The Impact of Decentralization on Social Policy

Edited by

Katalin Tausz

Local Government and Public Service Reform Initiative
Local Government and Public Service Reform Initiative

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Preface

“...Decentralization has quietly become a fashion of our time. It is being considered or attempted in an astonishing diversity of developing and transitional countries: by solvent and insolvent regimes, by democracies (both mature and emergent) and autocracies, by regimes making the transition to democracy and by others seeking to avoid that transition, by regimes with various colonial inheritances and by those with none. It is being attempted where civil society is strong, and where it is weak. It appeals to people of the left, the center, and the right, and to groups which disagree with each other on a number of other issues” (Manor, J. 1999).¹

Consequently, decentralization is defined, interpreted and made a political issue in several—sometimes contradictory—ways. Sometimes it is considered a term, sometimes a concept, a process, a theory, a methodology, or a policy—even a trend. However the classic words of A. de Toqueville have remained essential even nowadays: “Decentralization has not only an administrative value but also a civic dimension since it increases the opportunities for citizens to take an interest in public affairs; it makes them get accustomed to using freedom.” Thus, the real relevance of decentralized governance in the CEE countries is not only that it may help to make public institutions more effective in meeting citizens’ needs, but that it also creates the right conditions for civil society to learn how to be competent in the management of their own affairs. In this way decentralization is an integral part of the process of democratization of the former state socialist societies.

Endeavors towards decentralization have become a world-wide phenomenon. Apart from the movement towards decentralization in many countries throughout the world, it is a key concept in the most powerful international organizations such as the World Bank, the European Union and the OECD. It is not, however, such a kind of concept or practice where “one size fits all.” There is no well-tailored, pre-fabricated blueprint for decentralization—much depends on the socio-cultural traditions, specific power relations, and political interests of the individual countries.

In the states of the former Soviet bloc the prospect of breaking down the heavily centralized structures was created by the systemic changes. This present research project attempted to understand and describe only one segment of this story, viz. welfare policy. Thus, in this paper decentralization will be defined and analyzed in the context of its application or functioning in the domain of social policy.

We made an inventory on who are the main actors, what is decentralized in the social sector (administrative, fiscal, political, service-delivery structures, and institutions), where or to what level of governance decentralization is relevant, and how and by what means is decentralization implemented in the social sector. The why factors, in other words the external and internal reasons of the specific concepts, political arguments and practices, were only touched upon and not deeply analyzed.

The ultimate question of this research did not relate to decentralization as such: it was, rather, a people-centered approach that was in the focus of our interest. After all, people generally do not think of their lives in terms of sectors, domains, types of governance, but of the whole of their own reality, their own well-being.

The book is organized into four major sections. Following the comparative analysis the three national teams present the country case studies. Owing to the long process of writing and editing the book, some of the legal aspects may well have changed since the year 2000.

A combined team of Hungarian, Latvian, and Ukrainian experts of social policy and public administration carried out this research project initiated in 2000 by the Local Government and Public Service Reform Initiative of the Open Society Institute. The fieldwork was carried out by local experts co-ordinated by the Local Government Training Center in Latvia and the Lviv Branch of the Ukrainian Academy of Public Administration.

The team was led by Katalin Tausz and consisted of Klára Czíke, Balázs Krémer (country co-ordinators), Ruta Kalnina, Dace Jansone, Dagmara Beitnere, Linda Ziverte (Latvia); Anatoliy Chemerys, Andriy Lipentsev, Oksana Muzychuk, Vira Tsypuk (Ukraine); and István Sziklai, Ferenc Petróczi, Judit Erdős, Attila Vitál, Dóra Deme, Margit Kinyik (Hungary).

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The Impact of Decentralization on Social Policy in Hungary, Latvia and Ukraine

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THE IMPACT OF DECENTRALIZATION ON SOCIAL POLICY
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The Impact of Decentralization on Social Policy in Hungary, Latvia and Ukraine

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1. INTRODUCTION AND BACKGROUND

1.1 Purpose and Objectives

In the former state socialist countries, social policy did not exist as an independent sector before the 1990s. The dismantling of the command economy and the centrally controlled structures of public administration and public institutions has been a critical element of the post-communist transition. The changing division of power among state branches and administrative levels, as well as the appearance of market based and non-profit service providers, created a new setting for social policy in the 1990s.

The classical concept of the welfare state as constructed in the famous Beveridge Report is based on the idea of a strong central state, a market economy, and political democracy.

In several countries (e.g. Hungary and Latvia) the responsibility for social assistance and social services is delegated by law to local level administration. Other kinds of policies (such as housing, education, health and employment) also have implications for local social policy.

Occupational welfare appeared in different forms in the state socialist countries from those in Western industrial societies. In the CEE countries, state-owned companies performed several welfare functions (day-care centers for children, health services, housing, recreation, etc.), and they even administered social insurance benefits. Beginning in the 1970s in many Western industrial societies, occupational welfare (such as private pension schemes, company cars, etc.) was mainly offered to company management and “valuable employees.” Private companies of the former socialist countries also adopted this type of model. In the theory of social policy, these activities are considered to be forms of welfare policy with a bottom-up redistribution effect. In market economies, private companies perform a special role in the making of welfare policy. They contribute to
the functioning of the welfare mix and in this way to the deconstruction of the traditional welfare state.

Fiscal welfare, carried out through tax policy, generally works in favor of the taxpayer via different tax credits, tax allowances, and tax exemptions (e.g. for children in Hungary). In this interpretation, fiscal welfare must be distinguished from the fiscal decentralization of social services.

Figure 1.1
Implementation of Social Policy

In the state socialist system all the above outlined functions were performed centrally by the state though the informal sector had a very important “correction” function. Nowadays, as a result of the transition process all the possible actors participate, albeit to varying degrees, in the implementation of social policy. (The presence of several actors, such as local-self governments, the market sector, and the non-profit sector, i.e. the welfare mix, may mean—in the narrowest sense of the word—decentralization.)

Legislation and legal and financial control can be exercised only by the central government or by the local government or its equivalent. Even so it is a relevant problem, especially in the CEE countries, to consider the legislative power of the local self-governments.

Financial decentralization relates both to revenues and expenditures. It may mean a right to autonomous capacity building, fund raising, and allocation of resources supplementing the centrally guaranteed resources for social policy. In the neo-liberal concept of social policy, however, the most important function of financial decentralization is to substitute the resources of the central budget.

In modern European systems all possible actors participate in providing services. The real differences lie behind the responsibility for financing the services. In other words, the differences in the social policy of the European countries are primarily determined by where the state marks the boundaries of public responsibility; in which cases the responsibility is shifted on the market, on the non-profit sector, or on the family.

Professional control has a special significance in pluralistic welfare regimes. On one hand, in several cases the operation of the non-profit and for-profit organizations is based
on the utilizations of public financial resources. On the other hand, there is the danger that non-profit and private service providers cream off the “solvent” and “easier” cases, while the public organizations ought to provide the more difficult clients with quality services.

All these functions, separated for the sake of analysis, are inter-related, and as such form a system. The trade-off between the different “decentralizations” determines the type of governance and significantly influences the character of the welfare regime of any country.

The main focus of this research project will be the functioning of social policy in Hungary, Latvia and Ukraine during the transition, thus the concept of decentralization will be set in the context of social policy. This project, however, does not cover all the aspects of societal policy (housing, health, pensions, education, and labor market). Our primary interest is directed towards means tested and categorical (demogrant-type) cash- and in-kind benefits as well as social services. Significant components of any social policy, such as issues related to the labor market, pension schemes and health care, will be treated as background information only.

Thus the primary objectives of this research project are:

• to describe the functioning of the social sector;
• to sketch the framework of governance with special regard to social administration;
• to analyze which of the above outlined functions are realized in a decentralized way during the implementation of social policy;
• to evaluate the overall impact of decentralization on social policy in Hungary, Latvia, and the Ukraine.

The term decentralization covers a concept on the transfer of responsibility, authority and financial resources for public functions from the central government to subordinate, quasi-independent government organizations, to civic groups, and to the actors of the private sector. “Governance is defined by the UNDP as the exercise of political, economic, and administrative authority to manage a society’s affairs.... Governance comprises the mechanisms, processes, and institutions through which collective decisions are made and implemented; citizens, groups and communities pursue their visions, articulate their interests, exercise their legal rights, meet their obligations, and mediate their differences. Governance, as defined in this manner, emphasizes the nature and quality of interactions among social actors and between social actors and the state” (UNDP 1997). Decentralization may function in the form of political, administrative, fiscal, and market decentralization.

Its primary aim is:

• to change the balance of power by giving more power to the citizens and their elected representatives;
• to redefine the structures, procedures and practices of governance;
to lay the basis of participatory social and economic development;
• to increase democracy (grass-roots democracy);
• to provide more relevant responses to locally expressed needs;
• to promote innovative practices in public service delivery;
• to increase the efficiency and effectiveness as well as the quality and flexibility of public services;
• to ensure the accountability and transparency of local governance.

One of the most important results of this research project would be the clarification of the meaning and significance of decentralization within the specific CEE context. Because in most of these countries the basic statutory obligation for social service provisions falls on the local governments, this study focuses in particular on the role and functioning of local governments. We applied a complex approach in analyzing decentralization and social welfare, exploring the functioning of the traditional social protection system and touching on—when necessary—the subject of occupational as well as fiscal welfare. This research was strongly committed to examining the legal, institutional, and social aspects of decentralization in addition to its fiscal dimension.

As there has been virtually no research conducted on the process, dynamics, and impact of decentralization of social security systems, this policy-oriented, comparative study is able to help in pinpointing various problems, and in providing the basis for policy recommendations to improve decentralized social service delivery and to identify new areas of future research.

1.2 Methodology

This research project applied various quantitative and qualitative methods based on different primary and secondary sources.

A concise synthesis and analysis of wide-ranging information on decentralization and social services in the three countries, based on a review of the literature, legislation, and social, economic and demographic indicators formed the starting point of this study. This made it possible to outline the institutional framework, financing mechanisms, and decision-making systems, as well as the accessibility, eligibility and entitlement criteria of social services and the preparation of the standardized data collection sheets. (See Annex 1.1.)

Quantitative analysis was applied to each level of public administration. Our project combines national-level analysis of each of the three countries with case studies from:

• each of the three capital cities;
• one district in each of the capital cities;
• one county in each country (two in Hungary);
• one regional center in each state (two in Hungary);
• one small town in each state (two in Hungary);
• one rural community in each state (two in Hungary).

The quantitative analysis outlines the main determinants and consequences of budget allocations, administrative measures and processes, and characteristic features of the recipients. It illustrates how social policy and decentralization work “on paper”—international legislation, various local regulations, documents, and local statistical and financial data—and it highlights some aspects of the implementation of policies.

Due to methodological and time limitations, the case studies could not be based on proper sampling procedures.

Our qualitative analysis is based on interviews conducted at each level of public administration in the three countries to provide an understanding of the empirical reality of decentralization. Using this methodology, information was obtained on the implementation of central and local government policies, the evaluation of those policies by the main actors in municipalities, and local public policy-making. Qualitative methods were used to evaluate institutional performance as well. The interviews were focused on questions regarding the division of roles and responsibilities between state, regional, and local authorities with respect to services, the loci of decision-making, incentive structures, and levels of accountability.

In the course of the analysis, an attempt was made to identify the level of horizontal co-operation between municipalities, and vertical co-operation between central, regional, and local governments. Moreover, the analysis endeavored to capture the ways in which various professionals understand the goals and operations of their social service systems and how the various systems work. It also investigated incentives and other factors that generate certain policy decisions and behavior. Several quotations from the interviews will be used as illustrative anecdotes to underline the arguments of the analysis.

The research was done in the summer autumn of 2000 and covers the developments of the late 1990s.

2. DECENTRALIZATION NOTIONS, VIEWPOINTS AND APPROACHES

2.1 Preliminary Considerations

Decentralization is similar to other notions that have “sneaked” from one area of knowledge to political programs inasmuch as it resists exact definition. A UNDP program sets the conceptual framework of decentralization based on the ideas of Cheema, Rondinelli and Nellis as follows: “Decentralization can be defined as the transfer of responsibility for
planning, management and resource raising and allocation from the central government and its agencies to: (a) field units of central government ministries or agencies, (b) subordinate units or levels of government, (c) semi-autonomous public authorities or corporations, (d) area-wide, regional or functional authorities, or (e) non-governmental, private, or voluntary organizations” (http://magnet.undp.org/Docs/dec/monograph/Chapter1.htm).

The above-quoted UNDP document highlights a very important aspect of the definition of the term when stating that the notion of decentralization comes from a mental model containing a center and a periphery. “This is only a model just as a pyramidal social structure is only a mental model. When we view a society as a whole system, we see not vertical layers (as in a pyramid) or concentric layers (as in the centric model) but rather a horizontal environment with autonomous yet interrelated actors, sectors, and geographic areas. In designing decentralization policies and programs it is necessary to be cognizant of the mental model one is using and if necessary to adapt or completely change the model to better fit reality.”

As previously stated, our leading point is the analysis of the social sector of the three countries concerned and it is a secondary point to reveal how the methods of governance influence the functioning of social policy. In this interpretation decentralization is rather a method of implementing policies than an end to be achieved. (This kind of approach is all the more necessary since it is hardly possible to make a clear distinction between the different “effects” impacting on the functioning of the welfare system. The role of the macroeconomic decline, the changing power relations, and the transformation of social stratification cannot be clearly separated from the impact of the changing administrative structures.) Our analyses will go beyond quantitative questions like: How many tasks? How much money? How much political power and administrative capacity? the decentralized agents of social policy have. We intend to describe the welfare systems themselves (which stand on various levels of decentralization) as interdependent systems that bear specific traits. Therefore, we will indicate the interplay of the aims and decentralization of welfare systems and of the circumstances under which they operate.

In our understanding of the term, decentralization refers to a process: it implies transition from a less decentralized (more centralized) state to a more decentralized (less centralized) one.

In this research project, a basic question to be answered is: What proportion of the social resources is under the control of the agents of decentralization and what powers do they have? In this respect decentralization is an indicator of power relations between the center and the local agents. “No attention has been paid to power as a critical feature of social relations. Institutions may appear to act in the common good, but can actually shape and reproduce relations of unequal power and authority. Hence particular groups of women or poorer people may be marginalized” (M. Leach, R. Means and I. Scoones 1998).

As is customary, we will explain the meaning of decentralization in the context of a specific country. “Since national processes of decentralization take place in different policy
environments, they are grounded in divergent political traditions, and imply the reform of very different administrative systems, the term referred to generically as ‘decentralization’ does not necessarily carry the same political connotations in the three countries studied. This diversity limits the scope for generalization. One must be careful not to assume, for example, that the relationship between central and local government institutions has a similar dynamic in different contexts. On the other hand, the diversity of the cases also enriches the comparison. The commonalties that emerge are all the more suggestive because of the diversity of the countries” (Jean Bossuyt and Jeremy Gould 2000).

2.2 Panacea to Cure Crises

“Today’s local administrators have a vital role in maintaining an active social fabric which will ensure a balance between the dangers of excessive central government and the irresistible atomization of individuals. Local governments that have real power can more effectively address local interests as well as exercise a check on operations at higher levels of authority” (Global2 1996).

Just as in the case of many other reform strategies, decentralization emerged as a response to the so-called crises of the developed world, the welfare states. It is therefore worthwhile to briefly examine the crisis circumstances that have lent such an importance to the process of decentralization.

“There seem to be as many diagnoses of the welfare state crisis as there are experts. Most, nonetheless, can be conveniently subsumed under three main headings. There is, firstly, the ‘market-distortion’ view, which argues that the welfare state stifles the market and erodes incentives to work, save, and invest. A second popular diagnosis focuses on the cataclysmic long-term effects of population ageing.” And a third group of arguments focuses on the consequences of the new global economy, which mercilessly punishes profligate governments and uncompetitive economies (Esping-Andersen p. 2). After Esping-Andersen “Welfare regimes must be identified much more systematically in terms of the inter-causal triad of state, market, and family” (p. 35). In this understanding the crisis of the welfare state can be related to state failure, market failure, and family failure. In this respect decentralization is an answer to one aspect of state failure: the failure of governance. “The failures of the centralized forms of state intervention and the realization that de-concentration had its limits, and the renewal of free-market theories embodied by structural adjustment and macro-economic stabilization policies, are all reasons for adapting public service in the direction of true decentralization” (http://www.ciesin.org/decentralizaton/English/General/history_fao.html).

During the 1990s, the post-communist countries underwent crises that are sometimes attributed to similar causes, but were much graver. The crises inherited from the communist system—coupled with the consequences of economic recession due to
transition from a command economy to a market economy, and the collapse of the Eastern Bloc—brought about a much deeper recession than that of the Western countries because the base was lower.

Unemployment affected broader sections of society than in the West. What is more, it came as a totally new phenomenon. The countries concerned lacked the political traditions and agencies to handle the crisis.

Events followed one another at breakneck speed: while these countries were installing Western-type schemes of the welfare state, these very schemes developed crisis symptoms and therefore had to be reformed. Even under ideal conditions, such processes could not have followed reasonable scenarios.

The outcome of those reforms was unpredictable as well because these countries had no experience in handling certain social and political risks (they did not know how to involve the public in certain decisions nor how to channel political dialogue); the agencies of public administration and social schemes were underdeveloped; certain fields of expertise (for instance, social work, welfare economics), professional forums, and political and professional norms of behavior were missing.

The differences are not just quantitative. Social policy was in a fundamental crisis in nearly all of the post-communist countries. As a rule, the political programs of transition (from a single party system to a multi-party system) failed to address the real problems of society. It is more or less fair to say that we have not found any transition country where a societal policy program and a long-term institutional vision existed or, if one existed, was consistent. The social changes tended to be spontaneous consequences of the political and economic changes. Decentralization entered public thought as a panacea for the above social and political problems as well as for general development.

2.3 Decentralization—Which is Good and Desirable

The literature refers to decentralization in a similar way to other ideas spawned by reforms—with a positive bias. It is described as a goal to be attained by way of reform. Policy papers generally consider decentralization in this respect as a counterpoint to globalization, an integral part of democratization, a logical application of the core characteristics of good governance (accountability, transparency, rule of law, responsiveness) and a new form of communication and information flow between geographical areas, societal actors, and social sectors.

2.3.1 Economic Metaphors

As indicated above, most of the decentralization ideals were created after the public policy budgets of welfare states plunged into crises. When the equilibrium of revenues
and expenses, and of supply and demand is upset, it seems to be quite reasonable to transfer the logic and techniques of the market into state mechanisms, the domain of social provision and other public services.

If we compare the state to a huge combine, it is justifiable to examine the operation and successful organizational reforms of prosperous multinational companies (e.g. the car manufacturers General Motors and Ford, which have always been in the public eye). There are several reasons why their internal reforms can be considered as decentralization. To start with: they involved de-concentration, in which the general functions of the center were devolved on regional or national sub-centers. Occasionally the “profit centers” of certain lines of products or the centers of functional divisions (e.g. sales, development, and the manufacture of sub-assemblies) were de-concentrated.

Even more intriguing is that process of decentralization in which a wide array of subcontractors were involved in certain phases of production and sales. We would emphasize two aspects of that process. The centers could define their requirements—component quality, time limits and norms that subcontractors must fulfill—with such precision that the continuity and efficiency of manufacturing could be ensured without bureaucratic controls, solely by acting as an exacting purchaser. Employment of those techniques achieved more than maintaining former performance levels, they brought about less expensive and more efficient outputs. What is more, the demand generated by decentralization called into life a “supply industry” consisting of competing small- and medium-sized companies.

Given that it improves the efficiency of car-making if the center of a combine is relieved of some of the phases of work, and that parts can be bought from subcontractors, then that principle can also be applied to functions of the state. In principle the state can also purchase from autonomous public and private schemes the “parts and sub-assemblies” which, when co-ordinated, can add up to state and governmental functions.

Faced with the task of efficiently managing crises, economists inevitably recall Schumpeter’s theory. In a nutshell: crises emerge when former sources and technological and institutional capabilities are depleted. Successful management of a crisis is most likely if new, innovative sources and techniques appear that have a good chance of replacing the old, depleted forms. If the existing large schemes cannot adequately respond to the crises of social provision, it would be of benefit to permit small, local, non-governmental organizations to experiment with more efficient techniques of social provision. In such a hypothesis the state is not the above-mentioned “exacting purchaser,” nor are the decentralized units subordinated subcontractors. Instead, the state should be seen partly as the “owner of venture capital” that sponsors innovation and partly as a partner in charge of co-ordination, a partner who takes the responsibility of organizing the co-operation of several small innovators, and of handling competition and conflicts. The state as described here is quite similar to that state which strives to influence the structure of the economy by issuing regulations, granting support to, and/or sponsoring, individual projects.
For the decades of socialist rule the state was the scene of anything but competition. In fact, the state considered that its principal duty was to compensate with non-market-based tools for the damage and dysfunction caused by market competition. Many of the observers interpreted the deficit of the central budget and of the funds at the disposal of social schemes as a problem that was due to inefficient use of the money available. Supposing competition to be the engine of efficiency, efficiency can be improved by spreading it as widely as possible. In this interpretation, decentralization, especially the privatization of public services, mainly refers to the process in which competing actors appear on the stage of social policy. In this pattern the state is responsible for organizing the competition, inviting and appraising bids, and acting as the contracting party that represents the purchaser. In addition, the state (usually represented by one of its institutions) takes part in propagating the principles of competition in the sphere of public services in the following roles: market regulator, protector of consumer interests, guardian of quality assurance, regulator of prices, guardian of the fairness of competition. It also is meant to prevent any abuse of the dominant market position.

2.3.2 Decentralization as a Way to Democratize the Welfare State

Decentralization is an expression of the desire to make social provisions more humane. As opposed to the former “alienated” and bureaucratic social policy procedures, it seeks relations that emphasize direct human contacts and face-to-face communication. Direct human contacts and communication are essential parts of every transaction, be it in the field of business or public service. If the task is to strengthen a welfare system in which an increased role is to be played by direct human communication and the service to be ensured for customers, then that type of decentralization is necessary in which person-to-person relations do matter. A welfare system that is humane, stands close to the community and the family, is open and sensitive to personal problems, and can flexibly adjust to various situations can be nothing other than decentralized.

One of the driving forces of decentralization is to get closer to the consumers, citizens and communities by enforcing the principle of *subsidiarity*. The principle of service can be transcended if we attempt to reduce the asymmetry of the relationship between provider and consumer by some kind of “sharing.” By bringing vital decisions closer to those affected and assuming shared responsibility for the consequences and risks of the jointly agreed decisions, these principles chart out the framework for decentralization in which social programs focus on well-defined communities. In that process the state is a co-ordinator that partly or entirely delegates its sovereignty to the public social services for the benefit of target groups or communities. In this interpretation subsidiarity is conducive to a “needs sensitive” social protection system.

All sorts of attempts, initiated by the so-called “new right,” to reform the welfare state, i.e. to reduce the role of the state in shaping welfare policies, can, however, also be in-
terpreted within the theoretical framework of decentralization. A revealing example is how an OECD report on public management developments characterizes the conditions affecting good governance in Hungary: “A fundamental burden on the Hungarian economy is the fact that, besides the inherited external debt, a substantial volume of internal state debt has accumulated over the past years. Measures are being taken to improve the balance of public finances and to eliminate the causes of its decline. The planned reduction of the central budget deficit necessitates a fundamental rethink of the roles and responsibilities of the state, and development of a public sector in line with the capacities of the Hungarian economy. Reduction of the role and responsibilities of the state necessitates rationalization of the activities, responsibilities and institutions that were formerly financed by the state, and the transfer of certain tasks currently performed by the state to non-governmental organizations and/or the private sector” (OECD 1998). Then the principle of subsidiarity in this interpretation may express a strong commitment to dismantle the welfare responsibilities of the central state and delegate them to the various local agents.

The basic tenet of the works that criticize the alienation of representative democracy is that ordinary citizens get lost in the bureaucratic maze of the modern state. In this interpretation the aim of decentralization is to achieve that situation in which public affairs should be handled by smaller organizations that are transparent and on which citizens can exert an influence. These principles are closely related both to the principle of “small is beautiful” and those theses of subsidiarity that state that decisions should be brought as close to the people as possible and should be made in the smallest possible units of public administration.

Thus decentralization may be interpreted as evolving the system of multiple checks and balances on the exercise of political power as the decentralized units may possess the sway to counterpoise the dominant power of the central state.

In the former state socialist countries there was no way for direct participation, even in local political life, in the political decision-making processes. To make the democratic political system work, people had to “learn” certain attitudes, skills and “knowledge” to make public life democratic. In this case decentralization can be considered to be the school for democracy.

Others criticize representative democracy for they think that modern political parties can no longer stand for the interests of the whole of society. Partisan rivalry and parliament only express the infighting within the political elite. Multi-party democracies have a long history of seeking ways of articulating in the political arena societal interests that parties fail to stand for adequately. Examples include the upper houses in bicameral parliaments, corporative patterns of the German type (which traditionally means the participation in extra-parliamentary political decision-making of the churches and trade unions), and the lobby system. Nowadays, in all three patterns, emphasis is laid on decentralization in the form of the involvement of regional and settlement-level delegates as well as non-governmental organizations.
As a rule, the more balanced division of power involves bargains and interest reconciliation which, in turn, spawn conflicts. This does not necessarily lead—in the short run—to higher efficiency; on the contrary, to use the private-sector analogy again, when multinational companies diversify and decentralize their operation to gain higher efficiency, such steps rarely diminish their power and influence and they rarely strengthen those of their partners. In fact the opposite is true. However, in the long term, only well functioning counter-balancing actors can make the democratic system sustainable.

It can be considered to be one of the most important successes and merits of decentralization that there were no aggressive, threatening social explosions in the given transitional countries in the past decade. Despite the significant reduction of welfare expenditure, the dramatically decreasing standard of living and the growing inequalities as well as increasing poverty, the new democracies survived the first (and—for the majority of the population—unexpected) crisis. This might partly be due to the fact that the local governments were able to handle the most acute social problems and keep them localized. Notwithstanding the frequent failures, the institutionalization of the channels of local democracy and the direct or indirect initiation of a significant number of people (elected representatives, members of the administration, experts, etc.) into the decision-making processes, the first, stronger or weaker forms of democratic participation and collective crisis management were created.

3. MISUSE OF DECENTRALIZATION

The following table demonstrates the most frequently cited advantages of decentralization, together with some skeptical considerations as well (M. Steinich 2000).

*Table 1.1*

**Pros and Cons of Decentralization**

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Better service delivery:</strong></td>
<td><strong>Dangers for service delivery:</strong></td>
</tr>
<tr>
<td>• moral adequate to local needs</td>
<td>• decentralization of corruption</td>
</tr>
<tr>
<td>• more flexible</td>
<td>• untamed spending</td>
</tr>
<tr>
<td>• more innovative</td>
<td>• rolling-back of many of the economic, and particularly social, functions of the state</td>
</tr>
<tr>
<td>• cheaper</td>
<td>• local cadre will not be independent enough and motivated enough to take responsibility for risky undertakings</td>
</tr>
<tr>
<td>• good for mobilizing the comparative advantages of local enterprises and the local non-profit sector</td>
<td></td>
</tr>
</tbody>
</table>

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Table 1.1 (continued)
Pros and Cons of Decentralization

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Local democratization:</strong></td>
<td><strong>Local politics is still politics:</strong></td>
</tr>
<tr>
<td>• integrating people’s needs and interests</td>
<td>• reproduction/re-labeling of local elites</td>
</tr>
<tr>
<td>• giving third-sector organizations</td>
<td>• poor people may refrain from</td>
</tr>
<tr>
<td>and local enterprises the freedom to act</td>
<td>• promoting their interests</td>
</tr>
<tr>
<td>and to articulate their views and needs</td>
<td>• local politicians may be responsive to the</td>
</tr>
<tr>
<td>• training ground for a participatory/</td>
<td>local needs of their defined constituency</td>
</tr>
<tr>
<td>democratic culture, negotiation capacity</td>
<td>• accountability may be attenuated</td>
</tr>
<tr>
<td>and conflict settlement</td>
<td>• if local elections are not viewed as</td>
</tr>
<tr>
<td>• granting a certain autonomy and</td>
<td>• important, and produce low turn-outs</td>
</tr>
<tr>
<td>degree of political integration to</td>
<td></td>
</tr>
<tr>
<td>minorities</td>
<td></td>
</tr>
<tr>
<td><strong>National integration:</strong></td>
<td><strong>Moves for separation:</strong></td>
</tr>
<tr>
<td>• can reach a more equal distribution of</td>
<td>• institutionalizing factions along</td>
</tr>
<tr>
<td>national resources</td>
<td>ethical lines</td>
</tr>
<tr>
<td>• dispersion of political power in a</td>
<td>• reproducing discriminatory policies</td>
</tr>
<tr>
<td>vertical way</td>
<td>of the ruling party</td>
</tr>
<tr>
<td>• common decision or planning bodies</td>
<td></td>
</tr>
<tr>
<td>or the common execution of tasks</td>
<td></td>
</tr>
<tr>
<td>• national diversity can thus be</td>
<td></td>
</tr>
<tr>
<td>realized in national unity</td>
<td></td>
</tr>
</tbody>
</table>


Decentralization may be a better or worse form of communicating difficult or unmanageable problems. In politics if there is nothing relevant or satisfactory to be told of a problem—due to the lack of resources, widely acceptable solutions, or other reasons—it is either passed over in silence, or is allowed to be the subject of public discussion only at forums at a low level. More precisely, if there is little meaningful to be said about the key issues of social policy, then discussion of those problems should be transferred to forums which are beyond public attention and far from the political center. In this case the themes are kept separately, the problems do not accumulate and instead of horizontal communication and co-operation to enforce the solution of problems handed centrally (like the distribution of tax revenues between the central and local budgets) the decentralized units compete with each other—first of all for the scarce resources.

Decentralization means, among other things, the shifting of responsibility. On the face of it, it is nothing more than passing on direct executive and management functions as if the conditions under which the problems are to be solved were also decentralized or sufficient to implement the intended policies. But sometimes they are not. That the conditional mode is often used in the bylaws for decentralized units is an eloquent
illustration of that point: [if certain conditions are met, then] the decentralized unit “may grant” certain benefits, “may establish” certain entitlements or “may require” that certain conditions be met—as is the case, for example, with the Hungarian Social Law. The conditions and capacities under which the decentralized functions have to be discharged are often lacking—they have to be ensured by the decentralized units themselves.

Decentralized solutions can be successful if the increase in the funds granted to the local government authorities and non-governmental organizations enables them to fulfill the growing tasks. In the first years of transition, however, the statistics showed that at macro-level the number of people dependent on social care was growing and net public spending on welfare was decreasing. It has yet to be seen whether it is possible to compensate at macro-level for the decrease in central funds by mobilizing additional local resources and establishing partnership relations with players in the market.

When there is a decline in resources, either the standard of social provisions has to be lowered or the number of recipients has to be reduced, or both. Such dangers are doubly menacing in those post-communist countries where the political, institutional, and professional norms that could act as controlling mechanisms for the quality and impact of social provisions are missing. To employ again the analogy of the manufacture of cars it certainly does make a difference if a company that intends to cut production costs replaces the electrically-operated window opener with a mechanical one, or replaces a sophisticated brake system with an inferior one. In the post-communist countries, which lack long-standing traditions, the “welfare motorcar” often has very poor brakes.

It is quite a widespread phenomenon in the post-communist countries to “copy” and institutionalize those informal household management techniques or survival strategies, which make it possible for masses of households to adjust themselves to privation and poverty. (Due to methodological difficulties it is almost natural that there is no macro-data on the extent and weight within the budget of the institutions run by local self-governments of these practices.) If there is a lack of financial resources, households have to make decisions whether to pay the electricity bill, or whether to buy their child a pair of new shoes. Even statutory obligations are ignored if there is no cash, and life must go on. For instance, in 1998 only 8% of the Hungarian municipalities provided all the basic social services provided for in the Social Act. This type of institutionalized deviant behavior, while by no means can it be a legitimate method at the national level, may be locally accepted as a way of managing situations characterized by the lack of resources.

When households are short of cash they tend to revive the “oikos”; in other words, the methods of the traditional peasant societies. People try to repair household utensils that are out of order, from two worn-out dresses they stitch together a third “new” one. Collective knowledge and skills of this kind are mobilized when parents fix the shaky furniture in their children’s school, or children take their own toilet paper to the kindergarten. A bizarre form of this practice in the Ukraine is the covering of wages and even pensions by goods instead of money. In other words, a return to the barter system.
As a matter of fact, smaller village communities—on account of the survival of the traditional value system of peasant societies—even encourage informal solutions and public work in order to compensate for the lack of money or available services. Furthermore, in the traditional peasant value system the use of money is the last possible solution to a problem, let it be the building of a house for one of the villagers or harvesting the grapes.

Should the quality of social provision, the principle of equal access to care and the equity of distribution, not be present in the public discourse, when the welfare programs are not systematically and regularly evaluated as against the realization of these principles, and local actors are tempted to give preference to the interests of the middle-class voters, there is the danger that certain people are discriminated against by being excluded from certain types of social provisions and the benefits are “smuggled” from the target groups to other, preferred groups. In this way the interests of the vulnerable groups are subordinated to those of the ruling elite.

There are unintended consequences of decentralization such as the failure to reduce territorial differences or, in other words, the failure to accomplish territorial justice because of the lack of adequate policies and resources. Regional- and settlement-level economic and societal differences are on the increase in the CEE countries. The danger of poverty and unemployment correlates with the place of residence (town or village, rich or poor region). In Hungary and Latvia there are attempts to reduce these inequalities by implementing quite sophisticated equalizing mechanisms. These mechanisms, however, have not as yet provided the appropriate solution for the problem of horizontal inequalities since the compensation for the disadvantages is unsatisfactory. The compensatory mechanisms may even overrule other principles and values—including those that should be asserted by the decentralizing policies themselves. Such mechanisms can strengthen patron-client relationships in which the generosity of the central administration compensates for local difficulties. The latter danger needs to be underlined in the case of the post-communist countries. Where there is competition for compensatory funds (which are meant to even out differences), the “plan-bargaining” deals (including blackmail) of the communist regime survive. Moreover, the former patron-client relationships are reintroduced in political life.

4. FLOWERING OF DECENTRALIZED UNITS IN PUBLIC LIFE

4.1 Questions

However ideological and contradictory decentralization may be, especially in the Central and Eastern European context, it is possible to speak of it as a global and historical process and an empirical fact in the following limited senses:
• the number of organizations that discharge public functions of the state has been growing and their structure is becoming increasingly differentiated,
• the legal autonomy and self-determination of public institutions (including private organizations that fulfill public functions) other than the central agencies of the state (parliament, government and the courts) have become stronger than ever before,
• the decentralized units that lie outside the central agencies of the state have access to additional funds,
• the influence of these decentralized units on certain societal and political issues (including issues of social policy) is stronger than ever.

If we suppose that during the past decade in the three countries under survey the historical processes were the same as those taking place globally, it is justifiable to put forth the following questions:

• What public personalities play a role in social policy?
• What kind of legal autonomy and competence do those public personalities have?
• What is the size and composition of the funds they have at their disposal?
• What role do decentralized units play in social policy and what influence do they exert?

These questions do not cover every aspect of statehood and state functions. They focus on issues that are related to the “decentralization” of the political decision-making and executive branches.

In addition to the empirical questions that focus on the characteristics of the decentralized units, we also intend to examine those questions that refer to the interplay between state agencies and the features and causes of the distribution of functions, competence, and responsibility.

4.2 The Various Types of Decentralized Units
—or Public Functions Outside the Center

The decentralization of state functions supposes—by definition—an arrangement of state functions that is “centralized” per se, in which decision competence, and the tools of implementation and responsibilities are concentrated in a power center. With the countries of Central and Eastern Europe, it is customary to use—by way of example—the communist state structure before the transition of the CEE countries to the multi-party system. It might be questioned whether or not it is appropriate to use them as examples, yet such simplification seems to be acceptable as a starting point. Bearing
that in mind, examination of the process of decentralization means examining the process of dismantling the totally centralized state.

Administrative decentralization may have three major forms: de-concentration, delegation, and devolution. In the following sections of this chapter we will focus on the forms of decentralization that are the most relevant in relation to social policy in the post-communist countries.

4.2.1 De-concentration

In our interpretation, de-concentration—the historical predecessor of devolution—is the weakest form of decentralization. It is an institutional transformation in which bureaucratically subordinated government agencies assume partially independent functions and competence (as for instance the right to manage assets independently and dispose of separate budgetary funds). De-concentration of resources is not equivalent with their political devolution, with the dismantling of the state center. Instead, it is similar to the organizational transformation in industry in which “combines” and “plants” are turned into “holdings” and into the “independent subsidiaries” and “profit centers” of a company group. “In cases of de-concentration, resources such as civil service positions or budgetary funds are re-allocated from central government to a lower administrative unit (e.g. a district prefecture). The decision-making authority remains with the central government and local staff answer to their upstream superiors. When authority devolves down to a lower level, decisions about the use of the resources are made locally, and administrative staff tend to be accountable to the local political leadership” (Jean Bossuyt and Jeremy Gould 2000, p. 2). Often de-concentration occurs simultaneously with the “regionalization” of central management, as for instance with the establishment of “prefecture systems,” or sectoral inspectorates. The decentralization of public administration in the Ukraine, which is taking place under close presidential control and bureaucratic supervision, can be described as de-concentration. Similarly, the “decentralization” of the social insurance system and the labor market organizations in Latvia and Hungary is in effect de-concentration.

4.2.2 Corporation—Decentralization of Public Bodies

It is possible to delegate state functions into public bodies where members are not appointed, nominated or elected exclusively (or not at all) by governmental agencies (or parliament or the political parties). As commissioned by law, these public bodies dispose of public monies and the instruments of implementing public functions. Although these organizations are not wholly controlled by the central government, they are accountable to it. In the sphere of social provision, “tripartite” corporative public bodies
can be found in the field of social insurance and employment policy (labor market). Examples of similar cases of the decentralization of public bodies can be seen in the arts and scientific life (“Academies”). Similar public bodies often discharge various training and accreditation functions. A few years ago, for instance, the body managing the Hungarian social insurance system was of a corporative, tripartite type. Even today the county-level employment councils—which are organized along corporative lines—possess strong powers (in deciding how to use the active tools of employment policy).

4.2.3 Local Government Decentralization: Devolution?

The most common definition of decentralization refers to the transfer of central government functions (decision-making, finance, and management) to the local government authorities of localities and regions. Although local municipalities elected locally (or on a regional basis) can be found almost everywhere, their functions are occasionally confined to politically representing the area concerned. The most important criterion of local government decentralization is not the election of mayors and local municipal assemblies, but rather the transfer of responsibility for providing services, the raising of their own revenues, and the making of their own investment decisions. As far as the welfare system is concerned, decentralization in the form of local authorities may affect every aspect of public services (health service, housing, education, and welfare institutions) and the various social assistance programs.

4.2.4 Private Welfare Systems by Government Fiat

A peculiar form of decentralization is when the government may oblige private organizations to operate welfare services, and citizens may become clients of private organizations by government fiat. An example of the first category is when employers are obliged to discharge certain welfare functions (to grant sick leave, to provide mandatory health screening, to offer preventive medical care, etc.). As for the second category, consider the legal obligation of citizens to seek social insurance (pension, health or accident care) at private institutions. The Hungarian pension reform involves such an obligation.

4.2.5 Making the Welfare System Plural, Privatization of Public Services, NGOs Gain Ground

The fact that private organizations may also operate (either on a profit or a non-profit basis) in areas that used to be set aside for public institutions cannot in itself be regarded as decentralization. (Instead, this should be considered as the introduction of market
principles to new areas.) The entry of private organizations into traditionally state-controlled public services can be considered decentralization if that activity is carried out in the form of regulated relations with a government agency. Such a relationship may include citizens “contracting out,” in which a private organization assumes government functions, and/or the regular state financing of such activity. Private (i.e. non-state) organizations may be in contractual relations with the state at any level of public administration, and they assume functions that transcend those of the local authorities. In Latvia, the only recognition that a function discharged by an NGO is “public” is tax allowances, but the state does not purchase social services from them. In Hungary the non state-owned residential welfare institutions are eligible to the same per capita normative state subsidy as the state-owned ones. In addition, the government finances the discharge of various welfare functions by private organizations in the form of contractual relations. “Funding of service-delivery NGOs in isolation from local government may not promote dialog, but rather competition and even confrontation between local authorities and civic groups. The challenge is to support civic actions at local level while ensuring that their autonomous activities are linked, to the greatest possible extent, with broader development processes and institutional dynamics in a given territory” (Jean Bossuyt and Jeremy Gould 2000, p. 10).

5. STATEHOOD AND DECENTRALIZATION

5.1 Structural Analysis of a State

The above analysis surveyed the components of the decentralization of social policy. But, as was mentioned above, decentralization is a process rather than a static complex. The procedure we have applied so far is similar to an analyst trying to study the characteristics of a house just by looking at its windows, roof structure, beams, wall-plaster, and so on. But that procedure can be misleading. Just by examining smaller or bigger components of the house, or by noting that users have an increasing say in deciding the layout and the internal arrangement of kitchens, we have not turned ourselves into experts who can issue statements about the growing importance of the component parts in house-building. Just by analyzing the bricks, beams, windows and wall-plaster, the analyst will never understand, say, why the walls of the houses overlooking the canals in Amsterdam lean outwards at the upper levels.

The analyst can only understand the functions of the kitchens, roofs and beams if they understand the operation of the house as a whole, the living conditions of the residents, the conditions of construction, and the origin of the traditions honored there. In the same way, the operation of decentralized systems can only be understood if we understand the operation of the state as a whole.
5.2 The Birth of New States

Western literature about decentralization posits a state that is relatively constant over time and which is continuous in its history and implemented state functions.

We have already asked the following question: If we posited a fully centralized state, how should we characterize a decentralized state in which the state functions, and the funds and institutions needed to fulfill them, would (through some mechanism) be transferred to sub-national or other autonomous players outside the center? It is evident that in CEE (just as elsewhere) there are local government authorities, autonomous state players, and non-state players all of which fulfill public functions, and there are mechanisms that ensure for those players the prerequisites to fulfill their functions.

It is however relevant to ask whether or not it is justifiable to speak about “centralized states” that supposedly preceded the present situation, in which social policy (and other) functions were fulfilled centrally unlike today, when they are decentralized. There were centralized states, but they were different states.

Some of the transition countries, e.g. Poland, the Czech Republic, and Hungary, already had independent statehood prior to the transition. That is why it is possible (at least in principle) to compare statehood before and after transition. The Eastern Bloc collapsed in such a short time and transformation was so thorough that it is justifiable to consider the decentralization of social policy a continuous process in which former centralized functions smoothly converted into decentralized ones. But even in the case of the Polish, Czech and Hungarian states, we cannot suppose that the state has remained unchanged apart from certain functions being decentralized. In fact, these states are now entirely different from what they were before transition.

It doubly applies to the “new countries” of Eastern Europe, some of which had not had a modern state for a long time or had never had one at all. As far as Latvia or Ukraine are concerned, it is untenable to suppose they were ever centralized and have since been decentralized. Those states did not even exist for several decades. Today, only ten years after their (re)birth, it is impossible to examine how they have decentralized their former non-existent centralized state. All we can analyze is their present operation, social policy, and state composition.

5.3 Reviving the History of Independent Statehood

The states of Central Eastern Europe considered the Soviet system an alien state formation, one that had been forced on them. In fact, they attained independent statehood upon the collapse of the Eastern Bloc as its negation. After they became independent states, earlier nation-state traditions exerted a strong influence on their new state formation (with or without nationalist pride). So that the new states could revive their national identities, they tended to embrace national traditions about statehood—rusty as some
of them were. Between the last third of the 19th century and the first half of the 20th century, in Hungary and Latvia the state was in several respects prosperous and not very far behind the advanced states of the time. The residents of those countries keenly cherished the memory of those times. (In Hungary at the 1990, 1994 and 1998 parliamentary elections, senior persons were returned to Parliament who had previously been MPs in the pre-Sovietized, democratically elected parliament.)

If we ask about memories of the former sovereign statehood in the case of Hungary and Latvia, we will get the following answer: Local government authorities played an outstanding role in the nation-state tradition in connection with democracy and economic prosperity.

The history of Latvia over the past centuries has in many respects been one with that of Riga. The country’s prosperity always depended (and still depends) on whether Riga (where a third of the population lives and which used to belong to the Hanseatic League) did well as a center of commerce. At times, when Riga, a free and autonomous city, operated as a flourishing merchant town between the North and the East, Latvia prospered. Latvia will only succeed in exercising its political power if it institutionalizes Riga’s municipal autonomy.

The history of the Hungarian state in modern times is different. In the Austro-Hungarian Empire, Hungary was subordinated to the Habsburg-governed Austria. Bodies similar to local authorities, headed by an elected village mayor, managed villages. In addition to the village mayors, strong local government tradition owes its background to the town councils of the burghers of medieval towns, which focused on the defense of the towns. After the collapse of the communist regime, municipalities were revived in town and country to replace the over-centralized Soviet-type councils.

Ukraine experienced independent national statehood only during a short, but important, period at the beginning of the 20th century. At that time the infrastructure (legislative, legal, and executive bodies) was established. This period, however, did not last long because of the Bolshevik invasion.

5.4 Skipping Missing Decades

The question of historical legacy is quite complex. Even experts of sociology and cultural anthropology may find it interesting how institutions of public administration from pre-Soviet times can be filled under present political and administrative conditions with experience attained by public administrators under communism.

A question that needs further research is whether administrative traditions dating back to independent statehood before communism can provide institutions that are capable of responding to the challenges faced nowadays by local authorities. Of the three countries, Ukraine’s position is the most difficult. It lacks even relatively long-term modern nation-state traditions concerning public administration.
The tradition that can be perceived in contemporary Latvian legislation is in several respects the closest to the Western type of community administration. Philological research has also confirmed that the regulations applied in local government activities in Latvia have been borrowed from the Presbyterian self-government principles of the Lutheran Church. In Riga that tradition goes back to the Hanseatic League. Only the future will show whether or not the “countryside”—which accounts for two thirds of the country’s territory and where Catholics (50% Roman, 50% Greek Catholics) live in scattered localities—can also embrace that tradition. The question can be put in more direct terms by asking if the “countryside” accept the Presbyterian principles of self-government as indigenous Latvian institutions.

In Hungary, relying on the pre-1945 traditions of public administration, it took but a short time to replace the over-centralized communist council system. In addition to the apt observation that local authorities are testing grounds for students of democracy, it is chiefly the pre-1939 administrative traditions that can explain why there are over 3,000 local authorities in a country of just ten million people. Before World War II those municipalities had narrower functions, such as employing a village teacher and operating a village school, where children of different ages studied together. The only other function they discharged was that of fostering the identity of and instilling pride into the local community: an example being that of keeping the cemeteries tidy. A considerable part of Hungary’s local authorities can still do little more than fulfill those functions. It is unlikely that Hungary can ever establish a municipality for each of its more than 3,000 citizens that can discharge each of the following functions: maintain proper schools, provide health care and social services, monitor damage to the environment, issue building permits, act as guardianship authority, etc.

The local government traditions of all three countries go back to pre-modern times when the post-1945 criteria associated with the welfare state was not institutionalized. Those administrative traditions failed to include expertise in social policy administration that evolved and matured after 1945. And that was not all they lacked. Paternalistic methods of governance may have been adequate to handle certain local crises (on a family level or in a small community) in which rights and duties are unarticulated, yet today can violate fundamental liberties or be discriminatory.

6. STATE STRUCTURES AND GOVERNANCE

6.1 Democratic Cornerstones: Parliaments

The establishment of democratically elected parliaments and the institution of free and fair elections were the first and most important achievements of the post-1989 transition
process. Over the past ten years, Latvia and Hungary have achieved a relatively transparent structure of competing political parties. Although the political and electoral cultures of the two countries are not yet as mature as those of the developed democracies, the political profiles of individual parties, and the conduct of politics in general, can be characterized as moving closer to Western standards. The Ukrainian political spectrum, on the other hand, seems to be more oligarchic—instead of competing political programs, different interest groups, lobbies, or clans struggle against one another for political power. This uncertainty of political roles corresponds with Ukraine’s presidential-administrative structure, and is unique among the three countries.

In each of the three countries, constitutional rules and principles are viewed as tools with which to solve pressing political problems. To that end, hundreds of new laws are passed by the respective parliaments each year. In the first years of the transition the relative weakness of the legitimacy and power of central governments in this respect seemed in part to be a reaction to the former party-state system, and had helped to institute “governing parliaments,” that create and amend laws instead of implementing governmental regulations and decisions. This practice has had a positive impact in increasing the acceptance of core democratic principles, and building public trust in the “power of rules.”

When criticizing the efficiency of governance, Western norms of professionalism in the civil service and public administration in performing and implementing public policies are taken as reference points. One must not forget, however, that the main missions of the new state governments in the past ten years have been the creation of national unity and the strengthening of the sovereignty of the new political regimes. Furthermore, the new states have aimed at tackling problems of widening regional and urban-rural economic inequalities, increasing and worsening poverty, and ethnic tensions.

Table 1.2
Ethnic Composition in Hungary, Latvia and Ukraine

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Ethnic Groups</th>
<th>Proportion of Dominant Ethnicity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ukraine</td>
<td>4</td>
<td>73%</td>
</tr>
<tr>
<td>Latvia</td>
<td>6</td>
<td>52%</td>
</tr>
<tr>
<td>Hungary</td>
<td>6</td>
<td>90%</td>
</tr>
</tbody>
</table>


These difficulties can partly explain why it has been necessary to make almost every political decision in the highest political forum, viz. parliament.
6.2 Local Governments

“In the case of countries making the transition from communism to a market economy and addressing issues about decentralization, the appropriate role of local governments and new approaches to governance are central to the reform process. Local governance in this situation requires the acquisition, by both officials and administrators, of new skills and management systems. Moreover, as these countries achieve economic stability, citizens will certainly try to influence governmental institutions to cater to their own increasingly diversified needs, thus placing even more locally focused demands on systems. Consequently, decentralization—which moves decision-making power closer to communities—is a logical reform choice for systems engaged in transition. For citizens in many other countries, the demand for decentralization is acute, but the struggle to achieve it is complex and far from won” (Global2 1996).

In all three countries, the respective constitutions register the system of local self-governments as the fundamental component of the territorial division of state power. Moreover, in each of the three countries, special laws establish the political autonomy of local self-governments. The sophisticated language used to express the importance of self-governments creates the impression that the territorial division of power is regarded as a fundamental issue. The treatment of self-governments in legal and constitutional texts can also be considered as an important political gesture to local self-governments.

The OECD report evaluating public management developments in Hungary (OECD 1998) is relevant in the case of Latvia as well: “In 1990, as a result of a substantial decentralization process, a new, up-to-date system of municipal government was put in place; municipal governments exercise power on an autonomous basis and decide on matters of local interest. Their fundamental role is to organize and/or provide local public services.” In Latvia and Hungary, legal regulations on self-governments are quite differentiated and sophisticated, expressing a genuine respect for the power, competence and autonomy of local self-governments, reflected by their empowerment to formulate local regulations.

Legal regulation is uniform: it does not depend on the locality of an application. However, the same regulation has one meaning in the villages and a different one in larger cities. In our experience, decentralization resulted in leaving the local-self-governments to deal with their own problems...

SOURCE: Head of a family care center, Hungary.

In all three countries, the public administration of local municipalities can be characterized as having duplicate functions: they are partly subordinate to the elected local councils but, at the same time, they act as the local representatives of central government. The importance of these two components is reflected in the rules that regulate the relationship between civil servants working in local offices and their employers. The
two systems that differ most in this respect are Hungary and Ukraine. In Hungary, the superior of the notary (the head of the administration) and other civil servants is the mayor. In contrast, in Ukraine the local civil servants are subordinate to the hierarchical order of the centralized public administration bureaucracy. (Latvia is between the two, but closer to Hungary in this respect.)

The power of local municipalities only partly depends on the legal status of self-government. An important question to ask in this case is how well equipped are the localities with appropriate administrative capacities, viz. adequate manpower and resources. Every case study illustrated a lack of adequate capacities. In the absence of adequate data about these inadequacies, it is impossible to estimate what would be appropriate with respect to local responsibilities in social assistance and service provision. In this respect, the urban-rural divide presents major problems. At least one quarter of those living in rural communities suffer great disadvantages.

### Table 1.3

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ukraine</td>
<td>50.0</td>
<td>579.4</td>
<td>71</td>
<td>86.3</td>
</tr>
<tr>
<td>Latvia</td>
<td>2.5</td>
<td>62.1</td>
<td>73</td>
<td>40.5</td>
</tr>
<tr>
<td>Hungary</td>
<td>10.2</td>
<td>92.3</td>
<td>65</td>
<td>110.8</td>
</tr>
</tbody>
</table>


At the same time, some elements of “over-decentralization” can be recognized as well (especially in Hungary and Latvia), concerning the average size of self-governed localities.

### Table 1.4

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Regional Units</th>
<th>Average Population of Regional Units [thousands]</th>
<th>Number of Local Units</th>
<th>Average Population of Local Units [thousands]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ukraine</td>
<td>(oblasts) 25</td>
<td>1851.9</td>
<td>619</td>
<td>80.8</td>
</tr>
<tr>
<td>Latvia</td>
<td>(rayons) 33</td>
<td>76.2</td>
<td>562</td>
<td>4.5</td>
</tr>
<tr>
<td>Hungary</td>
<td>(counties) 20</td>
<td>500.1</td>
<td>3070</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Source: World Bank, Country Reports.
The average sizes of localities would be even smaller if we excluded from consideration the relatively huge capital cities, Riga and Budapest. It seems to be something of a “mission impossible” to ensure a powerful, capable and functional local administration for roughly every 4,000 inhabitants in Hungary and Latvia.

This kind of over-decentralization (without corresponding capacities and capabilities) can be described as the result of a process whereby the main goal of decentralization is the establishment of training grounds for democracy. It was seen to be less important to distribute administrative power in a way that would achieve the most professional, cheapest and transparent system of public service delivery possible.

6.3 Regions, Oblasts, Rayons, Counties—Tiers

One of the most important objectives of the ongoing public administration reforms is to consolidate the status and functions of the intermediate government levels. The composition of the functions of middle-level government seems to be quite ambiguous in spite of all of the political rhetoric about the increasing significance of regionalism.

The clearest situation exists, in principle, in the Ukraine, where the middle-level sub-national units are parts of the hierarchical chain of administrative bureaucracy. But if we look at the different complicated hierarchical routes through oblasts, rayons, cities, autonomous territories, urban districts and rural villages, it is not easy to establish a coherent hierarchy in such a large country. On the opposite side of the spectrum is Hungary, where the counties have almost no regional role in co-ordinating the activity of local self-governments. In Hungary, counties are responsible for delivering a well-defined set of public services. In the welfare sector, these functions are typically the management of large institutions like secondary schools, hospitals, or residential care institutions. The Latvian case seems to be the most ambiguous in this respect, partly because of the mismatch of Western-like regional functions and the Soviet-like hierarchical middle range status, and also because of the ongoing consolidation of the previously existing 26 regional units into six regions.

The unclear functions of the regional units are reflected in the lack of a coherent regional policy. One of the guiding principles of regionalism has been the attraction of EU Regional Fund grants—particularly in the case of Hungary and Latvia.

6.4 The Agents of Central Governments, ‘In the Field’

The most difficult question facing the central governments of these states is how each of the governments should relate to each of its many different self-governments. This has been a very sensitive question throughout the democratic transition process. If the government is too active or the regional and local agencies act as prefecture-like commanders
of local self-governments, local autonomy loses its meaning. Fears of this sort of centrally dominated governance are well founded when one considers the tradition of state administration rooted in the state-socialist era. (In fact, in Ukraine local autonomy is strongly questioned by the extremely powerful government agencies.)

On the other hand, if there are no controlling or supervising units protecting basic rights, citizens can be left vulnerable to the idiosyncratic practices of local governments.

In reality, we saw little evidence demonstrating the existence of this kind of indirect government behavior—and of what we saw, most of it related to fiscal control mechanisms. The coherent institutional solutions to implement fair targeting, to protect the consumers of local welfare provisions, and to prevent discrimination are almost completely absent in the three countries.

7. FISCAL (DE)CENTRALIZATION AND SOCIAL WELFARE

Before proceeding further, we must indicate our uncertainty concerning even the basic raw figures available in this field. In most cases, we were unable to clarify, even within the individual country framework, precisely which social program-items were included in which budgetary categories. Comparison is very difficult in light of the highly inconsistent accounting categories in the three countries. Furthermore, there are several dimensions that can lead to the consideration of some public expenditure items as “decentralized” in one respect but fully centralized in another. It is thus impossible to classify the items by grades on a centralization-decentralization axis. To be frank, our analysis will be a kind of “impressionistic picture,” focusing more on the principle policy dilemmas and less on a “real” scientific description of the subject.

7.1 Heritage and General Constraints

From a technical point of view, the fiscal systems of the socialist states were quite decentralized in a superficial sense. Local revenue mostly covered local expenditure. The system worked as a “clearing” or “netting-out” operation: a portion of the locally collected revenues was utilized by the localities themselves for approved objectives up to the approved amounts, and the remainder was given to the central government. In other words, this fiscal regime could have been characterized by a high level of revenue assignment (“fixed” versus “regulative” taxes), and also by a high level of expenditure assignment (“own resources” versus “compensations”). This system, at first glance, can be considered decentralized, but this technical arrangement by no means reflected the actual operation of the system. In the socialist command economy systems, any technical opportunity for autonomy was
“over-written” by political and administrative wills. The “own” income generated to some degree an “own budget,” but all decisions on the utilization of these resources were made at the central level.

The real issue is not the challenge of how to create and operate decentralized fiscal systems, but rather the political and administrative aspect of the problem: how to equip the local and regional units with adequate political power and administrative capacities so that they can exercise autonomous, self-reliant governance.

Concerning the survival of the socialist legacy, the three countries represent three very different stages. The current Ukrainian public finance system exhibits the most similarities to the previous socialist system. Elected bodies exist at different sub-national levels, but their role is rather symbolic. Real power lies in the hands of the highly centralized public administration, which is fully subordinated to the president or his representatives.

In the interviewee’s opinion such a situation is a serious problem, as “the department can actually do nothing.” The department is not a legal entity and, as such, it cannot have its own account. Thus, even small programs face the wall of bureaucratic resistance and limited financial support.

**Source:** Interview with a representative of a City Council Department of Social Assistance and Protection of the Population, Ukraine.

The most rapid changes in the fiscal system can be observed in Latvia, which started from the same socialist situation ten years ago, but—at least according to the terms of its legislation—has fully reformed its public administration and finance structure. There is, however, some discrepancy between the “formal” situation and reality. Put another way, the legislative treatment is somewhat disconnected from the everyday perception of the system. For example, the legal text reveals some newly introduced “local personal income tax surcharging over the national tax base” scheme, but our Latvian partners have interpreted this as a minor modification of the former “fixed-compensatory” assignment system. The real issue is, again, the less the fiscal technology, the more the observable increase in the political decision-making power and administrative responsibility in the hands of municipalities.

The former socialist system in Hungary successfully started to replace the former occasional “plan-bargaining” system with a normative political decision making process. The origin of the long list of different granting schemes (in the Hungarian language, “normative state contributions”) for public policy programs is rooted in the era of the “new economic mechanisms” of the late 1960s. The new economic policies introduced direct charges over urban and communal services and the reduction of state subsidies on renting fees of housing and urban transport. In sum, the existing “tool-kit” of fiscal decentralization was manufactured late in the socialist period in Hungary. The real issue is not a technical one but a political one: who should manage and manipulate this tool-kit (even if this kit is in an ongoing state of development)?
7.2 National Fiscal Policies in the Sphere of Social Welfare: Reduction and Centralization

Let us quote as an example the Memorandum of the Ukraine to the IMF, signed by the Ukrainian President in 1998. The character of the statement is more or less valid for all three countries, and some paragraphs are identical to the political statements made by leaders of the countries to other institutions (such as the World Bank and the EU) during the 1990s: “(5.) ...further reduction of the fiscal deficit is necessary...(7.)...We have started to reduce the size of the public sector, including health and education sectors. ...(Also we) should reduce the budgeting wage bill. The social protection system will be rationalized, and streamlined to eliminate general subsidies, and improve the targeting assistance to the truly needy. In this context, we will eliminate most budgetary privileges and review the benefits provided by the Chernobyl Fund, the Social Insurance Fund, and the Employment Fund....(9.)... Financial relations between the central government and the local governments will be reorganized and clearly defined... to develop an efficient local revenue commensurate with its responsibility. (23.)... Taking into account the clearance of arrears on wages, pensions, and social benefits, the underlying consolidated budget deficit is targeted to narrow from about 5.2% in 1997 to 2.3% of the GDP in 1998...(24.)... To improve the transparency of fiscal operations, several extra budgetary funds have been eliminated or incorporated in the main budget accounts, and in 1999 we intend to incorporate all remaining extra budgetary funds, including those at local government level (with the exception of the Pension Fund and the Social Insurance Fund...”

... Secondly, the other problem is that the State itself is the main guilty party in not observing the law. It should not be this way. It must not be tolerated. If the State is not satisfied with a law, it should be suspended or repealed. In the Ukraine, for example, the law states that salaries/wages are to be paid twice a month. But sometimes salaries/wages are not paid for years, and this is accepted as normal. The law says that people have to work for the period as stated in the contract concluded with the employer whereas the employer is able to force them to take holidays for six months or even up to three years, without any adequate sanctions being taken against the employer. At present, the State remains the main employer or employs the most people, and the State itself violates these laws.

SOURCE: Representative of the Trade Unions Federation of Ukraine.

A presidential decree forbidding all budgetary netting-out operations was issued in the beginning of 1998, and the mechanism for these operations was eliminated. Moreover, part of the earmarked revenues of various funds have been counter-earmarked for use by the Ministry of Finance, accompanied by similar reductions in associated expenditures incurred by these funds.
Apart from the need for budgetary stabilization and without criticizing the viewpoint expressing the necessity for budgetary equilibrium in public finance, the main characteristic features of the ongoing budgetary reforms in the three countries can be summarized as follows:

- reduction of public expenditures including social protection expenditure;
- reduction of the number of public sector employees, including those employed in welfare administration and welfare service provisions;
- eliminating the special purposes warranting “earmarked” revenues, and adequate funds—offering larger space for central government financial operations and, at the same time, preventing the elected bodies’ use of these special funds;
- tightening of the central controls over the decentralized use of public money in order to increase transparency, and “rationalizing” the fiscal relations between the different governmental levels.

With respect to decentralization and centralization, the most important problem is that local governments have been delegated many functions, but adequate financial resources do not match these functions.

### Table 1.5
Trend of GDP 1989–1999 (1989=100)

<table>
<thead>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Latvia</td>
<td>100.0</td>
<td>103.0</td>
<td>92.2</td>
<td>60.0</td>
<td>51.1</td>
<td>51.5</td>
<td>51.0</td>
<td>52.7</td>
<td>56.2</td>
<td>58.4</td>
<td>60.2</td>
</tr>
<tr>
<td>Ukraine</td>
<td>100.0</td>
<td>96.6</td>
<td>85.4</td>
<td>73.7</td>
<td>63.2</td>
<td>48.7</td>
<td>42.7</td>
<td>38.5</td>
<td>37.2</td>
<td>36.6</td>
<td>35.7</td>
</tr>
<tr>
<td>Hungary</td>
<td>100.0</td>
<td>96.5</td>
<td>85.0</td>
<td>82.4</td>
<td>81.9</td>
<td>84.3</td>
<td>85.5</td>
<td>86.6</td>
<td>90.4</td>
<td>94.6</td>
<td>98.1</td>
</tr>
</tbody>
</table>

Source: TransMONEE database 2000, 3.0, EBRD UNICEF ICDC, Florence, Italy.

7.3 A Tricky Scenario: Expenditure Assignment

Even in the most centralized regimes, there are ways to delegate some managerial tasks to local councils. Regardless of the competencies of the elected bodies at sub-national levels, in most of the countries local administration is characterized by “duplicated sub-ordination.” The local administration is the agency that implements locally designed and approved political programs but, at the same time, the local administration is the local representative of the central government. (Ukraine is an unusually strange country in this respect as well, because the first of these two roles of local administration barely exists.)
The main issues of the social assistance of the City Executive Committee are low-income benefits, benefits for large families, targeted home-help for people living by themselves, and interment allowances for people living alone. In previous years, social assistance was allocated from the funds coming into the local budget from the rents in the so-called special fund. Depending on the income, the City Executive Committee could provide people with social assistance. According to the Law of Ukraine *On Local Self-Government*, article No. 34, clause No. 1: “additional guarantees of social protection from the local funds and charitable receipts should be established apart from those established by legislation.” In the year 2000, the City Executive Committee included the article “On social assistance” into the city budget.

The issue of budget distribution is a very difficult one for the city. In my opinion as Chairman, the budget should be formed on the basis of the level of social needs. “It is difficult to define the term ‘social needs’” —says the respondent—“there is no such legal definition.” The rayon government attempted to allocate the funds on a per capita basis of the total local budget (approximately UAH 45). Then this figure was multiplied by the number of citizens in a certain town or village and that was the budget. But this is obviously not the correct way because there are some structures that provide a service for the citizens of the whole rayon: procurator’s office, militia, rayon hospital, department of social protection, etc. This must be reflected in the city’s budget. Until this problem is solved there will be constant arguments between the rayon and the city.

If a local administration spends a lot of money, e.g. on social assistance, there is no clear-cut information available as to why they do so. This money may be based on the decisions of the local policy-makers themselves, or may be the result of initiatives at the central level of governance.

To justify our view that these expenditure assignments cannot be used as meaningful indicators of decentralization, we quote the IMF Government Statistics (Mercer Blackman 1997); these show what proportion of General Government Expenditure is spent by sub-national bodies.

*Table 1.6*  
*General Government Expenditure Spent by Sub-national Bodies*

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ukraine</td>
<td>34%</td>
</tr>
<tr>
<td>Latvia</td>
<td>26%</td>
</tr>
<tr>
<td>Hungary</td>
<td>23%</td>
</tr>
</tbody>
</table>

This data creates the impression that local decision-making is responsible for a very small portion of local expenditure. In most countries, for example, it would make no
sense not to decentralize the pension system. In Ukraine—where the pension fund contributions can sometimes only be collected “in-kind,” and senior citizens receive their pensions in the form of natural goods—the system must be managed locally. It is possible to determine the exchange rate of pension-barters, or to organize the delivery of pensions (say in potatoes or bicycle parts), only at local level. In all three countries, it is fashionable to support “better targeting” of the locally managed social programs. As far as this idea is concerned, our judgement is very critical and the considerations of the Poverty Report of the World Bank in Hungary (1999) must be taken seriously. This report stated that a considerable proportion of locally managed cash benefit programs are misused and that, in spite of means testing, these programs did not reach the poor. All other types of cash transfers and social protection programs have demonstrated better targeting than the means-tested locally managed cash benefit programs.

As of 1 January 2000, a total of 45,025 unemployed persons were registered in Employment Centers; this number represents 0.89% of the total population of Kyiv. Of these, 9,179 of them received unemployment benefits: 30.8% received over UAH 100 a month, 33.8%—UAH 25, 25.5% UAH 25-74 a month. The professional orientation services were used by 25,843 persons during the year; 3,847 unemployed persons were engaged in public works; 25.8% were provided with jobs (there are five unemployed people for one who is working in Kyiv).

Even so, these Employment Center statistics do not reflect the actual situation of unemployment in Kyiv (according to the data of the State Committee, the level of unemployment reached 13.2% in Kyiv). Thus it is possible to conclude that most people without jobs do not register at an Employment Center. They do not apply for a job or for assistance (which anyway does not cover the needs for living). That is why neither the City Employment Center nor the Unemployment State Fund has anything to be proud of because 23.3% of the total sum of Fund expenses is spent on maintaining and improving the Fund itself.

Source: Case study, Kyiv City Employment Center.

On the basis of the available data, there are no figures on the administrative costs of local social assistance programs. Concerning the very low level of average benefits received and the overly complicated testing and decision-making procedures, however, one can hypothesize that the efficiency of welfare expenditure assignment programs is very low.

There are additional problems with those programs where the administrative tasks are delegated only to the local level. If the local administration is provided with “technical” administrative duties only, their perception on budgetary limitations will inevitably be “soft”; they will not be interested in concentrating on the cost-effectiveness of the programs. Moreover, in any case of “third party payments,” the problem of cost containment will occur. This happens in “compensatory schemes,” but this is also the case in Hungary’s non-insurance based, social assistance financed disability schemes. In Ukraine, this problem occurs in the
form of the extremely extended magnitude of arrears among sub-national units. “As of 1 September 1997, accumulated local budget arrears were equivalent to nearly 40% of projected annual revenues for the entire year” (J. Dunn, D. Wetzel, World Bank 2000).

7.4 Markets in Local Business: Revenue Assignment

In the theory of fiscal decentralization, the scholars Robert Musgrave¹ and Charles E. McLure, Jr.² represent a dominant school. In their view, local authorities are more or less similar to business enterprises, and the main question is how to improve the sovereignty and the autonomy of sub-national governments. The main fiscal point is that if they have safe, predictable and unbounded incomes—and they themselves control the spending—then they can maintain their freedom. In other words, using the enterprise analogy: if they can collect enough fees and charges, and if the inhabitants are ready to pay enough local taxes, they have a high chance of maintaining fiscal equilibrium, if they are not committed to pay more than they own.

In this respect, the fundamental question is whether or not it is possible to collect enough “own” and “free” money, i.e. the revenue assignment.

There are no definite figures but only estimates on the percentage of “own source revenues” for the three countries (see J. Dunn, D. Wetzel, op.cit).

Table 1.7
Amount of “Own Source” Revenues

<table>
<thead>
<tr>
<th>Country</th>
<th>Estimated Percentage of ‘Own Source’ Revenues as a Share of (Local) Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hungary</td>
<td>30</td>
</tr>
<tr>
<td>Latvia</td>
<td>7</td>
</tr>
<tr>
<td>Ukraine</td>
<td>3</td>
</tr>
</tbody>
</table>

Concerning charges and fees for local services, the reduction of the former subsidies creates the sharpest differences.

Regarding local taxes and revenues, the Hungarian self-governments have the greatest opportunity to make tax decisions and to collect revenues from the local citizens. Business receipts, real estate, tourism, and motor vehicles are all taxable.

The centrally collected personal income tax base is shared in Hungary and is surcharged in Latvia.

In the social welfare sector, only the fees and contributions paid to obtain care and other services can be taken into account with respect to revenue assignment. This can
be estimated as less than 30% of care expenditure in Hungary and a smaller percentage in Latvia.

7.5 Intergovernmental Transfers and Granting Arrangements

The last scenario reflects the weak points of revenue assignment. Charges, fees, taxes on business receipts or on valuable real estate can be effective within better-off communities. People generally weigh whether to contribute to the costs of the local community if they feel that they earn adequate incomes. If they are dissatisfied with the utilization of their money, they will elect new local politicians at the next local elections. If the community is poor, however, the same decision-making process has negative consequences for revenue assignments, since the base for such local revenues will also be poor.

We are living in an era in which horizontal inequalities are growing due to the social inequality factors of poverty and social exclusion. In order to promote horizontal equity, it is necessary to improve the fiscal balance among regions and municipalities, especially in financing poverty relief and social assistance programs. This raises the issue of the efficacy of the different granting schemes.

The most important function of the normative type of granting is leveling; capitation is determined on the basis of the number of inhabitants or the members of the target group. The differences in the local conditions, the characteristics of employment, and income inequalities are not taken into consideration. Thus the system of granting strengthens territorial inequalities. There exists a negative correlation between the revenues and financial situation of a local self-government and the welfare expenditure. As a consequence, the balance of payment deficit is continuously increasing in the field of social provisions, the municipalities are forced to withdraw resources from development, and small settlements are endangered by bankruptcy. The widening of the scope of responsibilities of local self-governments, e.g. support for the long-term unemployed, increases the deficit of local self-governments resulting in absurd solutions in the case of financial provisions based on discretion. The planning procedure of local self-governments has to be adjusted to the dysfunctional central granting system; planning based on the previous year’s budget will be dominant blocking innovations in the social sector.

SOURCE: Case study, Nyíregyháza, Hungary.

The two granting philosophies most often put into practice must be clearly differentiated. One of them can be characterized as “capacity granting”—the central state allocates grants according to the size of local public service capacities (e.g. the number of students in schools, or the number of hospital beds provided by care services). The most important advantage of this kind of system is its protection of existing capacities even if economic conditions worsen. But this advantage also acts as a disadvantage because this procedure preserves these structures and institutions irrespective of changing needs and demands. “Capacity granting” serves as a powerful counter-incentive against reforms, even if attempts
are made to update professional profiles, performances, or to change the territorial allocation of certain public policy capacities.

Table 1.8
Social Expenditure of Nyíregyháza City Related to Total Expenditure [billion HUF]

<table>
<thead>
<tr>
<th>Year</th>
<th>1996</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social expenditure</td>
<td>1,217</td>
<td>1,304</td>
<td>1,753</td>
<td>2,060</td>
</tr>
<tr>
<td>Total expenditure of city self-government</td>
<td>16,481</td>
<td>20,246</td>
<td>22,309</td>
<td>24,807</td>
</tr>
<tr>
<td>Ratio of social expenditure [%]</td>
<td>7</td>
<td>6</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Case study.

Figure 1.2
State-funded Income and Expenditure in Nyíregyháza City 1993–1998 [million HUF]

This sort of granting system exists in Hungary in financing residential care. A hidden and surviving form—with all of its complications—is built into the Soviet-like compensation system according to which the planning procedure of the local budget is based on a kind of capacity-normative, whereby the needed funds form the basis of applications for compensation.

The most important problem is to ensure adequate financial resources to make the social services and institutions function. Though the state annually increases the grants, the self-governments, as a consequence of the law on self-governments, is entitled to decide on their utilization. While the state sets the self-governments several different tasks without providing them with the necessary financial resources, the self-governments have no choice but to take away resources from the subsidies of the social field. These problems cannot be solved locally. The only solution would be to introduce the system of earmarked capitation.

The other type of granting scheme can be called “need assessment granting.” This system is based on the assessment of local needs calculated by certain social and demographic indicators (number of inhabitants, composition by age, ratio of unemployed to employed, etc.) That “unit of need” can be granted from the central budget. This is the dominant means of generating local social assistance budgets in Hungary. In principle, the system seems to be effective, but it implies two fundamental difficulties. The first has to do with the generosity of the grants. If they are too high, they will create problems in terms of incentives and local responsibilities. If they are too low, they provide inadequate means to fulfil their original purpose of relieving local poverty. The consequence of this dilemma is that more and more complicated indexes attempt to find “a golden medium” between the two approaches. But these indexes very much weaken the transparency, predictability and accountability of the “need granting scheme.”

7.6 Summing Up: Fiscal Decentralization of Social Protection

In recent years, the impact of fiscal centralization guided by state budget consolidation programs has been much stronger than that of steps taken toward fiscal decentralization.

Concerning the quality of the new tool-kit of fiscal techniques, our judgement is ambivalent. These new tools can improve the responsibility and accountability of local political leaders and initiate modest behavioral changes in local spending. Further, they can make the community more sensitive to the costs and prices of public sector expenditure. The means of fiscal decentralization in social policy, however, do not react adequately to either vertical or horizontal equity issues.

In Hungary, for instance, the law defines the range of primary services that are compulsory for each settlement. Among the services falling within the scope of primary services, catering and home help should be provided everywhere. Despite this requirement, in 26% of the country’s settlements no primary services were provided in 1997, a factor which affected 5% of the total population of the country.

Catering services were not organized in 30% of the settlements (6% of the total population); home help was not provided in 52% of the settlements (12% of the total population); family assistance services were not offered in 92% of the settlements (41% of the total population).3

In villages with a population of less than five hundred and other locations that are outside the urban areas, the various primary care services may also be organized with the involvement of a village manager. The tasks of family assistance must be performed through a family assistance service or the employment of a family assistant with qualifications specified in a separate legal regulation.
The conversion of the role of central income security programs to local social assistance seems to be a very costly trade-off. The typically means-tested social assistance benefit programs have deep problems with their coverage, effectiveness and efficiency and there is evidence that indicates some negative effects of the targeting procedures.

It can only be assumed, due to the lack of information on the administrative costs of decentralization of social programs, that these kinds of solutions incur relatively high administrative costs in comparison with the direct and per capita costs of the programs.

8. WELFARE PROVISIONS

As the Report of the United Nations Global Forum on Innovative Policies and Practices in Local Governance expressed “Institutional and policy innovations need to be based upon some measure of societal consensus” (Global2 1996). In Hungary and the Ukraine there is not a long-term institutional vision of social policy, whereas in Latvia, at least the framework of it is constructed.

8.1 Social Insurance—the Foundation of the Social Protection System

Latvia, Ukraine and Hungary, like most of the Central and Eastern European countries—despite the well-known difficulties—inherited a relatively well-built health-care and pension system from the state socialism regimes. The system was based on the more or less guaranteed workplace, which provided citizens with considerable security.

The pension and health programs were traditionally provided and granted by the central state during state socialism. There is no need to explain in detail the fundamental political importance of these schemes. In all three countries these schemes suffer from strong pressure because of transformed demographic, economic, political, and social conditions.

After the political and economic transition all three countries reshaped their systems in some way. In Latvia and Hungary, pension, health-care and unemployment systems are insurance based. The social protection system of Ukraine is still predominantly characterized by the structures inherited from the Soviet Union, but insurance-based pension and unemployment schemes are in operation.

The most fundamental changes occurred in the pension system in Hungary and Latvia, and in Ukraine there is a detailed plan to reform the scheme in accordance with the basic principles of the two former countries.
Table 1.9

<table>
<thead>
<tr>
<th>Country</th>
<th>Pension</th>
<th>Health Insurance</th>
<th>Accident Insurance</th>
<th>Unemployment</th>
<th>Family Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latvia</td>
<td>first act</td>
<td>1922</td>
<td>1927</td>
<td>1991</td>
<td>1990</td>
</tr>
<tr>
<td>Ukraine</td>
<td>first act</td>
<td>1922</td>
<td>1912</td>
<td>1912</td>
<td>1921</td>
</tr>
<tr>
<td>Hungary</td>
<td>first act</td>
<td>1928</td>
<td>1891</td>
<td>1900, 1907</td>
<td>1957</td>
</tr>
</tbody>
</table>


... four types of new social insurance were put into force in the Ukraine from 2001. At the moment of the interview two laws have already been passed by the Supreme Council as well as signed by the President. They are: the law *On Obligatory State Social Insurance against Accidents at Work and Professional Diseases Resulting in Disability to Work* and the law *On Obligatory State Social Insurance in Case of Unemployment*. The third law: *On Obligatory State Social Insurance in Cases of Temporary Disability, Birth and Burial Expenses* was also passed by the Supreme Council, however the President tabled some motions and returned it to the Supreme Council for revision. The law *On Obligatory State Pension Insurance* has also been passed. However, from the interviewee’s point of view, these laws have serious shortcomings, defects, and they were passed without any financial support.

SOURCE: Representative of the Ministry of Labor and Social Policy, Ukraine.

Latvia and Hungary have changed the previous pay-as-you-go based statutory pension scheme to a three-pillar pension system. In both countries the first pillar is the state compulsory, non-funded pension scheme, based on the principle of the solidarity of generations. However, the second tier is different: in Hungary it is a compulsorily funded private insurance scheme; in Latvia the funded system was created within the organizational structure of the traditional social insurance institution. In both countries, the
third pillar is the private voluntary pension scheme. This three-tier system has gradually been developing in Latvia and is already developed in Hungary.

In the Ukraine the current pension scheme is a still highly centralized, pay-as-you-go system. Benefits are paid late, however the severity of the problem varies among oblasts. Sometimes, pensioners have to wait for more than six months for their benefits. The information on income and work tenure upon retirement goes directly to the Ministry of Labor and Social Policy. The Pension Fund collects the contributions and the Ministry of Communications, through the Postal-pension Bank, does the financing.

There is chaos regarding the provision of benefits and pensions. As the old proverb goes: “It is very easy to catch a fish in muddy water.” Our Verhovna Rada head can serve as an interesting example. Being a disabled person because of the Chernobyl catastrophe, he is—accordingly— granted enormous benefits (UAH 1800) and in the meantime he goes on doing quite a difficult job. So, I ask myself: if he is disabled, then surely he cannot work? But if he can work, then on what basis does he receive benefits as a disabled person?

There is a further problem. ...Why should a pensioner living in Kyiv have the possibility to get free public transport and can do it four or say twenty four times a day? And what about a pensioner living in a remote village, who not only hasn’t ever traveled on the underground but who hasn’t even seen a bus, and he/she can use such a possibility only once or twice a week. It would be more reasonable to transfer these privileges into cash allowances. But I think that our grandees are manipulating these privileges. If old-age pensions, under the present law, should be UAH 150-200-300, and, for some reason, they are reduced to UAH 60, this being explained by the fact that there is no money in the budget, then this is a political deception.

In my view, we are actually committing genocide against our own nation. How is it possible to live on a minimum pension of UAH 27? If people cannot get as much food as is biologically necessary, then this is simply an act of exterminating people. If we say that we are a democratic socially-oriented state and even a state that recognizes peoples rights, then can anyone say what corresponding measures should be taken? I think that the State does have the necessary resources.

There is a further problem. ...Why should a pensioner living in Kyiv have the possibility to get free public transport and can do it four or say twenty four times a day? And what about a pensioner living in a remote village, who not only hasn’t ever traveled on the underground but who hasn’t even seen a bus, and he/she can use such a possibility only once or twice a week. It would be more reasonable to transfer these privileges into cash allowances. But I think that our grandees are manipulating these privileges. If old-age pensions, under the present law, should be UAH 150-200-300, and, for some reason, they are reduced to UAH 60, this being explained by the fact that there is no money in the budget, then this is a political deception.

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**Table 1.10**

<table>
<thead>
<tr>
<th></th>
<th>Latvia</th>
<th>Ukraine</th>
<th>Hungary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>2.5 million</td>
<td>50.5 million</td>
<td>10.1 million</td>
</tr>
<tr>
<td>Number of pensioners</td>
<td>640,780</td>
<td>14,521 million</td>
<td>2,337 million</td>
</tr>
<tr>
<td>Pensioners as percentage of population</td>
<td>25%</td>
<td>28%</td>
<td>23%</td>
</tr>
<tr>
<td>Number of contributors</td>
<td>980,332</td>
<td>18,36 million</td>
<td>3,944 million</td>
</tr>
</tbody>
</table>

In all the countries studied the pension age was increased as part of the reform process. In the area of health care Latvia, Ukraine and Hungary inherited a system that was easily accessible for almost the whole population and was free of charge. The health
indicators of the population of the region lagged behind those of the West and there were, and still are, problems concerning the efficiency as well as the quality of the provision. The institutionalized system was supplemented with a wide range of formal and informal privileges and semi-legal cash flows. In Hungary and Latvia the health care system is insurance-based (though in different ways) and it is becoming a more and more dominant ideology to strengthen the insurance basis of the health care system; in Hungary in particular, more and more services are marketed. In Ukraine, government funded health service providers provide services: mandatory social insurance for medical care has not yet been implemented. Thus, according to several policy papers and recommendations the restructuring of the financing of the health care system is one of the most urgent tasks in the country.

With regard to the Social Insurance Fund governed by trade unions, it is a relic of the Soviet system. There was no such organization in any other country, but no one could say at that time that it was bad. Today, instead, we have serious problems regarding pension insurance. There are also serious problems in our social insurance sphere. Let us take agriculture as an example: in agriculture, there occurred a rough State intrusion and today women have no possibility to be granted leave of absence in respect of pregnancy and childbirth since the State, as if meeting agriculturists’ interests, introduced a so-called single tax, and as a result obligatory collections to the Social Insurance Fund were abolished. It was allegedly supposed that some part of this tax would be given to the Social Insurance Fund and that this Fund should be subsidized so that it could perform its functions. But having initiated this the State didn’t go ahead with this proposal. Collections were abolished but no money was given to the Fund.

SOURCE: Representative of the Trade Unions Federation of Ukraine.

One of the main characteristics of state socialism was the security of employment together with the connected social grants and the high job-market participation (e.g. women). At the same time, too many people worked in the agricultural and industrial sectors, and “hidden unemployment” was widespread in the analyzed countries causing a distorted employment structure and decreased economic efficiency. After the transition the growth of unemployment was a new phenomenon in Latvia, Ukraine and Hungary.

Unemployment obviously means lack of income, and it means that people have nothing to do. Dagda has a high unemployment rate: 14%. One of the causes of the high unemployment rate may well be the fact that people are interested in registering as unemployed as in this way they have the chance of participating in paid temporary community jobs, and though the pay is low it’s still a source of income. Alcoholism in general is adding to the problem since it leads to children being neglected and people losing their jobs. Teenage alcoholism is a serious problem, too. The worst situations are in families where the adults are unemployed, and in the case of people living by themselves. In some cases, pensioners are helping their children’s families.

SOURCE: Focus-group discussion, Dagda, Latvia.
Table 1.11
Total Employment, 1989–1998 (1989=100%)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Latvia</td>
<td>100</td>
<td>100</td>
<td>99</td>
<td>92</td>
<td>86</td>
<td>77</td>
<td>74</td>
<td>72</td>
<td>74</td>
<td>—</td>
</tr>
<tr>
<td>Ukraine</td>
<td>100</td>
<td>100</td>
<td>98</td>
<td>96</td>
<td>94</td>
<td>91</td>
<td>93</td>
<td>91</td>
<td>89</td>
<td>88</td>
</tr>
<tr>
<td>Hungary</td>
<td>100</td>
<td>97</td>
<td>87</td>
<td>77</td>
<td>72</td>
<td>71</td>
<td>69</td>
<td>69</td>
<td>69</td>
<td>70</td>
</tr>
</tbody>
</table>


In the Ukraine a large part of the labor force is employed *de jure*, but they do not work *de facto*, as they are on forced—administrative (mainly unpaid)—leave or on shortened working hours. In 1997, 2.9 million employees (21.9%) were on forced administrative leave and 2.1 million (16.1%) were on shortened working hours.

Table 1.12
Trend of Real Value of Wages 1989–1998 (1989=100)

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<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Latvia</td>
<td>100</td>
<td>105.0</td>
<td>71.9</td>
<td>51.8</td>
<td>57.9</td>
<td>57.7</td>
<td>54.1</td>
<td>60.7</td>
<td>63.0</td>
<td></td>
</tr>
<tr>
<td>Ukraine</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>40.3</td>
</tr>
<tr>
<td>Hungary</td>
<td>100</td>
<td>94.3</td>
<td>87.7</td>
<td>86.5</td>
<td>83.1</td>
<td>89.1</td>
<td>78.2</td>
<td>74.3</td>
<td>77.1</td>
<td>79.6</td>
</tr>
</tbody>
</table>

Source: TransMONEE database 2000, 3.0, EBRD UNICEF ICDC, Florence, Italy.

The real value of wages decreased in all three countries. The situation would be even worse if many were not involved in the gray or black economy.

In all three countries the unemployment system is based on some kind of tightening insurance-type solution. Central governmental labor-market policies use active and passive, centralized and decentralized measures as well.

Table 1.13
Trend of Unemployment in Latvia, Ukraine and Hungary

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Latvia</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>0.9</td>
<td>4.5</td>
<td>6.3</td>
<td>6.4</td>
<td>7.0</td>
<td>7.5</td>
<td>7.6</td>
</tr>
<tr>
<td>Ukraine</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>0.3</td>
<td>0.4</td>
<td>0.4</td>
<td>0.6</td>
<td>1.6</td>
<td>3.1</td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td>0.4</td>
<td>0.8</td>
<td>8.5</td>
<td>12.3</td>
<td>12.1</td>
<td>10.4</td>
<td>10.4</td>
<td>10.5</td>
<td>10.4</td>
<td>9.1</td>
</tr>
</tbody>
</table>

With respect to Fund management, I admit that if we still want to build our country according to democratic principles, we should abide by such principles. As of today a new law on industrial accident insurance has been passed, fund-managing personnel have been assigned. A law on unemployment insurance has been passed accordingly, and respective managing bodies have been created on an equal and trilateral basis. Employers, trade unions, and the State have been represented. By the way, I am the Unemployment Insurance Fund director. In my opinion, the main shortcoming of the newly created Unemployment Insurance Fund is the fact that the State wants to make the insurance fund handle other matters than insurance; in other words, the Fund will have to provide people having no insurance with social services and financial support. Thus, if you and I make insurance contributions, they will not only be used to cover expenses connected with accidents that we may be involved in but also to cover other people’s expenses, people whom the State—for some reason or other—permitted to waive contributing to this fund. Therefore, our payments as well as those of the employers will be higher. Secondly, the State undertook to finance this Fund with respect to activities not connected with insurance matters or matters that are beyond the Insurance Fund’s authority. But as of today I do know that regarding the budget for 2001 the State is not going to assign even a kopiyyka or enough money at least to enable the Fund to perform public functions. As a result we will be forced to increase insurance tariffs, but workers have no spare money, their salary or wages are below the poverty rate, and employers use every rostrum to say the tax load is very high in our country. This is the main problem.

As a matter of fact our social welfare laws are so good that if they were obeyed, it would be impossible to dream of a better life—real communism. It is stated in the constitution that the State provides full employment, but today the official unemployment rate exceeds 4.5%. According to methods of the Ministry of Health Protection the unemployment rate in the Ukraine exceeds 11%. The average period of unemployment officially lasts for more than 11 months; according to unofficial data—it is more than 18 months; and according to my expert judgement in the Ukraine the unemployment rate exceeds 25%.

**Source:** Representative of the Trade Unions Federation of Ukraine.

Relevant institutional bases are essential to support these policies. The most serious problems occur in this respect in Ukraine. The capacity of the labor market institutions is not adequate for the growing number of unemployed people or with the services to be offered to them. There are not enough employment centers and the present centers lack the necessary technical facilities.

Social assistance type of benefits as well as different forms of compulsory public work are getting a more and more important role in the system, especially in the case of long-term unemployed citizens. Zsuzsa Ferge’s ideas refer to Hungary, but they are relevant in the other two countries as well: “since 1991 the eligibility conditions for unemployment benefit have deteriorated continuously. The replacement rate decreased, the conditions of access have become harsher, and the amount of benefit has declined compared even with the minimum wage. These steps may be seen as the expression of the will to reduce the anti-incentive effect of the provisions. The side-effect, though, has been to make the situation of the unemployed extremely difficult. Poverty has hit many families, particularly those with the head of the family being unemployed.”
8.2 Family Support

Family support systems may be composed of various measures. Historically speaking, family provisions have evolved within the framework of social insurance systems. Family allowance, for example, has been transformed from this type of benefit into a universal (demogrant) benefit in most developed countries over the past few decades. Social assistance, based on means testing, is generally targeted toward children or families with children, in order to reduce poverty. In addition to these three forms of family provisions, personal income tax systems may contain social policy measures as well. The criteria of entitlement, the level and the change of the value of benefits, the ratio and role of the different types of benefits as well as the system of indexation differentiate the various family support systems in the three countries.

The former states of the Soviet Union inherited an underdeveloped cash-benefit family support system in contrast to the other countries in what was then the Eastern Bloc. Services such as nurseries, kindergartens, day-care services, etc., however, were fairly well developed. Family allowance, the most important element of income maintenance of families with children, was inaugurated in 1990, and has since been continuously modified by the successor states. In Hungary, a high-level income transfer system is to supplement the extended network of services.

The rapid establishment of new means of family support (family allowance, different types of child-care leave) occurred during the first few years after the former republics, and satellites, of the Soviet Union gained independence. The tenability of these support systems soon became a major problem, however. The Baltic countries, including Latvia, had more or less stabilized their social protection systems by the end of the 1990s due to their relatively better economic situation. In Ukraine, however, social support completely lost its significance because of economic depreciation on the one hand, and problems with the enforceability of entitlements to social support and delays in the distribution of state income transfers on the other. A special feature of this situation concerned young families: the extensive system of child-care institutions (nurseries, kindergartens), typical of the socialist area, collapsed soon after 1990.

Fundamental changes of the system occurred later in those countries (e.g. Hungary) that had enjoyed extended, high-level family support systems.

International organizations paid special attention to family support schemes when analyzing the social protection systems of the CEE countries. In 1993, the World Bank offered financial support to the Ukraine to increase family allowances aimed primarily at low-income families. Because of uncertainty in determining incomes, the World Bank suggested the targeting of specific groups in society, such as single parent families and families with three or more children.

The International Monetary Fund also urged better targeting of social services and the introduction of family benefits based on means testing in many countries of the
region. In the view of the IMF, these changes would help to solve the problem of the over-inflated budget expenditure in the case of Hungary, and the over-extended (but low-quality) social support system in Ukraine.

Figure 1.3
Pre-primary Enrolment Rate [% of relevant population], 1989–1997

In 1991 in Latvia, a new system of family assistance was introduced by the decree of the Latvian Council of Ministers (No.238/1991) and, at the same time, the previous forms of family support were abolished (benefits to single mothers, large families and low-income families). In their place, specified, demogrant-type support for families with children was introduced. They attempted to preserve the value of this support, in the first few years after transition (during 1991 and 1992 the amount of benefits was raised six times, and fluctuated between 24 and 60% of the minimum monthly wage). No increase in assistance occurred between 1993 and 1998, so currently family support might be considered a symbolic rather than an effective contribution to the costs of raising children, taking inflation into consideration. Since 1999, the value of benefits has been gradually increased each year by a determined percentage, and family assistance provides a different level of support to children depending on their date of birth.

The Ukrainian act on family allowance was inaugurated in 1990. The Ukrainian law On State Benefit for Families with Children, which was put into effect on 1 January 1993, determined the level of financial support guaranteed by the state through the provision of benefits. The law’s basic intention was to unite all the previous benefits and create new criteria for entitlements, taking into account the structure and income of
families as well as the age and health-conditions of children. According to the law, state benefits are calculated as a percentage of minimum salary. Low-income families became entitled to extra support. The local governments might have granted benefits from their own budget as well. The situation in Ukraine, however, is determined by the continuously deteriorating economic indexes. In 1996, Ukraine’s GDP stood at only 43% of its 1990 level. The declared and undeclared rates of unemployment have been increasing continuously; recession has been coupled with hyperinflation; the consumer price index is now 165,000 times higher than it was in 1990, while average wages are now only 56,000 times higher. Since 1996, any increase in the amount of benefits has been entirely incidental, and has not been adjusted for any social indicators.

According to the government’s concept concerning the reforms of social policy, the various currently functioning family assistance schemes in the Ukraine should be unified, their overlapping components should be terminated, and families that are left out of the schemes should be re-integrated into them.

The lack of appropriate financial resources, however, precludes the proper implementation of the law On State Benefit for Families with Children. Under these conditions the government aimed at providing extra measures to reduce poverty among families with children through regular targeted benefits based on the assessment of the financial situation of the families.

In Hungary, the family allowance scheme functioned within the framework of the social insurance system and has been considered to be the most decisive element of the family support system. At the beginning of the 1990s, pro-natalist measures were introduced to influence the disadvantageous demographic processes and to strengthen the traditional family models and roles.

Table 1.14
Rate of Fertility in the Central Eastern-European Countries from 1980 to 1998

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Latvia</td>
<td>1.88</td>
<td>2.02</td>
<td>1.25</td>
<td>1.1</td>
</tr>
<tr>
<td>Ukraine</td>
<td>1.95</td>
<td>1.90</td>
<td>1.40</td>
<td>1.4</td>
</tr>
<tr>
<td>Hungary</td>
<td>1.90</td>
<td>1.80</td>
<td>1.60</td>
<td>1.3</td>
</tr>
</tbody>
</table>


In the middle of the 1990s, benefits became means tested, resulting neither in cuts in the budget, nor in the improvement of the living conditions of low-income families. Since 1998, the direction of the reforms has changed: the system of tax allowances is openly in favor of the middle classes, and handles low-income families residually. Although
family allowances became universal after 1998, social assistance—in the form of regular child protection benefit—gained an important role in poverty relief. This kind of solution is unprecedented both in the post-socialist countries and in the member states of the OECD.

Table 1.15
Types of Family Allowance at the End of the 1990s

<table>
<thead>
<tr>
<th>Country</th>
<th>Type of Benefit</th>
<th>Entitlement</th>
<th>Main Features of the Benefit</th>
<th>Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latvia</td>
<td>State benefit</td>
<td>Universal benefit 15 (20 if the person is at a secondary school)</td>
<td>Varying amount, depending on the child’s date of birth (amount of benefit is less for children who were born before 1 January 1999, than of those who were born later)⁷</td>
<td>State budget</td>
</tr>
<tr>
<td>Hungary</td>
<td>State benefit</td>
<td>Universal benefit 16 (20 if the person is a student of an institute of public education)</td>
<td>Family with one child: HUF 3,800; Single-parent family with one child: HUF 4,500; Family with two children: HUF 4,700/child; Single-parent family bringing up two children: HUF 5,400/child; Family with three or more children: HUF 5,900/child; Single-parent family with three or more children: HUF6,300/child; In case of permanently ill or handicapped child: HUF 7,500⁸</td>
<td>State budget</td>
</tr>
<tr>
<td>Ukraine</td>
<td>State benefit</td>
<td>Partly means tested with demogrant type of targeting 16 (18 if the person is a student)</td>
<td>Child under 16 years: 50% of the minimum wage in single parent families; Three children under 16 years: 100% of the minimum wage per family; Four children under 16 years old: 200% of the minimum wage per family</td>
<td>State budget</td>
</tr>
</tbody>
</table>


Family allowance plays the most important role in poverty relief. According to various data sources, in the majority of the former socialist countries, the real value of the family allowance schemes decreased continuously throughout the 1990s.

Various analytical works illustrate that the decreasing value of the family allowance has hit low-income families the hardest. Although this decrease has affected all families with children, those who have been most seriously affected are families with three or more children and households without appropriate “market” income (i.e. they only have
social transfer incomes such as a pension, social assistance, or the household has nobody participating in the labor market); this has meant a considerable increase in the poverty rate among families with three or more children.

*Figure 1.4*

Family Allowance—Average Wage Ratio
(for one child in two-parent—two-children families)  

*Table 1.16*

Factors Influencing Family Allowances at the End of the 1990s

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Children</th>
<th>Age of Children</th>
<th>Means Testing</th>
<th>Amount of Benefit Depends on Income</th>
<th>Disabled Children</th>
<th>Single-parent Families</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latvia</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No higher level supplement</td>
<td>Significantly</td>
<td>No</td>
</tr>
<tr>
<td>Hungary</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Higher level</td>
<td>Yes, but not systematically or significantly</td>
</tr>
<tr>
<td>Ukraine</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Significantly higher level</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Changes in the family benefit systems resulted in a basic transformation of the social policy measures targeted to families with children.

*Table 1.17*  
Features of Maternity Leave at the End of the 1990s

<table>
<thead>
<tr>
<th>Country</th>
<th>Entitlement</th>
<th>Period of Support of Support</th>
<th>Level Financing</th>
<th>Source of Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latvia</td>
<td>To be employed</td>
<td>112 days (56+56), that can be extended by 14 days in case of complications or birth of twins. It can also be extended by 14 days if the pregnancy support began before the 12th week.</td>
<td>100% of the previous salary</td>
<td>Insurance funds</td>
</tr>
<tr>
<td>Hungary</td>
<td>To be insured at the social insurance institute for at least 180 days in a period of 2 years before delivery</td>
<td>24 weeks (168 days) (4 weeks before the expected time of delivery, 20 weeks after delivery)</td>
<td>70% of the previous salary</td>
<td>Insurance funds</td>
</tr>
<tr>
<td>Ukraine</td>
<td>Employees, students, and the unemployed if special conditions are fulfilled</td>
<td>70+56 days (it can be extended by 14 days in case of complications or birth of twins)</td>
<td>100%, students: 100% of the scholarship, mother registered as unemployed for a minimum of 10 months: 100% of the minimum salary, unemployed mothers due to liquidation or abolition of companies: 100% of the last salary, wives of men doing military service: 100% of the husband’s salary</td>
<td>Insurance funds and State budget</td>
</tr>
</tbody>
</table>


At the end of the 1990s, the family support system was far more sophisticated than it had been in previous decades. However, the significance of the benefits has decreased mainly as a result of the lack of indexation.
**Table 1.18**

Main Features of Child-care Leave at the End of the 1990s

<table>
<thead>
<tr>
<th>Child-care Leave</th>
<th>Conditions of Entitlement</th>
<th>Period</th>
<th>Level of Benefit</th>
<th>Possibility of Getting Work</th>
<th>Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hungary</td>
<td>GYES** and GYET*** are universal benefits; the pre-condition of GYED* is employment</td>
<td>GYES: 2 years, GYED: 3 years</td>
<td>GYED: 70% of the wage max.: 200% of the (minimum wage) GYES, GYET: minimum old-age pension</td>
<td>GYED: no GYES, GYET: yes</td>
<td>State budget</td>
</tr>
<tr>
<td>Latvia</td>
<td>Universal support within the social protection system</td>
<td>3 years</td>
<td>60% of minimum salary up to the child’s age of 1.5 years, 15% of the minimum salary11 after child’s age of 1.5 years</td>
<td>Yes</td>
<td>State budget</td>
</tr>
<tr>
<td>Ukraine</td>
<td>Employment, students, specified groups of unemployed women</td>
<td>3 years</td>
<td>employed: 100% of minimum salary; student: 100% of minimum salary; unemployed: 50% of minimum salary up to the child’s age of 2 (for a further 1 year period the condition is certificate of income)</td>
<td>n/a</td>
<td>Social security, state and municipal budgets</td>
</tr>
</tbody>
</table>

* GYED: child-care allowance
** GYES: child-care benefit
*** GYET: child-upbringing subsidy


**Table 1.19**

Features of Maternity Benefits at the End of the 1990s

<table>
<thead>
<tr>
<th>Country</th>
<th>Entitlement</th>
<th>Support</th>
<th>Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latvia</td>
<td>Universal</td>
<td>Fixed amount, 200% of the base amount if the prenatal care starts before the 12th week of pregnancy</td>
<td>State budget</td>
</tr>
<tr>
<td>Hungary</td>
<td>Universal</td>
<td>150% of the minimum pension</td>
<td>State budget</td>
</tr>
</tbody>
</table>
Table 1.19 (continued)
Features of Maternity Benefits at the End of the 1990s

<table>
<thead>
<tr>
<th>Country</th>
<th>Entitlement</th>
<th>Support</th>
<th>Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ukraine</td>
<td>Social insurance and subsidy based programs function collaterally: the employed, the unemployed, and inactive mothers</td>
<td>400% of the minimum monthly salary and additional benefit (200%) if the mother attends the prescribed prenatal-care counseling</td>
<td>Insurance funds, and state budget</td>
</tr>
</tbody>
</table>


While these benefits play an important role in the income structure of low-income families, there has been no significant effort to increase the level of benefits even in those countries where the political rhetoric repeatedly emphasizes the necessity of decreasing child poverty.

Table 1.20
Main Features of Family Benefits at the End of the 1990s

<table>
<thead>
<tr>
<th>Country</th>
<th>Latvia</th>
<th>Hungary</th>
<th>Ukraine</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>2.</td>
<td>−</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>3.</td>
<td>−</td>
<td>−</td>
<td>−</td>
</tr>
<tr>
<td>4.</td>
<td>−</td>
<td>−</td>
<td>+</td>
</tr>
<tr>
<td>5.</td>
<td>+ −</td>
<td>+ −</td>
<td>−</td>
</tr>
<tr>
<td>6.</td>
<td>−</td>
<td>+ −</td>
<td>+</td>
</tr>
<tr>
<td>7.</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>8.</td>
<td>+</td>
<td>−</td>
<td>−</td>
</tr>
<tr>
<td>9.</td>
<td>+</td>
<td>+</td>
<td>−</td>
</tr>
<tr>
<td>10.</td>
<td>+ −</td>
<td>+ −</td>
<td>−</td>
</tr>
<tr>
<td>11.</td>
<td>+ −</td>
<td>−</td>
<td>−</td>
</tr>
</tbody>
</table>

1. progressivity of family allowance according to number of children (+: yes, −: no)
2. differentiation of other types of benefits according to number of children (+: yes, −: no)
3. differentiation of family allowance according to age of children (+: yes, −: no)
4. significantly selective family allowance (according to income or other criteria) (+: yes, −: no, +−: mixed system)
In spite of the differences in the family protection systems in the three countries, there are some important common features that impact families with children.

- The existing systems cannot solve the problem of child poverty.
- There are no adequate measures to maintain the real value of the cash benefits.
- The freedom of choice of women is restricted due to the labor market processes (unemployment), the low income of families, and the shrinking capacity of cheap day care services for children.
- Pro-natalist ideas play a role in the formation of the family protection system.
- The lack of steady, well calculable, rights-based systems increases the vulnerability of families with children.
- Social assistance measures play an increasing role in the family protection systems of all of three countries.
- The basic responsibility for social assistance falls within the competence of local governments. This decentralized solution may render possible a more reliable needs’-assessment, but sets limits to the guarantees of social security for families with children and occasionally results in discrimination against certain, so-called “undeserving families.”

In Hungary, the introduction of regular, flat-rate child protection benefits, which was provided as of right for every needy child, was a considerable step in the reform of the social assistance system in Hungary in 1997. The official goal of the benefit was to guarantee a subsistence level and to ensure that children are brought up in their own families. But without basic changes in the family support system this benefit cannot eliminate child poverty. Nor can it prevent further impoverishment of children or stop the child protection authorities from taking children away from their families for financial reasons. This benefit is both income-dependent and property-dependent, and in controlling it local governments have considerable freedom to act on various considerations following home-visits. In the 9th district of Budapest, for instance, before the introduction of the
compulsory property test, families with a car—with the exception of seriously disabled people—were excluded from some cash benefits as it was said that if they have resources to run a car, then they are not so poor.

8.3 Social Services

8.3.1 Historical Background

In each of the three countries, different social care institutions have been functioning for a long time, though these institutions focus almost exclusively on the field of residential care. The predominant institutions of residential care are hospital-like institutions, nursing-home institutions for the elderly and disabled, and Soviet-type foster-homes. These are typically huge institutions providing residence for several hundred to several thousand people. (Some of the institutions for children in state care were so large that they were commonly referred to as “children’s cities.”)

The social service sector, dominated by residential care institutions, played a partial role in covering up serious problems that existed in the social sector as a whole. The attempt to hide deficiencies in the system was successful because people felt ashamed to need these kinds of provisions, and silently accepted the poor living conditions and poor treatment offered by these institutions. Social care in this form proved to be a paternalistic exercise in these countries, in comparison with tolerant and sensitive Western norms.

The survival of this social care structure cannot be explained by political and value-oriented circumstances alone. Rather, a number of pragmatic factors contributed to its being maintained. These institutions acted as “factories of social care” based on the relatively easy management and control of the clients and programs. Their “machinery” was often operated by employees who lacked professional skills and training.

8.3.2 Political and Administrative Constraints

Two controversial but fundamental preconditions should be recognized with respect to political and administrative constraints on the social services sector. On the one hand, social work and care are fundamental cornerstones of any political program because they underline the importance of local responsibilities in the social sector. On the other hand, social work and care issues are the most problematic areas when designing, managing and administering any social policy scheme. They are relatively costly: the per-capita prices are always higher than the expenses of the cash benefit programs. They require very sophisticated and developed “technology” to obtain the desired results, to finance, monitor
and evaluate the appropriate performance of the services (e.g. to ensure proper treatment of users, equal access to the services, and to avoid wasteful public expenditure).

The main activities of the interviewee are that of payment of benefits to families with children, single people, low-income people, and that of servicing disabled people. Child benefits are paid in two ways. The Oblast Payment Center pays unemployed parents. The assistance is allocated on the spot, then the case goes to Lviv and the Payment Center processes the data and prepares the payment documents in order to pay through the post offices on the spot. Since 1 October 1999 the procedure of payment to working parents has changed: the documents are accepted locally, the payment is allocated, and then provided through the savings bank. From 1 October onwards, decentralization will be carried out, the Oblast Payment Center will be liquidated, and all payments will be made locally. In the interviewee’s opinion, it will improve the situation because it will considerably reduce the procedure of drawing up the documents. But there is a delay in fund allocation from the local budget. Even so, taking into consideration the fact that there also were delays of fund allocation from the oblast budget, the interviewee thinks the change will be positive because more benefits will be targeted and it will give more possibilities to improve the situation.

The interviewee is concerned about the problems of the work conditions of the social workers (who, incidentally, are not public servants consequently their salary is much lower than the salary of the latter). In particular, she underlined the problem of small offices. It is very difficult to work with a big number of people who come for assistance in such small rooms. The technical facilities—or, rather, their low standard—also present a considerable problem, especially the total absence of computers.

SOURCE: Deputy Manager of Pustomyty Rayon Department of Lviv Labor and Social Protection Department.

The dilemma of emphasizing the importance of community-based, individual-focused care, while having insufficient means to implement coherent and professional social work programs can be observed in each country. A “half-way solution” to this dilemma is to mandate local authorities to implement and manage social work and care programs in each country. The social care institutions and agencies are subordinate to sub-national administrative levels. In Hungary and Latvia, the participation of the non-profit organizations in this sector is legally regulated.

8.3.3 Common Characters of Social Care Profiles

In all three countries, the social care sector with the longest background is residential care. This is illustrated by the available fiscal data: budgetary figures and data on recipients are disproportionately collected from residential institutions.

Pre-school child-care institutions are not typically part of the social sector, and therefore there is no complex information on them. Based on the available data, it appears that in spite of the general decline of these institutions, they are relatively well developed in comparison with other forms of care and social work.
It also seems clear that the most visible horizontal, rural–urban inequalities within
the social sector exist in the social work and caring programs. Within cities, human resources
and institutional capacities for social work are far more developed than those in the rural
communities. Rural populations are usually deprived of these types of personal and residential
social services. We have no figures from Latvia and Ukraine on home-delivered, community-
based services, but the most detailed Hungarian data is meaningful in this respect. The
Hungarian Social Act obliges local self-governments to perform three specific social work
activities: (1) daily child-care, (2) home care, (3) general social work (e.g. “family care”).
However, only 8% of local authorities in larger cities are able to provide all three services.

The recent regulations clearly determine the responsibilities and competencies, but the controlling
mechanisms or, in other words, the sanctions are missing. What would happen if a settlement does
not provide a certain service defined in the Social Act as compulsory? Absolutely nothing! Just the
needs will not be met... Two factors determine the situation in a settlement: political relations and
cash. Strategic planning is absent at local level. Decisions on the spectrum of services provided in a
given locality depend on the financial resources available to the local-self-government at the time.
Nobody is really interested in whether there is any demand for the service, or whether it be sustainable.
In reality, decisions whether a program is to be sponsored or refused are made centrally in the Ministry.
The responsibility falls on the local self-government, but the purse strings are held in the Ministry.
... In this respect the state plays a ping-pong game with all the actors who are at a lower level. And
it is impossible to outline long-term plans as everything changes every four years with the elections.

SOURCE: Head of a family care center, Hungary.

In Latvia and Ukraine, there are no specific objectives targeted at community-based
social work and care in the legal regulations. The language of the regulations is conditional
in this respect: local authorities may (or “are invited to”) implement such programs.

Because the regulation on social care services does not assign tasks according to
actual capacity, the less-developed communities—often completely lacking in expertise
or capacity—are forced to call virtually anything “social work and care.” In several cases,
social workers have been obliged to carry out all sorts of official duties, such as means
testing and investigating the life-styles and “personal character” of the applicants (during
home-visits). Very often, personal help is misused—taken as a pretext for exercising
discretion in judging the entitlement for cash-benefit programs.

The organizer of social work has mentioned a very serious problem: the dependence on social
benefits that has developed among long-term clients.

SOURCE: Focus-group discussion, Dagda, Latvia.

In order to understand the context within which these types of practices occur, we
must understand that if the local poverty relief budgets are so low that they can only
provide relief at the poverty level—it is extremely difficult to determine who should
receive social assistance. We believe that, for instance, in Ukraine there is no opportunity to introduce any normative poverty relief programs. Partly because of uncertain fiscal resources, partly because of the extreme deficiencies of basic services, the social work sector in Ukraine operates on the basis of a “permanently occasional” benefit regime, in which there are no fixed priorities or rules for determining entitlements. An additional aspect of this “emergency operations” atmosphere is that if there are insufficient fiscal means to distribute social benefits, it is necessary to convert these benefits to in-kind remuneration, based on natural assets that are controlled by the social service agencies. The gist of the game is always: give some assistance to the most needy (regardless who they are, and what has brought about their personal crises). This is not just the impression of outside researchers but it is also the opinion of Ukrainian (as well as Latvian and Hungarian) social workers involved in such programs. Of course, we must appreciate that if the means and personnel available to provide social assistance are so limited, assistance should indeed go to the most needy people.

8.3.4 Country Specific Features of Social Services

Ukraine

The aforementioned problems are the most pronounced in Ukraine. Comprehensive administrative data sets are available only for the residential sector. According to these figures there are 276 residential institutions (58 for children and the remainder for the elderly and the disabled—often described as “war and labor veterans.”) In these institutions there are 53,180 places (beds)—an average of more than 190 per institution. In the 58 children’s homes there are 9,181 beds—an average of more than 150 beds in each. It might be a sign of the poor quality and the negative perception of citizens toward these institutions that 10% of the beds are empty—an obviously high number in comparison with other institutions that are overcrowded and utilized above their official capacities.

A new occurrence is the emergence of a system of territorial centers of social assistance, hosting (among other services) social care and social work.

In this respect, it is possible to state that from the social aspect it is the rayon (and not its separate inhabited settlements, even as big as Shchyrets) that should be considered as an integral environment, as a “unit of measurement.” Thus, there is no official institution in the researched sector that would carry out social policy; there is no primary center of public organization the activities of which would be connected with social work at least to some extent.

INTERVIEWEE: Representative of a Labor and Social Protection Department, Ukraine.

Between 1998 and 1999, the number of territorial centers increased from 631 to 700. This rapid growth helps to explain why the relationship between these centers and
the sub-national level administration is somewhat ambiguous. The numerical data reflects this rather bleak picture. If we calculate very roughly, and compare the total budget of these centers (cca. UAH 130 million) with the total number of recipients (600,000 people, including almost 50,000 living in residential institutions), we arrive at a per-capita monthly cost just above UAH 3.5. This illustrates both the “emergency help” character of social services, and the very poor performance of these programs.

Latvia

The Latvian case seems to be the most rapidly changing and developing in this sector. Latvian regulations have imported the most up-to-date norms and standards mostly from the Nordic systems. Latvia has experienced something of a boom in social work education. This is an extremely “risky game”: if the regulation and this newly developed education are able to improve the social service system, this very ambitious development plan will have been worth the investment. If, on the other hand, the regulations express only lofty ideals and unattainable goals, they could work to undermine popular confidence in the rule of law and trust in the constitutional order. Likewise, if the new education can introduce new ideas of professional performance, it could serve as an engine of development. If there are no appropriate jobs for the graduates, however, the common perception will be that studying social work is a waste of time.

Concerning the regulation of social services, there exists a very modern and sophisticated system of regulations, including clear objectives and targets of different schemes. However, the means of governance, including the appropriate information and monitoring tools, are relatively weak in terms of following up on ongoing developments on the basis of a wide variety of regulations and schemes.

The most difficult tools for institutionalizing government programs are the national accounts and the budgetary plans. Looking at the structure of fiscal planning, we can see a much more differentiated structure than that in Ukraine. In particular, the Latvian case provides a picture of a differentiated structure in programs targeting problemed children and young people, and in the traditional residential sector providing assistance to the elderly and disabled.

The distribution of budgets shows an extreme concentration of social services expenditures in the residential services (LVL 22.7 million in 1999 to provide for 2,439 children and 4,424 elderly and disabled residents), while less money is spent on other care and services (pre-school childcare: LVL 7 million, other community-based social services: LVL 5.8 million). In the care sector, there is a staff of 818—among them 56 received education in professional social work, 17 received secondary level social work education, and 210 received other high level education. It is illustrative that more than one quarter of the staff educated at high school (non-social work) attend training courses in social work.
Hungary

The Hungarian supply of social work and care can be considered to be well-developed structure. The menu of different forms of personal assistance is almost as long as it is in in Western Europe. We might characterize the Hungarian social care sector as comprising a highly innovative, diverse set of different programs, institutions and organizations. This can be explained in part by the longer tradition of extended university and high school level education, by the fact that more than 10,000 non-governmental organizations are active in this field, and also by the large number and high level of autonomy of local authorities.

The size of the social care sector, especially the size of community-based services, appears to be large in comparison with the other two countries in this study. According to 1998 data, 60,000 inhabitants live in long-term residential institutions (among them 35,000 elderly people), and nearly 10,000 people live in temporary care institutions (7,000 in shelters for the homeless and other shelter homes). The total public expenditure on residential care in 1998 was HUF 38 billion. More than 1 million elderly and disabled recipients were served by social catering—“meals on wheels”—services, and 41,300 were cared for at home. The budget of community-based care was more than HUF 15.3 billion in 1998. About 20% of service providers are non-governmental organizations, and their contribution is highest in the field of residential care, with a special focus on “new” high-risk groups, such as the homeless and drug addicts.

8.3.5 Financing Social Services

Social services are part of the welfare budgets, having no special category in Latvia or the Ukraine. The Hungarian case provides some unusual lessons on decentralizing this kind of public duty.

Local authorities finance the costs of “home delivered,” community-based services from their regular (welfare) budgets based on central government general social grants.

In Hungary, the social service and cash benefit budgets are amalgamated in one budgetary category at the local level, creating strange incentives in operating these budgets. If a mayor wants to optimize the value they can give to their voters, then all these budgets should be spent on cash benefit programs. This is not only because the relative administrative costs are much lower in that case, but also because the net profit of the local population will be almost equal to the expenditure of the municipality, if only money is offered. If the authorities operate and finance social work and social care organizations (public or private) they must pay social insurance contributions, personal income taxes and other revenues back to the central budget. The result is that if the municipality provided funding for care or social work, the net “profit” of the municipality’s inhabitants is sometimes less than the half of the amount spent by the authority. The result is that
the local authorities try to avoid managing service-like social programs, even if they are legally obliged to do so.

The central budget contributes a lump sum, per capita calculated grant (the public residential institutions are owned by counties) towards the relatively high expenditure on residential care. This share of competencies generates a kind of “ping-pong match” between counties and local authorities in determining who should bear the responsibility for those frail, “expensive clients” for whom it is costly to provide appropriate services. The question of whether the responsible institution should be locally administered home care agencies or county-managed residential homes is a source of significant inter-institutional tension. (This kind of game is well known throughout the world between chronic departments in hospitals and long-term social care institutions.) This seems to be a pragmatic decision: if the relative costs are higher, and services of appropriate quality can be ensured only by incurring higher costs, the state should finance a significant part of those high costs. However, this generates further difficulties.

For instance, the higher income orients the public and private “entrepreneurs in social care” toward the residential sector, which is often criticized from an economic standpoint (too expensive) as well as from a professional standpoint (it is preferable to help people to live on their own when possible).

The “sector-neutral” normative granting also seems to be very attractive. On the other hand, private (market-based NGOs) organizations are interested in maximizing their incomes, and minimizing their expenditures. The easiest way to maximize income is to raise the fees paid by clients. It is very difficult to implement any form of “defense of the consumer,” or to ensure fee-related value of services. High fees however are not just a problem of the “weak individual consumer” against the “unfair, powerful provider.” High fees result in a “creaming effect,” whereby only financially better off elderly or disabled people can enjoy these public services, or the public subsidies of these services. As there are long waiting-lists in this sector, the perverse nature of the distribution is even stranger: if an elderly person has no money, in spite of the public judgement that they would need residential care, they usually wait, on average, two years for placement. This also means that they do not receive public support while waiting for the services.

The private-, the Church-owned, and other types of non-profit organizations endeavor to solve the social problems but they do not advance the fulfillment of the duties of the County self-government. These organizations cream-off those people who need social services. The clients of these organizations have to pay a larger initial sum, higher regular fees, or offer real estate to the service provider despite not needing full care. The County Self-government is left with the poorest people who are not able to pay the full fee and whose health is frail and would thus need full care. These civic organizations get a state grant and may well provide services of higher quality with their additional resources than those run by the self-government.

If someone has enough money to pay the fees in a private residential institution, they not only buy the services but also “buy” the normative per-capita grant for contributing to the costs of their residential care.

In conclusion, we can learn from the Hungarian example that the most developed fiscal measures (normative, sector-neutral grants, co-payments, etc.) can play an important role in capacity development, but they are an insufficient means for ensuring appropriate management incentives for equitable distribution or fair, proper quality of services.

8.3.6 Professional Standards

Social work as a specific profession, or as a field of specialized training does not have a long history in Hungary, Latvia or Ukraine. Social work education has its deepest roots in Hungary, having existed for nearly twenty years, but professional social work training started only in the late 1980s. In Latvia, huge investments have been made in recent years in the area of social work education, with the intensive support and technical assistance of several Nordic countries. In Ukraine, education in social work remains in an experimental phase.

8.3.7 Supervisory Mechanisms

If one and the same body (bodies) is (are) mandated with providing social services as well as exercising controlling power over the performance of those services, conflicts of interest may occur. This situation is characteristic of social work and caring activities. The local authorities have a somewhat schizophrenic status in this business: they are committed to be economically efficient owners of these services, but they must monitor themselves. Of course, it is impossible to monitor everything from outside, but it would be far more democratic to implement some kind of separation of powers not only at the central, but also at the local level. From this constitutional perspective, the lack of controlling mechanisms is easily criticized.

In each of the three countries, some form of fiscal control over social service provisions is performed, according to the general relevant rules for sub-national administrative levels. The existing tools of fiscal control can monitor the budgetary rules, but they are unable to monitor financial efficiency, whether the actual spending is goal-oriented, rational, or to the advantage of those receiving the services.

Quality control or consumer protection systems exist only in the field of “classical” child protection schemes. In Latvia and Hungary the judicial/legal branch (custody courts in Latvia, the public prosecutor’s office in Hungary) controls the service providers in
order to ensure proper implementation of services and treatment in the fields of child protection and youth probation.

There is no social assistance in the rayon regarding individuals of unsound minds and families with such individuals. There are neither mental hospitals nor boarding homes though there are such people in the rayon. “There is some law, but I haven’t read it yet. I’ll have to find it,” the professional expert confessed.

There is, in fact, no such law. Issues concerning the social protection of persons of unsound mind are to be found in various legal articles, such as “The Law on State Benefits for Families with Children,” “The Code on Family and Marriage,” “Pensions/Benefits Law,” “Legal Fundamentals on Health Protection.” There is an impression that the respondent is thoroughly indifferent to this category of people as well as being incompetent.

SOURCE: Head of a Rayon Labor and Social Protection Department, Ukraine.

In practice, none of the three countries in question has the means to ensure the just distribution or accessibility of the services, or the process of targeting the services towards society’s most needy and vulnerable groups, families, and individuals.

8.4 Social Assistance

Social assistance measures (cash benefits based on selection) and safety net programs are decisive elements of different types of social policy regimes. The transition process in the CEE countries from the command-based to a market-based economy took place during a period in which both political and economic forces argued for the advantages of neoliberal solutions. Thus, the new CEE states simultaneously had to lay the basis for their social protection systems (by creating independent social insurance funds and organizational bodies, and designing legislative frameworks for social policy), and dismantle the existing welfare institutions that were declared to be too costly. These countries therefore fell into the trap of creating a welfare system while making cuts in social expenditures in order to mitigate budgetary crises. Furthermore, these processes took place during a period of high unemployment, increasing poverty and social inequalities, an aging population crisis, and other difficult challenges. The new social policy sector was charged with finding an answer to these problems. It was hoped that this sector could help to improve the quality of life of millions of people, to prevent the impoverishment of the middle classes, and to provide assistance to meet the basic needs of those living in extreme poverty.

The legacy of the past, especially in the case of Ukraine and to a lesser extent Latvia and Hungary, resulted in special difficulties for the creation of new welfare systems. As a consequence of the central role played by the army during the Communist period, the importance of certain branches of the economy (such as mining), and the large number
of people affected by the Chernobyl disaster, a huge (especially in Ukraine) system of
targeted benefits and services or, in other words, of privileges was established.

The moral and humanitarian foundation of these provisions is based on a historical
political compromise made between the norms of the Soviet past and those of the newly
independent states. The granting of any kind of privileges, however, contradicts the
principle of equal treatment—the basic political right in any democratic system. Moreover,
it is impossible to compare factors contributing to low labor market participation and
low incomes (disability due to war, structural unemployment, etc.). The legacy of the
past places a great burden on the new social protection systems because any move away
from previously instituted norms becomes highly sensitive politically.

One could easily arrive at the conclusion that any kind of income-based cash benefit
scheme would be more democratic and equitable than this current compromise. There
are other factors, however, that contradict this assumption. For example, all three countries
have been hard hit by the problems related to the “shadow” (informal) economy, making
any kind of income test unrealistic. (In Ukraine, its proportion is the largest relative to the
normal economy. According to World Bank estimates, the informal economy accounts
for 47% of its total GDP.)

Selection based social assistance programs may be founded on normative selection
(eligibility criteria formulated in legal regulations) and may be exercised according to the
discretion of certain organizational units or that of the bureaucracy. In the latter case
the risk of infringing upon rights of the beneficiaries is stronger.

Social assistance systems—whatever other kinds of factors are taken into consideration
when deciding on the eligibility criteria—are primarily based on means testing. In all
three countries, selection is based on income, property, work, and behavior tests.

The purpose of means testing is partly to relate the recipient’s income to a certain
“official” standard, the administrative poverty line. In this respect the three countries
exercise different practices. In Hungary, the minimum old-age pension is considered
the appropriate indicator, or relating point. In Latvia the consumer’s basket is used for
means testing, and in Ukraine the Parliament sets the poverty line and all the basic social
payments are calculated on the basis of the minimum wage. The three countries use the
per capita household income as the “basic measuring unit” of income when deciding
on social assistance entitlements.

The most relevant forms of income-tested social assistance in the three countries
are some form of regular social assistance for low-income families and housing allowances.

Targeted assistance to poor families became available in Ukraine beginning in April
1999. This benefit aimed at providing certain types of low-income families with a minimum
guaranteed income. According to statistical data from January 2000, more than 30,000
families applied for the benefit, of which 7,165 families (23%) were provided with it—
a figure that definitely does not reflect the number of those living in extreme poverty.
(The average sum of the grantee benefit was UAH 12 per month.)
In Latvia, low-income family assistance is paid if family income is below LVL 12 per family member per month or if it is less than 75% of the crisis subsistence minimum per family member established by the Cabinet of Ministers. The amount of benefit is calculated as the difference between LVL 12 per family member and the total income of the poor family. Additionally, a family is recognized to be poor if: (1) it does not have fiscal resources exceeding LVL 200 per month, (2) it does not own any property whose value is greater than LVL 3,000, or (3) it has no providers who are able to provide food and it has not entered into agreements on the supply of food.

In Hungary, long-term unemployed people and elderly citizens not entitled to pensions are generally the beneficiaries of regular social assistance. (The new name of the provision for elderly citizens is “old-age benefit.”)

In Latvia, if a person earns an amount below the minimum subsistence income that in itself entitles them to financial support. In Ukraine and Hungary, certain low-income groups are provided with supplementary benefits.

In Latvia and Ukraine, the tone of the regulations is more suspicious than in Hungary. The benefit is granted for a period of three months if the family has a member who is able to work, and for six months if the family members are incapable of working.

In each country, numerous documents are required to prove the eligibility of a family for financial support. In all three countries, the authorities have the right to make home visits and to collect information on the financial situation of the applicant family. Concerning income, in Ukraine the size of the land of the potential recipient and in Latvia the property and the family structure as well as data at the disposal of other legal and natural persons—are taken into consideration. In Latvia, the benefit is granted to ensure that after the settlement of rent and utility payments the family is still left with not less than 75% of the subsistence minimum per family member for the purchase of food.

The majority of the activities of the Department of Welfare are focused on administration. The staff is enormously overloaded, one official in charge deals with 1,800 files on average annually. In a city of 113,000 inhabitants the Department of Welfare made decisions in more than 37,000 cases, and (in 1997) accepted more than 27,000 applications.

**Source:** Case study, city of Nyíregyháza, Hungary.

In Latvia and Hungary the decision is made at the local level, whereas in Ukraine the middle level of governance provides the cash benefit from a given rayon and out of the rayon’s budget.

... the fact that Shchyrets has the biggest population size in Pustomyty rayon does not mean that the population of the particular sector deserves special attention. On the contrary. Both in the course of collecting quantitative information and during the personal interviews with the key figures of the sector (in the sphere of social policy) it was discovered that all the information...
concerning the performance of social policy in Pustomyty rayon is concentrated in the rayon center—Pustomyty city, which is a kind of organizational center of rayon social policy.

At the same time, the local self-government in Shchyrets does not pay any social benefits out of the town budget. In 1999 the only type of social assistance provided by the local self-government to the citizens was the cash allowance in case of death (because of their status these citizens could not obtain the cash allowance from the Employment Fund or from the Social Insurance Fund of Ukraine). Nevertheless there are two people among the eight workers of the town council that specialize in drawing up documents on the compensation of expenses for communal services (subsidies). The main expense item of the town budget is concentrated on the support of three schools, two pre-school institutions, and a medical/obstetrics station.

**Source:** Case study, Ukraine.

In Latvia, the Ministry of Welfare has prepared the concept “On Minimum Income Guarantees to Poor People” providing suggestions on how to ensure, for people who are unable to earn a living by themselves, a guaranteed and uniform minimum level of income for the whole state. In this respect, plans have been made to set the guaranteed minimum level of income at a national level, to define the obligations of local governments to ensure this minimum income, and for state participation in financing of such support. This concept will be the basis for amending the law On Social Assistance.

In all three countries housing costs have increased considerably, resulting in payment problems for a significant portion of the population. Several government measures have been created to assist debt management, including housing allowance.

In Ukraine, the housing subsidies program was introduced in 1995. This is a monthly-targeted benefit for citizens that reimburses expenses paid on rent and rates (communal services). The eligibility criteria are centrally determined: the level of income, the percentage of the housing costs relative to the disposable income of the family (15–20%), the housing “norm” (21sq.m per-capita). The decision-making body operates at district level.

In Hungary, although the Social Act defines the framework of the eligibility criteria, local governments are entitled to set the housing “norms” according to the standard housing stock within their constituencies.

In Latvia, the housing allowance—similar to low income family allowance—is granted in order to ensure that after the settlement of rent and utility payments the family is still left with not less than 75% of the subsistence minimum per family member for the purchase of food. In order to be granted the benefit, families must file a statement about the necessity of the social assistance and a proposal concerning the size of the benefit. The applicant for the benefit submits an application, a reference from his/her place of residence, a declaration on the means of livelihood of his/her family, a record-book on rent payments, and presents a document that confirms expenses on the purchase of fuel at the time that the benefit is granted.

In all three countries, the benefits, except in certain cases, are paid directly to the communal service companies.
Child protection benefit is a very important additional form of means-tested regular social assistance in Hungary, and is given to families with children.

In Latvia and Hungary, local authorities may create, within their budgetary means, additional forms of social assistance. In Latvia, the most frequently granted benefits are: benefits for the payment for medical bills, benefits for meals and food, and benefits for the upbringing and education of children.

Freedom of choice is limited if cash benefits can be transferred into *in-kind benefits*. In Hungary, for example, it is legally possible to give part of the child protection benefit in the form of free school meals. In all three countries, housing allowances are a special type of in-kind benefit, as the financial resources are directed to the service providers instead of the consumers.

> There are 16 divisions providing in-kind and cash assistance including “clothes banks.” In 1999 they provided clothes, shoes, means of rehabilitation, etc., for a total of about 69,000 low income pensioners, the disabled, people living alone who are unable to work and families with children.

**Source:** Case study, Kyiv, Ukraine.

When evaluating systems of social assistance the *maintenance of the real value* of benefits is a key issue. Indexing may occur according to a legally regulated mechanism, or may be dependent on the will of the existing political elite, which is the case in all three countries.

In each country, “workfare” (or, as it is expressed euphemistically in the scientific literature, “activation”) is a dominant ideology. In interviews, local politicians repeatedly advocated the notion that people have to work for public assistance.

> Various co-participation activities have been introduced for clients of social assistance. Employees themselves use the term “to work for social benefits.” These are various activities involving tidying up the town. “A man comes. If we see that he can work, then we use the situation.”

**Source:** Focus group discussion, Dagda, Latvia.

In Latvia, if a person who is able to work and is a potential recipient for poor family social assistance, they must register with the Employment State Service and, prior to granting of the benefit, the local government may request that they participate in community jobs or activities that help develop employment skills.

In Latvia, poor family social assistance benefits are not granted to a person who:

- has been dismissed from work at their own request or is blameworthy thus leading to their dismissal. In this case, the person may request benefits six months after dismissal;
• has refused the job offer or community job, except cases when the offered job or community job would not allow them to take care of a disabled child or a child who does not yet attend school;
• has refused to take part in activities leading toward the development of occupational skills and employment, except in cases when the activities would not allow them to take care of a disabled child or a child who does not yet attend school;
• has refused social and medical rehabilitation.

Unemployment results in lack of incomes; people have nothing to do. Dagda has a high unemployment rate—14%. One of the causes of the high unemployment rate might be the fact that people are interested in registering as unemployed as they then have the opportunity of participating in paid temporary community jobs which, though payment is small, still provide a source of income. When granting benefits, account is taken of the participation of the inhabitants in activities for tidying up the civil parish, which are organized every Friday. For their school lunches children work in the school fields.

SOURCE: Focus group discussion, Dagda, Latvia.

The more the number of preconditions to gain entitlement, the more vulnerable are the low-income families and individuals.

Means testing is often accompanied by procedures designed to control the reliability of the applicants, such as home visits, endangering even the first generational rights of the future beneficiaries. If the means tests become “character-tests” (as often happens), paternalistic, and discriminatory practices may occur.

Often, social workers carry out means testing for determining cash-benefit entitlements. This practice is absurd because this kind of control cannot be in line with the philosophy of the helping professions. Moreover, it makes the programs extremely expensive as a considerable portion of the expenses go to paying the wages of the “testers.” Further, it is bizarre to imagine that trained social workers and social work agencies are better able to measure incomes than tax officers.

A significant part in granting assistance is played by the fact that inhabitants of the town know each other very well. Often the social worker already has his/her opinion about the client and whether he/she deserves or does not deserve assistance—“we know all of them.” One of the traditional ways to achieve changes is control, respect, and fear. It was particularly stressed by the representative of the Custody Court working with high-risk families where parents do not take care of their children—“we control them.” It works as people have a respect for the representative of the Custody Court and the social worker and it motivates them to be better.

SOURCE: Focus group discussion, Dagda, Latvia.

The application of these kinds of tests is not only extremely stigmatizing but may discriminate against the most needy. One cannot properly evaluate the effectiveness and efficiency of the Ukrainian social assistance system, but information is available on the
consequences of mistargeting in the Hungarian and Latvian means-tested income support schemes. In one interview conducted in Latvia, the interviewee stated: “It can be said that the most active applicants for assistance are well informed about all types of assistance. However there are also people who are entitled to assistance but they are incompetent and socially inactive.”

Only in the case of target benefits can the social worker examine the living conditions of the applicant. All other benefits are provided on the basis of various certificates, which are very often faked. If a person possesses two apartments he or she cannot receive a subsidy on either of them. Also if a person has bought an apartment then he or she cannot apply for the subsidy for one year. In other cases a person is not responsible for submitting inadequate information to the Social Protection Bodies. Our Ministry tries to resolve this problem in co-operation with the TACIS project. We have now introduced such a position as a social inspector. Inspectors carry out on-the-spot checks of the living conditions of applicants for social assistance. Nevertheless, apart from the Act on the introduction of the post of social inspector there are no other regulations that would provide the inspector with the authority to carry out the examination and on the basis of this examination to refuse the provision of social assistance.

SOURCE: Representative of the Main Department of Social Protection of Kyiv City State Administration.

When analyzing any kind of social security system, the first question to be asked is what are the legal bases of the system. In all three countries, the legal bases of social assistance are established through various acts, and in Latvia and in Hungary local self-governments have the right or the duty to adopt these in local regulations. Legal regulations, however, only create the conditions for social support in principle. In reality, the everyday practice—particularly in Ukraine—may differ significantly.

There are two types of social assistance concerning the means of regulation in Hungary. Even though fewer people are provided with financial support in a normative way and more are based on discretion, only in the cases of housing benefit, crisis assistance, and funeral benefit can the local self-government enforce its own ideas. Determination of the eligibility criteria in the various government acts neglects the local conditions and special local needs. This phenomenon can be interpreted as a form of centralization. On the other hand, the eligibility criteria of financial support based on discretion are not connected to needs’ assessment, but they largely depend on the local power relations, the financial resources, and the professional skills of the responsible people even in a city as big as Nyíregyháza—the county seat. Efficiency and effectiveness have never been analyzed.

SOURCE: Case study, Szabolcs–Szatmár–Bereg County, Hungary.

In order to make any schemes rights-based, an additional problem must be solved, viz. the granting of the possibility and the appropriate mechanisms to appeal against the entitlement decisions made by the authorities.

In all three countries, the first level of the appeals process is the same organizational unit that decides on the entitlements of the applicants.
Article 40 of the Ukrainian Constitution and the Law of Ukraine *On Citizens’ Appeals* (1996) regulate the Ukrainian appeals process. In order to protect their social rights, citizens may appeal to the District Administration, to the executive bodies of city and district councils, and to the court.

In Latvia, if the local government decides against providing social assistance to an individual, its duty is to issue a comprehensive written refusal to the applicant. Complaints on the decisions taken by the local government about the eligibility of a given family to be considered as a poor family, the granting of benefits, or the assessment of the provider’s options are reviewed by the council of the local government concerned. If the decision of the local government council does not satisfy the individual, they have the right to submit a complaint to the court. A complaint may be submitted to the Social Assistance Fund concerning the decision of the council if the social assistance is financed from public resources. Disputes on the exercise of rights prescribed by the above law are reviewed by the court under the procedure prescribed by law.

In Hungary, it is necessary to differentiate the locally regulated forms of social assistance and those regulated in an Act. In the latter case, the refusal of an application may be contested in court whereas in the former case legal control may be requested only from the office of the County Government Commissioner. This practice reflects one of the most important controversies of decentralized governance—the principle of legal security is facing the requirement of local autonomy.

9. CONCLUSIONS AND POLICY RECOMMENDATIONS

9.1 Centralized and Decentralized Functions: Past and Present

When we scrutinize those social policy functions that are not directly managed by the center, we should forget whether these “decentralized” functions were ever “centralized.”

To continue on the same train of thought, it can be stated that as far as Latvia, Ukraine and Hungary are concerned, certain decentralized social policy functions were never centralized and some functions were not, and are not, decentralized.

One may ask: When these countries started out towards transition, which social policy functions were assigned to a central and which ones to a decentralized organizational arrangement?

Lasting social (welfare) crises, which were the consequences of grave economic recession, marked the first decade of transition. Both the central and the non-central functions were of a crisis-management character—even if it was not publicly admitted.

Most of the central programs were meant to handle crises of a political character. As far as the stability of a political regime is concerned (and, let us add, that of a democratic
state as well), it is not the situation of the poorest section of society that poses potential dangers but the situation of those who experience a marked deterioration in their standard of living or who are afraid of this happening. It underlines the political seriousness of the problem that at times of deep and lasting economic crises, even the greater part of society can belong to the “risk group.”

The instruments that affect practically the whole of society and are meant to protect present societal status and levels of income are either insurance systems (as, for instance, old-age pension, disability pension, sick pay, unemployment benefit, etc.) or income maintenance programs based on principles of universalism (such as family allowance, maternity allowance, annuity for the disabled, etc.). Such programs have always been centralized. In accordance with present organizational and political traditions, and because they are indispensable for stability—which means they are of special political importance—they have remained centralized. To sum up: whenever a social (welfare) issue gained special political importance, and targeted those groups that matter at the polls and are for that matter in the forefront of political interest, the state under survey responded with centralized programs and by reforming the centralized schemes.

The decentralized—i.e. transferred to the competence of municipalities and NGOs—social programs are, in terms of power relations, less important as they target the poor and other marginal groups that are of secondary importance in terms of their influence on the public mood. These provisions generally offering care for low-prestige, stigmatized and excluded groups provided a weapon for a quite large section of voters who politically oppose caring for the needs of such groups. The political importance of these programs is low: they only become political issues if local crises escalate or if scandals break out because functions are not discharged (for instance, when homeless people die of cold or Romanies decide to resettle in another country, etc.).

The inconsistencies in the contemporary Western welfare models also influence the implementation of decentralized social policies in the post-socialist countries. The advanced countries are pursuing various directions in reforming their welfare systems; the several new models are in hot competition; and the beneficiaries of the international aid programs and technical assistance projects keenly feel that rivalry. It is the end-user of such aid programs that feels the adverse effects of such inconsistencies the most poignantly.

The three countries surveyed vastly differ in what norms they met in the course of the aid programs that helped their transition. Latvia tends to follow protestant, Scandinavian principles whose roots are identical with those of the cultural legacy of Riga. At the very beginning of the transition, aid programs in Hungary stressed the corporative elements of German-speaking countries and later more and more powerfully the privatization principles of the United States.

In the dominant discourse of the post-socialist countries, societal crisis is in the wind, anxiety from serious social conflicts is prevalent in public attitudes, and people have lived through critical situations throughout the last ten years. Consistent and rational social
policies that subordinate the means of social policy to desirable and feasible objectives do not exist in these countries. Social policy faces a crisis: no concepts have been formulated by the competing programs of the various political parties of these countries on what is necessary to create a “better,” more humane society.

Some hope and others are strongly convinced that political democracy and economic growth will result in social development. It should be emphasized, however, that this process has not occurred smoothly anywhere in the world. It is of no surprise that economic development does not seem directly or automatically to influence social relations in Hungary and Latvia; the benefits of their recent economic growth have not translated to improving the living standards of the most vulnerable segments of the population in these countries.

9.2 The Criteria of Evaluation

Every analysis reflects on the values of the analysts themselves and the present study is no exception. It examines the social policy system of Ukraine, Latvia and Hungary as compared with our ideals. The values we cherish can be chiefly associated with this or that social policy regime rather than decentralization as such. Consequently, when we qualify a phenomenon as being “good” it is not because it is adequately decentralized. The key criterion for our assessment is whether or not a decentralization-related phenomenon makes a social policy regime “better.”

Source: Case study, Szabolcs–Szatmár–Bereg County, Hungary.

9.3 Legal Regulations and the Reality

The various welfare systems tend to upset the conventional systems of reciprocity that used to ensure established relationships. The “donors,” i.e. those who finance the benefits, and the “recipients,” i.e. the beneficiaries of the benefits, are not in an identical social situation: their rights for self-determination and capacity for interest enforcement are different. It is for this reason that we give preference to those welfare systems that are based on guarantees and facilitate the assertion of interests.

Despite the fact that the principles as well as the wording of legal regulations are in line with the European standards these regulations are in several cases not realized in practice. In all three countries it would be necessary to mobilize additional resources and set up a system of incentives to enforce the rule of law and to correspond to the delegated responsibilities.

It is not unreasonable to make predictions about the future. It helps enhance predictability and the stability of the legal system if social provision is defined in legal regulations of the highest possible order and if the readjustment of benefits to inflation is ensured by pre-established mathematical formulae. In this respect, only Latvia has made significant steps ahead.
9.4 Governance

As was stated earlier the success of decentralized governance primarily depends on the performance of the central state, on its commitment to improve public services, and on its role in guiding the evolution of the reform process.

Decentralization is partly about the replacement of the highly centralized hierarchical organizational structure by decentralized management environments, and not to create a “smaller scale” centralized structure.

Even though local governance can frequently be seen as the training ground of democratic (participatory) culture and institutions may appear to act in the common good, what actually happens is that they shape and reproduce relationships of unequal power and authority; this is especially true in the case of special groups, first of all ethnic minorities, and this situation leads to social exclusion.

In our understanding, the relevant problem is how the direct state service provisions and management based on traditional, bureaucratic techniques are followed by indirect methods of governance.

These methods rest on three basic questions:

- What are the services to be delivered by autonomous self-governments, and governmental and non-governmental public actors?
- What kinds of resources and capacities are available for these actors to provide the delegated public responsibilities?
- What kind of supervisory and controlling mechanisms guarantee the fulfillment of the tasks administered at the local level, and what are the desired outputs and outcomes?

Hungary has adopted a highly decentralized form of local government which, in certain areas, has led to the inefficient provision of services, and strains on local finances. The government has recognized the issue and the financial incentives to encourage the pooling of facilities with the result that the activities taking place through the creation of local government associations have had some success. In the absence of any comprehensive restructuring of local government responsibilities, the government will have to adopt a flexible and innovative approach to both local government financing and the provision of services (Progress report 2000).

According to a 1998 newsletter on social budgeting: “All countries in Central and Eastern Europe are in the process of reforming their social protection systems.... The problem in many countries is that co-ordinated planning of the overall social protection system is non-existent. As different agencies design policies for different benefits, major reforms of various schemes are planned in isolation from other sectors of social policy. In many cases, the skills and tools that are necessary for co-ordinated planning are not available” (Newsletter 2–98 Social Budgeting).
The determination of the duties of organizations that are in principle decentralized and autonomous must maintain a complicated linguistic and technical balance in the relevant legislation. If every detail and phase is regulated, the autonomy of the decentralized units is ignored. This practice is, rather, a process of “de-concentration”—the refinement of bureaucratic institutional techniques. Roughly speaking, the public administration reform that has until now taken place in Ukraine is reflected in the fact that social policy departments in the villages do not currently exist. These techniques, when conducted without genuine support for the principles of decentralization, always lead to confused practices. As the Ukrainian research team has indicated, a clarification of the division of responsibilities between the central, oblast, and rayon-level administrative systems is indispensable for the improvement of social welfare provisions at all levels.

The dominant approach in the distribution of the welfare responsibilities to local self-governments in Hungary and Latvia is that those social problems that must be dealt with are regulated in the social legislation of those countries. There are ways, however, to enlarge the group or realize outcomes that are not included in the regulations. All of these “soft” procedures, however, do not provide reassuring solutions to the problems of the outcomes, the minimum level of service provision, the values to be realized (equal access and treatment, coverage, equitable and fair redistribution), and the effects of social policy. In principle, the rules of access to social services and cash benefits are legally regulated, e.g. in Hungary; however, the fact that even statutory obligations are not adhered to without any consequences seriously violates the fairness of access to these provisions.

In formulating the desired outcomes, the socialist legacy serves as a serious hindrance. In the rhetoric of the state-socialist system, ideological desires and impersonal imperatives were confused with real descriptions of duties. One can recognize this legacy in wordings like “local self-governments must deal with the problem of...” or “municipalities have to ensure....”

None of the three countries has institutionalized a poverty threshold or a minimum social assistance level, or has a guaranteed minimum income for all citizens. Legally defined rights for certain benefits, i.e. the procedure of normative selection to get certain cash benefits, may also restrict the autonomy of local self-governments. On the other hand, even decentralized bodies must not over-rule human rights such as the respect for human dignity. Moreover, in those cases when the local self-governments cannot exercise any discretion in deciding on the beneficiaries, in other words their decision-making power is restricted, the target groups can obtain more calculable and predictable financial support as a result of which their existential security is improved.

Neither the legally guaranteed rights ensuring equal access to social services nor the desired minimum level and quality of services are realized in the practice of the local authorities in the three countries studied.

We could hardly find any traces of civil control over the activities of autonomous local self-governments or the principle and practice of empowerment of the socially disadvantaged groups.
One of the basic objectives of decentralization is the transfer of power to local self-governments and the empowerment of the civil society. Decentralization, however, does not necessarily strengthen local democratic institutions. In all three studied countries, due to the legacy of the past, decentralization was master-minded and implemented by ruling elites. In Ukraine, to a comparatively large extent, and in Latvia and Hungary to a lesser degree, hierarchical structures were created. The top-down culture of politics as well as bureaucracies survived, though in smaller territorial units, as a result of which citizens and grassroots organizations are alienated from local politics and feel excluded from the local decision-making processes. Thus, it would be of crucial importance to make the local community the real owner of the decentralization process by promoting the access of civic actors to information; by improving communication between local politicians, officials and local communities; to develop the techniques of co-operative planning, to strengthen the capacity of local communities to enable them to articulate their needs; to force the representatives of the local community to participate in the decision-making processes.

A system of reconciliation of interests with the participation of the representatives of central government, local self-governments, and professional bodies would render possible the initiation of all the interested parties into the process of formulating regulations to make them more feasible. In this way civil control over the planning procedure and implementation of policies could gain ground, thereby advancing the democratization of the social sector.

9.5 Resources and Capacities

9.5.1 Financing

Welfare programs are operated from budget allocations that are fixed in advance. When the slogan is to cut costs at any price—which is frequently the case due to the economic situation or to ideological considerations—money is often taken away from the budgetary allocation of welfare systems.

Not only the declaration of social rights but also the restrictive regulation of public institutions may set limits on the autonomy of decentralized organizations. Restrictive regulations, in our experience, relate only to finance. The basic regulatory principle is quite simple: welfare spending must not exceed the budget. It is worth mentioning that budgetary limits are far “harder” or more defined in the Ukraine, where the welfare administration is more bureaucratic and hierarchical than in Latvia and Hungary. In the latter two countries, municipalities react to the lack of resources with more flexible “spending behavior.” One cannot be fully satisfied with this flexibility, however, for instead of (or in addition to) improving the efficiency and targeting, it indicates a decrease
in the quality of services and a restriction in the number of beneficiaries thereby resulting in the social exclusion of certain groups.

Often the rules for using funds compel the managers who oversee spending to follow courses of action that divert from the proclaimed social policy principles. In such cases the proclamation of the social policy priorities is nothing more than lip service, while the rules and incentives that enable spending are the actual “law.” We are convinced that those financial arrangements are welcomed that encourage providers to stick to the declared social policy principles.

It is problematic if a welfare program allows scope for squandering. It is better if a program can accomplish the same outputs by spending less, both in absolute and relative terms. It is beneficial, in addition, if it lends room for innovative techniques that cut costs. However, it is unacceptable if expenditure is cut at the cost of corrupting the quality of provision or if provision is confined to clients who can be assisted at a lower cost, while problematic cases requiring more expensive care go without cover.

In all three countries, the representatives of every local authority we visited complained about the inadequacy of funding in relation to delegated responsibilities. This corresponds with our opinion that decentralization of social policy in this region tends to aim more at shifting the responsibility for problems and responsibilities than at the decentralization of resources and capacities. Unfortunately, decentralization can work only when substantial responsibilities, tasks and powers are transferred from the center with staff and financial means to match.

Without exception, in all three countries it would not be problematic to set up closer links between municipal budgets (resource allocation) and performance. The system is mainly based on inputs instead of outputs and outcomes.

The rural-urban divide and regional economic inequalities create special financial difficulties. In Latvia (Equalization Fund) and in Hungary (“social normative”) there exist some mechanisms that react to the diverse financial situations of the municipalities. The efficiency of these financial systems, however, does not guarantee an appropriate level equal access to social services. Some mechanisms that react to the diverse financial situations of the municipalities ought to be instituted in Ukraine as well.

In Latvia it would be advisable to revise the very complicated cash flow path to make the financial system more effective and transparent. According to the local research team: “One of the problems of decentralization is the fact that it creates a very complicated cash flow path that is difficult to supervise. It is almost impossible to follow the cash flow. Each separate local government is financed from several sources. These sources are the central funding by the government (which constitutes 71.4% of personal income tax), and funding from the national special budget and the national general budget as special purpose grants. Additionally, local governments receive funds from the Local Government Finance Equalization Fund, which was instituted to reduce the gap between local governments with different levels of basic funding. The funding of local governments is made up of
local fees, real estate tax, and payments for services. Local governments may also receive state-guaranteed loans or gifts/donations. This diverse structure of funding sources makes difficult the observation of the cash flow. As such, the possibility of wasting money without due process cannot be eliminated.”

Hungary is exhibiting some signs of “re-centralization”: this is evident from the cut-backs in the financing of local self-governments in that their share in locally collected personal income tax is continuously shrinking.

9.5.2 Human Resources and Professional Standards

We consider it very harmful and demoralizing if a considerable part of the budget of a welfare program is allocated for the salaries of the administrators and staff members while a relatively small amount is allocated for the direct costs of the program itself. By contrast, we see it a fine accomplishment if the highest possible percentage of expenditure is supplied to the group to be supported. Complicated means-testing procedures together with the unnecessarily wide range of services are responsible for increasing the relative costs of administration.

In Central Eastern Europe a civil servant traditionally acts as a civil patron rather than a servant of the public. In order that the social policy programs might keep the domineering behavior of bureaucrats within limits, it is essential that the rules of eligibility and procedure should be uniform for all members of society. If that cannot be ensured, which is quite frequently the case in the three countries, fundamental constitutional and human rights may be violated by public offices venting the subjective views and temperament and prejudices of officials.

In the area of social services, there are hardly any regulations (and those mainly in residential care) or mechanisms outlining the content of the services. The Latvian and Hungarian regulations at least make a list of the services to be provided by the residential care centers, but these lists do not contain any information on the professional standards and quality of the services. The Hungarian regulatory system produces relatively detailed information regarding, for example, minimum space requirements for the rooms of residents, the number of bathrooms, and the professional qualifications of the staff. These preconditions have to be met in order for the institution to be granted a license. Clear national standards, however, are essential for safeguarding equity and quality.

The standardization of the content of the services does not necessarily result in uniform services. As one author wrote: “A focus on quality, linked with equality, does not mean that services have to be the same for all those receiving them (‘one size fits all’), rather the opposite. Flexibility and responsiveness are needed, requiring staff to use their initiative and judgement when making decisions. Different quality systems, including management training and development, are needed to support such an approach” (Gaster 1999, p. 43).
Another important factor determining the quality of services is the professional qualification of the staff in the social policy sector. University-level and college-based education of social workers and social policy experts began in the middle of the 1980s in Hungary, and a system of further education has recently been introduced. In Latvia, huge efforts have been made to compensate for the shortage in properly trained social workers. Ukraine, however, is just beginning this process.

The value and the prestige of a profession may be expressed by the position of the representatives of that profession in the income hierarchy. We have no data on this issue from Latvia or Ukraine. So far as Hungary is concerned, social sector employees are at the bottom of the hierarchy. As an example, even the average wage of textile workers is higher than the average salary of social workers.

It is a matter of urgency in all three countries that efforts be made to increase the number of highly qualified professionals, to decrease the rapid fluctuation of the workforce in this sector, and to improve the financial recognition as well as the moral support of the social professions.


It is characteristic in all three countries that, for many reasons, reactive measures dominate social policy and proactive solutions are generally missing. In several fields such as the management of overdue debts in utility services, drug and alcohol consumption, and youth unemployment it would be far more humane and much cheaper to take proactive measures than correcting incurred damages. Even though some efforts are being made in Hungary and Latvia in this direction, the long-term, systemic, programmatic planning and management procedures are generally missing in the social sector.

A decentralized system of social policy would be fully capable of applying proactive measures but even this kind of consideration is missing from central government policy. It was stressed in many interviews that at the local government level “everybody knows everybody” and this helps to focus social assistance on real problems that probably could not be observed from the center, and it allows administrators to think about preventive activities where possible. “In analyzing benefits of decentralization of social policy in Latvia, one important advantage that should be pointed out is that social policy has moved closer to individuals. ...Now local governments are responsible for decision-making on many social issues, and because they have considerable discretion in this field, they can be very flexible and react to the most important problems in the most appropriate way.”

Inevitably the criterion of fair distribution is the most important principle that any social policy system must fulfil. The present Hungarian welfare system is the only one among the three countries studied where there are conscious procedures applied aimed at perverse distribution via fiscal (taxation) measures.
It goes without saying that all social programs are expected to ensure that the recipients should have unobstructed access to the services. If that principle is not observed, then not only is it unfair but there also appears the danger of discriminative and exclusionist mechanisms.

As a rule, welfare programs are expected to assert the principle of both vertical and horizontal equity when the average living conditions of a target group are improved. But, in fact, we expect such a program to accomplish more: the living conditions of the least well off people should improve to a higher than average degree. As a matter of fact, both the social and the regional inequalities, as is to be seen from the county reports, are increasing in all three countries.

The principles of efficiency may contradict those of equity. Over-emphasis on efficiency can eliminate equity altogether, in fact, it can cancel fundamental freedoms and the observation of human dignity.

Welfare programs often suffer from “leakage,” which means benefits get diverted on their way to the recipients. Each local government, however, is accorded considerable discretion in allocating support. There is strong evidence from the interviews that social assistance does not always reach those individuals who need it most, and the exercise of discretion may result in discrimination against certain groups of the population.

The term “focus” is often narrowed down to mean, say, targeting poor people with income support. By contrast, we use the notion of focus in a broader sense. For instance, we consider it a malfunction in focus if non-disabled people also have access to benefits meant for the disabled.

As necessary preconditions, the criteria of entitlements and the content as well as the minimum level of service provisions must be specified.

In each of the three countries, social assistance cash benefits are targeted to groups or life situations and not purely to factors based on the income of the population. This is partly the reason for the wide variety of benefits. The Ukraine is an extreme example in this respect, for on paper, it provides over 50 types of benefits to almost 18 million people. As the research team pointed out: “In the course of conducting the case studies, it became evident that reconsideration and liquidation of most of these benefits, based on the personal opinions of most interviewees, are the main tasks of reforming the social protection policy. For example, according to the law On the Status of War Veterans and Guarantees for Their Social Protection, 5.3 million people receive different exemptions. The total amount of these exemptions in 1999 was UAH 3.6 billion. Thus 3.6 million more people would wish to receive the status of War Participant.” The determination of a needs-based poverty line as the social assistance threshold is urgently needed in these countries.

It is desirable that the welfare programs should encourage and support their clients (at least those that are able to do so) to strive to improve their living conditions by some money-earning activity. But it is not true that the best encouragement for a client is to apply sanctions or reduce benefit levels. Thus a system lacking work incentives—as is the case in all three countries—tends to perpetrate poverty rather than alleviate it.
As far as residential care is concerned, huge institutions are the surviving heirs of the Soviet past. In Hungary, the dismantling of the large residential homes for children and disabled people has begun, and several forms of community-based care have begun to function. These practices are still in their infancy in the other two countries.

The place of residence is gaining in importance among the causes of social inequality. Horizontal equity would therefore require that, among people of identical demographic and sociological status, people who live in undeveloped regions and localities get more support from the welfare programs. Equal access to social services is not guaranteed because of significant regional inequalities in all of the countries. Differences between the capital cities and the rural communities having the same legal status and responsibilities concerning basic provisions (in Latvia and Hungary) are especially pronounced. From a social policy point of view, it is problematic that more developed, wealthier settlements enjoy a wider and richer range of public services than poorer areas. In the declining regions, fewer resources are available and more poor people should be provided with support from the local communities. If the social sector does not find a solution to these problems, poorer self-governments will have to continue to use all of their resources, even those allocated for development purposes, to cover the costs of social assistance. Even though the central government’s equalizing mechanisms make fairer and more equitable distribution possible, they decrease local interest in the development of the local economy and in finding more cost-sensitive solutions. In several cases, more effort is expended by the municipalities in competing for central funding than in lobbying for the enlargement of local resources.

Services, possibly good quality services, accessible to all and responsive to all, as Lucy Gaster notes, is not only a technical duty but a democratic right. “Democracy, citizenship, and participation are vital elements of a healthy local state. The state needs people to act as citizens, to exercise their rights freely, and to have trust and confidence in the organs of government. Good quality services, developed to meet the real needs of the public, are an important stepping stone on the route to citizenship” (Gaster 1999, p. 51).

9.7 Supervisory and Controlling Mechanisms

“Discussions regarding quality within the public sector are often carried out in two completely different dimensions. On the one hand, there is the discussion and evaluation of the quality provided to customers and, on the other hand, there is the discussion and evaluation of the result which is provided in relation to the fulfillment of the goals set by and for the local government. Even if the goals set for the local government are identical to the customers’ needs, and they often are, it is necessary to separate the satisfaction of customers’ needs from the institutional and political demands made upon the local government” (Global2 1996).
The lack of the appropriate professional supervisory and controlling mechanisms in social policy has outstanding importance as it may endanger even the legitimacy of the democratic system. This may occur in two ways:

First, if the self-government, representing the will of the local majority, adopts local prejudices and racist attitudes, there is a possibility of social policy becoming a vehicle for undermining basic human rights and for institutionalized discrimination.

Second, if transition to a market-based economy and democratic institutions produces only disadvantages for many people as they drift toward the periphery of society due to impoverishment, marginalization and social exclusion, social tensions may result in political destabilization. If the management of these social and political risks falls dominantly on local social policy, as is the case in these three countries, central control over local solutions cannot be avoided.

Adequate professional supervisory and controlling mechanisms for monitoring and evaluating locally and centrally initiated and performed activities ought to be developed to give a clear-cut picture on the outputs and outcomes of these programs. There is an urgent need to make a shift from the traditional procedural approach to a more results-oriented strategy. “The aim is to move from a mode of operation based on ex-ante control of resources, extensive regulation to prevent abuse, and ex-post inspection to insure compliance with legal standards, to continuously monitored service delivery and management with accountability for results in all dimensions of performance (economy, efficiency, effectiveness, service quality, financial performance)” (Global2 1996).

Unsurprisingly, only those tasks that have previously been defined and for which resources are available can be properly controlled. Thus, clear targets and performance indicators are needed including raising some basic questions like: What are the primary purposes of the social provisions? How can they be carried out most effectively? Who should be the main beneficiaries?

A program should meet the requirements of transparency, accurate accountancy practices, and controllability; in other words, anyone should easily be able to find out about a program, and what it provides and for who. To attain that aim, the administrators of the welfare system should operate an advanced and strictly governed mechanism in which administrative procedure is precise and information flows are required. To make a program transparent, it is also necessary to have regulated relations with the “outside world.” In this case the political, administrative and civil actors should all consider it their duty to understand and check on the processes and they should be capable of doing so. (And the administrative staff should be prepared to allow outsiders to have access to required information)

Supervision and control are generally viewed negatively, particularly in Central Eastern Europe. In this region, articulating the need for supervision and control can easily be interpreted as supporting “police state” solutions. For this reason it is important to emphasize that this control must be focused on transparency and accountability. The
availability of data regarding events, clients, costs, time schedules, records, redistribution effects, proper self-administration, information technology and organizational systems are the necessary preconditions for controlling, monitoring and evaluating local social policy.

Decentralization may result in difficulties in establishing efficient and uniform databases. There is reliable information only on the utilized resources in each country and there is data on the service users only in Hungary. No knowledge is available on the demographic and social composition of the recipients of social services, and needs assessment does not exist. Therefore, ideologies on better targeting have no deeper meaning because it is impossible to say how and for whom social services are targeted. As a result of the lack of proper information on the recipients, there is practically no way to calculate the unit costs of the welfare provisions or to analyze their efficiency.

The techniques and procedures of self-administration are not fully worked out in any of the three countries. In Hungary, the projects of the National Employment Fund and some non-governmental organizations apply monitoring techniques. New programs or grant-based projects are hardly ever properly evaluated, however. In the Ukraine, even the system of social and economic statistics should be reformed. Information technology is absent in many areas. In Latvia, for example, 553 local governments owned only 173 computers in 1999 and only 14% of local governments possessed computerized databases.

As a result of decentralization, local governments have become very independent, at least in Hungary and Latvia. Many decisions are taken by local governments themselves and as a result of the lack of elaborate administrative systems as well as meaningful information flow, the state loses control; at the national level clear understanding of what, in fact, is going on in local governments is lost. User-participation is not integrated in the planning, costing and supervisory procedures. This means that civil society has no power to enforce any such procedures or to exercise effective control over the behavior of political leaders or of government officials (neither upwards or downwards) over local issues. Party politics dominates the activities of the civic groups with no effective form of social dialogue between the central and local level, or between the local power elite and the consumers of the services.

Thus the citizens can do nothing—apart from voting once every four years.
NOTES


7. The family allowance is a universal type of support within the subsidizing system in Latvia; the amount of support is very low, but it has gradually been raised—year-by-year. The last raise was after 1 January 2000, so benefits to children who were born after this are higher than for those children born in 1999 (*Social Report, 1999*).


10. Prior to the 1990s, having medical attendance during pregnancy was an important condition for determining the entitlement to benefit. Nowadays, in determining benefits, this criterion tends to be considered a special premium in Latvia, Russia and the Ukraine.

11. Amount of benefit paid out in 1999 is to be compared with the minimum wage, the benefit is not adjusted to the minimum amount of salary, since November 1992 the amount of benefit was not raised for those parents who have been bringing up a child older than 1.5 years.
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*New Baltic Barometer.*


CHAPTER 2

The Impact of Decentralization on Social Policy in Hungary

Balázs Krémer

István Sziklai

Katalin Tausz
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THE IMPACT OF DECENTRALIZATION ON SOCIAL POLICY
The Impact of Decentralization on Social Policy in Hungary

Balázs Krémer • István Sziklai • Katalin Tausz

1. SOCIAL AND ECONOMIC CONSEQUENCES OF THE TRANSITION

1.1 Economic Recession

In Hungary the political transition in 1989 aimed at the creation of a democratic political system, with the rule of law and a (capitalist) market economy.

Table 2.1
Macroeconomic Indicators (1989–1999)

<table>
<thead>
<tr>
<th>Year</th>
<th>Real GDP</th>
<th>Consumer Price Index</th>
<th>Real Wage per Active Earner</th>
<th>Real Value of Average Pension</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
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<tr>
<td>1990</td>
<td>97</td>
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<td>1991</td>
<td>85</td>
<td>174</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>1992</td>
<td>83</td>
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<td>89</td>
<td>86</td>
</tr>
<tr>
<td>1993</td>
<td>82</td>
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<td>73</td>
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<tr>
<td>1999</td>
<td>100</td>
<td>733</td>
<td>85</td>
<td>78</td>
</tr>
</tbody>
</table>

Source: Civil jelentés (Civil report). p. 8.
The transformation was accompanied by economic crisis, a heavy drop in GDP, high inflation, decreasing personal incomes, and the emergence and rapid growth of unemployment. The economy started to grow again in 1995, and GDP reached its 1989 level in the year 2000. The most important social indicators—employment, wages, and pensions—are improving much more slowly.

Positive consequences of the change are a healthier economic structure with a potential for growth, the emergence of the rule of law, and the opportunity for civil society to surface. However, the major part of society paid a very heavy price in the first ten years. Moreover, it is uncertain how the increase of resources will “trickle down” to the losers and how the social deficits will be corrected.

1.2 Inflation

Inflation has a great effect on the different strata of the population, though to a varying extent. During the last decade, consumer prices significantly increased, but this varied considerably from product to product.

<table>
<thead>
<tr>
<th>Year</th>
<th>Food</th>
<th>Alcohol, Tobacco</th>
<th>Clothing, Footwear</th>
<th>Durable Goods</th>
<th>Electricity, Gas and Other Fuels</th>
<th>Other Goods Incl. Motor Fuels and Lubricants</th>
<th>Services</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td>1991</td>
<td>121.9</td>
<td>125.1</td>
<td>132.1</td>
<td>131.7</td>
<td>181.0</td>
<td>143.4</td>
<td>141.9</td>
<td>135.0</td>
</tr>
<tr>
<td>1992</td>
<td>145.6</td>
<td>149.6</td>
<td>162.5</td>
<td>150.5</td>
<td>259.2</td>
<td>182.4</td>
<td>178.8</td>
<td>166.1</td>
</tr>
<tr>
<td>1993</td>
<td>188.1</td>
<td>177.5</td>
<td>189.6</td>
<td>167.1</td>
<td>311.8</td>
<td>221.8</td>
<td>221.9</td>
<td>203.4</td>
</tr>
<tr>
<td>1994</td>
<td>232.1</td>
<td>206.6</td>
<td>220.1</td>
<td>186.8</td>
<td>348.3</td>
<td>263.9</td>
<td>267.0</td>
<td>241.6</td>
</tr>
<tr>
<td>1995</td>
<td>304.3</td>
<td>248.1</td>
<td>264.6</td>
<td>231.6</td>
<td>522.5</td>
<td>335.9</td>
<td>336.4</td>
<td>309.7</td>
</tr>
<tr>
<td>1996</td>
<td>356.9</td>
<td>314.1</td>
<td>332.3</td>
<td>276.1</td>
<td>692.3</td>
<td>422.2</td>
<td>425.2</td>
<td>382.8</td>
</tr>
<tr>
<td>1997</td>
<td>419.4</td>
<td>373.5</td>
<td>394.4</td>
<td>299.6</td>
<td>899.3</td>
<td>490.2</td>
<td>506.8</td>
<td>452.9</td>
</tr>
<tr>
<td>1998</td>
<td>479.8</td>
<td>430.6</td>
<td>450.0</td>
<td>323.9</td>
<td>1,060.3</td>
<td>542.7</td>
<td>588.9</td>
<td>517.7</td>
</tr>
<tr>
<td>1999</td>
<td>493.8</td>
<td>480.1</td>
<td>497.7</td>
<td>345.3</td>
<td>1,160.0</td>
<td>622.5</td>
<td>676.1</td>
<td>569.5</td>
</tr>
</tbody>
</table>

The increase in the prices of basic consumer goods (food, housing, medicine) most seriously affected the more vulnerable strata of the population thereby contributing significantly to the increase of poverty in Hungary.

1.3 Public Finances

It was considered that one of the most effective ways of handling the economic crisis would be to decrease public expenditure. The cuts in the central budget had already been significant as a result of which the proportion of welfare expenditures decreased between 1991 and 1998 by more than 10% within the GDP.

Table 2.3
Public Expenditures as % of GDP, 1990–1999

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>6.5</td>
<td>7.6</td>
<td>7.2</td>
<td>7.6</td>
<td>7.1</td>
<td>6.4</td>
<td>5.3</td>
<td>4.5</td>
<td>4.6</td>
<td>4.4</td>
</tr>
<tr>
<td>Education</td>
<td>8.2</td>
<td>9.3</td>
<td>8.5</td>
<td>9.3</td>
<td>9.9</td>
<td>8.5</td>
<td>7.7</td>
<td>4.8</td>
<td>4.8</td>
<td>4.7</td>
</tr>
<tr>
<td>Housing subsidies</td>
<td>3.6</td>
<td>2.5</td>
<td>1.2</td>
<td>1.1</td>
<td>0.8</td>
<td>1.2</td>
<td>0.9</td>
<td>1.7</td>
<td>1.6</td>
<td>1.4</td>
</tr>
<tr>
<td>Unemployment</td>
<td>0.1</td>
<td>0.7</td>
<td>1.6</td>
<td>1.7</td>
<td>1.2</td>
<td>0.9</td>
<td>0.7</td>
<td>0.5</td>
<td>0.7</td>
<td>0.6</td>
</tr>
<tr>
<td>Social provisions</td>
<td>0.2</td>
<td>0.9</td>
<td>1.0</td>
<td>1.8</td>
<td>1.8</td>
<td>1.7</td>
<td>1.6</td>
<td>2.2</td>
<td>2.1</td>
<td>2.3</td>
</tr>
<tr>
<td>Social insurance and family benefits</td>
<td>14.9</td>
<td>17.2</td>
<td>15.5</td>
<td>15.6</td>
<td>14.7</td>
<td>12.9</td>
<td>11.8</td>
<td>12.4</td>
<td>12.2</td>
<td>12.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>33.5</td>
<td>38.2</td>
<td>35.0</td>
<td>37.1</td>
<td>35.5</td>
<td>31.6</td>
<td>28.0</td>
<td>26.1</td>
<td>26.0</td>
<td>25.4</td>
</tr>
</tbody>
</table>


The unusually sharp cutback of social expenditures has not only been due to diminishing resources. Ideological priorities, the weakness of the actors of the social sector, as well as the lack of democratic procedure played an important role in this process.

1.4 Unemployment

The rapid increase in unemployment was the most serious social problem in Hungary after 1989. Unemployment reached a peak in 1992 when 663,000 people were registered at the labor market offices. This figure gradually declined, to about 400,000 in 1999. Meanwhile the number of people receiving a pension but below the eligible age limit rose from 260,000 in 1990 to 600,000 in 1998, and there are about 500,000 people who withdrew completely from the labor market.
Table 2.4
Rates of Economic Activity, 1990–1998

<table>
<thead>
<tr>
<th>Year</th>
<th>Economically Active Population [thousands]</th>
<th>Activity Rate Among 15–17-Year-olds [%]</th>
<th>Activity Rate within the Total Population [%]</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>4,795</td>
<td>62</td>
<td>46</td>
</tr>
<tr>
<td>1992</td>
<td>4,083</td>
<td>59</td>
<td>39</td>
</tr>
<tr>
<td>1994</td>
<td>3,752</td>
<td>54</td>
<td>37</td>
</tr>
<tr>
<td>1996</td>
<td>3,648</td>
<td>52</td>
<td>36</td>
</tr>
<tr>
<td>1997</td>
<td>3,646</td>
<td>51</td>
<td>36</td>
</tr>
<tr>
<td>1998</td>
<td>3,698</td>
<td>52</td>
<td>36</td>
</tr>
</tbody>
</table>


Many of them lost hope and stopped registering and started to look for other ways of survival, such as in the gray or black economy. The low activity rate means that 3.6 million active earners have to provide for the whole population of some 10 million people. The official unemployment rate is less than 10% today.

![Figure 2.1](image)

Number of Employed People in Hungary

Source: *A munkanélküliség atra*. p. 31.

The groups worst hit by unemployment are the young, the old, and unskilled or uneducated people. Those living in underdeveloped areas are at the greatest risk of losing
their jobs. The unemployment rate of Roma is significantly higher than that for other ethnic groups. The rate of the long-term unemployed—those who are unemployed for more than 12 months—has rapidly escalated. It reached 50% in 1995. Since then it has slightly diminished. The decrease is due more to the withdrawal of the long-term unemployed from registration than to re-entry to the labor market.

Table 2.5
Number and Characteristics of the Unemployed

<table>
<thead>
<tr>
<th>Year</th>
<th>Registered Unemployed [thousands]</th>
<th>Unemployed According to International (LFS) Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Number [thousands]</td>
<td>Women [%]</td>
</tr>
<tr>
<td>1990</td>
<td>80</td>
<td>—</td>
</tr>
<tr>
<td>1991</td>
<td>406</td>
<td>—</td>
</tr>
<tr>
<td>1992</td>
<td>663</td>
<td>442</td>
</tr>
<tr>
<td>1993</td>
<td>632</td>
<td>519</td>
</tr>
<tr>
<td>1994</td>
<td>520</td>
<td>451</td>
</tr>
<tr>
<td>1995</td>
<td>496</td>
<td>417</td>
</tr>
<tr>
<td>1996</td>
<td>477</td>
<td>400</td>
</tr>
<tr>
<td>1997</td>
<td>464</td>
<td>349</td>
</tr>
<tr>
<td>1998</td>
<td>404</td>
<td>313</td>
</tr>
</tbody>
</table>

Source: Civil jelentés (Civil report). p. 31.

1.5 The Changing Nature of Poverty

As a result of the economic reform measures prior to the change of the political system in 1989, inequalities in income had already begun to increase in the 1980s.

In 1982 incomes in the highest income decile were 3.8 times higher than in the lowest one; by 1999, however, this value had increased 8-fold. The existential security of a growing number of families was endangered and several groups were facing poverty. The change of the “official” income of households has still not reached the inflation rate; the net income of households has decreased. The growth in income inequalities and of poverty was due to the labor market situation (the radical decrease of the number of those employed, the stabilization and increase of long-term unemployment, etc.), and to the withdrawal of price subsidies, as this was rooted in the system of income redistribution.
Table 2.6  
Changes in Poverty Rates [%]

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OBJECTIVE POVERTY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relative income poverty (under 50% of mean income)</td>
<td>10.1</td>
<td>10.4</td>
<td>11.6</td>
<td>12.4</td>
<td>14.9</td>
<td>13.4</td>
<td>15.1</td>
</tr>
<tr>
<td>Absolute income poverty</td>
<td>10.1</td>
<td>12.5</td>
<td>16.1</td>
<td>19.9</td>
<td>26.6</td>
<td>28.3</td>
<td>—</td>
</tr>
<tr>
<td><strong>SUBJECTIVE POVERTY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly financial crisis</td>
<td>26</td>
<td>26</td>
<td>25</td>
<td>25</td>
<td>28</td>
<td>31</td>
<td>—</td>
</tr>
<tr>
<td>No financial crisis at all</td>
<td>29</td>
<td>39</td>
<td>41</td>
<td>41</td>
<td>31</td>
<td>36</td>
<td>—</td>
</tr>
</tbody>
</table>

*SOURCE: Civil jelentés (Civil report). p. 11.*

The ratio of those who live under the subsistence minimum calculated for 1990 by the Hungarian Central Statistical Office has tripled: it was around 10% in 1990. By 1993 this figure had increased to 22-25%, and since then it has been around 30%.

Table 2.7  
Proportion of the Relatively Poor (under 50% of the mean equivalent income) in Some Typical Groups

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>10</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>0–2 year-old children</td>
<td>15</td>
<td>35</td>
<td>31</td>
</tr>
<tr>
<td>3–6 year-old children</td>
<td>14</td>
<td>28</td>
<td>23</td>
</tr>
<tr>
<td>Couple with 3 children</td>
<td>—</td>
<td>—</td>
<td>41</td>
</tr>
<tr>
<td>One parent with a child</td>
<td>—</td>
<td>—</td>
<td>33</td>
</tr>
<tr>
<td>Roma</td>
<td>46</td>
<td>58</td>
<td>60</td>
</tr>
<tr>
<td>Unemployed</td>
<td>17</td>
<td>37</td>
<td>46</td>
</tr>
</tbody>
</table>

*SOURCE: Civil jelentés (Civil report). p. 27.*

In Hungary the economic transition changed the living conditions of all households. It brought improvement for about one third of the population, and significant improvement for a much narrower group. Meanwhile, the situation of the broadest strata has deteriorated to a smaller or larger extent, sometimes to a tragic extent. Poverty has hit several, well definable groups, and has many causes.
The groups most at risk are the following:

- **Unemployed**, first and foremost long-term unemployed, or families where the head of household is unemployed, or where there are no wage earners at all. The situation of seasonal or occasional workers is not much better;
- **Families with children**, particularly those with several children, those who have very small children with the mother on child-care benefit, or single-parent families, headed mostly by women;
- **the elderly**, particularly those living in single households, and among them mainly the oldest women;
- **the Roma**, who are hit simultaneously by many causes of poverty: their unemployment rate is high, their educational level is low, many of them live in dis-advantaged villages or regions, their health status is bad, their number of children is high;
- **the disabled**;
- **the homeless**.

As far as regional differences are concerned, the north-west part of the country is the best off (the rate of poverty is 9%), the north east is worst off (18% poverty). The risk of poverty is twice as high in the villages as in Budapest.

In the redistribution of incomes both cash benefits and taxation play an important role. Although this research project does not cover the effects of the taxation system on poverty it is important to emphasize that one of the major negative characteristic features of the Hungarian personal income tax system is that it makes even the smallest incomes taxable, thereby contributing towards increasing the number of the working poor. The system of tax allowances results in a bottom-up (perverse) redistribution of incomes. These features broaden rather than reduce vertical income inequalities.

2. **LEGACY OF THE PAST**

2.1 **Demographic Indicators Influencing Social Policy**

Since 1980 the Hungarian population has been decreasing. The decline is greater among the male population. One of the most serious demographic problems of Hungarian society—and one that strongly affects social policy, especially the social insurance system—is the ageing of the population.

The following trends are the main causes of such demographic problems:

- the number of live births has decreased, while the number of deaths has become stable at a high level;
• fertility, and the willingness of young age-groups to have children continued to decrease in the 1990s; the numbers of first-borns fell as did the number of second children; however, more people are willing to give birth to three and more children;
• since 1980 the tendency of ageing became a stable process though with smaller fluctuation;
• the percentage of the population of economically active age fell;
• the marriage rate is decreasing year by year;
• more and more children are being born out of wedlock.

In Hungary, for the year 1999, the average life expectancy at birth was 66.14 years for males (roughly the same as at the end of 1960); the average life expectancy for females was more favorable, it has reached 75.18 years. From the 1960s until 1989 it showed an increasing trend, and since 1989 it has remained almost constant.

2.2 Institutional Arrangements

In state-socialist Hungary (i.e. prior to the change in the political system) there existed a wide range of social provisions, but they were embedded into a completely different architecture than in the traditional Western welfare states.

The main actors of the socialist social policy were the state-owned companies. As a consequence of the labor-extensive economic and investment strategy, as well as for ideological reasons, there was full and compulsory employment in Hungary. The low level of productivity, of product-quality, and the lack of innovation and effective incentives contributed to the collapse of the command economy giving no chance of maintaining the former level of employment.

The extended system of consumption subsidies and subsidized consumer prices was another important characteristic of socialist welfare policy. Cheap food, housing, heating, energy, public transport, medicine and many other consumer goods were somehow affordable for the vast majority of the population. This system, however, could never work properly, mostly due to the shortages of certain basic necessities, first of all housing. The shortage of subsidized basic goods multiplied the unjust “perversity” of distribution as the better-off groups had access to these consumer goods as well as obtaining the majority of the subsidies.

Occupational welfare (housing, pre-school institutions, cheap meals, recreational facilities, etc.) can be regarded as the third decisive element of the socialist welfare system.

The Hungarian welfare services included:

• almost full coverage in pension, old-age income security;
• broad (but low quality) health care system;
• an efficient and effective family benefit system;
• a relatively developed care system, especially regarding nursing and residential care for elderly people;
• an extended child protection system;
• certain types of social assistance.

Most of the social provisions, however, were provided as a gift from the Communist Party, the state. Thus the social provisions were based on people’s rights.

It would not be a huge mistake to state that social problems played a crucial role in the crises of the socialist regime, at least in Hungary. The regime was evidently unable to fulfil its own promises concerning the well being of the citizens. Despite the original desire for the “big leap” to achieve Western standards, the gap became wider and wider between the West and the East. In spite of full employment, significant price subsidies and other social policy measures, poverty existed in state-socialist Hungary, but most of the population were not subjected to the deepest levels of misery from the 1950s onwards. In this period, elderly citizens living on low pensions, disabled people, and the Romany population were mostly hit by existential insecurity and very low income. The standard of living and the quality of life of the population fell short of those of the developed Western societies.

3. THE ADMINISTRATIVE SYSTEM IN HUNGARY

Hungary has 10.1 million inhabitants. One fifth of the population lives in Budapest, the capital, and almost half of the country’s citizens reside in settlements (cities, towns, and villages) of less than 20,000 inhabitants. The total number of settlements exceeds 3,100.

Hungary has a market-based economy functioning in a parliamentary democracy. The establishment of democratically elected governments and the institution of free and fair elections were the first and most important achievements of the post-1989 transition process. Over the past ten years Hungary has achieved a relatively transparent structure of competing political parties.

The Act on Local Self-Governments sets out in detail the general rights of local governments following the principles defined in the Constitution. A key step in transforming the socialist system was the introduction in 1990 of the system of local self-governments instead of the Soviet-type council system. The Act on Local Self-Governments created two basic types of local self-governments: local community based- and county level municipalities.
A local self-government is entitled to take the responsibility for practicing local public affairs, and for their direction and management, and can take care of meeting local needs. Decisions made by a local self-government can be questioned in court or in the Constitutional Court only by claiming a violation of the law.

At the same time, local self-governments deal with the mandatory tasks defined by law. The financial resources necessary for implementing these tasks need central provision. As it has become necessary to define the mandatory tasks of the various levels of local self-governments in detail, the law stipulates in a differentiated manner the responsibilities of the municipalities (local self-governments of communities, towns, cities, the capital, and its districts) and those of county self-governments.

The law sets forth the legal status, tasks and responsibilities, organization, guarantees for operation, basic rules of business management, election, rights, and obligations of local governments in detail.

The local municipality is one of the basic types of local self-government. The function of a town’s local self-government is somewhat broader than that of a village: the institutions of the former have to meet district level needs as well. The council of representatives elects the mayor. Budapest has a special legal status.

The community level local self-governments are obliged to provide pre-school child care, primary education, health and social care, and healthy drinking water, as well as public lighting; they are responsible for the maintenance of local public roads and cemeteries; and they are required to ensure the enforcement of national and ethnic minority rights.

The county municipality is an independent body. The county municipality, a regional government, is obliged to cope with the tasks provided for by the law and which are outside the scope of a community government. County municipalities are responsible for the organization of such public services which are designed to meet the middle level needs of the county’s population and which cannot be covered by any of the townships or local government associations effectively and in a democratic way.

County municipalities are entitled to freely manage their income, to make decisions or decrees in which they define surplus allowances beyond the minimum mandatory services and subsidies determined as statutory obligations.
The county municipalities have the following tasks as mandatory functions: secondary level education; collection, preservation and scientific processing of matters relating to county level natural and cultural heritage, and historical documents; county library services; educational consultancy and services; management of county level sports and physical education; children’s and young people’s rights; education of children under permanent medical treatment in medical institutions, education and care of mentally disabled children; special health care beyond basic health care; children and youth protection special care; regional harmonization of special social services.

County municipalities and the Budapest Municipality arrange those special care services which are beyond the scope of the mandatory tasks of community local governments; the regional co-ordination of special social services.

Community local governments are not subordinate to county level municipalities.

Sometimes county municipalities are nothing more than operators whose responsibility involves the maintenance of social, educational and children’s institutions that are beyond the possibilities of community self-governments. When enforcing special standards, many problems arise from this conflict: several county municipalities are not very eager to take this responsibility, for in most cases normative subsidies from the state destined to cover the costs of operating such institutions usually do not make up more than 70% of the actual costs.

The general assembly of the elected members of local and county self-governments is the main decision-making authority. It can transfer certain responsibilities to its committees and other types of bodies to ensure the management of the affairs. The work of these bodies is assisted by the municipality office in the preparation of the decision-making processes and in the organization as well as the supervision of the implementation of decisions made. The role of the mayor (in the local self-governments) and of the chairperson (in the county self-governments) is primarily political; the head of the office (the notary) exercises the executive power, being responsible for the management of the administration and for the operation of the office of the self-government.

The public administration offices in the capital and at the counties are the regional public administration bodies of the government. The main responsibility of these regional public administration offices covers the examination of the legality of the decision-making processes and of the operation of the local self-governments.

4. THE HUNGARIAN SOCIAL SECURITY SYSTEM

4.1 General Remarks

The transition period can be interpreted not only in political and economic terms, but also as the birth of a new welfare system.
The basic features of the new system are the following:

• social policy or the social sector became an independent sub-system within society;
• with the Social Act (1993), social provisions became, if not rights based, legally based;
• with the appearance of mass unemployment, employment- or social insurance related social provisions have gained a new meaning;
• social policy has had to face real-life situations, resulting from a huge number of people being left with no income and having become dependent on social transfers;
• local self-governments have gained a key role in social provisions;
• different forms of means testing have gained increasing importance in the social protection system;
• a pluralistic welfare system or, in other words, a welfare mix has come into existence: in addition to the public and informal sector, non-profit and market-based participants are also present in the various services.

Social services are financed either from the central state budget and various social insurance funds (pension fund, health care, and labor market funds), or by the local self-governments.

4.2 The Actors of Social Policy

The central and the local state, the market, the non-profit as well as the informal sector take part in providing social services in Hungary.

Table 2.9
Non-profit Organizations Providing Welfare Services [%]
Total NGOs=100%

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Child protection</td>
<td>1.2</td>
<td>1.3</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Family protection</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.9</td>
</tr>
<tr>
<td>Support for disabled persons</td>
<td>1.5</td>
<td>1.7</td>
<td>1.9</td>
<td>2.0</td>
</tr>
<tr>
<td>Support for the elderly</td>
<td>0.6</td>
<td>0.6</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Self-help</td>
<td>0.4</td>
<td>0.3</td>
<td>0.3</td>
<td>0.2</td>
</tr>
<tr>
<td>Other support for people in need</td>
<td>0.4</td>
<td>0.6</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Total NGOs</td>
<td>43,051</td>
<td>45,316</td>
<td>47,365</td>
<td>47,384</td>
</tr>
</tbody>
</table>

Within the central government the Ministry of Welfare (now called the Ministry of Social and Family Affairs) is responsible for social policy. Several people referred to the weak lobbying capacity of the ministry during the interviews carried out in the course of the research work.

The local self-governments form different alliances in Hungary. These actors may express their views in the various public forums, directly lobby the political parties, and participate in the activities of the institutionalized forms of social dialogue. There are seven national alliances in Hungary available to represent the self-governments, however almost half of the local self-governments do not form part of any of these alliances. This fact, the lack of the decision-making power of the council as well as its incompetencies, do not make it possible to deal with social policy issues there. In effect, even though the responsibility for the majority of social policy related problems falls to the local self-governments they have no effective legally guaranteed means of influencing social policy related legislation.

There are three principal institutions for social dialogue: the National Reconciliation Council superseded by the Economic Council, the National Labor Council and its regional branches, and the Social Council.

The National Reconciliation Council was founded in 1990. It was based on a tripartite system with the participation of the representatives of the employers’ associations, the trade unions, and the government. It had the right to discuss any piece of legislation before the process of being enacted. Concerning social legislation, this responsibility was exercised primarily by the social committee of the National Reconciliation Council. On several occasions the trade unions expressed their views on social issues and stressed the necessity of a more generous social provision system, but had never threatened with strikes or demonstrations for social policy. As a matter of fact, whenever social policy clashed with labor issues, they took sides against those living on social assistance.

The Economic Council took over some of the National Reconciliation Council’s roles when the latter was done away with as one of the first activities of the new government in 1998. The participants of economic life take part in the Economic Council, which acts as a consultative organization of the government though it has no right or power to enforce the priorities of the organizations representing the employers’ or employees’ interests.

The National Labor Council works with the participation of the representatives of the employers, the employees, and the local self-governments, but its activities are limited to the process of labor-related disputes and agreements; it has no mandate to discuss other types of social issues.

The Ministry of Welfare initiated the establishment of the Social Council at the beginning of the 1990s by voluntarily joining non-profit and interest-representing organizations “to monitor some of the social problems and to elaborate proposals for their solution.” Neither the objectives, nor the mandate of the Social Council are clear. Principally, it can be characterized as a consultative body for the Minister.
As is apparent, the system of social dialogue is heavily dependent on party politics and those organizations have the chance to influence parliamentary or governmental decision-making processes which are in some way linked with one or some political parties.

All these processes can be interpreted as having a contradictory character: the abolition or weakening of the institutions of social dialogue reflects the intention of the central government to re-centralize certain institutions of social policy, while the increasing role of local self-governments in the social sector is a strong indicator of decentralization, or—it is more correct to say—of over-centralization.

The national government, the most important actor in financing social policy does not know what it buys or gets for its money because of the lack of an appropriate monitoring and evaluating system.

Politically independent civic organizations can appeal only to the public. In a country of scores of NGOs, but without a strong civil society, this means of expressing opinion cannot be too successful.

4.3 Financing Social Policy

Different normative state subsidies provide the basic financial resources of local social policy in Hungary. According to the recent legal regulations, the state is obliged to ensure these financial resources for the local self-governments, but they are given the right to decide their utilization, even for other purposes.

Local self-governments are entitled to manage their incomes independently, though they are required by law to operate certain services. In practice, free management means that the council of representatives can decide what kind of services they prefer. In several cases the local self-governments, because of the lack of resources, use these resources for other purposes such as financing primary education, developing the local infrastructure, etc.

One of the basic findings of our research was that local self-governments do not have any clear concepts with regard to their social security systems. Frequently they provide the minimum required by law on a residual basis. Other budgetary and fiscal considerations usually overwrite social aspects in defining annual budgets. (We have met a county municipality, for instance, where the normative state subsidy dedicated to cover the costs of boarding institutions for mentally disabled people was not used for this purpose but it was “rescheduled” for educational purposes even though the standard of living in the institutions did not meet the standards required by law.)

The majority of the representatives of the local welfare administration would like to have fixed (earmarked) subsidies to protect the welfare expenditure during the local financial bargaining, which may be interpreted as them being in favor of diminishing the scope of financial decentralization.
The centrally provided financial resources do not cover the total costs of the services and the poorer settlements meet the local needs on a lower level than the cities with higher revenues. The method of calculating normative subsidies does not realistically reflect the local employment situation or the income inequalities. The consequence is a gap between the regional level and settlement level is widening.

The revenues and the public expenditure of the local self-governments show a negative correlation: the deficit is continuously increasing in the social sector in the weaker settlements—the latter being forced to use developmental resources to avoid bankruptcy. The constant widening of the responsibilities of local self-governments (e.g. the support of the unemployed) may add to the financial difficulties of the local self-governments as a result of which they may apply absurd forms of local discretion. The financial planning procedure of the local self-governments is compelled to adjust to the dysfunctional system of state subsidies, thus planning based on the budget of the previous year will be the dominant approach thereby hindering the spread of social policy innovations.
Another major feature of decentralization in Hungary is the wide gap in the level of financing and professional quality. In long-term residential care institutions, funding is dependent on bed-places; in other words the state provides normative subsidies for each of the places. However, it cannot be exactly known what is purchased for this money, what the content is of the services provided. The amount of normative subsidies is subject to political bargaining every year; there is no index attached to it, and since the beginning of the nineties it has continuously lost its real value. The only positive feature in the current funding scheme was its impartiality. This was ended as soon as social services provided by the church became entitled to receive 30% more from the state subsidies than any other type of institution.

However, there are positive features in decentralization as well as negative aspects: communities—at the cost of their own budgets—are entitled to define extra services. There are many examples of this: e.g. in a district school of the capital, a pupil may get free textbooks, or the community government might provide a special allowance to elderly people before Christmas.

### 4.4 Family Support System

The latest version of the family support system came into force on 1 January 1999. Every citizen who has a child up to a certain age may be entitled to various family benefits. The family provisions are financed from the central budget and operated through the health insurance administration bodies.
The new family support act declares that the objectives of the family support schemes are to increase the equality of opportunity for families with children, to recognize the additional costs of bringing up children and to promote the realization of the government’s population policy.

The most important schemes promoting families with children are: the education benefit consisting of a family allowance (paid till school age) and education support, child care allowance (GYES, for parents who are taking care of their children under age 3 and under age 10 for disabled children), child care fee (GYED) and child care support (GYET, for a mother or a father who is bringing up three or more children), birth grant (lump sum payment for those giving birth).

The local self-government has true decision-making power in the case of education support, all the other rights-based provisions are centralized. If a school has indicated a problem relating to a child, the local self-government investigates the situation through the child protection organizations and, if necessary, intervenes. This intervention may take place in different forms. The notary may decide to provide the cash education support in in-kind form.

It is important, however, what the different settlements consider a problematic situation and what kind of interventions are enacted. There is not a clear-cut definition of the situation when a child is endangered.

SOURCE: Interview with the Head of Department of Welfare at a district self-government in Budapest.

In the final years of the state-socialist system, family allowance per child covered about one fifth of the gross average wage for families with two parents and two children. By 2000 this amount had decreased to approximately 6% of the average wage. Nowadays the sum of the child care allowance and child care support is equal with that of the minimum old-age pension; thus these are in principle indexed, but in reality the political decision on the minimum old-age pension is dependent on the “budgetary” preferences of the ruling political elite. When evaluating the adequacy of family provisions one must realize that in spite of the important poverty relief effect of these schemes, a significant loss in the real value of these benefits took place.

Table 2.10

Main Characteristic Features of Child Care Benefits: Child Care Allowance (GYES), Child Care Fee (GYED), Child Care Support (GYET) After 1998

<table>
<thead>
<tr>
<th>Objectives</th>
<th>GYES–GYET: guarantee subsistence bases; GYED: guarantees previous living standard, but with a ceiling in the sum to be provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>Means</td>
<td>GYES–GYED–GYET: compensation for economic losses</td>
</tr>
<tr>
<td>Personal scope</td>
<td>GYES–GYET: as of right; GYED: people in work</td>
</tr>
</tbody>
</table>
Table 2.10 (continued)
Main Characteristic Features of Child Care Benefits: Child Care Allowance (GYES), Child Care Fee (GYED), Child Care Support (GYET) After 1998

<table>
<thead>
<tr>
<th>Allocation criteria</th>
<th>GYES–GYET: universal; GYED: employment- and earnings-related, selective right</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allocation entity</td>
<td>GYES–GYET: any parent; GYED: mother, father after the child is one-year-old</td>
</tr>
<tr>
<td>Criteria for benefit calculation</td>
<td>GYES–GYET: flat rate; GYED: earning-related with a ceiling</td>
</tr>
<tr>
<td>Sources of finance</td>
<td>GYES–GYED–GYET: taxes</td>
</tr>
<tr>
<td>Administration</td>
<td>Health insurance administration</td>
</tr>
</tbody>
</table>

Table 2.11
Real Value of Some Family Benefits, 1990=100%

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Family allowance/child</td>
<td>100.0</td>
<td>91.9</td>
<td>82.1</td>
<td>70.0</td>
<td>57.1</td>
<td>48.1</td>
<td>37.5</td>
<td>39.2</td>
<td>37.1</td>
</tr>
<tr>
<td>for families with two</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>children</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child care allowance</td>
<td>100.0</td>
<td>104.5</td>
<td>90.7</td>
<td>84.5</td>
<td>84.5</td>
<td>80.1</td>
<td>71.6</td>
<td>75.5</td>
<td>71.1</td>
</tr>
<tr>
<td>Child care fee</td>
<td>100.0</td>
<td>98.9</td>
<td>91.6</td>
<td>90.2</td>
<td>84.2</td>
<td>84.0</td>
<td>78.6</td>
<td>77.0</td>
<td>92.2</td>
</tr>
<tr>
<td>Maternity benefit</td>
<td>100.0</td>
<td>81.7</td>
<td>91.4</td>
<td>27.2</td>
<td>22.2</td>
<td>17.8</td>
<td>20.9</td>
<td>66.4</td>
<td>59.3</td>
</tr>
</tbody>
</table>


All sorts of calculations prove that family allowance can play an important role in reducing poverty. Analysis of household data of the 1980s had already shown that family allowance had been the best-targeted benefit for the truly needy among the more significant social provisions.

Table 2.12
Effectiveness of Poverty Reduction [%] (Poverty threshold: the lowest quintile. The 100% level illustrates the extent of poverty with those incomes elements)

<table>
<thead>
<tr>
<th>Year</th>
<th>Pre-family Allowance Poverty</th>
<th>Pre-unemployment Benefit Poverty</th>
<th>Pre-pension Poverty</th>
<th>Pre-social Assistance Poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991–92</td>
<td>136</td>
<td>112</td>
<td>203</td>
<td>105</td>
</tr>
<tr>
<td>1992–93</td>
<td>130</td>
<td>114</td>
<td>247</td>
<td>104</td>
</tr>
<tr>
<td>1993–94</td>
<td>123</td>
<td>112</td>
<td>248</td>
<td>104</td>
</tr>
</tbody>
</table>
### Table 2.12 (continued)

Effectiveness of Poverty Reduction [%] (Poverty threshold: the lowest quintile. The 100% level illustrates the extent of poverty with those incomes elements)

<table>
<thead>
<tr>
<th>Year</th>
<th>Pre-family Allowance Poverty</th>
<th>Pre-unemployment Benefit Poverty</th>
<th>Pre-pension Poverty</th>
<th>Pre-social Assistance Poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994–95</td>
<td>135</td>
<td>110</td>
<td>217</td>
<td>105</td>
</tr>
<tr>
<td>1995–96</td>
<td>128</td>
<td>111</td>
<td>216</td>
<td>102</td>
</tr>
<tr>
<td>1996–97</td>
<td>117</td>
<td>106</td>
<td>231</td>
<td>104</td>
</tr>
<tr>
<td>1997–98</td>
<td>120</td>
<td>110</td>
<td>227</td>
<td>107</td>
</tr>
</tbody>
</table>


In view of the information provided in Table 2.12, it is all the more remarkable that children, especially those living in families with three or more children, and single parent families, are the hardest hit by the inadequacy of the family support system: neither the welfare provisions nor the family can financially compensate the disadvantages resulting from having children. The results of the Household Panel Surveys of TÁRKI indicate that the child poverty is not a transitory phenomenon. In fact, the last Household Monitor survey of TÁRKI showed a striking risk of poverty of children.

### Table 2.13

Number of Registered Children at Risk by Reason

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>32.13</td>
<td>74.57</td>
<td>75.31</td>
<td>82.83</td>
</tr>
<tr>
<td>Family circumstances</td>
<td>44.74</td>
<td>15.75</td>
<td>14.62</td>
<td>10.22</td>
</tr>
<tr>
<td>Behavioral</td>
<td>21.09</td>
<td>8.51</td>
<td>8.68</td>
<td>5.57</td>
</tr>
<tr>
<td>Health</td>
<td>2.02</td>
<td>1.14</td>
<td>1.37</td>
<td>1.38</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Children at risk in the 0–18 years of age population [%]</td>
<td>3.95</td>
<td>11.32</td>
<td>13.46</td>
<td>16.27</td>
</tr>
</tbody>
</table>

**Source:** Tájékoztató a család, gyermek- és ifjúságvédelemről. Népjóléti Minisztérium, 1996.

Summing up:
- the existing family protection system cannot solve the problem of child poverty;
- there are no adequate measures to maintain the real value of the cash benefits for families with children;
• the lack of a steady, well-calculable, rights-based system increases the vulnerability of families with children;
• the freedom of choice for women is restricted due to the labor market processes (unemployment), to the low income of the families, and to the shrinking capacity of cheap day-care services for children;
• means tested social assistance and fiscal welfare measures play an increasing role in the family protection system.

4.5 Social Provisions Offered by Self-governments

The Social Act and the Child Protection Act regulate the statutory welfare obligations of the local self-governments.

Community local self-governments use the standard central budgetary funds defined in the State Budget Act in order to fulfill their statutory obligations in social care and child protection, the normative standard funds are used, however, at the discretion of the local self-governments. In addition local self-governments are entitled to provide additional services out of their own budgets.

Pursuant to the Social Act, coverage for financing public administration tasks are required to be ensured by the state budget. The state contributes to local governmental tasks, which can be regarded as local public affairs through social normative, institutional normative, and earmarked subsidies. (The social normative is differentiated in accordance with the social and demographic situation of the individual settlements, thus it functions as an equalizing mechanism.)

Normative support to non-governmental organizations and to churches organizing social service institutions must be applied for at the licensing body at the time of issuance of the license. Normative subsidies are disbursed by the Public Administration Office.

Table 2.14
Revenues of Non-profit Organizations by Source and Field, 1998 [%]

<table>
<thead>
<tr>
<th>Field</th>
<th>State Revenue from</th>
<th>Private Revenue from</th>
<th>Total Revenue</th>
<th>Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Support [HUF million]</td>
<td></td>
<td></td>
<td>[HUF million]</td>
</tr>
<tr>
<td>Social welfare</td>
<td>46.5</td>
<td>11.8</td>
<td>100.0</td>
<td>336,440.0</td>
</tr>
<tr>
<td>Total NGO</td>
<td>22.2</td>
<td>37.5</td>
<td>100.0</td>
<td>358,689.5</td>
</tr>
</tbody>
</table>

The legality of the use of normative state subsidies is checked by the Public Administration Office once a year. Supervision and checking take place at the same time as the annual accounts are prepared but not later than 31 March of the following year. When sending the accounts, the Office is required to inform the Ministry of Social and Family Affairs about the scope of institutions receiving subsidies during the current year, indicating the name, address, and activity of the institution in question.

Non-governmental organizations and church-operated social institutions are obliged to handle the use of normative state subsidies and contribution fees separately—in a breakdown by tasks—in their books.

Both the Home Office and the Public Administration Office debit any excess subsidy disbursed and credits any unpaid and valid claims arising during the ongoing accounting periods for the subsequent period.

4.6 Personal Social Services

Personal social services can be categorized into two main groups: child protection and care services in the form of basic and special services, and “adult care” services in the form of basic and special services.

Basic services include:

- catering;
- home help;
- family assistance service;
- child welfare service;
- day care services for children (nursery, family day-care service, home child-care);
- temporary care of children (replacement/foster parent, temporary home for children, temporary family homes).

Special services include:

- institutions providing care and nursing (old people’s club, homes for the disabled and for psychiatric patients, addictive patients, the homeless and children);
- rehabilitation institutions (giving psychiatric and rehabilitation care to the disabled, the homeless and addicts);
- day-care institutions (old people’s club, daytime institution for handicapped people, daytime shelter, day-care institutions for addicts, day-care institution for psychiatric patients);
- institutions providing temporary shelter (old people’s home, home for handicapped people, temporary home for psychiatric patients and addicts, night shelter and night accommodation for homeless people);
nursing homes (for psychiatric patients, and the handicapped);
• foster parents;
• regional child protection service.

Adult users of the personal care services are required to contribute towards the service utilized, based on the regular monthly income of the service user. Anybody who is unable to pay or who has no relative to pay for him or her is entitled to use the service free of charge.

Local self-governments are obliged to provide basic adult care and child welfare services, and they are required to organize the day care and temporary care services for children.

Homes and nursing homes providing care and nursing services, and rehabilitation and daytime services and institutions offering temporary shelter are organized by local self-governments on whose territory:

• there are more than 2,000 permanent residents—in addition to the basic care services, provision of day-care institutional services;
• there are more than 10,000 permanent residents—provision of basic care services, day-care services, and the operation of an institution offering a temporary home for the elderly;
• there are more than 20,000 permanent residents—provision of basic care services, day-care services, operation of an institution offering temporary home for old people, and day-care institutions;
• there are more than 30,000 permanent residents—provision of basic care services, day-care services, operation of an institution offering temporary home for old people, day-care institutions, institutions providing temporary shelter.

County and Budapest local governments are responsible for providing services in care and nursing institutions, rehabilitation institutions and nursing homes as well as specialized child protection services.

There is not enough money to operate and develop the necessary facilities. But other reasons also contribute to the deficiencies. In a focus group discussion, local politicians mentioned as an example the services for homeless people. It has been impossible to solve the reconstruction and buying of the rented building used as a temporary shelter. The inhabitants opposed all the plans. Some of the local politicians do not want to go against the “mood” of the public and sometimes they themselves excite it.

SOURCE: Interview with a representative of the local self-government in Székesfehérvár.

The social services system “inherited” the socialist network of large and closed social homes. The system has since been opened up but sometimes the operation of homes with 200 or more residents poses great problems, and the constant improvement of the quality of life of those living in them results in considerable expense. When the responsi-
bilities and roles of local and county self-governments were identified, community governments were given the choice whether they would maintain those institutions situated on their territory or not. If the answer was no, which was frequently the case, county municipalities were obliged to maintain the service as a mandatory task. (The Social Act still provides for the county municipalities to take care of service recipients if a social service provider goes bankrupt.)

The Social Act also authorizes local self-governments to formulate decrees concerning social services in a wide range. Local self-government decrees regulate among others the different forms of personal social care, the conditions for termination of social care, and rules in relation to the extent, discount of and exemption from contribution charges. Local governments can also lay down in their decrees what range of a person’s social care should be provided without any administrative procedure.

It is difficult to get any detailed information on social issues beyond the compulsory data gathering. Social assistance is quite well administered, the services, however, are not transparent. We managed to get an annual report from the family care center and the child welfare service only. It may be partly due to the fact that computers and IT skills are lacking at the majority of the institutions.

SOURCE: Interview with the representative of the Department of Welfare at a district self-government in Budapest.

Figure 2.4
Number of People Provided with Some Social Services

The Act provides the possibility for the service providers to offer the services in the range of personal social care by contracting another local self-government, or non-profit or private organizations.

The law does not provide a guarantee for everything. One can fulfill the requirements of the law by contracting out a service to another local self-government, knowing that they will not be able to provide the service. To give an example: I make a contract with the temporary home for children of another local self-government: I buy two places, but I am aware of the fact that our district is more hit by social problems and the two places will not solve the problem.

**SOURCE:** Head of the family care center in one of the districts of Budapest.

As a strict rule however, these agreements have to be incorporated into service providers’ contracts. The Social Act also defines the mandatory contents of the service provider’s contract. A similarly strict rule says that the authority of conclusion, amendment and termination of such contracts cannot be transferred by local governments’ councils of representatives. The Social Act aims at creating a guarantee in order to prevent a vacuum in social care.

**Figure 2.5**
Number of Residents in Long- and Short-term Residential Institutions by Maintainer

Non-profit organizations play an increasing role in providing social services in our city. Our analyses show, however, that the level of autonomy and of professional skills is rather low. The forms of co-operation between the local self-government and the NGOs are functioning, but their evaluation and reform is still lacking.

**Source:** Case study, Nyíregyháza.

The city or capital district notary issues operational licenses. Non-governmental, church-operated social service institutions are inspected at least once a year by the licensing body—in conjunction with the county, capital or church methodological institution as a consultant—to determine whether the institution is operated appropriately. Institutions must comply with the obligations relating to separation, use of one-bullet allowances and contribution fees as specified in the law, the competent preparation of internal regulations, specific competence requirements of the services are enforced, liability insurance covering damages caused in the process of special service provision and in the case of accommodation institutions, the pre-care tasks prior to permanent placement were correctly carried out.

Civic organizations provided with subsidies are obliged to make annual reports on their activities. On this basis was the subsidy withdrawn from the Drug-Free Foundation in our district. The criteria concerning the content of these reports are not elaborated in a detailed form. Thus it depends on the organizations what they put into the reports.

**Source:** Interview with the head of a family care center in Budapest.

In the case of institutions operated by the state or not receiving state normative subsidies, the licensing body—in conjunction with the county, capital or church methodological institution as a consultant—inspects at least once every two years to see whether the institutions are operated in accordance with the regulations.

The subsidies generally do not cover the cost of operation of the social service institutions. The local self-government has to contribute to the costs. The only exception is the family care and child welfare center in our city: it covers its costs from the state subsidies and 7% of their annual budget is utilized in other areas.

**Source:** Interview with the representative of the local self-government in Székesfehérvár.

If the license provider identifies deficiencies in relation to the operation of a given social service institution, the operator of the institution shall be called upon to provide a remedy within 120 days. If the operator does not take any measure to restore lawful operation by the deadline specified in the order, the license provider shall either repeal the operating license (and in the event that the operation is necessary or justified from the viewpoint of service providing interests, the authority will issue a preliminary license under new conditions), or shall permanently repeal the license to operate.
As a rule, the use of services in the range of personal social care is on an optional basis.

The Social Act also deals with the protection of rights and interests of those receiving personal care; therefore the obligation of the head of the institution on informing the residents and their relatives is stipulated there. Also, a fixed rule is the requirement of approval of the house rules by the operator of the institution and these rules have to be made accessible to all those being cared for. In order to establish more efficient protection of the interests of those who are eligible, the Social Act provides for the creation of an interest representation forum in all of the institutions. This forum is responsible for examining the claims and complaints of both residents and their relatives and for taking measures to eliminate the causes. In that a forum cannot be dedicated to settling all the problems appearing in the life of such an institution, the act also requires the head of the institution to examine the complaint.

4.7 Social Assistance

One of the most important events in formulating the post-socialist welfare system was the drafting and approval of the Social Act. This act expresses that, on the basis of the principle of subsidiarity, the local community takes responsibility for meeting the basic needs of the citizens. The act specifies—among other matters—the individual types of financial and in-kind social benefits, and the eligibility criteria. Act XXXI/1997 on the protection of children and trusteeship administration extended the role of local governments in child protection.

In addition to the obvious political considerations, the allocation of power as well as responsibility to local governments in the area of welfare services can also be justified by the fact that the local needs and the actual living conditions of the potential beneficiaries are known best at this level. However, by now the disadvantages of decentralization have also become obvious. For example, the “freedom” to issue local regulations could result in more than 3,000 different local welfare systems.

The social assistance system is partly financed by the central budget and partly by the local self-governments’ own budget.

The recent social assistance system in Hungary consists of various benefits. This system, however, does not make the social protection system better targeted, as there is a serious leakage in the self-government managed cash benefits.
In the wording of the legal regulations and even in the rhetoric of the professionals, services for adults and children are differentiated. For instance, the network of child welfare services is responsible for child-related issues whereas the family care centers deal with the problems of families and adults. This kind of approach leads to a lack of harmonization of the two types of provisions. Families as units ought to be supported, not the different parts of them.

SOURCE: Case study in district self-government in Budapest.

The most important types of social assistance benefits are the following:

- Old-age allowance (social assistance for senior citizens),
- Occasional or crisis assistance (one-off and urgent payment),
- Care benefit,
- Child protection benefit,
- Income supplement benefit,
- Regular social assistance for unemployed people,
- Housing allowance,
- Death grant.

Only the professionals have appropriate information on all the forms of social assistance. The citizens generally do not know the eligibility criteria or the provisions, nor do they know their own situation in this respect.

SOURCE: Representative of a local-self government in one of the districts in Budapest.

*Social assistance for senior citizens* is provided for those elderly who are not entitled to an old-age pension.

### Table 2.15

| Number of Recipients of the Most Frequent Types of Benefit [thousand] |
|----------------|---------|------|
|                | 1990    | 1997 | 1998 |
| Regular social assistance | 46      | 27   | 28   |
| Income replacement of unemployed | —       | 186  | 175  |
| Housing allowance in cash | —       | 206  | 167  |
| In-kind housing allowance | —       | 95   | 103  |
| Occasional cash assistance | 807     | 742  | 537  |
| Occasional in-kind assistance | —       | 370  | 223  |
| Public health assistance | —       | 468  | 481  |
| Regular assistance for raising children | 101     | 656  | 806  |

The introduction of the flat-rate, regular *child protection benefit* provided as of right for every needy child was one of the major features of the reform measures of the social assistance system in Hungary in 1997. Although the legally formulated objective of the benefit is to guarantee the subsistence level and the upbringing of children in their families, this benefit is hardly sufficient to prevent the impoverishment of children or to impede the child protection authorities from taking away children from their families because of financial reasons without basic changes in the family support system. Even though the benefit is based on national eligibility criteria, because of the income and property-tested character of the benefit, the local self-governments have a broad space for applying different considerations as a result of home-visits. In order to ensure the “good use of public money” a municipality may decide to give this benefit in in-kind forms. As opposed to the preliminary calculations (500-550,000 children) more than 800,000 children proved to be eligible for child protection benefit in 1999.

Although two separate acts regulate the field of social policy, the responsibilities of our local self-government were comprised in one regulation. It was a political decision in our district to help the citizens to understand the possibilities. It is another question, however, that we neglected the numerous new pieces of legislation, as a consequence of which the local regulations have to be continually modified.

**Source:** Head of the department of Welfare at a district self-government of Budapest.

In the case of *crisis assistance* (one-off and urgent payment), local self-governments have the right to elaborate the detailed regulation concerning the allocation criteria. Although by definition this benefit is provided in exceptional crisis situations, since 1995 it can be provided monthly, indicating the holes in the social safety net.

It is a general feature of social provisions for unemployed people that entitlement criteria has become gradually tighter over the last ten years. The *income supplement benefit*, for unemployed people no longer entitled to unemployment benefit, was introduced in the Social Act and will gradually be abolished from 2000 onwards. This was a means-tested benefit with an obligation to co-operate with the labor market organization and, from 1996 onwards, to accept public work. The maximum amount of the benefit was equal to 80% of the minimum old-age pension. The income and property tested *regular social assistance for unemployed people* amounts to 70% of the minimum old-age pension only and compulsory public work as well as co-operation with a social work organization are also included in the allocation criteria.

The government intention to strengthen the role of public work as a precondition for regular social assistance gave new tasks to the local self-governments. Some people interpret it as the withdrawal of the state from this responsibility and its laying new burdens on the localities.

**Source:** Representative of a local self-government.
In Hungary—as in many of the CEE countries—housing costs have increased considerably, resulting in payment problems for a significant portion of the population. Several government measures have been created to promote debt management, including *housing allowances*.

There are two main causes for the arrears of the utility companies: (i) the gradual decrease of the real value of the income of households, (ii) the withdrawal of price subsidies. The proportion of arrears in the eastern part of the country is double that of the national average. The estimates indicate that some 8,000-10,000 families ran into debt in our city. The situation of the families living in flats rented from the local self-government (social housing) is especially worrying as 65% of them ran into debt with the rents and rates.

**Source:** Case study, Nyíregyháza.

In Hungary, although the Social Act defines the framework of the eligibility criteria (means-tested benefits for families if housing costs exceed 35% of the household’s income), local governments are entitled to set the housing “norms” on the basis of the standard housing stock within their constituencies. In most cases the benefits are paid directly to the communal service companies.

*Figure 2.6*

Changes in the Average Income, Minimum Wage, Average Old-age Pension, Minimum Old-age Pension, Subsistence Minimum, and Unemployment Benefit, 1990–1999 [HUF]

**Source:** Garzó, 2001.
“Although there are no reliable data about the adequacy of benefits, their level and the average sums disbursed are known. From this information it suggests that they can hardly be adequate. The subsistence minimum was around HUF 22,000 per person in 1998. It was close to HUF 60,000 for a family of three, and around HUF 75,000 for a family of four members. The average amount of regular assistance was around HUF 10,000, that of housing benefit or crisis assistance around HUF 1 to 2,000 per month. These sums are insufficient to cover even the most basic needs.”

Most forms of social assistance are based on means testing. The result of income testing is quite dubious due to the problems related to the gray and/or black economy. Selection based on property tests plays a role in the regular social assistance of unemployed people and in providing regular child protection benefit. Work tests play an increasing role in the social assistance of unemployed people not entitled to unemployment benefits. Behavior or character tests check the reliability of the applicants who are legally acceptable in the case of regular child protection benefits, educational benefits (family allowance during the compulsory education period), and child care support. Local self-governments, however, use home-visits in a far wider range thereby endangering the autonomy and privacy of the potential beneficiaries. Moreover, such practises often lead to paternalistic and discriminatory practices. The application of such tests is not only extremely stigmatizing, but may discriminate against the most needy; furthermore, the more preconditions that have to be met in order to gain entitlement, the more vulnerable low income families and individuals are.

**Figure 2.7**
Composition of Beneficiaries of Different Types of Benefits

![Figure 2.7](image_url)

**Source:** A munkanélküliségi ára. p. 40.
On the basis of the decisions of the local governments, some financial services may also be extended in the form of fully or partly *in-kind* social services, thereby seriously limiting the freedom of choice of the beneficiaries.

The purpose of means-testing is partly to relate the recipient’s income to a certain “official” standard—the administrative poverty line. Even though the objective formulated in the Act of most of the benefits comprises phrases like “guarantee the subsistence level of...” there is no enacted subsistence minimum in Hungary; rather the minimum old-age pension is the relating point or yardstick when calculating the benefits. The per capita household income is used as the “basic measuring unit” of income when deciding on social assistance entitlements.

*Table 2.16*
Some Statutory Minima and Some Yardsticks in Hungary, Monthly Sums [HUF]¹¹

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<tbody>
<tr>
<td>Subsistence minimum</td>
<td>4,380</td>
<td>5,391</td>
<td>13,300</td>
<td>14,083</td>
<td>16,481</td>
<td>20,700</td>
<td>22,800</td>
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<tr>
<td>Minimum pension</td>
<td>3,340</td>
<td>4,300</td>
<td>7,480</td>
<td>9,600</td>
<td>11,500</td>
<td>13,700</td>
<td>15,350</td>
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<tr>
<td>Minimum wage</td>
<td>3,700</td>
<td>4,800</td>
<td>10,500</td>
<td>14,500</td>
<td>17,000</td>
<td>19,500</td>
<td>22,500</td>
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<tr>
<td>Gross average wage</td>
<td>10,571</td>
<td>13,446</td>
<td>33,939</td>
<td>46,837</td>
<td>57,270</td>
<td>67,760</td>
<td>77,200</td>
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<tr>
<td>Net average wage</td>
<td>8,165</td>
<td>10,108</td>
<td>23,424</td>
<td>30,544</td>
<td>38,145</td>
<td>45,000</td>
<td>50,100</td>
</tr>
</tbody>
</table>

*Source: Civiljelentés (Civil report). p. 28.*

*Table 2.17*

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<tbody>
<tr>
<td>Unemployment benefit</td>
<td>87</td>
<td>87</td>
<td>77</td>
<td>94</td>
<td>80</td>
<td>77</td>
<td>77</td>
<td>81</td>
<td>86</td>
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<tr>
<td>Income replacement benefit</td>
<td>—</td>
<td>—</td>
<td>37</td>
<td>55</td>
<td>53</td>
<td>49</td>
<td>50</td>
<td>53</td>
<td>67</td>
</tr>
<tr>
<td>Regular social assistance</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>45</td>
<td>46</td>
<td>49</td>
</tr>
<tr>
<td>Crisis assistance</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>40</td>
<td>36</td>
<td>32</td>
<td>29</td>
<td>29</td>
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<tr>
<td>Care benefit</td>
<td>—</td>
<td>—</td>
<td>48</td>
<td>59</td>
<td>56</td>
<td>49</td>
<td>50</td>
<td>51</td>
<td>53</td>
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<tr>
<td>Average old-age pension</td>
<td>116</td>
<td>107</td>
<td>104</td>
<td>134</td>
<td>132</td>
<td>128</td>
<td>125</td>
<td>136</td>
<td>143</td>
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<tr>
<td>Minimum old-age pension</td>
<td>73</td>
<td>64</td>
<td>57</td>
<td>72</td>
<td>67</td>
<td>63</td>
<td>62</td>
<td>66</td>
<td>70</td>
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<tr>
<td>Net minimum wage</td>
<td>83</td>
<td>80</td>
<td>71</td>
<td>89</td>
<td>86</td>
<td>83</td>
<td>81</td>
<td>83</td>
<td>82</td>
</tr>
</tbody>
</table>

*Source: Garzó, 2001.*
When evaluating systems of social assistance the *maintenance of the real value* of benefits is a key issue. The indexing of benefits of social assistance type is not based on legal regulations, it depends on the will of the political elite in Hungary.

In Hungary, the legal basis for social assistance is established through various acts; local self-governments have the right or the duty to adopt these acts in local regulations. Legal regulations, however, only create—in principle—the conditions for social support.

Originally decisions on social assistance issues fell within the competence of the council of representatives of the local self-government. In a larger settlement, however, this body is unable to deal with individual cases, and this duty is delegated to the mayor, the social committee, or to the minority self-government. But the mayor has other things to do than deciding on the various applications made by individuals. In cities of any size it is impossible for the mayor even to sign every resolution, in view of which the Department of Welfare carries out the procedure. As a beginning of the process, a Welfare Officer meets the applicant whereupon the Welfare Officer formulates an opinion, obtains the proofs and outlines a proposal for a decision. The problem will be discussed with the head of the department, who then signs it. The applicant is then given the decision. If he/she has a reason and the possibility to appeal against it, the case goes back to the Welfare Officer, who will check the documentation and pass it to the head of department. Then a legal expert from the notary’s office will supervise the decision and only after this will the council of representatives deal with it. What can the council of representatives do at this stage? To use the right of exercising discretion to ensure the possibility of equity.

**SOURCE:** Head of Department of Welfare, Nyíregyháza.

In order to make any schemes *rights-based*, an additional precondition has to be fulfilled: appropriate legal mechanisms are needed to appeal against decisions made by the authorities.

In Hungary the first level of the appeals process is the same organizational unit that decides on the requests of the applicants: in other words, the council of the local self-government.

It is necessary to differentiate between the locally regulated forms of social assistance and those regulated in an Act. In the latter case, the refusal of an application may be contested in court, while only administrative-legal control may be requested from the office of the Public Administration Office with respect to the former case. This practice reflects one of the most important controversies of decentralized governance, where the principle of legal security faces the requirement of local autonomy.

5. DECENTRALIZATION AND SOCIAL POLICY: CONCLUSIONS

In social policy, decentralization ought to mean the clear distinction of the responsibilities of the different actors and functions (legislation, financing, service provision, legal and financial control, professional supervision). In this respect, many instances of deficiencies in the Hungarian regulations can be identified.
5.1 Legislation

- One may experience quite contradictory views concerning the legislative power of the local self-governments in the social sector. Some of the professionals emphasize that local self-governments have strong regulatory and decision-making power concerning social assistance benefits. The local self-governments have to formulate, on the basis of the Social Act or other laws, their own local regulations and they exercise a strong discretionary right when deciding on the criteria of entitlements. Thus, the current social assistance system does not ensure even the minimum existential security of the citizens. Consequently, some kind of centrally organized and guaranteed minimum income support scheme would be needed. According to other opinions there are too many normative benefits, and the local self-government is unable to enforce its concepts in social policy as the centrally regulated (e.g. in government Acts) eligibility criteria cannot take into consideration the local situation and the specific local needs.

- One way of interpreting the exercise of discretion is to consider it a special form of decentralization. In theory, the requirement of exercising discretion can be interpreted as a way to increase the decision-making power of local governments. In this understanding on the basis of the principle of subsidiarity the locally assessed needs may most effectively be met by locally adapted or outlined measures. However, especially when resources are scarce, this may lead to decisions based on discrimination or on the subjective judgment of the decision-makers. The elaboration of the local social support system is not preceded by needs assessment at the majority of the local self-governments. Those social support schemes that are not centrally defined are heavily dependent on local power relations and financial resources; the professional quality of the local regulations is strongly determined by the professional skills of the representatives of the local administration.

Quite often formulation of the acts and local regulations is based on trial and error: something is enacted, experiences are collected, and then legal regulations are modified. In most cases, either the preconditions of the implementation are missing or the deadlines prove to be unrealistic.

5.2 Social Provisions

The political transition brought about a wide-ranging change in social policy. Local self-governments were formed and this, in conjunction with the principle of regulating the social assistance and service functions at local level, resulted in a rarefied and diverse social service care system. The proponents of decentralization efforts argued that it
THE IMPACT OF DECENTRALIZATION ON SOCIAL POLICY

would provide more flexible services, more efficient compliance with local needs, and would mean an economically more efficient and transparent operation. These can indeed be noticed in minute traces, yet the system possesses significant problems and distortions.

The main deficiencies of the social support system are the following:

Benefits in cash and in kind tend to:

• preserve poverty;
• apply corrective measures rather than prevent the sliding down of certain social groups;
• function in a confused, frequently bureaucratic and non-effective way;
• be unjust as it is impossible to test the real income of households;
• lack harmony with the big re-distributive systems.

The main characteristic features of the social services are that:

• the level of quality of the services is frequently unsatisfactory;
• in several cases the institutions have high operational costs due first of all to the high maintenance cost of the buildings they are situated in;
• the necessary financial resources to operate and develop these services are missing;
• several institutions do not meet even the obligatory legal requirements.

Problems arise from the situation that no serious consequences can be felt when a local government violates legal requirements (such as not operating mandatory day-care institutions). Statistical data clearly shows that only a fraction of local governments operate all the services stipulated by law.

On one hand, the Social Act reacts realistically on the Hungarian settlement structure and that of the financial capacity of the municipalities when it differentiates the services according to the size of the settlements. This solution, however, assumes that the consumers would “travel” to obtain the services provided in other settlements, which—as a result of the problems of the clients and their financial difficulties—is often not the case. Thus the actual practice unintentionally violates the principle of equal access to services.

One of the most striking consequences of decentralization is the non-uniform quality of services provided: characteristically, the situation is worst in large institutions operated by the county (as confirmed by reports of the Ombudsman), while in most of the privately run homes and in certain cases in old-age homes operated by community governments the level of services is appropriate.

Currently the number of different social assistance schemes might equal the number of local governments. Their social policy activities can be seen only through very indirect
ways, such as through the annual statistical data. Moreover, there is usually a year’s delay before the statistical data is processed and evaluated and, due to the structure of data gathering, it is highly unlikely that the data will cast any light on all the possible service forms. Such data is also not suitable to demonstrate such features (individual evaluation, special conditions, tests), which in practice bear real significance. Targeting of social assistance is not ensured: it cannot be said for sure that the service and the care are given to the most needy.

Decentralization of social assistance has resulted in such low level benefits that they are most definitely inappropriate as a means of raising the income of a household to the subsistence minimum. Administration of benefits is so complicated and frequently humiliating that a substantial part of those in need probably give up applying from the very start. Only a minute part of the benefits can be obtained by legal action in court; in the case of the rest of the benefits there is no such possibility available. All this means that existential security cannot be ensured in the current cash-benefit system.

It is a professional problem as well as diminishing the quality of the services that the institutions have no clear profile. In several cases young alcoholics lived in homes for senior citizens, or people suffering from metal illness live together with disabled people thereby causing severe tensions in these institutions.

Decentralization ought to mean an effort to solve the social problems in the framework of the compulsory basic services. As a result of the scarce financial and human resources and the lack of capacity, local self-governments tend to be motivated to pass on both the “problem” and the costs of provision to a higher level of governance, i.e. to the county self-governments.

Decentralization has resulted in a stronger role gained by the church and non-governmental organizations. Non-governmental organizations are generally more flexible in several respects and more innovative than the state sector. The pioneering role of the third sector is obvious and indisputable; the introduction of some compulsory new types of services became necessary just because of their activities.

The picture is more diverse in the case of services provided for senior citizens: non-governmental organizations appeared here in a more business-like manner, meaning the differences in quality levels are felt more intensively. Many of the typically boarding-type institutions of non-governmental organizations react on demand since there is a willingness to pay market prices for appropriate levels of services.

Interviews with the representatives of non-governmental organizations demonstrated that the rigidity of relations as well as the difficulties in communication with the local self-governments are recurring problems. In practice, only after many difficulties are non-governmental service providers accepted. We did not find a single example of a settlement which would have been inclined from the very start to comply with its obligation to provide social care and services in the framework of a contract to be concluded with a non-governmental organization.
The local self-governments responsible for service provision do not have a long-term concept or vision of who is going to provide what kind of services and to what extent. Frequently, a local self-government appears as a contracting party in service contracts, while at the same time it maintains and operates the same services.

The range of means and “skills” by which local government officers would be able to ensure transparency, efficiency and effectiveness of the various organizations providing social services is generally missing. Currently, local governments are bad “customers” or “clients”: they are not fully aware of what they really want in return for their support. They are traditionally inclined to maintain such a system in which they can intervene, and do so whenever they consider it appropriate. Indirect regulation and a horizon for one are still unknown to local government officials despite the latter factors being important conditions for the stable and reliable operation of the non-governmental sector.

Problems of communication with non-governmental organizations are explained by local government decision-makers by their mistrust such organizations: local governments find the means too weak for controlling activities so they would rather ensure services within their own local government systems.

In the case of services, however, decentralization brought about real results: flexibility, new types of services, and institutions more sensitive to the perceived needs of the users.
NOTES


2 This part of the study is partly based on a paper prepared by Katalin Tausz within the project Comparative Institutional Reform in Social Policy. East-Central Europe in a European Context (1989-2001). IWM (Vienna), 2000.


5 GYES is a cash benefit to provide financial support for a parent staying at home with a child aged under three. The sum of the benefit is equal to that of the minimum old-age pension.

6 Based on the Home page of the Ministry of Social and Family Affairs: http://www.szcsm.gov.hu

7 Act III./1993. on social administration and social services.

8 Several studies deal with these issues in the volume of Denationalisation dilemmas: social policy constraints and choices. ATA 1995.


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CHAPTER 3

Social Sector Development in Latvia

Linda Zivarte

Dace Jansone
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INTRODUCTION

This research report on the decentralization of social policy in Latvia was done in the framework of a comparative study. The main intention of the research project ‘The Impact of Decentralization on Social Policy’ was to analyze decentralization in three former socialist countries. Hungary, Latvia and the Ukraine.

The structure of this part of the study is as follows: first, an introduction to the social and economic context of developments in Latvia in the 1990s will be given to provide the context showing the need to develop a social policy. This is followed by a description and analysis of the design, development and implementation of the social security system in Latvia focusing on the formulation of the relevant legislation, on the agents of social policy, and on the system for financing social policy activities. The next part will present a discussion on the decentralization of the social policy in reality by analyzing the benefits and problems related to this process, with a special focus on the effect of decentralization on the living conditions of the population.

1. LEGACY OF THE PAST IN THE SOCIAL SECTOR

1.1 Latvian Social Protection System: Historical Overview

When analyzing current developments in the social sector, it is necessary to take into account the historical background, which has influenced social transformations to a much greater extent than have any theoretical considerations.

From a historical point of view concerning the developments in the social sector, three main periods can be highlighted:

1. Latvia as an independent state before World War II;
2. Latvia as a part of the Union of Soviet Socialist Republics (USSR);
3. Latvia after the restoration of independence.
In this section the main focus will be on the first two periods; the rest of article will be devoted to a more detailed analysis of the third period. During these three periods the basic conditions and principles of social security have changed radically and these developments can be considered as revolutions in the social sphere itself.

The first period began in 1918 with the establishment of the Republic of Latvia. The initial years can be described as a period of considerable uncertainty; this was also true of the social sphere. The basis of the social provision system was limited to the rules elaborated by the local governments. It is important to stress that during the first period, the social security system was developed in the “bottom-up” approach: the laws gave the local administration the right to regulate social issues. The rights to social assistance strongly depended on where a person lived.

It was not until ten years later, in 1928, that the general law On Social Provision was promulgated and the system of social protection was established. The basic principles of this system can be defined as the concepts of reward (what you did) and compensation (what you get). The concept of compensation was implemented by various social assistance activities at the local level. In general the social legislation of this period can be characterized as fragmented and incomplete.

In the second period (1940-1990) the approach to social issues radically changed. The previous, locally-oriented system was reorganized to become a highly centralized one, which was also ideology-oriented. The Soviet system was, in general, based on the concept of status (who you are). The weak point of this approach was the inability to provide the appropriate level of social protection. Formally, the social rights of the Soviet people were declared as almost welfare state rights: guaranteed pensions, free health protection, comprehensive and free child care, full employment, etc. The financial resources were guaranteed from the centralized Soviet state budget that was formulated in Moscow. The financial responsibility for the social sector was then shifted to the Council of USSR Trade Unions, which further delegated part of this to the Council of Trade Unions of the Latvian SSR. All pensions, maternity allowances, sickness benefits, etc. were provided in accordance with the centralized standards and only in a few cases were they adapted to the specific Latvian context. Local governments had no independent financial bases and tended to act as symbolic entities with no direct responsibilities regarding social issues. During the 50 years of the Soviet regime the Latvian population became accustomed to obtaining a great deal of assistance from the state. Personal initiative and personal contributions did not play any role regarding social protection conditions. All calculations were based on a highly formalized approach. There was no official unemployment in the Soviet Union because everyone had the right and obligation to work. If there were no possibilities to find a relevant job in one place, the person was sent to another place where there was a lack of the given kind of worker or specialist. The Soviet administrative system used social policy measures as political tools so as to prove the egalitarian nature of its society. This system, however, basically worked as an instrument
of unification and rejected any personal initiative. This approach facilitated the development and strengthening of the party administrative elite (nomenclature), which was provided with exclusive social benefits.

1.2 Main ‘Old’ Structural and Institutional Social Problems

During Soviet times there was no official open unemployment, hence no unemployment benefit system existed; poverty did not exist (at least officially), hence no poverty relief system functioned. Because of the main characteristics of the Soviet welfare system (flat income distribution meaning insignificant income inequalities, universal benefits, non-existence of personal income tax), the administrative capacity of the states in the social sector was weak.

In the late 1980s and early 1990s job security ended, income inequalities widened, and economic output fell, all of which led to a disproportionate decline in tax revenues. The consequences of this were the sharp increase of unemployment and poverty.

The reform processes of these years led to a new distribution of responsibilities. Individuals and families were made responsible for their own lives and their own living conditions and well-being instead of the state. The underdeveloped social infrastructure, the lack of resources, the huge number of persons in need, and the negative attitude towards individual problem-solving were the most crucial factors and obstacles during the implementation of the new social policy approach.

2. TRANSITION: POLITICAL, ECONOMIC AND SOCIAL CHANGES

2.1 General Information

On 21 August 1991, Latvia declared the restoration of its de facto independence. Latvia is situated at a trading crossroads, and has long since served as a bridge between Western Europe and Russia. The geopolitical situation explains many complexities related to economic, political, as well as demographic developments; these will be mentioned later.

At the beginning of the year 2000 the Latvian population was about 2.4 million of whom nearly one third live in the capital—Riga. The ethnic mix of Latvia’s population is largely the consequence of the massive post-war immigration, which resulted in a decline in the proportion of ethnic Latvians from 77% in 1935 to 52% in 1989 (Annex 1). Latvia’s complex historical past is also reflected in the citizenship issue (Annex 2), which was one of the main topics in political discussions in the 1990s—apart from the discussions on the status of the national language.
2.2 Political System, the Administrative Organization of the Country and Key Institutions Involved in Social Policy

Latvia is a democratic, parliamentary republic. The electoral system in Latvia is proportional representation. There is universal suffrage for Latvian citizens over 18 years of age. Legislative power is vested in a one-chamber parliament—the Saeima, consisting of 100 deputies (Members of Parliament). Parliamentary elections take place every four years. The head of the state is the President, who is elected by the Saeima for a period of four years by secret ballot based on a simple majority of not less than 51 MPs. The President signs laws, performs representative functions, and chooses the Prime Minister, who heads the government. The President represents the State in international relations, is the Commander-in-Chief of the Armed Forces, and has the right of legislative initiative. The current President of the Republic of Latvia is Vaira Vike-Freiberga, the first female president in Central and Eastern Europe.

In 1990 the Supreme Council of the Latvian SSR enacted the Declaration on Independence from the USSR, and the constitution of 1922 was reinstated. The Constitution was amended in 1994 and 1997 (with regard to national elections), and also in 1998 (a section on human rights was added). Since the restoration of independence three parliamentary elections have been held. Traditionally there is a great deal of competition for the 100 seats in the Saeima. For example, in June 1993, eight parties out of 23 were elected to the 5th Saeima; in October 1995, nine parties from 19 were elected to the 6th Saeima; and in the 7th Saeima elections in October 1998, six parties out of 21 were elected. The next parliamentary elections in Latvia are due to be held in 2002. Governments are formed on a coalition basis. The only party which has been represented in all post-Soviet governments is the Latvian Way (a centrist and liberal party). The average duration of coalition governments is approximately one year, generating uncertainty about the political will to continue reforms as well as the sequence of reform efforts due to lack of clearly defined priorities.

The Government consists of the Prime Minister (also known as the President of Ministers) and the ministers appointed by the Prime Minister. The administrative institutions of the State are under the authority of the Government.

The Saeima votes on the basis of confidence or no-confidence in the Prime Minister and the established government. The Cabinet of Ministers consists of the Prime Minister, the ministers, and the ministers of state.

2.3 Administrative System

The ministries are the principal institutions of the executive power through which the Cabinet of Ministers performs tasks determined in the Satversme (Constitution) and on
the basis of legal regulations. In some cases, ministries and other national administration bodies have territorial offices—mainly at a regional level. These offices work in close cooperation with the regional and local governments. The distribution of main functions between the central government and local governments is described in Annex 4.

The administrative system consists of 12 ministries (thus, 12 ministers) and two ministers without portfolio. Efforts to de-concentrate the state administrative structure and to de-centralize state functions have been undertaken. The central government has developed a number of (de-concentrated) administrative units that are responsible for state functions at regional level. The main approach to de-concentration is to empower individual ministries to decide on the principles of how to de-concentrate units. Some ministries have regional structures that were established during the Soviet period (e.g. the Ministry of Agriculture, the Ministry of Environmental Protection and Regional Development); others created regional structures during the 1990s (e.g. the Ministry of Finance (the State Revenue Service) and the Ministry of Justice (the Naturalization Board)). These ministries that created their own regional administrations have not always coincided with each other. Different ministries have completely different regional structures organized in accordance with various territorial and structural divisions. Some ministries chose the principle of administrative regions (26 units); others are organized in accordance with the principle of the historical division of the country into 6 regions. This diversity can be explained by the difference in needs and aims of various de-concentrated government institutions. The lack of a unified principle creates a complex and controversial service delivery system; from the citizens’ point of view, such a system is both irrational and extremely time-consuming. In order to solve problems arising from uneven access to administrative services, a rational administrative-territorial reform is essential at both the local government and regional level; however, there has been no real progress in resolving this issue.

The existing reform concept offers some prospects for future development: the rationalization of the institutional system will be achieved by enacting a law on the distribution of functions and tasks at different government levels. Competencies will be divided on the basis of the subsidiarity principle, which ensures decentralization and democratization. To avoid the duplication of competencies and to achieve greater efficiency, some functions will be exclusively assigned to one level of governance. The relationships between the levels of government will be based on co-operation and co-ordination. The administrative-territorial reform is related to changes in the boundaries of administrative territories. The basic prerequisite of an administrative territory is that there is a municipality. The central and local governments can organize their functions in other territories without directly coinciding with the municipal territory. A change in the administrative territories and the organization of administration in the territory is not a goal in itself, but changes are linked to many other issues of public administration. Actually, there are three reform processes underway: the unification of territories for the
performance of de-concentrated public functions; the territorial reform of the regional governments; and the territorial reform of local governments. The purpose of the unification of territories for de-concentrated public functions is to improve the accessibility and quality of public services. The development of public administration aims at creating a rational division of competencies between the central government and local government authorities, a clear definition of responsibility and public accountability mechanisms, effective vertical and horizontal co-ordination, a professional civil service, an efficient public finance management system, and predictable performance of public institutions.

Local governments

There is a two-level system of local governments in Latvia consisting of towns and rural municipalities on the first level, and districts on the second level. In addition, there are seven cities, which combine these two levels into one thereby fulfilling the functions of both the first and second levels of local government.

The organizational structure of local governments is determined by the law *On Local Governments* (1994) and by a charter approved by each local government’s council. Each type of local government has a council; the councils are elected directly by Latvia’s citizens under a proportional representation system.

The economic basis for local governments is the property and possessions in governance and usage of the corresponding local government as well as the financial resources accumulated from:

- tax payments of legal and natural persons to the local budget,
- specific grants and block grants (targeted grants) from the state budget,
- loans,
- local fees and other payments to the local budget,
- fines (e.g. for traffic offences, not paying local taxes, spreading garbage, etc.) to be transferred to the local budget,
- revenues from local government property and the business activities of local government institutions,
- voluntary contributions of legal and natural persons for the accomplishment of certain goals,
- other revenues.

The allocation of income between central and local government budgets as well as the amounts of grants and catch-up facilities are regulated by special laws or by the annual budget law.

It has not yet been decided which local government institutions and jobs will be covered by the civil service system. It is anticipated that most local government employees working in education, medical, and commercial activities will be excluded.
The law *On Local Governments* specifies that the Cabinet of Ministers must consult with local government representatives before adopting decisions that will affect any or all local governments. Consultation is realized through a system of negotiations that has been established between the Cabinet of Ministers and the local governments. The Union of Local Governments, a nation-wide organization that unites 496 of the 586 local governments in Latvia, represents local governments in the negotiations. The Cabinet must review any areas of disagreement that emerge from the negotiation meetings.

The law *On Local Governments* stipulates stronger supervision of local governments by the central government, particularly to ensure the legality of local government decisions. The Minister-without-Portfolio for State Administration and Local Government Reforms currently supervises the legality of decisions taken by local government councils. This Minister can suspend any legally unacceptable decisions of the local government councils, but only the courts have the right to nullify decisions. The Minister can also suspend the chair of a local government council if they violate the constitution, the law and regulations of the Cabinet of Ministers, or court orders. In addition, the Cabinet of Ministers has the right to submit to parliament a request to dismiss a local government council if this council has repeatedly violated the constitution, the law and regulations of the Cabinet of Ministers, or court orders.

Local governments have the right to co-operate with or to establish non-governmental organizations to fulfil tasks of common interest or to decide on joining or seceding from these organizations. After mutual agreement, the local government can delegate certain functions to other local governments. Financing comes from the budget of that local government which is the contracting, and supervising authority. Local governments can also co-operate with local governments in other countries.

As regards local self-governing authorities in Latvia, there are municipal governments and administrative regions (rayons). Local governments operate under the law *On Local Governments* and are independent of any interference by the state. They are governed by elected councils and have partly independent budgetary resources. The main problems in everyday activities arise because of the lack of a clearly defined division of functions between administrative levels and the provision of adequate financial resources. In order to stabilize the budgetary issues in local governments and provide municipalities with the necessary financial resources for the provision of services on an equal basis for all citizens, the system of budget alignment was created. Any conflict between the state and the local municipalities can be solved in court. Since 1992 there has been an ongoing discussion about the necessity for an administrative-territorial reform in order to create efficient and competitive local and regional administrative structures. The arguments of the economy of scales and democracy are being discussed to create balanced governance at all three administrative levels.

To understand the reform processes in Latvia it is necessary to consider not only the political and administrative context of these processes but also their economic and social aspects.
Local government reform is one of the most important targets for transforming Latvia. The concept of reform was approved by the Cabinet of Ministers in 1993. The main goals are the democratization and decentralization of state power and public administration, the development of accountability of local governments in fulfilling tasks delegated to them, the improvement of the quality of public services rendered to local residents, and an increase in public participation in the process of administration.

The main principles of local government reform in Latvia are:

- democratization and decentralization of administration,
- autonomy of local government from the central government,
- independence of activities within the limits of the law,
- development of municipal and private property,
- establishment of independent local budgets,
- use of market (rather than command) methods of management.

2.4 Main Actors of Social Policy

2.4.1 Commission on Social and Labor Issues

The Commission on Social and Labor Issues is a structural unit of the Saeima. The Commission’s members are deputies (MPs). The basic task of the Commission is to take part in the formulation of draft laws and their discussion, and the review of applications received from the population, agencies, and other organizations.

2.4.2 Ministry of Welfare

The Ministry of Welfare was established at the end of 1991 within the framework of the general administrative reform by merging the Ministry of Health, the Ministry of Social Insurance, the Committee of Labor and Social Affairs, and the Department of Welfare of the Ministry of Economics.

The main tasks of the Ministry of Welfare are to formulate a national policy in the areas of social security and health care, to administrate and to use political, economic and legal means in resolving issues of social insurance, social care and social assistance, health care and protection, as well as issues of public health and pharmaceuticals, labor, labor protection, and employment- and unemployment-related problems, thereby creating the prerequisites for securing the subsistence minimum and the quality of life for the population of Latvia, as well as the social security network which would reduce the likelihood of social risks and help to improve the standard of living.
2.4.3 Local Self-governments

According to the law *On Local Governments*, the main function of towns and rural local governments is to organize public services and activities in the fields of education, culture, primary health, and social assistance. The towns and other municipalities determine and collect local taxes and fees in accordance with the respective laws. The district governments possess responsibilities in the fields of health, education, culture, and social assistance at district level (Annex 6).

The participation in local government of inhabitants who are not citizens of Latvia is intended to include—as suggested by the Council of Europe Convention on the Participation of Foreigners in Public Life—participation as experts in the work of special committees established to deal with the problems of non-citizens in areas where there are a large number of them.

The local government council approves the local government charter, the budget, plans for socio-economic development, and environmental protection. It elects, and can recall, the council chairman, vice-chairman and members of standing committees established by the council.

The execution of functions that are assigned by the law *On Local Governments* is financed fully from the budget of the corresponding local government (Annex 5). The Cabinet of Ministers or individual ministries may delegate specific tasks to local governments. In delegating such tasks the Cabinet of Ministers or the relevant ministry must accordingly transfer financial resources to the local government, or the local government may voluntarily support the task through its own resources. State administrative institutions do not have the right to delegate functions and tasks to the local governments if the financing is not provided.

Analysis of the impact of decentralization on the division of functions between the state and local governments has revealed that one of the most important problems is the excessive overloading of local governments. This means that although the state delegates functions to local governments, funding does not match these functions. This situation causes dissatisfaction of local governments and their dissociation from the state; the dialogue between the state and local governments is obstructed. In this impossible situation local governments are forced to take their own decisions and thus it is not possible to speak about a uniform, national social policy which is implemented on the basis of equal criteria.

2.4.4 The Non-governmental Sector

In the non-governmental sector, those institutions operate which are driven neither by striving for a profit (the private sector) nor as part of the state (the public sector); these institutions are essential factors in the development and preservation of a stable democracy.
Moreover, the involvement of non-governmental organizations reduces budgetary expenditure as well as offering the likelihood of innovative and more economical solutions for society’s myriad problems. Non-governmental organizations are also a means of promoting public and political integration. They operate in areas where public resources are insufficient and which are not profitable for the private sector. Non-governmental organizations offer various ways of addressing problems, they publicize the differing opinions of society’s representatives, express social needs, help to protect public interests, and are in a position to create a dialogue with the state and other political forces.

During the transition of the economy at a time when the role of the state is decreasing, non-governmental organizations conduct important work, taking upon themselves part of the responsibilities of the state. In recent years the state has become aware of the usefulness of delegating responsibilities to non-governmental organizations.

The delegation of functions increases the client’s options for choice and offers the likelihood of improving the quality of services. The delegation of functions is most evident in the area of social assistance: offering various alternative social services such as home care, day centers for the disabled, the elderly, persons with special needs, etc.

On the other hand, the decentralization of functions creates problems related to control, supervision, and assessment. In the year 2000, draft regulations of the Cabinet of Ministers “Requirements for Providers of Social Assistance Services” were formulated. These regulations prescribe general demands to providers of social assistance services. The service provider may be a local government, a private organization or association, or a non-governmental organization. Institutions to which these regulations apply are social care institutions for children/adults, crisis centers, day-care centers for the mentally disabled, night shelters, social assistance services, providers of home-care services, etc. Regulations prescribe requirements in relation to the organization of work, the number of staff, the distribution of tasks among the staff, and the professional qualifications of the staff.

One of the worries of decentralization in Latvia is how to achieve a uniform quality of social services, and to ensure that the social service is of quality irrespective of the place where it is provided, who receives the service, and who provides the service. The diversity of service providers jeopardizes the uniformity of services under the same given terms. Thus the formulation of regulations is a very relevant result of decentralization, and one which is directly linked to the quality of social services and service quality standards.

Problems that exist and hinder the efficient activities of non-governmental organizations (NGOs) are related to the acquisition of status. The process of acquiring status is one that is full of uncertainties and, at times, arbitrary assumptions. With the acquisition of status, NGOs are freed from the payment of taxes. According to the annual financial reports, most non-governmental organizations have quite modest financial resources, which are mostly constituted by donations “in-kind, not in-cash.” One of the trends observed in the development of non-governmental organizations in Latvia is that the activities of most non-governmental organizations in Latvia break down soon after their
establishment as they are unable to attract volunteers and to ensure the required funding. By 1999 more than 4,500 NGOs had been registered in Latvia, however only a small part of them have resources exceeding LVL 5,000 (USD 8,000) per year. About 80% of resources received by NGOs come from foreign not domestic sources; however, even the support of international organizations has been irregular and limited because international donors do not have a concentrated, organized approach to supporting an organization or a sector. The financial basis for NGOs in Latvia is not diverse and, as a rule, each organization relies on only one or two sources of funding. On the whole, there are few non-governmental organizations which are financially stable and these tend to exist only from one project until the next.

2.5 Macro-economic Development and Societal Changes Since Independence

Since the restoration of independence (August 1991), Latvia has been consistently following the path of transition from the command economy to a market economy. Within a relatively short period of time, the foundations of a market economy were laid and good macro-economic preconditions for economic growth were created (low inflation, low level of government debt, stable national currency, positive balance of payments, etc.). The privatization of public enterprises is nearing completion. The share of the private sector in agriculture, manufacturing, construction and trade now exceeds 90% (Report on the Development of the Economy of Latvia 1999). During the years of independence, Latvia has been able to restructure its economy and at present closely 60% of its foreign trade is with the countries of the European Union. On 10 February 1999, Latvia was the first of the Baltic countries to become a full member of the World Trade Organization. Membership has offered an opportunity to expand external economic activities on the basis of most-favored nation treatment with the 135 member states. The activation of the economy and the rapid growth of exports together have resulted in an increase in total GDP (Annex 9). Under the impact of external factors the development of Latvia in 1998 and 1999 was slower than potentially possible (Annex 7). The complicated economic situation throughout the world and especially in Russia has influenced the development rate of the Latvian economy. Consequently, in the second half of 1998 and the beginning of 1999 Latvian export volumes declined, banking indicators deteriorated, budgetary revenues did not accrue as planned, and unemployment rose. Since the second quarter of 1999 the economic situation has improved, with a growing foreign trade turnover, increasing exports and manufacturing output, and falling unemployment rates. Although the Russian crisis has had a negative impact on the economic development of Latvia, real wages and pensions have continued to go up. In the second half of 1998 and at the beginning of 1999 under the impact of the Russian crisis,
many enterprises were forced to lay off people. The highest peak of unemployment was in April 1999, yet by May it started to go down (Report on the Development of the Economy of Latvia 1999). Today the financial system in Latvia is stable: the national currency in circulation is fully covered by foreign currencies and the gold reserves.

Accession to the European Union is one of the top priorities of the political and economic development of Latvia. December 1999 marked a new phase in the relations between Latvia and the European Union as the EU Council decided to continue the EU enlargement process and also invited Latvia to start accession negotiations. This decision is, in a way, an evaluation of Latvia’s progress.

As mentioned, budget expenditures have increased over the past few years. So far as the social budget expenditures are concerned, they have increased substantially—by 20%. There have similarly been increases in expenditure on public order and safety, on the judiciary, as well on health care, recreation, sport, culture and religion, and on economic affairs. In only two instances did expenditure go down: general public expenditure and defense (Report on the Development of the Economy of Latvia 1999). According to the human development index (HDI) calculated by the United Nations, in 1999 Latvia occupied the 74th position in the world (92nd in 1998).

2.6 Labor Market Situation

During the 1990s, Latvia, like other CEE states, experienced huge economic reforms—privatization, restructuring of the economy, etc., accompanied by changes in the employment structure. The dominant trends are illustrated in Annex 10.

The employment growth that had been apparent since 1996 came to a halt in the second half of 1998 due to the Russian crisis. With regard to the unemployment situation (Annex 11), it should be mentioned that the actual unemployment rate in the country is much higher. Labor surveys carried out by the Central Statistical Bureau in accordance with the methodology of the International Labor Organization show that the number of people seeking jobs in the third quarter of 1999 was 13.9% (in the third quarter of 1998—13.7%) of the economically active population.

The unemployment rate varies from region to region and from city to city. The most difficult situation exists in the regions and cities of Latgale. Here, every fourth unemployed person is unskilled. The number of job-seekers in the economically active population showing the actual level of unemployment in the country is described in Annex 12.

There is a trend in the growth of unemployment among people between 20 and 25 years of age. At the end of 1995 the share of this age group in the total number of the unemployed was 11.6% and at the end of 1998 it was already 12.7%; at the end of the first half of 1999 it had slowed down to give a figure of 12.2% of the total number of
unemployed. The same trend can be seen in the changes of unemployment in the 25-30 age group.

Many unemployed people are unskilled; this situation has not changed over recent years, remaining at the level of 26-27% of the total number of unemployed. The number of unemployed without any profession (without training) in the total number of unemployed at the end of 1995 was 3.2%, and in the following years 4.7-4.9%. The majority of unemployed are people with general secondary education and incomplete primary education (at the end of 1998 these proportions were 31.3% and 23.9% respectively). The number of unemployed with higher education at the end of 1998 was 6.8% of the total number of unemployed.

Long-term unemployment is a serious problem in Latvia. Lately there is evidence of improvement. At the end of 1998 there were 29,300 long-term unemployed people registered with the State Employment Service (registered for more than one year), or 26.3% of the total number of the unemployed (38.1% at the end of 1997). At the end of the first half of 1999 the share of the long-term unemployed reached 25.4%. The proportion of long-term unemployed in different districts of Latvia varies, e.g. in Latgale in 1999 had reached 54.2% (and these are only the official figures).

As regards the length of the job-seeking period:

- 54.6% have been seeking a job for 1-5+ years;
- 16.7% have been seeking a job for 6-12 months.

Long-term unemployment is related to several other social problems, including depression and lack of faith in oneself. The longer an individual is out of work the quicker the professional skills and the ability to adapt to the new labor market conditions and requirements are lost.

At the end of 1998 the State Employment Service had about 3,000 vacancies on its books. The highest demand was for senior specialists, skilled workers and craftsmen. There is a trend towards an increase in vacancies in the private sector. At the end of 1995, of the total number of vacancies, 29% of jobs were in the private sector; at the end of 1998 this figure was already 62%. The long-term goal of the employment policy of Latvia is the full employment of individuals able to work, ensuring that all Latvians who are willing to work have the possibility of finding a job, becoming part of the labor market, and ensuring people’s economic and social mobility (Report on the Development of the Economy of Latvia 1999).

The basis for the employment policy was formulated in 1992 when the law On Employment took effect. Alongside passive activities for promoting employment, wide active measures were undertaken, such as vocational training or retraining, and temporary paid community work (TPCW). In 1993, 2,816 people were given training or retraining courses and 6,692 persons were engaged in TPCW; in 1998, the respective figures were
six times and two times greater. Total expenditures from the budget earmarked for employment activities increase annually. The budget is linked with the increase in both the number of unemployed and the size of the unemployment benefit and the expansion of the scope of active employment measures. Budgetary allocations for financing employment activities also increase annually. However, the amounts paid in unemployment benefits considerably exceeded the total amount of resources spent to support active employment measures.

The following priorities in the development of the Latvian employment policy are:

- improvement in the quality of the workforce;
- promotion of employment among young people;
- shortening of the length of the unemployment period;
- development of special employment programs to integrate people of pre-retirement age into the labor market;

2.7 Basic Demographic Indicators Influencing the Social Protection System

The natural growth of the population changed from positive to negative during the 1990s (Annex 3, Annex 13). Bearing in mind the negative balance of migration, the population has decreased by 226,000 people since 1989, or 8.8%. Even so, there are also some positive trends. In a nine-month period of 1999 compared to the same period in the preceding year the number of newly-born children went up by 7.4% and the number of deceased dropped by 1%. Thus the overall decline in the population level was smaller than in previous years (Central Statistical Bureau of Latvia).

The average life expectancy is low: in 1998 for men it was 64.1 years, for women it was considerably higher—75.5 years. These figures remain at the level of 1990 and are, on the whole, lower than in most economically developed countries where the average life expectancy for men exceeds 70 years and for women 80 (Annex 14).

In 1998 the government approved a program for improving the demographic situation. The main goal of the program is to secure an increase in the population. Strategic directions in its implementation are to strengthen families and stimulate the birth rate, and to improve the level of education and culture. However, in order to achieve these objectives it is necessary to invest considerable resources in the development of the national economy, to increase the possibilities of employment, to promote research and education, and to improve the health-care system.
2.8 Standard of Living and Poverty

Since the restoration of independence in Latvia and the shift to a market economy there has been evidence of the social stratification of the population. This stratification was rapid in the initial stages, becoming stable during recent years. Two clearly distinguishable social groups have emerged—the affluent and the poor; those in between do not have very clearly defined characteristics.

There are considerable regional differences regarding the income of Latvia’s population. Data concerned with the household budget survey shows that in 1998 a higher level of income and more rapid growth rates characterized the households of the Riga region. Here, the monthly disposable income of a household amounted to LVL 74 per household member which is higher than the national average by 18.7%. The second highest level of income was in Zemgale (LVL 57) closely followed by Vidzeme (LVL 56). The lowest income and growth rates, lagging behind the inflation rate, were in Latgale’s households. The monthly disposable income in this region was only LVL 45.54 per household member—by LVL 16.79 (or by 26.9%) lower than the national average.

The income level is strongly determined by the demographic (family) situation of the households. The situation is worse in single parent families.

Food and housing maintenance costs are still the main consumer priorities in households. In this respect there are significant regional differences as well.

At the initial phase of the transition period (until 1996) a falling trend in real wages and salaries was observed every year whereas in recent years real wages have been continuously rising. Statistical data shows that the Russian crisis has not significantly affected the income of people employed in the national economy and it keeps going up though at a slower rate than in preceding years (Central Statistical Bureau of Latvia).

The average wages—converted into dollars—of people employed in the national economy fell behind other candidate countries of the European Union, except Bulgaria and Romania. The income of people employed in educational institutions, health care and social assistance, and those who work in recreation, culture and sport are at approximately the same level, viz. LVL 116–117; this amount is still below (by approximately one-sixth) the average income of people employed in the national economy. At the beginning of 1999 the minimum monthly wage in Latvia was raised to LVL 50 (approximately USD 110). Yet at the end of May 1999 a general agreement was signed between the Employers’ Confederation of Latvia and the Latvian Free Trade Union Confederation on raising the minimum monthly wage to LVL 65 in enterprises of the Confederations (Report on the Development of the Economy of Latvia 1999).

In nine months of 1999 compared to the same period in the preceding year the average old-age pensions went up from LVL 50.2 to LVL 58.02. This growth of pensions was basically related to amendments to the law On State Pensions passed by the Saeima on 21 October 1998. The said, amendments allowed employed pensioners who had
worked for at least three years after 1 January 1996 to have their pensions recalculated in accordance with the new pension calculation rules. The above-mentioned amendments and other changes together with the dynamic growth of unemployment demanded considerable additional expenditure from the social insurance special budget. With the intention of improving the situation, on 5 August 1999 the Saeima passed the law *On Amendments* to the law *On State Pensions*. The new law stated that working pensioners could not receive pensions, and the age set for qualifying for an old-age pension would be progressively raised to 62 years for both men and women. The opposition parties, supported by the trade unions, the Pensioners’ Federation and many non-governmental organizations, requested a referendum on this law. This request was supported by the signatures of approximately 180,000 voters. At the same time the government was trying to find ways to solve the conflict and worked out a set of less stringent amendments to the *On State Pensions* law stipulating that working pensioners were eligible to receive pensions of LVL 60 and less; also, the transition to the pension age of 62 years would be slowed down. The majority of the electorate was satisfied with the proposed new package of legislative amendments and therefore did not participate in the November 1999 referendum. Consequently, the Central Election Commission declared that the referendum had not taken place, and the President of Latvia announced that the above amendments had taken effect. Despite the problems with the budget, in May and November 1999 the government continued the adjustment of pensions (indexing). However, in view of the negligible changes in the consumer prices and the deficit in the social insurance budget the adjustment was rather of a symbolic character—increased by 0.3% (on average, LVL 0.18 per pensioner) and 0.7% (on average, LVL 0.42 per pensioner). Until 2002, the adjustment for pensions that do not exceed three minimum wages will be conducted once a year. The living standards of pensioners and in particular of working pensioners have slightly improved. The number of working pensioners is also growing (Report on the Development of the Economy of Latvia 1999).

The number of poor in Latvia has been calculated on the basis of the poverty relativity indicators and it constitutes about 60-80% of the total population. This social background in which most people are living on the border of relative poverty creates social tension, which has recently manifested itself with large segments of the population suffering from depression. Certain districts in Latvia particularly exhibit this; in these districts, unemployment, hopelessness, alcoholism, and other types of unfortunate or deviant behavior are prevalent. Long-term unemployment and poverty generate feelings of helplessness, which leads to apathy and passivity. Life under the Soviet system has left a feeling among elderly people that the state must incessantly take care of everybody; this phenomenon helps to stimulate such an attitude among the younger generation.

A considerable difference in poverty levels between cities/towns and rural areas can be observed. In rural areas, even though the level of economic activity and the number of economically active inhabitants who have jobs is much higher, they are still poorer than cities/towns (Poverty and Labor Market in Latvia 2000, p. 55).
The government has started to implement a poverty eradication program. In accordance with the European Council’s recommendations in the last four years, state benefits to families will be increased. Measures are being developed to ensure the availability of education and health care as well as to facilitate the availability of loans to purchase housing and pay for studies.

The Ministry of Welfare has prepared the concept “On Minimum Income Guarantees to Poor People” for submission to the government with proposals on how to ensure that people who are unable to earn a living are provided with a guaranteed minimum income level which would be uniform for the whole country. In this respect it is planned to establish a guaranteed minimum income at national level, to define the obligations of local governments to ensure this minimum income, and to outline the framework of state participation in financing the scheme. This concept will be the basis for amending the law On Social Assistance.

3. THE SOCIAL PROTECTION SYSTEM

The transition from a planned state economy to a market economy, and the economic and social consequences of this process, aggravated a whole range of social problems—poverty, unemployment, social exclusion—and resulted in the falling of specific groups of the population into social risk situations.

Social problems cause social tensions; this, in turn, affects whole communities, and particularly specific groups of the population. A vulnerable group may be defined as a body of people who are unable to satisfy their needs without the support of the community.

The situation of vulnerable people in Latvia is characterized by several features, including:

- income below the subsistence minimum;
- education which does not correspond to the labor market demand;
- low professional qualifications;
- lack of social support in the family or any other small group;
- defects in physical or mental development;
- a disoriented or deformed value system;
- inability of people’s psychological mobilization to achieve their aims.

Groups which are unable to satisfy their needs in many areas of life are:

- low income families with children (single-parent families, families with many children, families of the unemployed, substance abusers, as well as families who have a disabled or severely sick child);
• orphans and children deprived of parental care;
• the disabled;
• old, single people;
• ex-convicts;
• the unemployed, in particular the long-term unemployed, women of pre-retirement age and young people;
• substance abusers;
• those who are terminally ill, e.g. HIV/AIDS patients.

The changes required the restructuring of the social policy inherited from the Soviet period. Both the strategy and the objectives of social policy changed as they had to be adjusted to the new conditions of the market economy. A comprehensive social security reform has been implemented in Latvia.

3.1 Values, Principles, Objectives

The new social security system was designed around the following main objectives declared in the “Concept Paper on Social Security”:

• to guarantee the social security and the protection of inhabitants of the country who are unable to provide for themselves or to overcome specific difficulties of life, and who do not receive sufficient assistance from anyone;
• to develop a system which is compatible and complies with the social security objectives and principles of the developed European countries;
• to guarantee individuals social rights and the implementation of those rights, and to create in individuals a feeling of social security, while at the same time motivating the individual.

The main lines of activities ensuing from the current problems include:

• a decrease in poverty; to define a poverty line which corresponds to the conditions of Latvia, regulating only one municipal benefit by law; channeling assistance to those who need it most of all as well as to prevent the risk of falling into the poverty trap; constant dependence on social assistance programs which are focused on the poor;
• dealing with families with children—including taking measures to change the trend of a growing number of children being deprived of parental care (orphans of living parents), and paying more attention to the issue of parental responsibility for supporting a child;
• ameliorating the situation of the disabled and other risk groups; paying particular attention to the understanding of the notion of disability, rehabilitation, and integration services provided by qualified staff;
• improving co-operation with local governments; ensuring the introduction of minimum standards established at the central level, while at the same time leaving opportunities for local governments to promote flexible activities;
• developing various co-operation models among different areas of welfare; introducing an integrated approach to providing social services, proceeding from the principle that welfare includes co-operation of various sectors, viz. economics, education, etc.

3.2 Main Stages of Social Legislation

In 1995 the Saeima enacted a package of social security laws paying particular attention to the establishment of a financially strong, client-oriented independent social security system. The basic principles of the social security system, the main social rights of the individual and prerequisites for their exercise, are regulated by the law On Social Security (1995). This law determines the basic principles of social security: equal access to the services, solidarity, social insurance and assistance, preventive measures, self-governance and individual approach. This law also defines the main social rights and obligations of the people and the main criteria for the law’s implementation. This law also describes the various types of social services. The section on social rights describes the principles of social insurance in Latvia including activities for protecting, maintaining and improving people’s health and the ability to work as well as restoring (benefits in kind) and providing material support in cases of illness, maternity, disability, old age and unemployment (benefits in cash).

Each of the areas of social security—social assistance, social insurance, the labor market, and health care (this last area is not described in the report)—are regulated by more specific legal acts.

3.3 Implementation of Social Policy

3.3.1 Social Insurance—Generally

The social security system of Latvia covers the following areas: social protection, the labor market, and health. The main emphasis in the research study was placed on describing and analyzing the social protection system. The social protection system is targeted at
preventing social risks and/or the mitigation of its consequences. The term “social risk” applies to the incapacity to work due to old age, sickness or disability, unemployment, child-care, poor health, or the inability to earn an income for some other reason.

3.3.2 State Social Insurance System

The state social insurance system is a set of activities organized by the state, with activities based on compensation for the decrease or loss of an individual’s income in proportion to the social insurance contributions made by the individual. All social insurance activities are organized by the state; they are centralized and regulated by law. The state social insurance system covers employed individuals who either themselves make social insurance contributions or to whom social insurance contributions are paid. The social insurance contributions that have been made provide guarantees to the individual to receive income compensation in the event of a social risk listed by law.

*Table 3.1*

<table>
<thead>
<tr>
<th>Social Risk</th>
<th>Type of Insurance Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Sickness</td>
<td>Sickness benefit</td>
</tr>
<tr>
<td>2. Disability</td>
<td>Disability pension</td>
</tr>
<tr>
<td>3. Unemployment</td>
<td>Unemployment benefit</td>
</tr>
<tr>
<td>4. Old age</td>
<td>Old-age pension</td>
</tr>
<tr>
<td>5. Occupational accident or occupational disease</td>
<td>Compensation for the loss of capacity to work due to an occupational accident or an occupational disease</td>
</tr>
<tr>
<td>6. Maternity</td>
<td>Maternity benefit</td>
</tr>
<tr>
<td>7. Death of a dependent family member of the insured individual</td>
<td>Funeral allowance</td>
</tr>
</tbody>
</table>

The “umbrella” law *On State Social Insurance* took effect on 1 January 1998. The purposes of this law are as follows:

- to systematize the scope of socially insured persons;
- to establish a differentiated contribution rate depending on risks which are likely to arise;
- to give the opportunity to participate in the voluntary pension insurance scheme;
- to establish the maximum amount of the contribution object;
• to ensure the transparency of budget expenditure by establishing four special budgets: pension, employment, occupational accident, and disability, maternity and illness—instead of the State social insurance special budget;
• to separate the administration of contributions from the administration of payments;
• to enhance (as of 2002) the responsibility of the employee and to reduce the employer’s tax burden by reducing the compulsory contribution rate as well as by redistributing the tax rate between the employer and the employee (33% = 16.5%+16.5%).

Other laws in the area of social insurance determine who receives, as well as the procedure for, the accrual and expenditure of resources for specific types of social insurance or social risks.

3.4 Social Assistance

The purpose of social assistance efforts is to ensure social protection to those inhabitants who find themselves in poverty or in any other social risk situation and to whom other social safety efforts do not apply or are insufficient. Social assistance is based on the assessment of the situation and the income of the given individual.

The responsibility for providing social assistance is divided between the state and local governments (Annex 16). In Latvia social assistance services include demogrant-type (categorical social assistance) universal services (based on the person’s belonging to a specific group of the population) and services provided after the assessment of a person’s specific needs.

Social assistance includes three types of services:

• material assistance;
• social care;
• social rehabilitation

The law On Social Assistance (October 1998) regulates issues of social assistance nationwide; it stipulates:

• types of social assistance;
• types of state- and local government-provided social assistance;
• obligations of the state and local governments in the provision of social assistance;
• the range of individuals who are eligible to receive social assistance and social benefits;
The law also defines payments such as birth grant, child-care grant, and family benefit. Services provided by different kinds of social assistance institutions are essential components of the social assistance system.

Uniform minimum requirements for the providers of social services were formulated during 1997 and approved at the beginning of 1998. The requirements define the content of the provided services and the operational ideology of the providing institution for seven providers of various types of social services, viz. social care institutions for children, social care institutions for adults, crisis centers, day-care centers for people with mental difficulties, night shelters, social assistance services, home care.

Cash payments or benefits in-kind to individuals or families are financed either from the national or local government budget. Social benefits are categorized according to their financial sources: *state social benefits* (generally they are part of a universal character) and *municipal social benefits*.

The law *On Social Assistance* defines four key objectives for which local government social benefits are to be granted:

- social assistance benefits to low-income families to help stabilize the family income at a certain level;
- housing benefits—assistance to the family in paying rent, for utilities and in covering expenses related to the purchase of fuel;
- care allowance—for the retired, disabled or a child if such care is necessary based on a medical certificate;
- funeral benefits—coverage of the minimum interment expenses in the event of a person’s death if there is no right to any other funeral benefit.

The same law stipulates that local governments may also grant benefits for other purposes within the limits of their respective budgets.

There are specific legal acts, which establish social protection for specific (social risk) groups or for specific situations:

- disabled or people with special needs—the law *On Medical and Social Assistance for the Disabled* (1992);
- participants of the liquidation operations after the Chernobyl accident—the law *On Social Protection of Participants of the Liquidation Operations after the Chernobyl Accident and Families of Victims of the Chernobyl Accident*. The law establishes the social and medical services for which these individuals are eligible as well as the scale of these services.
- poor people—*Regulations of the Cabinet of Ministers No. 75 “Regulations on Social Assistance Benefits to Poor Families and the Assessment of the Material Situation of Poor Families”* (March 1996).
3.5 Family Policy

In the present social and economic situation many families are unable, by themselves, to cope with the many problems which have appeared as a result of the rapid changes in society. The social and economic instability, insecurity about their future, the radical changes of values, together with perplexing challenges and new opportunities have considerably decreased the ability of the family to adapt to the new conditions and this manifests itself in the spread of socially unfavorable trends. The demographic crisis, the aggravation of poverty, the spread of alcoholism and drug addiction, the increase in the number of divorces, children born in unregistered partnerships and out-of-wedlock, the growth of the number of children deprived of parental care and placed in child-care institutions, etc. are all consequences of the insufficient support and absence of purposefulness in addressing family problems relying rather on the hope that the problems will resolve themselves or that the families will resolve them on their own. However, the actual situation shows that relying on the family alone has not been justified.

One of the basic problems is that there is no uniform national family policy in the country, a policy that would be aimed at strengthening the role of the family and the preservation of family values, and the development of a healthy social and economic environment, which would stimulate the development of the family. The current measures are more focused on the individual and the resolution of their problems, and in this way the problems of the family are neglected.

The current situation is complicated by the fact that:

- during the formulation of policies their impact on the family is not assessed and taken into account;
- services available for families are fragmented and not accessible to all families (depending on the income level and the place of residence);
- at present, preventive activities, e.g. family counseling, education and rehabilitation, do not have sufficient funding;
- the officials who deal with family issues do not have sufficient skills and knowledge for work with the family as a whole; likewise they lack appropriately formulated tasks for resolving such family problems;
- the division of responsibility between the state, local governments and the non-governmental sector for the organization and funding of these services has not been defined.

3.6 Child Protection

Every year sees an increase in the number of children deprived of proper parental care. These are children who grow up in high-risk families. Generally speaking, the problems
are related to the upbringing and support of children. There are cases when the mother is interested in placing the child in a shelter as there the child will be fed and taken care of. Often these are families with many children who do not have the same father. For statistical information regarding child protection see Annexes 20 and 21.

The most relevant legal acts prescribing social guarantees for children are:

- the law *On Custody Courts and Civil Parish Courts* (January 1996). Custody courts are a comparatively new institution in Latvia. In fact, custody courts started to operate in 1997. They are local government institutions and are at present among the important bodies addressing family-related problems, the protection of children’s interests, the suspension of parental power, the appointment of guardians and dealing with adoption issues. The law prescribes the procedure for establishing custody courts and their competence.
- Regulations of the Cabinet of Ministers No. 80 *On Operation of Custody Courts and Civil Parish Courts* (March 1996) (issued in accordance with the law *On Custody Courts and Civil Parish Courts*). The regulations prescribe the procedure for the submission, review and receipt of documents and the operation of custody courts, i.e. all procedures for the internal organization and rules of operation of custody courts.
- guardianship—Regulations of the Cabinet of Ministers No. 87 *On State Social Benefit for a Guardian* (March 2000) (issued in accordance with the law *On Social Assistance*);
- foster families—Regulations of the Cabinet of Ministers No. 211 *On Foster Families* (June 1997) (issued in accordance with the law *On Custody Courts and Civil Parish Courts*);
- adoption—Regulations of the Cabinet of Ministers No. 312 *On Adoption* (August 1996).

A number of forms of alternative care have been introduced in Latvia recently such as:

- home care;
- guardianship;
- foster families;
- adoption;
- day centers.

The introduction and organization of the various forms of alternative care for all groups of the population fall within the competence of the local governments and most of them are financed from the local budgets.
3.7 Funding of Social Policy

At the beginning of the 1990s a new social security mechanism was established in Latvia to provide social guarantees prescribed by law to all inhabitants. The new model envisaged a speedier channeling of resources to those social groups and individuals who needed social and financial assistance. It stipulated that social security activities be designated to the state and local government competencies.

The funding of social assistance is constituted by the:

- resources of the national budget;
- resources of local budgets;
- payments of legal and natural persons;
- other resources.

The funding of social benefits is divided as follows: expenditures for national social benefits which are paid from the Social Assistance Fund according to appropriations enacted in the annual national budget law; municipal social assistance benefits are paid from local budgets and social assistance resources; other municipal benefits are paid from local budgets.

Table 3.2
Expenditures of the Social Protection Sector

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<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Social insurance [LVL million]</td>
<td>390.4</td>
<td>429.5</td>
<td>472.6</td>
</tr>
<tr>
<td>% GDP</td>
<td>11.9</td>
<td>11.4</td>
<td>12.3</td>
</tr>
<tr>
<td>Social assistance [LVL million]</td>
<td>67.0</td>
<td>60.3</td>
<td>63.7</td>
</tr>
<tr>
<td>% GDP</td>
<td>2.0</td>
<td>1.8</td>
<td>1.9</td>
</tr>
</tbody>
</table>

In 1999, a total of LVL 741.6 million was expended from the national budget on the welfare sector.

3.8 Administration of Social Policy

Special agencies have been established to facilitate the administration of services in the area of social insurance as well as social assistance. Social insurance services are administered
by the State Social Insurance Agency (SSIA) while social assistance services are administered by the Social Assistance Fund (SAF).

Services administered by the Social Assistance Fund include:

- financial management of public agencies and of the social assistance system;
- supervision and control over state and municipal social assistance institutions;
- analysis and provision of information;
- assessment of the quality of social assistance services;
- development of the market of social services, the promotion of co-operation between local governments, non-governmental organizations, and the private sector;
- provision of methodological assistance, co-ordination of the training for employees working in the social assistance system;
- business activities with the purpose of attracting additional resources for carrying out social assistance tasks.

In social assistance local governments may delegate (Annexes 19, 20) certain functions to NGOs and natural persons:

- home care;
- day-care centers;
- sheltered workshops for the mentally disabled, the blind, etc.

4. THE OUTCOME OF DECENTRALIZED SOCIAL POLICY

Market economy principles, competition, contracting, cost efficiency (e.g. the delegation of functions to the non-governmental sector), operate in the creating and distribution of social services.

One of the problems caused by decentralization is that the quality of social services provided varies from place to place. Regulations of the Cabinet of Ministers “Requirements for Providers of Social Assistance Services” have been drafted to address this issue. However the problem continues to exist and the drafting of Cabinet Regulations is only the first step towards establishing a system that provides a uniform quality of services throughout the entire country.

When analyzing the benefits of decentralization of social policy in Latvia, one of the important advantages to be pointed out is that social policy has become closer to individuals, meaning that local governments are now responsible for decision-making on many social issues. They have considerable discretion in this field, they can be very flexible and react to most of the important problems in the most appropriate way.
As was mentioned in an interview in the village of Gaujiena: “We know that other local governments do not give financial support for weddings, but we think that it is important for the future of our local government and we found resources for it....” It was also stressed in many interviews that in local government “everybody knows everybody,” and this helps on focusing social assistance to real problems which probably could not be observed from a central viewpoint, and it also allows space to think about preventive activities where possible.

Poverty (not only as lack of income but also as lack of opportunities) and social exclusion are presently among the main social problems in the country. Families with children are in the most disadvantaged situation. The risk of poverty increases with the number of children in the family. Among the consequences of decentralization of social assistance—when each local government is accorded considerable discretion in allocating support—is that social assistance does not always reach those individuals who most need it. Nor does it always reach the poorest.

Another advantage that can be pointed out is the involvement of NGOs in the provision of services and in the social area. Several NGOs are interested in participating in the provision of social assistance: examples of activities that were mentioned in discussions were pensioners’ organizations, family associations, helping local people with clothes, advice, etc. There were also comments that decentralization facilitated the involvement of the private sector in social activities in local governments because businessmen could see in what way and how their help or the resources they offered were used and it led to them accepting joint responsibility for the general situation.

Some problems related to decentralization are connected with the current administrative territorial division of local governments which, in general, is unequal thereby creating a number of problems. Most local governments are small and due to their very limited resources their social assistance activities are limited. There is thus a tendency in Latvia for rich local governments to invest more money in social programs, but poor local governments where more poor people are concentrated to invest less. As a rule, urban local governments are wealthier than rural ones. One solution could be administrative territorial reform, which aims to increase the size of local governments, but as this is an ongoing process it is very difficult to predict the results.

One of the problems of decentralization is that it creates a very complicated path for the *cash flow*, which is difficult to supervise. It is, in fact, almost impossible to follow the cash flow. Each separate local government is financed from several sources. First of all there are the special-purpose grants: central funding by the government (this source constitutes 71.4% of personal income tax), funding from the national special budget, and from the national general budget. In addition, local governments receive funds from the Local Government Finance Equalization Fund, which was instituted to reduce differences among local governments with differing basic funding. Local government funding also comes from local fees, real estate tax, and payments for services; local govern-
ments may also receive state-guaranteed loans or gifts/donations. The possibility of wasting money without due purpose cannot be excluded. The distribution of funding in smaller financial operations allows dubious economic measures to be undertaken. For example, the local government allocates funding for the purchase of fuel for the low-income population. The new regulations prescribe that tenders should be sought for the company offering the best and cheapest services; however, this does not always pay off as transport costs make the provision of this assistance more expensive and result in unnecessary expending of resources. If such an activity were to be organized on a centralized basis then it could be calculated which place of fuel supplies would be more economical for the transportation of the fuel.

There is evidence in certain places of a tendency to re-centralize social assistance, in particular in Riga. This means that money will be more concentrated in the hands of the central agencies and it will require much more time to ensure that social assistance reaches the individual who needs this assistance along the shortest route. Financial centralization, in turn, will allow the allocation of resources for larger projects.

One of the obstacles to decentralization is the absence of a uniform database in the country. In a situation where there are 585 local governments in the country and each local government has its own system and methods of data collection and processing, it is impossible to gain a realistic picture of the national situation. This is also true of the provision of social services: local governments have different systems for registering the social services provided, their costs, the time involved in dealing with clients, etc. Moreover, local governments have a very diverse level of information technologies and their application. Even the types of records for social assistance services and clients vary. In 1999, 553 local governments had a total of 173 computers; only 14% of local governments maintain computerized databases.

This lack of uniform information makes it impossible to develop national statistics in the area of social assistance. The transmission and collection of data, and access to national records is not possible.

One of the ways the state tries to resolve the problem in the area of social assistance is to use the Social Assistance Fund. Every year each local government is sent a questionnaire requiring the social demographic description of the population/clients, and the scale, types, and recipients of social assistance services, as well as information about the social workers employed by local governments.

The problem is that not all local governments are honest when answering these questionnaires, and thus the credibility of the data is dubious. Nevertheless, at present this is the only source for acquiring information about social services in the country.

With regard to social insurance, this function (i.e. records, data, statistics, etc.) is performed by the Social Insurance Agency, which has 33 offices in the country.

So far as human resources are concerned the most serious problem is the shortage of staff. Lack of professionally trained staff is felt acutely in social work. For example,
in Riga’s Kurzeme district only 4-5% of local government staff has any specialized education. The majority of these people are volunteers. A similar situation has developed in other local governments in the country. Usually people who work in social assistance services do it on a part-time basis, often they have insufficient information about the essence of social work and they restrict themselves to the provision of the minimum social benefit or assistance of any other type. No efficient political capacity in providing social assistance has been developed in the country. Local governments focus attention on those who receive assistance.

As a result of decentralization, local governments have become highly independent. Local governments themselves are now taking many of the decisions and in this way the state is losing control. This means that even though it is gradually emerging that there is a current trend to centralize specific functions, e.g. the quality control of services and the monitoring of social programs, it has become apparent that at national level there is no longer a clear understanding of what is actually going on in local governments.

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RESEARCH METHODOLOGY

In this research project decentralization was investigated in the wider context of social policy. Apart from the fiscal aspect of decentralization, the present research was strongly committed to examining legal, institutional and social issues as well. To understand the forms and mechanisms of decentralization in the social sector we will describe the structure of administration, in particular that of social administration, the distribution of decision-making competencies between the central, regional and local levels, the infrastructure of social services, and the financial mechanisms of local social policy. The adequacy of existing administrative and service provider capacities for implementing the statutory obligations was also analyzed.

At the same time, the intention was also to clarify: (i) whether decentralization has an effect on all the incentives of public administration and public sector management; (ii) what the overall implications of decentralization are as regards the accountability structures in public administration and public sector management; (iii) if any form of local decision-making exists; (iv) whether the decision-making capacity of local governments impacts on the efficiency and relevance of service delivery; (v) what forms, and to what extent and composition of resource allocation exist in the social sector; (vi) whether decentralization decreases or increases access to social services within society and across regions as well as among the different types of settlements.

The present research attempts to describe the main constraints and factors of the decentralization process during the transition: what the main shifts of social welfare regimes are within this period, and how these two important factors of the general and fundamental on-going reforms interact. The research methodology included a review of the literature on decentralization and social services in the country; a legislative review including information on the relevant legal regulations concerning decentralization and social policy to outline the institutional framework, the financing mechanisms, the decision-making
system as well as the accessibility, eligibility and entitlement criteria of social services; a
description of the social, economic and demographic indicators to present information
on the main characteristic features of Latvian society; and also a quantitative and quali-
tative analysis of national data and case studies.

The research covers developments during the 1990s and was done in the summer
and autumn of 2000 by a team of four researchers representing both academics and prac-
titioners in the field.

SOCIAL INSURANCE

The Pension System

The Pension Reform Concept was drafted with the purpose of creating a financially
sound system based on compulsory individualized social insurance contributions that
would ensure a stable substitution of income in old age. According to the above concept,
the new pension system in Latvia is being developed with three tiers:

a) the first tier—the state compulsory non-funded pension scheme (based on the principle
of the solidarity of generations). The law *On State Pensions* (1995) became effective
as of 1 January 1996. The objectives of this law are as follows:

• to ensure compensation for income in old age in proportion to the social insurance
  contributions made during the whole period of employment;
• to ensure the transparency and stability of the system;
• to facilitate the increase in the number of social tax payers;
• to create incentives for the individual to prolong their working life;
• to ensure pension indexation.

b) the second tier—the state compulsory funded pension scheme, constituted by indivi-
dual contributions. The law *On State Funded Pensions* (2000) regulates the second
tier. The purpose of the state funded pension scheme is:

• to achieve the growth of the pension capital and an increase in the pension amount
  by investing part of the contributions without increasing the total social insurance
  contribution rate for state old-age pensions (20% of the wages from which social
  insurance contributions are paid);
• to facilitate the formation of financial reserves thereby helping to promote the
development of the national economy.
c) the third tier—the private voluntary pension scheme—is regulated by the law *On Private Pension Funds* (1998).

### Maternity and Sickness Benefits

Temporary incapacity to work during the pre-natal and the post-natal period, or due to illness is covered by the law *On Maternity and Sickness Benefits* (1995). The purposes of this law are as follows:

- to ensure compensation for income in the event of sickness and maternity in proportion to the social insurance contributions paid;
- to ensure that the sickness benefits for the first 14 days of incapacity to work are paid by the employer in accordance with the following scheme:
  - no payment for the 1st day;
  - 75% of average earnings for the 2nd and 3rd day;
  - 80% for the period from the 4th till 14th day;
  - only from the 15th day does the payment become an obligation of state social insurance institutions.

The sum of the benefit is related to the average salary of the given individual.

### Employment—Unemployment

The most important regulations concerning labor relations are the following:

- the *Latvia Labor Code* enacted in 1972, which regulates labor relations;
- the law *On Employment* (1991), which prescribes the regulation of employment and social guarantees for the unemployed;
- the law *On Labor Protection* (1993). The purpose of the law *On Labor Protection* is to establish the legal basis in laws and other normative acts for the implementation of social, economic, technical, sanitary hygienic, medical preventive, and organizational measures which can ensure the improvement of the working environment, labor safety, as well as a decrease in the number of accidents at work-places and a decrease in occupational diseases;
- regulation of the Cabinet of Ministers No. 439 *On Minimum Wages*, establishing the minimum wage rate in the country. At present it is LVL 50 or about USD 100.
The purpose of the law *On Compulsory Social Insurance against Unemployment* (1995) is:

- to ensure the compensation of income in the event of unemployment;
- to grant unemployment benefits in proportion to the social insurance contributions paid and the length of registered social insurance;
- to encourage the unemployed to be more active in seeking a job by establishing a differentiated benefit amount depending on the length of the unemployment period, reducing this amount after every three months;
- to provide vocational training or retraining for the unemployed.

**Occupational Accidents and Diseases**

The law *On Compulsory Social Insurance against Occupational Accidents and Occupational Diseases* (1995) became effective on 1 January 1997. The purposes of this law are as follows:

- to compensate for the loss of income in the event of an occupational accident or disease;
- to provide a set of services in order to integrate the affected individuals into society;
- to stimulate the improvement of working conditions, contributions being made only by employers;

The following services are available to the insured person as benefits in kind: medical treatment, (including rehabilitation) vocational training, and vocational rehabilitation.

**Funding of Social Insurance**

The financial basis for social insurance is the social insurance budget. The social insurance budget is structured in four special budgets:

- occupational accident special budget 1%
- employment special budget 8%
- disability, maternity and sickness special budget 16%
- state pension special budget 75%

The current national social insurance system is based on the following principles:

- the social insurance service corresponds to the social contributions made;
- solidarity between those who pay social insurance contributions and the recipients of social insurance services.
Table 3.3
State Social Insurance Special Budgets and Services

<table>
<thead>
<tr>
<th>State Pension Special Budget</th>
<th>Disability, Maternity &amp; Sickness Special Budget</th>
<th>Employment Special Budget</th>
<th>Occupational Accident Special Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>• old-age pension,</td>
<td>• disability benefit,</td>
<td>• unemployment benefit,</td>
<td>• sickness benefit,</td>
</tr>
<tr>
<td>• disability pension,</td>
<td>• maternity benefit,</td>
<td>• unemployment grant,</td>
<td>• compensation for the loss of</td>
</tr>
<tr>
<td>• survivor’s pension,</td>
<td>• sickness benefit,</td>
<td>• unemployment training</td>
<td>capacity to work,</td>
</tr>
<tr>
<td>• service pension,</td>
<td>• funeral allowance in the event of the</td>
<td>and retraining</td>
<td>• lump sum benefit in the event of</td>
</tr>
<tr>
<td>• funeral allowance in the</td>
<td>death of an insured person or a dependent of</td>
<td>• job-seekers’ clubs,</td>
<td>incapacity to work,</td>
</tr>
<tr>
<td>event of a pensioner’s death</td>
<td>an insured person</td>
<td>• professional guidance</td>
<td>• compensation in the event of the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>and counseling</td>
<td>loss of the provider,</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• funeral allowance in the event of</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>the death of an insured person,</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• additional services</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(rehabilitation)</td>
</tr>
</tbody>
</table>

The law On State Social Insurance (1997) regulates the funding of social insurance with the aims of:

- systematizing the set of socially insured persons;
- establishing a differentiated contribution rate according to risks;
- providing an opportunity to join a pension insurance scheme on a voluntary basis;
- harmonizing the employees’ obligatory contributions with the personal income tax system;
- establishing the maximum amount of contributions;
- establishing the minimum amount of obligatory contributions for the self-employed;
- ensuring the transparency of budgetary spending by establishing special social security budgets instead of the state social insurance special budget;
- entrusting the administration of obligatory contributions to the State Revenue Service;

A non-profit organization/joint-stock company known as the “State Social Insurance Agency” has been established. As of 1991, it has a separate source of funding by virtue of the introduction of the social tax. The resources of the social insurance budget were formed from social tax payments made by employers, employees, and the self-employed as well as payments from the national general budget and other revenues.
Until 1996 the social tax rate in general cases was 38% of the tax base. A reduced rate was paid by working disabled people (8%), those employed in agriculture (18.5%), farmers (19%). Once the law *On State Social Insurance* was enacted, it introduced several changes: the term “social tax” was substituted by “social insurance contributions.” It meant essentially that the social insurance principle should be changed in order to provide social insurance services from the contributions.

In 1998 the social insurance system was financed from obligatory contributions, voluntary contributions, and payments to the national general budget and other revenues (collection for regress claims, dividends for the transferred shares of the capital, etc.).

In that expenditures on pension insurance and insurance against unemployment are related to the country’s demographic and economic situation there is a need to form accruals for a longer period of time. The following insurance budgets were approved:

- the state pension special budget;
- the employment special budget;
- the special budget for accidents at work;
- the disability, maternity, and sickness special budget.

Total special budget expenditures in 1998 were LVL 444.2 million, in 1999—LVL 472.6 million.

**Social Insurance Administration**

The State Social Insurance Agency was established in 1998. It was founded to take the place of the State Social Insurance fund. The Agency’s main task is to administer the special budgets and services. Administration of the obligatory contributions was transferred to the State Revenue Service, this being a non-profit organization, a public joint-stock company established by the Cabinet of Ministers with the purpose of performing public administration functions to help ensure social rights.

Normative acts, effective at present, regulate the procedure for making contributions, for ensuring social insurance services, and for handling the procedure of granting social benefits; however, no normative acts in the area of social insurance regulate the recording and protection of information.

The *State Social Insurance Agency’s* tasks include:

- the administration of social insurance special budgets;
- the provision of social insurance and assistance services.
The distribution of functions between the state and local governments in social assistance is described in Annex 16.

The Agency has 33 branch offices in all districts of Latvia. Their main concern is:

- to provide individual consultations in the area of state social insurance and social assistance services;
- to deal with the granting, calculating and recalculation of pensions, benefits, and compensations;
- to register socially insured persons and to deal with contributions to the accounts of insured persons.
## Table 3A.1
Resident Population by Nationality

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Population—total</td>
<td>1,905,936</td>
<td>2,666,567</td>
<td>2,501,660</td>
<td>2,479,870</td>
<td>2,458,403</td>
<td>2,439,445</td>
<td>2,424,150</td>
</tr>
<tr>
<td>PERCENT DISTRIBUTION</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latvians</td>
<td>77.0</td>
<td>52.0</td>
<td>55.1</td>
<td>55.3</td>
<td>55.5</td>
<td>55.7</td>
<td>55.8</td>
</tr>
<tr>
<td>Russians</td>
<td>8.8</td>
<td>34.0</td>
<td>32.6</td>
<td>32.5</td>
<td>32.4</td>
<td>32.3</td>
<td>32.3</td>
</tr>
<tr>
<td>Belarussians</td>
<td>1.4</td>
<td>4.5</td>
<td>4.0</td>
<td>4.0</td>
<td>3.9</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Ukrainians</td>
<td>0.1</td>
<td>3.5</td>
<td>2.9</td>
<td>2.9</td>
<td>2.9</td>
<td>2.9</td>
<td>2.9</td>
</tr>
<tr>
<td>Poles</td>
<td>2.5</td>
<td>2.3</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Lithuanians</td>
<td>1.2</td>
<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Jews</td>
<td>4.9</td>
<td>0.9</td>
<td>0.5</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Roma</td>
<td>0.2</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Estonians</td>
<td>0.4</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Germans</td>
<td>3.3</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Other nationalities</td>
<td>0.2</td>
<td>1.0</td>
<td>0.9</td>
<td>0.9</td>
<td>0.9</td>
<td>0.8</td>
<td>0.8</td>
</tr>
</tbody>
</table>

**Source:** *Statistical Yearbook of Latvia, 2000, CSB.*
ANNEX 2

Table 3A.2
Population of Latvia by Citizenship [percent distribution]

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td><strong>Of which:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Citizens of Latvia</td>
<td>71.85</td>
<td>72.33</td>
<td>72.72</td>
<td>73.34</td>
<td>74.44</td>
</tr>
<tr>
<td>Non-citizens of Latvia</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>21.15</td>
</tr>
<tr>
<td>Citizens of former USSR with no other citizenship granted</td>
<td>27.87</td>
<td>27.15</td>
<td>26.56</td>
<td>25.69</td>
<td>23.35</td>
</tr>
<tr>
<td>Citizens of Russian Federation</td>
<td>0.15</td>
<td>0.33</td>
<td>0.50</td>
<td>0.71</td>
<td>0.78</td>
</tr>
<tr>
<td>Citizens of Lithuania</td>
<td>0.05</td>
<td>0.06</td>
<td>0.06</td>
<td>0.06</td>
<td>0.06</td>
</tr>
<tr>
<td>Citizens of the Ukraine</td>
<td>0.02</td>
<td>0.02</td>
<td>0.03</td>
<td>0.04</td>
<td>0.06</td>
</tr>
<tr>
<td>Citizens of Belarus</td>
<td>0.00</td>
<td>0.02</td>
<td>0.02</td>
<td>0.03</td>
<td>0.03</td>
</tr>
<tr>
<td>Citizens of Estonia</td>
<td>0.00</td>
<td>0.01</td>
<td>0.01</td>
<td>0.02</td>
<td>0.02</td>
</tr>
<tr>
<td>Citizens of Poland</td>
<td>0.00</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>Citizens of the United States</td>
<td>0.00</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>Citizens of Germany</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>0.01</td>
</tr>
<tr>
<td>Citizens of other countries</td>
<td>0.04</td>
<td>0.04</td>
<td>0.06</td>
<td>0.08</td>
<td>0.07</td>
</tr>
<tr>
<td>Not stated</td>
<td>0.02</td>
<td>0.02</td>
<td>0.02</td>
<td>0.01</td>
<td>0.01</td>
</tr>
</tbody>
</table>

**Source:** Statistical Yearbook of Latvia, 2000, CSB.
### Table 3A.3
Population Change Components [thousands]

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Population increase/decrease—total</strong></td>
<td>–10.9</td>
<td>–27.8</td>
<td>–21.8</td>
<td>–21.5</td>
<td>–19.0</td>
<td>–15.2</td>
</tr>
<tr>
<td>Of which: Natural increase</td>
<td>–0.1</td>
<td>–17.3</td>
<td>–14.5</td>
<td>–14.7</td>
<td>–15.8</td>
<td>–13.4</td>
</tr>
<tr>
<td>Net migration</td>
<td>–10.8</td>
<td>–10.5</td>
<td>–7.3</td>
<td>–6.8</td>
<td>–3.2</td>
<td>–1.8</td>
</tr>
<tr>
<td><strong>Urban localities—total</strong></td>
<td>–42.8</td>
<td>–21.1</td>
<td>–13.2</td>
<td>–14.8</td>
<td>–14.1</td>
<td>–12.3</td>
</tr>
<tr>
<td>Of which: Natural increase</td>
<td>–0.3</td>
<td>–12.1</td>
<td>–9.9</td>
<td>–9.9</td>
<td>–10.7</td>
<td>–9.1</td>
</tr>
<tr>
<td>Net migration</td>
<td>–10.6</td>
<td>–9.0</td>
<td>–6.1</td>
<td>–4.9</td>
<td>–3.4</td>
<td>–3.2</td>
</tr>
<tr>
<td>Administrative-territorial changes</td>
<td>–31.9</td>
<td>—</td>
<td>2.8</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Rural localities—total</strong></td>
<td>31.9</td>
<td>–6.7</td>
<td>–8.6</td>
<td>–6.7</td>
<td>–4.9</td>
<td>–2.9</td>
</tr>
<tr>
<td>Of which: Natural increase</td>
<td>0.2</td>
<td>–5.2</td>
<td>–4.6</td>
<td>–4.8</td>
<td>–5.1</td>
<td>–4.3</td>
</tr>
<tr>
<td>Net migration</td>
<td>–0.2</td>
<td>–1.5</td>
<td>–1.2</td>
<td>–1.9</td>
<td>0.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Administrative-territorial changes</td>
<td>31.9</td>
<td>—</td>
<td>–2.8**</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

* The decrease in the number of urban population and the increase in the number of rural population are due to the inclusion of urban-type villages in the “pagasts” (civil parishes).

** Changes in the administrative-territorial division are due to Skrunda being assigned the status of a town.

**Source:** *Statistical Yearbook of Latvia, 2000, CSBL.*
### Table 3A.4
Distribution of Responsibilities between Central Government and Local Governments

<table>
<thead>
<tr>
<th>Main Responsibilities of the Central Government</th>
<th>Main Functions of Local Governments</th>
</tr>
</thead>
<tbody>
<tr>
<td>• legislation and state administration</td>
<td>• to organize municipal services for the inhabitants (water supply, sewerage networks, heat supply, collection and disposal of household waste, collection, disposal, and purification of sewage)</td>
</tr>
<tr>
<td>• economic policy</td>
<td>• to maintain its administrative territory and to ensure its proper sanitary state</td>
</tr>
<tr>
<td>• foreign affairs</td>
<td>• to set the order for using public forests and waters, if the law does not provide otherwise</td>
</tr>
<tr>
<td>• defense</td>
<td>• to provide education and to promote culture</td>
</tr>
<tr>
<td>• public order and safety</td>
<td>• to promote the health care of the inhabitants and a healthy way of life</td>
</tr>
<tr>
<td>• long-distance communication and transport</td>
<td>• to ensure social assistance (social care) to poor families and socially unprotected persons</td>
</tr>
<tr>
<td>• employment</td>
<td>• to deal with adoption and guardianship issues</td>
</tr>
<tr>
<td>• energy sources</td>
<td>• to form and maintain the housing stock and to render assistance to inhabitants dealing with accommodation issues</td>
</tr>
<tr>
<td>• social insurance</td>
<td>• to promote entrepreneur activities in its administrative territory</td>
</tr>
<tr>
<td>• higher education and scientific research</td>
<td>• to take measures to prevent unemployment, to organize temporary paid community jobs for the unemployed</td>
</tr>
<tr>
<td></td>
<td>• to provide for the public order, to fight heavy drinking and profligacy</td>
</tr>
<tr>
<td></td>
<td>• to deal with town planning issues (in accordance with the master plan of the corresponding administrative territory)</td>
</tr>
<tr>
<td></td>
<td>• to collect and provide the information necessary for national statistics</td>
</tr>
<tr>
<td></td>
<td>• to perform the registration of matrimony</td>
</tr>
<tr>
<td></td>
<td>• to organize elections of the town/city and rural municipality council, and of court assessors</td>
</tr>
<tr>
<td></td>
<td>• to participate in organizing civil defense undertakings (also compulsory for regional governments)</td>
</tr>
<tr>
<td></td>
<td>• regional governments</td>
</tr>
<tr>
<td></td>
<td>• organization of public transport services</td>
</tr>
<tr>
<td></td>
<td>• to ensure involvement of regional government in regional sickness insurance fund</td>
</tr>
<tr>
<td></td>
<td>• organization of further education of pedagogical employees and methodological work in education</td>
</tr>
</tbody>
</table>
### Table 3A.5
Local Government Functions in Latvia

<table>
<thead>
<tr>
<th>Function</th>
<th>Legal Background</th>
<th>Responsible Institution</th>
<th>Financing Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Compulsory</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanent</td>
<td>The law <em>On Local Governments</em></td>
<td>Local government</td>
<td>Local government budget</td>
</tr>
<tr>
<td>Temporary</td>
<td>Other laws</td>
<td>Local government</td>
<td>Additional financing</td>
</tr>
<tr>
<td>State administrative</td>
<td>Laws or regulations of Cabinet of Ministers</td>
<td>State administrative institution</td>
<td>Budget of state administrative institution</td>
</tr>
<tr>
<td>Individual</td>
<td>Decisions of Cabinet of ministers</td>
<td>Local government</td>
<td>Cabinet of Ministers or local government budget</td>
</tr>
<tr>
<td>2. Delegated from other local governments</td>
<td>Contract between local governments</td>
<td>Local government that delivered the function</td>
<td>Financing source must be stated in the contract</td>
</tr>
<tr>
<td>3. Voluntary initiatives</td>
<td>Decision of local government council</td>
<td>Local government</td>
<td>Local government budget</td>
</tr>
</tbody>
</table>

### Table 3A.6
Competencies of Local Governments

<table>
<thead>
<tr>
<th>Functions</th>
<th>All Municipalities</th>
<th>Regional Governments</th>
<th>Central or State Territorial Administration</th>
<th>Other Government</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EDUCATION</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-school</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td>also private</td>
</tr>
<tr>
<td>Primary</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td>also private</td>
</tr>
<tr>
<td>Secondary</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td>also private</td>
</tr>
<tr>
<td>Technical</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SOCIAL WELFARE</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td>Kindergartens</td>
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<tr>
<td>Welfare homes</td>
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<tr>
<td>Personal services</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>(e.g. Homeless)</td>
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</tr>
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<td>Social housing</td>
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<td></td>
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<td>Public health</td>
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Table 3A.6 (continued)
Competencies of Local Governments

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<th>Central or State Territorial Administration</th>
<th>Other Government</th>
<th>Remarks</th>
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<td><strong>CULTURE, LEISURE, SPORTS</strong></td>
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<td>✓</td>
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<td>✓</td>
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<td>Parks</td>
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<td>Public lighting</td>
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Table 3A.6 (continued)
Competencies of Local Governments

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<tr>
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<th>Other Government</th>
<th>Remarks</th>
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</table>

ANNEX 7

Figure 3A.1
Trend in Gross Domestic Product
(increase as percent against the corresponding quarter of previous year)

SOURCE: Statistical Yearbook of Latvia, 2000, CSBL.
ANNEX 8

Table 3A.7
Volume Indices of Gross Domestic Product
[at average prices of 1995]

<table>
<thead>
<tr>
<th>Year</th>
<th>1990</th>
<th>1995</th>
<th>Previous Year</th>
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<tbody>
<tr>
<td>1990</td>
<td>100.0</td>
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<td>102.9</td>
</tr>
<tr>
<td>1991</td>
<td>89.6</td>
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<td>89.6</td>
</tr>
<tr>
<td>1992</td>
<td>58.4</td>
<td></td>
<td>65.1</td>
</tr>
<tr>
<td>1993</td>
<td>49.7</td>
<td></td>
<td>85.1</td>
</tr>
<tr>
<td>1994</td>
<td>50.0</td>
<td></td>
<td>100.6</td>
</tr>
<tr>
<td>1995</td>
<td>49.6</td>
<td>100.0</td>
<td>99.2</td>
</tr>
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<td>1996</td>
<td>51.3</td>
<td>103.3</td>
<td>103.3</td>
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<td>1997</td>
<td>55.7</td>
<td>112.2</td>
<td>108.6</td>
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<tr>
<td>1998</td>
<td>57.8</td>
<td>116.6</td>
<td>103.9</td>
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<tr>
<td>1999</td>
<td>57.9</td>
<td>116.7</td>
<td>100.1</td>
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</table>

Source: Statistical Yearbook of Latvia, 2000, CSBL.
### ANNEX 9

**Table 3A.8**  
Gross Domestic Product

<table>
<thead>
<tr>
<th>Year</th>
<th>Total [LVL thousand]</th>
<th>Per Capita [LVL]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>At Current Prices</td>
<td>At Average Prices of 1995</td>
</tr>
<tr>
<td>1980</td>
<td>37,295</td>
<td>3,154,140</td>
</tr>
<tr>
<td>1985</td>
<td>42,220</td>
<td>3,745,817</td>
</tr>
<tr>
<td>1990</td>
<td>62,440</td>
<td>4,736,578</td>
</tr>
<tr>
<td>1991</td>
<td>143,325</td>
<td>4,243,382</td>
</tr>
<tr>
<td>1992</td>
<td>1,004,555</td>
<td>2,764,190</td>
</tr>
<tr>
<td>1993</td>
<td>1,467,012</td>
<td>2,353,178</td>
</tr>
<tr>
<td>1994</td>
<td>2,042,555</td>
<td>2,368,435</td>
</tr>
<tr>
<td>1995</td>
<td>2,349,223</td>
<td>2,349,223</td>
</tr>
<tr>
<td>1996</td>
<td>2,829,135</td>
<td>2,427,705</td>
</tr>
<tr>
<td>1997</td>
<td>3,275,456</td>
<td>2,636,754</td>
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<tr>
<td>1998</td>
<td>3,589,476</td>
<td>2,739,121</td>
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<tr>
<td>1999</td>
<td>3,662,306</td>
<td>2,741,004</td>
</tr>
</tbody>
</table>

**Source:** *Statistical Yearbook of Latvia, 2000, CSBL.*
ANNEX 10

Table 3A.9
Rates of Economic Activity, Employment and Job-seekers in November 1999
[according to Labor Force Survey data; percent distribution]

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Rate of Economically Active Population to Total Population</th>
<th>Rate of Employed Population to Total Population</th>
<th>Rate of Job-seekers to Economically Active Population</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Males Females Total Males Females Total Males Females</td>
<td>Total Males Females Total Males Females</td>
<td>Total Males Females</td>
</tr>
<tr>
<td>Total</td>
<td>58.2 67.8 50.3 49.8 57.3 43.6 14.5 15.5 13.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OF WHICH AT AGE (YEARS):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15–19</td>
<td>17.1 21.5 12.5 10.8 14.4 7.0 36.6 33.0 44.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20–24</td>
<td>68.7 76.5 60.9 54.0 59.9 48.2 21.3 21.5 20.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25–29</td>
<td>83.9 92.1 75.0 72.0 78.4 65.1 14.2 14.9 13.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30–34</td>
<td>87.3 92.2 82.3 74.9 79.6 70.1 14.1 13.7 14.8</td>
<td></td>
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</tr>
<tr>
<td>35–39</td>
<td>89.0 92.3 85.8 75.0 73.9 76.1 15.7 19.9 11.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>40–44</td>
<td>88.8 90.9 86.9 78.1 80.2 76.3 12.0 11.7 12.3</td>
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</tr>
<tr>
<td>45–49</td>
<td>85.9 87.3 84.6 74.5 73.6 75.2 13.2 15.6 11.0</td>
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<tr>
<td>50–54</td>
<td>81.9 85.0 79.3 70.6 71.9 69.4 13.9 15.5 12.5</td>
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</tr>
<tr>
<td>55–59</td>
<td>53.9 73.2 39.0 49.5 66.6 36.2 8.2 9.0 7.1</td>
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</tr>
<tr>
<td>60–64</td>
<td>25.1 34.2 18.8 23.0 31.6 17.2 8.2 7.6 8.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>65–69</td>
<td>16.9 24.8 11.8 15.1 22.8 10.2 10.4 7.4 13.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>70+</td>
<td>4.9 7.0 4.0 4.7 6.5 4.0 3.6 6.8 1.5</td>
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SOURCE: Statistical Yearbook of Latvia, 2000, CSBL.
Table 3A.10
Number of Unemployed Persons [at end of the year]

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-working Persons Registered with the State Employment Board</th>
<th>Of which</th>
<th>Registered Unemployed Persons Receiving Unemployment Benefit*</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Unemployed Persons</td>
<td>of the Total Number of Unemployed Persons, Long-term Unemployed (over 1 year)</td>
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<tr>
<td>1992</td>
<td>43,765</td>
<td>31,284</td>
<td>—</td>
</tr>
<tr>
<td>1993</td>
<td>93,360</td>
<td>76,744</td>
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<td>1994</td>
<td>90,143</td>
<td>83,946</td>
<td>14,829</td>
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<tr>
<td>1995</td>
<td>88,123</td>
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<tr>
<td>1996</td>
<td>95,421</td>
<td>90,819</td>
<td>28,342</td>
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<tr>
<td>1997</td>
<td>86,531</td>
<td>84,934</td>
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<tr>
<td>1998</td>
<td>112,990</td>
<td>111,383</td>
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<td>1999</td>
<td>111,102</td>
<td>109,497</td>
<td>34,042</td>
</tr>
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</table>

* Data for 1992-1994 are end-period data, but beginning in 1995—annual average.

Source: *Statistical Yearbook of Latvia, 2000, CSBL.*
ANNEX 12

Table 3A.11
Economically Active Population, Annual Average, by City and District [thousands]

<table>
<thead>
<tr>
<th></th>
<th>Economically Active Population, Total [thousands]</th>
<th>Of which</th>
<th>Of which</th>
<th>Of which</th>
<th>As percent of Economically Active Population</th>
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<tr>
<td></td>
<td>Employed</td>
<td>Non-working Job-seekers</td>
<td>of which Non-working Persons Registered with the State Employment Board</td>
<td>of which Unemployed</td>
<td>Non-working Job-seekers</td>
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<td>115.9</td>
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<td></td>
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<td>Riga</td>
<td>465.1</td>
<td>422.6</td>
<td>42.5</td>
<td>25.4</td>
<td>24.6</td>
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<tr>
<td>Daugavpils</td>
<td>68.8</td>
<td>58.8</td>
<td>10.0</td>
<td>8.0</td>
<td>7.8</td>
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<tr>
<td>Jelgava</td>
<td>39.0</td>
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<td>2.3</td>
<td>2.2</td>
<td>2.2</td>
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<td>2.1</td>
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<td>1.1</td>
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<td>3.0</td>
<td>2.9</td>
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<td>19.2</td>
<td>2.9</td>
<td>2.1</td>
<td>2.1</td>
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<td>Cesu</td>
<td>24.9</td>
<td>21.5</td>
<td>3.4</td>
<td>2.1</td>
<td>2.0</td>
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<tr>
<td>Daugavpils</td>
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<td>11.4</td>
<td>3.2</td>
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<td>2.9</td>
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<td>2.2</td>
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<td>1.3</td>
<td>1.3</td>
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<td>11.4</td>
<td>2.3</td>
<td>1.7</td>
<td>1.6</td>
</tr>
<tr>
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<td>18.9</td>
<td>5.3</td>
<td>3.6</td>
<td>3.6</td>
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</table>
### Table 3A.11 (continued)
Economically Active Population, Annual Average, by City and District [thousands]

<table>
<thead>
<tr>
<th>Economically Active Population, Total [thousands]</th>
<th>Employed</th>
<th>Non-working Job-seekers</th>
<th>Of which</th>
<th>Unemployed</th>
<th>Of which</th>
<th>As percent of Economically Active Population</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Non-working Job-seekers</td>
</tr>
<tr>
<td>Kraslavas</td>
<td>16.6</td>
<td>11.6</td>
<td>5.0</td>
<td>3.9</td>
<td>3.9</td>
<td>30.0</td>
</tr>
<tr>
<td>Kuldigas</td>
<td>14.5</td>
<td>12.6</td>
<td>1.9</td>
<td>1.2</td>
<td>1.2</td>
<td>12.9</td>
</tr>
<tr>
<td>Liepajas</td>
<td>16.6</td>
<td>13.8</td>
<td>2.8</td>
<td>2.4</td>
<td>2.3</td>
<td>16.7</td>
</tr>
<tr>
<td>Limbazu</td>
<td>16.5</td>
<td>13.9</td>
<td>2.6</td>
<td>2.1</td>
<td>2.1</td>
<td>15.6</td>
</tr>
<tr>
<td>Ludzas</td>
<td>16.6</td>
<td>12.6</td>
<td>4.0</td>
<td>3.4</td>
<td>3.4</td>
<td>24.1</td>
</tr>
<tr>
<td>Madonas</td>
<td>22.1</td>
<td>17.8</td>
<td>4.3</td>
<td>3.0</td>
<td>2.9</td>
<td>19.4</td>
</tr>
<tr>
<td>Ogres</td>
<td>24.5</td>
<td>21.9</td>
<td>2.6</td>
<td>1.8</td>
<td>1.7</td>
<td>10.5</td>
</tr>
<tr>
<td>Preilu</td>
<td>18.7</td>
<td>13.5</td>
<td>5.2</td>
<td>4.4</td>
<td>4.3</td>
<td>27.8</td>
</tr>
<tr>
<td>Rezeknes</td>
<td>17.1</td>
<td>11.1</td>
<td>6.0</td>
<td>4.9</td>
<td>4.8</td>
<td>35.1</td>
</tr>
<tr>
<td>Rigas</td>
<td>57.0</td>
<td>50.6</td>
<td>6.4</td>
<td>4.6</td>
<td>4.5</td>
<td>11.3</td>
</tr>
<tr>
<td>Saldus</td>
<td>16.7</td>
<td>14.8</td>
<td>1.9</td>
<td>1.1</td>
<td>1.1</td>
<td>11.4</td>
</tr>
<tr>
<td>Talsu</td>
<td>20.1</td>
<td>17.2</td>
<td>2.9</td>
<td>2.5</td>
<td>2.5</td>
<td>14.4</td>
</tr>
<tr>
<td>Tukuma</td>
<td>21.8</td>
<td>19.2</td>
<td>2.6</td>
<td>1.9</td>
<td>1.9</td>
<td>11.9</td>
</tr>
<tr>
<td>Valkas</td>
<td>15.7</td>
<td>13.6</td>
<td>2.1</td>
<td>1.5</td>
<td>1.5</td>
<td>13.4</td>
</tr>
<tr>
<td>Valmieras</td>
<td>28.1</td>
<td>23.9</td>
<td>4.2</td>
<td>2.8</td>
<td>2.7</td>
<td>14.9</td>
</tr>
<tr>
<td>Ventspils</td>
<td>6.0</td>
<td>5.2</td>
<td>0.8</td>
<td>0.6</td>
<td>0.6</td>
<td>13.3</td>
</tr>
</tbody>
</table>

**Source:** *Statistical Yearbook of Latvia, 2000, CSBL.*
### Table 3A.12
Level of Demographic Burden
[population under and over working age per 1,000 population of working age]

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Population—total</strong></td>
<td>780</td>
<td>736</td>
<td>732</td>
<td>726</td>
<td>695</td>
<td>685</td>
</tr>
<tr>
<td>Males</td>
<td>313</td>
<td>294</td>
<td>291</td>
<td>288</td>
<td>280</td>
<td>275</td>
</tr>
<tr>
<td>Females</td>
<td>467</td>
<td>442</td>
<td>441</td>
<td>438</td>
<td>415</td>
<td>410</td>
</tr>
<tr>
<td><strong>Under working age</strong></td>
<td>406</td>
<td>353</td>
<td>344</td>
<td>332</td>
<td>314</td>
<td>300</td>
</tr>
<tr>
<td>Males</td>
<td>207</td>
<td>180</td>
<td>176</td>
<td>170</td>
<td>161</td>
<td>154</td>
</tr>
<tr>
<td>Females</td>
<td>199</td>
<td>173</td>
<td>168</td>
<td>162</td>
<td>153</td>
<td>146</td>
</tr>
<tr>
<td><strong>Over working age</strong></td>
<td>374</td>
<td>383</td>
<td>388</td>
<td>394</td>
<td>381</td>
<td>385</td>
</tr>
<tr>
<td>Males</td>
<td>106</td>
<td>114</td>
<td>115</td>
<td>118</td>
<td>119</td>
<td>121</td>
</tr>
<tr>
<td>Females</td>
<td>268</td>
<td>269</td>
<td>273</td>
<td>276</td>
<td>262</td>
<td>264</td>
</tr>
</tbody>
</table>

**Source:** *Statistical Yearbook of Latvia, 2000, CSBL.*
Table 3A.13
Life Expectancy by Age and Sex in 1999

<table>
<thead>
<tr>
<th>Age [Years]</th>
<th>Males</th>
<th>Females</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>64.9</td>
<td>76.2</td>
</tr>
<tr>
<td>1</td>
<td>64.6</td>
<td>76.2</td>
</tr>
<tr>
<td>2</td>
<td>63.7</td>
<td>75.2</td>
</tr>
<tr>
<td>3</td>
<td>62.7</td>
<td>74.3</td>
</tr>
<tr>
<td>4</td>
<td>61.7</td>
<td>73.3</td>
</tr>
<tr>
<td>5</td>
<td>60.8</td>
<td>72.3</td>
</tr>
<tr>
<td>10</td>
<td>55.8</td>
<td>67.4</td>
</tr>
<tr>
<td>15</td>
<td>51.0</td>
<td>62.5</td>
</tr>
<tr>
<td>20</td>
<td>46.3</td>
<td>57.7</td>
</tr>
<tr>
<td>25</td>
<td>41.9</td>
<td>52.9</td>
</tr>
<tr>
<td>30</td>
<td>37.6</td>
<td>48.1</td>
</tr>
<tr>
<td>35</td>
<td>33.2</td>
<td>43.3</td>
</tr>
<tr>
<td>40</td>
<td>28.9</td>
<td>38.6</td>
</tr>
<tr>
<td>45</td>
<td>24.8</td>
<td>34.1</td>
</tr>
<tr>
<td>50</td>
<td>20.9</td>
<td>29.7</td>
</tr>
<tr>
<td>55</td>
<td>17.4</td>
<td>25.5</td>
</tr>
<tr>
<td>60</td>
<td>14.1</td>
<td>21.5</td>
</tr>
<tr>
<td>65</td>
<td>11.3</td>
<td>17.8</td>
</tr>
<tr>
<td>70</td>
<td>8.8</td>
<td>14.5</td>
</tr>
<tr>
<td>75</td>
<td>6.8</td>
<td>11.5</td>
</tr>
<tr>
<td>80</td>
<td>5.1</td>
<td>9.0</td>
</tr>
<tr>
<td>85</td>
<td>3.8</td>
<td>6.9</td>
</tr>
</tbody>
</table>

Source: Statistical Yearbook of Latvia, 2000, CSBL.
### Table 3A.14

Recipients of Pensions and State Social Security Benefit  
[at end of the year, in thousands of population]

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Recipients of pensions and state social security benefit</td>
<td>609.8</td>
<td>666.0</td>
<td>662.0</td>
<td>664.0</td>
<td>659.8</td>
<td>664.9</td>
</tr>
<tr>
<td><strong>OF WHICH:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension recipients*</td>
<td>609.8</td>
<td>666.0</td>
<td>649.5</td>
<td>651.5</td>
<td>646.9</td>
<td>651.4</td>
</tr>
<tr>
<td><strong>OF WHICH:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Old-age pensions</td>
<td>487.4</td>
<td>497.0</td>
<td>504.0</td>
<td>511.2</td>
<td>512.5</td>
<td>521.0</td>
</tr>
<tr>
<td>Disability pensions</td>
<td>66.9</td>
<td>103.4</td>
<td>98.5</td>
<td>94.5</td>
<td>90.1</td>
<td>85.7</td>
</tr>
<tr>
<td>Survivor’s pensions**</td>
<td>38.7</td>
<td>38.4</td>
<td>38.9</td>
<td>37.3</td>
<td>36.7</td>
<td>36.7</td>
</tr>
<tr>
<td>Service pensions</td>
<td>1.2</td>
<td>6.1</td>
<td>6.1</td>
<td>6.2</td>
<td>5.1</td>
<td>5.2</td>
</tr>
<tr>
<td>Pensions under special regulations</td>
<td>...</td>
<td>1.5</td>
<td>2.0</td>
<td>2.3</td>
<td>2.4</td>
<td>2.8</td>
</tr>
<tr>
<td>Social pensions</td>
<td>7.5</td>
<td>19.6</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Recipients of state social security benefit</td>
<td>NA</td>
<td>NA</td>
<td>12.5</td>
<td>12.5</td>
<td>12.9</td>
<td>13.5</td>
</tr>
</tbody>
</table>

Expenditures on social security and welfare from the general government consolidated budget were: LVL 352.5 million (37.1 % of the total budget) in 1995, LVL 415.4 million (37.3 %) in 1996, LVL 458.6 million (36.2 %) in 1997, LVL 541.1 million (34.4 %) in 1998, and LVL 626.8 million (35.9 %) in 1999.

* Excluding pension recipients registered with the Ministry of Interior Affairs and the Ministry of Defense.

** The total number of family members who are not able to work and have lost the breadwinner.

**Source:** Statistical Yearbook of Latvia, 2000, CSBL.
### ANNEX 16

**Table 3A.15**  
Distribution of Functions between the State and Local Governments in Social Assistance

<table>
<thead>
<tr>
<th></th>
<th>State Social Benefits</th>
<th>Municipal Social Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Material Assistance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>State Local Governments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Social Care</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Support children whose parents are not known</td>
<td>Support orphans and children who have been deprived of parental care</td>
<td></td>
</tr>
<tr>
<td>Social care institutions:</td>
<td>Social care institutions:</td>
<td></td>
</tr>
<tr>
<td>• homes and centers for mentally disabled children and adults</td>
<td>• shelters for orphans</td>
<td></td>
</tr>
<tr>
<td>• homes and centers for blind adults</td>
<td>• old people’s homes</td>
<td></td>
</tr>
<tr>
<td>• social care centers for orphans</td>
<td>Alternative care (home care, day centers):</td>
<td></td>
</tr>
<tr>
<td>Other specialized centers</td>
<td>• for disabled children</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• for persons of retirement age</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• mentally or physically disabled persons</td>
<td></td>
</tr>
<tr>
<td><strong>Social Rehabilitation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• State occupational training and rehabilitation for the disabled</td>
<td>• for disabled children</td>
<td></td>
</tr>
<tr>
<td>• Provision of technical support devices</td>
<td>• for mentally disabled</td>
<td></td>
</tr>
<tr>
<td>• Assistance to the homeless whose last place of residence cannot be proved</td>
<td>• employment for the blind at sheltered workshops</td>
<td></td>
</tr>
<tr>
<td>Social rehabilitation services:</td>
<td>Service apartment for individuals requiring special care;</td>
<td></td>
</tr>
<tr>
<td>1. at institutions: for the disabled, the politically repressed, non-working persons, victims of the Chernobyl nuclear power plant disaster, abused children</td>
<td>• ex-convicts</td>
<td></td>
</tr>
<tr>
<td>2. at institutions: for the disabled, the politically repressed, non-working pensioners; liquidators of the consequences of the Chernobyl nuclear power plant disaster, abused children</td>
<td>• alcoholics</td>
<td></td>
</tr>
<tr>
<td>3. alternatives to institutions: for individuals with severely impaired eyesight and hearing, the politically repressed, mentally disabled (at day centers); for abused children (at their place of residence); payment of the debt servicing for the adaptation of an apartment to the needs of a disabled person; support towards the development of alternative social assistance services in local governments.</td>
<td>• drug addicts</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• the homeless (a place in a shelter)</td>
<td></td>
</tr>
</tbody>
</table>
**Table 3A.16**

State Social Benefits and Allowances [monthly average, in thousand units]

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>State social security benefit:</td>
<td>X</td>
<td>X</td>
<td>12.5</td>
<td>12.5</td>
<td>12.7</td>
<td>13.5</td>
</tr>
<tr>
<td>number of beneficiaries*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Birth allowance: number of allowances</td>
<td>2.6</td>
<td>1.8</td>
<td>1.6</td>
<td>1.6</td>
<td>1.5</td>
<td>1.6</td>
</tr>
<tr>
<td>Child-care benefit for a child aged</td>
<td>83</td>
<td>58</td>
<td>55</td>
<td>53</td>
<td>51</td>
<td>46</td>
</tr>
<tr>
<td>under 3 years—number of beneficiaries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Of which: for a child under 1.5 years</td>
<td>46</td>
<td>27</td>
<td>25</td>
<td>25</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>for a child aged 1.5–3 years</td>
<td>37</td>
<td>31</td>
<td>30</td>
<td>28</td>
<td>27</td>
<td>22</td>
</tr>
<tr>
<td>State family allowance</td>
<td>560</td>
<td>546</td>
<td>540</td>
<td>506</td>
<td>494</td>
<td>481</td>
</tr>
<tr>
<td>—number of allowances</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplementary payment to the state</td>
<td>X</td>
<td>X</td>
<td>6.4</td>
<td>7.3</td>
<td>7.6</td>
<td>8.4</td>
</tr>
<tr>
<td>family allowance for a disabled child</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sickness allowance:**</td>
<td>891</td>
<td>363</td>
<td>298</td>
<td>99</td>
<td>168</td>
<td>178</td>
</tr>
<tr>
<td>number of paid disability days</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maternity benefit:**</td>
<td>209</td>
<td>70</td>
<td>64</td>
<td>74</td>
<td>95</td>
<td>96</td>
</tr>
<tr>
<td>number of paid disability days</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funeral allowance:**</td>
<td>1.7</td>
<td>2.6</td>
<td>2.3</td>
<td>2.3</td>
<td>2.2</td>
<td>2.3</td>
</tr>
<tr>
<td>number of allowances</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Until 1995 inclusive, social pension was granted to the recipients of state social security benefit and to disabled children.

** Including the allowance for a disabled child.

**Source**: *Statistical Yearbook of Latvia, 2000, CSBL.*
ANNEX 18

Table 3A.17
Average Size of State Social Benefits and Allowances in LVL

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>State social security benefit granted</td>
<td>NA</td>
<td>NA</td>
<td>25.00</td>
<td>25.56</td>
<td>31.36</td>
<td>32.14</td>
</tr>
<tr>
<td>Birth allowance—paid</td>
<td>0.97</td>
<td>73.37</td>
<td>97.54</td>
<td>112.61</td>
<td>180.40</td>
<td>181.98</td>
</tr>
<tr>
<td>Child-care benefit granted for a child aged under 3 years</td>
<td>0.59</td>
<td>9.61</td>
<td>9.58</td>
<td>9.75</td>
<td>14.25</td>
<td>19.03</td>
</tr>
<tr>
<td>Of which: for a child under 1.5 years</td>
<td>0.66</td>
<td>12.00</td>
<td>12.00</td>
<td>12.00</td>
<td>21.00</td>
<td>30.00</td>
</tr>
<tr>
<td>for a child aged 1.5–3 years</td>
<td>0.50</td>
<td>7.50</td>
<td>7.50</td>
<td>7.50</td>
<td>7.50</td>
<td>7.50</td>
</tr>
<tr>
<td>State family allowance payable</td>
<td>…</td>
<td>6.52</td>
<td>7.45**</td>
<td>4.93</td>
<td>5.00</td>
<td>5.12</td>
</tr>
<tr>
<td>Supplementary payment to the state family allowance paid for a disabled child (per month)</td>
<td>NA</td>
<td>NA</td>
<td>25.00</td>
<td>26.25</td>
<td>28.12</td>
<td>37.11</td>
</tr>
<tr>
<td>sickness allowance (per day)***</td>
<td>0.07</td>
<td>3.46</td>
<td>3.82</td>
<td>2.71</td>
<td>2.88</td>
<td>2.81</td>
</tr>
<tr>
<td>Maternity benefit (per day)***</td>
<td>0.06</td>
<td>2.91</td>
<td>3.35</td>
<td>2.98</td>
<td>3.48</td>
<td>4.01</td>
</tr>
<tr>
<td>Funeral allowance:*** paid</td>
<td>1.59</td>
<td>65.85</td>
<td>82.42</td>
<td>89.04</td>
<td>106.84</td>
<td>122.84</td>
</tr>
</tbody>
</table>

* Until 1995 inclusive, social pension was granted to the recipients of state social security benefit and to disabled children.

** Including the allowance for a disabled child.

*** Benefits and allowances are paid from the social insurance budget.

Source: Statistical Yearbook of Latvia, 2000, CSBL.
## Table 3A.18
Home Care [at end of each year]

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Persons to be nursed</td>
<td>7,964</td>
<td>6,943</td>
<td>7,190</td>
<td>7,158</td>
<td>6,653</td>
<td>6,601</td>
</tr>
<tr>
<td>Of which: Old-age pensioners</td>
<td>1,473</td>
<td>869</td>
<td>813</td>
<td>4,755</td>
<td>4,772</td>
<td>4,803</td>
</tr>
<tr>
<td>Disabled persons</td>
<td>2,512</td>
<td>2,120</td>
<td>2,148</td>
<td>2,383</td>
<td>1,800</td>
<td>1,778</td>
</tr>
<tr>
<td>Others</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>81</td>
<td>20</td>
</tr>
<tr>
<td>Persons who required nursing but did not receive it:</td>
<td>4,615</td>
<td>…</td>
<td>3,168</td>
<td>2,137</td>
<td>486</td>
<td>959</td>
</tr>
<tr>
<td>Total</td>
<td>4,615</td>
<td>…</td>
<td>3,168</td>
<td>2,137</td>
<td>486</td>
<td>959</td>
</tr>
<tr>
<td>As percent of the number of persons who need it</td>
<td>36.7</td>
<td>…</td>
<td>30.6</td>
<td>23.0</td>
<td>6.8</td>
<td>12.7</td>
</tr>
<tr>
<td>Number of care-takers</td>
<td>4,800</td>
<td>5,161</td>
<td>5,055</td>
<td>5,722</td>
<td>4,582</td>
<td>4,058</td>
</tr>
<tr>
<td>Number of persons to be nursed per care-taker</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

**Source:** *Statistical Yearbook of Latvia, 2000, CSBL.*
ANNEX 20

Table 3A.19
Specialized Social Care Centers for Children, Aged People and Invalids, and Those Who Are Mentally Ill [at end of the year]

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of places:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>9,006</td>
<td>9,235</td>
<td>8,832</td>
<td>8,924</td>
<td>9,089</td>
<td>9,055</td>
</tr>
<tr>
<td>Per 10,000 population</td>
<td>33.8</td>
<td>36.9</td>
<td>35.6</td>
<td>36.3</td>
<td>37.3</td>
<td>37.4</td>
</tr>
<tr>
<td>Of the total number of places:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For aged people and adult invalids</td>
<td>8,472</td>
<td>8,799</td>
<td>8,394</td>
<td>8,445</td>
<td>8,605</td>
<td>8,571</td>
</tr>
<tr>
<td>For handicapped children</td>
<td>534</td>
<td>436</td>
<td>438</td>
<td>479</td>
<td>484</td>
<td>484</td>
</tr>
</tbody>
</table>

Source: *Statistical Yearbook of Latvia, 2000, CSBL.*

ANNEX 21

Table 3A.20
Orphanages and Local Government Children’s Homes [at end of the year]

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Orphanages:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Enrolment</td>
<td>802</td>
<td>791</td>
<td>771</td>
<td>760</td>
<td>797</td>
<td>719</td>
</tr>
<tr>
<td>Local government children’s homes:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number</td>
<td>8</td>
<td>31</td>
<td>43</td>
<td>43</td>
<td>49</td>
<td>48</td>
</tr>
<tr>
<td>Enrolment</td>
<td>381</td>
<td>1,618</td>
<td>1,989</td>
<td>2,081</td>
<td>2,386</td>
<td>2,456</td>
</tr>
</tbody>
</table>

Source: *Statistical Yearbook of Latvia, 2000, CSBL.*
CHAPTER 4

The Ukrainian Social Protection System and the Methods of Governance

Anatoliy Chemerys

Andriy Lipentsev

Oksana Muzychuk

Vira Tsypuk
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The Ukrainian Social Protection System and the Methods of Governance

Anatoliy Chemerys • Andriy Lipentsev
Oksana Muzychuk • Vira Tsypuk

1. THE PAST

1.1 General Remarks

With a total land area of 603,700 sq. km, Ukraine is the biggest country (after Russia) on the European continent. According to the National Statistics Committee, as of 1 January 2000 the population of Ukraine was 49.7 million (almost 68% of them living in urban areas, 32% or 15.9 million people make up the rural population). The ethnic composition of the population is as follows: 72.7% Ukrainian, 22.1% Russian; with the remaining 5.2% of the population made up of numerous national minorities including (in alphabetical order): Armenians, Belorusians, Bulgarians, Greeks, Jews, Moldovans, Poles, and others.

The dominant religion is the Eastern Orthodox Church, which has several branches in Ukraine. The Ukrainian Catholic Church (“Uniat” Church) is dominant in the western part of the country, in the former Galychyna (better known as Galicia) and Bukovyna regions. Following the demise of communism, there has been widespread revival of religion.

Ukrainian 20th century history has been extremely complicated and in many ways tragic. This period of history saw great upheaval and subjugation of the population and left many Ukrainians greatly in need of the restoration of social justice and social assistance.

Forced collectivization of rural areas (undertaken from 1929-1933 in eastern Ukraine and from 1948-1949 in western Ukraine) led to an immense loss of life. The famines of 1932-1933 and 1946-1947 claimed a further 10 million Ukrainian lives. Millions of people died or were sent to concentration camps in Siberia during the mass repressions from 1937-1946.

In their attempts to resist the Soviet regime, the most advanced part of Ukrainian society formed a military opposition movement, which was extinguished in the early 1920s in the east. Meanwhile western Ukrainian intelligentsia and peasants formed the
Ukrainian Rebellion Army (UPA—Ukranian abbreviation) which supported partisan activities in the western regions until 1952 when they too were extirpated.

Thus, from the perspective of social protection and support, veterans of the UPA as well as victims of the political repressions of the 1930s, '50s, and '70s, constitute a considerable part of the groups in need of social assistance, along with the victims of the Chernobyl disaster.

Ukraine was proclaimed independent on 24 August 1991. On 1 December 1991, 91.6% of the population confirmed their wish for independence in a referendum.

1.2 Social Provisions in the Soviet System

As a Soviet republic, Ukraine belonged to the socialist society which guaranteed its citizens a minimum standard of living. In accordance with the ruling Marxist ideology, the government favored workers and displayed tolerance towards peasants, though it was, to a certain extent, skeptical towards the intelligentsia. Such an attitude to these three main social groups affected the respective levels of income, the working class having received relatively higher pay along with better access to social welfare. During the roughly fifty years of the Soviet system the state made no cash payments to peasants (no wages or pensions).

1.2.1 Pension System

The first Soviet laws on pensions were adopted between 1928-32. These laws determined the age limits for retirement (55 years for women and 60 for men). The USSR Constitution adopted in 1936 declared the right of all citizens to financial provision when they reached a certain age. However, in reality, only blue- and white-collar workers were given the right to pension provision under the approved Decrees of the Central Committee of the All-Russian Communist Party. Peasants received nothing.

It was only in 1956 that the USSR law On State Pensions was approved. This law further rubber-stamped the existing inequality in the social provisions of the blue- and white-collar workers, on the one hand, and peasants, on the other. In addition, this law separated pension provision from state social insurance, which can be traced through the financing mechanisms. Whereas social insurance payments were financed from the insurance fund filled by contributions from all enterprises and institutions, pensions were financed from the national budget. Although the Social Insurance Fund (managed by the Trade Union Board) was also part of the national budget, at the time it was filled at the expense of a separate insurance duty (paid to the Salary and Wage Fund) rather than
at the expense of overall tax revenues. That employees made no insurance contributions was regarded as a socialist achievement.

The amount of old-age pension for blue- and white-collar workers varied according to employment record and profession, with a 55% bonus paid to those involved in hazardous work, and mothers of four or more children. For every year above 25 years of employment for men and above 20 years for women, 1% was added to their pension thereby increasing the maximum level from 55% to 75% of the maximum salary.

On the whole, during the roughly fifty years of Soviet government half of the economically active population of Ukraine was excluded from the state pension scheme. It was not until 1964 that peasants got the right to a pension, under the law On Pensions and Benefits for Collective Farmers. The amount of their pension was much lower than that of workers. For instance, in 1970 retired collective farmers made up 42% of all pensioners, whereas their average old-age pension was four times less than the state old-age pension. The difference in pension provision of blue- and white-collar workers and collective farmers was cancelled only two years before the collapse of the USSR.

It can thus be seen that the Soviet pension scheme was not insurance-based and was far from keeping the principles of justice and equality. The USSR Government managed to provide a relatively decent amount of pension for certain categories of the population because:

- the demographic situation favored a consolidated pension scheme;
- there was a general work obligation for those in the active age cohort;
- the unofficial employment rate was small and there was actually no tax evasion.

1.2.2 Labor Market Situation

The labor market structure the Ukraine greatly differed from that in other European countries. In particular, at the time the USSR collapsed, the labor market was characterized by relatively high employment in agriculture (19.8%) and in industrial production (53.8%), and by low employment in the service sector (26.4%). This structure reflects the priorities of the Soviet economic system. It was mostly focused on industrial production, on investments, on accumulating resources, and on the production of weapons. Therefore, despite high production, Ukraine lagged behind in consumption.

Under the conditions of the command economy, unemployment did not exist officially, as there was—as mentioned above—a general work obligation for the active-aged population and the actual situation of the Ukrainian labor market was concealed. Accordingly, there was neither a statistical system that would be able to analyze the phenomenon, nor was there social protection against de facto unemployment.
1.2.3 Family Benefits

The principal Soviet legal regulations on maternity leave and on various maternity benefits were adopted in 1947; in 1981 the scope of these regulations was considerably increased. The period of paid maternity leave was 56 days before delivery and 56 days after. Maternity leave with moderate monthly social payments, with the understood condition of preserving the job, could be extended up to one year.

There also were lump-sum allowances to mothers, and benefits for mothers of four or more children. Single mothers of children under the age of 16 received a benefit equal to 20% of their average monthly salary.

Apart from these benefits for mothers, no other family benefits were guaranteed by the Soviet legal regulations. The only new type of family benefit was subsidies for low-income families introduced in 1974. It was a cash benefit (approximately 10% of the average salary/wage). In 1987 additional exemptions were introduced: free school uniform and free lunches in school canteens (in respect of low-income families and families with three or more children). Total expenditure on family benefits and exemptions in the USSR equalled only half that spent in Hungary.

1.2.4 Other Cash Benefits

During Soviet times there were also other cash benefits such as sick leave and holiday allowances paid from the social insurance fund and in 1955 a funeral allowance was introduced.

Summing up, we can infer that Ukraine inherited a social protection system which:

- was class-targeted (workers were generally more privileged than others);
- was declaredly universal for all categories, which resulted in a haphazard disbursement of benefits and assistance, that often did not reach those most in need;
- had an imperfect social insurance system which did not cover pensions, health, and unemployment insurance;
- was rigidly centralized, as local governments acted only as administrators of some social protection programs financed in full from the central budget;
- was based on the benefit policy in the area of price definition of consumption products and services (including apartment payments and payments for public utility services).

In this system, the basic social service providers were state bodies. However, the biggest enterprises, in particular those of the defense industry, also played an important part. They could provide better conditions for the social protection of their employees (they financed two-thirds of kindergartens and nurseries, free housing, rest homes, health services, etc.).
2. THE TRANSITION

2.1 Political System

The head of the Ukrainian political system is the democratically elected president. The president has the right to appoint the prime minister and the cabinet, albeit with the approval of parliament.

The Parliament of Ukraine consists of 450 members elected for a four-year period. (The president is elected for a period of five years.) In the March 1998 election, half of Parliament was elected under the “majority” principle, the other half under the political parties’ system (parliamentarian political parties have to overcome the 4% voting barrier).

The constitutional process began in July 1990 by adopting *The Declaration on State Sovereignty of Ukraine*. This document ratified the principles of sovereignty, democracy, inviolability of the territory of Ukraine, the division of power (legislative, executive, and judicial), the equality of citizens and a state guarantee for their rights and freedoms. The Constitution of Ukraine was adopted on 28 June 1996 after a lengthy political struggle. The Constitution created a strong legislative foundation for the development of sovereignty and a democratic state, and for the regulation of public relations.

2.2 Administrative Structure

The present administrative structure of the country comprises 24 regions/provinces, or *oblasts*. In addition, the Crimea has the status of an autonomous republic. In each region, there are local self-governments and local state executive bodies headed by a presidential representative. The Crimea has its own parliament and cabinet of ministers.

The structure of the state executive power in Ukraine is organized according to the administrative and territorial division of the state and comprises three levels (see Figure 4.2):

- central (national);
- oblasts (the cities of Kyiv and Sevastopol are regarded as oblasts);
- rayons (districts within the cities of Kyiv and Sevastopol are regarded as rayons).

At the central level, the President of Ukraine—as Head of State—assumes the administrative functions of the state through the Cabinet of Ministers, which is the central corporate body of state executive power. Functional and branch (inter-branch) administration is carried out by ministries and departments that are specially authorized central state executive branch bodies.
At the regional (oblast) level, oblast state administrations (for Kyiv and Sevastopol city administrations) are organized. These form part of the unified system of state executive power and are subordinated to the President and the Cabinet of Ministers.

At the rayon level (city district level for Kyiv and Sevastopol), there are respective state administrations, which also form a part of the state executive power. These report to the Head of the Oblast State Administration (a governor) who than reports to the President and the Cabinet of Ministers. The autonomous republic of the Crimea is in a special situation representing a distinct level between the central and regional levels of government.

At the lowest level of administrative and territorial division (i.e. city, town, and village), state executive bodies are not formed. Here the administration is carried out by the local self-governments.

In recognition and reinforcement of the idea of local self-governance, the Constitution of Ukraine defines the right of local self-governments to resolve local development issues in villages, towns and cities, as well as city districts. The special differences of local self-governance in Kyiv and Sevastopol are determined by specific laws.

According to the law, local self-governance is carried out by “a territorial community” both directly and via local self-governmental bodies: village-, town- and city councils and their executive bodies. The local self-governmental authorities representing the common interests of villages, towns, and cities are rayon and oblast councils.
The way of defining and organizing the administration at the level of city districts depends on the given city council. Village, town and city councils can create houses, streets, quarters and other bodies of the population if such are initiated by the inhabitants.
The councils can confer these organizations with part of their own authority, finance and property.

Village, town or city communities have the right to merge communal properties on a contractual basis; they also can combine budget resources in order to implement joint projects or to jointly finance communal enterprises, organizations, institutions, or to create bodies and services for specific purposes.

The state takes part in forming local budget revenues. It also provides financial support to local self-governments. The expenditure incurred by a local self-government as a result of state resolutions is reimbursed by the state.

According to the law, oblast and rayon councils, being local self-governments, approve socio-economic and cultural development programes in regions or rayons respectively, and control their implementation. They also approve respective budgets, the latter being formed from the national budget funds allocated under relevant budget lines. The allocations for joint development projects are also made from other local budgets (settlements). Councils are also authorized to decide other issues within their terms of reference.

Local self-governments can be delegated some power of the executive branch. The state financially provides the ability to exercise this power at the expense of the national budget or by referring specified national taxes to local budgets. The state also has the authority to transfer public property objects to local self-governments.

With respect to exercising the power originally defined as that of the state executive bodies, local self-governments are answerable to the respective superior state executive bodies (e.g. towns to the rayon).

The delegation of mandates to local public administrations had also been in practice before the adoption of the latest Constitution.


2.3 Macroeconomic Development

The transition process in Ukraine has proved to be difficult and controversial. As part of the Soviet centralized system, the Ukrainian economy was closely linked with the economies of the other republics. This situation created a heavy reliance on external resources and markets, first and foremost those of Russia. Prior to independence, inter-republic trade accounted for more than 80% of the total “exports” and “imports.” Ukraine accounted for a major share—about 25%—of the GDP of the former Soviet Union, and some 40% of its industrial output.

Ukrainian fertile black soil generated over one-fourth of Soviet agricultural output, and its farms provided substantial quantities of meat, milk, grain, and vegetables to the other republics. Likewise, its diversified heavy industry supplied equipment and raw materials to industrial and mining sites in other regions of the USSR. Ukraine was and is highly dependent on external energy supply, especially natural gas.
Shortly after the breakdown of the USSR in December 1991, the Ukrainian Government liberalized most prices and set up a legal framework for privatization. The widespread resistance to the reform within the government and the legislature, however, stalled reform efforts and led to some backtracking. According to the National Statistics Committee, the current GDP of Ukraine is less than 40% of that in 1990. Loose monetary policies resulted in hyper-inflationary levels in 1993.

Energy is the “Achilles heel” of the economy, since the country’s industry and agriculture are heavy and inefficient users. Ukraine is self-sufficient in coal, but the country imports 75% of its natural gas and 90% of its oil. Oil comes almost exclusively from Russia, which has substantially raised its prices and reduced deliveries.

The onset of the financial crisis in Russia in 1998 dashed Ukraine’s hopes for its first year of economic growth in 1998 due to a sharp fall in export revenue and reduced domestic demand. Output continued to drop slightly in 1999. The government has also not been able to significantly decrease its huge backlog of wage and pension arrears. Despite increasing pressure from the IMF to accelerate reform, substantial economic restructuring remains unlikely in 2000 largely because of the communist-dominated legislature’s resistance to further privatization.

Private sector development, with or without foreign direct investment, has made very little progress, the business climate being seriously affected by very high corruption and considerable uncertainty surrounding the legal basis for private activities. According to the World Bank, 47% of the Ukrainian economy is gray.

In 1999, industrial production increased in comparison with the previous year by 4.3%. Production increased in the food and woodworking industries. Over 70% of industrial output in 1999 was produced by private enterprises.

Despite some positive indicators, on the whole there was no easing of the difficult economic situation in Ukraine in 1998-99. The state budget revenue was collected with great difficulty; the budgets of most enterprises and institutions were not balanced. Moreover, there was no decrease in debt payments among enterprises, and backlogs of salaries, wages, pensions and other social cash payments were not eliminated. Even so, financial stabilization was achieved to some extent, inflation decreased to 10% and there was no increase in the negative growth rates of the Gross Domestic Product and industrial output. According to the data presented by the World Bank in its Country Economic Memorandum for Ukraine, GDP per capita was as follows: 1995—USD 1,350, 1996—USD 1,210, 1997—USD 1,040, 1998—USD 850, 1999—USD 800 (forecast). The national debt of Ukraine continues to grow. December 1999 saw the amount reach over USD 12.8 billion, out of which some USD 3.2 billion was paid back to creditors or restructured in the year 2000.

The underlying cause of the economic recession, according to World Bank experts,1 was that “Ukraine has sunk in hasty measures and has left behind its overall goals. The declared direction of the economic policy has little in common with its practical implementation. Thus the country descends from one crisis into another.”
### Table 4.1
Basic Macroeconomic Indicators

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</tr>
</thead>
<tbody>
<tr>
<td>Real GDP, changes in comparison with 1989</td>
<td>100</td>
<td>96.6</td>
<td>85.4</td>
<td>73.7</td>
<td>63.2</td>
<td>48.7</td>
<td>42.7</td>
<td>38.5</td>
<td>37.2</td>
<td>36.6</td>
<td>35.7</td>
</tr>
<tr>
<td>Annual inflation rate [%]</td>
<td>4.2</td>
<td>91.0</td>
<td>1,210.0</td>
<td>4,735.0</td>
<td>891.0</td>
<td>346.0</td>
<td>80.0</td>
<td>16.0</td>
<td>11.0</td>
<td>25.0</td>
<td></td>
</tr>
<tr>
<td>Unemployment rate (ILO methodology)</td>
<td>5.6</td>
<td>7.6</td>
<td>8.9</td>
<td>11.3</td>
<td>12.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Officially registered unemployment rate</td>
<td>0.3</td>
<td>0.3</td>
<td>0.4</td>
<td>0.6</td>
<td>1.6</td>
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<td>Actual GDP per capita [USD]</td>
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<td>2,040.0</td>
<td>2,200.0</td>
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<tr>
<td>Actual GDP annual growth</td>
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<tr>
<td>Exports [as % of GDP]</td>
<td>27.7</td>
<td>26.1</td>
<td>24.0</td>
<td>25.9</td>
<td>35.4</td>
<td>47.1</td>
<td>45.6</td>
<td>40.6</td>
<td>39.8</td>
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<tr>
<td>Imports [as % of GDP]</td>
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<td>Budget revenues [million USD]</td>
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<td>8.3</td>
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<tr>
<td>Overall budget deficit [as % of GDP]</td>
<td>7.1</td>
<td>13.8</td>
<td>5.1</td>
<td>8.9</td>
<td>6.6</td>
<td>4.9</td>
<td>6.1</td>
<td>2.2</td>
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<tr>
<td>Foreign Direct Investment in Ukraine [million USD at the beginning of the year]</td>
<td>219.4</td>
<td>483.5</td>
<td>896.9</td>
<td>1,438.2</td>
<td>2,053.8</td>
<td>2,809.9</td>
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<tr>
<td>External debt [million USD]</td>
<td></td>
<td></td>
<td>3.69</td>
<td>4.47</td>
<td>5.67</td>
<td>8.69</td>
<td>9.46</td>
<td></td>
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<tr>
<td>Social security benefit and exemption expenditures [as % of total GDP]</td>
<td>19.0</td>
<td>3.6</td>
<td>18.7</td>
<td>31.5</td>
<td>11.2</td>
<td>13.7</td>
<td>12.0</td>
<td>16.4</td>
<td>13.6</td>
<td>13.7</td>
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</table>

One of the major reasons for the decrease in the industrial capacity of Ukraine is that no distinct system for the distribution of resources has yet been set up. Discrimination against market actors has been increasing. The present regulatory mechanism is unfavorable: numerous approvals are needed to register a business, and most business activities need a license. The private sector is being destroyed through inequality of conditions, e.g. too wide a price range, and individual tax rates. A significant portion of the private sector is supported by the state due to the mechanism of direct and indirect subsidies from the budget: tax exemption; debt re-structuring or debt writing-off; state loans with subsidized interest rates; failure to return loans; etc. Many enterprises get tax exemptions due to the legislation on free economic zones and on special modes of investment activities.

In 1992-1996, the human development index (HDI) calculated by the United Nations sharply dropped in Ukraine. The country dropped from 32nd position to 95th among 175 countries. In 1999, Ukraine rated 91st among 185 countries. It is important to note that the HDI varies greatly from region to region.

2.4 Labor Market Situation

2.4.1 Observation of Labor Rights

Over the last few years the protection of labor rights of citizens has significantly deteriorated. The number of illegal dismissals is increasing; there are many cases of salaries not being paid on time, and holidays going unpaid. At most of the non-state owned enterprises labor relations are not registered officially in accordance with the legal regulations. The state does not adequately monitor and control the fulfillment of labor regulations.

The major problems regarding the social sphere are, in my opinion, as follows: low employment rate, low manpower demand, low manpower cost, low manpower quality, and low performance potential. Those who are on forced leave for months, or working for two or three days a week—moreover using equipment that has not been modernized for ten years—cannot, in fact, be sufficiently skilled. Ukrainian manpower is becoming non-competitive on the domestic market, not to mention the markets abroad.

SOURCE: An interview with a social policy official.

The economically active population (aged 15-70) amounted to 23 million people in September 1999; the number of people actually employed was 20.6 million or 89.7% of the economically active population. The unemployment level (based on the methodology of the International Labor Organization, ILO) was 11% in September 1999, which
was more than double the indicator of registered unemployment (5.4%) within this category of citizens.

... According to the Constitution, the state provides full employment, but according to the ILO methodology the unemployment rate in Ukraine today exceeds 11%. Official data state that the average period of unemployment lasts for over 11 months; according to unofficial data it is more than 18 months. Furthermore, my expert judgement tells me that the unemployment rate in Ukraine exceeds 25%. In other words, every fourth person lives beyond social laws... The second problem is again connected with employment. Supposing somebody comes to the Job Center and is registered as unemployed, this person would be granted benefits for a certain time. Whether or not the benefits are sufficient, this is what they are given anyway. The benefit provision term finally expires (360 days in the course of two years) and this person no longer gets anything....

SOURCE: From an interview with a social policy official.

The trend of inefficient use of officially employed citizens is still a threat. In the last three years the number of workers on “forced” holiday and of those employed part time remains high. In 1999 the figures for those groups were 2.8 million and 2.2 million people respectively, or 19.4% and 15.3% of the average registered number of employed. Over 727,000 people were unemployed for over one month. For example, in the construction industry such “forced” holidays of various durations covered every second employed person, in industry every third, while in other fields such holidays covered every fourth person. The greatest number of people on administrative holidays were in the oblasts of Vinnytsya, Zakarpattya, Lviv, Mykolaiv, Cherkassy and Chernivtsi.

The imbalance between workforce supply and demand is getting worse. On 1 January 2000, the number of registered unemployed stood at 1.2 million, while the number of registered vacancies was only 50,700. On average, there were 24 people for every vacancy.

...The state itself is the main guilty party in not observing the law. There is a law that salary/wages are to be paid twice a month. But sometimes salaries/wages are not paid for years, and this is accepted as normal. The law says that people have to work for the period as stated in the contract concluded with the employer whereas the employer is able to force them to take holidays lasting for six months or even up to three years, without any adequate sanctions being taken against the employer. At present, the State remains the main employer or employs the most people, and the State itself violates these laws.

SOURCE: From an interview with a social policy official.

Among the unemployed population registered during 1999, the share of those who had completed higher education (university, academy) totaled 10%; with basic high education—22%; with professional and technical education (college)—32%; completed secondary education—30%; with basic or primary secondary education—6%. The duration of unemployment is consistently growing. In 1996 the average period of unemployment...
was 6.8 months; in 1999 it amounted to 11 months. Considering that most people had a long break in employment, the actual level of their professional knowledge and qualifications neither corresponds to the appropriate level of education nor meets the requirements of the employers.

2.4.2 Labor Migration

The lack of labor market participation, the decline in real wages and the stagnant or decline in social investments have contributed to the significant and sustained levels of emigration. Most people go to other countries—whether near or far—without appropriately completed documents. As an example, from Chernivtsi oblast alone, with its population of 938,000, over 45,000 people went abroad in the year 2000 in order to work illegally (according to the Monitoring Committee of Chernivtsi Oblast State Administration). Officially only 33 persons left the oblast. Official statistics have no objective data about temporary work leave and emigration from Ukraine because of the lack of any mechanism for recording illegal migration.

The majority of Ukrainian emigrants tend to be individuals of working age with skills marketable on the world labor market. A sustained outflow of competitive core workers obviously has very damaging effects on the national economy.

2.5 Basic Demographic Indicators Affecting the Social Protection System

The major tendency of the last ten years with respect to demographic trends was the constant decrease in the total population and in the birth rate. The age structure of Ukraine’s population demonstrates a constant increase of people of retirement age, and a decrease in the “active” proportion of the population. The number of elderly citizens will continue to increase in the near future. In the regions Zhytomyr, Chernihiv and Luhansk, the retired population is close to 70%.

In 1999, the total population decrease remained, on average, at the same level of the previous years (see Table 4.2); however, the process of natural decrease became more rapid: in 1998 the there was a natural decrease in the population by 300,700 in contrast to 350,000 in 1999.

The depopulation process in Ukraine can be specifically described by the simultaneous worsening of both the birth rate and the death rate. In the 1990s, the average decrease in the birth rate stood at 5.37%, while the average increase in the death rate was 2.77%. Compared with 1990, the year 1999 revealed a 59.2% decrease of newborns and an 11% increase of the deceased.
Table 4.2
Basic Demographic Indicators

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</thead>
<tbody>
<tr>
<td>Estimated population [thousands]</td>
<td>51,584</td>
<td>51,690</td>
<td>51,802</td>
<td>51,989</td>
<td>51,859</td>
<td>51,474</td>
<td>51,079</td>
<td>50,639</td>
<td>50,245</td>
<td>49,851</td>
<td>49,153</td>
</tr>
<tr>
<td>Including: Males [as % of total]</td>
<td>46</td>
<td>46</td>
<td>46</td>
<td>46</td>
<td>46</td>
<td>47</td>
<td>47</td>
<td>47</td>
<td>47</td>
<td>47</td>
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<tr>
<td>Females [as % of total]</td>
<td>54</td>
<td>54</td>
<td>54</td>
<td>54</td>
<td>54</td>
<td>54</td>
<td>53</td>
<td>53</td>
<td>53</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td>Including: Urban [as % of total]</td>
<td>68</td>
<td>68</td>
<td>68</td>
<td>68</td>
<td>68</td>
<td>68</td>
<td>68</td>
<td>68</td>
<td>68</td>
<td>68</td>
<td>68</td>
</tr>
<tr>
<td>Rural [as % of total]</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
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<tr>
<td>Including: Under 16 [as % of total]</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>20.1</td>
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<tr>
<td>Active age [as % of total]</td>
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<td></td>
<td>56.6</td>
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<tr>
<td>Above active age [as % of total]</td>
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<td></td>
<td></td>
<td></td>
<td>23.3</td>
</tr>
<tr>
<td>Natural growth (decline) of population [thousands]</td>
<td>27.6</td>
<td>–39.2</td>
<td>–100.3</td>
<td>–184.2</td>
<td>–243.1</td>
<td>–299.7</td>
<td>–309.5</td>
<td>–311.6</td>
<td>–300.7</td>
<td>–350.0</td>
<td></td>
</tr>
<tr>
<td>Number of live birth [thousands]</td>
<td>657.2</td>
<td>630.8</td>
<td>596.8</td>
<td>557.5</td>
<td>521.6</td>
<td>492.9</td>
<td>467.2</td>
<td>442.6</td>
<td>419.2</td>
<td>389.2</td>
<td></td>
</tr>
<tr>
<td>Number of death [thousands]</td>
<td>629.6</td>
<td>670.0</td>
<td>697.1</td>
<td>741.7</td>
<td>764.7</td>
<td>792.6</td>
<td>776.7</td>
<td>754.2</td>
<td>719.9</td>
<td>739.2</td>
<td></td>
</tr>
<tr>
<td>Birth rate [per 1,000 people]</td>
<td>12.7</td>
<td>12.1</td>
<td>11.4</td>
<td>10.7</td>
<td>10.0</td>
<td>9.6</td>
<td>9.1</td>
<td>8.1</td>
<td>8.3</td>
<td>7.8</td>
<td>9.0</td>
</tr>
<tr>
<td>Death rate [per 1,000 people]</td>
<td>12.1</td>
<td>12.9</td>
<td>13.4</td>
<td>14.2</td>
<td>14.7</td>
<td>15.4</td>
<td>15.2</td>
<td>14.9</td>
<td>14.3</td>
<td>14.8</td>
<td>16.5</td>
</tr>
<tr>
<td>Natural growth of population [per 1000 people]</td>
<td>0.6</td>
<td>–0.8</td>
<td>–2.0</td>
<td>–3.5</td>
<td>–4.7</td>
<td>–5.8</td>
<td>–6.1</td>
<td>–6.2</td>
<td>–6.0</td>
<td>–7.0</td>
<td>–8.3</td>
</tr>
<tr>
<td>Child mortality [per 1,000 born]</td>
<td>12.8</td>
<td>13.9</td>
<td>14.0</td>
<td>14.9</td>
<td>14.5</td>
<td>14.7</td>
<td>14.3</td>
<td>14.0</td>
<td>12.8</td>
<td>12.6</td>
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</tr>
</tbody>
</table>

Negative trends related to the increasing death rate were already visible at the end of the 1960s. As a result, the life expectancy of the population as a whole also decreased: currently it is 65.9 years (60.3 years for males, 71.8 for females). The considerable increase in the death rate is mostly due to respiratory diseases, infectious and contagious diseases, as well as to diseases of the digestion system.

2.6 Standard of Living

Within the last ten or so years, the structure of cash income of the Ukrainian population has undergone a considerable change mostly as a result of the declining wages and salaries.

Table 4.3
Structure of Cash Income of the Ukrainian Population [percentage]

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</thead>
<tbody>
<tr>
<td><strong>Total cash incomes</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>INCLUDING</strong></td>
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<td></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Salaries and wages</td>
<td>70.9</td>
<td>66.2</td>
<td>69.7</td>
<td>56.6</td>
<td>62.7</td>
<td>59.0</td>
<td>58.8</td>
<td>51.1</td>
<td>48.2</td>
<td>49.7</td>
</tr>
<tr>
<td>Income from selling agricultural products</td>
<td>5.5</td>
<td>6.4</td>
<td>3.0</td>
<td>4.0</td>
<td>2.5</td>
<td>2.5</td>
<td>3.0</td>
<td>2.7</td>
<td>3.6</td>
<td>4.6</td>
</tr>
<tr>
<td>Pensions, benefits, scholarships</td>
<td>15.5</td>
<td>17.6</td>
<td>17.7</td>
<td>22.2</td>
<td>19.8</td>
<td>19.5</td>
<td>24.5</td>
<td>25.0</td>
<td>23.4</td>
<td>24.8</td>
</tr>
<tr>
<td>Income from selling currencies</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>3.0</td>
<td>6.7</td>
<td>12.4</td>
<td>13.2</td>
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<tr>
<td>Other incomes</td>
<td>8.2</td>
<td>9.8</td>
<td>9.6</td>
<td>17.1</td>
<td>15.0</td>
<td>15.9</td>
<td>7.2</td>
<td>8.5</td>
<td>11.7</td>
<td>15.0</td>
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</tbody>
</table>


In the structure of the cash income of the population there is a decrease in the salaries/wages ratio: in 1990 it made up 70.9% whereas in 1998—only 48.2%; in the year 2000 it equalled 48.9%.

Real money income decreased 4.4 times as compared to 1990, real wages—3.8 times, real pension—6.5 times. In addition, the hyper-inflation of 1992-1993 completely devalued the savings of the population in the banking system.

Obviously the main source of cash income of working citizens is salaries/wages. In Ukraine the average monthly wage in 1999 was USD 43, this was 31.7% less than in 1998. The wages of 40% of employees involved in the economic sphere were lower than the officially established level of low income, which is in turn two times less than the minimum living standard.
For reference: in the CIS countries the average salary/wage in USD according to the official exchange rates determined by CIS National Banks in 1999 was as follows: Russian Federation—64, Belarus—72, Uzbekistan—59, Azerbaijan—43.3, Armenia—37, Moldova—28, Kyrgyzstan—26, Tajikistan—9, Kazakhstan—90.

At the beginning of 2001 over 6.5 million employees did not receive their wages on time. The average wages debt for one employee was more than three times their monthly wage.

Table 4.4
Dynamics of Actual Cash Income of Population, December 1990-December 1999 [%]

<table>
<thead>
<tr>
<th>Years</th>
<th>Index of Actual Cash Income</th>
<th>Actual Salary Index</th>
<th>Actual Pension Index</th>
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</thead>
<tbody>
<tr>
<td>1990</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>1991</td>
<td>78.1</td>
<td>106.1</td>
<td>79.5</td>
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<tr>
<td>1992</td>
<td>64.4</td>
<td>65.1</td>
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<tr>
<td>1993</td>
<td>21.1</td>
<td>31.6</td>
<td>23.1</td>
</tr>
<tr>
<td>1994</td>
<td>21.1</td>
<td>27.0</td>
<td>15.9</td>
</tr>
<tr>
<td>1995</td>
<td>26.1</td>
<td>34.5</td>
<td>18.5</td>
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<tr>
<td>1996</td>
<td>23.5</td>
<td>29.7</td>
<td>17.3</td>
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<tr>
<td>1997</td>
<td>23.8</td>
<td>29.0</td>
<td>15.7</td>
</tr>
<tr>
<td>1998</td>
<td>24.0</td>
<td>25.3</td>
<td>15.3</td>
</tr>
<tr>
<td>1999</td>
<td>22.5</td>
<td>26.2</td>
<td>15.3</td>
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</tbody>
</table>

For reference:

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<tbody>
<tr>
<td>1,658.2</td>
<td>4,835.3</td>
<td>991.4</td>
<td>476.8</td>
<td>180.3</td>
<td>115.9</td>
<td>110.6</td>
<td>122.7</td>
</tr>
</tbody>
</table>


2.7 Poverty

Most of the characteristics of poverty in Ukraine are common to most or all of the countries in transition. Many aspects, such as declining real wages and employment in the formal economy together with increasing inequality and informal economic activities can be found across a broad group of countries undergoing liberalization and economic reform.

Poverty is not simply a matter of lack of income. Human poverty is a lack of access to the opportunities available to other members of the society as a result of social, political
or other restraints or barriers. It is thus of extreme importance to distinguish between the simple assessment of income poverty and a broader and more complex understanding of the concept of human poverty. Poverty lines based on cash or non-cash incomes play a central role in the discussion of policy issues.

Setting a poverty line intuitive (that is based on a clear definition and is convincing) and politically acceptable is extremely difficult. Attempts to produce an absolute poverty line based on studies of the real expenditures of poor households or the calculation of a minimum consumption basket have produced a number of very different ‘poverty lines’ (ranging from UAH 90 to UAH 270 per month). Even such an apparently objective approach as a calculation based on a minimum calorific intake level becomes problematic when the long-term health effects of a poor diet (e.g. lack of vitamins, micro-nutrients, etc.) are taken into consideration.

One of the most visible results of wage decreases is the decline in consumption of food products as well as their structure and quality. Between 1990 and 1999 the consumption of meat, dairy products, eggs, fish and fruit fell by roughly 50%, whereas only bread consumption rose above its pre-transition level. A considerable part of the Ukrainian population now subsists on a diet consisting almost exclusively of carbohydrates and vegetables. The alarming rise in cases of tuberculosis or of iron-deficiency anemia among pregnant women and new mothers are indications of poor diet and nutritional insufficiency which is seriously threatening the health of the next generation.

According to the data of the selective inspection of households carried out by the National Statistics Committee of Ukraine, differentiation of the population based on the level of welfare has increased. The difference between the richest 10% of the population and the poorest 10% at the time of the study was six to seven times.

Material problems and the process of becoming poor and the decreasing ability to pay are most painfully perceived in people’s subjective opinions. According to the results of sociological surveys carried out by SOCIS and by the Democratic Initiative Fund in March 2001, almost 9 out of 10 Ukrainians considered themselves poor. Moreover, 38% of respondents found their material status to be very low; 32% considered it as low, and 16% as below average. Only 13% of respondents found their material status to be average and only 1% estimated it as being higher than average. The drop in living standards, the increase of unemployment, the pressure of such pathological phenomena as deterioration of the population’s health together with the lack of qualified medical assistance, the extent of corruption, etc., is having an extremely negative effect on the level of satisfaction with life on the whole. Sociological data show that the proportion of those unsatisfied with their life in 1994 constituted 48.7% of the respondents whereas in the year 2000 this figure rose to 60.9%.

If we define the level of poverty with the help of the estimates on consumption, 40% out of all households of Ukraine belong to the category of poor.

According to the World Bank, 75% of Ukrainian families live below the poverty line.
Official figures (received with the help of the relevant criterion—75%-mean level of expenditure calculated for one adult) show 27.8% (13.7 million people) of the Ukrainian population belong to the category of poor and 14.2% to the category of destitute. Poverty in Ukraine is characteristic not only of educated and qualified people, but also of those who work full time. Families with three or more children are at the highest risk of becoming poor. In fact almost all families with many children are destitute.

On the whole, all types of households are represented within the categories of poor and destitute:

- families with children, including families with many children make up 43.4%;
- families of pensioners 29.1%;
- families without dependents 27.6%.

Most poor and destitute households are concentrated in rural areas (36.6% and 37.0% respectively). There are a great number of poor households in the large cities (35.2%); but these households are typically close to the poverty line, which is confirmed by the smaller portion of destitute households in large cities (32.9%). In contrast, the share of poor households in small cities (under 100,000 citizens) is 18.2%, and of destitute households it is 30.2%.

The poverty rate and other indices characterizing the living standard of the population vary substantially in the different oblasts of Ukraine. The highest indexes of poverty (37 to 42%) are in the oblasts of Luhanska, Mykolayivska, and Khmelnitska. The lowest poverty rate (13.2%) is in Kyiv; also comparatively low (17-19%) are Chernihivska, Kharkivska, and Zakarpatska oblasts.

In 2000 the problem of poverty started to be discussed at the highest level of government. The annual presidential speech to Parliament contained, for the first time, a special section entitled “The Problem of Poverty in the context of the Policy of Social and Economic Changes and the Strategy of Reforms.” It was officially stated that “the processes of economic growth were not accompanied by any substantial qualitative changes, structural changes, or overcoming of the accumulated renewing deformations and deformations in the social sphere.” Ukraine was found to be “a country not only with a high level of poverty but also with growing poverty. As a result the problem of poverty is becoming the problem of the future of the nation.”

3. THE SOCIAL PROTECTION SYSTEM

In the late 1980s, starting with the collapse of the Soviet economic system, it became clear that the social protection system lacked justice and objectivity. As a result the amount of money allocated to the social programs was considerably increased in 1992 when Ukraine
began to finance its social protection programs itself. In that year the total amount allocated to social protection made up over 40% of the GDP or two-third of the total expenses of the country. All in all, about 60 programs of allowances of different kinds were introduced. In fact 40% of Ukrainians were provided with some kind of allowance from the central government. Thus, the result of the first changes carried out by the Ukrainian government in order to meet the increasing demand to reform the social protection system, was the policy that had heightened, rather than relieved, the problems specific to the social provision system of the former USSR.

3.1 Social Insurance

The Constitution of Ukraine defines the right of citizens to social protection including the right receive benefits in case of full, part, or temporary loss of working capacity, loss of the bread-winner, unemployment for other reasons, as well as for old age and in other cases defined by law. This right is guaranteed first of all by obligatory state social insurance covered from the insurance contributions of the citizens, enterprises, institutions and organizations, as well as from the budget.

In order to implement the norms of the Constitution and to develop The Concept of Social Provision of the Population of Ukraine, on 14 January 1998 the Parliament adopted a framework law as a means of introducing obligatory state social insurance in Ukraine alongside The Basic Principles of the Ukrainian Legislation on Obligatory State Social Insurance (hereafter referred to as The Basic Principles). These basic principles determine the general legal, organizational and financial principles of social insurance for Ukrainian citizens and aim at:

- determining the categories of the population to be covered by social insurance;
- determining state guarantees with regard to protecting the rights and interests of citizens entitled to a pension as well as to social services and cash allowances in case of permanent or temporary inability to work, unemployment, birth of a child, necessity to look after a small child, disease of a family member, death of a citizen and members of their family, etc.

The financial costs of these programs are to be covered by the contributions of employers and employees (the exception is industrial accident and occupational disease insurance).

The rate of the contributions will be determined annually by the Parliament along with national budget.

Every insurance fund will have an independent institutional framework. The responsibility of the social insurance institutions will be limited to administrative issues. Parliament
and the government determine all the key issues such as the amount of benefits and contributions. Each of the funds will be managed on a tri-partite basis (equal number of delegated representatives of the trade unions, the employers, and the state). Hence, the state does not manage insurance funds centrally, it delegates the management functions to the social partners.

The Ukrainian Parliament has adopted the law *On Obligatory State Social Insurance Against Industrial Accidents and Occupational Disease Resulting in Loss of Working Capacity*, introduced as a practical development of *The Basic Principles*. The draft laws *On Obligatory State Social Insurance against Unemployment* and *On Obligatory State Social Insurance against Temporary Loss of Working Capacity and Expenditures on Birth and Funeral* were adopted by the Parliament after the first reading on 17 December 1999. It is planned that the Draft Law *On Obligatory State Pension Insurance* will be considered in the near future. The Government is planning to introduce a new social insurance system in 2001. [Ed.: At the time of going to press in 2002 the new insurance system is being introduced.]

For various reasons most of the legislative standards (particularly those that refer to the amounts of the allowances) have not been realized and the more radical reforms have not been implemented at all. Thus the social insurance system does not ensure the basic existential security of the Ukrainian citizens.

### 3.2 Family Protection

The law of Ukraine *On State Benefits for Families with Children* sets out a complete system of cash benefits to support working and non-working women in case of maternity, child-birth and child care (see Annex 5 parts 5.1-5.7 for the details of these benefits). In accordance with this law, the following types of state benefits are granted:

- for maternity;
- for lump sum child-birth allowance;
- for child-care;
- for cash child-care rewards to parents with three or more children under the age of 16;
- for disabled children;
- for temporary inability to work (sick child care);
- for children aged up to 16 (school pupils aged up to 18);
- for single mothers;
- for children under obligatory military service;
- for foster children;
• for minors whose parents evade paying alimony or when the levying of alimony is impossible;

The amount of state benefits based on the above-mentioned law is calculated as a percentage and as a divisible ratio of the minimum wage/salary. At present, benefits are granted and paid in the amounts determined by the Decree of the Cabinet of Ministers of Ukraine dated 24 January 2000, No. 122, On Extending the Period of Effect of the Decree of the Cabinet of Ministers of Ukraine of 27 May 1999, No. 915.

The amount of child benefit differs depending on the source of financing, the institution paying the benefit, and on the amount of the benefit.

Child-care benefits in respect of children aged two to three for non-working women, cash child-care benefits for parents in respect of three or more children aged up to 16, and benefits in respect of children up to 16 (school pupils aged up to 18) are granted under the condition that the average total monthly income for one family member for the 6 calendar months before applying for a benefit does not exceed the determined amount (UAH 46). Other types of benefits are granted regardless of the family’s income.

A maternity benefit is granted and paid by the woman’s place of employment.

Lump sum child-birth allowance, child-care benefit, cash child-care benefits for mothers (or fathers) in respect of three and more children aged up to 16 (school pupils aged up to 18); benefit in respect of a disabled child; child benefit for single mothers; benefit in respect of children of those under obligatory military service and temporary benefit for minors whose parents evade paying alimony or when the levying of alimony is impossible, are granted and paid by the Labor and Social Protection bodies at the place of residence.

A benefit with respect to foster children is granted by state administrations or executive committees of the Councils and is paid by local bodies of the Education Department at the place of residence.

On the surface, the list of benefits corresponds to the legal regulations adopted by many other countries. Even so, problems related to the realization of certain articles of the law emerged immediately after it was put in effect in January 1993.

For example, Article 17 has never been fulfilled in terms of payment of lump sum child-birth benefit. Under the law On State Benefits for Families with Children, the amount of this benefit directly depends on the amount of the minimum wage and is calculated on its basis. The specification is presented in Annex 5. In theory, other benefits ought to be calculated in the same way. In practice, however, the amount of the benefit is defined by the Cabinet of Ministers, and it is considerably lower than it would be if calculated according to the legal regulations in effect (see Annex 5).

... Those tiny drops of funds that the state pays to mothers for child-care and particularly to single mothers cannot be called anything other than humiliation of these people by the state.

SOURCE: From an interview with a social policy official.
... In practice we do not help anybody. It is only a sham. This sum of money, for example UAH 7.4 per month for child-care for non-working mothers is paid solely as a means of showing that the state takes care of and provides for its citizens.

SOURCE: Focus group discussion, Lviv.

The declared but financially unsupported social priorities, as well as the fact that the problems of family development and support, maternity and childhood are ignored, have led to a drastic decrease in child-birth in Ukraine (by 59.2% in 1999 in comparison with 1990), as well as to the deterioration of the competitiveness of Ukrainian women on the labor market. These are the main reasons for refusing to make use of the three-year child-care leave.

It is obvious that many social standards related to the family support schemes need to be reconsidered. The Child Benefit Program (divided into 11 types) covers 2.3 million families. The payments are carried out from different sources and by different bodies: from the Social Insurance Fund, from the state budget, from local budgets, from the Pension Fund through the branch offices of social protection, through the branch offices of the Pension Fund, etc. The total amount of the Program’s funds is UAH 231.9 million (see Annex 4 for details) and the average benefit is about UAH 15 per month for one child, which is simply a symbolic sum. For example, an unemployed single mother receives UAH 7.4 per month. The amount of assistance does not in most cases depend on the family income. Thus, the assistance is not distributed fairly, as it is also received by those who do not need it. It would be more expedient to give assistance provided within the Child Benefit Program only to the poorest families (on the basis of the official level of poverty and the needs). This Program should be reconsidered with the aim of strengthening the target character of the assistance simultaneously with increasing the amount of benefit.

A targeted benefit to low-income families was introduced in April 1999. The benefit is provided in cash if the total average monthly income of the family—consisting of pensioners and children under age 16 as well as unemployed persons caring for children under age 16 or disabled of the first group—does not exceed UAH 46 per person. The procedure for the provision of such a benefit is as follows: a person applies to the relevant social assistance department and sends an application to the head of the rayon/city administration with the relevant documents attached (certificate of family members, certificates of income and the general material status). In the rayon/city state administrations there are special commissions on provision which, on the basis of the submitted documents and examination of the given household decide on the possibility of administering a benefit and its amount. Since these benefits are provided from the local budgets, they are quite small, and they mainly depend on the financial status of the local budgets.
In my opinion, the size of the benefit should be defined only at state level because even in Kyiv there are “sleeping areas” with no industrial companies on their territory and their budgets require benefits. They cannot allocate funds for family allowances at all. I mean that it is impossible to solve this problem in this way. The family allowance should not depend on the local budget. I should repeat that this issue should be defined at state level; it is essential that guarantees be provided, there should be some fixed part of family allowances provided from the state and another part could be from the local budget.

In Kyiv, social benefits are paid from the district administrations and from the city administration. We are aware that not every district is able to provide low-income allowances or allowances in respect of children or disability benefits. This is why the City Fund of Social Protection for Citizens with Low-Income was established in the city. The funds of the City Fund are allocated by the department of city administration, that distributes the benefits to all citizens of the city irrespectively of the district they live in.

SOURCE: From an interview with a key employee of the Department of Social Protection in Kyiv.

According to statistical data, 32,245 families applied for assistance as of 1 January 2000. Of these, only 23% (7,165 families) had the right to receive assistance (because of the strict conditions governing the administering of benefits) (see Annex 5, Part 3). As decided by local authorities, this benefit was granted to 2,437 families (34% out of the families that were appointed to receive the targeted benefit). The average amount of the benefit is very limited: UAH 12 per family. Furthermore, only 47% of this benefit was paid out, the rest remains backlogged. This entirely discredited the program and the whole concept of a guaranteed minimum income.

It is essential that this program of targeted benefits for low-income families be handled by the state and not dealt with from local budgets. Local authorities can have only administrative functions. Furthermore, many social workers consider that it is urgent to make changes in the criteria of the right to receive this kind of benefit.

Despite the economic situation in Ukraine the social protection of working women could be more efficient if the financial system were to be more decentralized and if it were not integrated into other financial mechanisms. Because of the imperfection of the legal regulations, a considerable amount of the financial resources of the Social Insurance Fund are wasted. The Fund pays benefits to working women who are not covered by social insurance, particularly to women in military service working for the Ministry of Home Affairs and for the Security Service of Ukraine and to unemployed women (if the unemployment period exceeds 10 months), graduates from higher education institutions, technological colleges, etc. All women receive the same amount of benefit in respect to child-birth and maternity. Thus the state transferred its duty to support families with children to the Fund, although the main purpose should be to protect working (contribution-paying) people.

At the same time there are working women in Ukraine who do not have the right to receive numerous social benefits (i.e. for hospital treatment for children, maternity,
child-birth, etc.). As a result of the introduction of a single agricultural tax and a trade license (a monthly paid tax for small private vendors), funds which do not go directly to the Social Insurance Fund, these women remain with little social support. (For example, they do not get paid sick leave.)

It is a general problem of almost every working woman that the scope of child care services (nursery, kindergarten, etc.) that was earlier financed both from national and local budgets and from numerous institutions (e.g. utilities and pre-school institutions) are decreasing. Only very few people can afford to pay for services of modern non-state communal services and amenities, non-governmental kindergartens or baby-sitters. All this prevents women from working to the full extent. The increase of their additional involvement in household work (household maintenance, care for children and sick relatives, etc.) is not included in the market relations/calculations and is not taken into account in national economic calculations.

3.3 Social Services and Cash Benefits

3.3.1 Housing Subsidies

The Housing Subsidies Program was introduced in Ukraine in 1995. This program is one of the few examples of public bodies implementing efficient social policy. The objective of this program was to relieve society’s social tensions under the conditions of increasing prices and the amount of rent for housing, and the increasing cost of communal services and energy resources, where the prices and rates for these were approaching the production costs. Until 1995, 6% of the payments for utility services were paid by the population and 94% by the state. From 1 February 1995 up till the end of July 1996, 20% was paid by the citizens, and since 30 July 1996—80% of it. As a result of this change, over a third of the population stopped paying for utility services.

Housing subsidies are a monthly targeted in-kind benefit for citizens to compensate for the expenses of paying for housing and using the communal services (water, heating, electricity and gas supply). It is granted if the amount to be paid for these services consumed within the determined standards differs from (is above) the amount of obligatory payment determined by the government (as of today—15% or 20% of the total household income). That is, if housing rent exceeds 15% (for the unemployed) or 20% (for the employed) of the total household income, housing subsidies are granted. Subsidies are non-repayable; receiving them is not connected with and does not result in any change in the property form of the house/flat (see Annex 5, Part 2 for the criteria of receiving a housing subsidy).

Although the criteria and procedures for providing this benefit have been greatly changed since the beginning of the program, there are still a lot of drawbacks according
to the subsidy department’s staff. Firstly, the subsidies are not granted to those unemployed people who are not registered with the Employment Center. Secondly, in order to receive the subsidy a person must present several certificates. This procedure is extremely difficult for elderly or disabled people (the deadline for submission of documents is the tenth of each month, i.e. a person should collect all the necessary certificates from all the utility companies within a short period of time necessitating queuing for 7-8 hours). Thirdly, the subsidy is not provided to car owners if the car is less than 10 years old. Thus the fact that a disabled person is provided with a car (a very cheap one, manufactured in Ukraine) is an obstacle to receiving the subsidy. Finally, despite about 100 changes and amendments that have been put into practice to make the benefit better targeted, there are a lot of cases of misuse, e.g. when private company employees submit certificates with figures lower than their actual salaries (as testified by subsidy department staff). The reasons for this are first of all due to the drawbacks of information provision of the departments, the lack of a system of communications for creating and maintaining a single database of subsidy receivers, document verification, and cheating prevention.

Thus despite the fact that almost 20% of families in Ukraine receive the subsidy (38.4% of them are families consisting of pensioners only) the program results in many complaints because of the complicated administrative procedure and the small amount of the subsidy.

### Table 4.5
Record of Housing Subsidy Allocation

<table>
<thead>
<tr>
<th>As on:</th>
<th>1.01.1997</th>
<th>1.01.1998</th>
<th>1.01.1999</th>
<th>1.01.2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of families in Ukraine [millions]</td>
<td>16.5</td>
<td>16.3</td>
<td>16.3</td>
<td>16.3</td>
</tr>
<tr>
<td>Total number of subsidy recipients [families, in millions]</td>
<td>4.5 (27.3%)</td>
<td>3.6 (22.1%)</td>
<td>3.5 (21.4%)</td>
<td>3.1 (19.2%)</td>
</tr>
<tr>
<td>Housing subsidies [UAH thousands]</td>
<td>813,882.8</td>
<td>1,365,669.3</td>
<td>1,310,542.1</td>
<td>1,247,148.9</td>
</tr>
<tr>
<td>Fuel purchase subsidy [UAH thousands]</td>
<td>220,952.2</td>
<td>105,119.9</td>
<td>87,092.6</td>
<td>95,679.0</td>
</tr>
<tr>
<td>Average amount of subsidy [UAH]</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>for utilities</td>
<td>61</td>
<td>47</td>
<td>41</td>
<td>37</td>
</tr>
<tr>
<td>for fuel purchase</td>
<td>110</td>
<td>122</td>
<td>127</td>
<td>147</td>
</tr>
</tbody>
</table>

**Source:** Labor and Social Policy in Ukraine. Kyiv: Socioinform, 2000.
automated checking system of the right to receive the benefits, and a complex system of auditing and monitoring.

3.3.2 Social Protection of Disabled People

The law *On Basic Principles of Social Protection of the Disabled in Ukraine* identifies a person to be considered as disabled and thus eligible for social protection: it should be a person with a dysfunction caused by illness, injury or an inborn defect that limits their ability to work. Furthermore, disability is defined as a degree of health damage. The disability may result from general disease, industrial accident or occupational disease, disability since childhood, disability as a result of wounding, contusion, health damage received at the front or during the performance of military service, or from the Chernobyl disaster. It is identified by means of an examination undertaken by the Medical and Social Expert Commission at the Ministry of Health. Based on the level a health assessment, the disability may be of one of three groups. At the beginning of 2000 the Social Protection System of the Disabled provided services to 2.431 million people including the following categories:

*Table 4.6*

<table>
<thead>
<tr>
<th>Disabled Population in Ukraine</th>
</tr>
</thead>
<tbody>
<tr>
<td>World War II disabled</td>
</tr>
<tr>
<td>Disabled since delivery or early childhood</td>
</tr>
<tr>
<td>General disease (those who are not in any other category)</td>
</tr>
<tr>
<td>Disabled children</td>
</tr>
<tr>
<td>Industrial accident, occupational disease</td>
</tr>
<tr>
<td>Chernobyl disaster victims</td>
</tr>
</tbody>
</table>

At the beginning of 1991 there were 1.629 million disabled people in Ukraine. They represented 3% of the total population and about 13% of pensioners. Today, these figures are 4.72% and 17.4% respectively. The number of disabled persons increases every year by 250,000 people.

In our opinion, special attention should be paid to the legal restoration of social injustice relating to the pension provision for the disabled, that is financed from the Pension Fund of Ukraine. As the next table shows, in some cases the pension for a given category differs from another by more than five-fold.

Since disability is defined as a degree of health damage, the amount of pension should not be based on the reasons that led to the disability but on the degree of health damage. Regardless of the cause of disability, the beneficiaries should have equal legal status.
Table 4.7
Disabled and their Pension in Ukraine

<table>
<thead>
<tr>
<th>No.</th>
<th>Category of Disabled</th>
<th>Number of Disabled [thousands]</th>
<th>Average Pension per Month [UAH]</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Disabled because of the Afghan war</td>
<td>341.5</td>
<td>141.81</td>
</tr>
<tr>
<td>2.</td>
<td>Disabled as a result of the Chernobyl disaster</td>
<td>66.1</td>
<td>230.81</td>
</tr>
<tr>
<td>3.</td>
<td>War disabled</td>
<td>297.0</td>
<td>148.16</td>
</tr>
<tr>
<td>4.</td>
<td>General illness disabled</td>
<td>1,495.0</td>
<td>65.23</td>
</tr>
<tr>
<td>5.</td>
<td>Handicapped</td>
<td>109.7</td>
<td>71.2</td>
</tr>
<tr>
<td>6.</td>
<td>Disabled from childhood</td>
<td>283.2</td>
<td>42.0</td>
</tr>
</tbody>
</table>

Another public institution dealing with the social protection of the disabled is the Ukrainian Fund for Social Protection of the Disabled. There are two aspects of the Fund’s activities. The first of these is financing six basic programs for social protection of the disabled (see Annex 4):

- providing transport;
- compensation for petrol;
- resort treatment, compensation for unused resort treatment tickets (the disabled on the waiting list are entitled to a free bi-annual resort treatment ticket);
- financial benefits;
- installing telephones for the disabled of the 1st and 2nd groups in the general disease category;
- providing orthopedic prosthetic devices and wheel-chairs.

The other aspect of the Fund’s activities is to ensure that the law On the Basic Principles of Social Protection of the Disabled in Ukraine is observed by the various enterprises. According to law, all private and public enterprises have to employ a certain number of disabled people (4% of the total number of their employees; e.g. if there are 15 to 25 employees, this means one job). If companies do not fulfill their legal obligations they are fined by way of paying an average salary/wage to the Fund for Social Protection of the Disabled.

The main problems of the Fund according to the Fund Manager in Lviv oblast are the loopholes and contradictions of the legal regulations. Article 19 of the law On the Basic Principles of Social Protection of the Disabled defines the general obligatory standards of jobs for the disabled and the law On the Railway and Energy System limits the possibilities of the disabled to work in these areas.

There are also problems in fulfilling sentences determined by an arbitration tribunal because the Law of Ukraine does not define the sources of payment that enterprises are required to make.
In order to provide all the social services determined by the law *On the Basic Principles of Social Protection of the Disabled in Ukraine*, in 1999 UAH 2.4 billion would have been necessary whereas the expenditure on these services totaled UAH 107 million (see Annex 4 for the main items of expenditure of Social Protection of the Disabled Fund). The actual need for cars for the disabled was 172,172 whereas in 1999 only 689 cars were provided. In terms of wheelchairs, 34,218 disabled people were in need whereas only 6,656 were supplied.

City/rayon departments of social protection finance all the programs relating to the Social Protection of the Disabled Fund from resources of the national budget.

In Ukraine today, there are 146,900 disabled children under 16 years old, or 141.5 disabled children out of 10,000 in this age group. The index of child disability in Ukraine increases every year. Since 1994 it has increased by 22.4%. The basic reasons for child disability are diseases of the nervous system and of the sense organs. Almost half of this group are children with cerebral palsy. Diabetes is also a major illness that afflicts many children.

Every fifth registered disabled child lives in a foster home. The network of public foster homes includes 433 foster homes where 69,100 children are placed and 122 specialized foster homes for children with various diseases where 16,000 children live.

An important part of the state support for the disabled is the issue of professional training for disabled children. Six institutions form the network of educational institutions working under the auspices of the Labor and Social Protection Ministry. Five of these six are specialized boarding-type institutions. Three institutions for disabled children have the first and the second level of accreditation. They are the only institutions in Ukraine where the disabled can gain Junior Specialist or Bachelor degrees. It is obvious that this is not sufficient and it is necessary to introduce benefits for the disabled to enable them acquire a degree in higher education institutions.

Currently Ukraine has about 30 associations serving the disabled, and about 8.5% of NGOs claim that their main focus is aiding the disabled. The most prominent NGOs are the Ukrainian Society for the Blind (75 enterprises employing 15,000) and the Ukrainian Society for the Deaf (74 enterprises employing 13,000). To some extent the gaps in the state social policy are filled by the activities of NGOs for the disabled (e.g. the financing and repair of prosthetic devices, the distribution of humanitarian aid, food stuffs, medical treatment, etc.) as well as promoting re-integration of the disabled (disabled children in particular), and assisting them in becoming involved in an active social life.
through creating new computer classes, interest groups, clubs, and by applying the latest methods and approaches in training them, all of which substantially facilitate their adaptation into society.

The receiving of international aid for disabled people is hindered by the present tax system (sometimes the amount of VAT to be paid by the sponsor may exceed the cost of the aid) and by the bureaucratic procedure for registering such aid.

To improve the social provisions targeted to disabled people it would be necessary to:

- remove the social injustice in the legislation regarding pension provision (certain categories e.g. those disabled from childhood, receive considerably smaller pensions than other categories);
- strengthen the control over the violation of Articles 19 and 20 of the law On the Basic Principles of Social Protection of the Disabled;
- increase the amount of benefits for disabled children (the current benefit averages UAH 25.9 a month) and their careers;
- provide grants for those disabled persons who wish to take advantage of higher education;
- solve the problem of transportation and ensure that public and administrative institutions are accessible;
- create a functioning public financing system for the purchase of wheelchairs and cars;
- reconsider some form of exemption to certain aspects of the legislation because of its irrational approach (in particular, the disabled are given a subsidy for public transport fares during the winter period when it is the most difficult for them to move. At the same time there is an unsolved problem of road duty/tax on cars which are the common means of transportation for the disabled. A disabled person who owns a car loses his/her right to receive subsidies for public transport, etc.).

3.3.3 Social Services for Single People and for Elderly People Unable to Work

Currently, there are 2.89 million poor pensioners, disabled, and single citizens unable to work who need various types of social assistance.

In 1999, there were 700 territorial centers and 60 independent departments providing services to about 600,000 single people unable to work. By means of these services over 3 million citizens of this category received cash- and in-kind benefits totaling UAH 130 million. This trend of social servicing will gradually be extended.
Table 4.8
Network of Social Service Institutes for Pensioners and Single Persons Unable to Work

<table>
<thead>
<tr>
<th></th>
<th>Number of Institutions</th>
<th>Number of Patients</th>
</tr>
</thead>
<tbody>
<tr>
<td>The number of territorial centers: (including departments below)</td>
<td>631</td>
<td>700</td>
</tr>
<tr>
<td>• visiting social assistance departments</td>
<td>130,891</td>
<td>61,905</td>
</tr>
<tr>
<td>• departments of social rehabilitation</td>
<td>203</td>
<td>235</td>
</tr>
<tr>
<td>• departments of medical social rehabilitation</td>
<td>138</td>
<td>149</td>
</tr>
<tr>
<td>• care institutions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– temporary stay</td>
<td>220</td>
<td>246</td>
</tr>
<tr>
<td>– permanent living</td>
<td>94</td>
<td>111</td>
</tr>
<tr>
<td>• departments providing cash and in-kind benefits for low-income persons unable to work</td>
<td>356</td>
<td>443</td>
</tr>
<tr>
<td>• special workshops and divisions</td>
<td>75</td>
<td>78</td>
</tr>
<tr>
<td>• secondary economies</td>
<td>36</td>
<td>46</td>
</tr>
<tr>
<td>• special apartment homes</td>
<td>15</td>
<td>13</td>
</tr>
<tr>
<td>Cheap Boarding Houses</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>• Cheap boarding homes for people without a place to live</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>• Boarding homes of collective agricultural enterprises</td>
<td>347</td>
<td>368</td>
</tr>
</tbody>
</table>

However, the newly created territorial centers do not operate at full capacity yet because of their poor material and technical basis. That is why social servicing of over 100,000 pensioners in need of such services (as concluded by medical experts) has not been organized. In Kirovohrad, Odessa and Ternopil oblasts alone, 16,000 people are not provided with services. In 12 oblasts the departments have not yet been fully reorganized into territorial centers of home social assistance. For example, in this respect Donetsk, Kyiv, Kirovohrad and Chernihiv oblasts are lagging behind.

In 1999, 276 nursing homes provided generally successful services for about 48,000 elderly and disabled citizens. In 1999, a sum of UAH 198.09 million was provided for upkeeping nursing homes, this was 87% of the amount planned.
Table 4.9
Network of Nursing Homes in Ukraine as of 1 January 2000

<table>
<thead>
<tr>
<th>Statics</th>
<th>Total</th>
<th>Available</th>
<th>Occupied</th>
<th>Vacant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nursing homes of general type</td>
<td>72</td>
<td>15,891</td>
<td>14,240</td>
<td>1,651</td>
</tr>
<tr>
<td>(including those below):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Rest homes for the elderly and disabled</td>
<td>54</td>
<td>12,670</td>
<td>11,563</td>
<td>1,107</td>
</tr>
<tr>
<td>• Rest homes for individual categories</td>
<td>15</td>
<td>2,756</td>
<td>2,369</td>
<td>387</td>
</tr>
<tr>
<td>• Special rest homes</td>
<td>3</td>
<td>465</td>
<td>308</td>
<td>157</td>
</tr>
<tr>
<td>Psychoneurology institutions</td>
<td>146</td>
<td>28,108</td>
<td>25,443</td>
<td>2,665</td>
</tr>
<tr>
<td>Foster homes</td>
<td>58</td>
<td>9,181</td>
<td>7,947</td>
<td>1,234</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>276</td>
<td>53,180</td>
<td>47,630</td>
<td>5,550</td>
</tr>
</tbody>
</table>

In view of the lack of state financing, the Labor and Social Protection Ministry along with the oblast departments for social protection are seeking innovative forms of economic activity and new ways and sources of self-financing for boarding homes. In most oblasts such self-financing is carried out by developing secondary economies, small-scale production activities, and the creation of manufacturing processes.

For example, 96 mini-bakeries and 24 pasta production lines supply 70% of boarding homes with bread and pasta products. The price of these products is three times less than the usual market price.

On the whole, in 1999 the economic activities of boarding homes allowed them to supply their residents with vegetables, meat and milk.

Another problem stems from the fact that those living in institutions for single elderly people receive only 25% of the granted pension, while the rest of the amount remains in the Pension Fund instead of being transferred to the accounts of geriatric institutions.

As a result of sociological surveys in the field it is possible to define the following problems and urgent tasks to be fulfilled in order to improve the work in the sphere of social services provision for people unable to work:

- to enlarge the functions and kinds of services provided by territorial centers;
- to facilitate the development of manufacturing processes for agricultural products, and of small-scale production activities within the structure of boarding homes that would supply them with goods for their own consumption;
- to provide territorial centers with means of transport in order to facilitate the mobility of social workers and the transportation of elderly people with health problems;
- to facilitate social workers’ training in filling in documents (for pensions, subsidies, etc.), basic training in medicine and psychology;
• to regulate the issue of 75% of the pension amount for people living in public social institutions being transferred from the Pension Fund account to that of the social institution the person lives in;
• to improve legislation in order to facilitate the active involvement and co-operation of territorial centers and supporting enterprises, NGOs, and the Church.

3.4 Exemptions

While conducting these case study interviews the various officials repeatedly stated that the review and liquidation of most of the exemptions ought to be the major objective of the reform process. In their opinion it would be an important step towards social equality (as most exemptions depend either on the status of the potential recipient or on political motives). Furthermore, these steps on exemptions would promote the finding of funds for the benefits of those who really need them.

In theory, budget expenditures on the financing of about 50 types of exemptions for over 18 million people should amount to UAH 35 billion, or nearly 78% of the total Ukrainian budget (see Annex 6 for the main exemptions and the financial needs to provide them). Therefore, the government unofficially differentiates the exemptions into those determined by law, those that should be financed from the budget, and those actually financed. This brings about backlogs of payments. Because the state is unable to finance the exemptions, it shifts them onto the enterprises involved. For example, exemptions on paying for public transport fares and payment for utilities are a heavy burden for transport and municipal enterprises.

For example, under the law On War Veterans and Guarantees of their Social Protection 5.3 million people receive various exemptions. The total amount of these exemptions in 1999 totaled UAH 3.6 billion. And an additional 3.6 million people claim that they should receive war participant status.

... According to my analysis we often protect people who do not need it. These are people who learnt how to fool everybody. I think we should reconsider all the exemptions that exist today.

... It would be more reasonable to transfer exemptions into cash allowances. But I think that our grandes are manipulating these privileges. ... Why should a pensioner living in Kyiv have the possibility to get free public transport and can do it four or even twenty four times a day? But what about a pensioner living in a remote village, who not only hasn’t traveled on the underground (metro) but who hasn’t even seen a bus, and he/she can use such a possibility only once or twice a week. ... Why does it happen? Is the social category of Kyiv citizens better than the social category in villages? Why should the exemptions for veterans in Kyiv include exemption from paying for utilities, exemption from paying for the telephone, special medical care, special shops, etc. And in villages utility compensation amounts to 1 hryvna?
... it is necessary to reconsider the status of war veterans and other recipients of benefits, the appropriateness of the provision of exemptions, the amount of the given exemptions, and the recipients of the exemptions.

... I think that politics has a direct influence on the state in the social sphere. For example, let us take the elections of the political leaders... What do they build their election campaigns on? On social issues. You can see speeches, advertisements, meetings. But whom do they meet? Do any of them meet with young people? A lot of attention is paid to veterans because veterans and pensioners are the most active voters.

Source: From interviews with social policy officials.

The liquidation of most of the existing exemptions is first of all a political decision. Thus everything depends on the Ukrainian Parliament.

4. THE MAIN ACTORS OF SOCIAL POLICY

At present, public institutions in Ukraine are still the main agents for implementing social policy. These public institutions can be categorized into the following two groups: public authority bodies and state social institutions (the latter are part of the state infrastructure, but they are recipients rather than performers of executive functions).

During the 1990s Ukraine’s social protection system was reorganized. Specifically, territorial social services centers that serve single and other citizens unable to work were created. Their work was carried out in parallel with the state divisions of social assistance. This period was when the Departments for Social Protection were established, which combined the territorial centers and social assistance divisions.

The major institutions of social policy at various administrative levels are accountable to the Ministry of Labor and Social Policy. Schematically they look as shown in Figure 4.3.

In that state institutions are the main agents in social policy, it is fair to say that we observe a quite centralized system of social security. However the problem of centralization can be viewed from a different angle as well, i.e. the centralization in the system of state bodies that demonstrates a remote position of the decision-making center along the administrative “vertical line.” The problem of mandate intersections and opposition between different administrative levels should also be considered.

Departments for social guarantees and compensation tend to be concerned with coordination and consultancy instead of providing cash assistance directly (these departments are not legal bodies, thus even minor assistance come up against bureaucratic barriers and lack of financing).
Most of the state institutions of the social sphere (except for employment centers) have a low level of office automation and lack of computer software facilities. No systems for communication between different institutions have been established so far. The levels of financial control and of financial audit are also seen as insufficient.

What is more, each local government has its own systems and methods of data collection, maintenance, and processing, thus it is impossible to get a realistic picture of the situation.

The fieldwork identified several problems related to human resources:

- the lack of personnel;
- all institutions of the social sphere, in practically all regions, demonstrate a high demand for qualified specialists (in Ukrainian educational institutions it was only three years ago that the specialty of Social Worker was introduced; moreover, it is taught in very few institutions: the Kyjevo-Mohylanska Academy, and Kyiv’s National University of Culture and Arts among them);
- the salary of social workers is extremely low: the average monthly salary stands at UAH 136 (approximately USD 25);
- although working in governmental institutions, social workers do not qualify for the status of public servant/civil servant;
- inadequate level of knowledge of the essentials of medicine and psychology are characteristic of social workers;
- at the same time, no professional further education programs exist for social workers so far;
- the lack of personnel (see above) also affects the capacity of local administrations to monitor and evaluate the quality and effectiveness of social work and social programs.

... Now a few words should be said about the competence level of the rayon social workers concerning social policy. It is possible to state that in general the key figures know about the amounts of payments determined by the legal regulations. They also have a fairly good knowledge of the legal regulations themselves. But they don’t have information about the actual results of their work (except for the staff of the Territorial Center). Their work is basically impersonal and this should not be regarded as their fault because they work with a large number of people. What is more, it seems as if social workers deal only with paper rather than with people.

... As for the decentralization of social protection bodies the interviewees considered that this process is more convenient for the recipients but not for the careers (giving the latter more responsibility but limiting their opportunities). The financial aspect of the issue is quite gloomy because under such conditions, the expenditures from the local budget will increase (and funding is already inadequate).

SOURCE: Case study report, Shchyrets.

Many regions in Ukraine are experimenting in order to define optimal ways of providing social assistance at the local level. The most advanced in terms of a consistent and complex approach appears to be Mykolaiv oblast. Starting from 1991, wide-ranging work has been carried out on establishing a brand new social protection system. This model includes the following:

- a basic element: village-based and larger-settlement-based centers of social protection (SP), as well as SP centers in remote districts of a city;
- an element at rayon (town) level, i.e. rayon departments for social protection. These assume organizational and control functions;
• an element at regional level, i.e. departments for SP at regional state administrations including a computer center and foster homes. These ensure the necessary organizational, technical and methodological pre-conditions for further development and improvement of the system, as well as co-ordinated functioning of all its divisions.

A self-contained computerized cycle of assignment, transfer and payment of pensions, housing subsidies and social assistance benefits has been created. A corporate network for information exchange between departments has been launched. Re-distribution of terms of reference as well as delegation of terms of reference between different administrative levels has been undertaken.

Hence, a system has been created in Mykolaiv in which specialization is clearly defined. A “production” section is functioning (it is a center in close connection with people), as well as a capable management section. It is planned that the experience of Mykolaiv be applied in other regions of Ukraine.

Four rayons in the Lviv region have been participating in the Capacity Development of Social Protection Authorities in the Field of the Social Assistance Delivery Project since December 1999. The project is financed and methodologically supported by Britain’s Department for International Development. Those participating relayed their optimism about the Project.

The main goal of the project is to try out an improved model of organizational work in the field of providing social assistance to the most needy people using the British example. The activities include informing the population, providing reception facilities for citizens, as well as establishing a unified approach of assigning all types of assistance and subsidies on the basis of a single application instead of 17 different inquiries to numerous institutions. The project also foresees the creation of a system to monitor the efficiency of the changes introduced and the level of citizens’ satisfaction.

There is a plan to create social inspectorates in the future. It will be the inspectors’ duty, having relevant status, to oversee the appropriateness of an applicant to receive social benefits and to test the applicant’s means. Every village council will have reception offices for people who need social protection. Post offices and savings banks will carry out the payment of benefits. All the information received from the reception offices will be concentrated in the rayon department (creation of the database), which will co-ordinate and control the performance of the different actors.

Source: Report on the results of Yavoriv case study.

An important constituent activity of the public institutions in the social sphere is the envisaged feedback, i.e. dialogue between the socially unprotected population groups and public administration bodies. Citizens’ appeals are a form of such a dialogue (they are regulated by Article 40 of the Constitution and the Law of Ukraine On Citizens’ Appeals, 1996). Article 40 of the Constitution reads: “Everyone has the right to file individual or
collective petitions, or to appeal personally to bodies of state power, bodies of local self-government, and to the officials and officers of these bodies; the respective officials are obliged to consider the petitions and to provide a substantiated reply within the term established by law.”

The law *On Citizens’ Appeals* determines the following procedure and deadlines: “Appeals are addressed to bodies or office holders whose terms of reference include settling the problems raised. If the problem raised is beyond the terms of reference of the addressee the appeal is forwarded to the respective body or office holder within five days. It is required that problems raised in the appeal be settled within one month of their reception. If it is impossible to settle the problems raised within one month, the head of the respective body or their deputy determines the deadline for the consideration and informs the appellant. The overall period for settling the problems raised in the appeal may not exceed 45 days.”

At the same time, appeals are a sort of indicator of those social problems that are the most pressing.

The main role in organizing health-related improvements is assigned to the *trade unions*, which have accumulated some experience and have their own net of curative and health-improvement establishments. In such a way, under the supervision of the Federation of Trade Unions there are:

- more than 170 sanatoriums and rest homes;
- about 100 tourist hotels, camp sites and tourist centers.

Also, over 450 rest homes and dispensaries operate directly at the enterprises, and there are more than 10,000 camps for children with a view to improving their health. Annually, two-thirds of all resting grown-ups and 90% of children improve their health on this basis. Given that the average cost of a place in a sanatorium for a grown-up is UAH 620, and for a child UAH 240, the payments made for this facility taking into account subsidies from social funds constituted 10-30%. Almost every fifth place was given free of charge by the trade unions for orphaned children, disabled children, and families with many children. The Social Insurance Fund directs up to 32% of the total income towards health improvement.

Temporary disability benefits and benefits sick children under the age of 14 are granted also from this Fund. The Fund also provides women with maternity benefits at the rate of 100% of their earnings for a period of 126 calendar days and a single benefit for the childbirth. Since 2001 the Fund is managed on a tri-partite basis, viz. representatives of the trade unions, the employers, and the state. In 1999, a sum of UAH 1.35 billion (1.3% of the GDP) was spent from the Social Insurance Fund.

However, treatment centers/sanatoriums and rehabilitation institutions, both those publicly and privately owned, are not fully used. This is due primarily to the difficulty
in making payments of enterprises and workers; the latter may well need to improve their health, but cannot afford it. A further factor is the regular deductions by the state from expenditures on maintenance of the socio-cultural sphere. The rate of taxation on sanatoriums plus 20% value-added tax, which is deducted when places in sanatoriums and health resorts are taken up, is a further burden.

As for the non-public sector, non-profit and charity activities are considerably restricted because of the lack of any law on charity, and because of the high taxes imposed on humanitarian aid. Moreover, activities of private enterprises providing social services (first of all, in health care and education) became rather complicated when the Constitutional Court of Ukraine found it unconstitutional to provide fee-charging medical and educational (secondary education) services. However, it should be noted that in big cities such as Lviv and Kyiv there is a well developed network of private enterprises, and medical and educational institutions, which partly assume state functions in providing social services.

The Church and other religious organizations can be considered another group facilitating the resolution of social problems by virtue of their arranging charity actions, helping to distribute humanitarian aid, assuming the guardianship of public social institutions, etc.

The non-profit sector in Ukraine is still in the process of formation. Ukraine has one of the lowest NGO ratios in the world: 0.02 per 10,000 people. It should also be noted that the number of NGOs varies from region to region. Twenty percent of all NGOs work in the oblast of Kyiv whereas less than 1% of all NGOs are active in the oblasts of Sumy and Poltava. This promising instrument of social change is hardly involved in the decentralization process.

Even so, the very fact of their activities in social policy apart from public bodies is positive. However, the number of activities carried out by public bodies greatly exceeds that of the non-governmental sector. It should be added that these quantities are difficult to compare.

Problems restraining the growth of the non-governmental sector are, first of all, the imperfection of the legal regulations (e.g. lack of any law on charity) on NGOs (registration, taxation), as well as bureaucratic pressure (public bodies demanding reports on their activities), but there are other problems as well.

Thus, for example, organizations of war veterans and the repressed are often de facto departments of certain political parties, while issues of social protection of its members are of a lower priority. At the same time some of the NGOs consider that their efficiency is conditioned by helping the state in resolving social problems by means of attracting additional funds. They are convinced that it is the state that ought to resolve social problems and the role of NGOs would only be to assist the state in this respect.

Frequently NGO leaders consider that the role of their organization is mostly reduced to seeking foreign donors and to applying for grants, or to organizing specific, frequently narrow-scope, actions (seminars, excursions, publishing activities) and to disseminating collected foodstuffs and humanitarian aid. Such actions as lump-sum humanitarian aid,
aimed at assisting low-income population groups, can be considered to be only partly efficient. Essentially, these actions can support a low-income person, but on the other hand, they do not resolve the very problem of low income, unemployment, or other social problems.

NGO leaders frequently do not work to consolidate the efforts and resources of many organizations working in a certain sector. They also neglect such functions of NGOs like informing the public, developing public opinion, or lobbying for the interests of the population groups they represent in administrative or legislative authority bodies, nor do they promote legislative initiatives, etc.

The lack of standards and legal support for NGOs has resulted in a number of problems as specified below:

- The services provided are not always of good quality. Clients’ rights are often violated, while the state does not have a mechanism for controlling the situation.
- There is no mechanism for interaction between governmental and non-governmental organizations. State social services often refuse to provide support to individuals who receive non-permanent/occasional support from NGOs. The number of cases is increasing when local state administrations conclude agreements with NGOs although these agreements are not backed up with relevant standards and legislation.
- The state does not motivate the establishment of non-governmental social services. With greater motivation, new types of services could possibly be provided, and modern technologies might be introduced that could not be developed by state services within the near future because of the lack of funding (e.g. social adaptation—in terms of introduction of equality and justice—for women, etc.).

The draft document of “Regulation on the Activity of NGOs in the Area of Social Security” aims at the creation of a legal framework for NGOs acting in the social sphere. It was developed within a TACIS project entitled Fostering the Development of a Social Assistance Policy and Social Services Delivery in Ukraine. The document defines the general principles of NGO activity in the social protection sphere, as well as the legal regulation of relations from the viewpoint of providing social services. It also guarantees state support. Based on their complexity and specialization, social services are subdivided into three categories. 1) those requiring licensing; 2) those requiring specific approval; and 3) those not requiring any permission. The draft assumes that “local bodies of the state executive power are allowed to conclude contracts in the form of an order for some social service or other with NGOs, provided the latter have licenses or approvals on providing specific services to the defined individuals qualified for state social support.”
5. FINANCING SOCIAL POLICY

Within the last ten years practically the whole burden of social protection has been put on local budgets—but with no decentralization of management and, more importantly, no decentralization of finances.

The shortcoming of the existing budgetary system, which has changed little since the Soviet regime, is the main factor accounting for the unsatisfactory financing of social programs, the low levels of social benefits, and the unfair distribution of the nation’s means among territorial communities and citizens.

Paradoxically, in the post-totalitarian political systems the decentralization of power and responsibilities can be accomplished only by the initiative and efforts of the central government (i.e. by a top-down reform), as this is the only legitimate source of power for the majority of the population. Thus, the administrative reform declared by the government is a major prerequisite for the successful transition of social policy in Ukraine.

The legislative basis of the administrative reform was established by the adoption of the law On Local Self-Government. This law is one of the most liberal in Europe in terms of the independence of local authorities and the scope of their mandate. In reality, most of the mandates are assumed by central power institutions (local state administrations in oblasts and rayons). Therefore, local authorities have limited mandates and a restricted level of autonomy to exercise them. Putting the law On Local Self-Government into effect requires drastic changes in the current administrative-territorial system of Ukraine.

There are four administrative-territorial levels in Ukraine. Legally, all four levels are social policy subjects (having responsibilities related to social policy). However, in practice, the two levels below rayon (village and town) cannot actually exercise their mandate in this respect.

5.1 Peculiarities of Local Budget Formation and Inter-budgetary Relations

Notwithstanding that Ukraine is an independent state, its current budget system is characterized by a multilevel structure (see Figure 4.1). This structure consists of a general national level (revenues and general financing of the state), a sub-national level (oblast budgets, budgets of the Crimean Autonomous Republic, and of the cities of Kyiv and Sevastopol) and the local level (rayons, cities that are under the jurisdiction of rayon and oblast authorities, towns, villages). All the budgets except the national one refer to the local level.
### Table 4.10
Social Budget [ratio to GDP]

<table>
<thead>
<tr>
<th>Expenditures</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pensions</td>
<td>8.74</td>
</tr>
<tr>
<td>Short-term benefits from Pension Fund</td>
<td>0.96</td>
</tr>
<tr>
<td>Health care</td>
<td>3.50</td>
</tr>
<tr>
<td>Unemployment benefit</td>
<td>0.38</td>
</tr>
<tr>
<td>Short-term benefits</td>
<td>0.91</td>
</tr>
<tr>
<td>Benefit for families with children</td>
<td>0.64</td>
</tr>
<tr>
<td>Social benefits</td>
<td>0.03</td>
</tr>
<tr>
<td>Housing subsidies</td>
<td>1.11</td>
</tr>
<tr>
<td>“Chernobyl” Fund</td>
<td>1.04</td>
</tr>
<tr>
<td>Other expenditures</td>
<td>2.13</td>
</tr>
<tr>
<td><strong>Total</strong> social expenditures</td>
<td>19.44</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenues</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong> social revenues</td>
<td>19.44</td>
</tr>
<tr>
<td>Payments to social protection system</td>
<td>9.33</td>
</tr>
<tr>
<td>• pension insurance</td>
<td>7.38</td>
</tr>
<tr>
<td>• medical insurance</td>
<td>0</td>
</tr>
<tr>
<td>• social insurance</td>
<td>0.87</td>
</tr>
<tr>
<td>• unemployment insurance</td>
<td>0.41</td>
</tr>
<tr>
<td>“Chernobyl” Fund</td>
<td>0.66</td>
</tr>
<tr>
<td>Other revenues</td>
<td>0</td>
</tr>
<tr>
<td>Revenues from national taxes</td>
<td>0.12</td>
</tr>
</tbody>
</table>


The share of local budgets in the expenditure part on Social Protection of the budget adds up to 44.4%.11

After the gaining independence the budgetary system of Ukraine changed little, although a few steps towards decentralization were made and supported by the laws On the Budgetary System of Ukraine (adopted in 1995) and On Local Self-Government in Ukraine (1997).

Analysis of the existing legal basis and the actual functioning of the local finance system shows contradictions. For example, under the law On Local Self-Government in Ukraine local authorities have the mandate to deal with the following issues: utility...
services, public transport, communication systems, territorial improvement, educational institutions, health-care service, cultural life, sporting activities, environmental protection and social protection of the inhabitants. In reality most of these issues are dealt with by the institutions of the central state administration, i.e. the local state administrations in rayons and oblasts resolve these issues by delegating them. Thus, local authorities are restricted to a limited number of issues they have the power to deal with (as listed above) and an insufficient degree of autonomy in carrying them out (because most of them must be performed strictly according to law). Therefore, it is necessary to increase the level of decentralization of state finances.

The share of revenues and expenditure of the local authorities in the national budget can be considered to be an important indicator of the local financial autonomy. Since Ukraine became independent, there has not been any increase in this index. On the contrary, this index is constantly decreasing (see Table 4.11).

**Table 4.11**

Ratio of Local Budget in the Revenues and Expenditures of the National Budget of Ukraine (Pension Fund excluded)

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio in Revenues</th>
<th>Ratio in Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>47.4</td>
<td>37.8</td>
</tr>
<tr>
<td>1993</td>
<td>47.8</td>
<td>39.4</td>
</tr>
<tr>
<td>1994</td>
<td>42.0</td>
<td>35.3</td>
</tr>
<tr>
<td>1995</td>
<td>52.4</td>
<td>47.3</td>
</tr>
<tr>
<td>1996</td>
<td>47.6</td>
<td>43.6</td>
</tr>
<tr>
<td>1997</td>
<td>43.2</td>
<td>39.1</td>
</tr>
<tr>
<td>1998</td>
<td>45.9</td>
<td>47.7</td>
</tr>
<tr>
<td>1999</td>
<td>39.5</td>
<td>45.0</td>
</tr>
</tbody>
</table>


The lack of correspondence between the mandates and the financial resources of the local authorities reveals the fact that their proportion of the state revenues equal 39.5% and their proportion in expenditures tends to grow. Under these circumstances the ratio of territorial communities (cities, towns and villages) revenues of the total budget appeared to decrease. According to the data of the Association of Cities of Ukraine during 1993-1997, this proportion decreased by one-third. At the same time, the amount under expenditure items of local authorities increased, which in fact implies budget deficits.

Although the administrative reform is supposed to facilitate the efficiency of the decentralization of the state administration, the present administrative-territorial structure
does not advance this objective. Drastic change is needed with regard to bringing into correspondence the administrative-territorial structure and the financing of public policy, as otherwise most town and village councils are unable to carry out their duties.

**Table 4.12**
Priorities of Distribution of Local Budget Expenditures

<table>
<thead>
<tr>
<th>Budgets</th>
<th>Priorities in Expenditure</th>
<th>Percentage of Total Local Budget</th>
<th>Expenditure per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shchyrets</td>
<td>1. Education</td>
<td>29.9</td>
<td>34</td>
</tr>
<tr>
<td></td>
<td>2. Pre-school institutions</td>
<td>24.8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Improvement of housing conditions</td>
<td>16.3</td>
<td></td>
</tr>
<tr>
<td>Yavoriv rayon</td>
<td>1. Social protection</td>
<td>48.0</td>
<td>328</td>
</tr>
<tr>
<td></td>
<td>2. Education</td>
<td>22.8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Health-care services</td>
<td>10.2</td>
<td></td>
</tr>
<tr>
<td>Lviv</td>
<td>1. Social protection</td>
<td>36.0</td>
<td>350</td>
</tr>
<tr>
<td></td>
<td>2. Education</td>
<td>17.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Health-care service</td>
<td>14.0</td>
<td></td>
</tr>
<tr>
<td>Starokyiv district</td>
<td>1. Education</td>
<td>36.8</td>
<td>494</td>
</tr>
<tr>
<td></td>
<td>2. Utilities</td>
<td>28.8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Health-care service</td>
<td>17.7</td>
<td></td>
</tr>
<tr>
<td>Kyiv</td>
<td>1. Health-care services</td>
<td>19.5</td>
<td>517</td>
</tr>
<tr>
<td></td>
<td>2. Education</td>
<td>18.7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Social protection</td>
<td>9.1</td>
<td></td>
</tr>
</tbody>
</table>

In the course of our research it was discovered that the decentralization of state finances does not spread over the budgets of territorial communities at lower levels than the rayon. For example, the budget of the town of Shchyrets does not have a separate line for social provisions: all payments are made from the rayon budget. More than half (54.7%) of the total expenditures went to pre-school and educational institutions. Thus the insufficient financing prevents the local authorities from using all possibilities for exercising local self-governance. The proportion of state subsidies in the town budget represents 8.4% of the total revenues. The per-capita budget expenditure of Shchyrets is UAH 34. This is considerably lower than the average per-capita expenditure in Ukraine, which is UAH 310.7.

Local authorities should be provided with a higher degree of independence in their activities to improve their efficiency. Analysis of the distribution of expenditure between the elements of the budgetary system (budgets of administrative levels) shows that at present there is a substantial bias towards the budgets of the administrations at a higher level. The amount allocated for expenditure of the comparatively small territorial communities (towns and villages) is 2% of the total budget.
... With regard to analyzing the current situation in the area of social policy, it is the rayon that should be considered as a “unit of measurement,” and not a settlement (even one as big as the town of Shchyrets), as there are no means for it. Thus, there is no official institution in the researched sector that would carry out social policy; there is no primary center of state organization whose activities would be connected with social work at least to some extent.

... Decentralization does not spread over to the settlements, or to levels lower than rayon and it seems that there will be no changes in this respect in the immediate future.

SOURCE: Case study report, Shchyrets.

The mandates of the local authorities should be reconsidered so that only those that perform appropriately are extended. Issues of national importance should be fully financed from the state budget. Recently, the amount of money earmarked for financing public services, including social services from the territorial communities’ budgets, has tended to decrease (its growth was observed only at the level of rayon and oblast budgets) although this is their primary task. Thus, there is an obvious discrepancy between the declared increase in mandates of local authorities and the actual financial means they are given to carry out those mandates. This can be accounted for not only by the crisis of the Ukrainian economy but also by the fact that the local authorities do not want to assume additional functions because of the lack of financial resources. Furthermore, the central structures do not want to lose their mandates. Sufficient funds allocated to the local authorities for financing their mandates is a prerequisite for their effective functioning.

5.2 Revenues of Local Budgets

The revenues of the local administrations are divided into the following main groups: local revenues, earmarked revenues, regulated revenues, and transfer revenues. Local revenues are local taxes and duties, payments for utilities, revenues from property, profits from communal enterprises, etc. Earmarked revenues are a part of the total state revenue (their concrete percentage is determined by law) that is fixed and left in the local budgets. Regulated revenues are the revenues obtained in order to balance local budgets. It is usually a percentage of various general national taxes, duties or payments. Transfer revenues are the funds that come from higher-level budgets in the shape of state grants-in-aid (subsidies and subventions).

The main sources of local revenues in Ukraine are the fixed national taxes, regulated revenues and transfers. Local revenues do not play an important role (see Table 4.13). The limited mandate of local authorities to fix the rate of local taxes and duties, and the incompleteness of the tax list (there is no tax on real estate and property of citizens) do not allow local revenues to become more substantial. Under these circumstances the important role belongs to the so-called beyond-budgetary funds (specialized funds financed
from sources other than state or local budgets). Their establishment and use are an exclusive mandate of the local executive bodies because they are not included in the local budget.

Table 4.13
Revenue Structure of Local Budgets of Ukraine [in %]

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1997</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local taxes and duties</td>
<td>0.1</td>
<td>2.9</td>
<td>3.4</td>
</tr>
<tr>
<td>Earmarked and regulated</td>
<td>88.9</td>
<td>76.7</td>
<td>83.6</td>
</tr>
<tr>
<td>revenues</td>
<td>11.0</td>
<td>20.4</td>
<td>13.0</td>
</tr>
</tbody>
</table>


The existing system of local taxes and duties cannot support the financial independence of the local authorities. Of sixteen taxes and duties, only a few yield any substantial revenue. These are the utility tax, hotel duty, a tax on local commerce, a market and local-trading duty, and an advertisement tax (90% of the total revenues from local taxes are allocated to local budgets).

5.3 Financial Equalization and Social Standards

The share of regulating taxes left in the local budget is calculated in such a way as to equalize all of the various budgets. The tax basis varies from region to region. As a result, the rates of regulation are also different: larger amounts stay in the budgets of poor regions and vice versa. At the same time, Parliament should equalize the financial resources between the oblasts not in the form of the actual amounts needed for the oblast’s proper functioning but in the form of an appropriate share of the general national tax. In this respect there is another unsettled problem, viz. the insufficient validity of the tax rate that fixes the amount of funds obtained by local budgets from the general national taxes. The legal regulations related to the national budget do not determine the payment rates for separate categories of territorial communities, thereby leaving this question to be solved by the oblast and rayon authorities. As a result, the big cities must forward a considerable part of the tax funds levied on their territories to the national budget. Thus, they involuntarily subsidize “smaller” and “poorer” territorial communities. How is it possible to stimulate the growth of local initiatives if every additional source of income is redistributed to others? Nowadays, the problem of supporting legal regulations by actual deeds is of vital importance. In particular, such terms as “the minimum social needs of a community” (law On Local Self-Government, Article 62), “minimum of local budget determined by law”
(Article 63), and the constitutional norm that “...a budgetary system is established on the basis of fair and unbiased distribution of social riches between the citizens and territorial communities,” need to be supported. Only when these terms receive their actual meaning will there be a possibility to establish a minimum standard of living in Ukrainian cities. Once the minimum of the social needs required to meet social standards has been defined, it will help determine the formula necessary to calculate the budgetary supply per citizen depending on the conditions particular to a given settlement.

As was presented in the case studies, only 18% of all taxes levied on the city of Lviv go to the local budget. The problem lies in the mechanism of horizontal leveling of local budgets. The budget of Lviv is part of the oblast budget determined by the Oblast Council. Under these circumstances Lviv becomes the donor for other settlements of the oblast. Because of this procedure the city does not receive enough funds to carry out the activities needed to facilitate its development. In due course, this leads to a deterioration in the city’s infrastructure and the quality of services provided by executive bodies of the City Council. This also leads to a confrontation between the Lviv City Council and the Lviv Oblast Council: the former finds the procedure of horizontal leveling of local budgets to be non-transparent and discriminating.

According to a number of indexes, the expenditures from Lviv city’s budget (in particular, on social protection) are less than the expenditures of some other local budgets in the oblast (although these are financed from the funds coming from the city). For instance, 37% of all taxes collected on the territory of Kyiv’s Starokyiv district go to its district local budget. The rest belongs to the city budget. Such a distribution witnesses the lack of system and clarity of the procedures utilized to calculate the amounts to go to higher level budgets (the per-capita expenditures from the budget of Starokyiv district amount to UAH 494, and from the Lviv budget—UAH 350).

Based on details from the Association of the Cities of Ukraine, 35% of the taxes collected remain in those cities whose population is over 500,000; 40-50% stays in towns with a population of 200,000 to 500,000; 45-70% stays in towns with 100,000 to 200,000 people, 50% stays in towns with a population of 50,000 to 100,000, and almost 75% stays in settlements with less than 50,000 people.

Up till now, no defined proportion of state funds has been earmarked for distribution through the mechanism of regulated taxes in Ukraine. It should be emphasized that the stability of the sources of revenue is very important to local authorities; i.e. a definite knowledge of the earmarked tax list and of the rates from the regulated revenues.

Only in the formulation of Kyiv city’s budget are the standards of revenues from the general national taxes and duties stable under the law On the Capital of Ukraine: Kyiv. This knowledge facilitates the forecasting of the budget revenues and enables the city to plan its programs in advance.

Transfer revenues represent one of the most important revenue items of the budgets of levels lower than the oblast. The lower the level of the local budget, the higher its share. Although this proportion is quite normal, it is difficult to consider this situation as
normal when almost two-thirds of the revenues of most villages and towns are financed by transfer revenues from the budgets of higher levels. This makes them too dependent on external financing. In view of this, it can be stated that the system of budget transfers in Ukraine is by no means perfect since it does not provide stability for the local budgets. Its main fault, however, is the lack of definiteness of the tasks and the revenues between the levels of power.

Budget transfers in Ukraine are of two kinds: subsidies (general transfers) and subventions. Subventions (on education and payment for energy resources) were introduced in 1999. In 1999 subsidies from the national budget amounted to over UAH 2 billion and the revenues of the state budget from Kyiv city totaled UAH 382,216,000; subventions on education totaled UAH 341,167,700; subventions for energy resources payment totaled UAH 5,2 billion. Thus, the ratio of the general and specific transfers is 23:73, thereby proving the imperfection of the transfer system: for the most part, such transfers are specific ones that are provided to make up for a certain part of local budget expenditures.

In 1999 the share of subsidies in total revenues of the oblast budgets ranged from 0.1% (Poltava oblast) to 49.8% (Volyn and Ternopil oblasts). The average share of subsidies provided to the local budgets from the state budget (without targeted subventions) totaled 13%.

Development of the transfer system as an important source of local authority revenues continues to be a vital problem. The practice of transfer provision in modern Ukraine is characterized by the following features:

- an absence of any standard definition of the main elements of the transfer provision procedure;
- the formation of the transfer fund as a total difference between the standard budgetary expenditures and the forecast revenues of the total oblast budgets;
- the availability of only one criterion for its distribution, i.e. the difference between the standard budgetary expenditures and the forecast expenditures according to the previous year’s data on revenues from the correspondent administrative-territorial units;
- a multilevel procedure for transfer funds distribution and a lack of direct transfers from the national budget to the territorial communities of different levels. As a result the process of subsidy provision is not transparent;
- an absence of motivation in the territorial communities to broaden their revenue basis because the distribution of subsidies was made depending on the revenues for the previous year; the bigger the revenues, the smaller the amount of subsidies allocated;
- elements of leveling distribution because the revenue potential of the regions and separate territorial communities accompanied by the attempt to fully cover the budget deficit was not considered;
- unsolved problems of horizontal leveling among the territorial communities.
One way to resolve the problem of transfer distribution would be to establish definite and simple methods for determining the financial needs and the financial potential. The most suitable approach for this is the formula approach as this would allow for the difference between the funding needs and the revenues of the various territorial communities.

A specific feature of local expenditure is that it usually creates additional sources for municipal improvement and the improvement of citizens’ conditions. The minimum social product should be provided by the state and the rest by local authorities. Normally, the financing of social provision is within the mandate of the central government, while the responsibility for managing social programs and for defining the (local) recipients are delegated to the local authorities. In Ukraine, however, determination of the criteria of eligibility for social assistance as well as the minimum levels of expenditure on social services, is carried out by the state. Local authorities are those that actually provide the financial resources from their budgets. Given that regional income differs throughout the country, the funding of social programs varies from one region to another.

It would therefore be necessary to redistribute the budget income between the central and the local budgets and to establish a means of regulating inter-budget relations towards decentralizing budget finances.

6. CONCLUSIONS AND POLICY RECOMMENDATIONS

6.1 Financial and Institutional Arrangements

Unlike in other countries, most of Ukraine’s expenditure on social protection can be found in the local budgets. This does not include pensions and disability benefits. In this respect, the social protection system appears to be rather decentralized. On the other hand, the distribution of national taxes is not transparent; there is no regular formula for determining the share of national taxes to be left with the local budgets. The amount of cash allocated to local budgets is determined annually under the law On the National Budget of Ukraine. It is self-evident that this does not allow the efficient use of resources nor does it allow long-term planning. As it is, the inter-budgetary relation system is quite centralized and it contradicts the legal principles regulating local self-governance. Furthermore, the current system of local taxes and duties is unable to support the independence of the local authorities. Territorial communities are hardly motivated to increase their revenue base as the distribution of transfers depends on the budget receipts of the previous year: i.e. the bigger the receipts, the smaller the allocated transfers will be. Local authorities, in particular those at the two lowest levels (town and village), are restricted in their financial activities.

When analyzing the actual distribution of expenditures between the budgetary units one has to realize that currently there is a substantial bias in the actual distribution of
The most urgent tasks in reforming local self-government and inter-budgetary relations should be:

- to reform the system of local state administrations in oblasts and rayons since the present system often reveals duplication of duties with local self-governments;
- to distribute functions and mandates in the area of public service provision between the central and local executive bodies and between the local authorities of different levels;
- to reform inter-budgetary relations, which could help to fix the expenditures and revenues between the levels of the budgetary system and would bring them into line with the mandates of executive bodies and local authorities;
- to introduce obligatory spending by local self-governments as well as a set of minimum public social standards that would provide the basis for equal access of the citizens of different regions, villages and towns to public services;
- to decrease the ratio of general national expenditures to higher level budgets with the aim of increasing the financial potential of local budgets; this would, in due course, facilitate the social development of the territorial communities;
- to clearly distinguish between the given mandates and the delegated ones of local state bodies and local self-governments on every territorial level;
- to introduce a formula and a transparent approach to budget transfers, and to increase the provision of targeted subvention;
- to transfer the mandates over the financing of social programs from local budgets to state budgets. Currently, housing subsidies, targeted benefits to low-income families, and child benefits are granted from local budgets. The system of inter-budgetary transfers lacks transparency and effectiveness, which often brings regions into different conditions of social service financing.

If all these measures were to be carried out, it would lead to the liquidation of oblast budgets and, in turn, this would lead to an increase in the importance of the budgets of territorial communities, that are closer to the public service recipients.

A further factor is that if the laws On Communal Property and On Local Taxes and Duties were to be adopted it would facilitate growth in local budget revenues.

It is of paramount importance that control over local budget expenditures on social benefits and assistance be increased. Naturally, this would be the role of local governments. At present, there is no systematic control over local budget expenditures and if there are cases of misuse there are no legal sanctions that can be taken.
6.2 Service Delivery

With regard to service delivery, in order to improve the work of Rayon and Oblast Social Protection Departments the most important tasks would be:

- the creation of social protection departments in villages (at present such departments exist only in Mykolaiv Oblast);
- the provision of comprehensive assistance to applicants for different types of benefits at a single place (this would avoid the need for people to visit several institutions in order to apply for benefits);
- the introduction of a single (unified) database on social assistance, and improvement of the reporting procedure (by utilizing a unified format for reports).

Most of the social protection actions as presented in the research merely aim at meeting the most pressing needs of the socially unprotected population groups, but not at creating and developing infrastructure. In particular, no steps are taken to prevent deviant behavior of teenagers or to improve the environment for young people; what we see, therefore, is a struggle to cope with the consequences but without addressing the underlying causes. Such an approach to resolving social problems is simplistic and renders social policy next to inefficient from a strategic perspective.

Thus, the top-priority tasks of Ukraine’s social policy should be:

- to maintain the existing infrastructure while developing a new one;
- to improve the quality of the services;
- to increase their quantitative indicators (which is a rather complicated task taking into account a permanent lack of funds in the national and local budgets).

In relation to reforming the pension system, among the principal objectives should be:

- to reorganize the solidarity system and introduce greater correspondence between the pension amount and the period of employment;
- to raise the retirement age and the general period of employment;
- to introduce a fully integrated and automated accounting system;
- to liquidate the most preferential pensions;
- to introduce the necessary legislative and standardized framework for creating an obligatory accumulating system;
- to introduce the necessary legislative and standardized framework as a means of facilitating the operation of voluntary non-governmental pension funds;
- to decrease contributions to the Pension Fund, which would help eliminate motivation for hiding income, avoiding job creation, and decreasing salary levels.
It is necessary to liquidate all exemptions that entitle certain segments of the population to receive some services at a very low price or even for free. It would be a step towards social equality (as most exemptions depend either on the status of the potential recipient or on political motives). Furthermore, this would release funds for the benefit of those who are really in need.

Another complicated issue emerged in relation to cash benefits. As this analysis of the Ukrainian social protection legal regulations shows, in terms of social services covering different categories of the population, and in terms of the amount of social payments, Ukraine is among those countries which apply well targeted benefits. In theory, the social payments are generally calculated on the basis of the minimum salary. But in reality most of the laws are not put into practice, and it is the state that violates them. The amounts of actual payments are determined by the Decrees of the Cabinet of Ministers and, on average, are just 10% of those stated in the legal regulations.

Benefits are granted according to various criteria, such as disability, old age, income, children under care, or political considerations. The last of these covers additional benefits granted to certain privileged groups, e.g. war veterans. Thus, the current social protection system supports specific groups that are quite well-off while it often neglects those who are in real need.

A single method ought to be introduced to determine who is really in need. The subsistence minimum would be the best poverty threshold for different kinds of benefits. Bearing in mind that 47% of the Ukrainian economy is gray, it is next to impossible to apply reliable means testing. One of the ways of improving the situation and discouraging further moves towards the gray economy might be to relieve the tax burden on the Salary and Wage Fund at the expense of reviewing the rates of payments to social funds such as pension, social insurance, employment and disability welfare funds. This could be accomplished by stepping up the control over administrative expenditures of the funds and might encourage the enterprises to increase the official salaries/wages of their employees.

There is significant potential for NGO involvement in some areas of social service delivery. Among the problems restraining the growth of the non-governmental sector are, first of all, the imperfection of the legal regulations on NGOs (registration, taxation, lack of laws relating to charity), as well as the pressure resulting from bureaucratic procedures.
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Literature


**Reports, Seminar Papers**


http://www.undp.com.ua


ANNEX 1.

Research Methodology

The methodology employed covered:

- analysis of the basic social, economic and demographic indicators of Ukrainian society;
- analysis of the legal regulations, and of the statistical and financial reports;
- analysis of data received through qualitative studies (viz., interviewing agents of social policy implementation and social service provision).

The studies were carried out at both national and micro levels covering all administrative levels. The following five selected sectors were studied: village of Shchyrets (Pustomyty Rayon, Lviv Oblast); Yavoriv Rayon (Lviv Oblast), City of Lviv; Starokyiv District of Kyiv; City of Kyiv.

All the case studies were done in the period July-October 2000.

This report summarizes the results of the sector-focused case studies and of the analysis of the relevant legal regulations and the quantitative data at the national level.
ANNEX 2.

The Pension System

Pensions are considered to be one of the most important means of income protection. The main part of the social protection system in Ukraine is pension provision, covering over 14.5 million people (29% of the population). In the year 2000, expenditure on pensions totaled UAH 16.5 million, representing 11% of the Gross National Product. Ukraine’s Pension Fund manages the financial aspect of pension provision (the Fund has 733 regional branches).

Between 1991 and 1999, over 20 laws were accepted together with several decrees of the President of Ukraine; these act as a means of coordinating the pension provision of certain groups of the population. These groups are mostly categorized on the basis of professional criteria. These laws and decrees were a sign of retreat from the previously accepted and declared pension policy principles according to which certain groups received substantially higher pensions despite the fact that during their working years they had paid the same amount to the Pension Fund. It is doubtful whether there is another country in the world where the maximum pension is 55-60 times greater than the minimum pension. This means that the principle of insurance in the sphere of pension provision is not implemented to the full extent; moreover it is by no means fully objective. Considerable amounts of payments—that are not connected with the labor contribution and do not depend on the funding of pension provision—are carried out at the expense of the insurance investments.

... In terms of my obligations, most of my working time is occupied by pension provision problems. The reason for this is the seventeen Pension Legal Regulations of Ukraine, with each law posing its own problems. Unfortunately the Ukrainian Parliament adopts legal regulations that will not work. Most of the legal regulations cover preferential pension provision. This means that there is a specific regulation for every population group. There are regulations relating to the Chernobyl disaster victims, to members of parliament, to prosecutors, and to public servants... There is a legal regulation for every person that receives benefits. Besides, there are regulations that only regulate the benefits. And it is all very complicated. There is no other country in the world that has as many pension legal regulations as Ukraine. Very often the regulations are adopted without any financial basis. It is merely a game, a performance played by the MPs in order to seem important to their electorate.

Source: From a case study report, Kyiv.
Table 4A.1

Indicators of Maximum and High Pensions that are Designated on the Basis of the Current Legislation of Ukraine, Indicators of Average Wages/Income, and the Margin of Low Income [UAH]

<table>
<thead>
<tr>
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<tr>
<td>1 “Pension Provision”</td>
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</tr>
<tr>
<td>• general</td>
<td>74.70</td>
<td>180.97</td>
<td>118.30</td>
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<tr>
<td>• general for war participants</td>
<td>83.01</td>
<td>180.97</td>
<td>118.30</td>
</tr>
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<td>• general for participants of battle actions</td>
<td>99.63</td>
<td>180.97</td>
<td>118.30</td>
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<td>• employees of list No.1</td>
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<td>180.97</td>
<td>118.30</td>
</tr>
<tr>
<td>• employees according to list No.1—war participants</td>
<td>107.91</td>
<td>180.97</td>
<td>118.30</td>
</tr>
<tr>
<td>• employees according to list No.1—participants of battle actions</td>
<td>124.53</td>
<td>180.97</td>
<td>118.30</td>
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<td>2 “On Public Service”*</td>
<td>1,400.00</td>
<td>180.97</td>
<td>118.30</td>
</tr>
<tr>
<td>3 “On the Prosecutor’s Office”*</td>
<td>1,700.00</td>
<td>180.97</td>
<td>118.30</td>
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<tr>
<td>4 “Disabled as a result of the Chernobyl disaster.”</td>
<td>1,160.99</td>
<td>180.97</td>
<td>118.30</td>
</tr>
<tr>
<td>5 “On the Status of the Deputy”*</td>
<td>1,305.00</td>
<td>180.97</td>
<td>118.30</td>
</tr>
</tbody>
</table>

* The data is selective because the legislation of Ukraine does not limit pension size.

... chaos in pension provision is “beneficial.” For example, one of the heads of Parliament, who is disabled as a result of the Chernobyl disaster receives a huge pension (UAH 1,800). At the same time he performs quite a difficult job. So, I ask myself: If he is disabled then he cannot work and if he can work then why does he receive this pension?

SOURCE: From an interview with a high-level member of the Federation Board of Ukrainian Trade Unions.

High pension contributions together with the low pension payments led to companies and their employees opting for the gray economy in order to avoid paying taxes and pension contributions. According to official data the working population in Ukraine comprises 22.4 million, but only 16 million of them regularly pay contributions to the country’s Pension Fund. This became the principal reason for the decrease in the Pension Fund’s finances.
The growth of the gray economy and the fact of frequent avoidance of tax paying has become a crucial factor of the total amount in the Pension Fund. Since 1995 the payment of pensions has been delayed. Cases of backlogs are still reported (as at 1 May 2000 the backlog of pensions amounted to UAH 1,175,300,000). In this situation the Government searched for other resources for the Pension Fund as well as endeavoring to reduce the backlog. These new resources constituted the duties from the purchase of convertible currency, from sales operations performed by legal and natural persons, from the jewelry trade, and from tobacco products, real estate, and cell phone connections.

The pension system had to adapt to the cut-back in the financing of the Pension Fund by decreasing pensions by not applying the rate of inflation to payments. As a result, during 1997 and 1998 the minimum pension remained as it was in 1996 (UAH 16.62) even though prices had increased by 32%.

In 1999 the Parliament raised the poverty line and the cost of the consumer basket (up to UAH 118 and UAH 90.7 respectively). Despite these modifications, the minimum pension was not changed because of the lack of funds. In September 1999 the minimum pension became UAH 24.9 (pensions were calculated on this basis). From 1995-1998, as a result of inflation, actual incomes decreased by 73.8%, and the actual amount of pensions decreased by 84.7%. Although 8.69% of the GDP goes towards pensions, the current pension system is unable to provide elderly people with an amount that leaves them above the poverty line. Pensions in Ukraine are so small that, according to one of our experts, “most pensioners are discriminated against because they receive pensions on which it is impossible to survive.”

The state of pension provision in Ukraine is affected by population changes that are characterized by an increase in the number of pensioners and a decrease in the working population paying pension insurance. Today, there are 14.5 million pensioners; this means 29% of the total population of Ukraine. This number exceeds the number of people of retirement age by 3 million. The reasons for this are not only the abrupt decrease in the working population of Ukraine but also the introduction of preferential pension legislation. For instance, the share of preferential retirement pension recipients increased from 14.6% in 1990 to 28.8% in 1999.

As at 1 February 2000 the biggest category of pensioners (77.6%) received UAH 66.23 per month, a figure that is well below the minimum subsistence level. At the same time 9.1% of old-age pensioners received the minimum pension of UAH 26.52 per month and 6% received the minimum pension together with target assistance totaling UAH 48.

... Indeed, I think we have to say that we are performing an act of genocide against our own nation. How can a person live on the minimum pension of UAH 27? If a person cannot eat as much as they need then it is simply annihilation of people. If we claim that we are a democratic and socially oriented state as well as being a lawful state, then what appropriate measures should we take? So far as I am aware, we possess the necessary resources.

SOURCE: From an interview with a key member of the Federation Board of the Ukrainian Trade Unions.
In 1998 the process of reforming the pension provision system started in Ukraine. The President’s Decree *On Main Trends of Social Policy for the Period till 2004* adopted on 24 May 2000 defines the introduction of a *three-tier system* of pension provision:

- the *first* level is a solidarity system of pensions paid from current revenues of the Pension Fund;
- the *second* level is a system of accumulating individual pension accounts within the obligatory pension insurance scheme;
- the *third* level is the system of non-state pension insurance from the voluntary pension payments of citizens.

The system is based on non-state pension funds and the solidarity system. In 1999-2000, based on the above-mentioned decree, various measures were taken to introduce an automated personal account system of insurance payments to the Pension Fund. This account system of obligatory public pension insurance was introduced throughout Ukraine during the year 2000.

Another important problem related to pensions is the present system of pension subsidies that remained from Soviet times and that were reintroduced in recent years (Annex 3). Of the total number of pensioners, over 2.2 million (15.4%) are preferential pension recipients (citizens who retired 5-10 years earlier than the official retirement age). The current system of pension provision does not correspond to the conditions of market relations, does not consider the change in working conditions, nor does it consider the technological processes that have considerably improved people’s working conditions. Many occupations listed among preferential pension recipients in terms of difficult working conditions are no longer hazardous. The criteria of preferential pension provision should be revised: it should be based on the criterion of deterioration in a particular worker’s health; in other words, the individual approach should be taken in every case.

Another pressing problem is the age of retirement, which age in Ukraine is one of the earliest in the world (55 for women and 60 for men). At the same time, the minimum employment period for pension entitlement is too small (20 years for women and 25 for men). In addition, the pension insurance duty is not collected during certain periods of employment (student years at secondary and higher educational institutions are included into the employment period as well as years of military service and time in caring for infants/small children.)

Early retirement age combined with the unfavorable demographic situation caused by the increased number of elderly people considerably burdens the work of the Pension Fund. The usual ratio of a country’s working population to pensioners is 1:2 whereas in Ukraine it currently stands at 1:1. It is our belief that people can still bear a very high level of economic activity up to the age of 70 years. In 1998, 37.9% of the population was aged 60-64, and 27% of people at the age of 65-69 were offering their services on
the Labor Market. The draft law *On Obligatory State Pension Insurance* will set the retirement age at 63 years of age for men and women. It is proposed that the retirement age be raised in several stages.

The most heated debates are focused on the introduction of a cumulative system of pension accounts. The depreciation of bank deposits and of the UAH in comparison with the USD (more than 3 times since the monetary reforms), and the failure of financial pyramids all hinder the formation of positive public opinion about the proposed system. There are no underlying conditions such as micro-economic stability, economic growth, and viable legal regulations that would ensure the efficacy of its functioning.

Thus, a number of pressing problems relate to the reforming of the solidarity system of pension provision in order to:

- establish a closer relationship between the period of employment and the amount of pension;
- improve the procedure of payments collection;
- establish a consolidated and automated accounting system;
- abolish the most preferential pensions;
- raise the age of retirement;
- transfer the mandates of funding social benefits and of social assistance programs to the Pension Fund. (One of the paramount conditions for reforming the obligatory pension contributions system is *division of the sources of payments*. The Pension Fund should only finance pensions, whereas in 1999 more than 20% of the total amount of payments was allocated for other kinds of social assistance. Funding for social pensions and social assistance programs should be transferred to the state budget.)

Additional objectives would be to set up a computer network to support the ongoing work of individual and obligatory cumulative pension systems and to create a general Ukrainian database on all pensioners and workers.
ANNEX 3.

Unemployment Insurance

The Law of Ukraine On Citizens’ Employment (1991) (with amendments) defines the right of citizens to unemployment benefits (see table in Annex 5). On the basis of this law a new system was established during the 1990s. This system has the attributes that correspond to the practice of developed countries and international standards concerning the provision of employment rights. The responsible authority in this system is the State Employment Center with its network of branch offices. This authority performs the whole range of standard functions necessary in the sphere of employment, viz. employment, activities to increase the compatibility of the temporarily unemployed, provision of different kinds of allowances, and arrangements for public work.

The financing of these functions is carried out at the expense of the State Employment Fund. As from 1994 this Fund operated solely from taxes levied on employers and, starting from 1997, from the obligatory state insurance for unexpected unemployment withdrawn from employers (1.5% out of the Labor Payment Fund) and from employees (0.5% out of the total income without tax).

Analysis of the work and funding of the Employment Services together with interviews with a number of key people in the sphere of social protection showed that:

- the Employment Fund stays within the state budget (it should be noted that since 1994 the state has not made any contributions to it). This leads to the situation when the government uses the insurance funds to cover other needs;
- contrary to the law On Obligatory Social Security (1997) and contrary to the Convention of the Ministry of Labor Protection No. 88 On Organization of the Employment Service, the financing of more than 8,000 employees of the State Employment Fund, i.e. public servants, is carried out from the social security contributions and not from the budget funds. In 1999, 24.3% out of the total expenditure of the Employment Fund was spent on maintenance and development of its material base (see Annex 1 for details);
- a considerable part of the money (according to some evaluations up to 30%) from the Employment Fund is spent on financing the provision of given services to citizens who neither personally nor through the employers made any contributions to the Fund. There are many such people including: military personnel who resigned or whose service terminated due to a reduction in staff without the right to a pension; people who are searching for a job after a long break; young people who are searching for a job for the first time; and other insured people. Provision of social services to these categories of the population should be financed from the state budget and not from social security contributions;
• the creation of new job places is a direct function of the state (Articles 3 and 13 of the law *On Population Employment*), and not of the Social Security Fund. This also means that the monies of the Fund are not used specifically for the target;
• the unemployment allowance is very small (the average is UAH 44 and the minimum is UAH 25). This is much lower than the existing limit of poverty. The reasons for this include those mentioned above.

Up till now, the services and cash benefits for the unemployed have not proved their value despite the operational costs of the State Employment Service being high (for financing sources and basic expenditure items, see Annex 4). Cash benefits and services for the unemployed do not correspond to their function for three reasons: firstly, hidden unemployment figures considerably exceed the officially registered ones; secondly, the unemployment benefit is very small (the ratio of the average benefit to the average salary is less than 14%); thirdly, the population has no trust in this institution (under 10% of those in search of a job turn to the Service).

The main problems related to the Employment Centers are as follows:

• low rate of job placement for those turning to the employment service (under 20%);
• no actual vacancies, or no regular salary/wage payment in the available vacancies;
• over-production of specialists with higher technical or engineering education.

The law *On Obligatory State Social Insurance against Unemployment* was due to come into force on 1 January 2001.

... In my opinion, the main shortcoming of the newly created Unemployment Insurance Fund is the fact that the State wants to make the insurance fund handle other matters than insurance. In other words, the Fund should provide social services and financial support for those with no insurance. Thus, if you and I make insurance contributions, they will not only be used to cover the expenditure on accidents that may happen to us but also to cover the expenses of other people: people who are allowed by the State, for some reason or other, not to pay any contribution to this fund. Therefore, our payments as well as those of the employers will be higher. Secondly, the state obliges the Fund to finance activities unrelated to insurance matters or those beyond the terms of reference of the Insurance Fund. But as of today, I do know that regarding the budget for 2001 the state is not going to assign even a kopyyka or enough money at least to enable the Fund to perform public functions. As a result we will be forced to increase insurance contribution rates. The employees, however, have no spare money, their salaries/wages are below the poverty line, and employers are using every possibility to say that the tax burden is very heavy in this country. These are the sorts of problems we are facing.

**SOURCE:** From interview with an official in the field of social policy.
Under this law there is a fixed list of people who are required to take out obligatory social insurance against unemployment. This is the first time that the legislation contains measures for tackling the problem of temporary unemployment, a situation that is very painful for Ukraine.

The main lines for reforming the unemployed social protection system should be:

- money from the Social Insurance Fund should be mainly used on compensation (as unemployment assistance) for those who are insured;
- as for the measures aimed at preventing or at least limiting insurance cases (implementation of creation programs of work-places, staff training programs, which —according to World Bank surveys—are not efficient), such measures should be financed by the State Employment Service within the allocations from the state budget. Specifically this means that the functions of protection of insured persons in case of unemployment should be separated from the function of state social assistance.
ANNEX 4.

Financing of Social Protection and Social Provision Programs from the Ukrainian Consolidated Budget

Table 4A.2

<table>
<thead>
<tr>
<th>Social Service</th>
<th>Total Amount of the Fund Spent on the Given Service in 1999 [UAH]</th>
<th>Composition of Revenues, Receipts Spent on the Given Service [as a Percentage of Total]</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>General Revenues, Taxes</td>
<td>Earmarked Central Revenues (e.g. contributions)</td>
</tr>
<tr>
<td>NATIONAL BUDGET OF UKRAINE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exemptions for war and labor veterans</td>
<td>650,626,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Installation of telephones for those who took part in World War II</td>
<td>6,334,000</td>
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</tr>
<tr>
<td>Exemptions for labor veterans</td>
<td>14,028,000</td>
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<td></td>
</tr>
<tr>
<td>Exemptions for war veterans and war disabled</td>
<td>605,862,000</td>
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</table>
### Table 4A.2 (continued)

<table>
<thead>
<tr>
<th>Social Service</th>
<th>Total Amount of the Fund Spent on the Given Service in 1999 [UAH]</th>
<th>Composition of Revenues, Receipts Spent on the Given Service [as a Percentage of Total]</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>General Revenues, Taxes, Earmarked Central Revenues (e.g. contributions)</td>
<td>Local Taxes, Fees, Market-like Incomes, Profits</td>
<td>Number of Recipients in 1999</td>
</tr>
<tr>
<td>Annual lump sum allowance for war veterans</td>
<td>15,609,000</td>
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<td>5,036,625</td>
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<tr>
<td>Benefit for families with children</td>
<td>256,492,320</td>
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<td>2,449,623</td>
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<tr>
<td>Child care benefit for non-working mothers with children up to 3 years old</td>
<td>14,385,900</td>
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<td>219,655</td>
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<tr>
<td>Child care benefit for working mothers with children under the age of three</td>
<td>52,962,900</td>
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<td>219,655</td>
</tr>
<tr>
<td>Description</td>
<td>Amount</td>
<td>Average</td>
<td>Percentage</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
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<td>---------</td>
<td>------------</td>
</tr>
<tr>
<td>Cash benefits for mothers (fathers) taking care of three or more children aged up to 16</td>
<td>17,288,900</td>
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<td>86,897</td>
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<tr>
<td>Benefit for taking care of a disabled child</td>
<td>7,885,900</td>
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<td>36,195</td>
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<td>Child benefit in respect of children aged up to 16, school pupils aged up to 18</td>
<td>116,131,200</td>
<td>1,663,478</td>
<td>7.40</td>
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<tr>
<td>Benefit in respect of fostered children</td>
<td>3,967,700</td>
<td>11,476</td>
<td>29.60</td>
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<tr>
<td>Temporary benefit in respect of minors whose parents evade paying alimony</td>
<td>1,797,600</td>
<td>25,288</td>
<td>7.40</td>
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<tr>
<td>Administrative costs</td>
<td>12,213,920</td>
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<tr>
<td><strong>Other types of social benefit</strong></td>
<td><strong>8,017,300</strong></td>
<td>7,165</td>
<td>12.00</td>
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<tr>
<td>• targeted benefit for low-income families including</td>
<td>473,000</td>
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</tr>
<tr>
<td>• payment of compensation for the rehabilitated, cash benefit for refugees, prosthetic device provision program, maintaining in-patient departments for prosthetic device provision, providing domestic coal for some categories of the population</td>
<td>7,544,300</td>
<td>60,000</td>
<td>0.04</td>
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<tr>
<td>Maintaining social protection institutions</td>
<td><strong>166,323,300</strong></td>
<td>47,630</td>
<td>0.95</td>
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<tr>
<td>• boarding homes for the elderly including</td>
<td>155,949,900</td>
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<td>47,630</td>
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<tr>
<td>— asylums for minors</td>
<td>10,373,400</td>
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<td>276</td>
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</table>
Table 4A.2 (continued)

<table>
<thead>
<tr>
<th>Social Service</th>
<th>Total Amount of the Fund Spent on the Given Service in 1999 [UAH]</th>
<th>Composition of Revenues, Receipts Spent on the Given Service [as a Percentage of Total]</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>General Revenues, Taxes Earmarked Central Revenues (e.g. contributions) Local Taxes Fees, Market-like Incomes, Profits Number of Recipients in 1999 Average Amount of the Provision, Benefit for One Person /Month % of Total Social Budget at the Given Administrative Level</td>
<td></td>
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<tr>
<td>Expenditures on social programs (social services for youth, programs and activities of public bodies for family, women and youth affairs)</td>
<td>36,164,100</td>
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<td>Expenditures on other activities in social policy (activities connected with the Crimean Tatars returning, maintaining points of temporary residence for refugees, etc.)</td>
<td>148,549,900</td>
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<tr>
<td>Housing subsidies</td>
<td>1,383,111,810</td>
<td>3,141,929</td>
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<tr>
<td>• of these: subsidy for purchasing gas and solid fuel</td>
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<td>586,183</td>
<td>147.23 per year</td>
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<td>Administrative costs</td>
<td>40,284,810</td>
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<td>Total expenditures from the national budget</td>
<td>2,664,893,730</td>
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<td>TARGETED FUNDS</td>
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<tr>
<td><strong>Pension Fund of Ukraine</strong></td>
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<tr>
<td><strong>Pension/benefit payments</strong></td>
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<tr>
<td>11,051,837,000</td>
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<td>According to the law On Pension Provision</td>
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<tr>
<td>10,068,600,000</td>
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<tr>
<td>of them</td>
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<td></td>
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<tr>
<td>• old-age pension</td>
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<tr>
<td>8,270,067,600</td>
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<td>• disability benefit</td>
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<tr>
<td>1,199,137,200</td>
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<td>• benefit in respect of a lost breadwinner</td>
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<td>387,633,600</td>
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<td>• retirement pension</td>
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<tr>
<td>111,231,600</td>
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<tr>
<td>• social pensions/benefits</td>
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<tr>
<td>100,530,000</td>
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<tr>
<td>Law of Ukraine On Pension Provision of Military Personnel, Staff and Officers of Internal Affairs Bodies</td>
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<td>575,373,600</td>
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<td>Payments are made at the expense of receipts from the national budget of Ukraine—100%</td>
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<td>449,018</td>
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<td>Law of Ukraine On Public Service</td>
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<td>68,931,600</td>
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<td>34,911</td>
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<td>Law of Ukraine On the Prosecutor’s Office</td>
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<td>5,690,400</td>
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<td>Law of Ukraine On the Status of Members of Parliament</td>
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<td>1,726,800</td>
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<td>Regulation On the Aides, Consultants of Members of Parliament</td>
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<td>28,800</td>
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<td>Law of Ukraine On the Status of Judges</td>
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<td>240.0</td>
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<tr>
<td>Law of Ukraine On Forensic Expertise</td>
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<td>210,000</td>
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<td>Customs Code of Ukraine</td>
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<td>121.24</td>
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<tr>
<td>0.001</td>
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<tr>
<td>Law of Ukraine On the Status and Social Protection of Chernobyl Disaster Victims</td>
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<tr>
<td>217,233,600</td>
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<tr>
<td>100% of payments are made at the expense of receipts from the Chernobyl Fund</td>
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<td>78,693</td>
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<td>230.09</td>
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<td>1.24</td>
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Table 4A.2 (continued)

<table>
<thead>
<tr>
<th>Social Service</th>
<th>Total Amount of the Fund Spent on the Given Service in 1999 [UAH]</th>
<th>Composition of Revenues, Receipts Spent on the Given Service [as a Percentage of Total]</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>General Revenues, Taxes</td>
<td>Earmarked Central Revenues (e.g. contributions)</td>
</tr>
<tr>
<td>Law of Ukraine On Scientific and Technical Activity</td>
<td>12,973,200</td>
<td>100% of payments are made at the expense of receipts from the national budget of Ukraine</td>
<td>4,382</td>
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<tr>
<td>Law of Ukraine On Public Support for Mass Media and Social Protection of Reporters</td>
<td>1,773,600</td>
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<td>791</td>
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<tr>
<td>Administrative costs</td>
<td>99,209,000</td>
<td>100% of payments are made at the expense of receipts to the Pension Fund of Ukraine</td>
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</tr>
<tr>
<td>• Short-term benefits from the Pension Fund of these:</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>— benefit for low-income pensioners</td>
<td>621,192,300</td>
<td>100% of payments are made at the expense of receipts to the Pension Fund of Ukraine</td>
<td>378,000</td>
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<tr>
<td>— funeral allowance</td>
<td>533,520,000</td>
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<td>304,482</td>
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<tr>
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<td></td>
<td></td>
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<tr>
<td>Other expenditures of the fund</td>
<td>161,899,900</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• benefit for families with children aged from 1.5 up to 3</td>
<td>52,962,900</td>
<td>100% of payments are made at the expense of receipts from local budgets</td>
<td></td>
</tr>
<tr>
<td>Total expenditures</td>
<td>11,834,929,200</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### SOCIAL INSURANCE FUND

| Benefit in respect of temporary unemployment | 691,395,000 | Payments are made from receipts to the Social Insurance Fund formed from: contributions for obligatory social insurance (4%) from salary/wages, which makes 93% of the total amount of Social Insurance Fund revenues; social insurance duty (11%) of the single tax; deductions from selling a special trade license (2%) and fixed agricultural tax (2%); which makes 0.08% of the total amount of Social Insurance Fund revenues; receipts for resort treatment and rest tickets, which makes 0.08% of the total amount of Social Insurance Fund revenues; | UAH 8.56 per day | 3.95 |
| Maternity benefit | 82,763,000 |  | UAH 5.86 per day | 0.67 |
| Child-birth allowance | 10,640,000 | 206,014 | From UAH 51.5 to UAH 74 (for those who had a difficult labor) | 0.06 |
| Funeral allowance | 4,025,000 | 26,729 | 150 | 0.02 |
| Resort treatment and rest for employees and members of their families | 339,697,000 | 920,000 | 352.0 | 1.94 |
| Administrative costs | 38,408,000 | | | 0.22 |
| **Total expenditures** | **1,166,928,000** | | | **6.66** |

### FUND FOR PROMOTING EMPLOYMENT

| Payment of unemployment benefit | 335,488,000 | 100% of the receipts to the Fund which is formed from: duties on obligatory social insurance against unemployment—0.5% rate is deducted from the basic salary of an employee; 1.5% is deducted from the salary/wages fund | 1,474,524 (as at 01.01.200 620,580) | 44.9 | 1.91 |
| Funeral allowance in respect of the death of an unemployed | 689,900 | 3,890 | 174.8 | 0.004 |
| Professional training and re-training of the unemployed | 44,314,000 | 126,518 | 29.2 | 0.25 |
| including allowance during training | 16,197,700 | 88,438 | 15.3 | 0.09 |
Table 4A.2 (continued)

<table>
<thead>
<tr>
<th>Social Service</th>
<th>Total Amount of the Fund Spent on the Given Service in 1999 [UAH]</th>
<th>Composition of Revenues, Receipts Spent on the Given Service [as a Percentage of Total]</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>General Revenues, Taxes</td>
<td>Earmarked Central Revenues (e.g. contributions)</td>
</tr>
<tr>
<td>Public works organization</td>
<td>6,451,900</td>
<td>42%—funds from the Fund itself; 4.5% funds of local budgets; 53%—funds the enterprises paying for public work</td>
<td>151,815</td>
</tr>
<tr>
<td>Allowance for moving families to the countryside</td>
<td>1,000</td>
<td>Financed with the funds of enterprises which invited the family</td>
<td>61</td>
</tr>
<tr>
<td>Information work connected with implementing employment program</td>
<td>2,322,700</td>
<td>100% of receipts to the Fund</td>
<td></td>
</tr>
<tr>
<td>Maintaining the fund, developing its material basis</td>
<td>126,273,100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other expenditures</td>
<td>10,892,200</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total expenditures</strong></td>
<td><strong>520,500,200</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**UKRAINIAN FUND FOR SOCIAL PROTECTION OF THE DISABLED**

<table>
<thead>
<tr>
<th>Service</th>
<th>Total Amount of the Revenues [UAH]</th>
<th>Notes</th>
<th>Number of Recipients in 1999</th>
<th>Average Amount of the Provision, Benefit for One Person /Month</th>
<th>% of Total Social Budget at the Given Administrative Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Providing with cars</td>
<td>7,617,291</td>
<td>100% of the receipts to the Fund, which is formed at the expense of allocations from the national budget (49.09%) and 50.91% of the total amount of earmarked funds to the Fund in accordance</td>
<td>689</td>
<td>9,666</td>
<td>0.04</td>
</tr>
<tr>
<td>Compensation for petrol, repairs, and technical servicing of the car</td>
<td>6,189,804</td>
<td></td>
<td>64,926</td>
<td>92.0</td>
<td>0.04</td>
</tr>
<tr>
<td>Providing with wheel-chairs</td>
<td>4,659,253</td>
<td></td>
<td>6,656</td>
<td>700</td>
<td>0.03</td>
</tr>
<tr>
<td>Providing with orthopedic-prosthetic devices and means for rehabilitation</td>
<td>22,859,583</td>
<td>430,409</td>
<td>53.0</td>
<td>0.13</td>
<td></td>
</tr>
<tr>
<td>-----------------------------</td>
<td>------------------</td>
<td>----------</td>
<td>------</td>
<td>------</td>
<td></td>
</tr>
<tr>
<td>Resort treatment</td>
<td>4,410,000</td>
<td>6,391</td>
<td>690.0</td>
<td>0.025</td>
<td></td>
</tr>
<tr>
<td>Allowance</td>
<td>1,100,000</td>
<td>53,528</td>
<td>21.0</td>
<td>0.006</td>
<td></td>
</tr>
<tr>
<td>Installation of telephones</td>
<td>1,450,000</td>
<td>7,250</td>
<td>200.0</td>
<td>0.008</td>
<td></td>
</tr>
<tr>
<td>Expenditures on creating jobs for the disabled</td>
<td>54,496,200</td>
<td></td>
<td></td>
<td>0.31</td>
<td></td>
</tr>
<tr>
<td>Other expenditures</td>
<td>2,015,000</td>
<td></td>
<td></td>
<td>0.01</td>
<td></td>
</tr>
<tr>
<td>Maintaining the apparatus of the Fund</td>
<td>2,050,111</td>
<td></td>
<td></td>
<td>0.01</td>
<td></td>
</tr>
<tr>
<td>Total expenditures</td>
<td>107,037,242</td>
<td></td>
<td></td>
<td>0.61</td>
<td></td>
</tr>
</tbody>
</table>

**FUND FOR IMPLEMENTING ACTIVITIES ON LIQUIDATING CHERNOBYL DISASTER CONSEQUENCES AND SOCIAL PROTECTION OF THE POPULATION**

<table>
<thead>
<tr>
<th>Expenditures on social protection of Chernobyl disaster victims including</th>
<th>1,118,043,500</th>
<th>6.38</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment of compensations and granting exemptions</td>
<td>708,376,800</td>
<td>4.04</td>
</tr>
<tr>
<td>• including payment of compensations via financial institutions</td>
<td>694,173,800</td>
<td>3.96</td>
</tr>
<tr>
<td>• payment of exemptions for employees</td>
<td>175,000</td>
<td>0.004</td>
</tr>
<tr>
<td>• compensation for lost property</td>
<td>14,028,000</td>
<td>0.08</td>
</tr>
<tr>
<td>Social insurance</td>
<td>189,766,700</td>
<td>1.08</td>
</tr>
<tr>
<td>• Including health recovery</td>
<td>175,103,000</td>
<td>0.99</td>
</tr>
<tr>
<td>• payment of compensations for unused resort treatment tickets</td>
<td>8,820,000</td>
<td>0.05</td>
</tr>
<tr>
<td>• payment of benefits in respect of temporary inability to work</td>
<td>5,844,000</td>
<td>0.03</td>
</tr>
</tbody>
</table>

100% of financing is from the Chernobyl Fund, which is formed from: setting off VAT (by means of deducting no less than 17% of VAT receipts to the national budget of Ukraine)—80.33% duty for the Fund to implement activities on liquidating the consequences of the Chernobyl Disaster—19.67%
Table 4A.2 (continued)

<table>
<thead>
<tr>
<th>Social Service</th>
<th>Total Amount of the Fund Spent on the Given Service in 1999 [UAH]</th>
<th>Composition of Revenues, Receipts Spent on the Given Service [as a Percentage of Total]</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>General Revenues, Taxes</td>
<td>Earmarked Central Revenues (e.g. contributions)</td>
</tr>
<tr>
<td>Other expenditures of the Fund</td>
<td>327,470,900</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Including</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public capital investments</td>
<td>126,480,300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Independent, voluntary moving of citizens from polluted areas and building housing for citizens referred to category 1 of the victims</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditures on providing jobs in the polluted area</td>
<td>105,575,600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other targeted programs</td>
<td>58,750,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total expenditures</strong></td>
<td><strong>1,225,614,400</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total expenditures on social protection and social provision</strong></td>
<td><strong>17,519,902,772</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Ministry of Labor and Social Policy of Ukraine, State Treasury

**Note:** Some cells of the table are left empty because of the lack of information. Values of the data that might be in these cells might be other than zero
ANNEX 5.

Social Provisions

1. Unemployment Benefit

<table>
<thead>
<tr>
<th>Purpose of Service</th>
<th>Cash benefit. Amount:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum/Form of service</td>
<td>a) not less than 50% of average salary received at a previous job, but not more than the average salary in public industry of the given oblast for the previous year and not less than the minimum salary determined by legal regulations, given that a citizen in the course of the 12 months preceding the unemployment period has been working for not less than 12 calendar weeks;</td>
</tr>
<tr>
<td></td>
<td>b) not less than the minimum salary determined by legal regulations—in all other cases including those in search of work for the first time or after a lengthy (over six months) break.</td>
</tr>
</tbody>
</table>

| Duration of service | The benefit is paid commencing from the eighth day after registration in the State Employment Department until the start of employment, but for a period of not more than 360 calendar days in the course of two years, for citizens near to retirement age (men aged 58 and women aged 53), about 750 calendar days; benefit is paid for a period of not more than 180 calendar days for those willing to work after a lengthy (over six months) break and for those in search of a job for the first time. |

| Who sets the eligibility criteria granting benefit | Law of Ukraine On Citizens’ Employment (1991) with amendments |
| Criteria for granting benefit | Unemployment benefit recipients are those unemployed that have been defined as such in the established order. |
| Body registering or defining recipients | State Department of Employment through the Fund for Promoting Employment |
| Decision-making body | State Employment Department |
| Service provider | State Employment Department |
| Forms of Rights’ Protection | Appealing to the hierarchically respective body of the State Employment Department or to court as defined by legal regulations |
| Financial responsibility (budge-(tary decision-making body) | Cabinet of Ministers of Ukraine |
Total budget of 1999 | UAH 35,488,000
---|---
Average expenditures/benefit in respect to users/month or year | in 1999—UAH 44.9 per month; in 1999 51.1% were receiving UAH 25 per month, 30% were receiving from UAH 25 to UAH 74 per month.
Financial Control (budget controlling body) | State Treasury of Ukraine
Administrative/Legal control | Control and Inspection Department, Prosecution Department of Ukraine
Professional Control | Supervisory Board of the Fund for Promoting Employment
Number of recipients/service users in 1999 | 1,474,524/620,580 for 1 January 2000

2. Housing Subsidies

<table>
<thead>
<tr>
<th>Purpose of service</th>
<th>Providing help in payment for housing rent and utilities by increasing the amount of benefit in respect of actual expenditures of citizens for rent payment.</th>
</tr>
</thead>
</table>
| Sum/form of service | Monthly non-cash targeted benefit calculations defining the sum of the subsidy are carried out in the following sequence:
1. Average monthly household gross income is defined as well as the share of payment for housing and utilities in the income.
2. Average monthly amount of payment for housing rent and utilities is defined. It is defined according to sanitary standards of housing space (21 sq.m per-capita) and according to fixed standards of use of utilities in a given locality.
3. Amount of subsidy is defined as the difference between payment for housing rent and utilities within the sanitary standards and within the standards of use of utilities and the amount of payment defined for the household. |
| Duration of service | Granted for 6 months, starting with the month of application for granting or recalculation of the subsidy. Decision on granting a subsidy is taken within 10 days from the day of submitting the application form. |
Criteria for granting a subsidy

Subsidies are granted to families with a difference between the amount of payment for housing and utilities and the maximum obligatory rate of payment. Maximum obligatory payment rate is up to 20% of monthly average gross household income; for pensioners and other handicapped people it is up to 15%. To get the subsidy citizens must submit the following documents: application form, information on household members, on provision with housing space and utilities, on incomes of every member of the household according to typical forms, a pay book, receipts of actual payment for utilities for the previous period, confirmation of non-existence of debts to utility providers.

Body/bodies registering or defining recipients
Subsidy Departments of District State Administrations

Decision-making body/bodies
Subsidy Departments of District State Administrations

Service provider
Subsidy Departments of District State Administrations

Forms of rights' protection
Decision on granting or not granting a subsidy may be debated in District State Administrations, executive bodies of City and District Councils, and in court.

Financial responsibility (budgetary decision-making body)
Executive Committees of City, District, and Village Councils and Ministry of Finances of Ukraine

Total budget of 1999
UAH 1,383,111,810

Average expenditures/benefits in respect of recipients/month or year in 1999
UAH 38

Financial control (budget controlling body)
State Treasury of Ukraine

Administrative/Legal control
Control and Inspection Department, Prosecution Department of Ukraine, State Taxation Administration

Professional control

Number of recipients/service users in 1999
3,141,929

3. Targeted Social Benefit for Low-Income Families

Purpose of service
Providing assistance for low-income families

Sum/Form of service
Cash benefit. The amount is defined as the difference between the amount of gross income which entitles a family to receive social benefit and the gross income of the family.
| Duration of service | A social benefit is granted for a period of six months, if the family includes employed members for a period of three months, starting from the month of application for the benefit and is paid monthly. If the family includes an active-aged member registered with the State Employment Department as unemployed, and the term for receiving unemployment benefit has expired, the social benefit is granted for a period of three months. For any following applications, the amount of the social benefit goes down by 10% each time. |
| Criteria for granting benefit | The benefit is granted to low-income families if the monthly average gross income of the family consisting of handicapped and unemployed active-aged members taking care of children, or of persons taking care of three or more children aged up to 16, of persons taking care of a disabled person of the first group or of a disabled child aged up to 16 or of a person over 80 years of age, of persons registered in the State Employment Center as unemployed and if the term of receiving unemployment benefit has expired, is lower than the amount of gross income which entitles a person to receive social benefit. To be granted the social benefit, the applicant should submit the following documents: application form, ID, certificate on the family constitution, certificate on income of every member of the family, certificate on availability and size of land plots. Decisions are taken on the basis of means testing. |
| Body registering or defining recipients | Social Protection Departments of District State Administrations. |
| Decision-taking body | District State Administrations and Executive Committees of the City and District Councils and commissions created by them |
| Service provider | Bodes of Social Protection of Citizens |
| Forms of rights protection | The decision on granting or not granting a benefit may be debated in District State Administrations, executive bodies of City and District Councils, and in court. |
| Financial responsibility (budgetary decision-making body) | District or City State Administrations and executive committees of City and District Councils. |
| Financial sources | Local budgets |
| Total budget of 1999 | UAH 473,000 |
| Average expenditures/benefits in respect of recipients/month or year in 1999 | UAH 12 |
| Financial control | Ministry of Finances, Cabinet of Ministers of Ukraine |
4. Temporary Disability Benefit

<table>
<thead>
<tr>
<th>Purpose of service</th>
<th>Financial assistance for employed citizens in respect of temporary disability.</th>
</tr>
</thead>
</table>
| Sum/form of service | Cash benefit. The amount of benefit is calculated according to the general employment period of the employee and is granted in the following amounts:  
   a) 100% of average salary calculated according to legal regulations: for employees with overall employment period of 8 and more years; for employees with temporary disability resulting from industrial accident; employees referred to categories 1-4 of Chernobyl disaster victims; for wives of military servicemen; for employees who were former orphans; for one of the parents taking care of a sick child-victim of the Chernobyl disaster aged up to 14, including health resort treatment;  
   b) 80% of average salary for employees with overall employment period from 5 to 8 years;  
   c) 60% of average salary for employees with overall employment period of up to 5 years; |
| Duration of service | Based on the disability certificate until complete recovery or until disability status is granted. |
| Criteria for granting benefit | Disability certificate |
| Body/bodies registering or defining recipients | Health care institution, personnel department of employer |
| Decision-taking body | Health care institution |
| Service provider | Social Insurance Fund |
| Forms of rights protection | Lawsuit |
5. State Benefits for Families with Children

5.1 Maternity and Child-birth Benefits

<table>
<thead>
<tr>
<th>Purpose of service</th>
<th>State cash allowance to families with children</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum/form of service</td>
<td>Cash allowance.</td>
</tr>
<tr>
<td></td>
<td>Amount: 100% of wages/salary of working women; women having been registered with the State Employment Center as unemployed for a period not less than 10 months receive an allowance equal to the minimum wage/salary, female students receive allowances equal to the monthly scholarship.</td>
</tr>
<tr>
<td>Duration of service</td>
<td>Allowance is paid to women for the whole period of absence due to pregnancy and child birth, including 70 calendar days before child birth and 56 (in case of difficult delivery or birth of two or more children—70) after child birth.</td>
</tr>
<tr>
<td>Who sets the eligibility criteria</td>
<td>Law On State Benefits for Families with Children (1992)</td>
</tr>
<tr>
<td>Criteria for granting benefit</td>
<td>Leave of absence in respect of temporary inability</td>
</tr>
<tr>
<td>Body/bodies registering or defining recipients</td>
<td>Plant/factory, institution, organization of woman’s main job (or place of study). Women exempted from work and those registered with the State Employment Center receive the allowances from domiciliary social welfare bodies.</td>
</tr>
</tbody>
</table>

Financial responsibility (budgetary decision-making body) concerning budget

Cabinet of Ministers of Ukraine, Ministry of Finances of Ukraine

Total budget of 1999

UAH 691,395,000

Average expenditures/benefits in respect of recipients/month or year in 1999

UAH 8.56 per day

Financial control (budget-controlling body)

Supervising Board of the Social Insurance Fund

Administrative/Legal control

Federation of Trade Unions of Ukraine, State Taxation Administration

Professional control

Federation of Trade Unions of Ukraine

Number of recipients/service users in 1999
## 5.2 Lump Sum Child-birth Allowance

<table>
<thead>
<tr>
<th>Purpose of service</th>
<th>State cash allowance for families with children</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum/form of service</td>
<td>Cash allowance. Amount: equal to the four-fold the minimum wage/salary. Mothers, who were registered with a health care institution during the period of early pregnancy of up to 12 weeks, who regularly visited a doctor, are granted an additional allowance equal to the twice the minimum wage/salary once a child has been born.</td>
</tr>
<tr>
<td>Duration of service</td>
<td>Lump sum allowance. For two or more children, the allowance is given for each child. The allowance is granted provided the family applied for it at latest 6 months after child birth.</td>
</tr>
<tr>
<td>Who sets the eligibility criteria</td>
<td>Law <em>On State Benefits for Families with Children</em> (1992)</td>
</tr>
<tr>
<td>Criteria for granting benefit</td>
<td>Birth certificate of child, issued by the civilian registry office to receive the allowance. For additional benefits—a certificate from the health care institution is required.</td>
</tr>
<tr>
<td>Body/bodies registering or defining recipients</td>
<td>Plant/factory, institution, organization regarding woman’s main job (or place of study). Women exempted from work and those registered with the State Employment Center receive the allowances from domiciliary social welfare bodies.</td>
</tr>
<tr>
<td>Decision-making authority</td>
<td></td>
</tr>
<tr>
<td>Service provider</td>
<td>Social Protection Fund</td>
</tr>
</tbody>
</table>
### Forms of rights protection

<table>
<thead>
<tr>
<th>Forms of rights protection</th>
<th>Appeal to court</th>
</tr>
</thead>
</table>

### Financial responsibility (budgetary decision-making authority)

<table>
<thead>
<tr>
<th>Financial responsibility (budgetary decision-making authority)</th>
<th>Cabinet of Ministers of Ukraine Ministry of Finances of Ukraine</th>
</tr>
</thead>
</table>

### Total budget for 1999

<table>
<thead>
<tr>
<th>Total budget for 1999</th>
<th>UAH 10,640,000</th>
</tr>
</thead>
</table>

### Average cost/allowance per recipient/month or/year in 1999

<table>
<thead>
<tr>
<th>Average cost/allowance per recipient/month or/year in 1999</th>
<th>UAH 51.50, UAH 74 in case of difficult delivery</th>
</tr>
</thead>
</table>

### Financial control (budget controlling body)

<table>
<thead>
<tr>
<th>Financial control (budget controlling body)</th>
<th>Supervisory Board of the Social Protection Fund</th>
</tr>
</thead>
</table>

### Administrative/legal control

<table>
<thead>
<tr>
<th>Administrative/legal control</th>
<th>Federation of Trade Unions of Ukraine, State Taxation Administration</th>
</tr>
</thead>
</table>

### Professional control

<table>
<thead>
<tr>
<th>Professional control</th>
<th>Federation of Trade Unions of Ukraine</th>
</tr>
</thead>
</table>

### Number of recipients/service users in 1999

<table>
<thead>
<tr>
<th>Number of recipients/service users in 1999</th>
<th>206,014</th>
</tr>
</thead>
</table>

### 5.3 Child Care Benefit in Respect of Children Aged up to 3 for Working and Non-working Mothers

<table>
<thead>
<tr>
<th>Purpose of service</th>
<th>State cash benefit for families with children. Benefits are granted taking into account number of family members, family income, children’s age and health condition, etc.</th>
</tr>
</thead>
</table>

### Sum/form of service

<table>
<thead>
<tr>
<th>Sum/form of service</th>
<th>Cash benefit. Amount of benefit to be paid to working mothers: 100% of minimum wage/salary without regard to the length of employment. Amount of benefit to be paid to non-working mothers: 50% of minimum wage/salary.</th>
</tr>
</thead>
</table>

### Duration of service

<table>
<thead>
<tr>
<th>Duration of service</th>
<th>Paid monthly till the day the child is 3 years old.</th>
</tr>
</thead>
</table>

### Who sets the eligibility criteria

<table>
<thead>
<tr>
<th>Who sets the eligibility criteria</th>
<th>Law On State Benefits for Families with Children (1992)</th>
</tr>
</thead>
</table>

### Criteria for granting benefit

<table>
<thead>
<tr>
<th>Criteria for granting benefit</th>
<th>The benefit is granted on the basis of partly paid child care leave of absence issued under the plant/factory (organization) order</th>
</tr>
</thead>
</table>

### Body/bodies registering or defining recipients

<table>
<thead>
<tr>
<th>Body/bodies registering or defining recipients</th>
<th>Domiciliary social welfare department.</th>
</tr>
</thead>
</table>

### Service provider

<table>
<thead>
<tr>
<th>Service provider</th>
<th>The State</th>
</tr>
</thead>
</table>

### Forms of rights protection

<table>
<thead>
<tr>
<th>Forms of rights protection</th>
<th>Appeal to court</th>
</tr>
</thead>
</table>

### Financial responsibility (budgetary decision-making authority)

<table>
<thead>
<tr>
<th>Financial responsibility (budgetary decision-making authority)</th>
<th>Cabinet of Ministers the Ukraine Ministry of Finances of Ukraine</th>
</tr>
</thead>
</table>

### Financial sources

<table>
<thead>
<tr>
<th>Financial sources</th>
<th>Local budgets</th>
</tr>
</thead>
</table>

5.4 *Cash Benefit to Mothers (Fathers) Taking Care of 3 or more Children Under the Age of 16*

<table>
<thead>
<tr>
<th>Purpose of service</th>
<th>State cash benefit for families with 3 or more children</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum/form of service</td>
<td>Cash benefit. Amount: mothers taking care of 3 children under the age of 16 are paid 100% of minimum wage/salary. Mothers taking care of 4 children under 16 are paid 200% of minimum wage/salary.</td>
</tr>
<tr>
<td>Duration of service</td>
<td>Cash benefits are granted monthly starting from the day the third child is 3 years old until the month the first child is 16</td>
</tr>
<tr>
<td>Who sets the eligibility criteria</td>
<td>Law <em>On State Benefits for Families with Children</em> (1992)</td>
</tr>
<tr>
<td>Criteria for granting benefit</td>
<td>Cash benefit is granted provided the average monthly total income per family member for the previous year does not exceed three times the minimum wage/salary.</td>
</tr>
<tr>
<td>Body/bodies registering or defining recipients</td>
<td>Domiciliary social welfare bodies</td>
</tr>
<tr>
<td>Service provider</td>
<td>The State</td>
</tr>
<tr>
<td>Forms of rights protection</td>
<td>Appeal to court</td>
</tr>
<tr>
<td>Financial responsibility (budgetary decision-making authority)</td>
<td>Cabinet of Ministers of Ukraine Ministry of Finances of Ukraine</td>
</tr>
<tr>
<td>Financial sources</td>
<td>Local budgets</td>
</tr>
<tr>
<td>Total budget for 1999</td>
<td>UAH 17,288,900</td>
</tr>
</tbody>
</table>
5.5 *Disabled Child Care Benefit*

<table>
<thead>
<tr>
<th>Purpose of service</th>
<th>State cash benefit to persons taking care of a disabled child</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum/form of service</td>
<td>Cash benefit. Amount: 100% of minimum wage/salary.(^{11})</td>
</tr>
<tr>
<td>Duration of service</td>
<td>Monthly until the child is 16</td>
</tr>
<tr>
<td>Who sets the eligibility criteria</td>
<td>Law <em>On State Benefits for Families with Children</em> (1992)</td>
</tr>
<tr>
<td>Criteria for granting benefit</td>
<td>A person taking constant care of a disabled child is eligible for benefits provided he/she has a medical certificate issued in accordance with standard procedure.</td>
</tr>
<tr>
<td>Body/bodies registering or defining recipients</td>
<td>Domiciliary social welfare bodies</td>
</tr>
<tr>
<td>Service provider</td>
<td>The State</td>
</tr>
<tr>
<td>Forms of rights protection</td>
<td>Appeal to court</td>
</tr>
<tr>
<td>Financial responsibility (budgetary decision-making authority)</td>
<td>Cabinet of Ministers of Ukraine Ministry of Finances of Ukraine</td>
</tr>
<tr>
<td>Financial Sources</td>
<td>Local budgets</td>
</tr>
<tr>
<td>Total budget for 1999</td>
<td>UAH 7,885,900</td>
</tr>
<tr>
<td>Average cost/allowance per recipient/month or/year in 1999</td>
<td>UAH 25.9</td>
</tr>
<tr>
<td>Financial control (budget controlling body)</td>
<td>State Treasury of Ukraine</td>
</tr>
<tr>
<td>Administrative/legal control</td>
<td>Control and Inspection Department/Prosecution Department of the Ukraine</td>
</tr>
<tr>
<td>Professional control</td>
<td></td>
</tr>
<tr>
<td>Number of recipients/ service users in 1999</td>
<td>36,195</td>
</tr>
</tbody>
</table>
5.6 Child Benefits in Respect of Children Aged up to 16 (School Pupils Aged up to 18)

<table>
<thead>
<tr>
<th>Purpose of service</th>
<th>Cash benefit to families with children aged up to 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum/form of service</td>
<td>Cash benefit. Amount: 50% of the minimum wage/salary per child, provided the average monthly total income per family member for the previous year does not exceed three times the minimum wage/benefit rate.12</td>
</tr>
<tr>
<td>Duration of service</td>
<td>Paid monthly starting from the month a child was born till the month the child is 16 (school student—18)</td>
</tr>
<tr>
<td>Who sets the eligibility criteria</td>
<td>Law On State Benefits for Families with Children (1992)</td>
</tr>
<tr>
<td>Criteria for granting benefit</td>
<td>The benefit is granted regardless of whether or not the family is in receipt of child benefits or other types of benefits</td>
</tr>
<tr>
<td>Body/bodies registering or defining recipients</td>
<td>Domiciliary social welfare bodies</td>
</tr>
<tr>
<td>Service provider</td>
<td>The State</td>
</tr>
<tr>
<td>Forms of rights protection</td>
<td>Appeal to court</td>
</tr>
<tr>
<td>Financial responsibility (budgetary decision-making authority)</td>
<td>Cabinet of Ministers of Ukraine Ministry of Finances of Ukraine</td>
</tr>
<tr>
<td>Financial Sources</td>
<td>Local budgets</td>
</tr>
<tr>
<td>Total budget for 1999</td>
<td>UAH 116,131,200</td>
</tr>
<tr>
<td>Average cost/allowance per recipient/month or/year in 1999</td>
<td>UAH 7.4</td>
</tr>
<tr>
<td>Financial control (budget controlling body)</td>
<td>State Treasury of Ukraine</td>
</tr>
<tr>
<td>Administrative/legal control</td>
<td>Control and Inspection Department/Prosecution Department of Ukraine</td>
</tr>
<tr>
<td>Professional control</td>
<td></td>
</tr>
<tr>
<td>Number of recipients/service users in 1999</td>
<td>1,663,478</td>
</tr>
</tbody>
</table>

5.7 Child Benefit for Single Mothers

<table>
<thead>
<tr>
<th>Purpose of service</th>
<th>Cash benefit for single mothers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum/form of service</td>
<td>Cash benefit. Amount: 100% of minimum wage/salary paid to single mothers (and to former orphans, and to those who were previously in a children’s home) having children aged up to 16;15</td>
</tr>
</tbody>
</table>
50% of minimum wage/salary given to single mothers with children aged up to 16, to widows with children receiving no child benefits in respect of loss of the breadwinner.\textsuperscript{14}

<table>
<thead>
<tr>
<th>Duration of service</th>
<th>Paid monthly starting from the month the child was born till the month the child is 16 (school pupil—18)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who sets the eligibility criteria</td>
<td>Law <em>On State Benefits for Families with Children</em> (1992)</td>
</tr>
<tr>
<td>Criteria for granting benefit</td>
<td>Certificate by civilian registry office stating the grounds for providing information on the child’s father in the births’ register should be submitted; single mothers (former orphans) should additionally provide certificates proving their upbringing and education at a children’s boarding school. Benefits to single mothers are granted regardless of whether or not they are in receipt of other types of child benefits.</td>
</tr>
<tr>
<td>Body/bodies registering or defining recipients</td>
<td>Domiciliary social welfare bodies</td>
</tr>
<tr>
<td>Decision-making authority</td>
<td></td>
</tr>
<tr>
<td>Service provider</td>
<td>The State</td>
</tr>
<tr>
<td>Forms of rights protection</td>
<td>Appeal to court</td>
</tr>
<tr>
<td>Financial responsibility (budgetary decision-making authority)</td>
<td>Cabinet of Ministers of Ukraine Ministry of Finances of Ukraine</td>
</tr>
<tr>
<td>Financial sources</td>
<td>Local budgets</td>
</tr>
<tr>
<td>Total budget for 1999</td>
<td>UAH 29,858,300</td>
</tr>
<tr>
<td>Average cost/allowance per recipient/month or/year in 1999</td>
<td>UAH 7.4</td>
</tr>
<tr>
<td>Financial control (budget controlling body)</td>
<td>State Treasury of Ukraine</td>
</tr>
<tr>
<td>Administrative/legal control</td>
<td>Control and Inspection Department/Prosecution Department of Ukraine</td>
</tr>
<tr>
<td>Professional control</td>
<td></td>
</tr>
<tr>
<td>Number of recipients/service users in 1999</td>
<td>406,634</td>
</tr>
</tbody>
</table>

### 5.8 Benefit in Respect of Fostered Children

<table>
<thead>
<tr>
<th>Purpose of service</th>
<th>Cash benefit in respect of fostered children with the purpose of protecting their personal and property rights and interests</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum/form of service</td>
<td>Cash benefit. Amount: 200% of the minimum wage/salary\textsuperscript{15}</td>
</tr>
</tbody>
</table>
### Temporary Benefit in Respect of Minors Whose Parents Avoid Paying Alimony, or When It is Impossible to Collect Alimony

<table>
<thead>
<tr>
<th>Purpose of the service</th>
<th>State cash benefit in respect of minors whose parents evade paying alimony, or when it is impossible to collect alimony</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum/form of service</td>
<td>Cash benefit. Amount: 50% of minimum wage/salary per child</td>
</tr>
<tr>
<td>Duration of service</td>
<td>Given monthly starting from the month of benefits application up to the month when a child is 18.</td>
</tr>
<tr>
<td>Who sets the eligibility criteria</td>
<td>Law <em>On State Benefits for Families with Children</em> (1992)</td>
</tr>
<tr>
<td>Criteria for granting benefit</td>
<td>Benefits are granted when the court decision regarding collection of alimony from persons ordered to pay them is not obeyed</td>
</tr>
</tbody>
</table>
6. Pension Provision

Pension payments are carried out in accordance with 17 laws of Ukraine and the Customs Code. They are as follows:

1. On Pension Provision;
2. On Pension Provision of Military Personnel, Staff and Officers of Internal Affairs Bodies;
3. On Public Service;
4. On the Prosecutor’s Office;
5. On the Status of Members of Parliament;
6. On the Status of Judges;
7. On Forensic Expertise;
8. Customs Code of Ukraine;
9. On the Status and Social Protection of Chornobyl Disaster Victims;
10. On War Veterans’ Status and the Security of their Social Protection;
11. On the Basic Principles of Social Protection of Labor Veterans and Other Elderly Citizens;
12. On the Rehabilitation of Victims of Political Repression in Ukraine;
13. On Citizens’ Employment;
14. On Donors of Blood and its Components;
15. On the Status of Mountainous Localities in Ukraine;
17. On Scientific and Technical Activities;

In accordance with these laws, there are 248 types of pension calculations. (Of the overall number of pensioners, 5.5% receive pensions in accordance with the Law of Ukraine On Pension Provision, including 77.6% who receive an old-age pension.)
### Purpose of Service

| Sum/form of service | Cash benefit.  
Amount: old-age pensions are granted in the amount of 55% of the average annual income, but not less than the minimum pension amount. For every full year of employment (over 25 years for men and over 20 years for women), the pension is increased by 1% of the average annual income, but not less than by 1% of the minimum pension amount. The amount of old-age pensions is calculated to be no less than the poverty level. |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration of service</td>
<td>Old-age pensions are granted lifelong regardless of health condition</td>
</tr>
<tr>
<td>Who sets the eligibility criteria</td>
<td>The law <em>On Pension Provision</em> (1991)</td>
</tr>
<tr>
<td>Criteria for granting pensions</td>
<td>Old-age pensions are granted to men aged over 60 with working experience of not less than 25 years, to women aged over 55 with working experience of not less than 20 years. Clauses 13-18 of the law <em>On Pension Provision</em> regulate granting old-age pension on preferential terms. Employees submit a pension application form to their employer and to the District Social Protection Department at the applicant's place of abode. Documents on age, employment record, earnings, etc. are required to be attached to the application form.</td>
</tr>
<tr>
<td>Body/bodies registering or defining recipients</td>
<td>Bodies of Social Protection at the place of abode.</td>
</tr>
<tr>
<td>Decision-making body</td>
<td>Bodies of Social Protection at the place of abode</td>
</tr>
<tr>
<td>Service provider</td>
<td>The State</td>
</tr>
<tr>
<td>Forms of rights protection</td>
<td>Decision made by a pension-granting body may be debated in the District Council or in the District Court</td>
</tr>
<tr>
<td>Financial responsibility (budgetary decision-making authority)</td>
<td>The Cabinet of Ministers of Ukraine, Ministry of Finances of Ukraine</td>
</tr>
<tr>
<td>Total budget of 1999</td>
<td>UAH 8,270,067,600</td>
</tr>
<tr>
<td>Average expenditures/benefits per recipient/month or year in 1999</td>
<td>UAH 68.68</td>
</tr>
<tr>
<td>Financial control (budget controlling body)</td>
<td>State Treasury of Ukraine</td>
</tr>
<tr>
<td>Administrative/Legal control</td>
<td>State Treasury of Ukraine</td>
</tr>
<tr>
<td>Professional control</td>
<td></td>
</tr>
<tr>
<td>Number of recipients/service users in 1999</td>
<td>10,386,376</td>
</tr>
</tbody>
</table>
### Exemptions set by Legal Regulations and Funds Necessary to Grant These Exemptions

<table>
<thead>
<tr>
<th>Law Under Which a Privilege is Granted</th>
<th>Exemption Type</th>
<th>Number of Persons Eligible for the Exemption</th>
<th>Funds Necessary to Grant the Exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The Law of Ukraine <em>On the Status and Social Protection of Chernobyl Disaster Victims</em></td>
<td>Exempting from paying or reducing the cost of housing rent, utilities, electric power, gas/coal</td>
<td>268,300</td>
<td>171,100,000</td>
</tr>
<tr>
<td>2. The Law of Ukraine <em>On Social and Legal Protection of Servicemen and Members of their Families</em></td>
<td></td>
<td>210,500</td>
<td>113,700,000</td>
</tr>
<tr>
<td>3. The Law of Ukraine <em>On the Status of Military Service Veterans</em></td>
<td></td>
<td>484,900</td>
<td>146,600,000</td>
</tr>
<tr>
<td>4. The Law of Ukraine <em>On Militia</em></td>
<td></td>
<td>170,700</td>
<td>157,300,000</td>
</tr>
<tr>
<td>5. The Law of Ukraine <em>On Fire Security</em></td>
<td></td>
<td>25,200</td>
<td>9,800,000</td>
</tr>
<tr>
<td>6. The Law of Ukraine <em>On Procurator’s Office</em></td>
<td></td>
<td>16,000</td>
<td>6,200,000</td>
</tr>
<tr>
<td>7. The Law of Ukraine <em>On Veterinary Medicine</em></td>
<td></td>
<td>6,000</td>
<td>3,100,000</td>
</tr>
<tr>
<td>8. The Law of Ukraine <em>On Education</em></td>
<td></td>
<td>273,600</td>
<td>258,100,000</td>
</tr>
<tr>
<td>10. The Law of Ukraine <em>On the Status of Judges</em></td>
<td></td>
<td>5,500</td>
<td>5,610,000</td>
</tr>
<tr>
<td>11. The Law of Ukraine <em>On the Security Service of Ukraine</em></td>
<td></td>
<td>13,200</td>
<td>5,100,000</td>
</tr>
<tr>
<td>Law Under Which a Privilege is Granted</td>
<td>Exemption Type</td>
<td>Number of Persons Eligible for the Exemption</td>
<td>Funds Necessary to Grant the Exemption</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------</td>
<td>---------------------------------------------</td>
<td>-----------------------------------------</td>
</tr>
<tr>
<td>12. The Law of Ukraine On Organizational and Legal Principles of Organized Crime Fighting*</td>
<td></td>
<td>3,000</td>
<td>3,000,000</td>
</tr>
<tr>
<td>13. The Law of Ukraine On the Basic Principles of Social Protection of Labor Veterans and Other Elderly Citizens*</td>
<td></td>
<td>500</td>
<td>500,000</td>
</tr>
<tr>
<td>14. The Law of Ukraine On the Rehabilitation of Political Repression Victims in Ukraine</td>
<td></td>
<td>34,500</td>
<td>9,400,000</td>
</tr>
<tr>
<td>16. Fundamentals of Legislation On Health Care*</td>
<td></td>
<td>1,088,100</td>
<td>937,900,000</td>
</tr>
<tr>
<td>17. Regulations On Street Cleaners in Cities and Villages of Ukrainian SSR, approved by the Ministry of Housing and Utilities of Ukraine*</td>
<td></td>
<td>23,600</td>
<td>14,135,000</td>
</tr>
<tr>
<td>18. The Law of Ukraine On the Status of War Veterans and Guarantees for their Social Protection*</td>
<td>Free repairs of own dwellings</td>
<td>658,700</td>
<td>164,700,000</td>
</tr>
<tr>
<td>19. The Law of Ukraine On the Status and Social Protection of Chernobyl Disaster Victims*</td>
<td>Receiving credits on preferential terms and their redemption at the expense of the National Budget</td>
<td>53,300</td>
<td>71,400,000</td>
</tr>
<tr>
<td>20. The Law of Ukraine On the Status of Military Service Veterans*</td>
<td></td>
<td>500</td>
<td>200,000</td>
</tr>
<tr>
<td>21. The Law of Ukraine On Priorities in Development of Rural Areas and Agroindustrial Complexes in the National Economy*</td>
<td></td>
<td>9,000</td>
<td>60,000,000</td>
</tr>
<tr>
<td>22. The Law of Ukraine On the Status of Judges*</td>
<td></td>
<td>300</td>
<td>10,000</td>
</tr>
<tr>
<td>23. The Law of Ukraine On Public Service*</td>
<td></td>
<td>7,700</td>
<td>300,000</td>
</tr>
<tr>
<td>24. The Law of Ukraine On Contributing to Self-Realization and Development of Young People in Ukraine*</td>
<td></td>
<td>270,000</td>
<td>9,410,500,000</td>
</tr>
<tr>
<td>Law Under Which a Privilege is Granted</td>
<td>Exemption Type</td>
<td>Number of Persons Eligible for the Exemption</td>
<td>Funds Necessary to Grant the Exemption</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------</td>
<td>---------------------------------------------</td>
<td>----------------------------------------</td>
</tr>
<tr>
<td>The Law of Ukraine On the Status and Social Protection of Chornobyl Disaster Victims transportation</td>
<td>Free ticket or preferential rate for public transport or in luggage</td>
<td>280,700</td>
<td>169,300,000</td>
</tr>
<tr>
<td>The Law of Ukraine On Social and Legal Protection of Servicemen and Members of their Families*</td>
<td></td>
<td>895,700</td>
<td>51,300,000</td>
</tr>
<tr>
<td>The Law of Ukraine On the Status of Military Service Veterans*</td>
<td></td>
<td>134,000</td>
<td>7,100,000</td>
</tr>
<tr>
<td>The Law of Ukraine On Militia*</td>
<td></td>
<td>167,200</td>
<td>74,800,000</td>
</tr>
<tr>
<td>The Law of Ukraine On Fire Security*</td>
<td></td>
<td>33,900</td>
<td>8,000,000</td>
</tr>
<tr>
<td>The Law of Ukraine On Procurator’s Office*</td>
<td></td>
<td>5,300</td>
<td>2,100,000</td>
</tr>
<tr>
<td>The Law of Ukraine On the Prevention of AIDS and Social Protection of the Population*</td>
<td></td>
<td>1,100</td>
<td>100,000</td>
</tr>
<tr>
<td>The Law of Ukraine On Veterinary Medicine*</td>
<td></td>
<td>5,800</td>
<td>2,200,000</td>
</tr>
<tr>
<td>The Law of Ukraine On the Status of War Veterans and Guarantees for their Social Protection**</td>
<td></td>
<td>6,007,700</td>
<td>122,170,000</td>
</tr>
<tr>
<td>The Law of Ukraine On the Status of Judges*</td>
<td></td>
<td>5,500</td>
<td>100,000</td>
</tr>
<tr>
<td>The Law of Ukraine On the Security Service of Ukraine*</td>
<td></td>
<td>49,100</td>
<td>16,200,000</td>
</tr>
<tr>
<td>The Law of Ukraine On Elections of Members of Parliament of Ukraine*</td>
<td></td>
<td>180,700</td>
<td>9,000,000</td>
</tr>
<tr>
<td>The Law of Ukraine On Elections of the President of Ukraine*</td>
<td></td>
<td>15,000</td>
<td>162,000,000</td>
</tr>
<tr>
<td>The Law of Ukraine On the Status of Members of Local Councils*</td>
<td></td>
<td>68,700</td>
<td>6,600,000</td>
</tr>
<tr>
<td>The Law of Ukraine On Elections of Members of Local Councils*</td>
<td></td>
<td>8,500</td>
<td>2,600,000</td>
</tr>
<tr>
<td>Law Under Which a Privilege is Granted</td>
<td>Exemption Type</td>
<td>Number of Persons Eligible for the Exemption</td>
<td>Funds Necessary to Grant the Exemption</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------</td>
<td>---------------------------------------------</td>
<td>---------------------------------------</td>
</tr>
<tr>
<td>40. The Law of Ukraine On Contributing to Self-Realization and Development of Young People in Ukraine*</td>
<td>Free ticket or preferential rate for public transport or in luggage</td>
<td>3,493,140</td>
<td>971,700,000</td>
</tr>
<tr>
<td>41. The Law of Ukraine On the Status of Members of Parliament**</td>
<td></td>
<td>500</td>
<td>300,000</td>
</tr>
<tr>
<td>42. The Law of Ukraine On the Rehabilitation of Political Repression Victims in Ukraine*</td>
<td></td>
<td>43,300</td>
<td>14,300,000</td>
</tr>
<tr>
<td>43. The Law of Ukraine On the Basic Principles of Social Protection of Labor Veterans and Other Elderly Citizens</td>
<td></td>
<td>4,100,000</td>
<td>146,400,000</td>
</tr>
<tr>
<td>44. Decree of the Cabinet of Ministers of Ukraine (1994) No. 66 On Additional Social Guarantees to Low-Income Families with 3 Children and with Children Aged 1 and 2*</td>
<td></td>
<td>44,600</td>
<td>4,500,000</td>
</tr>
<tr>
<td>45. Decree of the Cabinet of Ministers of Ukraine (1993) No. 354 On Free Public Transport Fares for Pension/Benefit Recipients</td>
<td></td>
<td>12,723,000</td>
<td>395,900,000</td>
</tr>
<tr>
<td>46. Decree of the Cabinet of Ministers of Ukraine (1994) No. 226 On Improvement of Upbringing, Education, Social Protection and Financial Support to Children Deprived of Parental Care*</td>
<td></td>
<td>16,000</td>
<td>700,000</td>
</tr>
<tr>
<td>47. Decree of the Council of Ministers of the USSR (1987) No. 2907-p*</td>
<td></td>
<td>9,600</td>
<td>2,100,000</td>
</tr>
<tr>
<td>48. Customs Code of Ukraine*</td>
<td></td>
<td>17,000</td>
<td>1,230,000</td>
</tr>
<tr>
<td>49. Decree of the Council of Ministers of the Ukrainian SSR (1965) No. 855*</td>
<td></td>
<td>520,000</td>
<td>54,700,000</td>
</tr>
<tr>
<td>50. Decree of the Council of Ministers of the Ukrainian SSR (1954) No. 320 (blind persons), Central Committee of the Communist Party of Ukraine and Ukrainian Professional Council Decree (1986) No. 147 (persons disabled from childhood)</td>
<td></td>
<td>680,000</td>
<td>24,600,000</td>
</tr>
<tr>
<td>Law Under Which a Privilege is Granted</td>
<td>Exemption Type</td>
<td>Number of Persons Eligible for the Exemption</td>
<td>Funds Necessary to Grant the Exemption</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------</td>
<td>---------------------------------------------</td>
<td>----------------------------------------</td>
</tr>
<tr>
<td>51. The Law of Ukraine On the Status and Social Protection of Chornobyl Disaster Victims**</td>
<td>Preferential rates for communication services, free or preferential installation and use of telephone and signaling</td>
<td>140,000</td>
<td>8,540,000</td>
</tr>
<tr>
<td>52. The Law of Ukraine On the Status of War Veterans and Guarantees for their Social Protection**</td>
<td></td>
<td>4,267,700</td>
<td>147,200,000</td>
</tr>
<tr>
<td>53. The Law of Ukraine On the Status of Judges*</td>
<td></td>
<td>5,500</td>
<td>1,650,000</td>
</tr>
<tr>
<td>54. The Law of Ukraine On the Basic Principles of Social Protection of the Disabled</td>
<td></td>
<td>24,000</td>
<td>3,700,000</td>
</tr>
<tr>
<td>55. The Law of Ukraine On the Status and Social Protection of Chornobyl Disaster Victims</td>
<td>Free medicine or preferential rates for medicines</td>
<td>3,374,100</td>
<td>1,027,000,000</td>
</tr>
<tr>
<td>56. The Law of Ukraine On the Prevention of AIDS and Social Protection of the Population</td>
<td></td>
<td>16,000</td>
<td>3,800,000</td>
</tr>
<tr>
<td>57. The Law of Ukraine On the Basic Principles of Social Protection of Labor Veterans and Other Elderly Citizens</td>
<td></td>
<td>500</td>
<td>40,000</td>
</tr>
<tr>
<td>58. The Law of Ukraine On the Status of War Veterans and Guarantees for their Social Protection</td>
<td></td>
<td>4,867,700</td>
<td>2,000,000,000</td>
</tr>
<tr>
<td>59. The Law of Ukraine On Rehabilitation of Political Repression Victims In Ukraine</td>
<td></td>
<td>51,000</td>
<td>1,700,000</td>
</tr>
<tr>
<td>60. The Law of Ukraine On Rehabilitation of Political Repression Victims In Ukraine</td>
<td></td>
<td>9,700</td>
<td>600,000</td>
</tr>
<tr>
<td>61. Decree of the President of Ukraine(1995) No. 904/95</td>
<td></td>
<td>200</td>
<td>10,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Law Under Which a Privilege is Granted</td>
<td>Exemption Type</td>
<td>Number of Persons Eligible for the Exemption</td>
<td>Funds Necessary to Grant the Exemption</td>
</tr>
<tr>
<td>---------------------------------------</td>
<td>----------------</td>
<td>---------------------------------------------</td>
<td>---------------------------------------</td>
</tr>
<tr>
<td>63. The Law of Ukraine On the Status and Social Protection of Chornobyl Disaster Victims</td>
<td>Free or preferential provision with false teeth and prosthetic devices</td>
<td>883,300</td>
<td>88,630,000</td>
</tr>
<tr>
<td>64. The Law of Ukraine On the Basic Principles of Social Protection of Labor Veterans and Other Elderly Citizens</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>65. The Law of Ukraine On the Status of War Veterans and Guarantees for their Social Protection</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>66. The Law of Ukraine On the Status and Social Protection of Chornobyl Disaster Victims**</td>
<td>Free or preferential provision with facilities in sanatoriums and health resorts as well as preferential resort-treatment tickets</td>
<td>2,591,400</td>
<td>1,729,200,000</td>
</tr>
<tr>
<td>67. The Law of Ukraine On Social and Legal Protection of Servicemen and Members of their Families*</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>68. The Law of Ukraine On the Status of Military Service Veterans*</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>69. The Law of Ukraine On the Status of War Veterans and Guarantees for their Social Protection</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>70. The Law of Ukraine On the Status of Judges*</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>71. The Law of Ukraine On the Rehabilitation of Political Repression Victims in Ukraine*</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Law Under Which a Privilege is Granted</td>
<td>Exemption Type</td>
<td>Number of Persons Necessary for the Exemption</td>
<td>Funds Necessary to Grant the Exemption</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------</td>
<td>---------------------------------------------</td>
<td>----------------------------------------</td>
</tr>
<tr>
<td>72. The Law of Ukraine On the Basic Principles of Social Protection of Labor Veterans and Other Elderly Citizens*</td>
<td>Free or preferential provision with facilities in sanatoriums and health resorts as well as preferential resort-treatment tickets</td>
<td>1,590,000</td>
<td>1,500,000,000</td>
</tr>
<tr>
<td>73. The Law of Ukraine On the Status and Social Protection of Chornobyl Disaster Victims</td>
<td>Preferential terms of granting additional pensions/benefits</td>
<td>1,154,000</td>
<td>530,100,000</td>
</tr>
<tr>
<td>74. The Law of Ukraine On the Status of Mountainous Localities</td>
<td></td>
<td>100</td>
<td>20,000</td>
</tr>
<tr>
<td>75. The Law of Ukraine On the Status and Social Protection of Chornobyl Disaster Victims***</td>
<td>Free or preferential provision with a car</td>
<td>100</td>
<td>600,000</td>
</tr>
<tr>
<td>76. The Law of Ukraine On the Rehabilitation of Political Repression Victims in Ukraine</td>
<td></td>
<td>13</td>
<td>100,000</td>
</tr>
<tr>
<td>77. The Law of Ukraine On the Status and Social Protection of Chornobyl Disaster Victims</td>
<td>Compensating expenses on purchase of fuel and paying for electric power and gas</td>
<td>574,200</td>
<td>128,010,000</td>
</tr>
<tr>
<td>78. The Law of Ukraine On the Status of Military Service Veterans*</td>
<td></td>
<td>430</td>
<td>41,300,000</td>
</tr>
<tr>
<td>79. The Law of Ukraine On Militia*</td>
<td></td>
<td>170,000</td>
<td>16,300,000</td>
</tr>
<tr>
<td>80. The Law of Ukraine On Fire Security*</td>
<td></td>
<td>35,000</td>
<td>3,400,000</td>
</tr>
<tr>
<td>81. The Law of Ukraine On Priorities in Development of Rural Areas and Agroindustrial Complexes in the National Economy*</td>
<td></td>
<td>3,866,200</td>
<td>62,600,000</td>
</tr>
<tr>
<td>82. The Law of Ukraine On Veterinary Medicine*</td>
<td></td>
<td>2,100</td>
<td>100,000</td>
</tr>
<tr>
<td>83. The Law of Ukraine On the Status of War Veterans and Guarantees for their Social Protection</td>
<td></td>
<td>206,367</td>
<td>600,000</td>
</tr>
<tr>
<td>84. The Law of Ukraine On the Security Service of Ukraine*</td>
<td></td>
<td>18,000</td>
<td>1,700,000</td>
</tr>
<tr>
<td>Law Under Which a Privilege is Granted</td>
<td>Exemption Type</td>
<td>Number of Persons Eligible for the Exemption</td>
<td>Funds Necessary to Grant the Exemption</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------</td>
<td>---------------------------------------------</td>
<td>----------------------------------------</td>
</tr>
<tr>
<td>85. The Law of Ukraine On Measures to Increase the Social Protection of Procurators Office Employees*</td>
<td>Compensating expenses on purchase of fuel and paying for electric power and consumed gas</td>
<td>1,300</td>
<td>100,000</td>
</tr>
<tr>
<td>86. The Law of Ukraine On Contributing to Self-Realization and Development of Young People in Ukraine</td>
<td>Free or preferential rates in cultural, physical training, and sports institutions</td>
<td>3,493,100</td>
<td>625,140,000</td>
</tr>
<tr>
<td>87. The Law of Ukraine On Physical Culture and Sport</td>
<td></td>
<td>13,325,100</td>
<td>2,576,000,000</td>
</tr>
<tr>
<td>88. The Law of Ukraine On the Status and Social Protection of Chornobyl Disaster Victims</td>
<td>Free or preferential rates for foodstuffs</td>
<td>1,189,000</td>
<td>1,240,200,000</td>
</tr>
<tr>
<td>89. Decree of the Cabinet of Ministers of Ukraine (1994) No. 66 On Additional Social Guarantees to Low-Income Families with 3 Children and with Children Aged 1 and 2</td>
<td></td>
<td>270,000</td>
<td>44,100,000</td>
</tr>
<tr>
<td>90. Decree of the Central Committee of the Communist Party of the USSR and the Council of Ministers of the USSR (1960) No. 182</td>
<td></td>
<td>55,500</td>
<td>10,000,000</td>
</tr>
<tr>
<td>91. Decree of the Cabinet of Ministers of Ukraine (1996) No. 1032</td>
<td></td>
<td>2,000,000</td>
<td>314,400,000</td>
</tr>
<tr>
<td>92. Decree of the Collegium of the Ministry of Education of the Ukrainian SSR</td>
<td></td>
<td>2,817000</td>
<td>591,600,000</td>
</tr>
<tr>
<td>93. The Law of Ukraine On the Status and Social Protection of Chornobyl Disaster Victims</td>
<td>Providing various population categories with benefits and compensations</td>
<td>5,379,340</td>
<td>720,360,000</td>
</tr>
<tr>
<td>94. The Law of Ukraine On the Status of Mountainous Localities</td>
<td></td>
<td>168,100</td>
<td>12,800,000</td>
</tr>
<tr>
<td>95. The Law of Ukraine On the Prevention of AIDS and Social Protection of the Population</td>
<td></td>
<td>400</td>
<td>100,000</td>
</tr>
<tr>
<td>Law Under Which a Privilege is Granted</td>
<td>Exemption Type</td>
<td>Number of Persons Eligible for the Exemption</td>
<td>Funds Necessary to Grant the Exemption</td>
</tr>
<tr>
<td>---------------------------------------</td>
<td>----------------</td>
<td>---------------------------------------------</td>
<td>---------------------------------------</td>
</tr>
<tr>
<td>96. The Law of Ukraine <em>On the Status of War Veterans and Guarantees for their Social Protection</em></td>
<td>Providing various population categories with benefits and compensations</td>
<td>1,170,900</td>
<td>510,000</td>
</tr>
<tr>
<td>97. The Law of Ukraine <em>On the Status of Judges</em></td>
<td></td>
<td>100</td>
<td>1,500</td>
</tr>
<tr>
<td>98. The Law of Ukraine <em>On the Basic Principles of Social Protection of Labor Veterans and Other Elderly Citizens</em></td>
<td></td>
<td>2,003,600</td>
<td>100,000</td>
</tr>
<tr>
<td>99. The Law of Ukraine <em>On Public Service</em></td>
<td></td>
<td>39,000</td>
<td>11,300,000</td>
</tr>
<tr>
<td>100. The Law of Ukraine <em>On Contributing to Self-Realization and Development of Young People in Ukraine</em></td>
<td></td>
<td>160,800</td>
<td>11,900,000</td>
</tr>
<tr>
<td>101. The Law of Ukraine <em>On the Rehabilitation of Political Repression Victims in Ukraine</em></td>
<td></td>
<td>11,500</td>
<td>3,200,000</td>
</tr>
<tr>
<td>102. Decree of the Cabinet of Ministers of Ukraine (1992) No. 143 <em>On the Urgent Problems of Teaching Young Children and the Functioning of Educational Institutions</em></td>
<td></td>
<td>120,000</td>
<td>24,600,000</td>
</tr>
<tr>
<td>103. The Law of Ukraine <em>On the Status and Social Protection of Chornobyl Disaster Victims</em></td>
<td>Other types of privileges</td>
<td>794,800</td>
<td>124,050,000</td>
</tr>
<tr>
<td>104. The Law of Ukraine <em>On Social and Legal Protection of Servicemen and Members of their Families</em></td>
<td></td>
<td>183,000</td>
<td>6,200,000</td>
</tr>
<tr>
<td>105. The Law of Ukraine <em>On the Status of Military Service Veterans</em></td>
<td></td>
<td>15,700</td>
<td>9,600,000</td>
</tr>
<tr>
<td>106. The Law of Ukraine <em>On the Status of War Veterans and Guarantees for their Social Protection</em></td>
<td></td>
<td>3,696,700</td>
<td>200,000</td>
</tr>
<tr>
<td>107. The Law of Ukraine <em>On Physical Culture and Sport</em></td>
<td></td>
<td>1,800</td>
<td>400,000</td>
</tr>
</tbody>
</table>
### Law Under Which a Privilege is Granted

<table>
<thead>
<tr>
<th>Law Under Which a Privilege is Granted</th>
<th>Exemption Type</th>
<th>Number of Persons Necessary</th>
<th>Funds Necessary to Grant the Exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>108. Decree of the Cabinet of Ministers of Ukraine (1991) No. 352 On Free Provision of Forestry Employees with Overalls</td>
<td>Other types of privileges</td>
<td>23,500</td>
<td>11,200,000</td>
</tr>
<tr>
<td>109. Decree of the Cabinet of Ministers of Ukraine (1996) No. 119 On Approval of Temporary Procedure of Fish Industry Management</td>
<td></td>
<td>700</td>
<td>1,000,000</td>
</tr>
<tr>
<td>110. Decree of the Cabinet of Ministers of Ukraine (1992) No. 374 and of 25.03.97 No. 260</td>
<td></td>
<td>42,300</td>
<td>7,200,000</td>
</tr>
<tr>
<td><strong>Total for all exemptions:</strong></td>
<td></td>
<td></td>
<td><strong>30,423,700,000</strong></td>
</tr>
</tbody>
</table>


*  Realization is suspended for 2000
**  Realization is partly suspended for 2000
***  Free or preferential provision with cars (apart from exceptional cases as defined by the Ministry of Labor and Social Policy of Ukraine for disabled persons of 1st and 2nd groups with respect to locomotor disorders
### Payments to Chernobyl Disaster Victims

<table>
<thead>
<tr>
<th>Law determining the benefit</th>
<th>Type of Benefit</th>
<th>Legally Determined Payment [UAH]</th>
<th>Actually Paid Amount(^{18}) [UAH]</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The Law of Ukraine <em>On Status and Social Protection of Chernobyl Disaster Victims</em></td>
<td>Lump sum allowance with regard to health damage to</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• disabled of the first group; minimum salary</td>
<td>60 times</td>
<td>397.3</td>
</tr>
<tr>
<td></td>
<td>• disabled of the second group; minimum salary</td>
<td>45 times</td>
<td>284.4</td>
</tr>
<tr>
<td></td>
<td>• disabled of the third group; minimum salary</td>
<td>30 times</td>
<td>189.6</td>
</tr>
<tr>
<td></td>
<td>• disabled children; minimum salary</td>
<td>10 times</td>
<td>63.2</td>
</tr>
<tr>
<td></td>
<td>• families that lost the breadwinner; minimum salary</td>
<td>60 times</td>
<td>379.3</td>
</tr>
<tr>
<td></td>
<td>• parents of the deceased; minimum salary</td>
<td>30 times</td>
<td>189.6</td>
</tr>
<tr>
<td></td>
<td>Annual allowance for health treatment to</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• the disabled of the first and second groups;</td>
<td>5</td>
<td>26.7</td>
</tr>
<tr>
<td>Law Determining the Benefit</td>
<td>Type of Benefit</td>
<td>Legally Determined Payment [UAH]</td>
<td>Actually Paid Amount [UAH]</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>----------------</td>
<td>----------------------------------</td>
<td>---------------------------</td>
</tr>
<tr>
<td></td>
<td>the disabled of the third group;</td>
<td>4</td>
<td>21.5</td>
</tr>
<tr>
<td></td>
<td>victims of the Chornobyl disaster consequent to liquidation of the second category;</td>
<td>5</td>
<td>26.7</td>
</tr>
<tr>
<td></td>
<td>victims of the Chornobyl disaster consequent to liquidation of the third category;</td>
<td>3</td>
<td>15.7</td>
</tr>
<tr>
<td></td>
<td>to every child from the families that lost the breadwinner;</td>
<td>3</td>
<td>15.7</td>
</tr>
<tr>
<td></td>
<td>evacuees</td>
<td>3</td>
<td>15.7</td>
</tr>
</tbody>
</table>

2. **Law of Ukraine On Status and Social Protection of Chernobyl Disaster Victims**

<table>
<thead>
<tr>
<th>Law Determining the Benefit</th>
<th>Type of Benefit</th>
<th>Legally Determined Payment [UAH]</th>
<th>Actually Paid Amount [UAH]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Article 20, Clause 4 of the stated law Cash compensation in case of not receiving a place at the given resort</td>
<td>Average cost of resort place</td>
<td>UAH 70 in case of independent resort treatment</td>
</tr>
<tr>
<td></td>
<td>Article 30, Clause 5 of the stated law Cash compensation in case of impossibility to provide resort treatment</td>
<td>Average cost of resort place</td>
<td>UAH 38 in case of unavailability of resort place</td>
</tr>
</tbody>
</table>
NOTES FOR ANNEXES

2. According to the data of the National Statistics Committee of Ukraine.
3. 38.7% of the total amount of expenditures of the Consolidated Budget of Ukraine, including the Pension Fund.
4. Starting from 2001, Social Protection Fund management will be carried out on a tri-partite basis.
5. Under the law the benefit rate should amount to UAH 260 whereas the actually paid allowance amounts to UAH 51.5 (or UAH 74 in case of difficult delivery).
6. Under the law the benefit rate should amount to UAH 148 whereas the actually paid allowance amounts to UAH 34.
7. Starting from 2000, Social Protection Fund management will be carried out on a tri-partite basis.
8. Benefits rate determined by law should be UAH 74, whereas actually paid benefit amounts to UAH 22.2 and less.
9. Benefits rate determined by law should be UAH 37, whereas actually paid benefit amounts to UAH 7.4.
10. Under the law, the amount to be paid to mothers taking care of 3 children aged up to 16 is UAH 74, and of 4 and more children aged up to 16—UAH 148. Actually paid benefit amounts to UAH 18.5 and 29.6 respectively.
11. Benefit rates determined by law amount to UAH 74, whereas actually paid benefit is UAH 25.9.
12. Benefit rates determined by law amount to UAH 37, whereas actually paid benefit amounts to UAH 7.4.
13. Benefit rates determined by law amount to UAH 74, whereas actually paid benefit is UAH 14.8.
14. Benefit rates determined by law amount to UAH 37, whereas actually paid benefit is UAH 7.4.
15. Benefit rates determined by law amount to UAH 148, whereas actually paid benefit is UAH 29.6.
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