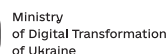


U-LEAD

WITH EUROPE

HOW THE COVID-19 PANDEMIC IMPACTED LOCAL BUDGETS IN UKRAINE



This report contains the research results of the COVID-19 pandemic impact on local budgets in Ukraine in 2020. Experts analysed budget expenditures at fighting COVID-19 and evaluated changes in the financial capacity of municipalities and their funding priorities.

Authors:

- **Viktor Ventsel** – Finance and budgeting expert
- **Vitalii Pylypiv** – Municipal finance advisor, U-LEAD with Europe
- **Roman Slobodian** – Capacity development advisor on municipal finance, U-LEAD with Europe

This publication has been produced with the assistance of the European Union and its member states Germany, Poland, Sweden, Denmark, Estonia and Slovenia. The contents of this publication are the sole responsibility of its authors and can in no way be taken to reflect the views of the U-LEAD with Europe Programme, the government of Ukraine, the European Union and its member states Germany, Poland, Sweden, Denmark, Estonia and Slovenia. All rights reserved. No part of this publication may be reproduced, translated, adapted, stored in the search system or transmitted in any form or by any means without the express permission of the U-LEAD with Europe Programme.



GLOSSARY

Amalgamated hromada (AH) – basic unit of administrative division in Ukraine (before 2021).

Rayon (district) – subregional unit administrative division in Ukraine.

Oblast (region) – subnational unit administrative division in Ukraine.

City of oblast significance – city municipality that was designated as a separate district within its region.

Subvention – conditional grant.

TABLE OF CONTENTS

KEY POINTS	5
Main findings	5
COVID-19 AND LOCAL FINANCES IN THE GLOBAL CONTEXT	8
Impact on the revenues of municipalities	9
Impact on the expenditures of municipalities	10
Government support for municipalities	11
Decentralisation and COVID-19	13
IMPACT OF THE PANDEMIC IN THE FINANCES OF UKRAINE	15
Fund to fight COVID-19	16
Funding for expenditures related to COVID-19	19
Losses of local budgets resulting from quarantine restrictions	23
Impact of COVID-19 on the expenditures of the State budget and local budgets	27
State budget transfers to local budgets in 2020	35
RECOMMENDATIONS	37

KEY POINTS



The pandemic that broke out in the beginning of 2020 has taken a heavy toll on all areas of human activity worldwide. At the moment, it is still difficult to assess all tangible and intangible losses caused by the pandemic, since it is far from over yet. However, the main noticeable consequences of the pandemic include a significant global economic downturn, higher unemployment, the decline of many industries including culture, arts and tourism as well as the major reformatting of the education process etc.

Public finances belong to the sectors most heavily hit by the pandemic along with the economy of Ukraine as well as the global economy. The presented study is focused on the key aspects that refer to the State and local public finances in Ukraine. Also, the authors of the study attempt to make a comprehensive assessment of the losses caused by the pandemic.

Main findings

- 1** The public finance system of Ukraine did not react properly to the pandemic-related challenges in 2020.
- 2** A significant share of the Anti-COVID-19 Fund was diverted for purposes not related to contain the pandemic: for instance, UAH 25.7 billion (38.7% of the total Fund expenditures) were spent for road construction and repair.
- 3** The total local budgets expenditures directly related to anti-COVID measures are equal to **UAH 10.3 billion** (2.1% of their total expenditures).
- 4** **Local councils were extremely reserved in adopting special (targeted) programmes to fund anti-COVID measures.** Such expenditures (like the purchase of protective items and disinfection substances, medicines etc.) have been mostly covered by the respective State budget or targeted programmes. In some cases, the financing of the mentioned above measures increased.
- 5** To enable a more effective reaction to the pandemic, a number of healthcare facilities reformatted their operations without any significant additional funding. **The available human and material resources were redistributed:** additional capacities for accommodating COVID patients were deployed, while the number of beds in other healthcare units was reduced; also, personnel from other units was engaged to care for COVID patients.
- 6** Despite all challenges related to the declining revenues at the local level, the originally adopted revenue plans of the local budgets were executed at the rate of 99.6%, the own revenues of the general budget fund were achieved at the rate of 99.0%. This performance differs significantly from the global dynamics of local revenues in 2020, especially in comparison to countries where the key revenue source for local budgets is the income tax (contrary to the property tax) that suffered due to the pandemic-related crisis. We suppose that execution of the originally adopted revenues plans at the local level despite significantly reduced personal income tax (PIT), land tax and the single tax revenues can be explained by the peculiarities of the local budget planning.

Due to the scarce information base for the revenue planning as well as missing methodological approaches and permanent changes in the budget and tax regulations, **local self-government bodies tend to play down their revenue expectations.**

- 7** Compared to 2019, local budgets general fund revenues increased by 5.4% (including revenues from the PIT increased by 7.4%). The drivers of such an increase were as follows: the minimum wage in 2020 increased by UAH 642.3, i.e. by 15.4%; the average wage increased from UAH 10,497 in 2019 to UAH 11,591 in 2020 (+10.4%), which somewhat compensated losses resulting from the reduction of the employed workforce by 663,000 persons (16,578.3 thousand persons in 2019 vs. 15,915.3 thousand persons in 2020). In total, the increase in revenues in 2020 (5.4%) was almost equal to the inflation rate (5.0%).
- 8** The estimated losses of the own revenues of the local budgets general fund in 2020 caused by the pandemic amounted UAH 28.3 billion, including: budgets of amalgamated hromadas – UAH 5.4 billion; oblast budgets – UAH 3.8 billion, budgets of the cities of oblast significance – UAH 9.8 billion, rayon budgets – UAH 4.1 billion.
- 9** Due to the adoption of Law No. 553 of 29 May 2020 and the abolition of the land fees (land tax and lease payments) as well as the property tax deviating from the respective land plots, the estimated losses of local budgets amounted **UAH 6.4 billion** (land fee – UAH 5.4 billion, property tax – UAH 1 billion). These losses were not compensated by the government.
- 10** Due to the significantly decreased revenues and the valid commitments in social welfare, the salary expenditures of the local budgets general fund increased significantly and accounted for 57.4% of the total expenditures in 2020, which is 17.2% higher compared to 2019. Salary expenditures of amalgamated hromadas in 2020 accounted for 70.1% of the expenditures of the general fund expenditures compared to 62.7% in 2019.
- 11** 2020 saw a remarkable increase in the number of municipalities whose salary expenditures are higher than 70% of their general fund expenditures. In 2020, 709 out of 872 amalgamated hromadas (81.3% of the total number) had their salary expenditures ranging from 70 to 90% of the general fund expenditures compared to 538 out of 806 amalgamated hromadas in 2019 (66.7% of the total number).
- 12** Subventions from the State budget to local budgets planned in the beginning of the year almost did not change in the course of 2020 (plan – UAH 138.3 billion, actually provided subventions – UAH 138.6 billion). Thus, **the State budget did not offer any additional allocations to local budgets to fight COVID-19, those expenses were covered by redistributing the total due amount planned in the State budget for 2020.** 32 subventions for local budgets had been originally planned when adopting the State budget; in fact, 53 subventions were granted. Due to redistribution, funding for road construction and maintenance was increased by UAH 1.9 billion, healthcare funding was increased by UAH 5.5 billion. The dedicated funding to contain COVID-19 amounted UAH 2.9 billion.

COVID-19 AND MUNICIPAL FINANCES IN THE GLOBAL CONTEXT



The COVID-19 pandemic and prolonged quarantine measures in 2020 as well as in the first half of 2021 impacted all areas of economic activity significantly, which, in turn, affected the financial capacity of municipalities and the capability of SNGs to exercise their powers and to implement their development strategies. Declining revenues and the need for additional funding to fight the pandemic posed a major challenge for the local budgets. The fiscal capacities of SNGs narrowed significantly last year due to reduced tax revenues for the local budgets that were exposed to a higher pressure to secure funding for the additional measures to contain the pandemic and its social and economic consequences on the respective territory.

Impact on the revenues of municipalities

Most SNGs registered a significant decline of the tax and other revenues of local budgets during quarantine and lockdown periods. The key reasons for the reduced tax revenues at the local level included tax breaks in the lockdown time, deferred payments, lower taxation or fiscal gaps caused by the termination of economic activity and lower household incomes etc.

The strongest hit was taken by the budgets whose revenues come from so-called *elastic sources*, i.e. the ones that depend significantly on the dynamics of macroeconomic indicators, gross regional product and the overall economic situation in the region or country. SNGs that depend more on taxes related to economic activity are always hit most hard in a crisis¹. The elastic revenue sources include sales tax, corporate tax, personal income tax etc. Since the pandemic had a heavy impact on the macroeconomic indicators, the proportionate losses of the local budgets with a high share of revenues coming from the elastic sources were inevitable.

According to the ILO, the global labour market saw huge losses of working hours in 2020, which led to a remarkable decline of the labour income. That resulted in losses for public budgets receiving revenues from the personal income tax. Globally, these revenues fell by 8.3% in 2020 compared to 2019, with a decline by 10.3%, 8.7% and 6.6% in America, Europe, Asia and the Pacific region respectively. On average, nations with the lower average income suffered most (12.3%)².

The pandemic also had a major impact on revenues from the land sale and property lease.

This development has been most detrimental to countries with a low and middle income per capita where local and regional authorities rely heavily on elastic revenue

¹ OECD (2020), The territorial impact of COVID-19: Managing the crisis across levels of government, www.oecd.org/coronavirus/policy-responses/the-territorial-impact-of-covid-19-managing-the-crisis-across-levels-of-government-d3e314e1/

² ILO (2021), ILO Monitor: COVID-19 and the world of work. Seventh edition – 35 p., https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/briefingnote/wcms_767028.pdf

sources³. Among the OECD countries, most hard hit were the revenues of SNGs that relied on the *income taxation*, while municipalities relying on *property taxes* suffered least.

In most cases, the impact of the pandemic on intergovernmental transfers was not instant; it is expected that SNGs where such transfers account for a significant share of revenues will not be hit harder by the pandemic than the country in general.

SNGs in different OECD countries depend on intergovernmental transfers to a different extent ranging from 84% in Lithuania to less than 10% in Iceland⁴. Overall, the volume of intergovernmental transfers was on the rise in most countries last year, which often came hand in hand with the reduction of municipalities' own revenues and the increase of their expenditures. Additional transfer funds were used as a counter-cyclical tool.

Given the differences in the municipal revenues structure and their dependence on different types of economic activity even within a country, the pandemic has an asymmetric regional impact on municipal finances⁵. Municipalities that heavily rely on revenues and employment in tourism and export of goods were affected most.

Impact on the expenditures of municipalities

When the first waves of the pandemic came along, SNGs had to shoulder the task of financing measures to contain the spread of the virus and to mitigate the pandemic's social and economic impact. Irrespective of the "traditional" distribution of tasks between different governance levels, municipalities were obliged to supplement the efforts made by national governments and to take over a significant share of the healthcare expenditures. In most countries, municipalities have rather limited powers in the healthcare sector; however, they had to play the key role in providing healthcare services at the local level. Apart from healthcare funding and measures to strengthen the healthcare system, additional efforts were necessary to support the economy, social services, public order etc.

The participation of SNGs in the respective expenditures depends on the extent of decentralisation of a country; however, most municipalities saw their expenditures increased.

The mentioned financial contingencies led to cuts and delays in the investment spending by municipalities. Salary expenditures are much less flexible, but the

³ LSE (2021), Financing emergencies in cities and regions: Ongoing lessons from the pandemic, <https://www.lse.ac.uk/Cities/Assets/Documents/EGI-Publications/PB03-v5-EN.pdf>

⁴ OECD (2020), The territorial impact of COVID-19: Managing the crisis across levels of government, www.oecd.org/coronavirus/policy-responses/the-territorial-impact-of-covid-19-managing-the-crisis-across-levels-of-government-d3e314e1/

⁵ OECD (2020), COVID-19 and fiscal relations across levels of government, <https://www.oecd.org/coronavirus/policy-responses/covid-19-and-fiscal-relations-across-levels-of-government-ab438b9f/>

pandemic made municipalities reduce them as well. It became a common practice to put a part of the employees on furlough for an indefinite period⁶.

Comprehensive measures were taken at the local level to fight the pandemic, including extended healthcare services, deployment of emergency services in poorly supplied areas, lockdowns and curfews. Hence, it was common in 2020 to divert a part of the municipal spending from strategic priorities to ad-hoc needs. LSE cities survey made it clear that 86% of them planned to change their budget priorities to overcome their budget deficits⁷. Funding for culture and sports as well as infrastructure investments were driven down most significantly. Instead, budget allotments were increased most substantially to purchase individual protection items, to ensure hygienic protection in public places as well as to provide required healthcare services, social protection and to ensure public order.

The relative flexibility of the municipal investment spending made it possible to postpone these expenditures in the time of the pandemic. For instance, the municipal investment spending in African countries went down by 26-63% on average (estimate by the IFC) depending on the size of cities and the impact of the crisis⁸.

Government support for municipalities

As a response to the spread of COVID-19, governments of most countries took unprecedented measures that included additional healthcare spending, employment support, food distribution, subsidies for small businesses, social protection and public investments.

However, some decisions taken at the national level affected the capability of municipalities to exercise their own powers in the time of the pandemic. Also, the efforts of different governance levels to contain the pandemic were not always well-coordinated. Most of the centralized preventive and restrictive measures covered the entire territory of countries and were not focused specifically on local self-government; however, their consequences impacted municipalities to a significant extent.

Decisions taken by national governments to contain the pandemic and its consequences in 2020 had remarkable implications for the revenues of local budgets. Governments of many countries, including Ukraine, implemented tax

⁶ IFC (2020), COVID-19's Impact on Sub-National Governments, <https://www.ifc.org/wps/wcm/connect/cb8caf2a-0dde-4620-9e3d-7df8c4717fa6/IFC-COVID19-Municipalities-final102120-web.pdf?MOD=AJPERES&CVID=nlc.KIU>

⁷ LSE (2021), Financing emergencies in cities and regions: Ongoing lessons from the pandemic, <https://www.lse.ac.uk/Cities/Assets/Documents/EGI-Publications/PB03-v5-EN.pdf>

⁸ IFC (2020), COVID-19's Impact on Sub-National Governments, <https://www.ifc.org/wps/wcm/connect/cb8caf2a-0dde-4620-9e3d-7df8c4717fa6/IFC-COVID19-Municipalities-final102120-web.pdf?MOD=AJPERES&CVID=nlc.KIU>

breaks, which limited the fiscal capacities of municipalities. To support businesses and vulnerable groups of citizens, governments allowed to postpone tax payments and reduced tax rates, including for taxes levied by municipalities.

Tax postponement for municipal taxes is decided by national governments, or they can recommend it to municipalities (e.g. in Lithuania). In some countries (Australia, Canada), municipalities are in position to decide on tax postponement by themselves⁹.

Postponement of such shared taxes as the personal income tax or local property taxes, local fees etc. has a direct impact on municipalities and limits their financial capacities. In some cases, the resulting losses of local budgets were not compensated.

At the same time, national governments can provide additional grants, loans and financial guarantees to equalize the fiscal capacities of municipalities.

Even in countries whose municipalities seem to have sufficient reserves to avoid a short-term liquidity squeeze (Spain, Latvia and Australia), municipalities can apply to the central government for some support. Switzerland was the only country to announce that municipalities shall handle the crisis by themselves, including insolvency issues¹⁰.

Overall, the pandemic demonstrates that unilateral actions by national governments or municipalities to respond such challenges are not sufficient; instead, it is crucial to cooperate and to consolidate the efforts of all parties (between and within countries as well as between individuals). Based on the principles of solidarity, it is possible to remedy some of the asymmetric consequences of the pandemic by using equalization mechanisms both at the local and the national level. They can include such specific measures as tax redistribution and subsidies¹¹.

Decentralisation and COVID-19

As mentioned above, the financial impact of the pandemic was most painful for the municipalities in countries where municipalities have significant powers in healthcare and social protection with their key revenue sources being elastic and based on income taxes. In fact, such local powers are a feature of decentralised systems. Municipalities in strongly decentralised countries had to deal with a relatively stronger decline of their own revenues as well as to increase their expenditures to a higher extent.

⁹ OECD (2020), Initial Budget and Public Management Responses to the Coronavirus (COVID-19) Pandemic in OECD Countries, OECD Tackling Coronavirus (COVID-19), <https://www.oecd.org/gov/budgeting/initial-budget-and-public-management-responses-to-covid19-in-oecd-countries.pdf>

¹⁰ OECD (2020), COVID-19 and fiscal relations across levels of government, <https://www.oecd.org/coronavirus/policy-responses/covid-19-and-fiscal-relations-across-levels-of-government-ab438b9f/>

¹¹ LSE (2021), Financing emergencies in cities and regions: Ongoing lessons from the pandemic, <https://www.lse.ac.uk/Cities/Assets/Documents/EGI-Publications/PB03-v5-EN.pdf>

According to a survey conducted by the OECD, the SNGs in countries with a middle and high level of decentralisation expected moderate and high pandemic-related revenue losses more often compared to the municipalities of countries with the low level of fiscal decentralisation¹².

Despite this contingency-related vulnerability of municipalities in strongly decentralised countries, return to the centralization was mostly not on the agenda. However, responsibility for some areas in specific countries was indeed shifted to the national level.

For instance, healthcare functions were shifted more to the national level in Poland, whereas in countries like Slovakia, Japan and the USA a mix of a centralized and decentralized approach in the healthcare sector was registered.

Whenever a response to large-scale emergencies is required, a centralised system normally can deliver standard procedures, data collection and a better distribution of resources, which can actually ensure a fair delivery of public services countrywide. At the same time, more decentralisation makes it possible to adapt faster to local needs and to absorb innovations¹³.

The OECD study demonstrates that the financial vulnerability of municipalities depends on the extent of decentralisation for the below reasons:

- Higher decentralisation related to the challenge of overlapping responsibilities between different governance levels;
- The pandemic-related impacts are more asymmetric in decentralised countries due to their relatively big size;
- Challenges related to financial compensation and coordination at different governance levels.

Apart from that, ensuring the financial autonomy and flexibility of municipalities is getting ever more relevant along with the excessive vulnerability of municipal revenues in the crisis and the necessity to increase the volume of government transfers. “No city, region or country will be able to tackle these challenges alone. This is why it is so essential for national governments to support cooperation across municipalities and regions to help minimise disjointed responses and competition for resources during a crisis.”¹⁴

¹² LSE (2021), Financing emergencies in cities and regions: Ongoing lessons from the pandemic,

<https://www.lse.ac.uk/Cities/Assets/Documents/EGI-Publications/PB03-v5-EN.pdf>

¹³ OECD (2020), The territorial impact of COVID-19: Managing the crisis across levels of government,

www.oecd.org/coronavirus/policy-responses/the-territorial-impact-of-covid-19-managing-the-crisis-across-levels-of-government-d3e314e1/

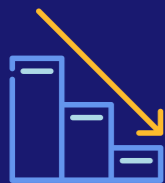
¹⁴ LSE (2021), Financing emergencies in cities and regions: Ongoing lessons from the pandemic,

<https://www.lse.ac.uk/Cities/Assets/Documents/EGI-Publications/PB03-v5-EN.pdf>

LSE cities researchers point out that municipalities need to have a sufficient level of autonomy, flexibility and financial stability to be able to respond fast to contingencies not only on their own territory, but also to support other municipalities that could be confronted with more serious issues.

Challenges for the municipal finances caused by the COVID-19 pandemic also pose a threat for some of the principles of the European Charter of Local Self-Government. This especially concerns the required availability of adequate financial resources in municipalities proportionate to their responsibilities. Apart from this, the scale of municipal budget disbalances caused by the pandemic is not proportionate to the situation at the national level. In this situation, various compensation mechanisms are utilized at the national level to bring the municipal finances back into balance, including fiscal support in the format of intergovernmental grants, termination of fiscal rules, government guarantees or loans as well as access to external funding.

IMPACT OF THE PANDEMIC ON THE FINANCES OF UKRAINE



Fund to fight COVID-19

In accordance with the Law of Ukraine "On Amendments to the Law of Ukraine "On the State Budget of Ukraine for 2020"" (No. 553 of 13 April 2020), the Fund to fight COVID-19 and its consequences (Anti-COVID-19 Fund) was established as part of the State budget of Ukraine. The Cabinet of Ministers of Ukraine decides on allocations from this Fund with the approval of the Parliament Committee on Budget. The key areas financed from the Fund include measures to prevent and to contain the virus, to localize and to liquidate the outbreaks of the disease. The Fund reserves are also used to finance additional payments to healthcare workers directly involved in fighting the pandemic, to provide financial support to citizens (especially to seniors), one-off payments to the family members of deceased healthcare workers as well as transfers to the Pension Fund, the Social Insurance Fund and the Mandatory State Social Employment Insurance Fund.

The originally approved volume of the Anti-COVID-19 Fund was equal to UAH 63.35 billion, in the course of 2020 it increased to UAH 80.9 billion, UAH 66.5 billion have been spent so far (figure 1):

- The biggest share of the Fund was allocated for the construction and repair of the roads of national significance – UAH 26.2 billion. UAH 25.7 billion (98.3%) have been spent so far;
- UAH 8.8 billion (82.1% of the allocated amount) were spent to support the Unemployment Insurance Fund;
- UAH 5.5 billion (92% of the allocated amount) were spent as bonuses for healthcare workers;
- UAH 4.5 billion (100% of the allocated amount) were spent as bonuses for police and military personnel;
- UAH 1.7 billion (4.5% of the allocated amount) were spent for the construction and repair of hospital admission units;
- UAH 3.9 billion (74.1%) were spent for the additional funding of State-guaranteed healthcare services;
- UAH 3.6 billion (43.6%) were spent as financial support for citizens who lost their income due to the restrictions on their economic activity.

Expenditures planned for the purchase of COVID-19 vaccines in 2020 (UAH 1.4 billion) were not financed.

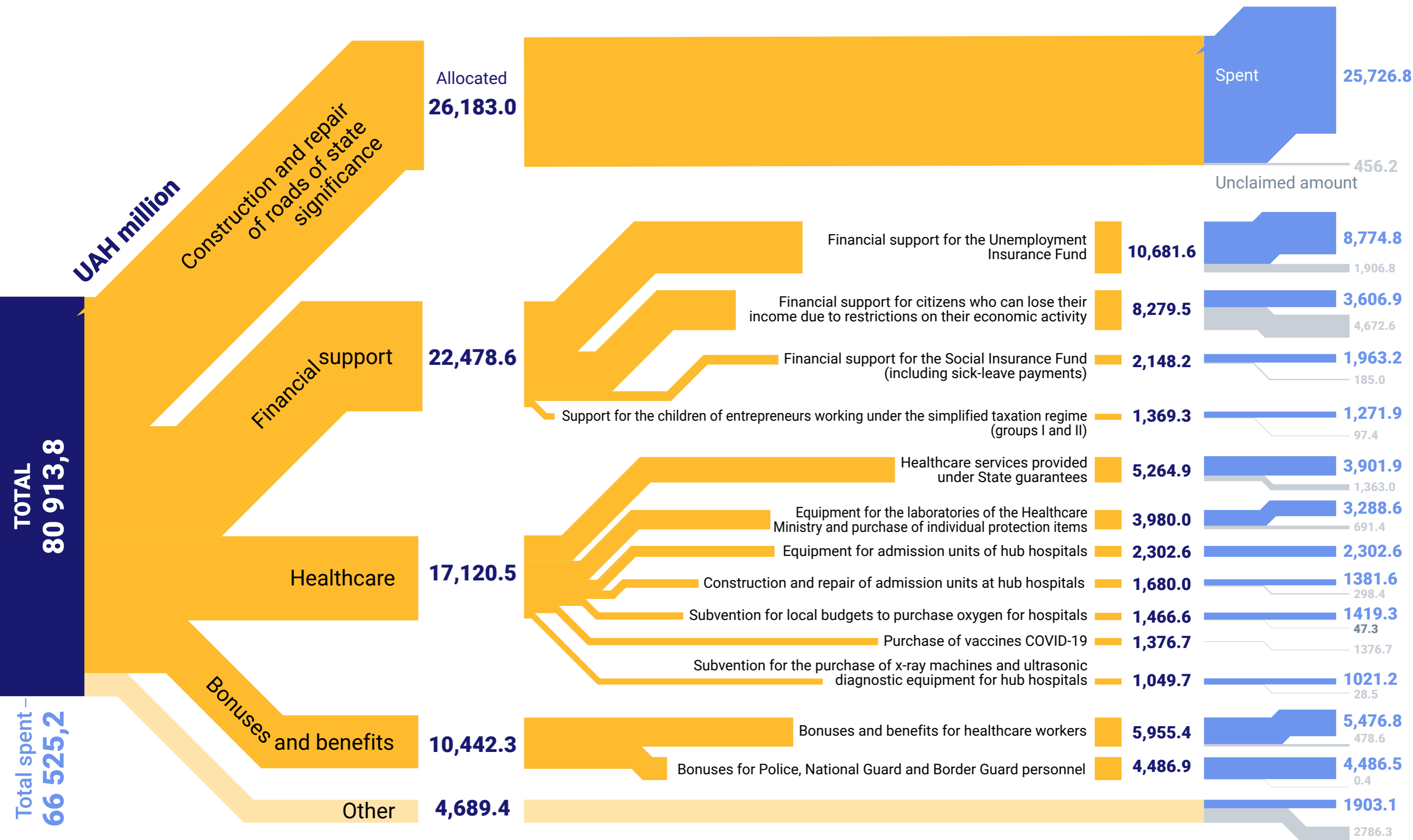


Figure 1. Use of the Anti-COVID-19 Fund in 2020

Source: [Ministry of Finance of Ukraine](#)

It must be noted that a significant part of the Fund was spent for measures not related to the fight against the pandemic. Thus, UAH 25.7 billion (38.7% of the total Fund expenditures) were spent for road construction and repair.

In the first months following the set-up of the Anti-COVID-19 Fund, the Government only adopted two resolutions approving expenditures for the healthcare sector equal to UAH 1.1 billion.

According to the analysis results, most unclaimed funds are related to the healthcare sector. The possible reasons for this situation are the time-consuming approval of the passports for the Healthcare Ministry's budget programmes and planning of budget allocations.

At the same time, the allocations were spent at the fastest pace for the measures delegated to municipal budgets, including those covered by transfers from the State budget. In such cases, local budgets received funding based on adopted decisions without having to approve the passports of budget programmes.

Along with that, UAH 3.6 billion were paid in the end of 2020 from the Anti-COVID-19 Fund to persons whose income was affected by the COVID restrictions (figure 1).

Funding for expenditures related to COVID-19

The total direct expenditures for the anti-pandemic measures in 2020 from the State budget and local budgets as well as from other sources amounted UAH 105.1 billion (chart 1).

UAH 91.8 billion were provided from the **State budget**, which is equal to 7.1% of the total state budget expenditures in 2020 (general fund and special fund).

The highest expenditures of the State budget to fight COVID-19 were registered in the city of Kyiv (40,592.8m) as well as Zaporizhyya (4,553.5m) and Dnipropetrovsk (3,358.4m) oblasts. The lowest allocations from the State budget to fight the pandemic were provided to Kirovohrad (UAH 225.5m), Kherson (UAH 309.5m) and Chernivtsi (UAH 386.5m) oblasts (chart 1).

Chart 1
Funding for measures to fight COVID-19 in 2020

UAH million

Region	Local budgets			State budget (total)	Total (local budgets + State budget)	Other sources	Total (budget + external funds)
	General fund	Special fund	Total				
Vinnitsya	299.5	307.4	606.9	1,886.2	2,493.0	79.2	2,572.3
Volyn	172.1	127.7	299.8	895.1	1,194.8	18.3	1,213.1
Dnipropetrovsk	459.6	313.7	773.4	3,358.4	4,131.8	20.4	4,152.2
Donetsk	257.5	386.0	643.5	1,432.5	2,075.9	59.9	2,135.8
Zhytomyr	130.7	73.7	204.4	658.1	862.5	131.0	993.5
Zakarpattia	183.7	156.4	340.1	2,100.1	2,440.2	15.5	2,455.7
Zaporizhyya	153.1	147.8	300.9	4,553.5	4,854.4	160.1	5,014.4
Ivano-Frankivsk	134.2	114.9	249.0	895.7	1,144.7	20.8	1,165.6
Kyiv	254.4	250.5	504.8	1,329.1	1,834.0	95.3	1,929.3
Kirovohrad	70.9	133.9	204.8	225.5	430.3	12.7	443.0
Luhansk	115.9	74.4	190.3	870.9	1,061.2	16.7	1,077.9
Lviv	311.9	190.7	502.6	1,091.8	1,594.5	105.9	1,700.4
Mykolaiv	244.3	176.4	420.7	427.6	848.3	23.4	871.7
Odesa	432.0	343.6	775.6	1,800.1	2,575.7	209.6	2,785.3
Poltava	219.5	199.5	418.9	2,277.6	2,696.6	95.5	2,792.1
Rivne	85.2	101.0	186.1	620.4	806.6	6.8	813.3
Sumy	97.5	117.6	215.1	2,072.2	2,287.3	109.6	2,396.9
Ternopil	130.7	116.9	247.5	1,830.8	2,078.4	41.8	2,120.2
Kharkiv	352.3	408.5	760.8	1,514.9	2,275.7	95.4	2,371.1
Kherson	189.0	181.1	370.0	309.7	679.8	58.3	738.0
Khmelnitsky	122.7	94.6	217.4	1,845.3	2,062.7	74.2	2,136.9
Cherkasy	176.3	267.2	443.5	1,381.6	1,825.1	44.5	1,869.5
Chernivtsi	101.8	135.0	236.8	386.5	623.3	13.0	636.3
Chernihiv	62.2	190.8	253.0	954.5	1,207.5	19.5	1,227.0
City of Kyiv	736.7	160.8	897.4	40,592.8	41,490.2	1,501.1	42,991.3
SUB-TOTAL	5,493.5	4,769.9	10,263.5	75,310.9	85,574.4	3,028.5	88,602.8
Central bodies of executive power				16,477.5	16,477.5	7.8	16,485.3
TOTAL	5,493.5	4,769.9	10,263.5	91,788.4	102,051.9	3,036.2	105,088.1

Source: data of the [Accounting Chamber of Ukraine](#)

Local budgets provided **UAH 10.3 billion** for the measures to fight the pandemic, which is equal to 2.1% of their total expenditures (figure 2).

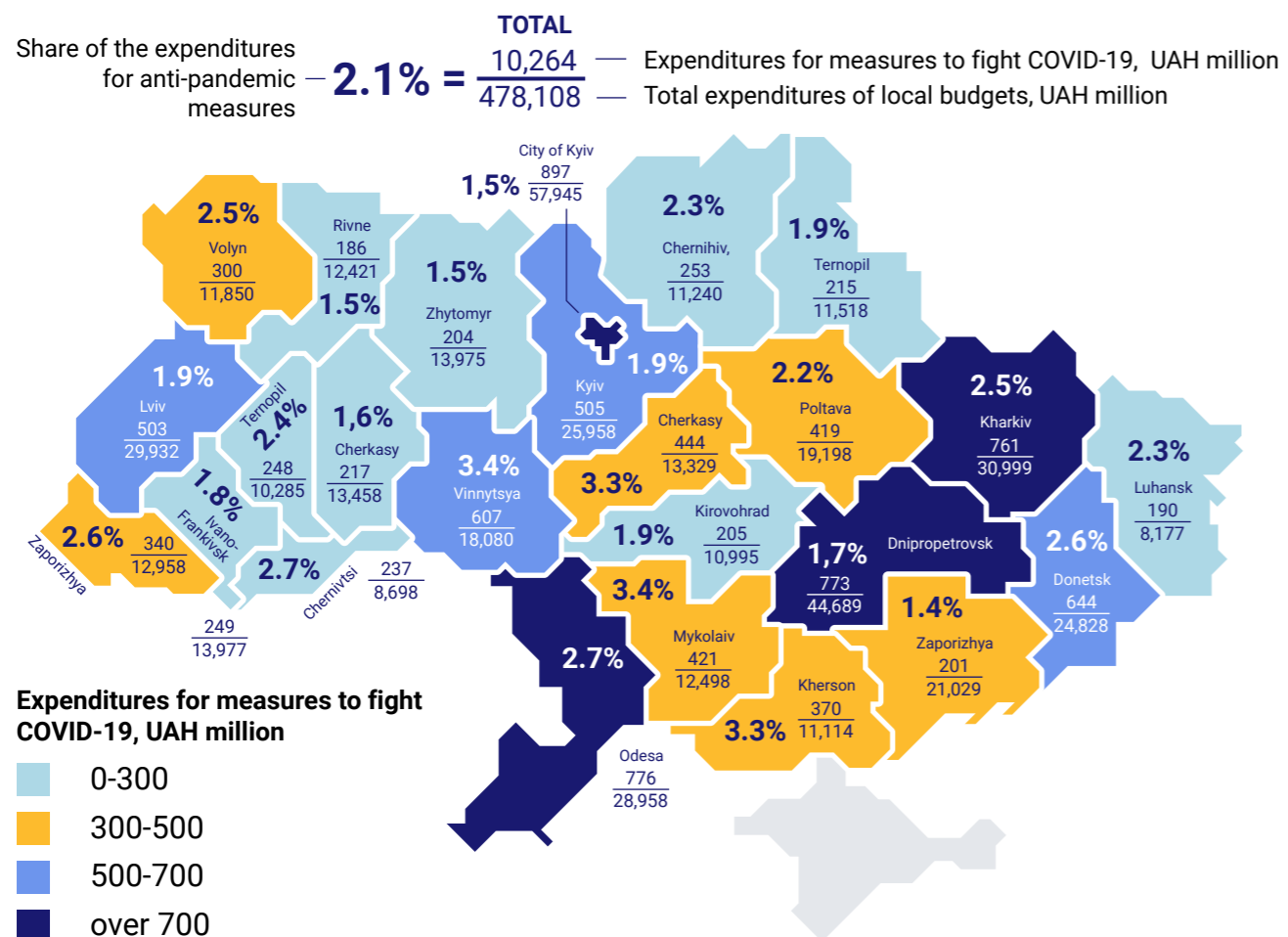


Figure 2. Local spending for measures to fight COVID-19 in 2020

Source: data of the [Accounting Chamber of Ukraine](#) and the State Treasury Service of Ukraine

The highest expenditures from local budgets were registered in the city of Kyiv (UAH 897.4m) as well as Odesa (UAH 775.6m), Dnipropetrovsk (UAH 773.4m) and Kharkiv (UAH 760.8m) oblasts. The lowest expenditures from local budgets were registered in Rivne (UAH 186.1m), Luhansk (UAH 190.3m), Zhytomyr (UAH 204.4m) and Kirovohrad (UAH 204.8m) oblasts (figure 2).

As of 31 December 2020, the highest number of COVID-19 cases was registered in the city of Kyiv (112,356), Odesa (71,669) and Kharkiv (70,090) oblasts. The lowest infection numbers were registered in Kirovohrad (8,522), Luhansk (10,830) and Kherson (17,906) oblasts.

The average expenditures of **local budgets** per one registered infection case in Ukraine are equal to **UAH 9.6 thousand**. The highest expenditures from local budgets per one registered infection case were registered in Vinnitsya (UAH 26.7 thousand), Kirovohrad (UAH 24.0 thousand) and Kherson (UAH 20.7 thousand) oblasts. The lowest local expenditures per one registered infection case were observed in Rivne (UAH 4.5 thousand), Zhytomyr

(UAH 5.2 thousand) and Sumy (UAH 5.2 thousand) oblasts (figure 3).

Based on the ratio between the expenditures for the anti-pandemic measures and the total population of the respective oblast, the highest anti-pandemic expenditures from **local budgets** were registered in Vinnitsya (UAH 390 per capita), Mykolaiv (UAH 373) and Cherkasy (UAH 369) oblasts. The lowest local anti-COVID expenditures per capita were made in Rivne (UAH 161), Zhytomyr (UAH 168) and Khmelnytsky (UAH 172) oblasts (figure 4).

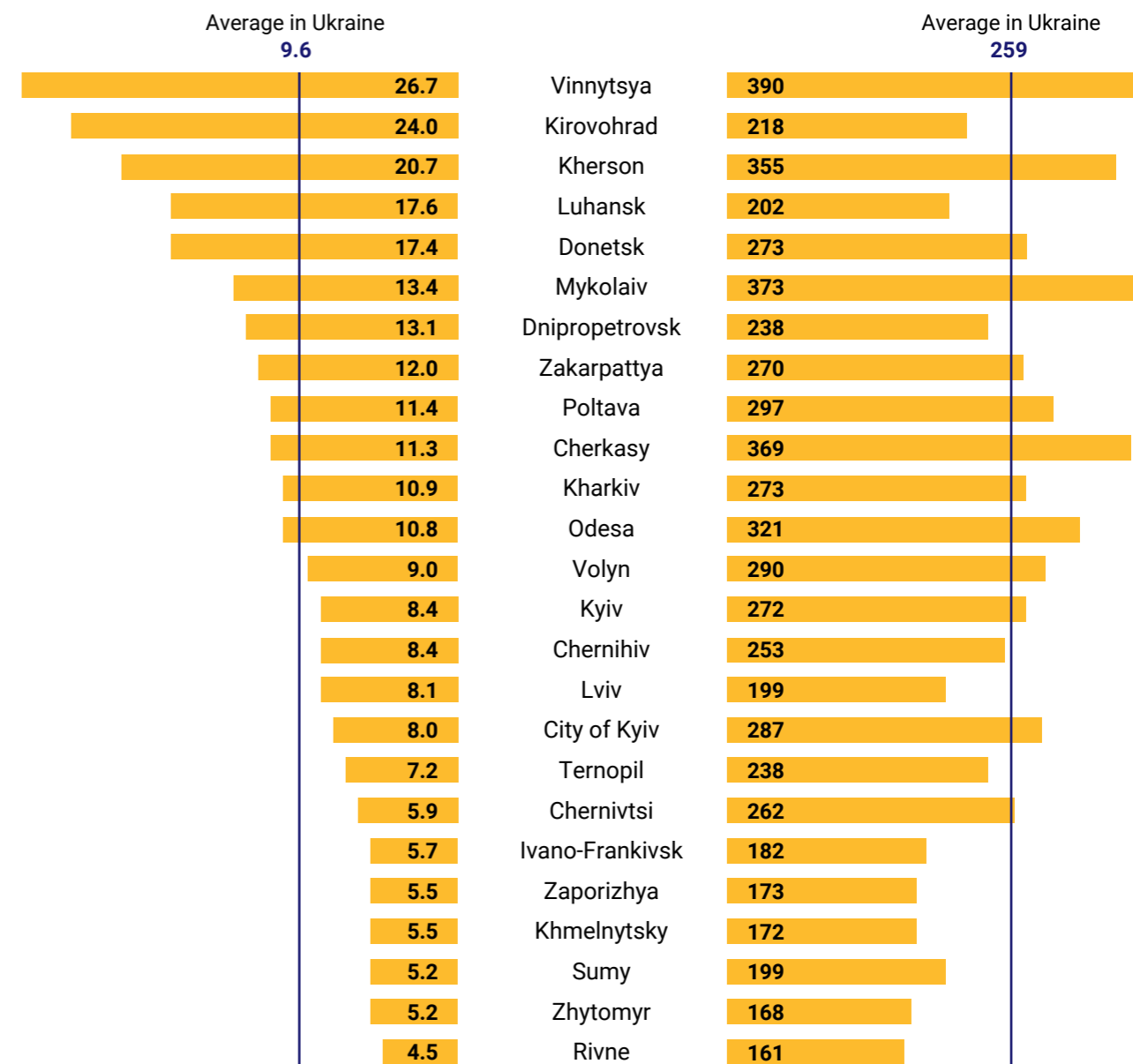


Figure 3. Expenditures from local budgets for anti-COVID measures per one registered infection case (UAH thousand per one registered case)

Figure 4. Expenditures from the local budgets for anti-pandemic measures per capita (UAH per one resident)

Losses of local budgets resulting from quarantine restrictions

In 2020, the revenues of local budgets faced a significant impact of the quarantine restrictions imposed by the Government and local authorities.

The revenues of the general fund of local budgets in Ukraine in 2020 (intergovernmental transfers are not included) amounted UAH 290.1 billion, which is equal to 99.0% of the plan including later amendments (UAH 293.2 billion). Compared to the plan not including amendments (UAH 291.1 billion), the local budgets revenue execution was equal to 99.6% of the plan.

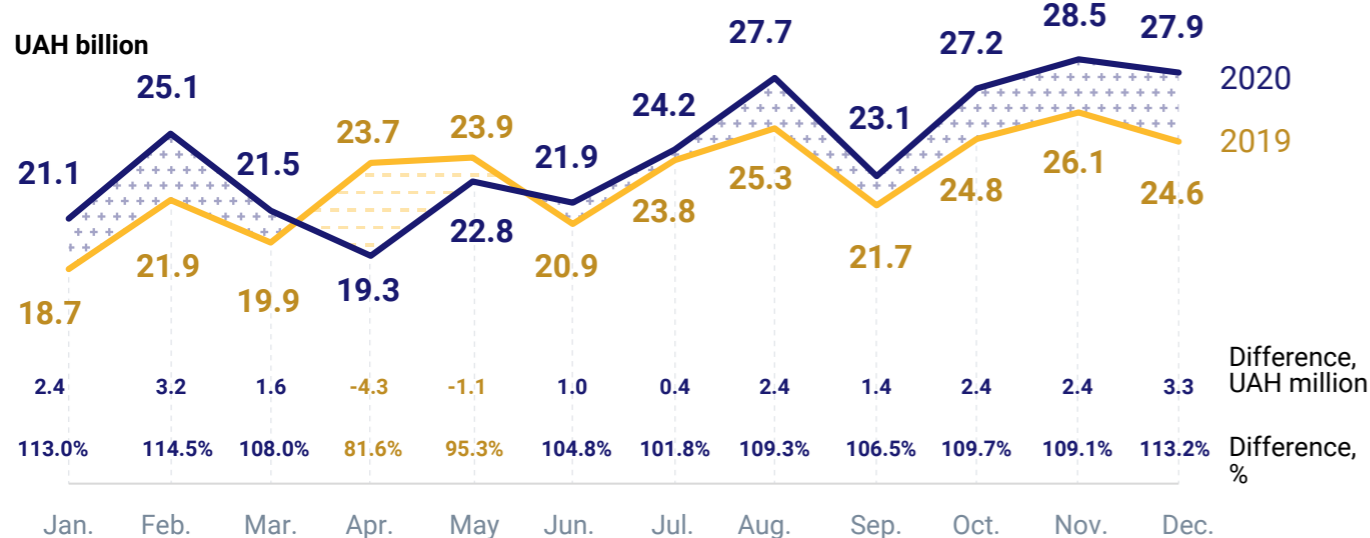


Figure 5. Monthly revenues of local budgets in 2019-2020

Compared to 2019, the **nominal revenue increase in 2020 amounted UAH 14.9 billion (+5.4%)**. It must be noted that the increase of revenues in 2019 compared to 2018 amounted +17.5% (+UAH 41.1 billion). The revenues of local budgets slumped in April-May (-11.5%), recovered gradually afterwards and demonstrated a rise by 7.9% (on average) in June-December (figure 5).

In 2020, the revenue structure of local budgets somewhat changed (figure 3): the share of the personal income tax increased from 60.1% in 2019 to 61.3% in 2020 (+1.2%), the share of the single tax increase from 12.8% in 2019 to 13.1% in 2020, the share of the retail excise tax increased from 5.0% to 5.4%, the share of the property tax increased from 1.8% to 2.0%. At the same time, the share of the land fee went down by 1.1% (11.9% in 2019 vs. 10.8% in 2020), which was due to the land fee preferences granted by the state and the outstanding land price adjustment on which land taxation depends.

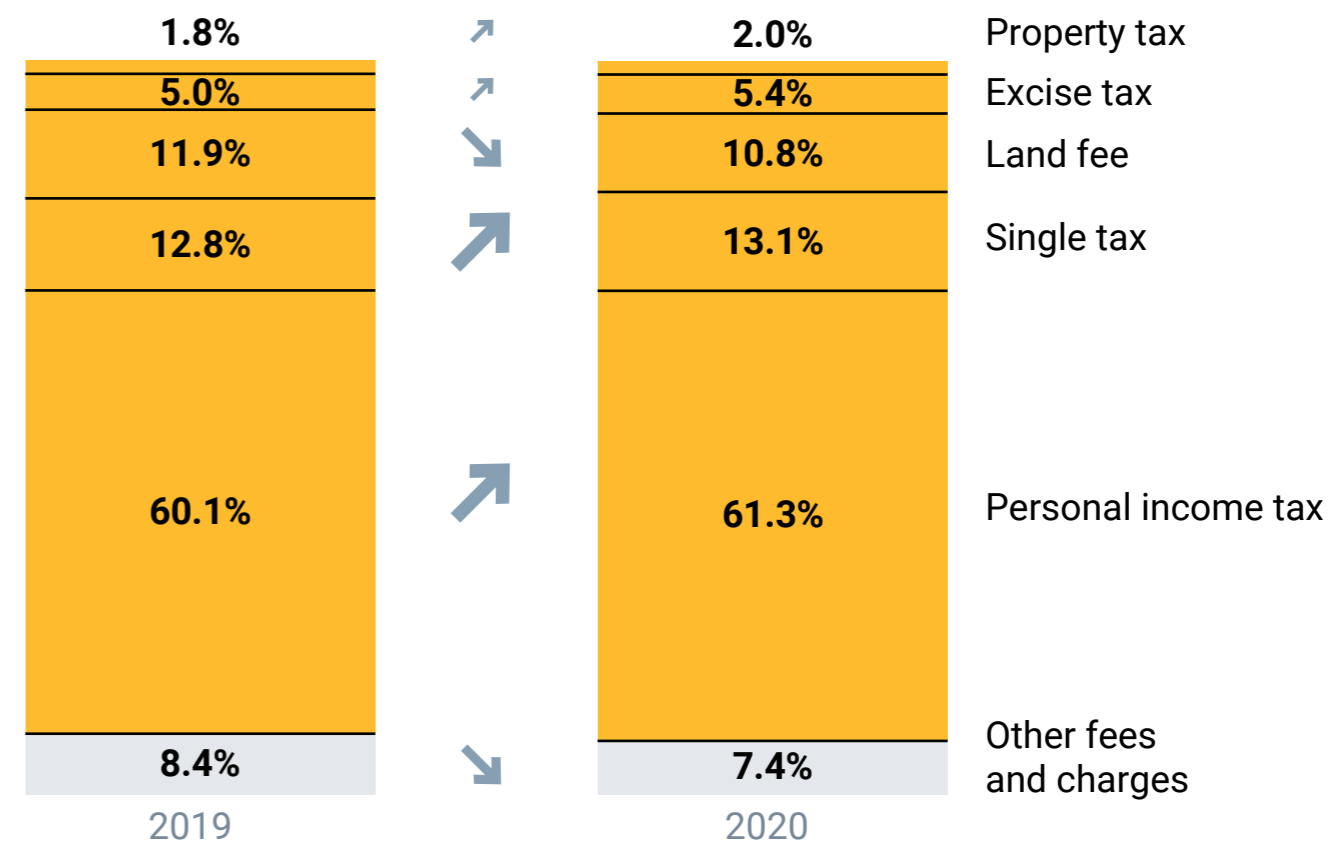


Figure 6. Comparative revenue structure of the general fund of local budgets (transfers from the State budget not included)

In 2019, four taxes (personal income tax, land fee, single tax and excise tax) accounted for 89.8% of the revenues of local budgets. In 2020, these taxes accounted for 90.6% of the local revenues.

Despite significant economic losses in 2020, the revenues of the general fund of local budgets increased by 5.4% compared to 2019, with the personal income tax revenues rising by as much as 7.4%. The key factors contributing to the rise of the local revenues are as follows:

- The average minimum wage in 2020 increased by UAH 642.3 or by 15.4% (from UAH 4,173 in 2019 to UAH 4,815.3 in 2020);
- The average wage increased from UAH 10,497 in 2019 to UAH 11,591 in 2020 (+10.4%);
- The number of employees went down by 663,000 (16,578.3 thousand in 2019 vs. 15,915.3 thousand in 2020).

Calculations make it clear that losses from the decline of the number of employees (personal income taxpayers) were compensated by the increase of the average wage. In general, the increase in revenues in 2020 (5.4%) was almost equal to the inflation rate (5.0%). At the same time, these revenues are more or less in line with the revenue plan approved in the beginning of 2020. Obviously, without the pandemic it would not have

come to such a decline in the employment figures and PIT revenues of local budgets would have been significantly higher. However, for unclear reasons, that was not envisaged in the local budgets in the beginning of 2020. Based on the comparison between the planned and achieved revenues of local budgets, it can be assumed that municipalities tend to play down their revenue expectations. If they happen to overperform, they have more spending flexibility in the course of the respective budget year.

The revenues of local budgets were also affected by new tax relief regulations. Apart from that, SNGs granted additional preferences for companies concerning local taxes and fees (land fee, single tax).

According to Law No. 553 of 29 May 2020, a relief was implemented for the land fee (land tax and lease fee) and the property tax (property different from land plots) for the period from March until April 2020. The resulting **losses of local budgets** concerning missing revenues from the land fee and the property tax amounted UAH 5.4 billion and UAH 1 billion respectively, totaling **UAH 6.4 billion**. However, no compensation was provided from the State budget to cover those losses, which contradicts art. 142 of the Constitution of Ukraine stating that the losses of local self-government bodies resulting from the decisions of state authorities shall be compensated by the Government.

Given the dynamics and actual revenues as well as the decline of business activity caused by the lockdown restrictions, we assume that the **total direct losses of local budgets** (general fund) in 2020 amounted **UAH 28.3 billion**, including UAH 15.5 billion missing from the personal income tax (chart 2)

Chart 2

Revenue losses of local budgets in 2020 caused by the pandemic

UAH million

Regions, the city of Kyiv	Revenues in 2020		Potential revenue losses in 2020		Share of the actual revenues in 2020	
	Total 1	Including the PIT 2	Total 3	Including the PIT 4	Total 5 = 3/1	Including the PIT 6 = 4/2
Vinnitsya	9,977.4	6,486.8	915.0	480.0	9.2%	7.4%
Volyn	5,318.3	3,459.3	470.0	300.0	8.8%	8.7%
Dnipropetrovsk	30,242.8	18,481.4	3,450.0	2,530.0	11.4%	13.7%
Donetsk	13,578.5	9,779.0	1,270.0	780.0	9.4%	8.0%
Zhytomyr	7,457.5	4,811.5	700.0	360.0	9.4%	7.5%
Zakarpattia	5,352.0	3,469.4	570.0	200.0	10.7%	5.8%
Zaporizhya	13,186.2	8,415.2	700.0	550.0	5.3%	6.5%
Ivano-Frankivsk	6,422.5	4,117.9	570.0	270.0	8.9%	6.6%
Kyiv	17,143.0	10,499.4	1,560.0	925.0	9.1%	8.8%
Kirovohrad	6,392.0	3,934.7	520.0	210.0	8.1%	5.3%
Luhansk	3,816.9	2,737.5	170.0	60.0	4.5%	2.2%
Lviv	17,045.0	10,921.8	1,985.0	1,060.0	11.6%	9.7%
Mykolaiv	7,525.5	5,007.2	680.0	380.0	9.0%	7.6%
Odesa	17,812.1	10,222.6	2,250.0	870.0	12.6%	8.5%
Poltava	12,165.2	7,384.1	970.0	410.0	8.0%	5.6%
Rivne	5,869.7	3,925.5	540.0	290.0	9.2%	7.4%
Sumy	7,008.3	4,515.5	440.0	160.0	6.3%	3.5%
Ternopil	4,957.8	3,248.7	395.0	170.0	8.0%	5.2%
Kharkiv	20,827.5	12,276.4	1,705.0	910.0	8.2%	7.4%
Kherson	5,552.0	3,441.9	330.0	180.0	5.9%	5.2%
Khmelnysky	7,520.0	4,914.5	640.0	390.0	8.5%	7.9%
Cherkasy	7,853.9	4,835.2	620.0	300.0	7.9%	6.2%
Chernivtsi	3,632.8	2,258.4	305.0	130.0	8.4%	5.8%
Chernihiv	6,704.3	4,115.8	580.0	290.0	8.7%	7.0%
City of Kyiv	46,753.6	24,566.4	6,010.0	3,250.0	12.9%	13.2%
TOTAL	290,114.8	177,826.0	28,345.0	15,455.0	9.8%	8.7%

According to the Minister of Social Policy of Ukraine, the losses of the Pension Fund in 2020 caused by the tax relief for private entrepreneurs amounted UAH 4 billion.

Impact of COVID-19 on the expenditures of the State and local budgets

The approved **expenditures** of local budgets for 2020 **amounted UAH 443.0 billion** (general fund and special fund). In the course of the year, local councils adjusted their spending plans, which resulted in the planned expenditures reaching UAH 522.5 billion in the end of 2020 (17.9% higher than initially planned).

The actual expenditures of local budgets in 2020 amounted **UAH 478.1 billion**, which is 7.9% higher to the approved spending plan.

The healthcare sector saw the highest difference between the actual and planned expenditures equal to 36.8% (approved spending – UAH 37.2 billion, actual expenditures – UAH 50.9 billion). The second highest difference between plan and reality was observed in the expenditures concerning economic activity – 24.4% (approved spending – UAH 75.5 billion, actual expenditures – UAH 93.9 billion).

The structure of the expenditures also changed compared to the plan. For instance, the healthcare spending increased to reach 10.6% of the total expenditures compared to the initially approved 8.4% (chart 6). The healthcare spending was dominated by expenditures for hospitals (UAH 30.8 billion, which is equal to 60.6% of the total volume). The expenditures for clinics, outpatient care facilities and ambulances amounted UAH 8.0 billion (15.7%). Other healthcare facilities received UAH 11.9 billion (23.4%).

The expenditures for economic activity amounted 19.6% of the total volume, which was 2.6% higher than planned in the beginning of 2020. The main spending area here was the road infrastructure (UAH 38.9 billion or 41.4% of the total spending for economic activity). UAH 23.0 billion (24.5%) were spent for the construction of various facilities.

The expenditures for education were almost equal to the initially planned amount (UAH 199.4 billion); however, due to the fact that the actual total expenditures were significantly higher than planned, the share of the education spending was equal to 41.7% compared to the initially planned 45.0%. The share of the expenditures for culture and physical development somewhat changed as well and was equal to 4.6% instead of the initially planned 5.0% (chart 3).

Expenditures of local budgets in 2020

Chart 3

UAH billion

Expenditures by functions	General and special fund		Share in the total expenditures		
	Planned	Executed	Planned	Executed	Difference
General public functions	41.5	41.0	9.4%	8.6%	-0.8%
Public order, security and justice	1.3	1.8	0.3%	0.4%	0.1%
Economic activity	75.5	93.9	17.0%	19.6%	2.6%
Environmental protection	2.5	2.4	0.6%	0.5%	-0.1%
Housing and municipal utilities	30.2	32.1	6.8%	6.7%	-0.1%
Healthcare	37.2	50.9	8.4%	10.6%	2.3%
Culture and physical development	22.3	21.9	5.0%	4.6%	-0.5%
Education	199.2	199.4	45.0%	41.7%	-3.3%
Social protection and welfare	24.3	24.0	5.5%	5.0%	-0.5%
Sub-total	434.0	467.4	98.0%	97.8%	-0.2%
Budget transfers	9.0	10.7	2.0%	2.2%	0.2%
Total	443.0	478.1	100.0%	100.0%	

The expenditures of the State budget in 2020 amounted UAH 1,288.0 billion, which is 8.8% higher than originally planned (chart 4). The highest deviation was registered in the expenditures for economic activity – UAH 168.9 billion compared to the originally approved UAH 94.2 billion. The healthcare expenditures amounted UAH 125.0 billion, which is 30.6% higher than originally planned. At the same time, the expenditures for culture and physical development (amounted UAH 9.8 billion, which is 31.0% lower than the plan (UAH 14.2 billion). It must be noted that the expenditures of local budgets for culture and physical development amounted UAH 21.9 billion, which is only 1.8% behind the plan (chart 3).

The structure of state budget expenditures saw the biggest changes in spending for economic activity: the originally approved spending volume was equal to UAH 94.2 billion (8.0% of the total expenditures), but the actual expenditures in this area reached UAH 168.9 billion (13.1% of the total State budget expenditures). The healthcare expenditures increased by UAH 29.3 billion: the planned expenditures amounted UAH 95.7 billion (8.1%), while the actual expenditures reached UAH 125.0 billion (9.7%).

Chart 4

Expenditures of State budget of Ukraine in 2020

UAH billion

Expenditures by functions	General and special fund		Share of the total expenditures		
	Planned	Executed	Planned	Executed	Difference
General public functions	191.1	163.8	16.1%	12.7%	-3.4%
Defence	118.1	120.4	10.0%	9.3%	-0.6%
Public order, security and justice	148.1	157.7	12.5%	12.2%	-0.3%
Economic activity	94.2	168.9	8.0%	13.1%	5.2%
Environmental protection	8.2	6.6	0.7%	0.5%	-0.2%
Housing and municipal utilities	0.5	0.1	0.0%	0.0%	0.0%
Healthcare	95.7	125.0	8.1%	9.7%	1.6%
Culture and physical development	14.2	9.8	1.2%	0.8%	-0.4%
Education	57.5	52.8	4.9%	4.1%	-0.8%
Social protection and social welfare	296.3	322.7	25.0%	25.1%	0.03%
Sub-total	1,023.9	1,127.8	86.5%	87.6%	1.1%
Budget transfers	160.1	160.2	13.5%	12.4%	-1.1%
Total	1,184.0	1,288.0	100.0%	100.0%	

One of the consequences of the quarantine restrictions and the decline of economic activity was the reformatting of the spending structure of local budgets. Compared to 2019, 2020 saw the increased share of the salary expenditures in the public sector and the reduced share of the current expenditures.

According to the official reports, **salary expenditures in the public sector in 2020 amounted UAH 206.7 billion, which is UAH 27.4 billion (15.3%) higher compared to 2019** (chart 5). It must be noted that the revenues of local budgets increased by 5.4% only.

Chart 5

Expenditures of local budgets (economic classification) in 2019–2020

UAH billion

Expenditures (economic classification)	Expenditures (general and special fund)		Share in the total expenditures		
	2019	2020	2019	2020	Difference
Gross salaries	179.3	206.7	31.7%	43.2%	11.5%
Utilities and energy supply	17.2	13.8	3.0%	2.9%	-0.1%
Subsidies and current grants	75.6	79.7	13.4%	16.7%	3.3%
Social welfare	88.9	10.3	15.7%	2.2%	-13.5%
Other current expenditures	105.5	69.0	18.6%	14.4%	-4.2%
Capital expenditures	99.8	98.6	17.6%	20.6%	3.0%
Total	566.3	478.1	100.0%	100.0%	

The significant increase of the salary expenditures along with the humble increase of the revenues explains their significantly increased share in the spending structure. The share of the salary expenditures in 2020 ended up at 43.2% compared to 37.1% in 2019, while the current expenditures went down from 18.6% to 14.4% (chart 5).

Compared to 2019, the expenditures for social protection and welfare in 2020 did not include benefits and subsidies to the citizens as well as allowances for households with children that are financed directly from the State budget. Such expenditures from local budgets in 2019 amounted UAH 78.3 billion. Hence, the social welfare expenditures should be omitted to have a more accurate overall picture of the expenditures. In this case, the salary expenditures in 2020 were equal to 44.2%, which is 6.6% higher compared to 2019 (figure 7). The share of other current expenditures went down from 22.1% to 14.7% (by 7.4%).

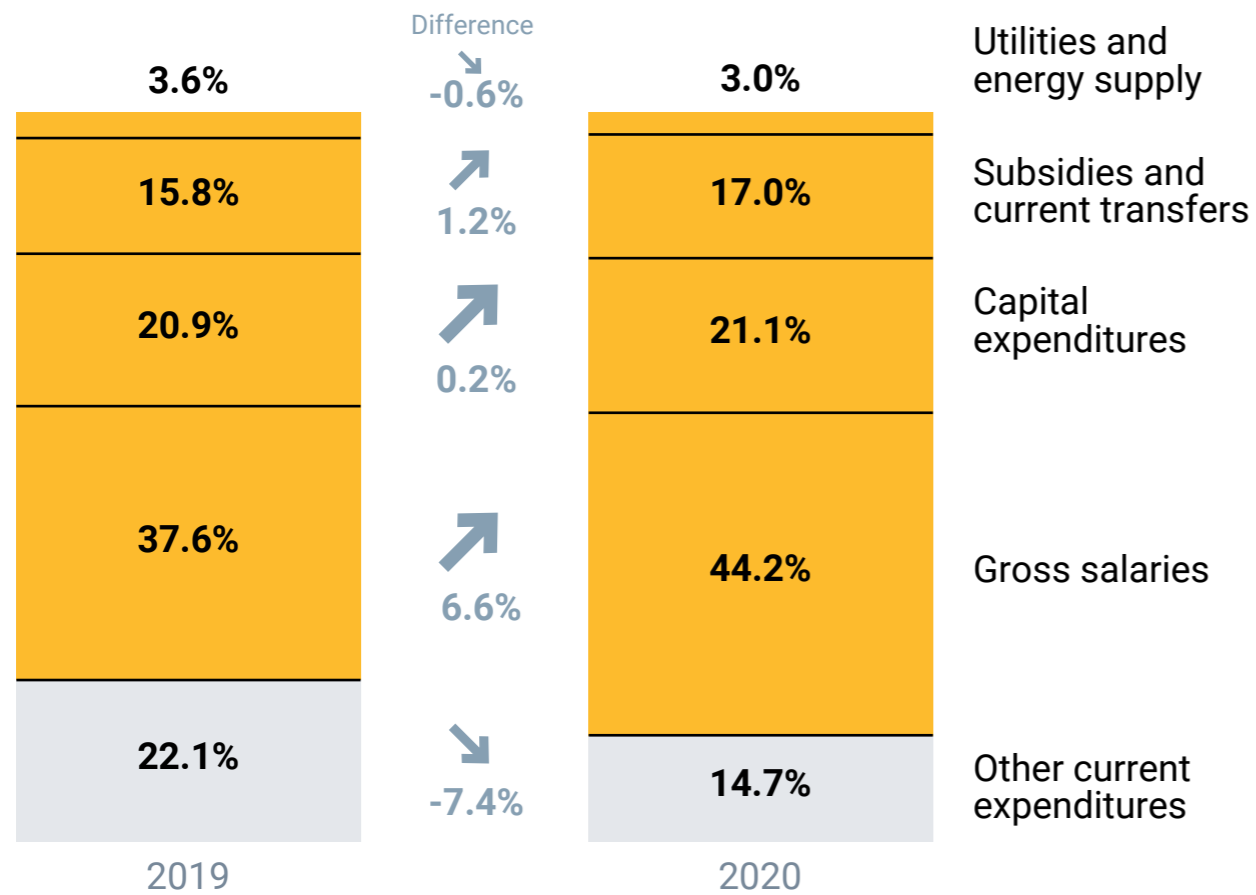


Figure 7. Comparative structure of the expenditures of local budgets in 2019-2020 (not including social welfare expenditures)

Taking into account the general fund expenditures, the share of the salary expenditures in 2020 amounted 57.4%, which is 17.2% higher than in 2019 (figure 8). At the same time, the salary expenditures including those of amalgamated hromadas in 2020 amounted 70.1% of the general fund expenditures compared to 62.7% in 2019.

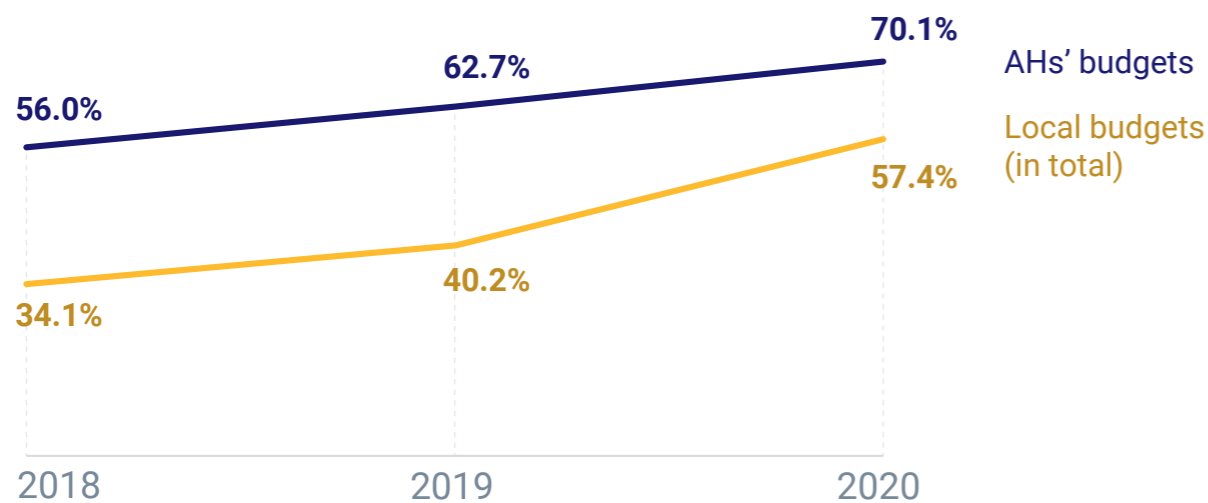


Figure 8. Share of the gross salary expenditures of local budgets in the general fund expenditures

In 2020, the salary expenditures in 709 out of 872 AHs (81.3% of the total number of AHs) ranged between 70 and 90% of the general fund expenditures; in 2019, that was the case in 538 out of 806 AHs (66.7% of the total number of AHs) (figure 9).

In 2020, the highest share of the salary expenditures among the AHs was equal to 95.0% (Vytvytska hromada in Ivano-Frankivsk region, 5.9 thousand residents), the lowest share of the salary expenditures was equal to 38.8% (Maryanivska hromada in Kirovohrad region, 1.9 thousand residents).

In 2019, the highest share of the salary expenditures among the AHs was equal to 93.3% (Kosmatska hromada in Ivano-Frankivsk region, 8.3 thousand residents), the lowest share of the salary expenditures was equal to 25.7% (Selyshchenska hromada in Cherkasy region, 2.2 thousand residents).

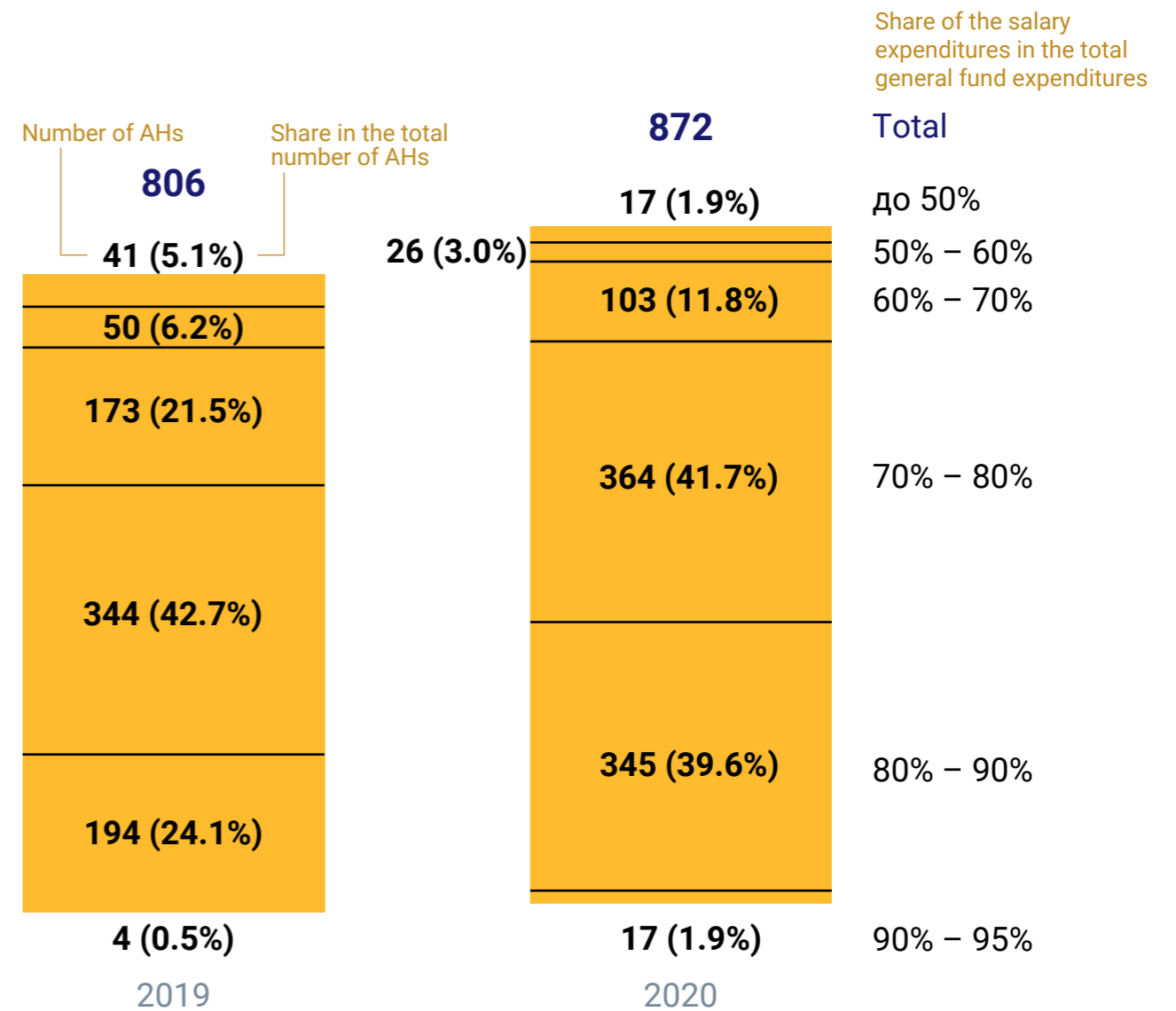


Figure 9. Number of AHs by the share of the gross salary expenditures in the general fund expenditures

For comparison, the salary expenditures of 806 AHs in 2019 and 2020 were analyzed as well (i.e., not including the AHs established in 2019 that began operation in 2020).

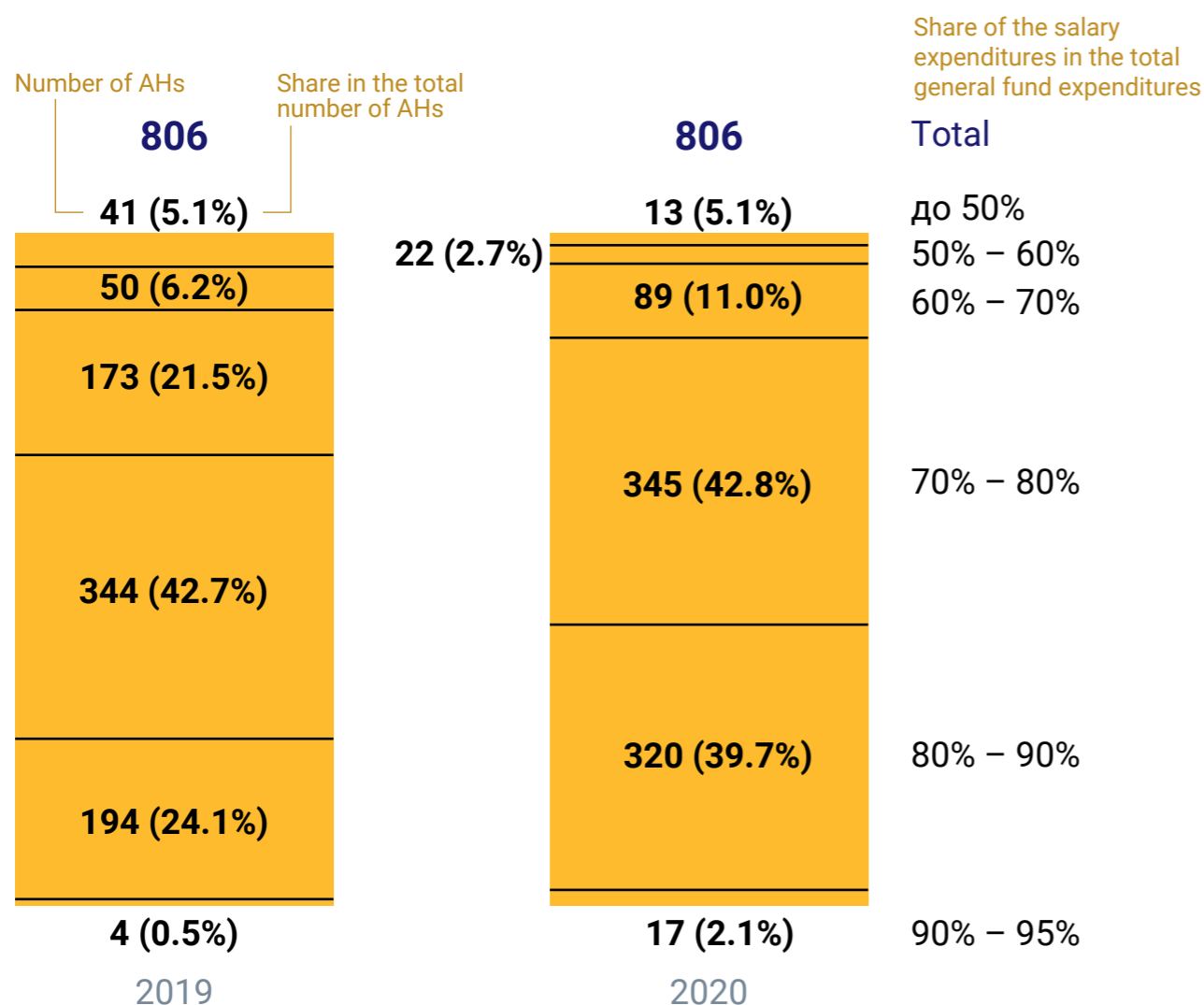


Figure 10. Gross salary expenditures of 806 AHs as a share of the general fund expenditures

The analysed data show that there were 124 AHs in 2020 whose salary expenditures were lower than 70% compared to 264 AHs in 2019 (Figure 10). Hence, 2020 saw a significant increase of the number of municipalities (by 140) whose salary expenditures are equal to more than 70% of the general fund expenditures. The most significant increase was observed among AHs where the salary expenditures range between 80% and 90% of the general fund expenditures: 320 AHs in 2020 compared to 194 in 2019 (+126 AHs).

The above figures demonstrate the increase of the salary expenditures and their share in the spending structure given the significant decline of revenues and the higher salary commitments (average minimum wage in 2020 – UAH 4,815.3, which is 15.4% higher compared to 2019).

In 2020 local councils hardly adopted any separate special programmes to fund anti-

pandemic measures. Such measures (especially the purchase of protective items, disinfection substances, medicines etc.) were mostly funded as part of the respective budget or targeted programmes. In some cases, the funding for such programmes was increased.

The anti-pandemic measures impacted the revenues and expenditures of the social funds. For instance, sick-leave payments in December 2020 increased 2.7fold compared to the previous year. The number of persons eligible for unemployment benefits in Lviv region increased by 91.2% in the respective period. In Zakarpattia, Volyn and Ivano-Frankivsk regions this number increased by 59.2%, 57.9% and 49.4% respectively. This is a burden for the budgets, since the reserves of the Social Insurance Fund are not enough to cover all payments.

Also, the number of employed persons changed in 2020 (including unofficial employment). The total number of employed persons in Q1 of 2020 amounted 20,018 thousand (including 16,575 thousand and 3,444 thousand officially and unofficially employed persons respectively); in the end of 2020, that number went down by 746.5 thousand persons (3.7%) to 19,271.5 thousand persons. At the same time, a decline in the payroll volume was registered in Q2 of 2020 (UAH 244.6 billion, which is 3.4% lower than in Q1). In the following periods, the payroll volume was on the rise again to reach UAH 1,048.8 billion for 2020, which is 8.9% higher compared in 2019 (figure 11).

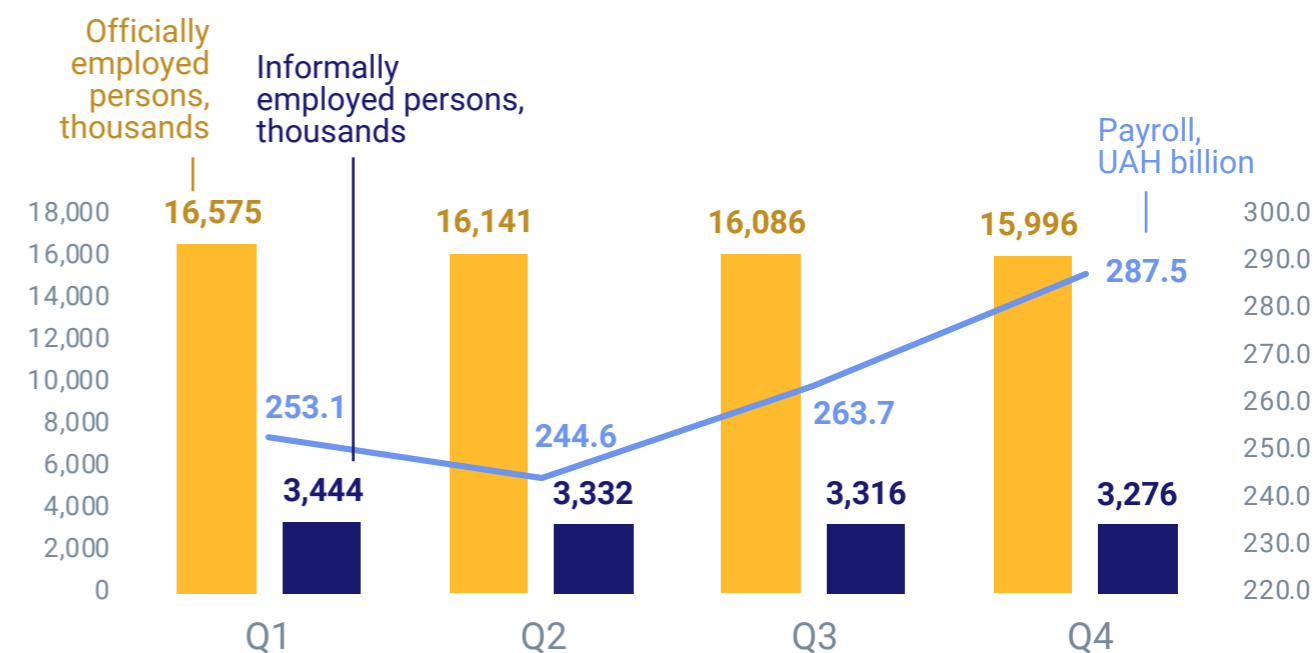


Figure 11. Employment and payroll volume dynamics in 2020

In 2020, there were 459,198 officially registered unemployed persons in Ukraine, which is 35.8% more than in 2019 (338,163 persons). The highest number of officially registered unemployed persons was registered in Dnipropetrovsk (34,780), Kharkiv (30,290), Lviv (28,234) and Poltava (28,044) regions (figure 12).

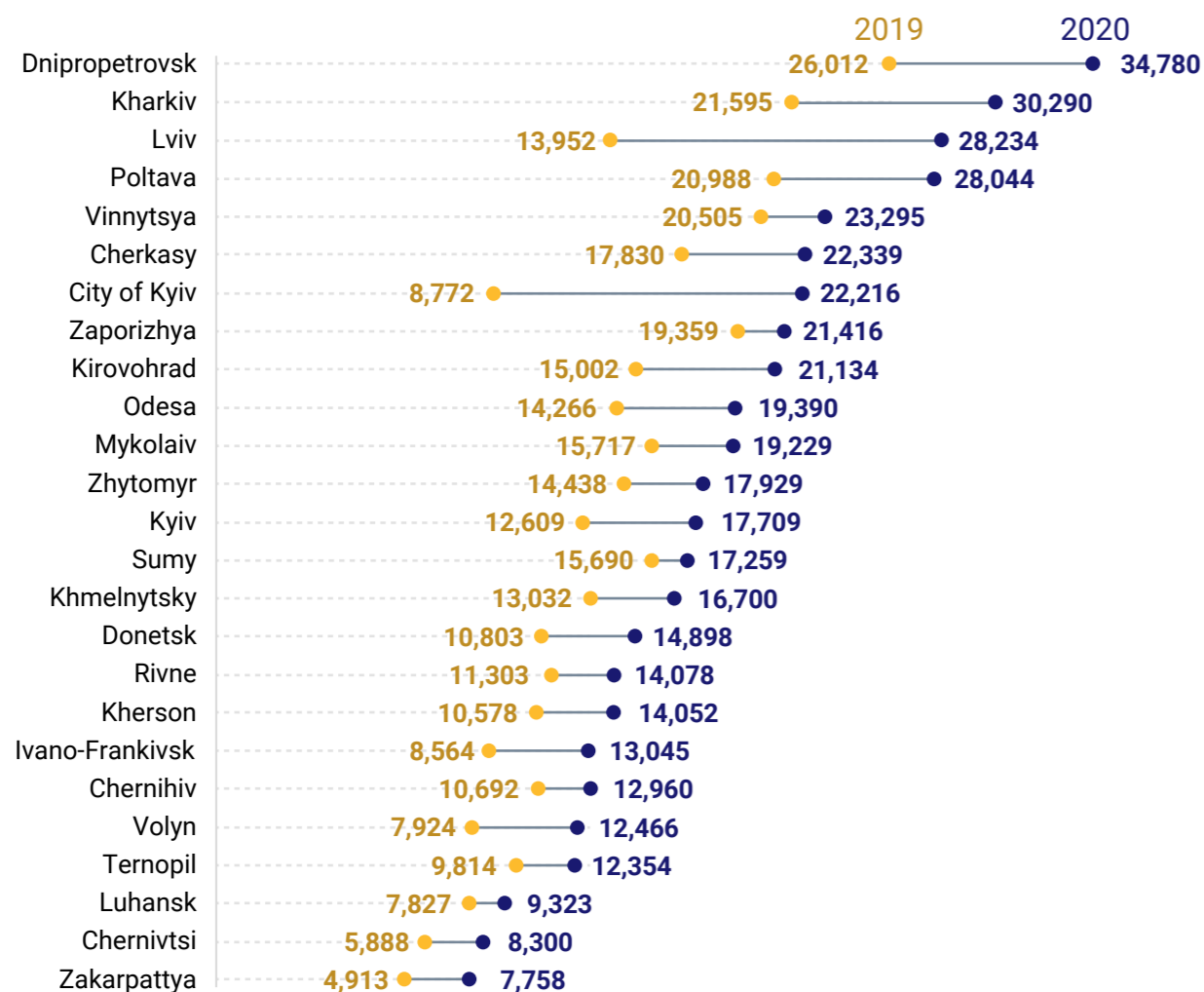


Figure 12. Number of registered unemployed persons in 2019 and 2020

State budget transfers to local budgets in 2020

32 types of subventions from the State budget to local budgets totaling **UAH 138.3 billion** were approved for 2020. **4 subventions** to local budgets totaling **UAH 17.6 billion** were **allocated to healthcare services and included**: UAH 14.6 billion – healthcare subvention, UAH 1.5 billion – support for healthcare facilities that do not receive funding from the National Health Service of Ukraine, UAH 0.9 billion – development of emergency services, UAH 0.7 billion – reform of the regional healthcare systems as part of the project “Better Healthcare for People” implemented jointly with the IBRD.

In 2020, **local budgets received subventions from the State budget totaling UAH 38.6 billion**, which is equal to **100.2%** of the plan. At the same time, the structure of the received subventions changed compared to the initially approved plan.

In fact, local budgets received 53 types of subventions.

To finance the healthcare sector, local budgets received **9 subventions** totaling

UAH 23.2 billion (16.8% of the total subventions’ volume). They included dedicated funding to fight the **pandemic (UAH 2.9 billion)**. The actual volume of the healthcare subventions increased by UAH 5.5 billion compared to the initial plan. The share in the total volume increased from 12.8% to 16.8% (figure 13).

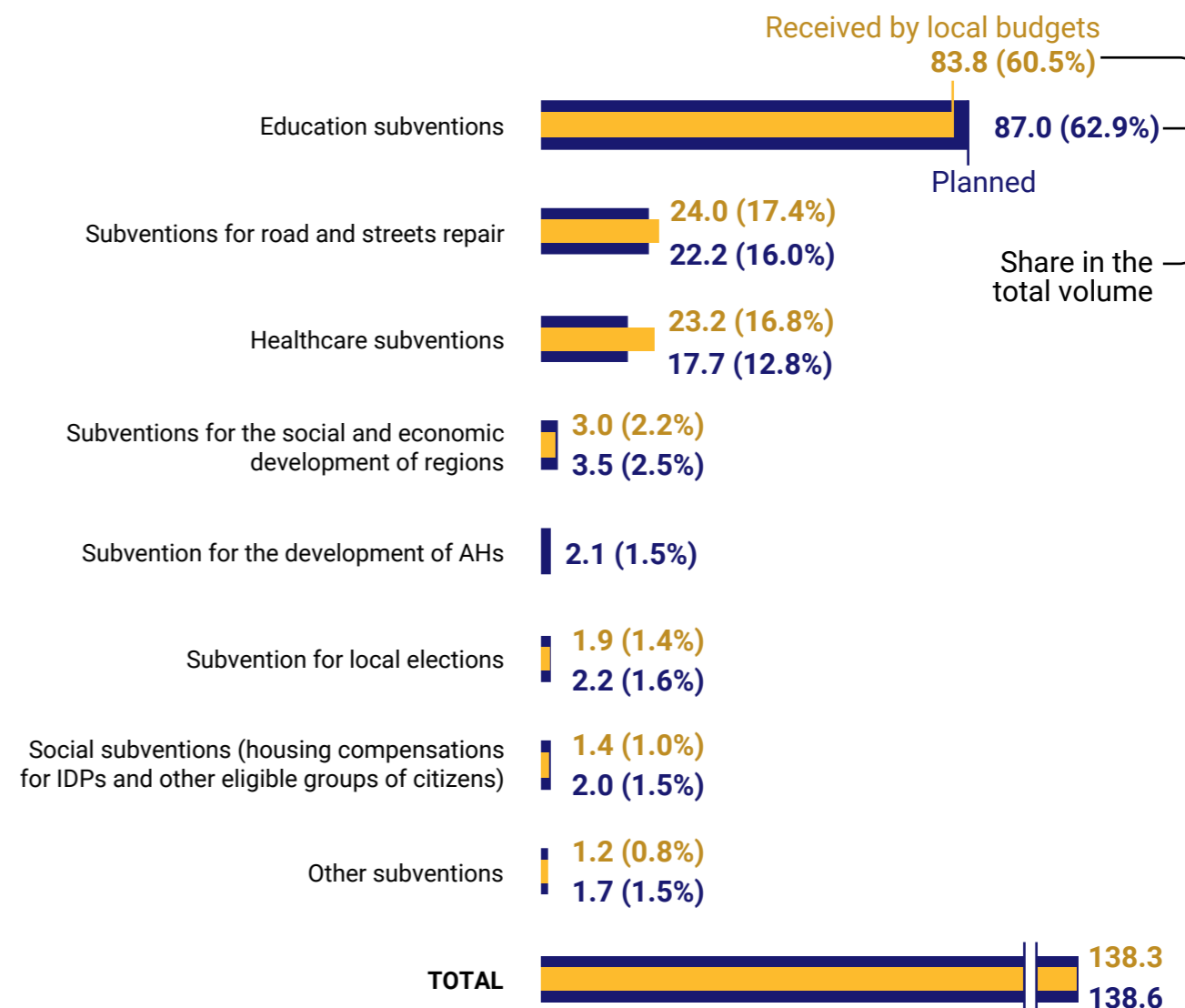


Figure 13. Planned and received subventions from the State budget, UAH billion

Compared to the initially planned amount (UAH 138.3 billion), the subventions received by local budgets almost did not change and amounted UAH 138.6 billion. **Hence, the State budget did not offer any additional allocations to local budgets to contain COVID-19; instead, the total funding amount planned in the State budget for 2020 was redistributed.**

RECOMMEN- DATIONS



- 1 It makes sense to revise the reserve fund mechanism and improve its effectiveness to enable a fast response to contingencies (approach to its generation and use);
- 2 It is necessary to improve coordination and mechanisms for the multi-level funding of state and regional targeted programmes;
- 3 It is necessary to improve the planning methodology for the local budgets revenues and expenditures (make it official and binding) to raise the effectiveness of the funds use;
- 4 The government of Ukraine has opted for infrastructure investments as the way to boost the economy, since such investments offer the highest multiplier in terms of promoting economic growth and can be more effective than tax cuts or increased spending. However, it is necessary to strengthen the role of municipalities and regions in determining priority projects and implementing them – i.e., the “bottom-up” principle should be strengthened in the design of the state regional policy;
- 5 Coordination and cooperation with local authorities should be put in place, a strategy should be developed for fighting the consequences of the pandemic, a risk monitoring system should be implemented.
- 6 The vaccination should be accelerated by extending the network of the vaccination points and purchasing more vaccines, which could contribute to the improvement of the economic situation.