

ICPS newsletter®

How to make best use of Ukraine's potential

On 6 March, the Canadian Embassy, the Diplomatic Academy of Ukraine and the International Centre for Policy Studies held a roundtable on Ukraine's demographic future. The reason behind this discussion was the recent publication of two reports that evaluate Ukraine's potential, its realization and the country's demographic trends. One of the reports was prepared by the Ministry of Finance and the National Bank of Ukraine, and the other by ICPS analysts. These documents were reworked over the course of two years under the "Socio-Economic Performance and Potential Analysis Capacity" (SEPPAC) project, which is funded by the Canadian International Development Agency (CIDA)

The main accent in research— benchmarking

Both studies pay particular attention to the instrument of benchmarking, that is, to comparing Ukraine to other countries and determining its place in the world, its competitive advantages, and the main issues of socio-economic development that need to be given attention. Ukraine needs a system for developing and evaluating state policy that is based on the analysis of real data. Benchmarking is an important tool that can assist Ukraine's Government in establishing justified policy priorities and finding solutions to key problems using best practice from other countries.

ICPS analysts compared Ukraine with other countries for quality of life. According to their research, Ukraine's average rating for quality of life was 3.24 out of a possible 5. In the country rankings, Ukraine shared 57th place out of 63 with Moldova, outdoing only India, Kazakhstan, Macedonia, the Republic of South Africa, and Paraguay. The worst results were in healthcare, while those for education were relatively good. Still, Ukraine's results in all areas were quite average, which is what gave it such a poor overall score compared to most other countries, which compensate poor performance in certain areas with strong performance in others.

Thus, in the rankings for healthcare, Ukraine's result was the worse and put it in 62nd place. In well-being, Ukraine was 52nd. In terms of environment, Ukraine

shared 49th place with Azerbaijan, Belarus, Greece, Iceland, Russia, the US, Hungary and the Czech Republic! In the social sphere, it was 44th, along with Estonia, Macedonia, Pakistan, and Uruguay. In education, its best rating, Ukraine shared 34th place with Lithuania, Russia and Chile.

A split personality: A European country with third world service quality

Ukraine gives the impression of being a better-off country than its exceptionally low position in the quality of life rating would indicate. This kind of disconnect can be explained to a great extent by a peculiar duality that is characteristic of the country. By lifestyle and standard of living, it is a completely European country. Yet the quality of its social services and its government's policies is barely better than India or Pakistan.

Ukraine suffers from the same critical problem that most countries with a transition economy do. It has not yet achieved what most developed countries have, such as a high level of well-being, an effective educational system, and quality healthcare. At the same time, it no longer has the advantages of a developing country: the social capital of a traditional society, a healthy environment and a growing population. For instance, such indicators as per capita GDP or life expectancy are the same as Thailand and Paraguay, with a declining population and damaged

environment. As a result, the state cannot provide its citizens with an acceptable quality of life.

Ukraine's large supply of physical resources such as land and natural minerals and high transit potential are far from exhausted, but the country's intellectual capacity and its positive demographic structure are short-lived. The capital and infrastructure Ukraine inherited from the Soviet Union are extremely worn out.

Increasing efficiency: The key to future reforms

According to ICPS analysts, efficiency is the key idea that could bring together the efforts of the Government to reform both the economy and the social sphere. A rational application of available natural and intellectual resources could noticeably increase the well-being of the country's citizens and increase the quality of their lives. An important role will be played by the development of institutions such as health insurance in this process.

For reforms to produce results, the government needs to establish clear policy priorities. And for these to be justifiably and transparently determined, their designation has to be on the basis of analyzing facts. Benchmarking Ukraine according to quality of life makes it possible to use a properly informed approach to revealing the socio-economic spheres that most need improvement and to determine what distance the country needs to go to reach the desired goals.

"Assessing potential and its realization is a very important issue in economic development," said Canadian Ambassador Abina Mack Dann at the roundtable, "and we hope that these studies can offer a basis for making good decisions."

The need for long-term planning is also important, according to Deputy Economy Minister Anatoliy Maksiuta. "Ukraine has been concentrating too much on short-term

and domestic problems, whereas today it's very important to look at long-term and medium-term problems and to compare yourself to the world around you, which is growing all the time and moving forward," said Mr. Maksiuta.

Demographic forecast: Only 29 million in 2050

According to the ICPS study, Ukraine's population is in steep decline, falling more than 10% from 1993 to 2007. By 2050, projections are for the country's population to shrink by more than a third, from 46 million today to 29 million. By 2025, nearly a quarter of the population of Ukraine will be over 60, and by 2050 this will be nearly a third.

The main reasons underlying this negative demographic trend are:

- The average life expectancy in Ukraine is 66, which is 11 years less than in Central European countries.
- The death rate among men of working age is excessive: four times more men die in their thirties than women.
- Infant mortality is two times higher in Ukraine than the average for Europe.
- Ukraine has one of the lowest birthrates in the world. In order to reach the replacement rate, it should be nearly twice as high.
- Epidemiological indicators show that the tuberculosis rate is 10-12 times higher than the same indicators for developed countries.
- Every day, 35 more individuals become HIV-positive in Ukraine.
- The general state of health of a population depends 50% on lifestyle. In Ukraine, 12 l of alcohol are consumed per capita every year. According to the World Health Organization (WHO), when annual consumption goes higher than 8 l, gradual degradation of the society sets in.

Ukraine will not be able to sustain steady economic growth if it continues to depend on the traditional labor-intensive sectors of its economy. The current system of state support is directed at maintaining status quo and not at incentivizing change in the economy.

In healthcare, the priority must be to develop a network of early diagnostics similar to the soviet system of community-based preventive medicine.

Ukraine's working population retires earlier than the international standard. A gradual

raising of the pensionable age will slow down the shrinking of the labor force and should partly relieve the burden on public finance.

Opening the country to legal migration will work two ways: emigrants from Ukraine will find it easier to return, while the state will be in a better position to enforce of its citizens' rights abroad.

Social security funding: Extremely inefficient

Both Ukraine's demographic future and its quality of life are tightly tied to the efficiency of the country's social security system. If social security and social welfare spending is calculated according to OSCE methodology, such spending in both the State Budget and in local budgets plus spending by extrabudgetary targeted funds amounted to UAH 151bn or 28% of GDP in 2006, in contrast to the UAH 41bn reported in the Consolidate Budget of Ukraine under the item, "Social security and social welfare." The social spending share of GDP brings Ukraine's spending on social security and social welfare to the level of these indicators for the most developed countries, such as Switzerland and France. However, the effectiveness with which this money is spent is far lower.

The main form that social security takes in Ukraine is cash allotments, which currently constitutes the largest and fastest-growing share of social welfare provided to the general population. This growth in the percentage of social welfare provided in cash form is typical of developed European countries. When it comes to providing social benefits in non-monetary form, the biggest chunk is in the form of discounts, which are not always directed at the poorest Ukrainians. Most of these discounts are declarative and are often either underfunded, or not funded at all.

Local governments: Purse strings in Kyiv

The problems of the efficiency and effectiveness of funding the social security and social welfare systems in Ukraine is partly the result of the way that local governments are fiscally dependent on the country's Government. Ukraine's system of budget transfers requires most social services to be provided at the local level and funded through allocations from the State Budget.

These expenditures for social services are funded on the basis of local budget revenues and equalization transfers, as well as by

a number of social subsidies, all of which results in local government bodies being tied to Kyiv's purse strings. In addition, the formula for interbudgetary transfers is such that delegated expenditures for social services are calculated on the basis of a set of norms and standards established by the central government and depend on the number of beneficiaries of such services.

An analysis of spending shows that the funding of institutions that provide residential services tends to dominate among social service expenditures relative to social services that are provided at the community level. Meanwhile, community social services such as those provided at family and youth services centers, juvenile rehabilitation centers for crippled children, community centers for home services, as well as services provided by NGOs and private individuals, are generally more effective and less costly than social services provided by state-run entities, such as orphanages, boarding schools and homes for invalids.

To improve the social security and social welfare system in Ukraine and increase the effectiveness of social spending, the funding of community-based social services and services provided by NGOs needs to be encouraged, which, in turn, will have to be accompanied by reforms to the system of budget transfers.

A variety of proposals regarding the reformation of the social security and social welfare system in Ukraine and regarding solutions to the country's demographic crisis launched broadbased debate among the participants at this roundtable. This made it possible to hear objective opinions from government officials, NGOs, and researchers alike. ■

This discussion of the results of the study included National Academy of Public Administration (NAPA) President Vira Nanivska, Institute of Demographics and Social Studies under the National Academy of Science of Ukraine Ella Libanova, Sumy Governor Pavlo Kachur, Deputy Chair of the Verkhovna Rada Finance and Banking Committee Deputy Chair Ihor Shumylo, and specialists from the Ministries of Economy, Finance, Health, and Regional Development and Construction, Derzhkomstat, and leading think-tanks in Ukraine.

For additional information, contact Project Manager Olha Romaniuk by phone at (38044) 484-4400 or via e-mail at olga.romanyuk@icps.kiev.ua.