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UKRAINE: GENERAL LABOUR MARKET ASSESSMENT

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*The opinions expressed are those of the authors
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UKRAINE: Analytical survey, MONEE 2003

General labour market assessment

Like in other transition economies, Ukraine's labour market is also in a state of transition typical of the other sectors. Basic labour market information is derived from analyses of the population's economic activity, employment and unemployment trends.

In 2002, Ukraine's economically active population aged 15-70 years numbered 22.7 million (to compare, the 1999 figure was also 22.7 million). The level of the population's economic activity (a ratio between the economically active population (defined by the International Labour Organization as those gainfully employed plus the unemployed) and the total population aged 15 to 70 years) has been practically unchanged over the last five years, staying at 62-63 per cent. Moreover, the level of employment has actually frozen at 55-56 per cent. Unemployment decreased steadily, dropping to a record low of 10.1 per cent in 2002, as against 11.1 per cent in 2001 and 11.9 per cent in 1999.

	(Workforce surveys, %)		
	Economic activity level	Employment level	Unemployment level
1999			
Total	62.3	54.9	11.9
Women	57.2	50.7	11.5
Men	67.9	59.6	12.2
2000			
Total	63.5	56.1	11.7
Women	58.6	51.7	11.7
Men	69.0	60.9	11.7
2001			
Total	62.7	55.8	11.1
Women	58.0	51.7	11.0
Men	67.9	60.4	11.2
2002			
Total	62.6	56.2	10.1
Women	58.1	52.3	10.0
Men	67.6	60.6	10.3

In Ukraine, economic activity level (manpower proportion) remains stable and sufficiently high by comparison with the other transition economies, where this indicator registers a steady decline in connection with an outflow of persons retiring on pension – old-age, early, or disability – as well as migrants and women leaving in search of work.

Unemployment is an obvious obstacle to income growth, middle class emergence and poverty reduction on the national scale. It tends to bring down family living standards as well. In 2002, the unemployment benefit averaged 25.5 per cent of the pay level, with nearly a half of the registered unemployed getting no benefit at all. A particularly dangerous development is the spread of family unemployment observed in small and monofunctional towns. One unemployed person in a family increases poverty risks 50 per cent; two, 130 per cent; and three and more, 160 per cent (regrettably, Ukraine does have this kind of families, particularly so in its depressed regions).

Employment reduction has been observed in Ukraine practically during the entire independence period. Nevertheless, aggregate employment reduction (9.9 per cent for 1995-2002) is less than GDP reduction (9.3 per cent), a sign that companies still have certain labour surpluses. Accordingly, as suggested by the experience of other transition

economies, a steady rise in labour demand will begin only some five to six years after an economic upturn.

Despite economic growth, long-term industrial labour redundancy has so far prevented appropriate labour market reactions in the shape of decreasing unemployment, though the latter fact is observed after all. From 1999 to 2002, with the GDP growing by 21 per cent, the number of unemployed declined by 14.7 per cent (400,000 people). While increasing output, companies tend to steadily cut down their manpower, given a part-time employment environment. Starting in 2000, the partial unemployment reduction effort gained considerable rates in 2001 and persisted into 2002. The unemployment level in Ukraine is substantially higher than the similar indicators in economically developed nations (the average European Community figure is 7.8 per cent), but is approximately the same as in other transition economies (Poland 19.9 per cent, Slovakia 18.6 per cent, the Czech Republic 7.3 per cent, Hungary 5.9 per cent). Nor are there any substantial differences in such an indicator as the proportion of those in search of work for more than one year: Poland 48.4 per cent, Slovakia 59.8 per cent, the Czech Republic 50.7 per cent, Hungary 44.8 per cent.

	1999	2000	2001	2002
Unemployment as per ILO methodology				
Number of unemployed, thousand	2698.8	2707.6	2516.9	2301.0
Unemployment level, %	11.9	11.7	11.1	10.1
Proportion of those in search of work for over one year, %	46.3	50.5	54.8	53.5
Partial unemployment				
Proportion of employees on an unpaid leave of absence, %	22.0	16.1	7.2	5.1
Proportion of employees working shorter hours (weeks), %	17.6	13.3	13.3	12.4

Substantial changes notwithstanding, an irrational occupation pattern persists in Ukraine, with agriculture accounting for the biggest number of workers (5.4 million or 25.2 per cent of those employed in 2002), which is far greater than the industrial workforce (4.4 million). This occupational pattern is certainly at odds with innovation development strategies and an impediment to defusing the negative trends in population income earning and distribution.

The hard-going and protracted economic reform process has entailed the spread of unregistered employment, specifically in the informal sector and in subsistence farming.

Informal sector employment

Year	Entire population	Urban population	Rural population	Female population	Male population
Number of informal sector employees, thousand					
1999	2058.7	488.8	1569.9	1062.3	996.4
2000	2358.2	438.1	1920.1	1230.1	1128.1
2001	2632.9	496.2	2136.7	1338.2	1294.7
Increment	574.2	7.4	566.8	275.9	298.3
Proportion of total number of employed, %					
1999	10.3	3.5	26.2	10.9	9.7
2000	11.5	3.1	30.7	12.4	10.7
2001	13.0	3.5	35.2	13.6	12.5

Informal sector and subsistence farming employment helps the population maintain its material status in a difficult economic setting and provides cheap commodities and

services. At the same time, it is spontaneous in form and occurs outside of the labour legislation framework. Nor is it part of the state social insurance system or conforms to labour relations typical of developed market economies.

However, the above unemployment figures, as calculated on the basis of ILO methodology, were almost twice as high as the number of unemployed officially registered by the State Employment Service. It should be noted that the administrative data provided by the State Employment Service were the only database on Ukrainian unemployment in 1992 to 1994. It was not before statistical agencies embarked on sample manpower surveys that assessments of the general scale of unemployment in accordance with the International Labour Organization (ILO) methodology became possible. A comparison of unemployment dynamics as drawn from two different sources points to the existence of yet another positive trend in the labour market. In the last few years, increasingly more job seekers turned to specialized state agencies rather than looked for a job on their own. For example, standing at 6.4 per cent of the ILO methodology-based unemployment figure in 1995, the proportion of registered unemployed was already as high as 44.7 per cent in 2002.

From 1995 to 2002, the total number of unemployed on the books of the State Employment Service grew by 30.8 per cent to reach 1,055,200 as of early 2003. Rural inhabitants made up 40.9 per cent of officially registered unemployed in early 2003.

It becomes more problematic for the unemployed to find a job on their own rather than with assistance from the State Employment Service, given the annually growing professional and qualification requirements employers place on the quality of manpower. For example, in 2002, those in search of work for more than a year made up 53.5 per cent of the unemployed falling under the ILO definition, whereas in 1996 their share was 32.8 per cent. Simultaneously, the protracted unemployment growth trend, typical of the registered unemployed before 1999, started to decline in 2000.

The State Unemployment Compulsory Social Insurance Fund allocated 767.2 million hryvnas to benefit the unemployed. In December 2002, the average number of registered unemployment benefit recipients was 757,700, or 73.2 per cent of the official unemployed status holders. The average amount of unemployment benefit was 105.98 hryvnas in December 2002, or 64.2 per cent of the legislatively set minimum wage level in effect in that period.

The most immediate indicator of a general state of the economy and labour market is the dynamics of manpower requirements of companies, institutions and organizations. For example, the number of job openings and vacancies declined by 59.9 per cent from 1995 to 1998, constituting, in 1995, 53.6 per cent of the unemployed population numbers registered by the State Employment Service and a mere 3.3 per cent in 1998. But this indicator started growing as of early 1999 with the effect that in 2002 the requirement for workers increased almost four times over the 1998 figure to make up 123,900 job openings and vacancies or 11.7 per cent of the registered unemployed population. Privately owned companies were the source of the most intensive growth in labour requirement, boosting the number of job openings and vacancies almost eight-fold between 1998 and 2002. The period saw the biggest growth in demand for technical employees (500 per cent), services and trade personnel (420 per cent), and unskilled labour (350 per cent).

As of the end of 2002, the manufacturing industry accounted for the biggest proportion of job openings and vacancies (29.1 per cent).

The rising manpower demand reduced by more than a third – from 30 to nine persons – the number of registered unemployed applying for job openings and vacancies as of the end of 2002 by comparison with the same period in 1998. Significantly, it was the private sector that demonstrated the highest rates of general growth in the scale of job provision for the unemployed population in 2002 as compared with 1998.

The availability of a professional training and re-training system is an important means of helping the unemployed to enhance their opportunities in the registered labour market. During 2002, the State Employment Service sent 119,800 unemployed for professional training to help them learn a new trade or improve their skills, with 118,800 actually going through a course of training in that period.

The pay situation in Ukraine at the early stage in its market transition was a catastrophic one. The real wage level took a dramatic dip at the very start, followed by the proliferation of such phenomena as wage arrears and unpaid administrative leaves. A more than 50 per cent reduction in the real gross domestic product (GDP) that occurred during the first ten years of the transition period (starting 1990) caused the real wage level to fall off by approximately 70 per cent. At the same time, the employment level decline was not as dramatic, because the labour market displayed "flexibility" with regard to wages, which, naturally, triggered off a long period of hyperinflation.

Wage arrears became apparent quite soon, averaging 5 per cent of the nominal GDP between 1996 and 1999 and peaking (6.4 per cent) in 1998. In that period, more than 80 per cent of all companies reported difficulties of paying wages in time, with such sectors as building materials, power generation, engineering, and the light industry emerging as the wage arrears leaders. But the situation took a turn for the better in the latter half of 1999, and the overall amount of wage arrears started contracting. In 2002, it was down to 1.1 per cent of the GDP. The data for September 2003 indicate that the aggregate wage arrears amounted to 2.2 billion hryvnas, with industry (employing 29 per cent of manpower of big and medium companies) accounting for 60.3 per cent of the total. To the above one should add 290 million hryvnas of practically bad debts owed by companies that ceased operation (including bankruptcy cases).

	(% of GDP)						
	1996	1997	1998	1999	2000	2001	2002
Wage arrears GDP ratio	5.1	5.5	6.4	4.9	2.9	1.4	1.1

The situation was very much alike with regard to unpaid administrative leaves (forced underemployment), a negative consequence of the artificial retention of excessive manpower that in turn affected the wage level.

The growing scale of that phenomenon could be traced till 1999. For example, the average annual number of employees on unpaid leave and those working shorter hours (weeks) increased 3.3 per cent and 170 per cent, respectively, in the period from 1995 to 1999. However, 2000 marked the start of a major contraction in forced underemployment. In 2002, the number of employees placed on unpaid leave declined by 77.9 per cent as compared with 1999, and that of employees working shorter hours (weeks) by 31.3 per cent.

For the last two years Ukraine has been witnessing a reversal of negative trend in incomes and living standards. Real earnings, primarily wages, grow, as does their share in the aggregate incomes of the population and the proportion of pension in pensioners' budgets.

However, the overall income level remains very low nationwide, in the first place due to low labour remuneration rates that are yet to reach the 1992 level.

Pattern of aggregate household* resources, %

	2000	2001	2002
Total incomes,	100.0	100.0	100.0
including:			
Labour remuneration	37.1	40.8	42.8
Entrepreneurial and self-employment incomes	2.4	3.1	3.2
Income from real estate sales, property income (dividends, interest on deposits)	1.0	1.7	1.7
Income from sales of agricultural products	5.3	5.5	5.0
Pensions	14.6	16.3	18.8
Student grants, benefits, privileges and subsidies	5.1	4.9	4.3
Monetary aid from relatives and friends	3.8	4.4	4.9
Income from personal property sales	0.3	0.3	0.2
Income from private plots (subsistence)	17.1	13.1	10.3
Other revenues	13.3	9.9	8.8

*household surveys

A substantial rise in social transfers provides for better living standards enjoyed by incapacitated persons, specifically pensioners. At the same time, however, a large share of GDP is redistributed via the budget and off-budget funds, something that holds back economic growth.

Positive trends in consumption-level distribution surfaced in the 2000-2003 period, due mostly to a population group with previously indefinite material status joining the middle-income group. The proportion of the middle-income bracket grew from 13 per cent to 20 per cent, accompanied by a 57-to-50-percent decline in the very low- and low-income brackets.

It should be noted that the heavy tax burden (including social insurance contributions) is a factor in expanding unregistered pay practices, which complicates the analysis of actual trends in labour remuneration and determination of the population's capacity to pay.

The following characterization of some components of the total earned incomes in Ukraine can be derived from an analysis of their pattern: monthly or hourly wages received at the place of main employment, dividends, compensations and extras, incomes in kind. Wages account for the main share of earned incomes. Only 3.7 per cent of wage earners polled in manpower surveys reported incomes in the form of dividends, compensations or extras as received at the place of main employment.

Payments in kind, though fairly widespread at the initial stage of transition to a market economy, later gave way to cash settlements. However, a comparison with developed market economies will reveal that in Ukraine the proportion of payments in kind in the total payments is still high, amounting to 38 per cent. Eleven percent of all wage earners, namely, almost two million people, reported that they received compensations in kind. Accounting for the greater part of payments in kind are state-owned and collectively-owned enterprises and stock companies; 57 per cent of those who used to receive payment in kind are hired workers, while the rest are members of cooperatives. A majority of recipients of payment in kind are agricultural (55 per cent) and industrial (22 per cent) workers. Thus, payment in kind is evidence that companies face definite problems. Around 57 per cent of those who received income in kind at the place of main employment were

rural dwellers, a fact indicating that the cash economy is yet to become widespread in the countryside.

As is evident from an analysis of labour statistics reports submitted by Ukraine's big and medium companies over a period of five years (1998-2002), the numbers of male and female employees are practically equal. As of 31 December 2002, the average actual number of working women was 6.4 million (52.3 per cent), and that of men 5.8 million (47.7 per cent). But the situation differs substantially, depending on the economic sector. Some of these can be described as "female," specifically health care, social security, public catering, education, trade, and finances, where the proportion of women is 81.7 – 68.7 per cent of those employed. At the same time, the proportion of men in the "male" sectors, such as fishing, timber, construction, and transport, is 81.2 – 57.8 per cent of those employed.

Yet the wage statistics, as provided by the same groups of sectors, indicate that women are paid much less than men. Clearly, the size of wages received by each particular individual is influenced by a number of factors, such as general labour input in overall performance, labour conditions and complexity, position, as well as education and skill levels.

	Average monthly wages		
	Women, hryvnas	Men, hryvnas	Female wages to male wages, %
1998	130.62	176.02	74.2
1999	148.89	205.71	72.4
2000	190.00	269.21	70.9
2001	256.17	367.45	69.7
2002	309.79	447.80	69.2

In certain economic sectors, such as social security and health care, the wage difference is insignificant, and does not exceed 15 per cent. But in all sectors without exception men are paid more than women, and in some industries this difference is very substantial.

In industry, men earn on the average 59 per cent more than women, mostly because of the difference between wages in the predominantly male fuel-and-energy and iron-and-steel complexes, on the one hand, and those in the light industry, where woman employees make up three-fourths of the workforce, on the other. The biggest female-male wage difference is observed in the highest-paid sector of finances, crediting and insurance, where the female wage in 2002 was 53.4 per cent of the male wage level.

An approximately the same situation is observed in a separate category of employees covered by the Ukrainian Law on Civil Service conferring on them the status of civil servants. As of 1 January 2003, there were 216,900 persons in Ukraine enjoying this status, or 32.5 per cent of the executive agency personnel and 1.8 per cent of the active population. An analysis of the sex composition of the body of civil servants reveals that it is three-fourths female: 162,700. Simultaneously, male civil servants, as a rule, hold the top executive and highest-paid positions. For example, women make up only 27.3 per cent of category I, II and III executives. Twenty-six of each 100 civil servants hold executive positions and 74 are specialists: in 2002, women filled 80.1 per cent of all specialist positions.

It should be noted that around 60 per cent of college-educated employees in Ukraine (who went through higher educational establishments of accreditation levels 1 to 4) are female. This fact notwithstanding, women are paid on average 30 per cent less than men. But this wage gap cannot be fully attributed to female discrimination factors. It is also explained by

the fact that labour laws ban the use of female labour in arduous and hazardous jobs. Men employed under these conditions receive privileges and compensations, which influence their wage level.

In Ukraine, it makes no sense to engage in a separate analysis of the wage situation concerning women with children under three years of age, because effective national law guarantees this category of women maternity leave, and also parental leave until the child is three years old. One can only state that, as of 31 December 2002, the number of women on maternity leave was 76,500 (0.6 per cent of the average actual number of staff employees), of whom women aged 15 to 28 years made up 5.0 per cent of the average actual number of staff employees in this age bracket. The number of employees on parental leave was 365,600 (3.0 per cent of the average actual number of staff employees), of whom women aged 15 to 28 years made up 11.0 per cent of the average actual number of staff employees in this age bracket. It should be noted in this context that effective Ukrainian law grants three-year-long childcare leave to one of the family members, not necessarily mothers.

2. Analysis of policy to support working women with children and families

Under article 13 of the Ukrainian Law on the Protection of Childhood, the state shall provide social support to parents or other persons acting as parents to create the appropriate material conditions for bringing up children in the family.

The primary legal framework regulating state support to the family was the 1992 Ukrainian Law on State Support for Families with Children, which guaranteed aid to families with children depending on the family make-up, income, children's age and state of health. A 1993 law specified who was entitled to benefits, the registration procedures and mechanisms of financing the maternity benefits and birth grants, lump-sum postnatal allowance, and monthly childcare allowance to be received until child is three years old. In 1999, the functions to pay the children's allowance were transferred from Soviet-era aid agencies to social security departments supposed to produce a modern, market-oriented approach. In 1999, the Pension Fund handed its responsibility for financing allowances paid to working mothers with children under three years of age over to local authorities. Subsequent legislative changes caused radical transformations in support procedures: now the amount of benefits was to be calculated on the basis of the living standard, rather than minimum wage (the criterion used in the Soviet period). Linking state support with the living standards rather than the state of the labour market, this consumption-based criterion (living wage) enabled elaboration of more logical foundations.

January 1, 2002 saw the coming into force of the Ukrainian Law on Amending the Ukrainian Law on State Support for Families with Children of 22 March 2001, which established a state-guaranteed level of material support for families with children in the form of state cash benefits granted with due account for the family composition, income and children's age.

As of 2002, the law substituted five types of benefits for families with children for the previous 11* types:

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- *
(1) Prenatal maternity benefit
(2) Lump-sum post-natal grant
(3) Childcare benefit provided until child is three years old
(4) Cash payments to mothers (fathers) taking care of three and more children under 16 years of age
(5) Allowance for handicapped children

1. prenatal maternity benefit;
2. lump-sum post-natal grant;
3. childcare allowance for children under three years of age;
4. allowances for children in ward;
5. benefits to low-income families with children.

Under the law, the first three types of state support are extended to persons uncovered by the state compulsory social insurance system.

All types of support aside from the prenatal maternity benefit are assigned and paid out by social protection agencies in the parents' domicile. The prenatal maternity benefit is paid by the main employer.

Allowances for children in ward and to low-income families are granted with account taken of the family's (child's) aggregate income. Three types of benefit are granted without account for the family's aggregate income: prenatal maternity benefit; lump-sum post-natal grant; and childcare allowance for children under three years of age.

Pending national financial stabilization, the benefit amount is defined annually as a percentage of the living wage with its step-by-step approximation to the latter.

New approaches to problems facing low-income families and families with children focus primarily on securing their social guarantees.

As of 1 January 2003, social protection agencies provided support, in 2002, to 1,823,600 people for the benefit of 2,564,900 children, including:

Type of benefit	Number of recipients/ number of children, thous	Average benefit amount, hryvnas
Prenatal maternity benefit	138.4	359.4*
Lump-sum post-natal grant	106.6/107.6	202.2*
Childcare allowance until three years of age	508.3/532.7	40*
Allowance for children in ward	18.1/22.9	40.3*
Benefits for low-income families with children,	1052.2/1901.6	77.6**
Including:		
with one child	445.4	58.8**
with two children	425.9	77.5**
with three children	122.9	106.9**
with four and more children	58.0	160.4**

* per one recipient

** per one family

The average allowance amount grows from year to year. For example, lump-sum post-natal grant was 121.4 hryvnas in 2001 against 86.5 hryvnas in 2000; childcare allowance till the age of three, 29.1 and 17.4 hryvnas, respectively. On top of that the new Ukrainian Law on Amending Ukrainian Law on State Support for Families with Children extended the

(6) Allowances for children under 16 years of age (for students aged under 18)

(7) Allowance to single mothers

(8) Allowance to military conscripts

(9) Provisional support for underage children whose parents evade child support payments

(10) Benefits for children in ward

(11) Allowances to low-income families with children

right to ante and postnatal benefits to non-working women, which was not envisaged by the former legislation.

At the same time, more than 433,000 single women bring up their children unaided by the male parent. Their deteriorating material status prompted mass-scale applications to the authorities. Therefore, to enhance social guarantees for single mothers with children, the Supreme Rada passed the Law on Amending the Ukrainian Law on State Support for Families with Children of 4 July 2002, which legitimised, as of the start of 2003, childcare allowances to single mothers. The categories entitled to this kind of benefit include single mothers, single adopters, and widows and widowers with children who do not receive survivor's pension or social pension.

Poor segments of the population get social support under the Law on State Social Support for Low-Income Families, which came into force on 1 January 2001. The law formalized and reinforced the targeted nature of state support for poor families, laying it down that provision of state social benefits depends not only on the average monthly aggregate income but also on the family's property status.

The right to receive benefits under the law was exercised, in 2002, by around 480,000 families on average, whose aggregate income per person did not exceed the subsistence minimum (80 hryvnas). The amount of such benefit per family increased 8 per cent as compared with 2001.

At a certain juncture this benefit may become the only source of subsistence for some families. At the same time, some families with children, though hard up materially by reason of joblessness, failed to be eligible for allowances as poor families with children under the Law on State Support for Families with Children, while others, to assistance under the Law on State Social Support for Low-Income Families, because of sharing accommodation (apartment, house) with well-off relatives. The reason was that the laws used identical mechanisms for determining the size of both state social benefits to low-income families and state benefits to low-income families with children, whereas their approaches to determining family composition and the aggregate family income were different. Therefore, the legislature, in order to address the situation at the legislative level, approved in November 2002 the Law on Introducing Amendments to Some Ukrainian Laws on Social Support Issues, which decreed that support for low-income families, including families with children, should be provided under a single law – the Ukrainian Law on the State Social Support for Low-Income Families.

On the whole, the problem of financial backing of social payments in Ukraine was a highly acute one throughout 2002, the overall debt to recipients of state allowances to families with children reaching, as of 1 January 2003, 152 million hryvnas. Local budgets failed to pay the full amount of state allowances to poor families, too.

The practice of implementing state social protection programs has revealed the need to reinforce the targeted approach when assigning individual types of benefit and to enhance the role of social inspectors within the targeted support system.

With regard to the foregoing, the majority of Ukrainian regions introduced in 2002 additional social inspector positions in their social protection directorates with the effect that there were 1,500 such inspectors as of 1 January 2003, or over 30 per cent more than in 2001.

Social inspectors carried out more than 400,000 surveys to verify the needy status of families applying for all types of social allowances, with the result that 18 per cent of families were turned down as potential beneficiaries. Almost 5 per cent of cases of inadequate information were revealed as inspectors visited the places of applicants' work to check on the trustworthiness of income information they had provided.

Adopted in 1992, the Ukrainian Law on State Support for Families with Children had the biggest effect on reducing enrolment in preschool childcare facilities, as it entitled families with children up to three years of age to childcare benefits. Female unemployment growth was yet another significant factor in decreasing the enrolment level. It should be specially emphasized that preschool facilities have not changed much in terms of their material and technical provision. For example, in 2002, 92 children per 100 places were enrolled in them as against 107 in 1990 and 76 in 1995. This is to say that a fair amount of places remain vacant, whereas the number of children per one teacher is practically the same as in 1990, being 8 in 2002 as against 9 in 1990, that is, the load per one teacher even diminished.

In 2002, children enrolled in permanent preschool facilities accounted for 45 per cent of those in the respective age group (12 per cent less than in 1990), which is a positive fact. For the first time in the last few years there was a rise in the number of children preferring organized preschool upbringing and education: from 968,000 to 973,000. An interesting tendency observed in the last five years is a growth in the "net" preschool education coverage indicator for the youngest age groups. For example, the proportion of preschoolers aged 0-2 increased from 12 per cent to 13 per cent; their share among 3-4 year-olds, from 46 per cent to 57 per cent. These processes are particularly prominent in cities. It is pertinent to note that the new Ukrainian Law on Preschool Education, which was adopted in 2001, provides for the preschool education in the family. In this connection, to obtain a more objective picture of preschool education coverage level, it is expedient to monitor coverage of 3-4 and 5 year-olds by preschool education.

Simultaneously shifts in the minimum school enrolment age became a reason why this indicator shrunk for 6 year-olds, accordingly from 39 per cent to 21 per cent.

At the same time, so far there has been no change for the better in the preschool education situation. The number of facilities continues to decrease steadily (declining from 25,000 in 1990 to 15,000 in 2002), as does the number of places (from 2,277,000 to 1,060,000, respectively). Of the total number of facilities, 2,600 were for different reasons inoperative in 2002. On top of that, 5,600 facilities operated a shorter year for lack or shortage of funds to pay the maintenance, heating, electricity and water supply bills. Preschool facilities are increasingly often leased out to other organizations. As of the end of 2002, over a thousand, or almost 7 per cent, of preschool institutions leased out their premises.

State social allowances for handicapped children is one of the types of state support for families bringing up disabled children. Its provision is regulated by the Ukrainian Law on State Social Allowances to Persons Disabled from Childhood and to Disabled Children, which entitles handicapped children under 16 years of age to state support.

The state social allowance for disabled children under 16 years of age is set at 70 per cent of the subsistence minimum enjoyed by persons who lost their capacity for work. Besides the state benefits for disabled children under 16 years there may be set additional childcare allowances.

Proceeding from the expenditure part of the budget, the government established for 2003 the subsistence minimum, as a benchmark for allocating state social benefits to persons disabled from childhood and to disabled children, at 90 hryvnas, which sum is used to calculate the amount of state social benefits and care allowances.

As of 1 January 2003, this kind of support was provided to 6,164 children, with another 5,422 beneficiaries receiving additional childcare allowances.

Thus, the above-mentioned reforms in the state social safety net made it possible to enhance the targeted social support of families with children. Taking into account families' material status, drafting allowance allocation procedure and streamlining support mechanisms are government measures supporting the Ukrainian family in a period of instability and change and putting across the importance for this country to deal with problems related to protection of the rights of its citizens.

3. Poverty of families with children

The most acute present-day problems are those of poverty plaguing families with children. Given the low wage level, even both working parents are not always able to secure a decent (by generally low national standards) standard of living for their underage children. With both parents employed and there being no adult dependants in the family, 27.4 per cent of families are poor. The situation is even worse where families with many children are concerned. In 2002, the poverty level was 25.8 per cent for families with one child and 39.9 per cent for families with two children. In the case of families with three children and those with four and more children this indicator surged to 64.3 per cent and 87.7 per cent respectively. The number of children is a particularly noticeable poverty risk factor in families with children under three years of age (their poverty level averages 40.3 per cent). Thus, families with children are programmed for top poverty risks, whose value is in direct proportion to the number of children.

	Objective poverty indicators			Total spending per reference adult, hryvnas a month	Nutrition features			
	Poverty level, %	Poverty depth, %	Extreme poverty level, %		Energy value of daily ration, large calories	Protein content of daily ration, grams	Fat content in daily ration, grams	Proportion of consumers
Families with children under 18 years of age	4.4	5.6	18.6	63.4	2816.0	73.9	12.1	25.2
Including families with one child	25.8	22.6	12.4	291.5	2939.9	77.3	120.1	20.5
Families with two children	39.9	25.1	21.8	242.7	2692.9	70.4	105.2	30.4
Families with three children	64.3	33.6	43.9	194.3	2555.3	67.2	91.5	33.2
Families with four and more children	87.3	35.1	58.6	139.5	2403.3	63.3	81.3	37.1
Families with children under 3 years of age	40.3	27.5	24.2	249.3	2646.7	71.2	106.7	31.1
Childless families	16.9	19.1	6.8	342.9	4083.8	104.4	165.6	6.0

An analysis of the dynamics of indicators for 1999-2002 testifies to the generally stable situation, displaying an obvious tendency towards improvement in practically all poverty

indicators for the last year. If the poverty level remained unchanged during the last two years, the extreme poverty level declined by 1.2 percentage points over 2001-2002, and the poverty depth, by 1.1 percentage points. Thus, one observes a reduction in extreme poverty, which is a most important factor encouraging efforts to overcome the general negative phenomena in the country.

Key poverty indicators, Ukraine

Years	Poverty level by criterion, %		
	Relative*	Combined**	Absolute***
1999	27.8	27.8	14.0
2000	26.4	28.7	11.9
2001	27.2	29.7	11.0
2002	27.2	23.8	6.9
Rate of change for the period, %	97.8	85.6	49.3
	Poverty depth by criterion, %		
	Relative	Combined	Absolute
1999	23.2	23.2	20.6
2000	23.8	24.4	20.0
2001	25.0	25.2	20.1
2002	23.9	23.1	21.2
Rate of change for the period, %	103.0	99.6	102.9

A considerable reduction in the proportion of extremely poor population among the poor over the last year (by 4.3 percentage points) testifies to a turning point in the poverty situation, the indicator being the best for the last four years. The overall stratification of the poor decreased as well, with poverty differentiation quotient declining from 57.8 per cent to 56.8 per cent.

The year 2002 was marked by the least (since 1999) increase in average and aggregate deficit of incomes of the poor population. In addition, aggregate deficit growth rate was much inferior to the poor's income growth rate (104.4 per cent against 111.2 per cent), which points to a general improvement in the situation of the poor in the country.

However, serious negative phenomena are observed against the background of the generally favourable picture, as shown by the further rise in the poverty level among families with children (by one percentage point over the last year). Although the extreme poverty and poverty depth somewhat decreased among families with children, the dynamics of these indicators is worse than the Ukrainian average.

Poverty levels rose considerably among families and households with many children, which are under double pressure from dependents – children on the one hand, and non-working adults (including those of non-working age), on the other. Poverty risks increased among families with two children and households consisting exclusively of persons above 75 years of age.

Over the last year, the extreme poverty level increased only among families with many children, a fact pointing to further deterioration in the status of this category of families. A positive fact is obviously a certain improvement in the status of families with children under three years of age, where a decline in the values of all the main indicators is observed.

Thus, despite the emergence of obvious positive tendencies in the poverty situation, they were least of all felt by families with children and the elder citizens, two stable components

of the risk group. Therefore, the state policy must be primarily aimed at improving the standing of precisely these categories of families.

Poverty level among different types of households, Ukraine, %

<i>Type of household</i>	1999	2000	2001	2002
Households with children	33.9	31.9	33.4	34.4
Households without children	17.8	17.8	17.8	16.9
<i>Households with children:</i>				
With 1 child	29.1	25.4	26.5	25.8
With 2 children	35.8	35.9	37.7	39.9
With 3 and more children	54.5	54.1	59.6	64.3
With 4 and more children	75.8	70.8	66.9	87.3
With children under 3 years of age	44.1	35.2	43.8	40.3
Where all adults work	31.3	25.7	27.5	27.4
Where there are non-working adults	37.9	36.6	38.2	40.2
<i>Households without children:</i>				
All of working age	16.5	14.8	13.5	14.2
All of retirement age	15.9	16.8	17.0	15.2
Including: all above 70	20.8	21.7	19.9	22.1
All above 75	25.5	26.5	22.2	25.2
Where there is at least one unemployed member	29.5	27.9	27.0	26.2
<i>Ukraine</i>	27.8	26.4	27.2	27.2

Extreme poverty level of different types of households, Ukraine, %

<i>Household type</i>	1999	2000	2001	2002
Households with children	18.5	17.7	19.7	18.6
Households without children	7.8	8.0	7.8	6.8
<i>Households with children:</i>				
With 1 child	14.9	12.8	14.5	12.4
With 2 children	18.5	19.5	22.7	21.8
With 3 and more children	41.0	39.2	40.0	43.9
With 4 and more children	66.7	54.1	52.0	58.6
With children under 3 years of age	26.2	20.4	28.2	24.2
Where all adults work	16.9	14.7	14.2	14.4
Where there are non-working adults	21.5	20.6	24.1	22.1
<i>Households without children:</i>				
All of working age	7.7	7.1	7.1	6.3
All of retiring age	6.3	6.9	6.4	5.0
Including: all above 70	8.7	9.6	8.1	7.4
All above 75	12.5	12.3	10.2	8.8
Where there is at least one non-working member	17.0	14.0	15.9	13.5
<i>Ukraine</i>	14.4	13.9	14.9	13.7

The poverty situation is a consequence of both the sufficiently low wage level and highly insufficient social support for families with children. This is to say that under the circumstances families with children should be helped by the state. The latter is evident, among other things, from a multiple increase of the gap in the ratio between different types of child benefits to families and the average wage. But the collation of different benefits with the average wage will show that this is not the case: whereas in 1994 a single mother received per one child 13.4 per cent of the average wage and a serviceman's wife 24.7 per cent, the 2001 figures were merely 3.8 per cent and 5.5 per cent, respectively. In

2001, support for poor families with children¹ accounted for 27.4 per cent of the average wage, and in January 2002, 26.5 per cent. But the population does not receive in time even these scanty sums. The law-stipulated state support for families with children is probably the only type of social transfers, but the arrears on the payments under this law, although they have diminished over the last year, persist.

*75 per cent of median conventionally adult population spending in current year prices.

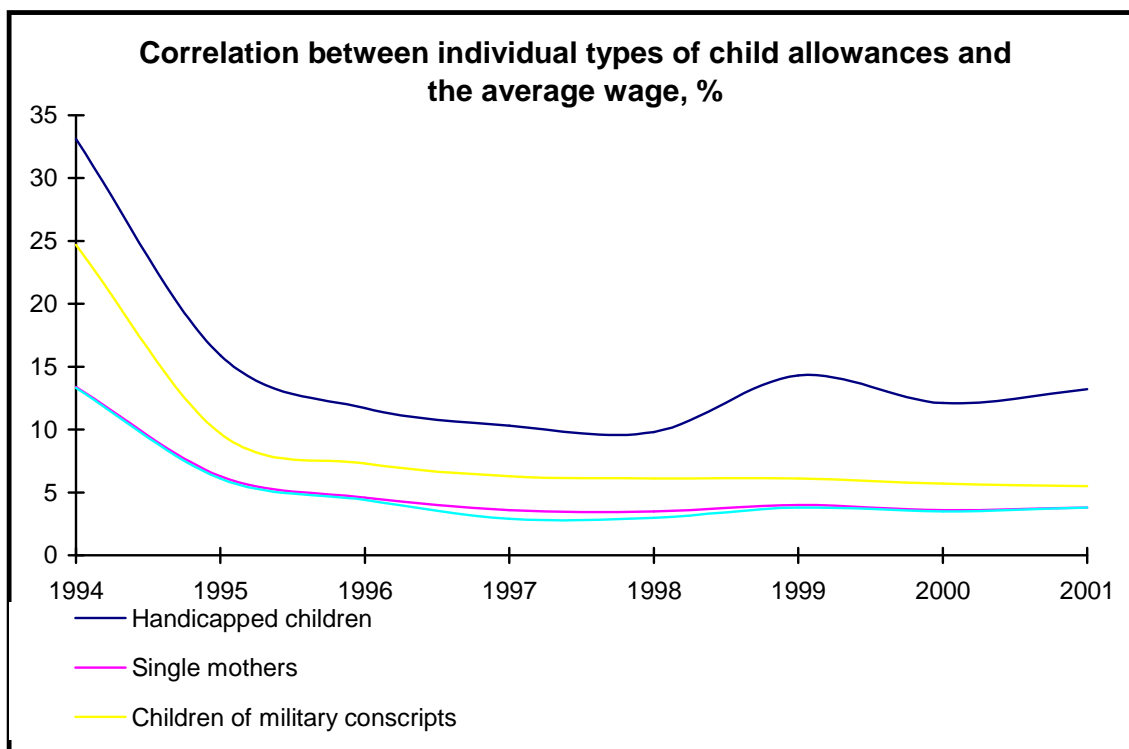
**75 per cent of median conventionally adult population spending in 1999 prices.

***UN poverty line for Central and East European countries (the hryvna equivalent of USD 4.3 by purchasing power parity).

The 2002 official monthly subsistence minimum was 342 hryvnas, including:

- 307 hryvnas for children under 6 years old
- 384 hryvnas for children aged 6-18
- 365 hryvnas for able-bodied persons
- 284 hryvnas for those who lost their capacity for work

¹ Currently it replaced most types of allowances to families with children.



Correlation between individual types of child allowances and the average wage, %

	1994	1995	1996	1997	1998	1999	2000	2001
Allowance for handicapped children	33.1	15.9	11.7	10.3	9.8	14.3	12.1	13.2
Child allowance to single mothers	13.4	6.3	4.6	3.6	3.5	4.0	3.6	3.8
Child allowance to military conscripts	24.7	9.7	7.3	6.3	6.1	6.1	5.7	5.5
Provisional allowance to underage children whose parents evade child support, or when exaction of payments for child support is unfeasible	13.3	6.1	4.4	2.9	3.0	3.8	3.5	3.8

4. Prospects for the future

Adapting the global Millennium Goals to the national environment makes it possible in principle to use them in Ukraine's Economic and Social Development Strategy.

But the goals Ukraine sets before itself are more ambitious. They designate top development targets the achievement of which will enable this country's earliest possible integration in global processes and will facilitate its ability to respond to their challenges. The necessary material prerequisites for that appear as the Ukrainian economy is taking the track of sustained growth. What is meant in the broad sense is the state's capacity to use the new economic conditions as well as the results of stabilization and growth to achieve a tangible improvement in the population's standards of living.

In the period up to the year 2010 there must be achieved a consistent and stable growth in indicators characterizing public consumption level and accessibility of socially important services. It is also necessary to reform the core social sectors and create on that basis

favourable conditions for an improvement in the demographic situation, gender relations, and human potential quality.

These objectives call for an immediate reconstruction of the social sphere. Whereas the current economic policy model is predominantly focused on protecting the socially vulnerable segments of the population, the logic of the new strategy provides for a fundamental adjustment in the income policy, shifting the main social policy emphasis primarily to the working part of the population. The current underestimated value of manpower is a serious impediment to domestic market development and economic processes dynamics, as is the insufficient social spending. The stimulating role of wages has been practically lost and their influence on production development and scientific and technological progress is minimal. Based on the low cost of manpower, the economy is failing to ensure high consumption standards, accumulation processes and qualitative renewal of manpower. This also hampers the progress in both housing and social spheres, specifically the formation of insurance funds, pension and education resources.

The state stimulates the priority wages growth rates as compared with GDP growth rates. The ILO believes that the value of labour in contemporary market relations cannot be contingent on demand and supply alone. The social factor is also important. The top priority, therefore, is to develop effective mechanisms with elements of state regulation, taking account of interaction between social partners and the situation on the labour market. The sphere of state influence should embrace, apart from minimal social guarantees in labour remuneration and the regulation of wages financed out of the state budget, tariff regulation by using the social partnership mechanism and improving the system of social taxes and contributions.

The incomes policy must not revert to wage-levelling. The existing imbalances should be overcome by legalizing the incomes of the well-off strata of the population and withdrawing them from the shadow, and by expanding the stratum of private owners (landowners included), who are active in business and benefit from their activities, rather than by imposing artificial ceilings on the earnings of the wealthy. A fundamental income policy priority is encouraging people to own private property and assuring its effective protection. In this context, it should be kept in mind that high- and mid-income individuals, as before, will be more capable of paying a considerable part of health, education and social insurance services.

It is vital to secure an accelerated development of social institutions (education, medicine, culture) and a corresponding growth in social investments focused directly on human development. The next few years will see the strengthening of the targeted support to low-income families, which will supplant the current socially unfair and extremely ineffective system of privileges, subsidies and compensations. The targeted nature of social support must become an important poverty reduction instrument. A compulsory insurance system, pension insurance in particular, is likely to be an effective lever in this sense too.

Poverty eradication. The poverty agenda implies a number of measures designed to improve the living standards of the poor and eradicate the most glaring manifestations of poverty. While not relaxing concern for the low-income, the main efforts focus on how to raise the well-being of the working population. Thus, the state social policy links the process of poverty eradication to raising the technological level and improving competitiveness of the national economy as the basis for higher living standards of the working population and a source of increased social support for the non-working citizens. All of that will expand the domestic market.

The poverty eradication strategy, adopted by Ukraine in late 2001, defines the following areas in the poverty eradication policy:

- creating an economic and legal framework to promote the growth of incomes and economic activity of able-bodied individuals. First, the huge potential for employment inherent in small and medium business should be utilized. Up till now its development has been hampered by excessive state regulation, big business monopoly pressure, and exorbitant taxes. Second, the next phase in radical tax, budget, and administrative reforms should be vigorously accelerated. It is necessary to reduce the tax burden on incomes, cut down the number of income tax rates, and raise the nontaxable subsistence minimum threshold. Third, rural labour market monopoly should be effectively counteracted by the state. Fourth, there is a need to invigorate the secondary securities market as an effective income redistribution tool;
- preventing inherited poverty features, in most cases, of the rural population, by establishing appropriate services, supporting new production relations brought into being by changed forms of land ownership, and upgrading social infrastructure in rural areas;
- enhancing the efficiency of social support for marginal population groups via social safety net reform: better social program targeting; improved inter-budgetary relations; replacement of privileges with targeted social support, in accordance with the material security criterion; expansion of powers and financial capabilities of by local executive, agencies coupled with a corresponding redistribution of responsibilities. There is a need to improve pension laws, and job reservation procedures for the handicapped.

Securing full productive employment. Labour policy problems are primarily linked with the shortage of new jobs. Inefficiency of the economy inherited by Ukraine, low labour productivity and noncompetitiveness of the predominant part of industry account for the situation where production growth fails to enhance demand for labour. In fact, a similar situation exists in other countries, Poland among others. It is only after labour productivity is up to the level of transitional economies, let alone developed market economies, that a significant increase in the number of jobs can be hoped for.

As is evident from world experience, small business advancement is vital for boosting labour demand. It is absolutely clear that small (and even medium) businesses cannot compete successfully against industrial giants. But they display superior flexibility in the face of shifts in demand for commodities and services, graphically demonstrating an ability to deal with social challenges arising from the unemployment reduction agenda. A comparison of the rates of small business development in Ukraine and neighbouring countries (even not quite so economically advanced) is not in Ukraine's favour. Their governments do all they can to support small business, emphasizing its extreme social importance. This support is expressed in certain attempts to simplify accounting and control, reduce the tax burden, and make loans more accessible.

The state policy objective vis-a-vis the informal sector and subsistence farming is to gradually promote their manpower to a higher-level organizational status by way of boosting full, productive, freely chosen employment, and improving social protection of the vulnerable segments of the population. State regulation will include the following main measures:

- ◆ improving the legislative framework and legal regulation of business activity, labour relations and social standards;
 - simplifying business registration procedures;
 - reducing business registration charges for physical persons and removing such charges with respect to the privileged categories of the population;
 - amending labour laws with rules regulating self-employment, specifically ones laying down the minimum eligible age for participation in the family business, working hours and safeguards for family business participants, and guaranteed state social security;
 - stepping up state and public control of compliance with labour laws by businesses, institutions and organizations; promoting social partnership;
 - putting into effect new articles of the Ukrainian Law on Compulsory State Social Insurance against Unemployment, envisaging payment of partial unemployment benefits;
 - introducing a uniform system of taxation of basic and additional wages and setting a higher tax-exempt minimum of earnings from sideline employment, to prevent proliferation of secondary unregistered employment;
- ◆ implementing specialized programs and supplementing general socioeconomic programs with measures to support micro-businesses;
- ◆ creating a system of incentives and encouragement to legalize and further develop business activities.

The rural employment problem is in need of a particular focus. Agrarian reform disbanded collective farms that used to employ the bulk of the rural population. Their lands and facilities were divided between the former workers, something that boosted household production, including in the informal sector. The state rural employment policy is basically three-pronged:

- it seeks to stimulate development of private farms and other agroindustrial entities;
- it seeks to diversify rural employment and to develop the processing and other sectors of the agroindustrial complex, and the social sphere;
- it seeks to regulate legislatively the status and activities of private farms on the assumption that their definition should be based not only on the size of land plots but also on their predominant use; the rights of household members to state social protection and support, including unemployment benefits, should be determined with account taken of the family's demographic composition (the number of able-bodied persons, children, and the elderly) and objective chances to lease the land (the availability of entities ready to take land in lease, the amount of rent, etc.).

New focusses in income policy

The main income strategy priorities are a general rise in the population's real incomes, real wage raises, and poverty reduction. These will be achieved through earned income

growth, introduction of a full-scale social insurance system, and rationalization of the system of benefits and support.

The state income policy will implement both preventive and stimulating measures.

Preventive measures will insure the population against possible income and savings depreciation and guarantee minimal consumption standards to socially disadvantaged population categories. These measures will be aimed at:

- upgrading the income indexation procedure (improving inflation measurement methodology, upgrading inflation-adjusted income indexation mechanism);
- reforming the social safety net (better targeting, changing state support priorities, benefits standardization, encouragement of able-bodied population activity, maximum coverage of the really needy).

Stimulating measures will help encourage the active population, eradicate paternalist and sponging moods, and boost a vigorous search for higher personal incomes.

The higher labour remuneration rates ought to become the decisive factor in inducing earned incomes growth. The minimum wage should be brought up to the living wage level at the very least even if it means higher inflation. Given the generally low level of the population's incomes, additional money supply will be instantly exchanged for commodities and services, thus giving an impetus to production growth.

Considering that the state is capable of directly influencing private sector labour remuneration levels only to a limited extent, the budget sphere ought to start the ball rolling. A considerable increase in the minimum wage and the relevant review of the salary rates in the budget subsidized sphere will help alter labour remuneration levels in all companies regardless of affiliation. Growth of labour remuneration rates and levels in the non-public sector can be directly influenced by stronger social partnership, more targeted efforts by labour unions and other institutions representing wage workers, as well as better coordination of actions and interests of employees, employers and the state.

