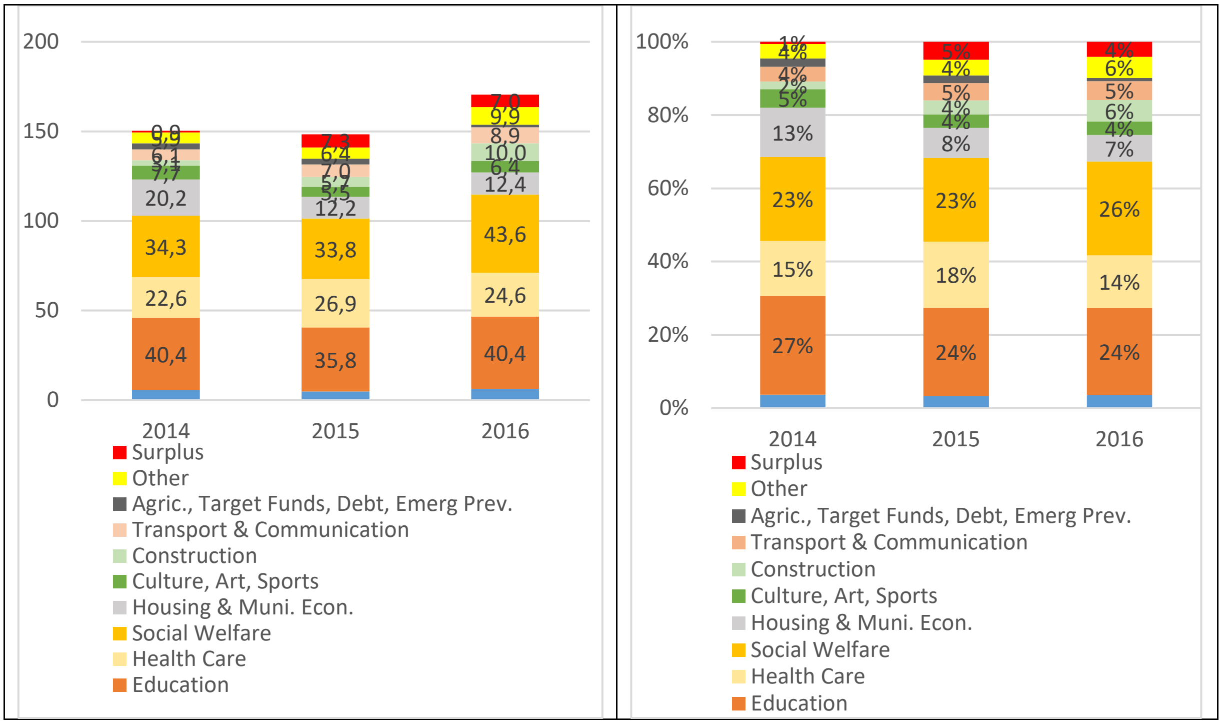
Also worth noting is the sharp rise in year-end surplus between 2014 and 2015, and the fact that this surplus doesn't decline significantly in 2016. This suggests is that the revenue benefits of the reform were quick and unexpected enough to make it hard for COS to rationally plan their expenditures. In any case, the dramatic increases in investment spending and year-end surpluses reflect the combined effects of the decline in the real value of wages and the increase in COS revenue produced by the 2015 reforms.

"Also worth noting is the sharp rise in year-end surplus between 2014 and 2015, and the fact that this surplus doesn't decline significantly in 2016. This suggests is that the revenue benefits of the reform were quick and unexpected enough to make it hard for COS to rationally plan their expenditures."

As with oblasts, COS Subsidies to Institutions fell from 25 to 14.3 billion UAH between 2014 and 2016. This decreased their share of total expenditure from 17% to 8%. At the same time, Transfers to Individuals rose 10 billion UAH between 2014 and 2016, increasing the share of statutory transfer payments to individuals in total expenditures from 22% in 2014 to 25% in 2016. These shifts reflect the same history with respect to 2015 elimination of transfers earmarked for utility price supports, and then their 2016 restoration in 2016 as transfer payments to poor households.

Figure 13 and 14 below, present COS expenditure by functional classification between 2014 and 2016 in billions of 2016 UAH and as shares of total expenditure. The growth in spending on Transport, Construction, and Other contains most --but not all-- of the increase in investment spending that can be seen in Figure 11 (above). Spending on Education fell sharply in 2015, mainly because of the declining costs of teachers' wages. In 2016, however it returned to 2014 levels, mainly because COS were assigned responsibility for Vocational Education.

Figure 13 & 14: COS Expenditure by Functional Classification 2014-16 (2016 UAH, bln)



Expenditure on Health rose from 24 to 28 billion UAH between 2014 and 2015, before falling back to 25 billion in 2016. But here too it is important to remember, that real wages in the sector fell considerably during this period, masking the fact that COS were taking over new health care functions from the oblasts. And as with the pay increase that the national government mandated for teachers in 2017, it will be important to monitor how pay increases in the health care sector impact municipal budgets going forward.

The fall in spending on Housing and the Municipal Economy, and the rise in spending on Social Welfare reflects the shift in the way the national government choose to subsidize utility prices that we discussed earlier. In 2016, total COS spending on Social Welfare equaled almost exactly what COS received from the national government in both Social Welfare Transfers and Housing Subsidies (compare the Social Welfare expenditures in Figure 13 with Social Welfare and Housing subsidies in Table 2). What this implies is that despite the large share of Social Welfare spending in their total expenditures, COS spend very little of their general revenues on the sector. As such it seems fair to say that most COS run few social welfare institutions, and that the ones that they do run are poorly funded.

This is very different from what goes on in the health and education. As can be seen in Table 3 below, COS expenditure on Education and Health substantially exceeds what they receive in block grants from the national government. Indeed, in 2016 the Education Grant covered only 37% of COS education spending. Much of this is because the Education Grant does not take into consideration the costs of either preschool, afterschool, professional-technical education or school transport etc. because both are considered own-functions and not shared ones. In Health, the grant covered 60% of all spending and it is less clear what is driving the shortfall. But in both Health and Education, it is necessary to examine spending at the sub-function level in order to determine where COS are contributing the most to tasks that are at least theoretically covered by the sectoral grants.

Table 3: Education & Health Grants as a % of COS Education & Health Expenditure (2016 UAH)

	2015	2016
Education Expenditure	35.8	40.4
Education Grant	16.7	15.1
Grant as % of Expenditure	**47%**	**37%**
Health Spending	26.9	24.6
Health Grant	17.1	14.8
Grant as % of Expenditure	**63%**	**60%**

D. Revenue and Expenditure Trends: Rayons

Table 4 below, shows the composition of rayon revenue for the period 2014-2016 in billions of 2016 UAH. As can be seen from the Table, total rayon revenues declined from 110 to 102 billion UAH between 2014 and 2015, before recovering to 111 billion UAH in 2016. But unlike with the COS, the 2015 reforms did not lead to a significant increase in relatively freely disposable revenues: Own revenues did not increase at all, while revenue from shared taxes rose by only by 4 billion UAH in absolute terms. Meanwhile, the new Equalization, Education and Health Grants amounted to 37.4 billion UAH in 2016, 15 billion less (30%) than the value of the old gap filling Equalization GAP in 2014.

Part of the decline in the value of rayon Education and Health Grants was driven by the government's decision to make local governments fully responsible for paying the utility costs schools and hospitals. And part of the decline is the result of the transfer of at least some education and health functions to the 159 new AG. But at the end of the day, what should be clear is that unlike with COS, the value of these grants provide substantially less funding to rayons than the old gap-filling formula did. Thus, despite the fact that total rayon revenue in 2016 was slightly above the level in 2014, rayons, unlike COS, lost significant amounts of (relatively) freely disposable income.

Table 4: Rayon Revenues 2015-2016 (2016 UAH bln)

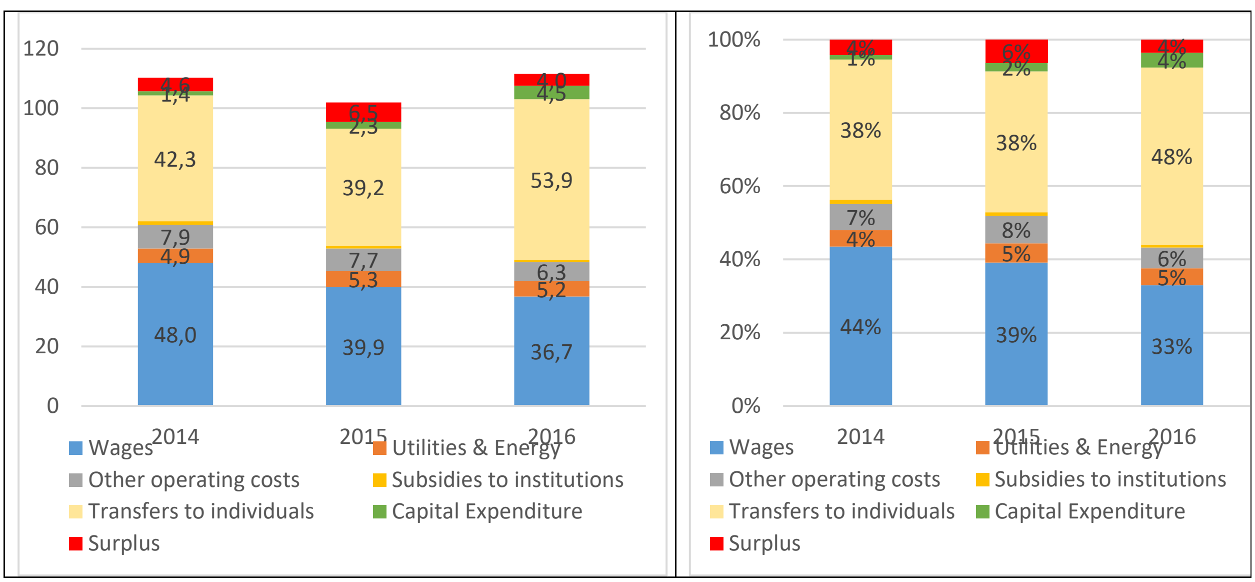
	2014	2015	2016	% of 2014 Total	% of 2016 Total
Own Revenue including those of Budget Users	2.0	1.9	2.2	1.8%	2.0%
PIT and Other Shared Taxes	13.5	14.2	17.7	12.2%	15.8%
Equalization and Stabilization Subsidies	52.7	5.6	4.0	47.8%	3.6%
Education Grant		26.3	21.7	0.0%	19.5%

Health Grant		14.2	11.7	0.0%	10.5%
Social Welfare subvention	37.2	28.1	28.2	33.7%	25.3%
Housing Subsidies	4.9	11.1	25.2	4.4%	22.6%
Investment grants & Other Subsidies	0.1	0.6	0.9	0.1%	0.8%
Total	**110.3**	**102.0**	**111.6**	**100%**	**100%**

Instead, what increased were their revenues for the statutory transfers that flow through their budgets but over which they have no control. Thus, the combined value of the Social Welfare Subvention and of Housing Subsidies amounted to 53.4 billion UAH in 2016, an increase of 11 billion UAH (27%) over 2014. Indeed, monies for statutory transfer payments increased from 38% of total rayon revenues to almost 50% between 2014 and 2016. In short, while the reforms of 2015 did not lead to a substantial decrease in total rayon revenues, they did reduce their budgetary autonomy, increasingly making rayons little more than payment windows for social transfers.

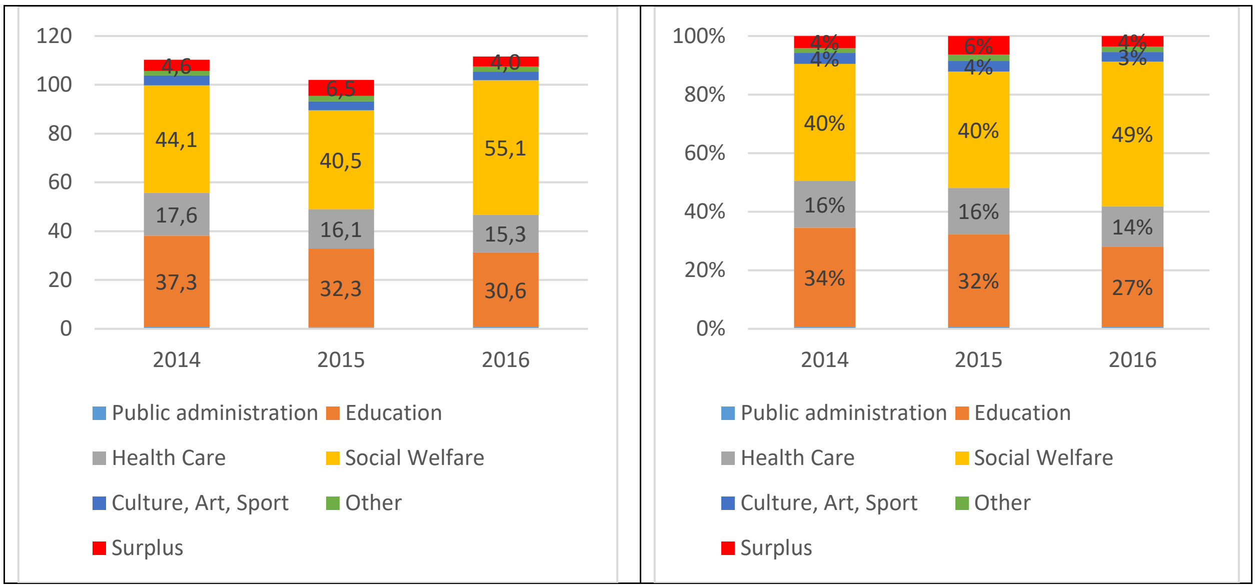
These trends become clearer when we look at the structure of rayon expenditures by economic classification. Figures 15 and 16 below, present rayon expenditures by economic classification in both billion UAH and as shares of total expenditure. As can be seen from the Figures, Transfers to Individuals now represent 48% of total rayon expenditures, and have increased from 42 to 54 billion UAH since 2014. Meanwhile, wage spending has fallen from 48 to 37 billion and has declined as a share of total expenditure from 44% to 33%. This is due in part to the decline in the real value of wages and in part to the transfer of education functions to AG. As elsewhere, the decline in the costs of labor allowed for an increase in capital expenditure, which more than tripled after 2014 (from 1.4 to 4.4 billion UAH). Nonetheless, investment spending still represents only 4% of total rayon expenditure.

Figures 15 & 16: Rayon Expenditures by Economic Classification 2014-16 (2016 UAH, bln)



Figures 17 and 18 below, present rayon expenditures by functional classification between 2014 and 2016 in both 2016 UAH and as shares of total expenditure. As with COS and Oblasts, spending on Public Administration --the direct cost of running rayon offices-- is so small as to be barely visible in the figures. But unlike with COS, spending on Transport, Communication, Housing and Construction are all so small that they remain virtually invisible even when grouped together in "Other". Spending on Education decreased from 37 to 30 billion UAH between 2014 and 2016, and fell from 37% to 27% of total expenditure. Spending on Health declined from 17.6 to 15.3 billion UAH over the same period and dropped from 16% to 14% of total expenditure. But Social Welfare spending increased from 44 to 55 billion UAH, and from 40% to 49% of total expenditure, mirroring the increase in Transfer Payments to Individuals. And with COS, virtually all rayon spending on Social Welfare is made through Transfers to Individuals (53.9 out of 55.1 billion UAH in 2016, compare Figures 15 &17), suggesting that most rayons run few social welfare institutions, and those that they do run are poorly funded.

Figures 17 & 18: Rayon Expenditures by Functional Classification 2014-16 (2016 UAH, bln)



If we compare Education spending with the value of the Education Grant (presented in Table 4) we see that in 2015 and 2016 rayons contributed 6 and 8.9 billion UAH respectively to the costs of the sector. As a result, 23% percent of rayon education spending was financed from their general revenues in 2015, while this figure rose to 41% in 2016. Indeed, the same trend seems to be at work in Health: Rayons contributed 1.6 billion UAH to the sector in 2015 and 3.6 billion UAH in 2016. And the share of health spending financed from their general revenues jumped from 13% in 2015 to 31% in 2016.

The rising contributions to these sectors reflects the declining value of rayon Education and Health Grants and the fact that rayons –like other levels of local government—now have to pay for the utility costs of the hospitals and schools that they own. But unlike COS rayons have little in the way of own-revenue powers, and are now almost entirely dependent on the yield of their

PIT share for general revenues (17 bln in 2016). The fact that rayons are spending most of these monies in Education and Health (8.9 + 3.6 = 12.5 bln in 2016) suggests that they have little choice in the matter. Indeed, increasingly it looks like rayons do little more than distribute social welfare payments to individuals, and allocate money to meet the wage costs of schools and health care facilities.

E. Revenue and Expenditure Trends: Unconsolidated Gromada

Table 5 below, presents the revenues of gromada between 2014 and 2016 in billions of 2016 UAH and as a share of total revenue for the years 2014 and 2016. As can be seen from the Table, the 2015 reforms eliminated gromada's PIT share but gave them --like COS and AG—a new 5% share of "local" Excise Taxes.

Table 5: Revenues of Unconsolidated Gromada (2016 UAH, bln)

	2014	2015	2016	% of 2014	% of 2016
Land & Property Taxes	1.0	1.2	2.2	5%	10%
Rent	4.6	4.4	5.1	24%	24%
Other Own	2.0	1.9	2.0	10%	10%
Income tax	6.6	0.0	0.0	34%	0%
Excise tax	0.0	2.8	3.8	0%	18%
Single tax	2.7	4.5	6.1	14%	29%
Environmental Fees	1.1	0.7	0.8	6%	4%
Equalization & Stabilization Grant	0.24	0.13	0.03	1%	0%
Other subsidies	0.9	0.8	0.9	5%	4%
Total	**19.1**	**16.6**	**20.9**	**100%**	**100%**

The reforms eliminated gromada's right to 25% of the PIT generated in their jurisdictions in order to incentivize amalgamation. As a result, unamalgamated gromada lost 34% of their total revenue (6.6 billion UAH) between 2014 and 2015. Moreover, because the equalization system equalizes (weakly) against shared taxes, gromada' loss of their PIT share also came with a reduction in their Equalization and Stabilization Grants. So much so that this line virtually disappeared from their budgets in 2016. As a result, it is fair to say that there is no fiscal equalization going on at the unamalgamated gromada level. By 2016, however, the Excise Tax share that gromada were given with the 2015 reforms, was generating 3.8 billion UAH in revenue, or about 60% of what they had lost with elimination of their PIT share.

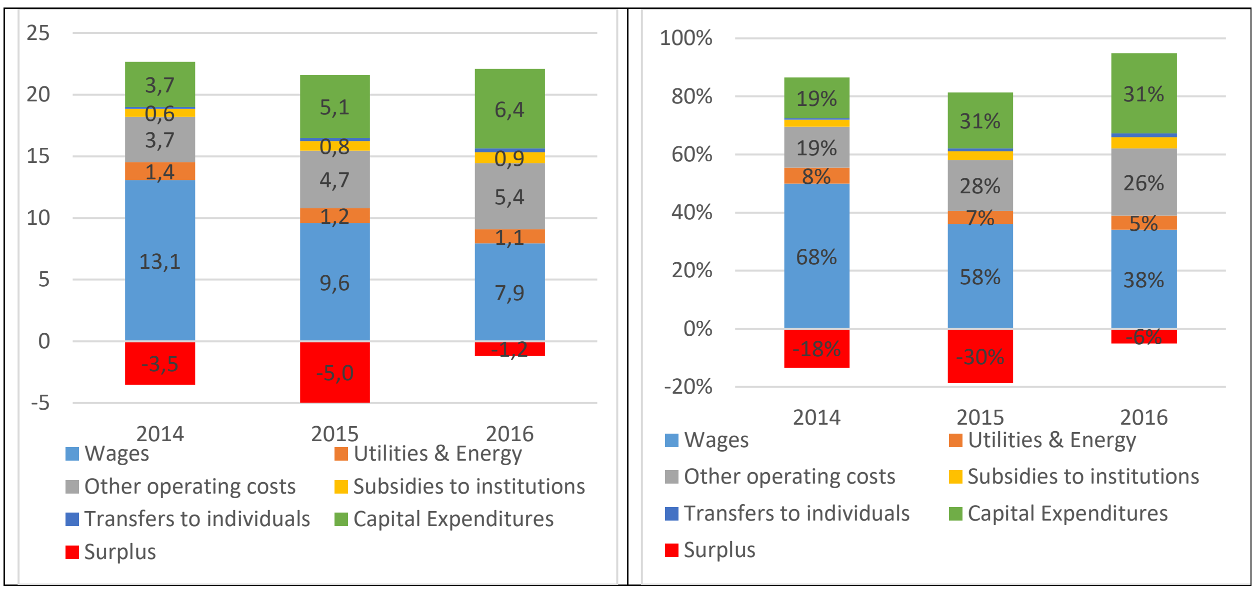
Gromada seem to have responded to the net loss in shared-tax revenue by intensifying their collection of Land and Property Taxes. Revenue from the shared Single Tax has also increased significantly. Nonetheless, by 2016 almost 40% of gromada budgets came from own-source revenue – by far the highest share of any level of local government. But this is not an indication of their strength. Rather it is an indication of fiscal stress, fiscal stress that was in fact designed to encourage their amalgamation.

It is unclear whether this stress has actually served to speed up the amalgamation process. But two things do see seem fairly obvious. First, many gromada are mobilizing local taxes in an effort to stay afloat. And the 5% excise tax given to them in 2015, is now helping them resist amalgamation and is working at cross purposes with policy of intended fiscal stress.

Figures 19 and 20 below, present unamalgamated gromada expenditures by economic classification in billions of 2016 UAH, and as a share of total expenditure. As can be seen from the figures, gromada have been running substantial operating deficits since at least 2014[36]. They sky rocketed to 30% of gromada expenditure in 2015, but fell to 6% in 2016 –in part because of gromada revenue mobilization—well below their 2014 level of 18%. As such, it is unclear how much of these deficits are structural. But no other level of government is now running them and they too suggest that gromada are under considerable fiscal pressure.

Despite these deficits, however, gromada have still managed to devote a remarkably high share of their total expenditure on investment. How this is possible is not entirely clear and requires further analysis. But one possible explanation is that gromada are actively resisting amalgamation by simultaneously mobilizing local revenues, increasing investment spending and running up deficits in that they hope will eventually be covered by the national government.

Figures 19 & 20: Unconsolidated Gromada Expenditure by Economic Classification 2014-16 (2016 UAH, bln)



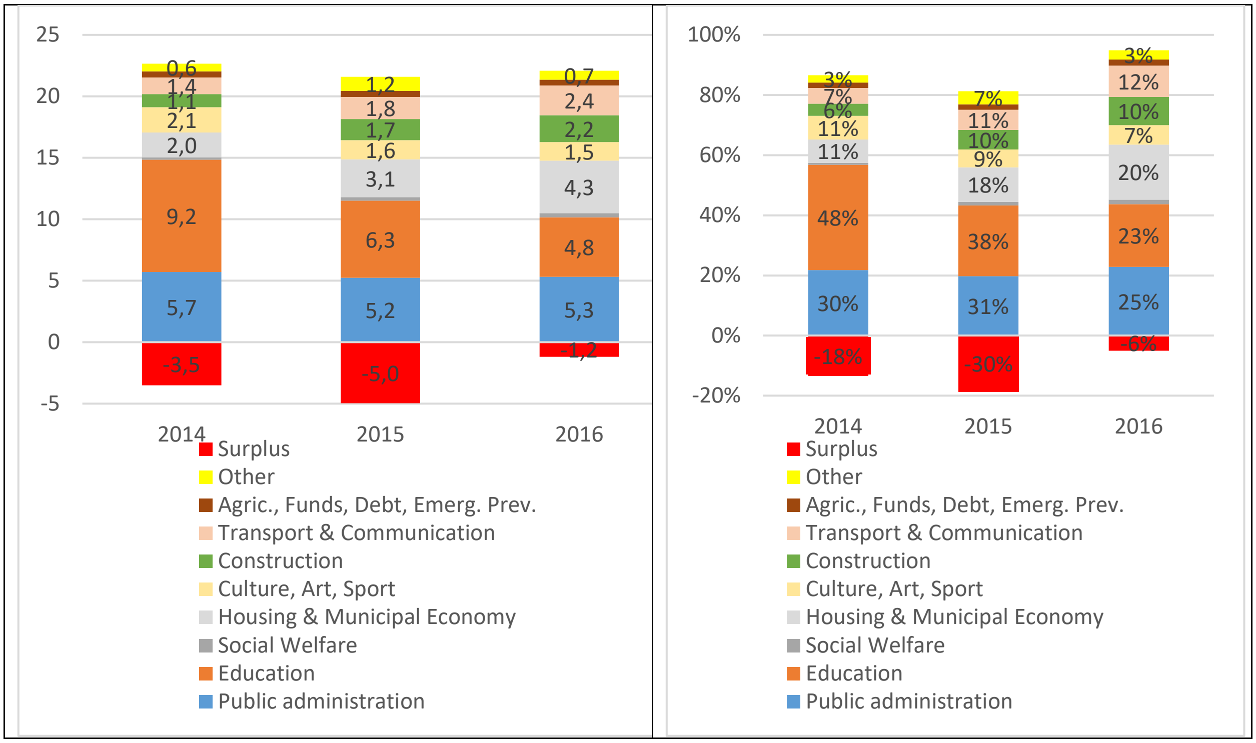
[36] These deficits are accounted for in the category for year-end carryover, or as in the figures "Surplus".

Figures 21 and 22 below, present gromada expenditure by functional classification between 2014 and 2016 in billions of 2016 UAH and as shares of total expenditure. The high share of capital expenditure is evident in the relatively high shares of spending on Construction, Transport and Housing, spending that simply does not exist at the rayon level. As such, it is fair to say that gromada governments are providing some basic urban services that are not being provided by either rayons or oblasts.

Between 25% and 35% of the total expenditure of unamalgated gromada (c. 5 billion UAH) goes to Public Adminstration. For Oblasts, Rayons and COS in contrast, expenditure on Public Administration is less than 1% of their total spending. Indeed, 40% of total spending on Public Administration by all levels of local government is made by unamalgamated gromada.

Nonetheless, the most striking feature of the figures are the extremely high levels of spending that go to Public Administration, meaning the direct costs of maintaining gromada. Between 2014 and 2016, these costs consistently exceeded 5 billion UAH and accounted for between 25% and 30% of total expenditure. For Oblasts, Rayons and COS in contrast, expenditure on Public Administration is less than 1% of their total spending. Indeed, the 5.3 billion UAH that villages spent on Public Administration in 2016 amounted to 40% of total spending on the function by all levels of local government (13.3 billion UAH). What this suggests is that much of whatever else gromada do, much of what their current existence is constructed around maintaining public sector employment for themselves.

Figures 21 & 22: Unconsolidated Gromada Expenditure by Functional Classification 2014-16 (2016 UAH, bln)



This fact is important to bear in mind when considering the long term potential of voluntary amalgamation which essentially requires many people to vote themselves out of a job. To mitigate this problem, rules were introduced that essentially guarantee that the democratically-elected heads of unamalgated gromada ---starosta—are maintained as administrators several years after amalgamation. Nonetheless, it should be clear that voluntary amalgamation is an slow, painful, and contradictory process in which unamalgamated gromada both mobilize local taxes and run deficits to survive, while the national government is forced to make many ad hoc decisions to bail them out.

F. Changes in the Horizontal Equity of the Intergovernmental Finance System

The 2015 reforms replaced Ukraine's gap-filling equalization formula with sectoral block grants for Education and Health and a smaller revenue equalization grant based on the per capita/per pupil yield of shared taxes. In the following, we examine how these changes have affected the horizontal equity of the system for all levels of government.

Table 6 below, presents the per capita revenues of oblasts in quartiles ranked by their per capita revenue from shared taxes in both 2014 and 2016. The 25% of Oblasts with the lowest per capita revenues from shared taxes (the poorest) are in the first quartile, while the 25% with the highest are in the 4th quartile. Social Welfare and Housing Subsidies paid out as Transfers to Individuals have been excluded because Oblasts have no control over these funds.

Table 6: Oblast Revenue Per Capita, 2014-16 (in Quartiles Ranked by Shared Taxes)

Year	Quartile	Population	Shared Taxes	Own revenue	Equaliz. Grants	Other Subs. & Invest. Grants	Education Grant	Health Grant	Total	% of Total to 4th Quartile	% of Shared Taxes to 4th Quartile
2014	Q1	6,734,651	381	151	991	36	na	na	1,560	0.83	0.31
	Q2	8,464,019	531	150	897	31	na	na	1,609	0.85	0.43
	Q3	10,170,446	644	157	838	22	na	na	1,661	0.88	0.52
	Q4	8,251,947	1,250	185	417	37	na	na	1,890	1.00	1.00
	All	**33,621,063**	**712**	**161**	**780**	**31**	**na**	**na**	**1,684**	**0.89**	**0.57**
2016	Q1	6,501,595	308	131	99	89	154	461	1,241	0.71	0.34
	Q2	7,814,417	437	170	54	21	142	486	1,310	0.75	0.49
	Q3	10,887,692	502	131	22	139	146	469	1,409	0.81	0.56
	Q4	8,179,709	896	183	10	16	156	488	1,749	1.00	1.00
	All	**33,383,413**	**546**	**153**	**42**	**71**	**149**	**476**	**1,437**	**0.82**	**0.61**

As can be seen from the Table, the total per capita spending of all oblasts in 2016 was about 240 UAH less than it was in 2014. This reflects the overall shrinking of oblasts role in the system that has been discussed earlier. The own-revenues of oblasts are relatively flat across quartiles in both years and do not clearly increase –as one might expect— in line with the shared taxes. This is because most oblast own-revenues are statutory fees and charges over which oblasts have little control.

Equalization Grants, however, are clearly allocated in both years in inverse proportion to the relative wealth of oblasts as measured by their per capita revenues from shared taxes. This is as it should be. In 2014, the per capita revenue from the gap-filling equalization grant is very large. In 2016, the revenue from the new revenue equalization grant is much smaller, with the difference between the two *more a less* replaced by the new Health and Education Grants. The allocation of the Education Grant is flat across all quartiles, meaning the allocation is being made on straight per capita basis. The Health Grant, however, rises with the relative wealth of quartiles. Why this should be the case requires further investigation. But at the moment, the grant appears to work against equalization.

As can be seen from the last column in the Table, in 2014 the per capita revenue from shared taxes of the poorest quartile of oblasts (1^{st}) was equal to 31% of the per capita shared taxes of the richest quartile (4^{th}). But the *total* per capita revenues of the 1^{st} quartile were much higher --equal to 83% of those of the 4^{th}. So the gap-filling Equalization Grant was doing a reasonable job compensating oblasts with weak tax bases. So much so that there are fairly negligible differences in the total per capita revenues of the three poorest quartiles.

In 2016, the picture changes a bit. The distribution of relative wealth as measure by shared taxes stays more or less the same across quartiles as in 2014. But there is a clear deterioration in the amount of equalization the new transfer system (Education + Health + revenue equalization grant) is doing: By 2016, the total per capita revenues of the poorest quartile had fallen from 83% of those of the richest quartile in 2014, to only 71% --a decline of 14%. Moreover, the distance between the poorer quartiles also widened.

It is thus fair to say, that the 2015 reforms have led to some deterioration in the horizontal equity of the system at the oblast level. Indeed, it seems clear that there is more differentiation across oblast budgets than there was before and that relative wealth is becoming more determinant. Nonetheless, and at least for the moment, the most striking thing about the table is that the final distribution of total per capita revenue across oblasts remains remarkably flat. So the prima face evidence suggests that so far the equalization system is still working to prevent the emergences of radical income disparities across oblasts.[37].

Table 7 below presents the same data for rayons. The total per capita revenues of rayons in 2016 is lower than in 2014 because all revenues earmarked for Transfer Payments to Individuals have been excluded (as in Table 6)[38]. And Table 7 shows the same basic trends for rayons as Table 6 does for oblasts --only more so: The system was strongly equalizing in 2014. Indeed, so equalizing that the 1st quartile of rayons actually received more in total per capita revenue than the 4th. This, despite the fact that the 1st quartile's revenues from shared taxes were less than a third of the 4th quartiles.

There is also a steeper deterioration in the horizontal equity of the system at the rayon level than at the oblast level: poorest rayons go from having 109% of the total per capita revenues of the richest in 2014 to 81% in 2016, a decline of 26%. So relative wealth –as measured by shared taxes—is beginning to matter more for rayons as well. Nonetheless, and again, probably the most striking aspects of the Table are that the distance between the poorest and richest quartiles of rayons remains remarkably small while the differences across the first three quartiles remains remarkably flat. So as with oblasts there does not to be a compelling case for considering the (emerging) disparities in the budgetary wealth of rayons a serious problem.

Table 7: Rayon Revenue Per Capita 2014-2016 (in Quartiles Ranked by Shared Taxes)

Year	Quartile	Population	Shared Taxes	Own revenue	Equaliz. Grants	Other Subs. & Invest. Grants	Education Grant	Health Grant	Total	% of Total to 4th Quartile	% of Shared Taxes to 4th Quartile
2014	Q1	5,678,730	394	80	3,457	8	na	na	**3,939**	1.09	0.31
	Q2	4,469,842	603	88	2,944	5	na	na	**3,640**	1.01	0.47
	Q3	4,103,088	771	120	2,597	4	na	na	**3,492**	0.97	0.61

[37] Equalization, however can be looked at in many different ways and arguments can be made that poorer jurisdictions actually should have higher per capita incomes than richer ones precisely because poverty requires additional funding to correct. Indeed, one might well use this argument if one expected oblasts to be the principal developers of infrastructure in regions that for historical reasons were neglected or extremely poor.

[38] As discussed earlier, in 2014 some of these Transfer Payments went not to Individuals but to Institutions –meaning as price supports to utility companies. Unfortunately, however we cannot zero out these revenues on the expenditures side of the ledger.

	Q4	4,237,350	1,272	153	2,181	0	na	na	**3,606**	1.00	1.00
	All	**18,489,010**	**729**	**108**	**2,850**	**4**	**na**	**na**	3,691	**1.02**	**0.57**
2016	Q1	5,078,528	546	104	410	48	1,437	699	**3,245**	0.81	0.30
	Q2	3,979,633	855	122	269	51	1,256	686	**3,239**	0.81	0.47
	Q3	3,706,378	1,099	144	165	56	1,199	685	**3,348**	0.84	0.61
	Q4	4,107,280	1,807	158	49	55	1,218	710	**3,997**	1.00	1.00
	All	**16,871,819**	**1,048**	**130**	**235**	**52**	**1,289**	**695**	**3,449**	**0.86**	**0.58**

Unlike with oblasts, the allocation of the Education Grant is clearly equalizing while the allocation of the Health Grant is more or less flat, and in any case not anti-equalizing as it is with oblasts. Why this should be the case requires further analysis of the way the allocation formulas are applied and adjusted for each level of government.

Of more interest and consequence are the changes in the horizontal equity of COS following the 2015 reforms. Table 8 below presents the same basic information on the per capita revenues of COS as Tables 6 & 7 do for oblasts and rayons. But there are obvious differences in the salient revenue categories. Most importantly, own revenues are much more significant (here, Land, Property Taxes and Rent, and Other Own). As would be expected, they also begin to track more closely than at the oblast or rayon level the relative wealth of quartiles as measured by the per capita yield of shared taxes. There is also a marked increase in the total per capita revenues of all quartiles of COS between 2014 and 2016. This was not true at the oblast or rayon levels and reflects the rising fortunes of COS that have been discussed before.

Nonetheless, there the data tells a familiar story. The distribution of total per capita revenue before the reforms was fairly flat, meaning the gap filling equalization grant appears to have been fairly effective. Indeed, the poorest quartile of municipalities in many countries often have total per capita revenues 3 to 5 times less than those of the richest quartile, and not as is the case with COS in 2015, a mere 30% less. Similarly, it is not uncommon for capital cities to have total per capita revenues many multiples of those of other quartiles[39]. So again, income disparity across COS in 2014 does not seem to be major.

More importantly, for our purposes, the 2015 reform do not seem to have dramatically changed the situation. To be sure, the percentage of the poorest quartile's total revenue to that of the

[39] For example, in Serbia the four largest cities had per capita revenues seven times those of the 1st quartile of local governments in 2002. Moreover, even after significant improvements were made in the equalization system in 2006, the gap between the richest and poorest quartiles of local governments remained well over 3 to 1, a gap which widened again at the end of the decade. Similarly, in 2010, Skopje –the capital of Macedonia-- had per capita revenues close to three times the average of all jurisdictions, while the per capita revenue the 4th quartile of local governments was five times higher than those of the 1st. Finally, in Georgia, the capital city of Tbilisi receives close to 50% of all local government revenue –including 50% of the "Equalization (sic) Grant"-- despite the fact that only 30% of the population lives in the capital. See T. Levitas, *The Effects of the Suspension of the Law on Local Government Finance on the Revenue and Expenditure Behavior of Local Governments in Serbia: 2007-2009*, Serbian Quarterly Economic Monitor, Winter 2010 p. 1-28; Levitas, *Local Government Finances in Macedonia Today: Possible Reforms for Tomorrow,* IDG Working Paper, Urban Institute, May 2010, p. 1-39 and Levitas *Towards Improving the Efficiency and Equity of Georgia's Intergovernmental Finance System,* USAID/Tetra Tech, July 2016, p. 1-45.

richest quartile's deteriorates after 2015, falling from 70% to 60%. This decline of 15% is significant and should be watched. But nonetheless the overall distribution remains relatively flat. Moreover, the change in the structure of COS revenues brought about by the reforms seem to have been accompanied by a general moving up in the world: About 1.2 million fewer people now live in the two poorest quartiles than they did in 2014.

Table 8: COS Revenue Per Capita, 2014-16 (in Quartiles Ranked by Shared Taxes)

Year	Quartile	Pop.	Shared Taxes	Land, Prop. Taxes & Rent	Other Own*	Equal. Grants	Other Subs. & Invest. Grants	Educ. Grant	Health Grant	Total	% of Shared Taxes to 4th	% of Total to 4th	% of Total to Kyiv
2014	**Q1**	1,901,455	1,080	195	218	1,700	52	na	na	3,245	0.3	0.7	0.3
	Q2	3,107,618	1,663	396	291	1,397	56	na	na	3,803	0.5	0.8	0.4
	Q3	5,036,628	2,276	559	476	1,111	100	na	na	4,522	0.7	1.0	0.5
	Q4	7,310,385	3,136	628	412	280	105	na	na	4,561	1.0	1.0	0.5
	Kiev	2,868,702	5,356	1,066	1,674	486	1,365	na	na	9,948	1.7	2.2	1.0
	All	20,224,788	2,817	597	570	821	270	na	na	5,075	0.9	1.1	0.5
2016	**Q1**	1,842,608	1,463	280	307	237	77	736	703	3,803	0.4	0.6	0.3
	Q2	2,493,384	2,007	516	356	108	85	769	699	4,540	0.6	0.7	0.4
	Q3	5,528,420	2,727	592	480	26	75	763	668	5,331	0.8	0.8	0.4
	Q4	7,448,342	3,417	827	568	12	189	718	652	6,384	1.0	1.0	0.5
	Kiev	2,906,569	6,401	1,858	1,280	0	616	776	1,103	12,032	1.9	1.9	1.0
	All	20,219,323	3,305	823	597	46	196	746	731	6,445	1.0	1.0	0.5

*The most important component of "Other Own" is the category "Own Revenues of Budget Users". This is what is driving up the results for Kyiv.

The change in the structure of COS revenues brought about by the reforms seem to have been accompanied by a general moving up in the world: About 1.2 million fewer people now live in the two poorest quartiles than they did in 2014"

Finally, it is worth noting that there is no clear pattern governing the allocation of either the Education or Health Grants in 2016, and with the exception of the Health Grant in Kyiv, both seem to be allocated on more a less straight per capita and per pupil basis respectively. But as discussed earlier, this requires further analysis because it is hard to explain the differences in the allocation patterns of these grants that we see across levels of governments (e.g. sometimes equalizing, sometimes dis-equalizing and sometimes just flat).

Tables 9 and 10 below explore the relationship between the relative wealth of COS (as measured by their per capita shared taxes) and their expenditures patterns. To do this, the quartiles in the Tables are constructed in the same way as they are in Table 8, but the data contained in them is for expenditures --by economic classification in Table 9 and by functional classification in Table 10. Tables also include expenditures on Social Transfers. In Table 8, and for 2014 they appear in the columns for both Transfers to Individuals and Transfers to Institutions, while in 2016 they are concentrated in the column Transfers to Individuals. The same pattern holds for Table 9, with these Transfers appearing in 2014 in the columns Social Welfare and Housing, and then being concentrated in 2016 only under the heading of Social Welfare. In both cases, this is because of the changes in way the national government chose to channel price support subsidies to utilities. The inclusion of these Transfer Payments on the expenditure side of the ledger explains why the total per capita figures in these tables are higher than those in Table 8, which excluded grants for transfer payments to third parties, be they individuals or firms.

Table 9: COS Expenditure Per Capita, 2014-16, Economic Classification (in Quartiles Ranked by Shared Taxes pc)

Year	Quart.	Pop.	Wages	Utilities and energy	Other Operat.	Transfers to Instit.	Transfers to Individs.	Invest.	Total
2014	Q1	1,901,455	2,169	296	606	357	1,776	252	5,456
	Q2	3,107,618	2,345	328	758	800	1,740	319	6,289
	Q2	5,036,628	2,568	340	780	897	1,731	535	6,850
	Q4	7,310,385	2,421	318	721	878	1,616	550	6,503
	Kiev	2,868,702	3,600	629	1,106	3,804	1,304	2,594	13,036
	Total	20,224,788	2,589	367	785	1,237	1,634	773	7,385
2016	Q1	1,842,608	2,229	402	469	148	2,904	428	6,580
	Q2	2,493,384	2,369	441	678	184	2,716	689	7,077
	Q3	5,528,420	2,361	391	761	458	2,325	1,077	7,373
	Q4	7,448,342	2,154	357	877	785	1,890	1,939	8,001
	Kiev	2,906,569	3,134	463	1,340	1,793	1,411	3,378	11,520
	Total	20,219,323	2,385	396	850	708	2,134	1,618	8,092

Table 9 above confirms what one would expect: That the relative wealth of local governments has general and reasonably consistent effects on their expenditure patterns. Or put more prosaically, the poor spend less, and they tend to spend less everywhere, though Investment spending most clearly and consistently tracks relative wealth. Indeed, the only clear exception to this general rule concerns Transfer to Individuals which in fact follow the opposite logic. But this makes perfect sense when one remembers that these are statutory payments set by the national government and earmarked for poorer households, households which are more likely to be concentrated in jurisdictions with weak tax bases.

Table 10 below again shows more or less what one might expect, but there is more noise in the results. For example, 4th Quartile COS spent less on Education and Health in both 2014 and 2016 than their poorer counterparts in the 2nd and 3rd quartiles, though why this is the case is far from obvious. Nonetheless, spending on Housing, Transport and Communication –which contains most investment—clearly follow the expected pattern in 2016, while the opposite logic associated with Transfer Payments to Individuals can be clearly seen in Social Welfare spending.

Table 10: COS Expenditure Per Capita, Functional Classification 2014-16 (in Quartiles ranked by Shared Taxes pc)

Year	Quart.	Pop.	Admin.	Educat.	Health	Soc. Welf.	Housing, Trans. Com.	Cult. & Sport	Agric. Envir. Funds, Debt	Misc	Total
2014	Q1	1,901,455	271	1,666	850	1,826	558	228	15	42	5,456
	Q2	3,107,618	259	1,870	956	1,798	1,025	289	40	52	6,289
	Q2	5,036,628	260	2,018	974	1,760	1,400	280	43	116	6,850
	Q4	7,310,385	250	1,802	942	1,662	1,194	284	73	295	6,503
	Kiev	2,868,702	375	2,833	2,178	1,486	3,271	993	874	1,026	13,036
	Total	20,224,788	274	1,999	1,119	1,698	1,455	379	169	293	7,385
2016	Q1	1,842,608	277	1,702	943	2,903	448	237	20	49	6,580
	Q2	2,493,384	286	1,875	1,041	2,723	689	270	62	130	7,077
	Q3	5,528,420	276	1,999	1,004	2,311	1,074	298	50	361	7,373
	Q4	7,448,342	300	1,810	960	1,883	1,870	272	40	866	8,001
	Kiev	2,906,569	410	2,770	2,600	1,599	3,025	539	218	359	11,520
	Total	20,219,323	306	1,998	1,216	2,156	1,543	314	69	490	8,092

Finally, and before turning our attention to the newly created AG, it is worth briefly examining the horizontal equity of the unconsolidated gromada. Table 11 below, presents the revenues of gromada in quartiles ranked by per capita revenue from shared taxes --the same as in Tables 6, 7, and 8.

In looking at this Table, however, it is important to remember that our data for gromada already aggregates 11,000 gromada to the rayon level. As a result, our quartiles do not on average contain c. 230 units (=11000/4) but only c. 115 units (=458/4). Or put another way, when we look at this Table on the relative wealth of gromada the units aggregated in the quartiles are exactly the same as those contained in the quartiles of rayons we have looked at earlier (Table 7)[40].

[40] The rank ordering of these 458 units –and with it the composition of the quartiles—differs when we look at them as rayons and when we look them as (458 groups of) gromada, precisely because while the grouping are the same, they are living off very different income streams.

Once this is borne in mind, the data in the Table is striking. What we see is that there is much greater variation in the relative wealth of gromada across rayons, than there is across rayons themselves. Thus, the total per capita revenue of the poorest quartile of gromada in 2014 was 37% of the total per capita revenue of the richest quartile. But when these same quartiles are looked at as rayons, the total per capita revenue of the poorest quartile rayons in 2014 was actually 109% of the richest quartile because the old-gap filling equalization grant was strongly equalizing at the rayon level, and because equalization at the gromada level was extremely weak.

In 2016, the deterioration of equalization at the rayon level reduces the share of the total per capita revenues of the 1st quartile to those of the 4th to 81%. But at the gromada level there is still no equalization, so the total per capita revenues of the poorest quartile of gromada to the richest is still only 34% in 2016, and actually worse than in 2014.

In short, not only is there much more variation in the total per capita revenue of gromada, than there is for any other level of government, but there is much more variation at the gromada level than there is at the rayon level even though the populations and the territories being covered by the data are identical. This much sharper differentiation of richer and poorer gromada is important to bear in mind when we think about both amalgamation as process, and the new AGs, whose finances we will turn to in a moment.

Table 11: Unconsolidated Gromada Revenue Per Capita 2014-16 (in Quartiles ranked by Shared Taxes pc)

Year	Quartile	**Population**	**Shared Taxes**	**Land & Property taxes**	**Rent**	**Other Own Revenue**	**Equaliz.**	**Other Subsid. & Invest. Grants**	**Total**	**% of total to 4th**
2014	Q1	5,445,246	314	31	127	89	15	29	606	**0.37**
	Q2	4,155,940	450	47	258	105	8	37	905	**0.56**
	Q3	4,364,099	571	56	265	108	14	45	1,059	**0.65**
	Q4	4,523,725	948	97	376	131	14	65	1,631	**1.00**
	Total	**18,489,010**	**560**	**57**	**250**	**108**	**13**	**43**	**1,031**	**0.63**
2016	Q1	4,693,157	338	72	145	72	3	39	669	**0.34**
	Q2	4,226,795	534	119	265	158	2	43	1,121	**0.57**
	Q3	4,003,397	678	128	363	89	0	43	1,301	**0.66**
	Q4	3,948,470	1,048	209	463	158	1	97	1,976	**1.00**
	Total	**16,871,819**	**634**	**129**	**301**	**118**	**2**	**55**	**1,238**	**0.63**

But before doing so it is worth pausing to consider what is driving the radical differences in the relative wealth of gromada. Here, two types of revenue standout, revenue from shared taxes and own revenues from land rents. It is also worth remembering that the composition of shared taxes at the gromada level changes substantially between 2014 and 2016: In 2014, Shared Taxes consisted of 25% of the yield of each rayon's 75% PIT share as well the Single Tax. In 2016, however, the Single Tax remained but the PIT Share was replaced by a 5% share of "local" excise taxes (see Table 5). Moreover, it was as much the sharp rise in the yield of the Single Tax that kept gromada treading water in 2016, as it was the yield of the new share of local excise taxes.

III. Amalgamated Gromada (AGs) and the Amalgamation Process

In 2016, 159 AGs began functioning as independent units of local governments. They were formed in 2015 through the voluntary consolidation of about 1000 villages and small towns. A total of 1.38 million people lived in the new AGs in 2016, or about 8% of the population living outside of COS (16. 9 million). Since 2016, another 489 hromada have been created, some of which will only begin to function with the beginning of the 2018 budget year. Taken together then, there will soon be 648 AGs with a total population of 5.8 million or 31% of the population living outside COS.

This is an impressive achievement in two years. But much of the job remains to be done, and given that those gromada that wanted to amalgamate have probably done so already, it is likely that the pace of the of voluntary amalgamation will slow down. Indeed, without some rule that requires all gromada to eventually consolidate, it is quite possible that a significant number of them will refuse to amalgamate.

On average, the new (159) AG have about 8,700 inhabitants[41]. But they range in population from 1,600 to 44,000 inhabitants. Moreover, 25% of them have 4,000 residents or less, and 94 of them have no central town or economic center. The small size of many AGs, and fact that almost 60% of them are composed only of rural settlements raises questions about their fiscal and economic sustainability, an issue that we return to later.

The basic composition of AG revenues now look much more like those of COS, than the rayons which they will to a large degree replace, or the unamalgamated gromada from which they come.

Table 6 below, shows the composition of AG revenue in billions of UAH, and as a share of total revenue in 2016. As can be seen from the table, AGs derived about 13% of their revenue from own-sources, 38% from shared-taxes, 25% from the Education Grant and another 15% from Other Subsidies and Investment Grants. In 2016, this last share was three times what it was for villages, more than 15 times what it was for rayons, and more than seven times what it was for COS. The high share of monies going to AGs through Other Subsidies and Investment Grants indicates that the national government is providing gromada which decide to consolidate with significant money to “set themselves-up”. This is understandable. But it will become problematic

[41] Because none of AGs constituted after 2015 have functioned for a full budget year –and some of them have yet to start functioning at all, the financial analysis that follows covers only the first 159 gromada. But the AGs created after 2016 are slightly more populous, and the average population of all AGs is has gone up for 8700 (159) to 8900 (413).

if going forward the new AGs are not fiscally viable without these additional subsidies. We will return to this issue again when we examine the per capita distribution of revenues and expenditures across AGs. As planned, even with this large a share of Other Subsidies and Investment Grants, the basic composition of AG revenues now look more like those of COS, than of either the rayons which they replace, or the gromada from which they are constituted.

Table 12: AG Revenues in 2016

	Bln UAH	**% Total**
Land & Property Taxes	0.2	3%
Rent	0.4	6%
Asset revenue & Other Charges	0.1	1%
Own revenues of Budget Users	0.2	3%
Income tax	1.7	25%
Excise tax	0.4	5%
Single tax	0.4	6%
Environmental fees	0.1	2%
Equalization & Stabilization Grants	0.3	4%
Social Welfare Subventions	0.1	1%
Education Grant	1.7	24%
Health Grant	0.3	4%
Housing Subsidy	0.1	1%
Other Subsidies & Investment Grants	1.0	15%
Total	**7.1**	**100%**

Table 13 below shows the composition of AG expenditures by economic classification in both billion UAH and as a share of total expenditure. Two aspects of the table are striking. The first is that 27% of total AG expenditure went towards capital improvements. This is a healthy

27% of total AG expenditure went towards capital improvements. This is a healthy investment rate, and indeed higher than COS (19%).

investment rate, and indeed higher than COS (19%). The second is that AGs ran a year-end surplus equal to 15% of their total expenditures, the highest of any level of local government.

Table 13: The Composition of AG Expenditures by Economic Classification in 2016

	Wages	**Utilities & Energy**	**Other operating costs**	**Subsidies to institutions**	**Transfers to individuals**	**Capital Expenditure**	**Surplus**	**Total**
Bln UAH	2.6	0.3	0.8	0.2	0.2	1.9	1.0	7.1
% of Total	37%	5%	11%	3%	3%	27%	15%	100%

The fact that new AGs ran a surplus is perhaps not particularly surprising. After all, AG officials had no prior experience with their budgets and prudence probably inclined them towards caution. They also had no time to plan their investments and it is entirely possible that they have not been able to fully utilize the national government grants that they have been receiving. Nonetheless, their level of investment spending suggests that in general their overall financial position is reasonably strong, and by design, much stronger than that of either rayons or unconsolidated gromada.

Their level of investment spending by AG suggests that in general their overall financial position is reasonably strong, and by design, much stronger than that of either rayons or unconsolidated gromada"

Unlike rayons and COS, very little of AG expenditure goes to Transfer Payments to Individuals. Or put another way, the national government does not seem to have made them responsible for making Social Welfare payments to poorer households, and these functions are still being performed for AG by rayons. It is unclear to us whether this reflects a policy decision or some technical or first-year difficulty involved in transferring this responsibility to them. Looking ahead, however, there seems little reason for AGs not to perform these payment functions on behalf of the national government.

Table 8 below presents the expenditures of AG by functional classification in billions of UAH and as shares of total expenditure. As can be seen from the Table, education is the single most important and costly AG expenditure, amounting to 40% of total spending in 2016. Spending on Public Administration as a share of total expenditure (8%) is high relative to Oblasts, Rayons and COS (negligible), but low relative to Villages (25%). Unfortunately, without more granular information about the revenue and employment patterns of AGs, however, it is difficult to say whether the apparent gains in administrative efficiency are real, or what their magnitudes might be.

Table 14: The Composition of AG Expenditure by Functional Classification in 2016

	Bln UAH	**% Total**
Public Administration	0.60	8%
Education	2.82	40%
Health Care	0.33	5%
Social Welfare	0.27	4%
Housing and Municipal Economy	0.54	8%
Culture, Art & Sports	0.36	5%
Construction	0.52	7%
Transport & Communication	0.39	5%
Other	0.21	3%
Surplus	1.03	15%
Total	7.06	100%

The relatively high shares of spending going to Housing and the Municipal Economy, Transport and Construction reflect the high level of investment spending discussed above. The relatively low share of spending on Health Care suggests that only ambulatory health clinics –not hospitals—have been devolved to new AGs.

Table 15 below presents the composition of AG revenues in quartiles ranked by per capita shared taxes. As can be seen from the Table, the population contained in the 1st quartile is about 100,000 less than that contained in each of the other quartiles. This means that the average size of gromada in the 1st quartile is about 6500 people while those of the others are have about 9,400. The Own Revenues of the 1st quartile are significantly less than those of all other quartiles as one might expect. Indeed, the differences between the quartiles with respect to Own Revenue resemble those of villages themselves.

Table 15: AG Revenue Per Capita (in Quartiles ranked by Shared Taxes)

Quartile	Population	Shared Taxes	Land & Property Taxes	Rent	Other Own	Equaliz.	Other Subsid & Investment grants	Education Grant	Health Grant	Total	Total as % of 4th
Q1	260,213	593	84	113	61	456	739	1,453	249	3,748	**0.53**
Q2	375,250	1,163	94	221	107	308	739	1,340	191	4,164	**0.59**
Q3	377,947	1,723	145	308	122	139	804	1,081	189	4,511	**0.64**
Q4	372,637	3,848	186	490	502	42	706	1,079	237	7,091	**1.00**
Total	**1,386,047**	**1,931**	**131**	**297**	**209**	**218**	**748**	**1,220**	**214**	**4,967**	**0.70**

What is more surprising, however, are the much larger differences between quartiles with respect to revenue from shared taxes: The first three quartiles are all separated from each other by about 500 UAH, while the 4th has double the amount of the third. This massive increase in revenue from shared taxes sets the 4th quartile apart from the rest. So much so that even though the Equalization System is providing at least the 1st two quartiles with significant additional monies (and the allocation of both the Education and Health Grants seem to favor poorer, almost certainly more rural AGs[42]) the total revenue of the 1st quartile is only 53% of the 4th, while those of the 2nd and the 3rd quartile are only 59% and 64% (respectively) of the 4th. Or put another way, except for (unconsolidated) gromada both the distance between the 1st and 4th quartiles, as well as between the 3rd and the 4th, is greater for AGs than for all other levels of government – including COS[43].

What this suggests is that the current pattern of amalgamation is leading to the sorting-out of a group of gromada who have significantly higher PIT revenues than the rest, creating islands of relative prosperity in a sea of poorer jurisdictions. To be sure, the Equalization Grant is working to flatten out these differences, which is good. But the more this pattern predominates the more

[42] The Education Grant probably allocates more funding to smaller, poorer AGs because the formula governing it includes measures designed to compensate jurisdictions that have schools with particularly small classes. So here, rurality, and small jurisdictional size correlate strongly with poverty.

the equalization system will cost going forward, and the larger the number of AGs who cannot really sustain themselves is likely to be[44].

There are many different social forces that can encourage this kind of sorting among jurisdictions that are being asked to consolidate. Poorer, rural and less densely populated jurisdictions often resist amalgamating with nearby towns because they are afraid that that their (political) interests will be ignored (or voted down) by the more numerous urban residents. Meanwhile, urban centers that have relatively high levels of official employment have strong economic incentives to cut themselves off from the rural gromada that surround them: As separate jurisdictions, the PIT revenue of small towns will be retained entirely be them and less of it will have to be spent providing services to others.

In short, so long as amalgamation is unconstrained by some clear administrative principles, the economic self-interest of the better-off combined with the political fears of the rural poor are likely to strongly encourage self-segregation. To be sure, in many areas of country the number of small town and urbans settlements maybe so small that that poorer rural settlements can only amalgamate with themselves. Nonetheless, this tendency to sort by existing relative wealth should be avoided to the greatest possible degree, precisely because it will reproduce the existing pattern of economic development and provide few incentives for small towns to grow with their neighbors[45]. It will also put more and more pressure on the equalization system in general, and on the provision of more special subsidies to individual jurisdictions

The additional principles governing the amalgamation process should be designed to discourage this kind of dysfunctional self-sorting. One rule that would help here, would be to require all gromada that share a border with a small town to belong to the AG that contains that town (unless the gromada in question is equally close to some another small town with --or without-- whom it may share a common border. Others might discourage the formation of AGs that lack certain basic infrastructure, and that are below a certain minimum population.

In this context, it is also important to understand that the particular way PIT is shared with local governments in Ukraine intensifies the more general pressure that PIT-sharing creates for self-segregation during the amalgamation process. In Ukraine, PIT is shared not on the basis of where employees live –as it is in most of the EU and North America-- but on the basis of the location of the enterprises in which they work. This means that the PIT-shares of people who commute to work in other jurisdictions go not to the budgets of the communities in which they live, but to the budgets of the towns in which they work. This is clearly unfair. But it also creates very strong

[44] It is also worth noting that the allocation of Other Subsidies and Investment Grants is flat across quartiles, meaning that the national government is treating all new AGs more or less equally when it comes to special funding. This is probably not the most efficient way to use scarce funding. But it would be worse if large amounts of special assistance was being given to support the formation AGs that are fundamentally not sustainable.

[45] For example, small town AG may well try to restrict the access of rural children to "their schools" or once in treat them as second class citizens.

and perverse incentives for gromada that contain area wide employers to try to separate themselves out from their neighbors[46].

Table 16 below, presents the per capita expenditures of AG by economic classification in quartiles ranked by shared taxes. Again, spending across the first three quartiles is relatively flat across the first three quartiles for virtually all categories of expenditure. But there are very significant differences between the 4th quartile and the rest, underscoring on the expenditure side the consequences of self-sorting that we have seen on the revenue side. Particularly striking in this respect is the fact that the 4th quartile is doing twice as much investment as all others, and is running a year-end surplus 3 to 5 time higher than the rest.

Table 16: AG Expenditure Per Capita, Economic Classification (in Quartiles ranked by Shared Taxes)

Quartile	Population	Wages	Utilities & Energy	Other Operating	Transfers to Instits.	Transfers to individs.	Capital	Surplus	Total	Total as % of 4th
Q1	260,213	1,860	201	319	10	17	1,042	300	3,749	**0.50**
Q2	375,250	1,837	241	497	54	27	1,012	497	4,165	**0.55**
Q3	377,947	1,934	261	565	131	31	1,204	387	4,511	**0.60**
Q4	372,637	1,821	285	825	337	507	2,112	1,663	7,548	**1.00**
Total	**1,386,047**	**1,863**	**251**	**570**	**143**	**155**	**1,366**	**743**	**5,091**	**0.67**

Table 17 below, presents the per capita expenditures of AG by functional classification in quartiles ranked by shared taxes. Not surprisingly, the same basic pattern is at work, with the 4th quartile spending significantly more on almost all categories of expenditure than the first three, with the one exception of Health. Why this is the case is unclear.

Table 17: AG Expenditure Per Capita, Functional Classification (in Quartiles ranked by Shared Taxes)

Quartile	Pop.	Admini.	Education	Health	Soc. Welfare	Housing, Trans, Comm	Culture & Sports	Misc	Surplus	Total	Total as % of 4th
Q1	260,213	340	1,973	231	29	604	198	75	300	3,749	**50%**
Q2	375,250	322	1,888	222	85	780	263	109	497	4,165	**55%**
Q3	377,947	424	1,984	285	72	981	278	99	387	4,511	**60%**
Q4	372,637	608	2,264	203	558	1,666	282	305	1,663	7,548	**100%**
Total	**1,386,047**	**430**	**2,031**	**236**	**198**	**1,040**	**260**	**153**	**743**	**5,091**	**67%**

[46] These perverse incentives are not limited to AG per se and can help block the incorporation of rural areas

But it is not because the AGs in the 4^{th} quartile lack the funds: Despite receiving 30% less money (per capita) for education through the education grant than the first two quartiles, AGs spend at least 10% more (per capita) on education than their counter parts elsewhere. As with other levels of government, the higher investment spending of the 4^{th} quartile of AGs can be seen in the higher levels of spending on Housing, Transport, and Communication.

IV. Conclusion

The last three years have seen the beginnings of important structural shifts in the organization and financing of Ukraine's system of local governance. Most importantly, power, money, and responsibility have been moved from oblasts to COS, while AGs have begun to consolidate the functions, resources and powers of both villages and rayons. At the same time, plans have emerged to create a single payer health care system which if enacted will remove from all levels of local governments (primary) responsibility for financing the costs of medical services of the health care system, while the maintenance and capital investment, as well as ownership and as such creditor of last resort, remains with local governments. Taken together, these changes hold the promise of profoundly improving the governance of Ukraine's public sector by assigning responsibilities to those levels of (fully) democratic government best equipped to manage and finance them: Responsibility for schools and most day-to-day public services would belong to reasonably sized and reasonably financed 1st tier governments (COS and AGs) while the national government would become the principal agent responsible for restructuring Ukraine's overbuilt, ineffective and inefficient health care system.

Worse, efforts to put in place the legal framework necessary to realize anything like it have been repeatedly frustrated by the inability to push through critical pieces of framework legislation: For at least a decade, efforts to amend the constitution to allow for the democratic election of oblast and rayon authorities have failed. Similarly, and probably of greater importance now there is no deadline for voluntary stage of amalgamation. And most recently, the package of health care reforms that the Ministry of Health has designed to put in place the scaffolding necessary for a single-payer system have stalled.

All this has understandably led to frustration. It has also led to improvisation, most importantly by trying to use changes in the intergovernmental finance system to advance an agenda that nonetheless still requires a clear legal foundation. To their credit, this strategy has allowed reformers to maintain critically needed momentum, momentum which has produced important structural shifts in Ukraine's public sector and in the organization, financing and competencies of its local governments.

But improvised frustration, has also come with costs and potentially crippling dangers. Two stand out in particular. The first consists of allowing the formation of AGs that will be unsustainable over the long term, or at least unsustainable without substantial amounts of additional financial support. This support that will be hard to come under all circumstances. But it will be particularly difficult to find if it has to be provided during a long period of jurisdictional consolidation in which the national government is simultaneously bailing out gromada (and rayons) that resist consolidation, and propping-up AGs that can't make it "on their own". In short, unless the amalgamation process is accelerated and improved to prevent the formation of as few dysfunctional units as possible, it is entirely possible that it will that it will stall and collapse under its own weight. [47]

The other serious problem lies in the way the reforms are being communicated. Almost all efforts to explain the reforms do so in entirely financial terms. This is problematic because as we have seen it is not true for all levels of government, and because the anticipated reform of the health care system will likely require the reductions in the current transfer system.

It is also worth noting that the substantial reduction in the power of both oblasts and rayons may make the creation of democratically elected executive authorities for these levels of government significantly less important than before. Indeed, at this point, creating democratically elected executives at the oblast and rayon levels is probably secondary to the achievement of other objectives like consolidating gromada, moving ahead with heath care reform and parsing responsibilities for pre-tertiary education between COS and AGs on the one hand, and whatever will remain of oblasts and rayon on the other.

As we have seen, the 2015 reforms produced winners and losers across level of government in Ukraine. At the same time, however, inflation, and the temporary freezing of public sector wages masked what was going. So much so, that few understood the degree to which the strengthening of COS and AGs was coming at the expense of oblasts, rayons and unconsolidated gromada. Indeed, the investment boom that was felt everywhere and financed largely by the devaluation of public sector wages almost certainly muted oblast and rayon protests over their loss of power, status, and money.

Increases in the cost of living led the national government to raise statutory pay rates in 2017, and to increase the amount of funding allocated to local governments through the Health and Education Grants.

Unfortunately, it is too early to determine whether the expansion of the Health and Education Grants will be sufficient to cover the rise in statutory wages. But past practice and the experience of other countries strongly suggests that the expansion of the health and education grants will not be sufficient to cover the wages increases that local governments will now have to pay. It is also likely, that the shortfalls will have significantly different financial impacts on local governments of different types and characteristics, intensifying old issues about the equity and efficiency of the formulas used to allocate the grants.

At the same time, and more importantly, the likelihood that local governments will have to cover some of the wage increases mandated by the national government from their general revenues

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[47]We raise this objection to the current process of voluntary consolidation less as a criticism of reformers' tactical decisions than as a warning of what may happen if the GoU can't move faster towards passing the legislation needed to clarify its strategic intent In our view, the three most important strategic intentions that need to be resolved legislatively are: The speed and minimum requirements of consolidation; the parsing of managerial and financial responsibilities for different levels and types (e.g. Voc. Ed.) of pre-tertiary education between COS and AGs on the one hand, and what should be left of oblasts and rayons on the other; and moving towards a single insurance pool model of health care reform financed at the national level delivered locally by private and public health care providers operating on a contract basis.

will almost certainly dampen the investment boom of the last few years[48]. These financial loses will be felt by all levels of government, but particularly by oblasts, rayons and gromada, who will understand as never before their precariousness of their situations. And they will fight back, demanding –in the name of "decentralization" -- more money. Moreover, it is entirely possible that these demands will be supported by the politically more powerful COS, precisely because "decentralization" has become identified with the idea that the national government is simply not providing local governments with the funding they need to do deliver the services they have been made responsible for.

Unfortunately, while there are always places and functions that can legitimately be shown to be underfunded, this is simply not the major problem facing local government reform in Ukraine today: Rather, the major problem lies in ensuring that the money that is available, is more efficiently and effectively used by all levels of government. By concentrating responsibility for most day-to-day public services at the COS and AG levels the reforms aim to clarify who should really be responsible for what in the expectation that once this is done, municipalized governments will prove capable of both maintaining and improving basic public services and restructuring Ukraine's extremely inefficient school system. And by recentralizing the financial foundations of the health care system, the reforms acknowledge that the insurance aspect of health care financing require centralization, while placing the burden of restructuring the country's overbuilt and increasingly ineffective hospital system will fall primarily on the shoulders of the national government.

This all makes good sense but the clock is ticking on amalgamation, and unless Ukraine's political elites can agree on a way to move forward with it quickly and forcefully, the reforms could well founder mid-stream.

[48] A caveat is in order here: Because of the economic turbulence (inflation, GDP decline and then growth) of the last few years it is not entirely clear what the true financial value of the tax shares that the national government (re)assigned to local governments in 2015. As such it is possible that at least for some levels of local government that the yield of these shares will be robust enough to absorb much of the shock of the (delayed) wage increases. But this is an optimistic scenario.

Annex 1: Methodological Treatment of the Data

This Annex outlines the methodological approach used to clean and consolidate the population, jurisdictional and financial data used in the report. All the financial data derive from the GoU's Treasury System. This system records the complete revenues and expenditures of all public institutions, including those of local governments in accordance with Ukraine's budget classification. Each local government has its own unique treasury code indicating its type (oblast, city, rayon, hromada or AG) and oblast. Revenue data was provided in accordance with the economic classification. Expenditure data was "cross-walked" between both functional and economic classifications.

The 2014 revenue file was extracted and compiled from two files received from MoF - one for 12 months and one for 11 months. The 12-month file consolidates all village and rayon to the rayon level. The 11-month file contained data for individual villages and for individual rayon administrations, as well as village and rayon data consolidated at the rayon level. The 12-month file for 2014 was used for cities and oblasts, and rayon totals. The 11-month file was used to split the 12 month rayon totals between rayons and consolidated villages. Thus, it is possilbe that the 2014 revenue date may have minor discrepancies in division revenues between villages and rayons due to the assumptions used to estimate the f final values.

Treasury system data was not consistent from year-to-year. Some of these inconsistencies were the result of changes in the number and types of local governments. Others concerned the classification of local government revenues and expenditures, and the estimations of their populations. War and occupation were responsible for some of the changes with respect to the number of jurisdictions and their population estimates. Reform and government decisions were responsible for changes in the classification of local government revenue and expenditures, as well as for other changes in the number and population of jurisdictions, including the formation of AGs, the creation of a few new COS, and the continued existence of rayons that have no recorded populations –because these are now fully attributed to AGs—but still have revenues and expenditures.

Number and Population of Local Governments

To ensure the commensurability of the data over the entire period, data for Crimea, Sevastopol and the occupied areas of the Donetsk and Lugansk Oblasts were removed from the files and the populations of these oblasts adjusted accordingly. The cities and rayons eliminated from the analysis are:

Code	Jurisdiction	Code	Jurisdiction
Donetska oblast		**Luganska Oblast**	
05201000000	m. Donets'k	12201000000	m. Lugans'k
05202000000	m. Avdiïvka	12202000000	m. Alchevs'k
05205000000	m. Gorlivki	12203000000	m. Antratsit
05206000000	m. Debal'tseve	12204000000	m. Bryanki

05210000000	m. Dokuchaєvs'k	12205000000	m. Kirovs'k
05212000000	m. Єnakiєve	12206000000	m. KHrustal'nij
05213000000	m. ZHdanivka	12207000000	m. Sorokine
05214000000	m. Kirovs'ke	12209000000	m. Pervomajs'k
05219000000	m. Makiïvka	12210000000	m. Roven'ki
05224000000	m. Snizhne	12212000000	m. Dovzhans'k
05225000000	m. Torez	12214000000	m. Kadiïvka
05226000000	m. KHartsiz'k	12301000000	Antratsitivs'kij r-n
05227000000	m. SHakhtars'k	12304000000	Sorokins'kij r-n
05228000000	m. YAsinuvata	12306000000	Lutugins'kij r-n
05301000000	Amvrosiïvs'kij r-n	12309000000	Novoajdars'kij r-n
05302000000	Bakhmuts'kij r-n	12311000000	Pereval's'kij r-n
05304000000	Volnovas'kij r-n	12312000000	Popasnyans'kij r-n
05309000000	Mar`ïns'kij r-n	12314000000	Slov'yanoserbs'kij r-n
05310000000	Novoazovs'kij r-n	12315000000	Stanichno-Lugans'kij r-n
05314000000	Starobeshivs'kij r-n		
05315000000	Tel'manivs'kij r-n		
05316000000	SHakhtars'kij r-n		
05317000000	YAsinuvats'kij r-n		

In 2016, the government also adjusted its estimates of the population of different cities and rayons across the country. As a result, the total population numbers for 2016, including AG, are lower than those for 2014 and 2015. The estimated population of Kyiv however, increased by 100,000 in 2016 because of assessments concerning internally displaced people.

The data also required adjustments for the creation of a handful of new COS in both 2015 and 2016, as well the creation of 159 new AGs in 2016. In 2015, Oblasts 9 and 25 saw the creation of new cities -- Burshtin and Novgorod – Siverskij. In 2016, new COS's were created in Oblast 16 – Gadyach— and Oblast 19 --Berezhani and Kremenets'-- while Oblast 5 saw the transformation of COS Krasniy Liman into AG Liman.

Taken together, all this means that there is not a perfect correspondence for the number of jurisdictions or their populations over the entire period. For example, in the 2016 data, there are four rayons that still have revenues and expenditures, but whose populations are now recorded in the AGs that replaced them.

Consolidation of jurisdictions – local governments

The consolidation of local government finance data was approached in the same way for both revenues and expenditure in order to have comparable data sets. This required removing transfers between levels of local government from the revenue files we received, because these transfers had (correctly) already been removed from the expenditure files.

Oblast data contains only the revenues and expenditures of oblast administrations. For the purposes of this analyses, we have not consolidated to the oblast level the revenues and expenditures of all local governments operating within a given oblast. COS data was of two types: COS that are single units and COS that have attached gromada. For the cities with gromada the data was consolidated, and the consolidated city data was used for the analysis.

Rayon data contains only the revenue and expenditure of rayon administrations --without gromada'. The data for (unconsolidated) gromada, we however consolidated at the rayon level.

Revenues

The revenues and expenditures of local governments in Ukraine are divided into two funds, a freely disposable – General Fund (GF) --c. 93% of all monies-- and a Special Fund (SF) –c. 7 % of all monies-- whose revenues are earmarked for particular purposes. Decisions about which revenues should be considered part of the Special fund and for what purposes they should be used are made an annual basis by the Ukraine Government.

The SF contains a wide range of revenues, including local taxes, fees and charges, shared fees and charges, investment grants and the own revenues of budget users. In 2014, the Special fund contained 64 different revenues, in 2015, 35 and in 2016, 41. While there are good reasons to earmark some revenues (e.g. environmental fees, investment grant) the construct of the Special Fund reduces local government discretion and makes the entire intergovernmental finance system less transparent, predictable, and accountable than it would be without it.

For the purposes of the report the division between the two funds was ignored in order to present a synthetic picture of local government finances according to the main analytical categories typically used in such analyses (own revenues, shared taxes and fees, freely disposable general grants, sectoral block grants, investment grants and subsidies. Maintaining the division of the funds would both distort these more basic categories and render them as volatile as the annual decisions about the composition of the Special Fund[49].

Data on transfers between levels of local government that were included in the revenue files we recieved from MoF, but which were already netted out of the expenditure files, were contained in following codes:

- 41010600 - Funds coming from rayon and city (cities of Kyiv and Sevastopol, cities of republican and oblast significance) budgets from city (towns of rayon significance), towns, villages and rayons in city budgets
- 41020300 - Equalization derived from district and city (cities of Kyiv and Sevastopol, cities of republican and regional significance) budget
- 41035600 - Subvention to conduct local expenditures that are not included in the determination of intergovernmental transfers
- 41035200 - Subvention to conduct local spending accounted for when determining the amount of intergovernmental transfers

[49] Even for control purposes, there are probably better ways to monitor the use of earmarked revenues than dividing the budget into two funds. It is also questionable whether the national government should be earmarking what are otherwise (legally) considered freely disposable own revenues.

- 41010900 - Funds received by mutual settlements between local budgets
- 41020900 - Other additional subsidies
- 41030300 - Subvention for the maintenance of joint use objects or elimination of the negative effects of joint use objects
- 41030400 - Subventions from other budgets for investment projects
- 41035000 - Other subventions
- 41035200 - Subvention balance of educational subventions from the state budget to local budgets, which was formed at the beginning of the budget period
- 41035300 - Subvention balance of medical subvention from state budget to local budgets, which was formed at the beginning of the budget period

We eliminated revenue from these codes to ensure that revenue and expenditure data was commensurable across years. The way we consolidated specific revenue lines into the broader categories used in the report is present in Annex 2. For the analysis of quartiles, revenues were further consolidated analyses into following categories:

Shared taxes, including:

- Income tax
- Corporate income tax
- Single tax
- Excise tax
- Environmental fees and concessions

Own revenues, including:

- Land and property taxes
- Rents
- Asset Revenue, Other Fees and Charges
- Own Revenue of Budget Users

Other Subsidies and Investment grants were usually grouped together.

Expenditures

Expenditure data was organized by functional category, and within each function by economic code. Two types of consolidation were made to make usable data sets. 18 functional categories were merged to create 14 categories, as presented in the below table:

Functional category	Merged with
010000 Public administration	010000 Public administration
060000 Law enforcement and Security	250000 Expenses not under other groups
070000 Education	070000 Education
080000 Health Care	080000 Health Care
090000 Social care	090000 Social care
100000 Housing and Municipal Economy	100000 Housing and Municipal Economy
110000 Culture and Art	110000 Culture and Art
120000 Mass media	250000 Expenses not under other groups
130000 Sports	130000 Sports
150000 Construction	150000 Construction

160000 Agriculture, forest, fish and hunting	160000 Agriculture, forest, fish and hunting
170000 Transport, roads, communication, IT	170000 Transport, roads, communication, IT
180000 Other services connected to economic activity	250000 Expenses not under other groups
200000 Environment and nuclear safety	210000 Prevention and liquidation of emergency situations and natural disaster consequences
210000 Prevention and liquidation of emergency situations and natural disaster consequences	210000 Prevention and liquidation of emergency situations and natural disaster consequences
230000 Debt service	230000 Debt service
240000 Target funds	240000 Target funds
250000 Expenses not under other groups	250000 Expenses not under other groups

For the quartile analysis, expenditures were further consolidated as follows:

- Culture and Arts was merged with Sports
- Housing and Municipal Economy, and Construction, were merged with Transport, Roads, Communication and Informatization
- Agriculture, Forestry, Fishing and Hunting, Debt service, and Target funds were merged with Expenses not under other groups – except for cities level analyses.

Economic codes were consolidated as follows:

Debt service:

- 2240 Payment for services (except utilities)
- 2410 Service of internal debt
- 2420 Service of external debt

Debt service for all functions (which remains minimal) was then consolidated into a single category (and deducted from the total expenditures of each function).

Remuneration and Charges on Wages:

- 2120 Remuneration
- 2120 Charges on wages

Utilities and Energy:

- 2270 Utilities and Energy

Other Operating Costs:

- 2210 Items, materials, equipment and inventory
- 2220 Medications and dressings
- 2230 Food
- 2240 Payment for services (except utilities)
- 2250 Expenditure on travel
- 2280 Research and development, some measures on realization of state (regional) programs
- 2800 Other operating expenditure
- 9000 Unallocated costs

Subsidies and current transfers to enterprises (institutions, organizations):

- 2610 Subsidies and current transfers to enterprises (institutions, organizations)
- 2620 Current transfer to other levels of government

- 2630 Current transfers to foreign governments and international organizations

Transfers to individuals:

- 2710 The payment of pensions
- 2720 Stipends
- 2730 Payment of benefits to the population

Capital Expenditures:

- 3110 Purchase of equipment and durable goods
- 3130 Capital repairs
- 3140 Renovation and restoration
- 3120 Capital construction (purchase)
- 3160 Land acquisition and intangible assets
- 3210 Capital transfers to enterprises (institutions, organizations)
- 3240 Capital transfers to population
- 3220 Capital transfers to other levels of government

Annex 2: Consolidation of Revenues, including across General and Special Funds

Local government revenues were consolidated according to the following table, including consolidation across funds. GF notes a revenue is part of General Fund, and SF notes a revenue that was included in the Special Fund in a given year. NA indicated that in a given year that revenue category did not exist.

No.	Name of revenue	2014	2015	2016
Income tax				
1	11010100 - Income tax paid by tax agents of the income of the taxpayer in the form of wages	GF	GF	GF
2	11010200 - Personal Income tax on salaries, gratuities and other benefits received by military personnel, payable by tax agents	GF	GF	GF
3	11010300 - Personal Income tax on incomes in the form of miners' wages	GF	GF	NA
4	11010400 - Personal Income tax paid by tax agents of the income of the taxpayer other than wages	GF	GF	GF
5	11010500 - Personal Income tax paid by individuals on the results of the annual tax declaration	GF	GF	GF
6	11010600 - Fixed personal income tax on business activity accrued before January 1, 2012	GF	GF	GF
7	11010700 - Income amounts of the restructured debt on personal income tax	GF	GF	GF
8	11010800 - Personal Income tax on incomes as interest	GF	GF	
9	11010900 - Personal income tax of pensions or lifetime monthly allowance paid (transferred) under the Tax Code of Ukraine	GF	GF	GF
Corporate income tax				
10	11020200 - Corporate income tax on companies and financial institutions in municipal property	GF	GF	GF
11	11020300 - Corporate income tax from the companies, created with the participation of foreign investors	NA	GF	GF
12	11020400 - Income tax on casinos, video rentals, gaming machines, concert and entertainment events	NA	GF	GF
13	11020500 - Corporate Income tax of foreign entities	NA	GF	GF
14	11020600 - Corporate Income tax of banking organizations, including branches of similar organizations located on the territory of Ukraine	NA	GF	GF
15	11020700 - Corporate Income tax of insurance companies, including subsidiaries of similar organizations located on the territory of Ukraine	NA	GF	GF
16	11020900 - Corporate Income tax of organizations and enterprises of consumer cooperatives, cooperatives and associations	NA	GF	GF
17	11021000 - Corporate Income tax of private enterprises	NA	GF	GF
18	11021100 - Other taxable income	NA	GF	GF
19	11021300 - Restructured amount of debt of income tax of enterprises and organizations	NA	GF	GF
20	11021400 – Income from corporate income tax received from the implementation of innovative projects	NA	GF	NA
21	11021500 - Income tax provided by downward coefficient of 0.8 to depreciation rates	NA	GF	NA

22	11021600 - Corporate Income tax of financial institutions, including branches of similar organizations located on the territory of Ukraine, except insurance organizations	NA	GF	GF
23	11023200 - Advance instalments from corporate income tax and utility companies	GF	NA	NA
Excise tax				
24	14040000 - Excise tax on realization by business entities of retail excise goods		GF	GF
25	14020200 - Distilled beverages	GF	NA	NA
26	14020300 - Wine production	GF	NA	NA
27	14020400 - Beer	GF	NA	NA
Single tax				
28	18050100 - Single tax from legal entities charged before January 1, 2011	SF	GF	GF
29	18050200 - Single tax from individuals charged before January 1, 2011	SF	GF	GF
30	18050300 - Single tax from legal entities	SF	GF	GF
31	18050400 - Single tax from individuals	SF	GF	GF
32	18050500 - Single tax from agricultural producers, whose share of agricultural commodity production for the previous tax (reporting) year equals or exceeds 75 percent	NA	GF	GF
Environmental fees and concessions				
33	13010100 - Rent for special use of forest resources of the wood harvested in the order of final felling	Gf	GF	GF
34	13010200 - Rent for special use of forest resources (excluding rent for special use forest resources of the wood harvested in the order of final felling)	GF	GF	GF
35	13010300 – Proceeds of the restructured debt amounts of rent for special use of forest resources	NA	GF	GF
36	13020100 - Rent for special use of water (except rent for special use of water of water objects of local significance)	GF	GF	GF
37	13020200 - Rent for special use of water of water objects of local significance	GF	GF	GF
38	13020300 - Rent for special use of water for hydropower	GF	GF	GF
39	13020400 - Proceeds rent for special use of water from the housing and utilities sector	GF	GF	GF
40	13020500 - Income amounts of the restructured debt on special usage of water rent	NA	GF	NA
41	13020600 - Rent for special use of water in the use of surface water for the needs of water transportation (except for parking and auxiliary fleet)	GF	GF	GF
42	13030100 - Rent for use of mineral resources for mining of national significance	GF	GF	GF
43	13030200 - Rent for use of mineral resources for mining of local significance	GF	GF	GF
44	13030500 - Income amounts of the restructured debt of rent for use of mineral resources		GF	GF
45	13030600 - Rent for use of mineral resources for purposes not related to mining	GF	GF	GF
46	13070100 - Fee for special use of wildlife	GF	GF	GF
47	13070200 - Fee for special use of fish and other aquatic resources	GF	GF	GF
48	13070300 - Income amounts of the restructured debt on natural resources usage payments	GF	GF	
49	19010100 - Proceeds from pollutants in the atmosphere from stationary sources of pollution	SF	GF	SF
50	19010200 - Proceeds from the emission of pollutants directly into water	SF	GF	SF
51	19010300 - Proceeds from the disposal of waste in specially designated areas or at sites other than placing certain types of waste as secondary raw materials	SF	GF	SF

52	19010500 - Proceeds from the refinery-produced fuel trade or produced from tolling raw materials by tax agents on the customs territory of Ukraine	SF	NA	NA
53	19010600 - Proceeds from fuel import to the customs territory of Ukraine by tax agents	SF	NA	NA
54	19050100 - Proceeds from utilities to the State Fund for Environmental Protection	SF	NA	SF
55	19050200 - Other charges for environmental pollution to the Fund for Environmental Protection	SF	SF	SF
56	19050300 - Proceeds from fee payment for pollution of the environment by individuals	SF	SF	SF
57	21110000 - Proceeds from compensation for loss of agricultural and forest production	SF	SF	SF
58	24061600 - Other revenues to a fund for Environmental Protection	SF	SF	SF
59	24062100 - Cash penalties for damage caused by violation of the law on the protection of the environment due to economic and other activities	SF	SF	SF
Land and property taxes				
60	18010100 - The tax on immovable property other than land, paid by legal entities that own residential real estate	SF	GF	GF
61	18010200 - The tax on immovable property other than land, paid by individuals that own residential real estate	SF	GF	GF
62	18010300 - The tax on immovable property other than land, paid by individuals who are owners of non-residential real estate	NA	GF	GF
63	18010400 - The tax on immovable property other than land, paid by legal entities who are owners of non-residential real estate	NA	GF	GF
64	18010500 - Land tax from legal entities	NA	GF	GF
65	18010700 - Land tax from individuals	NA	GF	GF
66	18010800 - Restructured amount of debt from payments for land	NA	GF	NA
67	13050100 - - Land tax from legal entities	GF	NA	NA
68	13050300 - Land tax from individuals	GF	NA	NA
69	13050400 - Restructured amount of land payment arrears	GF	NA	NA
Rents				
70	18010600 - Rents from legal entities		GF	GF
71	18010900 - Rents from individuals		GF	GF
72	13050200 - Rents from legal entities	GF	NA	NA
73	13050500 - Rents from individuals	GF	NA	NA
Asset revenue, other fees and charges				
74	19040100 - Fixed agricultural tax accrued after January 1, 2001	GF	NA	NA
75	18011000 - The transport tax on individuals	NA	GF	GF
76	18020200 - The fee for parking of vehicles paid by individuals	GF	GF	GF
77	18030200 - Tourism fee paid by individuals	GF	GF	GF
78	18040100 - The fee for conducting trading activities (retail), paid by individuals before January 1, 2015	GF	GF	GF
79	18040500 - The fee for conducting trading activities (wholesale) paid by individuals	GF	GF	GF
80	18040600 - The fee for conducting trading activities (restaurant management), paid by individuals	GF	GF	GF
81	18041300 - The fee for the exercise of the paid services paid by individuals	GF	GF	GF
82	18041800 - The fee for activities in entertainment paid by individuals	GF	GF	GF
83	18011100 - Transportation tax of legal entities		GF	GF
84	18020100 - The fee for parking of vehicles paid by legal entities	GF	GF	GF
85	18030100 - Tourism fee paid by legal entities	GF	GF	GF
86	18040200 - The fee for conducting trading activities (retail) paid by legal entities	GF	GF	GF

87	18040300 - Fee for trading currency valuables	GF	GF	
88	18040700 - The fee for conducting trading activities (wholesale) paid by legal entities	GF	GF	GF
89	18040800 - The fee for conducting trading activities (restaurant management) paid by legal entities	GF	GF	GF
90	18040900 - The fee for conducting trading activities with the acquisition of preferential trade patent	GF	GF	GF
91	18041000 - The fee for conducting trading activities with the acquisition of short-term trade patent	GF	GF	GF
92	18041400 - The fee for the exercise of the paid services paid by legal entities	GF	GF	GF
93	18041600 - Revenues from restructured debt payment of the fee for conducting certain types of business	NA	NA	GF
94	18041700 - The fee for activities in entertainment paid by legal entities	GF	GF	GF
95	19090000 - Taxes and fees not included in other categories	GF	GF	GF
96	16010100 - Tax on advertising	GF	GF	GF
97	16010200 - Municipal tax	GF	GF	GF
98	16010400 - Parking fees	GF	GF	GF
99	16010500 - Market fee	GF	GF	GF
100	16010600 - The fee for issuing certificate for the apartment	GF	GF	GF
101	16010700 - Resort fee	GF	GF	GF
102	16010900 - The fee for winning on the racetrack		GF	GF
103	16011100 - The fee for the right to use local symbols	GF	GF	GF
104	16011300 - The fee for the right to conduct local auctions and lotteries	GF	GF	GF
105	16011500 - The fee for a permit for placing objects of trade and services	GF	GF	GF
106	16011600 – The fee from dog owners	GF	NA	NA
107	16012100 - Fishing tax	GF	GF	NA
108	21050000 - Payment for placing of temporarily free local budget funds	GF	GF	GF
109	21080500 - Other revenues	GF	GF	GF
110	21080900 - Penalties for violation of the legislation on patents, for violation of regulation of cash flow and the use of payment transactions in trade, catering and services	GF	GF	GF
111	21081100 - Administrative fines and other sanctions	GF	GF	GF
112	21081500 - Administrative fines and penalties for violation of legislation on production and circulation of alcoholic beverages and tobacco products		GF	GF
113	22010200 - Payment for licenses for certain types of entrepreneurial activity and certificates issued by the Council of Ministers of the Autonomous Republic of Crimea, local councils executive bodies and local executive authorities	GF	GF	GF
114	22010300 - Administration charge for the state registration of legal entities and individuals - entrepreneurs and community groups	NA	NA	GF
115	22010500 - Payment for license to manufacture ethyl, cognac and fruit spirit, alcoholic beverages and tobacco products	GF	GF	GF
116	22010600 - Payment for licenses to export, import and wholesale of ethyl, cognac and fruit spirit	GF	GF	GF
117	22010700 - Payment for licenses for the export and import of alcoholic beverages and tobacco	GF	GF	GF
118	22010900 - Payment for state registration (except an administrative fee for the state registration of legal entities and individuals - entrepreneurs and community groups)	GF	GF	GF
119	22011000 - Payment for license for wholesale trade of alcoholic beverages and tobacco	GF	GF	GF
120	22011100 - Payment for license to retail alcoholic beverages and tobacco	GF	GF	GF

121	22011800 - Payment for licenses and certificates, paid by licensees at the place of activities	GF	GF	GF
122	22012500 - Payment for the provision of other administrative services	NA	GF	GF
123	22012600 - Administration charge for state registration of rights to immovable property and their encumbrances	NA	NA	GF
124	22012900 - Payment for reducing the time of provision of state registration of rights to immovable property and their encumbrances and state registration of legal entities and individuals - entrepreneurs and community groups, as well as payment for other paid services connected with the state registration	NA	NA	GF
125	22020000 - Payment for keeping children in boarding schools	GF	GF	GF
126	22090100 - State duty payable at the place of design and review of document including paperwork for inheritance and gift	GF	GF	GF
127	22090200 - State duty, not included in other categories		GF	GF
128	22090300 - State duty for actions related to obtaining patents for intellectual property rights, maintaining their force and transmission rights of their owners		GF	GF
129	22090400 - State duty associated with the issuance and registration of passports (certificates) and passports of citizens of Ukraine	GF	GF	GF
130	22090500 - Income amounts of the restructured debt to pay the state fee	GF	GF	GF
131	24030000 - Income amounts payable and receivable deponent debt by businesses, organizations and institutions to which the limitation period has expired	GF	GF	GF
132	24060300 - Other revenues	GF	GF	GF
133	24060600 - Proceeds from the accounts of election funds	GF	GF	GF
134	24060700 - Unrecognized revenue		GF	
135	24061900 - Funds from providing members of procurement procedures to ensure their tender proposals, which are not subject to return, to the participants in the cases provided by the Law of Ukraine "On Public Procurement"	GF	GF	GF
136	24062000 - Funds from the participant - winner of the procurement procedure at the conclusion of the purchase agreement as the enforcement of this agreement are non-refundable to participant – winner	GF		GF
137	21010300 - Part of net income (profit) of municipal unitary enterprises and associations, withdrawn to the appropriate local budget	GF	GF	GF
138	22080400 - Income from rent for the use of integral property complexes and other property that is in communal ownership	GF	GF	GF
139	22120000 - The fee for leased ponds located in the basins of rivers of national importance	GF		
140	22080500 - Income for provided tenant cash and securities on credit terms	GF		GF
141	22130000 - The rent for the water bodies (or parts thereof) provided for use under lease by the Council of Ministers of the Autonomous Republic of Crimea, regional, Kyiv and Sevastopol city state administrations, local councils	GF	GF	GF
142	24062200 - Funds for damages caused on land plots of state and municipal property, which are not provided for use and are not transferred to the ownership, due to their unauthorized occupation, use inappropriately, the removal of soil (topsoil) without special permission, damages for the deteriorating quality of soil, etc., and for non-receipt of income due to temporary non-use land	GF	GF	GF
143	24110600 - Interest for the use of loans granted from local budgets	GF	GF	GF
144	24160100 - Concession fees on municipal property (other than those that are earmarked under the law)	GF	GF	GF

145	31010200 - Funds from the sale of ownerless property, finds ancestral property, property obtained by a territorial community by way of inheritance or gift, as well as foreign currency valuables and funds whose owners are unknown	GF	GF	GF
146	31020000 - Proceeds from the State Fund of Precious Metals and Precious Stones	GF	GF	GF
147	33020000 - Proceeds from sale of intangible assets	GF	GF	GF
148	12020100 - Tax on vehicle owners and other self-propelled machinery (legal entities)	SF	SF	SF
149	12020300 - Proceeds from restructured tax arrears by owners of vehicles and other self-propelled machines and mechanisms	SF		
150	12020400 - The tax on owners of water transport	SF	SF	SF
151	12020500 - Tax on vehicle owners and other self-propelled machinery (legal entities) registered in Kyiv	SF	SF	SF
152	12020800 - The tax on owners of water vehicles registered in Kiev	SF	SF	SF
153	12030100 - Fee for the first registration of wheeled vehicles (legal entities)	SF		
154	12020200 - Tax on vehicle owners and other self-propelled machines and mechanisms (from citizens)	SF	SF	SF
155	12020600 - Tax on vehicle owners and other self-propelled machines and mechanisms (from citizens), registered in Kiev	SF	SF	SF
156	12030200 - Fee for the first registration of wheeled vehicles (individuals)	SF		
157	12030300 - Fee for the first registration of vessels (legal entities)	SF		
158	12030400 - Fee for the first registration of vessels (individuals)	SF		
159	12030500 - Fee for the first registration of airplanes and helicopters (legal entities)	SF		
160	12030600 - Fee for the first registration of airplanes and helicopters (individuals)	SF		
161	12030700 - Fee for the first registration of wheeled vehicles (legal entities) registered in the Kiev city	SF		
162	12030800 - Fee for the first registration of wheeled vehicles (individuals) registered in the Kiev city	SF		
163	12030900 - Fee for the first registration of vessels (legal entities) registered in the Kiev city	SF		
164	12031000 - Fee for the first registration of vessels (individuals) registered in the Kiev city	SF		
165	12031100 - Fee for the first registration of aircraft and helicopters (legal entities) registered in the Kiev city	SF		
166	12031200 - Fee for the first registration of aircraft and helicopters (individuals) registered in the Kiev city	SF		
167	18041500 - The fee for conducting trading activities of oil products, liquefied and compressed gas to residential, small and mobile gas stations, refueling points	SF	SF	SF
168	21010800 - Dividends (income), interest on stocks (shares) of companies whose authorized capital is the capital of the Autonomous Republic of Crimea, communal property	SF	SF	SF
169	21080700 - Transfer by businesses proportion of the cost of non-standard products manufactured with a temporary deviation from the requirements of the relevant standards for product quality, with permit issued by the State Committee of Ukraine for Standardization, Metrology and Certification	SF	SF	SF
170	21090000 - Funds from the use (sale) of the manufactured products, which is owned by the state under production sharing agreements, and / or funds as a cash equivalent of such public goods	SF	SF	SF
171	24110600 - Interest for the use of loans granted from local budgets	SF	SF	SF

172	24110700 - Payment for guarantees provided by the Verkhovna Rada Autonomous Republic of Crimea and city councils	SF	SF	SF
173	24110900 - Interest on long-term use of the loan provided by the local budgets of young families and single young citizens for construction (reconstruction) and housing	SF	SF	SF
174	24160200 - Concession fees on municipal property (earmarked under the law)	SF		SF
175	31030000 - Funds from the sale of property belonging to the Autonomous Republic of Crimea and property under in the municipal property	SF	SF	SF
176	33010100 - Funds from the sale of non-agricultural land that are in state or municipal property and land, located on the territory of the Crimea	SF	SF	SF
177	33010200 - Funds from the sale of rights to land for non-agricultural purposes, which are in state or municipal property and rights to land plots located on the territory the Autonomous Republic Crimea	SF	SF	SF
178	33010400 - Funds from the sale of non-agricultural land before separation of state and municipal property in installments	SF	SF	SF
Own revenues of budget users				
179	25010000 - Revenues from fees for services provided by budgetary institutions under the law	SF	SF	SF
180	25020000 - Other sources of own revenues of budgetary institutions	SF	SF	SF
Basic and Stabilization subsidy				
181	41020100 - Basic subsidy		GF	GF
182	41020600 - Stabilization subsidy		GF	GF
183	41020100 - Equalization subsidy from state to local budgets	GF		
184	41020600 - Additional subsidy from the state budget to equalize the financial security of local budgets	GF		
Other subsidies				
185	41021400 - Additional subsidy from the state budget to local budgets for the exercise of the powers established by the Law of Ukraine "On approval of the Constitution of the Autonomous Republic of Crimea"	GF		
186	41021500 - Additional subsidy from the state budget to local budgets to compensate for the loss of income due to the deployment of the Black Sea Fleet of the Russian Federation in the cities of Sevastopol, Feodosia and Gvardeiskoye of Simferopol District	GF		
187	41020800 - Additional subsidy from the state budget to the city budget of Slavutych to ensure the maintenance of social infrastructure of Slavutych	GF	GF	GF
188	41021000 - Additional subsidy from the state budget to local budgets to compensate for loss of income to local budget due to provided by the state tax benefits to pay land tax to business of aero-space activities	GF		GF
189	41021600 - Additional subsidy from the state budget to the regional budget of the Donetsk region for the implementation of expenses related to the implementation of measures to improve the level of provision of public services	GF		
190	41032100 - Subvention from the state budget for debt service on loans made in 2012 in the general fund budget of Kyiv		GF	GF
191	41031500 - Subvention from the state budget city budget of Zhovti Vody to implement measures for radiation and social protection of population of Zhovti Vody	GF	GF	GF
192	41032100 - A subvention from the state budget to local budgets for reimbursement of a part of interest rates on loans raised for the renewal of the buses and trolley buses of host cities in preparation for the holding of the final part of the European Football Championship 2012 in Ukraine	GF		

193	41032600 - Subvention from the state budget to local budgets for the purchase of medicines and medical devices for ambulance	GF	GF	GF
194	41033700 - Subvention from the state budget to local budgets for the purchase of supplies for health facilities and drugs for inhalation anesthesia	GF	GF	GF
195	41034500 - Subvention from the state budget to local budgets for the implementation of measures for socio-economic development of certain areas	GF	GF	GF
196	41034800 - A subvention from the state budget to local budgets for partial reimbursement of the cost of medicines for the treatment of people with essential hypertension	GF		
197	41037000 - Subvention from the state budget to local budgets to conduct elections of members of local councils and village, town and city mayors	GF	GF	GF
198	41031100 - Subsidy to Kiev for performing capital city functions	GF		
199	41039100 - Subvention from the state budget to the city budget of Kharkiv on work related to the establishment and functioning of the centers of administrative services in the "Transparent Office"			GF
200	41021400 - Additional subsidy from the state budget to the Dnepropetrovsk Oblast budget for the implementation of expenses related to the implementation of measures to improve the level of public services		GF	
201	41035700 - Subvention from the state budget to the regional budget of the Lviv region to complete the reconstruction of the Lviv regional perinatal center		GF	
202	41035900 - Subvention from the state budget to local budgets for restoration (construction, overhaul, reconstruction) of infrastructure in Donetsk and Lugansk regions		GF	
203	41036200 - A subvention from the state budget to the regional budget of the Odessa region for the purchase of medical equipment for the Odessa Regional Children's Clinical Hospital		GF	
204	41039700 - A subvention from the state budget to local budgets for partial financing of children's and youth sports schools, until 2015, received support from the Social Security Fund for temporary disability		GF	
205	41039900 - Subvention from the state budget to the city budget of Dnipropetrovsk for co-financing the project "Completion of the construction of the underground in the city of Dnepropetrovsk		GF	
206	41033200 - Subvention from the state budget to local budgets for the formation of infrastructure of amalgamated communities			GF
Social welfare subvention				
207	41030600 - Subvention from the state budget to local budgets for assistance to families with children, poor families, disabled since childhood, disabled children, temporary state assistance to children and help for care for the disabled in groups I - II or due to mental disorder	GF	GF	GF
208	41035800 - Subvention from the state budget to local budgets for state social assistance to orphans and children deprived of parental care, financial support to foster parents and foster parents for providing social services in orphanages and foster families on a "Money Follows child " base	GF	GF	GF
209	41035100 - Subvention from the state budget to local budgets for financing of socio-economic compensation for the risk population, living in the target area		GF	GF
210	41036100 - Subvention from the state budget to local budgets for construction (purchase) of housing for families of fallen soldiers who took part in anti-terrorist operations and for the disabled I - II group of servicemen who took part in this operation, and in need of better housing conditions		GF	GF

211	41030900 - Subvention from the state budget to local budgets for provision of benefits for communication services, other statutory benefits (except benefits to obtain drugs, dentures, payment of electricity, natural gas and LPG for domestic purposes, solid and liquid stove fuel, heat water supply and drainage, rent (maintenance of houses and buildings and houses adjoining areas) removal of domestic waste and liquid sewage), to compensate the loss of revenue due to cancellation Advanced vehicle owners and other self-propelled machinery and the corresponding increase in excise tax on fuel and compensation for price reductions of certain categories of citizens	GF	GF	
Education subvention				
212	41033900 - Education subvention from the state budget to local budgets		GF	GF
Health subvention				
213	41034200 - Medical subvention from the state budget to local budgets		GF	GF
Housing subsidy				
214	41030800 - Subvention from the state budget to local budgets for provision of benefits and housing subsidies for electricity, natural gas, heat, water supply and drainage, rent (maintenance of houses and buildings and houses adjoining areas) removal of domestic waste and liquid sewage	GF	GF	GF
215	41031000 - Subvention from the state budget to local budgets for provision of benefits and housing subsidies for the purchase of solid and liquid stove fuel and liquefied gas	GF	GF	GF
216	41036600 - Subsidy from the state budget to local budgets for repayment of the difference in tariffs for thermal energy, heating and hot water supply services in the centralized water supply system, which are produced, transported and supplied to the population and / or other businesses centralized drinking water supply and sanitation that give public services for centralized water supply and sewage, which arose due to the mismatch of the actual cost of thermal energy and of centralized water supply, drainage, heating and hot water tariffs that were approved and / or agreed by the government or local government	SF	GF and SF	
Vocation education subvention				
217	41033500 - Subvention for training labor from the state budget to local budgets		GF	
218	41033800 - Subvention from the state budget to local budgets for modernization and renewal of material base of vocational schools state-owned			GF
Investment grants				
219	19020200 - The funds received by local governments from the state budget		SF	SF
220	24170000 - Proceeds of share participation in infrastructure development of the settlement	SF	SF	SF
221	41036000 - Subvention from the state budget to local budgets for the purchase of new tram cars of domestic production for electric transportation		GF	
222	41031400 - Subvention from the state budget to local budgets for projects under the Emergency loan program to restore Ukraine			SF
223	41034900 - Subvention from the state budget to local budgets for reforming regional health systems to implement measures to implement jointly with the International Bank for Reconstruction and Development Project Improving health in the service of the people		SF	SF
224	41034400 - A subvention from the state budget to local budgets for the construction, renovation, maintenance and maintenance of streets and communal roads in settlements	SF		
225	41035500 - Subvention from the state budget to local budgets for the celebration of the 200th anniversary of the birth of Taras Shevchenko	SF		

226	41037700 - Subvention from the state budget of Dnepropetrovsk city budget to complete construction of the subway in Dnepropetrovsk.	SF	SF	SF
227	42020000 - Grants (gifts) received to all budgets	SF	SF	SF
228	42020000 - Other assistance provided by the European Union		SF	SF
229	50110000 - Trust Funds formed by the Supreme Council of the Autonomous Republic of Crimea, local authorities and local executive authorities	SF	SF	SF

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"Support to Decentralization Project"
Swedish Association of Local and Regional Authorities (SKL)
Swedish International Development Agency (Sida)

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