

FISCAL DECENTRALISATION AND LOCAL GOVERNMENT FINANCE REFORM

2014-2017



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Policy Brief

Fiscal Decentralization and Local Government Finance Reform: 2014-2017

Tony Levitas & Jasmina Djikic

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Executive Summary

In April of 2014, the Council of Ministers approved the “Concept of Local Self-Governance and Territorial Power Reform in Ukraine”. This document located Ukraine’s main problems with Local Self-Governance in the ineffectiveness of its tiny villages, the unclear division of responsibilities between levels of government, and the ambiguous status of its regions and districts (oblasts/rayons) as self-governing bodies. To correct these problems, the resolution called for:

- Amalgamating more than 10,000 hromada into larger, townships (Amalgamated Hromada / OTH) and endowing them with new revenues and responsibilities, most notably in education.
- Clarifying the responsibilities and governance structures of oblasts (regions) and rayons (districts) by at once reducing their role in the day-to-day provision of public services and giving them democratically-elected executive bodies.
- Reforming the intergovernmental finance system to more transparently provide all levels of local government with revenues adequate to meet their redefined service responsibilities.

This policy brief examines the progress Ukraine has made towards meeting these objectives by reviewing the evolution of the country’s intergovernmental finance system since 2014. We find that Ukraine has taken important, but still limited and fragile steps towards achieving the objectives outlined in the Concept Resolution. On the positive side of the ledger:

- Through a voluntary process of amalgamation 705 OTH have been formed. As a result, 7.1 million people (39% of the rural population, 19% of the total population) now live in democratically elected townships large enough to manage and finance their basic public services --including most importantly their school systems.
- Despite war and recession, the share of total public revenue going to local governments has increased steadily since 2014, demonstrating a remarkable commitment by the national government to adequately fund the nation’s local governments.
- After adjusting for inflation, total local government revenue fell slightly in 2015, recovered to 2014 levels in 2016, and increased by 20% in 2017 to 500 billion hryvna.
- The 2014 finance reforms replaced a complicated, and non-transparent equalization grant with separate block grants for education and health, and a smaller, but clearly calculated revenue equalization grant. The block grants have helped clarify local government responsibilities, while the new equalization grant has prevented the emergence of radical fiscal disparities across local governments. It is also much more efficient and transparent than the mechanism it replaced.
- The reforms also significantly expanded the tax powers of COS, hromada and OTH and own-revenues have increased from 42 to 63 billion hryvna (52%) between 2014 & 2017.¹

¹ Ukrainian legislation, and with it popular understanding, treats national government taxes whose yields are shared by law with local governments, as “own-revenues”. In this report, and following international best practice, we consider them to be shared taxes, and not own revenues.

- In 2016, the Ministry of Education introduced a new formula to allocate the Education Block Grant. The formula covers only the pedagogical costs of schooling, and is designed to clarify local education responsibilities by making facility maintenance an own-function.
- In 2016, the government adopted new single-payer health care legislation that holds the promise of reducing local governments' responsibilities in the sector and of clarifying their relationships with hospitals, clinics and doctors.
- The revenue structures and service responsibilities of COS and OTH have begun to converge, indicating significant progress towards the Concept Resolution's objective of making them the primary level of local governance in Ukraine. This convergence will accelerate as the reforms in health care recentralize the financing of hospital and clinics.

On the more negative side of the ledger we find the following:

- Despite the 20% growth of local government revenue in 2017, incentives for the formation of OTH weakened substantially and OTH revenue per capita increased the least (2.3%) of all levels of local government.
- The amalgamation process remains open ended and the government has yet to set a date by which the voluntary process should be completed.
- The lion's share of revenue growth in 2017 was driven by new grants that flowed disproportionately to oblasts and rayons. This marked a shift in policy from 2015 & 2016. It also seems to be at odds with Concept Resolution's objective of making COS and OTH the primary units of local governance in Ukraine.
- In 2017, a Health and Education Facilities Grant (14.7 bln hr. 17% of revenue growth) was introduced because of concerns that the new formula for allocating the Education Block Grant would leave many local governments unable to pay for school maintenance. This is understandable as a temporary measure. But if the Facilities Grant becomes permanent, it will undermine the effort to clarify responsibilities in education by making school maintenance a local government own function.
- There is a pressing need to determine the role of rayons in Ukraine's future governance structure. Rayon functions are rapidly being hollowed out: With amalgamation, schools are being transferred to OTH (29% of rayon expenditures) and soon the operating costs of hospitals and clinics will be financed through contracts with the national health care system (25% of rayon expenditures). Meanwhile, 47% of their expenditures are social welfare transfers to poorer households that could be transferred to other levels of government. Finally, in 17 rayons, 100% of gromada have been transformed into OTH.
- COS pay for the lion's share of the costs of the new equalization system, but get little out of it, while rayons pay almost nothing in to the system but are its biggest beneficiaries. This is out of alignment with Concept Resolution's objective of making COS and OTH the primary levels of local governance.

- The equalization system provides local governments with only 4.7 billion hryvna in revenue (1.1% of total revenue) and costs the national government almost nothing (1.8 bln hr). Recent discussions suggest that policy makers think it would be good if the national government stopped contributing to the system by making it “self-balancing”. This suggests that policy makers are underestimating the importance of equalization for both the completion of the amalgamation process, and the function of the system afterwards.
- Little progress has been made in determining which agencies of the national government should be made responsible for monitoring the fiscal probity and legal compliance of local governments, and who these agencies should report to.

In light of these findings we make the following recommendations:

- The government should set a clear date for the completion of the voluntary amalgamation process and state clearly that hromada that have not formed themselves into OTH will be amalgamated by fiat.
- The powers of COS and OTH to register and collect land and property taxes should be increased.
- Rayons should no longer be equalized to the same per capita PIT thresholds as COS and OTH. Instead, they should be equalized to a separate threshold determined by the average per capita yield PIT at the rayon level alone. The costs of rayon equalization should be fully covered by the national government and not paid for –as is currently the case-- by COS.
- The national government should also consider putting more funds into the equalization system to both encourage amalgamation, and to ensure that poorer OTH have sufficient revenues to perform their functions. Consideration should also be given to including Kyiv in the system so that some of these costs might be borne by the nation’s richest jurisdiction.
- As the health and education functions of rayons and oblasts are reduced by amalgamation and the recentralization of health care finance, it is probably no longer desirable to endow them with democratically elected executives.
- Instead, we suggest that they be reconceived as territorial representatives of the national government: Central authority should be reasserted over fiscally smaller but more focused oblasts and rayons, while power and money continues to be decentralized to stronger COS and OTH. Indeed, our hope is that some more dynamic political consensus can be constructed around a project that centralizes some planning and control functions at the oblast and rayon levels in return for the rapid completion of the amalgamation process, and the transfer of most day-to-day public services to COS and OTH.

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The Data Used in the Brief:

This Brief is based on a comprehensive review of local government finances between 2014 and 2017. It extends a previous study of the years 2014-2016² and tries to synthesize our most important findings for the entire period. As with the previous study, the brief is based on the line-item revenues and expenditures of local governments as reported in Ukraine's Treasury system³.

For a number of reasons, however, the data we present may look unfamiliar to Ukrainian analysts. One reason for this is that we have adjusted the data for inflation by using the National Bank of Ukraine's Consumer Price Index⁴. As a result, the values in the Brief's tables and charts for the years prior to 2017 are likely to differ substantially from those that people remember. They should also make it clear that while local government revenues have increased significantly since 2014, the gains have been much less dramatic than the nominal figures suggest.

The data may also look unfamiliar because we aggregate it into categories slightly different from those commonly used in Ukraine. We classify all taxes or fees whose yield is legally shared with local governments, but over which they have no rate or collection power as "shared taxes," and not as "own revenues" or "local revenues". This is in line with standard international practice, but results in local governments having significantly less "own revenue" than people may be accustomed to seeing.

We also ignore the distinction in Ukrainian Budget Law that segregates revenues and expenditures into a freely disposable "General Fund" and an earmarked "Special Fund". We do this because the legal specification of which revenues and expenditures should flow into each fund changes frequently and accounting for these changes would be extremely time consuming. But ignoring the Special Fund also means that some of our tables and charts suggest that local governments have more control over their spending than is actually the case⁵.

It is also important to note, that the "reading" of the data has been complicated by two recent changes in the rules governing public sector accounting. One change is related to the 2016 passage of legislation that mandates the creation of a single-payer health care system. Under this system a new national government agency will eventually enter into service contracts with all health-care providers, paying hospitals, clinics, and doctors on the basis of the number citizens they serve (primary health care), or procedures they perform (secondary health care). This will replace the current arrangement in which local governments receive block grants from the national government to pay for the operating costs of the hospitals and clinics that they own and manage.

² Levitas & Djikic, "Caught Midstream: 'Decentralization', Local Government Finance Reform, and the Restructuring of Ukraine's Public Sector, 2014 to 2016" SKL/SIDA, Oct 2017, pp. 1-58

³ To simplify the analysis, data for unamalgamated hromada has been consolidated to the rayon level.

⁴ CPI 2014 1.433, 2015 1.124, 2016 1.137; multipliers: 2014, 1.8314, 2015, 1.278, 2016 1.137

⁵ See Table 1 in the appendix for a brief summary how the relationship between the General Fund and the Special Fund has changed since 2014 for all levels of local government.

As such, the new system will recentralize health care finance while also opening up the sector more private provision. For the moment, however, the vast majority of health care spending is still made by local governments in the hospitals and clinics they own and manage. Nonetheless, in 2017 they were required to account this spending as “purchases of goods and services” and not as before, as wages and other types of expenditure. As a result, spending on wages in health care –a very significant local cost— appears to have plummeted in 2017, when this is not the case.

The other change that complicates understanding the data concerns spending on social welfare and housing. For many years, the national government has given local governments a large number of different grants to support these functions. In some cases, local governments have been legally obliged to pass these transfers on to low income households. In many others, the grants flow to utility companies that then use them to lower the bills of poorer households.

In 2017, however, local governments were required to report all transfers to these companies as “Transfers to Individuals”. This is because there are plans –agreed upon with the IMF-- to replace the subsidization of utilities with more targeted support to poorer households⁶. But as with the anticipated health care contracts, these household transfers have only just begun. As a result, the new accounting rules lead to the serious understatement of utility transfers, and the overstatement of transfers to individuals.

Finally, it is important to note that in 2017 the national government raised the minimum wage by 13%. It is, however, difficult to determine the impact of this increase on local budgets because the rules governing how the minimum wage affects the wages of different types of public sector worker are extremely complicated and because the accounting practices discussed above make it impossible to see wage spending in the health care sector.

Historical Background

In April 2014, Ukraine’s Cabinet of Ministers approved the “Concept of Local Self-Governance and Territorial Power Reform” ⁷. The Concept identified critical problems with Ukraine’s local government system, and then outlined actions to correct them. The foundational proposition of the Concept was that with an average population of 1,500 people, the country’s 12,000 villages (hromada) were simply too small to provide basic public services. Not surprisingly then, the document called for their consolidation into larger townships (amalgamated hromada or OTH).

⁶ IMF Ukraine Letter of Intent - <https://www.imf.org/external/np/loi/2016/ukr/090116.pdf>

⁷ On approval of the Concept of local self-governance and territorial power reforming in Ukraine, Cabinet Of Ministers Of Ukraine Prescription, April 1, 2014 # 333-p

But it also argued that there was a dysfunctional and contradictory division of power between state-appointed executives and democratically-elected councils at both the regional (oblast) and district (rayon) levels. Indeed, the Concept called for amendments to the Constitution that would permit the democratic election of oblast and rayon executives.⁸ Moreover, it suggested that the roles of these levels of government be reduced by assigning responsibility for all day-to-day public services to Cities of Oblast Significance (COS⁹) and the newly created OTH. Finally, the Concept sketch out reforms that would give local governments a more transparent set of grants and shared taxes, greater tax powers, and above all more revenues.

Since April 2014, Ukraine has made substantial, if still limited and fragile progress towards achieving the objectives defined in Concept. Beginning in 2014, parliament passed a series of laws that allow, encourage, and facilitate the voluntary amalgamation of hromada into OTH. This has made possible the formation of 705 OTH and 7.1 million people (19% of the total population, and 39% of the rural population) now live in townships with democratic governments and functions and finances that resemble those of COS.

Since April 2014, Ukraine has made substantial, if still limited and fragile progress towards achieving the objectives defined in Concept. Beginning in 2014, parliament passed a series of laws that allow, encourage, and facilitate the voluntary amalgamation of hromada into OTH. To date, this has made possible the formation of 705 OTH, and 7.1 million people (19% of the total population, and 39% of the rural population) now live in townships with democratic governance structures, and functions and finances that resemble those of COS. It is important to note, that the analysis, which follows, however, is based on the 366 OTH that were functioning as independent local governments in 2017.

⁸In fact, most outside observers do not consider rayons and oblasts to be real “local self-governments” (samovryaduvannya in Ukrainian) precisely because their executives are appointed by the state. Instead, they would be called “subnational governments” or even “territorial arms of the national government”. However, in both Ukrainian law and everyday speech, they are referred to as local self-governments. In the following, and at the expense of much conceptual clarity, we defer to Ukrainian practice and call them “local governments”, when the phrase really should be reserved for COS and OTH.

⁹ There are 149 urban settlements that are legally considered COS. Since the mid-1990s, COS have had democratically-elected mayors and councils. But it was only after the Orange Revolution that they gained full control over the hiring and firing of all department heads, including the critically important Department of Finance and Budget. COS are also politically powerful, and well represented by the Association of Ukrainian Cities. The average population of COS, however, is only 136,000, and almost half of them have less than 50,000 residents, of which fifteen have less than 20,000 inhabitants.

The government also significantly increased the share of public revenue going to local governments. This demonstrates the government's commitment to reform and is particularly remarkable because countries at war typically recentralize their finances.

At the end of 2014, the government also overhauled the intergovernmental finance system. It replaced a large, complicated, and non-transparent equalization grant with separate block grants for education, health and social welfare and a smaller, but clearly calculated revenue equalization grant. COS, rayons, and OTH were all assigned 60% shares of the Personal Income Taxes (PIT) generated in their jurisdictions, as well as a new 5% share of locally-collected excise taxes¹⁰. For the first time, COS and OTH were granted powers to set –within limits– property tax rates, and the rates governing the so-called Single Tax, a tax which the self-employed pay in lieu of PIT.

The government also significantly increased the share of public revenue going to local governments. This demonstrates the government's commitment to reform and is particularly remarkable because countries at war typically recentralize their finances. The Ministry of Education has made important, if still contested efforts to better align the calculation of education block grants with the costs of schooling in different areas in the country. And the new single-payer health care legislation holds the promise of reducing local governments' responsibilities in the sector and clarifying their relationships with hospitals, clinics and doctors.

But these positive developments have been accompanied by difficulties in getting an extremely fractious parliament to move forward on key elements of the Concept's agenda. While an impressive 39% of hromada have amalgamated, there is still no legislative deadline for the completion of the process despite the expectation spelled out in the Concept that OTH would be universal by 2017. Similarly, it has proved impossible to even consider passing constitutional amendments that might clarify the governance structures of oblasts and rayons.

While an impressive 39% of hromada have amalgamated, there is still no legislative deadline for the completion of the process despite the expectation spelled out in the Concept that OTH would be universal by 2017.

Equally importantly, the Concept's call for the clear specification of how major responsibilities in health, education and social welfare should be divided between levels of government is still very much a work in

¹⁰ Initially, local governments were given the right to set a surcharge of up to 5% on locally sold excise goods. But this surcharge was turned into a fixed share after all local governments set their surcharges at the maximum rate.

progress. Moreover, nobody is sure what rayons should do once all the hromada within them have amalgamated, and their basic functions transferred to OTH.

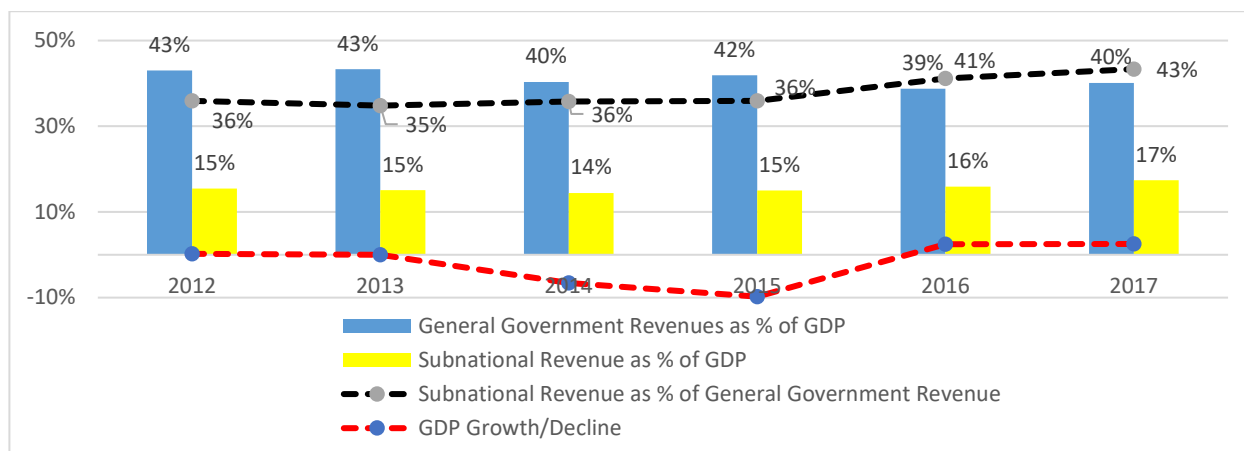
There are also important debates over how the new single-payer health care system should be implemented, as well as uncertainty about which level of government should be responsible for vocational education. Finally, no consensus has been reached over what institutions should oversee the legal and fiscal probity of local governments, and whether these institutions should report to parliament or the president. It is against this background that we now turn to our most important findings.

Local Government Revenue

One of the most common indicators used to assess decentralization is the share of total public revenue that a country's local governments receive and spend: if local governments have little revenue, their governance role is clearly small and the extent of decentralization can be said to be minimal.

Chart 1 (below), shows local government revenue in Ukraine as both a share of total public revenue and as a percentage of GDP since 2012. As can be seen from the Chart, even in 2012 local governments received about 35% of Ukraine's total fiscal pie. Indeed, the figure would be much the same if the left hand of the Chart was extended backward in time to 1991 and Ukraine's independence. In short, if only local government revenues are taken into account, Ukraine has been one of the most decentralized countries in Europe for quite some time¹¹.

Chart 1: Subnational Revenue as a % of Total Public Revenue and GDP 2012-17



This, of course, is not the case and while giving local governments a significant share of total public revenue may be a necessary condition for decentralized governance, it is far from a sufficient one. Or, putting the matter differently, Ukraine's problems with local governance have never been strictly or even primarily financial. Instead, and as the Concept document of 2014 outlined, these problems have congealed around the unclear governance structure of oblasts and rayons, the ineffectiveness of its tiny villages, and the unclear division of responsibilities between all levels of government.

¹¹ See Chart I in the Appendix

That said, Chart 1 is still striking because it shows that local government revenue has increased significantly both as a share of GDP (15 to 17%) and of total public revenue (36 to 43%) since 2014. This is remarkable given the sharp recession of 2013-2015, the overall reduction of the size of the public sector, and most importantly, war with Russia. In short, the national government has remained incredibly committed to providing local governments with adequate funding despite forces that typically encourage the centralization of public revenues.

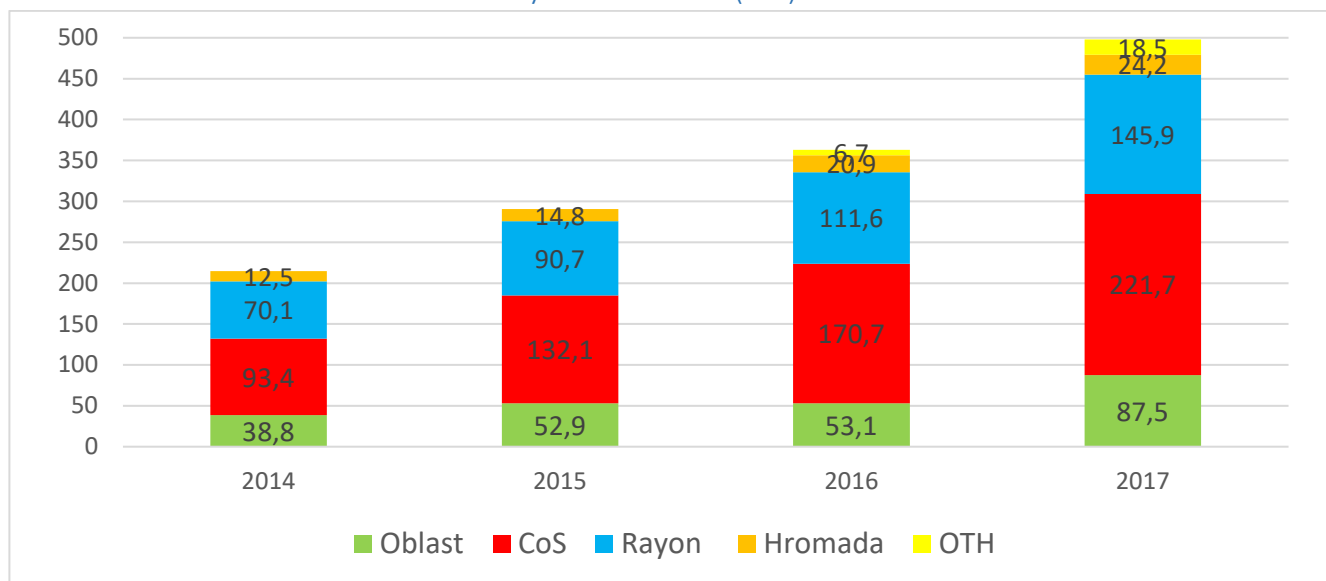
Local government revenue has increased significantly both as a share of GDP (15 to 17%) and of total public revenue (36 to 43%) since 2014.

In short, the national government has remained incredibly committed to providing local governments with adequate funding despite forces that typically encourage the centralization of public revenues.

The Structure and Composition of Local Revenue

Chart 2 (below) shows total local revenue by level of government between 2014 and 2017 in nominal hryvna. As can be seen from the Chart, local revenue rose substantially in nominal terms in all three years following the 2014 reforms. Indeed, the government has presented this nominal growth as evidence of its financial commitment to local government –a commitment that in fact has been extraordinary.

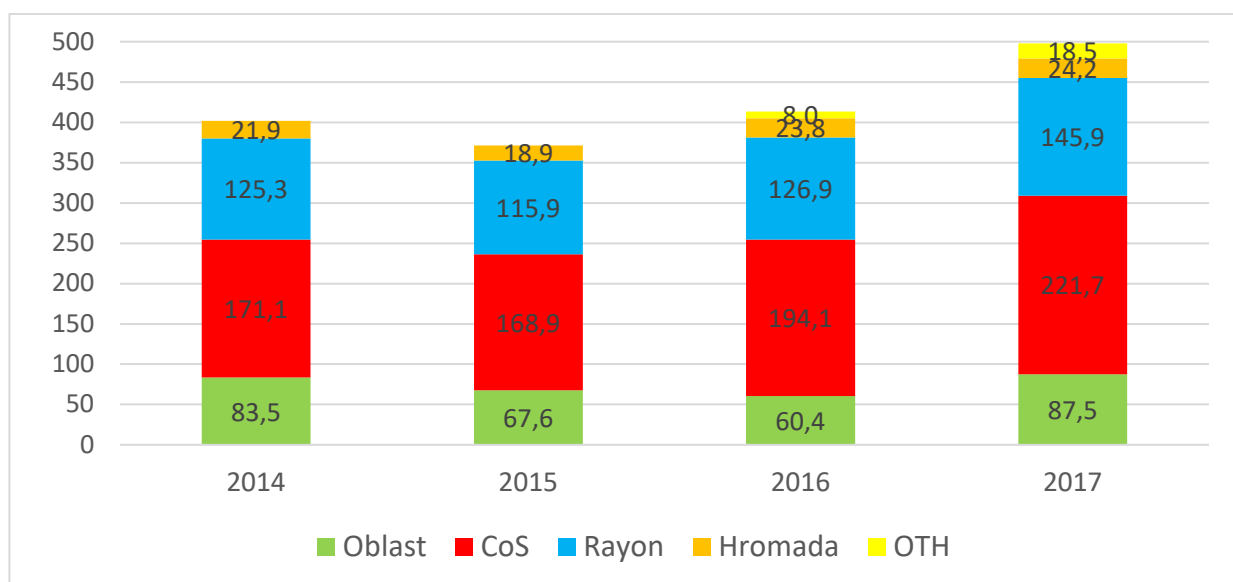
Chart 2: Local Revenue in Nominal Hryvna: 2014-17 (bln)



But as extraordinary as that commitment has been, it is important to recognize that once inflation is taken into account, local revenue growth has been much more modest than the nominal figures suggest --at least until 2017. As can be seen from Chart 3 below, real revenues actually declined slightly in 2015, recovered to 2014 levels in 2016, and only grew substantially (20%) in 2017.

Chart 3: Local Revenue in Inflation Adjusted Hryvna 2014-17 (bln)

It is important to recognize that once inflation is taken into account, local revenue growth has been much more modest than the nominal figures suggest. As can be seen from Chart 3 below, real revenues actually declined in 2015, recovered to 2014 levels in 2016, and only grew substantially (20%) in 2017.



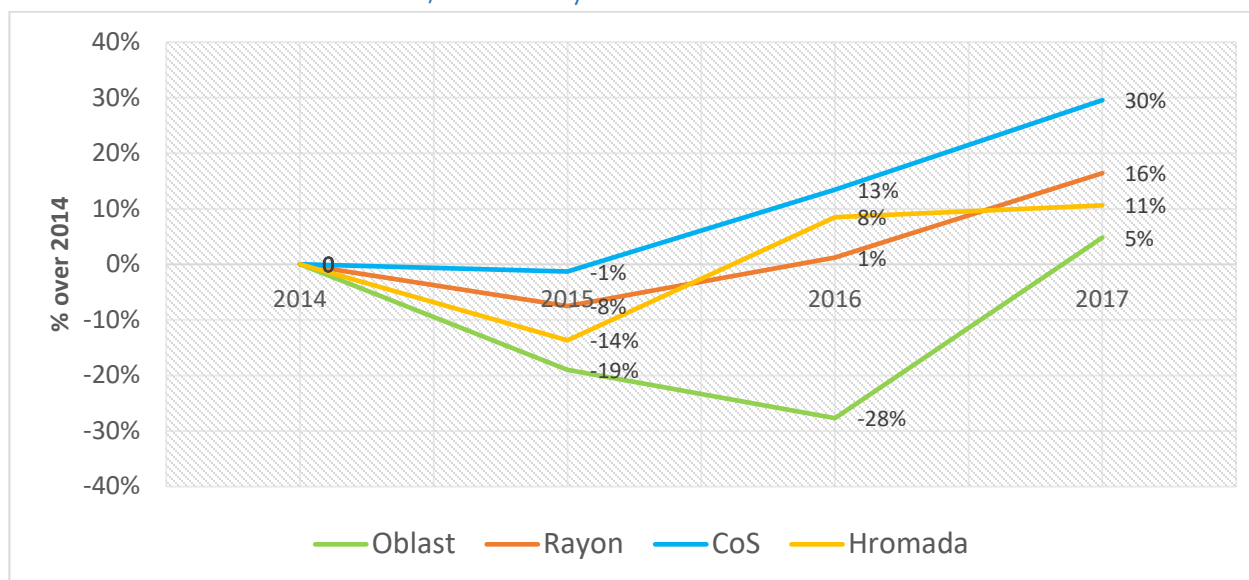
In 2015 and '16, however, most local governments *felt* like their real revenues had increased. This was because the national government did not raise public sector wages in the face of high inflation. As a result, the real cost of wages declined dramatically, allowing virtually all levels of local government to increase investment spending, despite the relatively modest growth of their revenues in inflation adjusted terms during 2015 and '16¹².

Chart 4 (below) breaks down the real growth (and/or decline) of local revenues by level of government between 2014 and 2017, but without OTH - which only began to operate in 2016. As can be seen from the Chart, the revenues of COS declined least in 2015, and have risen most over the entire period. The financial trajectories of rayons and oblasts, however is less clear. In 2015, rayon revenues fell, but then recovered to 2014 levels in 2016, while oblast levels plummeted in both years. This suggested that the national government was indeed moving money and functions away from higher-level local governments to the “base self-governing communities” of COS and OTH as defined in the Concept resolution of April 2014¹³.

¹² See Levitas and Djikic, “Caught Mid-Stream” pp. 20-24. In 2017, the national government did raise the minimum wage by 13%. We discuss the impact of this on local government budgets later in the Brief.

¹³ In “Caught Mid-Stream” we identified this shift as evidence of the government’s commitment to the “municipalization and gromadization of public power”. See pp.

Chart 4. Real Revenue Growth/Decline by Level of Government 2014-17



In 2017, however, this policy shift appears to have lost steam: Oblast revenue increased by a startling 44% while rayon revenue rose 15%. Meanwhile, COS revenue continued to rise, though at a pace slower than that of rayons (14%). Even more surprising, however, is that the revenues of OTH grew marginally. To be sure, total OTH revenue shot up from 8 to 18.5 billion hryvna as their number (159 in 2016, 366 in 2017) and population more than doubled (1.38 million in 2016, 3.12 million in 2017). But in per capita terms, their revenues rose only 2.3% --from 5,778 to 5,921 hryvna.

In 2017, however the policy shift in favor of COS and OTH seemed to lose steam:

- Oblast revenue increased by a startling 44% while rayon revenue rose 15% while COS revenue rose 14%.
 - OTH revenue grew a marginal 2.3%.
 - But unconsolidated hromada saw their revenues increase by 13%
 - And the investment incentives offered for amalgamation fell from 785 to 465 hryvna per capita
-

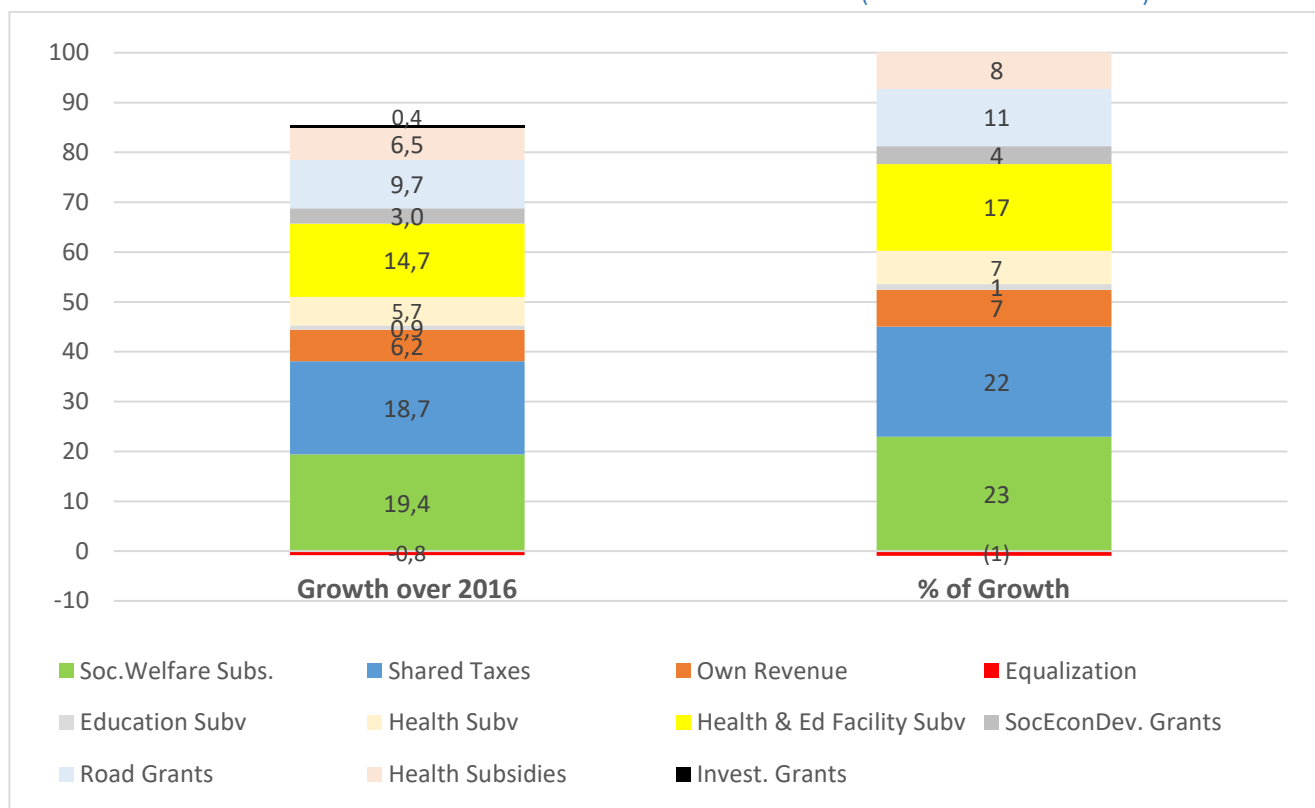
This was the smallest increase of any level of local government in 2017. Indeed, unconsolidated hromada – the level of government that OTH are ultimately scheduled to replace—saw their revenues increase by 13% --from 1,409 to 1,597 hryvna per capita¹⁴. Moreover, not only did the OTH revenue stagnate while those all other levels of government grew, but the investment incentives offered for amalgamation clearly

¹⁴ It should be noted that the composition of local revenues differs substantially across levels of government, and with it, the drivers of revenue growth. For example, the revenue growth of unamalgamated gromadas is being driven by own revenues, while that of rayons is being driven by the growth of grants and shared taxes. OTH revenue grew marginally because while revenues from shared taxes increased, investment grants fell.

declined in 2017: While the 159 OTH that were created in 2016 received an average of 785 hryvna per capita in investment grants in 2016, the 207 OTH that were formed in 2017 received only 465 hryvna in investment grants during their first year of operation¹⁵. In short, the fiscal commitment to promote the formation and operation of OTH clearly weakened in 2017¹⁶.

Between 2016 and 2017, total local government revenue increased from 413 to 498 billion hryvna after adjusting for inflation (85 bln or 20%). Chart 5 (below) presents the composition of this growth in both hryvna and percentage terms. It also shows that funds for equalization declined by 0.8 billion hryvna (discussed later). As can be seen from the Chart, Social Welfare subsidies (23%) and Shared Taxes (22%) account for most of the growth, and in both cases, the lion's share of it was driven by the 2017 increase of the base minimum wage by 13%.¹⁷

Chart 5. Drivers of Revenue Growth between 2014 and 2016 (bln hrn & % of total)



The new Health and Education Facilities Grant was responsible for 17% (14.7 bln hr) of 2017's revenue growth. It was introduced at the same time as that the Ministry of Education overhauled the formula for allocating the Education block grant. This new formula is designed to cover only the pedagogical costs of schooling, while making the financing of school maintenance a local government "own function". As such, and in theory, there should be no need for facilities grant. But the government was clearly concerned that

¹⁵ See Table 1 in Appendix comparing the per capita revenue of OTH in 2016 and 2017.

¹⁶ Note about investment grants in 2018 budget suggesting this continued in 2018

¹⁷ The increase in the minimum wage increased the yield of local governments' PIT shares while also generating automatic increases in most social welfare entitlements. It is worth adding, however, that all Social Welfare Subsidies (126 billion hryvna or 25% of total local revenue) —are now recorded as "Transfers to Individuals" when in fact this is not the case.

many local governments would not be able to finance the maintenance of their schools and medical facilities on their own, and thus introduced the Facility Grant to provide additional monies to those in need.

As a temporary measure, this is understandable. But if the Facilities Grant becomes permanent it will undermine the effort to clarify responsibilities in education by making school maintenance a local government own function. Also problematic is the fact that the construction of the Facilities Grant makes it impossible to determine how much of it was spent on schools as opposed to hospitals and clinics. Finally, it is worth adding that it is quite likely that some of the 7.7 billion hryvna that is flowing to rayons, is being used to forestall the formation of OTH.

The new Health and Education Facilities Grant accounts for 17% (14.7 bln hr) of all revenue growth in 2017. It was introduced at the same time that the Ministry of Education introduced a new formula to allocate the Education Block grant. The new formula covers only the pedagogical costs of schooling and makes maintaining facilities a local government “own function”. In theory, then, there should be no need for the facilities grant, though as a temporary measure, its introduction is understandable. But if it becomes permanent, it will undermine the effort to clarify responsibilities in the education sector.

Another 11% (9.7 bln hrn) of the revenue growth in 2017 came from the expansion to all oblasts and Kiev of a grant that was introduced as an experiment in three of them in 2016. The grant is earmarked for road construction and maintenance, and is funded by 50% of each oblasts’ collection of customs duties above a specified target value. Oblasts, in cooperation with the state road company, then determine what roads should be built where. The expansion of other grants for health care accounted for another 8% of 2017’s revenue growth¹⁸. As with the Road Grant, most of these grants flowed to oblasts and were earmarked for improving rural health care facilities.

Table 1: Select Grants by Level of Government in 2017

	Road Grant	% of Total	Health & Ed Fac. Subv	% of Total	Other Health Grants	% of total	Socio Econ Dev Subs	% of Total	Invest. Grants	% of total	All	% of All
Oblast	11.3	92%	5.9	40%	6.0	85%	1.2	20%	0.0	0%	23.4	63%
COS	1.0	8%	0.0	0%	0.6	9%	2.0	31%	0.5	23%	2.5	7%
Rayons	0.0	0%	7.7	52%	0.3	4%	1.5	24%	0.0	0%	8.3	22%
Gromada	0.0	0%	0.0	0%	0.1	1%	1.1	18%	0.1	6%	0.4	1%
AG	0.0	0%	1.1	8%	0.0	0%	0.4	7%	1.5	70%	2.6	7%
Total	12	100%	14.7	100%	7.1	100%	6.2	100%	2.1	100%	37.2	100%

¹⁸ About 4 of the 7 billion hryvna in Other Health Grants were monies earmarked for the improvement of rural health care facilities in 2016, but which were unspent and stayed on Oblast accounts in 2017.

Table 1 (above) presents the allocation of grants for Roads, Health and Education Facilities, Socio-Economic Development, Investment, and Other Health subsidies by level of government. Taken together, they are responsible for a little under half of all revenue growth in 2017, with most of the rest coming from Shared Taxes and Social Welfare transfers¹⁹. As can be seen from the table, the 23.4 billion hryvna of these grants (63%) went to oblasts, accounting for 85% of their revenue growth in 2017 while another 8.3 billion (22%) flowed to rayons, accounting for 44% of their revenue growth (see Chart 3). But only 5.1 billion hryvna (14%) went to COS and OTH.

In short, much of the 2017 growth in oblast and rayon revenue was driven by new grants and subsidies, all of which have easily understandable logics behind them: Ukraine needs new roads, and there are good reasons to support both the rationalization of rural health care facilities and the temporary provision of additional funds to local governments that cannot immediately pay for the operating costs of their schools.

The increase in grants for oblasts and rayons seems to be at odds with the objective of making OTH and COS the primary levels of public service delivery as defined in the 2014 Concept Resolution. In particular, and as we have already noted, both investment grants to incentivize the formation of new OTH and the equalization grant shrank in 2017 in real, per capita terms.

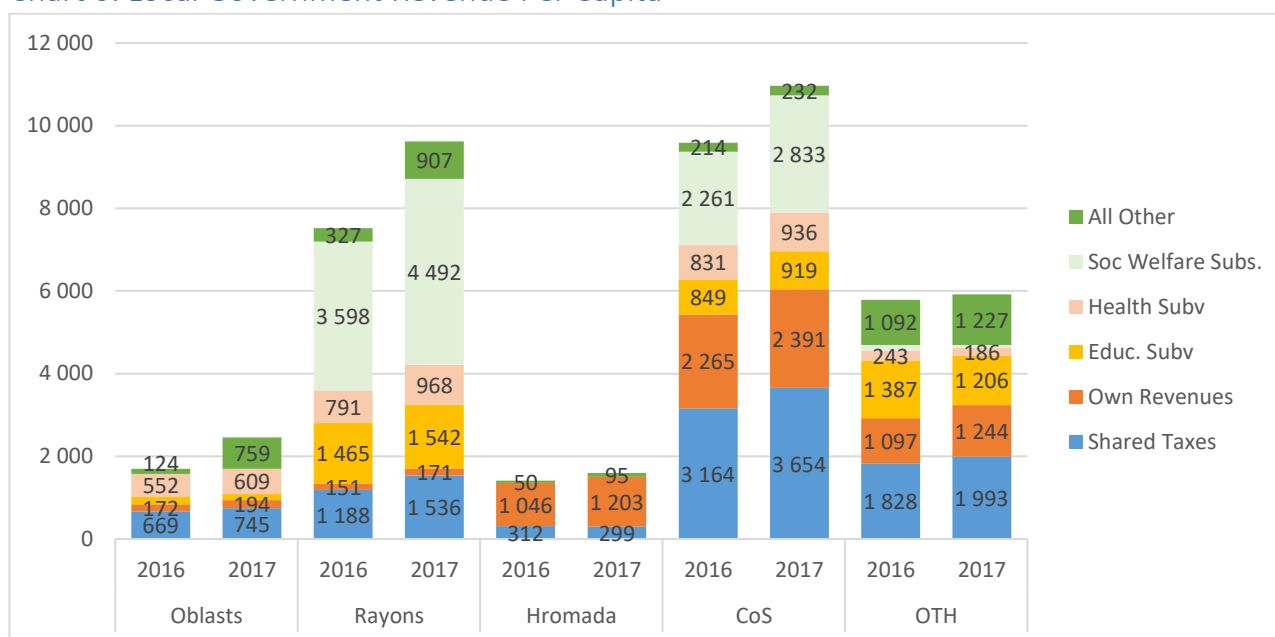
At the same time, however, the increase in grants for oblasts and rayons seems to be at odds with the objective of making OTH and COS the primary levels of public service delivery as defined in the 2014 Concept Resolution on local government reform. In particular, and as we have already noted, both investment grants to incentivize the formation of new OTH and the equalization grant shrank in 2017 in real, per capita terms.

Chart 6 (below) presents the per capita revenues of all local governments by their largest revenue categories in 2016 and 2017. It should be read in conjunction with Table 9 (below) which presents the expenditures of all local governments by function in 2017. Taken together, they help illustrate some of the fundamental issues facing the current reforms²⁰.

¹⁹ See Tables 2 in the Appendix for the allocation of Social Welfare Subsidies, the Health and Education Block grants and the Equalization Grant.

²⁰ See also Chart 2 in the Appendix which shows local government revenues as shares of their total budgets.

Chart 6: Local Government Revenue Per Capita*



*See Table 3 in the Appendix for an explanation of the particular revenues grouped in each category. For oblasts, most of the “All Other” category are the new Road and Health and Education Facility Grants; for rayons, Equalization and Health & Education Facility Grants; and for OTH, Equalization and Investment grants.

As can be seen from the Chart, COS and rayons receive the most revenues in relationship to the number of people they provide services to. OTH however, have caught up rapidly and are beginning to look structurally similar to COS. Moreover, if amalgamation proceeds as planned, OTH will assume responsibility for all schools currently run by rayons. The possible exception here concerns vocational schools. most of which are now run by oblasts, and which receive the lion’s share of the 17 billion hryvna that oblasts spend on education.

Going forward, it remains unclear whether responsibility for vocational education should be concentrated at the oblast level, or remain divided between oblasts, COS or rayons. But one thing is clear: the vast majority of the funds currently flowing to rayons through the Education Subvention will be shifted to OTH, leaving rayons with major responsibilities in only Health and Social Welfare.

Equally importantly, the implementation of a single-payer health care system will radically change the functions and budgets of oblasts, rayons and COS: All three levels of government are likely to retain ownership over many –maybe even most– of Ukraine’s hospitals and clinics. And as owners they will have to make hard decisions about which of the country’s surfeit of health care facilities should be closed, restructured, and/or invested in. They are also likely to remain creditors of last resort, and thus will have to closely monitor whether their commercialized health care institutions are operating within their financial possibilities.

Taken together, all of this raises fundamental questions about what exactly rayons and oblasts should do in the future, and indeed what kind of governments they should be.

The hollowing out of rayons functions by amalgamation and health care reform suggests that it may no longer be desirable to amend the constitution in order to transform them into true local governments with democratically-elected executives.

Table 2: Local Government Expenditure by Function in 2017 (bln hryvna)

	Public Admin	Educ.	Health	Soc. Welf.	Hsing & Muni Econ	Culture, Art, Sport	Const	Trans & Comm	Agric. Funds, Debt, Emerg. Prev	Other	Surplus	Total
Oblast	0.4	17.3	29.7	5.2	3.0	3.6	3.5	9.9	3.0	2.8	9.0	78.5
COS	9.2	55.4	32.6	62.5	17.6	8.5	10.0	15.0	1.4	13.3	-3.9	225.5
Rayons	1.1	42.1	21.5	70.9	0.1	4.8	0.8	0.2	0.2	1.2	3.0	142.9
Gromada	7.2	6.1	0.0	0.5	4.8	1.9	2.7	3.4	0.7	1.1	-4.1	28.4
AG	2.1	8.8	0.9	0.5	1.4	1.1	1.0	0.8	0.2	0.5	1.2	17.3
Total	20.0	129.7	84.7	139.6	26.9	19.9	18.0	29.3	5.5	18.9	5.2	492.6

But these financial possibilities will now be determined by the contracts hospitals and clinics will enter into with the new health care agency of the national government, contracts that at once should cover their operating costs and for which they will compete with private providers. And the lion's share of the transfers that local governments get from the national government to run hospitals and clinics will now flow directly to these institutions through the new contract system.

The fiscal magnitude of these changes can be seen from Table 2 (above). Most of the 29.7 billion hryvna that oblasts spent on health in 2017 (38% of their total spending and 35% of local expenditure on health) will be recentralized to finance the health care contracts. As a result, oblasts will lose their single most important service responsibility. Indeed, their only major day-to-day service responsibility is likely to be in vocational education.

Meanwhile, similar things will happen to rayons. Once most of the 20 billion hryvna they spend on health (15% of their expenditures and 25% of local health spending) is recentralized, and almost all their education responsibilities are transferred to OTH, rayon's only major day-to-day service responsibility will be in Social Welfare. Finally, COS will lose most of the 32.6 billion hryvna that they currently spend on health (14% of their expenditures but 38% of local health spending) and their revenue structure will look even more like those of OTH than they do today.

Taken together, all of this raises fundamental questions about what exactly rayons and oblasts should do in the future, and indeed what kind of governments they should be. Answering these questions for rayons

has become particularly pressing because there are now 17 rayons in which all gromada have been transformed into OTH, and another 137 in which more than half of them have amalgamated.²¹

For us at least, this hollowing out of rayons functions by amalgamation and health care reform, suggests that may no longer be desirable to amend the constitution in order to transform them into true local governments with democratically-elected executives. This is, of course, a profoundly political question for which there is no obvious answers. **But from a strictly technical point of view, it would probably be better to at once reduce the number of rayons while also making them more clearly territorial representatives of the national government.**

We say this because after schools have been transferred to OTH, rayons will be left with only two critically important functions: The allocation of social welfare subsidies to poorer households, a function which already accounts for close to 50% of their budgets. And the rationalization and improvement of health care facilities that they may still own, but whose operating costs will now be financed not from their budgets but through contracts with the national government.

The vast majority of social welfare funds flow directly to individual households according to nationally determined definitions of need. As such, the role of rayons (and COS) in the sector is –at least at the moment-- essentially that of a payroll agent of the national government. This is a role that really doesn't require a democratic local government to perform²².

At the same time, it is far from obvious that that there is any clear advantage to transforming rayons into fully-democratic local governments when their other major responsibility will be to make painful and contentious decisions about which health care facilities should be closed, and which should be invested in so that they have a chance of providing quality services on a contract basis.

Indeed, a similar set of arguments can be made about oblasts. Once the health care reform is implemented, their only major day-to-day service responsibility will be to finance and manage vocational schools, a function which even in Denmark --probably the most decentralized country in the world-- remains in the hands of the national government. More importantly, and as with rayons it may well be better for the technically complicated and politically fraught task of hospital rationalization to be carried out by oblasts that have effectively been transformed back into territorial representatives of the national government.

Moreover, Ukraine has yet to address the question of how the fiscal and legal probity of local governments should be monitored, and which agents of the national government should be entrusted with the task. Here too there are no obvious answers. Indeed, there may be good reasons to build such institutions from scratch. But there are also limits to how much new institution building Ukraine can afford to undertake at once. So again, the more prudent path may lie in abandoning plans to make oblasts fully-democratic local governments, and instead reconceive of them –like rayons– as territorial agents of the national government.

²¹ Decentralization Monitoring News Letter of Ministry of Regional Development, situation on 10 September 2018 (slide 8) - <https://storage.decentralization.gov.ua/uploads/library/file/309/10.09.2018.pdf>

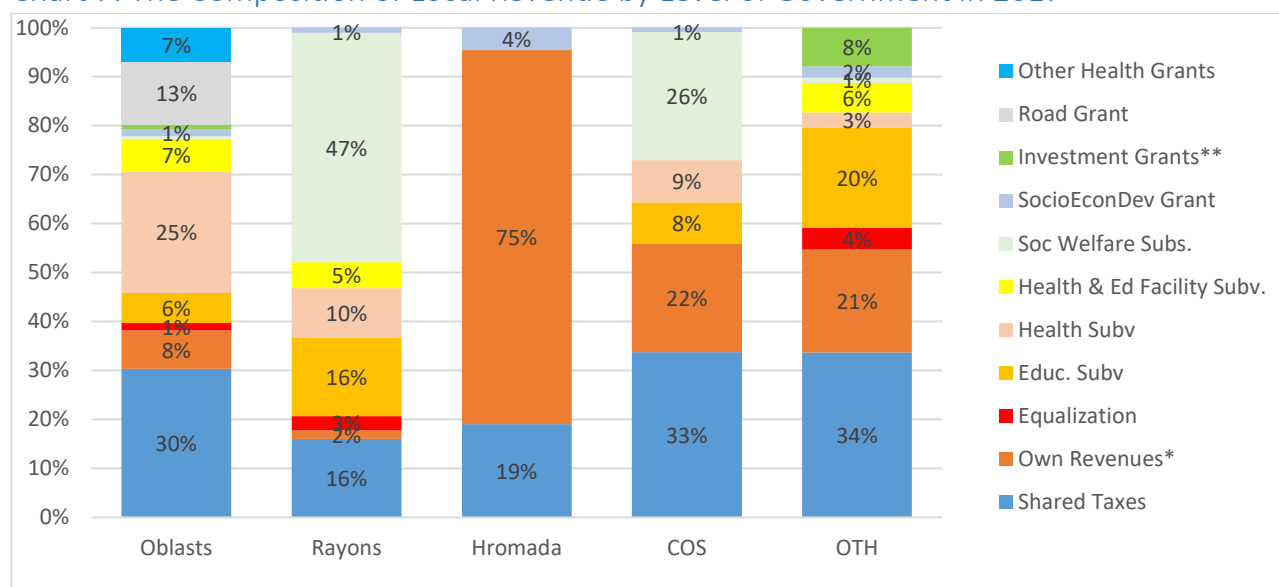
²² It is also a role that it seems to us could be fairly easily transferred to OTH who might also be better equipped to eventually take a more active role in the social welfare sector.

In short, what we are proposing is that national government authority be reasserted over fiscally smaller but more focused oblasts and rayons, while power and money is decentralized to stronger COS and OTH. Indeed, our hope is that some more dynamic political consensus can be constructed around a project that centralizes some planning and control functions at the oblast and rayon levels in return for the rapid completion of the amalgamation process and the transfer of most day-to-day public services to OTH and COS.

In short, what we are proposing is that national government authority be reasserted over fiscally smaller but more focused oblasts and rayons, while power and money is decentralized to stronger COS and OTH. Indeed, our hope is that some more dynamic political consensus can be constructed around a project that centralizes some planning and control functions at the oblast and rayon levels in return for the rapid completion of the amalgamation process and the transfer of most day-to-day public services to OTH and COS.

Chart 7 (below) shows the composition of local revenue by level of government²³. As can be seen from the Chart, the revenue structure of OTH and COS are becoming quite similar, while those of oblasts, rayons and gromada differ dramatically both from one another, and from COS and OTH. But with the striking exception of hromada all levels of local government remain extremely dependent on shared taxes and national government grants. Rayons are in the worst position and get only 2% of their revenues from own sources. But even COS and OTH derive a modest 22% of their budgets from sources over which they have some control.

Chart 7: The Composition of Local Revenue by Level of Government in 2017



²³ See Tables 4-8 in the Appendix for the revenues of all levels of government by their basic revenue categories.

In large measure, the dependency of Ukrainian local governments on grants and transfers simply reflects the fiscal weight of the social sector functions that have been assigned to them. Or put another way, the yield of most of the taxes that local governments are typically given power over, are simply too low to cover the costs of social sector functions like education, health or social welfare. And the more these functions are assigned to local governments, the more they become dependent on national government grants and shared taxes.²⁴

Indeed, there are only a handful of countries in the world in which local governments are responsible for major social sector functions, and at the same time derive more than 50% of their revenues from taxes, fees and charges whose rates they set themselves. Most of these are Nordic countries in which local governments have been given significant powers to set personal income tax rates (PIT).

In Sweden, for example, the national government sets the base of the personal income tax, and collects it, but local governments set the rates and get 100% of the tax's yield. As a result, Swedish local governments can finance schools, hospitals, and elderly care without having to rely on shared taxes or much in the way of national government grants. Meanwhile, in Finland rate authority over the tax is divided between the national government and local governments so that the latter have effective control over about 40% of the yield of the tax. Looking ahead, there is no reason why Ukraine shouldn't consider similar arrangements, once the health care reform is complete and it becomes clearer what each level of government is supposed to do.

More important for the moment, is that the expansion of grants and transfers to local governments that has occurred since 2014, has not depressed their willingness to use the new tax powers they were given by the 2014 reforms. These reforms gave COS, Hromada, and OTH partial, and capped, rate control over the Single Tax that the self-employed pay in lieu of PIT²⁵, as well as (capped) rate control over property and land taxes.

Table 3 (below) shows local government revenues –without the revenues of budget users—in inflation adjusted hryvna in 2014 and 2017. As can be seen from the Table, own revenues increased by 52% over the period, with virtually all of the growth coming from COS, hromada and OTH. Indeed, own revenues grew at well over double the rate of total revenue growth (20%) between 2014 and 2017, even if they still represents only 16% of the total revenues in the system.

²⁴ Blocklinger and King pithily call this tendency the “decentralization paradox. See “Less than you thought: The fiscal Autonomy of Sub-Central Governments”, OECD Economic Studies Report 43, 2006, pp. 156-188

²⁵ Three groups of the self-employed pay the Single Tax. Professional consultants –group 3- pay at a rate defined by the national government. But for groups 1 & 2, local governments have the right to set the rate within limits. For group 1 the rate can be up to 10% of the minimum wage. For group the rate can be up to 20% of the minimum wage.

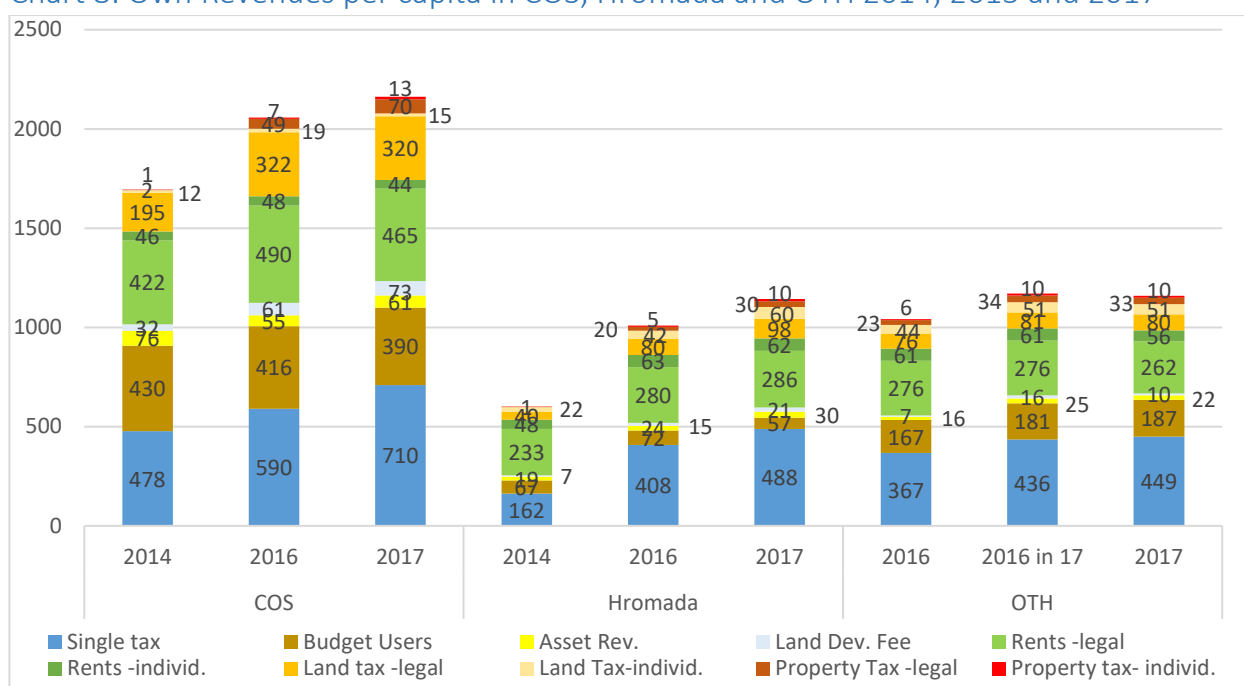
Table 3: Local Government Own-Revenue in 2014 & 2017 (bln hryvna)*

	2014	2017	% Growth
Oblast	1.7	1.7	0%
Rayon	0.2	0.3	35%
COS	28.5	40.4	42%
hromada	11.2	17.4	55%
OTH		3.3	
All	41.7	63.2	52%

*without revenues from Budget Users

The greatest growth in absolute terms came from COS, but it was actually in unamalgamated hromada that revenue growth was fastest. What this suggests is that hromada have responded to the fiscal pressure that the 2014 reforms put on them to consolidate –particularly the loss of their PIT share-- by aggressively using their new tax powers. Chart 8 (below) presents per capita growth of own revenue by type for COS, Hromada and OTH in 2014, 2015 and 2017.

Chart 8: Own Revenues per capita in COS, Hromada and OTH 2014, 2015 and 2017



“OTH 2016 in 2017” are the 157 OTH created in 2016 separated out from all 366 OTH functioning in 2017

The most import driver of growth for all three levels of government has come from the Single Tax. The increase in the yield of the tax between 2014 and 2016 probably came from the fact that most local governments chose to set its rate at the maximum level allowable by law after they were given rate setting powers in 2015. The growth between 2016 and 2017 growth was probably driven by the increase in the minimum wage²⁶, though more research should be conducted on both fronts.

²⁶ This is due to the wide spread use of sub-contracts to engage people who would otherwise be employees.

COS, hromada and OTH have all also clearly intensified their efforts to raise revenues from legal entities, and after the Single Tax, most of the growth has come from Land Taxes and Rents imposed on firms. COS, and to a lesser extent hromada and OTH, have also clearly begun to improve the yield of the property tax on firms, though its imposition on physical persons remains minimal. Hromada and OTH, however, do seem to be making greater use of their new tax powers to collect more revenues from individuals through the land tax.

All of this is good news. But because the national government is still responsible for the registration and collection of most local own revenue, we don't know how much of this growth is coming from expanding the base of these taxes and rents, and how much is coming from simply raising rates. This is an extremely important question that requires more granular field research, and the identification of obstacles to the registration and collection of taxes that might be reduced by giving local governments greater control over these aspects local taxation.

Equalization and the Horizontal Equity of the Finance System

As we have noted, the 2014 reforms radically simplified Ukraine's fiscal equalization system. This was done first by removing from the system funds for health and education expenditures and placing them in block grants governed by separate formulas. Then, new rules were introduced that limit equalization to the revenue side of the equation and which create what is referred to in Ukrainian as the Base/Reverse Grant²⁷. In the following, we explain these rules, critically review the current discussion about equalization, and then discuss effects of the system on local budgets.

2014 reforms radically simplified Ukraine's fiscal equalization system. This was done first by removing from the system funds for health and education expenditures and placing them in block grants governed by separate formulas. Then, new rules were introduced that limit equalization to the revenue side of the equation, rules which create what is referred to in Ukrainian as the Base/Reverse Grant

The basic rules of the system are best understood by looking at oblasts first: Oblasts whose per capita revenues from PIT & CIT are less than 90% of the average per capita yield of PIT & CIT *for all oblasts* are entitled to a grant equal to 80% of the difference between their per capita yield of PIT & CIT, and the 90% threshold. Thus, if the average per capita yield of PIT & CIT for all oblasts was 100 hryvna, and Oblast X

²⁷ Experts always debate whether equalization should address only revenues, or whether it should also take into account the relative costs of providing services in jurisdictions with different objective characteristics (e.g. sparsely populated, mountainous, high wage costs, etc.). We cannot discuss this debate here. But two comments are worth making: First, trying to quantify the various and often contradictory forces behind differential costs in service provision frequently leads to non-transparent formulas, as was true in Ukraine. Second, the new block grant for education captures some of these differential costs by allocating significantly more money per pupil in rural areas because here class sizes must be lower and teaching cost higher. See Junghun Kim & Jorgan Lotz, eds. Measuring Local Government Expenditure Needs," Copenhagen Workshop 2007, Danish Ministry of Social Welfare pp. 1-257.

had a PIT/CIT yield of 80 hryvna, it would receive an equalization grant of 8 hryvna multiplied by its population ($90 - 80 = 10$, $10 * .8 = 8$). This is called the “Base Grant” because it guarantees poorer local governments a “base” to their revenues.

The “Reverse Grant” comes from “taxing back” revenues from oblasts whose per capita yields of PIT & CIT are greater than 110% of the average for all oblasts: Richer oblasts are required to pay into the system 50% of their PIT & CIT revenues over 110% of the per capita average. Thus, if Oblast Y had a PIT/CIT yield of 130 hryvna per capita, it would have to pay a Reverse Grant equal to 10 hryvna multiplied by its population ($130 - 110 = 20$, $20 * .5 = 10$).

The same basic rules apply for other local governments with four important exceptions. First, only PIT is used in the calculations²⁸. Second, non-amalgamated hromada are not included because in the past their competencies have been considered too small to equalize for, and because since 2014 the idea has been to encourage them to amalgamate. Third, and more importantly, COS, rayons and OTH are treated as a single group, meaning the per capita PIT average used to set the thresholds which determine who gets a base grant and who pays a reverse grant are calculated for all of them together, and not for each level separately. And finally, Kyiv is completely out of the system, meaning its PIT & CIT revenues are not used to determine the national average PIT yield for the group, nor does Kyiv pay into the system.

Taken together, the third and fourth rules governing equalization at the COS, rayon and OTH levels are of the most consequence. The exclusion of Kyiv obviously means that the richest jurisdiction in the country, does not pay a Reverse Grant, and thus does not contribute to the system. Less obviously, but equally importantly, the exclusion of Kyiv lowers the per capita thresholds that govern who is entitled to a Base Grant and who must pay a Reverse Grant. As a result, less COS, OTH and rayons are eligible for equalization payments, and more of them pay into the system.

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There are two entirely legitimate arguments for excluding Kyiv from the system. The first is that Kyiv is simultaneously a City of Oblast significance and an oblast and thus is responsible for public services that other COS don't have to provide. The second is that Kyiv, like all capital cities, provides services to citizens who live all elsewhere but make use of the city's services and amenities. Indeed, the intergovernmental

²⁸ The exception is the capital city Kyiv which receives a 10% share of CIT and 40% of PIT while other COS receive a 60% PIT share. It is worth adding that own-revenues whose taxable base is not known by the national government cannot be used for equalization because (poorer) local governments would then be able to increase their equalization grants by lowering their tax effort. If the base is known, however, tax effort can be controlled for by adjusting the yield to a standardized (average) rate.

finance systems of many countries contain special rules that favor capital cities. Moreover, because it is always difficult to quantify the additional costs that capital cities incur because they are capitals, these rules are generally driven as much by politics as by concerns about fiscal equity.

These concerns, however are worth considering even if they are difficult to quantify. As can be seen from Table 12 in Appendix 1, **Kyiv's total per capita revenues in 2017 without social welfare transfers (14,640 hr.) were almost three times those of the poorest 25% of COS, and almost double the average for all COS. Moreover, Kyiv's 40% PIT share yielded almost double the per capita revenue (c. 5,000 hr. pc) of what the 60% PIT share yielded for all other COS (c. 2,700 hr. pc)²⁹ while its 10% CIT share gave it another thousand hryvna per capita that other COS don't receive.** Indeed, Kyiv's CIT share alone yielded about 40% more in per capita revenue than what all other oblasts earned from their PIT and CIT shares combined (630 hr. pc)³⁰.

In short, Kyiv is doing very well both as a city and as an oblast, and in 2017 was able to devote 36% of its budget to investment, three times more than that of the poorest 25% of COS and 10% more than that of the richest 25%. What this suggests, is that there are good reasons to consider including Kyiv in the equalization system, though how this might be done should be thought about only in the context of other modifications that we think need to be made.

The most important aspect of the current system that requires critical discussion is the treatment of COS, rayons and OTH as single group.

The lower per capita average that comes with treating three levels of government as if they had the same revenue need results in COS paying the most into the system, while getting almost nothing out of it, while rayons pay almost nothing into the system and get the most of out of it.

For us, the most important aspect of the current system that requires critical discussion is the treatment of COS, rayons and OTH as single group. As with the exclusion of Kyiv, what this does is lower the average per capita yield of PIT for COS, while raising it substantially for OTH, and even more substantially for rayons: When calculated together, the average yield of PIT for the group was c. 2,100 hryvna per capita in 2017. But calculated separately, the average for COS (without Kyiv) was c. 2,700 hryvna per capita³¹ while for OTH it was c. 1,700 hr. and for rayons c. 1,500 hr.

The lower per capita average that comes from treating the three levels of government as if they had the same revenue needs results in COS paying the most into the system, while getting almost nothing out of

²⁹ This is possible not just because employment rates and average wages are much higher in Kyiv than elsewhere, but because PIT is allocated back to local governments based on employees' place of work, not their place of residence. Thus, urban centers get the PIT shares of workers who commute to work, while the surrounding areas in which they live have to pay for public services for people who live there, but whose PIT share they don't receive.

³⁰ This is because CIT shares are paid to the jurisdiction in which a company's headquarters are registered, and the vast majority of the country's biggest enterprises are in based in Kyiv.

³¹ With Kyiv it would about 3,000 hr. pc.

it, while rayons pay almost nothing into the system and get the most of out of it. This can be seen from Table 4 (below) which presents the workings of the Base and Reverse Grants in 2016 and 2017.

Table 4: The Base/Reverse Grant (Equalization) in 2016 & 2017

	2016					2017				
	Recipients		Payees			Recipients		Payees		
	#	Bln HR	#	Bln HR	Diff	#	Bln HR	#	Bln HR	Diff.
Oblasts	18	0.83	6	0.53	-0.30	17	0.91	5	0.62	-0.28
CoS	52	0.33	61	2.22	1.89	53	0.39	63	2.74	2.35
Rayons	380	3.27	34	0.24	-3.04	368	3.64	38	0.37	-3.27
OTH	125	0.28	22	0.06	-0.22	293	0.77	48	0.16	-0.61
Total	575	4.71	123	3.05	-1.66	731	5.71	154	3.90	-1.82
Equalization's Cost to the National Government*					1.66					1.82

*Through "Stabilization Grants" –which are distributed to local governments on an ad hoc basis the national government contributed to another 2 bln hr. to equalization in 2016, and 1.13 bln in 2017

As can be seen from the Table, in 2017, 53 COS received Base Grants worth only 0.39 billion hryvna, while 63 of them paid Reverse Grants worth 2.74 billion. Meanwhile, 368 rayons received 3.64 billion hryvna in Base Grants, while 38 of them paid Reverse Grants worth only 0.37 billion. As a result, at the rayon level the system was in deficit by more than 3.27 billion hryvna. Moreover, the lion's share of this deficit was paid for by COS, since in 2017 COS contributed substantially more to the equalization system than the national government. Later we will discuss the national government's contribution to the system.

In 2017, 53 COS received Base Grants worth only 0.39 billion hryvna, while 63 of them paid Reverse Grants worth 2.74 billion. Meanwhile, 368 rayons received 3.64 billion hryvna in Base Grants, while 38 of them paid Reverse Grants worth only 0.37 billion

But what is more interesting now is what the system is "buying" in terms of revenue equity for each level of government. To analyze this, we have separated rayons, COS, and OTH from each other, and then ranked all local governments in each group from poorest to richest using their per capita revenues from PIT³². We then divided each group into four quartiles so that the 1st quartile contains the 25% of that group's local governments with lowest per capita revenues, and the 4th quartile contains the 25% that have the highest per capita revenues from PIT. Table 5 (below) presents summary information of this analysis for rayons, OTH and COS --without Kyiv- in 2017³³.

³² We use per capita PIT both because it is the indicator that on which the equalization system is grounded, and the best single measure of the relative wealth of different jurisdictions. Going forward, both the equalization system, and the measure of relative wealth that is based on could be made more robust by including other shared taxes (e.g. the excise tax).

³³ The full analysis of the horizontal equity of the system for all levels of local government can be found in Tables 12-19 of Appendix 1. The expenditure quartiles are also formed by using per capita PIT revenues because what we want to see is the different expenditure patterns that come with relative wealth. The total per capita revenues shown in the Tables do not include social transfers because they are not controlled by local governments, though they do flow disproportionately to poorer jurisdictions because higher proportion of poorer households live there. Similarly, the total per capita expenditures shown in the Table do not include expenditure on Transfers to Individuals.

The first column for each group contains the average per capita PIT revenue of every quartile of that group; the second, the average per capita revenue from equalization (the Base Grant) and the third, the average amount of total per capita revenue less social transfers. As can be seen, from the Table, the poorest quartile of local governments in each group gets the largest amount of money from the Base Grant, as one would expect, with the poorest OTH getting the most, and COS getting the least.

Table 5: The Effects of Equalization on the per capita revenues of Rayons, OTH and COS* in 2017

	Rayons				OTH				COS			
	PIT	Equal.	Total	% of 4 th	PIT	Equal.	Total	% of 4 th	PIT	Equal.	Total	% of 4 th
1st Q	838	513	4,837	0.82	629	548	4,623	0.61	1,467	187	4,962	0.61
2nd Q	1,260	318	4,877	0.82	1,113	369	5,296	0.70	1,947	39	5,902	0.73
3rd Q	1,641	173	4,933	0.83	1,567	192	5,644	0.75	2,673	6	6,887	0.85
4th Q	2,602	38	5,931	1.00	3,091	31	7,546	1.00	3,389	1	8,113	1.00

*without Kyiv.

But the column labeled “% of 4th” is the most interesting. It shows the percentage of total revenues of each of the first three quartiles to the 4th. As can be seen from the column, the large share of total Base Grant money going to rayons is “buying” them the most equitable distribution of total revenues: The first three quartiles of rayons all have total revenues equal to over 80% those of the 4th quartile, while the poorest quartiles of OTH and COS only have 61% of the total revenues of the richest quartile. Moreover, for both OTH and COS, there are more significant differences between percentage of the 2nd quartile’s total revenues and those of the 4th, and for OTH, between the 3rd and 4th as well.

Both the total amount of funds being devoted to equalization at the rayon level, and the much more pronounced equity that it is purchasing for them seems out of alignment with national government’s declared intention to make COS and OTH Ukraine’s primary levels of local government: In short, it makes little sense to both take money away from COS, and permit greater revenue inequality among them and OTH in order to provide the most liberal equalization payments to rayons whose role is supposed to shrink.

In short, it makes little sense to both take money away from COS, and permit greater revenue inequality among them and OTH in order to provide the most liberal equalization payments to rayons whose role is supposed to shrink.

But while this seems to us highly problematic, it is also fair to say that it is far from obvious how to reform the equalization system when the functions of all three levels of government are still in flux and the amalgamation of hromada remains incomplete. Nonetheless, we think it is both possible and necessary to begin to think about what the future system might look like, as well as the steps that might be taken during what still must be regarded as a transitional period. To clarify this discussion, we briefly restate the key characteristics of the current system, before briefly reviewing a recent proposition to make the equalization system “self-balancing.”

With respect to the current operation of the system, the most salient points are as follows:

- **The equalization system is actually very small:** In 2016, 575 jurisdictions received Base Grants worth 4.7 billion hryvna, or 1.1% of the total revenue in the intergovernmental finance system. In 2017, 731 jurisdiction received 5.7 billion hryvna in Base Grants, a sum which again constituted only 1.1% total local government budgets (see Table 4 and Chart 3 above)³⁴.
- **The system currently costs the national government very little:** Less than half the current costs of Base Grants are being paid for by the national budget and the 1.6 billion hryvna that it contributed to the system in 2017 represents a very small fraction of the new grants that local governments received in the same year (e.g. 12 billion in Road Grants and 14.7 in facility grants – Table 1 above). As such, it seems fair to say that the national government could afford to put more money into the system.
- **COS contribute the most to the system and get the least out of it, while rayons contribute the least, while getting the most out of it.** This seems at odds with the 2014 reform objective of streamlining the role of rayons in Ukraine’s system of local governance.
- **The equalization system put in place in 2014, functions better than the one it replaced, though its impact has differed across levels of government.** For oblasts, revenue equity improved, with the total revenues of the poorest quartile increasing from 58% of the 4th quartile in 2014, to 66% of the 4th quartile in 2017 (Table 10 in Appendix 1).

For COS however, revenue equity declined, with the revenues of the poorest quartile falling from 74% of the 4th in 2014 to 61% in 2017. The differences between the 2nd, 3rd and 4th quartiles also expanded (Table 12 in Appendix 1).

Equity also declined for rayons. But here it is fair to say that both the previous and the current system over equalized: In 2014, the two poorest quartiles of rayons actually ended up with more total per capita revenue than the richest one after equalization, while in 2017, the first three quartiles all ended up with about 80% of the revenue of the 4th (Table 14 in Appendix 1).

Finally, the current system is producing revenue disparities for OTH that are very similar to those of COS: In 2017, the poorest quartile of OTH received 61% of the per capita revenues of the 4th, with 2nd and 3rd getting, respectively 70 and 75% of the 4th.

In short and taken together, the current system costs the national government very little, is paid for mostly by COS (but not Kyiv) and –with the exception of rayons-- works reasonably well.

³⁴ Here we leave out the 2 bln hr in ad hoc Stabilization Grants that local governments received in 2016 and the 1.3 bln hr. that they got in 2017. If these funds are included in the calculation, equalization monies still account for less than 1.8% of total revenues in 2016, and 1.4% of them in 2017. Looking ahead, these ad hoc grants should be eliminated and the funding for them probably folded into the equalization system.

In short, and taken together, the current system costs the national government very little, is paid for mostly by COS (but not Kyiv) and –with the exception of rayons-- works reasonably well. But this does not mean that it will continue to work well when more and OTH come on line, and the needs for equalization at this level of government increase. Indeed, a recent proposal by the government to make the system “self-balancing” suggests that policy makers do not fully understand how much the amalgamation process requires a strong equalization system.

The essence of the self-balancing proposition is to eliminate the need for the national government to contribute to the system by adjusting the equalization thresholds so that the amount taxed away from richer jurisdictions in Reverse Grants is sufficient to pay for all Base Grants. This idea was proposed in 2017, and ultimately wisely rejected. But if it had been pursued, it would have had extremely perverse consequences: So long as COS, OTH, and rayons are treated as a single group, and no contribution is required from Kyiv, any attempt to make the system self-balancing can only be paid for by taxing away more money from COS, and giving less to both rayons and OTH.

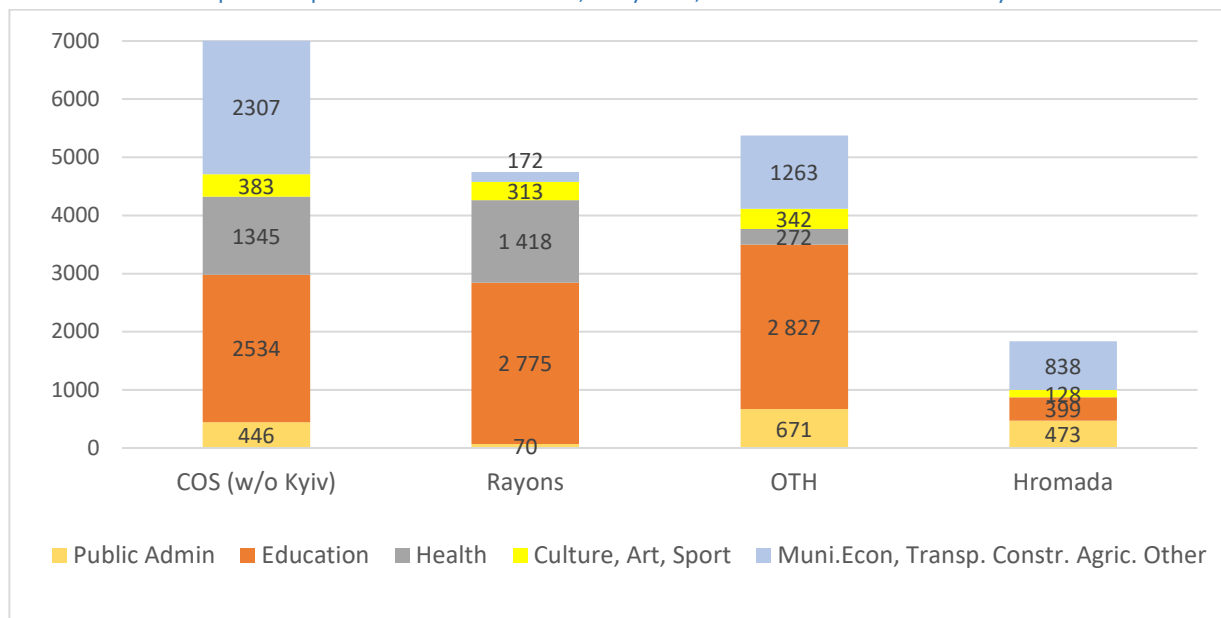
To us, this is probably almost exactly the opposite of what should be done now: **The government should at once reduce the amount of money going to rayons, while considering adding revenues to the system to support poorer OTH and to prevent the over taxation of COS. The amount of Base Grants being given to rayons should be reduced for at least three reasons. First it seems that rayons are being over equalized now relative to both OTH and COS. Second, because the generous equalization payments that they currently receive is almost certainly encouraging some of them to resist amalgamation. And third because their functions will shrink going forward.**

Indeed, the current system –by calculating a single equalization threshold for COS, OTH and rayons—is predicated on the assumption that all three levels of government have the same services responsibilities and thus should be equalized to the same level. This is clearly not supposed to be the case when all hromada have been amalgamated. But it is not really true now, even if the laws regulating local government functions suggest otherwise.

What we mean by this is can be seen in Chart 9 (below). It presents the per capita expenditures by function of COS, rayons, OTH and unamalgamated hromada (without Social Welfare Transfers). As can be seen from the Chart, rayons certainly have greater responsibilities in the health care sector than OTH, and arguably similar levels to those of COS. But for both rayons and COS, health spending should decline as the single-payer system is implemented.

More importantly for our purposes, however, is the fact that no matter what the laws say, **rayons actually spend very little on functions associated with maintaining basic local infrastructure like roads, water, sewage and irrigation systems or street lights and parks. Instead, these services are really only being provided by COS, OTH, and unamalgamated hromada.**

Chart 9: Per Capita Expenditures of COS*, Rayons, Hromada and OTH by Function in 2017



*without Kyiv

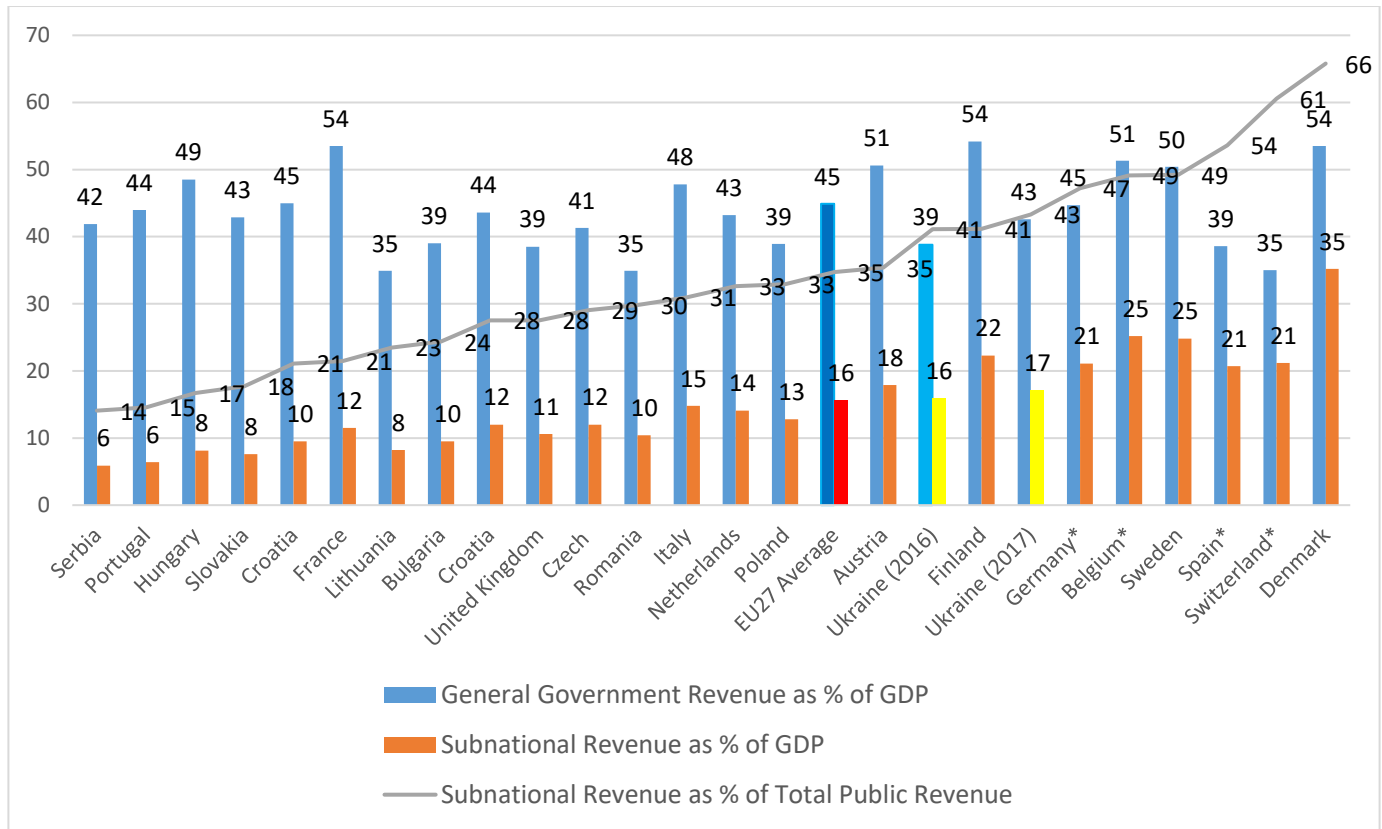
What this suggests to us is that the national government should set a separate, lower equalization threshold for rayons based on the current average yield of PIT at the rayon level. This would lower their equalization threshold from 90% of 2,100 hryvna per capita --the average yield of PIT in COS, rayons, and OTH but without Kyiv-- to 90% of the 1,500 hryvna per capita that is currently the average PIT yield for rayons alone. To be sure, this is an imperfect calculation. But there is a basic logic to it: By lowering the equalization threshold for rayons to about 1500 hryvna per capita, the system would stop equalizing for functions whose costs are currently born by unamalgamated hromada (without equalization) and which are clearly being transferred to OTH.

At the same time, we also think that the national government should fully cover (the now lower costs) of equalization at the rayon level, and abandon the practice of having COS subsidize them. Removing rayons from the calculation of the equalization thresholds for COS and OTH, would in turn have important positive consequences for both levels of government: **It would raising the equalization threshold for COS and OTH from c. 2,100 hryvna per capita to 2,600, at once reducing the number of COS (and OTH) who have to pay Reverse Grants, while increasing the number of both that would be entitled to receive Base Grants. This would serve to further incentivize amalgamation, and allow poorer COS and OTH to increase their investment levels closer to those of their richer counterparts** (see Tables 13 and 19 in Appendix 1)

Doing this however, would also obviously increase the costs of equalization for the national government. But given how little the national government is currently contributing to the system, these costs are almost certainly affordable, and could further be defrayed by imposing some obligations on Kyiv to contribute to the system. In any case, we do not mean here to propose a specific set of equalization thresholds that might be adopted tomorrow. Instead we are suggesting an approach to the reform of the equalization system that is better aligned with government's objective of eventually making COS and OTH the primary providers of local public services in Ukraine.

Appendix

Chart 1. Subnational Revenue as a % of GDP and Total Public Revenues in Select European Countries in 2016



Source: EuroStat. *Federal states

Table 1: Per Capita Revenue of OTH in 2017

	# OTH	Pop. (mln)	Aver. Pop.	Share d Taxes	Own Rev.	Equal	New Fac. Grant	Educ. Grant	Health & Soc. Welf. Grants	Socio-Econ Subs.	Inv. Grants	total
New OTH in 2016	159	1.4	8,717	1,828	1,091	248	0	1,387	383	59	791	5,788
New OTH in 2017	207	1.7	8,372	1,872	1,213	263	314	1,080	136	152	475	5,506
All OTH in 2017	366	3.1	8,531	1,993	1,234	263	354	1,206	251	139	482	5,921

Table 2: The Allocation of Social Welfare, Health, Education & Equalization Grants in 2017

	Soc. Welfare	% of Total	Health	% of Total	Educ.	% of Total	Equal.	% of Total	All	% of Total
Oblast	0.4	0%	21.7	44%	5.4	11%	1.3	19%	28.8	12%
COS	57.3	45%	18.9	39%	18.6	36%	0.5	7%	95.3	41%
Rayons	68.2	54%	7.7	16%	23.4	46%	4.2	61%	103.5	44%
Gromada	0.1	0%	0.0	0%	0.0	0%	0.0	0%	0.1	0%
AG	0.2	0%	0.6	1%	3.8	7%	0.8	12%	5.4	2%
Total	126.2	100%	48.9	100%	51.2	100%	6.8	100%	233.0	100%

Table 3: The Aggregation of Revenue Categories Used in the Report

Shared Taxes	PIT, CIT, Excise, Environmental Fees
Own Revenues	Single Tax, Land and Building Taxes, Rents, Land Development Fee, Asset revenues, Other Local Fees and Taxes
Budget Users	Revenues collected by budget users of the local government such as schools and hospitals
Equalization	Equalization and Stabilization Grants
Education Subvention	Education Subvention and Vocational Education Subvention
Health Subvention	Health Subvention
Social Welfare Subsidies	
Investment Grants	
Road Funds	Road Fund Grant from Customs system
Health Related Grant	Rural Health Facilities Grant, other
Donor Grants and Contribution	

Table 4. Oblast Revenue 2014-2017 (bln hr.)

	2014	2015	2016	2017
Shared Taxes	35.1	18.4	23.8	26.5
Own Revenues	1.7	1.3	1.5	1.7
Rev of Budget Users	5.2	5.3	4.6	5.2
Equalization	34.6	1.9	1.7	1.3
Education Subv	0.0	13.8	6.4	5.4
Health Subv	0.0	23.0	19.7	21.7
Health & Ed Facility Subv	0.0	0.0	0.0	5.9
Social Welfare Subs	5.6	2.4	0.0	0.4
SocioEconicDev. Grants	0.2	0.3	0.4	1.2
Investment Grants	0.7	0.1	0.0	0.0
Road Funds	0.0	0.7	1.9	11.3
Health related grants	0.4	0.3	0.2	6.0
donor grants	0.0	0.0	0.2	0.8
Total	83.5	67.6	60.4	87.5

Table 5: COS Revenue 2014-2015 (bln hr)

	2014	2015	2016	2017
Shared Taxes	55.2	49.8	64.1	73.9
Own Revenues	28.5	27.2	37.4	40.4
Rev of Budget Users	8.7	11.2	8.4	7.9
Equalization	18.9	0.8	1.1	0.5
Education Subv	0.0	19.1	17.2	18.6
Health Subv	0.0	19.4	16.8	18.9
Health & Ed Facility Subv	0.0	0.0	0.0	0.0
Social Welfare Subs	54.2	39.8	45.8	57.3
SocioEconicDev. Grants	0.1	0.3	1.1	2.0
Investment Grants	1.8	0.7	0.5	0.5
Road Funds	0.0	0.0	0.7	1.0
Health related grants	3.7	0.4	0.4	0.6
donor grants	0.0	0.1	0.6	0.0
Total	171.1	168.9	194.1	221.7

Table 6: Rayon Revenue 2014-2017 (bln hr)

	2014	2015	2016	2017
Shared Taxes	16.0	16.1	20.0	23.3
Own Revenues	0.2	0.2	0.3	0.3
Rev of Budget Users	1.8	2.0	2.2	2.3
Equalization	61.2	6.4	4.5	4.2
Education Subv	0.0	29.9	24.7	23.4
Health Subv	0.0	16.2	13.3	14.7
Health & Ed Facility Subv	0.0	0.0	0.0	7.7
Social Welfare Subs	49.0	44.5	60.7	68.2
SocioEconicDev. Grants	0.1	0.2	1.0	1.5
Investment Grants	0.0	0.0	0.0	0.0
Road Funds	0.0	0.0	0.0	0.0
Health related grants	0.0	0.5	0.0	0.3
donor grants	0.0	0.0	0.0	0.0
Total	128.4	115.9	126.9	145.9

Table 7: Hromada Revenue 2014-17 (bln hr)

	2014	2015	2016	2017
Shared Taxes	9.2	4.1	5.3	4.5
Own Revenues	11.2	13.0	16.4	17.4
Rev of Budget Users	1.3	0.8	1.2	0.9
Equalization	0.3	0.1	0.0	0.0
Education Subv	0.0	0.0	0.0	0.0
Health Subv	0.0	0.0	0.0	0.0
Health & Ed Facility Subv	0.0	0.0	0.0	0.0
Social Welfare Subs	0.1	0.1	0.0	0.1
SocioEconicDev. Grants	0.0	0.1	0.6	1.1
Investment Grants	0.6	0.1	0.1	0.1
Road Funds	0.0	0.0	0.0	0.0
Health related grants	0.0	0.5	0.0	0.1
donor grants	0.0	0.0	0.0	0.0
Total	22.8	18.9	23.8	24.2

Table 8: OTH Revenue 2016-2017 (bln hr)

	2016 (157)	2017 (366)	Per capita, in thousand grivna		
			2016	2017	%
Shared Taxes	2.5	6.2	1,8	2,0	109,7
Own Revenues	1.3	3.3	0,9	1,1	112,3
Rev of Budget Users	0.2	0.6			
Equalization	0.3	0.8	0,2	0,3	117,9
Education Subv	1.9	3.8	1,4	1,2	88,5
Health Subv	0.3	0.6	0,2	0,2	88,5
Health & Ed Facility Subv	0.0	1.1	0,0	0,4	
Social Welfare Subs	0.2	0.2			
SocioEconicDev. Grants	0.1	0.4	0,1	0,1	176,9
Investment Grants	1.1	1.5	0,8	0,5	60,3
Road Funds	0.0	0.0			
Health related grants	0.0	0.0			
donor grants	0.0	0.0			
Total	8.0	18.5			

Table 9: Local Government Expenditure by Function in 2017 (bln hryvna)

	Public Admin	Educ.	Health	Soc. Welf.	Hsing & Muni Econ	Culture, Art, Sport	Const	Trans & Comm	Agric. Debt, Emerg.	Other	Surplus	Total
Oblast	0.4	17.3	29.7	5.2	3.0	3.6	3.5	9.9	3.0	2.8	9.0	78.5
COS	9.2	55.4	32.6	62.5	17.6	8.5	10.0	15.0	1.4	13.3	-3.9	225.5
Rayons	1.1	42.1	21.5	70.9	0.1	4.8	0.8	0.2	0.2	1.2	3.0	142.9
Gromada	7.2	6.1	0.0	0.5	4.8	1.9	2.7	3.4	0.7	1.1	-4.1	28.4
AG	2.1	8.8	0.9	0.5	1.4	1.1	1.0	0.8	0.2	0.5	1.2	17.3
Total	20.0	129.7	84.7	139.6	26.9	19.9	18.0	29.3	5.5	18.9	5.2	492.6

Table 10: Oblast Revenue Quartiles Ranked by Per Capita PIT in 2014, 2015, 2017*

2014	% of Pop.	Shared Taxes	Own Revenue	Equal	Educ. Sub	Heath Sub	Road Grant	Other Grants	Total	% of 4th
1st Q	19%	434	172	1,128	na	na	na	41	1,775	0.58
2nd Q	24%	614	178	1,033	na	na	na	29	1,854	0.61
3rd Q	28%	745	178	852	na	na	na	31	1,806	0.59
4th Q	29%	1,861	231	914	na	na	na	44	3,050	1.00
Total	100%	977	192	965	na	na	na	36	2,170	0.71
2016	% of Pop.	Shared Taxes	Own Revenue	Equal	Educ. Sub	Heath Sub	Road Grant	Other Grants	Total	% of 4th
1st Q	18%	350	154	113	175	524	76	20	1,411	0.73
2nd Q	18%	558	181	73	204	561	0	35	1,611	0.84
3rd Q	23%	631	209	29	151	543	0	20	1,584	0.82
4th Q	40%	884	156	16	184	567	98	19	1,924	1.00
Total	100%	669	172	47	179	552	53	22	1,694	0.88
2017	% of Pop.	Shared Taxes	Own Revenue	Equal	Educ. Sub	Heath Sub	Road Grant	Other Grants	Total	% of 4th
1st Q	19%	450	159	93	153	594	168	395	2,012	0.66
2nd Q	21%	579	246	50	158	602	258	359	2,252	0.74
3rd Q	31%	663	164	20	139	592	426	291	2,294	0.76
4th Q	29%	1,145	212	7	158	641	341	525	3,028	1.00
Total	100%	745	194	36	151	609	317	393	2,445	0.81

Without Social Welfare Transfers, Shared Taxes include Environmental fees as well as PIT and CIT

Table 11: Oblast Expenditure Quartiles Ranked per capita PIT in 2014, 2016, 2017*

2014	% Pop	Wages	Utilities	Other Operating	Subsidies to Enterp.	Invest.	Total	% Invest.	% wages	% 4th
Q1	19%	892	89	450	106	103	1,640	0.06	0.54	0.64
Q2	21%	908	108	500	75	80	1,671	0.05	0.54	0.66
Q3	31%	921	115	442	446	91	2,015	0.05	0.46	0.79
Q4	29%	932	137	1,119	212	150	2,550	0.06	0.37	1.00
All	100%	916	115	653	226	107	2,017	0.05	0.45	0.79
2016	% Pop	Wages	Utilities	Other Operating	Subsidies to Enterp.	Invest.	Total	% Invest.	% wages	% 4th
Q1	19%	636	82	379	66	127	1,290	0.10	0.49	0.72
Q2	21%	668	100	461	81	128	1,438	0.10	0.46	0.80
Q3	31%	597	87	505	77	140	1,406	0.09	0.42	0.78
Q4	29%	659	108	477	122	436	1,802	0.10	0.37	1.00
All	100%	638	95	463	89	221	1,506	0.24	0.42	0.84
2017	% Pop	Wages	Utilities	Other Operating	Subsidies to Enterp.	Invest.	Total	% Invest.	% wages	% 4th
Q1	19%	444	47	840	180	198	1,709	0.12	0.26	0.63
Q2	21%	430	53	1,047	202	202	1,934	0.10	0.22	0.71
Q3	31%	343	45	1,058	387	222	2,055	0.11	0.17	0.76
Q4	29%	434	63	1,134	373	716	2,720	0.26	0.16	1.00
All	100%	407	52	1,036	304	358	2,157	0.00	0.19	0.79

*Without Transfers to Individuals

Table 12. COS Revenue Quartiles Ranked by Per Capita PIT 2014, 2016, 2017*

2014	% of Pop.	PIT/CIT	Other Shared Taxes	Own Revenue	Equal.	Educ. Sub	Health Subv.	Other Grants	Total	% of 4th	% of Kyiv
1st Q	10%	1,012	8	735	2,008	na	na	63	3,826	0.74	0.34
2nd Q	14%	1,553	21	1,192	1,705	na	na	72	4,543	0.88	0.40
3rd Q	26%	2,162	37	1,482	1,178	na	na	85	4,943	0.95	0.44
4th Q	36%	2,969	71	1,744	318	na	na	86	5,189	1.00	0.46
Kyiv	14%	5,136	58	4,122	553	na	na	1,448	11,316	2.18	1.00
Total	100%	2,677	47	1,837	1,791	na	na	274	6,626	1.28	0.59
2016	% of Pop.	PIT/CIT	Other Shared Taxes	Own Revenue	Equal.	Educ. Sub	Health Subv.	Other Grants	Total	% of 4th	% of Kyiv
1st Q	9%	1,145	346	1,009	270	860	799	94.1	4,523	0.60	0.33
2nd Q	11%	1,550	344	1,356	126	877	762	80.6	5,096	0.68	0.37
3rd Q	38%	2,200	435	1,832	21	836	752	60.0	6,135	0.82	0.45
4th Q	27%	3,000	461	2,219	22	835	759	191.8	7,487	1.00	0.55
Kyiv	14%	5,483	574	5,008	0	882	1,254	479.6	13,681	1.83	1.00
Total	100%	2,720	444	2,265	53	849	831	161.6	7,324	0.98	0.54
2017	% of Pop.	PIT/CIT	Other Shared Taxes	Own Revenue	Equal.	Educ. Sub	Health Subv.	Other Grants	Total	% of 4th	% of Kyiv
1st Q	10%	1,467	302	1,073	187	861	912	159.7	4,962	0.61	0.34
2nd Q	11%	1,947	350	1,538	39	930	903	194.7	5,902	0.73	0.40
3rd Q	30%	2,673	432	1,895	6	900	839	142.6	6,887	0.85	0.47
4th Q	35%	3,389	458	2,410	1	877	839	140.2	8,113	1.00	0.55
Kyiv	14%	6,074	579	4,931	0	1,096	1,418	542.2	14,640	1.80	1.00
Total	100%	3,214	440	2,391	25	919	936	206.5	8,133	1.00	0.56

*Without Social welfare Transfers

ble 13: COS Expenditure Quartiles Ranked by PIT Per Capita 2014,2016, 2017*

2014	% Pop	Wages	Utilities	Other Operating	Subsidies to Enterp.	Invest.	Total	% Invest.	% 4th	% Kyiv
Q1	10%	2,475	337	669	487	305	4,273	0.07	0.76	0.34
Q2	16%	2,613	370	974	935	510	5,402	0.09	0.96	0.43
Q3	27%	2,791	375	875	1,054	466	5,561	0.08	0.99	0.44
Q4	32%	2,877	369	779	936	646	5,607	0.12	1.00	0.45
Kyiv	14%	4,095	715	1,258	4,327	2,113	12,508	0.17	2.23	1.00
All	100%	2,944	417	894	1,405	749	6,409	0.12	1.14	0.51
2016	% Pop	Wages	Utilities	Other Operating	Subsidies to Enterp.	Invest.	Total	% Invest.	% 4th	% Kyiv
Q1	9%	2,580	454	583	173	586	4,376	0.13	0.61	0.38
Q2	11%	2,694	509	741	208	729	4,881	0.15	0.68	0.43
Q3	38%	2,405	403	847	557	1,594	5,806	0.27	0.81	0.51
Q4	27%	2,741	450	1,061	954	1,986	7,192	0.28	1.00	0.63
Kyiv	14%	3,563	526	1,524	2,039	3,731	11,383	0.33	1.58	1.00
All	100%	2,710	450	966	804	1,820	6,750	0.27	0.94	0.59
2017	% Pop	Wages	Utilities	Other Operating	Subsidies to Enterp.	Invest.	Total	% Invest.	% 4th	% Kyiv
Q1	10%	2,353	284	1,630	219	585	5,071	0.12	0.62	0.34
Q2	11%	2,567	322	1,878	332	816	5,915	0.14	0.72	0.40
Q3	30%	2,471	312	1,852	633	1,671	6,939	0.24	0.84	0.47
Q4	35%	2,571	293	2,077	1,123	2,171	8,235	0.26	1.00	0.55
Kyiv	14%	3,413	329	3,076	2,757	5,288	14,863	0.36	1.80	1.00
All	100%	2,640	306	2,087	1,036	2,166	8,235	0.26	1.00	0.55

*without Transfers to individuals

Table 14: Rayon Revenue Quartiles Ranked by PIT per capita 2014, 2016, 2017*

2014	% of Pop.	Shared Taxes	Own Revenue	Equal.	Educ. Sub	Health Subv.	Other Grants	Total	% of 4th
1st Q	31%	449	83	3,931	na	na	10	4,473	1.10
2nd Q	24%	686	89	3,348	na	na	13	4,136	1.02
3rd Q	22%	877	133	2,977	na	na	11	3,999	0.98
4th Q	23%	1,441	154	2,457	na	na	9	4,060	1.00
Total	100%	828	112	3,241	na	na	11	4,192	1.03
2016	% of Pop.	PIT/CIT	Own Revenue	Equal.	Educ. Sub	Health Subv.	Other Grants	Total	% of 4th
1st Q	31%	625	134	464	1,626	790	58	3,696	0.81
2nd Q	24%	979	133	301	1,426	780	56	3,676	0.81
3rd Q	22%	1,260	172	184	1,369	780	68	3,834	0.84
4th Q	23%	2,074	173	52	1,383	812	56	4,550	1.00
Total	100%	1,188	151	267	1,465	791	59	3,922	0.86
2017	% of Pop.	PIT/CIT	Own Revenue	Equal.	Educ. Sub	Health Subv.	Other Grants	Total	% of 4th
1st Q	30%	838	133	513	1,738	1,002	613	4,837	0.82
2nd Q	23%	1,260	165	318	1,510	1,007	617	4,877	0.82
3rd Q	23%	1,641	173	173	1,436	879	630	4,933	0.83
4th Q	23%	2,602	226	38	1,427	974	664	5,931	1.00
Total	100%	1,536	171	277	1,542	968	630	5,125	0.86

*without Social Welfare transfers.

Table 15: Rayon Expenditure Quartiles Rank by per capita PIT, 2014, 2016, 2017*

2014	% Pop	Wages	Utilities	Other Operating	Subsidies to Enterp.	Invest.	Total	% Invest.	% wages	% 4th
Q1	31%	3,142	248	453	44	80	3,967	2.0%	79%	0.97
Q2	24%	2,869	282	475	52	78	3,756	2.1%	76%	0.92
Q3	21%	2,761	327	499	84	99	3,770	2.6%	73%	0.92
Q4	24%	2,978	373	538	125	88	4,102	2.1%	73%	1.00
All	100%	2,954	302	488	73	86	3,903	2.2%	76%	0.95
2016	% Pop	Wages	Utilities	Other Operating	Subsidies to Enterp.	Invest.	Total	% Invest.	% wages	% 4th
Q1	30%	2,611	282	368	29	238	3,528	7%	74%	0.88
Q2	24%	2,390	328	398	38	268	3,422	8%	70%	0.85
Q3	22%	2,310	383	443	72	278	3,486	8%	66%	0.87
Q4	24%	2,533	423	516	118	435	4,025	11%	63%	1.00
All	100%	2,473	349	427	62	301	3,612	8%	68%	0.90
2017	% Pop	Wages	Utilities	Other Operating	Subsidies to Enterp.	Invest.	Total	% Invest.	% wages	% 4th
Q1	29%	2,919	221	1,300	38	200	4,678	4%	62%	0.84
Q2	23%	2,523	252	1,520	72	276	4,643	6%	54%	0.84
Q3	23%	2,445	267	1,553	92	373	4,730	8%	52%	0.85
Q4	24%	2,628	312	1,852	202	550	5,544	10%	47%	1.00
All	100%	2,646	261	1,544	98	343	4,892	7%	54%	0.88

Table 16: Hromada Revenue Quartiles Ranked by PIT Per Capita 2014, 2016, 2017*

2014	% of Pop.	Shared Taxes	Single Tax	Property and Land	Other own	Stabil. Grant	Other Grants	Total	% of 4th
1st Q	0	470	93	61	482	17	24	1,147	.90
2nd Q	0	409	129	52	454	17	26	1,086	.85
3rd Q	0	447	150	55	413	18	34	1,117	.88
4th Q	0	516	221	78	402	12	44	1,273	1.00
Total	1	471	167	65	426	15	35	1,179	.93
2016	% of Pop.	Shared Taxes	Single Tax	Property and Land	Other own	Stabil. Grant	Other Grants	Total	% of 4th
1st Q	33%	291	187	91	243	5	32	848	0.41
2nd Q	28%	328	374	148	500	1	50	1,401	0.67
3rd Q	22%	314	527	185	616	0	55	1,697	0.81
4th Q	18%	326	729	203	784	1	46	2,089	1.00
Total	100%	312	408	147	491	2	44	1,405	0.67
2017	% of Pop.	Shared Taxes	Single Tax	Property and Land	Other own	Stabil. Grant	Other Grants	Total	% of 4th
1st Q	33%	270	252	123	264	4	63	976	0.40
2nd Q	27%	318	447	190	500	0	72	1,527	0.63
3rd Q	22%	278	607	235	647	0	110	1,878	0.77
4th Q	18%	352	840	302	848	0	99	2,442	1.00
Total	100%	299	488	198	517	1	82	1,586	0.65

*without Social Welfare Transfers

Table 17: Hromada Expenditure Quartiles Ranked by PIT Per Capita, 2014, 2016, 2017*

2014	% Pop	Wages	Utilities	Other Operating	Susidies to Enterp.	Invest.	Total	% Invest.	% wages	% 4th
Q1	28%	728	65	177	19	158	1,147	0.14	0.63	0.69
Q2	26%	820	84	221	32	210	1,367	0.15	0.60	0.83
Q3	22%	827	94	226	37	207	1,391	0.15	0.59	0.84
Q4	23%	856	116	289	68	327	1,656	0.20	0.52	1.00
All	100%	805	89	227	39	225	1,385	0.16	0.58	0.84
2016	% Pop	Wages	Utilities	Other Operating	Susidies to Enterp.	Invest.	Total	% Invest.	% wages	% 4th
Q1	28%	418	48	224	40	321	1,051	0.31	0.40	0.49
Q2	26%	540	74	322	52	346	1,334	0.31	0.40	0.62
Q3	24%	564	85	404	62	374	1,489	0.26	0.38	0.69
Q4	21%	651	107	546	94	758	2,156	0.25	0.30	1.00
All	100%	535	76	362	60	434	1,467	0.35	0.36	0.68
2017	% Pop	Wages	Utilities	Other Operating	Susidies to Enterp.	Invest.	Total	% Invest.	% wages	% 4th
Q1	27%	569	51	227	50	280	1,177	0.24	0.48	0.42
Q2	27%	735	80	350	73	398	1,636	0.24	0.45	0.58
Q3	23%	817	89	460	84	500	1,950	0.26	0.42	0.70
Q4	22%	919	119	633	148	978	2,797	0.35	0.33	1.00
All	100%	750	83	405	86	518	1,842	0.00	0.41	0.66

*Without Transfers to Individuals

Table 18: OTH Revenue Quartiles Ranked by PIT Per Capita 2016 & 2017*

2016	% of Pop.	PIT	Other Shared	Single Tax	Property and Land	Other own	Equal	Educ. Sub.	Health Sub	Other Grants	Total	% of 4th
1st Q	18%	392	145	180	76	196	526	1682	303	845	4345	0.57
2nd Q	25%	769	237	327	128	420	368	1535	189	914	4887	0.64
3rd Q	28%	1122	346	408	158	526	202	1226	214	896	5098	0.67
4th Q	29%	2945	736	476	204	1012	19	1236	281	732	7640	1.00
Total	100%	1432	396	367	149	582	248	1387	243	844	5648	0.74
2017	% of Pop.	PIT	Other Shared	Single Tax	Property and Land	Other own	Equal	Educ. Sub.	Health	Other Grants	Total	% of 4th
1st Q	19%	629	163	266	103	273	548	1439	215	987	4623	0.61
2nd Q	25%	1113	277	394	157	495	369	1284	194	1013	5296	0.70
3rd Q	30%	1567	324	518	189	566	192	1154	182	952	5644	0.75
4th Q	26%	3091	484	559	223	1062	31	1019	164	914	7546	1.00
Total	100%	1670	323	449	174	621	263	1206	186	964	5856	0.78

*without social welfare transfers

Table 19: OTH Expenditure Quartiles Ranked by PIT per capita 2014, 2016, 2017*

2016	% Pop	Wages	Utilities	Other Operating	Subsidies to Enterp.	Invest.	Total	% Invest.	% wages	% 4th
Q1	19%	2,128	231	397	11	1,200	3,967	0.30	0.54	0.68
Q2	24%	2,061	263	592	52	1,315	4,283	0.31	0.48	0.73
Q3	28%	2,159	300	635	142	1,366	4,602	0.30	0.47	0.79
Q4	29%	2,121	324	873	373	2,168	5,859	0.37	0.36	1.00
All	100%	2,119	285	648	162	1,553	4,767	0.33	0.44	0.81
2017	% Pop	Wages	Utilities	Other Operating	Subsidies to Enterp.	Invest.	Total	% Invest.	% wages	% 4th
Q1	19%	2,701	211	620	32	938	4,502	0.21	0.60	0.67
Q2	25%	2,785	256	785	74	1,165	5,065	0.23	0.55	0.75
Q3	30%	2,784	284	875	146	1,090	5,179	0.21	0.54	0.77
Q4	26%	2,850	308	1,078	422	2,104	6,762	0.31	0.42	1.00
All	100%	2,785	269	857	178	1,343	5,432	0.25	0.51	0.80

*Without Transfers to Individuals

Appendix 2:

Methodological Treatment of the Data

This Appendix 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 data 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 possible that the 2014 revenue data may have minor discrepancies in division of revenues between villages and rayons due to the assumptions used to estimate the 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 changes in the classification of local government revenues and expenditures, as well as 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.

Furthermore, in 2017 a few codes got their names and purpose changed compared to 2014, thus in list of codes provided below we have identical code numbers for different revenues with year in parentheses to indicate the year in which the code was used for a specific revenue.

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 accordingly³⁵. The cities and rayons eliminated from the analysis are:

³⁵ <http://zakon3.rada.gov.ua/laws/show/1085-2014-%D1%80>

Code	Jurisdiction	Code	Jurisdiction
Donetska oblast		Luganska Oblast	
05201000000	m. Donets'k	12201000000	m. Lugans'k
05205000000	m. Gorlivki	12202000000	m. Alchevs'k
05206000000	m. Debal'tseve	12203000000	m. Antratsit
05210000000	m. Dokuchaevs'k	12204000000	m. Bryanki
05212000000	m. Enakieve	12205000000	m. Kirovs'k
05213000000	m. ZHdanivka	12206000000	m. KHRustal'nij
05214000000	m. Kirovs'ke	12207000000	m. Sorokine
05219000000	m. Makiivka	12209000000	m. Pervomajs'k
05224000000	m. Snizhne	12210000000	m. Roven'ki
05225000000	m. Torez	12212000000	m. Dovzhans'k
05226000000	m. KHartsiz'k	12214000000	m. Kadiivka
05227000000	m. SHakhtars'k	12301000000	Antratsitivs'kij r-n
05228000000	m. YAsinuvata	12304000000	Sorokins'kij r-n
05301000000	Amvrosiivs'kij r-n	12306000000	Lutugins'kij r-n
05302000000	Bakhmuts'kij r-n	12309000000	Novoajdars'kij r-n
05304000000	Volnovas'kij r-n	12311000000	Pereval's'kij r-n
05309000000	Mar`ins'kij r-n	12312000000	Popasnyans'kij r-n
05310000000	Novoazovs'kij r-n	12314000000	Slov'yanoserb's'kij r-n
05314000000	Starobeshivs'kij r-n	12315000000	Stanichno-Lugans'kij r-n
05315000000	Tel'manivs'kij r-n		
05316000000	SHakhtars'kij r-n		
05317000000	YAsinuvats'kij r-n		

In 2016 and 2017, the government adjusted its estimates of the population of different cities and rayons across the country. As a result, the total population numbers for 2016 and 2017, 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 new COS, as well the creation of 159 new AGs in 2016, and an additional 207 AGs in 2017. 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.

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. 90% of all monies-- and a Special Fund (SF) --c. 10 % of all monies (in 2017)-- 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, in 2016, 41, and in 2017 40. 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 Fund³⁶.

Data on transfers between levels of local government that were included in the revenue files we received 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

³⁶ 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.

- 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
- 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 3.

Further aggregation for different types of analysis conducted was made as presented in Table below:

The Aggregation of Revenue Categories Used in the Report

Shared Taxes	PIT, CIT, Excise, Environmental Fees
Own Revenues	Single Tax, Land and Building Taxes, Rents, Land Development Fee, Asset revenues, Other Local Fees and Taxes
Budget Users	Revenues collected by budget users of the local government such as schools and hospitals
Equalization	Equalization and Stabilization Grants
Education Subvention	Education Subvention and Vocational Education Subvention
Health Subvention	Health Subvention
Social Welfare Subsidies	
Investment Grants	
Road Funds	Road Fund Grant from Customs system
Health Related Grant	Rural Health Facilities Grant, other
Donor Grants and Contribution	

For the analysis of quartiles, social welfare related grants were excluded. The revenues for that analysis were kept more detailed and more in line with the table in Annex 3. The following revenues were grouped together:

- PIT & CIT
- Land and property taxes
- Rents, Asset Revenue, land development fee
- State collected and locally collected fees and taxes
- Basic and Stabilization subvention
- Education Subvention and Vocational edu subvention
- Other and health related grants

In cities and unamalgamated gromada quartiles, the additional facility subvention was added to education subvention.

In rayons, investment grants were merged with other grants, Excise and environment fee were merged with PIT and CIT, and finally single tax was merged with property and land tax.

These additional mergers were done where revenues were low enough not to warrant separation for analysis.

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
010000/0100 Public administration	010000/0100 Public administration
060000/7000 Law enforcement and Security	250000/8000 Expenses not under other groups
070000/1000 Education	070000/1000 Education
080000/2000 Health Care	080000/2000 Health Care
090000/3000 Social care	090000/3000 Social care
100000/6000 Housing and Municipal Economy	100000/6000 Housing and Municipal Economy
110000/4000 Culture and Art	110000/4000 Culture and Art
120000/7200 Mass media	250000/8000 Expenses not under other groups
130000/5000 Sports	130000/5000 Sports
150000/6300 Construction	150000/6300 Construction
160000/7300 Agriculture, forest, fish and hunting	160000/7300 Agriculture, forest, fish and hunting
170000/6600 Transport, roads, communication, IT	170000/6600 Transport, roads, communication, IT
180000/7400 Other services connected to economic activity	250000/8000 Expenses not under other groups
200000/7600 Environment and nuclear safety	210000/7800 Prevention and liquidation of emergency situations and natural disaster consequences
210000/7800 Prevention and liquidation of emergency situations and natural disaster consequences	210000/7800 Prevention and liquidation of emergency situations and natural disaster consequences
230000/9000 Debt service	230000/9000 Debt service
240000/9100 Target funds	240000/9100 Target funds
250000/8000 Expenses not under other groups	250000/8000 Expenses not under other groups

The functional codes have changed in 2017, though the categories names have stayed the same, we have added the 2017 codes to the above table as well.

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

Appendix 3:

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.

No.	Name of revenue	2014	2015	2016	2017
Income tax					
1.	11010100 - Income tax paid by tax agents of the income of the taxpayer in the form of wages	GF	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	GF
3.	11010300 - Personal Income tax on incomes in the form of miners' wages	GF	GF		
4.	11010400 - Personal Income tax paid by tax agents of the income of the taxpayer other than wages	GF	GF	GF	GF
5.	11010500 - Personal Income tax paid by individuals on the results of the annual tax declaration	GF	GF	GF	GF
6.	11010600 - Fixed personal income tax on business activity accrued before January 1, 2012	GF	GF	GF	GF
7.	11010700 - Income amounts of the restructured debt on personal income tax	GF	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	GF
Corporate income tax					
10.	11020200 - Corporate income tax on companies and financial institutions in municipal property	GF	GF	GF	GF
11.	11020300 - Corporate income tax from the companies, created with the participation of foreign investors		GF	GF	GF
12.	11020400 - Income tax on casinos, video rentals, gaming machines, concert and entertainment events		GF	GF	GF
13.	11020500 - Corporate Income tax of foreign entities		GF	GF	GF
14.	11020600 - Corporate Income tax of banking organizations, including branches of similar organizations located on the territory of Ukraine		GF	GF	GF
15.	11020700 - Corporate Income tax of insurance companies, including subsidiaries of similar organizations located on the territory of Ukraine		GF	GF	GF
16.	11020900 - Corporate Income tax of organizations and enterprises of consumer cooperatives, cooperatives and associations		GF	GF	GF
17.	11021000 - Corporate Income tax of private enterprises		GF	GF	GF
18.	11021100 - Other payers of CIT		GF	GF	GF
19.	11021300 - Restructured amount of debt of income tax of enterprises and organizations		GF	GF	GF
20.	11021400 - Income from corporate income tax received from the implementation of innovative projects		GF	NA	NA
21.	11021500 - Income tax provided by downward coefficient of 0.8 to depreciation rates		GF	NA	NA
22.	11021600 - Corporate Income tax of financial institutions, including branches of similar organizations located on the territory of Ukraine, except insurance organizations		GF	GF	GF
23.	11023200 - Advance instalments from corporate income tax and utility companies	GF			
Excise tax					

24.	14040000 - Excise tax on realization by business entities of retail excise goods		GF	GF	GF
25.	14020200 - Distilled beverages	GF			
26.	14020300 - Wine production	GF			
27.	14020400 - Beer	GF			
Fuel Excise					
28.	14021900 – Fuel				GF
29.	14031900 – Fuel				GF
Single tax					
30.	18050100 - Single tax from legal entities charged before January 1, 2011	SF	GF	GF	GF
31.	18050200 - Single tax from individuals charged before January 1, 2011	SF	GF	GF	GF
32.	18050300 - Single tax from legal entities	SF	GF	GF	GF
33.	18050400 - Single tax from individuals	SF	GF	GF	GF
34.	18050500 - Single tax from agricultural producers, whose share of agricultural commodity production for the previous tax (reporting) year equals or exceeds 75 percent		GF	GF	GF
Environmental fees and concessions					
35.	13010100 - Rent for special use of forest resources of the wood harvested in the order of final felling	GF	GF	GF	GF
36.	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	GF
37.	13010300 – Proceeds of the restructured debt amounts of rent for special use of forest resources		GF	GF	GF
38.	13020100 - Rent for special use of water (except rent for special use of water of water objects of local significance)	GF	GF	GF	GF
39.	13020200 - Rent for special use of water of water objects of local significance	GF	GF	GF	GF
40.	13020300 - Rent for special use of water for hydropower	GF	GF	GF	GF
41.	13020400 - Proceeds rent for special use of water from the housing and utilities sector	GF	GF	GF	GF
42.	13020500 - Income amounts of the restructured debt on special usage of water rent		GF		
43.	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	GF
44.	13030100 - Rent for use of mineral resources for mining of national significance	GF	GF	GF	GF
45.	13030200 - Rent for use of mineral resources for mining of local significance	GF	GF	GF	GF
46.	13030500 - Income amounts of the restructured debt of rent for use of mineral resources		GF	GF	
47.	13030600 - Rent for use of mineral resources for purposes not related to mining	GF	GF	GF	GF
48.	13031000 - Rent payment for the use of subsoil to extract amber				GF
49.	13070100 - Fee for special use of wildlife	GF	GF	GF	GF
50.	13070200 - Fee for special use of fish and other aquatic resources	GF	GF	GF	GF
51.	13070300 - Income amounts of the restructured debt on natural resources usage payments	GF	GF		
52.	19010100 - Proceeds from pollutants in the atmosphere from stationary sources of pollution	SF	GF	SF	SF
53.	19010200 - Proceeds from the emission of pollutants directly into water	SF	GF	SF	SF
54.	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	SF
55.	19010500 - Proceeds from the refinery-produced fuel trade or produced from tolling raw materials by tax agents on the customs territory of Ukraine	SF			
56.	19010600 - Proceeds from fuel import to the customs territory of Ukraine by tax agents	SF			
57.	19050100 - Proceeds from utilities to the State Fund for Environmental Protection	SF		SF	
58.	19050200 - Other charges for environmental pollution to the Fund for Environmental Protection	SF	SF	SF	SF
59.	19050300 - Proceeds from fee payment for pollution of the environment by individuals	SF	SF	SF	SF
60.	21110000 - Proceeds from compensation for loss of agricultural and forest production	SF	SF	SF	SF
61.	24061600 - Other revenues to a fund for Environmental Protection	SF	SF	SF	SF

62.	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	SF
Property taxes from legal entities					
63.	18010100 - The tax on immovable property other than land, paid by legal entities that own residential real estate	SF	GF	GF	GF
64.	18010400 - The tax on immovable property other than land, paid by legal entities who are owners of non-residential real estate		GF	GF	GF
Property taxes from individuals					
65.	18010200 - The tax on immovable property other than land, paid by individuals that own residential real estate	SF	GF	GF	GF
66.	18010300 - The tax on immovable property other than land, paid by individuals who are owners of non-residential real estate		GF	GF	GF
Land tax from legal entities					
67.	18010500 - Land tax from legal entities		GF	GF	GF
68.	18010800 - Restructured amount of debt from payments for land		GF		GF
69.	13050100 - Land tax from legal entities	GF			
70.	13050400 - Restructured amount of land payment arrears	GF			
Land tax from individuals					
71.	18010700 - Land tax from individuals		GF	GF	GF
72.	13050300 - Land tax from individuals	GF			
Rents from legal entities					
73.	18010600 - Rents from legal entities		GF	GF	GF
74.	13050200 - Rents from legal entities	GF			
Rents from individuals					
75.	18010900 - Rents from individuals		GF	GF	GF
76.	13050500 - Rents from individuals	GF			
State collected other taxes, fees and charges					
77.	16010100 - Tax on advertising	GF	GF	GF	GF
78.	16010200 - Municipal tax	GF	GF	GF	GF
79.	16011500 - The fee for a permit for placing objects of trade and services	GF	GF	GF	GF
80.	16012100 - Fishing tax	GF	GF		
81.	18011000 - The transport tax on individuals		GF	GF	GF
82.	18011100 - Transportation tax of legal entities		GF	GF	GF
83.	18040100 - The fee for conducting trading activities (retail), paid by individuals before January 1, 2015	GF	GF	GF	GF
84.	18040200 - The fee for conducting trading activities (retail) paid by legal entities	GF	GF	GF	GF
85.	18040300 - Fee for trading currency valuables	GF	GF		GF
86.	18040500 - The fee for conducting trading activities (wholesale) paid by individuals	GF	GF	GF	GF
87.	18040600 - The fee for conducting trading activities (restaurant management), paid by individuals	GF	GF	GF	GF
88.	18040700 - The fee for conducting trading activities (wholesale) paid by legal entities	GF	GF	GF	GF
89.	18040800 - The fee for conducting trading activities (restaurant management) paid by legal entities	GF	GF	GF	GF
90.	18040900 - The fee for conducting trading activities with the acquisition of preferential trade patent	GF	GF	GF	GF
91.	18041000 - The fee for conducting trading activities with the acquisition of short-term trade patent	GF	GF	GF	GF
92.	18041600 - Revenues from restructured debt payment of the fee for conducting certain types of business			GF	
93.	19040100 - Fixed agricultural tax accrued after January 1, 2001	GF			
94.	19090000 - Taxes and fees not included in other categories	GF	GF	GF	GF

95.	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	GF
96.	21081500 - Administrative fines and penalties for violation of legislation on production and circulation of alcoholic beverages and tobacco products		GF	GF	GF
97.	22010300 - Administration charge for the state registration of legal entities and individuals - entrepreneurs and community groups			GF	GF
98.	22010500 - Payment for license to manufacture ethyl, cognac and fruit spirit, alcoholic beverages and tobacco products	GF	GF	GF	GF
99.	22010600 - Payment for licenses to export, import and wholesale of ethyl, cognac and fruit spirit	GF	GF	GF	GF
100.	22010700 - Payment for licenses for the export and import of alcoholic beverages and tobacco	GF	GF	GF	GF
101.	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	GF
102.	22011000 - Payment for license for wholesale trade of alcoholic beverages and tobacco	GF	GF	GF	GF
103.	22011100 - Payment for license to retail alcoholic beverages and tobacco	GF	GF	GF	GF
104.	22011800 - Payment for licenses and certificates, paid by licensees at the place of activities	GF	GF	GF	GF
105.	22012600 - Administration charge for state registration of rights to immovable property and their encumbrances			GF	GF
106.	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			GF	GF
107.	22090100 - State duty payable at the place of design and review of document including paperwork for inheritance and gift	GF	GF	GF	GF
108.	22090200 - State duty, not included in other categories		GF	GF	GF
109.	22090300 - State duty for actions related to obtaining patents for intellectual property rights, maintaining their force and transmission rights of their owners		GF	GF	GF
110.	22090400 - State duty associated with the issuance and registration of passports (certificates) and passports of citizens of Ukraine	GF	GF	GF	GF
111.	22090500 - Income amounts of the restructured debt to pay the state duties	GF	GF	GF	GF
112.	24060600 - Proceeds from the accounts of election funds	GF	GF	GF	GF
113.	12020100 - Tax on vehicle owners and other self-propelled machinery (legal entities)	SF	SF	SF	SF
114.	12020200 - Tax on vehicle owners and other self-propelled machines and mechanisms (from citizens)	SF	SF	SF	SF
115.	12020300 - Proceeds from restructured tax arrears by owners of vehicles and other self-propelled machines and mechanisms	SF			SF
116.	12020400 - The tax on owners of water transport	SF	SF	SF	SF
117.	12020500 - Tax on vehicle owners and other self-propelled machinery (legal entities) registered in Kyiv	SF	SF	SF	SF
118.	12020600 - Tax on vehicle owners and other self-propelled machines and mechanisms (from citizens), registered in Kiev	SF	SF	SF	SF
119.	12020800 - The tax on owners of water vehicles registered in Kiev	SF	SF	SF	
120.	12030100 - Fee for the first registration of wheeled vehicles (legal entities)	SF			
121.	12030200 - Fee for the first registration of wheeled vehicles (individuals)	SF			
122.	12030300 - Fee for the first registration of vessels (legal entities)	SF			
123.	12030400 - Fee for the first registration of vessels (individuals)	SF			
124.	12030500 - Fee for the first registration of airplanes and helicopters (legal entities)	SF			
125.	12030600 - Fee for the first registration of airplanes and helicopters (individuals)	SF			
126.	12030700 - Fee for the first registration of wheeled vehicles (legal entities) registered in the Kiev city	SF			

127.	12030800 - Fee for the first registration of wheeled vehicles (individuals) registered in the Kiev city	SF			
128.	12030900 - Fee for the first registration of vessels (legal entities) registered in the Kiev city	SF			
129.	12031000 - Fee for the first registration of vessels (individuals) registered in the Kiev city	SF			
130.	12031100 - Fee for the first registration of aircraft and helicopters (legal entities) registered in the Kiev city	SF			
131.	12031200 - Fee for the first registration of aircraft and helicopters (individuals) registered in the Kiev city	SF			
132.	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	SF
133.	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	SF
134.	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	SF
Locally collected fees, charges and other revenue					
135.	16010400 - Parking fees	GF	GF	GF	
136.	16010500 - Market fee	GF	GF	GF	GF
137.	16010600 - The fee for issuing certificate for the apartment	GF	GF	GF	GF
138.	16010700 - Resort fee	GF	GF	GF	GF
139.	16010900 - The fee for winning on the racetrack		GF	GF	
140.	16011100 - The fee for the right to use local symbols	GF	GF	GF	GF
141.	16011300 - The fee for the right to conduct local auctions and lotteries	GF	GF	GF	
142.	16011600 – The fee from dog owners	GF			
143.	18020100 - The fee for parking of vehicles paid by legal entities	GF	GF	GF	GF
144.	18020200 - The fee for parking of vehicles paid by individuals	GF	GF	GF	GF
145.	18030100 - Tourism fee paid by legal entities	GF	GF	GF	GF
146.	18030200 - Tourism fee paid by individuals	GF	GF	GF	GF
147.	18041300 - The fee for the exercise of the paid services paid by individuals	GF	GF	GF	GF
148.	18041400 - The fee for the exercise of the paid services paid by legal entities	GF	GF	GF	GF
149.	18041700 - The fee for activities in entertainment paid by legal entities	GF	GF	GF	GF
150.	18041800 - The fee for activities in entertainment paid by individuals	GF	GF	GF	GF
151.	19090100 - Purpose unknown				GF
152.	21010300 - Part of net income (profit) of municipal unitary enterprises and associations, withdrawn to the appropriate local budget	GF	GF	GF	GF
153.	21050000 - Payment for placing of temporarily free local budget funds	GF	GF	GF	GF
154.	21080500 - Other revenues	GF	GF	GF	GF
155.	21081100 - Administrative fines and other sanctions	GF	GF	GF	GF
156.	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	GF
157.	22012500 - Payment for the provision of other administrative services		GF	GF	GF
158.	22020000 - Payment for keeping children in boarding schools	GF	GF	GF	
159.	22080400 - Income from rent for the use of integral property complexes and other property that is in communal ownership	GF	GF	GF	GF
160.	22080500 - Income for provided tenant cash and securities on credit terms	GF	GF	GF	GF
161.	22120000 - The fee for leased ponds located in the basins of rivers of national importance	GF			
162.	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	GF

163.	24030000 - Income amounts payable and receivable deponent debt by businesses, organizations and institutions to which the limitation period has expired	GF	GF	GF	GF
164.	24060300 - Other revenues	GF	GF	GF	GF
165.	24060700 - Unrecognized revenue		GF		
166.	24061900 - Funds from providing members of procurement procedures to ensure their tender proposals, which are not subject to return, to the participants	GF	GF	GF	GF
167.	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	GF
168.	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	GF
169.	24110600 - Interest for the use of loans granted from local budgets	GF	GF	GF	GF
170.	24160100 - Concession fees on municipal property (other than those that are earmarked under the law)	GF	GF	GF	GF
171.	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	SF
172.	24110600 - Interest for the use of loans granted from local budgets	SF	SF	SF	SF
173.	24110700 - Payment for guarantees provided by the Verkhovna Rada Autonomous Republic of Crimea and city councils	SF	SF	SF	
174.	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	SF
175.	24160200 - Concession fees on municipal property (earmarked under the law)	SF		SF	SF
Land development - Proceeds of share participation in infrastructure development of the settlement					
176.	24170000 - Proceeds of share participation in infrastructure development of the settlement	SF	SF	SF	SF
Asset sale revenue					
177.	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	GF
178.	31020000 - Proceeds from the State Fund of Precious Metals and Precious Stones	GF	GF	GF	GF
179.	33020000 - Proceeds from sale of intangible assets	GF	GF	GF	GF
180.	31030000 - Funds from the sale of property belonging to the Autonomous Republic of Crimea and property under in the municipal property	SF	SF	SF	SF
181.	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	SF
182.	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	SF
183.	33010400 - Funds from the sale of non-agricultural land before separation of state and municipal property in installments	SF	SF	SF	SF
Own revenues of budget users					
184.	25010000 - Revenues from fees for services provided by budgetary institutions under the law	SF	SF	SF	SF
185.	25020000 - Other sources of own revenues of budgetary institutions	SF	SF	SF	SF
Basic subsidy					
186.	41020100 - Basic subsidy		GF	GF	GF
187.	41020100 - Equalization subsidy from state to local budgets	GF			
Additional subsidy for education and health maintenance					
188.	41020200 - An additional subsidy from the state budget to local budgets for expenditures on maintenance of educational and health facilities				GF

Stabilization subsidy					
189.	41020600 - Stabilization subsidy		GF	GF	GF
190.	41020600 - Additional subsidy from the state budget to equalize the financial security of local budgets	GF			
Education subvention					
191.	41033900 - Education subvention from the state budget to local budgets		GF	GF	GF
Health subvention					
192.	41034200 - Medical subvention from the state budget to local budgets		GF	GF	GF
Socio-economic development subsidy					
193.	41034500 - Subvention from the state budget to local budgets for the implementation of measures for socio-economic development of certain areas	GF	GF	GF	GF and SF
Health related grants					
194.	41032600 - Subvention from the state budget to local budgets for the purchase of medicines and medical devices for ambulance	GF	GF	GF	GF
195.	41033000 - Subvention from the state budget to local budgets to implement the activities on developing health care system in rural areas				GF and SF
196.	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		
197.	41033500 (2017) - The subvention from the state budget to local budgets for the purchase of angiographic equipment				GF
198.	41033600 - Subvention from the state budget to local budgets for the reimbursement of the costs of drugs for the treatment of certain diseases				GF
199.	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	GF
200.	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			
Other subsidies					
201.	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			
202.	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			
203.	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	GF
204.	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	GF
205.	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		
206.	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			
207.	41031100 - Subsidy to Kiev for performing capital city functions	GF			
208.	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	GF
209.	41032100 - Subvention from the state budget for debt service on loans made in 2012 in the general fund budget of Kyiv		GF	GF	
210.	41032100 (2014) - 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	GF			

	and trolley buses of host cities in preparation for the holding of the final part of the European Football Championship 2012 in Ukraine				
211.	41034600 - Subvention from the state budget to local budgets to implement the activities to support areas affected by armed conflict in eastern Ukraine				GF
212.	41035400 - Subvention from the state budget to local budgets to provide state support to people with special educational needs				GF
213.	41036700 - Subvention from the state budget to the budget of Donetsk region for the payment of arrears for electric energy of water supply enterprises				GF and SF
214.	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	GF
215.	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" (2016) Subvention from the state budget to city budgets of Dnipro, Zhytomyr, Kamianska, Kyiv, Kropyvnytskyi, Lviv, Novohrad-Volynskyi, Odesa, Kharkiv and Cherkasy for carrying out works related to the creation and maintenance of the functioning of the centers for providing administrative services in the format "Transparent office" (2017)			GF	GF
216.	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		
Social welfare subvention					
217.	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	GF
218.	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		
219.	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	GF
220.	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	GF
Housing subsidy					
221.	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	GF
222.	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	GF
223.	41034400 (2017) - Subvention from the state budget to local budgets for construction / major repairs / reconstruction of small group homes, sheltered housing, construction / purchase of dwelling for family-type orphanages, social housing for orphans, children deprived of parental care, other persons, elaboration of designed-estimated documentation				GF
224.	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		GF	GF	GF

	operations and for the disabled I - II group of servicemen who took part in this operation, and in need of better housing conditions				
225.	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		GF and SF
Vocation education subvention					
226.	41033500 (2015) - Subvention for training labor from the state budget to local budgets		GF		
227.	41033800 - Subvention from the state budget to local budgets for modernization and renewal of material base of vocational schools state-owned			GF	GF
Grants based on donor grants and loans					
228.	41031400 - Subvention from the state budget to local budgets for projects under the Emergency loan program to restore Ukraine			SF	GF and SF
229.	41034900 - Subvention from the state budget to local budgets for reforming regional health systems to implement measures jointly with the International Bank for Reconstruction and Development Project Improving health in the service of the people		SF	SF	SF
230.	41037700 - Subvention from the state budget of Dnepropetrovsk city budget to complete construction of the subway in Dnepropetrovsk		SF	SF	GF and SF
231.	42030200 - Other assistance provided by the European Union		SF	SF	SF
232.	42030300 - Support in the framework of technical assistance programs from foreign governments, international organizations, donor institutions				SF
Customs experiment - The funds received by local governments from the state budget					
233.	19020200 - The funds received by local governments from the state budget		SF	SF	SF
Investment grants					
234.	41033200 - Subvention from the state budget to local budgets for the formation of infrastructure of amalgamated communities			GF	GF and SF
235.	41036000 - Subvention from the state budget to local budgets for the purchase of new tram cars of domestic production for electric transportation		GF		
236.	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		
237.	41035900 - Subvention from the state budget to local budgets for restoration (construction, overhaul, reconstruction) of infrastructure in Donetsk and Lugansk regions		GF		
238.	41034400 (2014) – A subvention from the state budget to local budgets for the construction, renovation, maintenance and maintenance of streets and communal roads in settlements	SF			
239.	41035500 - Subvention from the state budget to local budgets for the celebration of the 200th anniversary of the birth of Taras Shevchenko	SF			
240.	42020000 - Grants (gifts) received to all budgets	SF	SF	SF	SF
241.	50110000 - Trust Funds formed by the Supreme Council of the Autonomous Republic of Crimea, local authorities and local executive authorities	SF	SF	SF	SF



Tony Levitas
Brown University
Anthony_Levitas@Brown.edu
&
Jasmina Djikic
jdjikic@hotmail.com

“Support to Decentralisation Project”