



CABINET OF MINISTERS OF UKRAINE

**MINISTRY OF REGIONAL DEVELOPMENT, CONSTRUCTION,
HOUSING AND COMMUNAL SERVICES OF UKRAINE**

FISCAL DECENTRALISATION IN UKRAINE

FIRST SUCCESSES



RESULTS OF FISCAL DECENTRALISATION IN 2014-2016

On April 1, 2014, the Government approved the Concept of the reform of local self-government and territorial organization of power. Fiscal decentralisation was one of the first steps in performing reform tasks. The Government introduced amendments to the Budget and Tax Codes of Ukraine, namely:

- ▶ Deadlines for approval of local budgets were clearly defined, irrespective of approval of the state budget (by December 25) – the principle of local budgets' autonomy was expanded;
- ▶ Local budgets were assigned about 50 sources of revenues and promotion of taxpaying capacity of hromadas was initiated;
- ▶ Balancing system was replaced with fiscal equalization system, which implies horizontal equalization of taxpaying capacity of territories depending on the level of revenues from personal income tax (and income tax for regional budgets) per capita;
- ▶ Line ministries were empowered to allocate funds of Education and Healthcare subsidies and provide transfers to local self-government bodies with the purpose of fulfillment of their powers;
- ▶ Expenditure powers of state authorities and local self-government bodies were redistributed according to the principle of subsidiarity;
- ▶ Hromadas were encouraged to amalgamate and shift to direct inter-budget relations with the state budget with appropriate resources, the same as for towns of regional significance.

CONCLUSION



Owing to fiscal decentralisation resource potential of local budgets has been significantly enhanced and preconditions for acceleration of the process of hromadas' voluntary amalgamation have been created.

Required amount of main taxes and charges to be transferred to local budgets, in %

Taxes and charges	Regional budgets	towns of regional significance, amalgamated hromadas	District budgets	villages, settlements, towns of district significance
Personal income tax	15	60	60	
Private enterprise income tax	10			
Rental charge for the use of water and forest resources; subsoil use for extraction of national minerals	50/25			
Payment for the use of other natural resources	100			
Rental charge for special use of natural and subsoil resources of local significance		100		100
Income tax for municipal enterprises and financial institutions	100	100	100	100
Charge for the grant of specific licences and certificates	100			
Administrative charge for state registration of entities and persons		100	100	
Charge for other administrative services		100		100
Administrative charge for state registration of real estate rights and encumbrances		100	100	100
State duty which belongs to the relevant budgets (at the place of carrying out the activity and issuing the documents)		100		100
Excise tax from retail sale (tobacco, alcohol, oil products)		100		100
Rental of property complexes and other property	100	100	100	100
Local taxes: single tax; property tax (land fee, real estate tax, transport tax)		100		100
Local charges: tourist and parking		100		100
Administrative fines and other penalties		100		100
Pollution tax	55	25		25

REVENUES OF THE LOCAL BUDGETS IN UKRAINE IN 2016

In 2016, own revenues of the general fund of the local budgets increased 1.5fold (+49.3% which is equal to UAH 48.5 b) compared to 2015 and amounted to UAH 146,6 b.

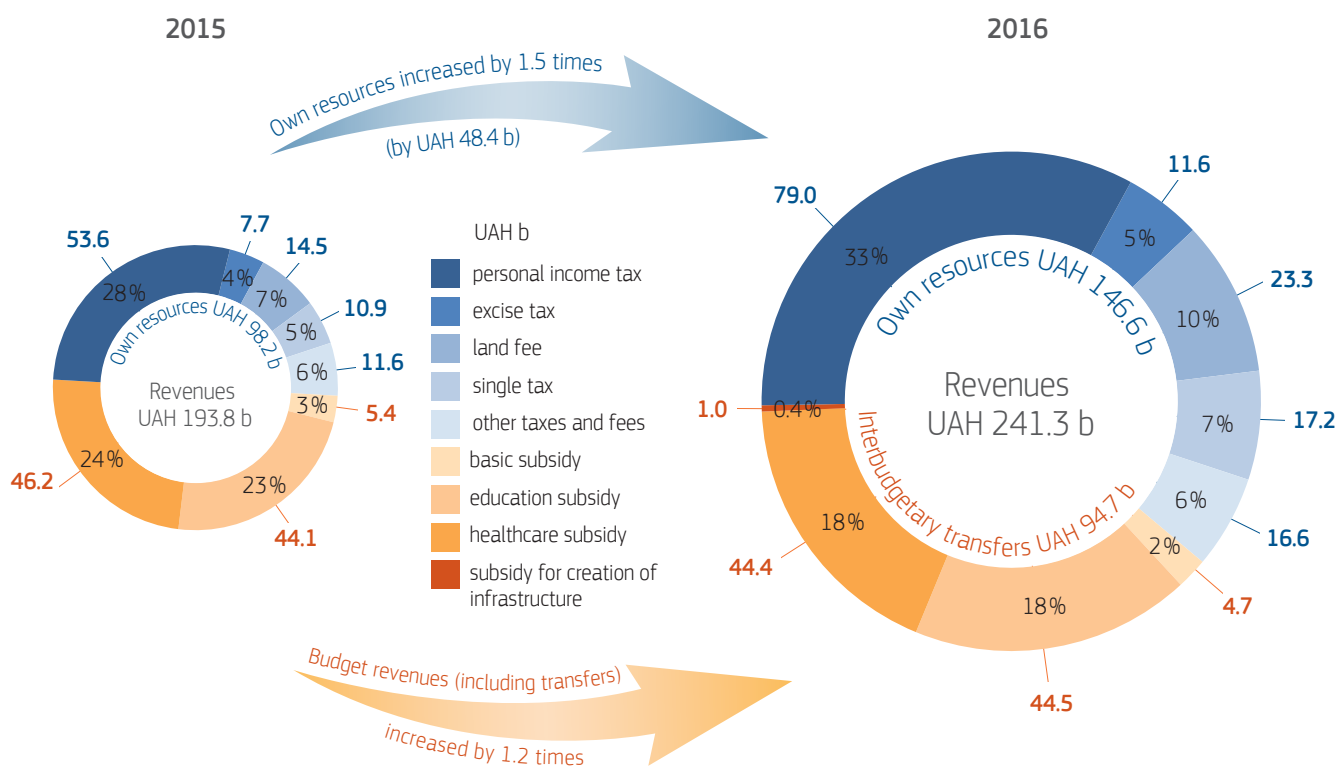
Revenues from the personal income tax amounted to UAH 79 b which is UAH 25 b (+47%) higher compared to 2015, revenues from the land fee – UAH 23.3 b (increased by UAH 9 b or by 61%), revenues from the single tax – UAH 17 b (increased by UAH 6.3 b or by 58%), revenues from the property tax – UAH 1.4 b.

The actual revenues from the excise tax from retail sale of excise goods by economic entities (oil products, tobacco and alcohol) amount to UAH 11.6 b (increased by UAH 4 b or by 52%).

In 2016, the local budgets received the basic subsidy from the state budget amounting to UAH 4.7 b, as well as education subsidy (UAH 44.5 b), healthcare subsidy (UAH 44.4 b) and subsidy for the build-up of infrastructure in amalgamated hromadas (UAH 1.0 b).

Note: Interbudgetary transfers in the local budgets of Ukraine are shown by types similar to those ones which are received by amalgamated hromadas.

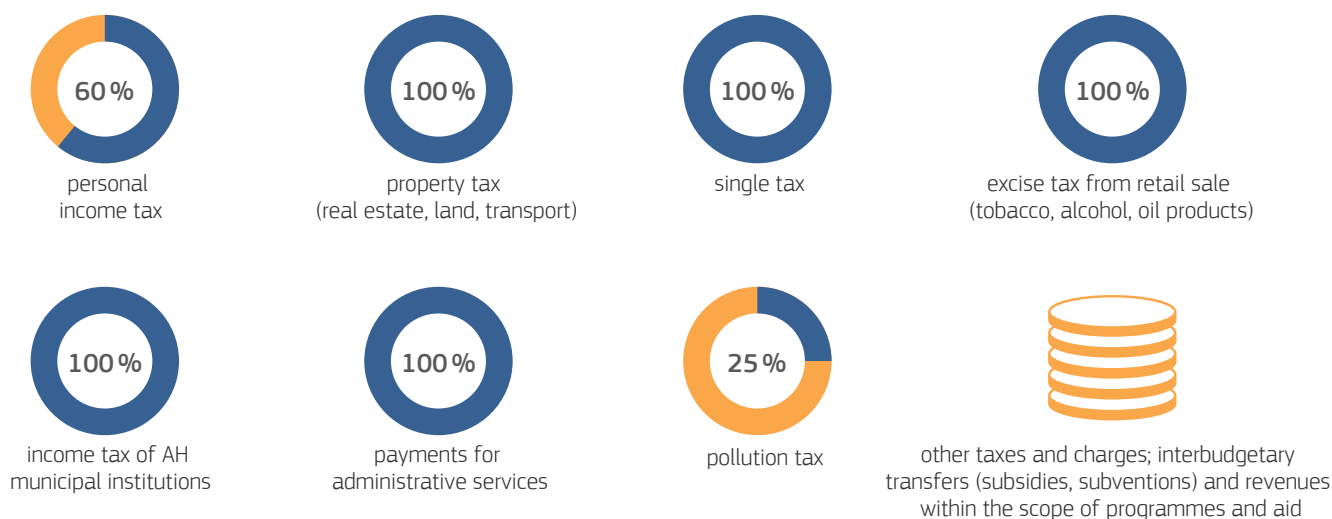
ACTUAL GENERAL FUND REVENUES OF THE LOCAL BUDGETS OF UKRAINE IN 2015 AND 2016



Reverse subsidy (withdrawal of funds to the state budget) in 2015 amounted to UAH 3.6 b, in 2016 - UAH 3.1 b

BASIC FINANCIAL BENEFITS OF AMALGAMATED HROMADAS

Amalgamated hromadas are granted additional powers and appropriate funds (as cities of regional significance), where the following is kept:



Amalgamated hromadas were empowered to:

- ▶ shift to direct inter-budget relations with the state budget;
- ▶ receive funds from the state budget for development of hromada infrastructure;
- ▶ independently decide on the issues of development of their territories;
- ▶ freely fulfill their respective powers;
- ▶ establish hromada governing bodies, their structure and maintenance costs;
- ▶ perform delegated powers, e.g.:
 - ▶ manage schools and nursery schools;
 - ▶ arrange primary healthcare to the citizens of hromada;
 - ▶ provide maintenance and activity management of culture centres, clubs, libraries, stadiums, sports centres;
 - ▶ provide social aid to people through territorial centres (in hromadas);
 - ▶ provide administrative services and create appropriate centres in hromadas.

In 2015, 794 village, settlement and town councils, composed of 2015 settlements, voluntarily amalgamated into 159 hromadas. In 2016, further 946 village, settlement and town councils voluntarily amalgamated into 208 hromadas.

All amalgamated hromadas received appropriate resources and expenditure powers and developed direct inter-budget relations with the state budget.

REVENUES OF THE LOCAL BUDGETS OF 159 AMALGAMATED HROMADAS IN 2016

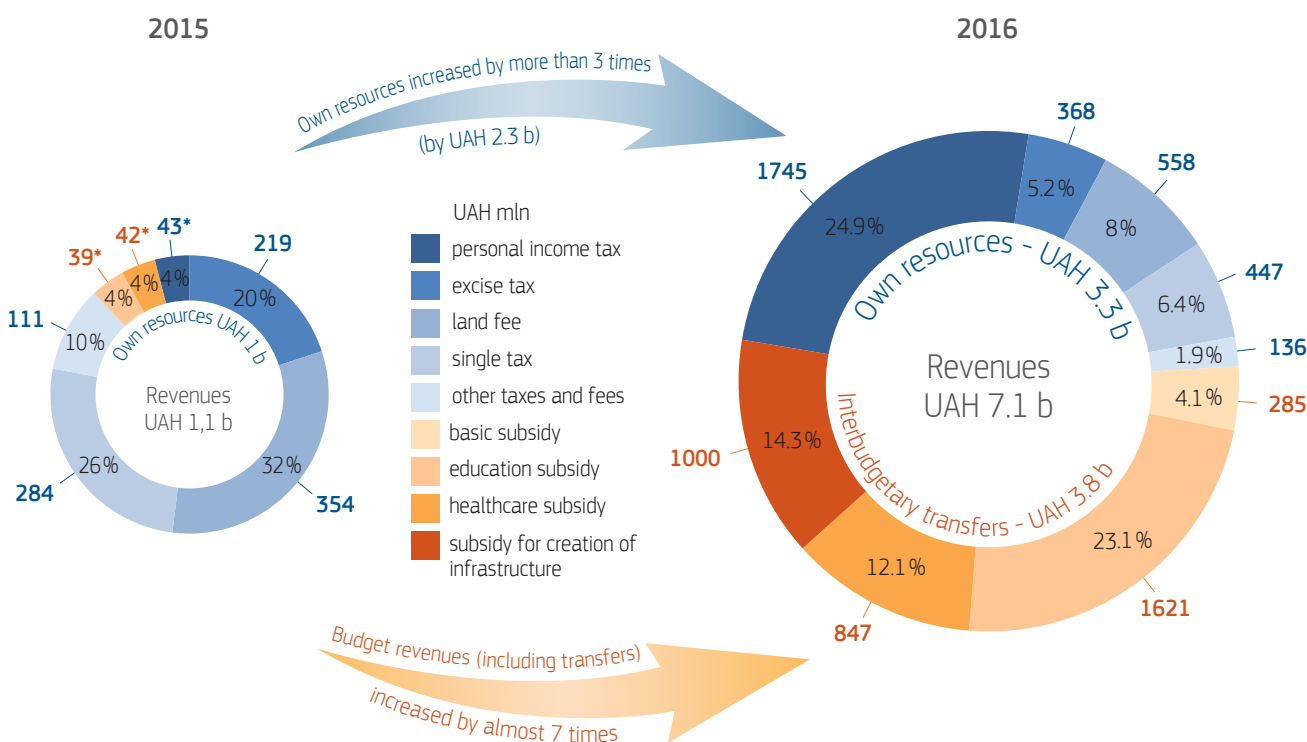
In 2016, the general fund revenues of local budgets of 159 hromadas (including transfers from the state budget) amounted to UAH 7.1 b, which is almost 7 times higher compared to the revenues of the budgets of local councils which joined the respective AHs in 2015.

Thanks to the fiscal decentralisation, the own revenues of the amalgamated hromadas more than tripled (by UAH 2.3 b) compared to 2015 (from UAH 1 b to UAH 3.3 b).

Revenues from the personal income tax amounted to UAH 1.7, revenues from the land tax – UAH 558 mln (+ 58%), revenues from the single tax – UAH 447 mln (+57%), revenues from the excise tax from retail sale of excise goods by economic entities (oil products, tobacco and alcohol) – UAH 368 mln (+68%).

The amalgamation of hromadas made it possible to increase their own revenues per capita on the respective territory. The average own revenues of amalgamated hromadas per capita increased from UAH 700 to UAH 2345 (+ UAH 1645).

ACTUAL GENERAL FUND REVENUES OF 159 AMALGAMATED HROMADAS IN 2015 AND 2016

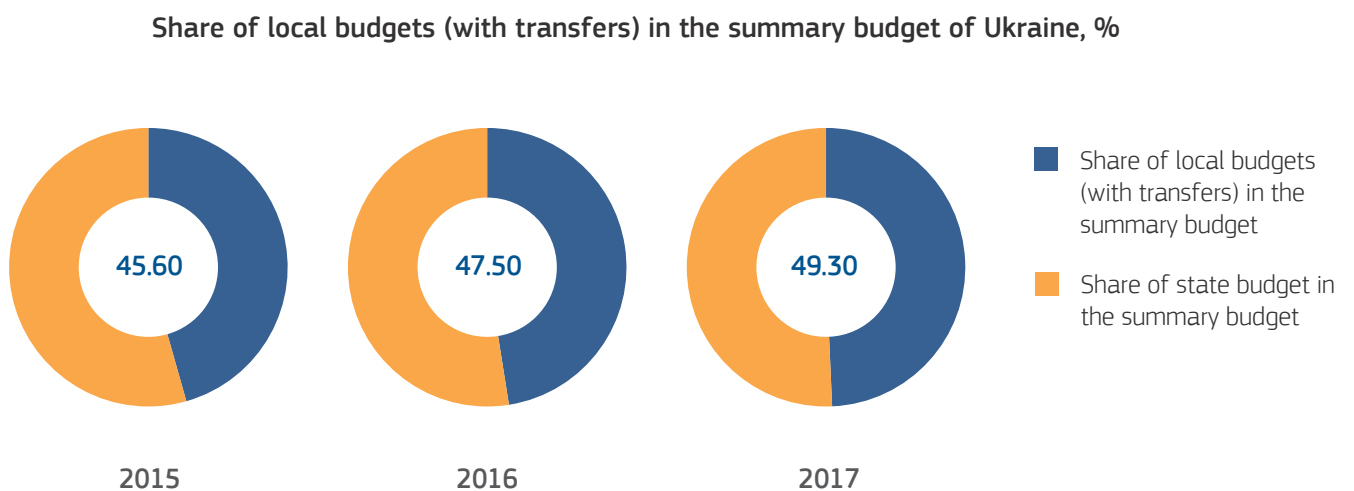
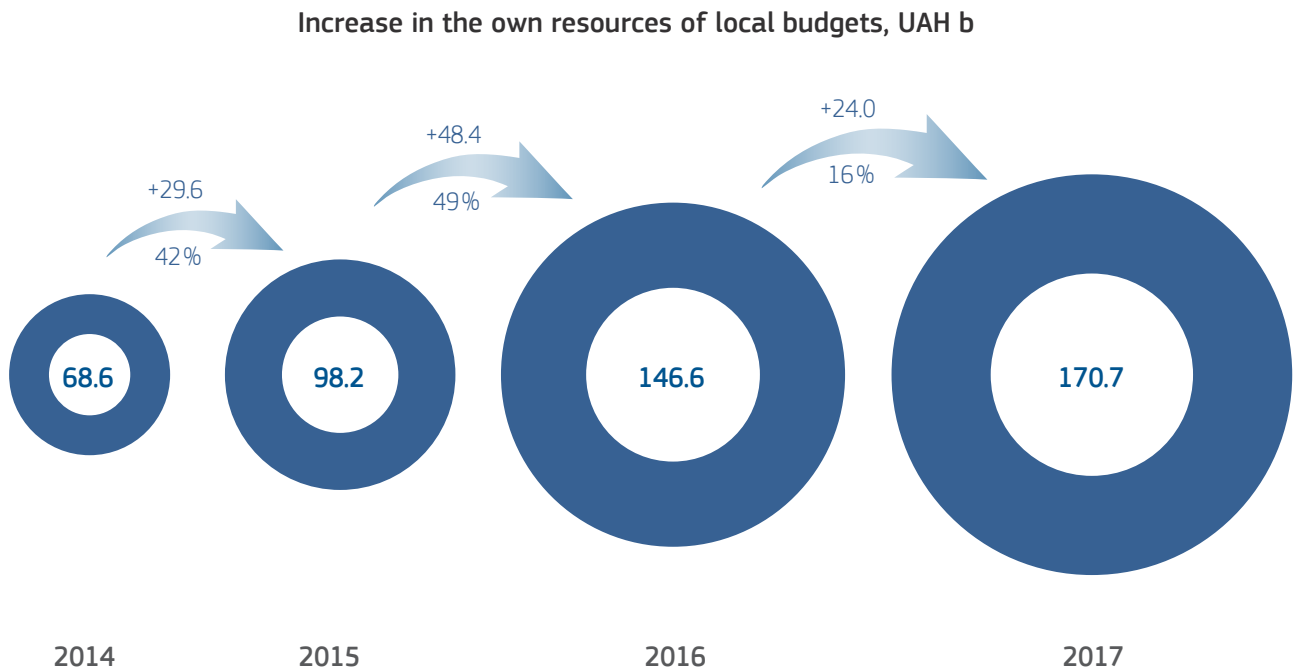


* Lymanska town council (town of regional level) of Donetsk region

Reverse subsidy (withdrawal of funds to the state budget) in 2016 amounted to UAH 65 mln

LOCAL BUDGETS' INCREASE TRENDS

Fiscal decentralisation results show the trends of increase in the own resources (taxes and charges) of local budgets, as well as increase in the share of local budgets (with transfers) in summary budget of Ukraine.



Financial resources increase enables local self-government bodies to implement local development strategies with greater autonomy, as well as significantly improve infrastructure, public services and utilities of the settlements.

STATE FINANCIAL SUPPORT OF LOCAL AND REGIONAL DEVELOPMENT

In Ukraine the state provides financial support to local government for development of territories.

One of the basic mechanisms of implementation of the state regional policy is State Fund for Regional Development (SFRD). SFRD funds are intended for implementation of investment programmes and regional development projects, which comply with the priorities set forth in State Strategy for Regional Development, regional development strategies and their implementation plans.

To support amalgamated hromadas the state subsidises the local budgets for creation of their infrastructure. The funds are distributed among the budgets of amalgamated hromadas depending on their territory and the number of the population in their rural areas.

In 2016 state budget provided for development and infrastructure objects:

- ▶ UAH 3.0 b – state fund for regional development;
- ▶ UAH 1.0 b – subsidy for development of infrastructure in amalgamated hromadas;
- ▶ UAH 3.3 b – subsidy for social and economic development of the territories.

Using these funds and the funds of the local budgets about six thousand projects approved by the Government were implemented, as well as a significant number of other local projects and programmes, carried out by 523 local self-government bodies (LSG), which received a subsidy for social and economic development of their territories. Also activities for social and economic development of the territories were implemented. So, it can be stated that regions and hromadas were enabled, with support of the relevant state resources, to start comprehensive application of their own development strategies.

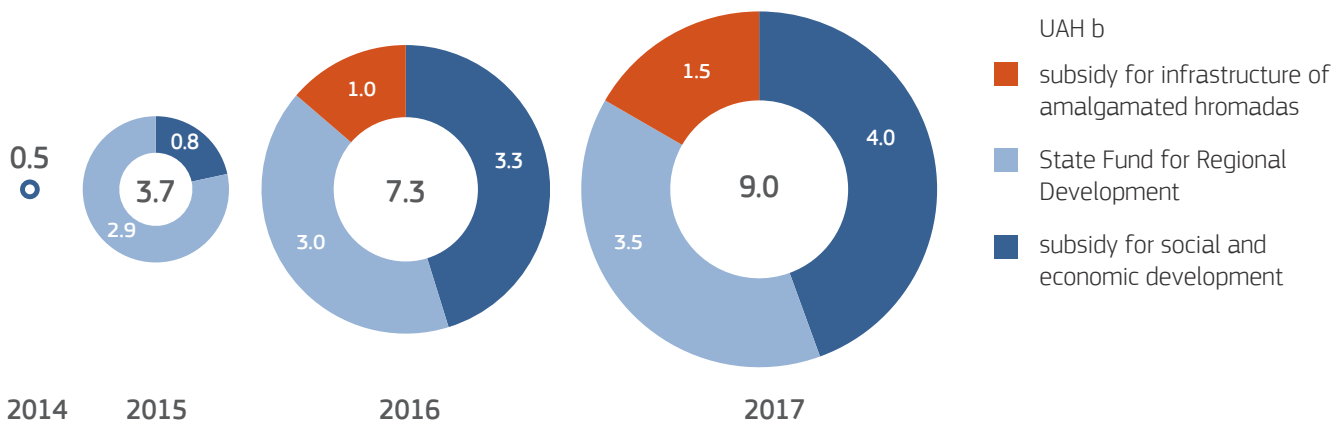
State support provided in 2017:

- ▶ UAH 3.5 b – state fund for regional development;
- ▶ UAH 1.5 b – subsidy for development of infrastructure in amalgamated hromadas;
- ▶ UAH 4.0 b – subsidy for social and economic development of the territories.

INFRASTRUCTURE PROJECTS IMPLEMENTED IN 2016

WITH THE SUPPORT OF:

- ▶ State Fund for Regional Development – **810** projects
- ▶ subsidy for development of infrastructure of hromadas – **1383** projects
- ▶ subsidy for social and economic development – **3711** projects and **523** LSGs obtained funds for implementation of the projects





Funded by the European Union



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