

NATIONAL REPORT

Promoting productive capacity and decent work to eradicate poverty in the context of inclusive, sustainable and equitable economic growth at all levels for achieving Millennium Development Goals

In September 2000, Ukraine together with 189 Member States of the United Nations signed the UN Millennium Declaration setting up the global Millennium Development Goals (hereinafter - Goals) to be achieved by the year 2015. Those Goals, having been adjusted at the national level, have become guiding development objectives for Ukraine and have been inherently included into the large number of governmental strategic documents.

The main macroeconomic achievements:

In 2010-2011, Ukraine's economy has shown an upward trend due to the implementation of Programme of economic reforms 2010-2014 initiated by the President of Ukraine, as well as carrying out a pragmatic governmental policy aimed at stabilizing the post crisis economy and large-scale social and economic reforms introduction.

In 2010-2011 GDP of Ukraine grew by 9.5%, recovering more than a half of the crisis fall. In particular, the rate of real GDP growth in 2010 amounted to 4.1%, which almost doubles the relevant rates of the EU-27 countries (2%), and reached 5.2% mark in 2011. A positive dynamics has been record due to increasing industry, agriculture and construction output.

The pace of industrial development in Ukraine during 2010-2011 (19.7%) rated as one the highest among the CIS countries (Russia - 13.3%, Kazakhstan - 13.9%, Belarus - 21.4%). A particular emphasis should be made on a significant increase in output of products with high value added: vehicles and equipment - doubling the previous amounts; electrical, electronic and optical equipment - by 42.5%, machinery and equipment - by 36.2%. In general, the rate of mechanical engineering production is increased in 1.6 times, while exports of machinery, equipment, vehicles and devices - by 72.6%.

Favorable external economic conditions created in 2010 - the first half of 2011 greatly fostered the development of export-oriented industries. As a result, in years the total growth of steel industry amounted to 122.2%, while chemical and petrochemical industry grew in 140.1%.

The growth in domestic demand also contributed to the rapid augment of production in the spheres oriented on the domestic market development. In particular, the output of light industry in 2010-2011 increased by 17.3%.

The increase in domestic industrial production ensured the implementation of complex reforms in the regulatory and investment spheres. This is particularly focused on easing the tax and regulatory burden on business, promote modernization of production and investments in real sector development, improving the business climate in Ukraine, support

for small and medium business enterprises, simplifying procedures for obtaining permits to conduct business, start and exit the business and more.

Greater state support to the agricultural sector on the background of favorable international economic situation fostered the growth of rate of agricultural production by 18.1% in 2010-2011, which is 16.0% higher than a pre-crisis level recorded in 2008. Initiating the land reform in Ukraine is aimed at promoting the investment in the agricultural sector as well as reducing the tax burden on business.

During the 2011-2014 a tax rate are expected to decrease from 25 to 16% (in 2012 - 21%), while the VAT rate - from 20 to 17%.

Fulfillment of the UN Millennium Development Goals should be based on the sustainable economic development, which in its turn requires the involvement and mobilization of relevant investment resources. In 2010-2011, the investment component of GDP (gross fixed capital) increased by 14.4%. In particular, in 2010 the real growth of gross fixed investment accounted 3.9 % (as compared with 2009), while in 2011 the very growth made up 10.1% (as compared with 2010). This envisages a gradual recovery from investment recession in the light of general stability enhancement and economic growth.

Overall, the positive dynamics of growth of investments in 2010-2011 contributed to:

the doubled growth of the budget capital spending, largely due to the organizing and hosting by Ukraine the 2012 UEFA European Football Championship Final;

the rehabilitation of a domestic production and, consequently, increase the enterprises own capital;

the increase of the foreign capital inflow in 1.5 times while the country's credit rating has been improving;

Furthermore, the positive dynamics of investment in 2011 has been fostered by the gradual resumption of lending while the financial and economic situation in the country is stabilizing, the level of bank deposits is growing and the consumer prices are being retained on a rather low level.

At the end of 2011 the lending to non-financial corporations has been increased by 7.1 percent (year-over-year) as compared with the fall by 3.6 per cent at the end of 2010.

The macro-financial stability facilitated the reduction of the excess of expenses over receipts in the system of public finance. This was the result of a significant increase of revenues due to the growth of GDP, population's incomes, profits of the corporate sector and trading volume, as well as innovations in within the taxation system, solving the problems of VAT refund accumulated in previous years, introduction of procedures of automatic reimbursement of VAT and intensifying the control against the cases of tax evasion. Subsequently the budget deficit reduction in 2011 reached the 1.8% of GDP (in 2009 - 3.9%).

Prudent debt policy contributed to the reduction of public and publicly guaranteed debt of GDP from 39.9% in 2010 to 35.9% in 2011, the same concerns the state debt - from 29.9% to 27.1%.

Government implements measures in order to ensure effective regional policy. In particular, legislative initiatives on the creation of State Regional Development Fund have been introduced. Fund's resources will be focused on investment projects and measures that have significant social importance provided by the strategic and tactical plans of regional development.

The effective state policy should as well address the important energy security issues, contribute to the harmonization of national legislation in concordance with the EU standards, establishment of modern approaches of energy production and efficiency, enhance the implementation of measures improving the efficient use of energy, promote dialogue between representatives of energy and environmental protection sector.

In order to implement the Rio+20 principles Ukraine is establishing proper conditions for ensuring quality control of energy resources and their timely delivery in accordance with agreements and contracts with other countries, as well as planning of low-carbon energy development of the country.

The preservation of this positive economic dynamics ensured by the growth of domestic demand and output of production serves as basis for the implementation of social reforms, enhancing welfare and achieving the progress in the UN Millennium Development Goals realization. In the framework of social policy modernization strategy the Government of Ukraine has continued to introduce the reforms as regards the functioning of social services and enhancing the target social assistance provision.

Employment development

Due to the improvement of the general economic climate in 2011 the employment level of the population aged 15-70 years increased significantly and almost reached before-the-crisis level (59.2 per cent vs. 59.3 per cent in 2008 and 58.5 per cent in 2010). Upon that the employment level of the working age population grew by advanced rates (66.5 per cent vs. 65.6 per cent in 2010).

A gradual increase of the women retirement age from 55 to 60 years (six month each year) began from 1 October 2011. This gave an effect of increasing employment of women aged 40-49 years (up from 78.6 per cent in 2010 to 79.4 per cent in 2011) and 50-59 years (from 55.8 per cent to 56.1 per cent). However, the level of economic activity and employment of women aged 25-39 years in the past decade has shown a downward trend in the transition to a modern model of reproductive behavior, which implies a later child-bearing age. So, overall employment rate of women has not undergone significant changes (54.5 per cent in women aged 15-70 years, 63.5 per cent of women of working age).

In 2011 men employment rate increased to 64.4 per cent (compared to 63.1 per cent in 2010), especially a significant increase relates to men aged 25-29 years (from 78.6 per cent to 81.2 per cent).

The number of unemployed persons (according to ILO methodology) decreased by 3 per cent in 2011 compared to 2010 and amounted to 1732.7 thousand persons. Unemployment rate of population aged 15-70 years equaled 7.9 per cent, the working-age population - 8.6 per cent (respectively 8.1 per cent and 8.8 per cent in 2010). The share of long-term unemployment (12 months or more) decreased from 23.6 per cent to 19.5 per cent, average length of job search - from 7 to 6 months. Positive shifts were also made in the structure of unemployment causes: the proportion released for economic reasons declined from 39.0 per cent in 2010 to 34.5 per cent in 2011. This is largely the result of the gradual improvement of the financial condition of domestic enterprises (compared with the crisis period), increase of their business activities. At the same time, the share released on their own increased from 29.1 per cent to 32.0 per cent, reflecting the intensifying efforts of population on selection of a suitable job.

The registered labor market segment development is characterized by the increasing number of unemployed. Average number of unemployed registered by the State employment service of Ukraine in 2011 constituted 505.3 thousand, 11.8 per cent more than in 2010. Taking into account unemployment reduction by ILO methodology the increase in number of registered unemployed may serve as an evidence of increasing confidence in the State employment service of Ukraine. Nevertheless, the difference between these figures remains significant (in 2011 the number of registered unemployed totaled 29.2 per cent of unemployed registered by ILO, and only 25.3 per cent in 2010).

Ensuring social inclusion of unemployed, increasing of their competitiveness is taking place through modernizing the provision of employment, improving the quality of vocational training, expanding access to information resources on the labor market. This involves coordination of efforts of all actors of the labor market infrastructure to improve the quality of educational programs, liaison with employers, dataware analysis of the labor market improvement.

An increase of staff rotation at the enterprises from 53.4 per cent to 59.5 per cent also indicates the employment opportunities improvement and labor mobility raise. The level of retirement still exceeds the level of admission (i.e., number of full-time employees of large and medium-sized enterprises tends to reduce), although the gap in these indicators declined. In particular, credit balance of staff rotation in 2010 totaled 2.8 per cent, and 2.3 per cent of the average number of full-time employees in 2011.

The scale of partial unemployment has been substantially reduced in Ukraine: the level of employees transferred to part-time job due to economic reasons declined from 13.6 per cent to 8.6 per cent, the share of workers who were on leave without pay for a period of cessation of work - from 3.4 per cent to 1.8 per cent. This is an evidence of the economic situation improvement at the enterprises of different ownership.

It should be noted that the recent spread of nonstandard forms of employment as an integral part of a flexible labor market has caused the need for regulatory and legislative

solution of this problem, involvement of all social dialogue actors to ensure social protection of workers employed under such conditions.

Real wages in 2011 increased by 8.7 per cent, and by 14.9 per cent during four months of 2012. The most significant growth of nominal wages in 2011 (compared to 2010) was recorded in forestry (by 28.7 per cent), construction (by 28.3 per cent) in the extraction of coal, lignite and peat production and other non-metallic mineral products (26.2 per cent), agriculture (by 25.9 per cent), trade (24.8 per cent), manufacture of machinery and equipment (by 22.9 per cent), chemical industry (22.5 per cent), manufacture of coke, refined petroleum (11.9 per cent). However, in the sphere of education and health care average wages increased by 10.2 - 9.0 per cent, compared to 2010.

The amount of unpaid wages during 2011 declined by almost 20 per cent and as of 1 January, 2012, totaled UAH 977.4 million. The problem of full debt compound is complicated by the fact that more than half (55.4 per cent) of its amount falls within both bankrupt and ceased operations enterprises. Reduction of arrears of wages is a result of increased economic activity of enterprises and improvement of financial discipline.

The new edition of Law of Ukraine "On employment" adoption aims to improve both the situation at the national labor market and investment climate in the country, as well as encouraging employers to create jobs.

In order to promote employment, the bill provisions involve in particular the following mechanisms:

costs associated with the single social tax payment without limitations in the amount of wages during the first year will be reimbursed to employers who will provide newly established posts for young people as their first job, as well as to persons aged from 50 years, and others from among the non-competitive people at the labor market for a period not less than two years;

employer, who in course of the year established new posts and ensured salaries of not less than 3 minimum wages, next year is entitled to reduce the size of a single social contribution;

incitements are planned to be created for local authorities for establishing new posts. If revenues from personal income exceed revenues for the corresponding month of the last year taking into account the ratio of wage growth in the region over the past 12 months, the entire amount of excess will be credited to the budgets of villages, their associations, towns, regional centers;

with the view to promote population's self-employment, their entrepreneurial initiative, State employment service of Ukraine will provide free of charge organization of consultations on entrepreneurial activity organization and implementation.

subject of small business enterprise that establish posts taken by unemployed for a period not less than two years, receives monthly compensation in the amount of the minimum insurance premium during the first year;

persons aged 45 years (insurance period more than 15 years) are eligible to receive a single "voucher" to vocational training;

training of the unemployed will be exercised on employer's demand for a specific workplace or with a view to provide person's self-employment;

a mechanism of professional qualification verification obtained through informal learning is also planned to be put into effect.

Herewith, business entities activities that provide mediation services in employment is proposed to be brought into line with the European standards, the issue of hiring employees by such institutions for another employer is being settled.

The 2012 state's employment policy activation provides creation of new and temporary posts in the service sector associated with the need to infrastructure facilities service. In 2012 direct and indirect impact on the labor market situation of Ukraine will be a distinctive feature due to co-hosting by Ukraine the 2012 UEFA European Football Championship. First of all, this will relate to the increase of employment in tourism, trade, transportation and advertising. In general, the state's labor market situation improvement, economic activity promotion, combined with its targeted support increase, accelerated growth of the minimum state guarantees will further reduce the poverty of the population of Ukraine.

Poverty Reduction

In recent years there have been noticed improvements in poverty reduction, measured by different criteria. Today we can talk about new trends that show the benefit of the general advancement of the needy people: all monetary scales (both absolute and relative) of the poverty rate continue to decline. This situation is the simultaneous decline in relative and absolute poverty observed for the first time of studied period (since 1999). And if the reduction of relative poverty could occur by changing the redistributive mechanisms of the crisis, the improvement of absolute poverty trend indicates poor approximation of income to guarantee the state level.

Thus, the level of absolute poverty (living below the subsistence level) decreased from 18.5% for 9 months in 2010 to 15.2% for 9 months of 2011. It means that almost a half million people came out of poverty, and their cost of average consumption exceeds subsistence level. Given that the cost of living was significantly increased in 2010, it may indicate improved financial position is much greater number of citizens.

During 2010-2011 years the level of absolute poverty, defined by international approach (5 dollars. U.S. per person per day) fell by half, and was (according to the first 9 months of 2011) 1.4% (against 2.9% for the corresponding period in 2010). This gives reason to believe that the preservation of existing trends in the coming years will completely eliminate extreme forms of absolute poverty in the country.

9 months in 2011 show a further decline in relative poverty - 24.6% against 25.1% the previous year. Thus, the gradual decline in relative poverty, which began in 2009, acquires characteristics and trends show further alignment of income.

Reducing relative poverty level was due to improvements regarding situation with children - this indicator decreased last year from 33.5% (for 9 months of 2010) to 31.7% (for 9 months in 2011), and among employees (in accordance with 20, 7 to 19.8%). The greatest improvement experienced with many households where poverty fell by 9 months of 2011, compared with the corresponding period the previous year by 3.1 percentage points. Despite improvements, large families today have the highest risk of poverty: the poverty rate by 2.2 times the national average value.

A significant achievement of the state social policy was to increase the size of help after child birth. In particular, for the period 2009-2012 it was raised 2.3 times. Because of this, families with children up to 3 years came out of the category of households with the highest risk of poverty. According to 9 months in 2011 the poverty rate for families with children up to 3 years was 36.4%, which yields a value for households with two children (41.5%) and complex households with double economic pressure (37.0).

In terms of types of settlement in the last year next pattern can be noticed- the smaller is the size of the settlement the tangible is a decline in relative poverty. Thus, the rural poverty rate dropped last year by 1.1 pp, in small towns - by 0.6 percentage points, and in big cities - only by 0.1 pp In addition, only in big cities was growing gap ratio (by 1.1 pp), while in other types of settlements Score significantly decreased. Thus, there is increasing convergence of indicators between towns and villages, but mostly it is seen due to the deteriorating situation in large cities.

Despite the successful overcoming of monetary poverty, consumption criteria poverty is growing instead, which may indicate only one thing - the economic crisis for most citizens did not end, and their consumption opportunities continue to narrow. First, the proportion of people has increased whose diet has less energy value of 2,100 kcal per day (from 13.7 to 14.4%). It is clear that some people consciously make a choice for low-calorie diet, but growth rate is a signal of deterioration in diet of most vulnerable layers of population, especially households with a large number of dependents.

Those households are the first to experience an increase of food prices with the slow growth of income at the same time. Another negative evidence of deterioration of consumers' possibilities was increasing poverty based on the structural criteria that increased the proportion of the population that spends income for food more than 60% of its budget. Last year this figure increased from 42.8 to 44.1%, so this positive dynamics was completely neutralized as a result of the crisis.

In order to resolve a number of problems of poverty, National Programme for combating and preventing poverty until the year 2015 was approved by the Cabinet of Ministers of Ukraine in August 31, 2011.

It identifies the main directions of poverty reduction, particularly those of social standards, employment promotion, improving wages, pension increases, the implementation

of pension reform, social insurance, social security, healthcare, social support for young people, families and protection children's rights.

The Programme will promote the welfare of citizens, reducing poverty and solving social problems.

To ensure consistent implementation of state social policy to improve the living standards, the President of Ukraine presented his "new social initiatives." These social initiatives aimed to improve the mechanisms for income redistribution, neutralize poverty gap, promote the strengthening of the middle class, and create an effective system of protection against social risks.

New social initiatives are structured according to the four main areas.

The first direction – is restoring public trust to the state policy aimed to improve people's lives, restore the fundamental principle of social justice, removing the maximum of benefits from those who do not need them.

The second direction – is complete transformation of approaches to pay salaries, taxes and social insurance (by introducing mechanisms for the distribution of economic performance, hampering further social and economic polarization of society that will increase the income of the working population and the welfare of its most vulnerable layers; one of the ways to achieve these goals is an introducing of the tax on wealth).

The third direction is a deep modernization of the sphere of social security. It provides a transition from non-systematic payments to the providing targeted assistance and social services that meet the needs of concrete person and family. Direction taken by Ukraine to achieve European standards means a transition from creation opportunities instead of dealing with the consequences.

Promotion of social inclusion of people with disabilities is thus foreseen: settlement of environment and jobs, providing access to the public institutions of education, culture, commerce and more.

The fourth direction is to promote effective employment and job creation. The task of job creation is the meaning of realization of the national strategy of large-scale modernization. New jobs will assure a new quality of economic growth that should include higher productivity and increase revenues to the pension system. Created new jobs will assure in its turn a strategy of regional (sub-national) development of Ukraine, they will also inserted into the system of regional cohesion and will contribute to improve depressive regions of the country.

An initiative to improve social standards is targeted at the most vulnerable population layers and will be presented May 1, 2012. Increasing of payments will be made for those population groups who need an immediate support, like pensioners, disabled since childhood, Second World War, families with children, employees who are injured during work and so on.

In the mid-term perspective, national poverty reduction policy should be directed not only to support the poor but also to stimulate their transformation into full-fledged middle class.

Priorities and objectives of economic and social development of Ukraine

In the mid-term perspective the Government's efforts will be aimed at developing modern, stable, open and globally competitive economy, as well as on professional and effective governance formation, and ultimately at increasing the welfare of Ukrainian citizens in the strategic areas as defined by the Programme of Economic Reforms for 2010-2014 "Prosperous society, competitive economy, effective state":

1. Creation of the basic conditions of economic growth by maintaining low inflation, stabilizing public finances and establishing a sustainable financial system.

2. Business maximum favorable regime establishment by reducing state intervention into the economy, lowering administrative barriers for its development, modernizing taxation system and strengthening Ukraine's international economic integration.

3. Modernization of infrastructure and basic economy sectors by eliminating long-term structural problems in energy, coal, oil and gas industries, housing and public utilities, developing of the transport infrastructure and land market. Transition from grants to self production and social services.

4. Maintenance and development of human and social capital by raising efficiency and sustainability of social protection, improving the quality and availability of education and health services.

5. Increasing effectiveness of the state governance by reforming public service and executive branch.

According to these principles, one of the priorities is to provide comprehensive reform of the state social and humanitarian policy. Elimination of poverty, creation of fair pension and social security systems, effective and efficient health care system, ensuring equal access for all to quality education are among the primary objectives of the reform.

Only by radically upgrading the entire system of social security, preconditions for the transition of society to a new level of socioeconomic development could be created.

Thus, Ukraine has determined rather ambitious objectives, based on macroeconomic achievements that would ensure the attainment of almost all tasks of the national matrix the UN Millennium Development Goals.